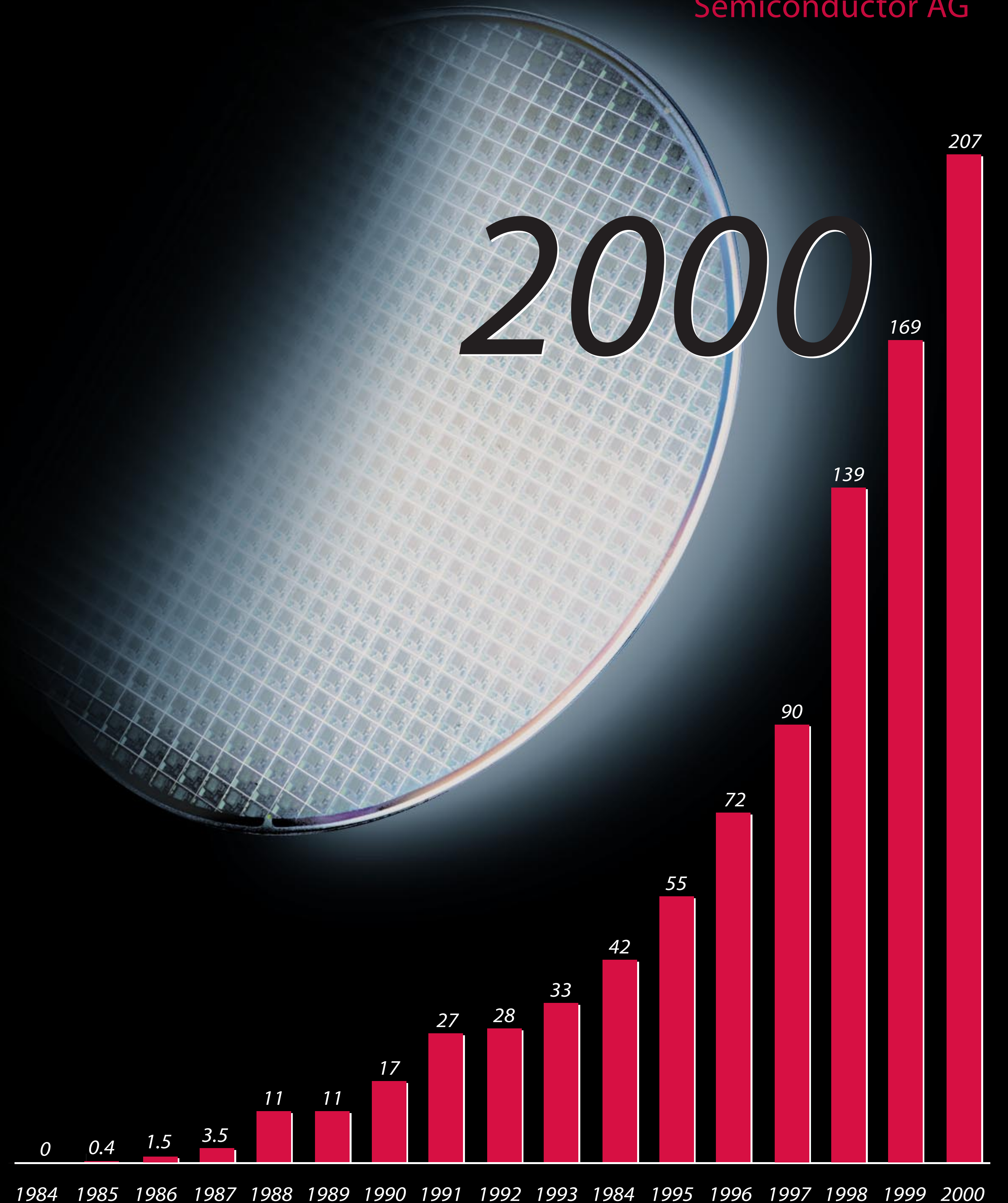
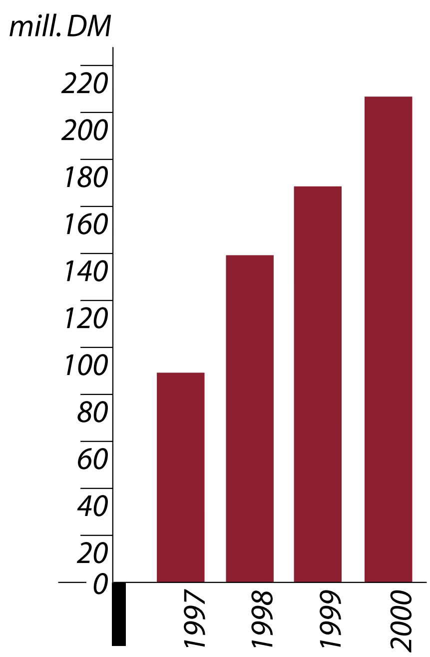
ELMOS Semiconductor AG

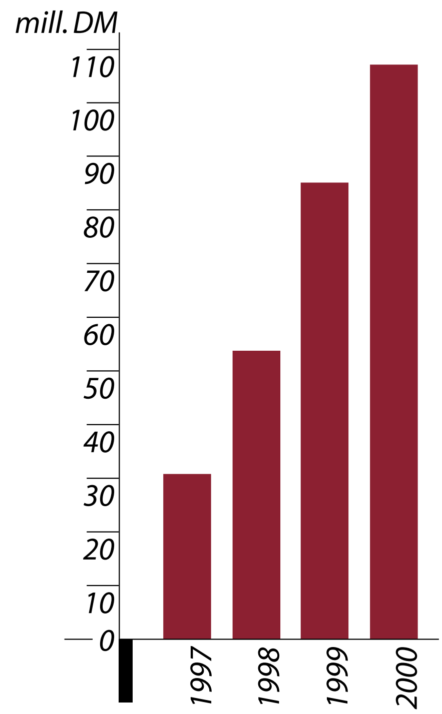
2000



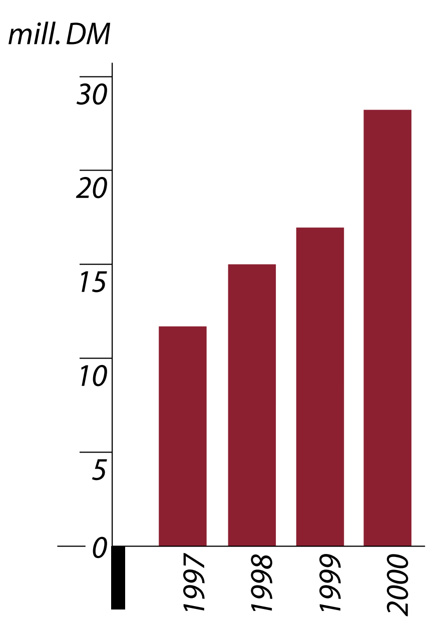
Sales



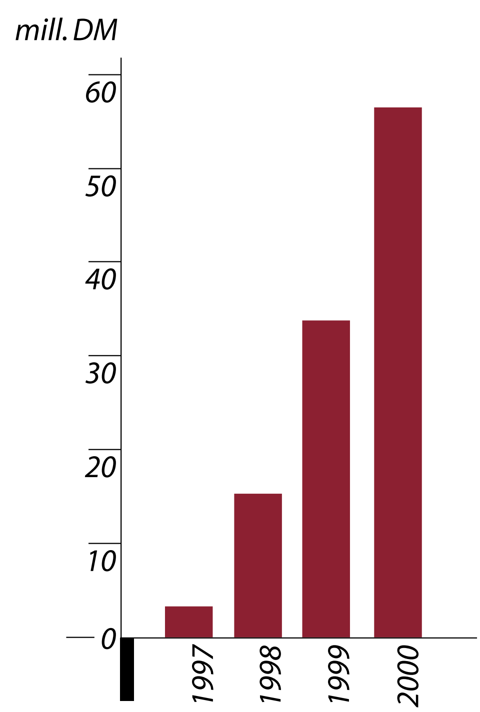
Gross Margin



Research & Development



Income Before Income Taxes



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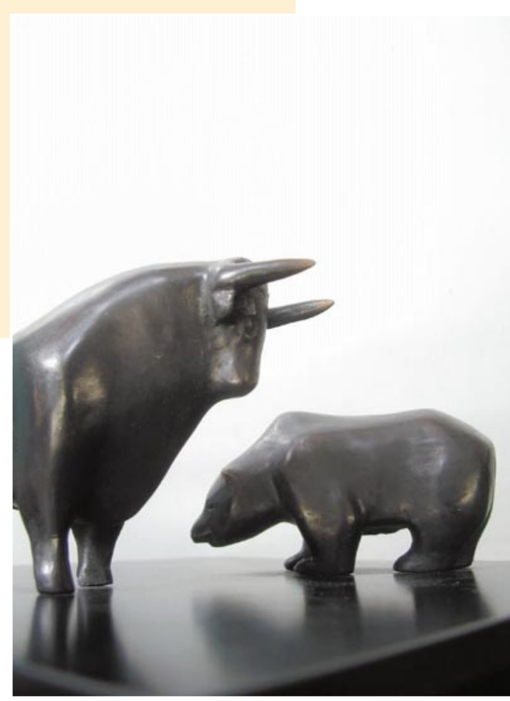
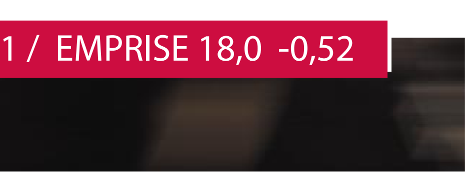
NEMAX
10 / Elmos 40,0 +1,20 / Elsa 14,0 +- 0,0 EM.TV 35,0 +0,

1 Supervisory Board and Management Board

> "All the great things of the world only take place, because somebody does more than is required of him"
>
> ***Herrmann Gmeiner***





ELMOS Semiconductor AG

Members of the Supervisory Board and Management Board

Supervisory Board

Chairman of the Supervisory Board

Herr Prof. Dr. Günter Zimmer, Duisburg

He holds the position Professor at Gerhard Mercator University of Duisburg and Director of Fraunhofer Institute for Microelectronic Circuits and Systems in Duisburg, Dresden and Munich.

Additional Members of the Supervisory Board

Dr. Burkhard Dreher, Vice Chairman, Dortmund
Prof. Dr. Karsten Ehlers, Wolfsburg
Dave A. Ranhoff, Alamo U. S. A.
Herbert Sporea, Altwittenbek
Dr. Wolfgang Ziebart, Starnberg

Speaker of the Management Board

Knut S. Hinrichs

studied Business Administration at the University of Mannheim. From 1977 to 1979, he was the Managing Director of an industrial sensor electronics company, thereafter becoming a Management Consultant and later a self-employed dealer for hybrid electronic components. He has been one of our Managing Directors since 1987 and a member of the Board since 1999.

Dr. Klaus G. Weyer

is one of the co-founders of ELMOS. He studied physics in Cologne and obtained his PhD from Ludwig Maximilian University Munich. He initially worked as a Management Consultant in the area of microelectronics for small- and medium sized companies. He has been one of our Managing Directors since 1984 and a member of the Board since 1999.

Dr. Peter Thoma

studied at the Technical University in Munich. As a qualified physicist he optained PhD 1978 in the field of plasma physics with a focus on spectroscopy. As of January 1983 Dr. Thoma was manager for the development of electronic control equipment at BMW. In 1993 he was appointed as Director of the Electric/Electronics Department of BMW.
He joint ELMOS as a member of Management board in October 2000


This information appears as a matter of record only.
October 1999
€165,000,000
ELMOS
Semiconductor AG
Initial Public Offering
of
7,500,000
Ordinary Bearer Shares
on the
Neuer Markt
Joint Global Coordinators
CREDIT SUISSE
FIRST BOSTON
Deutsche Bank
Co-Lead Managers
SG Investment Banking
WestLB Panmure
ELMOS
Semiconductor AG

2 Report of the Supervisory Board

"Only he who must conquer them daily deserves liberty and life."

Goethe, Faust II

Report of the Supervisory Board of ELMOS Semiconductor AG, Dortmund, for the annual accounts of the company as of December 31, 2000

The six members of the supervisory board, Prof. Dr. Günter Zimmer, Dr. Burkhard Dreher, Prof. Dr. Karsten Ehlers, Dave A. Ranhoff, Herbert Sporea and Dr. Wolfgang Ziebart were newly elected during the company's annual general shareholder meeting on May 25, 2000.

ELMOS Semiconductor AG

Report of the Supervisory Board of ELMOS Semiconductor AG, Dortmund, for the annual accounts of the company as of December 31, 2000

In the first meeting of the supervisory board on May 25, 2000 Prof. Dr. Günter Zimmer was elected as chairman and Dr. Burkhard Dreher deputy chairman of the supervisory board.

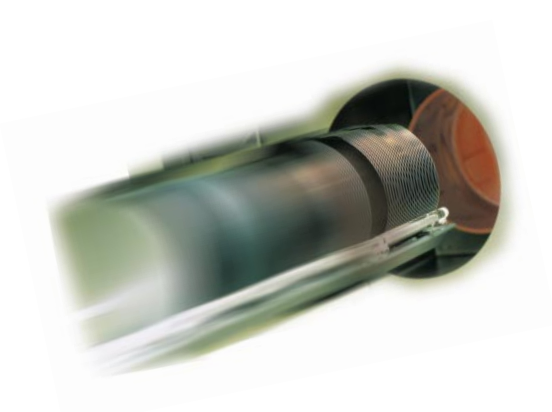
The supervisory board was informed in detail of the development of the fiscal year ending December 31, 2000, the company status and current business policy decisions during four meetings on May 25, 2000, September 7, 2000, December 15, 2000 and February 16, 2001 as well as on account of written and oral reports by the management board, deliberated on these with the management board and has supervised the management board .

The long-term business development was discussed in detail with the management board on December 15, 2000. Fundamental questions regarding business policy and the development of orders, capacity, results and liquidity were the main topics of the discussions held by the supervisory board. The chairman of the supervisory board was also informed of important business transactions by the speaker of the management board outside of the supervisory board meetings.

In addition to this the supervisory board discussed in detail the fulfillment by the company of the legal requirements of control and transparency in business (KonTraG) at its meeting on February 16, 2001 in the presence of representatives of Ernst & Young, Deutsche Allgemeine Treuhand AG, Dortmund. The supervisory board has come to the conclusion that the company is currently fulfilling the essential legal requirements.

On the basis of the authorization resolved in the annual general shareholder meeting on May 25, 2000 for the authorized capital I, as per the resolution dated June 8, 2000 the management board increased the share capital of the company from 19,300,000 Euro by 200,000 Euro to 19,500,000 Euro by issuing 200,000 no-par individual shares in the name of the bearer with a calculated value of 1.00 Euro each against cash contribution and by excluding the subscription right of the shareholders, in order to execute the pay out/take back procedure announced at the annual shareholder meeting on May 25, 2000. The supervisory board approved this resolution in its resolution dated June 14, 2000. The newly created shares were offered to EFH ELMOS-Finanzholding GmbH at an issuing price of 52.75 Euro and subscribed to and paid in full by this company on June 8, 2000. The changes to the articles of association for the Authorized Capital I as well as the execution of the capital increase were recorded in the commercial register on July 24, 2000.

After these resolutions had been formulated and recorded in the commercial register, it was found that the issuance of the new 200,000 shares might be faulty. On the one hand the Authorized Capital I amounting to 6,675,000 Euro and the authorized capital II amounting to 3,000,000 Euro already existing at that time together exceed the legal upper limit for an Authorized Capital of 50% of the share capital existing at the time of resolution, i.e. 9,650,000 Euro, by 25,000 Euro. On the other hand the authorization was used to



issue the new 200,000 shares before recording the changes to the articles of association regarding the authorized capital I in the commercial register. Currently the company is endeavoring to correct the records in the commercial register. The supervisory board therefore suggests to the general shareholder meeting that a completely new resolution regarding authorized capital be passed.

In addition to this and in view of the introduction of the Euro scheduled as of January 1, 2002, the supervisory board proposes to the annual general shareholder meeting that the amounts named in the articles of association be switched to Euro and adapted partially on this occasion.

In its meeting on September 7, 2000 the supervisory board appointed Dr. Peter Thoma as a further member of the management board as from October 1, 2000 for a period of five years. Dr. Thoma will be responsible for the area of product development and sales.

In its meeting on December 15, 2000 the supervisory board approved the resolution of the management board regarding the issue of up to 120,000 share options for employees ranking below the members of the management board. During the same meeting, the supervisory board resolved to issue a total of 29,700 share options for the members of the management board at the same conditions as for employees with the exception of the provision according to sub-item 3 (own investment).

Dr. Wolfgang Ziebart informed the supervisory board that he would lay down his office as a member of the supervisory board for personal reasons at the end of the supervisory board meeting planned for April 6, 2001. The supervisory board thanks Dr. Ziebart for his collaboration on the supervisory board to date. The supervisory board suggests electing Dr.-Ing. Roland Mecklinger, resident Steinfeld-Hausen, as a new member of the supervisory board.

The report regarding the relations to affiliated companies according to § 312 AktG, prepared by the management board and examined by the auditors, Ernst & Young, Deutsche Allgemeine Treuhand AG, Dortmund, was issued with the unrestricted audit certificate by Ernst & Young, Deutsche Allgemeine Treuhand AG, Dortmund, according to which the actual information in the report is correct, the consideration given by the company in return of a transaction not inappropriately high regarding the legal transactions shown in the report and that with regard to the measures detailed in the report, there are no circumstances justifying an essentially different assessment to the one given by the management board. The audit report had been submitted to the supervisory board. The supervisory board also examined the report itself during its meeting on February 16, 2001 and – after careful examination – did not raise any objections to the closing statement of the management board and agreed with the result of the examination by the auditors.

The management board and the supervisory board once again undertook considerable efforts during the expired fiscal year towards improvement of the company's profitability. The annual accounts presented show the best result in the 16 year's history of the company; compared with the previous year the annual net profit improved by 71 %. Simultaneously, a profit

was achieved, allowing distribution to the shareholders of a cash dividend amounting to DM 1.78 (= Euro 0.91) per share. The equity ratio amounts to 75 % of the balance sheet total.

