

- **Sales growth + 9,8% compared to 1HY / 2000: sales EUR 58.1 million**
- **Gross margin 1HY 2001: 52.3% of sales**
- **Operating income 1HY 2001: 24.0% of sales including start up costs for EURASEM and SMI**

Growth in difficult markets

Dear Shareholders,

The semiconductor market is showing a general weakness. Right now, a down turn of –25% of the semiconductor market seems to be realistic, which is the exact opposite of last year's predicted growth value of +25%. This represents only 60% of the original forecasts for the year 2001. Therefore, many companies report significant reductions of sales and react by job freezes and closing down of fabs to avoid additional losses.

Against this general trend, ELMOS increased sales by about +10% in the first half-year of 2001. In fact, ELMOS continued its long-term strategy of successful expansion through the development of new products and technologies, by opening-up new markets, and by providing additional manufacturing capacities.

New Products

The strategy to increase the number of new customized products requires an increasing number of analog / mixed-signal development engineers. ELMOS has expanded its capacities for product development by about 25% in the last 12 months. Therefore, the ratio of the number of employees working in development compared to the number working in the production area amounts to 1 : 3 at the moment, which is unique in the semiconductor industry.

As a result of the strengthened marketing and selling activities, ELMOS is experiencing a phase of strong demand for custom specific circuits and a level of market acceptance previously unknown. In the first half-year of 2001, new development orders were allocated with a total future sales volume over the product lifecycles of about EUR 175 million (vs. EUR 58.1 million sales in 1 HY 2001).

New Technologies

In parallel, ELMOS has worked to accelerate the development of new technologies. With the ramp-up of the new VAN-bus IC for Peugeot, the new SOI (silicon-on-insulator) process technology started production. Using this technology, ELMOS can offer products with significantly better technical characteristics such as: high voltage sustaining capability, separation of different potentials, noise immunity, and high-temperature compatibility, than it would be possible with competitive technologies (e.g. BCD). These capabilities

ELMOS Semiconductor AG

Investor Relations Team
Heinrich-Hertz Str. 1
D-44227 Dortmund

Phone: +49 - 231 - 75 49 - 0
Fax: +49 - 231 - 75 49 - 548

www.elmos.de
invest@elmos.de

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are also shown by ELMOS' single-chip alternator controller ASIC for Valeo. In addition, basic developments for the new 0.5µm high-voltage CMOS technology will be finished at the end of the year.

By the acquisitions of EURASEM B.V. and SMI Inc., ELMOS got access to new technologies – dedicated packages by EURASEM and MEMS by SMI – which expands the range of applications of the ELMOS group in attractive way. Intelligent sensor systems, consisting of a micro-mechanical sensor element, a microelectronic circuit and a special housing, can now be provided by one supplier (production will start 2003).

Of course this comes along with additional costs. The expense for research and development grew compared to the same period last year by EUR 1.355 million from 10.8% of sales in 2000 to 14.7% of sales in the second quarter 2001.

New Markets

ELMOS exerts considerable efforts to reach new markets, especially in the U.S.A.. Therefore, marketing and sales costs in the second quarter increased year-to-year from 3.3% to 5.4% of sales. In return, five new customer specific design projects in USA have been won so far. In addition, a few interesting requests arrived from Japan and from the synergies generated by MEMS and packaging technologies ELMOS expects additional business starting in 2003.

Production Capacity

In preparation of the expected increases of sales starting 2003 / 2004, the fab has been extended since mid 1999. The target capacity will amount to 200,000 waferstarts per year using cleanrooms of a quality level that allows the production of 0.35µm microstructures. Additional investments of approximately EUR 40 million will be required in the years 2001 to 2002 with a subtotal of EUR 15 million being covered by depreciation.

Management Board

On July 1st, 2001, Reinhard Senf has been appointed as an additional member of the Management Board responsible for production at ELMOS. Reinhard Senf has performed with distinction at ELMOS in the quality and test divisions for more than nine years. He studied semiconductor technology at the university of Ilmenau and worked for several years in wafer production lines. He is excited about assuming the responsibility for the whole production at ELMOS.



