

Quarterly Report Q3/2001



- **Quarterly sales: EUR 25.7 million**
- **Gross margin: 38.4%**
- **Pre-tax-profit: EUR 2.4 million**
- **Cost reduction program started**
- **Reduce sales and profit targets for the years 2001 and 2002**

Improvements unlikely in a short term

Dear Shareholders,

The global semiconductor market will shrink in the year 2001 by 40% worldwide! We are in the middle of one of the deepest recession ever seen in this capital intensive business. As a result ELMOS was forced to reduce its former estimates for the year 2001. Sales will reach approximately the same level as for the previous year. Sales of EUR 25.7 million in the third quarter place us about 15% below our prior expectations. The comparison with the nine month period of the previous year still exhibits a favorable growth of about 5%, but this will be reduced by a weak fourth quarter.

The unexpected weak third quarter clearly impacts on profit. In the first six month of 2001 we were still able to report outstanding results with the gross margin exceeding 52% and a pre-tax-profit margin of 23%. The results of the third quarter with a gross margin of 38.4% and a pre-tax-profit margin of 6.7% of sales are frustrating. The weak third quarter also forces us to reduce our estimates for the year 2001 again. The given sales target of EUR 107 million will be met but the pre-tax-profit will only amount to approximately EUR 16.5 million.

Our telecommunications customer just informed us, that in the future other displays will be used and there is no longer a need for our grey scale LCD driver. Consequently, we have to reduce the sales target for the year 2002 to EUR 110 million and the pre-tax-profit target to approximately EUR 16.5 million.

As a consequence of this unexpected development we will not continue the expansion of our production capacity in the year 2002 and at the same time initiate a comprehensive cost reduction program. This should lead to cost savings of about 5% of sales in the year 2002. The part time work program started in November 2001 is one of the first steps in this program.

Dortmund,
November 2001

Handwritten signature of Knut Hinrichs in black ink.

Knut Hinrichs
Chairman of the Board

Handwritten signature of Dr. Klaus Weyer in black ink.

Dr. Klaus Weyer
Member of the Board

Handwritten signature of Dr. Peter Thoma in black ink.

Dr. Peter Thoma
Member of the Board

Handwritten signature of Reinhard Senf in black ink.

Reinhard Senf
Member of the Board

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Consolidated Statements of Income

EUR, US-GAAP, unaudited	Q3 / 2001	Q3 / 2000	Jan. 1 – Sept. 30, 2001	Jan. 1 – Sept. 30, 2000
Net sales	25,734,419	26,934,924	83,789,187	79,818,717
Costs of sales	15,842,632	12,591,036	43,522,545	37,510,461
Gross profit	9,891,787	14,343,888	40,266,642	42,308,256
Research and development	4,259,921	3,161,837	12,466,988	9,352,844
Marketing and selling expenses	1,416,889	906,566	4,166,592	2,610,757
General and administrative expenses	2,548,538	2,506,948	7,540,415	7,681,153
Amortization of goodwill	0	0	474,283	-
Operating income	1,666,439	7,768,537	15,618,364	22,663,502
Interest expense	428,224	(395,207)	735,414	(972,604)
Foreign exchange (gain) loss - net	(599,498)	(107,973)	(443,970)	323,123
Other (income) expense - net	(553,031)	239,796	(1,094,339)	324,753
Income (loss) before income taxes, equity in loss of unconsolidated subsidiaries and minority interest	2,390,744	8,031,921	16,421,259	22,988,230
Income tax expense	769,379	3,608,874	6,316,323	10,160,692
Net income before equity in loss of unconsolidated subsidiaries and minority interest	1,621,365	4,423,047	10,104,936	12,827,537
Minority interest in earnings of consolidated subsidiaries	(27,706)	55,554	(107,910)	147,518
Net income	1,649,071	4,367,493	10,212,846	12,680,020

