

ROOD TECHNOLOGY



Annual Report 2002

Rood Testhouse International N.V.

Rood Technology certifies the integrity of customers' applications

Rood Testhouse International N.V.

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Company Registry No. 33251008 Amsterdam Chamber of Commerce

Rood Technology at a Glance

All amounts are in €'000s, unless stated otherwise.

	2002	2001
Total operating income	8,547	15,535
Gross margin	7,591	12,789
Operating profit (loss) as a percentage of gross margin	(5,428) (71.5%)	(2,324) (18.2%)
Net profit (loss)	(5,794)	(2,114)
Group equity as a percentage of total assets	643 6.9%	4,390 38.2%
Net debt as a percentage of group equity	5,123 796.7%	4,930 112.3%
Capital expenditure (net)	(782)	(221)
Depreciation	2,927	3,024
Cash-flow from operating activities	(1,695)	1,631
Net earnings per share	€(0.82)	€(0.30)

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Key Figures

(in € '000s unless stated otherwise)

	2002	2001	2000	1999	1998
Total operating income	8,547	15,535	29,538	26,273	30,363
Gross margin	7,591	12,789	24,030	22,178	24,174
Operating profit (loss)	(5,428)	(2,324)	1,719	1,309	(4,529)
Net profit (loss) on ordinary activities	(5,794)	(2,114)	743	278	(5,786)
Net profit (loss) for the year	(5,794)	(2,114)	743	278	(5,786)
Cash-flow from operating activities	(1,695)	1,631	4,242	8,634	5,196
Capital expenditure on tangible fixed assets (net)	(782)	(221)	4,070	2,953	11,983
Depreciation	2,927	4,261	4,564	5,167	6,225
Personnel expenses	7,433	8,896	11,849	11,336	12,294
Number of employees as of December 31	173	207	300	299	343
Average number of employees	194	225	295	300	351
Group equity	643	4,390	6,473	5,662	5,140
Group equity as a percentage of total assets	6.9	38.2	29.8	25.9	19.7
Net debt as a percentage of equity	796.7	112.3	104.9	124.1	242.3
Net profit(loss) as a percentage of average group equity	(230.2)	(38.9)	12.2	5.1	(71.2)
Percentage change in operating income	(45.0)	(47.4)	12.4	(13.5)	(0.8)
Percentage change in operating profit	(133.6)	(235.2)	31.3	128.9	(950.8)
Percentage change in net profit on ordinary activities	(174.1)	(384.5)	167.3	104.8	(13,876.2)
Cash-flow as a percentage of operating income	(19.8)	10.5	14.4	32.9	17.1
Operating profit (loss) as a percentage of operating income	(63.5)	(15.0)	5.8	5.0	(14.9)
Net profit (loss) on ordinary activities as a percentage of operating income	(67.8)	(13.6)	2.5	1.1	(19.1)
Amounts per share (in €)					
Group equity	0.09	0.62	0.92	0.80	0.73
Net earnings	(0.82)	(0.30)	0.11	0.04	(0.82)
Net profit (loss) on ordinary activities	(0.82)	(0.30)	0.11	0.04	(0.82)
Cash-flow from operating activities	(0.24)	0.23	0.60	1.22	0.74
Price as of December 31	0.23	0.57	1.24	1.67	1.18
Amounts per share fully diluted (in €)					
Group equity	0.07	0.59	0.87	0.76	0.70
Net earnings	(0.62)	(0.28)	0.10	0.04	(0.79)
Net profit (loss) on ordinary activities	(0.62)	(0.28)	0.10	0.04	(0.79)
Cash-flow from operating activities	(0.18)	0.22	0.57	1.17	0.71

As of January 1, 2002 the accounting principles regarding 'Extraordinary results' have changed. Therefore the extraordinary results of the comparison figures have been added back into the ordinary result.

Profile of Rood Technology

The Activities

Rood Technology services the European semiconductor industry with Test and Related Services (TRS).

This relates to testing the integrity, quality and reliability of semiconductors with sophisticated test equipment, as well as offering all services and support related to this testing. This includes programming of semiconductor devices, tape & reel as well as lead conditioning as part of the production flow for customer's orders.

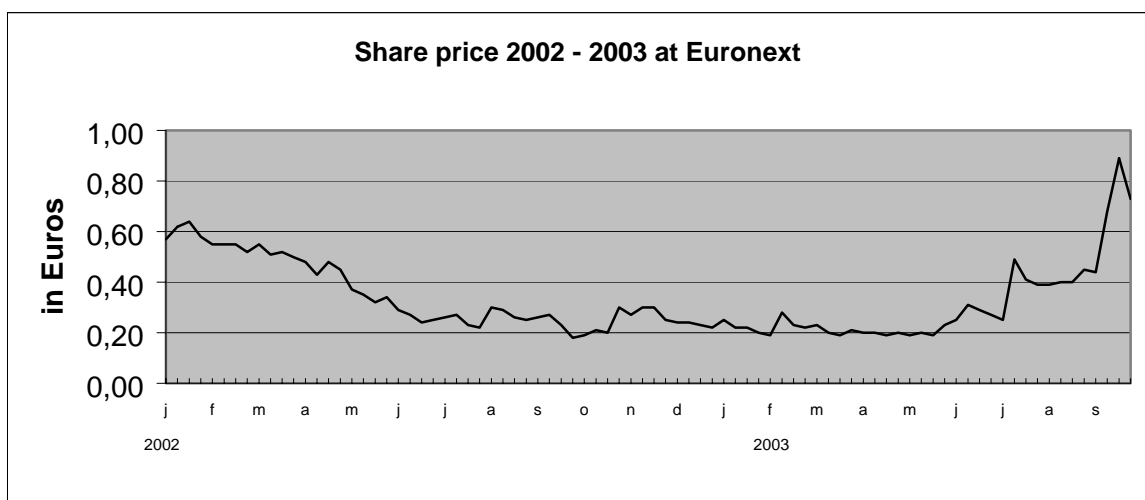
The customer base is European and includes:

- Integrated Device Manufacturers (IDMs)
- Fabless Design Houses
- Original Equipment Manufacturers (OEMs)
- Distributors

Company Objectives

The Company aims to achieve the following by 2005 for its Test and Related Services business:

- Expanded engineering know-how regarding RF, SOC, Testing of bare die;
- Expanded application know-how regarding mobile phone, xDSL, DVD, Image sensors;
- Complete the current R&D programs;
- Recruitment of engineers to support the above mentioned;
- Expansion of the clean rooms;
- Establish a leading edge production facility;
- Strengthen logistics and planning as well as IT department;
- Penetrate Fabless Design House market further, realising 30-40% of TRS sales in this market;
- Penetrate the UK IC Test market;
- Installation of QS9000/EFQM model.



