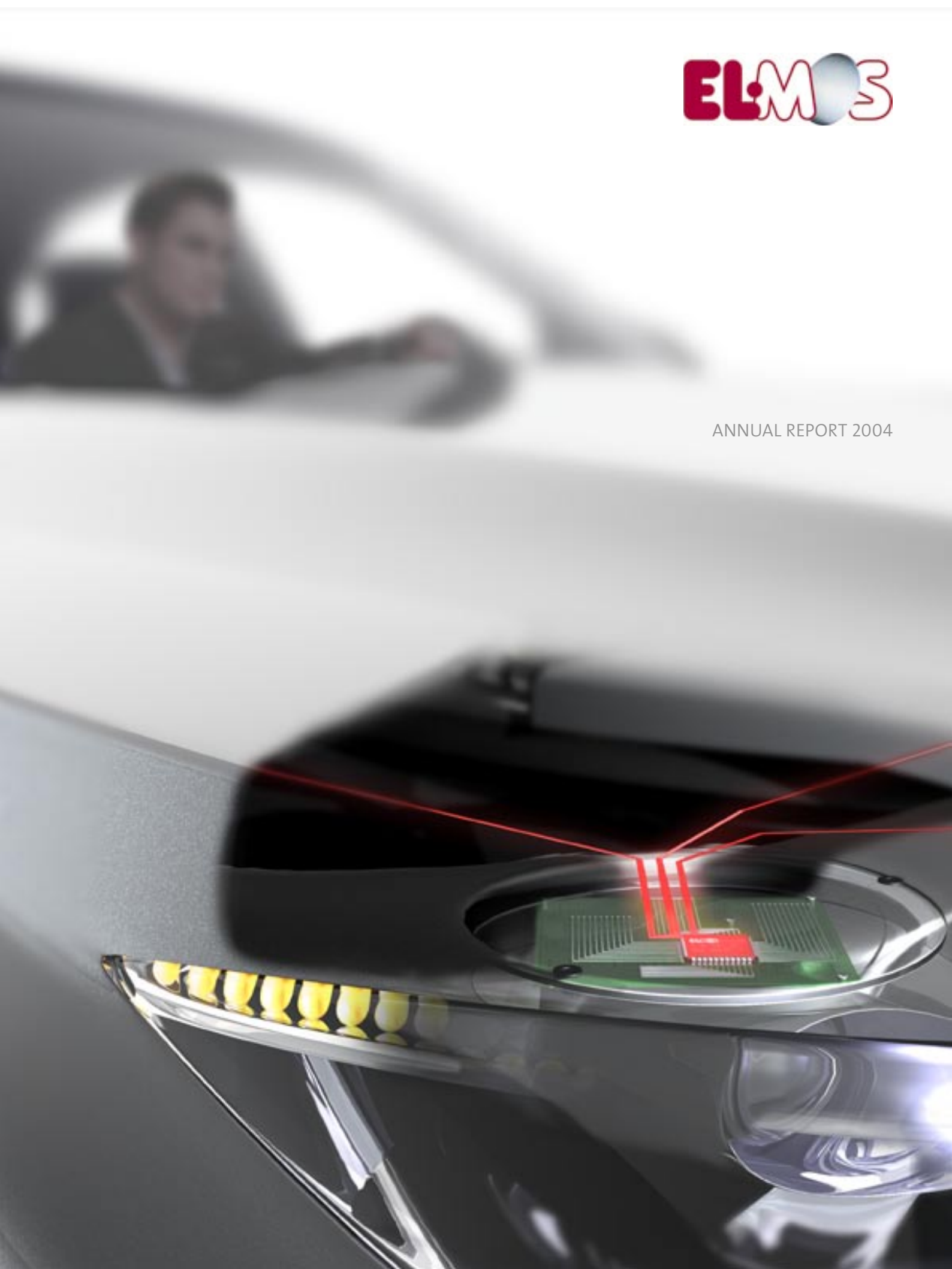
