

# Quarterly Report Q1/2002



- **Quarterly sales:**  
EUR 25.6 millions
- **Gross margin:**  
46% of sales
- **Operating income:**  
EUR 3.1 millions  
(12% of sales)
- **Pre-tax-profit:**  
EUR 2.6 millions  
(10% of sales)
- **End of short-time work**

## Business goes upwards!

Dear shareholders,

We left the „valley of tears“ behind us! In comparison to the disappointing fourth quarter 2001 all figures are showing a significant positive trend:

Sales:	EUR 25,6 m; +10,3% (Q4/01: EUR 23,2 m)
Gross profit:	EUR 11,9 m; +24,9 % (Q4/01: EUR 9,5 m)
Operating Income:	EUR 3,1 m; +120,9% (Q4/01: EUR 1,4 m)
Pre-tax-profit:	EUR 2,6 m; +206,9% (Q4/01: EUR 0,8 m)

These results are the more remarkable as costs of approximately EUR 1.6 million incurred from the integration of our subsidiaries have been included in the above mentioned figures.

The economic conditions in general are still very foggy. The upturn, described already many times, did not yet materialize in market demand.


In the U.S. and in Europe automotive market demand is better than expected, while the German market demand is on a disappointingly low level. Nevertheless one can speak of a turnover situation for ELMOS, because the premium cars with high electronic content in the ELMOS' market segment are less affected from the weak market conditions. The growing electronic content overcompensates the weakness of the low car registrations.

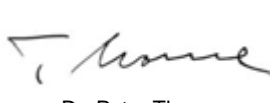
Very positive is the demand for new designs, this forces us to constant expansion of our teams in Dortmund, Frankfurt/Oder, München, Paris and Detroit in order to accommodate our customers.

We look forward into the second quarter with cautious optimism and expect results on the level of the first quarter 2002 (book-to-bill Q1/02 = 0.93).

Dortmund,  
May 2002

  
Knut Hinrichs  
Chairman of the Board

  
Dr. Klaus Weyer  
Member of the Board

  
Dr. Peter Thoma  
Member of the Board

  
Reinhard Senf  
Member of the Board

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# Quarterly Report Q1/2002

## Consolidated Balance Sheets

EUR, US-GAAP, Q1 unaudited, FY 2001 audited	as of Mar. 31, 2002	as of Dec. 31, 2001
<b>Assets</b>		
Current assets:		
Cash	6,892,014	18,280,808
Marketable securities	11,535,114	18,039,490
Trade accounts receivable	19,459,678	17,129,179
Inventories	23,272,283	25,582,964
Prepaid expenses and other	5,127,339	6,902,951
<b>Total current assets</b>	<b>66,286,428</b>	<b>85,935,392</b>
Deferred taxes	10,503,269	7,231,043
Goodwill	7,636,097	7,636,097
Investments	963,316	622,265
Property, plant and equipment:		
Land	4,864,019	4,864,019
Buildings and improvements	39,521,722	39,514,518
Machinery, equipment and other	115,714,365	108,110,792
Software	7,685,338	6,149,414
Construction in progress	22,999,008	27,092,940
Less accumulated depreciation	(83,337,959)	(79,193,595)
	<b>107,446,493</b>	<b>106,538,088</b>
<b>Total assets</b>	<b>192,835,603</b>	<b>207,962,885</b>
<b>Liabilities and shareholder's equity</b>		
Current liabilities:		
Notes payable	14,729,796	14,866,227
Trade accounts payable	9,879,805	9,138,369
Accrued payroll, benefits and taxes	2,757,000	2,170,131
Other accrued liabilities	5,239,445	6,831,045
Accrued income taxes	8,671,486	8,652,587
Amount due to shareholder	0	10,550,000
Current portion of long-term obligations	2,714,390	2,728,776
Deferred taxes	(121,645)	(121,645)
<b>Total current liabilities</b>	<b>43,870,277</b>	<b>54,815,490</b>
Long-term obligation, less current portion	38,035,769	39,822,899
Minority interest	170,006	205,231
Shareholder's equity:		
Share capital	19,300,000	19,300,000
Paid-in capital	84,615,844	84,615,844
Accumulated other comprehensive income (loss)	(5,144,915)	(1,193,374)
Retained earnings	11,988,622	10,396,795
<b>Total shareholder's equity</b>	<b>110,759,551</b>	<b>113,119,265</b>
<b>Total liabilities and shareholder's equity</b>	<b>192,835,603</b>	<b>207,962,885</b>

