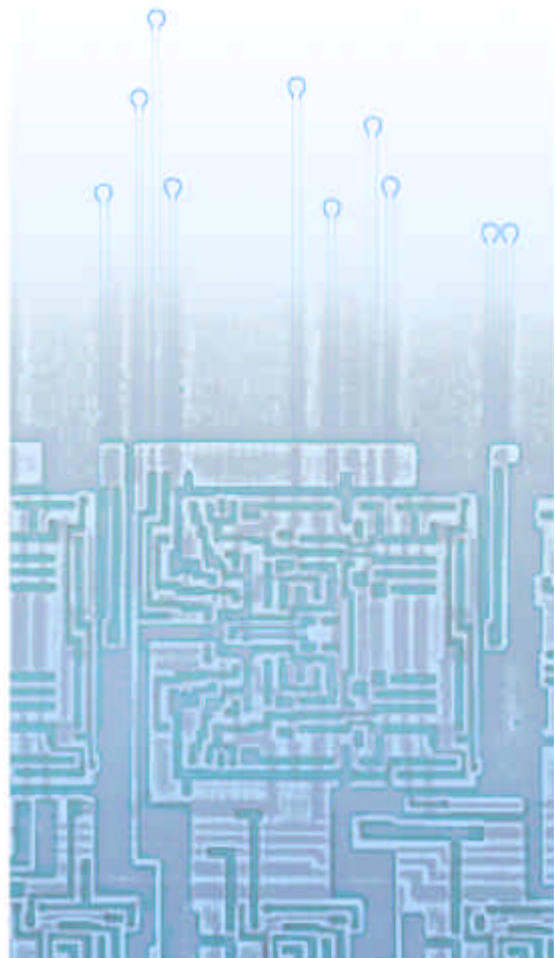


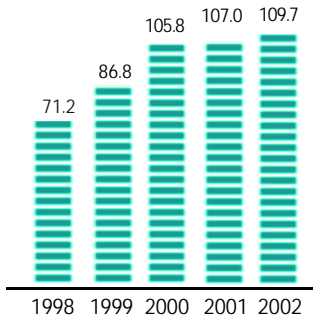
# Annual Report | 2002



# Consolidated Figures according to US GAAP

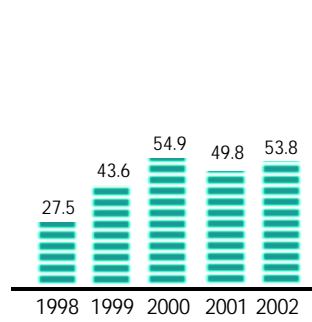
## Net sales

in EUR million



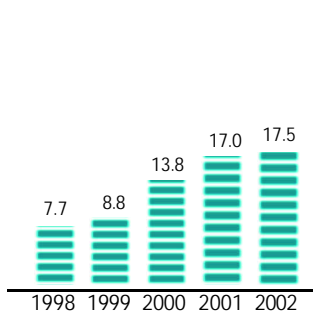
## Gross profit

in EUR million



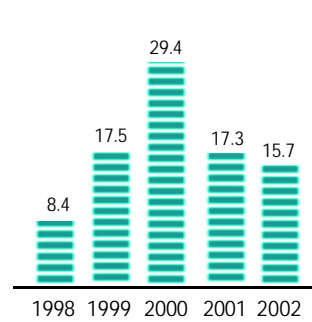
## Research and development

in EUR million



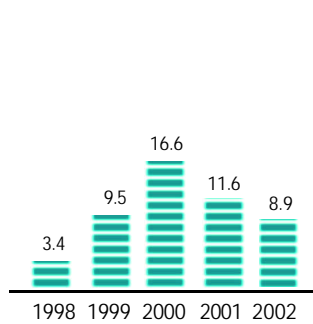
## Income before income taxes

in EUR million



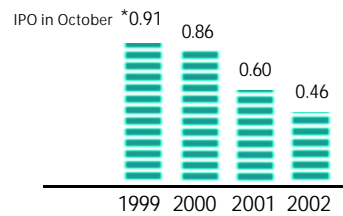
## Net income

in EUR million



## Earnings per share

in EUR



## Selected Consolidated Figures according to US GAAP

	2002	2001	2000	1999	1998
Net sales in EUR million	109.7	107.0	105.8	86.6	71.2
Cost of sales in EUR million	55.9	57.3	50.9	42.9	43.7
Gross profit in EUR million	53.8	49.8	54.9	43.6	27.5
Research and development in EUR million	17.5	17.0	13.8	8.8	7.7
Operating income in EUR million	18.3	17.0	27.7	23.3	9.0
Income before income taxes in EUR million	15.7	17.3	29.4	17.5	8.4
Taxes on income in EUR million	6.7	5.8	12.6	7.7	4.5
Net income in EUR million	8.9	11.6	16.6	9.5	3.4
Shareholders' equity in EUR million	112.4	113.1	120.0	112.7	14.8
Balance sheet total in EUR million	208.5	208.0	188.5	155.9	77.1
Earnings per share in EUR	0.46	0.60	0.86	*0.91	-
Dividends per share in EUR	**0.00	0.00	0.91	0.45	-
Employees on annual average	830	624	514	477	458
Share price in EUR by December 31	8.05	14.50	25.50	41.00	-
Shares in million by December 31	19.3	19.3	19.3	19.3	-
Market capitalization in EUR million by December 31	155	280	492	791	-

\* IPO in October 1999

\*\* Subject to stockholders' resolution

## Key Share Data

### Corporate details

Corporate headquarters	Dortmund, Germany
Year of foundation	1984
Capital stock by Dec. 31,2002	19,300,000 Euro

### Stock details

Type of shares	Non-par value ordinary bearer shares
ISIN	DE0005677108
WKN	567 710
Stock exchange symbol	ELG
Home stock exchange	Frankfurt
Market segment	"Neuer Markt", since January 1, 2003, "Prime Standard"
Index	"NEMAX 50", "TecDAX 30", from March 24, 2003
Stockholdings	42,3 % diversified 57,7 % EFH ELMOS Finanzholding GmbH
Designated sponsors	Crédit Suisse First Boston Deutsche Bank HSBC Trinkaus und Burkhardt West LB Archelon (Xetra Best) N. M. Fleischhacker (Xetra Best)

### Issue details

Start of trading	October 11,1999
Stock issue	6,500,000 non-par value ordinary bearer shares, including 4,000,000 stocks from capital increase 2,500,000 stocks from EFH holdings
Over-allotment option	1,000,000 share from EFH holdings, exercised
Initial issue price	EUR 22
Consortium banks	Joint global coordinators Crédit Suisse First Boston Deutsche Bank Co-Lead Managers Société Générale WestLB

### Equity research on ELMOS

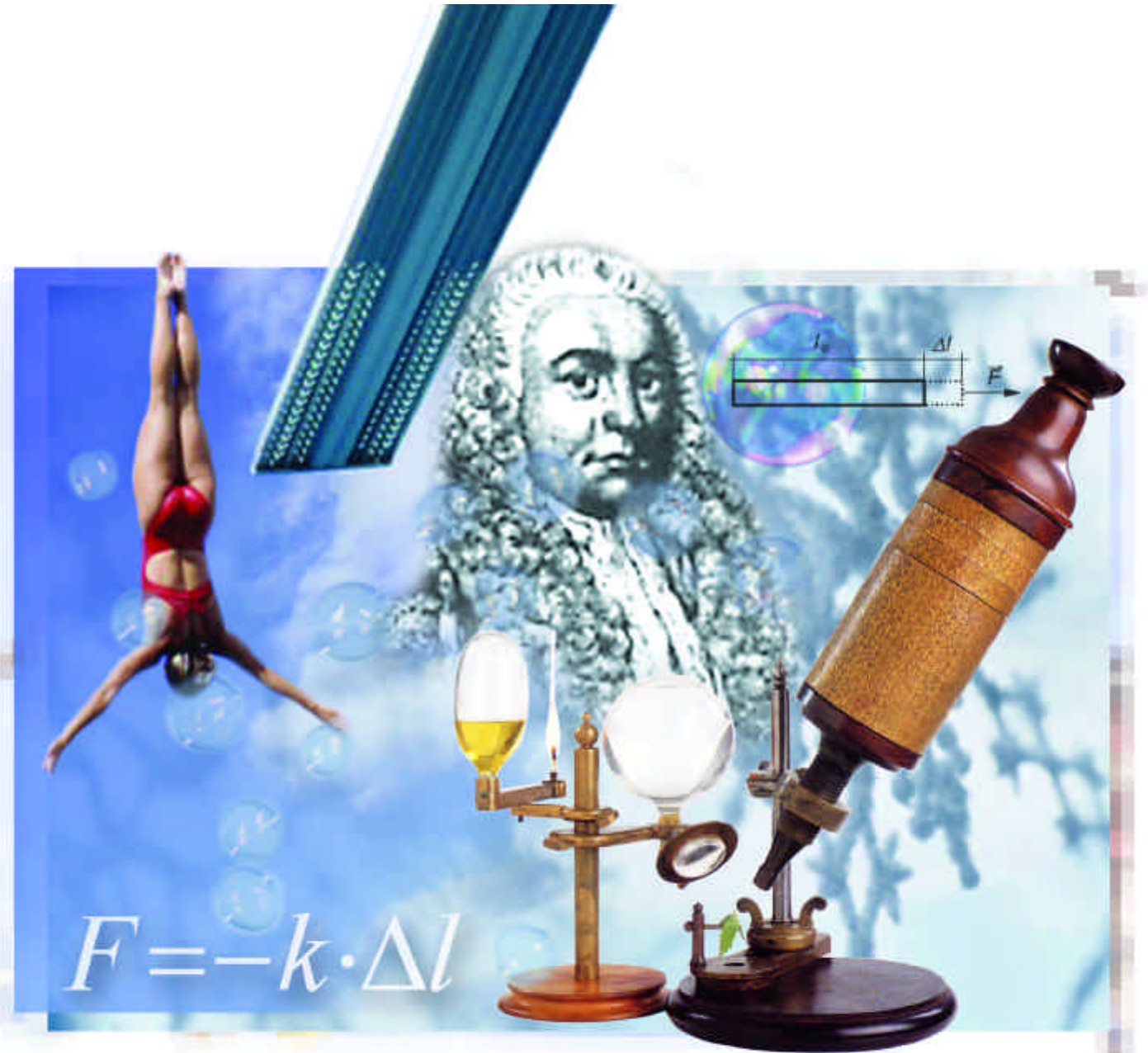
Bank Julius Bär	Ingo Queiser
Bank Vontobel	Viktor Dammann
Berenberg Bank	Dr. Oliver Wojahn
Crédit Agricole Indosuez Cheuvreux	Bernd Laux, Yasmin Majewski
Crédit Suisse First Boston	Jean Danjou, Antoine Badel
Deutsche Bank	William Wilson, Nicolas Gaudois
Dresdner Kleinwort Wasserstein	Annett Weber
DZ-Bank	Harald Schnitzer
HSBC Trinkaus & Burkhardt	Thorsten Zimmermann
ING BHF Bank	Manuel Deimel
MainFirst Bank	Thomas Kessler
M.M.Warburg & Co	Michael Bahlmann
Landesbank Baden-Württemberg	Uwe Barth
Puilaetco de Laet, Poswick & Cie.	Philippe Rochez
SES Research	Oliver Drebing
UBS Warburg	Laura Baker
West LB Panmure	Dr. Karsten Iltgen

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### **Robert Hooke**

1635-1703  
English natural scientist

publishes Hooke's law on the linear connection between force and spring extension.

### **Hooke und ELMOS**

At ELMOS, Hooke's formulas are applied to all micro-mechanical pressure sensors as well as in the test and assembly areas.

### *Homage to our forerunners*

***"Imagination is more important than knowledge."***

*Albert Einstein*

Visionaries have had a positive influence on the world. They have changed it.

Without Euclid, Thales of Milet, Pythagoras, Hooke, Newton, Einstein, and many others, we would not be where we are today.

### *Culture by inventions*

You can read the development of cultures and societies from their creations and discoveries. On the other hand, new creations depend on the scientific, technical, and cultural progress of mankind. Many ideas that had come into being centuries ago could be put into practice only after other prerequisites had been fulfilled.

### *Leonardo far ahead*

As early as 1490, Leonardo da Vinci drew a helicopter which, however, could not be constructed prior to the invention of the combustion engine in the year 1860.

Inventions are products of the creative imagination of the human mind. They are often the result of a new, unique combination of technologies already in existence, the result of a long chain whose elements are intellectually connected with each other.

### *Stone on stone*

As Pythagoras resumed Euclid's findings, and Ohm resumed Pythagoras's calculations centuries later, mathematicians and physicists have added to the understanding of others, stone on stone.

A single chip of today has as many components as the whole Saturn rocket carrying the Apollo capsule, as many stones and pieces of glass as required to build the cathedral in Chartres, or the total number of stones used for the construction of the great pyramid in Gizeh.

### *Geniuses provide the basis*

The inventors and geniuses in the fields mechanics, electrodynamics, quantum mechanics, and semiconductor physics introduced by us provide the basis making our work possible.

ELMOS stands for the passion that revolutionizes common ideas. ELMOS orients itself towards the great examples, and consistently converts own ideas to new products and applications. We consider ourselves visionaries and forerunners. Our ideas, our courage to do the unusual, and of course our ability are decisive for the advice we offer our customers.

On the occasion of this year's annual report, we seize the opportunity to pay homage to our ingenious progressive thinkers and forebearers.

### *Prepared for the next technological generations*

We consider our shareholders visionaries as well, with a feeling for technical requirements and possibilities, for market development and sales prospects they invest their assets in.

In order to keep it that way, in its effort for innovations ELMOS feels connected with its scientific examples, with their inventiveness and urge to research.

We will keep taking up the challenge of the market, initiating technical developments, and presenting new products to our customers.

***ELMOS. To new shores.***





**Paul Isaac Newton**

1643-1727  
English physicist

founder of classical mechanics, whose three basic laws are called Newton's axioms.

An apple falling to the ground in Newton's garden gives the impetus to the formulation of the theory of gravity.

Also founds geometric optics and discovers (white) sunlight being composed of the colors of the spectrum.

**Newton and ELMOS**

At ELMOS, his formulas of geometric optics, amongst other things, the basis for photolithography, find application.



## Letter to the Shareholders

### **"One's journey is the destination."**

Lao-Tse from "Te-Tao Ching", 604 BC

#### *Dear Shareholders,*

at the end of the year, we had to bemoan the death of Professor Dr. Karsten Ehlers. He was a courageous visionary who, as a head of department at Volkswagen AG, carried out the transition from electrics to electronics. Retired but still youthful, he taught electrical engineering at the University Braunschweig and was a consultant as well, but also a "young entrepreneur". We had the honor of having him in our midst, as an advisor in the Supervisory Board, and as a friend. We thank him and we know that ELMOS was a joy to him.

At present, we are experiencing the greatest and longest recession of the semiconductor industry, and it is continuing. Prospects for 2003 are mediocre.

The giants of the international semiconductor industry are trying to resolve this crisis by further cost optimization. Major investments in new megaplants and innovative sub-micron technologies, particularly for use in the memory and microprocessor range, are carried out worldwide. But the outcome of the race for cost leadership is wide open at the moment, results of these strategies have been sobering to date. The drop in prices for memory, flash, and logic products has compensated for the productivity success achieved so far so that no sustainable development towards a gain in profitability has occurred. The situation has thereby been further intensified for the important manufacturers in the semiconductor branch, concerning not just the company but their employees and shareholders as well.

The strategic orientation of ELMOS has kept us safe from such developments. Concentration on the market segment automotive with an emphasis on customer specific integrated circuits is a twofold differentiation protecting us very successfully from a ruinous competition. From day to day we see more clearly that international semiconductor groups become increasingly disinterested in the division

customer specific circuits, because the unit numbers do not appear attractive enough to use their large production lines to capacity.

Our customers recognize that, too, commissioning to us an ever-increasing number of new projects at larger product volumes. In the last three years, 80 new development projects accumulated, with a future sales volume of roughly EUR 650 million, at a revenue of EUR 323 million carried out. These doubled figures show clearly that ELMOS will be a fast-growing company in the next years!

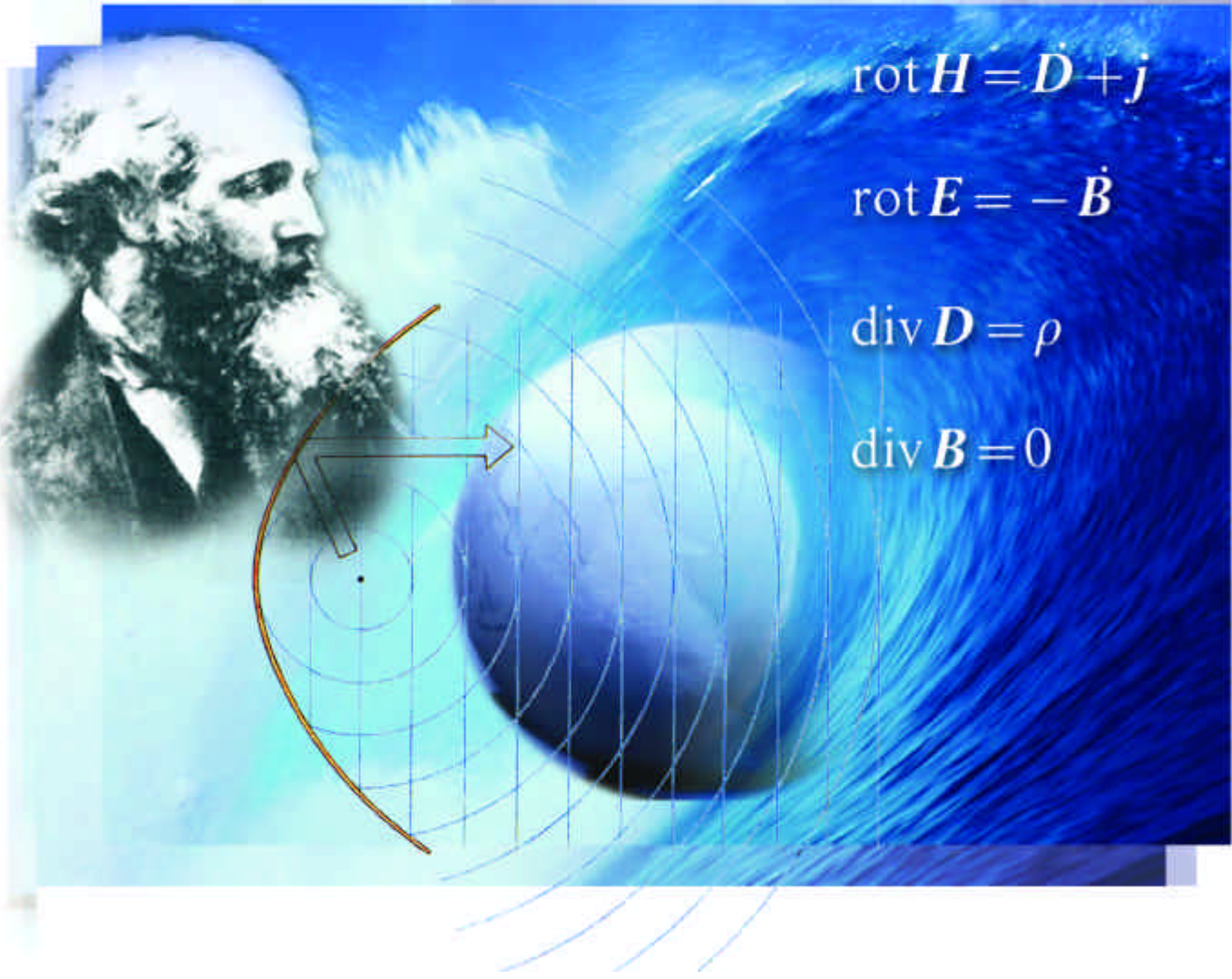
Growth without profit would not make for a pleasant alternative, though. With combined efforts, we managed the change in the past year. Following short-time work in the first four months, we improved continuously. Today we resume the best margins in corporate history, and we exceeded the operating result of the previous year. Only the financial result is strained by increased debts, a result of the investment in the future of our subsidiaries eurasem and SMI.

Therefore, we dare look into the future with optimism. We are expecting an increase in sales by roughly 15 percent to approximately EUR 125 million in 2003. The ELMOS group's operating result and income before and after taxes will also rise significantly. With positive figures planned on an annual basis, the subsidiaries will make their contributions.

Stability and constancy of the corporate development are also reflected in the nomination for the TecDAX 30, of which ELMOS will be a part of from the start. This is a special honoring and, at the same time, highlight of the company's stock market quotation of more than three years. After the advance to the NEMAX 50 in the past year, it is further proof for the substance and prospect of ELMOS.

Thank you very much for your previous and future trust.

Knut Hinrichs  
Chairman of the Management Board



**Charles Clerk Maxwell**

1831-1879  
English physicist

*concerns himself with the three-color theory, the kinetic theory of gases (Maxwell velocity distribution), and the mathematical treatment of electromagnetic phenomena (Maxwell's equations).*

**Maxwell and ELMOS**

*Maxwell's equations are today every electrical engineer's basic equipment for developing electrical and electronic systems.*

## Report of the Management Board

### Overall economic situation

2002 was a year of hopes. Following the devastating slump of the semiconductor market in the year before, things could only get better, as they were expected to. A general upswing was predicted for the second half-year at the latest. Alas, the expected change of direction proved treacherous: the whole market consolidated at a level of about USD 140.7 billion, just 1% more than the previous year level. The branch has been experiencing the longest recession phase ever.

The hoped-for stimulation of the semiconductor market coming from the large segments data processing (50%), telecommunication (24%), and consumer (13%) failed to materialize. The shortage of demand for dynamic memory chips (DRAM) led to a ruinously low price level. At retail prices of less than USD 3 per 128 megabit memory chip, not even the production costs of about USD 3.20 are covered. In telecommunication, too, there was a lack of innovative products and services that could have stimulated desirable growth.

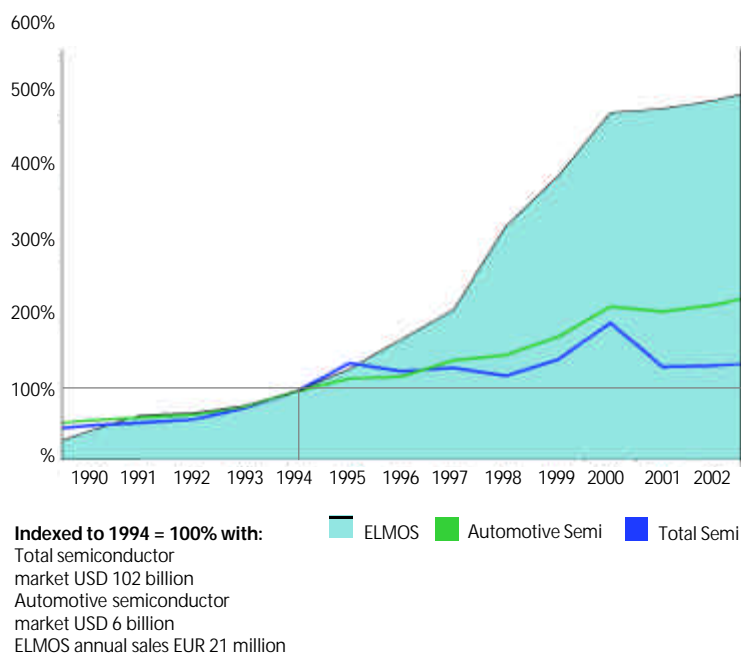
Consequently, manufacturing capacities at 150 mm and 200 mm plants providing technologies in the 0.5 - 1.0 micrometer range have been shut down to a great extent. On the other hand, the pressure on prices and capacities in the market for memory and logic products has risen further due to the construction or operation of new megaplants with 300 mm wafer size and structure sizes of less than 0.2 micrometers.

