



Semiconductor AG

Report

Q3

*english*

2000

Dear shareholders,

There are three good news concerning the third quarter 2000.

As already reported, we received a major order during the third quarter from an European mobile telephone manufacturer, who ordered high-performance LCD drivers from ELMOS for his high-end equipment ranges. We were able to undercut the ambitious time schedule of this first telecom project and present chips that were already functioning even though we do not have pre-developed circuit block libraries for this type of application. Our flexibility in the field of development and our rapid prototyping also prove successful in the new telecommunication market. A second order for a LCD circuit is already being discussed with our lead customer. Sales based on these circuits will be added to the continuously growing sales from the automotive core business starting mid 2001 and will further strengthen the dynamism of growth.

Secondly, the third quarter results prove that the core business is steadily developing with ongoing growing success. The result before taxes at 45 million DM for the nine month period of 2000 is 43% higher than for the same period of the previous year and, with that, already exceeds the total result before taxes of the year 1999. The quarterly sales are on the level of the very strong second quarter at approx. 53 million DM. This is all the more remarkable as especially in France and Germany the summer holidays of the automobile manufacturers have a curbing effect on demand. The operating income are at an outstanding level of approx. 15 million DM or 29% of sales, even though the strong US-Dollar had a negative influence of approx. 3% of sales. This successful trend continues through to the quarterly result after taxes that is up by 36% at 8.6 million DM against the comparable period of the previous year. We are therefore very confident of reaching, better exceeding the year 2000 sales target of 204 million DM and an income before income taxes of more than 55 million DM.

The automobile electronic sector was and is the most important field of business for the ELMOS AG. A clear signal for this was set in September when Dr. Peter Thoma was appointed as a new member of the board responsible for the automotive area. Dr. Thoma has accompanied ELMOS "from childhood". Initially, as car body electronics manager at BMW AG, he let us develop those key IC's during the period 1987 – 1989 that are still used in every BMW today and that assisted in developing ELMOS' high voltage process technology. He was not only the director of the electronic department at BMW AG from 1993 through 2000; he also promoted, influenced and helped to carry ELMOS as member of the advisory board. We are proud of having won him as a supporter to improve our success in the market of automotive electronics dynamically.

This is why we are extending our production capacities according to plan, accompanied by the accelerated development of the submicron process technologies for the structural sizes of 0.65  $\mu\text{m}$  and 0.5  $\mu\text{m}$ . Progress is also demonstrated in the preparation of the ground for cooperation and acquisitions in order to expand our core competencies. One of the primary targets is the development of an intelligent packing technologies in order to further increase the quality of our products by means of additional know how in the assembly area and to offer customer specific solutions. Innovative solutions will become possible in cooperation with other partner companies in the field of sensors, combining the advantages of our customer specific circuits with micromechanical sensor elements in a tailor-made housing. Using such products we shall offer our customers even more comprehensive system integration and as a result be able to improve our competitive advantage.

Furthermore it is to be reported that an increase in capital by 200,000 shares for the "pay-out and take-back" procedure was carried out in the 3<sup>rd</sup> quarter in compliance with the resolution passed during the general meeting on 25<sup>th</sup> May 2000. EFH ELMOS-Finanzholding took on these shares at a unit price of 52.75 Euro in accordance with the submitted guarantee.

Dortmund, November 2000



Dr. Klaus G. Weyer,  
Board of Management

Knut S. Hinrichs,  
Board of Management

## Sales

Sales	Q3/00	Q3/99	Change (%)	1-9 / 00	1-9 / 99	Change (%)	Q2/00	Q3/Q2(%)
Total	52.680	45.680	15.3	156.112	123.975	25.9	53.431	-1.4
thereof								
Production	51.047	44.168	15.6	150.942	117.820	28.1	51.127	-0.2
Development	1.581	0.515	206.8	3.701	3.373	9.7	1.500	-5.4
Other	0.052	0.997	-94.8	1.469	2.782	-47.2	0.803	-93.5

(Figures in million DM or %)

The third quarter shows a clear 15.3% growth in sales in contrast to the previous year. The third quarter sales remain almost at the same high level as that of the surprisingly strong second quarter in spite of a short interruption in production in August due to cleanroom expansion work. Comparison of the over-

all time period (1.1. - 30.9.2000) to the appropriate period of the previous year once again shows outstanding growth of 25.9%. Above all, ELMOS owes this growth to the high sales share in semi-luxury automobiles that boast a constantly increasing electronic share. ■