The annual accounts and the report of the management board with respect to the status of the company for the fiscal year from January, 1 to December, 31 2000, were examined by Ernst & Young, Deutsche Allgemeine Treuhand AG, Dortmund, who were nominated by the general meeting on May 25, 2000 as auditors, taking into account the bookkeeping of the company and were accorded with the unrestricted audit certificate. The supervisory board and the auditors attended the meeting of the management board on February 16, 2001 in which the annual accounts were approved. The audit report had been submitted to the supervisory board. The supervisory board agreed with the result of the audit.

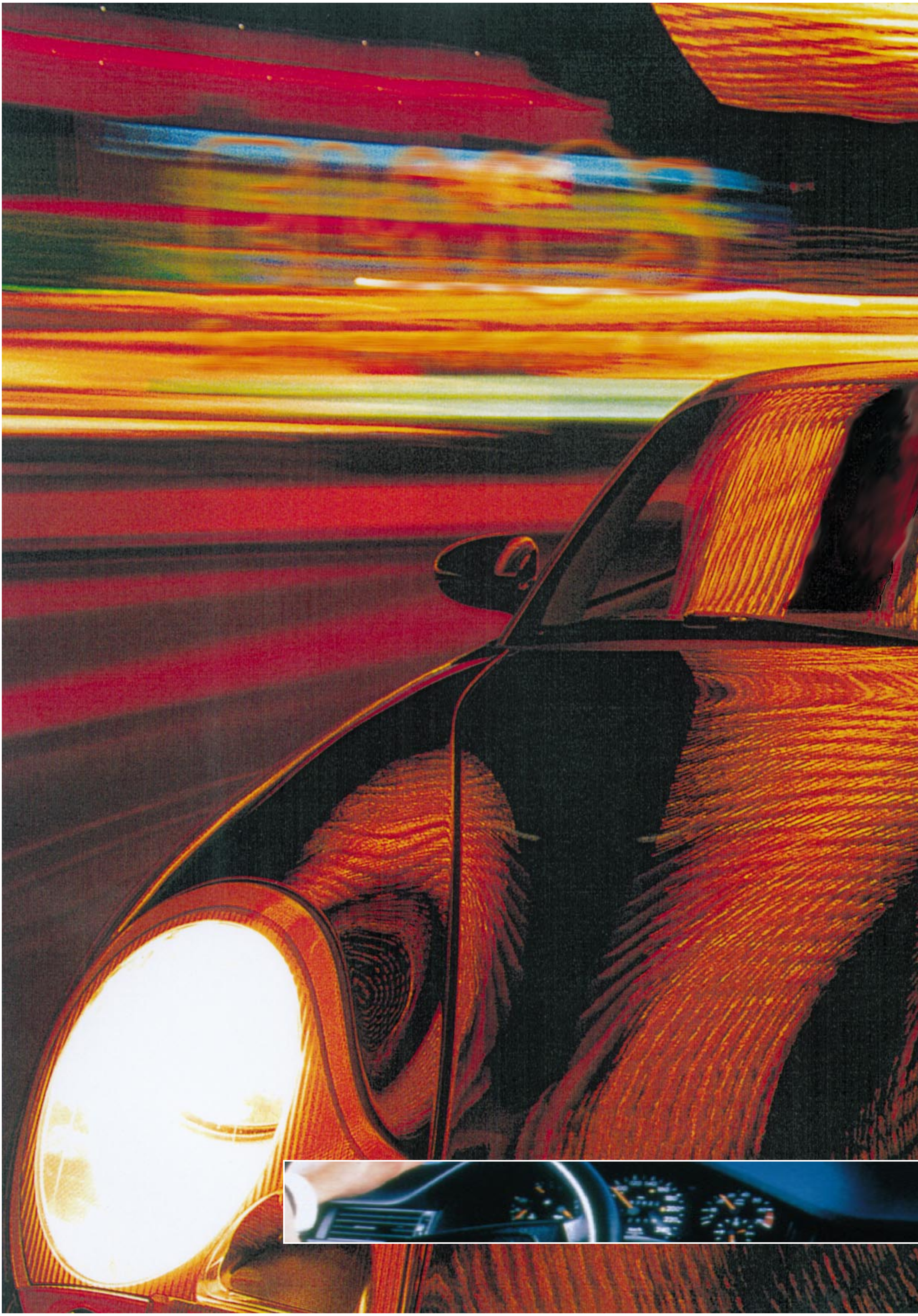
The supervisory board examined the annual accounts prepared by the management board, audited by Ernst & Young, Deutsche Allgemeine Treuhand AG, Dortmund, and accorded with the unrestricted audit certificate. The supervisory board approved the annual accounts at its meeting on February 16, 2001. As a result the annual accounts are established. It has also examined the consolidated financial statement and the group management report. After careful examination objections were not raised by the supervisory board. The management board and the supervisory board proposes to the annual general shareholder meeting to fully distribute the retained earnings of DM 34,354,000.00 by paying a dividend of DM 1.78 (=Euro 0.91) per dividend-authorized share to the shareholders. The dividend will be paid on April 10, 2001.

The supervisory board thanks the members of the management board and the employees for the work performed during the expired fiscal year, the commitment shown and the success achieved.

Dortmund, February 16, 2001

Prof. Dr. Günter Zimmer
Chairman of the Supervisory Board

ELMOS
Semiconductor AG



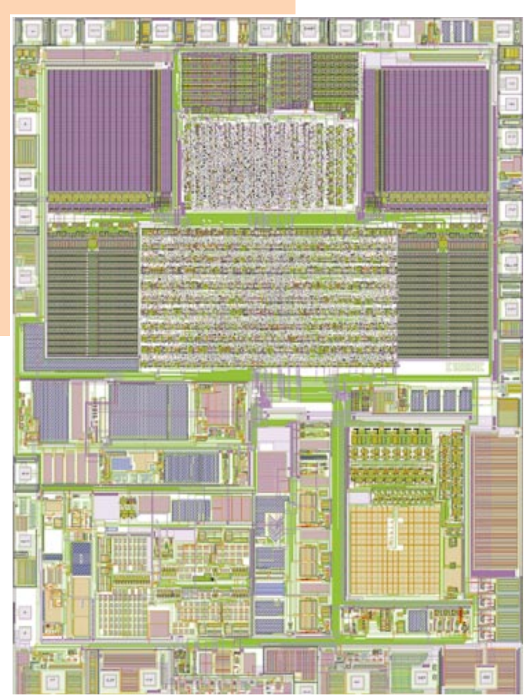
3 Report of the Management Board

"The secret of success is the lasting nature of the objective."

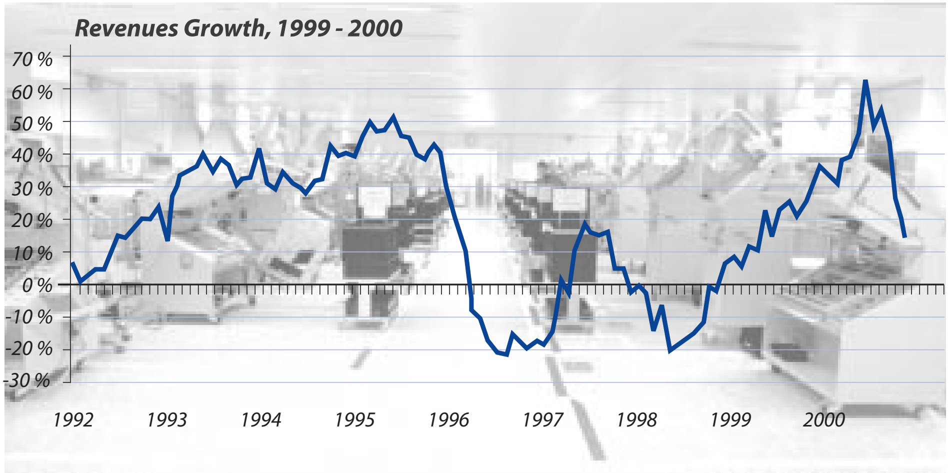
Benjamin Disrali

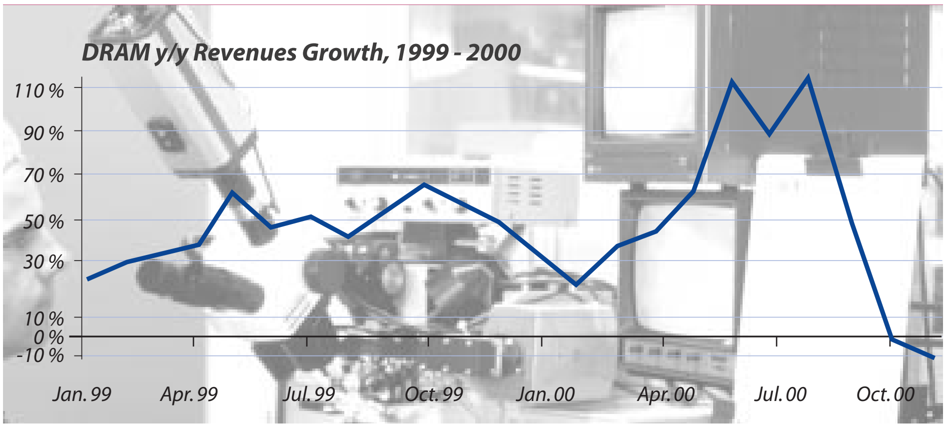
ELMOS Semiconductor AG develops, produces and markets Application Specific Integrated Circuits (ASICs) for the automobile industry. Approx. 85% of sales fell into this market segment in the year 2000.

Over the past 16 years ELMOS has acquired a leading market position on the European market for automobile electronics. ELMOS integrated circuits are thus used by nearly all European vehicle manufacturers.



ELMOS Semiconductor AG





Constant growing demands, not only in the reduction of fuel consumption and improved environmental compatibility of a vehicle, but also for the safety and comfort of the vehicle passengers lead to ever more electronic systems in the car. ASICs produced by ELMOS are ideally suited for building up such systems in a compact, reliable and reasonable way and for this reason ELMOS is growing stronger than the general market for automobile electronics.

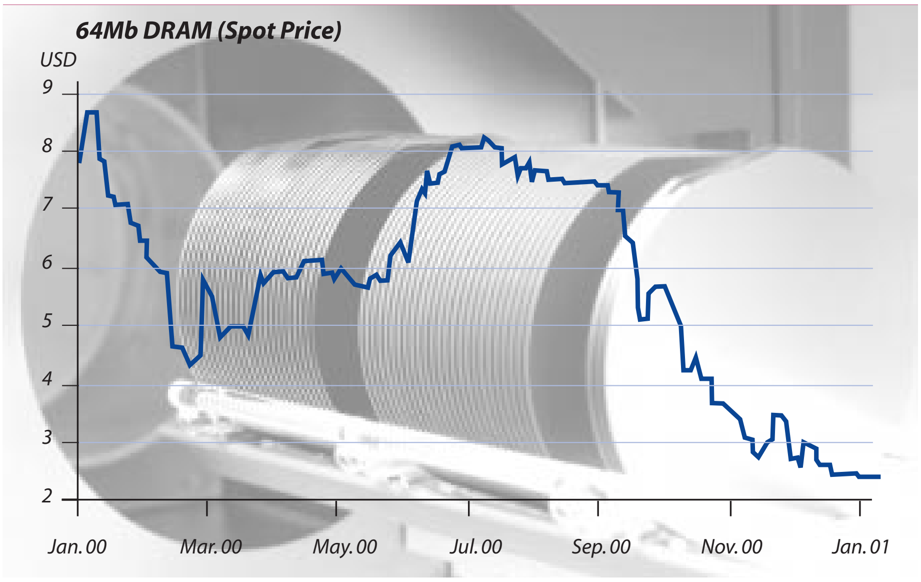
Global market situation

The fiscal year 2000 was marked by strong economic fluctuations in the semiconductor area. Rising market demand starting in the 4th quarter 1999 developed into a boom during the first half of 2000. However, this cooled down clearly during the second half in a manner not seen since 1996.

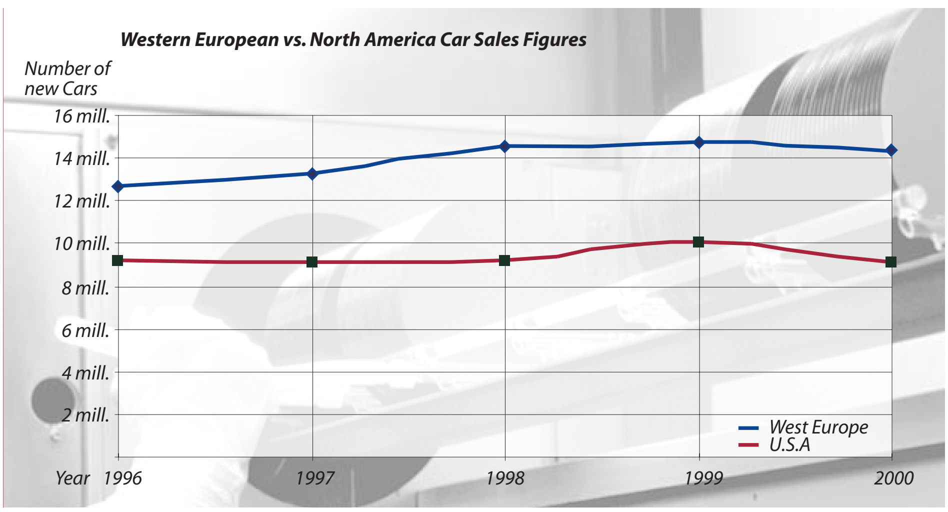
The weakening personal computer market was the principal cause of this market downturn as incoming orders 12/2000 actually fell by 24% in comparison to the previous year. Microcontrollers and memories (DRAM) exhibited disappointing trends with regard to growth as well as to selling prices.

ELMOS was able to overcome the negative developments in the semiconductor market by focusing on the automotive market segment.

After years of continuous growth, the demand for automobiles began to decline in 2000 in both Europe and North America. Compared to 1999 Western Europe experienced a 2.2% drop in new licensing of motor vehicles, while North America experienced a 6.5% decline.



If one analyzes the demand more closely, it becomes clear that the low and medium-price range market segment (GM, Ford, and others) is shrinking, whereas on the other hand the more high-quality vehicle manufacturers (BMW, Daimler Chrysler, and others) are actually recording growing numbers. High quality vehicles, characterized by high electronic content, represent ELMOS' core market for sales.



Effects on the ELMOS group

Unaffected by market cycles, ELMOS continues to develop stable sales growth and recorded its best year ever in 2000. This convincingly shows that our strategy of developing and producing customized products with first class design expertise and optimized process technologies is working.

With a growth in sales of 22% to 207 million DM in 2000, ELMOS continues to exceed the growth of the overall automobile semiconductor market. Income bevor taxes have increased to almost 28% , representing one of the highest margins in the semiconductor business.

The success of our core business is directly connected to the automobile industry's demand for ASICs. Due to the increase in electronic equipment such as airbag systems, electronic chassis stabilization (ESP), convenience functions etc., the increase in the number of ASICs sold is more a function of the increase in electronic content than the volume of cars produced. At the same time it is to be observed that the automobile industry is offering high quality equipment at a package price at a time of weak sales so that the number of the ASICs sold does not necessarily drop even when automobile production is stagnating or retreating. As a result the demand for ASICs is relatively robust and is only conditionally subjected to the fluctuations of the vehicle production. According to a Dataquest forecast, semiconductor demand in the automobile electronics market will continue to rise approx. 13% per annum.

Closer analysis of the global semiconductor market shows that only 6% of the chips produced are used in automobile electronics. This makes the automobile electronics market segment less interesting for major, globally active, semiconductor manufacturers. At the same time and according to Dataquest, 6% of the entire semiconductor market will equate to approximately 20 billion US$ in the year 2004. This represents a giant growth opportunity for ELMOS. Considering the fact that ELMOS technology can serve about 1/3 of this market, the addressable global market for ELMOS will amount to around 7 billion US$ in the year 2004.

Europe is the dominant market for automobile electronics and ELMOS is well placed in the midst of the innovation centers of the vehicle manufacturers. At the same time ELMOS is becoming more and more international; the sales in Europe outside of Germany exceeded the domestic German sales for the first time in the year 2000. The most important growth market of the future is North America, where ELMOS was able to successfully develop itself further in the past year.

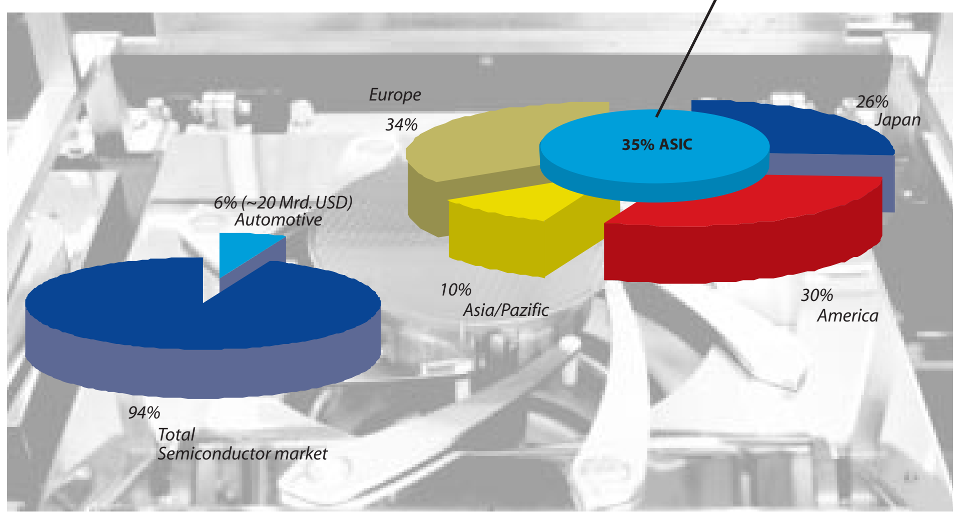
Markets

Not only was ELMOS unaffected by the economic turbulence of 2000, it was able to take advantage of certain developments. The success factor of the ELMOS strategy - excellent design expertise in the mixed signal area combined with an outstanding process technology in the niche market of customized applications - ensured increasing sales and profit and formed a solid financial basis from which new markets could be approached. Continuous expansion investments in the 6 inch (150mm) wafer production line which is carrying the production since 1999, gave ELMOS ample production capacity in 2000, and attracted customers who struggled with supplier delivery problems due to tight semiconductor capacity.