The market segment semiconductors for automotive use did escape the overall trend and increased by 4%, from USD 12.6 billion to USD 13.2 billion. While the divisions microcontroller and, most notably, power semiconductors registered considerable growth, the division mixed-signal products suffered a decline.

The ELMOS group, offering customer specific mixed-signal circuits, asserted itself well in the year 2002. Compared to the previous year's level, the revenue was increased to EUR 109.7 million, narrowly realizing the originally targeted revenue of EUR 110 to 112 million.

On May 1, 2002, the short-time work at the Dortmund manufacture ELMOS had started with into the year under report was called off. Internal cost reduction programs addressing manufacture and logistics were running successfully, and product ramp ups in the second half-year stimulated demand so that the operating result increased from quarter to quarter. This extraordinarily positive result, considering the difficult economic framework, shall be resumed in the year 2003 with a planned growth by roughly 15%.

### Relative development total semiconductor market, automotive semiconductor, and ELMOS



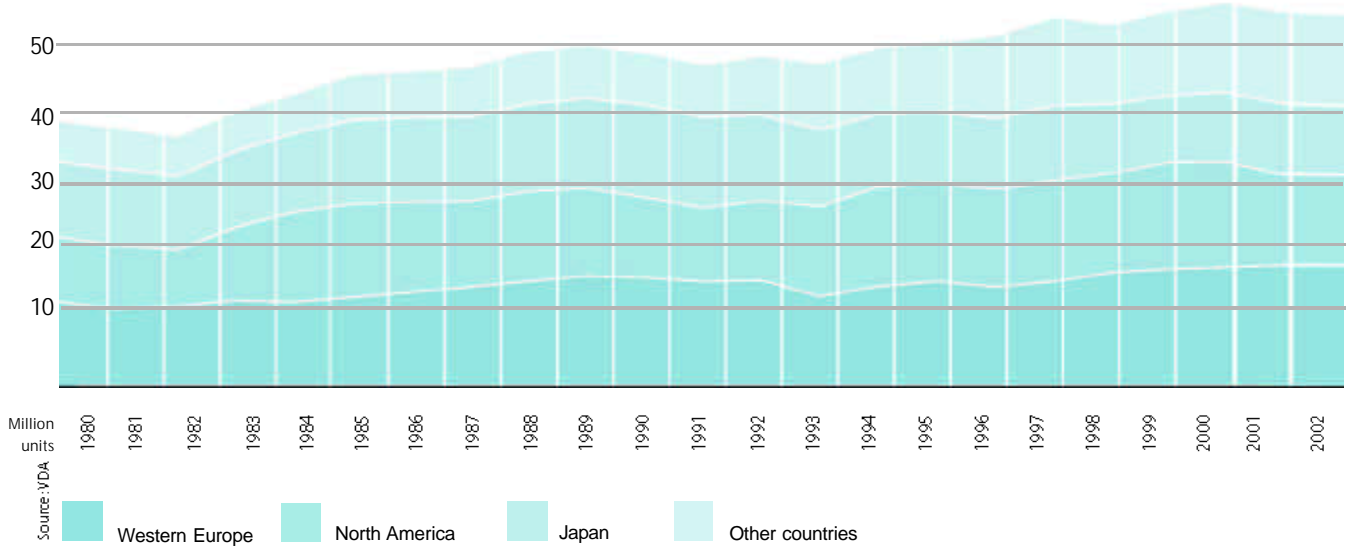
### Automobile market

Although hard times had been predicted for the automobile market, which is very important to ELMOS, the economy proved stable. Some manufacturers even gained considerable growth. In 2002, the worldwide automobile market developed more favorably than expected. It had been feared that parts of the business would have been anticipated in 2001 due to discounts and favorable financing, and that sales figures would fall.

But the European and American markets settled only slightly below the respective previous year levels. In contrast to the worldwide automobile production, the total number of first registrations decreased in Western Europe by about 3%, in the US by about 2%. The premium segment, with manufactures Audi, BMW, and DaimlerChrysler, once more achieved stable growth in a shrinking overall market. Particularly BMW made a strong impression, achieving a staggering

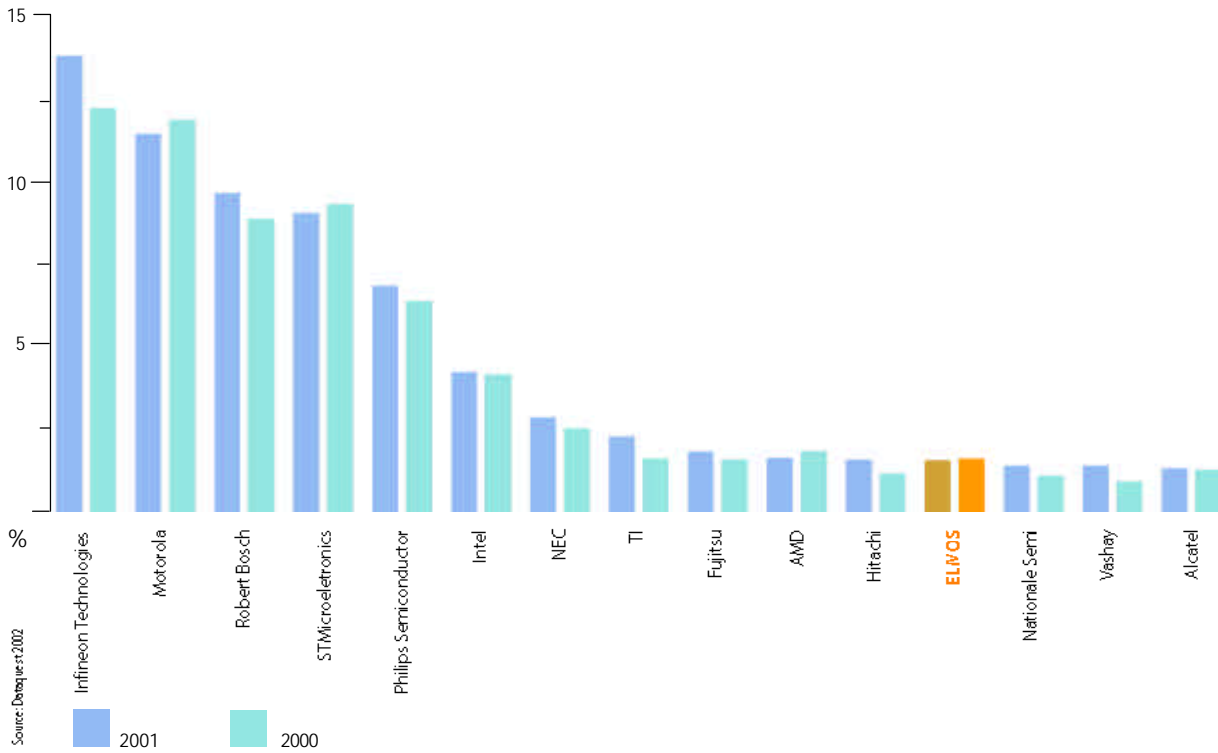
growth of 17% with the launch of the new 7 series and, above all, the Mini as cult vehicle in the compact division. Peugeot stood out as well, gaining further market share on the strength of its new 307 model especially in Europe. German manufacturers were very successful abroad in particular, and some grew significantly.

### Worldwide automobile production





Shares in the European market for automotive semiconductors



On the whole, the automobile market's semiconductor demand proved relatively stable. Therefore this market became an interesting and safe haven for many semiconductor manufacturers. Motorola asserted its number one position in the world, uncontested for years, with its share of 11% of the worldwide automotive semiconductor market in 2001. However, gaining nearly 17%, Infineon surpassed STMicroelectronics and NEC. Infineon, new number two, achieved a market share of nearly 7% at a revenue of USD 863 million.

On the European market for automotive semiconductor components, crucial to ELMOS, in 2001 the top five companies remain Infineon, Motorola, Bosch, STMicroelectronics, and Philips. According to this 2002 Dataquest market review, ELMOS is in a remarkable 12th position. However, it is worth noting that a majority of competitors overcompensated for the decline in the mixed-signal division with significant growth in the power semiconductor and microcontroller divisions. The ELMOS product range does not provide these opportunities, making the Dataquest ranking's 12th position at a stable revenue a very successful outcome.

Of the different product types of automotive semi-conductors the table below serves to illustrate, ELMOS focuses clearly on customer specific ASICs.

	Standard components	ASSPs	ASICs
Examples	Microcontroller, power driver, discrete components, etc	Standard modules, e.g. bus & sensor interfaces, etc.	Individual customized solutions
Typical product volumes in million units per year	more than 25	5 to 25	0.5 to 10
Unit price	low	medium	medium / high
Pressure on prices	high	medium	medium / low
Competition	worldwide	selected	focussed
Development expenditure	low / medium	medium	medium / high
Technology	general	general / special	custom-made

### Corporate situation

The first half-year 2002 was still characterized by a surplus of capacity from the previous year, leading to the introduction of short-time work in production and a cost reduction program. Increasing revenue, at EUR 29.1 million in the third quarter and EUR 28.6 million in the fourth as compared to EUR 25.6 million in the first, and consequently improved utilization of the Dortmund manufacture helped the gross margin rise to more than 50% again. The result before tax improved from 10% in the first quarter to 17% in the fourth.

The number of products entering volume production in 2002 was relatively small as expected, and therefore no significant impetus towards expansion could be given. This is the last after-effect resulting

from the gap in new project acquisitions (design wins) of the years 1996 to 1998. Back then personal resources were tied strongly by production restructuring from 100 mm to 150 mm wafer diameter so that few new design projects could be initiated.

Fortunately, the book-to-bill ratio with regard to the ASIC core business improved continuously in the course of the year, from 0.90 in the first quarter to 1.10 in the fourth. This resulted in satisfying utilization through the second half-year and a solid basis for the year 2003. With reference to the whole year 2002, at a book-to-bill ratio of 1.03% roughly 9% more ASIC orders were awarded to ELMOS than the year before, amounting to EUR 97 million.

In the year under report, the number of design wins, i.e. the newly commissioned chip developments, reached a record of 31, following 27 in the year before. Thus a future order volume of more than EUR 300 million over the terms of these new products was acquired, including EUR 30 million for HALIOS. These contracts typically lead to unit volume production in about three years, providing corresponding sales contributions. This is the consequence of the customer specific business of ELMOS, requiring product development by ELMOS engineers as well as qualification and customer release prior to production.

In reaction to the successful project acquisition, we further expanded our staff for chip design and product development in the year under report. At present, more than 120 engineers and technicians are concerned with customer specific development at the various ELMOS locations in Europe and the U.S. Capital investment in our subsidiary Gärtner-Elektronik-Design (GED) in Frankfurt / Oder was increased to 74% in the year under report as planned. The remaining shares are the property of the Gärtner family. In addition to that, we have entered into tight cooperation with two other designer groups in Germany, the Mikroelektronik-Anwender-Zentrum (MAZ) in Brandenburg and the company DMOS in Dresden. Thus almost 20 additional engineers with many years of experience in mixed-signal design as well as automotive applications are at our disposal.

International presence and the penetration of the American market are two key factors for the growth of ELMOS. International presence is achieved, for instance, by our successful subsidiary ELMOS France in Nanterre, just outside of Paris. 18 employees are concerned with design and services for our French customers, especially Valeo, Sagem / Johnson Control, and Bosch. The French revenue share amounted to EUR 14.5 million.

Staff of ELMOS North America at its Farmington Hills headquarters near Detroit, Michigan increased from 16 to 24. In the year under report, 7 development contracts were signed by U.S. customers, making 2002 the most successful year to date. Above all, this confirms the transferability of the ELMOS business model to the American market. U.S. component

suppliers to the automotive industry use customer specific chips, too, in order to differentiate from their competitors and to economically realize top-of-the-line products. The U.S. contribution to the group revenue came to EUR 3.6 million. However, U.S. expenditure at present still requires ELMOS pre-financing at annually approx. EUR 1.3 million. In the year 2003, the first original U.S. volume products will be manufactured, contributing earnings to cover development expenses. Over the year under report, capital was increased at ELMOS North America by the conversion of ELMOS loans amounting to EUR 1.7 million.

#### *eurasem und SMI*

The companies eurasem B.V. in the Netherlands and Silicon Microstructures Inc. (SMI) in California, both acquired in 2001, represent the major part of the ELMOS stake portfolio. For this reason, an individual chapter deals with each company.

In each of both companies, about EUR 25 million have been invested to date, including acquisitions and capital increases. SMI reached the break-even point in the third quarter of 2002 for the first time. This breakthrough is expected for eurasem to happen in 2003.

eurasem had 139 employees by the end of the year and contributed EUR 2.8 million to the group revenue in the year under report. The company's net sales came to EUR 7.1 million in 2002. The operating loss amounted to EUR 1.9 million.

SMI had 73 employees by the end of the year. The company contributed EUR 7.3 million to the group revenue in the past year. The company's net loss came to EUR 0.2 million in 2002.

At the subsidiary SMI, a capital increase amounting to EUR 5.2 million was carried out over the year under report.



eurasem European Semiconductor Assembly B.V., located in the Netherlands, is a highly qualified service

the reorganization effort, revenues from old projects in production at eurasem since before December 2000 were expected initially. Due to the dramatic slump in the telecommunication market, one of eurasem's most important customers cancelled all



provider of the semiconductor industry. It develops and manufactures packages for electronic semiconductor components and sensors. Besides standard JEDEC packages, particularly customer and application specific special packages are part of the eurasem product portfolio. The company operates state-of-the-art production lines for prototype and volume production and looks back on an expertise of many years. eurasem was founded in Nijmegen in 1987. In the early 90s, the European Philips assembly line was acquired by eurasem as a spin-off. ELMOS bought eurasem in December 2000.

ELMOS has equipped eurasem in order to enable it to take over a substantial part of the assembly services for ELMOS so far performed in the Far East. During

orders by the beginning of 2001, leaving production at a poor capacity utilization rate.

Equipment investment and process installations necessary for the modernization and adjustment to ELMOS requirements were carried out in the years 2001 and 2002. Operational facilities now provide state-of-the-art technology.

The lengthy release procedures for many package types could also be concluded with almost all customers in the year under report, making it possible for an ever greater part of assembly services for ELMOS to be relocated from Asia to the Netherlands gradually.



In the summer of 2002, a continuous operation of seven days a week was introduced at eurasem as well, thus leading to better utilization and a smoother and more stable production flow. The additional staff required had been prepared for their tasks beginning in the first quarter of 2002. By year's end, eurasem had 139 employees.

By the end of 2002, eurasem covered about 60% of the assembly services for ELMOS and produced approx. 10 million components per month.

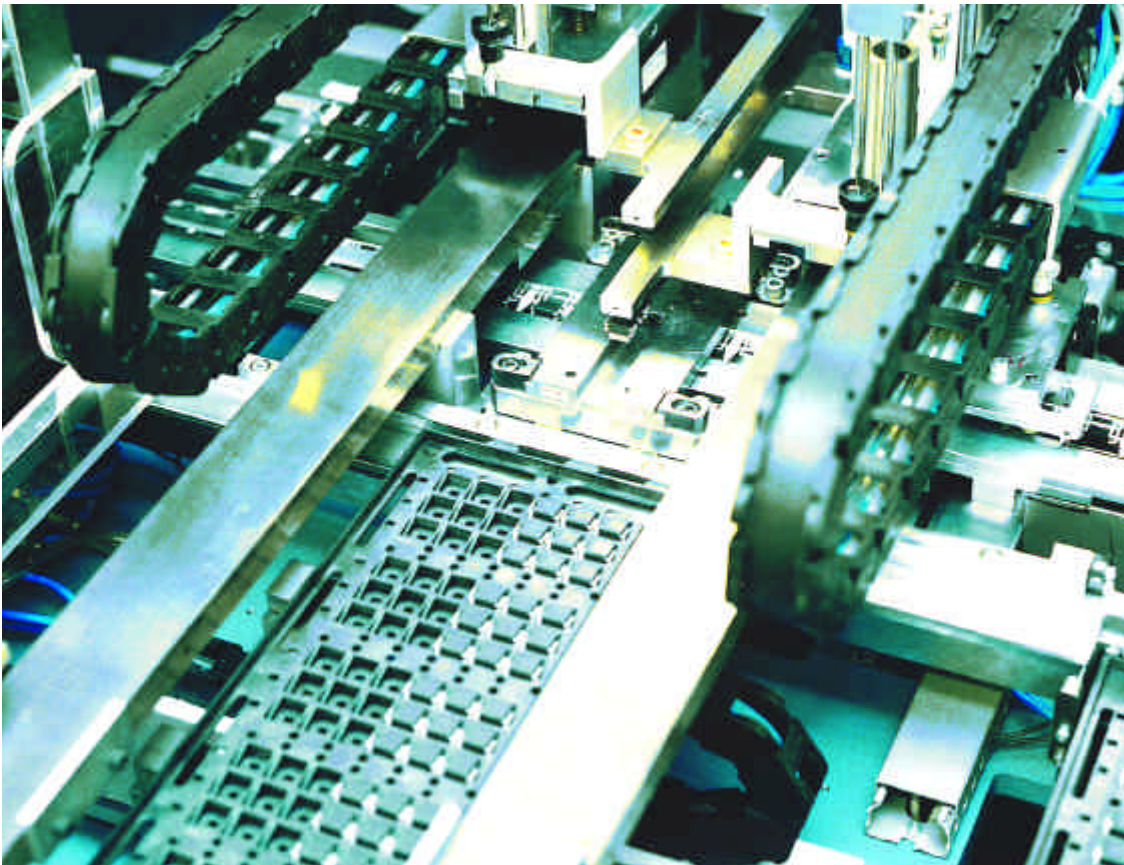
Apart from the assembly of ELMOS products in standard packages, eurasem assembles numerous special packages for other customers. Among those are optical and accelerator sensors in customer specific packages.

In the year 2002, a revenue of EUR 7.1 million was achieved, divided in services for ELMOS worth EUR 4.3 million and services for third parties at EUR 2.8

million. Despite continuous improvement, the operating loss was still negative in the last quarter of 2002. With reference to the whole year, the operating loss amounted to EUR 1.9 million.

Owing to constantly increasing utilization, reaching the break-even point is expected in the course of the year 2003.

In the year 2003, production capacity will be further expanded by the operation of additional machines available already in order to respond to growing demand. To this end, the production area is being reorganized. In the medium term, the testing of assembled circuits is planned to take place in an area yet to be erected at eurasem. Accordingly, the acquisition of a neighboring building and a connection to the original one with the expansion of a production clean room are intended over the year 2003. This expansion is meant to be financed by a finance investor in the course of a sale & leaseback transaction.





SMI Silicon Microstructures Inc. in California, U.S.A. develops and manufactures MEMS sensors (micro-electronic-mechanical systems). SMI is well-established in the sensor market and ranks among the technology leaders for high-precision pressure sensors in silicon. Current business is done with products primarily in the automotive sector, e.g. for exhaust emission and engine control as well as security systems, but also

In 2001, SMI was struck particularly hard by the receding American economy. Sales were decreasing significantly from quarter to quarter. In the fourth quarter, they amounted to about half of the first quarter's.

Due to stabilizing measures taken by the parent company and own intensified sales activity, SMI sales were increased continuously from quarter to quarter in the year under report. In the summer of 2002, the production line of the company IC-Sensors in Milpitas was acquired by SMI. Thereby, SMI received a comple-



with medical respirators and catheters as well as industrial heating and air condition systems. The founders and managing directors of SMI, Dr. Jim Knutti and Dr. Henry Allen, are among the pioneers of MEMS-based sensor technology.

Apart from pressure sensors, SMI is also equipped to develop and manufacture sensors for acceleration and rotary motion. Those sensors are very important to car applications. By the example of a car, the illustration opposite shows the multitude of sensors in use today already. There are indications of the automotive market becoming the biggest market segment for micro-mechanical sensors, since its demands on volume and price can be met very well by micro-mechanical manufacturing technologies.

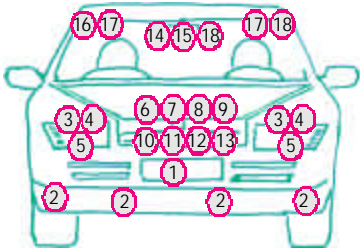
tely equipped production clean room for micro-mechanical products on the edge of San Jose in California's Silicon Valley. Since from then on SMI appeared as a wafer foundry for IC-Sensors, the production volume reached the critical size necessary to reach the break-even point by the third quarter.

By the acquisition of the production line, SMI took the position of a profitably producing silicon foundry for MEMS products. Because numerous small manufactures in Silicon Valley and other places have to shut down due to chronically poor capacity utilization rates, interesting opportunities to take over the manufacture of those products are turning up for SMI.

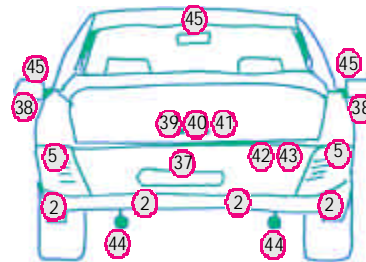
**Sensors in an automobile**



- 19. Number of wheel revolutions (ABS)
- 20. Tire pressure
- 21. Brake pads
- 22. Brake pressure
- 23. Speed
- 24. Engine control
- 25. Driving characteristics / (transverse) acceleration
- 26. Yaw rate
- 27. Rollover detection
- 28. Side airbag
- 29. Cabin air quality
- 30. Sun position
- 31. Seat position
- 32. Seat occupancy
- 33. Interior monitoring
- 34. Window trap protection
- 35. (Front) Airbag activating system
- 36. Seat belt detection



- 1. Distance (cars ahead)
- 2. Distance (parking)
- 3. Deadlight setting
- 4. Automatic dimmed headlights
- 5. Detection of defective light bulbs
- 6. Coolant temperature
- 7. Liquid level (water, oil, etc.)
- 8. Oil quality
- 9. Knocking
- 10. Camshaft adjustment
- 11. Injection pressure (diesel)
- 12. Air mass flow measurement / throttle valve
- 13. Ignition / ion current
- 14. Pre-crash detection
- 15. Night vision support
- 16. Lane detection
- 17. Obstacle detection
- 18. Rain sensor



- 37. Distance (cars following)
- 38. Tracking system
- 39. Theft protection
- 40. Battery discharge
- 41. GPS navigation
- 42. Fuel pump
- 43. Tank inside pressure / fuel system leak-protection
- 44. Exhaust control / lambda probe
- 45. (Rearview) Mirror dipping

By the end of 2002, company activities heretofore spread out on Fremont and Los Angeles were all concentrated at the Milpitas location. Thus by January 2003, expensive operation of the clean room production in Los Angeles has been made obsolete.

