

# Quarterly Report Q1/2004

## Striking sales and profits increase

Dear shareholders,

- Quarterly sales:  
EUR 35.0 million  
(+20% vs. Q1/03)
- Gross margin:  
51% of sales
- EBIT: EUR 6.8 million  
(+16% vs. Q1/03)
- EPS: EUR 0.19  
(EUR 0.15 Q1/03)

the highly successful sales and profit development of the past quarter proves impressively that ELMOS has set a trend towards sustainable growth based on many new product starts. Semiconductor sales increased accordingly by 16 percent compared to the fourth quarter of 2003 and by even 25 percent compared to the first quarter of 2004 in spite of a cautious automobile economy. The strategy of controlling company growth by means of a strong orientation towards profit and liquidity has been put to practice resolutely.

The gross margin of roughly 51 percent in the first quarter goes beyond all expectations. Without the sale & lease-back transactions carried out in 2003, the gross margin would have even been higher by three points. We continued to invest a remarkable 17 percent of sales, equaling roughly EUR 5.9 million, in research and development and thereby in the company's long-term growth. 7 new development projects were won, representing an additional future sales contribution of about EUR 118 million. This underlines the extraordinarily good development especially in the semiconductor segment.

Restructuring measures at *eurasem* have taken effect. Significantly increased margins emphasize the successful trend. For the first time *eurasem* has reached the break-even point in the first quarter. In addition, ELMOS is well-prepared for the growing demands in the assembly segment (e.g. lead-free solder) with the outstanding *eurasem* product quality.

We are affirming our planning for *SMI* on the basis of the U.S. dollar. The production line's conversion to 150mm wafers is in full swing, further product releases are qualified and completed at present. We are expecting a higher gross margin and a positive performance for the whole year due to the new products.

The concentration of semiconductor (ELMOS), micromechanics (*SMI*), and assembly technologies (*eurasem*) has been received extremely well by our customers, and it gives the ELMOS Group an immense advantage over the competition.


The past few weeks at the technology stock exchanges have shown once more that our strategy, growth generated by independent financial strength, is the most reliable way of company development. Positive for the first time in the first quarter, the operational cash flow verifies that ELMOS will manage the projected growth without additional financing measures to be taken.

We are regarding the development of the next years with optimism. The past first quarter has just been the start.

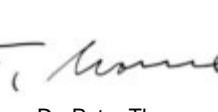
Dortmund,  
May 2004



Knut Hinrichs  
Chairman of the Board



Dr. Klaus Weyer  
Member of the Board



Dr. Peter Thoma  
Member of the Board



Reinhard Senf  
Member of the Board

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# Quarterly Report Q1/2004

## Consolidated balance sheets

EUR, US-GAAP, 3 months period unaudited, FY 2003 audited	as of Mar. 31, 2004	as of Dec. 31, 2003
<b>Assets</b>		
Current assets:		
Cash	19,095,640	17,426,927
Marketable securities	9,487,835	8,438,742
Trade accounts receivable	28,959,345	26,566,875
Inventories	21,687,334	22,132,468
Prepaid expenses and other	9,535,316	8,757,505
<b>Total current assets</b>	<b>88,765,470</b>	<b>83,322,517</b>
Deferred taxes	12,304,361	12,709,374
Intangible assets:		
Goodwill after depreciation	7,622,344	7,622,344
Software	29,487,022	28,715,741
Less accumulated depreciation	(7,343,702)	(7,445,770)
	29,765,664	28,892,315
Investments in unconsolidated subsidiaries	383,239	342,739
Property, plant and equipment:		
Land	6,618,912	6,565,486
Buildings and improvements	60,672,090	60,185,797
Technical equipment and machinery	99,264,396	96,317,333
Construction in progress	5,841,824	6,219,503
Less accumulated depreciation	(92,486,841)	(89,226,962)
	79,910,381	80,061,157
<b>Total assets</b>	<b>211,129,115</b>	<b>205,328,102</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Amounts payable to banks	17,892,423	17,638,171
Trade accounts payable	8,019,002	7,945,390
Accrued payroll, benefits and taxes	4,313,934	3,758,365
Other accrued liabilities	4,098,716	4,225,810
Accrued income taxes	3,262,661	1,853,268
Current portion of long-term obligations	4,032,302	4,017,395
<b>Total current liabilities</b>	<b>41,619,038</b>	<b>39,468,399</b>
Long-term obligations, less current portion	37,663,577	38,898,265
Non current liabilities	2,104,340	2,104,340
Minority interest	272,555	178,496
Shareholders' equity:		
Share capital	19,300,000	19,300,000
Paid-in capital	84,758,644	84,716,644
Accumulated other comprehensive income (loss)	(7,499,416)	(8,613,429)
Retained earnings	32,910,377	29,275,387
<b>Total shareholders' equity</b>	<b>129,469,605</b>	<b>124,678,602</b>
<b>Total liabilities and shareholders' equity</b>	<b>211,129,115</b>	<b>205,328,102</b>

