

Quarterly Report Q2/2002



- **Quarterly sales:**
EUR 26.4 million
(+3% Q1-Q2)
- **Sales 1HY 2002**
EUR 52.0 million
- **Gross margin 1HY:**
47% of sales
- **Pre-tax-profit 1HY:**
EUR 6.1 million
(12% of sales)
- **Earnings per share**
EUR 0.11 (Q2)

Successful in weak markets!

Dear shareholders,

The global economic conditions are still diffuse. The expected general upturn is delayed and will be perceptible – following the opinion of relevant research institutes – in the second half of the year 2002 earliest. In the next year, a significant economic growth could be expected.

It is good to hear that ELMOS was developing well in this challenging times. Compared to the first quarter 2002, sales increased from EUR 25.6 to EUR 26.4 million by 3%. Sequentially, the gross profit grew by more than 3% from EUR 11.9 to EUR 12.3 million.

Even higher was the positive trend for the operating income, which increased by 16% from EUR 3.1 to EUR 3.6 million in the second quarter. In the same period, the pre-tax-profit grew from EUR 2.6 to EUR 3.6 million reaching 14% of sales meanwhile. Altogether, earnings per share improved reaching EUR 0.11 in the second quarter.


As a result, the upturn at ELMOS identified in the first quarter continued in the second quarter 2002 and will be enhanced in the third quarter. This is underlined also by the book-to-bill ratio of 1.04 for the second quarter.

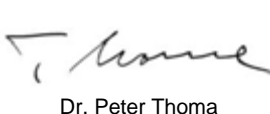
Here we have to remember that the first half year after the difficult year 2001 was for sure a tougher period. Even more pleasing is the fact, that ELMOS has been able to improve the margins since the beginning of the year. The gross margin rose to about 47% in the first half year 2002.


The future outlook for the year 2002 will be characterized by a moderate growth based on additional ramp-ups of projects entering volume production during the third and fourth quarter. On annual basis, we therefore expect total sales to be in the range of EUR 110 to EUR 112 million.

Dortmund,
July 2002


Knut Hinrichs
Chairman of the Board


Dr. Klaus Weyer
Member of the Board


Dr. Peter Thoma
Member of the Board


Reinhard Serf
Member of the Board

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

Quarterly Report Q2/2002

Consolidated Balance Sheets

EUR, US-GAAP, 1HY unaudited, FY 2001 audited	as of June 30, 2002	as of Dec. 31, 2001
Assets		
Current assets:		
Cash	1,976,609	18,280,808
Marketable securities	3,756,044	18,039,490
Trade accounts receivable	25,243,397	17,129,179
Inventories	23,104,032	25,582,964
Prepaid expenses and other	7,509,310	6,902,951
Total current assets	61,580,392	85,935,392
Deferred taxes	13,776,360	7,231,043
Goodwill	7,636,097	7,636,097
Investments	1,063,180	622,265
Property, plant and equipment:		
Land	4,864,019	4,864,019
Buildings and improvements	39,540,224	39,514,518
Machinery, equipment and other	117,611,282	108,110,792
Software	8,967,957	6,149,414
Construction in progress	28,502,455	27,092,940
Less accumulated depreciation	(86,951,467)	(79,193,595)
	112,534,470	106,538,088
Total assets	196,590,499	207,962,885
Liabilities and shareholder's equity		
Current liabilities:		
Amounts payable to banks	13,892,575	14,866,227
Trade accounts payable	13,338,035	9,138,369
Accrued payroll, benefits and taxes	2,680,449	2,170,131
Other accrued liabilities	7,051,300	6,831,045
Accrued income taxes	9,572,831	8,652,587
Amount due to shareholder	0	10,550,000
Current portion of long-term obligations	2,747,873	2,728,776
Deferred taxes	(80,772)	(121,645)
Total current liabilities	49,202,291	54,815,490
Long-term debt, less current portion	37,609,935	39,822,899
Deferred profit liabilities	1,260,301	
Minority interest	107,634	205,231
Shareholder's equity:		
Share capital	19,300,000	19,300,000
Paid-in capital	84,615,844	84,615,844
Accumulated other comprehensive income (loss)	(9,525,351)	(1,193,374)
Retained earnings	14,019,845	10,396,795
Total shareholder's equity	108,410,338	113,119,265
Total liabilities and shareholder's equity	196,590,499	207,962,885