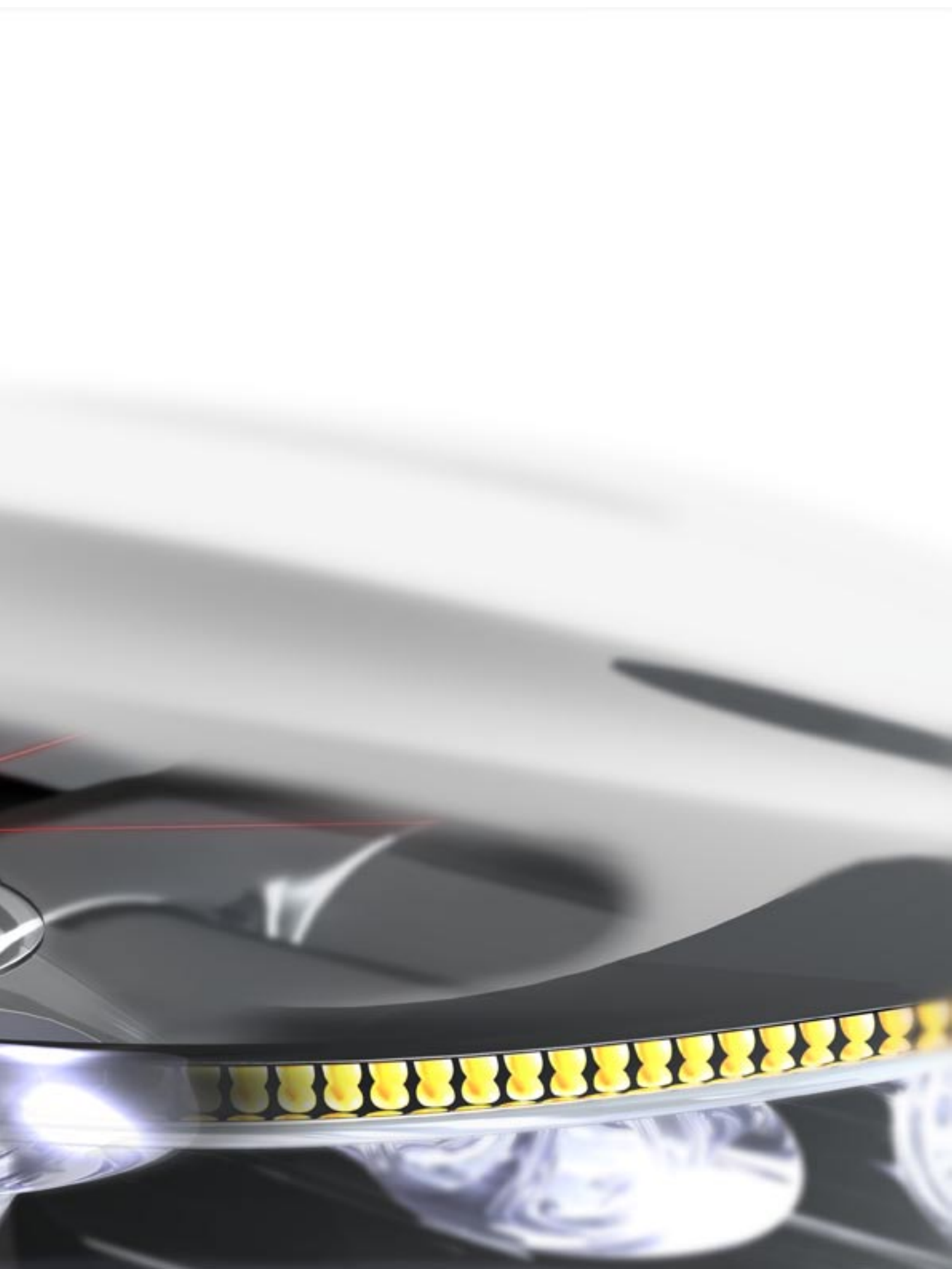