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## Consolidated statements of income

EUR, US-GAAP, unaudited	Q1 / 2004	Q1 / 2003	Q4 / 2003
Net sales	34.976.858	29.240.346	30.797.568
Costs of sales	17.260.287	14.126.748	15.606.255
<b>Gross profit</b>	<b>17.716.571</b>	<b>15.113.598</b>	<b>15.191.313</b>
Research and development	5.902.132	4.929.953	5.037.597
Marketing and selling expenses	1.647.927	1.588.751	1.620.657
General and administrative expenses	3.053.246	3.165.132	3.223.252
<b>Operating income</b>	<b>7.113.266</b>	<b>5.429.762</b>	<b>5.309.807</b>
Interest expense	777.805	942.583	868.431
Foreign exchange (gain) loss - net	130.454	(216.213)	57.130
Other (income) expense - net	195.925	(224.595)	1.020.916
<b>Income (loss) before income taxes, equity in loss of unconsolidated subsidiaries and minority interest</b>	<b>6.009.082</b>	<b>4.927.987</b>	<b>3.363.330</b>
Income tax expense	2.273.394	1.962.685	1.283.669
<b>Net income before equity in loss of unconsolidated subsidiaries and minority interest</b>	<b>3.735.688</b>	<b>2.965.302</b>	<b>2.079.661</b>
Equity in losses of unconsolidated subsidiaries	0	0	193.090
Minority interest in earnings of consolidated subsidiaries	100.698	10.869	103.150
<b>Net income</b>	<b>3.634.990</b>	<b>2.954.433</b>	<b>1.783.421</b>

## Consolidated statements of changes in shareholders' equity

EUR, US-GAAP, 3 months period unaudited, FY 2002 / 2003 audited	Shares	Share Capital	Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
<b>Balance at December 31, 2002</b>	<b>19,300,000</b>	<b>19,300,000</b>	<b>84,615,844</b>	<b>(10,734,523)</b>	<b>19,259,765</b>	<b>112,441,086</b>
Net income					10,015,622	10,015,622
Cash dividends					-	-
Stock options granted			100,800			100,800
Change in unrealized gains (losses) on marketable securities (net of tax)				3,203,498		3,203,498
Foreign currency translation adjustment				(1,082,404)		(1,082,404)
<b>Balance at December 31, 2003</b>	<b>19,300,000</b>	<b>19,300,000</b>	<b>84,716,644</b>	<b>(8,613,429)</b>	<b>29,275,387</b>	<b>124,678,602</b>
Net income					3,634,990	3,634,990
Cash dividends					-	-
Stock options granted			42,000			42,000
Change in unrealized gains (losses) on marketable securities (net of tax)				630,610		630,610
Foreign currency translation adjustment				483,403		483,403
<b>Balance at March 31, 2004</b>	<b>19,300,000</b>	<b>19,300,000</b>	<b>84,758,644</b>	<b>(7,499,416)</b>	<b>32,910,377</b>	<b>129,469,605</b>

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## Consolidated statements of cash flows