Supervisory Board and Management

Rood Testhouse International N.V. has a Management Board that is subject to the supervision of a Supervisory Board consisting of two members.

Supervisory Board

Ir. C.W.M. Koot, Chairman

age:	67
nationality:	Dutch
year of appointment:	1998
year of retirement	2004

C.P. Fowler MBA CEng. MIEE

age:	59
nationality:	British
year of appointment:	1990
year of retirement	2003

Board of Management

W. Wagner, Dipl.-Wirt.-Ing. (FH), CEO

age:	45
nationality:	German
year of appointment:	2001

Corporate Management Team

W. Wagner, Dipl.-Wirt.-Ing. (FH),

CEO of the group and Managing Director Rood Technology Germany

Dr. A. Kotz Dipl.-Ing.,

CTO of the group and Managing Director Rood Technology Germany

Report of the Board of Management

World-wide Semiconductor Market

The world-wide semiconductor market and Europe’s market share is shown in the following table. The expectation is that the market has reached its bottom and will recover in 2003 from the present severe downturn.

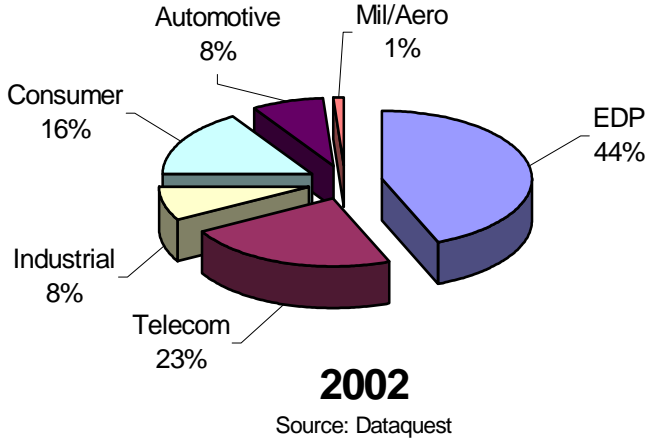
Year	Worldwide (\$B)	Growth Rate	European Share (\$B)
1998	126	-8%	28
1999	149	18%	33
2000	204	36%	42
2001	139	-32%	40
2002	141	1 %	28
2003	166	18%	32
2004	225	35%	44
2005	230	3%	49

Source: Future Horizons

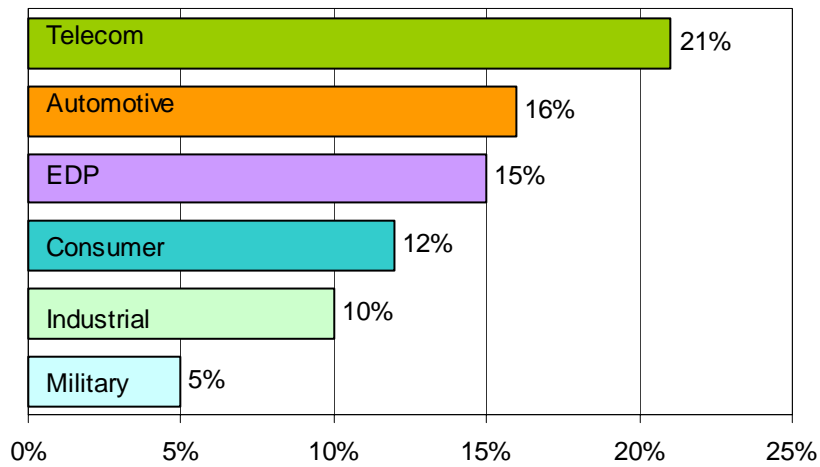
The European IC Test Market

The European semiconductor market is forecast to reach \$ 32 billion in 2003. Basically every IC produced in Europe will need to be tested. On average test costs amount to 5-10% of the value of a standard IC like a memory chip and 10-50% of a complex IC.

The European market partition can be shown as follows.



The next figure shows the predicted European annual growth rates per segment over the period 1999 to 2005.



Source: Dataquest

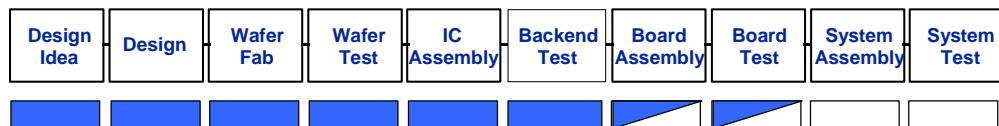
Customers' Value Chain and Subcontracting

The two most important customer types for IC Testing are:

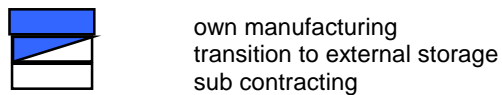
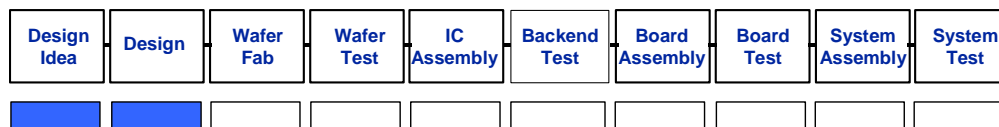
- Integrated Device Manufacturers (IDMs)
- Fabless Design Houses

The value chain for both customer types can be shown as follows.

Value chain of an IC-Manufacturer (e.g. Infineon, Philips, STMicroelectronics)



Value chain of a Fabless Design Houses (e.g. Melexis, Wafecom, Safenet)



There is a tendency in the market to subcontract parts of the value chain to other companies. Three phases can be distinguished.

- Since about 1975 the IC Assembly phase is frequently outsourced. The reason is the low added value of this part of the process.
- Since about 1985 the fabrication of wafers is done more and more by independent companies, so-called foundries. Because of the huge investments involved integrated device manufacturers (IDMs) use more and more companies like TSMC.
- The last subcontracting phase we see relates to Test and Verification. Since 1990 IDMs concentrate more and more on their key competencies and gradually turn into fabless design houses, concentrating on design and marketing.