Automobile electronics

The automobile electronics market will also remain ELMOS' core market in the future. The appointment of Dr. Peter Thoma to the management board of the company emphasizes this clearly. As manager of BMW AG's car body electronics section, he guided ELMOS in the development of key automotive ASICs and the ELMOS high-voltage process technology from 1987 through 1989. These ASICs still fulfill important functions in every BMW car today. He was the director of the Electric/Electronics department at BMW AG from 1993 through 2000. Dr. Thoma has outstanding know-how in automobile electronics recognized throughout the industry and can provide important impulses for the exploitation of new customers and markets within ELMOS.

ELMOS potential ASIC-Market: US$ 7.3 Billion in 2004



The first appearance made by ELMOS with their own booth at the Convergence 2000 exhibition in Detroit in October resulted in a highly encouraging positive response from suppliers. This result along with the sales contacts made by Dr. Thoma allow the anticipation of a favorable development of our subsidiary in America, ELMOS North America Inc.. It was awarded a major development order by an American airbag system manufacturer during the first six months of the year. The North American market offers the ELMOS group excellent chances for growth, as electronic content in vehicles increases and in applications compatible with its ASIC capabilities ELMOS has frequently working solutions at hand.

Sensors

The order placed in the spring of 2000 for a high speed picture sensor to be used in a future automobile safety system, marks the entry of ELMOS into the integrated sensor market. Intelligent and reasonably priced sensors are demanded by the market, whereby automotive engineering will again set standards with innovative systems for active chassis stabilization, new types of brakes, tire pressure monitoring and engine control units. In the future, ELMOS will increasingly focus on combining CMOS compatible sensors with ELMOS ASICs to achieve required sensor intelligence.

The acquisition of the European specialist for chip assembly, EURASEM B.V., Nijmegen, Netherlands, completed during the first days of the year 2001, is compatible with our sensor strategy. EURASEM has patented know-how in the field of sensor assembly and this will help us to better serve the sensor market. In addition, EURASEM offers a range of reasonably priced standard packages that will add flexibility to ELMOS and reduce our dependence on assemblers in the Far East.

In this way ELMOS will follow the strategy of penetrating new related markets utilizing the special knowledge gained from the automobile area. The gathered know-how of development and production of high-voltage and mixed-signal ASICs can thus be applied to the development of circuits required in the sensor market.

Telecommunications

The most important step for ELMOS during the expired fiscal year was the entrance into the market for mobile telecommunication equipment. The development order for a customized integrated controller for the LCD (liquid crystal display) of a mobile telephone was placed by a renowned French manufacturer in the middle of the year.

The well known experience of the ELMOS design engineers in the field of mixed-signal circuits as well as the required operating voltage of 15 volts, that cannot be achieved by the usual CMOS process technologies, were the decisive factors for placing the order. Well positioned with the development of the new process technology generation with structures in the sub-micrometer area completed in 1999, ELMOS also has a suitable production process technology that meets the requirements regarding packing density and chip size, thus also fulfilling the customer's price targets.

The new generation of process technologies provides minimum line widths of 0.8 µm (1µm = 1 micrometer = 1/1000 millimeters), that can be shrunk to 0.5 µm , as well as up to 4 levels of metallization. It is suitable to produce complex digital circuits at commercially optimal chip sizes. An essential characteristic of this technology generation is the full compatibility of the high-voltage and mixed-signal features with the ELMOS process technologies that have been proven millions of times.

The entrance into the telecommunication market with this LCD-driver ASIC does not mean entry into unknown territory for ELMOS, it rather builds on proven high-voltage technologies and design know-how. The essential distinction and the meaning of this step on the other hand is to be found in the difference of the market.

Whilst development periods of 2 to 3 years and product life cycles of 5 to 10 years are a norm in the automobile electronics business, the market for telecommunication products is far more short-lived. The expected product development times are about 9 months and the expected product life cycles will only amount to about 2 years. It was therefore a challenge for ELMOS' development engineers to take up these demands and prove that they can also be successful with such products. The fully functional prototypes of the LCD-driver ASIC that were presented before the end of the year prove that this target was safely achieved.

The dynamics of the market for mobile telecommunication are shown in the short product life-span and especially in the high annual volume. Market researchers are assuming an overall number of around 500 million mobile hand sets for the year 2001. An extremely modest market share in this dynamic segment will already lead to significant contributions to sales for ELMOS. We therefore expect that a visible contribution to sales can already be achieved in the year 2001 from the telecommunication sector.

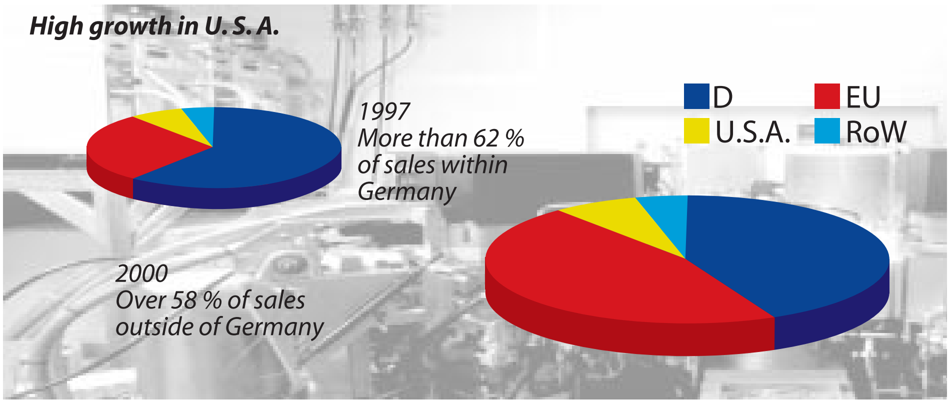
Synergies

The additional loading of the ELMOS wafer production line by means of sensor and telecommunication products will lead to positive effects for the productivity and thus to even more improved profitability.

The short-lived market for telecommunication equipment can particularly serve us as a technology driver for the route into the world of line widths of 0.5 µm and less. New process technologies can now be adopted in volume production considerably faster than has been possible so far. On the other hand, our business development in the area of automobile electronics is influenced positively by this, as mature new technologies in the telecommunication market find faster access to automobile products and will offer us competitive advantages. All in all the mixture of short-lived technology driving applications and the long-lived automobile products guarantee ELMOS a dynamic growth along with exceptional continuity and predictability of sales and profit.

Incoming orders / Development of sales

Incoming orders in the year 2000 amounted to 215 million DM and with this exceeded the incoming orders of the previous year by 26%. On an annual basis the book-to-bill ratio rose in comparison with the previous year from 1.07 to the favorable value of 1.15. The customers' attitude with regard to orders was very divergent throughout the year. The concern regarding safe delivery led to a strong increase in incoming orders in the first half-year and a reverse swing to normal conditions was not recognized until the second half-year. The incoming orders referred in the greatest degree to series consignments and only to a small extent to development work and other services.



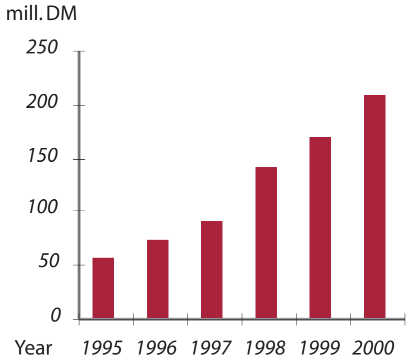
All completed development projects were successfully adopted in series production in the year 2000.

During 2000 ELMOS was able to surpass with a sales of 207 million DM the annual budget amounting to 196 million DM as well as the forecast that had been increased in the summer to 204 million DM. This is the more so remarkable, because the suppliers of the automobile manufacturers also attempted to reduce their security inventory by postponing orders.

ELMOS sales has been growing on average by more than 30% per annum between 1995 and 2000 and with this clearly surpasses the general market growth of 13%.

The total consolidated sales of the year 2000 amounting to 207 million DM reflects the trend toward increased internationalization of our activities in its regional distribution. For the first time, the sales achieved in the European countries outside of Germany surpassed the domestic German sales. The USA showed the greatest growth in sales during the first half-year 2000, but this was not kept up in the second half-year, as reliability problems concerning tires led to interruptions in the production of a car at an important end customers' factory.

Sales development



Development of costs

The costs developed according to plan in the expired fiscal year:

The production costs dropped further thanks to improved productivity, so that the gross margin rose to the remarkable value of almost 52%. Negative influences of the continuous high exchange rate of the US Dollar that had made the orders for assembly services placed in the Far East more expensive were to cope with. Through the acquisition of Eurasem, who is able to offer assembly services at competitive costs in Europe, ELMOS will become less dependent on partners in the Far East.

The major share of sales is invoiced in Euro, only a relatively small share amounting to less than 1% is invoiced in US$. In addition to assembly services, there is a dependency on the exchange rate of the Euro to the US$ on the purchase of equipment.

The sales had increased by over 22% did not lead to essential changes in staff costs in the areas of production. On the contrary it was possible to increase productivity and improve the sequences of operations. The staff costs have risen clearly however in the areas of development, and this contributed towards an increase in the expenditure for research and development (R&D) from 17 million DM to 26 million DM. With this they rose to 13% of sales and reflect ELMOS' efforts to clearly accelerate the introduction of new technologies.

Other operational expenditure developed slightly under-proportionately to sales. Thanks to the high equity ratio as a result of the liquidity received from going public, the interest paid played a minor role only.

Investments

The production facilities in the Dortmund factory were also continuously expanded in the year 2000 in order to serve the growing demand and technological requirements of the future process generations. The investments amounted to a total of 46 million DM and were thus around 21 million DM above plan. Above all, this is due to the order received for the telecommunication market that already demands production capacities for additional volume of several millions of units in the year 2001. It was possible to finance the investments to a great extent using the depreciation of the year 2000 amounting to about 20 million DM.

ELMOS current production capacity is adequate for the planned growth of the fiscal year 2001 that has just commenced and also for the year 2002. However, a clear expansion of production capacities will be necessary as from the year 2003 in order to enable the planned continued growth. Depending on the market situation it is planned by then to create an additional line for 8 inch (200mm) wafers in addition to the available production line for wafers with a diameter of 6 inches (150mm).

Income

The income before taxes could be increased in comparison with the previous year by 23 million DM to 57 million DM. This is equivalent to an increase of 68%. After eliminating the DM 6.4 million effect related to 1999s issurance of bonus shares to the employees, operating income increased from DM 34 million in 1999 to DM 57 million in 2000. Althought these shares were contributed by the company's majority shareholder, the effect related to the DM 6.4 million was recorded as expense in accordance with US-GAAP.

The consolidated annual net profit 2000 amounts to 32.2 million DM in contrast to 18.8 million DM in the previous year, and could thus be increased by 72%. On the other hand, it is intended to carry out a tax optimization following the "pay out/take back" procedure. As a result the company utilizes the corporation tax rate for distributed profits that is considerably lower than the tax rate for retained profits.

The management board therefore suggests to pay out a dividend amounting to DM 1.78 (= Euro 0.91) per share.

Outlook

ELMOS will continue its successful strategy of focussing on customized mixed-signal applications. In doing so the automobile electronics will continue to be ELMOS' core business, however supplemented by products from the telecommunication and sensor markets which are new for us. The acquisition of EURASEM B.V. opens up a host of new applications especially in these fields. Apart from this the encouraging initial successes in the North American market give reason for looking towards the fiscal year 2001 with optimism.

Dortmund, in February 2001

The Management board

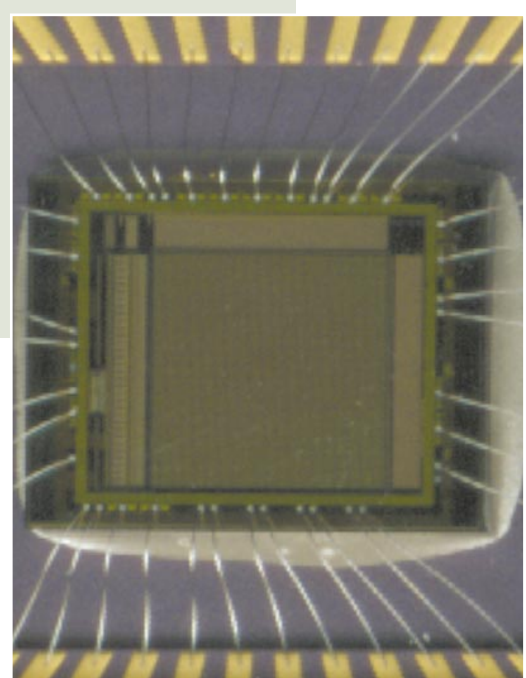
4 Worldwide Competence

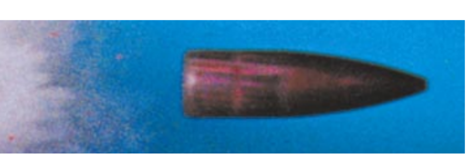
"Liberty means responsibility; this is the reason why most people fear it "

George Bernhard Shaw

Development of the markets

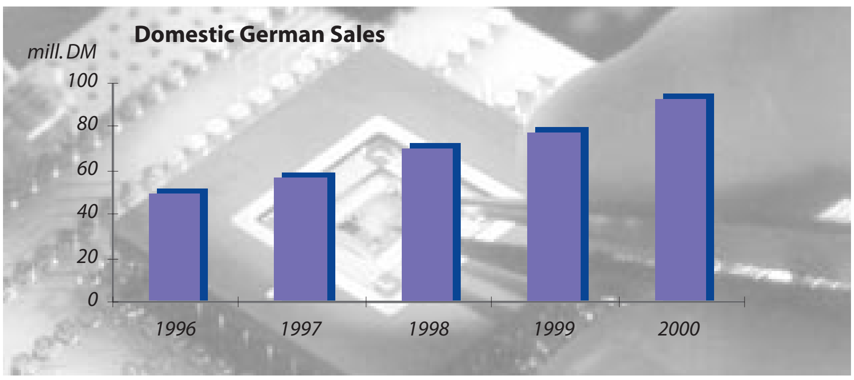
After foundation of the ELMOS Elektronik in MOS-Technologie GmbH in 1984 the company has walked through a remarkable development. On a first glance Dortmund, marked by the coal and steel industry, seemed not to be ideal for a high-tech enterprise, but then very fast numerous advantages emerged. Being near to the university, having a close co-operation with the Fraunhofer Institute in Duisburg and a helpful funding support coming from the structural change in the region have contributed to the development fundamentally.





ELMOS Semiconductor AG

Decisive for ELMOS and its strategic alignment with automotive applications was the participation of BMW (1987-1998). ELMOS knew how to fulfill the requirements of the high demands of the automotive business by using a specific developed high-voltage CMOS process technology. Robustness of devices and process simplicity combined with high-quality led to differentiating advantages for custom-designed circuits.

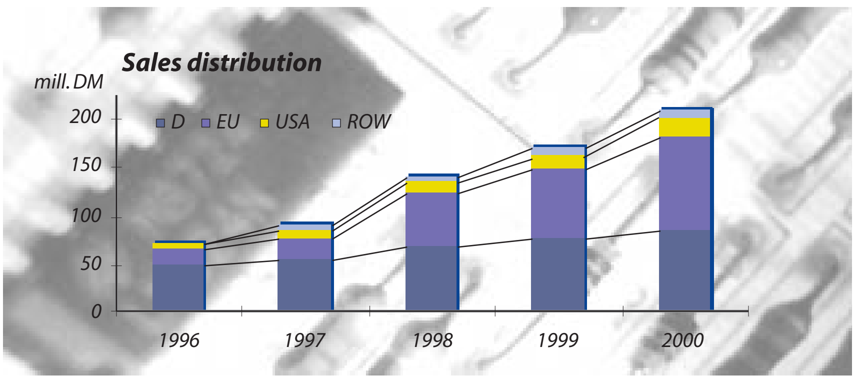


The proximity to a whole number of automotive OEM companies, such as Hella, Kostal, VDO, Helbako, Delphi and others in North Rhine Westphalia ended up as a large benefit for the support intensive development business. This is underlined by findings of the Framework Automobile of North Rhine Westphalia (1999): The automobile manufacturers and the automobile suppliers form one of the most essential economic groups with about 800 suppliers and approximately 200,000 employees in NRW.

The business developed at breakneck speed within the following years, starting as a regionally oriented supplier, and ending up as a well known representative of the German semiconductor industry. First European automotive OEM companies became aware of the solution method "System integration made by ELMOS". The first contacts with the French companies Valeo and Sagem as a customer in the year 1994 were so promising, that at the end of 1996 the subsidiary ELMOS France S.A., was founded.

The strategy succeeded: A short time later good results were achieved by offering optimal engineering support for the French customers and local interaction with the customers without language and cultural barriers. Thanks to focusing on key customers, the sales increased above to all expectations since the middle of 90's. The average sales volume of the European market without Germany grew at more than 60% between 1996 and 2000 and therefore clearly exceeded the German domestic growth. For the first time, the sales within the European non-German countries altogether surpassed for the sales in Germany in the year 2000.

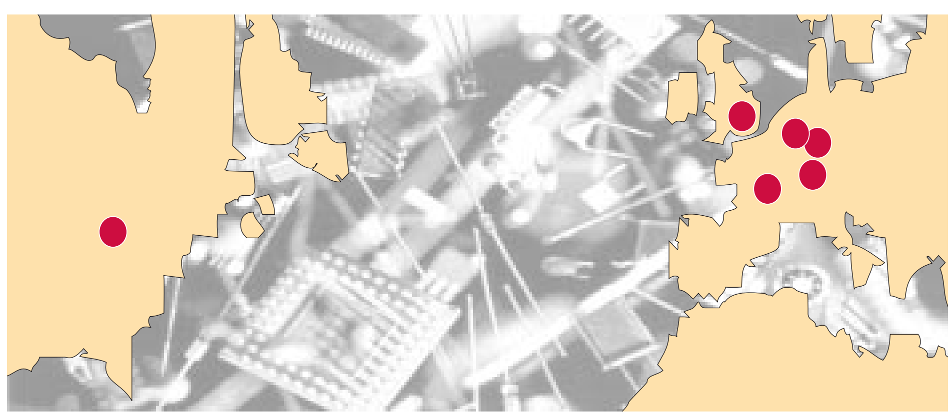
Based on this background it is understandable that ELMOS took up the next challenge in penetrating the US market. With the foundation of ELMOS North America Inc., located next to Detroit, an additional milestone was achieved for a world-wide expansion in 1998. Using the proven strategy again, the automotive system suppliers of North America were able to get individual care and access to the advantages of the design and system competence of ELMOS, too. As an essential prerequisite for America success, ELMOS attained QS 9000 certification in 1999 as one of the first semiconductor manufacturers in Germany. Since then the American market for automotive semiconductor chips has been a growing market with a promising future for ELMOS. An average sales volume growth rate of over 25% through the years 1996 to 2000 has been realized. With the granting of new development orders in the safety electronics area, a breakthrough was made in the year 2000 resulting in a new base for further of sales in U. S. A. within the coming years.