A total EUR 10.8 million were invested until the end of 2002. This amount includes the acquisition of the IC-Sensors company building in connection with the acquisition of its production line. As the line was accommodated in a building leased only for another

18 months, the building was bought for EUR 5.1 million. Following modernization, it is planned to be transferred to a finance investor in the year 2003 by way of a sale & leaseback transaction. In 2003, gradual introduction of 150 mm wafers and the machine installations thus required are on the SMI agenda.

The revenue developed pleasantly from EUR 0.9 million in the first quarter to EUR 2.9 million in the fourth. In 2002, a total revenue of EUR 7.3 million was achieved, coming to a slight loss of EUR 0.2 million.





### **Georg Simon Ohm**

1789-1854  
German physicist

*formulates the law named after him. His research project was current, voltage, and resistance.*

### **Gustav Robert Kirchhoff**

1824-1887  
German physicist

*establishes Kirchhoff's rules: the sum of entering currents always equals the sum of exiting currents (knot theory), and the sum of all voltages in a loop is zero (loop rule).*

### **Ohm, Kirchhoff and EL MOS**

*Ohm's and Kirchhoff's laws are today's basis for the calculation of all electric circuitry and ASICs.*



### Capital investment

Investments at the Dortmund location were cut down significantly in comparison to the year before and added up to EUR 20.2 million (previous year: EUR 38.6 million). But the extensions of eurasem and SMI required additional considerable means, resulting in a total investment of EUR 34.1 million. Adjusted by the expected disincorporation of building investments through sale & leaseback, the investment sum amounts to EUR 27.2 million.

Investments in the production equipment at eurasem came to EUR 2.5 million. Investments in SMI split up into EUR 5.7 million for the IC-Sensors production line including machinery and EUR 5.1 million for the company building.

### Customers and products

Just like the year before, French Valeo leads the list of our top ten customers in the year under report. Valeo obtains more than 20 different ELMOS products. In the year under report, the company even surpassed its competitor Bosch in the sale of generators and is now worldwide second only to the Japanese company Denso in this segment. ELMOS is supplying a monolithically integrated one-chip controller in the advanced silicon-on-insulator (SOI) technology to Valeo since 2001 and has thus contributed to its success. Backed by this reference product, further contracts, e.g. for gear box electronics, have been concluded with other customers.

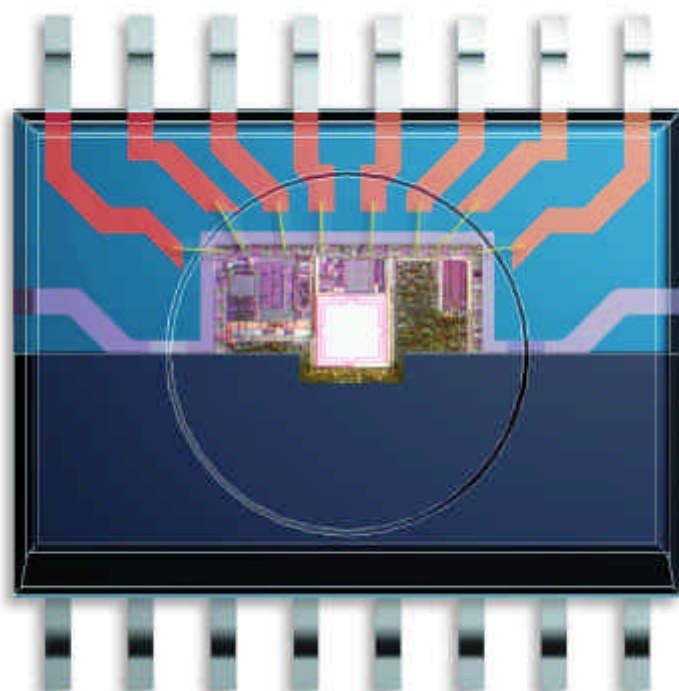
In the fourth quarter of 2002, volume delivery of airbag control ICs to the company Autoliv was started as planned. Replacing intermediate generation chips Autoliv had obtained from another semiconductor producer, ELMOS has become Autoliv's important chip supplier again.

By the repeated participation in the automotive supplier trade fair "Convergence" in Detroit, ELMOS was able to establish contacts to new customers and win new development contracts on the U.S. market. Important U.S. customers are the companies ASL-Takata (airbags), Gentex (mirrors), and Bosch North America.

For the first time, ELMOS exhibited at the "electronica" fair in Munich in November, 2002 at its own booth.

By means of cooperation of ELMOS, SMI, and eurasem, the ELMOS group makes it possible for innovative products to be realized, combining ASIC and sensor element into an "intelligent" module in a special package. This offer has been marketed on fairs and through publications with the slogan, "ASICplus - more than a chip". A separate team was established at ELMOS just for this task.

At present, ELMOS and SMI develop ASICs for sensor signal processing to be combined with the sensor element into an intelligent sensor module in a single package from eurasem.



### **Research and development**

Research and development expenses remained at a level comparable to the previous year's, coming to 16% of the revenue. ELMOS uses free production capacity for the faster realization of development projects.

Research and development over the year 2002 concentrated on the development of 0.5 micrometer submicron high-voltage process technology with multilayer wiring.

Parallel to that, efforts were made for the Motorola flash memory module to be integrated into the high-voltage CMOS process. These new processes will be available for the realization of new products by the end of 2003.

The SOI technology was further improved particularly by means of the generator control chip, and the chip yield was increased.

As far as products are concerned, Motorola HC12 cell libraries and Motorola design methodology were integrated into the ELMOS design environment in cooperation with Motorola. First product demonstrators are currently being manufactured.

Following the acquisition of the patent package "HALIOS", chip development for two basic circuits, an optical switch and a slide regulator, was carried out in the year under report. With these chips, first demonstrators were manufactured and shown to numerous potential customers. However, the hoped-for breakthrough with an important key customer has not yet been achieved.

### **Production**

Investments in the extension of production rooms and facilities at the Dortmund location being concluded to a large extent in the past year, up-to-date technology is provided for processes with structure sizes down to 0.4 micrometers. They offer a solid platform for the ELMOS production of the next 5 to 10 years. Machine capacity is about 350 wafer starts a day, of which roughly 250 (70%) were used by the end of the year 2002. Current labor force limits the number of wafer starts to a maximum 300 a day, resulting in a utilization rate close to our targeted

85%. By the recruitment of additional staff at low added expenses and, if necessary, an investment in bottle-neck machines, capacity can be enhanced to a maximum 500 wafer starts a day.

### **Quality, environmental, and risk management**

More than 10 years ago, ELMOS set up a quality management system which was certified in accordance with DIN ISO 9001, QS 9000, and VDA 6.1 annually. These norms were subsumed under ISO/TS 16949 with worldwide validity. In the year under report, ELMOS Dortmund and, for the first time, ELMOS NA in Detroit were audited and certified in accordance with the new norm. In 2003, subsidiaries ELMOS France and GED in Frankfurt / Oder will also be included in the TS 16949 certification.

In the year under report, ELMOS also prepared intensively for the certification in accordance with the environmental protection norm DIN EN ISO 14001, scheduled for introduction in 2003. The audit is expected to be held within the first half-year of 2003. Thanks to ELMOS' endeavors of many years for an environmentally friendly operation considerate of resources, which the Dortmund project "Ökoprofit" has been publicly awarded for already, the company is well-prepared for the upcoming audit.

In the difficult economic situation of today, an effective risk management system is of great importance. Aware of that, ELMOS continued and concluded ongoing efforts for the installation of a risk management system in the year under report. By the end of the year, the risk management system was duly examined of accordance with § 91 (2) AktG and found effective by our independent auditors. In 2003, it will be continuously expanded and refined.

### Corporate governance codex

The recommendations articulated by the Government Commission Deutscher Corporate Governance Kodex were included in the ELMOS articles of incorporation as well as the procedural rules of Management and Supervisory Boards almost entirely in the year under report. A corresponding declaration was issued to the public on December 20, 2002. Only on three counts does ELMOS differ from the Codex recommendations: excess regarding the D&O insurance of Board members, the constitution of Supervisory Board committees, and the individualized statement of total remuneration of the Board members. Some of the additions still require shareholders' resolution in a general meeting.

### Employees

In 2002, the ELMOS group had an average of 830 employees, 499 of which at the Dortmund location. 24 young professionals are trained at ELMOS, from microtechnologists to industrial clerks. The staff's average age is 35, and the fluctuation rate of salaried employees is below 4%.

As a high-tech company, ELMOS is increasingly dependent on its employees' know-how, because their motivation, understanding, and flexibility are the prerequisite to long-term success of the company. Especially with regard to the development of new products and processes, the employees are crucial for growth and innovation. At the Dortmund location, in Germany's most-populated federal state, ELMOS has always been able to recruit from a great number of well-trained young engineers, since there are more than 50 universities and colleges in the vicinity of Dortmund. Sole semiconductor manufacturer in the region, ELMOS holds a singular position and keeps attracting satisfying numbers of young professionals even in times of declining student numbers in the engineering departments. Since its formation, ELMOS has cooperated with the surrounding universities, colleges, and institutes. Many employees now in executive functions started out as ELMOS interns.

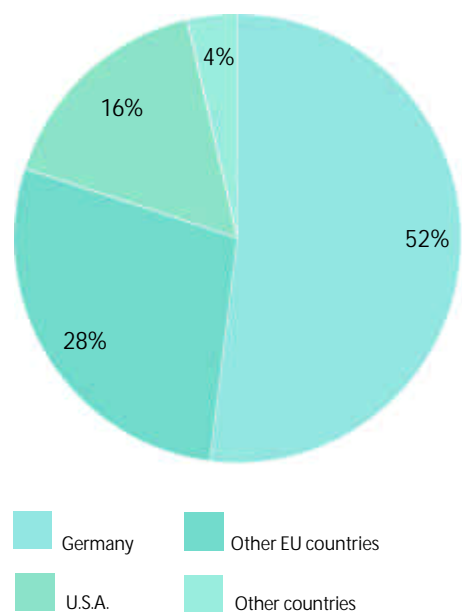
ELMOS employees participate in the company's success by the bonus stock program dating from going public in 1999, granting each employee one bonus share out of the original shareholders' parcel for each share bought, and by annual stock option programs. In December 2002, the Supervisory Board approved the Management Board's stock option plan for 2002, providing for the issue of up to 220,000 stock options to the employees. Additionally, the issue of up to 80,000 stock options to Management Board members was decided on.

### Finances

At EUR 109.7 million, the revenue was increased by almost 3% compared to the prior year result. Acquired subsidiaries eurasem and SMI contributed EUR 2.8 million and EUR 7.3 million, respectively, adjusted by group internal sales.

Regional distribution of sales developed from 46% in Germany, 39% in other European countries, and 11% in the U.S. in the year 2001 to 52% in Germany, 28% in other European countries, and 16% in the U.S. in 2002.

### Sales by region



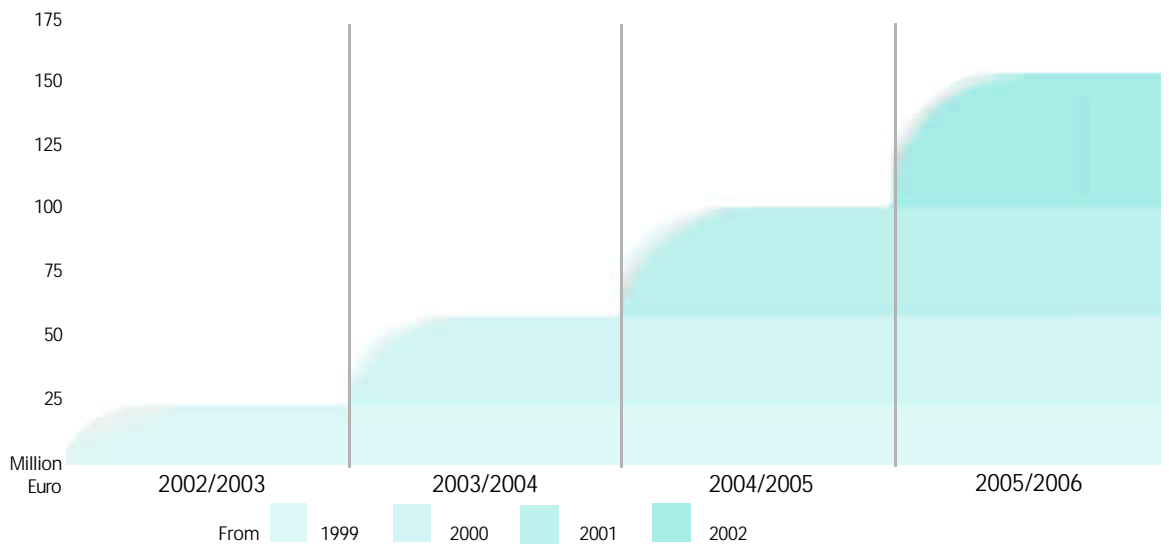
Constantly high revenue from development efforts on the one hand reflects intensified sales activity and on the other hand shows good market acceptance of the ELMOS product range. The number of new development projects was increased from 27 in the previous year to 31 in 2002. These development contracts signify a production revenue of more than EUR 300 million over the product lives, more than EUR 30 million of which for HALIOS.

Following the slump of the gross margin in 2001 due to the poor utilization rate of production capacity

The operating result increased to EUR 18.3 million, roughly 17% of the revenue, after EUR 17.0 million (16% of the revenue) in the year before.

In the year under report, at EUR 3.6 million interest expenditure was much higher than in the previous year (EUR 1.5 million), reflecting the strained liquidity situation due to investment expenses. Therefore, at EUR 15.7 million the income before income taxes falls below the previous year level of EUR 17.3 million, income after taxes amounts to EUR 8.9 million in comparison with EUR 11.6 million in 2001.

**Future sales contributions generated by previous design wins**



at ELMOS in Dortmund, eurasem in the Netherlands, and SMI in the U.S., the gross margin was increased to a value of 49% of the revenue (previous year: 46%).

Administrative expenses rose from EUR 10.1 million to EUR 12.0 million owing to the increase of companies to be consolidated in the group. Expenditure for intensive research and development came to an unchanged 16% of the revenue at EUR 17.5 million (previous year: EUR 17.0 million). Marketing and sales costs slightly increased to roughly 5% of the revenue, at EUR 6.0 million.

Considering the still insecure market situation and the bad constitution of the capital markets, the Management Board suggests to go without the payment of a dividend for the financial year 2002 and instead accumulate the retained earnings with regard to the company's future tasks. By that measure, a solid foundation for the further growth of the company is being laid.



## Outlook

For the year 2003, an improvement in the semiconductor markets is generally expected. With respect to the automobile market, which is of much more importance to ELMOS, prognoses show a slight decline in first registrations by about 3% worldwide again. A more negative development (minus 4.4%) is predicted for the U.S. as sales numbers in 2002 once more appear artificially inflated by marketing strategies and discount prices. This development will probably not concern the European manufacturers on the U.S. market, though, who were very successful in the past year and intend to grow further with the launch of a number of new models in the segments luxury sedans and SUVs. Therefore, declining car registrations will probably not affect ELMOS's revenue development, because these successful models contain much more electronics than average vehicles do.

Ever higher demands on comfort, security, and environmental compatibility of a modern car cause a lasting increase of the electronic components' share of car production costs. With regard to European middle- and high-class vehicles, a share of more than 30% is reached already. But even worldwide a constant increase is detectable, predicted at roughly 9% annually for the next years by Dataquest.

Providing specialized process technology directed at automotive requirements and the application know-how of many years, ELMOS has taken a strong position in this growing market. Resulting from the design wins of the last years, more than 30 new products will enter volume production in 2003.

Following SMI reaching the break-even point in the third quarter of 2002, we are counting on a further increase in revenue and a positive operating result. At eurasem, we are expecting the break-even point to be reached over 2003 and a positive result to be contributed on the annual basis.

That accomplished, the year 2003 will bring a revenue increase by 10 to 15% to the ELMOS group, gross margin and operating result are expected to reach the targeted rates of 50% and 20%, respectively.

As investment in the expansion of clean room and production facilities at the Dortmund location was concluded to a large extent in the year under report, in the year 2003 investments in the wafer production are necessary only on a small scale. At growing demand, capital expenditure is still required for the test area in Dortmund. After the acquisition of the MEMS production line, at SMI the gradual modernization of the clean room and the transition towards 150 mm wafers and required machine installations are on the schedule. At eurasem, an extension and modernization of the factory building is planned to be carried out, financed by a sale & leaseback transaction with a finance investor. With reference to the group, maximum capital expenditure of EUR 16 to 20 million is intended for the year 2003. Despite these expenses, the plan for the year 2003 shows positive cash flow for each quarter.

The Management Board thanks all employees for their commitment and work in the last year.

Dortmund, February 2003

The Management Board





***Knut Hinrichs***

graduate in business management

Studies at the University of Mannheim.

From 1977 to 1979 managing director of a company producing industrial sensor electronics. Afterwards management consultant, later independent trader specialized in "hybrid electronic components".

Managing director at ELMOS since 1987. He becomes Management Board member at ELMOS in 1999, Chairman of the Board in 2001.



***Dr. Klaus Weyer***

graduate physicist

Physics studies in Cologne. Is awarded a doctorate at the Ludwig-Maximilian University in Munich.

Co-founder of ELMOS.

After the studies management consultant to small and medium-sized businesses for micro-electronics.

Since 1984 managing director at ELMOS. He becomes Management Board member in 1999.

## The Management Board



**Dr. Peter Thoma**  
graduate physicist

Physics studies at the Technical University in Munich. Is awarded a doctorate in the field of plasma physics with the focal subject spectroscopy in 1978.

From 1978 to 1982 head of department at Kienzle-Mannesmann.

Goes to BMW AG in 1983. Establishes a department for the development of electronic control devices for automotive use. Since 1993 head of "development electrics/electronics" at BMW AG.

Becomes Management Board member at ELMOS Semiconductor AG in the fall of 2000. Since then, he has been responsible for "development" and "sales".



**Reinhard Senf**  
graduate engineer

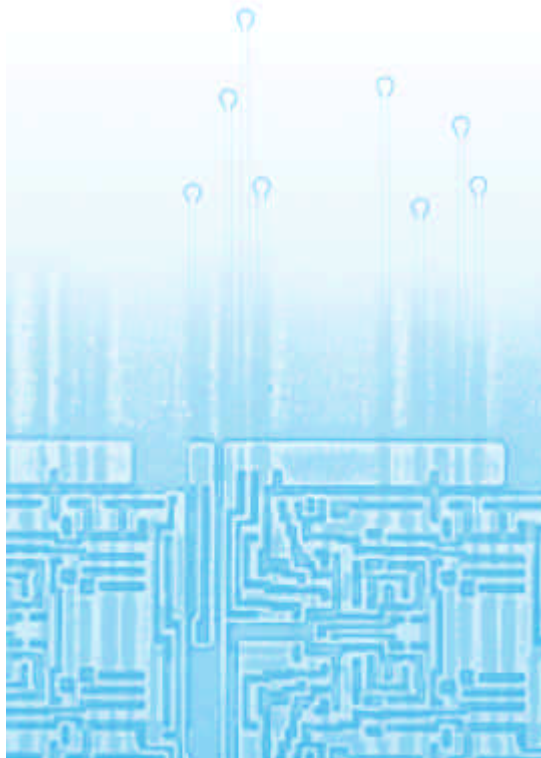
Studies at the Technical University Ilmenau.

Is awarded a diploma on the subject "physics and technology of electronic components" in 1974.

From 1974 to 1991 production engineer and later managing director at VEB Funkwerk/Mikroelektronik in Erfurt.

Becomes assistant manager at ELMOS Semiconductor AG in February 1992. Head of "quality assurance" in 1993, head of "testing" in 1999.

He becomes Management Board member responsible for "production" in July 2001.





### Michael Faraday

1791-1867  
English physicist and chemist

*explains phenomena of electric and magnetic induction, self induction, dia- and paramagnetism, and many others.*

### Joseph Henry

1797-1878  
American physicist

*discovers the phenomena of induction a year earlier than Faraday, does not publish his findings, though.*

*1 H (Henry) is the unit of inductiveness.*

### Hendrik Antoon Lorentz

1853-1928  
Dutch physicist

*establishes the classical electron theory (Zeemann effect) in 1895 and is the first to explain the result of the Michelson experiment (Lorentz contraction). The Lorentz transformation named for him describes the transformation from a static frame to a regularly moving picture (theory of relativity).*

*Lorentz wins the Nobel prize together with Zeemann in 1902.*

### Faraday, Henry, Lorentz and ELMOS

*Adding to Maxwell's contribution, the work of Faraday, Henry, and Lorentz is applied today to sensors for magnetic fields and transponders at ELMOS.*

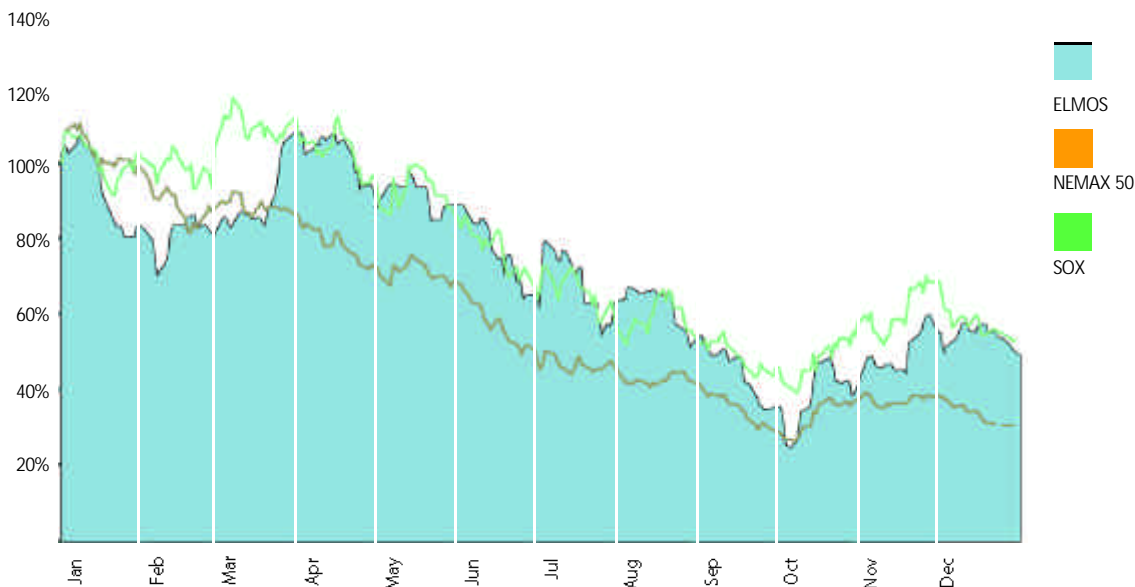
### *It used to be "Neuer Markt" and "NEMAX 50" - now it's "Prime Standard" and "TecDAX 30"*

The ELMOS Semiconductor AG stock was quoted at the crisis-ridden segment "Neuer Markt" of the Frankfurt Stock Exchange for three years. Numerous discrepancies and business failures in 2002 lead to a further decline of standing and, in consequence, prices of the stocks quoted at the "Neuer Markt" - a general trend even ELMOS could not resist.