ELMOS Strategy

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Consolidated Statements of Income

Euro, US-GAAP, unaudited	Q2 / 2001	Q2 / 2000	1.1.01 - 30.6.01	1.1.00 - 30.6.00
Net sales	29,315,322	27,318,918	58,054,769	52,883,793
Costs of sales	13,915,602	12,162,542	27,679,913	24,919,425
Gross profit	15,399,720	15,156,376	30,374,856	27,964,368
Research and development	4,308,910	2,953,882	8,207,068	6,191,008
Marketing and selling expenses	1,581,956	893,161	2,749,703	1,704,191
General and administrative expenses	2,575,383	2,861,816	4,991,877	5,174,206
Amortization of goodwill	333,100	-	474,283	-
Operating income	6,600,371	8,447,517	13,951,925	14,894,963
Interest expense	335,471	(225,140)	307,191	(577,398)
Foreign exchange (gain) loss - net	15,682	178,735	155,528	431,096
Other (income) expense - net	(375,231)	(51,182)	(541,307)	84,957
Income (loss) before income taxes, equity in loss of unconsolidated subsidiaries and minority interest	6,624,449	8,545,104	14,030,513	14,956,308
Income tax expense	2,723,764	3,862,786	5,546,945	6,551,818
Net income before equity in loss of unconsolidated subsidiaries and minority interest	3,900,685	4,682,318	8,483,568	8,404,490
Minority interest in earnings of consolidated subsidiaries	(97,892)	46,436	(80,204)	91,964
Net income	3,998,577	4,635,882	8,563,772	8,312,526

Sales increased by 9.8% in the first half-year exceeding a total sales of EUR 58.055 million. From the ELMOS' point of view a very positive development. The gross margin continues to stay at 52.5% on a very high level. ELMOS' markets and products are not volatile neither on margins nor on prices.

The income before taxes (EBT) was hit with 2.5% of sales by the integration costs of EURASEM and SMI. The quarterly margin of 22.6% indicates the strong profit orientation of ELMOS. Earnings per share in the first half-year amounted to EUR 0.44 (EUR 0.43 in 2000) based on 19.3 million ordinary shares.

The second half of year 2001 will still be difficult! In light of the continuous turbulences within the telecommunication's market, the production ramp up of the LCD-driver circuit will be delayed postponing a significant portion of sales in the year 2002. At the same time, the medium- and low-pricing automotive market – especially in the USA – shows some weaknesses.

Despite all general industry troubles, ELMOS expects continued growth even in this year. As presented by the management on the analyst conference in early February 2001, the original sales target – without the telecom LCD driver circuit – lay between EUR 115 million and EUR 120 million. The actual sales target is EUR 115 million for the year 2001 with a gross margin of more than 50%. The income before taxes will reach 22.5% of sales including effects of the integration of EURASEM and SMI. These costs of integration will influence EBT by 3% of sales in 2001 and 2% in 2002.

Dortmund,
August 2001



Knut Hinrichs
Speaker of the Board



Dr. Klaus Weyer
Member of the Board



Dr. Peter Thoma
Member of the Board



Reinhard Senf
Member of the Board

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Consolidated Balance Sheets

Euro, US-GAAP, Half-year's figures unaudited	as of 30.6.2001	as of 31.12.2000
Assets		
Current assets:		
Cash	23,914,584	73,704,145
Marketable securities	9,539,008	-
Trade accounts receivable	20,797,388	15,223,678
Inventories	26,615,481	21,115,830
Prepaid expenses and other	12,519,996	6,589,494
Total current assets	93,386,457	116,633,147
Deferred taxes	4,670,494	970,310
Goodwill	18,313,885	-
Investments	597,108	414,845
Property, plant and equipment:		
Land	3,123,433	2,303,629
Buildings and improvements	38,066,443	36,316,992
Machinery, equipment and other	90,450,835	78,747,199
Software	5,958,832	4,490,530
Construction in progress	25,798,371	15,277,126
Less accumulated depreciation	(72,083,065)	(66,603,929)
	91,314,849	70,531,547
Total assets	208,282,793	188,549,849
Liabilities and shareholder's equity		
Current liabilities:		
Notes payable	11,423,771	456,871
Trade accounts payable	16,265,009	7,023,767
Accrued payroll, benefits and taxes	5,190,254	2,710,323
Other accrued liabilities	7,055,004	4,141,469
Accrued income taxes	12,764,587	8,942,517
Advance from shareholders	10,550,000	10,550,000
Current portion of long-term obligations	3,539,474	2,375,076
Deferred taxes	46,881	135,786
Total current liabilities	66,834,980	36,335,809
Long-term obligation, less current portion	29,532,368	31,872,934
Minority interest	262,525	334,205
Shareholder's equity:		
Share capital	19,300,000	19,286,300
Paid-in capital	84,615,844	84,279,098
Accumulated other comprehensive income (loss)	327,263	30,542
Retained earnings	7,409,813	16,410,961
Total shareholder's equity	111,652,920	120,006,901
Total liabilities and shareholder's equity	208,282,793	188,549,849

