

ANNUAL REPORT 1999

SINGULUS

TECHNOLOGIES



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AT A GLANCE

SINGULUS TECHNOLOGIES CONSOLIDATED

	1996 KDM	1997 KDM	1998 KDM	1999 KDM
Gross Revenues	88.225	174.701	198.046	346.686
Profit before Tax	20.469	45.620	47.123	88.977
Net Income	7.846	20.037	22.057	46.511
Total Shreholders' Equity	-1.585	38.720	60.452	110.585
Balance Sheet Total	36.147	111.257	121.512	252.687
DVFA-Cash Flow	9.452	21.426	24.041	49.793
R & D Expenses	3.966	5.046	6.855	8.525
Employees (31.12.)	90	135	157	212
DVFA/SG Earnings per Share (EURO)*	-	0,59	0,63	1,32

* based on 18.101.448 shares at 1 EURO per value

SUPERVISORY BOARD AND MANAGING BOARD

SUPERVISORY BOARD

Alexander von Engelhardt

Kronberg
Chairman

William Slee

London
Vice Chairman

Thomas Geitner

Cologne

MANAGING BOARD

Roland Lacher

Gelnhausen
Chief Executive Officer

Reiner Seiler

Hanau

Dr. Erich Bischoff

Burgdorf
(effective February 1, 2000)



SUPERVISORY BOARD REPORT

The Supervisory Board convened six meetings in fiscal 1999, at least one held each quarter. During these sessions and via regular written reports, the Board was apprised in detail of the status of the corporation and current and fundamental issues. The Supervisory Board also met with the Managing Board in executive session to address the corporation's long-term strategic planning. The Supervisory Board promptly and comprehensively addressed the status and business development of SINGULUS TECHNOLOGIES AG and the consolidated group and conducted a management review.

The Managing Board informed the Supervisory Board of proposed business policies and fundamental corporate planning issues. Numerous additional discussions were held by the Chairmen of the Supervisory and Managing Boards concerning specific significant issues. The Supervisory Board's activities centered on fundamental resolutions and measures concerning strategic corporate planning, the organization's management of corporate growth, the implementation of cost reduction measures, and the development of risk management. Capital expenditures (new plant construction), markets and their development in Asia, South America and the United States, and product developments were the primary topics discussed.

The Supervisory Board reviewed significant business events and resolved issues which, based on legal or statutory regulations, were submitted to them for approval. The Supervisory Board consists of only three persons; therefore, the formation of a committee was waived.

The public accounting firm Arthur Anderson Wirtschaftsprüfungsgesellschaft-Steuerberatungsgesellschaft mbH, audited the 1999 year-end and status reports submitted by the Managing Board and approved both without objection. The year-end, status, and auditor's reports were submitted for the Supervisory Board's review in a timely manner.

As in years past, the auditor participated in the Supervisory Board meeting in which the year-end documents and audit results were extensively reviewed and also participated in the Supervisory Board's Financial Meeting. During these board meetings, results of their audit were presented and questions posed by members of the Supervisory Board were answered.

The consolidated year-end, status and auditor's reports were also submitted to the Supervisory Board for review. No objections were noted following the closing results of this review and the Supervisory Board concurred with the results of the audit. The Supervisory Board approved the Dec 31, 1999 annual accounts submitted by the Managing Board which were adopted in accordance with § 172, Par. 1, Sec. 1 of the AktG. The Supervisory Board concurs with the Managing Board's recommendation for the utilization of earnings.

The Supervisory Board elected Dr. Erich Bischoff to the Managing Board effective February 1, 2000; as a full member of the board he will be responsible for Finance, Personnel and Administration.

The Supervisory Board extends its thanks and appreciation to the Managing Board and all employees of SINGULUS TECHNOLOGIES AG for their accomplishments and dedicated efforts on behalf of the company.

Alzenau, March 24, 2000
The Supervisory Board
Alexander von Engelhardt
Chairman



WINDOWS 2000 CD WITH EDGE-TO-EDGE HOLOGRAPHIC IMAGES

STATUS REPORT FOR SINGULUS TECHNOLOGIES

CONSOLIDATED AND SINGULUS TECHNOLOGIES AG

Overview

Fiscal 1999 was an extraordinarily successful year for SINGULUS TECHNOLOGIES:

Consolidated net income of 46.5 million DM was more than double that of fiscal 1998 (22.1 million DM). Gross profits for the entire corporation improved slightly to 38.0 % (prior year 37.8 %) underscoring the strength of the company's earnings.

Consolidated gross revenues rose from 198 million DM in 1998 to 346.7 million DM (+75 %). Revenues for CD replication lines rose by 50 % over the previous year, significantly increasing the lead this product segment has over our closest competitor in the world market. This product group was awarded a major order for the worldwide installation of machines to produce CD's with edge-to-edge holographic images applied exclusively to Microsoft® products.

Revenues for DVD replication lines rose by 50.6 % over the previous year, enabling us to markedly strengthen our market position for in-line replication lines. The world market leadership position was attained for DVD replication lines in 1999 forming an excellent foundation for future growth.

In keeping with our established business strategy, one of our primary goals is to augment our systems for pre-recorded discs by entering the market for recordable (write-once) and rewritable (re-recordable) discs. The successful market launch of a new CD-R replication line was another step toward the attainment of this goal.

We have significantly intensified our efforts to develop a metallizer for coating rewritable discs in order to supply the new and very promising rewritable technology markets in the year 2000.



REINER SEILER,
ROLAND LACHER,
DR. ERICH BISCHOFF
(F.L.T.R.)

Our important Asian markets regained their former momentum in 1999. Due to the intense demand for CD and CD-R replication machines, our company's manufacturing capacities were fully utilized, as were our suppliers'. Diminishing office and manufacturing space led to our decision to build a new plant in the neighboring community of Kahl am Main. All employees will move into this optimized facility by the end of June 2000.

This rapid growth was also tied to a significant increase in personnel; 55 employees were hired increasing our worldwide staff to 212. Our expectations for the foreseeable future are for increased line business in the optical disc growth market; consequently, it will be of great importance for the company to recruit a sufficient number of properly qualified new employees. In order to assure the long-term commitment of staff members crucial to the corporation and thus secure our high level of technological know-how, we have utilized the conditional capital at our disposal to its full extent and issued or committed convertible loans to 40 foreign and domestic staff members.

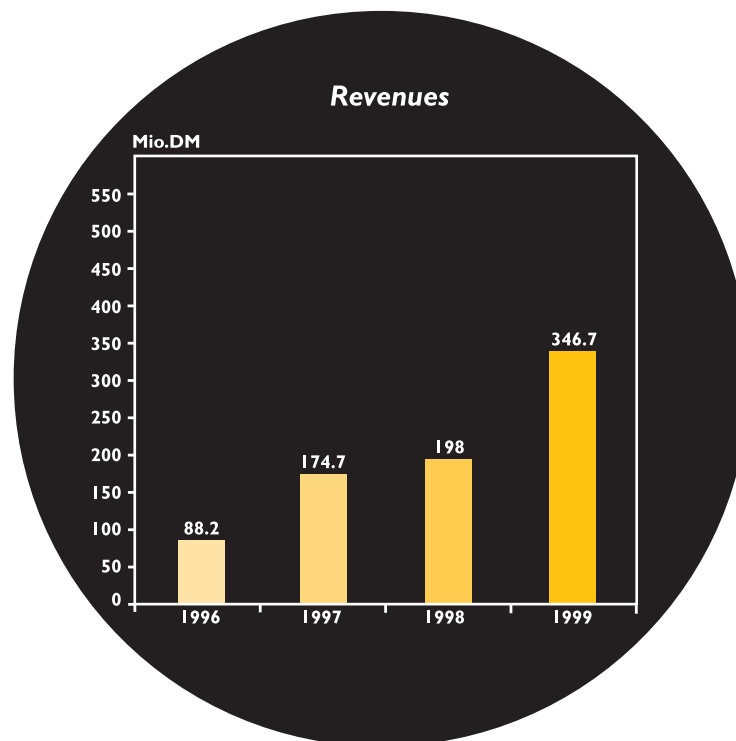
Prospects for the year 2000 appear favorable: the business vitality demonstrated in the last quarter of 1999 continued into early 2000. Renewed growth was also evident in the CD replication line business. Development of the DVD replication line business was explosive now that acceptance of DVD in all major world markets has been assured and interim projections have been made for an annual growth rate of 100%.

The recently developed Sony Playstation II launched in Japan in March 2000 will be introduced in the USA in the Fall of 2000 and is likely to accelerate the growth of the fledgling DVD-ROM market.

Only the demand for CD-R replication lines was tempered at the beginning of 2000 due to plummeting recordable disc prices. Taiwan, the country with the largest installed base of CD-R systems to date and an 80% share of the world's production, was particularly affected. Once the current glut in this region is relieved by an increase in demand, the system business should be reinvigorated.

Our multi-cathode metallizer for rewritable discs will be completed by the summer of 2000 to serve the extremely promising CD-RW, DVD-RW/RAM markets. We expect that this new development will provide our customers with innovative solutions which, as a result of superior technologies and exceptional productivity, should bring us rapid market acceptance.

The successful growth of our company's revenues and earnings was also acknowledged by investors in the Neuer Markt of the Frankfurt Stock Exchange: our shares rose from 31.96 EURO at the beginning of the year (adjusted by an increase in share capital from corporate funds and stock split) to 61 EURO, a 91% increase. Both institutional and private investors acknowledge ours as a growth stock with continued growth potential.



Economic Climate

The Asian markets so important to our industry regained their former purchasing power in 1999: surmounting the 1997/1998 crisis, the total Asian share rose from 52% in 1998 to 57% in 1999. For the first time, the export of our machines and lines to the People's Republic of China became possible after local authorities lifted long-term import bans imposed on American and European companies for unresolved software copyright issues. Since then, production licenses for CD, DVD and CD-R equipment have been issued to select companies now permitted to import needed replication machinery. This will permanently open China as our third largest market in Asia, after Taiwan and Hong Kong. Further market growth in China will most likely depend on how financing for future line purchases is secured.