Indexed to the beginning of the year, though, ELMOS stock prices did not fall as much as, for instance, the "NEMAX 50" index did. While market capitalization of ELMOS Semiconductor AG halved over the year 2002, the "NEMAX 50" easily lost 69% of the value it had by the beginning of the year and, at 356 points by year's end, was almost quoted at a record low.

The ELMOS stock started into the year at EUR 16.00, reaching the year's maximum price at EUR 17.20 in early April. A lot of bad news from the semiconductor branch had the price drop to the year's minimum of EUR 3.84 on October 7 - parallel to the worldwide branch index SOX (Philadelphia Semiconductor Index). However, the price recovered quickly and closed at EUR 8.05 by the end of the year, following a 110% rally. In the annual average, the stock was quoted at EUR 11.16, showing an average trade volume of roughly 34,000 shares a day.

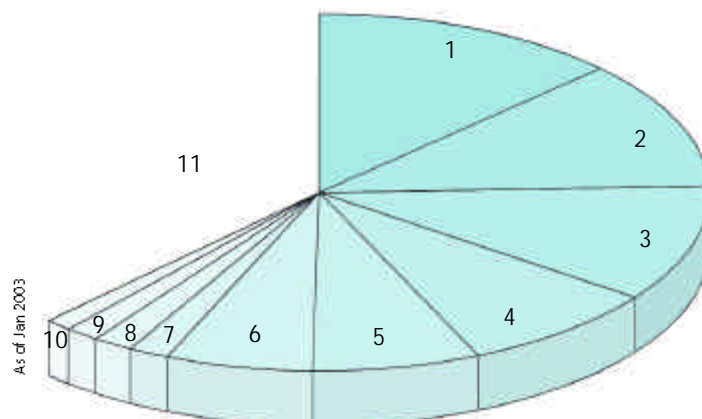
Despite the pessimistic mood on the capital markets, ELMOS continued its efforts in 2002 to explain the ELMOS business model, the unique selling points, and the corresponding prospect of growth to investors worldwide.





### Geographic distribution of free float

1.	U.S.A.	12%
2.	United Kingdom	11%
3.	Germany	10%
4.	Italy	8%
5.	Switzerland	7%
6.	Netherlands	6%
7.	Luxembourg	1%
8.	France	1%
9.	Norway	1%
10.	Austria	1%
11.	Less than 1% or not attributable	



At numerous roadshows and technology conferences, Management Board members and the investor relations team were a constant presence, accounting for the business development to investors regardless of the current mood of opinion.

To this end, individual conversations were held with investors in Frankfurt, Munich, Hamburg, London, Amsterdam, Brussels, and Paris. In addition, roadshows at the financial centers Amsterdam, Boston, Brussels, Edinburgh, Geneva, London, New York, Paris, Rotterdam, and Zurich rounded off the services to investors.

Emphasis was also placed on the presentation of the company at the large technology conferences, e.g. the SG Cowen in Cannes, the CSFB in Barcelona, by Deutsche Bank in Budapest, and Bank Vontobel in Bergisch Gladbach. Apart from that, ELMOS participated in selected events like the SEMICONtact conference in Munich, held by HSBC Trinkaus & Burkhardt, and the semiconductor conference of DZ-Bank in Frankfurt.

In the past year, the company organized an additional analysts conference at the Dortmund location for the first time since going public. This event following the nine-month numbers found such a great demand at listing almost 40 participants of about 20 different institutions that it is intended to become a fixed entry in the financial calendar. On the spot, fund managers, bankers, analysts, and representatives of shareholder associations were informed by Management Board members and other executives about

current topics and participated in guided tours of the production facilities in Dortmund and Nijmegen.

A direct result of these numerous efforts was the stability of the investor structure. Apart from a few exceptions mostly connected with the closure of "Neuer Markt" funds, the number and distribution of institutional investors hardly changed in the course of 2002. Still about 23% of the known free float was placed with institutional investors in the Anglo-Saxon world - a situation rather rarely found on the "Neuer Markt" these days. On the other hand, more than half of the attributable free float is placed in the European region.

Consistently, in 2002 ELMOS continued its efforts to communicate corporate information to the investors in a professional manner. The number of different institutions giving regular coverage of ELMOS in the year 2002 rose to 17, all of which have distributed a balanced spectrum of analyses and opinions. Among those are representatives of the institutions Bank Julius Bär, Bank Vontobel, Berenberg Bank, CAI Chevreux, CSFB, Deutsche Bank, DKWR, DZ-Bank, HSBC, ING (BHF) Bank, Landesbank Baden Württemberg, MainFirst, M.M. Warburg, Puileatco, SES Research, UBS Warburg, and WestLB.

Additionally, the number of designated sponsors rose to 7 at times, a further indicator for broad interest in the ELMOS stock. From the company's viewpoint, special significance was also attached to the purposeful fulfillment of the "Deutscher Corporate Governance Kodex", which was passed in May. By the end of the year, an almost total fulfillment of the codex recommendations could be reported by ELMOS.

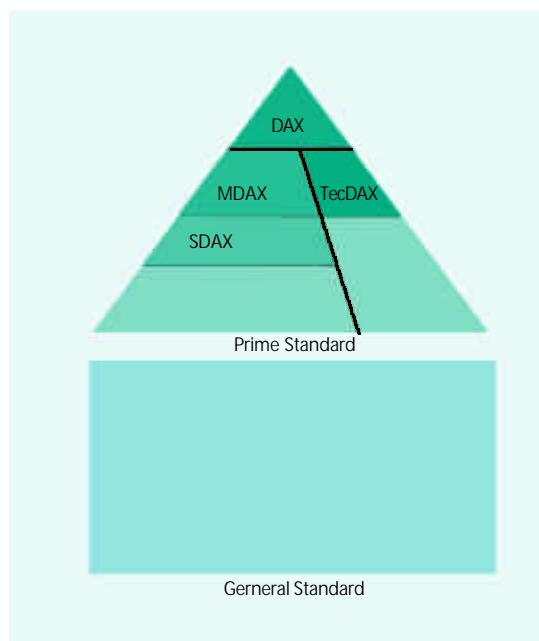
The relative continuity of the ELMOS stock throughout the year led to an advance to the NEMAX 50 index. ELMOS was quoted at from June 24, 2002. The Deutsche Börse came to this decision by the beginning of May, based on an evaluation of market capitalization and the average trade volume in the past.

However, the pleasures of belonging to this quality index did not last for long. A little more than five years after the start of the "Neuer Markt", on September 26, 2002 the Deutsche Börse unexpectedly

announced that the segment "Neuer Markt" and the SMAX would be abolished and a new premium segment, the "Prime Standard", would be established from 2003. Naturally, ELMOS immediately took appropriate measures to be accepted in this quality segment.

Accordingly, since January 1, 2003 ELMOS has been registered at "Prime Standard", fulfilling its high requirements for transparency. On March 24, 2003 the "TecDAX 30" will be introduced as new technology index of the "Prime Standard", registering the 30 strongest technology stocks as a selection index. ELMOS will be a part of that right from the start. We consider this decision a confirmation of our endeavors to continuously operate and develop ELMOS as a future-oriented, fast-growing, and highly profitable high-tech company.

*New stock exchange segments and selection indices*





### Max Planck

1858-1947  
German physicist

contributes to deepened knowledge of thermodynamics. The examination of the radiation of heated objects leads him to the insight that energy is radiated not continuously but in smallest "portions", so-called quanta. He introduces Planck's quantum of action, the elemental quantum, and wins the Nobel prize for physics in 1918.

### Erwin Schrödinger

1887-1961  
Austrian physicist

supplies a mathematical depiction of matter waves and quantum mechanics with his wave mechanics. His Schrödinger equation is of greatest importance to the mathematical treatment of micro-physical problems. He wins the Nobel prize in 1933.

### Werner Karl Heisenberg

1901-1976  
German physicist

founder of quantum mechanics. He elaborates the Heisenberg uncertainty principle and presents further groundbreaking work in different fields of physics (nuclear physics, superconductivity, ferromagnetism, and elementary particles). Works on the formulation of a uniform field theory (world formula). He wins the Nobel prize in 1932.

### Planck, Schrödinger, Heisenberg and ELMOS

The resolution of the positioning sensor of the company attoSENSOR - which ELMOS has invested in - is limited only by the Heisenberg uncertainty principle.

## Report of the Supervisory Board

### *Report of the Supervisory Board of ELMOS Semiconductor AG, Dortmund, on the annual accounts of the company by December 31, 2002*

The year 2002 was overshadowed by the unexpected and sudden death of our Supervisory Board member Prof. Dr. Karsten Ehlers, who died of cancer in December. With Prof. Ehlers, we mourn the loss not only of an outstanding expert and sponsor of the company, but also of a personal friend.

In five meetings, on April 26, 2002, June 18, 2002, September 20, 2002, December 20, 2002, and February 27, 2003, and based on the Management Board's oral and written reports, the Supervisory Board was informed in detail about the development of the fiscal year ended on December 31, 2002, the corporate situation, and current business policy decisions. These topics were discussed with the Management Board members. The Management Board was duly supervised. Even outside the Supervisory Board meetings, the Chairman of the Supervisory Board was informed of essential business transactions by the Chairman of the Management Board.

Business development of the ELMOS group was discussed at length with the Management Board on December 20, 2002. Within the context of discussions in the Supervisory Board, the development of the subsidiaries as well as the development of profit and liquidity were the focus of attention. Main emphasis was also stressed on the government commission's recommendations, the "Deutscher Corporate Governance Kodex", and the ELMOS risk management system. On the same day, for the first time the company issued a declaration regarding fulfillment of the Corporate Governance Kodex recommendations. It was declared that ELMOS differs from the directory recommendations on only three counts. These are personal excess of the D&O insurance of the Boards' members, the constitution of Supervisory Board committees, and the individualized statement of total remuneration of the Boards' members.

By consulting Ernst & Young Deutsche Allgemeine Treuhand AG, Dortmund in its meeting on February 27, 2003, the Supervisory Board also dealt with the present state of corporate fulfillment of the requirements established by the KonTraG. The Supervisory Board has come to the conclusion that the company fulfills the essential requirements of the KonTraG at present.

In its December 20, 2002 meeting, the Supervisory Board approved the Management Board's resolution regarding the issue of 220,000 stock options to employees below Board level. In the same meeting, the Supervisory Board decided to issue a total of 80,000 stock options to Management Board members under the same conditions applicable to employees, with the exception of the ruling at number 3 (self-invest). Issue of stock options decided in December, 2001 and offered in the year 2002 was neither subscribed for by employees nor Board members. It was therefore annulled by resolution of December 20, 2002.

The Management Board's report on relationships with affiliated companies in accordance with § 312 AktG was duly examined by Ernst & Young Deutsche Treuhand AG, Dortmund. Ernst & Young Deutsche Treuhand AG, Dortmund issued an unrestricted audit certificate to the effect that actual data in the report is correct, that the company's performances resulting from the legal transactions specified in the report were not inappropriately high, and that with respect to the measures listed in the report, no circumstances indicate an evaluation essentially different from the Board of Management's.



The report was received by the Supervisory Board. The Supervisory Board examined the report in its February 27, 2003 meeting as well. After the concluding results of the examination, the Supervisory Board raised no objections against the final declaration by the Board of Management and approved the result of the auditors' examination.

In the past financial year, Management and Supervisory Boards made substantial efforts to stabilize the company's profit situation. The received financial statements show a good result in spite of the difficult situation the semiconductor market was in. The retained earnings are to be carried forward to new accounts in order to secure the future tasks of the company. The equity capital rate of ELMOS AG came to 71% of the balance sheet total.

The financial statements and the status report of the company as well as accounting for the fiscal year, January 1 to December 31, 2002, were examined by Ernst & Young Deutsche Allgemeine Treuhand AG, Dortmund, appointed auditors by shareholders' resolution of April 26, 2002. The auditors issued an unrestricted audit certificate. Supervisory Board and auditors attended the balance sheet

meeting held by the Management Board on February 27, 2003. The auditors' report was received by the Supervisory Board. The Supervisory Board agreed to the result of the auditors' report.

In its February 27, 2003 meeting, the Supervisory Board examined and approved the financial statements and the status report by the Management Board, examined by Ernst & Young Deutsche Allgemeine Treuhand AG, Dortmund, who had issued an unrestricted audit certificate. Annual accounts are hereby closed. The Supervisory Board also examined the consolidated financial statements and the group status report. After the concluding results of the examination, the Supervisory Board raised no objections. Management and Supervisory Boards suggest the retained earnings of EUR 20,461,439.96 to be brought forward to new accounts.

The Supervisory Board thanks the Management Board members and the employees for their performances, the commitment they showed, and the success they achieved in the past financial year.

Dortmund, February 27, 2003

Prof. Dr. Günter Zimmer  
Chairman of the Supervisory Board





## Members of the Supervisory Board

### ***Prof. Dr. Günter Zimmer,***

Chairman of the Supervisory Board, studied physics in Darmstadt. After being awarded a doctorate at the Technical University in Munich, he was an employee of Siemens AG in Munich. In 1973, he went to the University of Dortmund as chief engineer, and in 1982 he qualified as a university lecturer in the subject semiconductor technology.

Since 1984, he has been full professor at the Gerhard-Mercator University Gesamthochschule Duisburg and head of the Fraunhofer Institute for Microelectronic Circuits and Systems in Duisburg.

Since 1991 and 1999, respectively, he has also been head of the Fraunhofer Institutes for Micro-electronic Circuits and Systems in Dresden and Munich.

### ***Further members of the Supervisory Board:***

Dr. Burkhard Dreher, Deputy Chairman, Dortmund

Prof. Dr. Karsten Ehlers, Wolfsburg  
(deceased December 2002)

Dr. Wolfgang Heinke, Reutlingen

Dr. Roland Mecklinger, Steinfeld-Hausen  
Herbert Sporea, Altwittenbek



Prof. Dr. Günter Zimmer    Dr. Burkhard Dreher    Dr. Roland Mecklinger    Dr. Wolfgang Heinke    Herbert Sporea



### Enrico Fermi

1901-1954  
Italian physicist

elaborates a theory of  $\beta$ -decay of nucleons and formulates, with the Fermi-Dirac statistics (quantum statistics), a theory of the behavior of electrons within the crystal lattice. He discovers the nuclear reaction to the bombardment with slow neutrons and the possibility of controlled chain reactions in a nuclear reactor. Fermi wins the Nobel prize for his work in 1938.

### Albert Einstein

1879-1955  
German physicist

Besides his special and general theories of relativity, above all it is his quantum hypothesis of light (Einstein equivalence principle) that advances the world view of physical research essentially. Einstein wins the Nobel prize in 1905, not for his theory of relativity, but for his research on the photoelectric effect.

### Walter Schottky

1886-1976  
Swiss physicist

is deeply involved in the development of electron tubes, works in the field of crystal and semiconductor technology. The Schottky diode named for him has a very short switching-time and low reverse-current rating at low threshold voltage.

### Fermi, Einstein, Schottky und ELMOS

Most developments of the three physicists find application to the energy band model and serve as the basis for the understanding of the behavior of electrons in silicon.

# Financial Statements HGB for the Fiscal Year ended December 31, 2002 ELMOS Semiconductor AG, Dortmund

## Report of the independent auditors HGB

*We have issued the following audit certificate to the financial statements and the report on the situation of company and the group:*

"We have audited the financial statements, including accounting, and the report on the situation of company and group of ELMOS Semiconductor AG, Dortmund, for the fiscal year ended December 31, 2002. Accounting and the preparation of both financial statements and report on the situation of company and group in accordance with German commercial law and the additional regulations in the articles of incompany are the responsibility of the legal representatives of the company. It is our responsibility to submit an opinion on the financial statements, including accounting, and the report on the situation of company and group on the basis of our audit.

We conducted our audit of the financial statements in accordance with § 317 HGB (Commercial Code) and in compliance with the generally accepted German accounting principles established by the Institut der Wirtschaftsprüfer (IDW). These require the audit to be planned and carried out in such a way that irregularities and violations considerably effecting the presentation of the assets, financial, and profit situation as communicated by the financial statements, including accounting, and the report on the situation of company and group, are identified with sufficient reliability. In establishing the audit procedures, knowledge of the company's business activity, its economic and legal framework, and an anticipation of possible mistakes are taken into consideration. Within the context of the audit, the effectiveness of the internal accounting control systems as well as proof for the factual data in accounting records, financial statements, and the report on the situation of the company and the group are examined, predominantly based on

random sampling. The audit includes the evaluation of the accounting principles applied and the significant estimates issued by the legal representatives. It also includes an appraisal of the overall picture presented by the financial statements and the report on the situation of the company and the group. We think our audit provides a sufficiently sound foundation for our opinion.

Our audit has not resulted in any objections.

We are convinced that the financial statements, in compliance with the generally accepted accounting principles, communicate a presentation of the assets, financial, and profit situation corresponding to the actual conditions. The report on the situation of company and group gives an overall correct impression of the company's situation and describes the risks of future development coherently."

Dortmund, February 21, 2003

Ernst & Young  
Deutsche Allgemeine Treuhand AG  
Wirtschaftsprüfungsgesellschaft

Brorhilker  
Wirtschaftsprüfer

Muzzu  
Wirtschaftsprüfer

Financial Statements HGB  
for the Fiscal Year ended December 31,  
2002 ELMOS Semiconductor AG, Dortmund

Assets

	12/31/2002	12/31/2001
	EUR	TEUR
<b>A. Fixed assets</b>		
<b>I. Intangible assets</b>		
1. Software and licenses	4,621,992.65	1,919
2. Advance payments	11,276,114.48	0
	15,898,107.13	1,919
<b>II. Property, plant and equipment</b>		
1. Land and buildings	8,344,215.76	2,269
2. Technical equipment, plant and machines	26,905,621.01	30,259
3. Other equipment, furniture and fixtures	834,835.21	5,237
4. Advance payments and construction in progress	14,949,349.18	25,408
	51,034,021.16	63,173
<b>III. Financial assets</b>		
1. Investments in affiliated companies	32,093,026.34	24,335
2. Loans to affiliated companies	204,940.71	100
3. Investments	328,348.77	603
4. Loans to companies in which the company has a participating interest	809,488.08	767
5. Securities	724,344.00	0
	34,160,147.90	25,805
	<b>101,092,276.19</b>	<b>90,897</b>
<b>B. Current assets</b>		
<b>I. Inventories</b>		
1. Raw materials and supplies	5,738,077.18	7,192
2. Work-in-process	10,422,094.48	10,382
3. Finished goods and merchandise	4,271,828.96	5,040
	20,432,000.62	22,614
<b>II. Receivables and other assets</b>		
1. Trade accounts receivable	15,558,795.72	11,289
2. Receivables due from affiliated companies	26,133,725.85	28,943
3. Receivables from companies in which the company has a participating interest	0.00	1,748
4. Other assets	3,047,471.26	2,793
	44,739,992.83	44,773
<b>III. Cash on hand, cash in banks</b>	6,927,889.22	17,230
	<b>72,099,882.67</b>	<b>84,617</b>
<b>C. Deferred charges and prepaid expenses</b>	554,745.03	701
	<b>173,746,903.89</b>	<b>176,215</b>

## Balance Sheet HGB

### Liabilities and Shareholders' Equity

	12/31/2002	12/31/2001
	EUR	TEUR
<b>A. Shareholders' equity</b>		
<b>I. Subscribed capital</b>	19,300,000.00	19,300
<b>II. Additional paid-in capital</b>	84,000,000.00	84,000
<b>III. Appropriated retained earnings</b>		
Other appropriated retained earnings	102,223.64	102
<b>IV. Retained earnings</b>	20,461,439.96	10,336
	<b>123,863,663.60</b>	<b>113,738</b>
<b>B. Accrued liabilities</b>		
1. Accrued pensions and similar allowances	1,106,883.00	1,023
2. Accrued taxes	7,716,783.02	8,622
3. Other accrued liabilities	3,372,117.90	4,221
	<b>12,195,783.92</b>	<b>13,866</b>
<b>C. Liabilities</b>		
1. Liabilities due to banks	13,874,048.50	15,144
2. Advance payments received on orders	122,032.00	327
3. Trade accounts payable	7,488,174.84	6,997
4. Drafts and notes payable	8,300,000.00	3,600
5. Accounts due to affiliated companies	392,996.76	20,602
6. Accounts due to other group companies	7,445.93	158
7. Other liabilities	7,502,758.34	1,779
	<b>37,687,456.37</b>	<b>48,607</b>
<b>D. Deferred charges</b>	0.00	4
	<b>173,746,903.89</b>	<b>176,215</b>



## Income Statement HGB

	2002 EUR	2001 TEUR
1. Sales	95,430,717.04	88,296
2. Increase (decrease) in finished goods and work-in-process	(728,554.32)	573
3. Other own costs capitalized	757,735.00	799
4. Other operating income	5,547,712.82	5,841
	101,007,610.54	95,509
5. Cost of materials:		
a) Cost of raw materials, supplies and purchased goods	(10,883,668.34)	(11,199)
b) Cost for purchased services	(12,994,388.91)	(13,135)
6. Personnel expenses		
a) Wages and salaries	(21,726,623.93)	(21,145)
b) Social security, pension and other benefit costs thereof retirement obligations EUR 88,430.03 (previous year TEUR 46)	(3,658,717.28)	(3,844)
7. Amortization and depreciation of intangible assets and property, plant and equipment	(12,135,459.48)	(11,693)
8. Other operating expenses	(22,293,744.77)	(18,572)
	(83,692,602.71)	(79,588)
	<b>17,315,007.83</b>	<b>15,921</b>
9. Income from investments thereof from affiliated companies EUR 450,000.00 (previous year TEUR 635)	450,000.00	635
10. Other interest and related income thereof from affiliated companies EUR 980,105.54 (previous year TEUR 873)	1,091,202.58	2,074
11. Write-off of financial assets	(800,000.00)	0
12. Interest and related expenses thereof to affiliated companies EUR 0.00 (previous year TEUR 0.00)	(1,143,830.82)	(820)
	(402,628.24)	1,889
<b>13. Income before taxes and extraordinary items</b>	<b>16,912,379.59</b>	<b>17,810</b>
14. Extraordinary income	0.00	5,410
15. Extraordinary expenses	0.00	(10,877)
16. Extraordinary result	0.00	(5,467)
17. Income taxes	(6,672,843.97)	(1,888)
18. Other taxes	(113,791.11)	(412)
	(6,786,635.08)	(2,300)
<b>19. Net income</b>	<b>10,125,744.51</b>	<b>10,043</b>
20. Previous year's retained earnings brought forward	10,335,695.45	0
21. Deduction from retained earnings from reserve for treasury stock	0.00	293
<b>22. Retained earnings</b>	<b>20,461,439.96</b>	<b>10,336</b>

### General comments

The financial statements at hand have been prepared in accordance with §§ 242 ff. and §§ 264 ff. HGB (German Commercial Code) as well as with the relevant regulations of the AktG (Corporations Act) and the articles of incorporation. The regulations for large companies are applicable.