Quarterly Report Q2/2002

Consolidated Statements of Income

EUR, US-GAAP, unaudited	Q2 / 2002	Q2 / 2001	1.1. – 30.6 2002	1.1. – 30.6. 2001
Net sales	26,399,976	29,315,322	52,040,970	58,054,769
Costs of sales	14,084,484	13,915,602	27,863,573	27,679,913
Gross profit	12,315,492	15,399,720	24,177,397	30,374,856
Research and development	4,262,656	4,308,910	8,940,623	8,207,068
Marketing and selling expenses	1,458,417	1,581,956	2,764,420	2,749,703
General and administrative expenses	2,993,344	2,575,383	5,795,727	4,991,877
Amortization of goodwill	0	333,100	0	474,283
Operating income	3,601,075	6,600,371	6,676,627	13,951,925
Interest expense	838,307	335,471	1,578,394	307,191
Foreign exchange (gain) loss - net	(67,624)	15,682	(114,060)	155,528
Other (income) expense - net	(741,920)	(375,231)	(927,707)	(541,307)
Income (loss) before income taxes, equity in loss of unconsolidated subsidiaries and minority interest	3,572,312	6,624,449	6,140,000	14,030,513
Income tax expense	1,481,295	2,723,764	2,489,857	5,546,945
Net income before equity in loss of unconsolidated subsidiaries and minority interest	2,091,017	3,900,685	3,650,143	8,483,568
Minority interest in earnings of consolidated subsidiaries	59,793	(97,892)	27,092	(80,204)
Net income	2,031,224	3,998,577	3,623,051	8,563,772

Consolidated Statements of Changes in Shareholder's Equity

EUR, US-GAAP, Q1 unaudited	Shares	Share Capital	Paid-in Capital	Accum. Other Compreh. Income (Loss)	Retained Earnings	Total
Balance at December 31, 2000	19,286,300	19,286,300	84,279,098	30,542	16,410,961	120,006,901
Net income					11,550,755	11,550,755
Cash dividends					(17,564,921)	(17,564,921)
Treasury Stock purchased	13,700	13,700	336,746			350,446
Change in unrealized gains (losses) on marketable securities				(1,241,278)		(1,241,278)
Foreign currency translation adjustment				17,362		17,362
Balance at December 31, 2001	19,300,000	19,300,000	84,615,844	(1,193,374)	10,396,795	113,119,265
Net income					3,623,051	3,623,051
Cash dividends					-	-
Treasury Stock purchased	-	-	-			-
Change in unrealized gains (losses) on marketable securities				(8,160,091)		(8,160,091)
Foreign currency translation adjustment				(171,887)		(171,887)
Balance at June 30, 2002	19,300,000	19,300,000	84,615,844	(9,525,352)	14,019,846	108,410,338

Quarterly Report Q2/2002

Consolidated Statements of Cash Flows

EUR, US-GAAP, unaudited	Jan. 1 – June 30, 2002	Jan. 1 – June 30, 2001
Operating Activities:		
Net income	3,623,051	8,563,772
Depreciation	8,526,453	6,489,123
Deferred income taxes	(875,705)	47,723
Goodwill amortization	0	474,283
Minority interest	27,092	(80,204)
Changes in operating assets and liabilities:		
Accounts receivable	(8,114,218)	(4,502,788)
Inventories	2,478,932	(4,411,237)
Prepaid assets and other	(606,357)	(109,888)
Accounts payable	3,839,526	3,519,081
Accrued liabilities	730,573	1,876,439
Accrued income taxes payable	920,245	3,646,470
Net cash provided by operating activities	10,549,592	15,512,774
Investing Activities:		
Capital expenditures	(16,182,169)	(22,483,360)
Disposal of fixed assets	1,659,329	445,876
Proceeds from sale and purchase of marketable securities and investments	267,268	(31,729,907)
Net cash (used) provided in investing activities	(14,225,572)	(53,767,391))
Financing Activities:		
Dividends paid	0	(17,564,921)
Repayment of cash to shareholder	(10,550,000)	0
Proceeds from stock of treasury shares	0	350,446
Dividends paid by consolidated subsidiary to minority shareholder	(150,000)	0
Issuance of additional long-term debt	0	0
Repayments of long-term debt obligations	(933,567)	(1,176,172)
Proceeds(repaysments) of notes payable	(973,652)	6,855,703
Net cash (used) provided in financing activities	(12,607,219)	(11,534,944)
Increase(decrease) in cash and cash equivalents	(16,313,199)	(49,789,561)
Cash and cash equivalents at beginning of the year	18,280,808	73,704,145
Cash and cash equivalents at the end of first half year	1,967,609	23,914,584