# Quarterly Report Q1/2002

## Consolidated Statements of Income

EUR, US-GAAP, unaudited	Q1 / 2002	Q4 / 2001	Q1 / 2001
Net sales	25,640,994	23,239,606	28,739,446
Costs of sales	13,779,089	13,746,460	13,764,311
<b>Gross profit</b>	<b>11,861,905</b>	<b>9,493,146</b>	<b>14,975,135</b>
Research and development	4,677,967	4,512,075	3,898,158
Marketing and selling expenses	1,306,003	1,338,464	1,167,747
General and administrative expenses	2,802,383	2,590,213	2,416,494
Amortization of goodwill	0	(339,547)	141,182
<b>Operating income</b>	<b>3,075,552</b>	<b>1,391,941</b>	<b>7,351,554</b>
Interest expense	740,087	801,102	(28,280)
Foreign exchange (gain) loss - net	(46,436)	38,273	139,845
Other (income) expense - net	(185,788)	(283,770)	(166,076)
<b>Income (loss) before income taxes, equity in loss of unconsolidated subsidiaries and minority interest</b>	<b>2,567,689</b>	<b>836,336</b>	<b>7,406,065</b>
Income tax expense	1,008,563	(475,731)	2,823,181
<b>Net income before equity in loss of unconsolidated subsidiaries and minority interest</b>	<b>1,559,126</b>	<b>1,312,067</b>	<b>4,582,884</b>
Minority interest in earnings of consolidated subsidiaries	(32,701)	(25,844)	17,688
<b>Net income</b>	<b>1,591,827</b>	<b>1,337,911</b>	<b>4,565,196</b>

## Consolidated Statements of Changes in Shareholder's Equity

EUR, US-GAAP, Q1 unaudited	Shares	Share Capital	Paid-in Capital	Accum. Other Compreh. Income (Loss)	Retained Earnings	Total
<b>Balance at 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
Cash dividends					(17,564,921)	(17,564,921)
Treasury Stock purchased	13,700	13,700	336,746			350,446
Change in unrealized gains (losses) on marketable securities				(1,241,278)		(1,241,278)
Foreign currency translation adjustment				17,362		17,362
<b>Balance at 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					1,591,827	1,591,827
Cash dividends						
Treasury Stock purchased						
Change in unrealized gains (losses) on marketable securities				(3,909,781)		(3,909,781)
Foreign currency translation adjustment				(41,760)		(41,760)
<b>Balance at March 31, 2002</b>	<b>19,300,000</b>	<b>19,300,000</b>	<b>84,615,844</b>	<b>(5,144,915)</b>	<b>11,988,622</b>	<b>110,759,551</b>