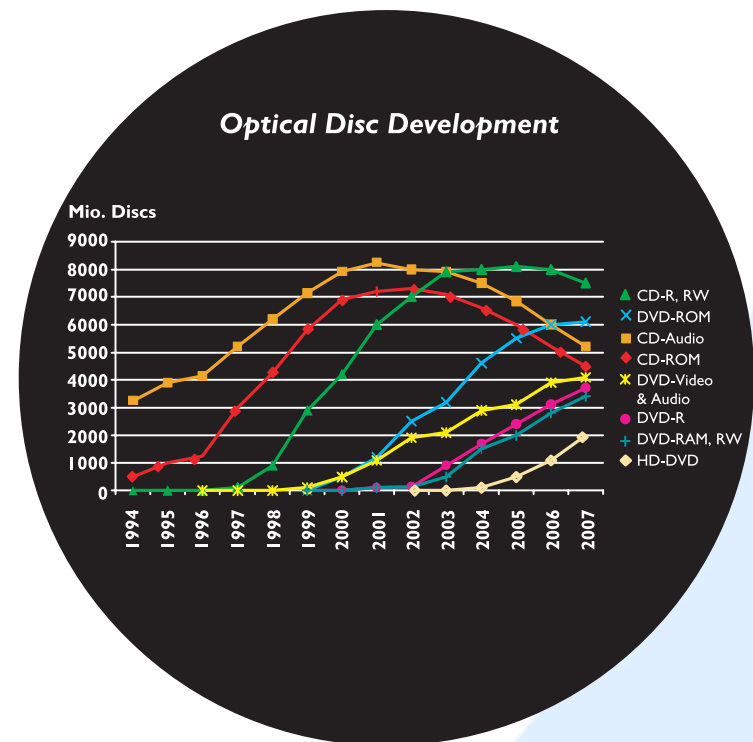
The development of the line business in North America was very positive for CD/CD-ROM and especially so for DVD. For the first time, we performed more installations of CD lines than any other supplier and were able to capture demonstrable market share from our competitors.

DVD-Video was the catalyst for the strong growth of DVD replication lines in the USA. Approximately 5000 DVD titles are available there now and DVD player sales in 1999 were quadruple those of the year before. Industry projections for the market include annual growth rates of 100% for the next 5 years. Rapid acceptance of DVD-ROM could result in even higher growth rates.

A distinct expansion of our CD line business was also achieved in Europe. The development of the markets in France and Spain was very gratifying. DVD line sales were attributable primarily to key customers who are forerunners in the industry. Overall, demand for DVD still lags significantly behind the U.S. market. Initial European orders for CD-R lines were also secured.

In 1999, the worldwide optical data storage market was once again characterized by fierce competition among our customers. This situation has compelled replicators to implement cost reduction efforts that have led to investments in new systems. Our customers in Taiwan and Hong Kong in particular conduct a "high volume-low margin" business which can only be successfully operated with extremely efficient lines.

Replication line cycle time, availability and product quality are the most critical factors for our customers' success and consequently the criteria by which line manufacturers are selected.



Revenues and Income

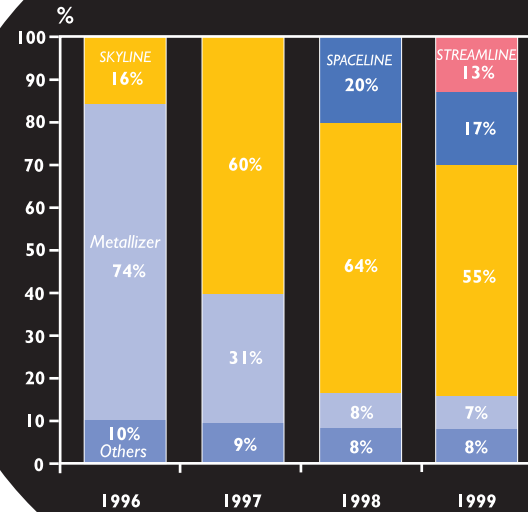
While our 13.4 % increase in 1998 revenues over the previous year was affected by the economic crisis in Asia, the growth in 1999 revenues was a remarkable 75 %. Growth displaying similar vitality has also been apparent in the year 2000. In addition to our metallizers and CD and DVD lines, the introduction of our new CD-R line created a fourth market segment for SINGULUS TECHNOLOGIES, notably expanding and stabilizing our overall portfolio. The CD line product group recorded the largest share of total revenues at 55 %, followed by DVD lines at 17 %, CD-R lines at 13 %, service and spare parts at 8 %, and metallizers at 7 %.

Despite intense competition among line manufacturers, our gross profits rose slightly to 38.0%, a result of the better margins achieved for DVD and CD-R lines compared to CD lines. Our gross profits demonstrate a distinct lead over our closest competitor.

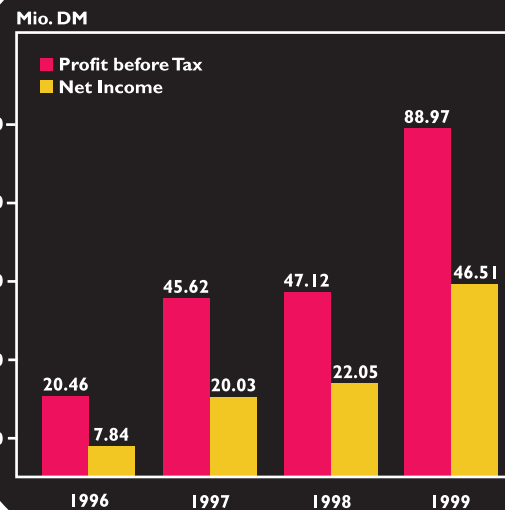
Profits before tax for all of fiscal 1999 totalled 88.97 million DM (1998: 47.12 million DM). Net income rose by 111 % to 46.51 million DM (1998: 22.05 million DM) comprising 14.2 % of net revenues (1998: 11.7 %).

As a result, 1999 DVFA/SG earnings per share rose from 0.63 to 1.32 EURO.

Salesplit by Product Group



Financial Results 1996 - 1999



Balance Sheet and Earnings Utilization

By year-end closing, the consolidated balance sheet rose from the previous year's 121.5 million DM to 252.7 million DM. As a result of the net income of 46.5 million DM, 110.6 million DM in shareholders' equity was generated (previous year 60.5 million DM), declining from 49.8 % to 43.8 % of the balance sheet total.

Total accounts receivable rose from 40.5 million DM to 84.9 million DM and of this figure, trade accounts receivable totalled 76.5 million DM. This is due primarily to the increased volume of business, in particular increased deliveries during the final quarter of the year. Revenues of 75.3 million DM were realized in December alone. Total current liabilities rose from 57.9 million DM last year to 138.7 million DM in 1999; at 39.5 million DM (prior year: 2.3 million DM) progress payments were most prominent.

Total long term loans exist only as a result of the transfer of 0.75 million DM in convertible loans (1st tranche) to management, 0.4 million DM of which have remaining terms exceeding one year.

Total fixed assets rose from 4.3 million DM to 5.9 million DM, accounting for only 2.4% of total assets by the year-end closing date. The increase is primarily due to the acquisition of the new property in Kahl. The 1999 expansion of spatial capacity is not reflected in the balance sheet as all floorspace has been leased. Due to our approaching relocation in the summer of 2000, all leases were terminated in accordance with their respective expiration dates.

Cash flow development remained positive. At 49.8 million DM it was 108 % higher than last year. Due to the strong growth in business in the fourth quarter, substantial resources were tied up in current assets; nevertheless, liquid assets on 12/31/99 increased by 25.8 million DM over the prior year-end closing date.

On the basis of an existing draft issued by German tax authorities, the corporate use of loss carryforwards could be limited. This draft reflects the views of the tax authorities but has not been enacted into law, and may either be approved or rejected by tax courts in the future. Based on this draft, SINGULUS TECHNOLOGIES AG could be denied the use of tax loss carryforwards as of 1997.

Should this draft be upheld as legally binding, a tax liability for the year 1997 could ensue. The results of the ongoing deliberations cannot be assessed at present. The Managing Board and our auditors consider the tax authorities' legal interpretation to be erroneous and intend to oppose it by all legal means available should the said draft be adopted by the tax authorities and enacted into law. Based on this situation, a decision was made at the close of fiscal 1998 to forgo the creation of a reserve fund for this potential liability.

The recommendation for the utilization of earnings is based on the individual year-end closing of SINGULUS TECHNOLOGIES AG provided for by German law: up to half of the remaining 32.28 million DM in retained earnings is to be incorporated into other capital reserves in accordance with § 16.3 of our statutes. The remaining 16.14 million DM in retained earnings is to be incorporated into capital reserves by a resolution at the General Shareholders' Meeting.

The capital reserves thus created are to be utilized for a 1:1 increase in share capital with corporate funds. Due to these retained earnings, increased share capital will be available for the necessary financing of future growth.



WORLDWIDE SALES AND SERVICE NET
RIGHT PICTURE: SINGULUS-HOUSE IN SINGAPORE

Sales and Service

Successful customers in our global market for optical disc lines grow at a rate equal to or exceeding that of the market. It therefore becomes imperative that we establish lasting bonds with our existing customers and secure repeat business. In order to achieve this important goal, an effective sales and support organization must be established and continually enhanced.

The number of our foreign subsidiaries grew with the founding of affiliates in Spain and Italy. SINGULUS Asia Pacific's relocation to SINGULUS House in Singapore provides our largest foreign subsidiary with the floor space needed for further growth and will enable them to better serve their Asian customers' needs. In accordance with our philosophy of decentralized responsibility, our employees' technical expertise should be in close proximity to our customer base. In combination with technically advanced products, this concept is best suited for mid-range attainment of high market share and long-term retention of customers in diverse regions.

The language and cultural barriers between Germany and Asia call for additional proficient regional representation. The high cost incurred for continual training of our own and our sales partners' employees is justified because our systems can be installed, commissioned and independently maintained after customer acceptance by expertly trained local personnel. It is incumbent upon the headquarters staff to exercise their special responsibilities in order to establish and sustain this critical transfer of know-how.



Staff

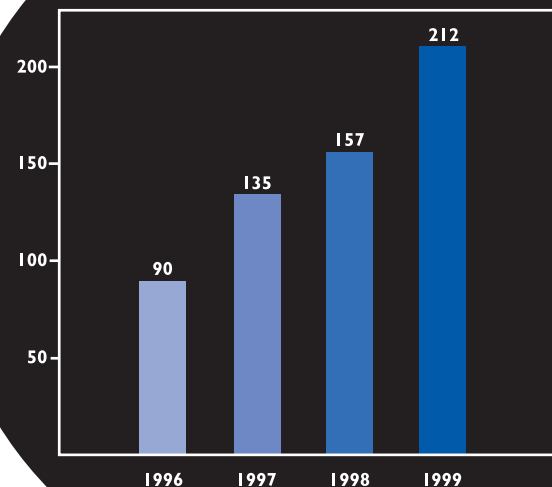
The addition of 55 employees to our workforce increased our worldwide corporate staff level to 212 employees by the end of 1999 (+35 %).

New hires were most heavily concentrated in the Production, R&D /Engineering and Customer Support departments. It became apparent that the number of young graduates of German technical high schools and universities declined last year creating a great demand for talented applicants. One of our primary concerns will be to structure the framework of our positions so that they are attractive to young graduates. The new plant is another important milestone toward this end.