Rood Technology is convinced that IC Test and Verification will be increasingly subcontracted.

A New Strategic Direction

Since 2000 the management of Rood Technology have been working on a new strategic direction. The future of the Company was considered to be no longer in capacity and price driven commodity business like the memory IC market. During 2000 the memory test activities for a larger European IC manufacturer were stopped. Testing memory ICs for a single European memory IC manufacturer was too big a risk taking into account the large scale of dedicated investments required to support this customer.

The future for Rood Technology lies in increasing and exploiting know-how regarding the testing, programming and handling of ICs. It will focus on the more complex chips needed for the European key markets, which include the communications, automotive and equipment manufacturing industry, as well as the market for the high-end consumer applications.

The Company's competitive strength was shown by its inclusion in the list of the top 100 most innovative companies in Germany.

Test and Related Services

Rood Technology wants to support its customers by helping them to reduce time-to-market, improve yields and price/performance ratios.

Management has a clear view on improving the process of IC test program development. The expensive test equipment needs software in order to test the ICs. Different test programs are developed for different IC applications as well as for different tester platforms. The software used for test equipment from one manufacturer cannot be used for test equipment from another manufacturer. Different IC applications require test programs built from scratch.

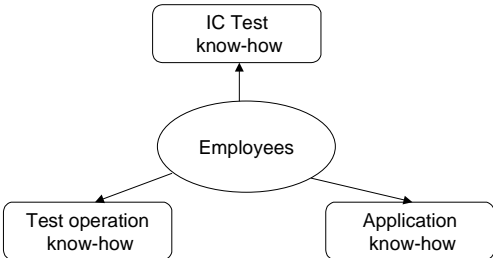
Rood Technology has started research and development projects focused on creating IC test building blocks, like the Lego system. The building blocks can be re-used in writing new test programs without having to start from zero. The building blocks can be combined into a new test program. Only the project specific software elements will need to be added. This will significantly speed up the process of IC test software writing. Rood Technology will patent the building blocks and will own the intellectual property rights, so-called Test IPs.

In addition to these Test IPs, the Company has started a program to make the developed software independent from the tester platform. Up to now software written for one type of tester cannot be used for equipment from another supplier. Realising the research program, test software will be written in a tester independent language and converted into the tester specific software language when required. Software compilers will be developed for every important type of test equipment. This development will increase the flexibility to use various types of IC testers. Switching to less expensive equipment will be possible without having to re-write the complete test program. It also creates flexibility in loading equipment with low utilisation rates. Rood Technology will patent the compiler software and will own the intellectual property rights.

This strategic development will put Rood Technology in a unique position in the IC testing market place. The Company can offer a major advantage to its customers, both in reduced test costs, offering more flexibility as well as in reduced time-to-market.

There are several technological developments increasing the importance of IC Test in the value chain:

- The ongoing demand for miniaturisation leads to the combining of several types of ICs into one. Testing these 'Systems on a Chip' is much more complex than testing an IC built from only one type such as memories.
- As ICs are becoming more complex and smaller due to the miniaturisation, the traditional assembly in plastic or ceramic with leads connecting the IC to the printed circuit board is being replaced with bare die attached directly to the printed circuit board which means different test methods are required. Testing of wafers and bare die will be done in a clean room environment.
- The increasing reduction in 'time-to-market' puts pressure on saving time in all production phases and this requires a close co-operation between the test engineers and the design department. Designing for testability, simulation of test in the design phase and prototype testing will become more important.



In order to be able to provide added value services for the IC supply chain, Rood Technology wants to develop and exploit its know-how base. The know-how consists of three elements as shown in the figure at the left side.

Targeted Market Segments

The Company wants to strengthen its position in the following European market segments:

- Telecommunications
- Automotive
- High End Consumer (new digital products)
- Industrial

These markets are strong in Europe compared to the rest of the world. The focus will be on applications, which are developed in Europe. The Company will look for customers with a focus on the European end markets. The segments mentioned are all showing promising growth rates.

Closure of the Scottish Operations

The sales level of the company's subsidiary in Livingston, Scotland worsened during the year under review as well as going into 2003. Local management had looked for additional financing without success. As a consequence Rood Technology Livingston could no longer fulfil its financial obligations. Sales of the first quarter in 2003 amounted to € 350.000 with a net loss of € 150.000. After having consulted the company's advisors, local management decided to stop trading.

The financial effect of closing down the Scottish operation has retrospectively been taken into account into the fiscal year 2002. The Scottish site has been de-consolidated as of December 31, 2002.

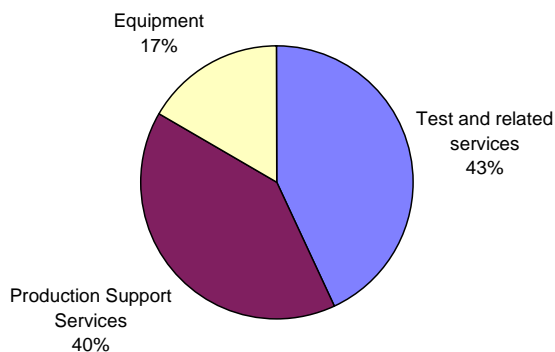
Operating Income and Results

The operating income decreased by 45.0% from € 15.5 million in 2001 to € 8.5 million in 2002. The gross margin was 40.6% lower in absolute terms than the previous year.

A comparison at gross margin level is as follows:

x € '000s	2002	2001
Total operating income	8,547	15,535
Goods purchased plus costs of raw materials and consumables	<u>956</u>	<u>2,746</u>
Gross margin	7,591	12,789

Despite the fact that the absolute sales figure decreased significantly, the sales split for the year under review did not change a lot. The sales split in percentages is shown in the graph.



The consolidated costs decreased from € 15,113,000 in 2001 to € 13,019,000 in 2002. The breakdown is as follows:

x € `000s	2002	2001
Personnel expenses	7,433	8,896
Depreciation	2,927	3,024
Other operating expenses	<u>2,659</u>	<u>3,193</u>
Total consolidated costs	13,019	15,113

The average number of employees decreased from 225 in 2001 to 194 in 2002. Currently the Company employs 93 persons on a full time basis.

Among others, the following cost saving measures were implemented to mitigate the losses.

