



Semiconductor AG

Report

2000

Q1

english

Dear Shareholders,

Our remarkable, positive commercial development of the past years continues during the year 2000. Not only were we able to repeat last year's excellent results in the first quarter, we were actually able to outperform these considerably. This was reason enough for us to increase our sales forecast to 204 million DM for the overall year. The results presented for the first quarter of the year 2000 have confirmed these expectations.

Against the corresponding quarter of the previous year we were able to increase our sales by more than 18% to 50 million DM. The gross margin, generally applied as a yardstick for efficiency and ability standard, was able to reach the 50% mark again during the last quarter. ELMOS AG has been able to maintain its earning power prime position amongst the European semiconductor companies!

We shall look toward the coming quarters with optimism. New, important major orders have been recorded in the automotive area, an area into which ELMOS can incorporate its strength in electronic experience and system competence. Using this as a basis, other spheres of activity can be addressed strategically. Several multinational semiconductor manufacturers have informed their key customers that it will probably not be possible to offer full parts supply in 2000 and 2001. ELMOS has adequate capacities and will therefore be able to enter into new long-term relationships with major customers.



Knut S. Hinrichs

- Board of Management -



Dr. Klaus G. Weyer

- Board of Management -



*Dr. Klaus G. Weyer,
Vorstand*

*Knut S. Hinrichs,
Sprecher des Vorstandes*

Sales

At just over 50 million DM ELMOS AG achieved the highest quarterly sales figure in company history. This means an increase of 18.7% against the corresponding period of the previous year. The production area contributed the greatest share. The sales figures resulting from the production of ASICs

Sales	Q1/2000	Q1/1999	Change (%) Q1/99 Q1/2000	Q4/1999	Change (%) Q4/99 Q1/2000
Total	50.001	42.126	18.7	45.318	10.3
thereof Production	48.767	38.560	26.5	43.415	12.3
Development	0.620	2.506	-75.3	0.274	126.3
Other	0.614	1.060	-42.2	1.629	-62.4

(Figures in million DM or respectively %)

increased by 5 million DM on last quarter's figures and by 10.2 million DM on the corresponding quarter of the previous year. The rise in the production sales is the result of an increase in quantity of c. 34%, which is reduced to 26.5% sales due to the annual price adjustment. This figure, clearly above the forecast growth of 20%, is reduced to an overall growth of 18.7% due to modest development sales and other sales. This, in turn, is a result of the fact that the customers increasingly apportion development and tool costs to the series. This does not have any effect on ELMOS' results as these accumulated amounts are apportioned to later production sales.

The ever advancing internationalization of the business activity is reflected in the regional sales distribution. Whereas the percentage sales shares have remained almost unchanged against the first quarter of the previous year, there have been absolute increases in the main markets, namely Germany and the European Union, by 17.6 or respectively 20.6%. We still see great expansion potential in the USA where the booster activities of ELMOS North America Inc. have led to an increase of almost 40% against the same quarter of the previous year.

Sales	Q1/2000	Q1/1999	Change (%) Q1/99 Q1/2000	Q4/1999	Change (%) Q4/99 Q1/2000
Total	50.001	42.126	18.7	45.318	10,3
thereof Germany	20.000	17.003	17.6	21.771	-8,1
EU countries	23.569	19.545	20.6	17.965	31,2
USA	4.537	3.243	39.9	3.402	33,4
Other countries	1.895	2.335	-18.8	2.180	-13,1

(Figures in million DM or %)

Incoming orders and orders on hand

Incoming orders in the first quarter 2000 rose by 76.4% against the corresponding quarter of the previous year and by 28.6% against the final quarter of 1999.

Once the incoming orders in the fourth quarter of the previous year had exceeded the incoming orders of the same period in the previous year by 79%, we decided to raise our annual sales forecast from 196 million DM to 204 million DM.