Our efforts to preserve minimally tiered hierarchies are limited by the ever increasing volume of business and our growing employee base. As a result, organizational measures were taken to ensure distinct product responsibilities in spite of our expanded portfolio. The dynamic nature of this process provides talented young employees in our headquarters and foreign subsidiaries with excellent career opportunities.



Staff 1996 - 1999



Research and Development

The objective of our interim product strategy is to develop the recordable (write-once) and rewritable (re-recordable) disc technologies to complement our existing machines and lines for pre-recorded CD and DVD formats. The products for these new market segments should be CD and DVD compatible.

The development of the STREAMLINE created an efficient CD-R replication line successfully introduced to the market. Its design is distinguished by innovative dye spin coating and drying modules which are very compact and can be affordably produced. This in-house development provides high yields due to the excellent product quality of the discs and low manufacturing costs.

Considerable effort has been invested into the development of sputter cathodes and coating processes for rewritable CD and DVD media. The new MODULUS multiple-cathode metallizer is characterized by its consistent modular design enabling the configuration of the system to be adapted to customer specifications for layer system and throughput capacity. The MODULUS system can be built to specification with 8, 10, 12 or 14 process stations and is suited for all CD-RW, DVD-RW and DVD-RAM disc formats and coating technologies known to date.

Our high expectations for the future are closely tied to the successful development of this new product sector for rewritable media. High technological entry barriers will presumably restrict future business to a small number of suppliers.





The optimization of our SPACELINE has been ongoing. The proprietary TMD 01 measuring system, which performs in-line inspection of the sputtered layers of both DVD halves for layer thickness and uniformity prior to the bonding process, is continually optimized via a closed loop control to both SMART CATHODES, and has now matured into standard equipment. This as yet unrivaled measuring and control system provides our company with an important competitive advantage for DVD-9 production. This know-how will soon enable us to transfer additional control systems to other critical process steps in order to increase the efficiency of our system technology on all replication lines and improve the quality of our products.

In cooperation with our customer 3dcd, a joint venture between Technicolor and Applied Holographics PLC, in-line machines were developed for the mass production of CDs with full-surface edge-to-edge holograms. This unique hologram technology was designed to protect CD-ROM software against unlicensed copying. The full-surface holographic image on a CD-ROM represents an unmistakable seal of quality which can be applied to the disc only by the original manufacturer.

Within the framework of a multi-year, mutually exclusive cooperation contract with 3dcd and Microsoft, an initial major order was placed for system installations in the US, Europe and Asia. These machines are used to produce all CD-ROMs for the new Windows 2000 and Office Works software, onto which edge-to-edge holographic images have been applied.



Capital Expenditures and Financing

In accordance with the fundamental concept and structure of our company, our focus remains on in-house assembly and commissioning with the deliberate exclusion of the manufacturing of individual parts and components. Therefore, capital expenditures were limited to R&D, production infrastructure and foreign sales subsidiaries. New office and assembly space was simply leased in the past.

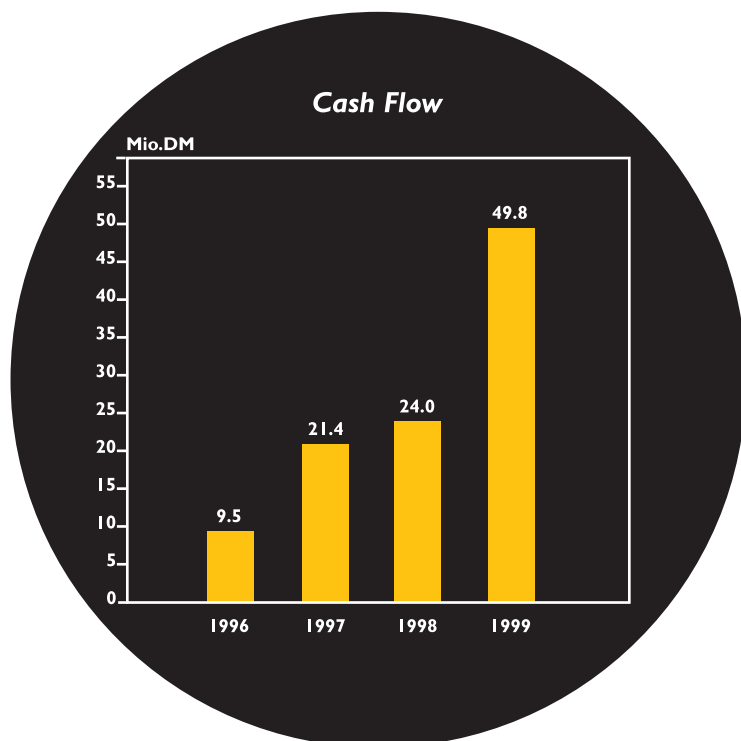
The building investment for the new plant in Kahl am Main was financed for 26.5 million DM for a 18 year term with an option to buy. An activation of our balance sheet was thereby waived. Only the property was purchased outright for 1,9 million DM. This expenditure, along with remaining 2,1 million DM capital expenditures (fixtures, analysis and measuring devices, computers, office furniture, etc.) was effortlessly financed from positive cash flow.

Corporate Control and Transparency Act

The law for the control and transparency in corporations enacted in May 1998, obliges corporate boards to institute appropriate risk management and internal regulatory systems within their corporations. The objective of this law is the prompt identification (early warning system) of developments with the potential to jeopardize the survival of the corporation.

As a corporation registered on the stock exchange we joined our auditors to examine our instruments for early identification and our internal controlling mechanisms. No developments jeopardizing the survival of the corporation were identified, and it was determined that our early detection system is capable of exposing risks which could potentially threaten the survival of the company.

In conjunction with this, potential problems relating to the Year 2000 change were extensively examined. Appropriate simulation processes allowed us to promptly determine and confirm to our customers that all installed machines and lines in our delivery program were completely Y2K compliant. Our in-house computer systems were promptly analyzed and upgraded and no problems related to the millenium change arose.



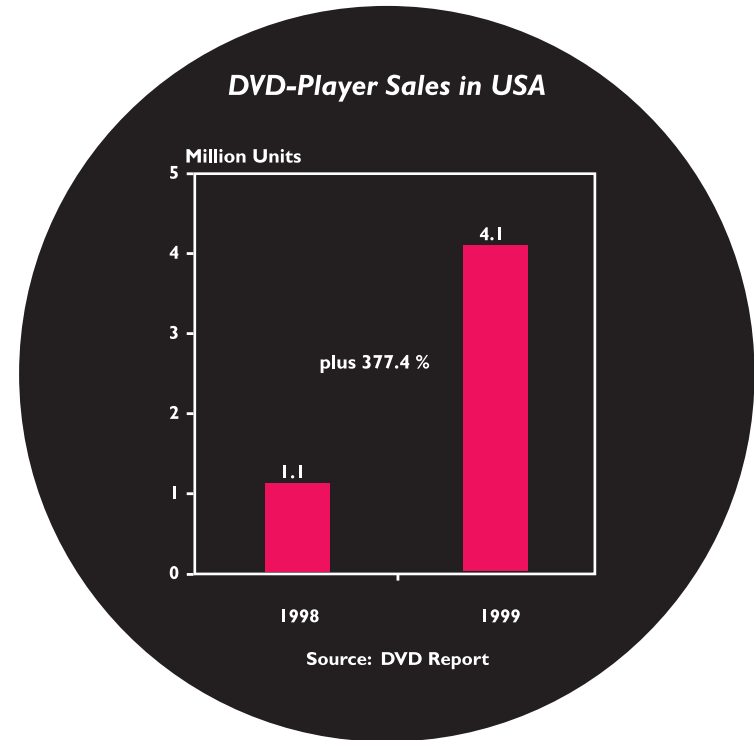
Fiscal 2000 Forecast

With an order backlog of 395 million DM, the new fiscal year enjoyed a very promising start: the intense worldwide demand for our SKYLINE and SKYLINE *Duplex* CD lines completely exhausted our assembly capacity. We expect deliveries for fiscal 2000 to increase substantially over 1999. This market development is especially remarkable in light of frequent media predictions proclaiming the negative impact the internet will have on the CD business. This has not yet been reflected in the sale of our CD lines.

We expect the demand for DVD lines to display the strongest activity for the year. DVD players and discs are being sold in ever increasing numbers, particularly in North America; the size of this primary market in 2000 will be at least double that of last year. Video applications still dominate DVD, however, many PCs purchased in the past 12 months have been equipped with DVD-ROM drives and are awaiting appropriate software media. The introduction of the new Sony Playstation II game console in the spring of 2000 in Japan and in the Fall in the U.S. could trigger a rampup for DVD-ROM. The excellent market position of our SPACELINE affords us the opportunity to achieve a rate of growth proportionally higher than that of the market.

The increased use of the internet has spawned a growing demand for recordable and rewritable discs. Some market predictions assert that the growth in CD-R within the next five years will quadruple. A factor contributing to this increase is the rise in copying of pre-recorded CD/CD-ROM media which has become very popular with the younger generation. Our STREAMLINE CD-R line is clearly positioned in a growth market and will display increased growth rates as soon as the current decline in demand caused by over-capacity is reversed.

The new MODULUS for rewritable (re-recordable) CD and DVD will go through a qualifying phase during initial installations in 2000 before it is sold in larger quantities in years to come. The current ex works price for a rewritable CD is approximately



double that of a CD-R. This difference in price is relatively low and therefore attractive to prospective users. The prospects for future growth in the new CD- and DVD-RW/RAM markets appear to be very favorable.

Our new facility in Kahl will be occupied by the end of June 2000, reuniting all headquarters employees under one roof. The generous office, assembly hall and warehouse layouts will prevent shortages in floorspace for the foreseeable future. Future expansion of manufacturing capacity will therefore be limited to the employment of additional staff and enhancement of our suppliers' potential for increased manufacturing volume.



NEW PLANT IN KAHL/MAIN (AS OF JULY, 1ST, 2000)

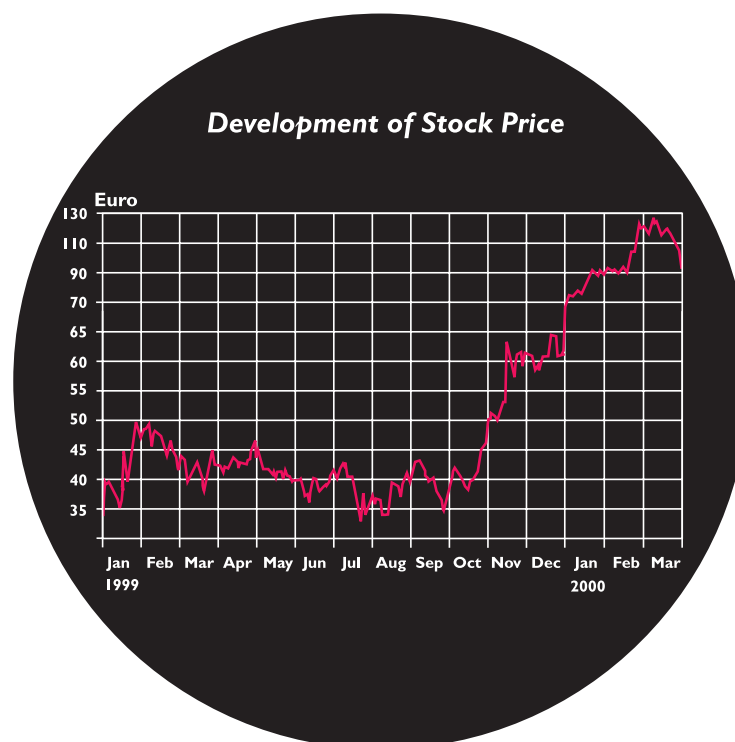
SINGULUS TECHNOLOGIES Stock

SINGULUS TECHNOLOGIES stock continues to be ranked as one of the very successful and therefore attractive stocks on the Neue Markt on the Frankfurt stock exchange. Following a 154.8 % increase in valuation in 1998, the stock rose another 91% in 1999.