- voluntarily salary reductions in exchange of time off;
- overall waiving of holiday and Christmas payments (together 11% of annual salary);
- waiving of 4% salary increase right according to collective labour agreement;
- lay off of 75 employees (partly realised in 2003);
- further salary reductions of management up to 30%;
- partial waiving of fees of Supervisory Board members.

The 2002 personnel expenses include an amount of € 1,302,000 for costs of social plans.

Costs amounting to € 478,000 for writing off inventory have been taken into account. Furthermore the write off of the investments and receivables related to the UK subsidiaries amounted to € 44,000. A book profit amounting to € 275,000 was realised when memory testers, that were not used in the production process anymore, were sold. All these items are included under the other operating expenses.

Interest Income and Expenses

Interest expenses increased slightly from € 324,000 in 2001 to € 382,000 in 2002. The net interest bearing debt hardly changed over the year. The repayments of the loans were compensated by a higher usage of the Company's credit lines with the banks.

Taxation

As there were no tax loss carry back possibility anymore, the tax gain in the profit and loss account was minimal.

Tax income in 2001 amounted to € 534,000, including a tax gain of € 440,000 related to releases of tax provisions due to some specific tax rules becoming clear in Germany.

The Company has unutilised tax losses in The Netherlands amounting to approximately € 10 million, but with no operations in The Netherlands at the moment there is little possibility of utilising these in the foreseeable future. The tax losses in Germany amount to approximately € 6.5 million and can be offset with future profits during the coming years.

Capital Expenditure

The level of capital expenditure was minimal at a level of € 130,000. The 2001 investments in tangible fixed assets amounted to € 996,000.

The 2002 proceeds coming from the sale of surplus memory test equipment amounted to € 1,187,000.

Revaluation of Building

As at December 31, 2002 the value of the building of the German group company has been increased to represent the actual valuation in order to give a better view on the Company's equity position. The book value increased by € 3,467,000. As a result of this revaluation a 40% deferred taxation provision was formed amounting to € 1,387,000. The difference amounting to € 2,080,000 has been added to the shareholders' funds.

Cash-flow and Finance

The Company had a negative cash flow coming from operating activities amounting to € 1,695,000. Disposal of tangible fixed assets generated cash of € 1,187,000. Long term liabilities were repaid up to an amount of € 981,000.

The solvency ratio worsened during 2002. The capital and reserves, as a percentage of total assets, decreased from 38.2% at the end of 2001, to 6.9% as of December 31, 2002.

No dividend payment to shareholders is proposed for the year 2002.

A consortium of German banks has supplied Rood Technology Germany during 2002 with additional funds. Under the agreement the consortium provided additional credit lines to the German group company. The credit line and loan facilities were prolonged up to December 31, 2003.

One of the conditions of the banks was the signing of a so-called 'Treuhandvertrag' relating to the shares in the German group company. The shares and shareholders' rights in Rood Technology Deutschland GmbH + Co (RTG) have been transferred under this agreement to a trustee as a security for the German banks. The consortium of banks can trigger the sale of the German group company and will have a priority position before any sale proceeds flow to the group's holding company.

Share Price Performance

The trading price of the Company's shares at the end of 2002 was at €0,23 compared to the listed price of €0.57 at December 31, 2001.

Personnel

Due to the restructuring executed in 2002 the number of employees as of December 31 decreased from 207 at the end of 2001 to 173 in 2002. During 2003 this number decreased further to 93.

Under the Company's annual option scheme key employees are receiving the right to buy a certain number of newly issued shares in the Company. These option rights can be exercised within five years after granting the options. In line with the recommendations of the Corporate Governance Committee in The Netherlands the options granted since January 1999 cannot be exercised within three years after granting.

An extra option scheme was implemented in October 2002 in order to support the commitment of participants to the salary and fee cut programs. A number of 1,936,753 options were granted with an exercise price of €0.35 to be paid by the salary and fee cuts. Contrary to the principal rule these options can be exercised within three years after granting. The final date of exercise is July 27, 2004.

The year 2002 has been a very difficult year. The restructuring brought a feeling of uncertainty for most of the employees. Many persons had to leave the Company. Management is aware of the consequences of being made redundant. The Company had no other choice than to execute various difficult decisions aimed at saving the Company and at positioning the organisation to meet the challenges of the coming upturn. The efforts of employees are important for growing the business and satisfying the customers. Management wishes to sincerely thank all staff for their excellent support and major efforts in 2002.

Corporate Governance

Management confirms that there is no conflict of interest between the Board of Management and the Company.

In relation to the issue of corporate governance it is important to state that the ultimate power in the Company is vested in the Shareholders' Meeting. The Company has a very open structure and has not taken any measures that limit shareholders' rights at holding level.

Audits of the Internal Control Systems

Audits of the internal control systems are performed to the extent required for the external audit. The auditors report, in letters of findings and recommendations, to the Management and the Supervisory Board. No major weaknesses in the internal control systems have been reported.

Outlook for 2003

For the whole year 2003 management expects to realise a breakeven result. Depreciation will amount to about € 1,500,000. Therefore the prime cash flow will be around € 1,500,000.

On October 22, 2003 the shareholders of the Company agreed with the issue to potential investors of subordinated convertible loans up to maximum of € 2 million. Commitments were received for an amount of € 1.5 million, but are subject to a favourable agreement with the Company's bankers. Management has had several discussions with the banks during the last few months and is awaiting the final agreement. It is therefore not yet certain that the issue of the loans will take place. In case the placement will not happen the banks will have to reconsider their position concerning the prolongation of the credit line and loan facilities which expire as of December 31, 2003.

Based on the foregoing there is still uncertainty about the Company's ability to continue as a going concern. However, management is convinced that solutions will be found because of the improvement in the financial performance during 2003.

Industry analysts are still predicting the start of an upturn for the semiconductor market with significant effect in 2004. Management is convinced that Rood Technology will benefit from this anticipated growth.

Amsterdam, October 28, 2003

The Board of Management:
W. Wagner, Dipl.-Wirt.-Ing. (FH), CEO

Report of the Supervisory Board

We are pleased to present to shareholders the annual report of 2002 which was prepared by the Board of Management of the Company. The net loss amounted to € 5,794,000.

During our regular meetings with the Board of Management we were involved in all strategic decisions regarding the Company. Furthermore we discussed the Company's performance on a regular basis, as well as the uncertainty about the Company's ability to continue as a going concern. We approve of management's performance in these matters.

The composition of our Board did not change during 2002.

