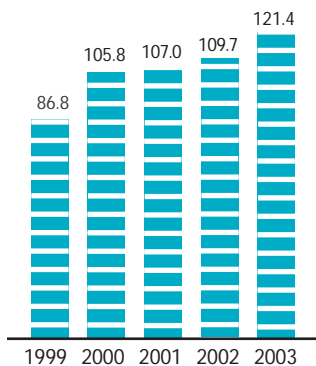


Annual Report 2003

Consolidated Figures according to U. S. GAAP

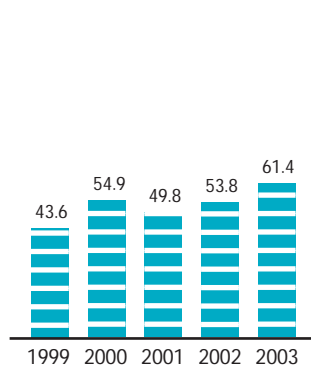
Net sales

in EUR million



Gross profit

in EUR million



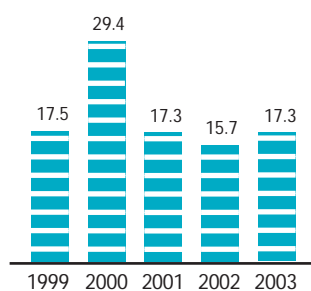
Research and development

in EUR million



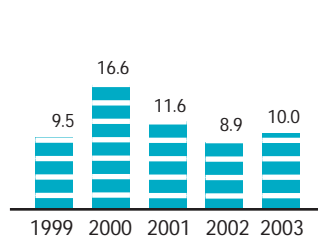
Income before income taxes

in EUR million



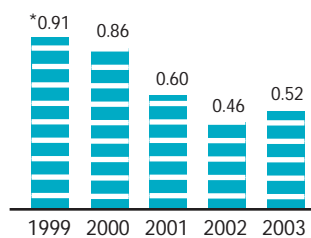
Net income

in EUR million



Earnings per share

in EUR



*IPO in October

Selected Consolidated Figures according to U.S. GAAP

	2003	2002	2001	2000	1999
Net sales in EUR million	121.4	109.7	107.0	105.8	86.6
Cost of sales in EUR million	60.0	55.9	57.3	50.9	42.9
Gross profit in EUR million	61.4	53.8	49.8	54.9	43.6
Research and Development in EUR million	20.4	17.5	17.0	13.8	8.8
Operating income in EUR million	21.6	18.3	17.0	27.7	23.3
Income before income taxes in EUR million	17.3	15.7	17.3	29.4	17.5
Taxes on income in EUR million	6.9	6.7	5.8	12.6	7.7
Net income in EUR million	10.0	8.9	11.6	16.6	9.5
Shareholders' equity in EUR million	124.7	112.4	113.1	120.0	112.7
Balance sheet total in EUR million	205.3	208.5	208.0	188.5	155.9
Earnings per share in EUR	0.52	0.46	0.60	0.86	*0.91
Dividends per share in Euro	**0.13	0.00	0.00	0.91	0.45
Employees on annual average	874	830	624	514	477
Share price in EUR by December 31	12.40	8.05	14.50	25.50	41.00
Shares in million by December 31	19.3	19.3	19.3	19.3	19.3
Market capitalization in EUR by December 31	239	155	280	492	791

* IPO in October 1999

** Subject to stockholders' resolution

Share Price and Trade Volume



Key Share Data

Corporate Details

Corporate headquarters	Dortmund, Germany
Year of foundation	1984
Capital Stock by December 31, 2003	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	Prime Standard
Index	TecDAX 30
Shareholdings	42,3 % diversified 57,7 % EFH ELMOS Finanzholding GmbH
Designated Sponsors	HSBC Trinkaus & Burkhardt West LB Equity Markets

Issue Details

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

Equity Research on ELMOS

Baden-Württembergische Bank	Rüdiger Kühnle
Bank Vontobel	Bruno Winiger
Berenberg Bank	Dr. Oliver Wojahn
Crédit Agricole Indosuez Cheuvreux	Bernd Laux, Yasmin Majewski
Crédit Suisse First Boston	Jean Danjou, Antoine Badel
Dresdner Kleinwort Wasserstein	Annett Weber
DZ-Bank	Harald Schnitzer
HSBC Trinkaus & Burkhardt	Thorsten Zimmermann
ING BHF Bank	Manuel Deimel
*Kepler Equities	Ingo Queiser
KBC Peel Hunt	Isabell Friedrichs, Robert Willis
MainFirst Bank	Thomas Kessler
Merrill Lynch	Mark Power
M.M.Warburg & Co	Michael Bahlmann
Landesbank Rheinland-Pfalz	Thomas Hofmann
Puilaetco de Laet, Poswick & Cie.	Philippe Rochez
SES Research	Oliver Drebing
UBS Warburg	Laura Baker
West LB Equity Markets	Dr. Karsten Iltgen

* former Bank Julius Bär

Contents

Editorial	4
Letter to the Shareholders	9
Report of the Management Board	13
Overall economic situation	13
Strategy and business model	14
Subsidiary companies	17
Corporate situation	18
Customers and products	19
Financial situation	23
Investments	23
Research and development	24
Staff and social sector	24
Quality and environment	25
Risk and corporate governance	25
Shareholdings	26
Outlook	26
Management Board	27
Investor Relations	31
Report of the Supervisory Board	37
Members of the Supervisory Board	39
Financial Statements HGB	43
Status Report of the Company and the Group	59
Business and strategy	59
Corporate situation	63
Risk report	65
Outlook	68
Relationships with affiliated companies	69
Consolidated Financial Statements U.S. GAAP	73
Glossary	99
Financial Calendar / Imprint	101







You should not make plans with people who do not walk along the same path as you.

Confucius

Connections and prospects

ELMOS turns 20.

Youth, a tender age: robust, industrious, fresh, eager to learn, full of energy and vigor, attentive, mobile, flexible - an age giving rise to many hopes, an age with prospects.

This is how it started:

Three visionaries meet and connect, each equipped with intuition, an entrepreneurial spirit, and the drive to make things work; a natural scientist, a management consultant, and a businessman. They share a brilliant idea: the development of microelectronic circuits based on silicon and their production in small unit numbers for which they have found a market - a market with prospects. One lasting connection.

This is how it goes:

The integral approach as a circuit process. The company records customer demands, develops solutions in the shape of prototypes ready for the market, turns them into products of the highest quality, and introduces them into the market. This is how the cycle closes: Customer demands - development - product - market. Close attention to the customers, excellent development work, and customized product precision constitute a business strategy with prospects. It creates a tight connection between customers and company.

This is how it is:

The founders' idea has been realized and optimized. Today it drives a prospering company of first-rate competence and with worldwide reputation due to its high technical know-how and production standards. The idea has excellent prospects. It is set for success.

New signals have been given: ELMOS Semiconductor AG is listed on the German Stock Exchange (TecDax 30). Listed as a company whose quotation shows a significant upward trend.

*He who is not worried about his future
will probably have to worry about his present soon.*

Confucius

What are we relying on?

Our customers' confidence, counting on continuous and progressive ELMOS developments of the highest quality, is the foundation stone of all our work and the basis for our increasing sales and rising profits.

Our recognized specialist competence in the semiconductor field is the consequence of an extremely committed and highly efficient staff with great scientifically up-to-date know-how in development and manufacture technology.

As market leader for customer specific circuits, we have to always be ahead of the competition. We do not follow technical progress but determine it with our technological competence.

We follow the principle, "everything from one hand", use the synergy effects resulting from the interaction, and thus meet the demands of our customers whose confidence we have already won with other products.

The semiconductor industry segment of customer specific circuits is of great interest not only to many customer locations in Germany but also in Europe, and increasingly so to the U.S. and the Asian industries. ELMOS is flexible and reacts to the expanding demand by an extension of its production and distribution networks.

In that respect, we are expecting the successful development to continue for years to come.



The founding team





The founding team

It is almost history by now: three of the most different individuals connect and establish ELMOS; an entrepreneur, a university professor, and a management consultant set up a company in Dortmund, Germany in the open countryside. It is supposed to develop and manufacture microelectronic circuits based on silicon. The idea to produce semiconductor chips in medium numbers of units on their own came forth because the established industry at that time could not, and did not much want to, provide individual solutions in small unit numbers. All three founding members are connected by their forward-looking idea, professional know-how, and by their mutual ambitious assertiveness.

Letter to the shareholders

Dear shareholders,

we are in the midst of a new semiconductor boom. For 2004 a growth of the semiconductor market by approx. 23 percent is predicted; in 2005 a further growth by 13 percent is supposed to follow. Last week Infineon AG released a fitting press release according to which the first quarter's order volume is roughly 10 percent above delivery capacity and happily prices rise again as well. Does this mean that everything is fine?

We see the situation more discriminately. In 2000 semiconductor sales amounted to USD 204 billion, only to take a dramatic dive by 32 percent to roughly USD 139 billion. As a result considerable capacity adjustments killed jobs in many cases and led to great losses of the companies involved. Even today ultra-modern but empty factories are still being offered for sale. 2002 showed a modest growth by 2 percent to USD 141 billion, and then a good year 2003 followed with a plus of 18 percent to USD 166 billion. If we follow the very realistic predictions for the years 2004 and 2005, the total market will amount to roughly USD 231 billion by then. This would mean a rise by 13 percent in the five-year period, or an annual average by only 2.5 percent.

A growth-oriented semiconductor company like ELMOS cannot survive such fluctuations in demand; their result would be great losses no capital investor would be willing to bankroll. ELMOS needs to find other strategies, technologies, markets, and products allowing a long-term growth of more than 20 percent per year. We see such a huge market potential in the segment automotive electronics and we have therefore more than doubled our development capacity between 1999 and 2003. Today more than 150 development engineers worldwide are working on the conversion of ELMOS process and design technologies primarily to customer specific products. Our success is 132 new development projects with a future production volume of more than a billion Euro. During that same period, 1999 through 2003, we achieved production sales of

roughly EUR 531 million, which equals an approximate growth rate of an average 25 percent annually. With that we are well-prepared for the future. Very good years are lying ahead of us in the core business semiconductors.

The purchase of Silicon Microstructures, Inc. (SMI) and European Semiconductor Assembly B.V. (eurasem) considerably expands the ELMOS technology potential, a fact our customers recognize and appreciate. SMI realized a growth of roughly 56 percent in 2003. ELMOS was able to win very large micromechanical development projects for SMI in the automotive sector by far exceeding our expectations. Unfortunately, eurasem was not as successful. Even though the revenue was doubled, we clearly missed our economic objectives. We are committed to increase added value in 2004 by cost-cutting measures and the realization of test procedure capacity.

We could afford this pronounced growth orientation only because we were able to stretch the gross margin from 47 percent to almost 51 percent of the revenue between 2001 and 2003. This enabled us to increase development expenses by almost 20 percent to more than EUR 20 million over the same period, equaling 17 percent of the revenue, without losing sight of a solid and strong profit orientation. With a net income of more than EUR 10 million, our group equity capital ratio rose to about 61 percent.

We are expecting to come to an agreement with the Fraunhofer-Gesellschaft in Munich by the middle of the year, providing ELMOS with access to the 200mm wafer semiconductor line for a capacity expansion for 2006. With that we will be able to realize our projected growth in 2007 and 2008 with moderate additional investments and without external measures to be taken on the capital market.

We are convinced of the way we are going and we would like to thank you for your confidence.

Knut Hinrichs
Chairman of the Management Board







The Dortmund location

ELMOS could have been established anywhere because its three founders are characterized by high flexibility and mobility. Back then the coal and steel crisis was driving towards its climax. The decline of the steel industry caused the cities of the Ruhr Area to try to initiate necessary structural change by supporting the establishment of new companies. Dortmund is determined to count on high-tech. To this end, the city and the state North Rhine-Westphalia (NRW) provide highly attractive offers and terms. Accordingly, a technology park and a technology center are set up close to the university. Not least of all, a considerable contribution to a successful start is made by favorable start-up financing provided by the state NRW, the city, local banks, and private risk capital investors with innovative funding schemes for the construction of commercial properties.

Report of the Management Board

Overall economic situation

Politically and economically, 2003 was a very difficult year. The first half-year in particular was characterized by considerable uncertainty, international conflicts, and crises with unpredictable outcomes. The war in Iraq and the fear of SARS resulted in low prices on the stock markets. Tensions eased over the second half-year, and the economy saw a surprisingly positive development. Especially in the U.S. the upturn got off the ground, unfortunately coinciding with a significant price loss of the dollar. Therefore the sky was growing darker for the export-oriented industries in Germany.

Positive future prospects led to highs being quoted at all stock exchanges in the world by the end of the year, a development from which the technology shares profited in particular.

Concerning the semiconductor market, 2003 was a year of growth following two extremely difficult years. After the unsettling first half-year, the second half-year turned out very pleasantly. With reference to the whole year this means a growth by 18 percent from USD 139.0 billion in 2002 to USD 166.4 billion in 2003. The overall recovery coming from the dominating market segments data processing, telecommunication, and consumer is reflected in the gains of semiconductor shares. The need for replacement of data processing and telecommunication hardware and the reserved consumer behavior slowly turning around are driving the upturn. Thereby the utilization of semiconductor manufacture capacity worldwide climbed to figures of the exceptionally good year 2000. The supplies of semiconductor production facilities were coming along and participated in rising investments of the industry for the first time in years.

The automobile industry, of crucial importance to the semiconductor supplier ELMOs, did not have an easy year, either. Predictions for the American market in particular were distinctly negative, and in Europe a decline by some percent was reckoned with as well. However, vehicle registrations in the U.S. decreased at 16.5 million by only 2 percent from the already poor previous year's figure. Then again U.S. manufacturers GM, Ford, and Chrysler continued to lose considerable market shares to the European and Asian competition.

At 14.2 million registrations in Europe, a decline by 1 percent went on record, heavily influenced by the French market losing 6 percent. This overall negative development was largely compensated for with the growth in the Far East, most notably in China, so that the world market as a whole gave way by only about 1 percent.

The German premium manufacturers developed differently. BMW continued its recent success story with 1.1 million cars sold, i.e. an increase by almost 5 percent. This includes a sales plus of roughly 2 percent for the brand BMW and 22 percent for the Mini. It is also noteworthy that the brand BMW grew by 18 percent in the fourth quarter, probably a result of the new 5 series, 6 series, and the X3. DaimlerChrysler had a difficult year with a decrease of sales by 4 percent to 3.8 million vehicles. Chrysler in particular suffered losses of 5 percent but even Mercedes, at minus 2 percent, could not dodge this trend entirely. Audi was successful with a plus of 4 percent, and so was VW, selling more than 5 million cars again despite slack markets worldwide.

It is important to note that sales growth of automotive electronics is driven less by the growth of car sales but much rather by the vehicles' growing number of electronic features. Ever higher demands on environmental compatibility, security, and comfort as well as the increasing replacement of mechanical functions with electronics are the deciding factors for this.



The automotive semiconductor market therefore shows considerably higher stability. It stands out by long product lives and high quality requirements. It is also characterized by long-term customer-supplier-relationships and high planning visibility due to long product lives. This market only covers about 6-8 percent of the total market amounting to roughly USD 14.1 billion in the year 2000. Because of a cutback in stocks in the years 2000 and 2001, the total market decreased by roughly 10 percent to USD 12.6 billion in 2001 and rose again modestly after that by roughly 5 percent to reach USD 13.3 billion in 2002. The year 2003 saw another cautious growth of about 5 percent to USD 13.8 billion. While the automotive semiconductor market fell by 2 percent in the given period of 2000 through 2003, the ELMOS sales volume recovered by 15 percent.

Due to its comparably small unit numbers per year (0.1-10 million), the market segment of customer specific semiconductor circuits, so-called ASICs, is not the focus of the big semiconductor manufacturers. It is operated by small and medium-sized companies. ELMOS particularly targets mixed-signal ASICs for automotive applications. The main competitors are Bosch and Melexis. AMI Semi's taking over of Mietec in Belgium from Alcatel resulted in another competitor on the market.

Customer pressure with regard to the suppliers' assumption of research and development work as well

as system responsibility has risen further in 2003. This entails for the ASIC market that customers are ready to finance order developments to a diminishing extent. As a consequence a majority of product development expenses needs pre-financing by the semiconductor manufacturer and can only be amortized through volume production. In addition, car manufacturers put more and more system developments into the hands of the system suppliers who in turn hand over system responsibility to their suppliers, the semiconductor manufacturers. This poses a problem - higher expenditure, expanded liability - on the one hand. On the other, it means a chance as the semiconductor manufacturer can bring in its own know-how and innovation and is thereby empowered to improve its competitive position.

Strategy and business model

ELMOS Semiconductor AG develops, produces, and sells application specific microelectronic circuits (ASICs = Application Specific Integrated Circuits), primarily for use in the automobile industry. In 2003 approx. 91 percent of sales keep originating from this market segment. In the past years, ELMOS has worked for a leading position on the European market for automotive electronics. ELMOS is considered the worldwide no. 3 in the segment "automotive ASIC" by Gartner-Dataquest.

Manufacturers of automotive semiconductors with reference to worldwide ASIC sales 2002 (in USD million)

position	company	2001 mUSD	2002 mUSD	growth rate 2001-2002	market share 2002
1	NEC Electronics	114	121	6 %	15%
2	Philips Semi	93	97	4%	12%
3	ELMOS Semi	83	85	2%	11%
4	AMI Semi	19	84	342%	11%
5	Melexis	49	55	12%	7%
	others	368	349	-5%	44%
	total	726	791	9%	100%

Source: Gartner 2003

ASICs by ELMOS are used by virtually every European car manufacturer and they are ideally suited to the compact, reliable, and economical construction of systems for the improvement of environmental compatibility of a vehicle as well as the security and comfort of its passengers.

Ever since the company was established, it has been the ELMOS strategy to serve sheltered niche markets with its own know-how. This sets ELMOS apart significantly from its competitors. Automotive-suited high-voltage CMOS technology and system-suited integration of analog and digital functions with on-chip driver performance provide ELMOS with outstanding technological means in order to allow ELMOS to distinguish itself as a company. Expanding the scale of development, ELMOS engineers justify this claim by offering more value to the customer in comparison to standard or application specific circuitry. The ELMOS profitability results from an active win-win-relationship with the customer. Customer specific integration guarantees ELMOS as sole supplier a stable demand over the product life cycle of at least five to 20 years.

This business model demands a tight customer-supplier relationship which is mirrored in the arrangement of the structure of branches, subsidiaries, and partner companies for distribution and application support.

In Europe there are the Munich and Stuttgart branches, the subsidiaries ELMOS France and GED, and the partners DMOS, MAZ, and MECHALESS. ELMOS NA operates on the North American market from its headquarters in Detroit, center of the U.S. automobile industry.

The producing subsidiary companies eurasem in the Netherlands and SMI in the U.S. add to the ELMOS technology and product portfolio by special package technologies and micromechanical components, so called MEMS, for use primarily in sensors.

eurasem European Semiconductor Assembly B.V. is a highly qualified service provider of the semiconductor industry. eurasem develops and manufactures packages for electronic semiconductor components and sensors. Besides standard JEDEC packages, especially customer and application specific special packages are part of the eurasem product portfolio.

SMI Silicon Microstructures, Inc. in California develops and produces MEMS sensors. SMI is well-established in the sensor market and ranks among the technology leaders for high-precision pressure sensors in silicon.





Besides pressure sensors, SMI also develops sensors for acceleration and rotary motion, among other things, which are most interesting for the automobile industry in particular.

These complementary offers by its subsidiaries enable ELMOS to meet the increasing customer demands for an expanded acceptance of system responsibility by the supplier. At the same time ELMOS can expand its own market niche by the integration of micromechanical sensors and signal processing ASICs into an application specific mechatronic module. These products are marketed by ELMOS with the slogan, "ASIC^{plus} - more than a chip".

Such innovative solutions are required, for example, for tire pressure control. Module size, robustness, simple assembly, and competitiveness play an important role here.

Apart from the core business in the automotive market, ELMOS is busy in other markets as well. While doing this, ELMOS always operates from a sheltered position arising either from high-voltage CMOS technology put to use, or special application know-how. Usually these competition discriminating features are protected by patents.

The future growth of the ELMOS Group therefore rests on several pillars:

- focussed expansion of the core business by increasing design competence
- growing acceptance of application support and system responsibility
- development and supply of innovative mechatronic modules
- further penetration of the American and later the Asian markets

ASIC^{plus} - more than a chip	SMI	ELMOS Semi	eurasem
application	sensor	electronics	package
tire pressure control	pressure sensor	microcontroller signal processing signal transmission (RF)	functional package pre-molded package if required
	<i>also available as co-integrated version sensor + ASIC</i>		
air pressure reading in suction channel (engine control)	pressure sensor	microcontroller signal processing communication interface	cavity-molded package pre-molded package
	<i>also available as co-integrated version sensor + ASIC</i>		
anti-theft alarm system	xy acceleration	ASIC	duroplast package
slope sensor system	sensor (low-g)		with stress decoupling
airbag sensor system	accelerator sensor (high-g)	signal processing coding communication interface	customer specific functional package with stress decoupling
mechatronic ignition module	-	SOI-ASIC	leadframe-based special package, additional passive components if required

Subsidiary companies

ELMOS France

ELMOS France is the most successful among the ELMOS AG foreign subsidiary companies. Based in Nanterre, just outside of Paris, ELMOS France serves the important French regional market and offers application and design support with presently 12 employees on the spot.