The Neue Markt was created specifically for technology growth stock in the Spring of 1997. The 63 companies listed on the Neue Markt at the end of 1998 rose to over 200 companies traded daily by the end of 1999. Our stock is included in the strong daily competition of the capital market.

With a free float of more than 85 %, corresponding to 15,300,000 shares, SINGULUS TECHNOLOGIES is one of the very liquid titles sought even by larger funds. The Managing Board has had no official indication in 1999 of new shareholders who individually, or in combination with related companies, control more than 5% of issue stock.

The scenarios put forth by the most important competitors in our industry have become very transparent since the four largest line suppliers are now publicly traded corporations. Our stock benefits when banks and analysts devote more attention to and conduct intensive research into the easily comparable values of the combined optical disc market. Frequent and detailed analyses are important prerequisites for the preferential engagement of financial investors in the valuations of our industry resulting in the active trading of stocks.

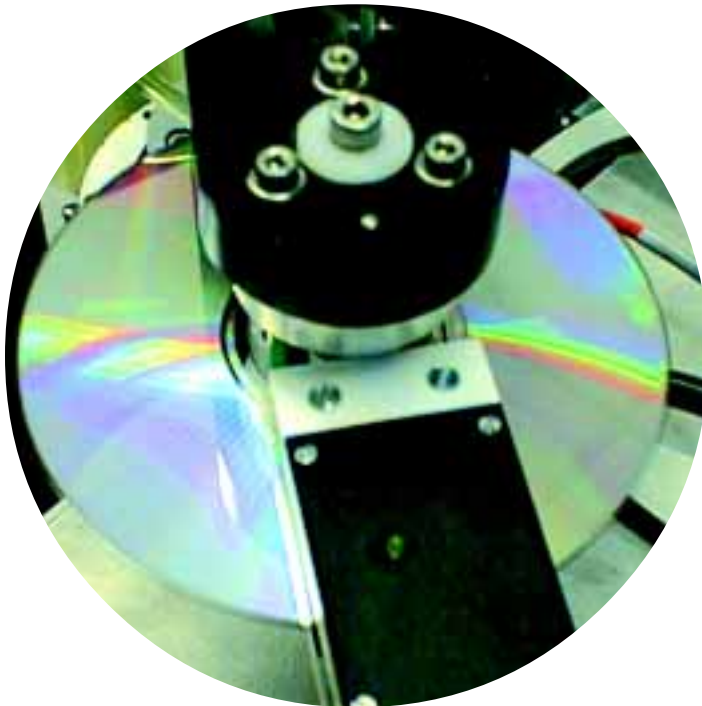


The technological strength and innovative capabilities of our company have been extolled in numerous analyst reports, as has the quality of our product portfolio and its earnings strength. Frequent buy recommendations triggered numerous increases in share value leading to the above average development of SINGULUS TECHNOLOGIES stock.



SINGULUS III METALLIZER FOR DVD
RIGHT PICTURE: MEASURING SYSTEM TMD 01 FOR INSITU-CONTROL OF LAYERS

SINGULUS METALLIZERS FOR CD, CD-ROM, CD-R, DVD



Advanced sputter technology and coating techniques for all CD and DVD formats is our company's most important area of expertise. Metallizers are essential components of CD and DVD replication lines and critical determinants of a line's reliability and efficiency. Our cathode designs and coating processes are constantly being refined and optimized for specific applications.

Sputtering aluminum for basic CD/CD-ROM no longer presents a difficult technical challenge since the technological entry barriers for developing a basic metallizer have been substantially lowered. By comparison, sputtering CD-R and DVD layers with high sputter rates and high uniformity still requires special high-tech capabilities.

With its worldwide patented SMART CATHODE[®], SINGULUS TECHNOLOGIES possesses a unique and still unrivaled sputtering tool especially for the most exacting DVD formats. For the first time, a cathode can be integrated into an electrical closed loop control system so that sputtered layers can be measured and optimized using an in-line closed loop control. This technical capability represents an obvious competitive advantage, as closed loop controls are fundamentally superior to pre-set controls.

The SMART CATHODE[®] has proved to be especially effective for sputtering silicon and provides high target utilization through its excellent process stability.

The SINGULUS III GEMINI configuration was created for OEM customers for integration into OEM DVD replication lines. Two SINGULUS III-SMART metallizers share a common control and can be independently integrated into an OEM line.



SKYLINE REPLICATION LINE FOR CD/DVD 5 AND CD-CARDS
RIGHT PICTURE: NEW CD CARD WITH STORAGE CAPACITY OF APPROX. 15 MB

SKYLINE REPLICATION LINES FOR CD, CD-ROM AND DVD 5



The SKYLINE CD replication line is the worldwide bestseller in the optical disc industry: more than 500 lines were delivered and installed around the world by the end of 1999. This extraordinary market success will continue in the year 2000. The compact design, rapid installation and high reliability of the SKYLINE once again led to its attainment of the worldwide market leadership position in 1999 with an increase in market share. The handling ease and exceptional productivity of this system are unrivaled.

The SKYLINE *Duplex* for CD/CD-ROM and selectable conversion to DVD 5 is ideal for the dual use line segment of the market and it provides the most affordable entry into the DVD market. The change from CD to DVD 5 production simply requires an exchange of the appropriate mold in the molding machine. A change in process parameters is accomplished by appropriate selection of a stored software program.

Another modification to the SKYLINE family was made in order to produce CD business cards, further expanding the application base of this machine. The CD cards have an approximate 15 megabyte storage capacity suitable for brief company profiles, catalogs or similar applications. The CD business card was recently discovered in the US as a new format for baseball cards and has become a very desirable collectible.



SPACELINE REPLICATION LINE FOR DVD
RIGHT PICTURE: BONDING STATION IN SPACELINE

SPACELINE REPLICATION LINES FOR DVD

The SPACELINE has the potential of achieving the same dominance in the DVD arena the SKYLINE achieved for CD applications. The clear and convincing concept of the SPACELINE for in-line production of DVD formats (DVD 5, 10 and especially 9) has set extremely high standards for process reliability and overall productivity.

Numerous major orders placed in recent months are bringing our pioneering market introduction efforts during the summer of 1997 to fruition. While only major replicators were able to justify a dedicated DVD line in the past, the worldwide DVD user market is expanding to its full extent. Increased demand is evident not only in the U.S. and Europe, but in Asia as well, particularly in Taiwan and the People's Republic of China.

DVD-9 process technology is sure to remain a technological challenge for some time and based on our proven record of successful SPACELINE installations, will afford us a clear competitive edge for the foreseeable future.





16 STREAMLINE REPLICATION LINES AT A CUSTOMER IN TAIWAN
RIGHT PICTURE: DYE-COATING FOR CD-R

STREAMLINE REPLICATION LINES FOR CD-R, DVD-R

The development and introduction to the market in 1999 of our own CD-R replication line was an important milestone in the realization of our interim product and business strategies. The recordable disc, which stores data that cannot be altered once recorded, grew by 100 % to 2 billion discs in its primary market. This growth is expected to rise by another billion discs in 2000, or 50 %.

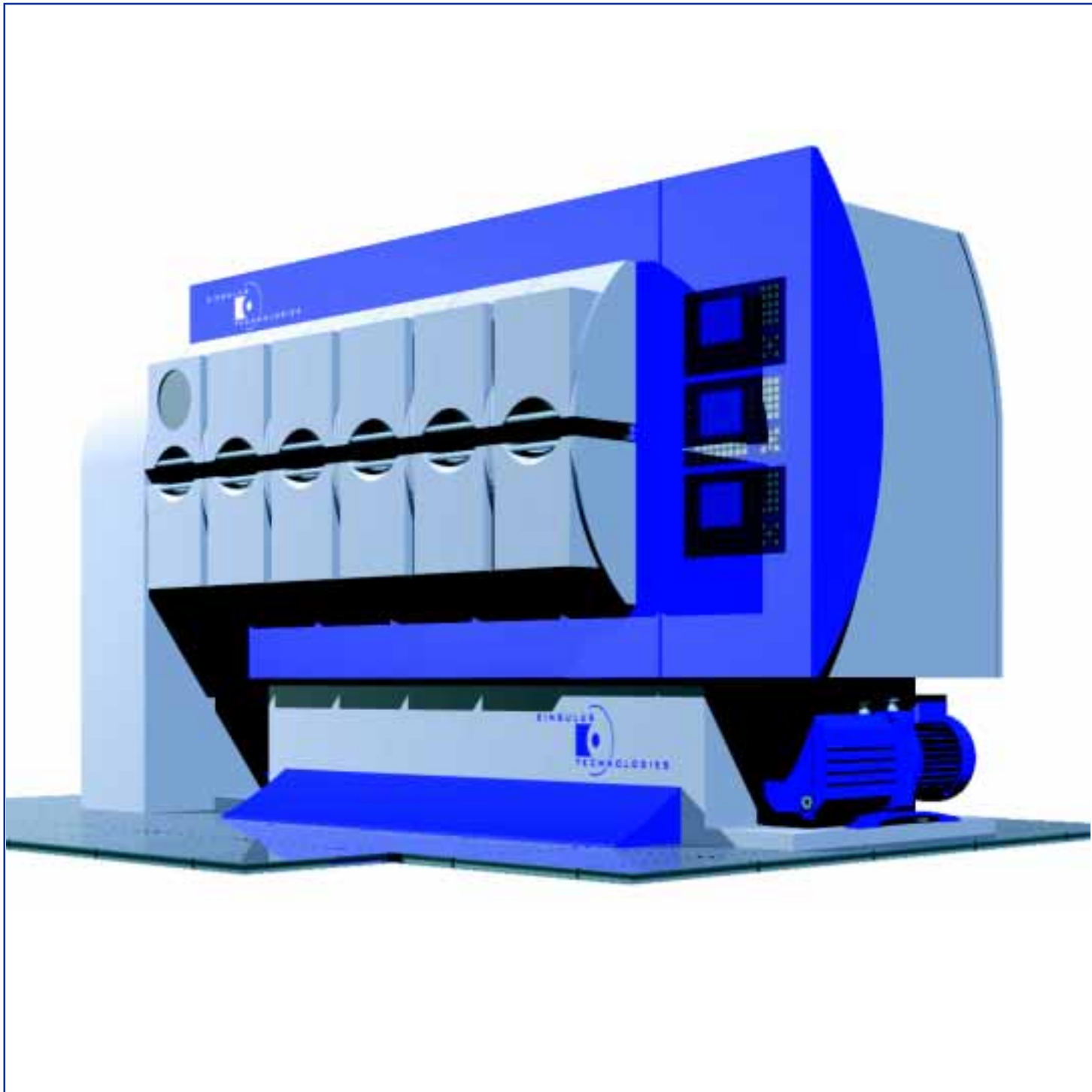
Development of the new STREAMLINE was based on the same design principles that have led to the success of the rest of our company's replication lines: only molding machines and inspection systems are outsourced while all other important cooling conveyor, dye coating station, and curing process components were designed in-house. The final metallizing and lacquering including final inspection is performed on our proven SKYLINE which was modified and optimized to meet the unique CD-R production requirements. The extremely compact dye module was designed to minimize operating costs, especially for the essential cooling system so that our customers can successfully withstand the intense competition in the CD-R market.