As a result, export sales exceeded the German domestic sales volume quota with 58% of ELMOS' sales in the year 2000. Looking back, the original start-up on the green meadow has become a world-wide operating ELMOS group, which in the meantime represents a fixed size in the market.

Although, up to now, the success of ELMOS has been correlated strongly with the automotive business, the company managed to enter the telecommunications area with a first order. This guides ELMOS into the competition race with leading techno-logies and fast product cycles. But a second business sector, technically demanding and with high volume, will represent itself as ideal addition for the future development of the company.

ELMOS Worldwide




GSM/9,6 Kbps
HSCSD/38,4 Kbps
ISDN/64,0 Kbps
Edge (G3)/384,0 Kbps
GRPS/115,0

5 Financial Statements

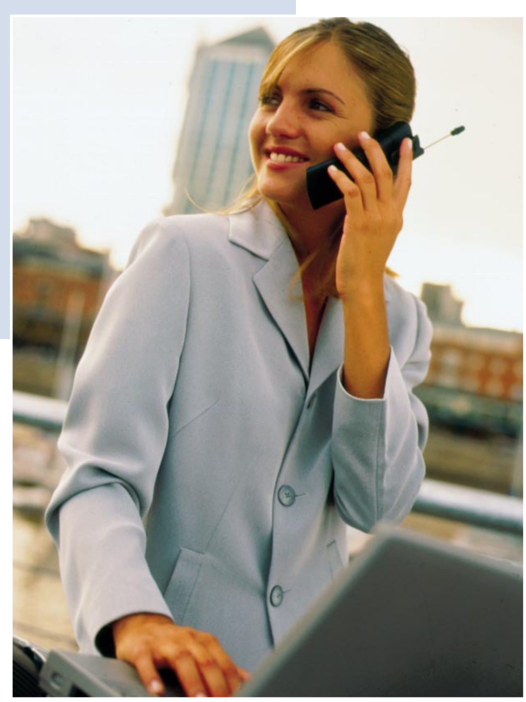
"Lethargy is mankind's great enemy not misunderstanding."

Henry Thomas Buckle

ELMOS Semiconductor AG, Dortmund
Notes to the Financial Statements as of and for the Year Ended December 31, 2000

General

The accompanying financial statements were prepared in accordance with Section 242 and subsequent sections as well as section 264 and subsequent sections of the German Commercial Code ("HGB"). They comply with the relevant provisions outlined in the Stock Corporation Law ("AktG"). The Company is subject to the requirements for large companies.
Classifications remain unchanged from the prior year. The statement of income was prepared in accordance with the total-cost method.



ELMOS Semiconductor AG

ASSETS

	12/31/2000	12/31/1999
	DM	**TDM***
A. FIXED ASSETS		** TDM: DM 000's*
I. Intangible Assets		
Software	1,984,412.99	1,461
II. Propety, Plant and Equipment		
1. Land and buildings	8,640,516.87	7,836
2. Technical equipment, plant and machiners	41,822,820.12	39,724
3. Others equipment, furnitures and fixtures	7,446,905.02	4,237
4. Advance paymants and construction in progress	29,879,461.55	10,235
	87,789,703.56	***62,032***
III. Investments and Loans		
1. Investments in affiliated companies	655,603.35	656
2. Loans to affiliated companies	195,583.00	0
3. Investments	811,366.00	121
	1,662,552.35	*777*
	91,436,668.90	***64,270***
B. CURRENT ASSETS		
I. Invetories		
1. Raw materials and supplies	10,275,004.83	7,988
2. Work in progress	18,436,933.19	14,102
3. Finished goods and merchandise	10,606,948.54	2,601
	39,318,886.56	***24,691***
II. Receivables and Other Assets		
1. Trade accounts and receivable	23,167,657.85	27,773
2. Receivables due from affiliated companies	7,281,264.37	12,256
3. Receivables due from investees	1,257,310.02	0
4. Other assets	10,488,263.83	27,279
	42,194,496.07	***67,308***
III. Securities		
1. Treasury stock	573,324.96	0
2. Other securities	0.00	28,638
	573,324.96	***28,638***
IV. Cash on Hand, Cash in Banks	142,506,837.11	83,778
	224,593,544.70	***204,415***
C. PREPAID EXPENSES AND DEFERRED CHARGES	279,395.11	174
	316,309,608.71	***268,859***

LIABILITIES AND SHAREHOLDER'S EQUITY

	12/31/2000	***31.12.1998***
	DM	***TDM***
A. SHAREHOLDER'S EQUITY		
I. Share Capital	37,747,519.00	37,748
II. Additional Paid-In Capital	164,289,720.00	164,290
III. Appropriated Retained Earnings		
1. Reserve for treasury stock	573,324.96	0
2. Other appropriated retained earnings	199,932.06	58
IV. Retained Earnings	34,354,000.00	17,370
	237,164,496.02	***219,466***
B. ACCRUED LIABILITIES		
1. Accrued pensions	1,911,923.00	1,750
2. Accrued taxes	17,495,083.10	631
3. Other accrued liabilities	12,395,505.43	17,796
	31,802,511.53	***20,177***
C. LIABILITIES		
1. Liabilities due to banks	14,169,821.03	8,850
2. Pre-payments received for orders	2,482,339.99	498
3. Trade accounts payable	12,193,946.62	17,581
4. Liabilities due to affiliated companies	16,293,882.85	181
5. Liabilities due to investees	0.00	249
6. Other liabilities	2,202,610.67	1,857
	47,342,601.16	***29,216***
	316,309,608.71	***268,859***

Statement of Income

		2000 DM	1999 TDM
1.	Sales	187,803,080.69	161,608
2.	Increase in finished goods and work in progress	10,534,658.41	2,550
3.	Other own costs capitalized	1,616,080.00	1,965
		199,953,819.10	**166,123**
4.	Other operating income	15,855,734.80	17,810
5.	Cost of materials		
	a) Cost of raw materials, supplies and purchased goods	-21,532,367.29	-19,092
	b) Cost of purchased services	-37,537,666.91	-26,511
6.	Personnel expenses		
	a) Wages and salaries	-39,366,540.36	-39,610
	b) Social security, pension and other benefit costs	-6,814,797.49	-7,670
7.	Amortization and deprecation of intangible assets and property, plant and equipment	-19,931,604.30	-19,154
8.	Other operating expenses	-36,635,788.60	-37,557
		-145,963,030.15	**-131,784**
		53,990,788.95	34,339
9.	Income from investments thereof from affiliated companies DM 755.846,66 (prior year TDM 570)	755,846.66	570
10.	Other interest and related income thereof from affiliated companies DM 35.269,14 (prior year TDM 15)	6,146,785.07	1,212
11.	Interest and related expenses thereof from affiliated companies DM 0,00 (prior year TDM 0)	-324,830.64	-1,839
12.	Write down of investments, loans and marketable securities	0.00	-474
		6,577,801.09	**-531**
13.	Income before taxes and extraordinary items	60,568,590.04	33,808
14.	Extraordinary loss	0.00	-11,196
15.	Income taxes	-25,186,939.02	-5,088
16.	Other taxes	-312,566.62	-176
		-25,499,505.64	**-5,264**
17.	Net income	35,069,084.40	17,348
18.	Accumulated retained earnings, beginning of the year	0.00	80
19.	Transfers to appropriated retained earnings		
	a) to reserve for treasury stock	-573,324.96	0
	b) to other approprited retained earnings	-141,759.44	-58
20.	**Retained earnings**	**34,354,000.00**	**17,370**

Accounting and Valuation Methods

The following accounting and valuation methods, which were applied on a basis consistent with prior years, were used for preparing the financial statements.

Acquired intangible assets are capitalized at acquisition cost and amortized over their useful lives (three years, straight-line method).

Property, plant and equipment are stated at acquisition or production cost and, if the have a limited life, are reduced by ordinary depreciation over their useful lives. Tangible assets are reduced by ordinary depreciation over their expected useful lives on the basis of the maximum allowable tax depreciation rates. To the extent permissible under the tax law, the declining-balance method is used for moveable assets. Other assets are depreciated on the basis of the straight-line method. Low-value assets of a value up to DM 800.00 are fully depreciated and assumed to be disposed of in the year of acquisition.

Depreciation of additions to tangible assets is generally recognized straight-line starting in the month of acquisition. For movable assets, the simplification rule as defined in Income Tax Guideline 44 Paragraph 2 (EStR) is used.

Disposals are stated at their net book values on the date of their disposal.

Regional subsidies (2000: TDM 2,000) are netted against additions to fixed assets Under investments and loans equity interests and investments in affiliated companies are recorded at acquisition cost or the lower estimated fair market value.

Under inventories, quantities of raw materials and supplies are capitalized at purchase cost subject to the lower of cost or market principle.

Finished goods and work in process are valued at production cost. In addition to direct cost of materials, direct labor and other identifiable direct costs, production cost includes production and material overheads at the maximum tax-allowable rates.

All known inventory valuation risks resulting from longer than average storage periods, reduced usability or lower replacement costs are provided for through adequate allowances.

Receivables and other assets are stated at their nominal value. All foreseeable valuation risks are provided for via adequate specific allowances. General credit risk is provided for through a general allowance. Foreign-currency receivables are capitalized at the buying rate as of the transaction date or the lower rate as of the balance sheet date.

In accordance with Section 253 Paragraph 3 HGB, securities were stated at the lower fair market values.

Bank balances in foreign currencies were stated at the buying rate as of the balance sheet date.

Accrued pensions and early retirement obligations are disclosed at the maximum tax-allowable amounts. The present discounted values were determined on the basis of actuarial principles in accordance with Section 6a of the Income Tax Law ("EstG") and, applying the 1998 mortality schedules, are based on an interest rate of 6 %.

Other accrued liabilities take into account all contingent liabilities.
Liabilities are recorded at their repayment value. Foreign-currency liabilities are recorded at the selling rate as of the transaction date or the higher rate as of the balance sheet date.
Subsidies received in connection with development activities are disclosed under pre-payments received for orders.

Notes to the Balance Sheet

All amounts in the tables are in DM thousands (TDM).

Fixed Assets

The roll-forward of the individual fixed asset positions including current year amortization and depreciation is disclosed as appendix 3/11.

Investments and Loans

A breakdown of investments is presented in the following overview:

Analysis of Investments

	Currend	Equity in TDM/LW	Investment %	Results in TDM/LW
				** preliminary*
Domestic				
GED Gärtner Elektronic Design GmbH, Frankfurt/Oder	*DM*	*361*	*49.00*	*47**
Exedra Grundstücksver-waltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	*DM*	*55*	*100.00*	*5*
Gesellschaft für Halbleiterprüftechnik mbH, Dortmund	*DM*	*-82*	*100.00*	****
Foreign				
ELMOS N.A. INC., Oak Forest (U.S.A.)	*US $*	*283*	*75.00*	*105*
ELMOS France S.A., Nanterre (F)	*FF*	*4,482*	*74.97*	*5,491*
ELMOS Services B.V., Venlo (NL)	*NLG*	*100*	*100.00*	****

Equity refers to the shareholder's equity disclosed in the balance sheets of the financial statements available as of the signature date of the report.

Receivables and Other Assets

With the exception of an amount of TDM 766 (prior year TDM 739), all receivables and other assets have a remaining term of up to one year.

Other assets include capitalized receivables due in connection with development costs of TDM 1,292 (prior year TDM 2,404) for which the Company will be reimbursed.

Shareholders' Equity

The share capital of 19,300,000 Euro (37,748.00 TDM) disclosed in the balance sheet as of December 31, 2000 consists of 19,300,000 no par value shares of common stock made out to the owner. As will be explained in the following, this disclosure in the balance sheet as of December 31, 2000 does not agree with the amount submitted for filing in the trade register (19,500,000.00 Euro).

The management board was authorized, with the consent of the supervisory board, to increase the Company's share capital by a total of up to 3,000,000.00 Euro by issuing new no par value shares once or several times against contributions in cash or kind (so-called Authorized Capital II).

Pursuant to a resolution of the general shareholders' meeting on May 25, 2000, the management board was additionally authorized, with the consent of the supervisory board, to increase the share capital by up to (an additional) 6.675.000.00 Euro by issuing new bearer shares once or several times against contributions in cash or kind (so-called Authorized Capital I).

In the meantime, the resolutions passed by the general shareholders' meeting on May 25, 2000 in connection with the Authorized Capital have become increasingly doubtful as to their conformity with the applicable stock corporation law. According to the lawyers we consulted, the shareholders did not revoke the Authorized Capital II at the general shareholders' meeting on May 25, 2000. As a result, the total amount of Authorized Capital of 9,675,000.00 Euro (Authorized Capital I and II) newly created by the shareholders on May 25, 2000 exceeded 50% of the Company's total share capital at that time (19,300,000.00 Euro) and therefore violates the provisions outlined in Section 202 Paragraph 3 of the German Stock Corporation Law ("AktG"). According to the pertinent literature and the lawyers we engaged to review this matter a violation of Section 202 Paragraph 3 AktG invalidates the underlying resolutions in accordance with Section 241 No. 3 AktG. The fact that the Authorized Capital I and II were entered into the trade register does not remedy this situation.

On June 8, 2000, the management board, with the consent of the supervisory board given on June 14, 2000, resolved to increase the share capital by 200,000.00 Euro to 19,500,000.00 Euro based on the authorization by the general shareholders' meeting, and subsequently amended the articles of association to authorize the management board, with the consent of the supervisory board, to increase the share capital until May 24, 2005 by a total of up to 6,475,000.00 Euro by issuing new bearer shares once or several times against contributions in cash or kind (entered into the trade register on July 24, 2000). The management board, with the consent of the supervisory board, is, however, also authorized to exclude the pre-emptive rights of shareholders for up to 10% of the share capital or 1,730,000.00 Euro for the above reasons in accordance with Section 186 Paragraph 3 Sentence 4 AktG.

In line with our doubts in connection with the Authorized Capital as such, it is question-able whether the capital increase of 200,000.00 Euro based on the newly created Authorized Capital is in agreement with the existing German stock corporation law. If the Authorized Capital is invalid, the capital increase based on the Authorized Capital I will also be invalid. In accordance with Section 305 of the German Civil Code ("BGB"), shares issued in spite of the invalidity of the Authorized Capital and the underlying subscription contracts are invalid. Based on the pertinent literature, we believe that, as a result of this situation, these shares do not entitle the shareholder to voting or dividend rights.

As a result, the contribution by the majority shareholder (200,000.00 Euro) including the premium totaling 10,550,000.00 Euro was not disclosed under shareholders' equity as of December 31, 2000 but recorded as a repayment obligation under "liabilities due to affiliated companies". The disclosure of contribution made by the majority share-holder in the balance sheet therefore differs from the amount filed in the trade register.

In addition, the lawyer believe that there is a discrepancy between the still existing Authorized Capital II of 3,000,000.00 Euro and the Authorized Capital filed in the trade register as the Authorized Capital II was deleted from the trade register although the management board had not requested the deletion.

It is planned to explicitly declare invalid all resolutions passed in connection with the Authorized Capital in the year ended December 31, 2000 at the general shareholders' meeting on April 6, 2001 and to replace them with new resolutions.

Based on the authorization of the general shareholders' meeting as of May 25, 2000, the Company purchased 13,700 of its own shares at an average trading price of 6 21,40.

The Company recorded a reserve for treasury stock of 573 TDM.

In addition, the management board resolved to allocate 142 TDM to other appropriated retained earnings.

Accrued Liabilities

Pensions were accrued for members of the management board.
Accrued taxes relate to income taxes.

Other accrued liabilities primarily relate to vacation claims, employee bonus stock, outstanding services and warranties, inventor compensation, costs of litigation, pending litigation as well as to potential patent violations.

Liabilities

The remaining terms of and securities for the Company's liabilities are disclosed in detail in the analysis of liabilities.

Liabilities include liabilities due to shareholders of DM 16,087,111.49.

Analysis of Liabilities in TDM

		Remaining term of			
Type of liabilities	***Total 12/31/2000***	***Up to 1 year***	***1 to 5 years***	***More than 5 years***	***Total 12/31/1999***
1. Liabilities due to banks	*14,170*	*3,210*	*10,960*	*0*	*8,850*
2. Pre-paymants received for orders	*2,482*	*2,482*	*0*	*0*	*498*
3. Trade accounts payable	*12,194*	*12,194*	*0*	*0*	*17,581*
4. Liabilities due to affiliated companies	*16,294*	*16,294*	*0*	*0*	*181*
5. Liabilities due to investees	*0*	*0*	*0*	*0*	*249*
6. Other liabilities	*2,203*	*2,203*	*0*	*0*	*1,857*
(prior years)	*(1,857)*	*(1,857)*	*(0)*	*(0)*	
- thereof related to taxes	*1,084*	*1,084*	*0*	*0*	
(prior years)	*(726)*	*(726)*	*(0)*	*(0)*	
- thereof related to social security	*1,011*	*1,011*	*0*	*0*	
(prior years)	*(897)*	*(897)*	(0)	(0)	

The loans are secured by various acquired machinery and equipment. Except for the longer retention of title customary in the Company's line of business, trade accounts payable are generally not secured, nor are other liabilities.

Contingent Liabilities and Other Financial Commitments

Contingent Liabilities

In connection with the cooperation agreement dated November 13, 1997 on the MWMTV-NRW joint project "Aufbau und Betrieb eines Zentrums für Aufbau- und Verbindungstechnik Dortmund (AVT-Zentrum Dortmund), the Company issued a letter of guarantee over DM 407,268.00 to the Interessengemeinschaft zur Verbreitung von Anwendungen der Mikrostrukturtechniken NRW e.V. (IVAM).

In addition, the Company has assumed, since April 1, 1998, a guarantee against loss of rent between approximately US $ 35,000 (DM 73,500.00) and US $ 40,000 (DM 84,000.00) p.a. for five years on behalf of ELMOS N.A. Inc.