ELMOS North America

At its Farmington Hills headquarters near Detroit, ELMOS North America employed a staff of 24 by the end of 2003. ELMOS NA is a design house serving to the American customers on location.

eurasem

eurasem B.V. in Nijmegen, Netherlands, is a highly specialized assembler for the semiconductor industry and provides the packaging and encapsulation of components. This makes eurasem a direct competitor of the large assembly companies in the Far East. Apart from standard packages for ELMOS, eurasem also offers customer specific packages, in part distinguished from the competition by patented know-how. This is why eurasem is an important element of the ELMOS strategy "ASIC^{plus}", targeting intelligent modules with micromechanical sensors and ASICs in an application specific package. eurasem had 161 employees by the end of the year.

In the last years eurasem production facilities have been expanded and brought up-to-date. By the end of the year, eurasem covered about 54 percent of the ELMOS assembly services and it processed roughly 4 million components a month.

In 2003 the previous year's revenue of EUR 7.0 million was almost doubled at EUR 11.3 million, including services for ELMOS at EUR 6.9 million and services for third parties at about EUR 4.4 million.

For profit improvement, the eurasem business model was reorganized. Internal cost-cutting potential is intended to be realized through the combination of function units with ELMOS. In the future, eurasem will increasingly cover the requirements within the ELMOS Group and provide services to

third parties only to a smaller extent. This excludes of course the current customers who eurasem will continue to supply as a reliable partner.

Besides the assembly of components, eurasem is scheduled to start tests of the assembled components as well. This will take place within the present production clean room. The open space required will be created by the move of the entire office and auxiliary areas to the neighboring building acquired by ELMOS at the end of 2003.

SMI

The subsidiary Silicon Microstructures, Inc. in California's Silicon Valley continued its successful development as a manufacturer of micromechanical components. With its own wafer production line located in Milpitas, just outside San Jose, SMI is one of the few companies in the industry with stable volume production facilities and abilities at its disposal. Because of this, step by step new production contracts are signed with third parties, thereby making the operation of the assembly plant more profitable thanks to its improved utilization.

The modernization of the production rooms, which has almost been completed in the year under report, provides SMI with a distinguishing feature in the industry. The introduction of 150mm wafers, to be continued through 2004, will improve profitability decisively.

According to schedule, the expansion of SMI was continued in 2003. Because of the lull in the semiconductor market, 150mm equipment could be purchased at reasonable prices. Even within the ELMOS Group, hardware no longer meeting the demands on future structure sizes and process technologies in the Dortmund wafer production could be transferred to SMI. In fact, lithography in micromechanics requires roughly 1µm resolution.



At the beginning of 2003, company activities previously spread out on Fremont and Los Angeles, were all concentrated at the Milpitas location, and the production team was newly established. By the end of the year SMI employed 75 staffers.

The expansion of the clean rooms led to temporary restrictions on the production, especially affecting the second half-year. Fortunately the revenue was increased from the previous year's USD 6.9 million to USD 10.8 million. The year's deficit came to an unchanged EUR 0.2 million, the book-to-bill ratio improved to a value of 1.03.

Important to SMI was the introduction of new products in the year under report. The monolithic co-integrated pressure sensor, co-produced by ELMOS (CMOS wafer), SMI (micromechanics), and eurasem (special package) and thereby a first example for the ASIC^{plus} strategy, was already presented at the Nuremberg sensor fair in the summer. This product is set apart by a previously unattained linearity and precision achieved by the on-chip calibration and the signal processor utilized.

Another highlight was the manufacture of the smallest pressure sensor chip in the world (0.65mm edge length) whose miniature size could only be achieved by the use of the most modern manufacture methods. At more than 20,000 chips per 150mm wafer, this product will supply very pleasant margins.

At last, the first samples of a new generation of accelerator sensors were introduced and already developed further for specific customer projects. Development of a gyro sensor has been started with a European key customer.

Corporate situation

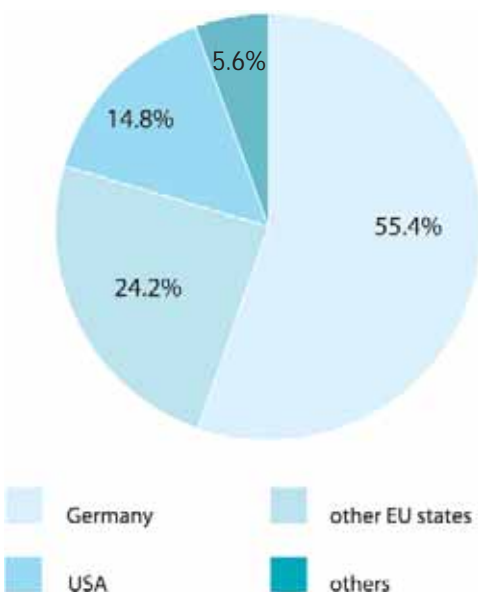
For ELMOS 2003 was a year with a two-digit sales increase. The ELMOS revenue rose, exchange rate adjusted, by 13 percent from EUR 109.7 million in the previous year to EUR 123.7 million in the year under report. The low dollar exchange rate dampened U.S. sales considerably, reaching net sales of EUR 121.4 million.

The segments' sales contributions came to EUR 107.7 million in the segment semiconductors (89 percent), EUR 9.3 million in micromechanics (8 percent), and EUR 4.4 million in the assembly segment (4 percent of the revenue). In the fiscal year all segments recorded growth compared to the previous year.

A look at the regional distribution shows Germany as most important market with a sales increase of more than 18 percent. The rest of Europe was declining by almost 5 percent, the U.S. by only about 1 percent, exchange rate adjusted.

In consideration of the extraordinary incidents in the first half-year, SARS and the war in Iraq, among others, the past fiscal year took a very pleasant turn.

Sales by region



Customers and products

Just like the previous year, French Valeo leads the list of our top ten customers in the year under report. Valeo obtains more than 25 different products from ELMOS, for use in body-electronics and generator controllers. Owing to the increasing series supply of airbag control ICs of the latest generation, unit number growth continued in the year under report, making Autoliv our second most important customer in 2003. Good news for us is the improved access to the American market as a result of the takeover of Visteon Division for security systems by Autoliv.

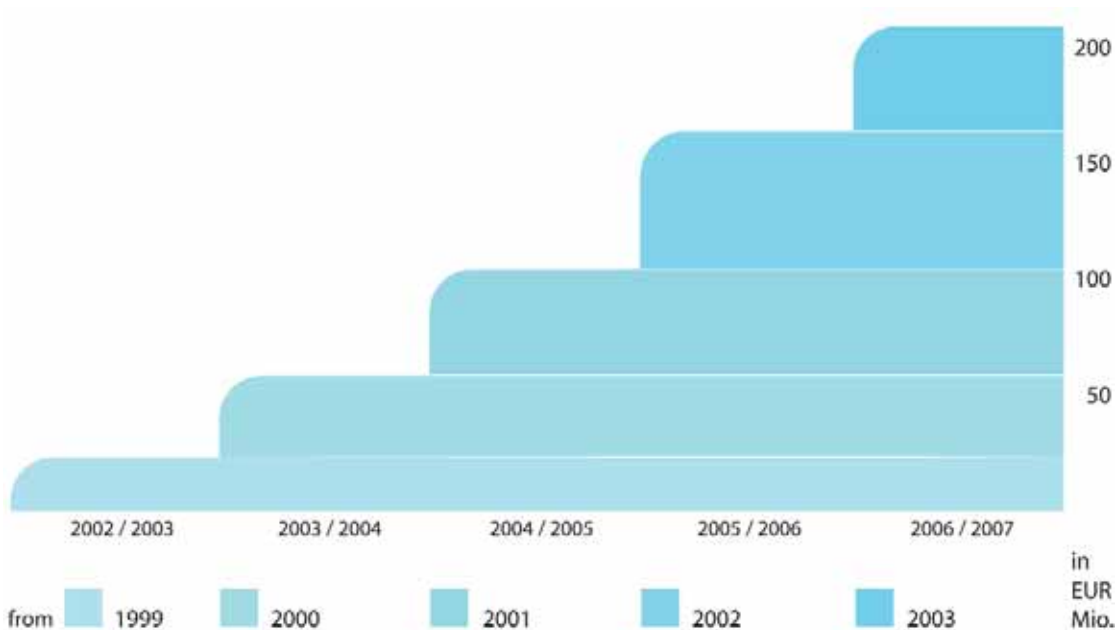
Overall 31 new projects were won in the year under report. These projects represent a future sales volume of EUR 227 million. The majority of these projects are customer specific design wins primarily for automotive applications. These contracts will lead to volume production and make according sales contributions only in about three years as it takes this amount of time for product development, qualification, and customer release. The efforts for the marketing of application specific standard products

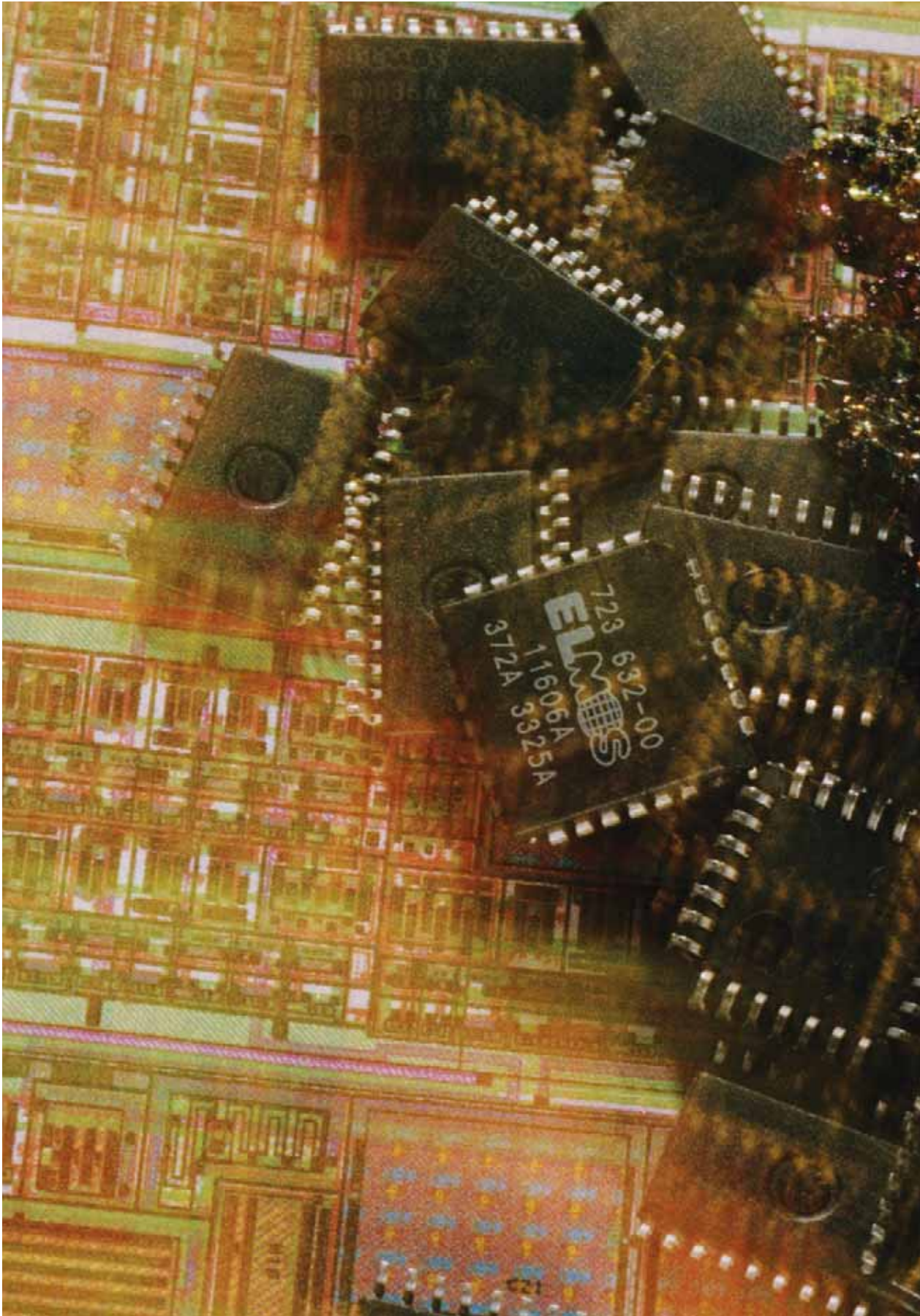
(ASSP) have proved successful. Ten design wins were achieved for such ASSPs. ELMOS ASSPs are usually derivatives or generalizations of ASICs, always excelling with innovative qualities. Therefore these products realize retail prizes and margins comparable to those achieved in the ASIC business.

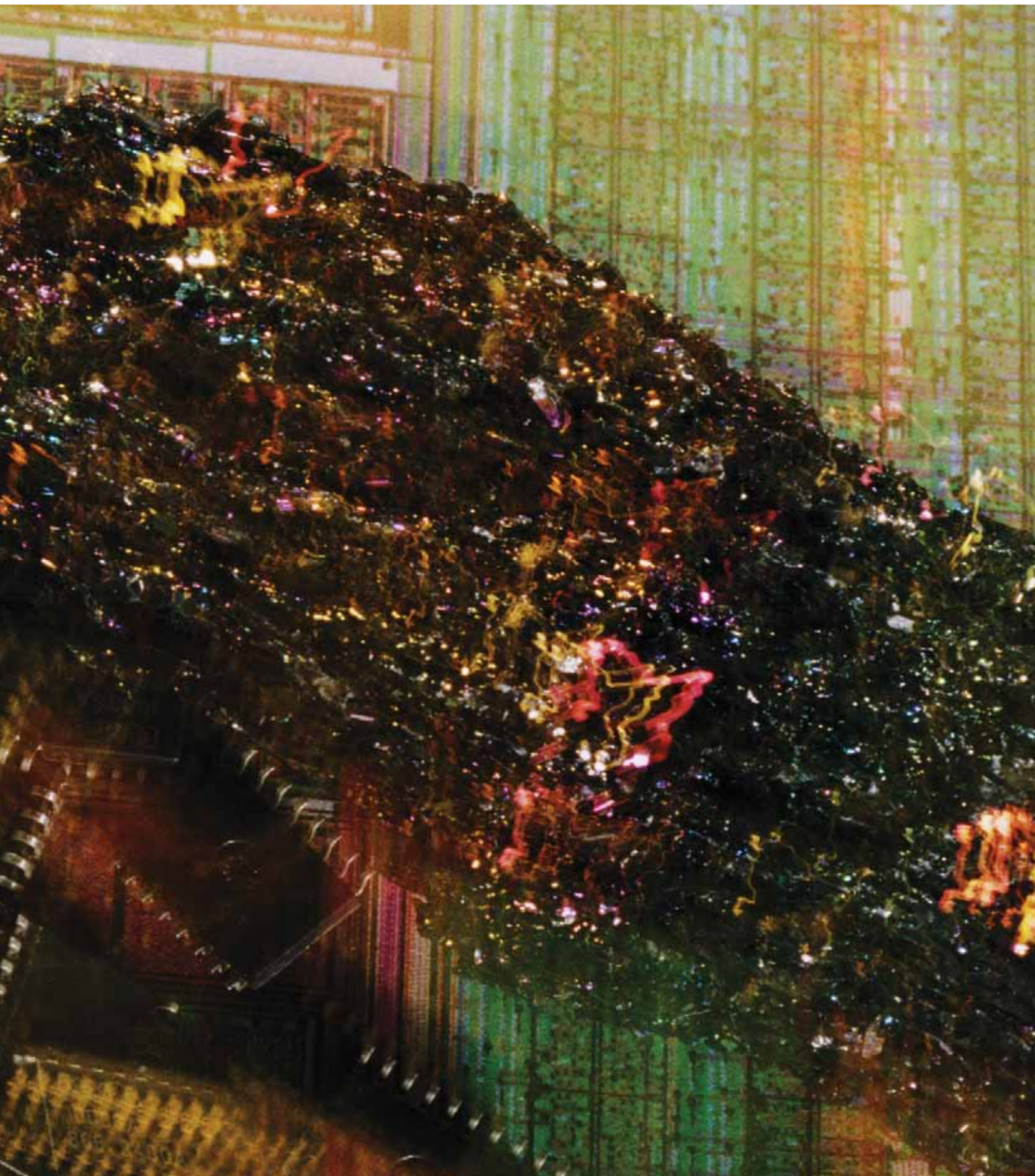
2003 was a year of numerous product starts. Many of the development projects started in the years 1999 and 2000 were concluded and transferred to production.

Incoming orders over the year were also affected positively by the new products. The book-to-bill ratio for the core business semiconductors developed very pleasantly, reaching a value of 1.13 as compared to the previous year's value of 1.03. With reference to the entire year 2003, at EUR 116 million roughly 19 percent more orders were put into ELMOS then the year before.

Future sales contributions generated by previous design wins









The business model

The central idea behind the ELMOS business model is based on the integral approach to production and marketing and the intensive interaction of customer - development - product supportive of innovations. Initially the customer has a conception of a product. Then ELMOS develops a corresponding solution with the aid of system integration based on silicon. On the third level customized products are manufactured at ELMOS exclusively to meet the highest standards of quality.

Financial situation

At EUR 121.4 million, the revenue was increased by almost 11 percent as compared to the prior year result. Contributions by the subsidiary companies were EUR 27.0 million by ELMOS France, EUR 7.2 million by ELMOS NA, EUR 4.4 million by eura-sem, and EUR 9.3 million by SMI, each adjusted by group internal sales.

The fiscal year's gross margin came to almost 51 percent of the revenue, more than the previous year's value of 49 percent. This is even more significant as a large number of product starts were carried out in the year under report. The increasing utilization regarding semiconductor production, micromechanics, and assembly gives grounds for expectations of a further gross margin increase.

Administrative expenses rose slightly from EUR 12.0 million to EUR 12.8 million. Expenditure for intensive research and development came to about 17 percent of the revenue, at EUR 20.4 million (previous year: EUR 17.6 million). Marketing and distribution costs slightly increased to almost 6 percent of the revenue, or EUR 6.6 million.

The operating result therefore increased to EUR 21.6 million, i.e. 18 percent of the revenue, after EUR 18.3 million or 16.6 percent of the revenue the year before.

In spite of the drastic change of monetary parity, due to hedging exchange rate losses were kept at a low level, at EUR 0.1 million.

Other income primarily consists of public funds for research and development projects to an amount of EUR 0.6 million. Restructuring measures in the group coinciding with job reduction come to a one-time amount of almost EUR 1.0 million in the fourth quarter of 2003. These measures are intended to result in a future savings effect of roughly EUR 1.0 million per quarter.

At EUR 3.8 million, interest charges were slightly higher in the year under report than the previous year's amount of EUR 3.6 million.

The income before taxes, at EUR 17.3 million, exceeds the prior year result of EUR 15.7 million by roughly 10 percent. The net income amounts to EUR 10.0 million as compared to EUR 8.9 million in 2002. This tallies with earnings per share of EUR 0.52.

The Management Board has recommended to the Supervisory Board to pay out a dividend of EUR 0.13 per share and to retain the rest of the earnings.

Investments

Investments	2003	2002
	mEUR	mEUR
Semiconductor	17.5	20.8
Micromechanics	3.9	10.8
Assembly	3.9	2.5
Group	25.3	34.1

Group investments in the year under report were cut down significantly to EUR 25.3 million after EUR 34.1 million in the previous year. This amount includes EUR 3.4 million for the story expansion onto the Dortmund administration building completed by the end of 2002. This measure was accounted by the finance investor only in the fourth quarter of 2003 and therefore became balance-sheet effective. This part of the building as well as the other buildings at the Dortmund location has been leased within the framework of a long-term financial lease agreement.

In the semiconductor sector, investments in capacity expansion with regard to production facilities were carried out in the year under report. Coming to 32 percent less than in the previous year, they amounted to roughly EUR 14.1 million. Thanks to the completion of investments in the expansion of production infrastructure, it is brought up-to-date and equipped for processes with structure sizes down to 0.35 micrometers.



Machine capacity allowed about 400 wafer starts a day, of which roughly 275 wafer starts a day were used by the end of 2003, equaling a utilization rate of 69 percent. By the recruitment of additional staff and, if necessary, an investment in bottle-neck machinery, capacity can be expanded to a maximum 500 wafer starts a day.

In the assembly sector, EUR 1.7 million were invested in the acquisition of a neighboring building in the last quarter of 2003. Additional investments in eurasem for rebuilding and hardware equipment amounted to EUR 2.2 million.

Investments in SMI benefited the modernization of the clean rooms at EUR 2.7 million and machinery at another EUR 1.2 million.

Research and development

Research and development expenses rose by EUR 2.8 million, coming to 17 percent of the revenue. Technologists' and process engineers' R & D efforts over 2003 focused on the completion of the development of a 0.5 micrometer submicron high-voltage process technology with multilayer wiring. Parallel to that, many projects were under way regarding the optimization of structure size and characteristics of important high-voltage components, of significance to typical ELMOS applications. Besides that a project for the efficient realization of power transistors in system-on-chip applications was started. The SOI technology was further perfected and the chip yield was improved.