Installations completed to date have demonstrated that the STREAMLINE provides excellent product quality. In close cooperation with the leading dye supplier and their partner for continued application development, we have been able to augment our own process know-how for the entire CD-R process chain.

In order to prevent continued development and optimization of the dye technology from being carried out only on the expensive replication lines at customer sites, a lab dye coater module was created with all the essential components contained in a production STREAMLINE system. This permits the unaltered transfer to production equipment of process parameters ascertained in the lab.

The hardware and control technology of our STREAMLINE have been designed to accommodate the successful production of the emergent DVD-R format. Our company is well equipped to successfully participate in the future DVD-R market still in its pilot production stage.





NEW MODULUS METALLIZER
RIGHT PICTURE: DETAILED VIEW OF AN OPEN SPUTTER STATION

MODULUS METALLIZER FOR CD-RW, DVD-RW AND DVD-RAM

The market for rewritable CD and DVD is on the upswing: while a universal standard for CD-RW was adopted, two different formats with 4.7 Gigabyte storage capacity will be available for DVD: DVD-RW for home video applications and DVD-RAM for PC applications.

The standard layer technology for all of these formats is a multi-layer system which operates on the phase-change principle. The localized intense heat emitted by a recording laser beam continuously converts the storage layer material from a crystalline into an amorphous state and back again during the next recording cycle.

The multi-layer system consists of four sputter layers produced in a multi-cathode metallizer. Utmost demands are placed on the sputter technology with regard to rate of deposition and uniformity, requiring peak performance from the cathode technology employed.

Based on the worldwide patented SMART CATHODE[®], a multi-cathode metallizer for all rewritable technology and formats was developed. The consistent modular design will range from the smallest 8-station version up to the largest version incorporating 14 process stations. The customer-specified layout is determined by the layer system and production capacity, i.e. cycle time requested by the customer.

The technical specification of the MODULUS metallizer was modeled on the production requirements set forth by our leading customers. The mechanical and electrical/electronic design contains numerous innovative solutions.

Here too, advanced measuring and control systems will guarantee the high productivity of the system and superior quality of the product.



It is our goal to use the MODULUS metallizer as the cornerstone in the development of complete, fully automatic CD-RW and DVD-RW/RAM systems. The market is expected to prefer turnkey solutions with comprehensive technology.

CONSOLIDATED REPORT

CONSOLIDATED STATEMENT OF INCOME

	2010	2009
Revenue	1,000,000	950,000
Operating expenses	(600,000)	(550,000)
Operating income	400,000	400,000
Other income	50,000	50,000
Income before taxes	450,000	450,000
Income tax expense	(100,000)	(100,000)
Net income	350,000	350,000

CONSOLIDATED BALANCE SHEET

	2010	2009
Assets		
Current assets	500,000	450,000
Property, plant and equipment	300,000	300,000
Intangible assets	200,000	200,000
Other assets	100,000	100,000
Total assets	1,100,000	1,050,000
Liabilities and equity		
Current liabilities	200,000	200,000
Long-term liabilities	100,000	100,000
Equity	800,000	750,000
Total liabilities and equity	1,100,000	1,050,000

CONSOLIDATED CASH FLOW STATEMENT

	2010	2009
Operating activities	300,000	300,000
Investing activities	(100,000)	(100,000)
Financing activities	100,000	100,000
Net change in cash	300,000	300,000

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders, the Supervisory Board
and the Management of SINGULUS TECHNOLOGIES AG

We have audited the accompanying consolidated balance sheets of SINGULUS TECHNOLOGIES AG and its subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Germany, which are substantially consistent with those in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SINGULUS TECHNOLOGIES AG and its subsidiaries as of December 31, 1999 and 1998 and the results of their operations and their cash flows for the years then ended, in conformity with the accounting principles generally accepted in the United States.

Eschborn/Frankfurt, Germany
February 14, 1999

Arthur Andersen
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Groß
Wirtschaftsprüfer

Scholz
Wirtschaftsprüfer

BALANCE SHEETS

Consolidated balance sheets as of December 31, 1999 and 1998

ASSETS	31.12.1999 KDM	31.12.1998 KDM
Cash & cash equivalents	58,980	33,214
Trade accounts receivable	76,497	35,136
Other receivables-sundry	8,410	5,388
Total accounts receivable	84,907	40,524
Raw and packing materials	39,400	20,198
Work in process and finished goods	52,338	21,560
Prepayments to suppliers	5,057	929
Total inventories	96,795	42,687
Total current assets	240,682	116,425
Plant, property and equipment - gross	10,476	6,661
Accumulated depreciation	- 4,882	- 2,513
Plant, property and equipment - net	5,594	4,148
Intangible assets, net	346	186
Deferred tax assets	6,065	753
Total assets	252,687	121,512

BALANCE SHEETS

Consolidated balance sheets as of December 31, 1999 and 1998

LIABILITIES AND EQUITY	31.12.1999 KDM	31.12.1998 KDM
Bank overdrafts and borrowings	160	60
Trade accounts payable	47,229	23,375
Other current liabilities	13,722	9,020
Progress payments	39,460	2,254
Tax accruals	27,959	16,903
Other provisions	10,210	6,263
Total current liabilities	138,740	57,875
Pension accruals	2,997	2,675
Convertible bonds	404	535
Total long term liabilities	3,401	3,210
Total liabilities	142,141	61,085
Minority interest	- 39	- 24
Share capital (18,101,448 and 6,000,000 respectively, authorized, issued and outstanding ordinary shares)	35,403	30,000
Add. Paid-in capital	26,989	24,414
Cumulative currency translation adj. (CTA)	867	18
Retained earnings	47,326	6,019
Total shareholders equity	110,585	60,451
Total liabilities and equity	252,687	121,512

STATEMENTS OF INCOME

Consolidated statements of income for the years ended December 31, 1999 and 1998

	31.12.1999		31.12.1998	
	KDM	%	KDM	%
Gross revenues	346,686	106.0	198,046	105.6
Sales deductions and distribution cost	- 19,490	- 6.0	- 10,551	- 5.6
Total net revenues	327,196	100.0	187,495	100.0
Cost of goods sold	- 202,883	- 62.0	- 116,599	- 62.2
Gross profit	124,313	38.0	70,896	37.8
Development, design, quality control (thereof R&D expenses)	- 6,607 (- 6,001)	- 2.0 (- 1.8)	- 4,754 (- 4,034)	- 2.5 (- 2.2)
Sales and customer services	- 13,110	- 4.0	- 10,630	- 5.7
General management and administration	- 8,896	- 2.7	- 5,848	- 3.1
Projects and reserves (thereof R&D expenses)	- 8,127 (- 2,524)	- 2.5 (- 0.8)	- 3,565 (- 2,821)	- 1.9 (- 1.5)
Total operating expenses	- 36,741	- 11.2	- 24,797	- 13.2
Operating income	87,572	26.8	46,099	24.6
Interest income/expenses	1,405	0.4	1,024	0.5
Income before tax	88,977	27.2	47,123	25.1
Income tax	- 42,477	- 13.0	- 25,101	- 13.4
Income before minority interest	46,500	14.2	22,022	11.7
Minority interest	11	0.0	35	0.0
Net income	46,511	14.2	22,057	11.7

STATEMENTS OF INCOME

	1999	1998
Income per share – basic (in DM)	2.57	1.23
Income per share – diluted (in DM)	2.53	1.20
Weighted average shares outstanding – basic	18,101,448	18,000,000
Weighted average shares outstanding – diluted	18,405,819	18,427,911

Consolidated statements of shareholders' equity for the years ended December 31, 1999 and 1998

	Capital- Stock KDM	Additional paid in capital KDM	Retained earnings KDM	Cumulative translation adjustment KDM	Total Shareholders' Equity KDM	Compre- hensive Income KDM
Balance at January 1, 1998	30,000	24,414	– 16,038	343	38,720	– 325
Translation adjustment				– 325	– 325	– 325
Net income			22,057	0	22,057	22,057
Balance at December 31, 1998	30,000	24,414	6,019	18	60,451	21,732
Capital increase	5,403	2,575	– 5,204		2,774	
Translation adjustment				849	849	849
Net income			46,511		46,511	46,511
Balance at December 31, 1999	35,403	26,989	47,326	867	110,585	47,360

STATEMENT OF CASH FLOWS

Consolidated statements of cash flows for the years ended December 31, 1999 and 1998

	31.12.1999 KDM	31.12.1998 KDM
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	46,511	22,057
Adjustments to reconcile net income to net cash (used in)/provided by operating activities		
Depreciation	2,795	1,680
Additions to pension accrual	322	304
Deferred tax asset	- 5,312	- 518
Change in minority interest	- 15	- 24
Changes in operating assets and liabilities		
Inventories	- 54,108	2,070
Trade accounts receivable, net	- 44,820	- 50,562
Other receivables - sundry	- 3,483	- 1,989
Tax accruals	11,056	- 698
Other provisions	3,947	1,782
Trade accounts payable	23,854	11,638
Other current liabilities	4,778	533
Progress payments	37,206 - 21,570	- 24,404 - 61,630
Net cash provided by / -used in operating activities	22,731	- 38,131
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	- 3,579	- 1,088
Disposal of fixed assets	18	20
Net cash used in investing activities	- 3,561	- 1,068

STATEMENT OF CASH FLOWS

Consolidated statements of cash flows for the years ended December 31, 1999 and 1998

	31.12.1999 KDM	31.12.1998 KDM
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in liquid funds from factoring of accounts receivables	3,570	26,660
Increase in employee loans	359	303
Increase bank overdrafts and borrowings	100	60
Decrease in bonds (stock option plan)	– 206	– 37
Capital increase	2,773	0
Net cash provided by financing activities	6,596	26,986
Net increase / -decrease in cash and cash equivalents	25,766	– 12,213
Cash, beginning balance	33,214	45,427
Cash, ending balance	58,980	33,214
SUPPLEMENTAL CASH FLOWS DISCLOSURES		
Cash paid for interest	257	315
Cash paid for income taxes	27,052	25,502

NOTES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 1999 AND 1998

NOTE 1 – Basis of preparation:

The accompanying consolidated financial statements present the operations of SINGULUS TECHNOLOGIES AG and its subsidiaries (the “Company”).