Rental and Leasing Contracts

The Company has entered into leasing contracts for premises (operational and administrative). The underlying contracts expire between 2006 and 2020. Future minimum lease payments under non-cancelable contracts consisted of the following as of December 31, 2000:

	TDM
2001	5,902
2002	5,902
2003	5,902
Thereafter	70,609

The Company additionally has leasing contracts in connection with its car pool and office equipment as is customary in the line of business.

Purchase commitments under investment orders amount to TDM 24,709.

Notes to the Statement of Income

Sales

According to divisions:	***2000***	***1999***
	TDM	***TDM***
Production	181,875	153,550
Development	4,244	3,647
Other	1,684	4,411
Net sales	***187,803***	***161,608***

According to divisions	***2000***	***1999***
	TDM	***TDM***
Domestic	86,677	77,251
Other EU-Countries	77,970	62,792
USA	15,040	12,495
Other	8,116	9,070
Net sales	***187,803***	***161,608***

Other Disclosures

Management Board

Dipl.-Kfm. Knut Siegfried Hinrichs, Glückstadt (Chairman)

Dr. Klaus Weyer, Schwerte

Dr. Peter Thoma, Unterschleißheim, since October 1, 2000

Supervisory Board

Prof. Dr. Günter Zimmer, Duisburg, Institutsleiter (Chairman)

Dr. Burkhard Dreher, Dortmund, Vorstandsmitglied (Vice-Chairman, since May 25, 2000)

Prof. Dr. Axel Kollar, Düsseldorf, Kaufmann (Vice-Chairman, until May 25, 2000)

Prof. Dr. Karsten Klaus Heinrich Ehlers, Wolfsburg, Diplom-Ingenieur, since May 25, 2000

Dave A. Ranhoff, Alamos/USA., Executive Vice President, since May 25, 2000

Herbert Sporea, Kiel, Kaufmann, since May 25, 2000

Dr. Wolfgang Ziebart, Starnberg, Diplom-Ingenieur, since May 25, 2000

Rechtsanwalt Klaus-Christian Penner, München, Rechtsanwalt (until May 25, 2000)

Dr. Wolfgang Heinke, Reutlingen, Diplom-Physiker (substitute, since May 25, 2000)

Prof. Dr. Günter Zimmer is a member of two other supervisory boards, Dr. Burkhard Dreher and Mr. Dave A. Ranhoff are members of three other supervisory boards.

Total Management Board Remuneration

In the year ended December 31, 2000, total management board remuneration amounted to TDM 1,970.

Total Supervisory Board Remuneration

Total supervisory board remuneration amounted to TDM 590.

Total Remuneration of Former Members of the Supervisory Board

Total remuneration for former members of the supervisory board amounted to TDM 13.

Employees

The average number of employees in the year ended December 31, 2000 was:

	2000	***1999***
Hourly empoyees (incl. part time Converted into full time)	172	178
Salaried employees	303	288
	475	***466***
Trainees and appretices	24	15
	499	***481***

Recommendation on the Appropriation of Retained Earnings

The management board recommends to fully distribute the retained earnings of TDM 34,354 to the shareholders.

Group Position

ELMOS Semiconductor AG's majority shareholder is EFH ELMOS Finanzholding GmbH, Dortmund, which is, in accordance with Section § 290 Paragraph 2 No. 2 HGB, required to prepare consolidated financial statements. EFH ELMOS Finanzholding GmbH, Dortmund, has not yet prepared consolidated financial statements as of and for the year ended December 31, 2000.

Dortmund, February 2001

The Management Board

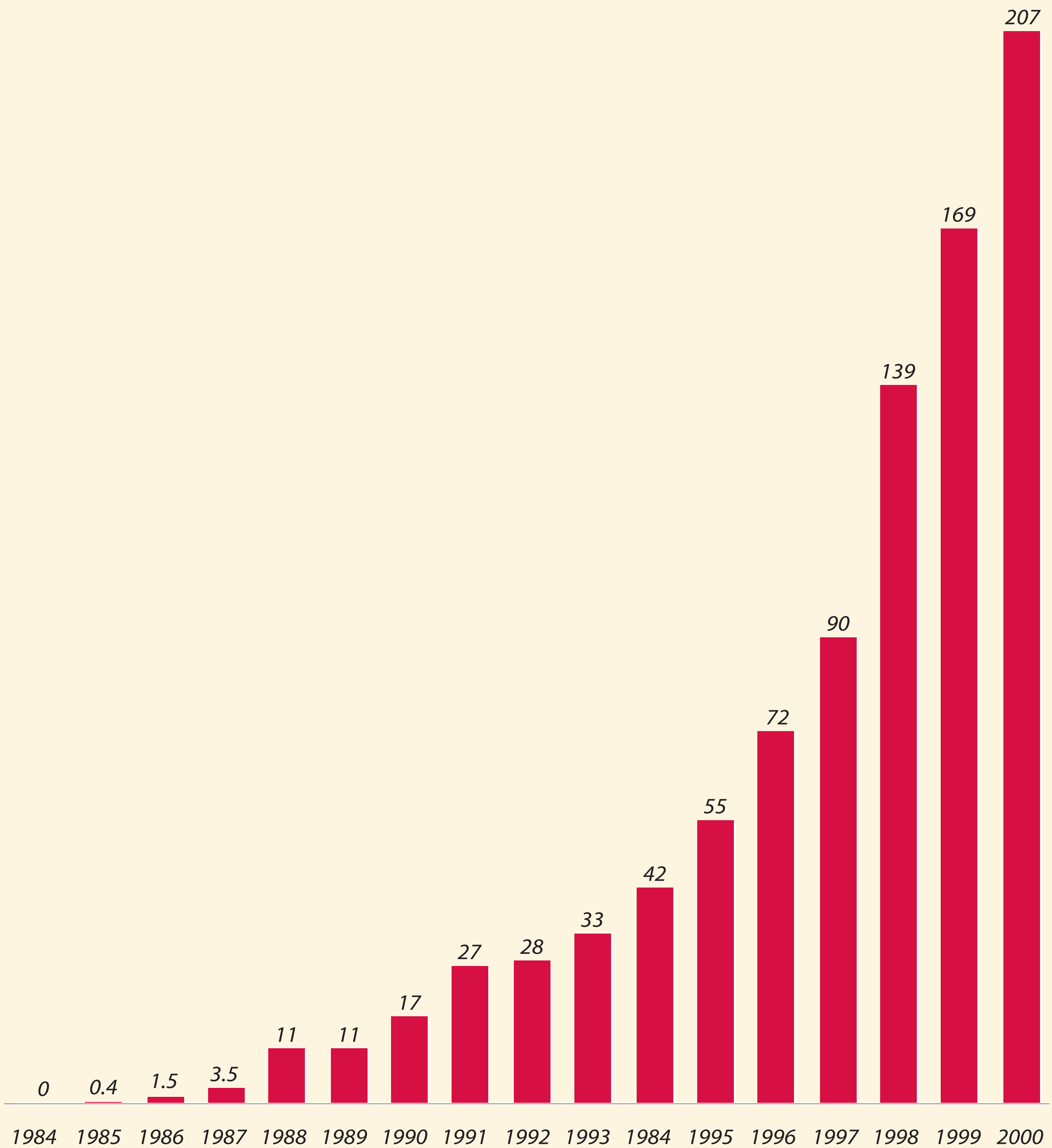
Roll-Forward of Fixed Assets

	Acquisition and Production Cost				
	1/1/2000 DM	***Additions DM***	***Transfers DM***	***Disposals DM***	***12/31/2000 DM***
I. Intangible Assets					
Software	7,183,279.23	994,906.34	470,472.00	0.00	8,648,657.57
II. Property, Plant and Equipment					
1. Land and buildings	14,390,186.07	1,239,160.64	0.00	0.00	15,629,346.71
2. Technical equipment, plant and machinery	118,974,168.11	2,673,092.66	15,777,927.01	219,175.24	137,206,012.54
3. Other equipment, furnitures and fixtures	10,101,183.56	2,515,125.95	3,010,854.38	614,109.24*	15,013,054.65
4. Advance payments and construction in progress	10,235,171.42	38,903,543.52	-19,259,253.39	0.00	29,879,461.55
	153,700,709.16	***45,330,922.77***	***-470,472.00***	***833,284.48***	***197,727,875.45***
III. Investments and Loans					
1. Investments in affiliated companies	655,603.35	0.00	0.00	0.00	655,603.35
2. Loans to affiliated companies	0.00	195,583.00	0.00	0.00	195.583.00
3. Investments	121,366.00	690,000.00	0.00	0.00	811,366.00
	776,969.35	885,583.00	0.00	0.00	1,662,552.35
	161,660,957.74	***47,211,412.11***	***0.00***	***833,284.48***	***208,039,085.37***

* incl. low-value assets of DM 244,067.53

	Accumulated Amortization and Depreciation				Net Book Values	
	1/1/2000 DM	***Additions DM***	***Disposals DM***	***12/31/2000 DM***	***12/31/2000 DM***	***12/31/1999 TDM***
	5,721,925.03	942,319.55	0.00	6,664,244.58	1,984,412.99	1,461
	6,554,505.47	434,324.37	0.00	6,988,829.84	8,640,516.87	7.836
	79,249,967.50	16,350,102.59	216,877.67	95,383,192.42	41,822,820.12	39,724
	5,864,457.60	2,204,857.79	503,165.76*	7,566,149.63	7,446,905.02	4,237
	0.00	0.00	0.00	0.00	29,879,461.55	10,235
	91,668,930.57	***18,989,284.75***	***720,043.43***	***109,938,171.89***	***87,789,703.56***	***62,032***
	0.00	0.00	0.00	0.00	655,603.35	656
	0.00	0.00	0.00	0.00	195,583.00	0
	0.00	0.00	0.00	0.00	811,366.00	121
	0.00	0.00	0.00	0.00	1,662,552.35	777
	97,390,855.60	***19,931,604.30***	***720,043.43***	***116,602,416.47***	***91,436,668.90***	***64,270***

Sales development 1984 – 2000



General Economic Situation

ELMOS Semiconductor AG is engaged in the development, manufacturing and sale of Application Specific Integrated Circuits (ASICs) primarily to the automotive sector which in the year 2000, as in prior years, accounted for approximately 85 % of the Company's production. Over the last 16 years, ELMOS has developed into the leading supplier for the European automotive electronics market. Today, almost every automotive builder in Europe relies on electronic integrated circuits produced by ELMOS.

The growing demand for lower fuel consumption and greater environmental compatibility on the one hand and greater safety and comfort for passengers on the other hand have resulted in modern cars and vehicles containing an ever greater share of electronic systems. ASCIs produced by ELMOS are a highly suitable component for compact, reliable and low-cost systems, enabling ELMOS to take the lead over competitors in the automotive electronics sector.

Business Results for the Year 2000

In spite of cyclical fluctuations, the Company's results have been marked by stable and sustained growth and development, turning 2000 into yet another consecutive record year in the Company's history. Our success proves that our strategy is right which is based on first-class expertise in design, layout and production technologies that are tailored to individual customer needs in the best possible way.

In fiscal year 2000 the semiconductor segment experienced strong cyclical ups and downs. While demand, growing increasingly stronger since autumn 1999, soared to record heights in the first half of 2000, the second half of the year saw demand falling to unexpected lows, not seen since 1996.

The slump in demand originated in the key personal computers market where monthly incoming orders in December 2000 dropped sharply by 24 % against the prior year. While the demand for micro-processors and DRAM-systems was marked by an upward trend, this positive development was eroded by the poor development in prices.

ELMOS, however, successfully escaped this negative development in the semiconductor market, due to its focus on the automotive segment.

After years of continuous growth, 2000 was the first year of disappointing market performance for the automotive industry, as seen in the sale figures for new cars, which declined both in Europe and North America. In Europe, the drop of 2.2 % was less remarkable compared to the North America market, which went down by 6.5 %.

A closer analysis of demand reveals that although the market for small and mid-range cars (GM, Ford and others) was shrinking, the demand for luxury cars (BMW, DaimlerChrysler AG and others) was picking up. Vehicles, that rely strongly on electronics components, represent the key sales market targeted by ELMOS.

In spring 2000, ELMOS AG entered the integrated sensor systems market, obtaining an order for the development of a high-speed visual sensor that will be installed on the next generation of car safety systems. The market is calling for intelligent yet low-cost sensors. The automotive technology sector is setting the path for the development of innovative systems for the active stabilization of the vehicle's chassis, for a new brake system, the integrated control of tire pressure, and motor management. In the future, ELMOS will focus on combining CMOS-compatible sensor systems with ELMOS' ASIC-components to bring to the market a new generation of intelligent sensors.

In the pursuit of our business strategy, ELMOS acquired the European chip assemblies specialist EURASEM B.V., Nijmegen / The Netherlands, in early 2001. EURASEM provides patented know-how for the development and manufacturing of specialized sensor casings, which will strengthen ELMOS position in the sensor supplier market. In addition, EURASEM offers a range of low-cost standardized casings that ELMOS can re-tailor to its needs, limiting the Company's dependency on suppliers from the Far East.

All these activities strengthen ELMOS in its aim to make inroads into new related markets based on its specialized know-how gained in the automotive sector. The combined knowledge is expected to be able to be used for the development and manufacturing of high-voltage and mixed signal ASICs as well as for the development of control systems as a basis for sensor solutions.

In 2000, ELMOS AG gained its most decisive boost when it entered into market for mobile telecommunication devices. In mid-1999, ELMOS was granted a development contract for a customer-specific circuit in combination with an LCD-display (Liquid Crystal Display) by a renowned French provider.

ELMOS eventually won the contract due to the renowned reputation of the Company's design engineers for their expertise in the field of mixed-signal-control boards and ELMOS' systems solutions that, unlike ordinary CMOS-processing technology solutions, remain stable at a voltage of 15 V. Benefiting from the results of the R & D work on a new generation of processing technology solutions for sub-micrometer scale structures, ELMOS offers a production approach that not only meets the technical requirements regarding packing density and chip size but also allows the Company to offer products at prices acceptable to our customers.

The new generation of processing technology solutions is based on structures the size of which can be reduced from 0.8 µm (1µm = 1 micrometer = 1/1000 millimeter) to 0.5 µm while containing up to four metal layers for circuitry. This approach allows ELMOS to manufacture complex digital circuits at economically ideal chip sizes. The most outstanding feature of this new generation of technology is its 100 %-compatibility with proven high-voltage and mixed signal features of ELMOS state-of-the-art processing technologies.

Taking its LCD-drive ASIC into the telecommunication market, ELMOS did not really break into a completely new market, but instead relied on its tried and tested high voltage technologies and design know-how. What makes this move so different and extraordinary, is the special nature of this market.

While the market for automotive electronics is marked with time-to-market periods of 2 to 3 years and product life cycles ranging from 5 to 10 years, those intervals are significantly shorter in the telecommunication market with estimated time-to-market periods of up to 9 months and anticipated product life cycles of 2 years. This poses the greatest challenge to ELMOS R & D engineers as they have to adopt to this market situation and prove that ELMOS can successfully sell its products in this market. The prototypes of LCD-driver-ASIC which were advanced to operatability by the end of the year, prove that the Company is more than capable of standing up this challenge.

The dynamic development of the mobile telecommunication market is not only reflected by the short life cycles of products but primarily by the high annual output. Market researchers expect a total annual output of some 500 Mio. mobile devices for 2001, thus even a rather minor share in this dynamic market enables ELMOS to generate substantial sales. We anticipate the telecommunication business segment to contribute noticeably to our total sales in the coming year.

The fact that our wafer products are also installed in sensor and telecommunication products thus allowing our manufacturing facilities to work at full capacity, will continue to improve both our productivity and profitability.

As ELMOS is eager to give fresh technology impetus to the development of structure sizes of 0.5 µm and smaller, the rapidly changing market will work to our advantage. Innovative processing technologies can be translated into series production at an accelerating pace, which is expected to support our future business in the automotive electronics segment. As technologies that were tested and proven on the telecommunication market, are smoothly integrated into automotive products, we will gain a competitive advantage. In general, the synthesis of rapidly changing, technology-advancing applications and automotive products with superior life cycles offered by ELMOS will provide us with a dynamic growth basis that will not only prove sustainable in the future, but also will make sales and profits estimates more reliable.

Sales Development

With the group's output soaring to DM 207 Mio. in 2000, ELMOS not only surpassed its annual budget of DM 196 Mio., but also the sales forecast of DM 204 Mio. revised only last summer. This is all the more remarkable as automotive OEMs (original equipment manufacturers) tended to postpone the placing of orders to reduce their inventories.

Between 1995 and 2000, the sales of the Company grew by an average of 30 % per year, clearly surpassing the market's growth of 13 %.

The increased foreign sales mix of the group's total output in 2000 amounting to DM 207 Mio. reflects the trend towards a stronger globalization of our activities. For the first time, sales on the European market, excluding Germany, proved more robust than that of the domestic market (i.e. German market). While growth in the United States in the first half of 2000 exceeded the sales performance of ELMOS elsewhere, US growth slumped again in the second half as a key customer of ELMOS encountered problems with the reliability of its tires and therefore had to suspend production on a popular car model.

The core business activities of ELMOS is closely linked to the demand of the automotive sector for ASICs, which is dependent both upon the annual manufacturing output of automobiles and the trend towards a greater reliance on electronic systems in modern cards. As modern cars tend to contain a greater share of electronic features – incorporated in airbag systems, ESP and other comfort features – the sales figures for ASICs are mounting even though the output of the automotive sector may decline. Analyzing the sector more closely, reveals a trend towards automotive manufacturers placing higher quality cars all-inclusive prices on the market, in particular in times of poor sale performances. As a result, the sale of ASICs often remains strong even when the output of the automotive sector is stagnant or decreasing. The demand for ASICs has proven rather stable and is only slightly influenced by fluctuations in the output of the automotive industry. Dataquest has even forecasted an annual growth of 13 % to the semiconductor market for automotive application.

A more detailed analysis of the global semiconductor market, however, shows that only a mere 6 % of manufactured chips are installed in automotive electronic systems, making this market segment less attractive to large global players of the semiconductor industry. On the other hand, 6 % of the global semiconductor market represents expected future sales of US$ 20 Billion by 2004 and therefore holds an enormous growth opportunity for ELMOS. While ELMOS products – i.e. customer-specific ASICs – only accounts for one third of this market segment, the potential market worldwide could generate sales of US$ 7 Billion by 2004.