# Quarterly Report Q1/2002

## Consolidated Statements of Cash Flows

EUR, US-GAAP, unaudited	Jan. 1 – Mar. 31, 2002	Jan. 1 – Mar. 31, 2001
<b>Operating Activities:</b>		
Net income	1,591,827	4,465,196
Depreciation	4,170,327	3,363,753
Deferred income taxes	(677,630)	(98,854)
Goodwill amortization	0	141,182
Minority interest	(32,701)	17,688
Changes in operating assets and liabilities:		
Accounts receivable	(2,330,498)	(1,650,783)
Inventories	2,310,680	(3,207,128)
Prepaid assets and other	1,731,333	827,955
Accounts payable	741,436	428,417
Accrued liabilities	(1,004,732)	3,156,678
Accrued income taxes payable	18,899	2,065,347
Net cash provided by operating activities	6,518,941	9,609,451
<b>Investing Activities:</b>		
Capital expenditures	(10,054,972)	(8,159,852)
Disposal of fixed assets	4,976,236	412,070
Proceeds from sale and purchase of marketable securities and investments	(341,051)	(34,305,919)
Net cash (used) provided in investing activities	(5,419,787)	(42,053,701)
<b>Financing Activities:</b>		
Dividends paid	0	0
Repayment of cash to shareholder	(10,550,000)	0
Proceeds from stock of treasury shares	0	350,446
Issuance of additional long-term debt	0	0
Repayments of long-term debt obligations	(1,801,517)	(863,072)
Proceeds(repaysments) of notes payable	(136,431)	4,598,568
Net cash (used) provided in financing activities	(12,487,948)	4,085,942
Increase(decrease) in cash and cash equivalents	(11,388,794)	(28,358,308)
Cash and cash equivalents at beginning of the year	18,280,808	73,704,145
Cash and cash equivalents at the end of the third quarter	6,892,014	45,345,837

# Quarterly Report Q1/2002

## NOTES

### Sales Breakdown and Incoming Orders

Sales	Q1 / 2002	Q1 / 2001	Δ Q1 (02/01)	Q4 / 2001
Total	25.640	28.739	-10.8%	23.239
thereof				
Production	24.999	26.756	-6.6%	22.542
Development	0.636	1.914	-66.8%	0.484
Others	0.005	0.069	-92.5%	0.214

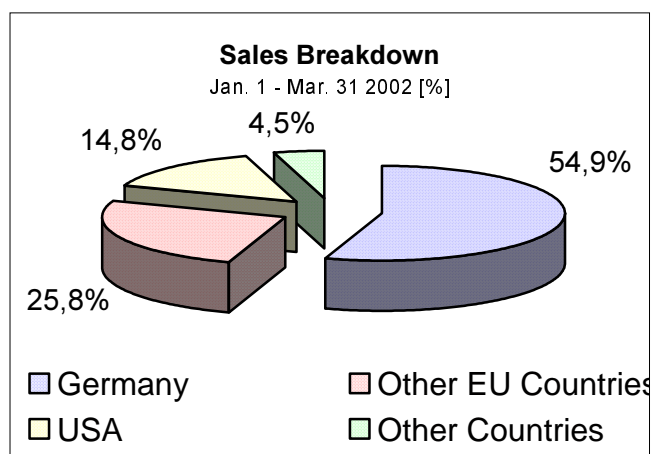
Figures in EUR millions or %

During the first quarter, total sales of ELMOS reached EUR 25.6 millions. This outperforms by a growth of 10% clearly the sales figure of the fourth quarter 2001. This positive start made ELMOS leaving 2001, the year of crisis in semiconductor industry, behind. Nevertheless sales are approximately 11% lower than sales in the first quarter 2001.

The sales contribution of development exhibits the aperiodic behavior of this business, where costs are reimbursed according to progress of the project. At the same time internal development activities are conducted in the field of transferring Motorola's micro-processor cores as well as preparing for expected orders for the optical sensor system HALIOS.

The regional breakdown of sales reflects the differentiated demand of the international markets. While the German premium car makers report on continuously high or even strong growing sales figures (i.e. BMW +20%) and made the German sales partition grow to 55%, sales originating from other EU-countries dropped to 26% of total sales. This is essentially related to the phase-out of the airbag chipset in France. The U.S. contribution to sales reached a high level of 15%.

A book-to-bill ratio of 0.93 in the first quarter 2002 indicates that there is no significant upturn in automotive semiconductor markets. Incoming production orders increased to EUR 21.2 millions during the first quarter 2002. This is a growth of approximately 5% compared to the weak fourth quarter 2001. In direct comparison to the first quarter 2001 it for means a decrease by approximately 22%.



The recently acquired subsidiaries *eurasem* B.V., Nijmegen, Netherlands, and *SMI* Inc., Fremont, California made sales contributions in the segments assembly services and sensors as follows. *eurasem* reached sales of EUR 0.7 million (full year 2001: EUR 3.0 million) with assembly services; *SMI* contributed sales of EUR 0.9 million (full year 2001: EUR 2.9 million) with sensors.