All amounts are stated in Deutsche Marks in thousands (KDM).

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”). In accordance with German law, the Company is not required to publish its financial statements in accordance with the German Commercial Code, which represents generally accepted accounting principles in Germany (“German GAAP”). German GAAP varies in certain respects from U.S. GAAP. Accordingly, the Company recorded certain adjustments, relating to deferred tax assets due to deductible temporary difference, differences from consolidation as well as the accounting for pension obligations.

NOTE 2 – Description of business:

The Company is engaged in the development, manufacturing and distribution of CD-metallizers for CD-audio/CD-ROM, CD-R and DVD coating and replication lines for the mentioned products. Metallizers are distributed under the name “Singulus” and replication lines under the names “Skyline” for CD-audio/CD-ROM, “Streamline” for CD-R and “Spaceline” for DVD.

NOTE 3 – Accounting policies:

Principles of Consolidation

The consolidated financial statements include the accounts of the following subsidiaries:

SINGULUS TECHNOLOGIES Inc., Windsor/USA
SINGULUS TECHNOLOGIES Ltd., Swindon/UK
SINGULUS TECHNOLOGIES Asia Pacific Pte. Ltd., Singapore
SINGULUS TECHNOLOGIES Latin America, Sao Paolo, Brazil
SINGULUS TECHNOLOGIES, Sant Cugat des Vallés, Spanien
SINGULUSVIKA CHINA Limited, Wanchai, Hong Kong

Except for SINGULUSVIKA CHINA, all subsidiaries are wholly owned. In SINGULUSVIKA CHINA Limited the company holds a stake of 51%.

All significant intercompany balances and transactions have been eliminated in consolidation.

The financial statements of the Company’s foreign subsidiaries are measured in the currency in which that entity primarily conducts its business (the functional currency). The functional currency of all these subsidiaries is the applicable local currency. When translating foreign functional currency financial statements into Deutsche Mark, year-end exchange rates are applied to asset and liability accounts, while average annual rates are applied to income statement accounts.

Revenue Recognition

The Company recognizes sales of products upon

- shipment of products in the case of metallizers and spare parts, or
- when accepted by customers in the case of replication lines.

Sales represent amounts realized, excluding value-added tax, and are net of goods returned, trade discounts, and allowances.

NOTES

Research and Development

Significant costs are incurred each year in connection with research and development and engineering programs that are expected to contribute profits to future operations. Such costs are charged to income as incurred. Total expenditures were KDM 8,525 and KDM 6,855 in 1999 and 1998, respectively.

Warranty Costs

Warranty costs are provided for when the related revenue is recognized based on the estimated costs of fulfilling the warranty obligation, including handling and transportation costs.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories are generally valued at the lower of cost or market. Raw materials and supplies including spare parts are valued at average cost. A full cost absorption method is employed using standard cost techniques for the costing of work in process. The standards are reviewed and adjusted annually. Potential losses from obsolete and slow-moving inventories are provided for in the current period.

Plant, Property and Equipment

Plant, property and equipment are recorded at acquisition cost. For financial reporting purposes depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Useful lives have been estimated as follows:

- machinery and equipment: 2 to 10 years.
- other: 1 to 4 years.
- tenant fixtures: according to the life of the lease.

Gains or losses on sale or retirement of assets are included in income.

Intangible assets

Acquired intangible assets are stated at acquisition cost, less amortization on a straight-line basis over its estimated useful life (3 years for EDP software).

Foreign currency translation

Foreign currency translation. The functional currency of the Company's international operations is the applicable local currency. The translation of the applicable foreign currency into DM is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date, except for subsidiaries' share capital which is translated at the relevant historical rate, and for revenue and expense accounts using the weighted-average rates of exchange prevailing during the year. The unrealized gains and losses resulting from such translation are included as a separate component of shareholders' equity.

Gains (losses) from foreign currency transactions are charged or credited to current income.

NOTES

Derivative Financial Instruments

Generally, revenues are billed in Deutsche Marks. The Company uses foreign currency forward contracts as a means of hedging exposure to foreign currency risks for accounts receivable. The Company and its subsidiaries are end-users and do not utilize these instruments for speculative purposes. The Company has strict policies regarding financial stability and the credit worthiness of its counterparties.

Forward exchange contracts are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") 52.

Accounts Receivable

Invoices for goods sold are generally stated in Deutsche Marks. Allowances are recorded for management's estimate of the likely uncollectable amounts.

Earnings per Ordinary Share

Earnings per share are calculated by dividing net income by the number of common shares outstanding at December 31, 1999 and 1998.

In addition the company calculated the earnings per ordinary share based on the income according to the German association of financial analysis and investment advisory [*Deutsche Vereinigung für Finanzanalyse und Anlagenberatung e.V./Schmalenbach Gesellschaft, "DVFA/SG"*]. The income in accordance with the regulations of DVFA/SG represents the net result for the year from which abnormal items have been excluded.

Use of Estimates

The preparation of the financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Impairment of Long-lived Assets

The Company reviews long-lived assets for impairment whenever an event or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The carrying values of long-lived assets are assessed for recoverability by reference to the estimated future undiscounted cash flows associated with them. Where this assessment indicates a deficit, the assets are written down to their market value. For assets which do not have a readily determinable market value, the assets are written down to their estimated market value calculated by reference to the estimated future discounted cash flows.

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for operating losses and carryforwards. Deferred tax assets and liabilities are measured using enacted weighted average tax rates expected

NOTES

to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Comprehensive income

The Company adopted SFAS No. 130, Reporting Comprehensive Income. SFAS No. 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income consists of net income, net unrealized gains(losses) on securities and foreign currency translation adjustment and is presented in the consoli-

dated statements of shareholders' equity. The Statement requires only additional disclosures in the consolidated financial statements; it does not affect the Company's financial position or results of operations.

Concentration of credit risk

The Company provides services to a wide range of clients who operate in many industry sectors in varied geographic areas. The Company grants credit to all qualified clients and does not believe that it is exposed to undue concentration of credit risk to any significant degree.

NOTES

NOTE 4 – Accounts receivable:

a. Trade Accounts Receivable:

	31.12.1999 KDM	31.12.1998 KDM
Trade Accounts Receivable	78,806	37,947
Less – bad debt provision	(2,309)	(2,811)
	76,497	35,136

b. Other Accounts Receivable:

	31.12.1999 KDM	31.12.1998 KDM
Tax refunds	6,750	3,904
Credit notes from suppliers	676	185
Prepaid expenses	112	302
Employee loans	0	455
Others	872	542
	8,410	5,388

NOTES

NOTE 5 – Inventories:

Inventories consist of the following:

	31.12.1999 KDM	31.12.1998 KDM
Raw & packing materials	42,475	22,438
Work in process	52,338	21,560
Prepayments to suppliers	5,058	929
Less – inventory reserve	(3,076)	(2,240)
	96,795	42,687

NOTE 6 – Plant, property and equipment:

	31.12.1999 KDM	31.12.1998 KDM
Land, leasehold rights and buildings, including buildings on non-owned land	1,867	0
Leasehold improvements	1,990	1,597
Machinery and equipment	674	536
Other equipment, factory and office equipment	5,920	4,445
Payments on account and assets under construction	25	82
Less – accumulated depreciation	(4,882)	(2,513)
	5,594	4,148

An unplanned depreciation allowance totaling DM 622,000 has been taken on lessee improvements to leased real estate,

since the lengths of time remaining to expiration of the leases involved exceed their respective service lives.

NOTES

NOTE 7 – Intangible assets:

	31.12.1999 KDM	31.12.1998 KDM
EDP Software	975	599
Less – accumulated amortization	(629)	(413)
	346	186

NOTE 8 – Debt:

a. Current liabilities

	31.12.1999 KDM	31.12.1998 KDM
OTHER CURRENT LIABILITIES:		
Annual bonus	2,767	612
Accruals for invoices not yet received	2,049	669
Liabilities for social security insurance	1,032	806
Commissions	1,826	2,726
Liabilities for employee's compensation for future absence	968	1,036
Other liabilities for employees	814	389
Accrual for salesmen,s compensation claim	796	0
Accruals for contingent losses	700	0
Shareholders' meeting liabilities	500	500
Year-end closing liabilities	334	360
Tax liabilities	305	199
Current portion of convertible bonds	103	178
Other	1,528	1,545
	13,722	9,020

NOTES

Progress payments:

31.12.1999 KDM	31.12.1998 KDM
39,460	2,254

The progress payments at December 31, 1999 and 1998, represent the advance payments received from customers mainly for replication lines included in the work in process due to the accepted payment terms. The increase is mainly due to the fact that acceptances of customers for replication lines are still outstanding.

b. Long-term loans

Long-term loans include only convertible bonds hold by employees.

31.12.1999 KDM	31.12.1998 KDM
404	535

The convertible bonds have been issued following a management share option plan. This was created for members of the management board and other important employees of the Company in order to motivate the respective subscribers to ensure the success of the Company. The conditional capital increase necessary for the issue of the convertible bonds was agreed upon by the extraordinary general shareholders' meeting on November 6, 1997. According to the shareholders' resolution, the management board is authorized

to issue interest bearing convertible bonds in one or more steps with an aggregate nominal value of up to Euro 900,000 and a maturity up to December 31, 2010, subject to the consent of the supervisory board. With management board resolution as of December 22, 1999 in accordance with the shareholder resolution as of November 6, 1997 management decided to issue convertible bonds with a nominal value of Euro 494,181 in total. These convertible bonds were not issued by December 31, 1999 so that the resolution had no effect on the financial statements for the year then ended.