Europe remains the key market for automotive electronics and ELMOS finds itself at the core of innovation clusters of car manufacturers, strengthening the international orientation of the Company. In 2000, sales on the European market, excluding Germany, surpassed domestic sales for the first time. The key future growth opportunities are believed to lie in the North American market where ELMOS successfully expanded its presence in 2000.

Incoming Orders and the General Order Situation

Incoming orders in 2000 amounted to DM 215 Mio. and were up by 26 % compared to the prior year. On a year-to-year basis, the book-to-bill rate rose from 1.07 in 1999 to 1.15 in 2000, which is all the more remarkable as customers had reacted to the overheated economic situation by adjusting down their orders. Anticipating potential ordering bottle-necks, incoming orders rocketed in the first half of 2000 and only gradually returned to normal in the second half.

In 2000, all R & D projects were finalized and integrated into series production. Incoming orders, however, were primarily placed for series manufactured products and to a lesser extent for R & D projects and other services.

Typically, development costs are no longer being pre-financed by advance payments from customers for contracted R & D projects. While a significant portion of the development costs are financed by the customer in the course of the product development, a substantial share of the R & D costs is no longer being pre-financed and will have to be recovered through product sales. Under this structure, the Company has an increased risk of incurring development costs that, in the case of a contracted project terminating without a supply agreement, might not be directly recoverable from that specific customer.

Production

Since mid-1999, our ASICs are exclusively manufactured as 150 mm wafers, thus enhancing our production capacity by 225 % in comparison to the manufacturing of 100 mm wafers.

In addition to ELMOS proprietary manufacturing facilities, the Company has entered into a supply agreement with Infineon Technologies AG. For reasons of redundancy, approximately 10 % of wafers manufactured in 2000 were provided by the Infineon facility at Villach / Austria.

In the fiscal year 2000, costs developed as anticipated:

As productivity improved, manufacturing expenses continued declining with the gross margin going up by as much as 52 %, allowing ELMOS to withstand the negative impact of the unabated strong exchange rate of the US$ that had resulted in rising costs for assembly services purchased in the Far East.

Purchasing expenses and supply

The raw materials needed for the production of ELMOS products are supplied to the Company by a number of vendors worldwide without the existence of one monopolistic supplier. However, typically in the semiconductor industry, there is dependence for assembly services on certain business partners in the Far East for assembly services. With the acquisition of the EURASEM in the Netherlands, ELMOS is able to reorient its supply chain. As a Europe-based supplier, Eurosem offers assembly processes at competitive prices which reduces ELMOS' dependency on partners in the Far East and its exposure to foreign currency exchange rate fluctuations.

Investments into manufacturing

During 2000, the Company continued to expand its manufacturing facilities in Dortmund to meet both growing demand and the technical requirements of future processing generations. Investments into manufacturing capacity totaled DM 46.3 Mio, which was approximately DM 21 Mio in excess of the Company's original capital expenditures budget. One of the key reasons for the Company exceeding its budget resulted from the receipt of a large telecommunication order, which will require significant capacity to produce millions of wafers beginning in 2001. The additional investments were financed with cash flow from operations.

ELMOS' current manufacturing capacities are sufficient to meet expected growth in 2001 and 2002. However, manufacturing capacities will again have to be expanded in 2003 in anticipation of future growth. Depending on the actual market development, the Company plans to extend beyond the current production of the 6 inch (150mm wafers) and set up a manufacturing line for 8 inch (200mm) wafers in a separate facility in Dortmund.

Financing Activities

As a result of additional cash funds provided by the initial public offering in 1999, ELMOS was able to significantly reduce bank and third parties loans. The Company had approximately DM 141.7 Mio. of cash and cash equivalents as of December 31, 2000 and positive cash flow of DM 59.1 Mio. during 2000. We are confident that the Company will be able to continue finance capital expenditures through operating cash flow.

Equity

The solid financial basis of the Company with an equity to total liabilities ratio of 4 to 1, provides the Company with sufficient funds to weather even prolonged periods of weak market demand and ability to remain as a going concern for several years.

Pursuant to the resolution of the shareholders' meeting as of May 25, 2000 in connection with the Authorized Capital I, the management board agreed on June 8, 2000 to raise the share capital of Euro 19,300,000 by Euro 200,000 to Euro 19,500,000 by issuing 200,000 bearer shares of no par value at a nominal value of Euro 1 per share in exchange for contributions in kind and cash; shareholders subscription rights were excluded for those shares. It was decided to raise the share capital in order to pursue the pay-out-take-back strategy as approved at the general shareholders' meeting on May 25, 2000. The supervisory board granted approval to the proceedings on June 14, 2000. The new shares were offered to EFH ELMOS Finanzholding at a price of Euro 52.75 per share. Accepting the offer, EFH ELMOS fully paid for the shares, which were entered into the trade register on July 24, 2000.

After the resolutions had been made and entered into the trade register, the Company subsequently concluded that the Authorized Capital and the issuance of 200,000 new shares were invalid. The combined amount of the Authorized Capital I of Euro 6,675,000 as authorized on May 25, 2000 and Authorized Capital II of Euro 3,000,000 exceeded the legally acceptable limit for Authorized Capital, which is fixed at 50 % of the total share capital at the time of the authorization (Euro 9,650,000), by Euro 25,000. In addition, the authorization related to the issuance of the 200,000 new shares was implemented before the amendment to the Company's statutes regarding the Authorized Capital had been entered into the trade register. Currently, the Company seeks to revise the trade register entry.

As a result of the entry of the 2000 capital increase into the trade register, the share capital totals Euro 19,500,000 consisting of 19,500,000 no par value shares of a nominal value of Euro 1. All shares have been fully paid. As a result of the invalid trade register capital increase outlined above and the fact the newly issued shares are deprived of voting and dividend rights, shareholders' equity is reported in the balance sheet as of December 31, 2000 at Euro 19,300,000.

At the meeting on December 15, 2000, the supervisory board approved of the management board's resolution to grant 120,000 stock options to Company employees and officers (excluding member of the management board), at a price of Euro 35.14. As of December 31, 2000, employees and officers of ELMOS hold 109,901 outstanding options from the 1999 stock option program.

Employees

In the fiscal year 2000, ELMOS Semiconductor AG had 499 employees (including 24 trainees and apprentices) in comparison to 481 employees (including 15 trainees and apprentices) in the prior year.

With the 22 % increase in the group's sales compared to the prior year and no significant changes in personnel expenses in the production areas, the Company was able to focus on improving its production and internal processes. Accordingly, personnel expenses related research and development (R&D) at group level rose sharply, which explains the significant increase in R & D costs from DM 17 Mio. in 1999 to DM 26 Mio. in 2000. During 2000, R & D expenses accounted for 13 % of sales and reflect the Company's efforts to continue to introduce new technologies.

Research and Development

In comparison to prior year, the expenses for research and development increased substantially by 57 % primarily as the result of the Company's efforts to further reduce structure size and enhance research activities in the field of SOI-development.

Research work on the "process technology generation0,8 – 0,5 µm" will be pursued without delay.

While the highly R & D-intensive activities of the Company – partially in the field of product and technology development – have allowed our engineers to gain profound and highly specific know-how, those activities rarely translate into patents. This again increases ELMOS' dependence on certain employees. However, the risk of employee turnover is deemed to be low, as the employees of ELMOS are highly motivated and strongly identify with the Company. While almost all employees own shares of the Company's stock, the Company believes confident that the stock option program continues to provide the employees with further incentives.

Related Party Transactions

In compliance with Section 312 of the German Stock Corporation Law ("AktG") we make the following statement as required by Section 312, paragraph 3 AktG: "We hereby declare that our Company received appropriate payment or services in return for transactions with related parties and in accordance with the circumstances as known at the time of completing the transaction and taking actions. We did not suffer any disadvantages in the meaning of Section 312 AktG which may have resulted from related party transactions".

Risk Management

Currently, ELMOS is implementing the requirements as outlined in Section 91 (2) AktG. The analysis of potential weaknesses has resulted in measures and systems allowing ELMOS to identify and cover all potential areas of risks.

Future Business Risks

1. Dependency on the Automotive Industry

The Company derives the largest portion of its income from the sale of ASICs to the automotive industry. As the result of mergers and acquisitions, restrictive environmental legislation and various other factors, the automotive market has been in the past subject to substantial fluctuations.

ELMOS' customer structures may suggest that the Company is dependent on a few large OEMs. In this context and in consideration of the importance and high customization degree ASICs supplied to OEMs, it should also be noted that this dependency is reciprocal and that important sales volume generated with a few large OEMs equally suggests that these business relations may be promising and lasting as well as holding substantial potential future sales. In addition, the tight cost situation of the OEM industry and the fact that the simultaneous development of an ASIC-type by two suppliers entails significant development costs at the initial stage, taking into account the diminished sales prospects, and additional manufacturing expenses in the course of production, it is very rare that two suppliers are contracted to develop one and the same ASIC-type.

2. Competition

There are numerous competitors in the semiconductor market that offer products similar to those of the Company, based on similar technologies.

In addition, the leading semiconductor manufacturers which today have not targeted the automotive semiconductor market or the engagement of which is yet limited, may attempt to make inroads into this market. However, as a potential engagement of these large players would translate into an equally important output (??), the risk of new large competitors emerging seems comparatively low.

3. Development of New Products and Technologies

The market for the Company's products is marked by the continuous development and upgrading of products. Therefore the commercial success of the Company is highly dependent on its ability to develop complex products at a low-cost basis, to introduce them into the market on a timely basis and to have them selected by leading automotive OEMs to be incorporated into their systems.

The future success of ELMOS is equally linked to its ability to develop and implement new design and process technologies. The Company is developing analog and digital semiconductor structures and functions that will be incorporated in our modular high-voltage CMOS process technologies. Just as its competitors, the Company must continuously improve the technological applications and develop new smaller scale submicron processing technologies. Should ELMOS fail to develop, manufacture and sell new and upgraded products, this could have a materially adverse effect on the Company's business, financial condition and results of operations.

As ELMOS is able to develop and manufacture ASICs for all types of automotive electronic devices and systems, the Company's products are found in almost every component of automobile electronic systems, consequently the risk of failure of a single electronic component is widely spread and therefore highly remote. If the automotive industry decided against the development of new electronic features as a result of an economic downturn lasting several years, this could have an adverse impact on the Company's development. The current situation, however, implies that such a massive downturn in the future is unlikely in particular due to actions of the automotive manufacturers in times of poor sales, which are rather inclined to invest in more sophisticated technical equipment. In addition, customer-specific ASICs as provided by ELMOS are increasingly preferred to standardized electronic components, granting ELMOS stronger growth compared to the market average and allowing the Company to expand its current market share. As an overall result, the Company is less exposed to risks related to the potential loss of R & D projects for ASICs contracted for the automotive sector.

4. Product Liability

ASICs provided by ELMOS are incorporated into complex electronic systems. Defects or malfunctions of the Company's ASICs or the systems, to which they are installed, may directly or indirectly harm the property, health and life of third persons. The Company is in no position to limit or exclude its liability vis-à-vis its customers or third parties in the framework of supply agreements.

ELMOS is pursuing a zero-fault-tolerance-strategy and is investing into detecting and remedying defects and errors and their sources on a persistent basis. At the manufacturing facilities, semiconductor chips are repeatedly tested with regard to their quality and functionality, in addition controls are carried out at different temperatures. While the Company applies ISO 9001, VDA 6.1 and QS 9000 certified control systems and extensive testing procedures, defects to the Company's products may only be discovered after installation and use by the ultimate customer.

If such defects are discovered, they can result in expensive and time-consuming modifications, damaged customer relations and the loss of market shares. Should quality defects occur with a whole shipment, customers may sue the Company for damages of several million DM. All this could have a materially adverse effect on the Company's business, financial condition and results of operations.

5. Interruption of Business

Beside the risks to business outlined and commented on above, ELMOS believes that the only other risk that may seriously effect the development of the group and thus the continuous existence of the Company, lies in the destruction of manufacturing facilities by fire or other major disasters. While the Company has taken up insurances that provide sufficient coverage in those cases of business interruption, the Company may run the risk of losing key customers, a risk against which the Company can not be insured. To limit exposure to this kind of risk, the Company has plans to set up another manufacturing line (for 200mm-wafers) in a separate building at the Dortmund site, providing ELMOS with alternative manufacturing facilities in addition to the existing line and allowing the Company to maintain production even if one of the manufacturing lines is interrupted.

For all other risks covered by insurances, such as fire, interruption of production due to fire, water and storm damages, theft, liability in general and related to products (also applicable in the USA), and expenses incurred under product recalls, the existing insurances provide sufficient coverage. At present, the Company is not aware of any other risks, that may materially effect the development of the business of the Company or the group and thus the continuous existence of the Company or group.

Subsequent Events

With the exception of the acquisition of EURASEM B.V. Nijmen aforementioned, no other material events have occurred after the balance sheet dated, which have not been disclosed.

Dortmund, February 2001

Report of Independent auditors

"We have audited the financial statements, including the underlying accounting records of ELMOS Semicondcutor AG, Dortmund ("the Company"), and the consolidated management report of the Company and it subsidiaries, for the year ended December 31, 2000. The accounting records as well as the preparation of the financial statements and the management report in accordance with accounting standards generally accepted in the Federal Republic of Germany as outlined in the German Commercial Code (HGB) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, including the accounting records, and on the management report based upon our audit.

We conducted our audit of the financial statements in accordance with section 317 HGB, observing the generally accepted auditing standards issued by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance of identifying misstatements and irregularities which have a material effect on the presentation of the Company's net worth, financial position and net income as imparted through the management report and presented in the financial statements prepared in accordance with generally accepted accounting standards. When determining the scope of our audit procedures, we take into consideration the Company's business activities, its economic and legal structure as well as expected risks. An audit includes examining, primarily on a test basis, the evidence supporting the amounts and disclosures in the accounting records, the financial statements and the management report. An audit also includes assessing the accounting principles used and the significant estimates made by the Company's management as well as evaluating the overall presentation of the financial statements and of the management report. We believe that our audit provides a reasonable basis for our opinion.

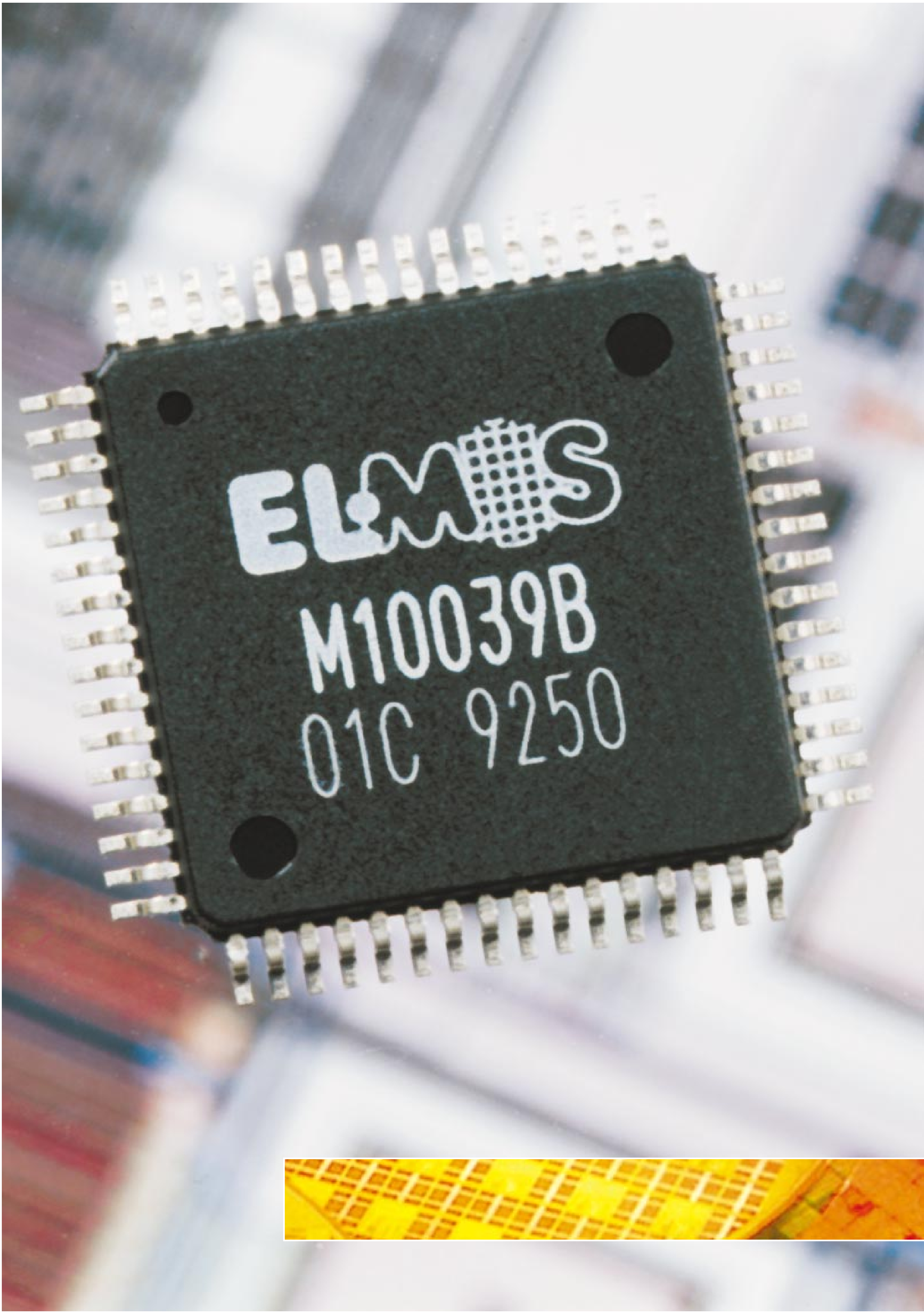
Our audit has not resulted in any objections.

In our opinion, the financial statements present fairly, in compliance with generally accepted accounting standards, the Company's net worth, financial position and results. The consolidated management report presents an overall appropriate picture of the state of the Company and its subsidiaries and fairly presents the risks in relation to its future development."

