

Semiconductor AG

vision

report
9/99

english

1999

Dear Shareholders,

The event of the year was our Initial Public Offering on the Neuer Markt in Frankfurt.

Despite a difficult market situation, the IPO was completed successfully. The transaction volume of over DM 300 Mio. was of a considerable size. As a result, we are pleased to inform you that the greenshoe was also completely exercised and placed.

ELMOS' development was also excellent in the third quarter. We continued our steady growth and, at the same time, we increased through numerous means the efficiency and therefore the commercial earning power of the company in a lasting manner.

We see the gross margin as a key target for the efficiency and performance of our company. In reaching a gross margin of over 50%, an important milestone representing ELMOS' high competitiveness has been reached and, as a result, ELMOS is able to occupy a top position among European Companies.

In the fourth quarter 1999, ELMOS expects net sales to be higher than net sales in the fourth quarter of 1998. As seen in previous years, net sales in the fourth quarter will be lower than in the third quarter due to seasonal fluctuations.



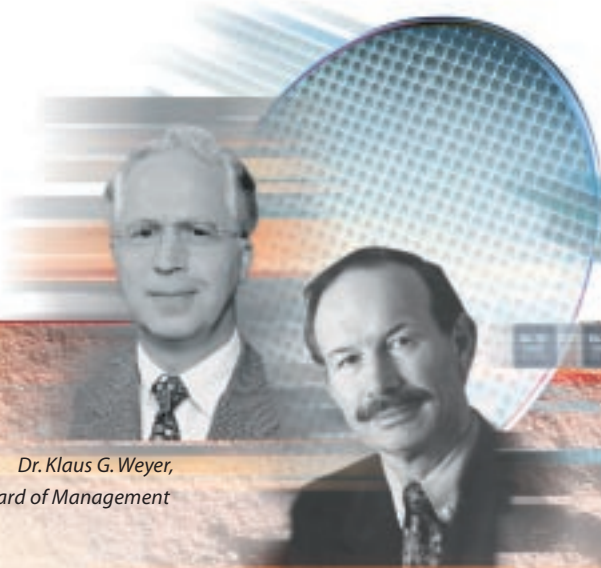
Knut S. Hinrichs

- Board of Management -



Dr. Klaus Weyer

- Board of Management -



Dr. Klaus G. Weyer,
Board of Management

Knut S. Hinrichs,
Board of Management

Net sales	III. Q 99	%	III. Q 98	%	1-9 / '99	%	1-9 / '98	%
	45,7	100%	41,8	100%	124	100%	104,8	100%
from this								
Production	44,2	96,7%	40,0	95,7%	117,8	95,0%	97,5	93,0%
Development	0,5	1,1%	1,0	2,4%	3,4	2,7%	3,3	3,2%
Miscellaneous	1,0	2,2%	0,8	1,9%	2,8	2,3%	4,0	3,8%

(Information in millions of DM or percent)

In the third quarter of 1999, ELMOS achieved the highest quarterly net sales in the company's history, amounting to DM 45.7 million. This exceeds even the high level of net sales in the third quarter of 1998, which was influenced by the production ramp-up at Siemens and a reduction in the backlog of orders. The total net sales accumulated during 1999 amounted to DM 124 million, thus exceeding the net sales for the same period of the previous year by 18.3%.

The main share of the net sales was achieved with the production of ASICs. This share of the net sales was increased by 21% in the first three quarters of 1999 compared with the same period of the previous year, thus being higher than the branch average.

When compared to this disproportional increase, the other net sales amounts could not grow in line. It must also be taken into account that as far as the net development sales is concerned, ELMOS must increasingly pre-finance development costs and these financing costs only reappear in the net sales resulting from series productions. However, due to the large number of design-wins, the absolute value of the net development sales also increased by 3% in the first three quarters of 1999.

The share of net sales classified as "miscellaneous" contains net sales for tools and masks which are needed in the production of new products. When compared with the previous year, this percentage has been greatly reduced. On the one hand, this is attributed to the extraordinarily high number of product series starts in the past year and, on the other hand, these net "miscellaneous" sales are increasingly transferred to the net production sales. The regional distribution of the net sales mirrors the increasing internationalisation of our activities: In addition, net sales in EU-countries increased by a third when compared with the previous year. This is especially a result of increased net sales in France and additional activities in the U.K.

	1-9 / '99	%	1-9 / '98	%
Germany	55,5	44,8%	53,9	51,3%
EU-Countries	52,5	42,3%	39,3	37,4%
USA	9,1	7,3%	8,3	7,9%
Other Länder	6,9	5,6%	3,5	3,4%

(Information in millions of DM or percent)



Incoming Orders

Design

Noticeable design-wins have been achieved in the third quarter of the current year. Initially, these will impact on the design turnover. In the coming years, production orders amounting to in excess of DM 100 million could be expected from these new developments alone.

Production

The accumulated incoming orders amount to DM 130 million in the current year.

Gross Margin

Gross Margin	III. Q 99	%	III. Q 98	%	1-9 / '99	%	1-9 / '98	%
	23,4	51,2%	16,9	40,4%	62,3	50,2%	41,7	39,8%

(Information in millions of DM or percent)

The lasting 10.4% increase, from 39.8% to a current level of 50.2% of the net sales, with a simultaneous increase in sales to DM 62.3 million highlights the special efficiency and performance of ELMOS technology, ELMOS development know-how and ELMOS production capabilities. In comparison with the first half of 1999, the gross margin improved slightly from 49.7% to 50.2%.

