

Quarterly Report Q3/2002



- **Quarterly sales:**
EUR 29.1 million
(+10% Q3 vs. Q2)
- **Gross margin (Q3):**
51% of sales
- **Pre-tax-profit (Q3):**
EUR 4.6 million
- **Earnings per share**
EUR 0.14 (Q3)

Significant Improvement of Sales and Earnings

Dear shareholders,

The macro-economical conditions for the semiconductor industry have turned worse in the third quarter significantly. The expected upturn in the second half of the year did not happen and now a recovery is expected during the second half of the year 2003.

ELMOS' development of sales and earnings was decoupled from these conditions. The focus on the growth segment automotive semiconductors and the strict commitment to custom specific integrated circuits protected ELMOS against the crisis. The third quarter instead shows significant improvements of sales and earnings, which underline the stability and competitiveness of ELMOS. The excellent quarter closed with sales of EUR 29.1 million, a gross margin of 51% and a pre-tax-profit of EUR 4.6 million. In comparison with the last quarter sales increased by 10% and pre-tax-profit by 30%, compared to the third quarter of the previous year sales increased by 13% and pre-tax-profit almost doubled. The book-to-bill ratio grew in the third quarter to 1.08. Here we can see a constant improvement, which is enhanced during the month of October.


Always remarkable is the high number of design-wins, which is pushing us towards a constant expansion of our design resources. We are happy to report, that we got access to 25 new design engineers via co-operation agreements with MAZ Brandenburg and DMOS in Dresden. The agreements provide the option for a conversion into shareholding later on.

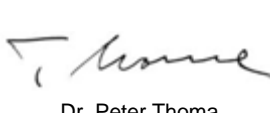
Our U.S. subsidiary SMI developed in a pleasant way and reached break-even in the third quarter. The recent purchase of a MEMS production line proved to be the right decision.

Sales and earnings of the fourth quarter will be significantly better than in the previous year, for the full year we expect to exceed the sales of the previous year.

Dortmund,
November 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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Consolidated Balance Sheets

EUR, US-GAAP, 9 months unaudited, FY 2001 audited	as of Sep 30, 2002	as of Dec. 31, 2001
Assets		
Current assets:		
Cash	4,002,840	18,280,808
Marketable securities	2,247,565	18,039,490
Trade accounts receivable	28,379,135	17,129,179
Inventories	22,776,152	25,582,964
Prepaid expenses and other	5,139,411	6,902,951
Total current assets	62,545,103	85,935,392
Deferred taxes	14,266,349	7,231,043
Goodwill	9,654,908	7,636,097
Investments	676,456	622,265
Property, plant and equipment:		
Land	4,938,355	4,864,019
Buildings and improvements	48,124,102	39,514,518
Machinery, equipment and other	123,855,807	108,110,792
Software	10,219,528	6,149,414
Construction in progress	31,025,450	27,092,940
Less accumulated depreciation	(93,043,390)	(79,193,595)
	125,119,852	106,538,088
Total assets	212,262,668	207,962,885
Liabilities and shareholder's equity		
Current liabilities:		
Amounts payable to banks	23,954,071	14,866,227
Trade accounts payable	13,747,590	9,138,369
Accrued payroll, benefits and taxes	3,243,317	2,170,131
Other accrued liabilities	8,279,606	6,831,045
Accrued income taxes	10,786,910	8,652,587
Amount due to shareholder	0	10,550,000
Current portion of long-term obligations	2,777,337	2,728,776
Deferred taxes	(80,772)	(121,645)
Total current liabilities	62,708,059	54,815,490
Long-term debt, less current portion	37,692,423	39,822,899
Deferred profit liabilities	1,260,301	
Minority interest	231,210	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)	(10,271,624)	(1,193,374)
Retained earnings	16,726,455	10,396,795
Total shareholder's equity	110,370,675	113,119,265
Total liabilities and shareholder's equity	212,262,668	207,962,885

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Consolidated Statements of Income