EUR, US-GAAP, unaudited	Jan. 1 <sup>st</sup> to Mar. 31 <sup>st</sup> 2004	Jan 1 <sup>st</sup> to Mar. 31 <sup>st</sup> 2003
<b>Operating Activities:</b>		
Net income	3,634,990	2,954,433
Depreciation	3,310,282	3,851,140
Deferred income taxes	(235,722)	124,476
Minority interest	100,698	10,869
Equity in losses of unconsolidated subsidiaries	0	0
Stock options guaranteed	42,000	0
Changes in operating assets and liabilities:		
Accounts receivable	(2,392,470)	(2,337,005)
Inventories	445,134	(720,267)
Prepaid assets and other	(777,811)	(1,168,850)
Accounts payable	73,613	(1,665,212)
Accrued liabilities	398,475	(94,218)
Accrued income taxes payable	1,409,393	(2,978,175)
Net cash provided by operating activities	6,008,582	(2,022,809)
<b>Investing Activities:</b>		
Capital expenditures	(3,787,738)	(3,536,603)
Disposal of fixed assets	138,530	81,846
Proceeds from sale and purchase of marketable securities and investments	(40,500)	(490,000)
Net cash (used) provided in investing activities	(3,689,708)	(3,944,757)
<b>Financing Activities:</b>		
Dividends paid	0	0
Dividends paid by consolidated subsidiary to minority shareholder	0	0
Cash received by consolidated subsidiary from minority shareholder	0	0
Issuance of additional long-term debt	71,721	174,312
Repayments of long-term debt obligations	(1,291,503)	(1,070,739)
Proceeds (repayments) of notes payable	254,252	209,120
Net cash (used) provided in financing activities	(965,530)	(687,307)
Increase (decrease) in cash and cash equivalents	1,353,344	(6,654,873)
Effect of exchange rate changes in cash and cash equivalents	315,369	20,160
Cash and cash equivalents at beginning of the year	17,426,927	9,038,828
Cash and cash equivalents at the end of the period	19,095,640	2,404,115

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## NOTES

### Sales breakdown and incoming orders

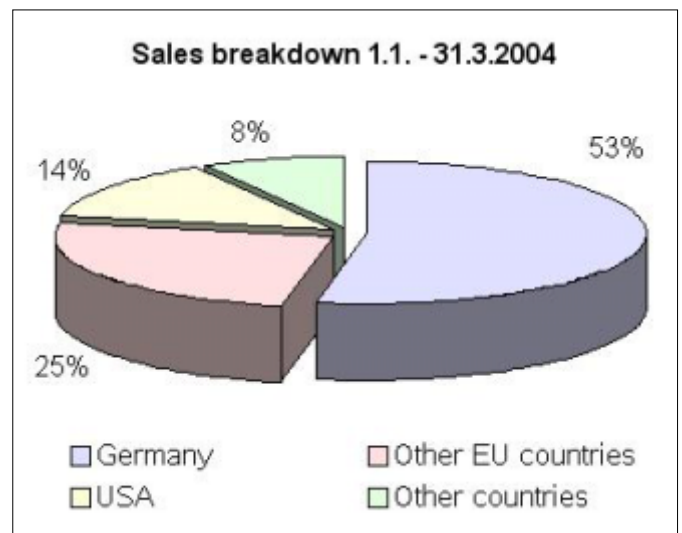
<b>Net Sales</b>	Q1 / 2004	Q1 / 2003	$\Delta$ Q1 2004 / 2003	Q4 / 2003
Total sales	34.977	29.240	19.6%	30.798
Thereof				
production	33.829	28.203	19.9%	28.323
development	1.044	0.801	30.3%	2.152
others	0.104	0.236	-56.0%	0.323

*Figures in EUR million or %*

In the first quarter of 2004, the ELMOS Group achieved a total revenue of EUR 35.0 million, thereby maintaining its clear course for growth. This figure tallies with a gain of roughly 20 percent in relation to the previous year's quarter of comparison. While production sales equally rose by roughly 20 percent from EUR 28.2 million in 2003 to about EUR 33.8 million in the first quarter of 2004, development sales gained roughly 30 percent as compared to last year's given period, coming to EUR 1.0 million.

A large number of new development projects continued to be won in the first quarter of 2004. Seven new design wins in the period under consideration alone lay the foundations for additional future volume sales of more than EUR 118 million.

The regional distribution of sales affirms the overall sales distribution of the last fiscal year. Slightly more than half of the sales is achieved in Germany where the number of innovations in the automobile industry and premium cars produced remain the highest. The other European countries follow with a sales contribution of roughly 25 percent, with the main emphasis on France and local key customers Valeo and Autoliv. America shows a weaker performance at roughly 14 percent while the increased share of the other countries begins to signify the structural change in the automobile industry in the course of which production bearing high expenditure in manpower is shifted to countries with low-wage economies.