The project for the integration of Motorola HC12 cell libraries and the Motorola design methodology into the ELMOS design environment was concluded successfully; it was verified with early product demonstrators. Efforts for the integration of the Motorola Flash memory module into the high-voltage CMOS process were continued according to schedule.

For a better and faster translation of the patent package "HALIOS" into products, the previously

separated teams, one grouping around the HALIOS inventor, the other composed of ELMOS HALIOS designers, were merged. The result is the company MECHALESS, uniting HALIOS application and software know-how with ASIC design under one roof at its Karlsruhe location with a staff of 17 employees. ELMOS has a 49 percent interest in MECHALESS.

Meanwhile more than 10 HALIOS products are being worked on, five of which for automotive customers. The application "Micromouse" successfully raised the interest of a large manufacturer of mobile phones and reached the product qualification finals. This success created the basis for the contract for a follow-up project with this customer.

Staff and social sector

By the end of 2003, the ELMOS Group had a total 871 employees, 565 of which at the Dortmund location. 25 young people are trained at ELMOS for a variety of jobs, from microtechnologist to industrial clerk. At an average age of 34 years, the staff is relatively young.

As a high-tech company, ELMOS is dependent on its employees' know-how to a great extent, because their motivation, understanding, and flexibility are the prerequisite to the company's long-term success. Especially with regard to the development of new products and processes, the employees constitute the deciding factors 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.

ELMOS has cooperated with the surrounding universities, colleges, and institutes since its foundation. Many employees now in executive functions once started out as ELMOS interns.

For years ELMOS has cooperated with the Ruhrkohle AG with regard to training. For instance, an exemplary center for further education was created, making it possible for young people to learn the jobs provided in the environment of microtechnology. For training purposes, a real clean room was built, equipped with typical semiconductor facilities.

ELMOS employees have participated in the company's success through the bonus share program dating from going public in 1999, granting each employee one bonus share out of the original shareholders' parcel for each share bought. Now they take part through annual stock option programs. In December 2003, the Supervisory Board approved the stock option program for 2003 recommended by the Management Board, providing for the issue of up to 240,000 stock options to the employees. Additionally, the issue of up to 60,000 stock options to the Management Board members was decided on.

At ELMOS in Dortmund, management and employees work together in a trusting partnership. There is also an employee representative committee with its own statutes, representing the employees' interests in numerous subcommittees both among each other and towards the management. There are committees for social issues, human relations, employee promotion, and economic issues.

Quality and environment

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

For the excellent quality of its products, ELMOS won the much-coveted "Delphi Electronic Europe Supplier of the Year 2003" award.

ELMOS also took the so-called "eco audit" and

was audited and certified in accordance with the environmental protection norm DIN EN ISO 14001 in the middle of the year under report.

Risk and Corporate Governance

To a capital intensive company like ELMOS, an effective risk management system is of great importance. Therefore, in the year under report ELMOS realized and tested the risk management system installed in the year before. The resulting improvements and annotations coming up constantly were duly examined of accordance with § 91 (2) AktG by the end of the year and found effective by our independent auditors. The system will be continuously expanded and refined in 2004.

The recommendations updated by the government commission "Deutscher Corporate Governance Kodex" were included in the ELMOS articles of incorporation as well as the procedural rules of Management Board and Supervisory Board almost entirely in the year under report. A corresponding declaration was issued to the public on December 19, 2003.





Only on four counts does ELMOS differ from the Kodex recommendations: excess regarding the D&O insurance of Board members, the constitution of Supervisory Board committees, and the individualized statements of total remuneration of the members of Management Board and Supervisory Board. The declaration is published on the company's website in the internet.

Shareholdings

Subscribed share capital of ELMOS Semiconductor AG is divided in 19,300,000 non-par unit shares. Of these shares 58 percent are held by ELMOS Finanzholding EFH, establishing the solid backbone of ELMOS AG. EFH is the property of Knut Hinrichs, Dr. Klaus Weyer, and Prof. Dr. Günter Zimmer. Further 42 percent of the shares are attributable to institutional investors both domestic and abroad. None of these investors holds more than 5 percent of the shares.

Outlook

For 2004 a considerable growth of the semiconductor markets is generally expected. Following years of recession, the upward trend of the second half-year of 2003 is supposed to gain momentum and lead to an increase of the global semiconductor market by more than 20 percent to roughly USD 200 billion.

Continuing growth is predicted for automotive electronics as well. Vehicle registrations are generally assumed to recover as for instance in Germany the number of old cars being operated is at its peak and replacements are in store for them. The German manufacturers' model offensive, introducing more than 65 new models to the market last year, will also result in rising sales figures.

Irrespective of that, the trend towards more and more electronics in vehicles will continue. With regard to European middle-class and premium cars, the electronic components' share of car production costs has reached an amount of more than 30 percent already. With its specialized process technology targeting automotive requirements and its application know-how of many years, ELMOS is well-positioned in this growth market.

The many new volume products from the previous year will increase sales. In 2004 about 30 new products, design wins from the years 2000 / 2001, will be transferred to volume production. This will result in an increase of wafer starts to more than 300 a day.

At SMI the positive effects of the new production line will only show in the second half-year of 2004. The efficiency gain through the conversion of the most important products from 100mm to 150mm wafer diameter will add to that. Also major foundry deliveries will be started in the second half-year for which qualification lots are being set up at present.

Dortmund, February 2004

The Management Board

Knut Hinrichs	Dr. Klaus Weyer
Dr. Peter Thoma	Reinhard Senf

The Management Board

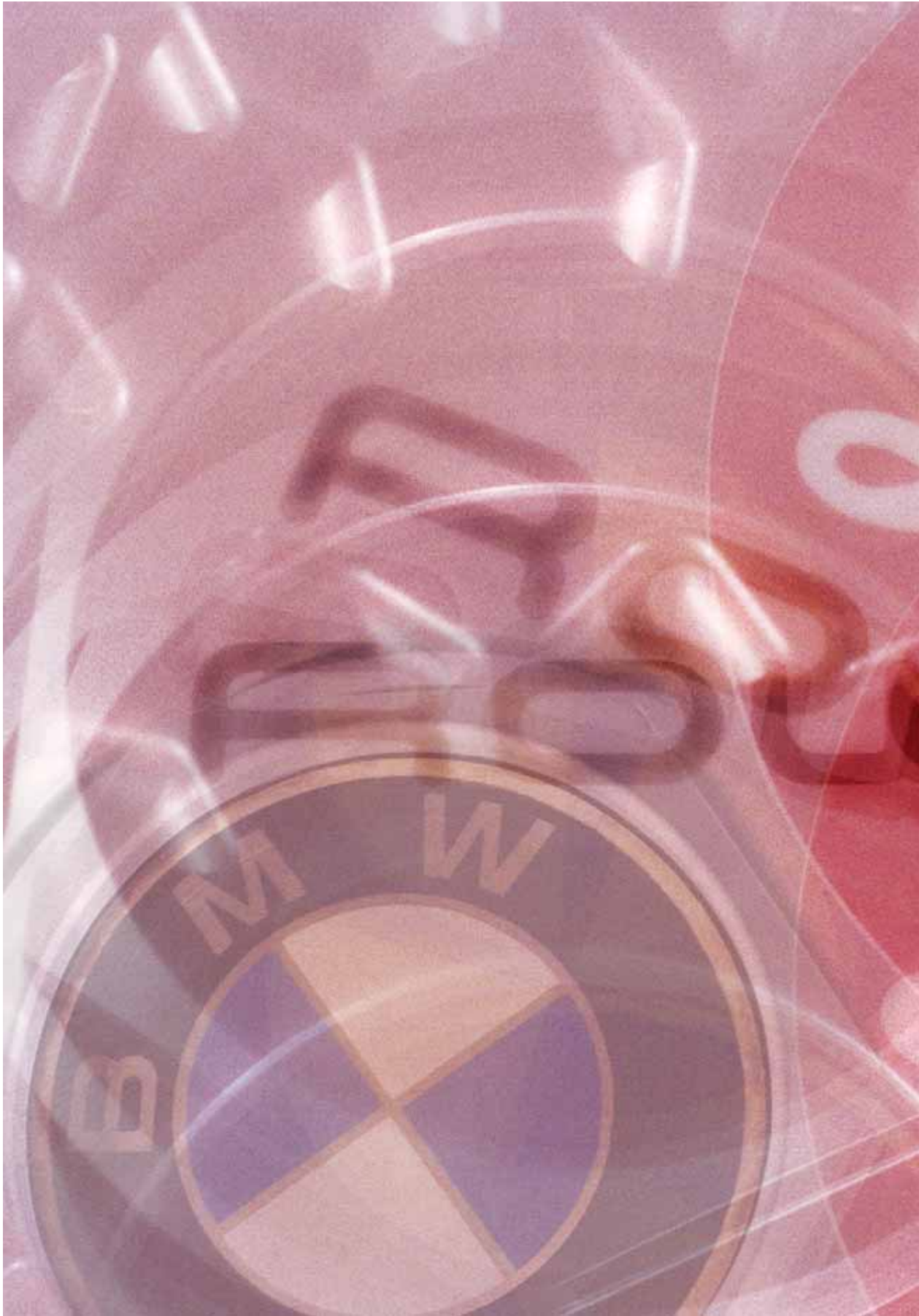


Dr. Klaus Weyer

Knut Hinrichs

Dr. Peter Thoma

Reinhard Senf







The first customers

The inexpensive production in large unit numbers is the semiconductor industry's formula for success. Even a small supplier is forced to focus on a market requiring a minimum size. The first customers are Rowenta, Leica, Motometer, and finally the investment of an automobile manufacturer provides access to the up-and-coming market for automotive electronics. This market niche proves strategically right for ELMOS. The company managed to penetrate the market in the late 80s when seemingly insolvable quality problems caused BMW to entrust ELMOS with a development project; as a consequence, ELMOS transforms into a specialist for integrated solutions. Other system suppliers "dare" draw up the plans for their own developments with ELMOS at an increasing rate.

One year of TecDAX

The ELMOS Semiconductor AG share, quoted at the Prime Standard segment of the German Stock Exchange since the beginning of 2003, went through a remarkable development in the past year.

Price development

The ELMOS share started off at the beginning of 2003 with a price of EUR 8.61. However, the share price declined considerably at first. This had its reasons in insufficient financial communication insofar as adjustments to the accounting being carried out to meet international requirements of the semiconductor industry were misinterpreted, even though they had been described comprehensively in the annual report. The low was reached at the end of March with a share price of EUR 4.28, half the price of the beginning of the year.

Subsequently the share recovered considerably, exceeding the price of the beginning of the year by mid-July for the first time. The continuous attention to private and institutional investors as well as the awareness of the obvious underrating of the company, whose market capitalization fell below the balance-sheet total for a while, led to significant rises in prices. By early December, the company's share price reached its annual high at EUR 14.43, a rise of almost 68 percent as compared to the beginning of the year. In comparison to the low of the end of March, this rallying even indicates an increase in value of 237 percent. The share closed by the end of the year with a price of EUR 12.40.

At an unchanged number of 19.3 million shares, market capitalization in 2003 came to an average EUR 166.0 million, at its peak even EUR 278.5 million. By the end of the year, a market capitalization of roughly EUR 239.3 million went on record. With that, market capitalization was on a level comparable to that of 2001.

Trade volume

Also pleasant news is the considerably rising interest in the ELMOS share. This is indicated by the positive trade volume development, amongst other things. On an average day in 2003, 88,460 shares were traded at the Frankfurt Stock Exchange, compared to 33,900 a day in the year before. The trade volume high was achieved on March 27 with 398,250 shares traded. Rising interest in the share was favored by the abolition of the crisis-ridden New Market and the ELMOS quotation in the newly established stock market segment Prime Standard as well as the inclusion in the select technology index TecDAX 30. TecDAX 30 represents the largest technology companies of the Prime Standard following the DAX values according to their market capitalization and order volume. Due to stringent conditions placed on transparency by Prime Standard and the select index TecDAX 30, the confidence in growth values, including ELMOS, has been strengthened.



Compared to this and other indices, ELMOS did well in 2003. Consulted for comparison, TecDAX 30, which was equated with Nemax 50 before March 24, and the industry specific index SOX (Philadelphia Semiconductor Index) closed on the annual basis with a practically identical performance. Against the setting of low share prices by the end of March, this emphasizes the surprising rallying of the ELMOS share until the end of the year.

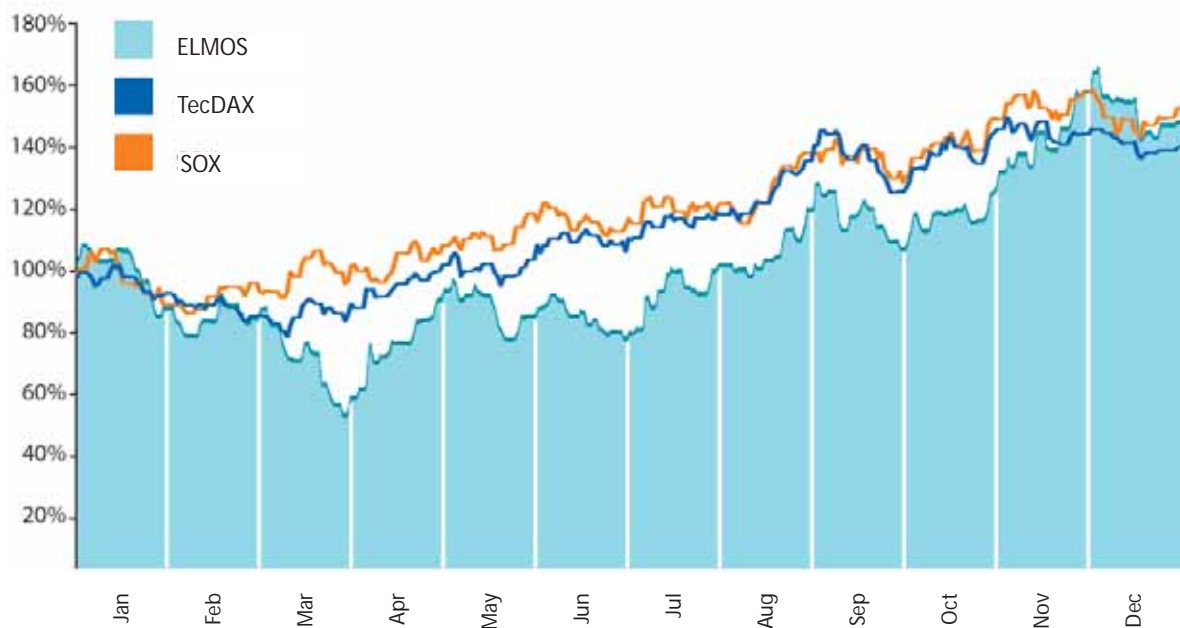
IR activities

In the past year ELMOS resolutely continued to fulfill the investors' needs for information all over the world. At 32 roadshows conducted in the relevant financial centers of Germany, Europe, and America, management and the investor relations team accounted for business development to the institutional investors. Additionally, ELMOS representatives participated in six technology conferences and share information events for institutional and retail investors. In overall more than 150 individual meetings, so called one-on-ones, questions were answered regarding business strategy as well as financial and profit-related issues. Another component of communication with the inves-

tors are the conference calls taking place right after the presentation of each quarterly report. The opportunity to ask questions concerning the latest figures directly and without delay is being taken advantage of increasingly by analysts all over the world.

Highlights of the close cooperation with the investors are biannual analysts days, one being the analysts event "Chips & more" held on the Dortmund location in November. For the second time, over 30 participants from various institutions seized the opportunity to gain information about strategy, products, and future prospects on the spot. Members of the Management Board and other ELMOS executives were at their disposal in speeches and individual conversations. The lasting success of this event is determined by the good response of fund managers, bankers, and analysts, securing this communication platform a guaranteed entry in the financial calendar.

Price development of the ELMOS share in comparison to TecDAX and SOX



Despite some fluctuations not only the number of analysts from institutions independent of each other could be held at 19. The distribution of share freefloat, as far as attributable, also stayed on the prior year level. It is true that some funds and investors turned in their share parcels, motivated by the decline of the New Market. But by the end of the year roughly 22 percent of the freefloat remained with investors in the Anglo-Saxon region, thereof 12 percent in Great Britain and 10 percent in the U.S. However, about 8 percent of the freefloat of roughly 8.2 million shares came to Germany, about 5 percent each to Switzerland and the Netherlands, about 2 percent to Luxembourg, and about 1 percent to France.

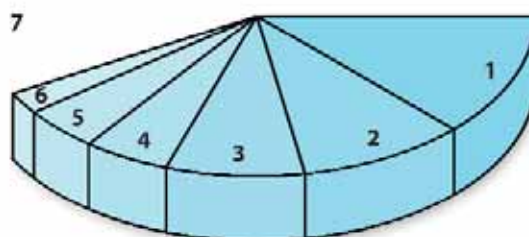
This extent of stability is also attributable to the quotation in the Prime Standard segment of the German Stock Exchange and the according high transparency conditions. Further constituents of the successful stock market year 2003 are the facts that ELMOS has belonged to the select technology index TecDAX from its start and that ELMOS follows the "Deutscher Corporate Governance Kodex" but on

four counts, as can be read up in the notes to the financial statements HGB. Management Board and Supervisory Board will recommend the payment of a dividend of EUR 0.13 per share in the general meeting so that the shareholders will participate in the success of 2003 as well.

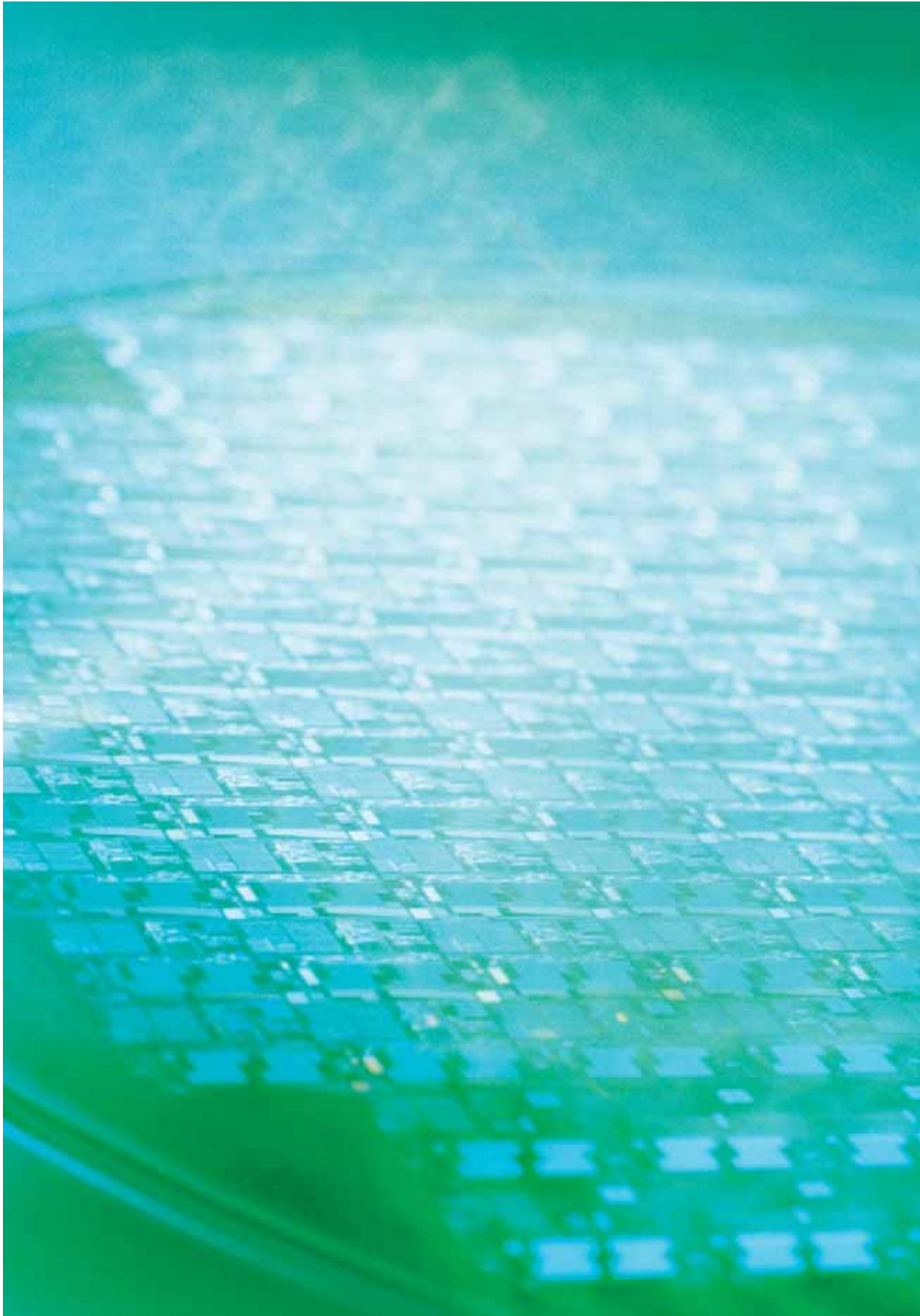
In the current year 2004 the efforts of the investor relations team are being continued resolutely. The future-oriented and highly profitable strategy will be presented at roadshows, technology conferences, and in individual conversations. We will furthermore continue to have an intensive cooperation with institutional and private investors in order to make a contribution to the long-term positive development of this company value.