The income statement has been prepared according to the total costs method.

### Accounting policies

Essentially, the following accounting policies and valuation methods were used for the preparation of the annual accounts. Differences occur with regard to depreciation of property, plant and equipment. Average useful lives regarding production facilities depreciated were increased on the basis of a company survey. An effect of TEUR 1,275 resulted from that measure.

Acquired **intangible assets** were balanced at acquisition cost and are, if subjected to wear and tear, amortized in correspondence with their useful lives by regular depreciation (3 to 5 years, straight-line method).

In order to better present advance payment in the financial year 2002, the company has included the position "advance payments" in intangible assets.

**Property, plant, and equipment** are stated at respective acquisition or production cost and are, if subjected to wear and tear, amortized by regular depreciation. Included in the construction costs of self-constructed facilities are proportional overhead besides direct costs.

Property plant and equipment are depreciated according to their expected useful lives on the basis of maximum tax-deductible rates. To the extent tax law allows, the declining-balance depreciation method is used for moveable assets. The transfer to the straight-line method happens in the first year the straight-line method leads to higher annual depreciation amounts.

Other assets are subject to straight-line depreciation. Inferior capital goods up to values of EUR 410.00 are fully depreciated in the course of the year of addition, their immediate disposal being implied.

Depreciation of additions to tangible assets is in principle straight-line. To moveable assets the half-year regulation of R 44 II EStR (Income Tax Guideline) is applied.

As far as **investments** are concerned, interests and securities are stated at purchase price or lower attributable value, respectively, loans are stated in principle at nominal value.

**Inventories** are balanced at acquisition or production costs or, respectively, at lower going prices. For certain inventory (essentially spare parts), values are determined by use of permissible valuation simplification methods considering the minimum value principle. Values differing from valuation at stock or market price by balance sheet date are explained within the context of the notes to inventories.

**Stock of raw materials and supplies** are capitalized at cost price or lower going price by balance sheet date.

**Finished goods and work in process** are evaluated at production cost, considering overhead in accordance with minimum tax scale besides direct costs of material, labor, and other identifiable direct costs. In the current fiscal year, overhead charges were balanced not with regard to only the second-half year, as practiced in 2001, but with regard to the whole fiscal year as practiced in the other years before, on the basis of utilization.

In all cases the valuation was loss-free, i.e. all inventories were evaluated with the lower of cost or market value.

All known inventory valuation risks resulting from above average storage periods, decreased usability, or lower replacement costs are considered by adequate allowances.

**Receivables and other assets** are stated at nominal value. All items subjected to risk are provided for by adequate specific allowances. General credit risk is considered by a general allowance.

**Accrued pensions and early retirement obligations** are stated in accordance with maximum tax scale. The present discounted values, determined taking into account actuarial principles in accordance with § 6a EstG, are based on an interest rate of 6%, applying the 1998 mortality schedules.

**Accrued taxes and other accrued liabilities** take into account all contingent liabilities and losses resulting from outstanding transactions. They are stated at amounts necessary with respect to reasonable commercial judgment.

**Liabilities** are recorded at repayment value.

Subsidies on development activities are stated under **customers advances**.

**Foreign currencies** are balanced at exchange rates by transaction date or, respectively, at lower or higher rates by balance-sheet date.

#### Notes to the balance sheet

All amounts in the tabular divisions are stated in TEUR (TEUR).

#### Fixed assets

The development of the individual items of fixed assets is shown in the investment table, stating the financial year's depreciation.

<i>Analysis of Investments</i>	Currency	Equity capital in TEUR/LC	Interest %	Amount in TEUR/LC
<b>Domestic</b>				
GED Gärtner Electronic Design GmbH, Frankfurt / Oder	EUR	275	73.90	***24
ELMOS Central IT Services GmbH & Co. KG, Dortmund	EUR	5	100.00	**--
ELMOS Facility Management GmbH & Co. KG, Dortmund	EUR	5	100.00	**--
Gesellschaft für Halbleiterprüftechnik mbH, Dortmund	EUR	--	100.00	**
attoSENSOR GmbH, Penzberg	EUR	(765)	30.00	*** (357)
Advanced Appliances Chips GmbH, Riedstadt	EUR	--	33.33	**--
Exedra Grundstücksverwaltungs- gesellschaft mbH & Co. Vermietungs KG, Mainz	EUR	9	94.00	*(9)
Epigone Grundstücksverwaltungs- gesellschaft mbH & Co. Vermietungs KG, Mainz	EUR	10	100.00	*0
<b>Foreign</b>				
ELMOS France S.A., Nanterre (F)	EUR	1,354	74.97	253
ELMOS Services B.V., Venlo (NL)	EUR	--	100.00	**--
European Semiconductor Assembly (eurasem) B.V., Nijmegen (NL)	EUR	8,974	97.97	(7,647)
ELMOS U.S.A. Inc., Michigan (U.S.A.)	USD	3,121	100.00	(2,275)

\* Figures of fiscal year 2001

\*\* Company's financial statements not available at present

\*\*\* Figures based on company's tentative financial statements

### *Receivables and other assets*

The receivables and other assets have a remaining term of up to one year with the exception of an amount of TEUR 463 (previous year TEUR 709).

Other assets include capitalized receivables on the reimbursement of prepaid development expenses at an amount of TEUR 1,416 (previous year TEUR 561) and pension assets at an amount of TEUR 463 (previous year TEUR 302).

### *Shareholders' equity*

The share capital of EUR 19,300,000.00 consisting of 19,300,000 non-par common bearer shares, stated in the balance sheet as of December 31, 2002, is fully paid in.

The Management Board is authorized, with the Supervisory Board's consent, to increase the share capital by a maximum amount of EUR 9,650,000.00 by one issue or several issues of up to 9,650,000 new bearer shares against contributions in cash or kind until April 5, 2006 (Authorized Capital I). With regard to capital increases against contributions in cash, the shareholders' pre-emption can be excluded totally or in part in the share capital increase resolution, provided the capital increase does not exceed ten per cent of the share capital and the issue price does not considerably undercut the stock market price. The Management Board is further authorized, with the Supervisory Board's consent, to exclude residual amounts from the shareholders' pre-emption.

In addition to that, the Management Board is authorized, with the Supervisory Board's consent, to exclude the shareholders' pre-emption with regard to capital increases against contributions in kind for the acquisition of companies or interests in companies. The Management Board is further authorized to establish the further details of capital increase and its execution with the Supervisory Board's consent.

The share capital is conditionally increased by EUR 1,000,000.00, consisting of 1,000,000 non-par bearer shares, at a proportional amount of the share capital of EUR 1.00 to each shares. The conditional capital increase exclusively serves the granting of pre-emption

to Board members, other executives, and employees as well as executives and employees of affiliated companies. It is exercised only, with regard to the company's stock option program according to the shareholders' resolution of September 22, 1999, to the extent subscription rights are granted and options are exercised. The new shares participate in profits from the start of that fiscal year in which they arise by exercise of stock options.

The share capital is conditionally increased by a maximum amount of EUR 5,000,000.00, consisting of up to 5,000,000 non-par bearer shares (Conditional Capital II). The conditional capital increase is only exercised to the extent option warrant or convertible privilege holders execute option or conversion bearer bonds issued by the company or a direct or indirect, domestic or foreign, 100% affiliate of the company by April 25, 2007, according to the shareholders' resolution of April 26, 2002, or conversion privilege holders of conversion bearer bonds issued by the company or a direct or indirect, domestic or foreign, 100% affiliate of the company by April 25, 2007, obligated to converse fulfill their obligation to converse. The new shares participate in profits from the start of that fiscal year in which they arise by the exercise of rights of option or conversion, or by fulfillment of obligations to converse.

In accordance with § 192 II No.3 AktG, there are pre-emptive rights to the purchase of 224,300 shares from a stock option program for members of the Management Board, other executives, and employees.

### Retained earnings

Retained earnings include retained earnings brought forward of TEUR 10,336. Apart from that, we refer to the recommendation on the appropriation of the retained earnings on page 43.

### Accrued liabilities

Pensions were accrued for management Board members.

Accrued taxes concern income tax.

Other accrued liabilities essentially relate to vacation entitlements, royalty payments, trade associations, warranties, licenses, late-coming checks, losses from outstanding transactions, and tax risks.

### Analysis of liabilities

Remaining terms and the provision of liabilities are shown in detail in the following liabilities table.

Liabilities include none to shareholders.

### Analysis of liabilities in TEUR

Type of liability	Total 12/31/2002	Remaining term of			Total 12/31/2001
		Up to 1 year	1 to 5 years	Over 5 years	
1. Liabilities due to banks	13,874	12,207	1,667	0	15,144
2. Advance payments received on orders	122	122	0	0	327
3. Trade accounts payable	7,488	7,488	0	0	6,997
4. Drafts and notes payable	8,300	8,300	0	0	3,600
5. Accounts to affiliated companies	393	393	0	0	20,602
6. Accounts due to other group companies	7	7	0	0	158
7. Other liabilities	7,503	7,503	0	0	1,779
(previous year)	(1,179)	(1,779)	(0)	(0)	
- thereof related to taxes	5,071	5,071	0	0	
(previous year)	(1,174)	(1,174)	(0)	(0)	
- thereof related to social security	592	592	0	0	
(previous year)	(540)	(540)	(0)	(0)	



### Kind and form of securities

Loans are secured by collateral assignment of various acquired machines and pieces of equipment. Except for customary suppliers' extended reservation of proprietary rights, trade accounts payable are essentially not secured. The other liabilities are not secured, either.

### Contingent liabilities and other financial commitments

#### Contingent liabilities

In connection with a cooperation agreement of November 13, 1997 on the MWMTV-NRW joint project "Aufbau und Betrieb eines Zentrums für Aufbau- und Verbindungstechnik Dortmund (AVT-Zentrum Dortmund)", ELMOS issued a letter of comfort to the Interessengemeinschaft zur Verbreitung von Anwendungen der Mikrostrukturtechniken NRW e.V. (IVAM) for an amount of EUR 208,232.82. According to its § 9, the cooperation agreement expires on December 31, 2003 at the latest.

In addition, since April 1, 1998 ELMOS has acted as ELMOS NA Inc.'s guarantor for loss of rent at an annual amount of approx. USD 34,400 (EUR 33,026.11) to USD 40,000 (EUR 41,664.00) for five years.

#### Other financial commitments

#### Rental and leasing contracts

The company has entered into leasing contracts for operational and administrative buildings, facilities, the multi-story parking lot, and another office building, expiring in 2006, 2010, 2020, and 2021, respectively. Due to the above-mentioned binding agreements current by balance sheet date, amounts payable in the following years add up as follows:

<b>Rental and leasing arrangements</b>	TEUR
2003	4,190
2004	4,161
2005	4,139
2006	4,117
2007	3,079
Thereafter	35,121

There are also leasing agreements for car pool, office equipment, and technical facilities and machines to a customary extent.

Purchase commitments under investment orders amount to TEUR 3,760.

### Notes to the statement of income

#### Sales

<b>Sales proceeds according to sectors:</b>	2002	2001
	TEUR	TEUR
Production	91,094	84,196
Development	3,966	3,651
Other	371	449
<b>Net sales proceeds</b>	<b>95,431</b>	<b>88,296</b>

<b>Sales proceeds according to regions:</b>	2002	2001
	TEUR	TEUR
Domestic	56,717	49,678
Other EU countries	25,659	26,425
U.S.A.	9,086	8,115
Other countries	3,969	4,078
<b>Net sales proceeds</b>	<b>95,431</b>	<b>88,296</b>

#### Other operational proceeds

Income relating to other periods essentially contains gains on the sale of assets (TEUR 264), reversal of accruals (TEUR 1,220), reversal of accrued debts (TEUR 249), and compensation for damages (TEUR 137). In addition, stated income results essentially from currency differences, project sponsorship, private car use, pension assets, and continued calculations.

#### Other operational expenses

Expenses relating to other periods are essentially due to reduced investments (TEUR 57), receivable losses (TEUR 525), and addition of accrued debts (TEUR 787).

### Further notes

#### Supervisory Board

Prof. Dr. Günter Zimmer, Duisburg  
institute director (Chairman)

Dr. Burkhard Dreher, Dortmund  
graduate economist (Deputy Chairman)

Prof. Dr. Karsten Klaus Heinrich Ehlers, Wolfsburg  
graduate engineer (until December 6, 2002)

Herbert Sporea, Kiel  
businessman

Dr. Roland Mecklinger, Steinfeld-Hausen  
graduate engineer

Dr. Wolfgang Heinke, Reutlingen  
graduate physicist

Prof. Dr. Günter Zimmer is a member of 3 other Supervisory Boards (Wacker Siltronic AG, MANIA Technologie AG, active photonics AG), Dr. Burkhard Dreher is a member of four others (MEAG Mitteldeutsche Energieversorgung AG, Deutsche Steinkohle AG, Harpen AG, Siepe AG), Prof. Dr. Karsten Klaus Heinrich Ehlers was a member of two other Supervisory Boards (Fast Technology AG, I&T AG), Mr. Herbert Sporea is a member one other Supervisory Board (TOP Business AG), as is Dr. Roland Mecklinger (OpenShop AG).

#### Management Board

Knut Hinrichs, Glückstadt  
graduate in business management  
(Chairman)

Dr. Klaus Weyer, Schwerte  
graduate physicist

Dr. Peter Thoma, Unterschleißheim  
graduate physicist

Reinhard Senf, Iserlohn  
graduate engineer

#### Total Management Board remuneration

Management Board remuneration is divided in fixed income and variable, success-oriented income derived from a percentage of the profit before income tax. A long-term commitment is achieved by the issue of stock options which is decided upon annually by the Supervisory Board, together and in accordance with the stock option program for employees below Board level.

Total Management Board remuneration in 2002 came to TEUR 1,191, of which TEUR 798 are fixed and TEUR 393 are variable amounts.

Management Board members have not subscribed for any stock options so far.

Management Board members hold the following numbers of ELMOS Semiconductor AG shares:

Knut Hinrichs	19,276
Dr. Klaus Weyer	16,206
Dr. Peter Thoma	6,200
Reinhard Senf	2,700

#### Total Supervisory Board remuneration

Supervisory Board remuneration in 2002 amounted to TEUR 128 of exclusively fixed components.

No stock options were issued to Supervisory Board members in 2002.

For other services - especially consultations -, the company remunerated members of the Supervisory Board TEUR 64 in the fiscal year 2002.

The following members of the Supervisory Board hold numbers of ELMOS Semiconductor AG shares as stated:

Herbert Sporea	6,665
Dr. Burkhard Dreher	1,900
Prof. Dr. Ehlers (until December 6, 2002)	847

### Employees

The average number of employees in the year ended December 31, 2002, was:

Employees	2002	2001
Industrial employees (including part-time converted into full-time)	154	166
Salaried employees	321	313
	475	479
Trainees	24	19
	499	498

### Recommendation on the appropriation of retained earnings

The Management Board recommends to fully bring forward the retained earnings.

### Group position

ELMOS Semiconductor AG's indirect majority shareholder is EFH ELMOS Finanzholding GmbH, Dortmund, required to prepare consolidated financial statements according to § 290 II No.2 HGB. EFH ELMOS Finanzholding GmbH, Dortmund has not prepared consolidated financial statements by December 31, 2002.

### Declaration in accordance with § 161 AktG regarding the Corporate Governance Kodex

For 2002, ELMOS Semiconductor AG has issued the declaration required by § 161 AktG as follows, and has made it accessible to the shareholders.

The recommendations articulated by the Government Commission Deutscher Corporate Governance Kodex were included in the articles of the company of ELMOS Semiconductor AG and the procedural rules of Management and Supervisory Boards. In addition, the following declaration was issued publicly on December 20, 2002.

Management and Supervisory Boards of ELMOS Semiconductor AG declare for the first time in accordance with § 15 EGAktG and § 161 AktG:

"The ELMOS Semiconductor AG complies with the recommendations of the "Government Commission German Corporate Governance Code" with the following exceptions:

The currently valid D&O insurance of the Supervisory Board and the Board of Directors does not provide for a deductible (GCGC No. 3.8). Based on the undefined legal position concerning the personal liability of the individual members of the Boards, an adaptation of the insurance is under discussion.

Deviant with the recommendations, the Terms of Reference for the ELMOS Semiconductor AG Supervisory Board envisions the implementation of professionally qualified committees and Board of examiners only when the total amount of Supervisory Board members exceeds the limit of six (GCGC No. 5.3.1 and 5.3.2).

Payments made by the ELMOS Semiconductor AG to the members of the Supervisory Board for services provided individually, in particular advisory or agency services, are not listed separately in the Notes to the Consolidated Financial Statements (GCGC No. 5.4.5). "

Dortmund, February 2003

The Management Board

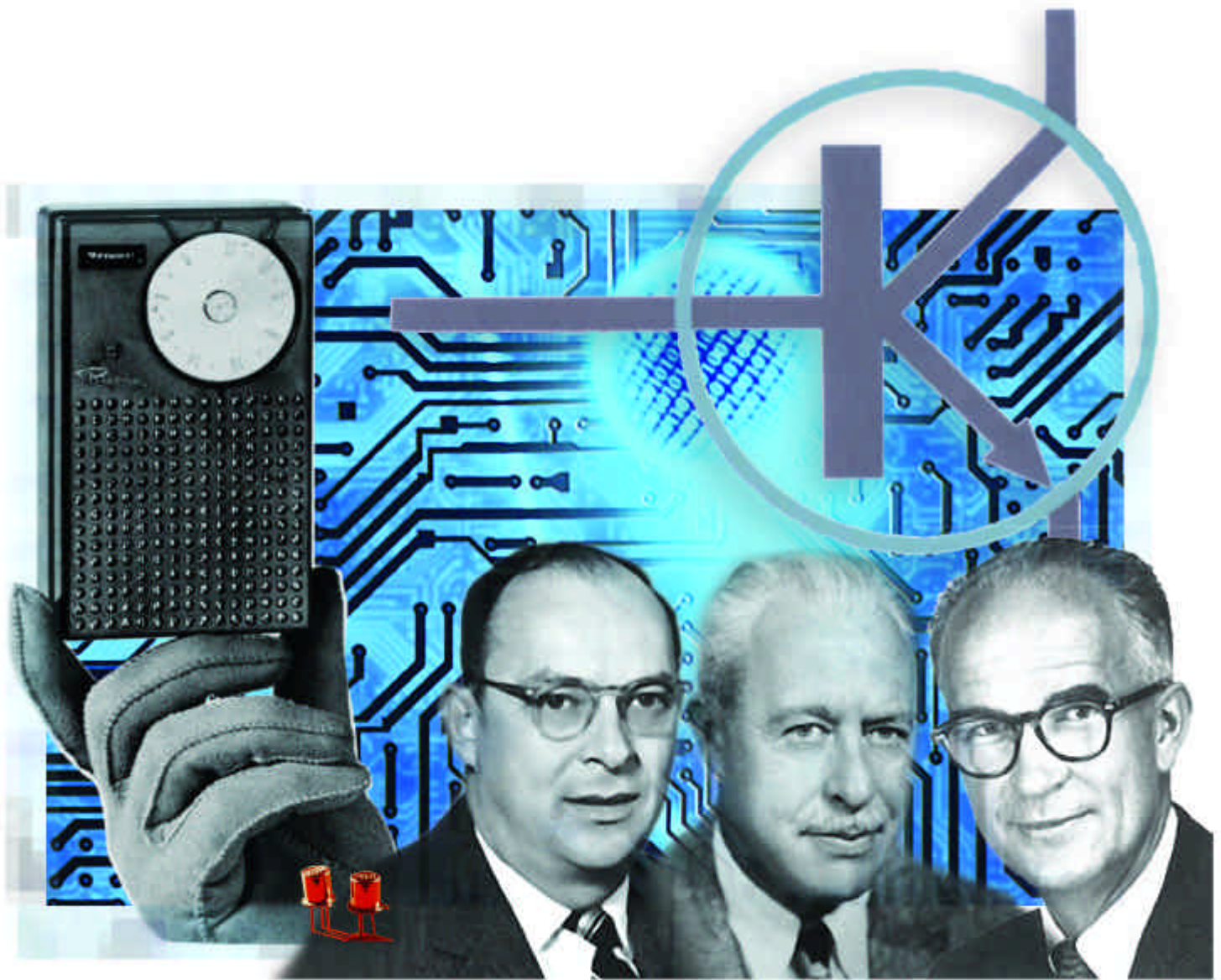
## Roll-forward of Fixed Assets HGB

	01/01/2002 EUR	Acquisition and production costs		Disposals EUR	12/31/2002 EUR
		Additions EUR	Transfers EUR		
<b>I. Intangible assets</b>					
1. Software and licenses	6,062,888.94	1,035,040.18	2,997,311.79	5,145.39	10,090,095.52
2. Advance payments	0.00	4,274,957.55	7,001,156.93	0.00	11,276,114.48
	6,062,888.94	5,309,997.73	9,998,468.72	5,145.39	21,366,210.00
<b>II. Property, plant and equipment</b>					
1. Land and buildings	6,082,077.70	147,544.40	3,715,512.26	529,923.00	9,415,211.36
2. Technical equipment, plant and machines	87,250,519.73	2,520,610.59	4,706,044.75	3,640,605.57	90,836,569.50
3. Other equipment, furniture and fixtures	6,432,120.42	679,621.42	205,429.72	*2,387,424.04	4,929,747.52
4. Advance payments and construction in progress	25,407,565.19	9,298,660.99	(18,625,455.45)	1,131,421.55	14,949,349.18
	125,172,283.04	12,646,437.40	(9,998,468.72)	7,689,374.16	120,130,877.56
<b>III. Financial assets</b>					
1. Investments in affiliated companies	24,334,859.27	6,958,697.24	799,469.83	0.00	32,093,026.34
2. Loans to affiliated companies	100,000.00	104,940.71	0.00	0.00	204,940.71
3. Investments	603,174.82	753,797.16	(799,469.83)	153.38	557,348.77
4. Loans to companies in which the company has a participating interest	766,937.82	613,550.26	0.00	0.00	1,380,488.08
5. Securities	0.00	724,344.00	0.00	0.00	724,344.00
	25,804,971.91	9,155,329.37	0.00	153.38	34,960,147.90
	<b>157,040,143.89</b>	<b>27,111,764.50</b>	<b>0.00</b>	<b>7,694,672.93</b>	<b>176,457,235.46</b>

\* Including low-value assets of EUR 81,342.29

01/01/2002 EUR	Accumulated depreciation		12/31/2002 EUR	Net book values	
	Additions EUR	Disposals EUR		12/31/2002 EUR	12/31/2001 TEUR
4,144,108.42 0.00	1,329,139.33 0.00	5,144.88 0.00	5,468,102.87 0.00	4,621,992.65 11,276,114.48	1,919 0
4,144,108.42	1,329,139.33	5,144.88	5,468,102.87	15,898,107.13	1,919
411,681.19 56,991,118.64	659,314.41 9,128,487.64	0.00 2,188,657.79	1,070,995.60 63,930,948.49	8,344,215.76 26,905,621.01	2,269 30,259
4,596,117.24 0.00	1,018,518.10 0.00	*1,519,723.03 0.00	4,094,912.31 0.00	834,835.21 14,949,349.18	5,237 25,408
61,998,917.07	10,806,320.15	3,708,380.82	69,096,856.40	51,034,021.16	63,173
0.00 0.00 0.00	0.00 0.00 229,000.00	0.00 0.00 0.00	0.00 0.00 229,000.00	32,093,026.34 204,940.71 328,348.77	24,335 100 603
0.00 0.00	571,000.00 0.00	0.00 0.00	571,000.00 0.00	809,488.08 724,344.00	767 0
0.00	800,000.00	0.00	800,000.00	34,160,147.90	25,805
<b>66,143,025.49</b>	<b>12,935,459.48</b>	<b>3,713,525.70</b>	<b>75,364,959.27</b>	<b>101,092,276.19</b>	<b>90,897</b>





### **John Bardeen**

1908-1991  
American physicist

discovers the charge separation between different semiconductor layers (transistor effect) in 1949 and introduces the development of the transistor.