Incoming orders	Q1/2000	Q1/1999	Change (%) Q1/99 Q1/2000	Q4/1999	Change (%) Q4/99 Q1/2000
Total	64.672	36.659	76.4	50.295	28.6

(Figures in million DM or %)



Our cautious forecast increase is mainly based on customers reacting to the general shortage of semiconductors by making long-term arrangements. The incoming orders were 38% higher than the billed sales (Book-to-Bill Rate 1.38).

Several major production and development orders have contributed towards this welcome incoming orders figure.

The outstanding development order of the first quarter is certainly the development of a chip camera intended for use in the safety concept of a south German automobile manufacturer. The chip camera will be designed using the most modern ELMOS HV-CMOS technology. This project has opened the door for ELMOS to the new sector of optical sensor technology. As a result of this, we expect accumulated sales of DM 100 million up until 2005.

Beyond this, an automobile manufacturer has decided to extend an existing safety system, applied to date purely to superior grade vehicles, to his entire vehicle range. From this we expect a delivery volume of more than 500 million DM from the product life cycle.

Gross margin

Gross margin performance	Q1/2000	Q1/1999	Change (%) Q1/99 Q1/2000	Q4/1999	Change (%) Q4/99 Q1/2000
	25.050	18.630	34.5	23.031	8.8

(Figures in million DM or %)

Similar to the final two quarters of 1999, ELMOS was also able to achieve a gross margin of 50% during the first quarter of the current year. Against the previous year this means an increase of 34.5%. The continuing upgrading of the clean room equipment

to 0,45µm technology during the first half of the current year will result in increased wafer purchases from Infineon (Villach/Austria). This prevented a further rise in the gross margin. The high exchange rate of the US \$ is also having a negative influence. This has led to a 2.2% profit reduction against our budget. Giving due consideration to this influence, however, our gross margin is very satisfactory and above the planned long-term production progress.

Research and development

R & D expenses	Q1/2000	Q1/1999	Change (%) Q1/99 Q1/2000	Q4/1999	Change (%) Q4/99 Q1/2000
	6.331	3.301	91.8	4.962	27.6

(Figures in million DM or %)

The research and development expenses increased to 6.331 million DM during the first quarter of the current year against 3.301 million DM in the corresponding period of the previous year. This increase of 91.8% is the result of intensified activities in the field

of process technology and particularly due to the certification of the 0.8µm process, the shrink from 0.8µm to 0.45µm and projects in the "high temperature SOI" field. These research projects are of exceptional strategic importance for future process and product generations. 12.6% of the sales was available for research and development activities during the first quarter of the current year.



Marketing and sales

Marketing and selling expenses rose by 13.9% against the corresponding quarter of the previous year. They did, however, decrease pro rata against sales. When compared to the final quarter of 1999 the marketing and sales costs decreased by 31.6%.

Marketing and selling expenses	Q1/2000	Q1/1999	Change (%) Q1/99 Q1/2000	Q4/1999	Change (%) Q4/99 Q1/2000
	1.586	1.393	13.9	2.317	-31.6

(Figures in million DM or %)

General and administration expenses

Expenditure for administration and general expenses rose by 1.0 million DM or 28.9% against the corresponding quarter of the previous year. In comparison to sales the prorated expenditure for general and administration costs amounts to 9%. This figure was at 8.3% in the previous year. This shows that the prorated expenditure has risen by 0.7% points.

General and administration income	Q1/2000	Q1/1999	Change (%) Q1/99 Q1/2000	Q4/1999	Change (%) Q4/99 Q1/2000
	4.523	3.510	28.9	4.856	-6.9

(Figures in million DM or %)

Operating income

Similar to the previous year, an overproportional increase in income can be recorded in comparison to sales growth. It was possible to increase the operating income by 21% in comparison to the corresponding quarter of the previous year. This improved result is roughly 2.3% above the increase rate of sales. When compared to the final quarter of 1999 the result has increased by 1.7 million DM or 15.7%. Operating income amounts to 25.2% of sales. In the corresponding quarter of the previous year this figure was at 21.8% and 24.6% in the final quarter of 1999.