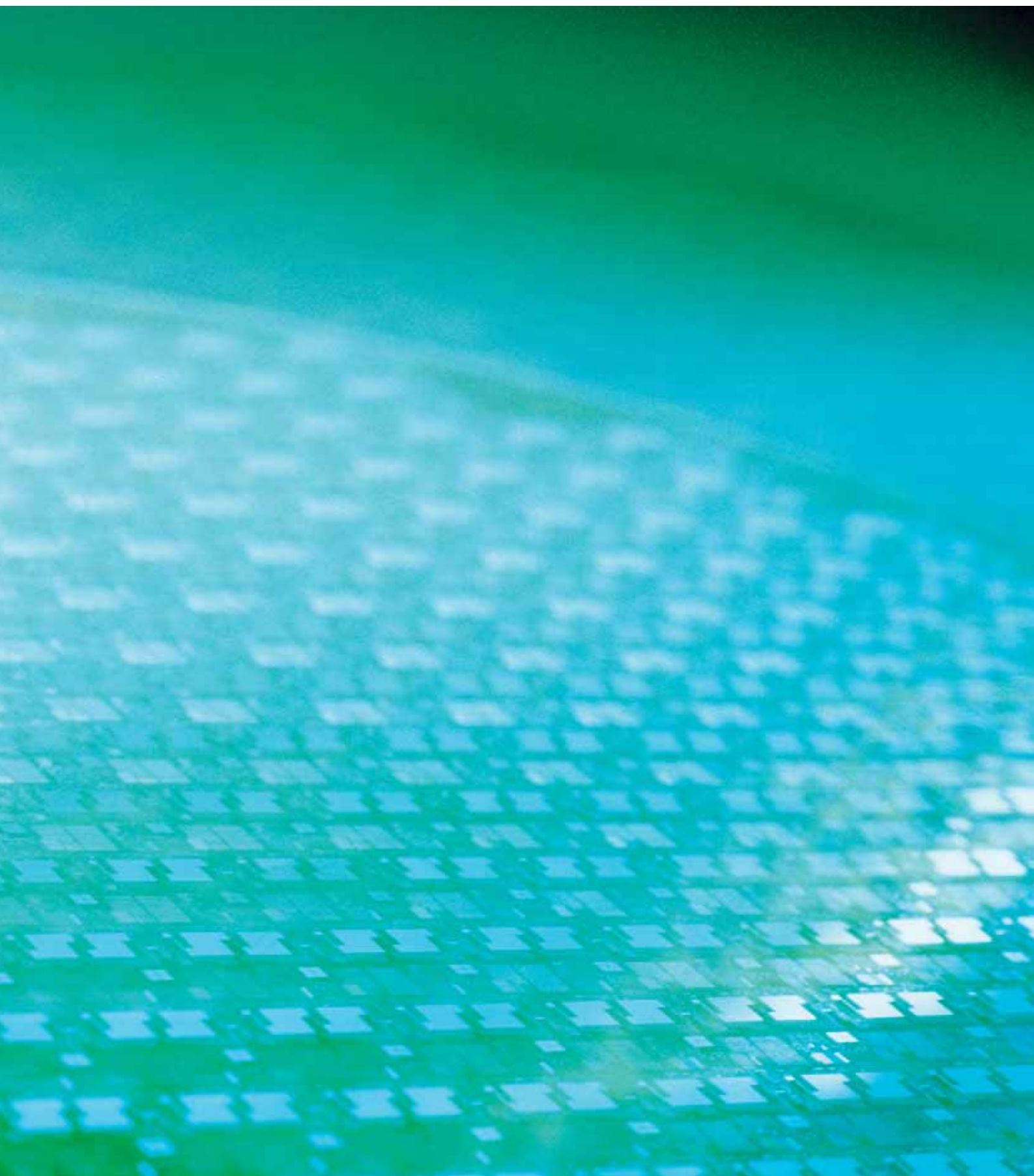
Geographic distribution of freefloat

1	Great Britain	12 %
2	U.S.	10 %
3	Germany	8 %
4	Switzerland	5 %
5	Netherlands	4 %
6	Luxembourg	2 %
7	Less than 1 % or not attributable	



as of January 2004







Customized development

The ELMOS experience in the automotive business gained over decades allows customer specific questions to be analyzed and reduced to their basic functions. At this interface between application and the world of semiconductors, ELMOS creates the optimum integration approach based on silicon. Thereby individual products come into being, ideally utilizing engineering know-how and the company's technological abilities. The customer receives a solution for his conceived application optimized with regard to cost and benefit.

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, 2003

Dear shareholders,

the Supervisory Board of ELMOS Semiconductor AG concerned itself intensively with the corporate situation during the past fiscal year. We gave advice to the Management Board and supervised management activity. We were involved in all decisions of essential importance. The Management Board informed us regularly and comprehensively.

In succession of Supervisory Board member Prof. Dr. Karsten Ehlers, who passed away in December 2002, the general meeting on April 30, 2003 elected Dr. Karl-Thomas Neumann, head of electrics/electronics development of Volkswagen AG, as new member of the Supervisory Board, following the Board's recommendation.

In four meetings, on April 30, 2003, September 19, 2003, December 19, 2003, and February 26, 2004, 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, 2003, 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.


The long-term business development of the ELMOS Group was discussed at length with the Management Board on December 19, 2003. Within the context of discussions on the Supervisory Board, the development of the subsidiaries as well as that of sales, profit, and liquidity were the focus of attention. Main emphasis was also stressed on the plans for long-term protection of production capacity, the ELMOS risk management system, and

the company's fulfillment of the repeatedly altered "Deutscher Corporate Governance Kodex". On December 19, 2003, the company issued an updated declaration in accordance with § 161 AktG regarding fulfillment of the Corporate Governance Kodex. It was declared that ELMOS differs from the directory recommendations on only four counts: personal excess of the D&O insurance of the Boards' members, the constitution of Supervisory Board committees, and the individualized statements of total remuneration of the members of both Management Board and Supervisory Board. This declaration can be found on the company's website in the internet.

By consulting Ernst & Young AG, Dortmund in its meeting on February 26, 2004, 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. A review of the Management Board remuneration system and the efficiency of the Supervisory Board activity were also subjects of discussion.

In its December 19, 2003 meeting, the Supervisory Board approved the Management Board's resolution regarding the issue of up to 240,000 stock options to employees below Management Board level. In the same meeting, the Supervisory Board decided to issue a total of 60,000 stock options to Management Board members under the same conditions as applicable to the employees.

The Management Board's report on relationships with affiliated companies in accordance with § 312 AktG was duly examined by Ernst & Young AG, Dortmund. Ernst & Young AG, Dortmund, issued an unrestricted audit certificate to the effect that factual 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 Management Board's evaluation.



The report was received by the Supervisory Board. The Supervisory Board examined the report in its February 26, 2004 meeting as well. After the concluding results of this examination, the Supervisory Board raised no objections against the Management Board's final declaration 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 Management Board's evaluation, and thereby approved the result of the auditors' examination.

Management Board and Supervisory Board made considerable efforts to stabilize the company's profit situation in the past fiscal year. The annual accounts show an enjoyably good result. A net income of EUR 8,110,042.30 was achieved. The equity capital ratio of ELMOS Semiconductor AG now comes to 78 percent of the balance-sheet total, for the ELMOS Group it comes to 61 percent.

The financial statements and the status report of the company as well as accounting for the fiscal year, January 1 to December 31, 2003 were examined by Ernst & Young AG, Dortmund, appointed auditors by shareholders' resolution of April 30, 2003. The auditors issued an unrestricted audit certificate. Supervisory Board and auditors attended the balance sheet meeting held by the Management Board on February 26, 2004. The auditors' report was received by the Supervisory Board. The Supervisory Board agreed on the result of the auditors' report.

In its February 26, 2004 meeting, the Supervisory Board examined and approved the Management Board's financial statements and status report, examined by Ernst & Young 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 Board and Supervisory Board suggest paying a dividend from the disposable profit, at EUR 28,571,482.26, of EUR 0.13 per share and bringing forward the rest of the earnings to new accounts.

The employment contracts of Management Board members Knut Hinrichs and Dr. Klaus Weyer, expiring in April 2004, are extended for another period of five years with the Supervisory Board's approval.

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 fiscal year.

Dortmund, February 26, 2004

Prof. Dr. Günter Zimmer
Chairman of the Supervisory Board

Members of the Supervisory Board



Dr. Roland Mecklinger

Prof. Dr. Günter Zimmer

Dr. Wolfgang Heinke

Herbert Sporea

Dr. Karl-Thomas Neumann,

Dr. Burkhard Dreher

Members of the Supervisory Board

Prof. Dr. Günter Zimmer,
Chairman of the Supervisory Board,
Duisburg

Dr. Burkhard Dreher,
Deputy Chairman, Dortmund

Dr. Wolfgang Heinke,
Reutlingen

Dr. Roland Mecklinger,
Steinfeld-Hausen

Dr. Karl-Thomas Neumann,
Meine

Herbert Sporea,
Altwittenbek







The ELMOS technology

The modular technology used by ELMOS allows economical solutions in silicon. High-voltage resistance and the integration of digital and analog circuit concepts make up the core of the unique ELMOS CMOS technology. The optimized ELMOS technology orients itself consistently towards the requirements of the automobile market. Continuous further developments allow solutions even for future demands in automotive electronics such as high temperature resistance and the new automotive 42V power system.

Financial Statements HGB for the Fiscal Year ended December 31, 2003 ELMOS Semiconductor AG, Dortmund

Auditors certificate HGB

We have issued the following audit certificate to the financial statements and the report on the situation of company and 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, 2003. Accounting and the preparation of both financial statements and the report on the situation of company and group in accordance with German commercial law and the additional regulations in the articles of incorporation are the responsibility of the company's legal representatives. 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 company and 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 company's legal representatives. It also includes an appraisal of the overall picture

presented by the financial statements and the report on the situation of company and 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 20, 2004

Ernst & Young
Deutsche Allgemeine Treuhand AG
Wirtschaftsprüfungsgesellschaft

Brorhilker	Muzzu
Wirtschaftsprüfer	Wirtschaftsprüfer

Assets	12/31/2003 EUR	12/31/2002 TEUR
A. Fixed assets		
I. Intangible assets		
1. Software and licenses	7,426,664.77	4,622
2. Advance payments	7,215,230.19	11,276
	14,641,894.96	15,898
II. Property, plant and equipment		
1. Land and buildings	8,742,724.32	8,344
2. Technical equipment, plant and machines	12,743,920.77	26,906
3. Other equipment, furniture and fixtures	1,349,962.51	835
4. Advance payments and construction in progress	3,266,544.92	14,949
	26,103,152.52	51,034
III. Financial assets		
1. Investments in affiliated companies	32,348,283.47	32,093
2. Loans to affiliated companies	163,940.71	205
3. Investments	325,780.77	328
4. Loans to companies in which the company has a participating interest	1,009,309.37	810
5. Securities	724,344.00	724
6. Other Loans	91,350.00	0
	34,663,008.32	34,160
	75,408,055.80	101,092
B. Current assets		
I. Inventories		
1. Raw materials and supplies	4,709,388.08	5,738
2. Work-in-process	10,441,530.08	10,422
3. Finished goods and merchandise	2,886,890.44	4,272
	18,037,808.60	20,432
II. Receivables and other assets		
1. Trade accounts receivable	16,667,596.26	15,559
2. Receivables due from affiliated companies	35,810,231.76	26,134
3. Receivables from companies in which the companies has a participating interest	15,550.03	0
4. Other assets	4,111,109.28	3,047
	56,604,487.33	44,740
III. Cash on hand, cash in banks	15,246,163.18	6,928
	89,888,459.11	72,100
C. Deferred charges and prepaid expenses	2,924,476.78	555
TOTAL ASSETS	168,220,991.69	173,747

Balance Sheet HGB

Liabilities and Shareholders' Equity	12/31/2003 EUR	12/31/2002 TEUR
A. Shareholders' Equity		
I. Subscribed capital	19,300,000.00	19,300
II. Additional paid-in capital	84,000,000.00	84,000
III. Appropriated retained earnings		
Other appropriated retained earnings	102,223.64	102
IV. Retained earnings	28,571,482.26	20,462
	131,973,705.90	123,864
B. Accrued liabilities		
1. Accrued pensions and similar allowances	1,192,857.00	1,107
2. Accrued taxes	2,052,564.62	7,717
3. Other accrued liabilities	3,438,484.86	3,372
	6,683,906.48	12,196
C. Liabilities		
1. Liabilities due to banks	12,713,999.39	13,874
2. Advance payments received on orders	27,789.51	122
3. Trade accounts payable	5,504,700.72	7,488
4. Drafts and notes payable	5,100,000.00	8,300
5. Accounts due to affiliated companies	4,088,013.78	393
6. Accounts due to other group companies	2,136.06	7
7. Other liabilities	2,126,739.85	7,503
	29,563,379.31	37,687
D. Deferred charges	0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	168,220,991.69	173,747

Income Statement HGB

	2003 EUR	2002 TEUR
1. Sales	102,979,637.29	95,431
2. Increase (decrease) in finished goods and work-in-process	-1,365,502.92	-729
3. Other own costs capitalized	987,397.15	758
4. Other operating income	9,657,006.05	5,548
	112,258,53.57	101,008
5. Cost of materials		
a) Cost of raw materials, supplies and purchased goods	-11,199,181.64	-10,884
b) Cost for purchased services	-19,546,346.25	-12,994
6. Personnel expenses		
a) Wages and salaries	-22,117,893.93	-21,727
b) Social security, pension and other benefit costs thereof retirement obligations EUR 87,969,00 (previous year TEUR 88)	-3,959,989.55	-3,659
7. Amortization and depreciation of intangible assets and property, plant and equipment	-9,549,722.27	-12,135
8. Other operating expenses	-32,882,705.76	-22,294
	-99,255,839.40	-83,693
	13,002,698.17	17,315
9. Income from investments thereof from affiliated companies EUR 225,000.00 (previous year TEUR 450)	1,212,627.05	450
10. Other interest and related income thereof from affiliated companies EUR 1.184.640,35 (previous year TEUR 980)	1,370,961.58	1,091
11. Write-off of financial assets and securities	-401,000.00	-800
12. Interest and related expenses thereof to affiliated companies EUR 89.106,86 (previous year TEUR 0)	-1,337,823.44	-1,144
	844,765.19	-403
13. Income before taxes and extraordinary items	13,847,463.36	16,912
14. Income taxes	-5,561,661.54	-6,673
15. Other taxes	-175,759.52	-114
	-5,737,421.06	-6,787
16. Net income	8,110,042.30	10,125
17. Previous year's retained earnings brought forward	20,461,439.96	10,336
18. Retained earnings	28,571,482.26	20,461

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 unchanged, the following accounting policies and valuation methods were used for the preparation of the annual accounts.

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

Property, plant and equipment are stated at respective acquisition or production costs and are, if subjected to wear and tear, amortized by regular depreciation. Included in the construction costs of self-constructed facilities is 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 objects. 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. **Stock of raw materials and supplies** is capitalized at cost price or lower going price as per balance-sheet date.

Based on individual calculation with reference to the current cost and revenue statement, **finished goods and work in process** are evaluated at production cost, considering production and material overhead as well as depreciation in accordance with the minimum tax scale, besides direct costs of material and labor and other identifiable direct costs. 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 percent, 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 necessary amounts 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

Fixed assets

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

Roll-forward of Fixed Assets HGB

	Acquisition and production costs				12/31/2003 EUR
	1/1/2003 EUR	Additions EUR	Transfers EUR	Disposals EUR	
I. Intangible assets					
1. Software and licenses	10,090,095.52	801,901.72	4,306,781.18	1,928,025.97	13,270,752.45
2. Advance payments	11,276,114.48	245,896.89	-4,306,781.18	0.00	7,215,230.19
	21,366,210.00	1,047,798.61	0.00	1,928,025.97	20,485,982.64
II. Property, plant and equipment					
1. Land and buildings	9,415,211.36	163,487.43	1,053,296.13	0.00	10,631,994.92
2. Technical equipment plant and machines	90,836,569.50	2,344,672.36	9,217,472.80	30,732,428.05	71,666,286.61
3. Other equipment, furniture and fixtures	4,929,747.52	1,145,228.64	71,470.29	* 683,996.66	5,462,449.79
4. Advance payments and construction in progress	14,949,349.18	6,762,396.55	-10,342,239.22	8,102,961.59	3,266,544.92
	120,130,877.56	10,415,784.98	0.00	39,519,386.30	91,027,276.24
III. Financial assets					
1. Investments in affiliated companies	32,093,026.34	255,257.13	0.00	0.00	32,348,283.47
2. Loans to affiliated companies	204,940.71	59,000.00	0.00	100,000.00	163,940.71
3. Investments	557,348.77	78,432.00	0.00	0.00	635,780.77
4. Loans to companies in which the company has a participating interest	1,380,488.08	519,821.29	0.00	0.00	1,900,309.37
5. Securities	724,344.00	0.00	0.00	0.00	724,344.00
6. Other loans	0.00	100,000.00	0.00	8,650.00	91,350.00
	34,960,147.90	1,012,510.42	0.00	108,650.00	35,864,008.32
	176,457,235.46	12,476,094.01	0.00	41,556,062.27	147,377,267.20

* including low-value assets of EUR 122,488.77

Accumulated depreciation				Net book values		
1/1/2003 EUR	Additions EUR	Transfers EUR	Disposals EUR	12/31/2003 EUR	12/31/2003 EUR	12/31/2002 TEUR
5,468,102.87	1,587,561.41	0.00	1,211,576.60	5,844,087.68	7,426,664.77	4,622
0.00	0.00	0.00	0.00	0.00	7,215,230.19	11,276
5,468,102.87	1,587,561.41	0.00	1,211,576.60	5,844,087.68	14,641,894.96	15,898
1,070,995.60	818,275.00	0.00	0.00	1,889,270.60	8,742,724.32	8,344
63,930,948.49	6,539,552.14	-7,756.30	11,540,378.49	58,922,365.84	12,743,920.77	26,906
4,094,912.31	604,333.72	7,756.30	* 594,515.05	4,112,487.28	1,349,962.51	835
0.00	0.00	0.00	0.00	0.00	3,266,544.92	14,949
69,096,856.40	7,962,160.86	0.00	12,134,893.54	64,924,123.72	26,103,152.52	51,034
0.00	0.00	0.00	0.00	0.00	32,348,283.47	32,093
0.00	0.00	0.00	0.00	0.00	163,940.71	205
229,000.00	81,000.00	0.00	0.00	310,000.00	325,780.77	328
571,000.00	320,000.00	0.00	0.00	891,000.00	1,009,309.37	809
0.00	0.00	0.00	0.00	0.00	724,344.00	724
0.00	0.00	0.00	0.00	0.00	91,350.00	0
800,000.00	401,000.00	0.00	0.00	1,201,000.00	34,663,008.32	34,160
75,364,959.27	9,950,722.27	0.00	13,346,470.14	71,969,211.40	75,408,055.80	101,092

Analysis of Investments	Currency	Interest %	Equity capital in thousand	Amount in thousand
Domestic				
GED Gärtner Elektronik Design GmbH, Frankfurt / Oder	EUR	73.90	289	14
ELMOS Central IT Services GmbH & Co. KG, Dortmund	EUR	100.00	173	574
ELMOS Facility Management GmbH & Co. KG, Dortmund	EUR	100.00	92	414
Gesellschaft für Halbleiterprüftechnik mbH, Dortmund	EUR	100.00	--	**--
attoSENSOR GmbH, Penzberg	EUR	30.00	-1,085	***-286
Advanced Appliances Chips GmbH, Riedstadt	EUR	33.33	--	***--
Exedra Grundstücksverwaltungsgesell- schaft mbH & Co. Vermietungs KG, Mainz	EUR	100.00	-1	*-7
Epigone Grundstücksverwaltungsgesell- schaft mbH & Co. Vermietungs KG, Mainz	EUR	100.00	-13	*-22
MECHALESS Systems GmbH, Karlsruhe	EUR	49.00	100	***1,009
Foreign				
ELMOS France S.A., Nanterre (F)	EUR	74.97	1,780	726
ELMOS Services B.V., Venlo (NL)	EUR	100.00	1,506	617
European Semiconductor Assembly (eurasem) B.V. Nijmegen (NL)	EUR	98.50	15,285	-743
ELMOS USA Inc., Michigan (USA)	USD	100.00	--	***--
* figures of fiscal year 2002				
** company's financial statements not available at present				
*** figures based on company's tentative financial statements as of Sept. 30, 2003				

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 627 (previous year TEUR 463).

Other assets include capitalized receivables on the reimbursement of prepaid development expenses at an amount of TEUR 1,492 (previous year 1,416) and pension assets at an amount of TEUR 627 (previous year TEUR 463).

Shareholders' equity

The share capital of EUR 19,300,000.00, consisting of 19,300,000 non-par common bearer shares as stated in the balance sheet as of December 31, 2003, 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 percent 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.