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Consolidated Statements of Cash Flows

Euro, US-GAAP, unaudited	1.1. - 30.6.2001	1.1. - 30.6.2000
Operating Activities:		
Net income	8,563,772	8,312,526
Depreciation	6,489,123	5,041,214
Deferred income taxes	47,723	(180,982)
Goodwill amortization	474,283	-
Minority interest	(80,204)	91,964
Changes in operating assets and liabilities:		
Accounts receivable	(4,502,788)	(2,294,863)
Inventories	(4,411,237)	(2,695,174)
Prepaid assets and other	(109,888)	1,300,440
Accounts payable	3,519,081	(1,832,073)
Accrued liabilities	1,876,439	1,218,951
Accrued income taxes payable	3,646,470	4,096,123
Net cash provided by operating activities	15,512,774	13,058,126
Investing Activities:		
Capital expenditures	(22,483,360)	(5,112,340)
Disposal of fixed assets	445,876	2,100
Proceeds from sale and purchase of marketable securities and investments	(31,729,907)	9,554,709
Net cash (used) provided in investing activities	(53,767,391)	4,444,469
Financing Activities:		
Dividends paid	(17,564,921)	(8,881,140)
Deposits for shares to be issued to shareholders	-	10,550,000
Proceeds from stock of treasury shares	350,446	-
Dividends paid by consolidated subsidiary to minority shareholder	-	(128,819)
Repayments of long-term debt obligations	(1,176,172)	(1,235,391)
Proceeds(repaysments) of notes payable	6,855,703	4,792,958
Net cash (used) provided in financing activities	(11,534,944)	5,097,608
Increase(decrease) in cash and cash equivalents	(49,789,561)	22,600,203
Cash and cash equivalents at beginning of the year	73,704,145	43,466,099
Cash and cash equivalents at the end of the half-year	23,914,584	66,066,302

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Consolidated Statements of Changes in Shareholder's Equity

Euro, US-GAAP, unaudited	Shares	Share Capital	Paid-in Capital	Accum. Other Compreh. Income (Loss)	Retained Earnings	Total
Balance at December 31, 1999	19,300,000	19,300,000	84,558,534	151,661	8,690,844	112,701,039
Net income					16,601,257	16,601,257
Cash dividends					(8,881,140)	(8,881,140)
Treasury Stock purchased	(13,700)	(13,700)	(279,436)			(293,136)
Change in unrealized gains on marketable securities				(134,050)		(134,050)
Foreign currency translation adjustment				12,931		12,931
Balance at December 31, 2000	19,286,300	19,286,300	84,279,098	30,542	16,410,961	120,006,901
Net income					8,563,772	8,563,772
Cash dividends					(17,564,920)	(17,564,920)
Treasury Stock purchased	13,700	13,700	336,746			350,446
Change in unrealized gains on marketable securities				-		-
Foreign currency translation adjustment				296,721		296,721
Balance at June 30, 2001	19,300,000	19,300,000	84,615,844	327,263	7,409,813	111,652,920

NOTES

Sales Breakdown and Incoming Orders

Sales	Q2 / 2001	Q2 / 2000	Δ Q2 (01/00)	1HY / 2001	1HY / 2000	Δ 1HY (01/00)
Total	29.315	27.319	7.3%	58.055	52.884	9.8%
thereof						
Production	28.261	26.141	8.1%	55.017	51.075	7.7%
Development	0.911	0.767	18.9%	2.826	1.084	160.7%
Others	0.143	0.411	-65.3%	0.212	0.725	-70.8%

Figures in million Euro or %

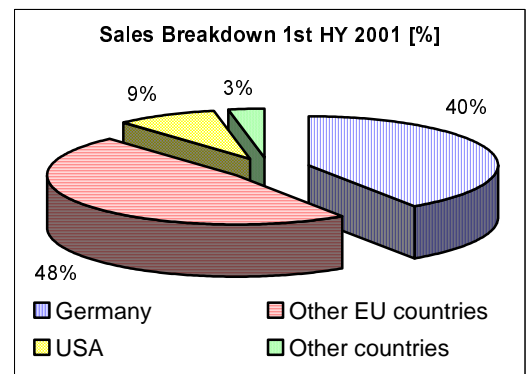
ELMOS reports in the second quarter a new record of sales of EUR 29.316 million. This exceeds the first quarter 2001 by 2.0% and the previous year's second quarter by 7.3%. On half-year's base, sales figures demonstrate again the independence of the ELMOS core business: Approximately 10% improvement of sales could be achieved under difficult general market conditions.