## Sales according to regions

Sales	Q3/00	Q3/99	Change (%)	1-9 / 00	1-9 / 99	Change (%)	Q2/00	Q3/Q2(%)
Total	52.680	45.680	15.3	156.112	123.975	25.9	53.431	-1.4
thereof								
Germany	22.581	22.667	-0.4	64.424	55.480	16.1	21.843	3.4
Other EU countries	24.372	17.006	43.3	73.912	52.515	40.8	25.972	-6.2
USA	3.480	3.638	-4.3	12.353	9.090	35.9	4.336	-19.7
Other countries	2.247	2.369	-5.2	5.423	6.890	-21.3	1.280	75.6

(Figures in million DM or %)

The share of sales outside of Germany is also at almost 60% in the third quarter and reflects ELMOS' strong international orientation. Above all, sales grew during the overall time period 1-9/00 by 40.8% in the

other EU countries and by 35.9% in the USA. In total sales for the third quarter 2000 are made up as follows: Germany 42.9%, other EU countries 46.3%, USA 6.6% and other countries 4.3%. ■

## Incoming orders

Incoming orders	Q3/00	Q3/99	Change (%)	1-9 / 00	1-9 / 99	Change (%)	Q2/00	Q3/Q2(%)
Total	45.522	42.458	7.2	174.097	126.664	37.5	60.669	-25.0

(Figures in million DM or %)

Incoming orders at 45.522 million DM for the third quarter 2000 are 7.2% up on those of the previous year. The comparable total annual figures will, in fact, be exceeded by 37.5%. In comparison with the extremely high number of incoming orders during the

second quarter, the negative influences of the automobile manufacturers' general holidays have an effect on the third quarter (book-to-bill in August 0.28, in September 1.47). October also reflects good development with book-to-bill at 1.16. ■

## Gross margin

Gross margin	Q3/00	Q3/99	Change (%)	1-9 / 00	1-9 / 99	Change (%)	Q2/00	Q3/Q2(%)
Total	28.054	23.370	20.0	82.748	62.295	32.8	29.643	-5.4
of sales	53.3	51.2		53.0	50.2		55.5	

(Figures in million DM or %)

An excellent gross margin was achieved in the third quarter 2000 at 53.3% of the sales. This figure is clearly above the targeted >50% even though the company had to compensate negative influences due to the high dollar rate (approx. 3% of sales).

There are appropriate favourable figures in the overall time period 1-9/00. A gross margin of 53.0% will be achieved, this being around 2.8 percent higher than the same period of the previous year. In absolute terms it was possible to increase the result by 20.5 million DM or 32.8% respectively. ■

## Research and development

R & D expenses	Q3/00	Q3/99	Change (%)	1-9 / 00	1-9 / 99	Change (%)	Q2/00	Q3/Q2(%)
Total	6.184	4.586	34.8	18.293	12.144	50.6	5.777	7.0
of sales	11.7	10.0		11.7	9.8		10.8	

(Figures in million DM or %)

Expenditure for research and development increased again in the third quarter 2000 to the present figure of 11.7% of sales. It increased in the third quarter 2000 to 6.184 million DM in contrast to 4.586 million DM in the comparable period in 1999. This is equivalent to an increase of 34.8%. Total expenditure for research and development activities for the overall time period 1-9/00 amounts to 11.7% of the sales or a total volume of 18.293 million DM respectively.

This underlines that research and development projects continue to increase their rating. The objective is to put the high voltage CMOS 0.8µm technology with shrink 0.65µm and 0.5µm into early production and also to implement 3-layer metallizing. Both projects are important for entering the mobile telephone market. The SOI technology will be accelerated parallel to this. ■