The convertible bonds with an aggregated nominal value of KDM 507 as of December 31, 1999 were issued at nominal value with an interest rate of 6% p.a. Each DM 5 nominal value of convertible bonds may be converted to three ordinary bearer share with a nominal value of Euro 1. The conversion rate was fixed to the initial offer price of DM 82 per share with a nominal value of 5 DM. 25% of the convertible bonds (33,816 convertible bonds with a nominal value of DM 5) have been converted at November 30, 1999 and a further 7.5% may be converted on each conversion date thereafter. Conversion dates are May 31. and November 30. of each calendar year up to 2005.

Following the conversion date, the value at maturity of the bonds is as follows:

	KDM
2000	103
2001	101
2002	101
2003	101
2004	101
	507

NOTES

According to the above table, the current portion of the convertible bonds due within one year amounts to KDM 103 and therefore is stated under 'Other current liabilities'.

Using an option pricing model in accordance with SFAS 123, the weighted-average fair value of the options amounts to approximately KDM 27,161, based on a volatility rate of 72.99 % and assuming a risk-free rate of 3.1 %.

NOTE 9 – Employee benefits plans:

Pension Plans

In Germany, the Company sponsors a pension plan covering all employees who were taken over from Leybold AG, the employees who were hired by Leybold AG on behalf of the Company as well as the members of the board of directors. The pension plan is based on the benefit plan of Leybold AG established in 1969 and the amendments hereto as of 1977 and 1986.

Consistent with German practice, the pension plan is not funded. Pension costs are recorded based on independent actuarial valuations. Pension benefits under German plans are generally based on a percentage of the employees' compensation for each year of credited service.

The changes in benefit obligation for 1999 and 1998 were as follows:

	31.12.1999 KDM	31.12.1998 KDM
Projected benefit obligation at beginning of year	2,570	2,271
Service cost	162	150
Interest cost	161	153
Benefits paid	0	0
Actuarial loss/ -gain	- 13	- 5
Projected benefit obligation at end of year	2,880	2,570

NOTES

The following table sets forth the funded status of the Company's pension plans, amounts recognized in the Company's balance sheets, and the principal weighted average assumptions inherent in their determination:

	31.12.1999 KDM	31.12.1998 KDM
Actuarial present value of pension obligations:		
Vested benefit obligation	2,002	1,726
Accumulated benefit obligation	2,107	1,834
Projected benefit obligation	2,880	2,570
Plan assets at fair value	0	0
Projected benefit obligation in excess of plan assets	2,880	2,570
Unrecognized net (gain)/loss	(117)	(105)
Prior service cost	0	0
Pension (asset)/liability recognized in the balance sheet	2,997	2,675

	31.12.1999	31.12.1998
Discount rate	6.25%	6.25%
Salary increase assumption	3.50%	3.50%
Pension payment increase assumption	1.50%	2.00%

NOTES

NOTE 10 – Other provisions:

Other provisions include the following:

	31.12.1999 KDM	31.12.1998 KDM
Warranty obligations	10,083	6,155
Other	127	108
	10,210	6,263

Warranty obligations are determined based on the estimated costs of fulfilling the warranty obligation, including, handling and transportation costs.

NOTE 11 – Minority interests:

Minority interests consist of the interest of minority in the capital stock of Singulus Vika China Limited holding a stake of 49% including the loss of the current year.

NOTE 12 – Shareholders' equity:

Share capital

With shareholders' resolution as of May 7, 1999 the share capital was converted from DM to EURO in fiscal year 1999. Therefore the share capital was increased by KDM 5,204 (reclassification of retained earnings).

The share capital increased by additional KDM 198 due to the conversion of convertible bonds on November 30, 1999 when 101,448 new bearer shares were issued.

At year's end the share capital of the Company amounts to KDM 35,403 and consists of 18,101,448 bearer shares, with a nominal value of EURO 1 each. All shares are paid up. Each share is entitled to one vote.

All shares are admitted to the official market [*Geregelter Markt*] with trading on the New Market [*Neuer Markt*], a market segment of the Frankfurter Stock Exchange [*Deutsche Börse Frankfurt*].

Conditional capital

The management board is authorized to issue, in one or more steps, interest bearing convertible bonds with an aggregate nominal value of up to EURO 900k with a maturity up to December 31, 2010, subject to the consent of the supervisory board (conditional capital).

On November 30, 1997 a nominal amount aggregating to KDM 750 of the conditional capital was converted to convertible bonds following a share management option plan. The long term portion of the convertible bonds are stated under 'Long-term liabilities', the current portion due within one year is stated under 'Other current liabilities' (we refer to our comments under Note 8: Debt).

NOTES

With management board's resolution as of December 22, 1999 a nominal amount aggregating to EURO 494k of the conditional capital was designed to issue convertible bonds to establish a stock option plan as approved by the shareholders' meeting at November 6, 1997. The approval of this resolution by the Supervisory board is expected at the Supervisory Board meeting at February 21, 2000. Consequently these bonds are not issued by December 31, 1999.

Authorized capital

The management board is authorized to increase the Company's share capital with the consent of the supervisory board, in one or more steps, until September 30, 2002, by an aggregate nominal amount of up to EURO 6,136k by issuing new bearer shares with a nominal value of Euro 1 each, against contribution in cash or in kind (authorized capital 1).

Furthermore, the management board is authorized to increase the Company's share capital, in one or more steps, until September 30, 2002 by an aggregate nominal amount of up to EURO 1,534k by issuing new bearer shares with a nominal value of EURO 1 each, against contribution in cash or in kind (authorized capital 2).

For both authorized capital amounts the pre-emptive rights may, with consent of the supervisory board, be excluded under certain conditions.

Additional paid-in capital

KDM 24,424 of the additional paid-in capital represent an additional capital contribution from a predecessor company made in prior years.

The additional paid-in capital increased by KDM 2,575 due to the conversion of convertible bonds in November 1999.

Dividend payments

Dividends may only be declared and paid from accumulated retained earnings (after deduction of certain reserves) shown in the Company's annual statutory unconsolidated accounts. Such amounts differ from the total of additional paid-in capital and accumulated retained earnings as shown in the accompanying Consolidated Financial Statements as a result of the adjustments made to present the Consolidated Financial Statements in accordance with U.S. GAAP. As of December 31, 1999, the Company's German statutory unconsolidated accounts state accumulated retained earnings amounting to KDM 16,139.

NOTES

NOTE 13 – Leases and rentals:

The Company has operating leases for buildings with renewal privileges, which expire at various dates. Since the buildings will be used until June 30, 2000 but some of the leasing contracts expire in December 31, 2002 contingent losses amounting to KDM 700 were accrued. As of December 31, 1999, minimum annual rental commitments for rental commitments are as follows:

	KDM
2000	643
2001	471
2002	471
2003 and the reafter	–
	1,585

Rental expenses for these operating leases were KDM 737 for 1999 and KDM 555 for 1998.

NOTE 14 – Non-operating income (expenses):

	31.12.1999 KDM	31.12.1998 KDM
Interest income from financial investments	1,537	1,208
Other interest expenses / -income	(132)	(184)
	1,405	1,024

NOTES

NOTE 15 – Contingent liabilities:

Based on a guideline for the interpretation of the revised sec. 8 para 4 of the Corporation Income Tax Act on the usage of tax loss carry forwards issued by the German tax authorities, the usage of tax loss carry forwards may be limited. This paper presents the interpretation of the tax authorities but does not represent law and may eventually be either confirmed or abolished by the Federal Tax Court. In this opinion the tax authorities state that tax loss carry forwards acquired in connection with a change in ownership of a corporation of more than 50 % of the shares cannot be used against future income if predominantly new assets are supplied in the following five years. Based on this paper, the usage of such tax losses could be disallowed in the case of SINGULUS TECHNOLOGIES AG from fiscal year 1997 onwards.

If this interpretation would succeed in a court case a tax risk with respect to the realization of such tax loss carry forwards for fiscal year 1997 to the amount of up to 9 million Deutsche Mark exists. At present the outcome of this discussion is uncertain and cannot be finally evaluated. Accordingly no accrual has been set up for this matter in the financial statements 1997, 1998 and 1999.

Management is not aware of any other matters that could give rise to any other liabilities to the Company that would have a material adverse effect on the Company's business, financial condition or results of operation.

Beside this contingency the tax accruals (1999: KDM 27,959; 1998: KDM 16,903) include a provision for income taxes in an amount of KDM 10,000, as the acceptance of the realization of corporate income tax loss carry forwards in prior years by the tax authorities is subject to a final assessment.

NOTES

NOTE 16 – Income tax:

Income tax data from continuing operations for the year ended December 31, 1999 and 1998, is as follows:

	31.12.1999 KDM	31.12.1998 KDM
PRETAX INCOME/LOSS		
Germany	76,285	44,706
Foreign	12,778	1,799
	89,063	46,505
Consolidation	(86)	618
	88,977	47,123
CURRENT INCOME TAX		
Germany		
Corporate income tax	31,890	18,166
Trade tax	12,092	6,314
Foreign		
Income tax expenses	3,841	1,139
Tax refunds	(33)	0
	47,790	25,619
DEFERRED INCOME TAX		
Germany	(5,356)	(133)
Foreign	44	(385)
	(5,312)	(518)
	42,478	25,101

NOTES

Under German corporate tax law, taxes on income are composed of corporate taxes and trade taxes.

Deferred income taxes are established for all significant temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and for tax purposes.

Deferred tax assets, for which no valuation allowances have been provided, include the following:

	31.12.1999 KDM	31.12.1998 KDM
Germany		
Differences between statutory accounts and tax accounts	5,109	368
Consolidation effects	615	0
Foreign	341	385
	6,065	753

The German statutory tax rate (for income tax and trade tax on income) was approximately 50.4 % respectively 54.9 % for the years ended December 31, 1999 and 1998. The difference

between the statutory tax rates for income taxes and the effective tax rate is as follows:

	1999	1998
Statutory tax rate	50.4%	54.9%
Differences in foreign tax rates	– 2.9%	– 0.9%
Non tax deductible items (Germany)	0.0%	– 0.7%
Non tax deductible consolidation impacts	0.2%	0.0%
Effective tax rate	47.7%	53.3%

NOTES

NOTE 17 – Segment Reporting:

The product groups of the Company are similar with regard with both production processes as well as marketing methods and markets. Hence, they are not considered as separate industry segments and do not require individual financial reporting for segments.