ANNUAL REPORT 2004



WHEN YOU SWITCH ON YOUR AIR CONDITIONING,
AN ELMOS CHIP **REGULATES** THE TEMPERATURE.

WHEN YOU TAKE A BEND,
AN ELMOS CHIP **MEASURES** THE STEERING ANGLE.

WHEN YOU STEP ON THE ACCELERATOR,
AN ELMOS CHIP **CONTROLS** THE STABILITY.

We develop and produce customer specific semiconductor chips. They are used for the most part in the automotive industry, but also in the consumer goods and housekeeping industry. In tight cooperation with the customers, the chips are directly adjusted to their specific requirements. The customers then integrate our semiconductors into their systems. Our products are found in models by almost all car manufacturers.

Five-year overview ELMOS Group according to US-GAAP

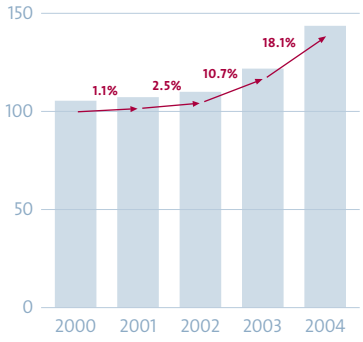
in Euro million unless otherwise indicated	2000	2001	2002	2003	2004
Net sales in Euro million	105.8	107.0	109.7	121.4	143.3
Gross profit in Euro million	54.9	49.8	53.8	61.4	73.6
Research and development in Euro million	13.8	17.0	17.5	20.4	24.4
Operating income in Euro million	27.7	17.0	18.3	21.6	29.6
EBIT in Euro million	28.1	18.8	19.3	21.1	28.7
EBITDA in Euro million	39.1	32.8	34.2	35.7	41.4
Income before income taxes in Euro million	29.4	17.3	15.7	17.3	25.3
Net income in Euro million	16.6	11.6	8.9	10.0	16.3
Earnings per share in Euro	0.86	0.60	0.46	0.52	0.85
Shareholders' equity in Euro million	120.0	113.1	112.4	124.7	136.2
Total assets in Euro million	188.5	208.0	208.5	205.3	219.8
Cash flow from operating activities in Euro million	30.2	20.9	26.0	6.5	34.9
Capital expenditures in Euro million	– 24.0	– 46.5	– 34.1	– 25.3	– 33.5
Cash flow from investing activities in Euro million	– 9.6	– 77.7	– 29.3	3.4	– 31.2
Dividend per share in Euro	0.91	0.00	0.00	0.13	0.21*
Employees (on annual average)	514	624	830	874	928

** Subject to shareholders' resolution at the annual general meeting in April 2005*

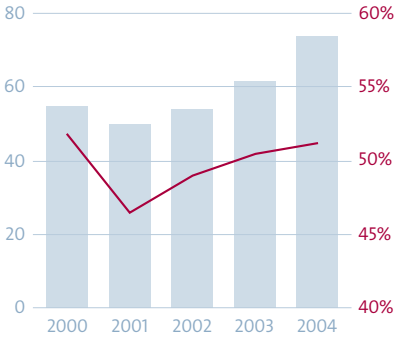
Share data

	2000	2001	2002	2003	2004
Share price on December 31 (Xetra) in Euro	26.60	14.05	8.01	12.50	11.80
52-week high Xetra in Euro	63.75	33.99	17.50	14.25	14.55
Date	Feb 14	Jan 19	April 3	Dec 3	Oct 4
52-week low Xetra in Euro	22.14	8.80	3.91	4.30	10.99
Date	Dec 20	Oct 15	Oct 7	Mar 31	Mar 22
Number of shares outstanding on December 31 in million	19.3	19.3	19.3	19.3	19.3
Market capitalization on December 31 (Xetra) in Euro million	513	271	155	241	228