The Management Board is also 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 share. The conditional capital increase exclusively serves the granting of pre-emption to Management Board members, other executives and employees as well as executives and employees of affiliated companies. With regard to the company's stock option program according to the shareholders' resolution of September 22, 1999, it is exercised only to the extent subscription rights are granted and options are exercised. The new shares participate in profits from the start of the 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 100 percent affiliate of the company, domestic or foreign, 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 100 percent affiliate of the company, domestic or foreign, by April 25, 2007, obligated to converse fulfill their obligation to converse. The new shares participate in profits from the start of the 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 518,157 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 20,461. Apart from that, we refer to the recommendation on the use of the retained earnings stated below.

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, Supervisory Board remuneration, and tax risks.

Liabilities

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

Liabilities include none to shareholders.

Liabilities in TEUR

Type of liability	Total 12/31/2003	Remaining term of			Total 12/31/2002
		up to 1 year	1 to 5 year	over 5 years	
1. Liabilities					
due to banks	12,714	12,158	556	0	13,874
2. Advanced payments					
received for orders	28	28	0	0	122
3. Trade accounts					
payable	5,505	5,505	0	0	7,488
4. Drafts and notes					
payable	5,100	5,100	0	0	8,300
5. Accounts to					
affiliated companies	4,088	4,088	0	0	393
6. Accounts due					
to other					
group companies	2	2	0	0	7
7. Other liabilities	2,127	2,127	0	0	7,503
(previous year)	(7,503)	(7,503)	(0)	(0)	
– thereof related to taxes	354	354	0	0	5,071
(previous year)	(5,071)	(5,071)	(0)	(0)	
– thereof related to					
social security	556	556	0	0	592
(previous year)	(592)	(592)	(0)	(0)	

Kind and form of securities

Loans are secured by collateral assignment of various acquired machines and pieces of equipment as well as a land charge on the commercial property Emil-Figge-Straße 83 / Heinrich-Hertz-Straße 1 and Josef-von-Fraunhofer-Straße 9, 44227 Dortmund (proprietor: Exedra Grundstücksgesellschaft mbH & Co. Vermietungs KG). Except for the customary suppliers' extended reservation of proprietary rights, trade accounts payable are essentially not secured. Other liabilities are not secured, either.

Contingent liabilities and other financial commitments

Contingent liabilities

In 2003 the company underwrote a loan of USD 1,500,000.00 granted to an affiliated company. As of balance-sheet date, this affiliated company has used the credit limit to an amount of USD 1,366,614.00.

Other financial commitments

The company has concluded leasing contracts for operational and administrative buildings, facilities, the multi-story parking lot, and another office building, expiring in 2006, 2010, 2020, and 2021. It has also entered into leasing contracts for technical equipment and machines as well as furniture and fixtures expiring in 2007. There are also leasing agreements for car pool, office equipment, and technical facilities and machines to a customary extent.

Due to the above-mentioned binding agreements as of balance-sheet date, amounts payable in the following years add up as follows:

Leasing agreements

Year	TEUR
2004	13,698
2005	12,600
2006	16,568
2007	4,518
2008	3,712
Thereafter	44,802

Purchase commitments under investment orders amount to TEUR 4,757.

Notes to the income statement

Sales

Sales

<u>according to sectors:</u>	2003	2002
	TEUR	TEUR
Production	98,275	91,094
Developments	4,233	3,966
Others	472	371
Net sales	102,980	95,431

Sales

<u>according to regions:</u>	2003	2002
	TEUR	TEUR
Domestic	54,936	56,717
Other EU countries	32,935	25,659
U.S.A.	9,893	9,086
Other non-EU countries	5,216	3,968
Net sales	102,980	95,431

Other operational proceeds

Income relating to other periods essentially contains gains on the sale of assets (TEUR 3,856), reversal of accruals (TEUR 44), reversal of accrued debts (TEUR 379), and proceeds from the realization of renter loans (TEUR 299). In addition, stated income results essentially from currency differences, project sponsorship, private car use, pension assets, continued calculations, rental income, and compensation for damages.

Other operational expenses

Expenses relating to other periods are essentially due to reduced investments (TEUR 61) and receivable losses (TEUR 685).

Further notes

Supervisory Board

Prof. Dr. Günter Zimmer, Duisburg,
institute director (Chairman)
Dr. Burkhard Dreher, Dortmund,
graduate economist (Deputy Chairman)
Herbert Sporea, Kiel,
businessman
Dr. Roland Mecklinger, Steinfeld-Hausen,
graduate engineer
Dr. Wolfgang Heinke, Reutlingen,
graduate physicist
Dr. Karl-Thomas Neumann, Meine,
graduate engineer (since April 30, 2003)

Prof. Dr. Günter Zimmer is a member of three other supervisory boards (Wacker Siltronic AG, MANIA Technologie AG, active photonics AG), as is Dr. Burkhard Dreher (Deutsche Steinkohle AG, Harpen AG, Siepe AG), Herbert Sporea holds two other mandates (TOP Business AG, advisory council of Mechaless Systems GmbH since October 2003), and Dr. Roland Mecklinger is a member of one other supervisory board (OpenShop AG).

Management Board

Knut Hinrichs, Glückstadt
Graduate in business management
(Chairman)
Klaus Weyer, Schwerte
graduate physicist
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 group income before taxes. 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 programs for employees below Management Board level.

Thereby total Management Board remuneration in 2003 came to TEUR 1,189, of which TEUR 798 are fixed and TEUR 391 are variable amounts.

Management Board members have so far subscribed for 60,000 stock options.

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

Management Board share parcels	<i>shares</i>
Knut Hinrichs	0
Dr. Klaus Weyer	16,206
Dr. Peter Thoma	6,200
Reinhard Senf	2,700

Total Supervisory Board remuneration

Total Supervisory Board remuneration in 2003 came to TEUR 158, of which TEUR 90 are fixed amounts (including expenses) and TEUR 68 are variable amounts.

No stock options were issued to Supervisory Board members in 2003.

For other services - especially consultations -, the company remunerated members of the Supervisory Board TEUR 147 in the fiscal year 2003.

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

Supervisory Board shares parcels	share
Herbert Sporea	2.265
Dr. Burkhard Dreher	1.900

Employees

Average number of employees in the year ended December 31, 2003:

Employees	2003	2002
Industrial employees	160	154
Salaried employees (incl. part-time, converted into full-time)	300	321
	460	475
Trainees	25	24
	485	499

Group situation

EFH ELMOS Finanzholding GmbH, Dortmund, indirect majority shareholder of ELMOS Semiconductor AG, is required to prepare consolidated financial statements according to § 290 II No.2 HGB. EFH ELMOS Finanzholding GmbH, Dortmund has so far not prepared consolidated financial statements as of December 31, 2003.

Recommendation on the use of retained earnings

The Management Board suggest (in accordance with the Supervisory Board) the retained earnings of EUR 28,571,482.26 to be used as follows:

A dividend of EUR 0.13 per share should be paid. The rest of the retained earnings should be brought forward to new accounts.

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

For 2003, the following declaration required by § 161 AktG has been issued and made accessible to the shareholders by ELMOS Semiconductor AG.

Management Board and Supervisory Board of ELMOS Semiconductor AG declare in accordance with § 161 AktG:

"ELMOS Semiconductor AG fulfills the recommendations of the "Government Commission Deutscher Corporate Governance Kodex" (in short: DCGK) with the following exceptions:

- The currently valid D&O insurance of the Supervisory Board and the Management Board members does not provide for a deductible (DCGK No. 3.8). Based on the undefined legal position concerning personal liability of the individual Board members, an adaptation is currently not being realized.
- Even though the Management Board members' remuneration is stated in the internet as well as the annual report with reference to fixed components, success-dependent components, and components with a long-term incentive effect (stock options), these statements are summarized and not individualized (DCGK No. 4.2.4).
- Deviant with the recommendations, the procedural rules of the Supervisory Board of ELMOS Semiconductor AG provide for the implementation of professionally qualified committees and a board of examiners only if the number of six

Supervisory Board members is exceeded (DCGK Nos. 5.3.1 and 5.3.2).

- The Supervisory Board members' remuneration consists of fixed components and success-dependent components, too. Supervisory Board remuneration is stated in the internet as well as the annual report with reference to its components, but not individualized. Remuneration paid by ELMOS Semiconductor AG to Supervisory Board members for individually performed services, in particular consultations and negotiations, is not individually stated in the notes to the consolidated financial statements (DCGK No. 5.4.5)."

Dortmund, February 2004

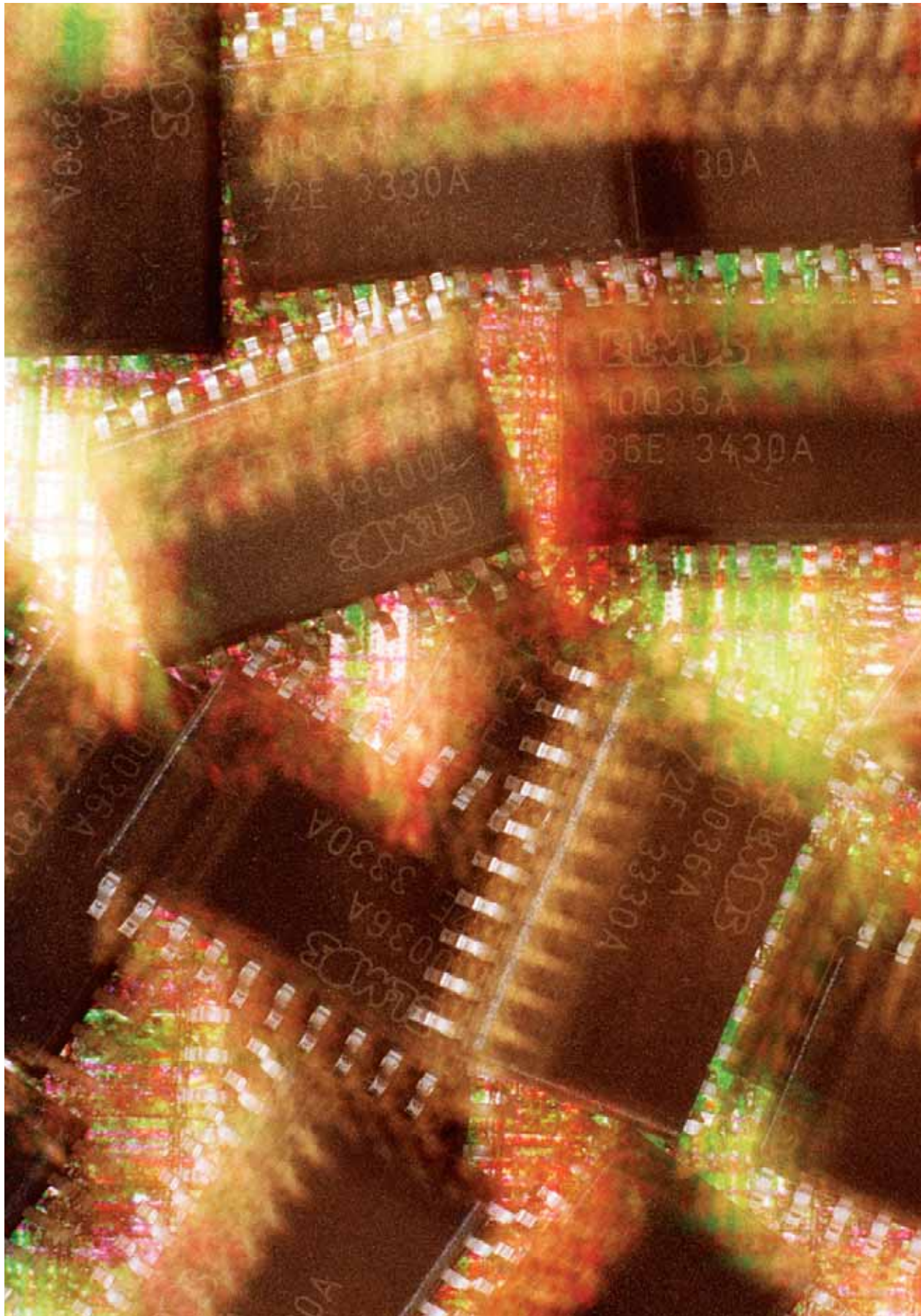
The Management Board

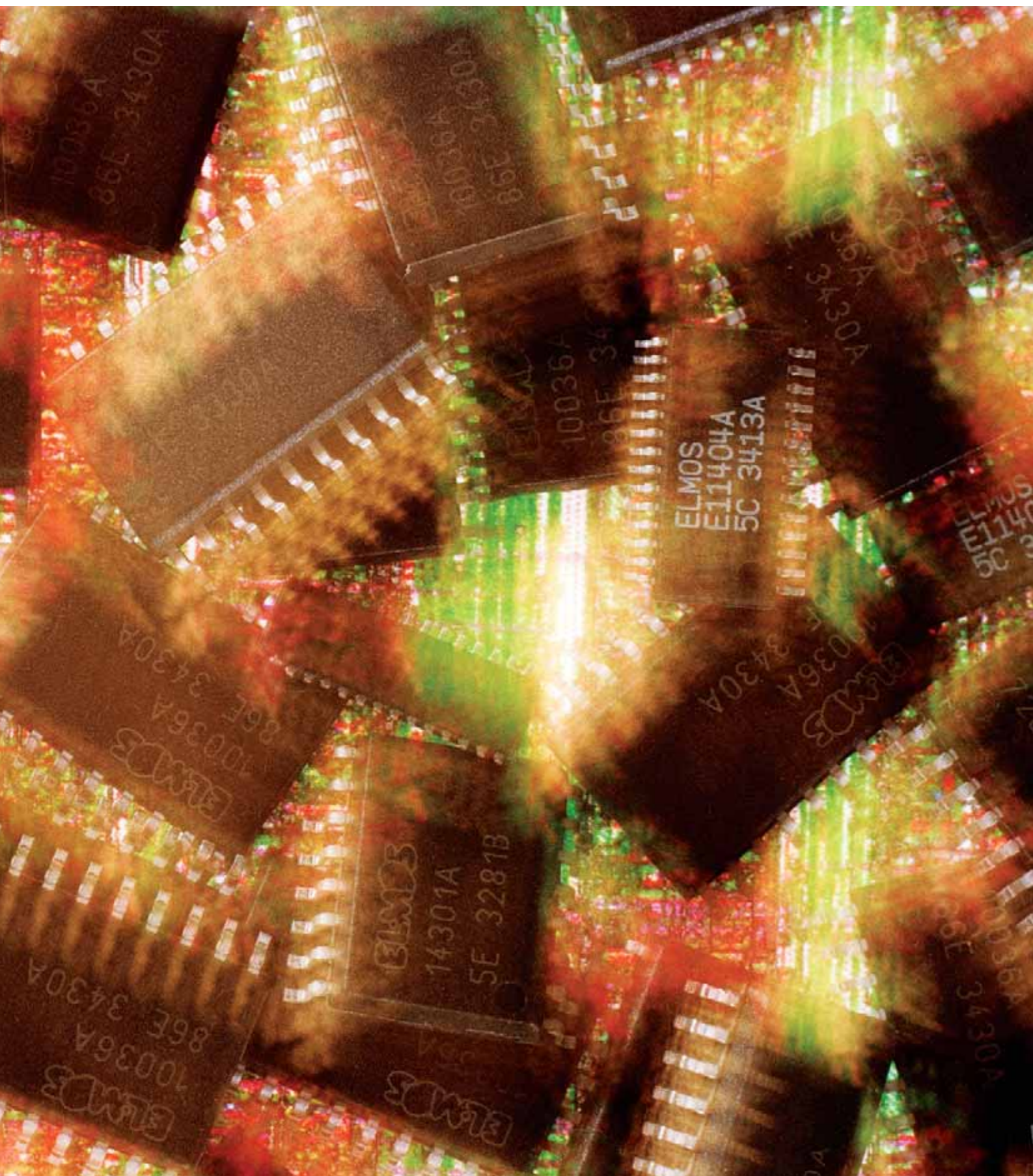
Knut Hinrichs

Dr. Klaus Weyer

Dr. Peter Thoma

Reinhard Senf







Products

ELMOS semiconductor chips improve systems used in the automotive concerns security, comfort, environmental protection, and communication. Numerous successful solutions provide proof of the ELMOS competence in virtually all European automobiles. ELMOS interface components simplify vehicle communication. Multiplex bus systems replace miles of copper cable and point-by-point connections in automotive electronics that were in use before. These special chips enhance the scale of functions, increase security and reliability, and at the same time reduce system costs.

Status Report of the Company and the Group

Report on the situation of the company and the group for the fiscal year ended December 31, 2003 of ELMOS Semiconductor AKTIENGESELLSCHAFT, Dortmund

1. Business and strategy

a) Business activity, economic framework, and management objectives

ELMOS Semiconductor AG develops, produces, and sells highly integrated application specific microelectronic circuits, primarily for use in the automobile industry. In 2003 91 percent of the revenue keep originating from this market segment.

In the last 19 years, ELMOS has worked for a leading position on the European market for automotive electronics. Electronic circuits, so-called ASICs, produced by ELMOS are used by virtually all European car manufacturers. Ever growing demands on the reduction of gas consumption, the environmental compatibility of a vehicle, but also on the safety and comfort of its 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.

Since the company's foundation, it has been the ELMOS strategy to serve sheltered niche markets with its own know-how. This is characterized on the one hand by production technology resolutely optimized with regard to the market's requirements, on the other hand by customer specific product development. Usually ELMOS products are developed by the customer's order for a specific application and produced exclusively for the customer. This takes place at the production site for semiconductor components operated by ELMOS Semiconductor AG at its Dortmund headquarters.

This business model is aimed at the requirements of the automobile industry as well as the customers' demands for innovation, quality, flexibility,

and reliable supply. The management's objectives are the operation of a profitable business with customized integrated circuits and the growth of the company's market shares as a competent partner of the customers. The resulting tight customer-supplier relationship is mirrored in the structure layout of the ELMOS Group. Several branches, subsidiaries, and partner companies at various locations in Germany, Europe, and the U.S. help with distribution and application support of the customer on the spot.

In addition to that, the producing subsidiaries eurasem B.V. in the Netherlands and SMI Inc. in the U.S. support the ELMOS technology and product portfolio. The special package technologies and micro-mechanical components (MEMS) developed and manufactured by these subsidiaries are used mainly in sensorics. With the slogan "ASICplus - more than a chip", an enhanced business model is thus presented to the industry. The management seeks to utilize the synergy potential in marketing this combination of semiconductor components, sensors, and functional packaging as an integrated system approach for continuing customer-oriented growth.

b) Overall economic development

After the year of crisis in the semiconductor industry, 2001, with sales decreasing by more than 30 percent as compared to the record year 2000 with roughly USD 204.4 billion, total sales rose from about USD 139.0 billion in 2002 to roughly USD 166.4 billion worldwide in 2003. Thereby the industry reconnected with the high growth rates of the past with a sales increase of more than 18 percent in 2003 as compared to the year before. However, sales in 2003 still fell short of those in 2000 by about 19 percent.



Semiconductor chips for the automobile industry constitute a niche market for the global semiconductor industry. Covering an approximate 8 percent share of the total market, sales of automotive semiconductors increased from roughly USD 13.2 billion in 2002 to about USD 13.8 billion in 2003, equaling a growth of about 5 percent.

This considerably slower growth as compared to the total market's simultaneously reflects the development of the automobile market. The European manufacturers not only had to struggle with an unfavorable exchange rate of U.S. Dollar vs. Euro. The economic situation also affected consumer behavior in many markets.

A case in point, the number of new car registrations in 2003 decreased by roughly 1 percent in Germany and by about 6 percent in France. However, Spain and Great Britain developed positively, resulting in an overall decrease of new registrations by 1 percent in Western Europe. In spite of massive "incentive" campaigns, U.S. new registrations gave way by about 2 percent as compared to the previous year. Quite in contrast, the Far East markets, particularly China, developed positively; overall, demand on the global market stagnated.

Some car manufacturers escaped this trend, showing pleasant sales figures once more especially in the premium segment. The BMW Group, for instance, increased unit numbers by roughly 5 percent.

The unit number market, in stagnation worldwide, was again opposed by the sustainable trend towards more electronics per vehicle from which ELMOS gains a profit, too. The share of electrics / electronics of the vehicle value is expected to rise in the future from roughly 22 percent in 2000 to about 35 percent of the vehicle value in 2010 - including the share of semiconductor components.

c) Account of the course of business

The ELMOS Group continued to expand the market share in 2003 with its customer specific approach and increased sales by almost 11 percent compared to the year before to roughly EUR 121.4 million.

ELMOS Semiconductor AG sales proceeds in the semiconductor core business rose to EUR 102.3 million. The sustainable customer interest in individual solutions is indicated by the repeatedly large number of new development projects. In the past year, 31 development projects at a sales volume of about EUR 227 million over the life cycle were won.

In 2003 a total 24 development projects were transferred to production. Production capacity utilization was increased to 69 percent by the end of the year. On the whole more than 80,000 wafers were produced in the fiscal year. Parallel to that cost-cutting measures were carried out within the whole ELMOS Group to achieve an increase of efficiency and staff reduction.