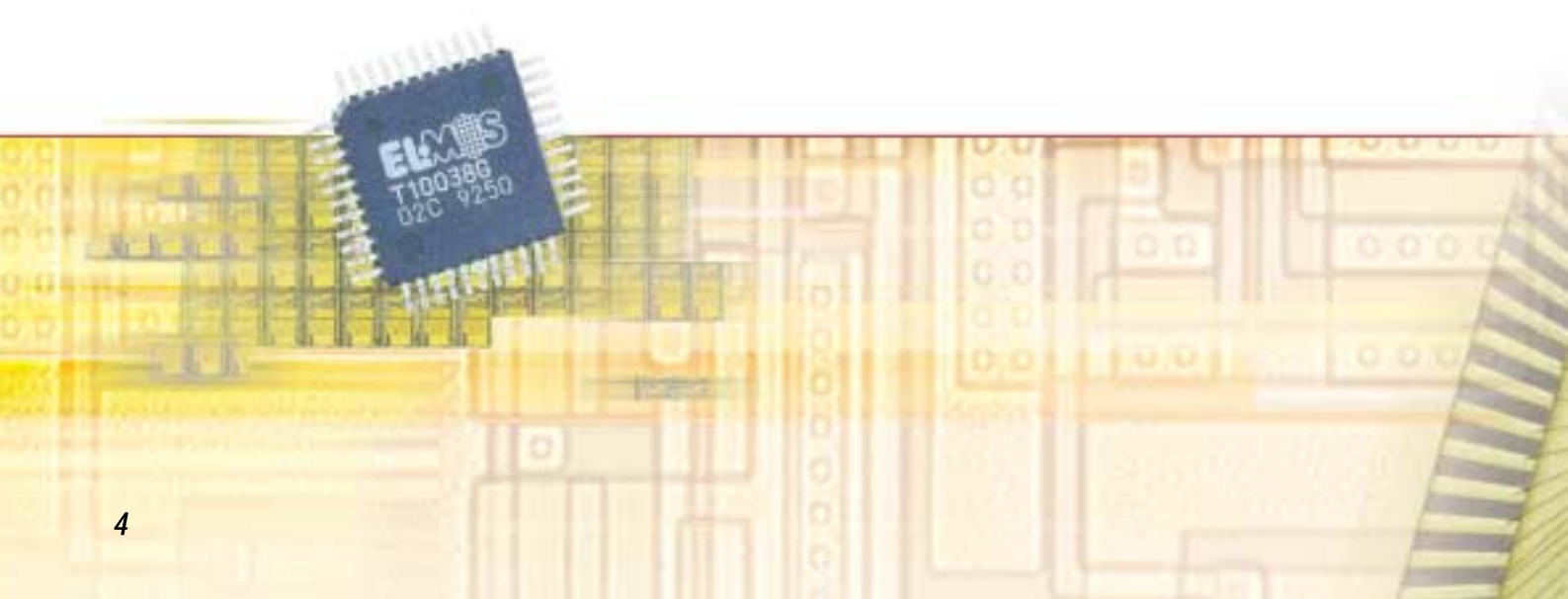
## Marketing and sales

Marketing and selling expenses	Q3/00	Q3/99	Change (%)	1-9 / 00	1-9 / 99	Change (%)	Q2/00	Q3/Q2(%)
Total	1.773	1.333	33.0	5.106	4.138	23.4	1.747	1.5
of sales	3.4	2.9		3.3	3.3		3.3	

(Figures in million DM or %)

Although the marketing and sales costs increased clearly by 33.0% in contrast to the same quarter of the previous year, they were, in fact, on the previous

year's level at 3.3% of sales during the overall time period 1-9/00. ■



### General administration expenses

General and administration expenses	Q3/00	Q3/99	Change (%)	1-9 / 00	1-9 / 99	Change (%)	Q2/00	Q3/Q2(%)
Total	4.903	3.873	26.6	15.023	11.380	32.0	5.597	-12.4
of sales	9.3	8.5		9.6	9.2		10.5	

(Figures in million DM or %)

The expenditure for administration and for general costs rose in comparison to the same quarter of the previous year by 1.030 million DM or by 26.6%. During the overall time period 1-9/00 the share of

these costs on sales rose slightly from 9.2% to 9.6% in comparison to the same period of the previous year. In particular this increase is the result of the extended disclosure obligations of the AG. ■

### Operating income

Operating income	Q3/00	Q3/99	Change (%)	1-9 / 00	1-9 / 99	Change (%)	Q2/00	Q3/Q2(%)
Total	15.194	13.577	11.9	44.326	34.634	28.0	16.522	-8.0
of sales	28.8	29.7		28.4	27.9		30.9	

(Figures in million DM or %)

At 28.8% of sales the operating income were clearly up on the targetted value of >25%. During the overall time period 1-9/00 the operating income rose by

9.7 million DM or 28% to 44.3 million DM in contrast to 1-9/99 and improved from 27.9% to 28.4% of the sales. ■

### Comprehensive income

Comprehensive income	Q3/00	Q3/99	Change (%)	1-9 / 00	1-9 / 99	Change (%)	Q2/00	Q3/Q2(%)
Total	8.561	6.358	34.6	24.572	17.616	39.5	9.066	-5.6
of sales	16.3	13.9		15.7	14.2		17.0	

(Figures in million DM or %)

The annual comprehensive income (including foreign currency adjustment) increased during the third quarter 2000 to 8.561 million DM in contrast to 6.358 million DM during the comparable time period of 1999 and reached a record high at 16.3% of sales. This is equivalent to an increase of 34.6%. The annual comprehensive

income clearly improved by 39.5% during the overall time period 1-9/00 in contrast to the same time period of the previous year. The tax calculation was made in line with the "pay-out and take-back" principle that is also planned for the trading year 2000 in order to minimize the tax burden. ■