EUR, US-GAAP, unaudited	Q3 / 2002	Q3 / 2001	1.1. – 30.9. 2002	1.1. – 30.9. 2001
Net sales	29,073,709	25,734,419	81,114,679	83,789,187
Costs of sales	14,195,801	15,842,632	42,059,374	43,522,545
Gross profit	14,877,908	9,891,787	39,055,305	40,266,642
Research and development	4,366,845	4,259,921	13,307,468	12,466,988
Marketing and selling expenses	1,457,507	1,416,889	4,221,927	4,166,592
General and administrative expenses	3,414,341	2,548,538	9,210,067	7,540,415
Amortization of goodwill	0	0	0	474,283
Operating income	5,639,215	1,666,439	12,315,843	15,618,364
Interest expense	921,906	428,224	2,500,300	735,414
Foreign exchange (gain) loss - net	68,517	(599,498)	(45,542)	(443,970)
Other (income) expense - net	8,020	(553,031)	(919,687)	(1,094,339)
Income (loss) before income taxes, equity in loss of unconsolidated subsidiaries and minority interest	4,640,772	2,390,744	10,780,772	16,421,259
Income tax expense	1,925,590	769,379	4,415,447	6,316,323
Net income before equity in loss of unconsolidated subsidiaries and minority interest	2,715,182	1,621,365	6,365,325	10,104,936
Equity in gain of unconsolidated subsidiaries	(29,706)	-	(29,706)	-
Minority interest in earnings of consolidated subsidiaries	38,279	(27,706)	65,371	(107,910)
Net income	2,706,609	1,649,071	6,329,660	10,212,846

Consolidated Statements of Changes in Shareholder's Equity

EUR, US-GAAP, 9 months period unaudited	Shares	Share Capital	Paid-in Capital	Accum. Other Compreh. Income (Loss)	Retained Earnings	Total
Balance at December 31, 2000	19,286,300	19,286,300	84,279,098	30,542	16,410,961	120,006,901
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
Balance at December 31, 2001	19,300,000	19,300,000	84,615,844	(1,193,374)	10,396,795	113,119,265
Net income					6,329,660	6,329,660
Cash dividends						
Treasury Stock purchased						
Change in unrealized gains (losses) on marketable securities				(8,979,883)		(8,979,883)
Foreign currency translation adjustment				(98,367)		(98,367)
Balance at September 30, 2002	19,300,000	19,300,000	84,615,844	(10,271,624)	16,726,455	110,370,675

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Consolidated Statements of Cash Flows

EUR, US-GAAP, unaudited	1.1. - 30.9.2002	1.1. -30.9.2001
Operating Activities:		
Net income	6,329,660	10,212,846
Depreciation	13,068,810	9,995,820
Deferred income taxes	(869,608)	(382,948)
Goodwill amortization	0	474,283
Minority interest	65,371	(107,910)
Equity in gain of unconsolidated subsidiaries	(29,706)	
Changes in operating assets and liabilities:		
Accounts receivable	(11,249,955)	(3,950,604)
Inventories	3,024,660	(5,354,945)
Prepaid assets and other	1,891,954	1,497,477
Accounts payable	4,300,015	281,482
Accrued liabilities	778,032	596,508
Accrued income taxes payable	2,134,323	3,708,131
Net cash provided by operating activities	19,443,556	16,970,140
Investing Activities:		
Capital expenditures	(32,289,336)	(38,796,257)
Disposal of fixed assets	1,824,686	446,729
Proceeds from sale and purchase of marketable securities and investments	(821)	(32,664,017)
Net cash (used) provided in investing activities	(30,465,471)	(71,013,545)
Financing Activities:		
Dividends paid	0	(17,564,921)
Repayment of cash to shareholder	(10,550,000)	-
Proceeds from stock of treasury shares	0	350,446
Dividends paid by consolidated subsidiary to minority shareholder	(150,000)	(212,142)
Cash received by consolidated subsidiaries from minority shareholder	0	212,142
Issuance of additional long-term debt	1,065,816	0
Repayments of long-term debt obligations	(1,887,430)	(2,050,508)
Proceeds (repayments) of notes payable	8,265,561	15,073,180
Net cash (used) provided in financing activities	(3,256,053)	(4,191,803)
Increase (decrease) in cash and cash equivalents	(14,277,968)	(58,235,208)
Cash and cash equivalents at beginning of the year	18,280,808	73,704,145
Cash and cash equivalents at the end of first half year	4,002,840	15,468,937