Quarterly Report Q2/2002

NOTES

Sales Breakdown and Incoming Orders

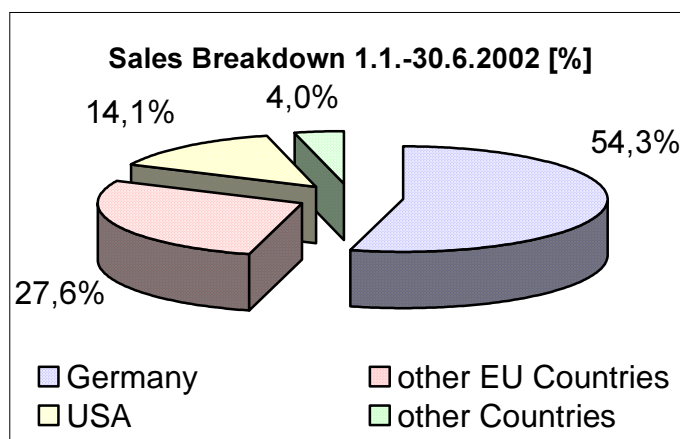
Sales	Q2 / 2002	Q2 / 2001	Δ Q2 2002/2001	1.1. – 30.6. 2002	1.1. – 30.6. 2001	Δ (1.1. – 30.6.) 2002/2001
Total	26.400	29.315	-9.9%	52.040	58.055	-10.4%
thereof						
Production	25.899	28.261	-8.4%	50.898	55.017	-7.5%
Development	0.487	0.911	-46.5%	1.124	2.826	-60.2%
Others	0.014	0.143	-90.4%	0.018	0.212	-91.4%

Figures in EUR million or %

During the second quarter, total sales of ELMOS reached EUR 26.4 million. This outperforms the sales figures of the first quarter 2002 by 3% and confirms the trend of recovery at ELMOS, which is based on gaining market share in the ASIC business. Nevertheless, total sales of the second quarter 2002 were approximately 10% lower than the sales figures of the corresponding period of the year before. In fact, last year's second quarter belongs to the best of the company's history.

During the first half year 2002, the ELMOS group generated total sales of about EUR 52.0 million. This value represents a decrease by 10% compared with the corresponding period of last year. On the other side, the half year's sales figures were in line with the expectations, because the first half year after the year of crisis 2001 was characterized by weakness in general. The future development of the business year 2002 will show a moderate growth based on additional ramp-ups of projects entering volume production during the third and fourth quarter. On annual basis, we therefore expect total sales to be in the range of EUR 110 to EUR 112 million.

The incoming sales contribution by development, which are invoiced in line with the progress within the projects, were sagging by the accounting method compared to last year's second quarter. Nevertheless, they were on a high level, because of the high number of new design wins. In fact, the development department entered into 14 new projects during the first half year of 2002, after reaching a new record of 27 design wins in the total year 2001. In parallel, some sizeable resources were used for the transfer of the Motorola micro-controller and for the development of some ASIC's for the HALIOS sensor principle. In fact, the HALIOS slider and touch-point-switch will be available as ASIC's within the third, the HALIOS micro-mouse at the beginning of the fourth quarter 2002.



The sales breakdown by regions reflects the demand above average for premium cars made in Germany, especially in the US market. For example, BMW and DaimlerChrysler reported persistent success in the export business during the first half year 2002. Some recovery also occurred in the region "other EU Countries", which increased to 28% of sales. Sales contribution of USA was more or less without changes, even with a small decline in the percentage points related to total sales.

The book-to-bill ratio grew from 0.93 for the first to 1.04 for the second quarter. As a result, the first half year 2002 ended up with a cumulated book-to-bill ratio of 0.97. The demand of the automotive electronics industry stabilized more and more in the second quarter, although several holidays led to

Quarterly Report Q2/2002

nominal 60 working days in quarter two only. In fact, these were even more reduced by some token strikes in the automotive industry. In the second quarter, incoming ASIC production orders increased by 16% to about EUR 24.7 million.

The last year acquired subsidiaries *eurasem* B.V., Nijmegen, Netherlands, and *SMI* Inc., Fremont, California, made the following sales contributions in the segments assembly services and sensors in the first half year 2002. *eurasem* reached adjusted sales of EUR 1.3 million with assembly services; *SMI* contributed sales of EUR 2.0 million with sensors.