### Costs of sales and gross profit

<b>Costs of sales and gross profit</b>	Q1 / 2004	Q1 / 2003	$\Delta$ Q1 2004 / 2003	Q4 / 2003
Total sales	34.977	29.240	19.6%	30.798
Cost of sales	17.260	14.127	22.2%	15.606
% of sales	49.3%	48.3%		50.7%
Gross profit	17.717	15.114	17.2%	15.191
% of sales	50.7%	51.7%		49.3%

*Figures in million Euro or %*

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In comparison with the previous year, production costs increased a little more in relation to the sales development. At EUR 17.3 million, they amounted to roughly 49 percent of sales. The rise compared to the year before is due, to the extent of roughly three points, to additional expenditure from last year's sale & lease-back transactions.

Irrespective of this burdening influence, another positive trend has come into sight against the background of last year's fourth quarter, indicating also growing profitability of the subsidiary companies *eurasem* and *SMI* as will be apparent later in the report on segmentation. In the sum total, at almost 51 percent of sales the gross margin once more exceeds the management's target of at least 50 percent of sales, missed narrowly in the fourth quarter of 2003.

## Research and development

<b>Research and development</b>	Q1 / 2004	Q1 / 2003	$\Delta$ Q1 2004 / 2003	Q4 / 2003
Total sales	34.977	29.240	19.6%	30.798
Research and development	5.902	4.930	19.7%	5.038
<i>% of sales</i>	16.9%	16.9%		16.4%

*Figures in million Euro or %*

Research and development expenditure continued to rise from about EUR 4.9 million in the given period of 2003 to roughly EUR 5.9 million in the first quarter of 2004. In relation to sales, both periods show an amount of roughly 17 percent, proving the increase to be in proportion to sales. The level of 17 percent of sales is clearly accompanied by the increased number of new product developments which in turn are the basis for a growth in sales of more than 20 percent projected for the next years.

## Marketing, selling and general & administrative expenses

<b>Marketing, selling and general &amp; administrative expenses</b>	Q1 / 2004	Q1 / 2003	$\Delta$ Q1 2004 / 2003	Q4 / 2003
Total sales	34.977	29.240	19.6%	30.798
Marketing and selling expenses	1.648	1.589	3.7%	1.621
<i>% of sales</i>	4.7%	5.4%		5.3%
General and administrative exp.	3.053	3.165	-3.5%	3.223
<i>% of sales</i>	8.7%	10.8%		10.5%

*Figures in million Euro or %*

While marketing and sales expenses remained at the almost unchanged level of the fourth quarter of 2003 at roughly EUR 1.6 million, general administrative costs were even reduced in comparison with the previous year's quarters owing to cost-cutting measures effectively taken. Compared to the year before, the total sum of these cost items decreased slightly to roughly 5 percent and 9 percent of sales, respectively.

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## Operating income

<b>Operating income</b>	Q1 / 2004	Q1 / 2003	$\Delta$ Q1 2004 / 2003	Q4 / 2003
Total sales	34.977	29.240	19.6%	30.798
Operating income	7.113	5.430	31.0%	5.310
<i>% of sales</i>	20.3%	18.6%		17.2%

*Figures in million Euro or %*

The operating income reached roughly EUR 7.1 million in the first quarter of 2004, equaling more than 20 percent of sales. The disproportionately high increase by 31 percent in comparison with the previous year reflects the improved utilization and the more efficient cost structure within the group.

## Interest expenses, foreign exchange losses and other income

<b>Interest expense, foreign exchange losses &amp; other income</b>	Q1 / 2004	Q1 / 2003	$\Delta$ Q1 2004 / 2003	Q4 / 2003
Total sales	34.977	29.240	19.6%	30.798
Interest expense	0.778	0.943	-17.5%	0.868
Foreign exchange losses	0.130	(0.216)	-160%	0.057
Other expenses (income)	0.196	(0.225)	-187%	1.021
Subtotal interest expense, foreign exchange losses & other income	1.104	0.502	120%	1.946
<i>% of sales</i>	3.2%	1.7%		6.3%

*Figures in million Euro or %*

Continuing repayment of long-term liabilities and improved interest rates additionally lowered the interest expenditure level to roughly EUR 0.8 million. The foreign exchange losses remained a modest EUR 0.1 million despite strong price fluctuations. Other net expenses include a variety of smaller positions.