Besides the optimization of business activity at the Dortmund location, one main focus of management efforts were on the subsidiaries SMI in the U.S. and eurasem in the Netherlands, both acquired in 2001. These two companies, of utmost importance to the enhanced ELMOS business model, were expanded over the fiscal year as scheduled. Following the acquisition, EUR 12,8 million have been invested in eurasem in the meantime; originally investments in buildings and machinery at SMI and ELMOS California have originally amounted to roughly EUR 15.4 million.

eurasem had a staff of 161 employees at the end of the year and achieved sales of EUR 11.3 million. The contribution to the group revenue amounted to EUR 4.4 million in the past fiscal year. eurasem is equipped in order to make it possible for ELMOS assembly services so far carried out in the Far East to be transferred to eurasem. eurasem covered about 54 percent of the ELMOS assembly services by the end of 2003. Besides the group internal assembly, the company also provides the assembly of special packages to external customers.

Despite continuous improvement, the operating result of eurasem was still negative in the last quarter. The company's net loss amounted to EUR 0.8 million in 2003. With the utilization increasing and the cost-cutting measures initiated, management expects a significantly improved outcome in 2004. To this end, eurasem business activity will be expanded as well. Therefore, the setting up of test capacity is planned in addition to the assembly at the Nijmegen location.

The subsidiary SMI in Milpitas, California employed a staff of 75 for the development, production, and distribution of micromechanical components at the end of the year. The company contributed EUR 9.3 million to the group revenue in the past fiscal year as compared to EUR 7.3 million the year before. Based on the Euro, this means a sales increase of roughly 27 percent, based on USD it comes to even 56 percent.

The company's net loss in 2003 was an unchanged EUR 0.2 million due primarily to restrictions on the production process because of renovation activities. The operating results of the first and third quarters were even positive. Expansion and rebuilding could be advanced notably in the year under report.

Owing to the expansion of the factory and the conversion from 100mm to 150mm wafer diameter, to be continued through 2004, SMI is one of the few MEMS suppliers with its own modern production line and therefore enjoys a distinguishing feature in the Silicon Valley. This enables SMI to win additional foundry orders leading to an improved utilization of

production capacity together with an internal production volume increase. New products were introduced to the market in the year under report and will make their first sales contributions in 2004.

The U.S. subsidiary ELMOS NA in Detroit continued to open up the American automobile supplier industry in the year under report. The personnel remained at 24 employees. Because of the specifics of the business model, losses due to significant pre-financing of development services were taken into account in 2003. For the first time, proceeds from volume production for American customers were achieved by the end of 2003. The first variable gross margins for the development expenses were realized.

The interests in SMI as well as ELMOS NA have been held since 2003 by ELMOS USA Inc., Michigan as a 100 percent subsidiary company of ELMOS Semiconductor AG.

ELMOS holds a 30 percent interest in the company attoSENSOR in Penzberg. attoSENSOR develops innovative sensor systems for positioning using patented know-how and ELMOS ASICs. ASIC developments for attoSENSOR products were concluded in 2003. Following numerous delays in development work over the last years due to unforeseeable difficulties, finally the conditions were ready to push ahead with distribution activities and to introduce these products to the market. First sales were achieved with sample unit numbers supplied to industry customers for transport technology applications, the foundation of sales expected for 2004. The fiscal year was characterized by pre-financing and closed with a loss of about EUR 0.4 million.



Thereby, with a two-year delay, attoSENSOR follows the business plan which expected the situation of 2003 to occur in 2001 already. On the other hand, the distribution successes based on the products' distinguishing features show the chosen road to be the right one. However, increased sales in 2004 will not result in a positive operating result. This is expected for 2005 for the first time.

For financial reconciliation of this starting phase, a capital increase will be necessary at attoSENSOR in the course of 2004. Another special write-off was executed in the group at an amount of EUR 0.2 million to the interest assessment.

In order to protect the investments in the HALIOS technology acquisition, on August 7, 2003 a contract was concluded over a 49 percent interest in MECHALESS GmbH in Karlsruhe. Within MECHALESS software and hardware activities of the HALIOS inventors and ELMOS activities regarding optical sensor systems are combined, optimized, and specifically marketed. On the basis of first samples and a rain sensor already in volume production, MECHALESS won numerous new development projects and feasibility studies in the segments automotive, industry, and telecommunication in the past year, including three ASIC orders for ELMOS.

For the expansion of development capacity, ELMOS purchased an option on the acquisition of a qualified majority interest in DMOS GmbH, an ASIC design house with 18 employees in Dresden. DMOS works on ASIC development exclusively for the ELMOS Group.

d) Orders received and order backlog

Incoming orders with regard to ASIC production amounted to EUR 115.6 million in 2003, exceeding the previous year's orders received by 19 percent. On an annual basis, the book-to-bill ratio rose significantly to a value of 1.13 as compared to 1.03 in the previous year.

e) Production

Since the middle of the fiscal year 1999, ELMOS has produced exclusively on the 150mm wafer line in Dortmund. This line was expanded in the years 2000 through 2003 as scheduled in order to be prepared for the upcoming technology generations and the rising demands on production capacity.

Production rooms and facilities at the Dortmund location are equipped with state-of-the-art technology suited to processes with structure sizes down to 0.35 micrometers. They provide a solid platform for the ELMOS production of the next 10 years. Machine capacity came to roughly 400 wafer starts a day by the end of the year, of which about 275 wafer starts a day were used (roughly 69 percent). Capacity can be enhanced to a maximum 500 wafer starts a day through the recruitment of additional staff and an insignificant investment in machinery.

f) Research and development

Future-oriented group expenditure for research and development remained at a relatively high level in 2003, at roughly EUR 20.4 million. Compared to the previous year, these expenses rose to a rate of 17 percent of the revenue. They mirror the efforts made at ELMOS for a distinct acceleration of the introduction rate of new technologies and products. Apart from the numerous developments of new products, a particular share of the costs is contributed by the activities targeting the development of new process technologies with smaller structure sizes as well as the further development of the silicon-on-insulator technology.

The integration of the Motorola HC12/Star12 cell libraries and the transfer of the Motorola design methodology to the ELMOS design environment were concluded successfully. First products are being developed with a cooperation partner.

g) Staff and social sector

In the fiscal year 2003, the ELMOS Group had an average of altogether 874 employees (thereof 25 trainees) as compared to an average of 830 employees in 2002. ELMOS Semiconductor AG employed a staff of 485 on the annual average.

A long-term commitment of the employees to the company and a share of the profits are achieved by annual stock option programs. These programs provide for the issue of stock options to employees below Management Board level and, at identical conditions, to the Management Board members. The issue value per option depends on the 10-day average of the official stock exchange quotation of the ELMOS share price prior to the day of resolution and an exercise barrier of 20 percent. Options may be exercised after two years at the soonest, and they 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 1.0 million was made available to this stock option program.

In its meeting on December 19, 2003, the Supervisory Board approved the Management Board's resolution concerning the issue of up to 240,000 stock options to employees below Management Board level and 60,000 stock options to Management Board members, at an issue price of EUR 11.59. In 2003 employees and Management Board members subscribed for 288,160 stock options from 2002. Altogether 518,157 stock options from the years 1999 through 2002 have been subscribed for, but no options have so far been exercised.

2. Company situation

a) Profit situation

In the past fiscal year, the group exceeded the previous year's revenue of EUR 109.7 million by roughly 11 percent, at EUR 121.4 million. Regional distribution of group sales show a rise to roughly 55 percent in Germany at the end of the year after about 52 percent in the previous year. This affected the other European countries' share, giving way from 28 percent in 2002 to 24 percent in 2003. U.S. sales contributions also decreased slightly, currency affected, achieving 15 percent after 16 percent in 2002. They divide up evenly in halves between ELMOS NA, ASICs segment, and SMI, micromechanics segment.

The additional proceeds of EUR 11.7 million coincided with a disproportionately low increase of production costs of roughly EUR 4.1 million, increasing the gross margin from 49 percent in 2002 by 3 percent to a total of about 51 percent of the revenue in 2003, while the gross proceeds were even 14 percent higher at EUR 61.4 million.

This enabled the company to raise the expenditure for the development of new products and processes to EUR 20.4 million by roughly 16 percent. Thereby the company manages to harmonize its three objectives sales, profit, and growing expenditure for a long-term profitable growth.

The operating result rose to EUR 21.6 million or almost 18 percent of the revenue in 2003, tallying with an increase of roughly EUR 3.3 million in comparison to the year before.

Thanks to the initiated cost-cutting program requiring a one-time extraordinary expenditure of roughly EUR 1.0 million in the year under report, the group's retained earnings reached about EUR 10.0 million, exceeding the prior year result of EUR 8.9 million. This is even more remarkable since the further support of the subsidiaries and higher leasing expenditure took their toll financially.



In the separate financial statements of ELMOS Semiconductor AG, at EUR 8.1 million earnings fell short of the previous year's result. This is primarily a consequence of new leasing expenses incurred in the year under report, the rise of development expenditure, and restructuring costs in the staff sector.

b) Financial situation

In the past fiscal year, a total amount of EUR 25.3 million was invested in the group. EUR 17.5 million benefited the semiconductor segment, micro-mechanics and assembly profited from EUR 3.9 million each. For the acquisition of additional land and buildings at the Nijmegen location, required to allow tests of assembled components next to the assembly activities from 2005, roughly EUR 1.7 million was expended. Balance-sheet effective according to U.S. GAAP at EUR 3.4 million was the story expansion onto the administration building of ELMOS in Dortmund, calculated by the finance investor in the fourth quarter.

Sale and leaseback transactions of a total volume of EUR 29.5 million were carried out in the fiscal year 2003. Together with the operational cash flow, this allowed not only the financing of the investments, but also accrued taxes at an amount of EUR 11.9 million from previous years and at EUR 3.1 million for the fiscal year 2003 to be paid off. Short-term liabilities in the ELMOS Group were reduced by EUR 4.5 million.

Two leasing transactions qualified as finance lease in 2003 led to an addition of the long-term liabilities due to banks at an amount of EUR 6.6 million. Liquidity of the ELMOS Group rose from EUR 9.0 million by EUR 8.4 million to EUR 17.4 million at the end of the year under report. In the fiscal year 2003, the effective tax rate of the ELMOS Group could be decreased from 42.98 percent to 40.79 percent in spite of the 1.5 percent rise of the income tax rate in Germany.

c) Assets situation

In the past fiscal year, fixed assets of ELMOS Semiconductor AG decreased primarily due to sale and leaseback transactions. Receivables due from affiliated companies rose in the fiscal year particularly because of loans granted and increased business activity.

The shareholders' equity capital ratio of the ELMOS Group came to almost 61 percent as of December 31, 2003; the equity capital ratio of ELMOS Semiconductor AG rose to 78 percent of the balance-sheet total. Therefore it can be assumed that the company would be able to endure even a number of difficult years with weak market demand. The successful survival of the company is thereby secured for the next years.

The company's subscribed share capital is EUR 19,300,00.00, divided in 19,300,000 non-par unit shares at an arithmetic value of EUR 1.00 each. All shares are fully paid in.

d) Events of special significance occurring after the end of the fiscal year

No events of special significance have occurred.

3. Risk report

a) Risk report

In the year under report, ELMOS AG applied its comprehensive risk management system, installed in the previous year in accordance with § 91 (2) AktG, to the group companies step by step and continued to refine it. The risk management system and its application were duly examined of accordance with the regulations of the German Commercial Code and the Corporations Act by the end of the year and found effective 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 Board and Supervisory Board 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 expanded and refined in 2004.

b) Dependence on the automobile 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 8 percent 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 8 percent 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.



c) Competition and employees

In the semiconductor market for automotive applications, there are a great many competitors offering products similar to the ones ELMOS offers, based on a similar technological foundation. 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 2003. 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. The employees participate in the success of ELMOS through a stock option program.

d) Development of new products and technologies

Acquiring a new order 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 not amortized expenses from developments not resulting in a volume supplier position will remain 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 developments and production technologies. 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 profit situation would be likely to result.

Thanks to the ability to develop and manufacture ELMOS 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 canceled orders 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 orders for ASICs for the car industry can be reduced.

Current ELMOS production capacity can be considered sufficient for the targeted growth, from the fiscal year 2004 just started well into the years 2004/5. An expansion of production capacity beginning in the year 2006 will probably be necessary in order to enable the company to grow as planned. To this end, currently ELMOS is negotiating with the Fraunhofer Gesellschaft the lease and operation of the institute's production line in Duisburg. With this line, ELMOS gains access to additional production capacity for 200mm wafers sufficient for the targeted sales increase well into the years 2007/2008.

e) 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 East 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 2003, eurasem provided approximately 54 percent of the assembly services required by ELMOS. As a consequence, ELMOS grows increasingly independent from the Far East partners and fluctuations of the dollar as well.

f) 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 profit situation in a negative way.

g) 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 ELMOS operation of an additional production line (200mm line) at the Fraunhofer Institute in Duisburg and the eventual construction of another production line in a separate building at the Dortmund location. This being done, ELMOS would have several independent production lines at its disposal, at least leaving considerable production capacity in case of disruptions effecting one production line.



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 insurance. 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.

h) Financial interests

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. The integration of the subsidiary companies eurasem and ELMOS NA into the mother company's accounting is planned for the fiscal year 2004. The other subsidiaries are intended to follow gradually.

4. Outlook

A significant upturn of the semiconductor markets is generally predicted for 2004. Owing to the annual rise of the proportion of electronics per vehicle by roughly 10 percent, the market for automotive semiconductors will continue to grow as well; a two-digit sales increase is expected for automotive semiconductor chips.

This is underlined by a well-filled product pipeline due to the design wins of recent years and the high book-to-bill ratio. In 2004 about 30 new ASICs will be transferred from development to volume production. A larger delivery volume corresponds with an increased utilization of production capacity in Dortmund leading to a further improvement of the profit situation.

At eurasem, the construction of a test area for assembled components will be started in the fiscal year 2004. To this end, the entire office and auxiliary space will be transformed into production space, and offices and auxiliary rooms will be moved to the neighboring building acquired in the autumn of 2003. The merging of similar function segments set up at eurasem and ELMOS will reduce costs at eurasem and improve the synergy effect. The efforts for the development of special packages, making products possible in the sense of the "ASIC^{plus}" strategy, are intended to be intensified. From the change of the eurasem business model we are expecting a high profitability beginning in 2005.

For SMI 2004 will bring the continuation of the gradual conversion of the day-to-day production to 150mm wafers and the machine installations thereby required. We are expecting from this an improvement of the gross margin especially in the foundry business for external customers. After the completion of the necessary qualifications in the first half-year of 2004, the start of new long-term production orders is reckoned with. Furthermore we are expecting the start of volume production of own products introduced in the past fiscal year, such as the co-integrated pressure sensor and the extremely small sensor chip. The revenue is intended to exceed previous year's sales by at least 20 percent, and a positive result is intended to be achieved.

Investments in 2004 will remain on a level comparable to the year before. The expansion of the clean room and capacity expansions only require smaller investments. At eurasem, financial means are used for the installation of the test area and the move of the office and auxiliary rooms. At SMI, investment in machinery and facilities is on the agenda for 2004.

On the whole, for the ELMOS Group 2004 is expected to exceed the previous year significantly with a sales increase of 15-20 percent. Owing to an improved utilization of production capacity and progress at the subsidiary companies, gross proceeds and operating result will reach their respective targeted values of 50 percent and 20 percent.

5. Relationships with affiliated companies

According to § 312 AktG (German Corporations Act), we have prepared a report on our relationships with affiliated companies concluding with the following statement in accordance with § 312 III AktG:

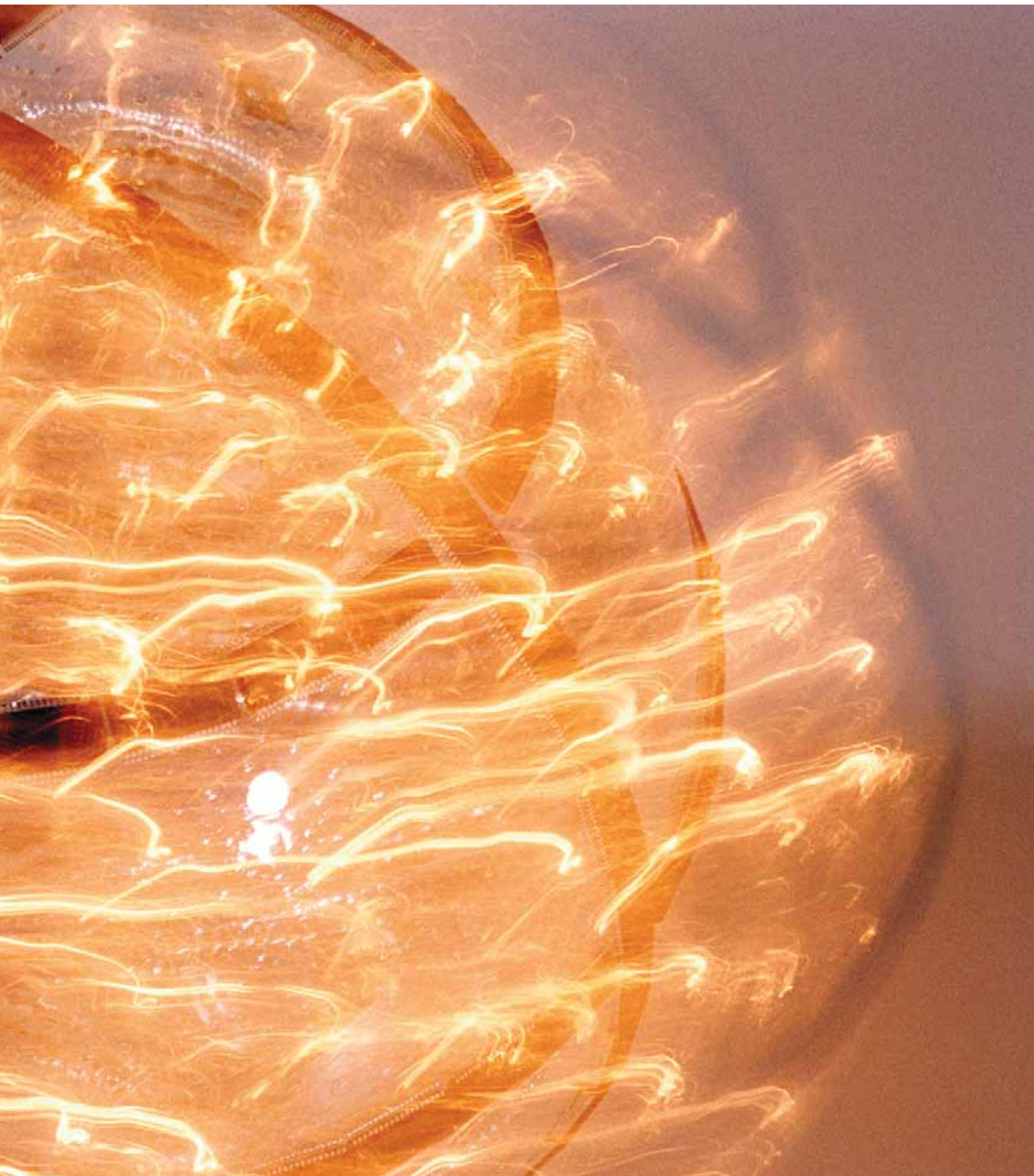
"We declare that, under the circumstances known to us at the time legal transactions were executed and measures were taken, our company received appropriate consideration for each legal transaction. Disadvantages according to § 312 AktG have not resulted for us from our relationships with affiliated companies."

Dortmund, February 2004

The Management Board

Knut Hinrichs	Dr. Klaus Weyer
Dr. Peter Thoma	Reinhard Senf







Internationalization

Naturally, a successful company like ELMOS operates worldwide, because the internationalization of the automobile industry requires the development and manufacture of individual semiconductor solutions for the global market. Successful chip solutions for key customers inevitably generate demand in neighboring European countries. In the course of globalization, new customers follow in the United States of America; business contacts in Japan create the basis for the access to the Asian market.

Consolidated Financial Statements U.S. GAAP of ELMOS Semiconductor Aktiengesellschaft and Subsidiaries for the Years Ended December 31, 2003 und 2002

Auditors Certificate U.S. GAAP

To the shareholders of ELMOS Semiconductor Aktiengesellschaft and Subsidiaries

"We have audited the accompanying consolidated balance sheets of ELMOS Semiconductor Aktiengesellschaft ("the company") and subsidiaries as of December 31, 2003 and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for the fiscal year then ended. The preparation of, and disclosures in, the consolidated financial statements as well as the status report on the situation of company and group, prepared in accordance with the accounting principles generally accepted in the United States (U.S. GAAP), are the responsibility of the company's management. It is our responsibility to express an opinion on the consolidated financial statements and the status report as well as on the fulfillment of the prerequisites for the exemption from statutory group accounting pursuant to § 292a German Commercial Code (HGB), based on our audit.

We have conducted our audit in accordance with German auditing regulations and in compliance with the generally accepted German accounting principles established by the Institut der Wirtschaftsprüfer (IDW). Those standards require the audit to be planned and carried out in such a way that substantial material misstatements are identified with sufficient reliability. Within the context of the audit, the effectiveness of the internal accounting control systems as well as proof for the amounts and disclosures in the consolidated financial statements are examined, predominantly based on random sampling. The audit also includes an assessment of the accounting and consolidation principles used and significant estimates issued by the legal representatives, as well as an evaluation of the overall presentation of the consolidated financial statements. We think our audit provides a sufficiently sound basis for our opinion.

