

# STATUS REPORT



## 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 subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing (ISA), 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 subsidiaries as of December 31, 2000 and 1999 and the results of their operations and their cash flows for the

years then ended, in conformity with United States Generally Accepted Accounting Principles ( US GAAP).

Eschborn/Frankfurt, Germany  
February 22, 2001

Arthur Andersen  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft mbH

Groß  
Wirtschaftsprüfer  
(German Public Auditor)

Seckler  
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Consolidated balance sheets as of December 31, 2000 and 1999

<b>ASSETS</b>	<b>Dec. 31, 2000 KDM</b>	<b>Dec. 31, 1999 KDM</b>
<b>Cash and cash equivalents</b>	<b>81,030</b>	<b>58,981</b>
Trade accounts receivable, net	112,944	76,497
Other receivables-sundry	7,814	8,410
<b>Total accounts receivables, net</b>	<b>120,758</b>	<b>84,907</b>
<b>Total inventories, net</b>	<b>162,530</b>	<b>96,795</b>
<b>Total current assets</b>	<b>364,318</b>	<b>240,682</b>
Property, plant and equipment-net	17,264	5,594
Intangible assets, net	742	346
Deferred tax asset	7,537	6,065
<b>Total assets</b>	<b>389,861</b>	<b>252,687</b>

<b>LIABILITIES</b>	<b>Dec. 31, 2000 KDM</b>	<b>Dec. 31, 1999 KDM</b>
Bank overdrafts and borrowings	81	160
Trade accounts payable	48,677	47,229
Other current liabilities	24,647	13,722
Progress payments	28,428	39,460
Tax accruals	58,392	27,959
Other provisions	16,911	10,210
<b>Total current liabilities</b>	<b>177,136</b>	<b>138,740</b>
Pension accruals	3,346	2,997
Convertible bonds	1,113	404
<b>Total long-term liabilities</b>	<b>4,459</b>	<b>3,401</b>
<b>Total liabilities</b>	<b>181,595</b>	<b>142,141</b>
<b>Minority interest</b>	<b>- 35</b>	<b>- 39</b>
Share capital (2000: 36,321,312 and 1999: 18,101,448, respectively, authorized, issued and outstanding ordinary shares)	71,038	35,403
Additional paid-in capital	28,719	26,989
Cumulative currency translation adjustment (CTA)	1,460	867
Retained earnings	107,084	47,326
<b>Total shareholders' equity</b>	<b>208,301</b>	<b>110,585</b>
<b>Total liabilities and shareholders' equity</b>	<b>389,861</b>	<b>252,687</b>

The accompanying notes to the consolidated financial statements are an integral part of these consolidated balance sheets.

## Consolidated statements of income for the years ended December 31, 2000 and 1999

	Dec. 31, 2000 KDM		Dec. 31, 1999 KDM	
<b>Gross revenues</b>	<b>734,848</b>	<b>108.6</b>	<b>346,686</b>	<b>106.0</b>
Sales deductions and direct distribution cost	-58,053	-8.6	-19,490	-6.0
<b>Total net revenues</b>	<b>676,795</b>	<b>100.0</b>	<b>327,196</b>	<b>100.0</b>
Cost of goods sold	-421,752	-62.3	-202,883	-62.0
<b>Gross profit</b>	<b>255,043</b>	<b>37.7</b>	<b>124,313</b>	<b>38.0</b>
Development, design, quality control (thereof R&D expenses)	-11,541 (-10,052)	-1.7 (-1.5)	-6,607 (-6,001)	-2.0 (-1.8)
Sales and customer services	-24,183	-3.6	-13,110	-4.0
General management and administration	-15,360	-2.3	-8,896	-2.7
Projects and reserves (thereof R&D expenses)	-21,253 (-7,576)	-3.1 (-1.1)	-8,127 (-2,524)	-2.5 (-0.8)
Total operating expenses	-72,337	-10.7	-36,741	-11.2
<b>Operating income (EBIT)</b>	<b>182,706</b>	<b>27.0</b>	<b>87,572</b>	<b>26.8</b>
Interest income (net of interest expenses)	2,555	0.4	1,405	0.4
<b>Income before tax</b>	<b>185,261</b>	<b>27.4</b>	<b>88,977</b>	<b>27.2</b>
Income tax	-90,104	-13.3	-42,477	-13.0
<b>Income before minority interest</b>	<b>95,157</b>	<b>14.1</b>	<b>46,500</b>	<b>14.2</b>
Minority interest	4	0.0	11	0.0
<b>Net income</b>	<b>95,161</b>	<b>14.1</b>	<b>46,511</b>	<b>14.2</b>