## Earnings before interest and taxes (EBIT)

<b>Earnings before interest and taxes (EBIT)</b>	Q1 / 2004	Q1 / 2003	$\Delta$ Q1 2004 / 2003	Q4 / 2003
Total sales	34.977	29.240	19.6%	30.798
EBIT	6.787	5.871	15.6%	4.232
<i>% of sales</i>	19.4%	20.1%		13.7%

*Figures in million Euro or %*

In the first quarter of 2004, the earnings before interest and taxes (EBIT) almost reached the previous year's level at roughly EUR 6.8 million or more than 19 percent of sales. Compared to the fourth quarter of 2003, the income before interest and taxes was even increased by 60 percent.

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## **Pre-tax-profit (EBT)**

<b>Pre-tax-profit (EBT)</b>	Q1 / 2004	Q1 / 2003	$\Delta$ Q1 2004 / 2003	Q4 / 2003
Total sales	34.977	29.240	19.6%	30.798
EBT	6.009	4.928	21.9%	3.363
<i>% of sales</i>	17.2%	16.9%		10.9%

*Figures in million Euro or %*

The earnings before taxes (EBT) came to a total amount of EUR 6.0 million or roughly 17 percent of sales in the first quarter of 2004. This equals an increase by almost 22 percent in relation to the previous year's quarter of comparison.

## **Net income and earnings per share**

<b>Net income and earnings per share</b>	Q1 / 2004	Q1 / 2003	$\Delta$ Q1 2004 / 2003	Q4 / 2003
Total sales	34.977	29.240	19.6%	30.798
Net income	3.635	2.954	22.9%	1.783
<i>% of sales</i>	10.4%	10.1%		5.8%
Earnings per Share (EPS) in Euro	0.19	0.15		0.09

*Figures in million Euro or %*

At a taxation ratio of about 38 percent, in the first quarter of 2004 a net income of roughly EUR 3.6 million or more than 10 percent of sales was achieved. Thereby the quarterly result improved by roughly 23 percent compared to the previous year.

Earnings per share came to about EUR 0.19 in the first quarter of 2004 which means a rise by about EUR 0.04 in comparison with last year's given period. The number of 19.3 million common shares served as the basis of calculation.

## **Investments**

In the first quarter of 2004, investments in tangible assets came to roughly EUR 3.8 million. As the following report on segmentation will show, about EUR 2.8 million were invested in the semiconductor segment, especially for the supplementing of technical equipment at the Dortmund production facilities. About EUR 0.5 million each were invested in technical equipment and machinery at the subsidiaries *eurasem* and *SMI*.

According to ELMOS evaluation, there is no reason for amortization of identified goodwill at present as the subsidiaries are still being expanded and upgraded as scheduled.

## **Segmental reporting**

Business activities of the ELMOS Group can be roughly divided into three segments. The semiconductor core business is operated through the various national branches in Germany, France, and the U.S. Sales in the micromechanical sensor segment are made by the subsidiary company *SMI* in the U.S. Finally, third-party sales in the assembly segment are achieved at the subsidiary *eurasem*.