We are convinced that the consolidated financial statements prepared in compliance with U.S. GAAP communicate a presentation of the group's assets, financial, and profit situation and cash flows of the fiscal year ended December 31, 2003 corresponding to the actual conditions.

Our audit, which also covered the status report on the situation of company and group as prepared by the Management Board for the fiscal year ended December 31, 2003, has not resulted in any objections. We are convinced that the status report on the situation of company and group, in combination with the other disclosures in the consolidated financial statements, gives an overall correct impression of the situation of company and group and describes the risks of future development coherently.

In addition, we confirm that the consolidated financial statements and the status report for the fiscal year ended December 31, 2003 fulfill the requirements to exempt the company from preparing consolidated financial statements and a consolidated status report in accordance with German law. We conducted our audit of the required consistency of the consolidated accounting's compliance with the 7th European Union Directive for exemption from the requirement for consolidated 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 20, 2004

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Brorhilker Muzzu
Wirtschaftsprüfer Wirtschaftsprüfer

Consolidated Balance Sheet U.S. GAAP

	12/31/2003	12/31/2002
	EUR	EUR
Assets		
Current assets:		
Cash and cash equivalents less allowance	17,426,927	9,038,828
Marketable securities (<i>note 2</i>)	8,438,742	2,020,843
Trade accounts receivable less allowance for doubtful accounts of EUR 353,269 in 2003, EUR 987,559 in 2002	26,566,875	22,787,802
Inventories (<i>note 3</i>)	22,132,468	24,080,701
Prepaid expenses and other	8,757,505	5,865,241
Total current assets	83,322,517	63,793,415
Deferred taxes (<i>note 7</i>)	12,709,374	13,913,236
Intangible assets		
Goodwill after depreciation (<i>note 2, 15</i>)	7,622,344	7,622,344
Software (<i>note 2</i>)	28,715,741	25,516,046
Less accumulated depreciation	(7,445,770)	(6,232,719)
	28,892,315	26,905,671
Investments in unconsolidated subsidiaries (<i>note 4</i>)	342,739	468,792
Property, plant, and equipment:		
Land	6,565,486	4,432,392
Buildings and improvements	60,185,797	56,068,821
Technical equipment and machinery	96,317,333	112,869,248
Construction in progress	6,219,503	15,824,461
Less accumulated depreciation	(89,226,962)	(85,754,221)
	80,061,157	103,440,701
Total assets	205,328,102	208,521,815

See notes to consolidated financial statements

Consolidated Balance Sheet U.S. GAAP

	12/31/2003	31/12/31.2002
	EUR	EUR
Liabilities and shareholders' equity		
Current liabilities:		
Amounts payable to banks	17,638,171	22,156,828
Trade accounts payable	7,945,390	11,462,149
Provisions for salaries and wages, social security benefits, and taxes	3,758,365	3,060,320
Other accrued liabilities	4,255,810	5,734,989
Accrued income taxes	1,853,268	11,944,904
Current portion of long-term obligations <i>(note 5)</i>	4,017,395	2,909,167
Total current liabilities	39,468,399	57,268,357
Long-term obligations, less current portion <i>(note 5)</i>	38,898,265	37,157,851
Non current liabilities	2,104,340	1,560,607
Minority interest	178,496	93,914
Shareholders' equity		
Share capital	19,300,000	19,300,000
Paid-in capital	84,716,644	84,615,844
Accumulated other comprehensive income <i>(note 12)</i>	(8,613,429)	(10,734,523)
Retained earnings	29,275,387	19,259,765
Total shareholders' equity	124,678,602	112,441,086
Total liabilities and shareholders' equity	205,328,102	208,521,815

See notes to consolidated financial statements

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

	2003	2002
	EUR	EUR
Net sales <i>(note 13)</i>	121,395,405	109,705,247
Cost of sales	59,991,098	55,898,081
Gross profit	61,404,307	53,807,166
Research and development expenses	20,374,131	17,545,991
Marketing and sales expenses	6,642,202	5,993,627
General administrative expenses	12,809,220	12,015,157
Operating income	21,578,754	18,252,391
Interest expense (income)	3,812,961	3,649,075
Foreign exchange loss (income), net	134,089	(88,049)
Other net expenses, (income)	356,152	(965,645)
Income before income taxes, equity in loss of unconsolidated subsidiaries and minority interest	17,275,552	15,657,010
Income tax expenses <i>(note 7)</i>		
Current	6,307,541	6,846,877
Deferred	592,536	(166,249)
	6,900,077	6,680,628
Net income before equity in loss of unconsolidated subsidiaries and minority interest	10,375,475	8,976,382
Equity in losses of unconsolidated subsidiaries	247,090	199,294
Minority interest in earnings of consolidated subsidiaries	112,763	(85,882)
Net income	10,015,622	8,862,970
Basic earnings per share	0.52	0.46
Diluted earnings per share	0.52	0.46

See notes to consolidated financial statements

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

	Shares	Share capital	Paid in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Balance on 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
Treasury shares sold	13,700	13,700	336,746			350,446
Cash dividends					(17,564,921)	(17,564,921)
Change in unrealized losses on marketable securities after taxes				(1,241,278)		(1,241,278)
Foreign currency adjustments				17,362		17,362
Balance on December 31, 2001	19,300,000	19,300,000	84,615,844	(1,193,374)	10,396,795	113,119,265
Net income					8,862,970	8,862,970
Change in unrealized gains on marketable securities after taxes				(9,068,169)		(9,068,169)
Foreign currency adjustments				(472,980)		(472,980)
Balance on December 31, 2002	19,300,000	19,300,000	84,615,844	(10,734,523)	19,259,765	112,441,086
Net income					10,015,622	10,015,622
Stock options granted			100,800			100,800
Change in unrealized gains on marketable securities after taxes				3,203,498		3,203,498
Foreign currency adjustments				(1,082,404)		(1,082,404)
Balance on December 31, 2003	19,300,000	19,300,000	84,716,644	(8,613,429)	29,275,387	124,678,602

Consolidated Statements of Cash Flows U.S. GAAP

	2003	2002
	EUR	EUR
Operating activities:		
Net income	10,015,622	8,862,970
Depreciation	14,571,630	14,905,388
Deferred income taxes	592,537	(166,249)
Minority interest	112,763	(85,882)
Equity in losses of		
unconsolidated subsidiaries	247,090	199,294
Stock options granted	100,800	0
Changes in operating assets and liabilities:		
Accounts receivable	(3,779,074)	(5,658,622)
Inventories	1,948,233	1,720,111
Prepaid expenses and others	(2,875,869)	1,405,668
Accounts payable	(3,516,759)	2,014,573
Accounts liabilities	(781,134)	(502,226)
Accrued income taxes payable	(10,091,636)	3,292,317
Net cash provided by operating activities	6,544,203	25,987,342
Investing activities:		
Capital expenditure	(25,341,827)	(34,138,299)
Disposal of fixed assets	29,983,506	4,818,105
Purchase of marketable securities	(1,088,507)	0
Proceeds from sale of marketable securities	0	932,690
Proceeds from sale of investment	0	153
Purchase of investments	(137,432)	(875,150)
Net cash used in investing activities	3,415,740	(29,262,501)
Financing activities:		
Repayment of advances to shareholders	0	(10,550,000)
Dividend paid by consolidated subsidiary to minority shareholders	(75,000)	(150,000)
Issuance of additional longterm debts	6,605,921	2,629,156
Repayments of longterm obligations	(3,213,545)	(3,553,207)
Proceeds (repayment) of notes payable	(4,518,657)	6,468,319
Net cash provided by financing activities	(1,201,281)	(5,155,732)
Decrease / Increase in cash and cash equivalents	8,758,662	(8,430,891)
Effect of exchange rate changes in cash and cash equivalents	(370,563)	(811,089)
Cash and cash equivalents at beginning of fiscal year	9,038,828	18,280,808
Cash and cash equivalents at end of fiscal year	17,426,927	9,038,828

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, produces, and sells Application Specific Integrated Circuits (ASICs). The company has sales subsidiaries in France, the United States of America, and the 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 consolidated financial statements at hand 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 can differ from those estimates and assumptions.

Consolidation

The consolidated financial statements include all companies ELMOS holds a majority interest in. All significant accounts and transactions between the consolidated companies have been eliminated upon consolidation.

Interests in companies of more than 20 percent but not in excess of 50 percent are recorded, if substantial, using the equity method.

In January 2003, the U.S. Financial Accounting Board published 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 (ARB) No.51, "Consolidated Financial Statements", with regard to those companies to be included whose equity capital investor does not exercise control according to the control concept. It provides for the consolidation of those companies whose expected losses and gains are taken over for the most part by the reporting group on the basis of partnership or other contractual terms, or financial interests.

The company is obliged to apply FIN 46 in the course of the fiscal year ended December 31, 2003.



The application of this interpretation leads to the mandatory consolidation of the following companies operating in the field of research and development:

DMOS GmbH, Dresden

The company has concluded an agreement with DMOS GmbH, Dresden (DMOS) effective by November 1, 2002 on research and development services for particular projects.

In addition to pre-financing in the form of secured loans for the acquisition of tangible assets, this agreement provides for regular monthly installments over the term of 36 months for the financing of business activity and the compensation for the DMOS development services.

The agreement also includes specifications concerning services and procedures for the company's acceptance of development results. From 2003 DMOS predominantly provides services to the company as so-called "primary beneficiary".

Economically and legally, the company is the proprietor of the results stemming from the joint project activities.

Furthermore, the company is granted an unlimited purchase option on a majority interest in DMOS which can be exercised from October 2005 at the soonest.

The company regards the means provided by the shareholders as sufficient in order to realize the object of the business, research and development activities. In excess of the means promised in the agreement mentioned at a maximum amount of TEUR 370 per quarter, the company does not assume any risks of DMOS losses.

The voting rights distribution at DMOS corresponds with the interest quota, as does the allocation of gains and losses. Additional financing agreements between DMOS and shareholders or banks do not exist.

Because of substance considerations, DMOS has not been included in the consolidation. The monthly payments are disclosed in the consolidated income statement under research and development.

MECHALESS Systems GmbH, Karlsruhe

Effective by September 30, 2003, the company acquired a 49 percent interest in MECHALESS Systems GmbH, Karlsruhe (MECHALESS) as so-called "primary beneficiary". MECHALESS concerns itself with the application development for sensors. Apart from the investment, the company concluded a development and distribution agreement with MECHALESS by which MECHALESS receives a fixed amount per quarter for its development activity. The amount of this quarterly installment will be reduced to zero until 2007 and substituted with a sales commission for products transferred to volume production.

Economically, the company is the owner of the basic technology put to use as well as the results of the development and application activities financed by ELMOS.

The company regards the means provided by the shareholders as sufficient in order to realize the object of the business, development and application activities. There are no promises of means by the other shareholders. They also have no recourse against the company. In excess of the means promised in the agreement mentioned at a maximum amount of TEUR 400 per quarter, the company does not assume any risks of MECHALESS losses.

The voting rights distribution at MECHALESS corresponds with the interest quota, as does the allocation of gains and losses.

Because of substance considerations, MECHALESS has not been included in the consolidation, but the company discloses the interest in the consolidated financial statements according to the equity method. The monthly payments are disclosed in the consolidated income statement under research and development and marketing and selling expenses.

Cash and cash equivalents

The company considers all highly liquid investments purchased with an original maturity of three months or less 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:

	purchase cost	market value
	EUR	EUR
Equity securities		
December 31, 2002	19,171,813	2,020,843
Equity securities		
December 31, 2003	20,260,320	8,438,742

SFAS No.115 clarifies that for individual securities classified as available-for-sale, a company 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 success-effective in the income statement. So far, fair value of the securities has been written off success-ineffective under "accumulated other comprehensive income" as part of shareholders' equity.

The securities in the portfolio have shown a constantly rising value development, finding expression in the book value as of December 31, 2003, compared to the previous year's value. Between balance-sheet date and the preparation of the consolidated financial statements, further rises in prices occurred.

Because securities are balanced significantly under purchase prices as of December 31, 2003 and this decline in value has existed considerably longer than a year as of balance-sheet date, SFAS No.115 rules that the qualification as not other-than-temporary decline in value is only possible if other factors, mirrored in the issuer's sphere and his fundamental financial data, justify such a qualification.



The company has 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 financial condition and short-term prospects of the issuer, particularly the current cash-flow data and the expected earnings development
- the company's intent and ability to retain its investment for a period of time sufficient to allow for a complete recovery of the market value.
- analysts' and industry experts' assessments and evaluations
- the value development of the securities after the balance-sheet date
- the past value development of the securities in 2003 and the comparison with the value development of comparable securities and indices.

Based upon its valuation by December 31, 2003, management has assessed that the decline in the market value is not other-than-temporary. Management carries out an examination of these facts every quarter.

Fair value of financial instruments

The book 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 book value of liabilities due to banks 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.

The company observes the value development of liabilities with fixed and variable interest rates as well as of long-term and short-term obligations. Within this context, an examination of business and other financing risks is carried out.

For protection against interest rate fluctuations from short-term revolving obligations at variable interest rates, the company has concluded an interest rate swap agreement over a basic amount of EUR 20,000,000. This agreement has a term of 5 years, expiring in 2008.

The interest swap has not been dealt with as a hedging instrument according to SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities", in the consolidated financial statements. The fair value changes of the interest swap transaction, insignificant in 2003, are immediately recorded as success-effective and stated under liabilities.

The fair value of the interest swap, determined on the basis of official price offers, comes to EUR -140,000 as of December 31, 2003.

Credit risks

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

Reclassifications

Certain prior period amounts have been reclassified to conform with the current fiscal year's presentation and for the purpose of 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 technical facilities and machinery, tangible assets are depreciated using the straight-line method over their respective estimated useful lives.

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

Foreign currency translation and transactions

Assets and liabilities of the company's subsidiaries abroad are translated into Euro at period-end exchange rates. Net exchange gains or losses resulting from this translation are excluded from net earnings and stated success-ineffective in a separate item under 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. These hedging activities minimize 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 profit situation 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, 2003, there were no outstanding forward exchange contracts. In the previous year, ELMOS had 29 U.S. dollar forward exchange purchase contracts at a nominal value of approximately USD 3,900,000 and a market value of approximately USD 3,755,000. Losses recorded in 2002 amounted to EUR 144,500. Losses recorded from the winding up of these forward exchange contracts came to EUR 189,180 in 2003.

Revenue recognition

Revenues are recognized when products are shipped to customers or, if not coinciding, when the 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 costs associated with research and development projects for new products and significant product improvements are expensed as incurred and included in research and development expenses. Research and development expenses were reimbursed by customers to the amount of TEUR 4,233.



Intangible assets (software)

Costs incurred for the production and development of computer software and software applications 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 integrated is completed.

Capitalization is only carried out for projects realized by customers' orders. These costs are amortized on a linear basis from production start over the estimated product life, principally over 5 years.

Expenses of EUR 3,557,000 related to software development were capitalized in 2003 (previous year EUR 1,690,000). Of these, EUR 477,127 were written off in 2003 (previous year EUR 123,115).

Costs incurred for patent application and the acquisition of design 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 protection term, or the term of the contract, respectively, up to a maximum 18 years. As of December 31, 2003, the company's total expenditure for process technology acquired as property, plant and equipment came to approximately EUR 4,982,018, in comparison to EUR 6,091,704 as of December 31, 2002.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of acquired companies. It is not regularly amortized but reviewed annually or more frequently if indicators arise, with regard to the necessity of extraordinary depreciation. The company's goodwill results from the acquisition of Silicon Microstructures, Inc.

Funds

ELMOS receives public funds used for the financing of research and development projects as well as the acquisition of real estate and property, plant and equipment. Funds are classified as other liabilities until utilized. Public funds used for research and development projects are stated as other income (EUR 565,947 in 2003 and EUR 553,291 in 2002), while the funds used for investments in tangible assets are recorded by a reduction of the purchase costs.

Share-based compensation

The company records compensation expense for its employee share-based compensation plans using the intrinsic value method in accordance with Accounting Principles Board Opinion No.25, "Accounting for Stock Issued to Employees" (APB No.25). Under APB No.25, generally no compensation expense is recognized if the exercise price of stock options equals or exceeds the estimated fair value of the underlying share on the day of the resolution.

Retirement obligations

There is a direct assurance to the Management Board members stated under accrued liabilities in accordance with SFAS No.87 at EUR 1,085,630 (2002: EUR 841,489). The interest rate is 6 percent annually and the indexation of the pension is 1.5 percent annually. The length of employment expenses, stated in the income statement, came to EUR 93,263 (2002: EUR 91,145), the interest costs were EUR 86,732 (2002: EUR 78,850). Prior service costs were entered at an amount of EUR 64,146 in 2003 and 2002. Not yet recorded prior service costs are estimated at EUR 539,898 (2002: EUR 604,044).

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 fiscal year that includes the enactment date.

Earnings per common share

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

3. Inventories

Inventories are composed as follows:

	December 31, 2003	2002
	EUR	EUR
Raw material	6,491,767	7,088,806
Work-in-progress	11,335,590	11,238,125
Finished goods and merchandise	4,305,111	5,753,770
	22,132,468	24,080,701

4. Investments in unconsolidated companies

The company has net investments in the following unconsolidated companies:

	December 31, 2003	2002
	EUR	EUR
MECHALESS GmbH (MECHALESS) (49 percent December 31, 2003)	78,432	0
attoSensor GmbH, Penzberg (atto- Sensor) (30 per- cent December 31, 2003 and December 31, 2002)	1	247,091
Others	264,306	221,701
	342,739	468,792

attoSensor GmbH

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

ELMOS receives no interest on the loan but instead will receive 2 percent of the profit of attoSENSOR GmbH while it does not participate in any losses. On January 8, 2002 ELMOS purchased an additional 20 percent interest or rather EUR 15,338 stated value of the equity for a purchase price of EUR 307,051. In 2003 ELMOS recorded equity in losses at the amount of EUR 247,090 (2002: EUR 229,000). In addition, ELMOS wrote off EUR 153,910 of its loan (2002: EUR 571,000).

5. Amounts payable to banks and long-term debt

By December 31, 2002, the company had various short-term credit limits at its disposal, approximating EUR 31,986,125. As of December 31, 2003, the company has taken advantage of these credit facilities at an amount of EUR 21,379,786 at an average interest rate of 4.22 percent.

Long-term debt is composed as follows:

Long-term debt	December 31, 2003	2002
	EUR	EUR
Deutsche Bank, Dortmund, loan EGKS annual rate: 3.75 % payment: monthly maturity: March 2005	1,666,664	2,777,776
Deutsche Kreditbank AG, loan 6528970 annual rate: 4.80 % payment: monthly interest: EUR 0.00 maturity: December 2004	65,000	130,000
Deutsche Kreditbank AG, loan 6501274 annual rate: 4.30 % payment: monthly interest: EUR 6.889 maturity: December 2004	58,454	122,221
Sparkasse Frankfurt, loan 88051570 annual rate: 5.65 % payment: monthly interest: EUR 47,297 maturity: December 2008	776,061	816,328
Lease financing	40,349,481	36,220,693
Total	40,067,018	
Less current portion with remaining terms of up to one year	4,017,395	2,909,167
	38,898,265	37,157,851

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

On December 22, 1997, the company sold its commercial building (including land and building improvements) for a total purchase price of EUR 23,008,135. Concurrent with the sale, the company leased the property back for a period of 9 years, regarding building improvements, and 22.5 years, regarding 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 plot) through 2006 and EUR 1,917,207 (building and plot) 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 a sale, and the building and building improvements continue to be recognized in the consolidated financial statements at hand. The financing amount is entered as lease financing under long-term obligations.

On July 7, 2000, the company sold a building extension (including 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, regarding building improvements, and 22.5 years, regarding the building. 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 (for the building) 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 a sale, and the building and building improvements continue to be recognized in the consolidated financial statements at hand. The financing amount is entered as lease financing under long-term obligations.

On November 8, 2001, the company sold another one of its office buildings and its adjacent multi-story parking lot (including plot 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.

In the fourth quarter of 2003, the story-expansion onto the administration building was completed. Total investment amounted to EUR 3,419,000. Leasing installments to be paid come to EUR 279,000 annually.

Since the company has the option to repurchase the property from 2021, the transaction has been recorded as a financing transaction rather than a sale, and the buildings and building improvements continue to be recognized in the consolidated financial statements at hand. The financing amount is entered as lease financing under long-term obligations.

Interest paid on amounts payable to banks and long-term debt came to EUR 3,829,431 in 2003 and EUR 3,870,847 in 2002.

As of December 31, 2002, maturity of long-term debt including capital lease payments was as follows:

	Debt maturity
	EUR
2004	4,017,395
2005	3,482,492
2006	3,081,781
2007	2,469,455
2008	1,532,088
Thereafter	28,332,449
	<u>42,915,660</u>

6. Rental and leasing agreements

The company has entered into non-cancelable leasing agreements for vehicles and equipment.

