

# NEW

REPORT ON THE FIRST QUARTER 2006

JANUARY 1 – MARCH 31, 2006

CHALLENGES | *BEGINNINGS*



CHALLENGES *NEW BEGINNINGS* NEW CHALLENGES

## Highlights

- ▶ Sales growth of 4.4 percent in comparison to fourth quarter 2005
- ▶ Margins affected by Duisburg production and product mix as expected
- ▶ Second production location Duisburg undertakes first product qualifications and produces pilot charges with yields within target corridors
- ▶ Outlook confirmed

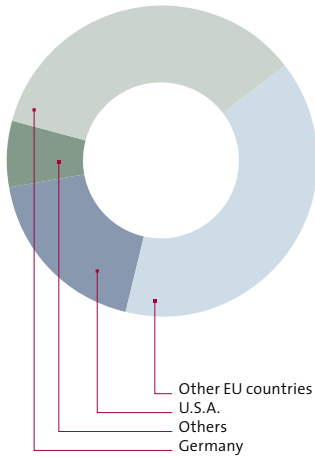
## Key figures

in million Euro or percent, unless otherwise indicated	1/1-3/31/2006	10/1-12/31/2005	Change
<b>Sales</b>	<b>37.6</b>	<b>36.0</b>	<b>4.4%</b>
Semiconductor	35.0	33.6	4.1%
Micromechanics	2.5	2.3	9.1%
<b>Gross profit</b>	<b>16.9</b>	<b>16.4</b>	<b>3.4%</b>
in percent of sales	45.0%	45.5%	
R&D expenses	7.4	7.3	1.8%
in percent of sales	19.7%	20.2%	
Operating income	3.6	3.2	11.1%
in percent of sales	9.6%	9.0%	
<b>EBIT</b>	<b>3.6</b>	<b>3.2</b>	<b>14.0%</b>
in percent of sales	9.6%	8.8%	
Net income for the period	1.8	1.4	28.4%
in percent of sales	4.8%	3.9%	
<b>Earnings per share in Euro</b>	<b>0.09</b>	<b>0.07</b>	<b>28.4%</b>
Operating cash flow	5.4	11.7	-53.7%
Capital expenditures for property, plant and equipment	7.5	6.6	13.1%
in percent of sales	19.8%	18.3%	

in million Euro or percent, unless otherwise indicated	3/31/2006	12/31/2005	Change
<b>Equity</b>	<b>145.2</b>	<b>144.3</b>	<b>0.6%</b>
in percent of total assets	62.4%	60.9%	
Employees (end of period)	1,070	1,050	1.9%

## Sales development and order situation

Sales according to regions Q1 2006



Sales of the first quarter of 2006 increased by 4.4 percent in comparison to the fourth quarter of 2005. In absolute terms, this rise is attributable essentially to the semiconductor segment. The remarkable growth of 9.1 percent generated in the micromechanics segment made a disproportionately high contribution to the overall growth rate. The Group's sales increase was achieved despite price concessions, considerable to some extent, with regard to a number of high-volume projects. These price reductions are part of long-term contractual agreements with our customers.

Compared with the first quarter of 2005, Group sales declined by 1.2 percent.

According to regions, the breakdown of sales of the first quarter of 2006 is similar to last year's periods of comparison, with a slight increase of the U.S. portion to 18.5 percent of total sales. With roughly three quarters of sales, the European countries continue to be of the greatest significance to ELMOS.

Region	1/1-3/31/2006 Thousand Euro	in percent of sales	1/1-3/31/2005 Thousand Euro	in percent of sales	Change
Germany	13,249	35.3%	14,796	38.9%	-10.5%
Other EU countries	14,786	39.4%	15,917	41.9%	-7.1%
U.S.A.	6,934	18.5%	5,241	13.8%	32.3%
Others	2,593	6.9%	2,054	5.4%	26.2%
<b>Group sales</b>	<b>37,562</b>	<b>100.0%</b>	<b>38,009</b>	<b>100.0%</b>	<b>-1.2%</b>

Orders received in the first quarter of 2006 continued its pleasant development as shown at the beginning of the year. The semiconductor segment's book-to-bill remained soundly in the range above one by the end of the first quarter of 2006.