Income

	III. Q 99	%	III. Q 98	%	1-9 / '99	%	1-9 / '98	%
Income before tax (in millions of DM or %)	12,0	26,2%	7,2	17,2%	31,4	25,3%	13,7	13,1%
Comprehensive income (in millions of DM or %)	6,4	14%	3,1	7,4%	17,6	14,2%	5,8	5,5%
Earnings per share (in DM or %)	0,33	65%	0,20		0,91	139%	0,38	
Shares	19,3 Mio		15,3 Mio		19,3 Mio		15,3 Mio	

The improvement of income before tax result from the increased gross margin.

The income before tax increased to 25.3% of net sales. In absolute terms, this is an increase of 129%. Even when compared with the first half of 1999, the income before tax was increased further from 24.8% to 25.3% at the end of the third quarter.

Research and Development

When compared with the previous year, the R&D expenses increased by 6%.

An important contribution to R&D costs is a consequence of submicron development. The "Process Family 0.8 - 0.5 μ m" project is being accelerated and it has been possible to carry out process qualifications with the first products. ELMOS plans to enter series production with the first projects using 0.8 μ m technology by approximately the middle of 2000. The advantages of structural reductions are mainly evidenced by the increase in efficiency and production yield.

Personnel

As of 30 September 1999, ELMOS had 485 employees. New employees have especially been added in the development departments due to the expanded capacities needed in these departments as a result of numerous design wins. Therefore, ELMOS is prepared to meet future personal requirement.

Cash-Flow

The cash flow improved to DM 3.4 million. An extraordinary repayment of a long-term loan has been included.

Investor Relation

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Preliminary note:

The financial data (unaudited) is prepared in accordance with US-GAAP).

Consolidated Profit and Loss Statements

DM	III. Q / 1999	III. Q / 1998	1-9 / 1999	1-9 / 1998
Net sales	45.679.770	41.777.589	123.974.866	104.800.262
Costs of sales	22.310.220	24.905.715	61.679.385	63.122.173
Gross margin	23.369.550	16.871.874	62.295.481	41.678.089
Marketing and selling expenses	1.333.121	1.642.772	4.138.276	4.023.691
General and administrative expenses	3.873.211	4.001.196	11.379.701	11.223.475
R&D Expenses	4.586.222	3.887.455	12.143.673	11.395.328
Operating income	13.576.996	7.340.451	34.633.831	15.035.595
Interest expense	1.119.113	1.184.774	3.554.408	3.467.791
Foreign exchange loss-net	(19.568)	(9.523)	21.497	152.433
Other (income) expense -net	512.425	(1.017.511)	(304.942)	(2.322.873)
Income before income taxes, equity in loss of unconsolidated subsidiaries and minority interest	11.965.026	7.182.711	31.362.868	13.738.244
Income tax expense (benefit)				
Current	5.113.272	4.054.097	13.091.743	8.053.405
Deferred	490.472	(259.887)	152.833	(855.774)
	5.603.744	3.794.210	13.244.576	7.197.631
Net income before equity in loss of unconsolidated subsidiaries and minority interest	6.361.282	3.388.501	18.118.292	6.540.613
Equity in loss of unconsolidated subsidiaries	0	206.090	319.503	618.270
Minority interest in earnings of consolidated subsidiaries	35.810	71.596	147.977	168.648
Net income	6.325.472	3.110.815	17.650.812	5.753.695
Change in foreign currency translations	(32.830)	0	34.414	2.065
Comprehensive income	6.358.302	3.110.815	17.616.398	5.751.630



Consolidated Cash-Flow Statements

DM	1-9 / 1999	1-9 / 1998
Operating activities:		
Net income	17.650.813	5.753.693
Depreciation	15.538.641	17.523.318
Deferred income taxes	152.833	(1.008.000)
Minority interest	147.977	168.648
Equity in loss of unconsolidated subsidiaries	319.503	618.270
Working capital changes:		
Accounts receivable	(18.139.852)	(10.359.345)
Inventories	(3.543.874)	(1.325.928)
Prepaid assets and other	(5.228.711)	(12.509.139)
Accounts payable	6.632.406	838.779
Accrued liabilities	(4.157.211)	13.541.852
Accrued income taxes payable	551.562	(1.844.224)
Net cash provided by operating activities	9.924.087	11.397.925
Investing activities:		
Capital expenditures	(25.025.216)	(31.716.016)
Disposal of fixed assets	1.138.223	(70.577)
Book basis in sale of equity investee	856.137	0
Investment in subsidiaries	0	(5.001)
Net cash used in investing activities	(23.030.855)	(31.791.594)
Financing activities:		
Dividends paid	(470.000)	0
Proceeds from long-term debt	0	6.750.000
Repayments of long-term debt	(5.746.094)	(1.200.995)
Increase/(decrease) in amounts payable to bank	16.976.050	15.898.632
Net cash provided by financing activities	10.759.956	21.447.637
Increase (decrease) in cash	(2.346.812)	1.053.968
Cash and cash equivalents at beginning of year	6.075.378	3.932.649
Cash and cash equivalents at September 30, 1999 and 1998 / at end of the year	3.728.566	4.986.617

Impressum

Editorial:
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Design and Layout:
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