### **Walter Houser Brattain**

1902-1987  
American physicist

works on electron emission on hot surfaces and adsorbing layers at Bell Telephone Laboratories.

### **William Bradford Shockley**

1900-1979  
American physicist

conducts research on semiconductors and discovers the transistor effect.

In 1956, all three win the Nobel prize for their invention of the transistor in 1947.

### **Bardeen, Brattain, Shockley and ELMOS**

The transistor is the basic component of all modern electronic circuits. Today, the MOS field effect transistor dominates technologies (CMOS).

## Status Report of the Company and the Group

*Report on the situation of the company and the group  
for the financial year ended December 31, 2002  
ELMOS Semiconductor Aktiengesellschaft, Dortmund*

### *Economic environment*

ELMOS Semiconductor AG develops, produces, and sells application specific microelectronic circuits (ASICs = Application Specific Integrated Circuits), primarily for use in the automobile industry. In the year 2002 approx. 91% of the revenue keep originating from this market segment. The past 18 years, ELMOS has worked for a leading market position on the European market for automotive electronics. As a result, ELMOS electronic circuits are used today by almost all European car manufacturers. Ever-increasing demands on the reduction of fuel consumption, the environmental compatibility of a vehicle, but also on the safety and comfort of the passengers lead to more and more electronic systems in the car. ELMOS ASICs are ideally suited to the compact, reliable, and economical construction of those systems.

### *Account of the course of business 2002*

For the semiconductor industry, the year 2002 was the second very bad year in a row. Following the crash in 2001, a rallying was generally expected for the year 2002. Instead, the market stagnated at a low level of about USD 140.7 billion, meaning a plus by a meager 1% compared to the year before. Only the relatively crisis resistant market segment semiconductors for automotive applications grew, by 4% compared to 2001, amounting to roughly USD 13.2 billion. The slight decline in car sales, dropping by 3% in Western Europe and by 2% in the U.S., was overcompensated for with the ever-growing trend towards more electronics per vehicle. Especially manufacturers of standard components, such as power semiconductors and microcontrollers, could profit from that. Some important car manufacturers in the premium segment hardly suffered from a decline in sales at all, partly even showing sales growth of more than 15%.

Offering customer specific mixed-signal circuits, the ELMOS group asserted itself very well in the year 2002 and increased its net sales at EUR 109.7 million by almost 3% compared to the prior year result.

Besides the optimization of business activity at the Dortmund location, attention was focused primarily on the entrepreneurial endeavors of the subsidiaries in the U.S. (SMI) and the Netherlands (eurasem), both acquired in 2001. These companies, representing the major part of the ELMOS stake portfolio, were extended in the year under report as planned. In each of both companies, roughly EUR 25 million have been invested to date.

eurasem had 139 employees by the end of the year and contributed EUR 2.8 million to the group revenue in the past financial year. The company's net loss amounted to EUR 7.6 million in 2002. However, this number includes extraordinary depreciation of investments and bonds coming to roughly EUR 6.2 million. Considering U.S. GAAP consolidating adjustments (minus EUR 0.5 million), an operating loss of EUR 1.9 million remains.

The equipment of eurasem allows the relocation of an essential part of assembly services heretofore carried out for ELMOS in the Far East. Following the conclusion of customer release procedures, this transfer was gradually realized in 2002. After improved utilization of production capacity by expanding weekly operation to seven days and recruiting the new staff required, eurasem covered about 60% of the assembly services for ELMOS by the end of the year 2002. Apart from assembly for the ELMOS group, the company assembles special packages for third party customers.

Despite continuous improvement, eurasem's operating result was still negative in the last quarter. With increasing utilization, management is expecting a level result in the year 2003.

SMI had 73 employees by the end of the year. The company contributed EUR 7.3 million to the group revenue in the past financial year. The company's net loss came to EUR 0.2 million in 2002.

Due to stabilizing measures taken by the parent company and own intensified sales activity, SMI sales in 2002 were increased continuously from quarter to quarter, from EUR 0.9 million to EUR 2.9 million, surpassing the previous year's numbers significantly.

This clear improvement at SMI partly results from the acquisition of the complete wafer production of the company IC-Sensors in Milpitas, California and the concentration of all SMI activities at this new location in the second half-year of 2002. Included in the total investment in the Milpitas location is the acquisition of the IC-Sensors Inc. corporate building for EUR 5.1 million in connection with the acquisition of the IC-Sensors production line. Because SMI now appears as a wafer foundry for IC-Sensors, the production volume grew to the critical size necessary to reach the break-even point by the third quarter. With reference to the whole year, the net loss was reduced to EUR 279,000 (compared to EUR 950,000 in the year before).

U.S. subsidiary ELMOS NA in Detroit, Michigan continued its penetration of the American automobile supplier industry successfully in the year under report. Staff increased from 16 to 24. Development activity has been basically pre-financed by the parent company. The start of volume manufacture for the first products developed in Detroit is scheduled for 2003. Variable gross margin are expected to cover development expenses and deliver a positive contribution to the group performance.

Shares of SMI as well as of ELMOS NA have been held by ELMOS U.S.A. Inc., Michigan, a 100% subsidiary of ELMOS Semiconductor AG, since 2002. By a conversion of ELMOS loans of EUR 5.2 million, a capital increase to the same amount was carried out at SMI in December, 2002. Shares of ELMOS NA shifted accordingly due to a loan conversion of EUR 1.7 million.

Business development was not pleasant at the company attoSENSOR in Penzberg, Germany, in which ELMOS holds a 30% interest. attoSENSOR develops innovative sensor systems for positioning using patented know-how and ELMOS ASICs. Unexpected difficulties during development resulted in a delayed market introduction, and original business plans could not be realized. Therefore, at EUR 800,000 parts of the shareholder loan granted to attoSENSOR by ELMOS and the share assessment were written off in the year under report.

#### *Sales and profit development*

In the past financial year, at EUR 109.7 million the group surpassed the previous year's net sales of EUR 107.0 million by roughly 3%. A revenue of EUR 110 to 112 million as originally targeted was narrowly achieved.

With respect to acquisitions, 2002 turned out a very successful year for the ELMOS group. At 31 new development projects (design wins), previous year's number of 27 design wins was markedly exceeded and a new record established. These development contracts lay the foundations for production revenue from the years 2005/2006, amounting to more than EUR 300 million over the expected life spans of the products, more than EUR 30 million of which for HALIOS.







Regional distribution of the group revenue changed to about 52% in Germany by the end of the year, compared to roughly 46% in the previous year. This happened at the expense of the rest of the European market, falling back from well over 39% in 2001 to 28% in 2002. This effect is due, as it was in the year before, to the scheduled discontinuation of an old product in the airbag sector. Significant is the increase of revenue contributions in the U.S., rising from 11% in 2001 to approx. 16% of the group revenue in 2002. A big part of that was contributed by the subsidiary SMI.

Owing to the introduction of cost reduction programs and short-time work in use until May 1 in the year under report, the company's net income amounted to EUR 8.9 million despite financial burdens due to the continued expansion of the subsidiaries, as compared to EUR 11.6 million in the year before. The separate financial statements of ELMOS AG shows the year result, at EUR 10.1 million, slightly exceeding the prior year result.

Negative influences on the result arose from increasing tax depreciation concerning fixed assets and from other rising expenses. These include higher rental and leasing charges as well as increasing warranty commitments, among others. Furthermore, at EUR 800,000 parts of the shareholder loan granted to attoSENSOR by ELMOS and the share assessment were written off in the year under report.

At EUR 1.6 million (consolidated financial statements U.S. GAAP), a performance improving effect came from the capitalization of preproduction / engineering expenses for new products (expenses for the optimization of software, engineering, qualification and release examinations) not paid for by customers in advance on the actual scale they had incurred. These expenses are reimbursed by the customer through the calculated unit price on volume delivery.

### **Incoming orders and order backlog**

The incoming orders concerning ASIC production in the year 2002 came to EUR 97.0 million, exceeding the previous year amount by 8%. In the course of the year, the book-to-bill ratio rose from quarter to quarter, from 0.90 to 1.10, averaging a rate of 1.03 for the whole year as compared to 1.01 in 2001. The 2002 incoming orders are attributable predominantly to volume delivery. Besides, a significant increase of new development contracts (design wins) was recorded.

### **Production**

Since the middle of the financial year 1999, ELMOS has manufactured exclusively on the 150 mm wafer line in Dortmund. According to schedule, this line was expanded in the years 2000 to 2002 in order to be prepared for the upcoming technological generations and the expected capacity demand on production.

Production rooms and facilities at the Dortmund location are equipped with state-of-the-art technology suited to processes involving structure sizes down to 0.4 micrometers. They provide a solid platform for the ELMOS production of the next 5 - 10 years. Machine capacity is about 350 wafer starts a day, of which roughly 250 wafer starts a day (approx. 70%) were used by the end of 2002. By the recruitment of additional staff and, possibly, an investment in bottle-neck machines, capacity can be enhanced to a maximum 500 wafer starts a day.

### **Capital investment**

The effort to expand the clean room and install production machinery in Dortmund was concluded to a large extent in the year under report, so that in the year 2003 investments in the wafer production are necessary only on a small scale. Once more, considerable means were brought in for the expansion of eurasem and SMI. About EUR 10.8 million were invested in SMI. Investments in eurasem machine equipment amounted to EUR 2.5 million. Adjusted by SMI building investments intended to be disincorporated through sale & leaseback, the investment sum amounts to EUR 27.1 million.

Compared to the year before, investments were cut down considerably. Included in the amount of roughly EUR 27.1 million stated in ELMOS AG's unconsolidated financial statements is an increase in capital share of about EUR 6.9 million resulting from loan conversions which does not effect liquidity. The other investments were contributed especially to technical facilities, the expansion of the administration building in Dortmund, and process technology (Motorola HC12 cell libraries). Higher depreciation concerning new investments were compensated in part, as positive changes resulted from the extension of the period of use of capital goods (improvement effect EUR 1.3 million with regard to separate statements, EUR 2.2 million with regard to consolidated statements).

Besides the investment in new process technology already mentioned, in the research and development area the significant rise of research and development activity owing to a large number of design wins is noteworthy.

#### *Financing measures*

Thanks not least to the successful restructuring process at the subsidiaries SMI and eurasem, capital expenditure requirements could be reduced in the past financial year. However, despite of reduced expenses and consistent cash management by means of sale & lease-back transactions concerning corporate buildings, financial resources of initially EUR 18.3 million decreased by about EUR 9.2 million to roughly EUR 9.0 million by year's end. As all major investments in the production sector have been made in the last couple of years, particularly at the Dortmund location, capital expenditure can be further reduced in the next year. It is safe to say that within a short time future expenditure will be fundable out of own resources.

#### *Equity*

The shareholders' equity rate of the ELMOS group comes to an almost unchanged 54% by December 31, 2002. The equity capital rate of ELMOS AG rises to 71% of the balance sheet total. Based on that, it can be assumed that the company would be able to endure several difficult years of weak market demands. That being said, the successful continued existence of the company is secured for the next years.

Subscribed share capital of the company is EUR 19,300,000.00, divided in 19,300,000 non-par unit share at an arithmetic value of EUR 1.00 each. All shares are fully paid in.

By shareholders' resolution of August 30, 2001, the capital increase registered on July 24, 2000 was cancelled. The rectification was recorded in the register of companies on January 3, 2002. The deposit of EUR 10.55 million brought in by the shareholder EFH ELMOS Finanzholding GmbH was paid back to the shareholder on March 22, 2002. No interest was charged or paid.





### **Staff and social sector**

In the fiscal year 2002, the ELMOS group had an average of 830 employees (including 24 trainees) as compared to an average 624 in 2001. ELMOS Semiconductor AG in Dortmund employed an average staff of 499. The significant rise in group employment results from the expansions at eurasem, SMI, and ELMOS NA, as discussed above, as well as from the consolidation of further subsidiaries in Germany, ELMOS Süd and GED.

By means of the bonus stock program introduced by the initial shareholders at the time of going public in 1999, granting each employee a bonus share out of the initial shareholders' parcel for each share bought, ELMOS employees hold interest in the company. In the year 2002, 60,492 bonus shares were issued to employees, 55,958 of which within ELMOS AG.

Annual stock option programs lead to long-term commitment to the company and to success participation of the employees. These programs provide for the issue of stock options to Board members and employees below Board level at almost identical conditions. The issue value per option depends on the 10-day average of the official stock exchange quotation of the ELMOS share prior to the day of resolution and an exercise price of 120%. Options can be exercised after two years at the soonest and are valid for five years. The exercise can only happen within certain exercise periods. By shareholders' resolution of September 22, 1999, qualified capital share up to an amount of EUR 1 million was made available to this stock option program.

In its meeting on December 20, 2002, the Supervisory Board approved the resolution of the Management Board concerning the issue of up to 220,000 stock options to employees below Management Board level and 80,000 stock options to Board members, at an issue price of EUR 7.87. In 2002, neither employees nor Board members subscribed for any stock options from the year 2001 due to an administrative mistake.

For this reason, the resolution of the Supervisory Board of December 14, 2001 concerning stock options for 2001 was canceled unanimously.

### **Research and development**

Future-oriented group expenditure for research and development remained at a relatively high level of roughly EUR 17.5 million in the year 2002, matching the previous year rate of 16% of the revenue. These expenses mirror the endeavors of ELMOS to accelerate the introduction of new technologies and products significantly. Besides the development of numerous new products, the effort to further minimize structure sizes and to advance the silicon-on-insulator (SOI) technology contributes largely to the costs.

As far as products are concerned, Motorola HC12 / Star12 cell libraries and the Motorola design methodology were integrated into the ELMOS design environment in cooperation with our partner Motorola.

The chip developments for 2 basis circuits based on HALIOS patents acquired at the end of 2001 were presented to numerous customers. However, an important key customer has not yet been won for these products.



### *Relationships with affiliated companies*

According to § 312 AktG (German Corporations Act), we prepared a report on our relationships with affiliated companies concluding with the following statement in accordance with § 312 III AktG: "We declare that, under the circumstances known to us at the time legal transactions were executed and measures were taken, our company received appropriate consideration for each legal transaction. Disadvantages according to § 312 AktG have not resulted from our relationships with affiliated companies."

### *Risk management*

In the year under report, ELMOS AG completed its efforts begun years ago to introduce a comprehensive risk management system in accordance with § 91 (2) AktG. At year's end, this risk management system was thoroughly examined of accordance with the German Commercial Code (HGB) and the Corporations Act (AktG) and approved by our independent auditors. It provides for the regular recording and evaluation of new and known risks by the employees responsible and establishes a closed loop reporting system. By that device, Management and Supervisory Boards are informed regularly of the current risk situation and are thus enabled to take appropriate action for risk minimization or defense, respectively. This risk management system will be continuously enhanced and further refined over the year 2003.

### *Comments on the risks of future developments*

#### *1. Dependence on the automotive industry*

The company's core business is directly connected to the automobile industry's demand for ASICs. On the one hand, this demand depends on the units of cars produced. On the other hand, it is subject to the continuing trend towards more electronics per motor vehicle. Owing to the increase of electronic applications in cars such as airbag systems, electronic chassis control (ESP, DSC), luxury fittings, etc., unit numbers of ASICs sold rise even when the number of cars produced declines.

It can be observed that in difficult market phases the automobile industry often offers cars at attractive total prices including extra appliances and fittings that are originally optional. As a result, the number of ASICs sold does not necessarily decrease even though car production stagnates or decreases. Demand for ASICs turns out to be relatively stable as it is subjected to the fluctuations of vehicle units to a lesser extent.

A closer examination of the worldwide semiconductor market shows that only 6 to 7% of the total number of chips are used for automotive electronics, a fact making this market segment less interesting to the large, globally active semiconductor manufacturers. However, 6 to 7% of the total semiconductor market equal roughly USD 17.3 billion in the year 2005, according to a Dataquest survey, opening a giant growth potential for ELMOS. Even taking into consideration that ELMOS products - namely customer specific ASICs - only cover about one third of this market, the worldwide market that can be addressed will amount to approx. USD 6 billion in the year 2005.

Europe remains the dominating market for automotive electronics, and ELMOS has taken up a strong position in the midst of the innovative centers of the car manufacturing industry.

The car market was subjected in the past to considerable fluctuations as a consequence of mergers of manufacturers, restrictive environmental laws, and other factors. A certain dependence on a few large car manufacturers is clearly detectable in ELMOS's customer structure. However, it has to be taken into account that this is a mutual dependence resulting from the importance and specialization of ELMOS ASICs for the products of the car manufacturer suppliers. Large sales volumes achieved with a few major customers also indicate promising long-term customer relationships with corresponding sales potential. The suppliers to the car industry operate under considerable cost-effecting pressure, and the simultaneous development of one ASIC by two suppliers would lead to significant additional costs, both during development and later during production due to the lower unit numbers realized by

each ASIC supplier. This is why it rarely happens that two suppliers are commissioned to develop one and the same ASIC at the same time.

## 2. Competition and employees

In the semiconductor market for automotive applications, there are a number of competitors offering products similar to the ones ELMOS offers, based on a similar technology. It also cannot be ruled out that large semiconductor manufacturers not yet engaged in the automotive semiconductor market, or just to a limited extent, might try to penetrate this market segment in the future. Those attempts by several competitors could be observed in the year 2002. However, as considerations with respect to profitability force these large manufacturers to focus on large-volume projects, they have not taken a very active interest in the niche market for customer specific circuits. A corresponding risk for ELMOS appears comparatively small.

The company's extremely development-intensive business leads to a clearly pronounced and very specific engineering know-how, although not necessarily to patents. As a result, ELMOS is increasingly dependent on certain employees. Fluctuation risk is reduced at ELMOS by the perceptibly high motivation of the staff and a strong identification with the company. Almost all employees hold an interest in the company through shares, and in the year 2002 the last tranche of the bonus stocks provided by the initial shareholders was issued to the staff.

## 3. Development of new products and technologies

Acquiring a new contract for the customer specific development of products, today's manufacturer is usually no longer able to collect reimbursements for the total one-off development costs from the customers in advance anymore. Usually a considerable part of development costs is reimbursed early on by the customer, though. However, to some extent these costs cannot be covered in advance anymore and must be amortized by later unit numbers in volume supply. There is a certain risk that expenses not amortized from developments not resulting in a volume supplier position will stay with the company.

The market for ELMOS products is characterized by constant further development and improvement of products. Accordingly, the success of ELMOS is closely related to the ability to economically develop new and sophisticated products, to introduce them to the market on time, and to ensure that these products are chosen by the leading suppliers to the car industry.

The future success of ELMOS also depends on the ability to come up with new development and production technology. ELMOS develops analog and digital semiconductor structures and functions for its self-developed modular high-voltage CMOS process technology. Like its competition, ELMOS is forced to continuously improve its technology and develop new process technologies for the advancing minimization of structures in the submicron area.

If ELMOS ceased to be able to develop, produce, and sell new products and product upgrades, significant effects on the assets, financial, and earnings situation would be likely to result.

Thanks to ELMOS's ability to develop and manufacture ASICs for all kinds of electronic automotive applications, ELMOS products are to be found in almost any electronic car component so that the risks of cancelled contracts for an individual electronic component are widely spread and practically do not exist. A slump in the car industry lasting for years in a row, causing car manufacturers not to develop any new electronic devices, could have a lasting effect on the company's development, though. However, such a slump is not to be expected under the current circumstances. Particularly, the automobile industry tends to upgrade technical features in bad times, as has already been mentioned. A second reason, customer specific ASICs by ELMOS have been replacing electronic standard components at an increasing rate, enabling ELMOS to grow faster than the total market, thus increasing its market share. This way even risks connected to the possible loss of development contracts for ASICs for the car industry can be reduced.

Current ELMOS production capacity can be considered sufficient for the targeted growth, from the financial year 2003 just started well into the years 2004/5. An expansion of production capacity beginning in the year 2005 will probably be necessary in order to enable the company to grow as planned. Depending on the market situation, the construction of an additional production line for 200 mm wafers next to the existing line for wafers of 150 mm in diameter at the Dortmund location is planned. This requires a separate building to be erected.

#### **4. Procurement**

The raw materials needed for ELMOS production are available from different suppliers worldwide and are not subjected to monopolies. A certain dependence on individual Far Eastern partners in the assembly area is typical of the trade, though. In this respect, ELMOS determined the course for a vertical penetration of the added value chain by the acquisition of the company eurasem. By the end of 2002, eurasem provided approx. 60% of the assembly services required by

ELMOS. As a consequence, ELMOS grows increasingly independent from the Far Eastern partners and fluctuations of the U.S. dollar as well.

#### **5. Product liability**

ASICs produced by ELMOS are integrated as components into complex electronic systems. Defects and malfunctions of the ASICs produced by ELMOS or of the electronic systems they are integrated into can directly or indirectly be damaging to the property, health, and life of third parties. ELMOS cannot reduce or exclude liability in its sales contracts with regard to customers or third parties.

ELMOS follows a resolute zero-defect strategy and constantly invests in the detection and avoidance of sources of error and defects. Individual semiconductor chips are tested several times at different temperatures with regard to quality and function inside the plant. Before products are delivered, the company puts to use quality control systems certified in accordance with TS 16949, VDA 6.1, and QS 9000, and further comprehensive testing procedures. However, product defects might still show only after installation and use of the product by the consumer.

If product defects materialize, an expensive and time-consuming product modification might ensue, leading to disrupted customer relationships and a loss of market share. A quality problem of whole shipments might additionally result in customers' claims for compensation costing millions. This risk is adequately covered by insurance, though. Still all this could affect the company's assets, financial, and earnings situation in a negative way.

## 6. Interruption of business

Apart from the business risks already described and discussed, in our opinion the single entrepreneurial risk capable of significantly damaging the development of the group and jeopardizing its continued existence is the risk of the destruction of production facilities by fire or other disasters. Although the risk of the interruption of business by such an occurrence is adequately covered by insurance, a significant threat of losing key customers in such a case remains. This risk cannot be insured against. Risk minimization is planned by the future construction of an additional production line (200 mm line) in a separate building at the Dortmund location. This being done, ELMOS would have two independent production lines at its disposal, at least leaving one in case of disruptions effecting the other.