Total operating lease expenses amounted to approximately EUR 5,937,454 in 2003 and EUR 802,707 in 2002. Future minimum lease payments under non-cancelable operating leases with initial or remaining terms in excess of one year are the following as of December 31, 2003:

	Operating leases without lease financing
	EUR
2004	10,908,734
2005	9,308,623
2006	13,101,080
2007	953,669
2008	146,043
Thereafter	1,449,457
	35,867,606

7. Income taxes

Income taxes in Germany consist of trade, corporate, and solidarity taxes. The company paid EUR 10,355,900 in 2003 and EUR 3,058,187 in 2002 in income taxes.

The provision (benefit) for income taxes are composed as follows:

	2003	2002
	EUR	EUR
Current		
Germany	5,561,662	6,674,270
Abroad	745,879	172,607
	6,307,541	6,846,877
Deferred		
Germany	1,125,004	1,887,469
Abroad	(532,468)	(2,053,718)
	592,536	(166,249)
	6,900,077	6,680,628

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, 2003	2002
	EUR	EUR
Deferred tax assets:		
marketable securities	1,106,932	3,325,557
lease financing	9,419,617	9,969,563
net operating loss carried forward	12,399,459	11,998,442
	23,016,008	25,293,562
Deferred tax liabilities:		
accrued liabilities	0	224,541
property, plant and equipment	7,999,916	9,644,300
Software	1,854,494	750,334
Other	452,224	761,151
	10,306,634	11,380,326
Net deferred tax assets	12,709,374	13,913,236

Differences between the statutory tax rate and the company's effective income tax are as follows:

	2003	2002
Combined German statutory tax rate	41.40 %	39.90 %
Equity in losses of unconsolidated affiliates	0.60 %	0.60 %
Foreign tax rate differential	-1.61 %	0.40 %
Other permanent differences	0.40 %	2.08 %
Effective tax rate	40.79 %	42.98 %

8. Share capital

The company's share capital consists of 19,300,000 shares as of December 31, 2003 and December 31, 2002 (common shares exclusively).

9. Share grant by EFH

In conjunction with the initial public offering in 1999, EFH, the company's main shareholder, granted the company's employees the right to obtain a certain number of the company's common shares from the EFH parcel as a token of appreciation for the employees' prior services. The monetary value of the award was based on the employees' years of service with the company and current salaries. EFH will issue these shares to the employees in three equal installments over a three-year period. In conjunction with this grant, the company recognized EUR 3,259,486 of compensation expense in 1999.

10. Stock option award plan

The company has an award plan that provides for the granting of stock options to Management Board members, other executives, and employees. The objective of this plan is the safeguarding of the company's success by providing employees the opportunity to acquire shares. Under the plan, the company is authorized to grant up to 1,000,000 new unit shares of which 116,525 shares were granted in December 1999 already.

The exercise price is equivalent to 120 percent of the average closing price of the company's share on the ten business days prior to the Management Board resolution on the issue and the particulars of the respective tranche. The options can only be exercised if the share's closing price reaches or exceeds the exercise price. The options vest after three or rather two years of continued employment (third tranche) and expire six or rather five years (third tranche) subsequent to the date of grant.

As of December 31, 2003, 102,222 exercisable options were outstanding, with an exercise price of Euro 34.89 originating from the first tranche. 129,775 non-exercisable options were outstanding, with an exercise price of Euro 35.14 from the second tranche. From the third tranche granted in December 2002 at an exercise price of EUR 7.87, 286,160 non-exercisable options were still outstanding as of balance-sheet date. In the fiscal year 2003 1,003 stock options from the first tranche expired; no stock options were exercised.

As of December 31, 2002, 103,225 non-exercisable options were outstanding, with an exercise price of Euro 34.89 originating from the first tranche. 129,775 non-exercisable options were outstanding, with an exercise price of Euro 35.14 from the second tranche. In the fiscal year 2002 2,800 stock options from the first tranche and 8,550 stock options from the second tranche expired; no stock options were exercised.

The company applies Accounting Principles Board Opinion No.25 (APB No.25) in accounting for its plan. In accordance with APB No.25, no compensation cost has been recognized in the consolidated statements of income from options issued in the first and the second tranche under the company's stock option plan. Compensation cost for the third tranche at an amount of EUR 100,800 in 2003 was entered as paid in capital.

Pro forma earnings prepared under the assumption that stock options granted had been accounted for based on their fair value as determined under Financial Accounting Standards No.123, "Accounting for Stock-Based Compensation", are as follows:

Pro forma earnings	2003	2002
	EUR	EUR
Net income*	9,345,052	8,223,527
Net income per common share basic	0.48	0.43
fully diluted	0.48	0.43

* Considering FAS no. 123

The average fair value of stock options was EUR 14.23 for the first and the second tranche and EUR 4.40 for the third tranche. The fair value of options was calculated as of the date of grant using the Black-Scholes option pricing model based on the following assumptions:

Fair value assumptions	Tranche 1+2	Tranche 3
Dividend yield	1.4 %	2.0 %
Expected volatility	61.7%	59.1%
Risk free interest rate at grant date	6 %	5.5 %
Expected life in years	5 years	5 years

Because additional awards in future years are anticipated, the pro forma earnings presented above are not indicative of future amounts

11. Earnings per common share

Basic and diluted earnings per common share have been determined as follows:

Reconciliation of shares	2003	2002
Weighted-average common shares outstanding	19,300,000	19,300,000
Effect of potentially diluting stock options*	12,569	0
Weighted-average common shares outstanding assuming dilution	19,312,569	19,300,000

* determined applying the treasury stock method in compliance with SFAS No.128

12. Accumulated other comprehensive income

Total comprehensive income represents the net change in equity capital during a period from sources other than transactions with shareholders, including net earnings. The main components of other comprehensive income that relate to ELMOS are success-ineffective 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:

	2003	2002
	EUR	EUR
Foreign currency translation adjustments	(1,507,480)	(425,076)
Unrealized gain on available-for-sale securities net of income taxes	(7,105,949)	(10,309,447)
Accumulated other comprehensive income (loss)	(8,613,429)	(10,734,523)

13. Segment information and geographic data

The company divides its business activities into three segments: The semiconductor business is operated through the various national branches in Germany, France, and the U.S. Sales in the micro-mechanical sensor segment are made by the subsidiary company SMI in the U.S. Finally, third-party sales are achieved in the assembly segment at eurasem.

<i>Segment information</i>	Semiconductor	Micromechanics	Assembly	Total
	TEUR	TEUR	TEUR	TEUR
Net sales	107,740	9,304	4,351	121,395
Costs of sales	49,631	6,160	4,200	59,991
Gross profit	58,109	3,144	151	61,404
Operating income	21,169	291	119	21,579
Sales proceeds with other segments	0	236	6,938	7,174
Total assets	148,681	24,032	32,615	205,328
Investments in fixed assets	17,533	3,900	3,909	25,342
Depreciation	11,334	844	2,394	14,572



Total sales with other than affiliated companies developed in the fiscal years 2003 and 2002 as follows divided into geographic regions:

2003	2002	
	EUR	EUR
Germany	67,289,894	56,861,321
EU countries	29,388,986	30,809,026
U.S.A.	17,921,405	18,066,326
Rest of world	6,795,120	3,968,574
Total sales	121,395,405	109,705,247

As of December 31, 2003, the fixed assets recognized at the subsidiaries abroad came to EUR 11,204,920 in the Netherlands, EUR 13,059,486 in the U.S. and EUR 122,487 in other EU countries. Fixed assets in Germany amounted to EUR 55,675,264.

14. Employees

In the fiscal year 2003, the average number of employees in the group was 874.

15. Intangible Assets

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

The company adopted these statements over the fiscal year ended December 31, 2003. Adoption of these statements resulted in goodwill not being amortized. In addition, an impairment review was carried out in 2003 showing no impairment losses.

The company states goodwill of EUR 7,622,344 as of December 31, 2003 and December 31, 2002.

16. Acquisitions

European Semiconductor Assembly (eurasem) B.V.

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

Silicon Microstructures, Inc. (SMI)

On March 31, 2001, the company acquired an interest of 100 percent or rather 1,000,000 common shares and 190,909 preference shares of Silicon Microstructures, Inc. (SMI), a developer of sensor technology located in Fremont, California. 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. Resulting goodwill of EUR 7,590,639 is no longer amortized over 40 years since January 1, 2002. Financial results and balance sheet have been included in the company's consolidated financial statements since April 1, 2001.

Gärtner Electronic Design GmbH (GED)

Prior to December 31, 2001, the company acquired an interest of 49 percent or rather 65,273 shares of Gärtner Electronic Design GmbH (GED), a semiconductor design house, for a total purchase price of EUR 386,724. On June 28, 2002, the company acquired an additional interest of 25 percent or rather 34,768 shares of GED for a total purchase price of EUR 412,746. Financial results and balance sheet of GED have been included in the company's consolidated financial statements effective by June 28, 2002. Six months' business activity of GED were included in the income statement for 2002. The acquisition resulted in no goodwill. The net income impact for the six months not included is not material.

17. Board remuneration

According to the recommendations of the German Corporate Governance Kodex, the company makes the following disclosures:

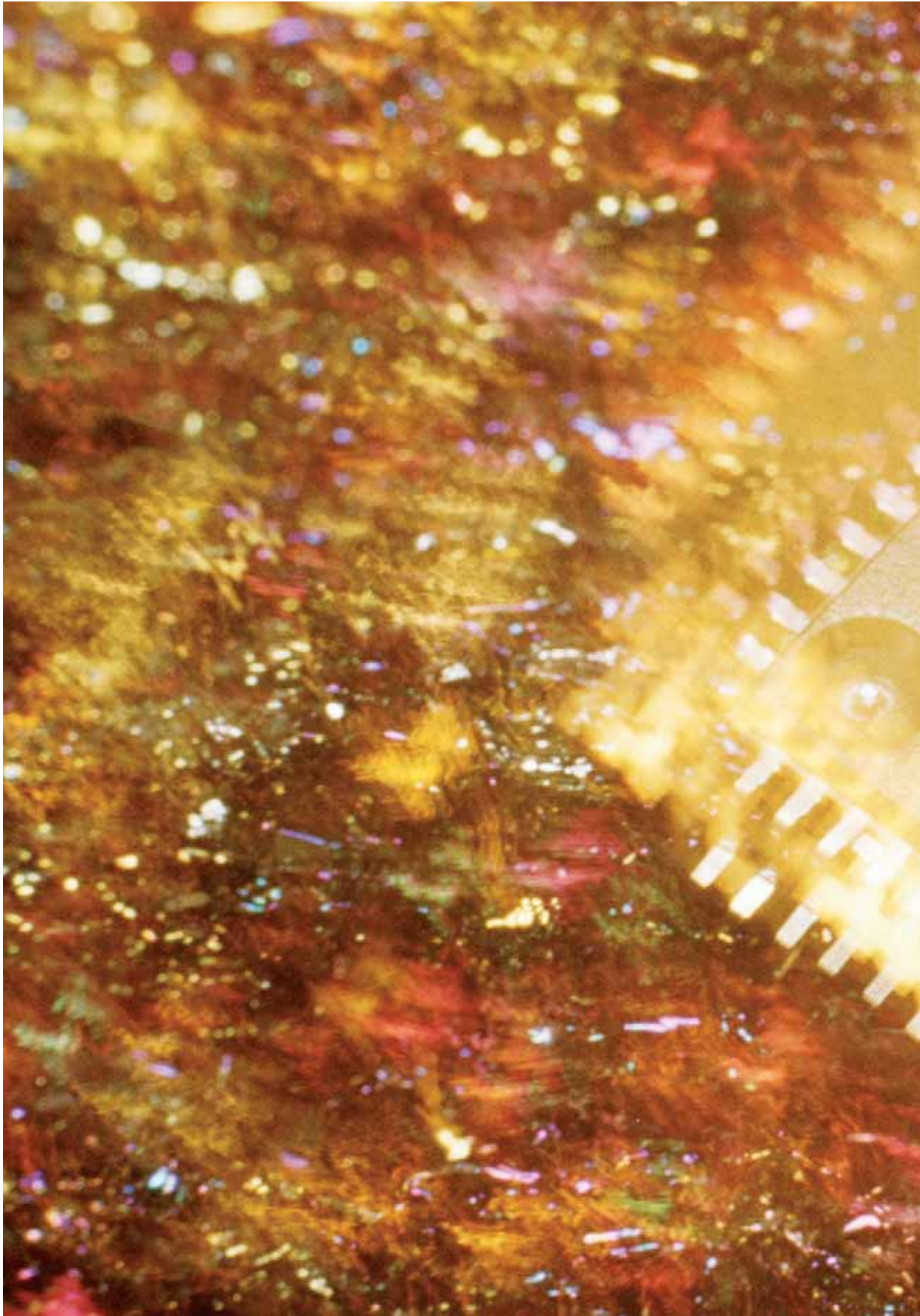
	Management	Supervisory
	Board	Board
	EUR	EUR
Fixed remuneration	798,000	*90,120
Variable remuneration	447,000	67,500
stock options	60,000	0

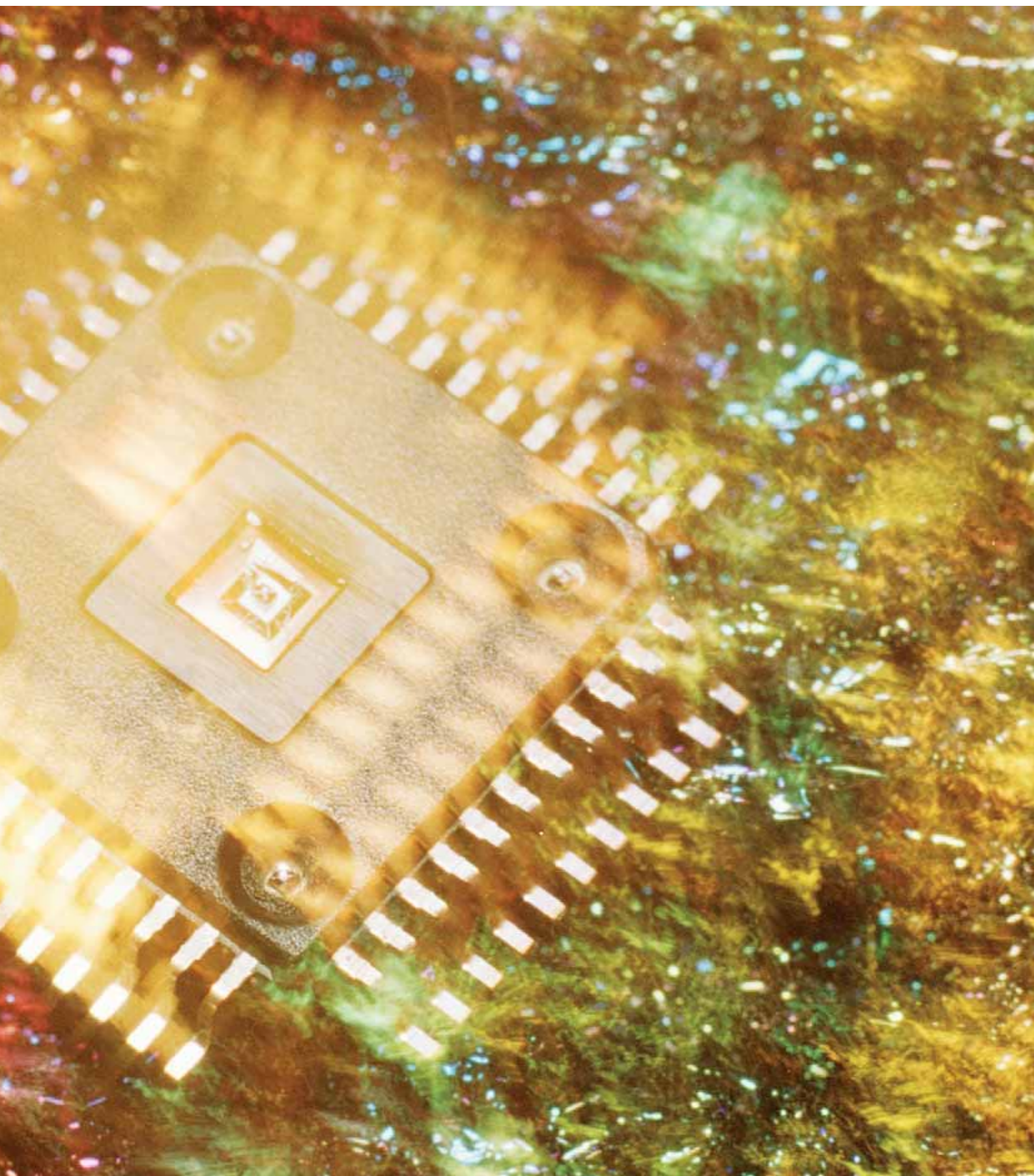
* Including expenses

Development of Fixed Assets by December 31, 2003 U.S. GAAP

	Purchase price and production cost				Transfers
	01/01/2003	Changes within consolidation	Additions	Conversions	
A.I. Intangible assets					
Goodwill	7,757,079	0	0	0	0
Software	14,239,931	(263,013)	5,107,828	4,306,781	(1,891,018)
Construction in progress	11,276,115	0	245,897	(4,306,781)	0
	33,273,125	(263,013)	5,353,725	0	(1,891,018)
A.II. Tangible assets					
1. Property, plant and equipment					
Land	4,432,392	(362,991)	1,811	2,494,274	0
Buildings and improvements	56,068,821	(845,357)	6,403,310	(1,440,977)	0
2. Technical equipment and machinery					
Technical equipment and machinery	112,869,248	(865,927)	5,786,529	10,021,402	(31,493,919)
3. Deposits paid and construction in progress					
Construction in progress	15,824,461	0	7,796,451	(11,074,698)	(6,326,711)
	189,194,922	(2,074,275)	19,988,101	0	(37,820,629)
TOTAL	222,468,047	(2,337,288)	25,341,827	0	(39,711,647)

12/31/2003	Accumulated depreciation						12/31/2003	Book values 12/31/2003
	01/01/2003	Changes within consolidation	Additions	Con- versions	Transfers			
7,757,079	134,735	0	0	0	0	134,735	7,622,344	
21,500,510	6,232,719	(12,371)	2,481,819	0	(1,256,397)	7,445,770	14,054,740	
7,215,231	0	0	0	0	0	0	7,215,231	
36,472,820	6,367,454	(12,371)	2,481,819	0	(1,256,397)	7,580,505	28,892,315	
66,751,282	18,198,172	(12,560)	3,124,027	0	0	21,309,638	45,441,644	
6,565,486	0	0	0	0	0	0	6,565,486	
60,185,797	18,198,172	(12,560)	3,124,027	0	0	21,309,638	38,876,158	
96,317,333	67,556,046	(132,762)	8,965,784	0	(8,471,744)	67,917,324	28,400,010	
96,317,333	67,556,046	(132,762)	8,965,784	0	(8,471,744)	67,917,324	28,400,010	
6,219,503	0	0	0	0	0	0	6,219,503	
6,219,503	0	0	0	0	0	0	6,219,503	
169,288,119	85,754,217	(145,322)	12,089,811	0	(8,471,744)	89,226,962	80,061,157	
205,760,939	92,121,672	(157,693)	14,571,630	0	(9,728,141)	96,807,467	108,953,472	







The vision

According to the maxim "everything from one hand", ELMOS already offers integrated approaches to the combination of semiconductor, sensor, and packaging technology. With ASIC^{plus}, ELMOS meets the customer need for "more than a semiconductor chip". The prerequisites for further customized solutions with even more sophisticated responses to tomorrow's demands have already been created. The ELMOS vision of a forward-looking system integration is taking shape, revealing new horizons.

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

Assembly · The 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 · Joint 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.

Gyro sensor · Gyro or gyroscope sensors are mechanically or micromechanically constructed sensors able to detect rotary and rolling motions, e.g. of vehicles and airplanes, by an analysis of the Coriolis force.

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 shapes.

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-Electro-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 simultaneously generated, controlled, and modified on one and the same chip.

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, and then converting it into an analog or digital quantity, e.g. an electrical signal.

Silicon, Si · Most common semiconductor material, used for roughly 95 percent 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 · Transfer resistor. Basic component of semiconductor technology for the amplification or control of electronic signals.

UMTS · Universal Mobile Telecommunications System. Allowing 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 1mm thick. Typical diameters are 150, 200, and 300mm.

Financial Calendar 2004

Provisional results 2003	February 11, 2004
Final results 2003	March 17, 2004
Press conference in Frankfurt und Dortmund	March 17, 2004, 10.00 a.m.
Analyst's conference in Frankfurt	March 17, 2004, 14.00 a.m.
Annual meeting in Dortmund	April 27, 2004
Quarterly Report Q1/2004	May 12, 2004
Quarterly Report Q2/2004	August 11, 2004
Quarterly Report Q3/2004	November 10, 2004
Analyst's Day „Chips & More“ in Dortmund	November 16, 2004 (scheduled)

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ELMOS Semiconductor AG

Heinrich-Hertz-Str. 1

44227 Dortmund, Germany

www.elmos.de

Investor Relations Team:

Phone: +49 (0) 231 / 7549 – 0

Fax: +49 (0) 231 / 7549 – 548

e-mail: invest@elmos.de

Creation:

Innovative Communications GmbH

Düsseldorf, Germany

Elke Herzog · Idea and concept

Andrea Wark · Graphic design

Georg Steffens · DTP