Analysis of the sales breakdown for both, the second quarter and the half-years figures, shows clearly the strong contribution by development. This reflects the high number of new products being under development for customers who believe in the tailor-made system solutions of ELMOS. These new projects will strongly support the long-term growth in 2003 and afterwards.

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By splitting the total sales according to regions, the strong position of the innovative German car-makers can be seen. Especially the high-end cars, equipped with additional options and electronic modules, were supporting ELMOS' sales of ASICs. Focusing on U.S. operations, the fruits of the intensified marketing and sales activities of the North America subsidiary are visible. U.S. sales for the second quarter increased by approx. 56.9% compared to the first quarter of the year 2001 and reached EUR 3.095 million. In total, approx. 60% of sales in the first half year of 2001 was generated outside of Germany.

In the second quarter of 2001 ELMOS received new orders reaching a total of approx. EUR 26.5 million. The Book-to-Bill ratio of the first half-year went slightly down to 0.98.



Costs of Sales and Gross Margin

The ambitious level of more than 50% gross margin was maintained in the second quarter 2001, reaching 52.5%. In comparison, this represents an increase of 8.6% from EUR 27.964 million in 2000 to EUR 30.375 million in 2001 for the gross profit on a half-year's base.

Research and Development

Research and development costs rose by 32.6% from EUR 6.191 million in 2000 to EUR 8.207 million for the first half-year 2001. Development activities for new products as well as the accelerated development of new process technologies are the main reasons for the R&D expenditures reaching a level of 14.7% of sales in the second quarter. Additional contributions came also from ELMOS North America and the new affiliated companies Eurasem and SMI. ELMOS plans to stay at a high level to guarantee long-term growth through the development of new production technologies and products.

Marketing, Selling and General & Administrative Costs

Marketing and selling expenditures grew by 35.5% quarter-to-quarter and were driven by additional efforts in North America as well as additional effects from the recent acquisition of SMI. General and administrative costs were 6.6% higher than in the first quarter 2001. Nevertheless, there will be expenditures for integrating and restructuring the new affiliated companies EURASEM and SMI which will impact in the order of 2.5 - 3% of sales during 2001 and 2002.

Investment

Investments of EUR 20 million to expand the Dortmund fab were made according to plan. The amortization of goodwill was calculated from the acquisition of EURASEM and SMI.

Operating Income

The first half-year 2001 ended with an operating income of EUR 13.952 million or 24.0% of sales. This is slightly below the targeted value of more than 25%, but, taken into account the financial burden of the integration of EURASEM and SMI, this is a remarkably good result.

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Net Income

Net income continues to stay at a very high level of 14.8% of sales. Changes in the German tax legislation and the usage of loss carry-forward at EURASEM lead to such favorable figures.

Events of particular significance

The annual general shareholders meeting held in Dortmund on April 6th appointed Dr. Mecklinger as successor of Dr. Ziebart in the supervisory board. Dr. Ziebart resigned from the supervisory board to avoid conflicts with his new occupation as a Member of the Board of Continental AG.

The annual meeting concluded to pay out a dividend of EUR 0.91 per ordinary share. Dividends were paid in April.

Earnings per Share

Earnings per share in the first half-year amounted to EUR 0.44 based on 19.3 million ordinary shares.

The following members of the board of directors hold shares or stock options of the company: Dr. Klaus Weyer 10,000 shares and Dr. Peter Thoma 200 shares. Mr. Sporea as a member of the supervisory board holds 915 shares of the company. In the former period, no transactions have been performed.

Human Resources

As of June 30th, 2001 the ELMOS group employed 645 staff members in contrast to 498 persons at June 30th, 2000. Primarily, this is a result of the recent acquisitions of the EURASEM and SMI and the expansion of ELMOS North America.

Accompanying notes to consolidated financial statements

The half-year's consolidated financial statement is according to the principles of the United States generally accepted accounting principles (US-GAAP) but unaudited. Some information and statements of the official annual US-GAAP consolidated financial statements and annexes have been combined or left out. This document should be seen in respect to the audited annual consolidated financial statement with the reporting date December, 31st 2001. For comparison, see accompanying notes to consolidated financial statements of the Annual Report for the fiscal year ended December 31, 2000.