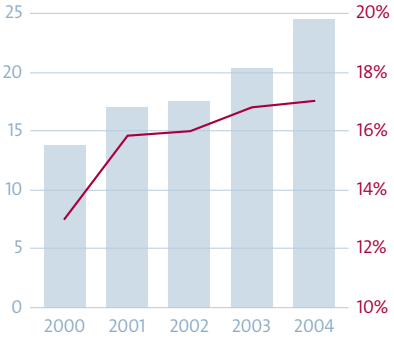
Sales in Euro million
and growth rate



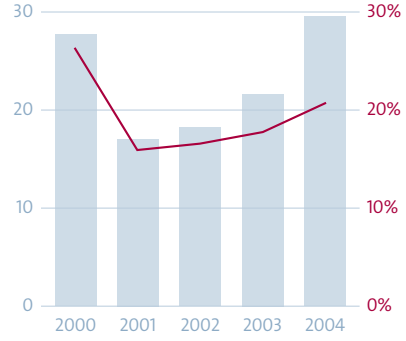
Gross profit in Euro million
and margin



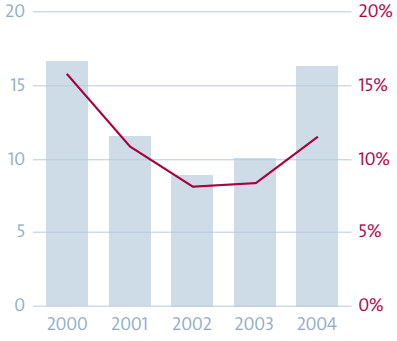
Research & development in Euro million
and in percent of sales



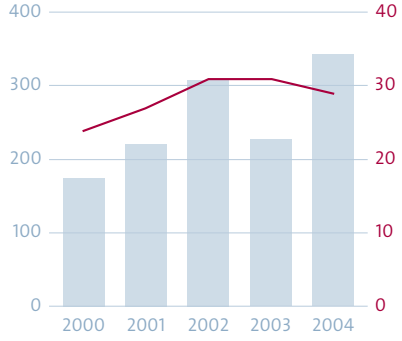
Operating income in Euro million
and margin



Net income in Euro million
and margin



Lifetime volume in Euro million
and number of design wins



Share price and trading volume 2004

► Chronicle 2004

1ST QUARTER

CO-INTEGRATED PRESSURE SENSOR

The co-integrated pressure sensor is one of the first products to combine semiconductor circuit and sensor in a customer specific package. Tire pressure control systems in automobiles or sensors in medical equipment deliver even more precise readings and require less space.

QUALITY AWARD

World market leader for automotive components Delphi presents us with the "Supplier of the year" award in February. Delphi thus honors our products' high quality and the close cooperation.

► **more on page 45**

NEXT AIRBAG GENERATION

The supplier to the automobile industry Autoliv manufactures its airbags using our next generation of airbag ignition ICs. This signifies a consistent development of our long-standing partnership.

► **more on page 53**

2ND QUARTER

DIVIDEND

In April about 300 shareholders participate in the General Meeting in the Goldsaal, Westfalenhallen, in Dortmund, Germany. There is good news for our shareholders: After a break of two years, the General Meeting decides on a dividend again. Euro 0.13 is issued per share.

► **more on page 22**

QUARTERLY SALES RECORD

In May we announce the successful start of the fiscal year 2004. The first quarter closes with record sales of 35.0 million Euro and a net income of 3.6 million Euro. With the gross margin of 50.7 percent we exceeded our own objective by far.

ENVIRONMENTAL CERTIFICATION

TÜV Rheinland approves the certification for our eco management system without objections in June. The certificate proofs that we take environmental protection and occupational safety just as seriously as our products' quality and economy. The environmental report's first edition for the year 2003 informs of all important issues concerning environmental concerns.