## Profit situation

The gross margin of 45.0 percent comes close to the preceding quarter's level (4<sup>th</sup> quarter of 2005: 45.5 percent). As expected, the margin shows the pressure of the strain effectuated by preparations of the production start in Duisburg. Other factors are the continuing high share of relatively new products with initial lower yields as well as the above-mentioned high-volume projects which were affected by scheduled price reductions at the beginning of the year 2006. In comparison to the first quarter of 2005, the gross profit dropped by 10.8 percent to 16.9 million Euro.

The micromechanics segment recorded a decline of the gross margin to 29.7 percent despite the growing sales revenue as compared to the first quarter of 2005. This drop is due to increased expenses for the preparation of the production start of microsystem projects.

Research and development expenses, at 7.4 million Euro, stayed close to the level registered in the fourth quarter of 2005 in absolute terms. In relation to sales, they fell below 20 percent in the first quarter of 2006.

At 2.3 million Euro or 6.2 percent of sales, distribution expenses of the first quarter of 2006 are below the level of the fourth quarter of 2005, which was affected by one-off effects. Administrative expenses slightly increased to 3.6 million Euro but turned out essentially unchanged in relation to sales, at 9.5 percent (4<sup>th</sup> quarter 2005: 9.4 percent).

Because of slightly lower expenses relative to sales, the operating income increased from 9.0 percent of sales in the fourth quarter of 2005 to 9.6 percent in the first quarter of 2006. In comparison to the first quarter of 2005, the operating income was reduced by 48.4 percent, to 3.6 million Euro.

At 9.6 percent, the EBIT margin (EBIT = earnings before interest and taxes) is also stronger than it was in the fourth quarter of 2005 (8.8 percent), yet significantly below the value recorded in the first quarter of 2005 (18.1 percent).

As taxes and interest add up to a similar amount as in the fourth quarter of 2005, the higher margin has an impact on the net income of the first quarter of 2006 as well. It comes to 1.8 million Euro, resulting in earnings per share of 0.09 Euro, as opposed to 1.4 million Euro and earnings per share of 0.07 Euro in the previous year's last quarter.

## Financial and asset situation

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Despite a clearly lower net income, the cash flow from operating activities of the first quarter of 2006 exceeds even the operating cash flow's results achieved in the first quarter of 2005. This can be traced down to less cash and cash equivalents being tied by the net working capital.

Capital expenditures for property, plant and equipment come to 7.5 million Euro in the first quarter of 2006, according to schedule. About half of this amount was invested in frontend and backend machines and equipment in Dortmund. Investments at the subsidiaries SMI and ELMOS Advanced Packaging came to roughly 1.3 million Euro. About 1.9 million Euro were spent for the production setup in Duisburg.

The sale of the production building in California, U.S.A. by way of sale and leaseback transaction and the disposal of securities resulted in a cash inflow of 10.1 million Euro. The capital expenditures for non-current assets classified as held for sale amounting to 4.2 million Euro relate in large part to advances for the expansion of the production in Dortmund (so-called 4<sup>th</sup> building extension). The cash flow from investing activities of minus 1.5 million Euro thus resulted in a free cash flow of 3.9 million Euro, which was used for the repayment of current and non-current liabilities, among other things. Cash and cash equivalents amounted to 10.7 million Euro as of March 31, 2006, thus coming close to the value recorded as of December 31, 2005 (11.4 million Euro). We are expecting further sale and leaseback transactions to occur in the course of the year (Dortmund employee center and potentially 4<sup>th</sup> building extension).

Total assets were reduced by 1.8 percent to 232.7 million Euro because of the repayment of liabilities, among other factors. With regard to assets, this decline is reflected by the reduction of securities.

## Outlook

ELMOS hereby confirms its outlook as has been communicated since November 2005. Accordingly, for the year 2006 ELMOS plans a sales growth of more than 10 percent, a gross margin of more than 45 percent, an EBIT margin of about 14 percent, and a net profit margin of about 7 percent. We are expecting a growth in sales of more than 15 percent for the year 2007.

These prospects are based on the following assumptions:

- ▶ the start-up of production in Duisburg proves successful
- ▶ important project milestones are passed in the course of this year
- ▶ further stimulation of business in the second half-year 2006

## Staff development

ELMOS had 1,070 employees worldwide as of March 31, 2006 (December 31, 2005: 1,050 employees). New additions are made primarily by the production area.