Costs of Sales and Gross Margin

Costs of Sales and Gross Margin	Q2 / 2002	Q2 / 2001	Δ Q2 2002/2001	1.1. – 30.6. 2002	1.1. – 30.6. 2001	Δ (1.1. – 30.6.) 2002/2001
Sales	26.400	29.315	-9.9%	52.040	58.055	-10.4%
Cost of Sales	14.084	13.916	1.2%	27.864	27.680	0.7%
Gross Margin	12.315	15.400	-20.0%	24.177	30.375	-20.4%

Figures in million Euro or %

In the second quarter, costs of sales of approximately EUR 14.1 million were showing a trend downwards in relation to total sales. The margin was reduced slightly from 54% to 53% of sales comparing the first to the second quarter 2002 directly. Nevertheless, ELMOS was not yet able to achieve its former profitability. In fact, the costs of sales summed up to less than 48% of sales in the first half year 2001, but the same figure for the first half year 2002 amounted to just 54%.

But compared to the second half year 2001, these figures are good. In those days, the costs of sales exceeded 60% of sales. The additional improvement is even more remarkable in view of the background, that the short-time work at the production plant in Dortmund ended in the second quarter, leading to full labor costs again.

Overall, successful restructuring measures and continuous yield improvements for new innovative projects increased the gross margin to about 47% in the second quarter. Neglecting the costs for building-up the subsidiaries, the gross margin would have been improved to better than 50% of sales. This is a margin above the average of the semiconductor industry in general, but still a little bit away from the best margins of more than 52% ELMOS reached in the second quarter last year. But the way back to higher margins can be seen. The capacity utilization of the wafer fabrication in Dortmund increased to about 75% in the second quarter 2002 and will further increase in the third quarter.

Research and Development

Research and Development	Q2 / 2002	Q2 / 2001	Δ Q2 2002/2001	1.1. – 30.6. 2002	1.1. – 30.6. 2001	Δ (1.1. – 30.6.) 2002/2001
Sales	26.400	29.315	-9.9%	52.040	58.055	-10.4%
Research and Development	4.263	4.309	-1.1%	8.941	8.207	8.9%

Figures in million Euro or %

The expenditures for research and development amounted to EUR 4.3 million in the second quarter respectively 16% of sales. The total R&D expenses reached approximately EUR 8.9 million in the first half year of 2002. They were used for the development of new technologies and for new products, both to support the future growth of ELMOS. Compared with the previous quarters, expenditures for research and development were decreasing percentage wise, coming from 18% of sales. For the ELMOS business model, the development and production of customer and application specific integrated circuits, a portion of about 15% of sales is assumed to be useful and strategic relevant.

Quarterly Report Q2/2002

Marketing, Selling and General & Administrative Expenses

Marketing, Selling and General & Administrative Expenses	Q2 / 2002	Q2 / 2001	Δ Q2 2002/2001	1.1. – 30.6. 2002	1.1. – 30.6. 2001	Δ (1.1. – 30.6.) 2002/2001
Sales	26.400	29.315	-9.9%	52.040	58.055	-10.4%
Marketing and Selling Expenses	1.458	1.582	-7.8%	2.764	2.750	0.5%
General and Administrative Exp.	2.993	2.575	16.2%	5.796	4.992	16.1%

Figures in million Euro or %

In the second quarter, marketing and selling expenses amounted to EUR 1.5 million which is approximately 6% of sales. They are on the same level compared with both, the first quarter 2002 and the corresponding second quarter 2001. General & administrative costs reached EUR 3.0 million or 11% of sales. By effects of continued restructuring measures, the figures for G&A should come down to approximately 10% of sales in the future again.

In total, the marketing and selling expenditures amounted to EUR 2.8 million (5% of sales) in the first half year 2002, the general and administrative costs reached EUR 5.8 millions (11% of sales). Whereas the marketing and selling expenses remained on the same level as the year before, the general & administrative expenditures increased by 16%. This is an effect of the continued expansion of the American subsidiary *ELMOS NA*.

The operating income reached a total of EUR 6.7 million for the first half year 2002, representing 13% of sales. At the same time, the sequential growth of the operating income was 17% between the first and the second quarter 2002 underlining the positive trend since the beginning of the year.