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Consolidated Balance Sheets

EUR, US-GAAP, unaudited	as of Sept. 30, 2001	as of Dec. 31, 2000
Assets		
Current assets:		
Cash	15,468,937	73,704,145
Marketable securities	10,473,118	-
Trade accounts receivable	20,245,205	15,223,678
Inventories	27,559,189	21,115,830
Prepaid expenses and other	10,941,258	6,589,494
Total current assets	84,687,707	116,633,147
Deferred taxes	5,101,164	970,310
Goodwill	18,313,885	-
Investments	597,108	414,845
Property, plant and equipment:		
Land	4,822,098	2,303,629
Buildings and improvements	38,066,443	36,316,992
Machinery, equipment and other	98,324,294	78,747,199
Software	6,050,691	4,490,530
Construction in progress	32,226,501	15,277,126
Less accumulated depreciation	(75,369,831)	(66,603,929)
	104,120,196	70,531,547
Total assets	212,820,060	188,549,849
Liabilities and shareholder's equity		
Current liabilities:		
Notes payable	19,641,248	456,871
Trade accounts payable	13,027,411	7,023,767
Accrued payroll, benefits and taxes	5,618,607	2,710,323
Other accrued liabilities	5,346,720	4,141,469
Accrued income taxes	12,826,248	8,942,517
Amount due to shareholder	10,550,000	10,550,000
Current portion of long-term obligations	3,264,280	2,375,076
Deferred taxes	46,882	135,786
Total current liabilities	70,321,396	36,335,809
Long-term obligation, less current portion	28,933,224	31,872,934
Minority interest	227,593	334,205
Shareholder's equity:		
Share capital	19,300,000	19,286,300
Paid-in capital	84,615,844	84,279,098
Cumulative foreign currency translation	363,117	30,542
Retained earnings	9,058,886	16,410,961
Total shareholder's equity	113,337,847	120,006,901
Total liabilities and shareholder's equity	212,820,060	188,549,849

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Consolidated Statements of Cash Flows

EUR, US-GAAP, unaudited	Jan. 1 – Sept. 30, 2001	Jan. 1 – Sept. 30, 2000
Operating Activities:		
Net income	10,212,846	12,680,018
Depreciation	9,995,820	7,906,700
Deferred income taxes	(382,948)	(241,570)
Goodwill amortization	474,283	
Minority interest	(107,910)	147,518
Changes in operating assets and liabilities:		
Accounts receivable	(3,950,604)	(1,097,954)
Inventories	(5,354,945)	(4,221,840)
Prepaid assets and other	1,497,477	1,189,272
Accounts payable	281,482	(1,360,388)
Accrued liabilities	596,508	4,170,411
Accrued income taxes payable	3,708,131	3,819,555
Net cash provided by operating activities	16,970,140	22,991,722
Investing Activities:		
Capital expenditures	(38,796,257)	(11,410,148)
Disposal of fixed assets	446,729	52,213
Proceeds from sale and purchase of marketable securities and investments	(32,664,017)	9,551,209
Net cash (used) provided in investing activities	(71,013,545)	(1,806,726)
Financing Activities:		
Dividends paid	(17,564,921)	(8,881,140)
Deposits for shares to be issued to shareholders	0	10,550,000
Proceeds from stock of treasury shares	350,446	0
Dividends paid by consolidated subsidiary to minority shareholder	(212,142)	(128,819)
Cash received by consolidated subsidiary from minority shareholder	212,142	0
Issuance of additional long-term debt	0	11,146,792
Repayments of long-term debt obligations	(2,050,508)	(1,391,446)
Proceeds(repaysments) of notes payable	15,073,180	(1,171,074)
Net cash (used) provided in financing activities	(4,191,803)	10,124,313
Increase(decrease) in cash and cash equivalents	(58,235,208)	31,309,309
Cash and cash equivalents at beginning of the year	73,704,145	43,466,099
Cash and cash equivalents at the end of the third quarter	15,468,937	74,775,408

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Consolidated Statements of Changes in Shareholder's Equity

EUR, 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					10,212,846	10,212,846
Cash dividends					(17,564,921)	(17,564,921)
Treasury Stock purchased	13,700	13,700	336,746			350,446
Change in unrealized gains on marketable securities						
Foreign currency translation adjustment				332,575		332,575
Balance at September 30, 2001	19,300,000	19,300,000	84,615,844	363,117	9,058,886	113,337,847

NOTES

Sales Breakdown and Incoming Orders

Sales	Q3 / 2001	Q3 / 2000	Δ Q3 (01/00)	Jan. 1 – Sept. 30 2001	Jan. 1 – Sept. 30 2000	Δ 9 month (01/00)
Total	25.734	26.935	-4.5%	83.789	79.818	5.0%
thereof						
Production	24.938	26.100	-4.5%	79.955	77.175	3.6%
Development	0.774	0.808	-4.2%	3.600	1.892	90.2%
Others	0.022	0.027	-15.0%	0.234	0.751	-68.8%

Figures in million EUR or %

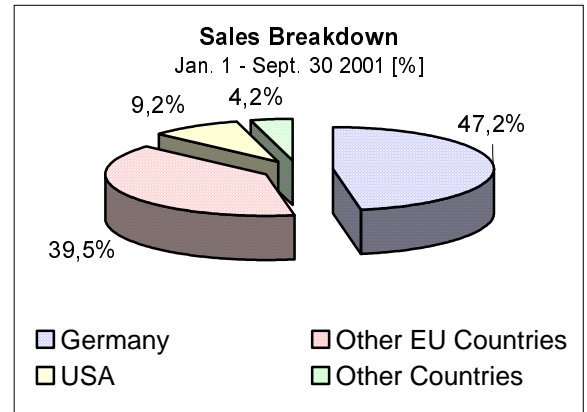
In the third quarter, total sales of ELMOS reached EUR 25.7 million. This represents a reduction of about 12% compared with sales in the second quarter of 2001 and is approximately 15% below our expectations.