## Directors' dealings

Directors' dealings were carried out in the first quarter of 2006 as follows. The transaction related below refers to shares of ELMOS Semiconductor AG (ISIN DE0005677108). The issuer is ELMOS Semiconductor AG, Heinrich-Hertz-Str. 1, 44227 Dortmund, Germany.

Date	Location	Name	Function	Transaction	Amount	Price/ Basis (Euro)	Total volume (Euro)
3/30/2006	Frankfurt	Dr. Anton Mindl	CEO of ELMOS Semiconductor AG	Purchase of ELMOS shares	1,000	9.55	9,550

## Shareholdings, share options and share capital

Members of the Management Board and the Supervisory Board hold the following numbers of shares and options as of March 31, 2006.

Management Board member	Shares	Options
Dr. Anton Mindl	5,250	0
Dr. Klaus Weyer	10,000	25,000
Reinhard Senf	1,948	40,000
Dr. Frank Rottmann	0	9,200

Supervisory Board member	Shares	Options
Prof. Dr. Günter Zimmer	0	0
Dr. Burkhard Dreher	1,900	0
Jörns Haberstroh	3,956	0
Herbert Sporea	4,165	0
Dr. Peter Thoma	9,200	40,000
Jutta Weber	200	0

*Dr. Klaus Weyer and Prof. Dr. Günter Zimmer hold a significant interest in ELMOS via EFH as EFH shareholders.*

As of March 31, 2006 a total 840,809 share options are outstanding. These are attributable to the separate tranches as follows.

No.	Year of resolution	Year of issue	Exercise price in Euro	Blocking period in years from issue	Execution period (in years after blocking period's end)	Options outstanding as of	
						12/31/2005	3/31/2006
1	1999	2000	34.89	3	3	99,447	98,847
2	2000	2001	35.14	3	3	126,450	125,850
3	2002	2003	7.87	2	3	166,967	166,667
4	2003	2004	11.59	2	3	289,822	289,072
5	2004	2005	13.98	2	3	160,673	160,373
						<b>843,359</b>	<b>840,809</b>

Unchanged from December 31, 2005, the share capital of ELMOS Semiconductor AG is represented by 19,412,424 shares. The interest of 52.9 percent held by ELMOS Finanzholding GmbH (EFH) and its subsidiaries is also unchanged; the free-float accounts for the remaining 47.1 percent.

## Events of particular importance

**Dr. Anton Mindl** became CEO of ELMOS Semiconductor AG effective **January 1, 2006**. Dr. Klaus Weyer, who acted as interim CEO after the death of Knut Hinrichs, took up his old area of responsibility as Management Board member for Technology.

In mid-**March 2006**, ELMOS announced the results of the fiscal year 2005 at the **financial press conference** in Dortmund and the **analysts' conference** in Frankfurt. After a disappointing year 2005, the Management Board expressed confidence for 2006 and expectations for stronger growth. The Management Board confirmed its outlook as presented in November 2005. In 2006 top priority is given to a successful production start-up at the Duisburg location. Against the backdrop of the development in 2005 and the company situation, Management Board and Supervisory Board propose to the Annual General Meeting not to pay a dividend.

## Subsequent events

Subsequent to the end of the first quarter 2006 no events of particular importance have taken place.

## ELMOS share

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The ELMOS share gained 7.6 percent in the first quarter of 2006 and closed at 9.68 Euro as of March 31, 2006. It reached its 3-month high on February 9, 2006 at 10.60 Euro; the 3-month low was 9.16 Euro, registered on January 4, 2006. At roughly 50,000 shares, the average daily trading volume (Xetra and Frankfurt floor) was below the prior-year average (about 84,000 shares daily). The market capitalization came to 188 million Euro by the end of the quarter.

The performance of the ELMOS share reflected the general market trend of the first quarter of 2006. The Philadelphia Semiconductor Index (SOX), relevant to semiconductor quotations, gained 4.2 percent; the DAX and the TecDax gained 10.4 and 21.9 percent respectively.

The ELMOS management announced the annual results in mid-March at the financial press conference in Dortmund and the analysts' conference held in Frankfurt. Following these events, the company presented itself at various road shows.