EBIT and Pre-tax-profit

EBIT and Pre-tax-profit	Q2 / 2002	Q2 / 2001	Δ Q2 2002/2001	1.1. – 30.6. 2002	1.1. – 30.6. 2001	Δ (1.1. – 30.6.) 2002/2001
Sales	26.400	29.315	-9.9%	52.040	58.055	-10.4%
EBIT	4.411	6.960	-36.6%	7.718	14.338	-46.2%
Pre-tax-profit	3.572	6.624	-46.1%	6.140	14.031	-56.2%

Figures in million Euro or %

The EBIT amounts to EUR 7.7 million or almost 15% of sales for the first half year of 2002. In fact, the EBIT of EUR 4.4 million of the second quarter increased by about EUR 1.0 million compared with the first quarter 2002.

Also the pre-tax-profit shows the on-going improvements. The pre-tax-profit reached EUR 6.1 million or 12% of sales in the first half year. This represents, however, a decline compared to the corresponding period of the previous year. But the direct comparison of the first and the second quarter confirms the positive trend.

In fact, the pre-tax-profit grew by 39% quarter one to quarter two. An additional increase of the margin by up to five percentage points would be possible by bringing the subsidiaries *eurasem* and *SMI* into break-even before the year's end. Altogether, the target for the year of 15% of sales pre-tax-profit margin is achievable.

Quarterly Report Q2/2002

Net Income and Earnings per Share

Net Income and Earnings per Share	Q2 / 2002	Q2 / 2001	Δ Q2 2002/2001	1.1. – 30.6. 2002	1.1. – 30.6. 2001	Δ (1.1. – 30.6.) 2002/2001
Sales	26.400	29.315	-9.9%	52.040	58.055	-10.4%
Net income	2.031	3.999	-49.2%	3.623	8.564	-57.7%
Earnings per Share (EPS) in Euro	0.11	0.21		0.19	0.44	

Figures in million Euro or %

For the second quarter, the net income amounted to EUR 2.0 million corresponding to an increase of 28% compared to the first quarter. On basis of the first half year, net income reached EUR 3.6 million or 7% of sales at a tax rate of 41%.

With EUR 0.11 the earnings per share were increased in comparison to EUR 0.08 of the first quarter 2002. This underlines clearly the positive trend of the margins. The calculation is based on 19.3 million ordinary shares.

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 2,265 ELMOS' shares. In the second quarter, no shares have been bought or sold by members of the management or supervisory board.

Investments

In the second quarter, some necessary investments especially for equipment took place. These include machines for wafer production in the new technology 0.5µm as well as test- and analyzing equipment. On schedule, *eurasem* invested in the expansion and in the ramp up of the new assembly line. As a result, *eurasem* will be able to enter a 7-day fulltime shift work model within the third quarter.

The cumulated net investments of approximately EUR 14.5 million exceeded the depreciation by EUR 6.0 million. In the future, the focus of investments of the ELMOS group will be shifted from Dortmund to the subsidiaries *eurasem* and *SMI*. The necessary investments will be paid off by the internal cash flow of the ELMOS group.

It is the opinion of ELMOS that there is currently no reason for changes on goodwill, because all of the subsidiaries are on schedule in their set-up phase.

Events of Particular Significance

On April 26th, 2002, the annual shareholder meeting of the ELMOS Semiconductor AG took place in Dortmund. The shareholder meeting concluded unanimously, the retained earnings of EUR 10.3 million not to be paid out but to be retained and carried forward. Therefore, no dividend will be paid out for the fiscal year 2001.

The shareholder meeting concluded also, to authorize the management and supervisory board to buy back own shares and to offer a convertible bond if appropriate. This conclusions gives the company access to new liquidity and room for fast decisions on necessary investments or potential acquisitions.

On July 15th, 2002, the company announced to enter into an agreement to purchase a MEMS (MEMS=micro electronic mechanical systems) manufacturing operations for its subsidiary *SMI*, USA. This transaction will bring *SMI* all of the manufacturing capability and processes required to design, develop and fabricate a wide range of innovative MEMS-based sensor devices.

Quarterly Report Q2/2002

The purchase price ends up with approximately USD 5.2 million, with the first USD 3.4 million in cash at the closing of the transaction and approximately USD 1.9 million in prepaid credit for products and services for the former owner.

Human Resources

As of June 30th, 2002 the ELMOS group employed 683 staff members, thereof 113 at *eurasem* and 34 at *SMI*.

Accompanying notes to consolidated financial statements

The first half year's 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, 2002. For comparison, see accompanying notes to consolidated financial statements of the Annual Report for the fiscal year ended December 31st, 2001.