The 2002 annual report is now presented to the shareholders. The preparation was made by the Board of Management in accordance with Article 26 of the Articles of Association of the Company. The financial statements have been audited by Mazars Paardekooper Hoffman, Amsterdam, The Netherlands.

We propose that the financial statements be adopted by the shareholders in the general meeting, and also to endorse the conduct of affairs of the Board of Management and the supervision exercised by our Board. We also concur with the proposal of the Board of Management not to declare any dividend for 2002.

We would like to thank the Board of Management as well as all staff of the Company for their support during 2002. Again the year under review was one of many changes. We wish all employees good luck with addressing the challenges of the future.

Amsterdam, October 28, 2003

The Supervisory Board
C.P. Fowler MBA CEng. MIEE
Ir. C.W.M. Koot

Financial Statements

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Consolidated Balance Sheet

(after appropriation of net income)

Assets	2002		2001	
		x € '000s		
Fixed Assets				
Tangible fixed assets				
Land and buildings	4,563		1,044	
Machinery and equipment	2,138		5,087	
Other	225		612	
Not used in the production process	<u>-</u>		<u>891</u>	
		6,926		7,634
Current Assets				
Inventories				
Raw materials and consumables	180		638	
Work in process	474		866	
Finished goods and goods for resale	<u>402</u>		<u>791</u>	
		1,056		2,295
Receivables				
Trade accounts receivable	1,233		1,386	
Taxation and social security	33		80	
Other	<u>44</u>		<u>98</u>	
		1,310		1,564
Cash at bank and in hand		2		3
		<u>9,294</u>		<u>11,496</u>
		=====		=====

Liabilities	2002	x € '000s	2001
Group equity		643	4,390
Provisions			
Pensions	157		237
Deferred tax liabilities	1,387		-
Reorganisation and legal costs	<u>920</u>		<u>-</u>
		2,464	237
Long-term liabilities			
Credit institutions		526	1,431
Current liabilities			
Credit institutions	3,613		2,475
Repayments on long-term loans	986		1,027
Advances received on orders	100		133
Trade accounts payable and trade credits	204		809
Taxation and social security	386		545
Other liabilities	<u>372</u>		<u>449</u>
		5,661	5,438
		<u>9,294</u>	<u>11,496</u>
		=====	=====

Consolidated Statement of Earnings

	2002	2001
	x € '000s	
Net sales	9,095	15,182
Change in work in process and inventories of finished products	<u>(548)</u>	<u>353</u>
Total operating income	8,547	15,535
Goods purchased plus costs of raw materials and consumables	956	2,746
Personnel expenses	7,433	8,896
Depreciation of tangible fixed assets	2,927	3,024
Other operating expenses	<u>2,659</u>	<u>3,193</u>
Total operating expenses	(13,975)	(17,859)
Operating profit (loss)	<u>(5,428)</u>	<u>(2,324)</u>
Financial income and expense	(382)	(324)
Profit (loss) on ordinary activities before taxation	<u>(5,810)</u>	<u>(2,648)</u>
Tax on result on ordinary activities	16	534
Net profit (loss)	<u><u>(5,794)</u></u>	<u><u>(2,114)</u></u>

Consolidated Statement of Cash-Flows

	2002 x € '000s	2001
Net cash-flow provided by operating activities		
Net profit (loss)	(5,794)	(2,114)
Reconciliation to net cash-flow provided by operating activities:		
(Special) depreciation of tangible fixed assets	2,927	4,261
Increase (decrease) in provisions	840	(1,595)
Disposal of tangible fixed assets	(275)	(16)
Decrease (increase) in inventories	1,231	296
Decrease (increase) in receivables	227	3,671
Increase (decrease) in current liabilities	<u>(851)</u>	<u>(2,872)</u>
Net cash-flow provided by operating activities	(1,695)	1,631
Net cash-flow used in investment activities		
Additions to tangible fixed assets	(130)	(996)
De-consolidation of tangible fixed assets	412	-
Disposal of tangible fixed assets	<u>1,187</u>	<u>1,233</u>
Net cash-flow provided by (used in) investment activities	1,469	237
Net cash-flow used in financing activities		
New long-term loans	35	-
Repayments on long-term loans	<u>(981)</u>	<u>(4,653)</u>
Net cash-flow used in financing activities	(946)	(4,653)
Impact of exchange rate fluctuations	33	(10)
Decrease in cash at bank and in hand and current liabilities to credit institutions	<u>(1,139)</u> =====	<u>(2,795)</u> =====
Cash at bank and in hand as of January 1	3	1,797
Current liabilities to credit institutions as of January 1	<u>(2,475)</u>	<u>(1,474)</u>
	(2,472)	323
Cash at bank and in hand as of December 31	2	3
Current liabilities to credit institutions as of December 31	<u>(3,613)</u>	<u>(2,475)</u>
	(3,611)	(2,472)
Decrease in cash at bank and in hand and current liabilities to credit institutions	<u>(1,139)</u> =====	<u>(2,795)</u> =====

Accounting Policies

General

Going Concern

For the past two years the Company has been facing significant uncertainty about the Company's ability to continue as a going concern. Therefore during 2002 severe cost saving measures were implemented. These were:

- voluntarily salary reductions in exchange of time off;
- overall waiving of holiday and Christmas payments (together 11% of annual salary);
- waiving of 4% salary increase right according to collective labour agreement;
- lay off of 75 employees;
- further salary reductions of management up to 30%;
- partial waiver of fees of Supervisory Board members;
- selling of excess test equipment.

In the meantime it became clear that Rood Technology Livingston could no longer fulfil its financial obligations. After having consulted the company's advisors, local management had decided to stop trading.

Based on the measures taken, the consortium of German banks has kept supporting the Company by supplying Rood Technology Germany with additional funds. The credit line and loan facilities were prolonged up to December 31, 2003.

One of the conditions of the banks was the signing of a so-called 'Treuhandvertrag' relating to the shares in the German group company. The shares and shareholders' rights in Rood Technology Deutschland GmbH + Co (RTG) have been transferred under this agreement to a trustee as a security for the German banks. The Company's debts to the consortium of banks will have a priority position before any sale proceeds flow to the group's holding company. The Company's shareholders cannot any longer decide regarding any sale of the German group company nor judge the sale price.

In February 2003 the Board of Management announced that discussions were started with a possible investor who had indicated an interest in participating in the Company. It was clear from the start of these discussion that if the investor was to participate, the German group company was to be reintegrated in the group by agreeing with the German banks the transfer of the shareholders' rights back to Rood Testhouse International N.V.