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NOTES

Sales Breakdown and Incoming Orders

Sales	Q3 / 2002	Q3 / 2001	Δ Q3 2002/2001	1.1. – 30.9. 2002	1.1. – 30.9. 2001	Δ (1.1. – 30.9.) 2002/2001
Total	29.074	25.734	13.0%	81.115	83.789	-3.2%
thereof						
Production	27.269	24.938	9.3%	78.167	79.955	-2.2%
Development	1.801	0.774	132.7%	2.925	3.600	-18.7%
Others	0.004	0.022	-84.1%	0.022	0.234	-90.6%

Figures in EUR million or %

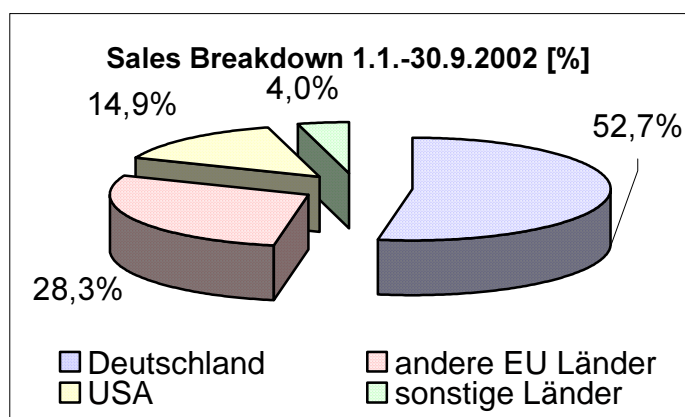
During the third quarter, total sales of ELMOS reached EUR 29.1 million. This means an increase of sales of 10% in comparison with the second quarter and an increase of 13% compared to the corresponding period of the previous year. *SMI* was contributing approximately 4% to this pleasing development via the take-over of the MEMS production line from *ICS*. ELMOS is taking part of the positive trend in demand for premium cars, whereby *BMW* has to be named as very successful.

Sales of the 9 months period January to September 2002 amounted to EUR 81.1 million, which is 3% below the sales figure during the year 2001. For the full year we expect to exceed the sales of the previous year.

Sales of development services amounted EUR 1.8 million during the third quarter and reflect the high number of current development projects. After 27 design-wins in the year 2001, 24 new projects have been acquired during the 9 months period 2002 additionally. In order to accommodate the growing demand for development services, the shareholding in *GED* Gärtner Electronic Design GmbH, Frankfurt-Oder, was raised from 49.8% to 74.9%. Moreover co-operations agreements have been signed with Mikroelektronik-Anwendungszentrum (*MAZ*) in Werder/Brandenburg and the company *DMOS* in Dresden. The co-operation agreements allow for a conversion into a shareholding at a later stage.

The sales breakdown by regions shows actually the trend that Germany is still the most important market. But in comparison with the previous quarter a slight shift towards other European countries, France especially, and U.S.A. can be seen. The strength of the German market is based on the unbroken demand for premium cars from Germany, especially in the U.S.A.

The book-to-bill ratio of ASIC production improved during the year 2002 continuously. After 0.91 for the first and 1.04 for the second quarter it amounted to 1.08 in the third quarter. This positive trend continues during October. For the period January to September 2002 book-to-bill accumulates to 1.01. In the third quarter, incoming ASIC production orders increased to about EUR 25.8 million. Altogether this underlines the constant positive trend, which results from a stable demand in the automotive industry.



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The during the last year acquired subsidiaries *eurasem* B.V., Nijmegen, Netherlands, and *SMI* Inc., Fremont, California, made the following sales contributions in the segments assembly services and sensors. *eurasem* reached in the 9 month period adjusted sales of EUR 1.9 million with assembly services; *SMI* contributed sales of EUR 4.4 million with sensors.