The other usual and insurable risks such as fire, interruption during fire-fighting operations, water, storm, theft, third party liability and, in particular, product liability, also in the U.S., and costs of a possible call-back campaign are adequately covered by insurances. Further risks capable of significantly damaging the development of the company / group or jeopardizing the continued existence of the company / group are not detectable at present.

## 7. Financial investments

The high allocation of capital to the subsidiaries abroad results in an increased obligation to detect and minimize possible financial risks by means of adequate controlling instruments and continuous economic analyses as soon as possible. Business plans and budgets have been devised particularly for SMI, eurasem, and ELMOS NA, satellites not yet operating profitably. Business plans and budgets observed, they will make sure that no existential risks will ensue.

At eurasem, capacity will be expanded in the current fiscal year 2003 by the operation of additional machines already available in order to keep up with

growing demand. For this, a re-arrangement of the existing production rooms was carried out already. Plans for the medium term involve another test area for assembled products accommodated in a structure yet to be erected at eurasem.

At SMI, the gradual reorganization towards 150 mm wafers and the installation of additional machines required for that are scheduled for 2003. Following modernization, the building acquired in 2002 will be transferred to a financial investor in the course of a sale & leaseback transaction.

In 2003, ELMOS NA will start the first series production of self-developed products and circuits as scheduled.

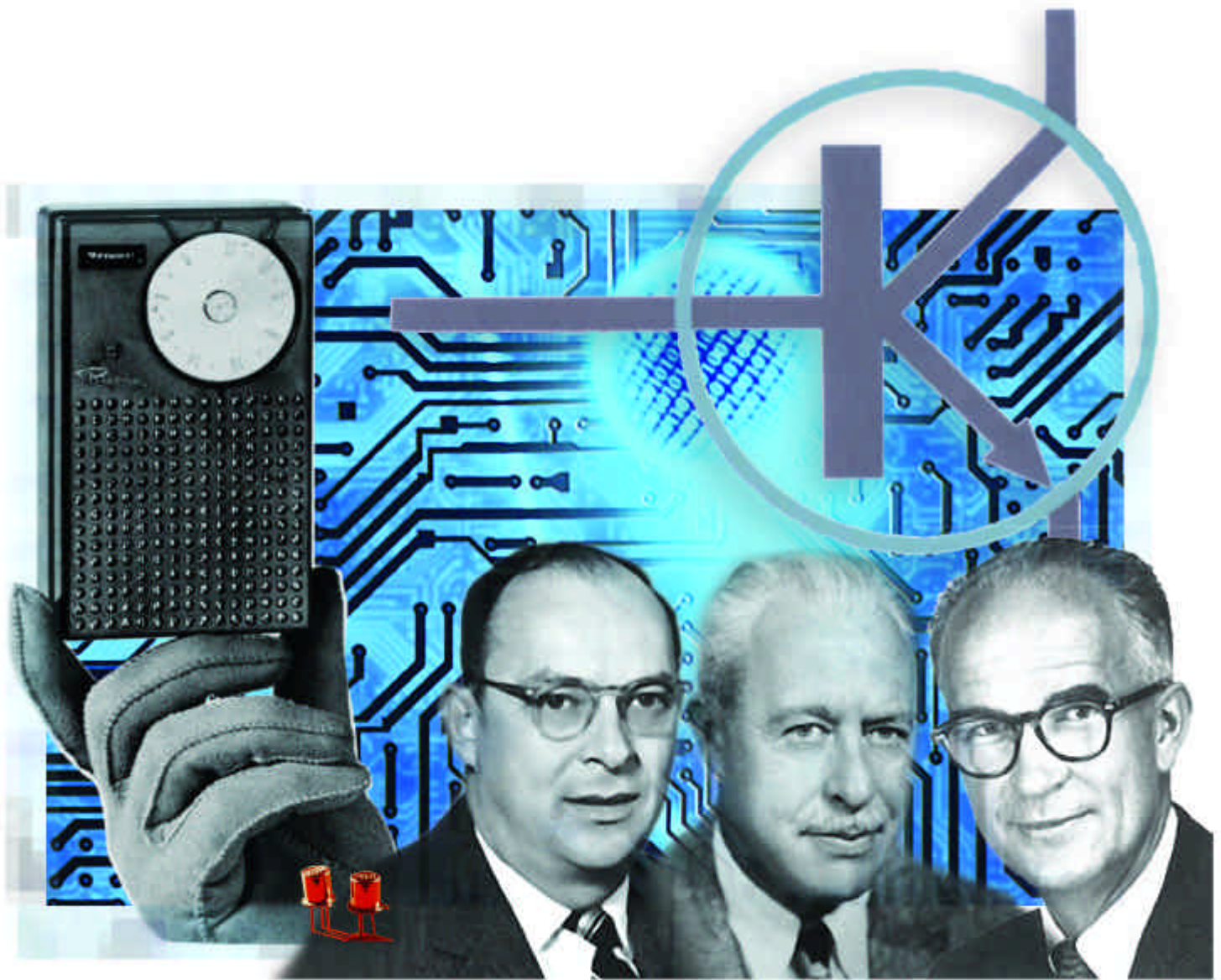
## Events of special significance occurring after the end of the fiscal year

At the end of the fiscal year, ELMOS founded the two companies ELMOS Central IT Services GmbH & Co.KG and ELMOS Facility Management GmbH & Co.KG. These two companies are meant to cover the IT and facility sectors, respectively, for the ELMOS group in the future. In the new fiscal year, the new companies were provided with necessary staff and appropriate assets. After the balance sheet date, further events of special significance have not occurred.

Dortmund, February 2003

The Management Board





### **John Bardeen**

1908-1991  
American physicist

discovers the charge separation between different semiconductor layers (transistor effect) in 1949 and introduces the development of the transistor.

### **Walter Houser Brattain**

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The transistor is the basic component of all modern electronic circuits. Today, the MOS field effect transistor dominates technologies (CMOS).

# Consolidated Financial Statements U.S. GAAP of ELMOS Semiconductor Aktiengesellschaft and Subsidiaries for the Years Ended December 31, 2002 and 2001

## *Report of the Independent Auditors U.S. GAAP*

### *The Shareholders of ELMOS Semiconductor Aktiengesellschaft and Subsidiaries*

"We have audited the accompanying consolidated balance sheets of ELMOS Semiconductor Aktiengesellschaft ("the Company") and as of December 31, 2002 and 2001 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 as well as the status report of the company and of the group prepared in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP) are the responsibility of the company's legal representatives. Based on our audit it is our responsibility to express an opinion on the consolidated financial statements and on the status report of the company and of the group, 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 German auditing regulations and in compliance with the generally accepted German accounting principles established by the German Institute of Wirtschaftsprüfer (IDW). Those standards require the audit to be planned and carried out in such a way that material misstatements are identified with sufficient reliability. An audit includes examining, on a test basis, the effectiveness of the accounting related 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 the legal representatives, 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 present fairly the consolidated financial position of ELMOS Semiconductor Aktiengesellschaft and Subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. GAAP.

Our audit, which also covered the status report of the company and of the group as prepared by the Company's Management Board for the fiscal year ended December 31, 2002, has not resulted in any objections or exceptions. It is our opinion that the status report of the company and of the group, 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 the status report of the company and of the group for the years ended December 31, 2002 and 2001, satisfy the requirements to exempt the Company from preparing consolidated financial statements and a consolidated management report in accordance with German law. We conducted our audit of the required consistency of the consolidation accounting compliance with the 7th EU Directive for exemption from the requirement for consolidation accounting under German Commercial Code provisions, on the basis of the interpretation of this directive by the European Commission's Contact Committee on Accounting Directives."

Dortmund, February 21, 2003

Ernst & Young  
Deutsche Allgemeine Treuhand AG  
Wirtschaftsprüfungsgesellschaft

Brorhilker  
Wirtschaftsprüfer

Muzzu  
Wirtschaftsprüfer

Consolidated Financial Statements U.S. GAAP  
of ELMOS Semiconductor Aktiengesellschaft and Subsidiaries  
for the Years Ended December 31, 2002 and 2001

	12/31/2002	12/31/2001
	EUR	EUR
<b>Assets</b>		
Current assets		
Cash and cash equivalents	9,038,828	18,280,808
Marketable securities (note 2)	2,020,843	18,039,490
Trade accounts receivable less allowance for doubtful accounts of EUR 987,559 in 2002, EUR 450,244 in 2001, respectively	22,787,802	17,129,179
Inventories (note 3)	24,080,701	25,582,964
Prepaid expenses and others	5,865,241	6,902,951
<b>Total current assets</b>	<b>63,793,415</b>	<b>85,935,392</b>
Deferred taxes (note 7)	13,913,236	7,231,043
Intangible assets		
Goodwill after depreciation (note 2)	7,622,344	7,636,097
Software and construction in progress (note 2)	25,516,046	6,149,414
Less accumulated depreciation	(6,232,719)	(4,212,297)
	26,905,671	9,573,214
Investments in unconsolidated subsidiaries (note 4)	468,792	622,265
Property, plant, and equipment:		
Land	4,432,392	4,864,019
Buildings and improvements	56,068,821	39,514,518
Technical equipment and machinery	112,869,248	108,110,792
Construction in progress	15,824,461	27,092,940
Less accumulated depreciation	(85,754,221)	(74,981,298)
	<b>103,440,701</b>	<b>104,600,971</b>
<b>Total assets</b>	<b>208,521,815</b>	<b>207,962,885</b>

See notes to consolidated financial statements

## Consolidated Balance Sheet U.S. GAAP

	12/31/2002 EUR	12/31/2001 EUR
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Amounts payable to banks	22,156,828	14,866,227
Trade accounts payable	11,462,149	9,138,369
Provisions for salaries and wages, social security benefits, and taxes	3,060,320	2,170,131
Other accrued liabilities	5,734,989	6,831,045
Accrued income taxes	11,944,904	8,652,587
Advances from shareholders	-	10,550,000
Current portion of long-term obligations (note 5)	2,909,167	2,728,776
Deferred taxes (note 7)	-	(121,645)
<b>Total current liabilities</b>	<b>57,268,357</b>	<b>54,815,490</b>
Long-term obligations, less current portion (note 5)	37,157,851	39,822,899
Non current liabilities	1,560,607	-
Minority interest	93,914	205,231
Shareholders' equity:		
Share capital	19,300,000	19,300,000
Paid-in capital	84,615,844	84,615,844
Accumulated other comprehensive income (loss)	(10,734,523)	(1,193,374)
Retained earnings	19,259,765	10,396,795
Total shareholders' equity	<b>112,441,086</b>	<b>113,119,265</b>
<b>Total liabilities and shareholders' equity</b>	<b>208,521,815</b>	<b>207,962,885</b>

See notes to consolidated financial statements

## Consolidated Statements of Income and Comprehensive Income U.S. GAAP

	2002	2001
	EUR	EUR
Net sales	109,705,247	107,028,792
Cost of sales	55,898,081	57,269,005
<b>Gross profit</b>	<b>53,807,166</b>	<b>49,759,787</b>
Research and development	17,545,991	16,979,063
Marketing and selling expenses	5,993,627	5,505,056
General and administrative expenses	12,015,157	10,130,628
Amortization of goodwill	-	134,735
<b>Operating income</b>	<b>18,252,391</b>	<b>17,010,305</b>
Interest expense (income)	3,649,075	1,536,517
Foreign exchange loss (income), net	(88,049)	(405,697)
Other (income) expense, net	(965,645)	(1,378,109)
<b>Income before income taxes, equity in loss of unconsolidated subsidiaries and minority interest</b>	<b>15,657,010</b>	<b>17,257,594</b>
Income tax expenses (note 7)		
Current	6,846,877	2,339,964
Deferred	(166,249)	3,500,629
	6,680,628	5,840,593
<b>Net income before equity in loss of unconsolidated subsidiaries and minority interest</b>	<b>8,976,382</b>	<b>11,417,001</b>
Equity in losses of unconsolidated subsidiaries	199,294	-
Minority interest in earnings of consolidated subsidiaries	(85,882)	(133,754)
<b>Net income</b>	<b>8,862,970</b>	<b>11,550,755</b>
Basic earnings per share	0.46	0.60
<b>Diluted earnings per share</b>	<b>0.46</b>	<b>0.60</b>

See notes to consolidated financial statements



## Consolidated Statements of Changes in Shareholders' Equity U.S. GAAP

	Shares EUR	Share capital EUR	Paid in capital EUR	Accumulated other compre- hensive income (loss) EUR	Retained earnings EUR	Total EUR
<b>Balance on December 31, 1999</b>	<b>19,300,000</b>	<b>19,300,000</b>	<b>84,558,534</b>	<b>151,661</b>	<b>8,690,844</b>	<b>112,701,039</b>
Net income					16,601,257	16,601,257
Cash dividends					(8,881,140)	(8,881,140)
Treasury shares purchased	(13,700)	(13,700)	(279,436)			(293,136)
Change in unrealized gains on marketable securities				(134,050)		(134,050)
Foreign currency adjustments				12,931		12,931
<b>Balance on December 31, 2000</b>	<b>19,286,300</b>	<b>19,286,300</b>	<b>84,279,098</b>	<b>30,542</b>	<b>16,410,961</b>	<b>120,006,901</b>
Net income					11,550,755	11,550,755
Treasury shares sold	13,700	13,700	336,746			350,446
Cash dividends					(17,564,921)	(17,564,921)
Change in unrealized gains on marketable securities (net of tax)				(1,241,278)		(1,241,278)
Foreign currency adjustments				17,362		17,362
<b>Balance on December 31, 2001</b>	<b>19,300,000</b>	<b>19,300,000</b>	<b>84,615,844</b>	<b>(1,193,374)</b>	<b>10,396,795</b>	<b>113,119,265</b>
Net income					8,862,970	8,862,970
Change in unrealized gains on marketable securities (net of tax)				(9,068,169)		(9,068,169)
Foreign currency adjustments				(472,980)		(472,980)
<b>Balance on December 31, 2002</b>	<b>19,300,000</b>	<b>19,300,000</b>	<b>84,615,844</b>	<b>(10,734,523)</b>	<b>19,259,765</b>	<b>112,441,086</b>

See notes to consolidated financial statements

## Consolidated Statements of Cash Flow U.S. GAAP

	2002 EUR	2001 EUR
<b>Operating activities:</b>		
Net income	8,862,970	11,550,755
Depreciation	14,905,388	13,866,031
Deferred income taxes	(166,249)	3,500,629
Goodwill amortization	-	134,735
Minority interest	(85,882)	(133,754)
Equity in losses of unconsolidated subsidiaries	199,294	-
Changes in operating assets and liabilities:		
Accounts receivable	(5,658,622)	(834,578)
Inventories	1,720,111	(3,378,720)
Prepaid expenses and others	1,405,668	(259,678)
Accounts payable	2,014,573	(261,317)
Accrued liabilities	(502,226)	(2,792,557)
Accrued income taxes payable	3,292,317	(465,530)
Net cash provided by operating activities	25,987,342	20,926,016
<b>Investing activities:</b>		
Capital expenditure	(34,138,299)	(46,541,053)
Disposal of fixed assets	4,818,105	1,533,839
Purchase of marketable securities	-	(20,104,501)
Proceeds from sale of marketable securities	932,690	-
Proceeds from sale of investment	153	1,534
Purchase of investments	(875,150)	(12,626,521)
Net cash used in investing activities	(29,262,501)	(77,736,702)
<b>Financing activities:</b>		
Dividends paid	-	(17,564,921)
Repayment of advances to shareholders	(10,550,000)	-
Proceeds from sale of treasury shares	-	350,446
Dividends paid by sale of consolidated subsidiary to minority shareholders	(150,000)	(212,142)
Cash received by consolidated subsidiary from minority shareholders	-	212,142
Issuance of additional long-term debt	2,629,156	-
Repayments of long-term obligations	(3,553,207)	8,303,664
Proceeds of notes payable	6,468,319	10,298,160
Net cash provided by financing activities	(5,155,732)	1,387,349
Decrease / Increase in cash and cash equivalents	(8,430,891)	(55,423,337)
Effect of exchange rate changes in cash and cash equivalents	(811,089)	-
Cash and cash equivalents at beginning of fiscal year	18,280,808	73,704,145
Cash and cash equivalents at end of fiscal year	9,038,828	18,280,808

See accompanying notes to consolidated financial statements

# Notes to Financial Statements U.S. GAAP

## 1. Organization of business

ELMOS Semiconductor Aktiengesellschaft (the company or "ELMOS") develops, manufactures, and sells Application Specific Integrated Circuits (ASICs). The company has sales subsidiaries in France, the United States, and Netherlands and cooperates with other German companies with regard to the development and production of ASIC chips.

The company's fiscal year is the calendar year.

## 2. Significant accounting policies and valuation methods

### 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 Euro (EUR) in accordance with the German Commercial Code (HGB), which represents generally accepted accounting principles in Germany ("German GAAP"). German GAAP varies in certain aspects from U.S. GAAP. The company has carried out all adjustments made necessary by the presentation of the consolidated financial statements in accordance with U.S. GAAP.

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

### Consolidation

The consolidated financial statements include accounts of all majority-owned subsidiaries. All significant accounts and transactions between the consolidated companies have been eliminated upon consolidation.

Investments in affiliates of more than 20 percent but not in excess of 50 percent are recorded using the equity method if material.

### Cash and cash equivalents

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

### Marketable securities

Marketable securities consist primarily of equity 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 ("SFAS") No.115, "Accounting for Certain Investments in Debt and Equity Securities".

The following is a breakdown of the company's marketable securities:

	Cost EUR	Market value EUR
Equity securities		
December 31, 2001	20,104,503	18,039,490
Equity securities		
December 31, 2002	19,171,813	2,020,843

SFAS No.115 provides that for individual securities classified as available-for-sale an enterprise is to determine whether a decline in fair value below the amortized cost basis is other-than-temporary.

If the decline in fair value is judged to be other-than-temporary, the cost basis of the individual security is written down to fair value and the amount of the write-down is included in earnings. The company considered all available evidence in its assessment of whether the decline in fair value of the marketable securities is other-than-temporary or not, including

- the length of time and the extent to which the security's market value has been less than its cost,
- the financial condition and short-term prospects of the issuer and
- the company's intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery in market value.

Based upon its valuation by December 31, 2002, management has assessed that the decline in the market value is not other-than-temporary.

#### ***Fair value of financial instruments***

The carrying value of financial instruments such as accounts receivable and notes and accounts payable approximates their fair value based on the short-term maturity 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 interest rates offered to the company.

#### ***Credit risks***

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.

#### ***Reclassifications***

Certain prior period amounts have been reclassified to conform with the current period presentation and for certain corrections.

#### ***Inventory***

Inventories are stated at average costs considering the lower of cost or market principle.

#### ***Property, plant, and equipment***

Property, plant, and equipment are stated at respective purchase or construction costs.

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

Buildings	25	years
Building improvements	10	years
Factory and office equipment	5-12	years
Software	3-5	years

Effective January 1, 2002 the company revised its estimate of the useful lives of certain machinery and equipment. In previous years, all machinery and equipment were depreciated over 5 to 10 years. The change principally applies to assets purchased new when placed in use. Certain assets' lives have now been extended to 12 years and mostly all of the equipment with a prior useful life of 7 years will now be depreciated over 10 years. These changes were made to better reflect the estimated periods during which such assets will remain in service. The change had the effect of reducing depreciation expense and increasing income before taxes by approximately EUR 2,200,000.

### **Foreign currency translation and transactions**

Assets and liabilities of the company's non-German operations are translated into Euro 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, 2002, ELMOS had twenty-nine outstanding USD forward exchange purchase contracts amounting to approximately USD 3,900,000 with a nominal market value of USD 3,755,00 resulting in losses of EUR 144,500 in 2002. As of December 31, 2001, ELMOS had three outstanding USD forward exchange purchase contracts amounting to approximately USD 300,000. No losses were recorded in 2001.

### **Revenue recognition**

Revenues are recognized when products are shipped to customers or risk of loss transfers to 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**

The cost associated with research and development projects for new products as well as significant product improvements are expensed as incurred and included in research and development expenses. Research and development expenses were reimbursed by customers in the amount of TEUR 5,068.

### **Intangible assets (software)**

Costs incurred to produce and develop computer software and software features embedded in products to be sold or otherwise marketed, principally software embedded in a semiconductor, are capitalized after technological feasibility is established and research and development on the product, into which the software will be incorporated, is complete.

These costs are amortized on a straight-line basis over the estimated product life, principally over 5 years.

Costs of EUR 1,690,000 related to software development were capitalized in 2002. Amortization expense was EUR 123,000 in 2002.



Costs incurred to establish patents and acquire product and process technology are capitalized. Capitalized costs are amortized applying the straight-line method over the shortest of the estimated useful lives of the technology, the patent term, or the agreement, respectively, up to a maximum 7 years. By December 31, 2002, the company had spent approximately EUR 6,091,704 on acquired process technology included in property, plant, and equipment, as compared to EUR 2,147,000 by December 31, 2001.

### **Goodwill**

Goodwill represents the excess of the purchase price over the fair value of acquired companies and is not amortized but is reviewed annually, or more frequently if impairment indicators arise, for impairment. The company's goodwill results from the acquisition of Silicon Microstructures, Inc.

### **Grants**

ELMOS 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 (EUR 553,291 and EUR 925,089 for the years ended December 31, 2002 and 2001, 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.

### **Income taxes**

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 share 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 diluting stock options.

### **Recently issued pronouncements**

In January 2003, the U.S. Financial Accounting Standards Board issued Interpretation No.46, "Consolidation of Variable Interest Entities - An Interpretation of ARB No.51" (FIN 46). FIN 46 clarifies the application of Accounting Research Bulletin No.51, "Consolidated Financial Statements", to include certain entities in which equity investors do not have the characteristics of a controlling financial interest.

The company will be required to adopt this interpretation during the year ended December 31, 2003. Adoption of this interpretation will result in the company consolidating DMOS GmbH, a research and development company. The company does not expect this interpretation to have a material impact on its financial position, results of operations, and cash flow.

### 3. Inventories

Inventories consisted of the following:

	December 31,	
Inventories	2002	2001
	EUR	EUR
Raw material	7,088,806	8,189,369
Work in progress	11,238,125	10,439,587
Finished products and goods	5,753,770	6,954,008
	24,080,701	25,582,964

### 4. Investments in unconsolidated subsidiaries

The company had net investments in the following unconsolidated companies:

	December 31,	
Investments	2002	2001
	EUR	EUR
GED Gärtner Elektronik Design GmbH, Frankfurt / Oder (GED) (49% - December 31, 2001 73.9% - December 31, 2002)	-	386,724
attoSENSOR GmbH, Penzberg (10% - December 31, 2001 30% - December 31, 2002)	247,091	169,039
Other	221,701	66,502
	468,792	622,265

### attoSENSOR GmbH

On May 22, 2001 ELMOS purchased a 10% interest or EUR 7,669 stated value of the equity of attoSENSOR GmbH, a developer and producer of sensor technology located in Penzberg (Bavaria), Germany. The total price of the interest in the company was EUR 169,039. In addition, ELMOS issued a profit-participating loan to attoSENSOR of EUR 766,938 in 2001 and increased this loan by EUR 613,550 on January 31, 2002. The loan is due December 31, 2020.