## Company boards

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### SUPERVISORY BOARD

**Prof. Dr. Günter Zimmer, *chairman***  
Graduate physicist | Duisburg

**Dr. Burkhard Dreher, *deputy chairman***  
Graduate economist | Dortmund

**Jörns Haberstroh**  
Business management graduate | Kerken

**Herbert Sporea**  
Businessman | Altwittenbek

**Dr. Peter Thoma**  
Graduate physicist | Unterschleißheim

**Jutta Weber**  
Graduate educationist | Tarrytown, New York, USA

### MANAGEMENT BOARD

**Dr. rer. nat. Anton Mindl, *chairman (since 1/1/2006)***  
Graduate physicist | Lüdenscheid

**Dr. rer. nat. Klaus G. Weyer**  
Graduate physicist | Schwerte

**Reinhard Senf**  
Graduate engineer | Iserlohn

**Dr.-Ing. Frank Rottmann**  
Graduate engineer | Dortmund

The quarterly report as of March 31, 2006 has been prepared in accordance with the International Financial Reporting Standards (IFRS), as were the financial statements for the fiscal year 2005. In preparing the interim report, the same accounting, valuation and consolidation methods have been applied upon which the financial statements of 2005 were based. A representation of the methods of accounting, valuation and consolidation is discussed in detail in the notes to the consolidated financial statements as of December 31, 2005. The quarterly report has not been audited.

## Consolidated Balance Sheet

<b>Assets</b>	<b>3/31/2006</b>	<b>12/31/2005</b>
	<b>Euro</b>	<b>Euro</b>
<b>Non-current assets</b>		
Intangible assets	36,439,056	34,844,237
Property, plant and equipment	96,865,103	101,959,587
Investments accounted for at equity	1	1
Securities and investments	645,795	645,795
Deferred tax assets	8,913,986	9,101,839
<b>Total non-current assets</b>	<b>142,863,941</b>	<b>146,551,459</b>
<b>Current assets</b>		
Inventories	28,560,689	27,704,590
Trade receivables	28,433,951	29,064,040
Securities	0	5,350,375
Cash and cash equivalents	10,698,144	11,418,640
Other assets	11,999,350	10,937,674
	<b>79,692,134</b>	<b>84,475,319</b>
Non-current assets classified as held for sale	10,157,352	5,997,193
<b>Total current assets</b>	<b>89,849,486</b>	<b>90,472,512</b>
<b>Total assets</b>	<b>232,713,427</b>	<b>237,023,971</b>



<b>Equity and liabilities</b>	<b>3/31/2006</b>	<b>12/31/2005</b>
	<b>Euro</b>	<b>Euro</b>
<b>Equity</b>		
<b>Equity attributable to equity holders of the parent</b>		
Share capital	19,412,424	19,412,424
Additional paid-in capital	88,396,313	88,270,716
Surplus reserve	102,224	102,224
Accumulated other comprehensive income	– 3,971,413	– 2,943,060
Retained earnings	40,726,296	38,912,998
	<b>144,665,844</b>	<b>143,755,302</b>
<b>Minority interest</b>	<b>491,875</b>	<b>528,190</b>
<b>Total equity</b>	<b>145,157,719</b>	<b>144,283,492</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Provisions	1,101,247	1,121,704
Financial liabilities	32,202,254	32,864,259
Other liabilities	1,364,861	1,488,110
<b>Total non-current liabilities</b>	<b>34,668,362</b>	<b>35,474,073</b>
<b>Current liabilities</b>		
Provisions	6,316,830	4,392,625
Income tax liabilities	1,080,786	1,245,929
Financial liabilities	30,311,629	35,060,684
Trade payables	10,885,189	10,574,161
Other liabilities	4,292,912	5,993,007
<b>Total current liabilities</b>	<b>52,887,346</b>	<b>57,266,406</b>
<b>Total liabilities</b>	<b>87,555,708</b>	<b>92,740,479</b>
<b>Total equity and liabilities</b>	<b>232,713,427</b>	<b>237,023,971</b>