	2000	1999
Earnings per share – basic (in DM)	2.62	1.28
Earnings per share – diluted (in DM)	2.53	1.26
Weighted average shares outstanding – basic	36,321,312	36,202,896
Weighted average shares outstanding – diluted	37,548,000	36,811,638

The accompanying notes to the consolidated financial statements are an integral part of these consolidated balance sheets.

### Consolidated statements of shareholders' equity for the years ended December 31, 2000 and 1999

	Share capital	Additional paid-in-capital	Cumulative translation adjustment	Retained earnings	Total shareholders' equity	Comprehensive Income
	KDM	KDM	KDM	KDM	KDM	KDM
Balance at Dec. 31, 1998	30,000	24,414	18	6,019	60,451	
Capital increase	5,403	2,575		-5,204	2,774	
Translation adjustment			849		849	849
<b>Net income</b>				<b>46,511</b>	<b>46,511</b>	<b>46,511</b>
Balance at Dec. 31, 1999	35,403	26,989	867	47,326	110,585	47,360
Capital increase	35,635	1,730		-35,403	1,962	
Translation adjustment			593		593	593
<b>Net income</b>				<b>95,161</b>	<b>95,161</b>	<b>95,161</b>
<b>Balance at December 31, 2000</b>	<b>71,038</b>	<b>28,719</b>	<b>1,460</b>	<b>107,084</b>	<b>208,301</b>	<b>95,754</b>

The accompanying notes to the consolidated financial statements are an integral part of these consolidated statements of shareholders' equity.

## Consolidated statements of cash flows for the years ended December 31, 2000 and 1999

	2000 KDM	1999 KDM
<b>Cash flows from operating activities</b>		
Net income	95,161	46,511
Adjustments to reconcile net income to net cash (used in)/provided by operating activities		
Depreciation	3,677	2,795
Additions to pension accrual	349	322
Deferred tax benefit	-1,472	-5,312
Minority interest	4	-15
Changes in operating assets and liabilities		
Inventories, net	-65,735	-54,108
Trade accounts receivable, net	-42,075	-44,820
Other receivables-sundry	520	-3,483
Tax accruals	30,433	11,056
Other provisions	6,701	3,947
Trade accounts payable	1,448	23,854
Other current liabilities	10,925	4,778
Progress payments	-11,032	37,206
	-68,815	-21,570
<b>Net cash provided by/-used in operating activities</b>	<b>28,904</b>	<b>22,731</b>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	-15,244	-3,579
Disposal of fixed assets	93	18
<b>Net cash used in investing activities</b>	<b>-15,151</b>	<b>-3,561</b>

**Consolidated statements of cash flows for the years ended December 31, 2000 and 1999**

	<b>2000 KDM</b>	<b>1999 KDM</b>
<b>Cash flow from financing activities</b>		
Increase in liquid funds from factoring of accounts receivables	5,628	3,570
Decrease in employee loans	76	359
(Decrease)/Increase in bank overdrafts and borrowings	-80	101
(Decrease)/Increase in bonds (stock option plans)	710	-206
Capital increase	1,962	2,773
<b>Net cash provided by financing activities</b>	<b>8,296</b>	<b>6,597</b>
<b>Net increase /-decrease in cash and cash equivalents</b>	<b>22,049</b>	<b>25,767</b>
Cash, beginning balance	58,981	33,214
Cash, ending balance	81,030	58,981
<b>Supplemental cash flows disclosures</b>		
Cash paid for interest	322	257
Cash paid for income taxes	40,843	27,052

The accompanying notes to the consolidated financial statements are an integral part of these consolidated statements of cash flows.