ELMOS receives no interest on the loan but instead will receive 2% of the profit of attoSENSOR and does not participate in any annual losses. On January 8, 2002 ELMOS purchased an additional 20% interest or EUR 15,338 stated value of the equity for a purchase price of EUR 307,051. In 2002 ELMOS recorded equity in losses at the amount of EUR 229,000. In addition, ELMOS wrote off EUR 571,000 of its loan.

### 5. Amounts payable to banks and long-term debt

By December 31, 2002, the company had available various short-term credit facilities approximating EUR 27,500,000, of which the company has used EUR 21,156,828 by December 31, 2002, with an average interest rate of 5,28%.

Long-term debt is summarized as follows:

	December 31, 2002	2001
	EUR	EUR
Long-term debt		
Dortmunder Volksbank eG loan F annual rate: 5.60 percent payment: monthly interest: EUR 7,132.52 maturity: January 2002	-	862,682
Deutsche Bank AG,Dortmund loan EGKS annual rate: 3.75 percent payment: monthly maturity: March 2005	2,777,776	3,888,888
Deutsche Kreditbank AG, loan 6528970 annual rate: 4.80 percent payment: monthly interest: EUR 0.00 maturity: December 2004	130,000	-
Deutsche Kreditbank AG, loan 6501274 annual rate: 4.30 percent payment: monthly interest: EUR 6,889 maturity: December 2004	122,221	-
Sparkasse Frankfurt, loan 88051570 annual rate: 5.65 percent payment: monthly interest: EUR 47,297 maturity: December 2008	816,328	-
Lease financing	36,220,693	37,800,105
Total	40,067,018	42,551,675
Less current portion with remaining terms of up to one year	2,909,167	2,728,776
	37,157,851	39,822,899

Various loan-financed tangible assets of the company are pledged to the various lending institutions.

On December 22, 1997, ELMOS sold its office building (including land and building improvements) for a total purchase price of EUR 23,008,135. Concurrent with the sale, ELMOS leased the property back for a period of 9 years, related to the building improvements, and 22.5 years, related to building and land.

Under the lease terms, the company is committed to making combined annual lease payments of EUR 1,942,772 (EUR 1,121,180 - building improvements, EUR 821,592 - building and land through 2006 and EUR 1,917,207 (building and land) through 2020. Since the company has the option to repurchase the property from 2018, the transaction has been recorded as a financing transaction rather than as a sale, and the building 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 another office building (including land and building improvements) for a total purchase price of EUR 6,287,853. 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 to building and land.

Under the lease terms, the company is committed to making combined annual lease payments of EUR 1,074,788 through 2007 and EUR 60,872 (building and land) through 2022. Since the company has the option to repurchase the property from 2020, the transaction has been recorded as a financing transaction rather than as a sale, and the building and building improvements continue to be recognized in the accompanying consolidated financial statements. The amount financed is included in lease financing.

On November 8, 2001, the company sold another of its office buildings and its multi-story parking lot (including land and building improvements) for a total purchase price of EUR 11,643,000. Concurrent with the sale, the company leased the property back for a period of 20 years. Under the lease terms, the company is committed to make annual declining lease payments starting with the amount of EUR 1,016,125, through 2021.

Since the company has the option to repurchase the property from 2021, 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 came to EUR 3,870,847 in 2002 and EUR 2,732,790 in 2001.

Maturity of long-term debt, including capital lease payments, by December 31, 2002 is as follows:

<i>Debt maturity</i>	EUR
2003	2,807,339
2004	4,001,488
2005	2,512,431
2006	2,102,108
2007	2,231,972
Thereafter	26,411,680
	40,067,018

#### **6. Leases**

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

Total operating lease expenses amounted to approximately EUR 802,707 in 2002 and EUR 500,470 in 2001. Future minimum lease payments under non-cancelable operating leases with initial or remaining terms in excess of one year consisted of the following by December 31, 2002:

#### **Operating leases without lease financing**

	EUR
2003	3,878,526
2004	1,447,101
2005	1,292,848
2006	912,285
2007	709,665
Thereafter	716,185
	8,956,610

#### **7. Income taxes**

Income taxes in Germany consist of trade, corporate, and solidarity taxes. In income taxes, the company paid EUR 3,058,187 in 2002 and EUR 7,454,055 in 2001.

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

	2002	2001
	EUR	EUR
Current		
German	6,674,270	1,887,774
Foreign	172,607	452,190
	6,846,877	2,339,964
Deferred		
German	1,887,469	4,570,448
Foreign	(2,053,718)	(1,069,819)
	(166,249)	3,500,629
	6,680,628	5,840,593





Deferred income 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, 2002	2001
	EUR	EUR
Deferred tax assets:		
marketable securities	3,325,557	-
lease financing	9,969,563	12,918,681
net operating		
loss carry forward	10,970,920	10,007,448
	24,266,040	22,926,129
Deferred tax liabilities:		
accrued liabilities	224,541	343,871
marketable securities	-	3,515,964
property, plant, and		
equipment	9,644,300	11,835,251
other	483,963	(121,645)
	10,352,804	15,573,441
Net deferred tax assets	13,913,236	7,352,688

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

	2002	2001
Combined German statutory tax rate	39.90%	39.90%
Equity in losses of unconsolidated subsidiaries	0.60%	-
Non tax deductible goodwill	-	(0.50%)
Foreign tax rate differential	0.40%	(4.92%)
Other permanent differences	2.08%	(0.90%)
Effective tax rate	42.98%	33.58%

### 8. Share capital

13,700 treasury shares purchased by the company over the fiscal year 2000 were sold in the fiscal year 2001 for a total amount of EUR 350,446, leading to gains in the total amount of EUR 57,310. After selling these treasury shares in 2001, 19,300,000 common shares are shown in the balance sheet as of December 31, 2001 and 2002.

### 9. Stock grant by EFH

In conjunction with the initial public offering in 1999, EFH, the company's main shareholder, granted the company's existing employees the right to obtain a portion of the company's common share held by the selling shareholder as a token of appreciation for the employees' prior service to ELMOS. The monetary value of the award was based on the employees' years of service with the company and current salaries. The shares will be given to the employees by EFH in three equal installments over a three-year period. In conjunction with this grant, ELMOS recognized EUR 3,259,486 of compensation expense in 1999.

### 10. Stock options award plan

ELMOS has a stock options plan that provides for the granting of stock options to executives and employees. The objective of this plan is to promote the success of the company by providing employees the opportunity to acquire common shares. 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, 2002, the company had 103,225 options outstanding, none of which were exercisable, with an exercise price of Euro 34.89 from a first offering and 121,075 outstanding, none of which were exercisable, with an exercise price of Euro 35.14 from a second offering. In the fiscal year 2002, 2,800 stock options from the first offering and 8,550 from the second offering were forfeited and none were exercised.

As of December 31, 2001, the company had 106,025 options outstanding, none of which were exercisable, with an exercise price of Euro 34.89 from a first offering and 129,625 outstanding, none of which were exercisable, with an exercise price of Euro 35.14 from a second offering. In the fiscal year 2001, 10,900 stock options from the first offering and 4,000 from the second offering were forfeited and none were exercised.

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:

<i>Pro forma earnings</i>	2002	2001
	EUR	EUR
Net income*	8,223,527	10,878,955
Net income* per common share basic and fully diluted	0.43	0.56

\* Considering FAS 123 effect.

The average fair value of stock options was EUR 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

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

Because additional awards in future years are anticipated, the pro forma effects of applying this statement presented above are not indicative of future amounts.

#### 11. Earnings per common share

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

Reconciliation of shares	December 31, 2002	2001
Weighted-average common shares outstanding	19,300,000	19,296,575
Effect of dilutive stock options	-	-
Weighted-average common shares outstanding assuming dilution	19,300,000	19,296,575

### 12. 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, including net earnings. The main components of other comprehensive income that relate to ELMOS are foreign currency translation adjustments and unrealized gains or losses on the company's available-for-sale securities net of taxes. The components of accumulated other comprehensive income are as follows:

	2002	2001
	EUR	EUR
Foreign currency translation adjustment	(425,076)	47,904
Unrealized gain on available-for-sale securities net of income taxes	(10,309,447)	(1,241,278)
Accumulated other comprehensive income (loss)	(10,734,523)	(1,193,374)

### 13. Geographic data

Total sales to companies not affiliated were broken down as follows for the fiscal years 2002 and 2001:

	2002	2001
	EUR	EUR
Germany	56,861,321	49,678,171
EU countries	30,809,026	41,318,544
U.S.A.	18,066,326	11,955,034
Rest of world	3,968,574	4,077,043
Total	109,705,247	107,028,792

By December 31, 2002, the company had property, plant, and equipment related to its operations in the Netherlands of EUR 9,803,996, in the U.S. of EUR 12,182,345, and in other EU countries of EUR 161,458.

Depreciation on fixed assets came to EUR 1,699,567 in the EU countries and EUR 731,754 in the U.S.

### 14. Employees

During the year ended December 31, 2002, ELMOS had an average of 830 employees in the group.

### 15. Intangible Assets

On June 29, 2001, the U.S. Financial Accounting Standards Board issued Statement No.141, "Business Combinations", and No.142, "Goodwill and Other Intangible Assets". Statement 141 changes the criteria to recognize intangible assets apart from goodwill. Under statement 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually, or more frequently if impairment indicators arise, for impairment.

The company adopted these statements during the year ended December 31, 2002. Adoption of this statement resulted in the company not amortizing goodwill for the year ended 2002. In addition, an impairment review was made in 2002, which resulted in no impairment losses.

The company had goodwill of EUR 7,622,344 and EUR 7,636,097 as of December 31, 2002 and December 31, 2001, respectively. The decrease in the goodwill balance of EUR 13,753 is a result of the finalization of the allocation of the purchase price for the acquisition of SMI (note 16).

#### **Pro forma results**

The following unaudited pro forma data summarize the results of operations for 2001 as if the company had adopted Statement No.142 as of January 1, 2001. The pro forma data makes adjustments for the effect of amortization of goodwill.

	2001
	EUR
Net income	11.631.596
Net income per common share basic and fully diluted	0,60

#### **16. Acquisitions**

##### **European Semiconductor Assembly (eurasem) B.V.**

On January 8, 2001, ELMOS purchased 95.84% or 8,658,365 shares of European Semiconductor Assembly (eurasem) B.V., an assembler of semiconductors located in Nijmegen, Netherlands. eurasem has acquired further 2.66% from private shareholders and transferred these shares to ELMOS. The total price for 100% of the shares was Dutch Guilders 12 million (EUR 5.45 million). The eurasem financial results and balance sheet have been consolidated in the company's financial statements ended December 31, 2001. ELMOS has included the full twelve months' activity of eurasem within its income statement. This business combination resulted in no goodwill.

##### **Silicon Microstructures, Inc. (SMI)**

On March 31, 2001, ELMOS purchased 100% or 1,000,000 common shares and 190,909 preferred shares of Silicon Microstructures, Inc. (SMI), a developer of sensor technology located in Fremont, California, U.S.A. The total price of the shares was USD 6.0 million (EUR 6.8 million). The acquired assets and liabilities of SMI were recorded at estimated fair values or determined by the company's management by the date of acquisition. Beginning January 1, 2002, resulting goodwill of EUR 7,590,639 is no longer amortized over 40 years. The SMI financial results and balance sheet have been consolidated in the company's financial statements starting April 1, 2001.

##### **Gärtner Electronic Design GmbH (GED)**

Prior to December 31, 2001, ELMOS purchased 49% or 65,273 shares of Gärtner Electronic Design GmbH (GED), a semiconductor design house, with a total investment of EUR 386,724. On June 28, 2002, ELMOS purchased an additional 25% or 34,768 stocks of GED for a total price of EUR 412,746. The GED financial results and balance sheet have been consolidated in the company's financial statements effective June 28, 2002. Six months' activity of GED are included within the 2002 income statement. No goodwill resulted from this business combination. The net income impact for the six months not included is not material.

### Pro forma results

The following unaudited pro forma data summarize the results of operations for the periods indicated as if the eurasem and SMI acquisitions had been completed by the beginning of the periods presented. The pro forma data give effect to actual operating results prior to the acquisitions, adjusted to include the pro forma effect of amortization of goodwill. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisitions occurred as of the beginning of the periods presented or that may be obtained in the future.

	2001
	EUR
Net sales	107,419,338
Net income	11,685,490
Net income per common share basic and fully diluted	0.61

### 17. Board remunerations

According to German Corporate Governance Codex, ELMOS makes the following disclosures:

#### Remunerations of the Management Board and the Supervisory Board

	Management Board	Supervisory Board
Fixed remuneration	798.000 EUR	128.000 EUR
Variable remuneration	393.000 EUR	- EUR
Stock options	-	-



## Development of Fixed Assets by December 31, 2002 U.S. GAAP

	Purchase price and production cost				Disposals
	01/01/2002	Additions	Changes within consolidation	Conversions	
<b>A.I. Intangible assets</b>					
Goodwill	7,770,832	(13,753)	-	-	-
Software	6,149,414	4,824,945	292,976	2,997,312	(24,716)
Construction in progress	-	4,274,958	-	7,001,157	-
	<b>13,920,246</b>	<b>9,086,150</b>	<b>292,976</b>	<b>9,998,469</b>	<b>(24,716)</b>
<b>A.II. Property, plant, and equipment</b>					
<b>1. Land and buildings</b>	<b>44,378,537</b>	<b>7,116,295</b>	<b>2,040,715</b>	<b>7,528,481</b>	<b>(562,815)</b>
Land	4,864,019	97,398	-	898	(529,923)
Buildings and improvements	39,514,518	7,018,897	2,040,715	7,527,583	(32,892)
<b>2. Technical equipment and machinery</b>	<b>108,110,792</b>	<b>8,637,193</b>	<b>1,206,370</b>	<b>1,098,505</b>	<b>(6,183,612)</b>
Technical equipment and machinery	108,110,792	8,637,193	1,206,370	1,098,505	(6,183,612)
<b>3. Deposits paid and construction in progress</b>	<b>27,092,940</b>	<b>9,298,661</b>	<b>-</b>	<b>(18,625,455)</b>	<b>(1,941,685)</b>
Construction in progress	27,092,940	9,298,661	-	(18,625,455)	(1,941,685)
	<b>179,582,269</b>	<b>25,052,149</b>	<b>3,247,085</b>	<b>(9,998,469)</b>	<b>(8,688,112)</b>
<b>Total</b>	<b>193,502,515</b>	<b>34,138,299</b>	<b>3,540,061</b>	<b>-</b>	<b>(8,712,828)</b>

12/31/2002	Accumulated depreciation					Book values	
	01/01/2002	Additions	Changes within consolidation	Conversions	Disposals	12/31/2002	12/31/2002
7,757,079	134,735	-	-	-	-	134,735	7,622,344
14,239,931	4,212,297	1,773,787	271,350	-	(24,715)	6,232,719	8,007,212
11,276,115	-	-	-	-	-	-	11,276,115
<b>33,273,125</b>	<b>4,347,032</b>	<b>1,773,787</b>	<b>271,350</b>	<b>-</b>	<b>(24,715)</b>	<b>6,367,454</b>	<b>26,905,671</b>
<b>60,501,213</b>	<b>13,854,184</b>	<b>3,074,764</b>	<b>872,462</b>	<b>411,681</b>	<b>(14,919)</b>	<b>18,198,172</b>	<b>42,303,041</b>
4,432,392	-	-	-	-	-	-	4,432,392
56,068,821	13,854,184	3,074,764	872,462	411,681	(14,919)	18,198,172	37,870,649
<b>112,869,248</b>	<b>61,127,114</b>	<b>10,056,837</b>	<b>638,868</b>	<b>(411,681)</b>	<b>(3,855,089)</b>	<b>67,556,049</b>	<b>45,313,199</b>
112,869,248	61,127,114	10,056,837	638,868	(411,681)	(3,855,089)	67,556,049	45,313,199
<b>15,824,461</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,824,461</b>
15,824,461	-	-	-	-	-	-	15,824,461
<b>189,194,922</b>	<b>74,981,298</b>	<b>13,131,601</b>	<b>1,511,330</b>	<b>-</b>	<b>(3,870,008)</b>	<b>85,754,221</b>	<b>103,440,701</b>
<b>222,468,047</b>	<b>79,328,330</b>	<b>14,905,388</b>	<b>1,782,680</b>	<b>-</b>	<b>(3,894,723)</b>	<b>92,121,675</b>	<b>130,346,372</b>

## Glossary

**Analog** · Analog electronic components register circumstances such as motion, temperature, and sound and convert them into proportional electrical signals

**Assembly** · Processing of a wafer into a packaged chip

**ASIC** · Application Specific Integrated Circuit refers to a chip developed for a specific customer and a specific application

**ASSP** · Application Specific Standard Product refers to chips developed for special applications that can be sold universally

**Backend** · Semiconductor production area where wafers or packaged chips are tested with regard to electrical functions

**BCD** · Bipolar CMOS DMOS, BCD combines the basis elements of bipolar, CMOS, and DMOS (double-diffused MOS) process technologies into a complex and universal semiconductor technology

**Burn-in** · Method for artificial aging of electronic circuits and components used to detect defects at an early stage

**Bus** · Jointly used communication system that allows the exchange of electronic or optical information

**Chip** · Electronic circuit containing functions realized in semiconductor material

**Clean room** · Secluded part of a building where humidity, temperature, and dust particle concentration are precisely monitored and controlled

**CMOS** · Complementary Metal Oxide Semiconductor, basis technology for the production of microchips with high integration rates and low energy consumption

**Digital** · Digital signals are composed of binary information (zeros and ones)

**DRAM** · Dynamic Random Access Memory, most often used memory type in computers, etc. DRAM components lose their data content when electricity is switched off

**Electronic circuit** · Combination of different electronic components each taking over a specific function in an electrical system

**Frontend** · Semiconductor production area where facilities and processes are used for the manufacture of the separate elements of an integrated circuit

**Integrated Circuit, IC** · Electronic circuit consisting of different, miniaturized electronic components integrated into semiconductor material

**Interface** · Establishes the exchange of different systems and controls the connection, activity, and conversion of information between the system parts

**JEDEC** · Joint Electron Devices Engineering Council, standardization panel for package shapes



**Layout** · Describes the information from circuit development required for the manufacture of integrated circuits by use of simple geometric forms

**LCD** · Liquid Crystal Display, energy saving display of information, e.g. in a cellular phone

**Logic** · Accumulation of transistors and other components in a circuit describing Boole logic operations, e.g. AND, OR, NOT, IF, etc.

**MEMS** · Micro-electronic-mechanical systems

**Micrometer** ·  $1\mu\text{m} = 10^{-6}\text{m}$  = one millionth of a meter

**Microprocessor** · Integrated electronic unit controlling and operating an electronic system, Microprocessors are the central brains of complex systems, e.g. computers,

**Mixed-signal** · Combination of analog and digital signals generated, controlled, and modified on one and the same chip simultaneously

**MOS** · Metal Oxide Semiconductor, describes the construction of a central control element for the field effect in a special type of semiconductor transistors

**OEM** · Original Equipment Manufacturer, a manufacturer selling systems or system parts to a reseller

**ppm** · parts per million

**Semiconductor** · Solid material which can change its electrical characteristics if physically modified

**Sensor** · Electrical unit measuring or detecting an actual physical phenomenon, e.g. motion, heat, or light, then converting it into an analog or digital quantity, e.g. an electrical signal

**Silicon, Si** · Most common semiconductor material, used for roughly 95% of all chips manufactured

**Smart power** · Symbolizes the intelligent use of higher voltage and currents in an electrical circuit, Using smart power, voltages up to several 100V and currents up to several 10A can be realized on the chip,

**SOI** · Silicon-on-insulator, special basic material for the semiconductor manufacture showing perfect vertical insulation by means of non-conducting intermediate layers

**Transistor** · Conversion resistor, basic component of semiconductor technology for the amplification or control of electronic signals

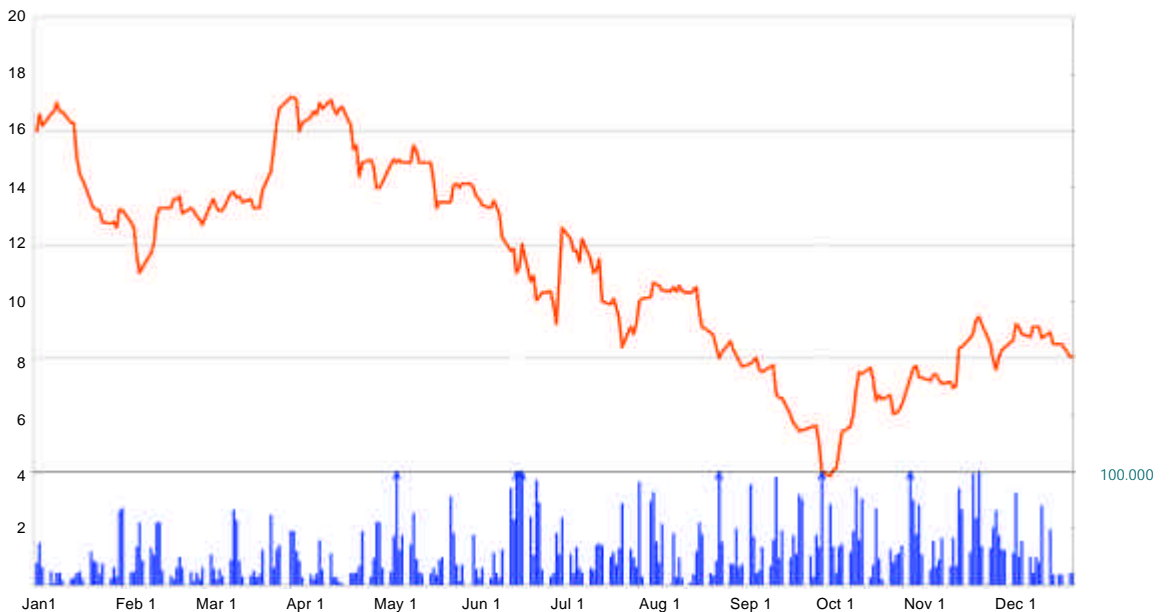
**UMTS** · Universal Mobile Telecommunications System, allowing future transmission of photos, street maps, and even movies

**Wafer** · Basic material in chip manufacture, A wafer is a disc sawn out of a silicon crystal and polished, approx. 0,3 to 1 mm thick, Typical diameters are 150, 200, and 300 mm

## Financial Calendar 2003

Provisional Results 2002	February 12, 2003
Final Results 2002	March 20, 2003
Balance Sheet Press Conference in Frankfurt and Dortmund	March 20, 2003 10 a.m
Analysts conference in Frankfurt	March 20, 2003 2 p.m
General Meeting in Dortmund	April 30, 2003
Quarterly Results Q1/2003	May 14, 2003
Quarterly Results Q2/2003	August 13, 2003
Quarterly Results Q3/2003	November 12, 2003
Analysts Event "Chips & More" in Dortmund	November 14, 2003

## Share Price and Trade Volume 2002







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