The (unaudited) 2003 first half year results were announced in September 2003. The period ended in a net profit of € 31,000 and a positive cash flow of € 836,000 despite the ongoing downturn in the semiconductor market. At the same time the Board announced that the discussions with the potential investors resulted in letters of intent regarding issuing subordinated convertible loans up to a maximum of EUR 2,000,000. Commitments were received for an amount of EUR 1,500,000, but are subject to a favourable agreement with the Company's bankers as well as shareholders' approval.

On October 22, 2003 the shareholders of the Company agreed with the issue of these loans. Management have had several discussions with the banks during the last few months and is awaiting the final agreement. It is therefore not yet certain that the issue of the loans will take place. In case the placement will not happen the banks will have to reconsider their position concerning the prolongation of the credit line and loan facilities which, as said, expire as of December 31, 2003.

Based on the foregoing there is still uncertainty about the Company's ability to continue as a going concern. However, management believes that solutions will be found because of the improvement in the financial performance during 2003.

The figures in this annual report are therefore based on the assumption that the Company will be able to continue as a going concern.

Group Financial Statements and Consolidation

The group financial statements include the financial data of Rood Testhouse International N.V. (RTI) in Amsterdam, The Netherlands, and its significant wholly-owned subsidiaries:

- Rood Technology Deutschland GmbH + Co, Nördlingen, Germany;
- Rood Technology Livingston Ltd., Livingston, Scotland.

The shares and shareholders' rights in Rood Technology Deutschland GmbH + Co (RTG) have been transferred under a so-called 'Treuhandvertrag' to a trustee as a security for the German banks. Based on the management unity between RTI and RTG, as well as the fact that the banks and trustees have not influenced up to now the strategy and decision making process, RTG is still regarded as a group company.

The Scottish site has been de-consolidated as of December 31, 2002.

Significant inter company balances and transactions have been eliminated on consolidation.

Foreign Currency Translation

The Company's foreign subsidiaries' balance sheets are translated using the closing rate method. Revenues and expenses as well as net income are translated at the monthly average rate of exchange. Differences on exchange arising from the translation of the opening net investment in subsidiary undertakings and from the translation of the results of those subsidiaries at average rates, are taken to the Translation account in Shareholders' funds.

Also the exchange differences on the long-term liabilities used to finance the net investment are charged or credited to the Translation account, insofar as these liabilities are denominated in the same currency as the investment. All other exchange differences are taken to the income statement.

Valuation of Assets and Liabilities

Unless stated otherwise, assets and liabilities are carried at face value, net of allowances where necessary.

Change of Accounting Principles

As at December 31, 2002 the value of the building of the German group company has been increased to represent the actual valuation in order to give a better view on the Company's equity position. The book value increased by €3,467,000. As a result of this revaluation a 40% deferred taxation provision was formed amounting to €1,387,000. The difference amounting to €2,080,000 has been added to the shareholders' funds. In addition the life time has been changed to 70 years.

Balance Sheet

Tangible Fixed Assets

Tangible fixed assets are carried at cost, except for land and buildings, which are carried at an actual value.

The tangible fixed assets are depreciated as from the moment they are taken into use. The rates of depreciation are as follows:

Buildings:	1.4%			of the actual value
Machinery and equipment:	15%	-	50%	of cost
Other fixed assets:	15%	-	25%	of cost

Tangible fixed assets not used in the production process are carried at the lower of their estimated realisable value and their book value.

Inventories

Raw materials and consumables

Raw materials and consumables are carried at cost, net of an allowance for obsolescence.

Work in process

Work in process is valued at the direct expenses incurred, plus a mark-up for directly attributable overheads.

Finished goods and goods for resale

Finished goods are carried at the direct expenses incurred, plus a mark-up for directly attributable overheads, net of an allowance for obsolescence.

Goods for resale are carried at cost, net of an allowance for obsolescence.

Receivables

Trade accounts receivable

Trade accounts receivable are stated at face value, net of an allowance for bad debts.

Provisions

Pensions

The provision for pensions is long-term in nature and relates to a self-administered pension fund, formed for a number of employees in Germany. The provision is calculated at a discount rate of 6%.

Income Statement

Income and Expense Recognition

Net sales represent the proceeds of goods and services supplied to third parties. All amounts referred to in the income statement are stated at historical cost.

Corporate income tax payable is calculated on the result disclosed in the income statement, allowing for current tax relief facilities.

As of January 1, 2002 the accounting principles regarding 'Extraordinary results' have changed. Therefore the extraordinary results of the comparison figures of 2001 have been added back into the ordinary result.

Notes to the Consolidated Balance Sheet

Tangible Fixed Assets

	Land and Buildings	Machinery and Equipment	Other	Not used in production process	Total
x € '000s					
Book value as of January 1	1,044	5,087	612	891	7,634
Additions	199	118	46	(233)	130
Disposals	-	(241)	(15)	(656)	(912)
Exchange differences	-	(46)	(6)	(2)	(54)
Depreciation	(147)	(2,448)	(332)	-	(2,927)
Revaluation	3,467	-	-	-	3,467
De-consolidation	-	(332)	(80)	-	(412)
Book value as of December 31	<u>4,563</u>	<u>2,138</u>	<u>225</u>	<u>-</u>	<u>6,926</u>
Accumulated depreciation	<u>3,124</u>	<u>13,220</u>	<u>1,231</u>	<u>-</u>	<u>17,575</u>

As of December 31, 2002 the book value of land and buildings has been increased to represent the actual valuation in order to give a better view on the Company's equity position.

Provisions

Deferred tax liabilities

As a result of the revaluation of land and buildings, a provision for deferred tax liabilities has been formed amounting to 40% of the increase in value.

Reorganisation and legal costs

This item represents a provision to cover legal costs and restructuring decisions made in the past.