## Consolidated Income Statement

	1/1 – 3/31/2006	in percent of sales	1/1 – 3/31/2005	in percent of sales	Change
<b>Sales</b>	<b>37,561,924</b>	<b>100.0%</b>	<b>38,009,176</b>	<b>100.0%</b>	<b>-1.2%</b>
Cost of sales	20,660,650	55.0%	19,059,587	50.1%	8.4%
<b>Gross profit</b>	<b>16,901,274</b>	<b>45.0%</b>	<b>18,949,589</b>	<b>49.9%</b>	<b>-10.8%</b>
Research and development expenses	7,399,857	19.7%	6,661,425	17.5%	11.1%
Distribution expenses	2,330,618	6.2%	2,188,595	5.8%	6.5%
Administrative expenses	3,578,577	9.5%	3,131,442	8.2%	14.3%
<b>Operating income before other operating expenses/(income)</b>	<b>3,592,222</b>	<b>9.6%</b>	<b>6,968,127</b>	<b>18.3%</b>	<b>-48.4%</b>
Finance income	-99,111	-0.3%	-467,018	-1.2%	-78.8%
Finance expenses	886,906	2.4%	1,249,288	3.3%	-29.0%
Foreign exchange losses/(income)	48,863	0.1%	-54,385	-0.1%	-189.8%
Other operating expenses/(income)	-57,504	-0.2%	147,912	0.4%	-138.9%
<b>Income before taxes</b>	<b>2,813,068</b>	<b>7.5%</b>	<b>6,092,330</b>	<b>16.0%</b>	<b>-53.8%</b>
<b>Income tax expenses</b>					
Current taxes	648,173	1.7%	1,936,173	5.1%	-66.5%
Deferred taxes	387,911	1.0%	550,877	1.4%	-29.6%
	<b>1,036,084</b>	<b>2.8%</b>	<b>2,487,050</b>	<b>6.5%</b>	<b>-58.3%</b>
<b>Net income</b>	<b>1,776,984</b>	<b>4.7%</b>	<b>3,605,280</b>	<b>9.5%</b>	<b>-50.7%</b>
Thereof:					
Minority interest	-36,315	-0.1%	89,900	0.2%	-140.4%
<b>Attributable to equity holders of the parent</b>	<b>1,813,299</b>	<b>4.8%</b>	<b>3,515,380</b>	<b>9.2%</b>	<b>-48.4%</b>
<b>Basic earnings per share</b>	<b>0.09</b>		<b>0.18</b>		<b>-48.7%</b>

## Earnings before interest and taxes (EBIT)

	1/1 – 3/31/2006	in percent of sales	1/1 – 3/31/2005	in percent of sales	Change
<b>Operating income before other operating expenses/(income)</b>	<b>3,592,222</b>	<b>9.6%</b>	<b>6,968,127</b>	<b>18.3%</b>	<b>-48.4%</b>
Foreign exchange losses/(income)	48,863	0.1%	-54,385	-0.1%	-189.8%
Other operating expenses/(income)	-57,504	-0.2%	147,912	0.4%	-138.9%
<b>EBIT</b>	<b>3,600,863</b>	<b>9.6%</b>	<b>6,874,600</b>	<b>18.1%</b>	<b>-47.6%</b>

## Consolidated Cash Flow Statement

	1/1 - 3/31/2006 Euro	1/1 - 3/31/2005 Euro
<b>Cash flow from operating activities</b>		
Net income after minority interest	1,813,298	3,515,380
Depreciation less appreciation	4,044,761	3,646,201
Non-cash effective expense	387,911	550,876
Current tax expense	648,173	1,936,173
Minority interest	- 36,315	89,901
Changes in pension liabilities	- 20,457	18,509
Share option expense	125,597	396,189
Changes in net working capital		
Trade receivables	630,089	- 5,782,880
Inventories	- 856,099	620,947
Prepaid expenses and other assets	- 895,222	- 2,781,103
Trade payables	311,028	2,633,641
Other provisions and other liabilities	224,110	1,335,500
Income tax payments	- 979,772	- 1,422,980
<b>Cash flow from operating activities</b>	<b>5,397,102</b>	<b>4,756,353</b>
<b>Cash flow from investing activities</b>		
Capital expenditures for property, plant and equipment	- 7,454,258	- 9,458,141
Capital expenditures for non-current assets classified as held for sale	- 4,160,158	0
Disposal of fixed assets	6,467,606	97,242
Purchase/Disposal of marketable securities	3,629,862	0
Purchase/Disposal of investments	0	- 38,800
<b>Cash flow from investing activities</b>	<b>- 1,516,948</b>	<b>- 9,399,699</b>
<b>Cash flow from financing activities</b>		
Repayment of long-term liabilities	- 945,324	- 728,775
Proceeds/Repayment of current liabilities	- 4,588,984	3,154,104
<b>Cash flow from financing activities</b>	<b>- 5,534,308</b>	<b>2,425,329</b>
<b>Decrease/Increase in cash and cash equivalents</b>	<b>- 1,654,154</b>	<b>- 2,218,017</b>
Effect of exchange rate changes in cash and cash equivalents	933,658	29,765
Cash and cash equivalents at beginning of the quarter	11,418,640	15,286,595
<b>Cash and cash equivalents at end of the quarter</b>	<b>10,698,144</b>	<b>13,098,343</b>