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<b>Segmental reporting</b>	Q1 / 2004	Q1 / 2003	$\Delta$ Q1 2004 / 2003	Q4 / 2003
<b>Total sales</b> of the group	34.977	29.240	19.6%	30.798
Thereof				
Semiconductor	31.942	25.515	25.2%	27.590
MEMS, third party	1.998	2.598	-23.1%	2.146
Assembly, third party	1.037	1.128	-8.1%	1.062
<b>Book-to-Bill</b> of the group	1.03	1.12		1.05
Thereof				
Semiconductor	1.04	1.14		1.05
MEMS, third party	0.86	0.97		1.02
Assembly, third party	0.98	0.93		0.97
<b>Cost of sales</b> of the group	17.260	14.127	22.2%	15.606
Thereof				
Semiconductor	15.349	11.256	36.4%	12.850
MEMS, third party	1.254	1.789	-29.9%	1.656
Assembly, third party	0.658	1.082	-39.2%	1.100
<b>Gross profit</b> of the group	17.717	15.114	17.2%	15.191
Thereof				
Semiconductor	16.593	14.259	16.4%	14.740
MEMS, third party	0.744	0.809	-8.0%	0.490
Assembly, third party	0.379	0.046	724%	(0.038)
<b>Gross margin</b> of the group	50.7%	51.7%		49.3%
Thereof				
Semiconductor	51.9%	55.9%		53.4%
MEMS, third party	37.2%	31.1%		22.8%
Assembly, third party	36.5%	4.1%		-3.6%
<b>Operating income</b> of the group	7.113	5.430	31.0%	5.310
Thereof				
Semiconductor	6.720	5.366	25.2%	5.230
MEMS, third party	0.118	0.104	14.6%	0.022
Assembly, third party	0.275	(0.040)	-788%	0.058
<b>Total assets</b> of the group at the end of the period	211.129	206.104	2.4%	205.328
Thereof				
Semiconductor	153.609	150.862	1.8%	148.681
MEMS, third party	25.354	24.891	1.9%	24.032
Assembly, third party	32.166	30.351	6.0%	32.615
<b>Capital expenditure</b> of the group	3.788	3.537	7.1%	11.137
Thereof				
Semiconductor	2.775	1.794	27.0%	8.761
MEMS, third party	0.482	1.388	-65.3%	0.575
Assembly, third party	0.531	0.355	189.3%	1.802
<b>Depreciation</b> of the group	3.310	3.851	-14.0%	3.725
Thereof				
Semiconductor	2.554	3.118	-18.1%	2.610
MEMS, third party	0.248	0.266	-6.8%	0.118
Assembly, third party	0.508	0.467	8.8%	0.997

Figures in EUR million or %

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The report on segmentation illustrates the consolidation of the ELMOS Group particularly regarding the semiconductor core business. Its sales contribution rose by roughly 25 percent compared to the previous year's given period to now EUR 31.9 million. EUR 2.0 million were achieved in the micromechanics segment. The striking decrease by roughly 23 percent in comparison with the prior year result is due primarily to the changed exchange rate parity. Based on the U.S. dollar, sales came to 3 percent below the comparative value. The assembly business contribution remained almost unchanged compared to the previous year at about EUR 1.0 million in third-party sales.

Despite increased sales in the semiconductor business, the book-to-bill ratio came to a value of 1.04. Reserved customer behavior at the beginning of the year resulted in a book-to-bill ratio of only 0.86 in the micromechanics business, recovering after the end of the quarter. Almost unchanged, the book-to-bill ratio in the assembly segment ranges around 1.

Productivity increases especially at the subsidiaries *eurasem* and *SMI* lead to significantly decreasing production costs in comparison with the previous year as well as the previous quarter. Restructuring effects have become apparent at *eurasem* in particular, resulting in a striking increase of the gross margin to a notable 37 percent. Together with the equally positive development of the gross margin at *SMI* by also roughly 37 percent, the group gross margin achieved a value of above 50 percent again.

## ***Directors dealings***

The following members of the Management Board hold common shares and options of the company as of March 31, 2004: Dr. Klaus Weyer 16,206 shares, Dr. Peter Thoma 6,200 shares, and Reinhard Senf 2,700 shares. In addition, each of the four members of the Management Board has subscribed to 15,000 options as part of the success-oriented remuneration system.

Of the members of the Supervisory Board, Mr. Sporea owns 2,265 company shares, and Dr. Burkhard Dreher owns 1,900. No notifiable security transactions were carried out in the past time period under report.

EFH ELMOS Finance Holding GmbH continues to hold about 11.1 million common shares and at roughly 57.7 percent remains the company's biggest single shareholder. 8.2 million common shares (42.3 percent) are attributable free-float traded at the Prime Standard stock exchanges. ELMOS Semiconductor AG is included in the German technology index TecDAX 30.

## ***Human resources***

By the March 31, 2004 deadline, the ELMOS Group had 887 employees. 564 of these were employed at the Dortmund location, 147 at *eurasem*, 80 at *SMI*, and 28 at *GED*.

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

The consolidated interim statements as of March 31, 2004 have been prepared in accordance with the United States Generally Accepted Accounting Principles (U.S. GAAP). The consolidated interim statements at hand have been subjected to a limited review by Ernst & Young AG, Dortmund. Certain information and appendix particulars included in official U.S. GAAP annual accounts have been summarized or left out. The consolidated interim statements are meant to be considered in connection with the audited consolidated statements as of December 31, 2004. For comparison, the notes to the consolidated interim statements for the fiscal year ended December 31, 2003 shall be considered.