The movements were as follows:

x € '000s	2002	2001
Balance as of January 1	-	1,616
Additions (releases) charged to the statement of earnings	1,303	(1,059)
Costs charges to the provision	<u>(383)</u>	<u>(557)</u>
Balance as of December 31	<u>920</u>	<u>-</u>

Long-term Liabilities

Credit institutions

The breakdown is as follows:

	Interest rate as of December 31, 2002 %	Balance as of December 31, 2002 x €'000s	Payable in 2003 x €'000s	Repayable after 2003 x €'000s	Repayable after 2007 x €'000s
Advanced in:					
1995	7.3	53	53	-	-
1996	4.0	57	23	34	-
2000	6.25-8	1,372	902	470	-
2002	7.9	30	8	22	-
		<u>1,512</u>	<u>986</u>	<u>526</u>	<u>-</u>
		=====	=====	=====	=====

The following securities have been provided for these loans:

- Ground rent to a total sum of €3,323,000 on the real estate situated at Oettinger Strasse 6, Nördlingen, Germany.
- A fixed charge on the tangible fixed assets.
- A fixed charge on the trade receivables and inventories.
- Transfer of the shareholders' rights in the German group company to a trustee under a so-called 'Treuhandvertrag'.

Current Liabilities

Credit institutions

The securities mentioned under long-term liabilities have also been provided for the current liabilities to credit institutions.

Financial Instruments

The estimated fair value of financial instruments has been determined by the Company. The carrying amounts for cash at bank and in hand, trade accounts receivable, trade accounts payable and trade credits, as well as the liabilities to credit institutions approximate the fair value.

Lease Commitments

The annual payments of the operational lease commitments can be shown as follows:

	Payable in 2003 x €'000s	Payable after 2003 x €'000s	Repayable after 2007 x €'000s
Annual payments	122	79	-

Tax Losses and Deferred Tax Receivable

The Company has unutilised tax losses in The Netherlands amounting to approximately €10 million. The tax losses in Germany amount to approximately €6.5 million. No deferred tax receivable has been taken into account regarding these tax losses.

Notes to the Consolidated Statement of Earnings

x €'000s	2002	2001
Net sales		
EU	7,461	11,230
Outside EU	<u>1,634</u>	<u>3,952</u>
	9,095	15,182
	=====	=====
Personnel expenses		
Salaries	4,944	7,173
Social security	1,076	1,337
Pension charges	<u>111</u>	<u>251</u>
	6,131	8,761
Special items:		
• Social plans German group company	1,302	-
• Reduction workforce Scottish group company	<u>-</u>	<u>135</u>
	7,433	8,896
	=====	=====
Emoluments of (former) directors and supervisory directors		
Director (since May 1, 2001)	108	88
Former director	-	132
Supervisory directors	<u>8</u>	<u>21</u>
	116	241
	=====	=====
Depreciation of tangible fixed assets		
Land and buildings	147	129
Machinery and equipment	2,448	2,506
Other fixed assets	<u>332</u>	<u>389</u>
	2,927	3,024
	=====	=====
Other operating expenses		
Ordinary other operating expenses	2,412	3,014
Special items:		
• Selling off memory test equipment	(275)	-
• Completion closure French site	-	(888)
• Reorganisation and legal costs	-	(159)
• Asset transaction hi-rel activities	-	(12)
• Write off inventory equipment department	478	-
• Write off investments and receivables UK sites	44	-
• Selling and writing off memory test equipment	<u>-</u>	<u>1,238</u>
	2,659	3,193
	=====	=====

The average number of people employed by the Rood Technology Group in 2002 on a full-time basis was 194, against 225 in 2001.

The breakdown is as follows:

	2002	2001
Germany	159	171
UK	<u>35</u>	<u>54</u>
	194	225
	=====	=====

Company Balance Sheet
(after appropriation of net income)

x € '000s	2002		2001	
Assets				
Fixed assets				
Financial fixed assets				
Group companies	58		2,663	
Loans to group companies	<u>416</u>		<u>1,534</u>	
		474		4,197
Current assets				
Receivables				
Group companies	339		357	
Taxation and social security	4		7	
Other	<u>7</u>		<u>8</u>	
		350		372
Cash at bank and in hand		-		-
		<u>824</u>		<u>4,569</u>
		=====		=====

Liabilities and Shareholders' Funds

x € '000s	2002		2001	
Shareholders' funds				
Issued share capital	1,622		1,622	
Paid-in surplus	16,413		16,413	
Statutory reserves	2,080		-	
Translation account	-		(14)	
Other reserves	<u>(19,472)</u>		<u>(13,631)</u>	
		643		4,390
Long-term liabilities				
Credit institutions	-		-	
		-		-
Current liabilities				
Credit institutions	13		-	
Repayments on long-term liabilities	53		79	
Group companies	58		58	
Other liabilities	<u>57</u>		<u>42</u>	
		181		179
		<u>824</u>		<u>4,569</u>
		=====		=====

Company Statement of Earnings

x €'000s	2002	2001
Net profit (loss) from participating interests	(5,948)	(3,327)
Other income	<u>154</u>	<u>1,213</u>
Net profit (loss)	<u>(5,794)</u>	<u>(2,114)</u>
	=====	=====

Notes to the Company Balance Sheet

Accounting Policies

For the accounting policies applied reference is made to the notes to the consolidated financial statements. Group companies are carried at their net asset value.

General

Only those items that are not disclosed in the consolidated balance sheet are explained below. The income statement has been included in abridged form, since the group financial statements are included in the company financial statements (in accordance with section 402, Title 9, Book 2, of the Netherlands Civil Code.)

Financial Fixed Assets/Provision Group Companies

Group companies

This item relates to wholly-owned subsidiaries as referred to in the notes to the consolidated financial statements.

Movements in this item in the year under review were as follows:

x € '000s	2002	2001
Balance as of January 1	2,663	4,531
Exchange differences	(33)	31
Transfer of receivables into equity	-	1,428
Revaluation German group company	2,080	-
Release provision UK group companies	178	-
Profit (loss) of group companies	(5,948)	(3,327)
Taken as provision on loans to group companies	<u>1,118</u>	<u>-</u>
Balance as of December 31	<u>58</u>	<u>2,663</u>
	=====	=====

Loans to group companies

This item relates to a subordinated loan issued to the German group company.

Nominal value	1,534	1,534
Provision for group company with negative equity	<u>(1,118)</u>	<u>-</u>
Balance as of December 31	<u>416</u>	<u>1,534</u>
	=====	=====

Shareholders' Funds

Issued Share Capital

The authorised share capital is divided into 10,000,000 ordinary shares with a nominal value of €0.23 each.

As of December 31, 2002 a number of 7,052,629 common shares were in issue. As of this date the members of the Supervisory Board did not hold any shares in the Company. Mr. W. Wagner, CEO of the Company, held 17,000 shares. The Company held 4,100 common shares in its own share capital.