Costs of Sales and Gross Margin

Costs of Sales and Gross Margin	Q3 / 2002	Q3 / 2001	Δ Q3 2002/2001	1.1. – 30.9. 2002	1.1. – 30.9. 2001	Δ (1.1. – 30.9.) 2002/2001
Sales	29.074	25.734	13.0%	81.115	83.789	-3.2%
Cost of Sales	14.196	15.843	-10.4%	42.059	43.523	-3.4%
<i>% of sales</i>	48.8%	61.6%		51.9%	51.9%	
Gross Margin	14.878	9.892	50.4%	39.055	40.267	-3.0%
<i>% of sales</i>	51.2%	38.4%		48.1%	48.1%	

Figures in million Euro or %

The positive trend continues also regarding cost of sales. These could be lowered to EUR 14.2 million during the third quarter, which means a reduction by 10% compared to the corresponding quarter of the previous year.

The gross margin of 51% of sales is excellent. Three main reasons for that have to be named:

1. The successful completion of cost cutting measures in the semiconductor production,
2. the growing capacity utilization of the semiconductor production in Dortmund as well as
3. the mix of high-value products.

For the 9-month period the gross margin amounted to more than 48%.

Research and Development

Research and Development	Q3 / 2002	Q3 / 2001	Δ Q3 2002/2001	1.1. – 30.9. 2002	1.1. – 30.9. 2001	Δ (1.1. – 30.9.) 2002/2001
Sales	29.074	25.734	13.0%	81.115	83.789	-3.2%
Research and Development	4.367	4.260	2.5%	13.307	12.467	6.7%
<i>% of sales</i>	15.0%	16.6%		16.4%	14.9%	

Figures in million Euro or %

The expenditures for research and development amounted to EUR 4.4 million in the third quarter respectively 15% of sales. They were used for the development of new technologies and for new products, both to support the future growth of ELMOS. ELMOS is using R&D resources consequently in order to enhance its product offerings with new process technologies (Silicon-on-Insulator), the availability of its new process family 0.4µm HV-CMOS in the year 2003 and the development of a surface-MEMS process module. The high gross margin is an indication for the competitiveness of the ELMOS process technology.

During the 9-month period the total R&D expenses reached approximately EUR 13.3 million equivalent to 16% of sales. In a long term a portion of about 15% of sales is assumed to be useful and strategic relevant.

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Marketing, Selling and General & Administrative Expenses

Marketing, Selling and General & Administrative Expenses	Q3 / 2002	Q3 / 2001	Δ Q3 2002/2001	1.1. – 30.9. 2002	1.1. – 30.9. 2001	Δ (1.1. – 30.9.) 2002/2001
Sales	29.074	25.734	13.0%	81.115	83.789	-3.2%
Marketing and Selling Expenses	1.458	1.417	2.9%	4.222	4.167	1.3%
% of sales	5.0%	5.5%		5.2%	5.0%	
General and Administrative Exp.	3.414	2.549	34.0%	9.210	7.540	22.1%
% of sales	11.7%	9.9%		11.4%	9.0%	

Figures in million Euro or %

Marketing and selling expenses of EUR 1.5 million remained on the level of the second quarter; the higher basis makes it drop to approximately 5% of sales. So marketing and selling expenses remain on a level similar to the previous years' figure. For the 9-month period marketing and selling expenses accumulate to approximately EUR 4.2 million or 5% of sales.

But general & administrative costs increased to EUR 3.0 million in the third quarter or about 12% of sales. In comparison to the quarter of the previous year the increase is given by the acquisition of the MEMS production line, the consolidation of *GED* and the further expansion of the subsidiaries, especially the American subsidiary *ELMOS N.A.* In total, the general and administrative costs accumulated to EUR 9.2 millions (11% of sales).