## Notes to consolidated financial statements at December 31, 2000

### 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 generally accepted accounting principles in the United States (“U.S. GAAP”). Following the regulations of the New Market (Neuer Markt) the financial statements have to be prepared in accordance with IAS or US GAAP. The consolidated financial statements have been prepared on a voluntary basis due to the fact that the subsidiaries have no material effect on the consolidated financial statements. German GAAP varies in certain respects from U.S. GAAP. Accordingly, for purposes of preparing these consolidated financial statements, 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 “MODULUS” and replication lines under the names “SKYLINE” for CD-audio/CD-ROM, “STREAMLINE” for CD-R and “SPACE-LINE” 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, Spain

SINGULUS Vika China Limited, Wanchai, Hong Kong

SINGULUS TECHNOLOGIES France, Valence, France

SINGULUS TECHNOLOGIES Italia s.r.l., Senigallia (Ancona), Italy

All subsidiaries are directly or indirectly wholly owned, except SINGULUS Vika China Limited, in which the Company holds a stake of 51%.

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

### Revenue Recognition

The Company recognizes sales of products upon

- shipment of products in the case of metallizers (without MODULUS) and spare parts, or
- acceptance 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.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” (SAB 101). SAB 101 outlines the SEC’s views on applying generally accepted accounting principles to revenue recognition in financial statements. Specifically, the bulletin provides both general and specific guidance as to the periods in which companies should recognize revenues.

In addition, SAB 101 also highlights factors to be considered when determining whether to recognize revenues on a gross or net basis. SAB 101, as amended by SAB 101/A and SAB 101/B, is effective beginning no later than the fourth fiscal quarter of the fiscal year beginning after December 15, 1999. The Company believes that its policies with regard to the recognition of revenues are in compliance with the guidance of SAB 101.

### 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 17,628 and KDM 8,525 in 2000 and 1999, 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.

## Property, Plant and Equipment

Property, plant 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.

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

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. The translation of the applicable foreign currency into Deutsche Mark 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.

## 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.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 133, Accounting for Derivative Instruments and Hedging Activities. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative’s fair value be recognized currently in earnings unless specific accounting criteria are met.

If a derivative instrument qualifies for hedge accounting, the gains or losses from the derivative may offset results from the hedged item in the statement of operations or other comprehensive income, depending on the type of hedge. To adopt hedge accounting, a Company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

In June 2000, the Financial Accounting Standards Board issued SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities. This Statement addresses a limited number of issues causing implementation difficulties for numerous entities that apply SFAS 133 and this Statement amends the accounting and reporting standards of SFAS 133 for certain derivative instruments and certain hedging activities.

SFAS 137 delayed the effective date of SFAS 133 to fiscal years beginning after June 15, 2000. A Company may implement the statements as of the beginning of any fiscal quarter after issuance; however, SFAS 133 cannot be applied retroactively.

The adoption of SFAS 133, SFAS 137, and SFAS 138 will not have a material impact on the financial position or the results of operations of the Company.

### Impairment of Long-Lived Assets

The Company applies the provisions of SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of”. In accordance with this statement 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.

### 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

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share are computed by dividing net income applicable to common shareholders by the weighted average number of common and common equivalent shares outstanding.

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 financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

## 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 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 consolidated 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.

**NOTE 4 – Accounts receivable:**

	<b>Dec. 31, 2000</b>	<b>Dec. 31, 1999</b>
	<b>KDM</b>	<b>KDM</b>
a. Trade Accounts Receivable:		
Trade Accounts Receivable	117,180	78,806
Less – Allowance for doubtful accounts	(4,236)	(2,309)
	<b>112,944</b>	<b>76,497</b>

	<b>Dec. 31, 2000</b>	<b>Dec. 31, 1999</b>
	<b>KDM</b>	<b>KDM</b>
b. Other Receivables-Sundry:		
Tax refunds	4,897	6,750
Commission claims	789	78
Accrued interest income	550	0
Others	1,578	1,582
	<b>7,814</b>	<b>8,410</b>

**NOTE 5 – Inventories:**

Inventories consist of the following:

	<b>Dec. 31, 2000</b>	<b>Dec. 31, 1999</b>
	<b>KDM</b>	<b>KDM</b>
Raw and packing materials	70,247	42,475
Work in process	93,801	52,338
Prepayments to suppliers	6,316	5,058
Less – inventory reserve	(7,834)	(3,076)
	<b>162,530</b>	<b>96,795</b>

**NOTE 6 – Property, plant and equipment:**

	<b>Dec. 31, 2000 KDM</b>	<b>Dec. 31, 1999 KDM</b>
Land, leasehold improvements, Leasehold rights and buildings including buildings on non-owned land	6,469	3,857
Machinery and equipment	3,835	674
Other equipment, factory and office equipment	11,412	5,920
Payments on account and assets under construction	123	25
Less – accumulated depreciation	(4,575)	(4,882)
	<b>17,264</b>	<b>5,594</b>

**NOTE 7 – Intangible assets:**

	<b>Dec. 31, 2000 KDM</b>	<b>Dec. 31, 1999 KDM</b>
EDP software	1,612	975
Less – accumulated amortization	(870)	(629)
	<b>742</b>	<b>346</b>

**NOTE 8 – Debt:**

**a. Current liabilities**

Other current liabilities:	<b>Dec. 31, 2000 KDM</b>	<b>Dec. 31, 1999 KDM</b>
Accruals for invoices not yet received	6,501	2,049
Annual bonus	4,625	2,767
Commissions	3,164	1,826
Liabilities for employee’s compensation for future absence	2,197	968
Liabilities for social security insurance	1,464	1,032
Other liabilities for employees	1,455	814
Tax liabilities	635	305
Shareholders’ meeting liabilities	500	500
Year-end closing liabilities	464	334
Current portion of convertible bonds	104	103
Accrual for salesmen’s compensation claim	0	796
Accruals for contingent losses	0	700
Other	3,538	1,528
	<b>24,647</b>	<b>13,722</b>

Progress payments:

	<b>Dec. 31, 2000 KDM</b>	<b>Dec. 31, 1999 KDM</b>	
	<b>28,428</b>	<b>39,460</b>	

The progress payments at December 31, 2000 and 1999, represent the advance payments received from customers mainly for replication lines included in the work in process due to the accepted payment terms.

The decrease is mainly due to the fact that orders for replication lines are below prior year’s volume.

## b. Long-term loans

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

	<b>Dec. 31, 2000</b>	<b>Dec. 31, 1999</b>	
	<b>KDM</b>	<b>KDM</b>	
	<b>1,113</b>	<b>404</b>	

The convertible bonds have been issued according to 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 and the ordinary shareholders' meeting on May 7, 1999. According to the shareholders' resolutions, 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.

In November 30, 1997 convertible bonds with a nominal amount aggregating to KDM 750 (EURO 383k) with an interest rate of 6% p.a. were issued. Each DM 5 nominal value of convertible bonds may be converted to six

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. In 1998 and 1999 convertible bonds equivalent to Euro 44k have been returned. 15% of the convertible bonds (19,736 convertible bonds with a nominal value of DM 5) have been converted in 2000 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. On December 31, 2000 the aggregated nominal value of these convertible bonds amounts to KDM 409.

Convertible bonds issued in 2000 with an aggregated nominal value of KDM 966 were issued at nominal value with an interest rate of 6% p.a. Each Euro 1 nominal value of convertible bonds may be converted to two ordinary bearer share with a nominal value of Euro 1. Convertible bonds equivalent to KDM 158 have already been returned and not yet issued again. The conversion rate for convertible bonds with an aggregate nominal value of KDM 730 was fixed to the share price at December 21, 1999 (Euro 59,45 per share) with a nominal value of 1 Euro. The remaining convertible bonds with an aggregate nominal value of KDM 78 was fixed to the share price at January 31, 2000 (Euro 84,90 per share) with a nominal value of 1 Euro. 25% of the convertible bonds may be converted at May 31, 2002 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 2007.

As of December 31, 2000 the aggregate value of the nominal value of the convertible bonds amounts to KDM 1,217.

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

Due in	KDM
2001	104
2002	365
2003	223
2004	222
2005	121
2006	121
2007	61
	<b>1,217</b>

According to the above table, the current portion of the convertible bonds due within one year amounts to KDM 104 and therefore is stated under “Other current liabilities”.