Dortmund, February 15, 2001
Ernst & Young

Deutsche Allgemeine Treuhand AG
Wirtschaftsprüfungsgesellschaft

Brorhilker	Muzzu
Wirtschaftsprüfer	Wirtschaftsprüfer


ELMOS
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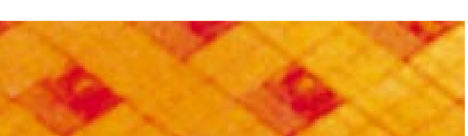
6 Consolidated Financial Statements (US-GAAP)

"He who thinks differently to his time need be nobody's fool; he who does not think differently surely is."

Karlheiz Deschner



ELMOS Semiconductor AG

ELMOS Semiconductor Aktiengesellschaft and Subsidaries
Consolidated Balance Sheets

Dezember, 31	*2000*	*1999*	*1998*
	DM	*DM*	*DM*
Assets			
Current assets:			
Cash	144,152,777	85,012,300	6,075,378
Marketable securities (Note 2)	-	29,668,181	-
Trade accounts receivable, less allowance for doubtful accounts of DM 1,219,304, DM 2,496,370, DM 816,000 in 2000, 1999 and 1998, respectively	29,774,927	34,193,611	15,367,669
Inventories (Note 3)	41,298,974	25,557,218	20,741,057
Prepaid expenses and other	12,887,930	15,032,798	3,152,088
Total current assets	***228,114,608***	***189,464,108***	***45,336,192***
Deferred taxes (Note 7)	1,897,761	2,459,119	3,274,000
Investments (Note 4)	811,366	121,366	1,319,640
Property, plant and equipment:			
Land	4,505,507	3,303,787	3,303,787
Buildings and improvements	71,029,861	58,695,349	55,658,770
Machinery, equipment and other	154,016,135	130,484,396	121,796,632
Software	8,782,713	7,354,898	6,249,494
Construction in progress	29,879,462	22,139,084	12,523,311
Less accumulated deprciation	(130,265,962)	(109,172,840)	(98,665,073)
	137,947,716	***112,804,674***	***100,866,921***
Total assets	***368,771,451***	***304,849,267***	***150,796,753***

See accompanying notes to consolidated financial statments

Dezember, 31	***2000***	***1999***	***1998***
	DM	***DM***	***DM***
Liabilities and shareholder's equity:			
Current liabilities:			
Notes payable	893,562	3,398,152	33,598,040
Trade accounts payable	13,737,294	19,080,701	10,359,843
Accrued payroll, benefits and taxes	5,300,932	3,939,594	4,831,773
Other accued liabilities	8,100,006	6,246,759	10,025,036
Accrued income taxes	17,490,046	-	5,237,233
Advance from shareholders (Note 8)	20.634.007	-	-
Current portion of long-term obligations (Note 5)	4,645,246	3,031,490	1,621,875
Deferred taxes (Note 7)	265,574	2,816,452	228,539
Total current liabilities	***71,066,667***	***38,513,148***	***65,902,339***
Long-term obligatione, less current portion (Note 5)	62,338,041	45,462,732	55,725,863
Minority interest	653,647	449,313	304,167
Shareholder's equity:			
Share capital	37,720,724	37,747,519	1,820,000
Paid-in capital	164,835,589	165,382,119	16,349,083
Accumulated other comprehensive income (loss)	59,734	296,622	(19,841)
Retained earnings	234,713,096	220,424,074	28,864,384
Total shareholder's equity	***32,097,049***	***16,997,814***	***10,715,142***
Total liabilities and shareholder's equity	***368,771,451***	***304,849,267***	***150,796,753***

See accompanying notes to consolidated financial statments

Consolidated Statements of Income and Comprehensive Income

	2000 DM	1999 DM	1998 DM
Net sales	206,979,182	169,293,245	139,258,611
Cost of Sales	99,589,187	83,967,227	85,430,069
Cross margin	***107,389,995***	***85,326,018***	***53,828,542***
Research and development	26,974,718	17,105,628	15,001,365
Marketing and selling expenses	6,435,246	6,455,083	5,750,965
General and administative expenses	19,760,210	16,235,685	15,376,353
Operating income	***54,219,821***	***45,529,622***	***17,699,859***
Interest expense (income)	(2,545,382)	3,439,545	4,729,437
Foreign exchange loss - net	793,863	79,394	67,741
Stock grant by EFH (Note 9)	-	6,375,000	-
Other (income) expense - net	(1,518,769)	1,410,707	(3,581,033)
Income before income taxes, equity in loss of unconsolidated subsidiaries and minority interest	***57,490,109***	***34,224,976***	***16,483,714***
Income tax expense (benefit) (Note 7)			
Current	26,267,906	12,033,729	9,656,190
Deferred	(1,696,047)	3,109,792	(883,660)
	24,571,859	15,143,521	8,772,530
Net Income before equity in loss of unconsolidated subsidiaries and minority interest	32,918,251	19,081,455	7,711,184
Equity in losses of unconsolidated subsidiaries	-	319,503	824,360
Minority interest in earnings of consolidated subsidiaries	449,015	254,164	212,493
Net income	***32,469,236***	***18,507,788***	***6,674,331***
Chages in foreign currency translations	25,291	54,284	(23,827)
Unrealized gains (losses) on marketable securities net of income taxes	(262,179)	262,179	-
Comprehensive income	***32,232,348***	***18,824,251***	***6,650,504***
Basic earnings per share	1.68	1.78	7.17
Diluted earnings per share	***1.68***	***1.78***	***7.17***

See accompanying notes to consolidated financial statments

	Shares	Share Capital	Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
		DM	DM	DM	DM	DM
Balance at December 31, 1997		1,820.000	16,349,083	3,986	5,827,853	24,000,922
Net income					6,674,331	6,674,331
Cesh dividends					(1,787,042)	(1,787,042)
Foreign currency translation adjustment				(23,827)		(23,827)
Balance at December 31, 1998	***-***	***1,820,000***	***16,349,083***	***(19,841)***	***10,715,142***	***28,864,384***
Cash dividends					(469,999)	(469,999)
Capital contribution			4,500,000			4,500,000
Return of capital			(4,500,000)			(4,500,000)
Conversion to AG-issuance of 15.300.000 shares of common stock	15,300,000	28,104,200	(16,349,083)		(11,755,117)	-
Net proceeds from initial public offering (IPO)	4,000,000	7,823,319	153,093,973			160,917,292
Tax effect of IPO costs			5,913,146			5,913,146
Stock grant by EFH			6,375,000			6,375,000
Net income					18,507,788	18,507,788
Unrealized gains on marketable securities, net of income taxes				262,179		262,179
Foreign currency translation adjustment				54,284		54,284
Balance at December 31, 1999	***19.300.000***	***37,747,519***	***165,382,119***	***296,622***	***16,997,814***	***220,424,074***
Net income					32,469,236	32,469,236
Cash dividends					(17,370,001)	(17,370,001)
Treasury Stock purchased	(13,700)	(26,795)	(546,530)			(573,325)
Change in unrealized gains on marketable securities				(262,179)		(262,179)
Foreign currency translation adjustment				25,291		25,291
Balance at December 31, 2000	***19,286,300***	***37,720,724***	***164,835,589***	***59,734***	***32,097,049***	***234,713,096***

See accompanying notes to consolidated financial statments

Consolidated Statements of Cash Flows

Year Ended December 31,	***2000***	***1999***	***1998***
	DM	***DM***	***DM***
Operating activities:			
Net income	32,469,236	18,507,788	6,674,331
Depreciation	21,569,098	20,957,436	28,610,471
Deferred income taxes	(1,696,047)	3,109,792	(883,660)
Minority interest	449,015	254,164	212,493
Equity in losses of unconsolidated subsidiaries	-	319,503	824,360
Gain on sale of investment	-	(394,000)	-
Stock grant by EFH	-	6,375,000	-
Changes in operating assets and liabilities:			
Account receivable	4,418,684	(18,825,942)	(1,085,589)
Inventories	(15,741,755)	(4,816,161)	(6,245,142)
Prepaid assets and other	2,177,424	(11,126,079)	(115,559)
Accounts payable	(5,343,407)	8,720,858	496,891
Accrued liabilities	3,214,586	(4,670,456)	(1,232,635)
Accrued income taxes payable	17,490,044	(5,237,233)	832,563
Net cash used provided by operating activities	***59,006,878***	***13,174,670***	***28,088,524***
Investing activities:			
Capital expenditures	(46,845,444)	(35,782,773)	(53,592,953)
Disposal of fixed assets	133,305	2,887,583	2,331,522
Purchase of maketable securities	-	(29.112.529)	-
Proceeds from sale of maketable securities	28,539,206	-	-
Proceeds from sale of investment	-	575,000	-
Purchase of investments	(690,000)	-	(346,325)
Net cash in investing activities	***(18,862,933)***	***(61,432,719)***	***(51,607,756)***
Financing activities:			
Dividends paid	(17,370.001)	(469,999)	(1,787,042)
Deposits for shares to be issued to shareholders	20,634,007		
Net proceeds from initial public offering	-	160,917,292	-
Tax effects of IPO costs	-	5,913,146	-
Dividends paid by consolidated subsidiary to minority shareholder	(251,949)	(190,080)	-
Cash received by consolidated subsidiary from minority shareholder	-	78.016	-
Issuance of long-term debt	21,520,555	-	6,750,000
Repayments of long-term obligations	(3,031,490)	(8,853,516)	(1,673,058)
Proceeds (repayments) of notes payable	(2,504,590)	(30,199,888)	22,372,061
Net cash provided by financing activities	18,996,532	127,194,971	25,661,961
Increase in cash and cash equivalents	59,140,477	78,936,922	2,142,729
Cash and cash equivalents at beginning of the year	85,012,300	6,075,378	3,932,649
Cash and cash equivalents at end of the year	***144,152,777***	***85,012,300***	***6,075,378***

See accompanying notes to consolidated financial statments

1. Organization of Business

ELMOS Semiconductor Aktiengesellschaft (the Company or 'ELMOS') is engaged in the development, manufacturing and sale of Application Specific Integrated Circuits (ASICs). The Company has sales subsidiaries in France, United States and Nethelands and cooperates with other German companies concerning development and manufacture of ASIC chips.

Prior to May 12, 1999, the Company was a limited liability company (hereafter "GmbH") under German law. Shareholders are generally not liable for the Company's obligations, except to the extent of their capital investment. Registered capital of a GmbH is not in the form of shares and does not represent negotiable securities. 100 % of the Company's registered capital was owned by EFH ELMOS Finanzholding GmbH ('EFH').

Effective on May 12, 1999, the Company converted to an Aktiengesellschaft ('AG') or a stock company. In conjunction with the conversion, the Company issued 15,300,000 shares of common stock with no par value for Euro 1 per share. No additional cash was invested into the Company.

On October 12, 1999, the Company sold, pursuant to an underwritten public offering on the Neuer Markt segment of the Frankfurt Stock Exchange, 6,500,000 shares of its no par value common stock at Euro 22 per share. The offering included 4,000,000 shares of additional no par value issued by the Company and 2,500,000 shares sold by EFH. Additionally, in conjunction with an over-allotment option, EFH sold an additional 1,000,000 shares on November 12, 1999.

The Company's fiscal year is a calendar year.

2. Summary of Significant Accounting Policies

Basis of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The Company maintains its financial records in Deutsche Mark (DM) in accordance with the German Commercial Code, which represents generally accepted accounting principles in Germany ("German GAAP"). German GAAP varies in certain aspects from U.S. GAAP. The Company has recorded certain adjustments in order that these consolidated financial statements be presented in accordance with U.S. GAAP.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Consolidation

The consolidated financial statements include accounts of majority owned subsidiaries. All significant inter-company accounts and transactions have been eliminated upon consolidation.

Investments in affiliates where ownership by the Company is more than 20 percent but not in excess of 50 percent are recorded using the equity method.

Cash Equivalents

All highly liquid investments purchased with an original maturity of three months or less are considered cash equivalents.

Marketable Securities

Marketable securities consisted primarily of fixed-income securities. Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date. By policy, the Company invests primarily in high-grade marketable securities. All marketable securities are defined as available-for-sale under the provisions of Statement of Financial Accounting Standards No. ("SFAS") 115, "Accounting for Certain Investments in Debt and Equity Securities".

The Company had no marketable securities on hand as of December 31, 2000. The following is a breakdown of the Company's marketable securities as of December 31, 1999:

	Cost	***Market Value***
	DM	***DM***
Foreign goverment securities	29,112,529	29,668,181

Fair Value of Financial Instruments

The carrying value of financial instruments such as cash, accounts receivable and notes and accounts payable approximate their fair value based on the short-term maturities of these instruments. The carrying value of bank debt approximates fair value based on quoted market prices for the same or similar issues as well as the current rates offered to the Company.

The Company uses interest rate swaps to manage interest rate risk. The interest differentials from these swaps are recorded as interest expense.

Concentration of Credit Risk

The Company performs ongoing credit evaluations of its customers and generally requires no collateral. Reserves are maintained for potential credit losses and such losses have been within management's expectations.

Inventory

Inventories are stated at the lower of cost or market, with cost principally being determined on an average basis.

Property, Plant and Equipment

Property, plant and equipment are stated at cost.

Except for machinery and equipment, the assets are depreciated using the straight-line method over the following useful lives.

Buildings	25	Jahre
Building improvements	10	Jahre
Office furnitures and fixtures	5–10	Jahre
Software	3	Jahre

Cost incurred to establish patents and acquire product and process technology are capitalized. Capitalized costs are amortized on the straight line method over the shorter of the estimated useful life of the technology, the patent term or the agreement, ranging up to 7 years. At December 31, 2000, the Company had approximately DM 4,900,000 of acquired process technology included in property, in plant and equipment.

Effective January 1, 1999, the Company changed its method of depreciation for machinery and equipment placed in service after December 31, 1998 to the straight-line method over a life of seven years. The Company's previous method of depreciation for machinery and equipment was the double declining method over a life of 5 years. Machinery and equipment placed into service prior to the effective date of the change continue to be depreciated using the existing life and the double declining method. The Company changed the method of depreciation and life based upon 1) management's belief that the straight-line method provides a better matching of costs and revenues and that seven years is a better reflection of the economic life of the machinery and equipment and 2) this method and life is the predominant industry practice. There is no cumulative effect of this change. The effect of this change on net income for the year ended December 31, 2000 and 1999 was approximately DM 1,900,000 and DM 1,300,000, respectively.

Foreign Currency Translation and Transactions

Assets and liabilities of the Company's non-German operations are translated into German Marks at period-end exchange rates. Net exchange gains or losses resulting from such translation are excluded from net earnings and accumulated in a separate component of shareholders' equity. Income and expense accounts are translated at weighted average exchange rates for the period.

The Company from time to time enters into forward exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with its committed exposures. This hedging minimizes the impact of foreign exchange rate movements on the Company's operating results. The Company does not engage in speculation. The Company's foreign exchange contracts do not subject the Company's results of operations to risk due to exchange rate movements because gains and losses on these contracts generally offset losses and gains on the assets and liabilities being hedged. As of December 31, 2000, the Company had 3 outstanding U.S. dollar forward exchange purchase contracts amounting to approximately $400,000.

Revenue Recognition

Revenues are recognized when products are shipped to the customers.

Product Warranty

Provision for product warranty is recognized as a liability at the time of sale based on the historical relationship of warranty expense to sales.

Research and Development

Research and development expenditures are expensed as incurred.

Grants

The Company receives grants from the German government which are used to fund research and development activities and the acquisition of real estate and equipment. Grants are classified as other liabilities until utilized. The utilization of the grants for research and development are shown as other income (DM 1,010,000, DM 2,020,000 and DM 2,500,000 for the years ended December 31, 2000, 1999 and 1998 respectively), while the utilization of grants for tangible property acquisitions are recorded as a reduction of the properties' historical cost.

Stock-Based Compensation

The Company records compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25). Under APB No. 25, if the exercise prices of employee stock options equals or exceeds the estimated fair value of the underlying stock on the date of grant, generally no compensation expense is recognized.

Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" (Statement No. 123) encourages companies to recognize expense for stock-based awards based on their estimated value on the date of grant. Statement No. 123 requires the disclosure of pro forma net income or loss in the notes to the financial statements if the fair value method is not elected.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", which has been applied for the periods presented. Under this method, deferred tax assets and liabilities are based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date.

Earnings Per Common Share

Basic earnings per common share data are based on the weighted-average number of common shares outstanding during the respective periods. Diluted earnings per common share data are based on the weighted-average number of common shares outstanding adjusted to include the effects of potentially dilutive stock options.

Recently Issued Pronouncements

In June 1998, the U.S. Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Transactions", as amended by Statements No. 137 and 138. The statements provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. The new statement requires all derivatives to be recorded on the balance sheet at fair value and established "special accounting" for the following three types of hedges: hedges of change in the fair value of assets, liabilities or firm commitments; hedges of the variable cash flows of forecasted transactions; and hedges of variable cash flows of net investments in foreign operations.

The Company will be required to adopt the statement during the year ended December 31, 2001. Adoption of this statement will not have a material effect on the Company's financial condition or results of operations.

3. Inventories

Inventories consisted of the following:

December 31,	***2000***	***1999***	***1998***
	DM	***DM***	***DM***
Raw material	12,255,092	8,750,079	6,588,786
Work in progress	18,436,933	14,101,540	8,514,930
Finished products and goods	10,606,949	2,705.599	5,637,341
Total inventories	***41,298,974***	***25,557,218***	***20,741,057***

4. Investments in Unconsolidated Subsidiaries

The Company had net investments in the following equity investees:

December 31,	***2000***	***1999***	***1998***
	DM	***DM***	***DM***
GED Gärtner Elektronic Design GmbH, Frankfurt/Oder (GED) (49 % – Dec. 31, 2000; 24 % – Dec. 31, 1999)	756,366	66,366	64,000
EPOS embedded core & power systems Verwaltungs GmbH, Duisburg (EPOS GmbH) (50,0 % interest)	-	-	25,000
EPOS embedded core & power systems GmbH & Co. KG, Duisburg (EPOS KG) (50,0 % interest)	-	-	1,175,640
Other	55,000	55,000	55,000
	811,366	***121,366***	***1,319,640***

The Company had a joint venture agreement with Siemens AG related to EPOS embedded core & power Systems Verwaltungs GmbH (EPOS GmbH) and EPOS embedded core & power systems GmbH & Co. KG (EPOS KG) (both located in Duisburg). On August 25, 1999, the Company sold its interest in EPOS KG and EPOS GmbH for a sales price of DM 1,275,000 resulting in a gain of approximately DM 394,000.