Operating Income

Operating Income	Q3 / 2002	Q3 / 2001	Δ Q3 2002/2001	1.1. – 30.9. 2002	1.1. – 30.9. 2001	Δ (1.1. – 30.9.) 2002/2001
Sales	29.074	25.734	13.0%	81.115	83.789	-3.2%
Operating Income	5.639	1.666	238.4%	12.316	15.618	-21.1%
% of sales	19.4%	6.5%		15.2%	18.6%	

Figures in million Euro or %

The operating income reached in the third quarter the excellent value of EUR 5.6 million or 19% of sales. This is more than twice as much as in the previous year. The fourth quarter will connect to this positive trend as expected. During third quarter *SMI* reached break-even for the first time, which results from the take-over of the MEMS-production facility and the corresponding higher base-load. In the same period *eurasem* exhibited the highest loss so far, which is a result of the continuing expansion of the production facilities and higher expenses during the ramping of the 4-shift operation. For the 9-month period 2002 operating income amounted to approximately EUR 12.3 million, more than 15% of sales.

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Interest Expenses, Foreign Exchange Losses and Other Income

Interest Expense, Foreign Exchange Losses & Other Income	Q3 / 2002	Q3 / 2001	Δ Q3 2002/2001	1.1. – 30.9. 2002	1.1. – 30.9. 2001	Δ (1.1. – 30.9.) 2002/2001
Sales	29.074	25.734	13.0%	81.115	83.789	-3.2%
Interest Expense	0.922	0.428	115.3%	2.500	0.735	240.0%
Foreign Exchange Losses	0.070	(0.599)	-111.4%	(0.046)	(0.444)	-89.7%
Other Income	0.01	(0.553)	-101.5%	(0.920)	(1.094)	-16.0%
Subtotal Interest Expense, Foreign Exchange Losses & Other Income	0.998	(0.724)	-237.8%	1.535	(0.803)	-291.2%
<i>% of sales</i>	3.4%	-2.8%		1.9%	-1.0%	

Figures in million Euro or %

Pre-tax-profit

Pre-tax-profit	Q3 / 2002	Q3 / 2001	Δ Q3 2002/2001	1.1. – 30.9. 2002	1.1. – 30.9. 2001	Δ (1.1. – 30.9.) 2002/2001
Sales	29.074	25.734	13.0%	81.115	83.789	-3.2%
Pre-tax-profit	4.641	2.391	94.1%	10.781	16.421	-34.3%
<i>% of sales</i>	16.0%	9.3%		13.3%	19.6%	

Figures in million Euro or %

The pre-tax-profit increased compared to the previous quarter by 30% remarkably and amounted in the third quarter to EUR 4.6 million or 16% of sales approximately. The comparison with the period of the previous year, approximately EUR 2.4 million, underlines the positive trend all over the year 2002. Hereby one has to consider, that some subsidiaries have been restructured and expanded and could not yet contribute with high margins. For the 9-month period the pre-tax-profit reached EUR 10.8 million or 13% of sales approximately.

Net Income and Earnings per Share

Net Income and Earnings per Share	Q3 / 2002	Q3 / 2001	Δ Q3 2002/2001	1.1. – 30.9. 2002	1.1. – 30.9. 2001	Δ (1.1. – 30.9.) 2002/2001
Sales	29.074	25.734	13.0%	81.115	83.789	-3.2%
Net income	2.707	1.649	64.1%	6.330	10.213	-38.0%
<i>% of sales</i>	9.3%	6.4%		7.8%	12.2%	
Earnings per Share (EPS) in Euro	0.14	0.09		0.33	0.53	

Figures in million Euro or %

For the third quarter, the net income amounted to EUR 2.7 million corresponding to an increase of 33% compared to the second quarter. On basis of the period January to September, net income reached EUR 6.3 million or 8% of sales at a tax rate of 41%.

Earnings per share increased in comparison to the second quarter 2002 from EUR 0.11 to EUR 0.14. The calculation is based on 19.3 million ordinary shares.

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Investments

In the third quarter, an acquisition and several investments took place, yielding capital expenditures of EUR 30.5 million since beginning of the year.