Revenue by Product Group

	1999	1998
Prerecorded CDs/DVDs	250,397	166,438
Recordable CDs	45,885	–
Other	50,404	31,608
Total	346,686	198,046

NOTES

Geographic Information at December 31, 1999

	Germany	Rest Europe	North- and Southamerica	Asia
GROSS REVENUES BY COUNTRY OF Origin	335,009	1,461	6,528	3,688
Destination	39,393	47,760	61,374	198,159

Geographic Information at December 31, 1998

	Germany	Rest Europe	North- and Southamerica	Asia
GROSS REVENUES BY COUNTRY OF Origin	190,548	761	4,763	1,974
Destination	28,373	25,931	41,027	102,715

NOTES

NOTE 18 – Earnings per share / DVFA/SG income:

	31.12.1999		31.12.1998
Net Income	KDM	46,511	22,057
Expenses incurred in regard to capital increase (net of tax)	KDM	165	–
DVFA/SG Income	KDM	46,676	22,057
Income per share – basic	DM	2.57	1.23
Income per share – basic (based on DVFA/SG income)	DM	2.58	1.23
Weighted average shares outstanding – basic		18,101,448	18,000,000
Income per share – diluted	DM	2.53	1.20
Weighted average shares outstanding – diluted		18,405,819	18,427,911

STATUS REPORT

SINGULUS TECHNOLOGIES AG

Alzenau, Germany
at 31. December 1999

According to international standards our report is concentrated on the SINGULUS TECHNOLOGIES group.

On the following pages you will find the balance sheets and the income statement of the legal entity SINGULUS TECHNOLOGIES AG in prepared conformity with German accounting principles and translated into English.

The complete German report is available on request:

SINGULUS TECHNOLOGIES AG
Junkersstraße 1
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Tel.: +49-(0) 60 23 - 945-292

Fax: +49-(0) 60 23 - 945-110

ANNUAL REPORT

Balance sheet as of 31. December 1999 and 1998

ASSETS	31.12.1999 KDM	31.12.1998 KDM
FIXED ASSETS		
Intangible assets		
Franchises, industrial Trademarks and similar rights and values, as well as licences thereto	2,113	2,387
	2,113	2,387
Property, plant and equipment		
Estates, similiar rights and buildings on foreign estates	2,190	1,076
Technical equipment, plant and machinery	342	314
Other equipment, operational and office equipment	2,231	2,047
Prepayments to suppliers	25	82
	4,788	3,519
Financial assets		
Shares in affiliated companies	1,418	1,409
Loans due from affiliated companies	0	1,024
Other Loans	0	0
	1,418	2,433
Total Fixed Assets	8,320	8,339
CURRENT ASSETS		
Total inventories		
Raw and packing materials	36,837	17,618
Work-in-process and finished goods	52,338	21,560
Prepayments to suppliers	5,052	929
Progress payments received	- 39,460	- 2,254
	54,766	37,853
Total accounts receivable		
Trade accounts receivable	72,922	33,785
Accounts due from affiliated companies	1,313	2,675
Other assets	8,885	5,882
	83,120	42,341
Checks, cash on hand and in Federal Bank and in postal giro accounts, and cash in banks	56,753	31,930
Total Current assets	194,640	112,124
DEFERRED CHARGES AND PREPAID EXPENSES	112	302
Total Assets	203,071	120,766

ANNUAL REPORT

Balance sheet as of 31. December 1999 and 1998

LIABILITIES

	31.12.1999 KDM	31.12.1998 KDM
SHAREHOLDER'S EQUITY		
Share capital 35,403	30,000	
Add. Paid-in capital	26,989	24,414
Other earnings reserve	19,855	8,921
Retained earnings - ending	16,139	0
Total Shareholder's Equity	98,386	63,335
PROVISIONS		
Pension accruals and reserves for similar obligations	2,997	2,675
Tax accruals	25,138	16,614
Other provisions	17,891	9,216
Total Provisions	46,027	28,505
LIABILITIES		
Long-term loans	507	713
Liabilities against Creditinstitutions	26	0
Trade accounts payable	46,201	23,176
Accounts due to affiliated companies	7,323	911
Other liabilities	4,601	4,126
therof for taxes KDM 305 (prior year KDM 199)		
therof for social security KDM 1,032 (prior year KDM 806)		
Total Liabilities	58,658	28,926
Total Liabilities	203,071	120,766

ANNUAL REPORT

Income statement for the business years 1999 and 1998

	31.12.1999 KDM	31.12.1998 KDM
Gross revenues	339,902	193,967
Increase(decrease)in finished goods and work-in-process	30,778	– 5,922
Other operating income	3,348	3,866
Cost of materials		
Cost of raw materials, supplies and trading stock	– 218,537	– 99,935
Personnel expenses		
Wages and salaries	– 20,075	– 12,938
Social security, pension and other benefit costs	– 3,043	– 2,957
thereof for pensions plan KDM 327 (prior year KDM 924)		
Depreciation		
on intangible assets, and plant and equipment	– 2,814	– 1,686
on current assets to the extent that they exceed provisions normally recorded by the company	0	0
Other operating expenses	– 54,617	– 30,703
Other interest and similar income	1,518	1,332
thereof from affiliated companies KDM 113 (prior year KDM 124)		
Write-off financial assets and marketable securities	– 15	– 29
Interest and similar expenses	– 183	– 316
thereof from affiliated companies KDM 0,00 (prior year KDM 0,00)		
Operating income	76,260	44,678

ANNUAL REPORT

Income statement for the business years 1999 und 1998

	31.12.1999 KDM	31.12.1998 KDM
Operating income	76,260	44,678
Other taxes	- 19	- 9
Taxes on income	- 43,963	- 23,474
Net income	32,278	21,196
Retained earnings at beginning of the year	0	- 12,2758
Allocation to other earnings reserve	- 16,139	- 8,921
Retained earnings at end of the year	16,139	0

COMMENTARY

COMMENTARY ON SINGULUS TECHNOLOGIES AG'S ANNUAL REPORT

Corporate bodies of SINGULUS TECHNOLOGIES AG

The company's Supervisory Board consists of three members elected at its annual general meeting. The following members of its Supervisory Board have been elected to serve through the conclusion of its forthcoming annual general meeting, at which a decision will be rendered regarding relieving them of responsibility for the fiscal year 2001:

Alexander von Engelhardt
(Chairman)

William Slee
(Vice Chairman)

Thomas Geitner

In addition to reimbursement for their expenses, regular members of the company's Supervisory Board also each receive fixed annual compensation amounting to € 20,000.00 for each full fiscal year of membership, while its chairman receives € 40,000.00 and its vice chairman receives € 30,000.00. The total amount of such compensation paid for the reporting period in question was (€ 90,000.00) DM 176,000.00. The various members of the company's Supervisory Board also actively pursue the following professions and are members of the supervisory boards, boards of directors, or similar bodies of the following other companies:

Alexander von Engelhardt	Supervisory Board	Gütermann AG (Chairman) Kässbohrer Geländefahrzeuge (Chairman) Dr. Schmitz AG & Co (Vice Chairman) MSH-International AG SAI Automotive AG Tarkett Sommer AG
William Slee	Supervisory Board	De Nationale Investeringsbank N.V. (Chairman) Vital Internet.plc (Chairman) ABP-PGGM Capital Holdings N.V. Algemeene Burgerlijk Pensioenfonds (Member of the Investment Committee) Charles Vögele Holding AG
Thomas Geitner	Supervisory Board	E-Plus Mobilfunk GmbH (Chairman) Babcock Borsig AG

COMMENTARY

Members of the company's management board for fiscal year 1999 were:

Roland Lacher
(Chairman)

Reiner Seiler

Members of the company's Management Board received compensation totaling DM 1,637,000.00 for the reporting period in question. Under a resolution adopted by the company's Supervisory Board on 15 December, 1999, Dr. Erich Bischoff was elected to serve as a third member of the company's Management Board, effective 1 February, 2000.

Average total employment:

Over fiscal year 1999, the average total number of permanent employees was 138. The corresponding figure for fiscal year 1998 was 115.

GLOSSARY OF TECHNICAL TERMS

Bonding	Permanent adhesion of 2 disc halves to each other, one of the DVD production steps	CD View Card	Rectangular-shaped CD-ROM the size of a credit card which can be read using a conventional CD-ROM drive; 15 MB storage capacity.
CD	Compact Disc ; optical medium for the storage of digital and prerecorded information. During the injection molding process information is embedded in permanent microscopic pits on the CD surface. This information can only be read and not altered (audio, video, computer); 650 megabyte storage capacity; 780 nanometer laser wavelength; one polycarbonate substrate (120 mm diameter; 1.2 mm thickness)	DVD	Digital Versatile Disc ; optical medium for the storage of digital information (audio, video, computer data); 9.4 gigabyte max. storage capacity; 650 nanometer laser wavelength; 2 polycarbonate substrates (120 mm diameter; 0.6 mm thickness each), individually produced, coated and subsequently bonded together. The digital information can be read but not altered.
CD-ROM	Compact Disc - Read Only Memory ; optical data storage medium for pre-recorded data (software). This information can only be read and not altered.	DVD-Audio	Digital Versatile Disc-Audio optical medium for the digital storage of music
CD-R	Compact Disc - Recordable ; optical data storage medium for personal archiving (burning) of digital information; the CD-R can be recorded only once, and thereafter can only be read like a CD-ROM.	DVD-ROM	Digital Versatile Disc-ROM ; optical medium for the storage of digital information (data, software, games, etc.); the digital information can be read but not altered.
CD-RW	Compact Disc - Rewritable ; optical data storage medium for archiving (burning) of digital information; the CD-RW can be recorded and erased repeatedly.	DVD-Video	Digital Versatile Disc-Video ; optical medium for the digital storage of movies with multiple language options.
		DVD-R	Digital Versatile Disc-Recordable ; optical data storage medium for personal archiving (burning) of digital information; the DVD-R can be recorded only once, and thereafter can only be read like a normal DVD.

DVD - 5

Digital Versatile Disc -
4.7 gigabyte storage capacity

DVD - 9

Digital Versatile Disc -
8.5 gigabyte storage capacity

DVD - 10

Digital Versatile Disc -
9.4 gigabyte storage capacity

DVD-RW

Digital Versatile Disc - Rewritable;
optical data storage medium for repeated
digital recording for video applications.

DVD-RAM

Digital Versatile Disc - Read Access
Memory; optical data storage medium
for repeated digital recording for
PC ROM applications.

Metallizing

Application of a thin layer of metal
(aluminum, gold, silver) or silicon onto
a CD or DVD disc; this reflective layer
serves to reflect the laser beam; the
cathode technology employed is called
sputtering.

MODULUS

Multiple cathode metallizer for coating
rewritable CD-RW, DVD-RW, and
DVD-RAM media.

SINGULUS III

Metallizing system for CD, CD-R
and DVD

SKYLINE

Fully automatic replication line for
CD, CD-ROM and CD Business Cards

SKYLINE Duplex

Fully automatic replication line for
CD and DVD 5

SMART CATHODE®

Patented sputter cathode for coating
CD and DVD discs with highly uniform
reflective layers-

SPACELINE

Fully automatic replication line for
DVD 5, DVD 10 and DVD 9

SPACEBonder

Bonding System for DVD

STREAMLINE

Fully automatic replication line for
CD-R and DVD-R

UV-Curing

Drying or curing of adhesives or
lacquers with the aid of ultraviolet rays

SINGULUS



TECHNOLOGIES