Early 2002 a number of 88,000 options were granted to key employees of the Company. During 2002 extensive cost saving measures were implemented, among which voluntarily salary

reductions, waiving of holiday and Christmas payments, waiving of 4% salary increase right, as well as partly waiving of fees of Supervisory Board members. To support the commitment of all involved a further share option program was implemented.

The overview of the option rights still outstanding is as follows.

Granted in	Options as of 01-01-2002	Granted in 2002	Expired in 2002	Options as of 31-12-2002	Exercise price in €	First date of exercise	Last date of exercise
1997	18,000	-	18,000	-	2.36		
1997	79,000	-	79,000	-	2.54		
1998	54,900	-	-	54,900	2.12	02 Jan 00	02 Jan 03
1998	16,200	-	9,000	7,200	2.13	15 Aug 01	14 Aug 03
1999	50,750	-	-	50,750	1.06	04 Jan 02	03 Jan 04
1999	23,000	-	15,000	8,000	1.15	21 Jan 02	20 Jan 04
2000	50,750	-	-	50,750	1.48	04 Feb 03	03 Feb 05
2000	12,350	-	-	12,350	1.64	05 Feb 03	04 Feb 05
2001	55,000	-	-	55,000	1.12	02 Jan 04	01 Jan 06
2001	25,000	-	-	25,000	1.24	03 Jan 04	02 Jan 06
2002	-	1,936,753	-	1,936,753	(*) 0.35	02 Jan 03	27 Jul 04
2002	-	63,000	-	63,000	0.51	03 Jan 05	02 Jan 07
2002	-	25,000	-	25,000	0.57	03 Jan 05	02 Jan 07
	<u>384,950</u>	<u>2,024,753</u>	<u>121,000</u>	<u>2,288,703</u>			
	=====	=====	=====	=====			

(*) The exercise price has been paid through salary and fee cuts.

None of the options were exercised during 2002.

The options held by Mr. W. Wagner, CEO of the Company, can be shown as follows.

Granted in	Options as of 01-01-2002	Granted in 2002	Expired in 2002	Options as of 31-12-2002	Exercise price in €	First date of exercise	Last date of exercise
1998	9,000	-	-	9,000	2.12	02 Jan 00	02 Jan 03
1999	10,000	-	-	10,000	1.06	04 Jan 02	03 Jan 04
2000	10,000	-	-	10,000	1.48	04 Feb 03	03 Feb 05
2001	10,000	-	-	10,000	1.12	02 Jan 04	01 Jan 06
2002	-	71,482	-	71,482	0.35	02 Jan 03	27 Jul 04
2002	-	15,000	-	15,000	0.51	03 Jan 05	02 Jan 07
	<u>39,000</u>	<u>86,482</u>	<u>-</u>	<u>125,482</u>			
	=====	=====	=====	=====			

The options held by Mr. C.W.M. Koot , Supervisor of the Company, can be shown as follows.

Granted in	Options as of 01-01-2002	Granted in 2002	Expired in 2002	Options as of 31-12-2002	Exercise price in €	First date of exercise	Last date of exercise
2002	-	16,206	-	16,206	0.35	02 Jan 03	27 Jul 04
	=====	=====	=====	=====			

The options held by Mr. C.P. Fowler, Supervisor of the Company, can be shown as follows.

Granted in	Options as of 01-01-2002	Granted in 2002	Expired in 2002	Options as of 31-12-2002	Exercise price in €	First date of exercise	Last date of exercise
2002	-	12,965	-	12,965	0.35	02 Jan 03	27 Jul 04
	=====	=====	=====	=====			

Translation Account

This account represents the cumulative foreign exchange differences over the Company's net investment in foreign subsidiaries. Also the differences arising from the translation of the results of subsidiaries at average rates were included in this account. As the UK group companies have been de-consolidated and the remaining group companies are accounted for in Euro, the amount in the translation account has been transferred to the Other reserves.

The movements in the shareholders' funds were as follows:

x € '000s	Issued share capital	Paid-in surplus	Statutory reserves	Translation account	Other reserves	Total 2002	Total 2001
Balance as of January 1	1,622	16,413	-	(14)	(13,631)	4,390	6,473
Result of the year	-	-	-	-	(5,794)	(5,794)	(2,114)
Revaluation German group Company	-	-	2,080	-	-	2,080	-
Exchange rate differences	-	-	-	(33)	-	(33)	31
Transfer	-	-	-	47	(47)	-	-
Balance as of December 31	1,622	16,413	2,080	-	(19,472)	643	4,390
	=====	=====	=====	=====	=====	=====	=====

Securities

The Company has issued guarantees amounting to respectively € 154,000 and € 2,702,000 to local banks on behalf of its Scottish and German group company.

Supplementary Information

Appropriation

Article 27 of the Articles of Association contains 'inter alia' the following provisions for profit appropriation:

1. The company may pay dividends and make other distributions only to the extent that its shareholders' funds exceed the amount of the paid-up and called-up portion of the share capital plus the reserves which must be maintained by law and under these articles.
2. Subject to the prior approval of the Supervisory Board, the Management Board is authorised to add any profit in whole or in part to the reserves.
3. Any profit remaining after reservation referred to in the preceding paragraph shall be at the disposal of the Annual General Meeting.
4. To the extent that the General Meeting of Shareholders does not resolve to distribute the profit for any financial year, such profit shall be added to the reserves.

Appropriation of the Net Result for the Year

The 2002 loss of €5,794,000 is charged to Other reserves.

Report of the Auditors

Introduction

We have audited the Annual Report of Rood Testhouse International N.V., Amsterdam, for the year 2002. This Annual Report is the responsibility of the company's management. Our responsibility is to express an opinion on this Annual Report based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Annual Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Annual Report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Annual Report. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the Annual Report gives a true and fair view of the financial position of the company as at December 31, 2002 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Emphasis of matter

Without qualifying our opinion above, we draw attention to the explanatory note on going concern on page 24 of the Annual Report, which refers to the uncertainty as to the company's ability to continue as a going concern. However, the explanation provided shows that it is not impossible that the business operations will be maintained in the longer term. As a consequence, the accounting principles applied are based on the assumption that the company will be able to continue as a going concern.

Amsterdam, October 28, 2003

MAZARS PAARDEKOOPER HOFFMAN
P.J. Steman RA