The acquisition of the MEMS production facility by the subsidiary *SMI* contributed USD 5.2 million. Approximately USD 3.4 million had been paid in cash at closing of the transaction, the remaining USD 1.9 million will be covered by prepaid future sales of products and services to former owner. Further USD 5.0 million were used to finance the purchase of the plant buildings, which was rented so far. The building and the leasehold improvement shall be transferred into a sale & lease-back arrangement till year's end.

The remaining amount distributes into expenditures for equipment & machinery at the locations *ELMOS Dortmund* and *eurasem* as well as license payments to *Motorola* for technology transfer.

It is the opinion of ELMOS that there is currently no reason for changes on goodwill, because all of the subsidiaries are on schedule in their set-up phase.

Directors Dealings

The following members of the management board hold ELMOS' shares or stock options: Knut Hinrichs 19,276 shares, Dr. Klaus Weyer 16,206 shares, Dr. Peter Thoma 6,200 shares and Mr. Reinhard Senf 2,700 shares. The following members of the supervisory board hold ELMOS' shares: Prof. Dr. Ehlers 847 shares, Mr. Sporea as a 6,665 shares and Dr Burkhard Dreher 1,900 ELMOS' shares. In the third quarter, the following transactions took place:

Chairman of the board Knut Hinrichs bought 19.276 shares of the company (30.09.2002: 2,476 Shares at EUR 5.48; 27.09.2002: 16,800 shares EUR 5.38). Member of the board Dr. Klaus Weyer bought 6,206 shares (30.09.2002: 2,000 shares at EUR 5.38; 27.09.2002: 2,000 shares at EUR 5.33 und 2,206 shares at EUR 5.24). Member of the board Dr. Peter Thoma bought 6,000 shares (03.10.2002: 5,000 shares at EUR 5.20; 04.09.2002: 1,000 shares EUR 8).

The vice chairman of the supervisory board Dr. Burkhard Dreher bought 1,900 ELMOS' shares (27.09.2002: 236 shares at EUR 5.39 and 1,664 Shares at EUR 5.40). The member of the supervisory board Prof. Dr. Karsten Ehlers bought on 30.9.2002 847 shares at EUR 5.55. The member of the supervisory board Herbert Sporea bought on 27.09.2002 4.400 shares at EUR 5.36.

EFH ELMOS Finanzholding GmbH continues to hold approximately 11.1 million shares (57,7% of all shares) and is the dominating shareholder of the company. 8.2 million shares (42,3%) are free-floating and are traded at the FSE Neuer Markt.

Events of Particular Significance

On August 1st, 2002, the company acquired the MEMS production facility (MEMS=Micro-Electronic-Mechanical-System) via its subsidiary *SMI*, U.S.A. This transaction gives *SMI* all the production as well as process facilities needed for development, construction and production of a variety of MEMS-based sensors.

The purchase price was USD 5.2 million. Approximately USD 3.4 million had been paid in cash at closing of the transaction, the remaining USD 1.9 million will be covered by prepaid future sales of products and services to former owner.

As effective of July 1st the company acquired further shares of *GED* Gärtner Electronic Design GmbH. Thereby the shareholding increased from 49.8% to 74.9% actually. *GED* has been included in the consolidated financial statement for the first time in the third quarter.

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In the last period further two banks started to act as a designated sponsor: Since July HSBC Trinkaus & Burkhardt, Düsseldorf, and since October WestLB Panmure, Düsseldorf, are supporting the public trading of shares. Together with Deutsche Bank and Credit Suisse First Boston ELMOS has contracts with four designated sponsors.

Human Resources

As of September 30th, 2002 the ELMOS group employed 822 staff members. The increase compared to the previous quarter is a result of the acquisition of the MEMS production facility by *SMI* and the expansion of the production at *eurasem*, where 4-shift operation has been introduced during the third quarter. Moreover new employees were hired for research & development and the staff of *GED* has been included in the consolidated figures.

Accompanying notes to consolidated financial statements

The consolidated financial statements at September 30th 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 31st, 2002. For comparison, see accompanying notes to the consolidated financial statements of the Annual Report for the fiscal year ended December 31st, 2001.