► **more on page 45**

3RD QUARTER

ADDITIONAL TRAINEES

The start of our 20th anniversary: We take on 20 additional trainees. In the year 2004 alone we make it possible for altogether 35 young people to enter the working life, in all areas – from microtechnologists to industrial clerks.

► **more on page 43**

GETTING INTO TELECOMMUNICATION

A new market: We win a major telecommunication company's custom. This company secures options on several products featuring our patented HALIOS® principle. Experience gained in telecommunication will subsequently be brought to successful use in our core business, automotive electronics.

ANNIVERSARY

In September we celebrate our company's 20th birthday. We invite our customers to the anniversary workshop, "The future of automotive semiconductor and sensor technology". Delegates from Audi, BMW, Hella, Kostal, Siemens VDO, Volkswagen, and others present their outlook and show us ways for new products.

► **more on page 46**

4TH QUARTER

TILT ANGLE SENSOR

Our tilt angle sensor premiers in October. The combination of circuit and sensor detects the slightest changes of position. One example for its use is theft protection. If the vehicle is moved or lifted, the chip raises the alarm.

TRADE FAIR PRESENCE

We present our know-how and our products at the most important fairs all over the world. We are represented, for instance, at the leading U.S. fair for automotive electronics, the Convergence in Detroit, in October, and the next month, at the electronica in Munich. There we succeeded in convincing both long-standing and future customers of our product portfolio.

CAPITAL MARKETS DAY

We come up with figures and facts as well as future prospects on our Capital Markets Day. In November more than 40 analysts and investors gather first-hand information on strategy, business model, and future projects.

► **more on page 22**

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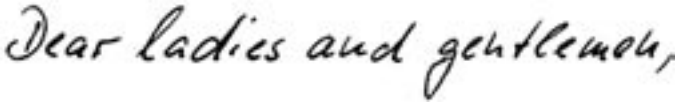
MANAGEMENT BOARD



The year 2004 was groundbreaking to us in many respects.

We won 29 new projects from customers, introduced innovative products, and closed the fiscal year with a record result.

At 143.3 million Euro, sales climbed by 18.1 percent. The gross profit also developed positively: plus 19.8 percent to 73.6 million Euro. And finally, the annual net income showed a disproportionately large gain: to a result of 16.3 million Euro, corresponding to a rise by 62.8 percent. With our clearly positive cash flow in the year 2004 we have proven that we can provide sustainable cash flow and finance the investments made necessary by our fast growth.

We can be proud of our newly won contracts, the result, and the cash flow. For all this we want to express our deepest gratitude to our employees.

We are aware of the fact, however, that we need this result and this operating cash flow in order to finance our planned investments, for example in the expansion of our manufacturing area for example. Our attention remains directed to the continuation of profitable growth.

Considering our plans for growth, we are observing the market conditions with interest: Experts rated 2004 the year of a new high point for the semiconductor industry. According to the Semiconductor Industry Association, the market grew by 28 percent worldwide, to 213 billion US-Dollar. However, as fast as the upswing was celebrated, in 2005 the downward trend is supposed to be rung in again. Market experts assume a stagnation of the global semiconductor market in 2005.

We can and must object to this with regard to our market.

We are expecting growth rates of at least 15 percent for ELMOS to continue for the next years. Our order books are pretty much full. Our niche for customer specific semiconductor chips for the automotive industry allows us to plan relatively far in advance. Therefore our prediction is based on specific figures.

Together with our numerous newly won projects which form the basis of our future, the picture of 2005 turns out very pleasant.

Unfortunately our share price did not appreciate the previous year's positive developments. On an annual basis, the price of the ELMOS share fell by roughly five percent. For you as shareholders and for us as company, this is a disappointing result. However, we remain convinced that our strategy of profitable growth is the one and only option. One proof is the fact that we were able to pay a dividend in 2004 after a two-year break. This year we will propose a dividend of 0.21 Euro per share to the General Meeting in April 2005.