By applying the regulations of APB Op. 25 the Company recorded compensation expense of KDM 344. Using an option pricing model in accordance with SFAS 123, the weighted-average fair value of the options amounts to approximately KDM 14,301, based on a volatility rate of 58,67% and assuming a risk-free rate of 4,4%.

## 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 the year ended December 31, 2000 and 1999 were as follows:

The changes in benefit obligation for the year ended December 31, 2000 and 1999 were as follows:

	Dec. 31, 2000 KDM	Dec. 31, 1999 KDM
Projected benefit obligation at beginning of year	2,880	2,570
Service cost	169	162
Interest cost	180	161
Benefits paid	0	0
Actuarial loss/-gain	-29	-13
<b>Projected benefit obligation at end of year</b>	<b>3,200</b>	<b>2,880</b>

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:

	Dec. 31, 2000 KDM	Dec. 31, 1999 KDM
Actuarial present value of pension obligations:		
Vested benefit obligation	2,390	2,002
Accumulated benefit obligation	2,482	2,107
Projected benefit obligation	3,200	2,880
Plan assets at fair value	0	0
Projected benefit obligation in Excess of plan assets	3,200	2,880
Unrecognized net (gain)/loss	(146)	(117)
Prior service cost	0	0
<b>Pension (asset)/liability recognized in the balance sheet</b>	<b>3,346</b>	<b>2,997</b>

	Dec. 31, 2000 %	Dec. 31, 1999 %
Discount rate	6.25	6.25
Salary increase assumption	3.25	3.50
Pension payment increase assumption	1.75	1.50

The components of net periodic pension cost were as follows:

	Dec. 31, 2000 KDM	Dec. 31, 1999 KDM
Service cost	169	162
Interest cost	180	161
Actuarial loss/-gain	-29	-13
	<b>320</b>	<b>310</b>

**NOTE 10 – Other provisions:**

Other provisions include the following:

	Dec. 31, 2000 KDM	Dec. 31, 1999 KDM
Warranty obligations	16,775	10,083
Other	136	127
	<b>16,911</b>	<b>10,210</b>

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 a shareholders' resolution as of May 8, 2000, the share capital was increased by EURO 18,101,448 (KDM 35,403) in fiscal year 2000 (reclassification of retained earnings) when 18,101,448 new bearer shares were issued.

The share capital increased by an additional KDM 232 due to the conversion of convertible bonds when 118,416 new bearer shares were issued.

At December 31, 2000, the share capital of the Company amounts to KDM 71,038 and consists of 36,321,312 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 equivalent to EURO 1,597k shares of EURO 1 each 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 (EURO 383k) of the conditional capital, was converted to convertible bonds following a share management option plan.

In 2000, a nominal amount, aggregating to EURO 494k of the conditional capital, was converted to convertible bonds according to an additional share management option plan.

Taking into account the increase in share capital in fiscal year 2000 and 1999 the conditional capital has been completely used.

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 further refer to our comments under Note 8: Debt.

### 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 6,136 k 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 1,534 k 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 24,414 of the additional paid-in capital represents an additional capital contribution from a predecessor company made in prior years.

The additional paid-in capital increased by KDM 1,386 and KDM 2,575 respectively due to the conversion of convertible bonds in 2000 and 1999 respectively.

Furthermore, in connection with the issuance of stock options to employees, the Company recorded compensation expenses in accordance with APB opinion 25 "Accounting for Stock Issued to Employees" amounting to KDM 344 and an increase in additional paid-in capital, respectively.

## 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, 2000, the Company's German statutory unconsolidated accounts state accumulated retained earnings amounting to KDM 36,264.

## NOTE 13 – Leases and rentals:

As of December 31, 2000, minimum annual rental payments for rental commitments were as follows:

	<b>KDM</b>
2001	2,157
2002	2,157
2003	2,157
2004	2,157
2005	2,157
2006 and thereafter	26,965
	<b>37,750</b>

Rental expenses for these operating leases were KDM 1,950 for 2000 and KDM 737 for 1999.