During the year ended December 31, 2000, the Company purchased an additional 25% of GED from one of the other shareholders of GED for DM 690,000 of cash.

5. Amounts Payable to Banks and Long-Term Debt

At December 31, 2000, the Company had available various short term credit facilities approximating DM 19,500,000, which the Company has not borrowed against at December 31, 2000.

Long-term debt is summarized as follows:

December 31,		***2000***	***1999***	***1998***
		DM	***DM***	***DM***
Deutsche Centralbodenkreditbank Loan A				
Annual Rate:	7.57 %			
Payment:	Semi-annual			
Interest + Principal:	DM 210,540.00			
Maturity:	June 1999	-	-	3,293,615
Deutsche Centralbodenkreditbank Loan B				
Annual Rate:	7.57 %			
Payment:	Semi-annual			
Interest + Principal:	DM 86,130.00			
Maturity:	June 1999	-	-	1,347,388
Stadtsparkasse Dortmund Loan C				
Annual Rate:	5.40 %			
Payment:	Monthly			
Interest + Principal:	DM 28,585.00			
Maturity:	March 2002	-	-	1,020,231
Stadtsparkasse Dortmund Loan D				
Annual Rate:	7.58 %			
Payment:	annual			
Interest:	DM 137,956.00			
Maturity:	May 2000	-	1,820,000	1,820,000
Stadtsparkasse Dortmund Loan E				
Annual Rate:	5.60 %			
Payment:	Monthly			
Interest + Principal:	DM 15,120.00			
Maturity:	December 2001	-	-	2,054,685
Dortmunder Volksbank eG Loan F				
Annual Rate:	5.60 %			
Payment:	Monthly			
Interest + Principal:	DM 13,950.00			
Maturity:	January 2002	1,758,009	1,824,914	1,888,184

Amounts Payable to Banks and Long-Term Debt (Continued)

December 31,		***2000***	***1999***	***1998***
		DM	***DM***	***DM***
Dortmunder Volksbank eG Loan G				
Annual Rate:	5.60 %			
Payment:	Monthly			
Interest + Principal:	DM 13,950.00			
Maturity:	December 2001	1,739,100	1,807,032	1,871,273
Deutsche Bank AG, Dortmund Loan E GKS				
Annual Rate:	3.75 %			
Payment:	semi-annual			
Maturity:	March 2005	9,779,150	-	-
Lease Financing		53,707,028	43,042,276	44,052,362
Total		***66,983,287***	***48,494,222***	***57,347,738***
Less current portion		4,645,246	3,031,490	1,621,875
		62,338,041	***45,462,732***	***55,725,863***

Substantially all of the Company's assets are pledged to the Company's various lending institutions as collateral.

On December 22, 1997, the Company sold its office building (including the land and building improvements) for a total purchase price of DM 45,000,000. Concurrent with the sale, the Company leased the property back for a period of 9 years, related to the building improvements, and 22.5 years, related to the building and land. Under the lease terms, the Company is committed to making combined annual lease payments of DM 3,799,731 (DM 2,192,837 - building improvements, DM 1,606,894 - buildings and land) through 2006 and DM 3,749,731 (buildings and land) through 2020. Since the Company has the option to repurchase the property beginning in 2018, the transaction has been recorded as a financing transaction rather than as a sale, and the buildings and building improvements continue to be recognized in the accompanying consolidated financial statements. The amount financed is included in lease financing.

On July 7, 2000, the Company sold parts of its office buildings (including building improvements) for a total purchase price of DM 12,297,972. Concurrent with the sale, the Company leased the property back for a period of 7.5 years, related to the building improvements, and 22.5 years, related parts of the building. Under the lease terms, the Company is committed to making combined annual lease payments of DM 2,102,103 through 2007 and DM 119,056 (parts of the building) through 2022. Since the Company has the option to repurchase the property beginning in 2020, the transaction has been recorded as a financing transaction rather than as a sale, and the buildings and building improvements continue to be recognized in the accompanying consolidated financial statements. The amount financed is included in lease financing.

Interest paid on amounts payable to banks and long-term debt was DM 3,500,000, DM 4,650,000 and DM 4,729,437 during the year ended December 31, 2000, 1999 and 1998 respectively.

Maturities of long-term debt, including capital lease payments, at December 31, 2000 are as follows:

Dept Maturities	***DM***
2001	4,645,246
2002	8,033,582
2003	4,869,027
2004	5,076,634
2005	4,204,441
Thereafter	40,154,357
Total	***66,983,287***

6. Leases

The Company leases automobiles and equipment under non-cancelable operating leases.

Total operating lease expenses amounted to approximately DM 115,000, DM 114,680 and DM 114,953 during the year ended December 31, 2000, 1999 and 1998 respectively. Future minimum lease payments under non-cancelable operating leases with initial or remaining terms in excess of one year consisted of the following at December 31, 2000:

Operating Leases

	DM
2001	280,891
2002	271,853
2003	170,737
2004	92,518
2005	85,473

7. Income Taxes

Income taxes in Germany consist of corporate, trade and solidarity taxes. Corporation tax rates in the Federal Republic of Germany vary as to whether earnings are reinvested or distributed.

The Company paid DM 16,800,000, DM 15,800,000 and DM 8,823,620 in income taxes during the year ended December 31, 2000, 1999 and 1998 respectively.

The provision (benefit) for income taxes consisted of the following:

	2000	***1999***	***1998***
	DM	***DM***	***DM***
Current			
German	25,186,939	11,284,978	9,041,477
Foreign	1,080,967	748,751	614,713
	26,267,906	12,033,729	9,656,190
Deferred			
German	(1,696,047)	3,072,286	(1,112,000)
Foreign	-	37,506	228,340
	(1,696,047)	3,109,792	(883,660)
	24,571,859	***15,143,521***	***8,772,530***

Deferred incomes taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and deferred tax liabilities are presented below:

December 31,	***2000***	***1999***	***1998***
	DM	***DM***	***DM***
Deferred taxex assets:			
Equity in losses of unconsolidated subsidiary	-	-	188,000
Lease financing	21,428,008	22,734,103	25,487,000
	21,428,008	22,734,103	25,675,000
Deferred tax liabilities:			
Accrued liabilities	800,781	3,086,698	228,539
Unrealized gains on marketable securities	-	543,874	-
Property, plant and equipment	18,995,040	19,460,864	22,401,000
	19,795,821	23,091,436	22,629,539
Net deferred tax assets (liabilities)	***1,632,187***	***(357,333)***	***3,045,461***

A summary of differences between the statutory tax rate and the Company's effective income tax is follows:

Tax rate	***2000***	***1999***	***1998***
Combined German statutory tax rate	52.40%	52.40%	57.12%
Tax benefit from dividend distribution	(8.30%)	(10.00%)	-
Foreign tax rate differential	(1.64%)	(1.01%)	(1.88%)
Change in corporate tax rate	-	1.63%	-
Other permanent differendes	0.62%	1.98%	(1.55%)
Effective tax rate	***43.08%***	***45.00%***	***56.79%***

8. Common Stock

On October 12, 1999, the Company sold, pursuant to an underwritten public offering on the Neuer Markt segment of the Frankfurt Stock Exchange, 6,500,000 shares of its no par value common stock at Euro 22 per share. The offering included 4,000,000 shares of additional no par value issued by the Company and 2,500,000 shares sold by EFH. On November 12, 1999, in conjunction with an over-allotment option, EFH sold an additional 1,000,000 shares.

The Company did not receive any of the proceeds from the sales of the shares sold by EFH. The net proceeds to the Company from the public offering, after deducting applicable discounts and offering expenses, were DM 160,917,292. These net proceeds to the Company will be used primarily for the further expansion of the Company's business, particularly in the areas of market penetration and the entering of new markets, including selective acquisitions, and research and development as well as to repay some long-term obligations.

The 19,286,300 of common stock shown in the balance sheet as of December 31, 2000, consists of the 19,300,000 issued shares less 13,700 of treasury shares repurchased by the Company during 2000. The total purchase price of DM 573,325 has been shown as a reduction of share capital (DM 26,795) and paid in capital (DM 546,530).

Excluding the 1,000,000 of shares reserved for the stock option plan, the management board was, with the approval of the supervisory board, authorized in May 1999 to issue 3,000,000 additional shares either at once or over time in several allotments in exchange for cash or contributions in kind. (Authorized Shares II).

During the May 25, 2000 annual shareholders meeting, the Company's management board was authorized, with the approval of the Company's supervisory board, to issue 6,675,000 additional shares either at once or over time in separate allotments in exchange for cash or contributions in kind. The authorization of these shares (Authorized Shares I) was registered with the commercial register on July 24, 2000.

The resolutions passed at the annual shareholders' meeting on May 25, 2000 in connection with the authorized shares have become increasingly doubtful as to their conformity with the applicable stock corporation law. The shareholders did not revoke the Authorized Shares II at the general shareholders' meeting on May 25, 2000. As a result, the 9,675,000 of authorized shares including those authorized by the shareholders on May 25, 2000 exceeded 50% of the Company's total shares at that time (19,300,000) and therefore violated the provisions outlined in Section 202 Paragraph 3 of the German Stock Corporation Law ("AktG"). According to the pertinent literature and the lawyers the Company engaged to review this matter, a violation of Section 202 Paragraph 3 AktG invalidates the underlying resolutions in accordance with Section 241 No. 3 AktG. The fact that the Authorized Shares I and II were entered into the trade register does not remedy this situation.

On June 8, 2000, the management board, with the approval of the supervisory board given on June 14, 2000, authorized to increase the share capital by 200,000 shares to 19,500,000 shares based on the authorization by the annual shareholders' meeting, and subsequently amended the articles of association to authorize the management board, with the consent of the supervisory board, to increase the shares until May 24, 2005 by a total of up to 6,475,000 by issuing shares either once or over time in several allotments in exchange for contributions in cash or kind. The 200,000 shares were issued and entered into the trade register on July 24, 2000. The management board, with the consent of the supervisory board, is, however, also authorized to exclude the pre-emptive rights of shareholders for up to 10% of the shares or 1,730,000 for the above reasons in accordance with Section 186 Paragraph 3 Sentence 4 AktG.

In line with the doubts in connection with the authorized capital as such, it is questionable whether the capital increase of 200,000 shares based on the newly created authorized capital is in agreement with the existing German stock corporation law. If the Authorized Capital is invalid, the capital increase based on the Authorized Shares I will also be invalid. In accordance with Section 305 of the German Civil Code ("BGB"), shares issued in spite of the invalidity of the Authorized Capital and the underlying subscription contracts are invalid. Based on the pertinent literature and as a result of this situation, these shares do not entitle the shareholder to voting or dividend rights.

As a result, the DM 20,634,007 (Euro 10,650,000) paid by the majority shareholder for the 200,000 shares was not disclosed under shareholders' equity as of December 31, 2000, but recorded as a repayment obligation under "Advances from shareholder". The disclosure of contribution made by the majority shareholder in the balance sheet therefore differs from the amount filed in the trade register.

In addition, the lawyer believe that there is a discrepancy between the still existing Authorized Shares II of 3,000,000 shares and the authorized shares filed in the trade register as the Authorized Shares II was deleted from the trade register although the management board had not requested the deletion.

It is planned to explicitly revoke all resolutions passed in connection with the authorized capital in the year ended December 31, 2000 at the general shareholders' meeting on April 6, 2001 and to replace them with new resolutions.

9. Stock Grant by EFH

In conjunction with the initial public offering, EFH granted the Company's existing employees the right to obtain a portion of the Company's common stock held by the selling shareholder as a token of appreciation for the employees' prior service to the Company. The monetary value of the award was based on the employees' years of service with the Company and current salary. The shares will be given to the employees by EFH in three equal installments over a three year period. In conjunction with this grant, the Company recognized DM 6,375,000 of compensation expense.

10. Stock Option Award Plan

The Company has a stock option plan that provides for the granting of stock options to officers and employees. The objective of this plan is to promote the success of the Company by providing employees the opportunity to acquire common stock. Under the plan, the Company is authorized to grant up to 1,000,000 new shares of which 116,525 shares were granted in December 1999. Additionally, the exercise price of the stock option is equivalent to 120% of the average closing share price of the Company on the ten business days prior to the management board granting the respective shares. The options can only be exercised if the closing price of the shares reaches the exercise price. The options vest after three years of continued employment and expire 7 years subsequent to the date of grant.

As of December 31, 2000, the Company had 116,925 options outstanding, none of which were exercisable, with an exercise price of Euro 34.89. During the year ended December 31, 2000, 8,700 stock option shares were forfeited and none were exercised. Additionally, the Company issued an additional 8,700 stock options at the same exercise price.

The Company applies Accounting Principles Board Opinion No. 25 (APB No. 25) in accounting for its plan. Accordingly, no compensation cost has been recognized in the Consolidated Statements of Income and Comprehensive Income from options issued under the Company's stock option plan. Pro forma earnings amounts prepared under the assumption that the stock options granted had been accounted for based on their fair value as determined under Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," are as follows:

Pro Forma Earnings

	2000	***1999***
	DM	***DM***
Net income	31,957,459	18,486,828
Net income per common share Basic and fully diluted	1.65	1.78

Using the 19,300,000 common shares outstanding as of December 31, 1999 for the entire year, the net income per common share in 1999 amounted to DM 0.96.

The average fair value of stock options was Euro 14.23. The fair value of options was calculated as of the date of grant using the Black-Scholes option pricing model using the following assumptions:

Fair Value Assumptions

	1999
Dividend yield	1.4 %
Expected volatility	61.7 %
Risk free interest rate at grant date	6.0 %
Expected life in years	5 Jahre

Because additional awards in future years are anticipated in pro forma effects of applying thins statement presented above are not indicative of future amounts

11. Earnings Per Common Shares

The following table presents a reconciliation of the shares used to calculate basic and diluted earnings per common share.

December 31, ***Reconciliation of Shares***	***2000***	***1999***	***1998***
Weighted-average common shares outstanding	19,298,858	10,370,725	930,551
Effective dilutive stock options	28,800	-	-
Weighted-average common shares outstanding assuming dilution	***19,327,658***	***10,370,725***	***930,551***

Prior to May 12, 1999, the Company had DM 1,820,000 of share capital. For the purposes of the per share calculation, the number of shares prior to May 12, 1999 were calculated using the share capital and the Euro/DM exchange rate.

12. Capital Contribution/Return of Capital

On April 30, 1999, the Company settled a dispute with the bankruptcy representative of a former shareholder who was forced to sell his shares in the early 1990's. The settlement amount of DM 4,500,000 was paid by EFH on behalf of the Company. This was treated as a DM 4,500,000 contribution of capital by EFH and a return of capital to the former shareholder.

13. Accumulated Other Comprehensive Income

Total comprehensive income represents the net change in shareholders' equity during a period from sources other than transactions with shareholders and such, includes net earnings. The main components of other comprehensive income that relate to the Company are foreign currency translation adjustments and unrealized gains or losses on the Company's available-for-sale securities. The components of accumulated other comprehensive income are as follows:

	2000	***1999***	***1998***
	DM	***DM***	***DM***
Foreign currency translation adjustment	59,734	34,443	(19,841)
Unrealized gain on availible-for-sale securities net of income taxes	-	262,179	-
Accumulated other comprehensive income	***59,734***	***296,622***	***(19,841)***

14. Geographic Data

Total sales to unaffiliated companies were broken down as follows for the year ended December 31, 2000, 1999 and 1998:

	1999	1998	1997
	DM	DM	DM
Germany	86,679,000	77,251,000	69,168,000
EU-Countries	97,143,000	70,480,000	54,271,000
U. S. A.	15,041,000	12,492,000	10,586,000
Rest of the World	8,116,182	9,070,245	5,234,611
Total sales	***206,979,182***	***169,293,245***	***139,259,611***

The Company had approximately DM 564,000 of property, plant and equipment as of December 31, 2000 related to its operations in France and the U.S.A.

15. Employees

During the year ended December 31, 2000, the Company had an average of 514 employees.

16. Subsequent Event

On January 8, 2001 the Company purchased 95.84% of European Semiconductor Assembly (Eurasem) B.V., an assembler of semiconductors located in Nijmegen, Netherlands. The seller is to acquire the remaining 4.16% from private shareholders and transfer these shares also to ELMOS. The total price for 100% of the shares was Dutch Guilders 12 million (DM 10.65 million)

On January 12, 2001, the Company settled its dispute with Allmos Electronic GmbH, Planegg. This settlement did not have a material effect on the Company's consolidated financial operations and financial position.

The Shareholders
ELMOS Semiconductor Aktiengesellschaft
and Subsidiaries

We have audited the accompanying consolidated balance sheets of ELMOS Semiconductor Aktiengesellschaft ("the Company") and Subsidiaries as of December 31, 2000, 1999 and 1998 and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for the years then ended. The preparation of, and disclosures in, the consolidated financial statements prepared in accordance with United States Generally Accepted Accounting Principles (US GAAP). Our responsibility is, based on our audit, to express an opinion on the consolidated financial statements and management report, as well as on whether the prerequisites for the exemption from statutory group accounting pursuant to Art. 292A German Commercial Code (HGB) has been satisfied.

We conducted our audit in accordance with auditing standards generally accepted by the German Institute of Wirtschaftsprüfer. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, the effectiveness of the internal control system as well as evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ELMOS Semiconductor Aktiengesellschaft and Subsidiaries at December 31, 2000, 1999 and 1998, and the results of their operations and their cash flows for the years then ended, in conformity with US GAAP.

Our audit, which also covered the consolidated management report as prepared by the Company's management board for the fiscal year ended December 31, 2000, has not resulted in any objections or exceptions. It is our opinion that the consolidated management report, in combination with the other disclosures in the consolidated financial statements, present fairly the Company's overall position and the risks inherent in its future development.

In addition, we confirm that the consolidated financial statements and management report for the year ended December 31, 2000, satisfy the requirements to exempt the Company from preparing consolidated financial statements and a consolidated management report in accordance with German law.

Dortmund, February 15, 2001

Ernst & Young
Deutsche Allgemeine Treuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Brorhilker	Muzzu
Wirtschaftsprüfer	Wirtschaftsprüfer