## Consolidated Statement of Changes in Equity

	Shares Number	Share capital Euro	Paid-in capital Euro
<b>December 31, 2004</b>	<b>19,300,000</b>	<b>19,300,000</b>	<b>86,208,638</b>
Share option expense			396,189
Changes in unrealized gains on marketable securities after taxes			
Foreign currency adjustments			
Net income first quarter 2005			
<b>March 31, 2005</b>	<b>19,300,000</b>	<b>19,300,000</b>	<b>86,604,827</b>
<b>December 31, 2005</b>	<b>19,412,424</b>	<b>19,412,424</b>	<b>88,270,716</b>
Share option expense			125,597
Changes in unrealized gains on marketable securities after taxes			
Foreign currency adjustments			
Net income first quarter 2006			
<b>March 31, 2006</b>	<b>19,412,424</b>	<b>19,412,424</b>	<b>88,396,313</b>

Surplus reserve Euro	Accumulated other comprehensive income Euro	Retained earnings Euro	Total Euro	Minority interest total Euro	Group total Euro
102,224	- 5,307,063	32,930,171	133,233,970	592,427	133,826,397
			396,189		396,189
	315,263		315,263		315,263
	680,097		680,097		680,097
		3,515,380	3,515,380	89,900	3,605,280
102,224	- 4,311,703	36,445,551	138,140,899	682,327	138,823,226
102,224	- 2,943,060	38,912,998	143,755,302	528,190	144,283,492
			125,597		125,597
	- 1,211,241		- 1,211,241		- 1,211,241
	182,888		182,888		182,888
		1,813,299	1,813,299	- 36,315	1,776,984
102,224	- 3,971,413	40,726,296	144,665,844	491,875	145,157,720

## Segments

In thousand Euro or percent, unless otherwise indicated	Semiconductor segment			Micromechanics segment			ELMOS Group		
	1/1 – 3/31/ 2006	1/1 – 3/31 2005	Change	1/1 – 3/31 2006	1/1 – 3/31 2005	Change	1/1 – 3/31 2006	1/1 – 3/31 2005	Change
Sales	35,022	35,805	- 2.2%	2,540	2,204	15.2%	37,562	38,009	- 1.2%
Gross profit	16,147	18,106	- 10.8%	754	843	- 10.6%	16,901	18,950	- 10.8%
in percent of sales	46.1%	50.6%		29.7%	38.3%		45.0%	49.9%	
Operating income	3,584	6,874	- 47.9%	8	95	- 91.7%	3,592	6,968	- 48.4%
in percent of sales	10.2%	19.2%		0.3%	4.3%		9.6%	18.3%	
Depreciation	3,808	3,437	10.8%	237	209	13.6%	4,045	3,646	10.9%
Capital expenditures	7,055	9,251	- 23.7%	399	207	92.8%	7,454	9,458	- 21.2%
	3/31/2006	3/31/2005	Change	3/31/2006	3/31/2005	Change	3/31/2006	3/31/2005	Change
Assets	213,120	206,362	3.3%	19,594	22,884	- 14.4%	232,713	229,246	1.5%
Liabilities	85,883	87,705	- 2.1%	1,672	2,718	- 38.5%	87,556	90,423	- 3.2%

## FINANCIAL CALENDAR

May 3, 2006	Quarterly report Q1 2006
May 19, 2006	Annual General Meeting
August 2, 2006	Quarterly report Q2 2006
October 31, 2006	Quarterly report Q3 2006

## CONTACT

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