### Human Resources

As at 30<sup>th</sup> September 2000 ELMOS AG employed 517 members of staff in contrast to 485 staff members at 30<sup>th</sup> September 1999. Above all, ELMOS realize their growth by means of internal productivity gains. The personnel figures in the areas of production, adminis-

tration and sales remain stable. Personnel are strengthened in the areas of process development and design in order to support the accelerated growth process. ■

### Cash Flow

The cash resources at the end of the third quarter 2000 amounted to 146.2 million DM in contrast to 129.2 million DM at 30<sup>th</sup> June 2000 and 97.2 million DM at 31<sup>st</sup> March 2000. We are assuming that our

increasing investment activity will influence the cash resources during the further course of the trading year 2000. ■

\*unaudited

**Preliminary note:**

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

**Consolidated Profit and Loss Statements**

DM	Ended September 30,			
	Q3 /2000	Q3 /1999	*2000	*1999
Net sales	52.680.133	45.679.770	156.111.842	123.974.866
Costs of sales	24.625.927	22.310.220	73.364.086	61.679.385
Gross margin	28.054.206	23.369.550	82.747.756	62.295.481
Research and development	6.184.015	4.586.222	18.292.574	12.143.673
Marketing and selling expenses	1.773.089	1.333.121	5.106.197	4.138.276
General and administrative expenses	4.903.164	3.873.211	15.023.030	11.379.701
Operating income	15.193.938	13.576.996	44.325.955	34.633.831
Interest expense	(772.957)	1.119.113	(1.902.249)	3.554.408
Foreign exchange (gain) loss-net	(211.177)	(19.568)	631.973	21.497
Other (income) expense - net	469.000	512.425	635.161	(304.942)
Income (loss) before income taxes, equity in loss of unconsolidated subsidiaries and minority interest	15.709.072	11.965.026	44.961.070	31.362.868
Income tax expense (benefit)				
Current	7.176.844	5.113.272	20.345.057	13.091.743
Deferred	(118.499)	490.472	(472.469)	152.833
	7.058.345	5.603.744	19.872.588	13.244.576
Net income before equity in loss of unconsolidated subsidiaries and minority interest	8.650.727	6.361.282	25.088.482	18.118.292
Equity in loss of unconsolidated subsidiaries	0	0	0	319.503
Minority interest in earnings of consolidated subsidiaries	108.655	35.810	288.520	147.977
Net income	8.542.072	6.325.472	24.799.962	17.650.812
Change in foreign currency translations	30.187	(32.830)	(216.670)	34.414
Unrealized loss on marketable securities net of income taxes.	(11.735)	0	(11.735)	0
Comprehensive income	8.560.524	6.358.302	24.571.557	17.616.398

\*unaudited

**Consolidated Cash-Flow Statements**

DM	Ended September 30,	
	2000*	1999*
<b>Operating Activities:</b>		
Net income	24.799.962	17.650.813
Depreciation	15.464.161	15.538.641
Deferred income taxes	(472.469)	152.833
Minority interest	288.520	147.977
Equity in loss of unconsolidated subsidiaries	0	319.503
Changes in working capital:		
Accounts receivable	(2.147.412)	(18.139.852)
Inventories	(8.257.201)	(3.543.874)
Prepaid assets and other	2.326.014	(5.228.711)
Accounts payable	(2.660.687)	6.632.406
Accrued liabilities	8.156.616	(4.157.211)
Accrued income taxes payable	7.470.401	551.562
Net cash provided by operating activities	44.967.905	9.924.087
<b>Investing Activities:</b>		
Capital expenditures	(22.316.311)	(25.025.216)
Disposal of fixed assets	102.119	1.138.223
Book basis in sale of equity investee	0	856.137
Purchase of shares in equity investees	(690.000)	0
Proceeds from sale of marketable securities	19.370.540	0
Net cash (used) in investing activities	(3.533.652)	(23.030.855)
<b>Financing Activities:</b>		
Dividends paid	(17.370.001)	(470.000)
Common Stock issued for cash	20.634.007	0
Dividends paid by consolidated subsidiary to minority shareholder	(251.949)	0
Issuance of additional long term debt	(21.801.230)	0
Repayments of long term debt	(2.721.432)	(5.746.094)
Increase (decrease) in amounts payable to bank	(2.290.421)	16.976.050
Net cash provided by financing activities	19.801.434	10.759.956
Increase (decrease) in cash	61.235.687	(2.346.812)
Cash and cash equivalents at December 31, 1999 and 1998	85.012.300	6.075.378
Cash and cash equivalents at September 30, 2000 and 1999	146.247.987	3.728.566



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