# Quarterly Report Q1/2002

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## **Costs of Sales and Gross Margin**

Costs of sales of approximately EUR 13.8 millions are on the same level as of the fourth and the first quarter 2001. This is really good news, because cost of sales decreased by approximately 6%-points of sales on the one hand. On the other hand ELMOS was not yet able to connect to its former profitability. But it shows clearly the positive impact of the cost reduction program. Re-organization, short time work and yield improvements of critical products grew the gross margin from 41% in the fourth quarter 2001 to more than 46% of sales in the first quarter 2002. Neglecting the contributions of the subsidiaries the gross margin would have been improved to better than 50% of sales. Capacity utilization of the wafer fabrication improved from 60% at the year's end to about 70% right now and led to finish the short time work by the end of April 2002.

## **Research and Development**

The expenditures for research and development amounted to EUR 4.7 millions in the first quarter. This corresponds to 18% of sales, a slight decrease of more than 1 percentage point compared to the fourth quarter 2001. Strategically, R&D expenditures continue to be very important: the timely release of new technologies and products are securing the competitiveness, the growth and the profitability of the company. Here, ELMOS differentiates from its competitors: generally the business model of a customizing company implies higher R&D costs.

## **Marketing, Selling and General & Administrative Expenses**

Marketing and selling expenditures in the first quarter amounted to EUR 1.3 million (5% of sales), general and administrative costs reached EUR 2.8 millions (11% of sales). The slight increase of the general and administrative costs is compensated by a slight decrease of the marketing and selling expenditures.

In total, the operating income grew to EUR 3.1 millions or 12% of sales. This is a 120% increase compared to the previous quarter exceeding also the operating income of the third quarter 2001.

## **Pre-tax-profit**

Pre-tax-profit rose even more significant to EUR 2.6 millions or 10% of sales (without subsidiaries 16%), this is more than 200% above the pre-tax-profit of the fourth quarter 2001. Despite of that it is a must to grow the internal efficiency and to lead the subsidiaries *eurasem*, *SMI* and *ELMOS N.A.* to break-even. Succeeding here will lead back to the well know pre-tax-profit margin of 25% of sales.

## **Net Income**

Net income in the first quarter amounted to EUR 1.6 million or approximately 6% of sales at a tax rate of 39%.

## **Earnings per Share**

Earnings per share amount to EUR 0.08 almost on the level of the third quarter 2001 based on 19.3 millions of ordinary shares.

The following members of the management board hold ELMOS' shares or stock options: Dr. Klaus Weyer 10,000 shares, Dr. Peter Thoma 200 shares and Mr. Reinhard Senf 2,700 shares. Mr. Sporea as

# Quarterly Report Q1/2002

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

## ***Investments***

In the first quarter of the year 2002, approximately EUR 5 millions have been invested in further expansion of the fabs in Dortmund and at *eurasem*.

## ***Events of Particular Significance***

End of March ELMOS received a new development order from TEMIC GmbH which strengthens the core competence "electronics for automotive safety". This order focuses on the development of a chip set for a safety restraint system (airbag and belt tensioner). After a successful development of the four ASICs, sales contributions can be expected starting in 2004 with EUR 8 millions and growing up to EUR 16 millions per annum. This order continues a series of orders for airbag chip-sets, which are among others developed for Autoliv and ASL-Takata.

## ***Human Resources***

As of March 31st, 2002 the ELMOS group employed 643 staff members, thereof 85 at *eurasem* and 34 at *SMI*.

## ***Accompanying notes to consolidated financial statements***

The first quarter consolidated financial statements are prepared (unaudited) according to the principles of the United States generally accepted accounting principles (US GAAP). Some information and statements of the official annual US GAAP consolidated financial statements and annexes have been combined or left out. This document should be viewed in conjunction with the audited annual consolidated financial statement with the reporting date December 31<sup>st</sup>, 2002. For comparison, see accompanying notes to consolidated financial statements of the Annual Report for the fiscal year ended December 31<sup>st</sup>, 2001.