The sales contribution of development rose to EUR 3.6 million in the period from January to September 2001 (+90.2% compared with the year before). It underlines the high number of new customer paid projects under development, which should support the growth in the years 2003 / 2004.

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Weakness within the automotive industry lead to cautious order behavior by our customers. The US market is in a recessionary phase, whereas in Europe especially BMW, DaimlerChrysler, VW/Audi and Peugeot have been able to avoid this trend and stabilize the demand for ASICs. The sales breakdown by region reflects this differentiated development of demand. Despite the decrease in other markets, the increasing volume of ELMOS' sales to European car manufacturers, especially those in Germany and their US subsidiaries, has stabilized the situation.

As a consequence of the low sales, Book-to-Bill reached 1.12 for the third quarter. For the time period January to September 2001, the cumulated ratio reached 1.03.



Costs of Sales and Gross Margin

Cost of sales of EUR 15.8 million leads to a historically low gross margin of 38.4%. This percentage is 14 percentage points below the half-year figures. The reasons for that are:

- Ramp up of new SOI products at a low yield level (minus EUR 2 million or 4% of sales)
- Phase out of high-graded older products (minus EUR 2 million or 4% of sales)
- Lower level of sales leads to reduced cost coverage (depreciation and personnel) (minus EUR 2 million or 4% of sales)
- Initial costs of the new subsidiaries EURASEM and SMI (minus EUR 1 million or 2% of sales)

These factors will continue to impact future results but they can partly be compensated for by our cost reduction program (impact of about 5% of sales in the year 2002).

Research and Development

The expenditures of EUR 4.3 million in the third quarter (+34.7% compared with the previous year) support the development of new technologies and products. This assures the competitiveness, the growth and the profitability of the company. Based on the lower sales figures, the R&D expenditures increased by 2.5 percent points to 16.6% of sales compared to the end of the half year.

Marketing, Selling and General & Administrative Expenses

Marketing and selling expenditures in the third quarter amounted to EUR 1.4 million. General and administrative costs reached EUR 2.5 million. The absolute figures are just in line with the previous quarters. Due to the lower sales figures they rose as a percentage of sales to 5.5% and 9.9% of sales, respectively.

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Investment

As planned, investments of EUR 17.3 million were made in the third quarter to expand the Dortmund and the EURASEM fabs.

Pre-tax-profit

The third quarter ended with a pre-tax-profit of 9.3% of sales, a disappointingly low level as compared to 24.2% in the first six month 2001.

Negative contributions added up to more than 18% of sales. These are contributed by cost of sales (13.9%), R&D expenditures (2.4%), marketing & selling expenses (0.8%) and general and administrative expenses and goodwill amortization (0.5%).

Positive contributions from interest expenses, foreign exchange gain and other income (e.g. funding) amount to 2.6% and reduce the negative impact to 15%.

Net Income

Net income in the third quarter amounted to EUR 1.6 million or 6.4% of sales at a tax rate of 32%. During the 9-month period net income accumulated to EUR 10.2 million or 12.2% of sales.

Earnings per Share

Earnings per share decline to EUR 0.09 in the third quarter from EUR 0.21 in the second quarter based on 19.3 million ordinary shares. This results in earnings per share of EUR 0.53 for the 9-month period 2001, which represents a decrease of about 19.5% year-on-year.

The following members of the management board hold ELMOS' shares or stock options: Dr. Klaus Weyer 10,000 shares, Dr. Peter Thoma 200 shares and Mr. Reinhard Senf 2,700 shares. Mr. Sporea as a member of the supervisory board holds 915 ELMOS' shares. In the third quarter, no shares have been bought or sold by members of the management or supervisory board.

Events of particular significance

On August 30th, 2001 an extraordinary shareholders meeting was held in Dortmund. The sole topic was the reduction of the share capital to EUR 19,300,000 along with corresponding changes to the articles of association. This resolution was necessary because legal advice concluded, that a capital increase of EUR 200,000 in the year 2000 was possibly not executed properly. The proposed resolution was accepted unanimously by the shareholder's meeting, which represented 64.1% of the total share capital.

On July 1st, 2001, Reinhard Senf was 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 has assumed the responsibility for the whole production at ELMOS.

Human Resources

As of September 30th, 2001 the ELMOS group employed 643 staff members, compared to 645 at the end of the second quarter 2001.

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Accompanying notes to consolidated financial statements

The third quarter consolidated financial statements are prepared (unaudited) according to the principles of the United States generally accepted accounting principles (US-GAAP). 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 viewed in conjunction with 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 31st, 2000.