## NOTE 14 – Non-operating income (expenses):

	<b>Dec. 31, 2000 KDM</b>	<b>Dec. 31, 1999 KDM</b>
Interest income from financial investments	4,603	1,537
Other interest expenses/-income	(2,048)	(132)
	<b>2,555</b>	<b>1,405</b>

**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 in the amount of up to 9 million Deutsche Mark exists. However, legal proceedings are pending before the federal tax court (Bundesfinanzhof) with regard to the formal unconstitutionality of Sec. 12 (2) UmwStG (Reorganization Tax Law) due to failure to comply with the legislative procedure. As the legislative procedure for Sec. 8 (4) KStG (Corporate Income Tax Act) has the same defects, it is possible that this regulation is formally unconstitutional too.

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, 1999 and 2000.

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 (2000: KDM 58,392; 1999: KDM 27,958) 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.

**NOTE 16 – Income tax:**

Income tax data from continuing operations  
for the year ended December 31, 2000 and 1999, is as follows:

	<b>2000</b>	<b>1999</b>
Pretax income		
Germany	155,076	76,285
Foreign	32,127	12,778
	<b>187,203</b>	<b>89,063</b>
Consolidation adjustments	(1,942)	(86)
	<b>185,261</b>	<b>88,977</b>
Current income tax		
Germany		
Corporate income tax	58,832	31,890
Trade tax	22,391	12,092
Foreign		
Income tax expenses	10,353	3,841
Tax refunds	0	(33)
	<b>91,576</b>	<b>47,790</b>
Deferred income tax		
Germany	(1,733)	(5,356)
Foreign	261	43
	<b>(1,472)</b>	<b>(5,313)</b>
<b>Total income tax</b>	<b>90,104</b>	<b>42,477</b>

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:

	<b>2000</b>	<b>1999</b>
Germany		
Differences between statutory accounts and tax accounts	6,317	5,109
Consolidation effects	1,220	615
Foreign	0	341
	<b>7,537</b>	<b>6,065</b>

The German statutory tax rate (for income tax and trade tax on income) was approximately 50,4% for the years ended December 31, 2000 and 1999. The difference between the statutory tax rates for income taxes and the effective tax rate is as follows:

	<b>2000</b> %	<b>1999</b> %
Statutory tax rate	50.4	50.4
Differences in foreign tax rates	-3.0	-2.9
Non tax deductible items (Germany)	1.6	0.0
Non tax deductible consolidation impacts	-0.4	0.2
<b>Effective tax rate</b>	<b>48.6</b>	<b>47.7</b>

**NOTE 17 – Segment Reporting:**

The product groups of the Company are similar with regard to 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**

	<b>2000</b>	<b>1999</b>
Prerecorded CDs/DVDs	604,380	250,397
Recordable CDs	71,813	45,885
Other	58,655	50,404
<b>Total</b>	<b>734,848</b>	<b>346,686</b>

**Geographic Information at December 31, 2000**

	<b>Germany</b>	<b>Rest of Europe</b>	<b>North and South America</b>	<b>Asia</b>
Gross revenues by Country of				
– Origin	713,947	4,130	11,040	5,731
– Destination	58,182	141,632	154,658	380,376

**Geographic Information at December 31, 1999**

	Germany	Rest of Europe	North and South America	Asia
Gross revenues by Country of				
– Origin	335,009	1,461	6,528	3,688
– Destination	39,393	47,760	61,374	198,159

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

		2000	1999
Net Income	TDM	95,161	46,511
Compensation expenses due to the issuance of convertible bonds to employees	TDM	344	–
Expenses incurred in regard to capital increase (net of tax)	TDM	423	165
<b>DVFA/SG income</b>	<b>TDM</b>	<b>95,928</b>	<b>46,676</b>
Income per share – basic	DM	2.62	1.28
Income per share – basic (based on DVFA/SG income)	DM	2.64	1.29
Weighted average shares outstanding – basic		36,321,312	36,202,896
Income per share – diluted	DM	2.53	1.26
<b>Weighted average shares outstanding – diluted</b>		<b>37,548,000</b>	<b>36,811,638</b>

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:

Kahl/Main, at December 31, 2000

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