Operating income	Q1/2000	Q1/1999	Change (%) Q1/99 Q1/2000	Q4/1999	Change (%) Q4/99 Q1/2000
	12.610	10.425	21.0	10.896	15.7

(Figures in million DM or %)

Comprehensive income

Comprehensive income increased against the 4th quarter 1999 by 5.737 million DM to 6.945 million DM. This results in an increase of 474.9%. When compared to the first quarter of the previous year the increase was 50.4%. The tax calculation for the first quarter 2000 was made following the principle of "pay out, take back". This means a tax burden of only 41.9% in comparison to 45.4% during the first quarter 1999.

Comprehensive income	Q1/2000	Q1/1999	Change (%) Q1/99 Q1/2000	Q4/1999	Change (%) Q4/99 Q1/2000
	6.945	4.618	50.4	1.208	474.9

(Figures in million DM or %)

Human Resources

ELMOS was employing 488 people per 31.03.2000 compared to 482 per 31.3.1999 and 477 per 31.12.1999. The majority of these new jobs is to be found in the development departments.

Cash Flow

The cash and cash equivalents at the end of the first quarter amounted to 97.158 million DM against 85.012 million DM per 31.12.1999 and 9.409 million DM per 31.3.1999.

Preliminary note:

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

Consolidated Profit and Loss Statements

DM	1. Q. 2000	1. Q. 1999
Net sales	50.000.549	42.125.600
Costs of sales	24.950.295	23.496.018
Gross margin	25.050.254	18.629.582
R&D Expenses	6.331.268	3.301.345
Marketing and selling expenses	1.586.237	1.392.560
General and administrative expenses	4.522.641	3.510.187
Operating income	12.610.108	10.425.490
Interest expense	(688.957)	1.209.423
Foreign exchange loss-net	493.575	292.278
Other (income) expense-net	266.265	(259.139)
Income before income taxes, equity in loss of unconsolidated subsidiaries and minority interest	12.539.225	9.182.928
Income tax expense (benefit)		
Current	5.425.204	4.308.382
Deferred	(165.913)	(143.000)
	5.259.291	4.165.382
Net income before equity in loss of unconsolidated subsidiaries and minority interest	7.279.934	5.017.546
Equity in loss of unconsolidated subsidiaries	0	319.503
Minority interest in earnings of consolidated subsidiaries	89.044	126.719
Net Income	7.190.890	4.571.324
Change in foreign currency translations	(245.428)	46.821
Comprehensive income	6.945.462	4.618.145



Consolidated Cash-Flow Statements

DM	1. Q. 2000	1. Q. 1999
Operating activities:		
Net Income	7.190.890	4.571.324
Depreciation	4.820.654	5.517.358
Deferred income taxes	(165.913)	(143.000)
Minority interest	89.044	126.719
Equity in unconsolidated subsidiary	0	319.503
Working capital Changes		
Accounts receivable	(3.964.991)	(8.088.122)
Inventories	2.070.602	1.373.018
Prepaid assets and other	2.180.855	(1.893.097)
Accounts payable	(4.741.424)	750.801
Accrued liabilities	2.179.339	1.980.303
Accrued income taxes payable	3.117.717	2.616.033
Net cash (used) provided by operating activities	12.776.773	7.130.840
Investing activities:		
Capital expenditures	(4.216.856)	(7.707.353)
Disposal of fixed assets	7	96.203
Purchase of marketable securities	6.433.483	0
Net cash used in investing activities	2.216.634	(7.611.150)
Financing activities:		
Repayments of long term debt	(295.762)	(366.702)
Increase (decrease) in amounts payable to bank	(2.551.854)	4.181.090
Net cash provided in financing activities	(2.847.616)	3.814.388
Increase in cash	12.145.791	3.334.078
Cash and cash equivalents at beginning of year	85.012.300	6.075.378
Cash and cash equivalents at end of the year	97.158.091	9.409.456
	12.145.791	3.334.078



Semiconductor AG

ELMOS Semiconductor AG, Heinrich-Hertz-Straße 1,
D-44227 Dortmund, Phone: +49 (0) 231 / 75 49-0,

Fax: +49 (0) 231 / 75 49-149, Internet: <http://www.elmos.de>