Apart from these economic events, our highlight 2004 was the celebration of the 20th birthday of ELMOS. We took a look into the past and, particularly, into the future, together with customers, guests from politics and industry, and our employees. They were invited to a top-flight workshop providing us with an even closer access to our customers. Speakers from Audi, BMW, ContiTeves, the Fraunhofer Gesellschaft, Hella, Kostal, Siemens VDO, VW, and ZF-Lenksysteme portrayed the future of automotive semiconductor and sensor technology from different viewpoints. The individual contributions completed a jigsaw puzzle showing tomorrow's automobile – and the challenges and opportunities for ELMOS. We dedicated an entire chapter to this issue in this annual report 2004, starting on page 46, presenting the trends and developments in automotive electronics. Furthermore, we infer good prospects for a positive company development from this outlook.

Our strategy for 2005 is therefore clear:

- We want to continue to grow significantly while keeping an eye on the costs.
- We want to continue to strengthen our core business while winning new customers and penetrating new markets.
- We want to continue to be more than a partner to our customers while playing an active part in shaping the future of automotive electronics.

Yours sincerely

Knut Hinrichs, *Chairman of the Management Board*

► Management Board

Knut Hinrichs, *Chairman*

Business management graduate | Glückstadt
Knut Hinrichs studied business management at the University of Mannheim. From 1977 to 1979 he was managing director of a company producing industrial sensor electronics. He then worked as a management consultant, later as an independent trader of hybrid electronic components. He was managing director since 1987, member of the Management Board since 1999, and Chairman since 2001, of ELMOS Semiconductor AG.

† On March 1, 2005 our Chairman of the Management Board, Knut HInrichs, passed away after a serious illness. We thank him for his always devoted and inspiring work. For almost 20 years he made his mark on the company and determined its course. His contribution to the company's development cannot be overrated. You do not forget someone like him. We will honor his memory.

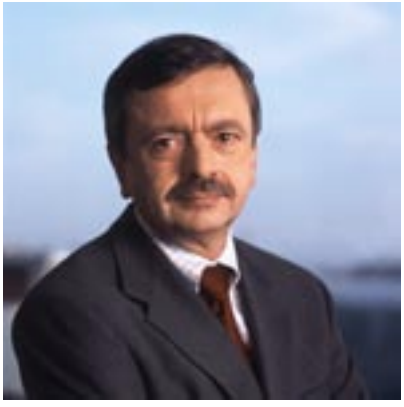
Dr. rer. nat. Klaus Weyer

Graduate physicist | Schwerte
Dr. Klaus Weyer is one of the founders of ELMOS. He studied physics in Cologne and was awarded his doctorate at the Ludwig-Maximilian University in Munich. He then became a management consultant to small and medium-sized businesses for microelectronics. Since 1984 he was managing director, since 1999 Management Board member responsible for technology.

Dr. rer. nat. Peter Thoma

Graduate physicist | Unterschleißheim

Dr. Peter Thoma studied physics at the Technical University Munich and was awarded his doctorate in the year 1978. He then headed a department for technology at Kienzle. From 1983 to 2000 he worked for BMW AG. First he established a department for the development of electronic control devices for automotive use. Afterwards he was head of the department of development of electrics/electronics. He became Management Board member of ELMOS responsible for sales and development in October 2000.



Reinhard Senf

Graduate engineer | Iserlohn

Reinhard Senf was awarded his engineering diploma for physics and technology of electronic components at the Technical University Ilmenau in 1974. He was production engineer and later managing director at VEB Funkwerk/Mikroelektronik in Erfurt between 1974 and 1991. He has been with ELMOS since 1992, initially as assistant manager, from 1993 as head of quality assurance, and from 1999 as head of backend. In 2001 he became Management Board member responsible for production.

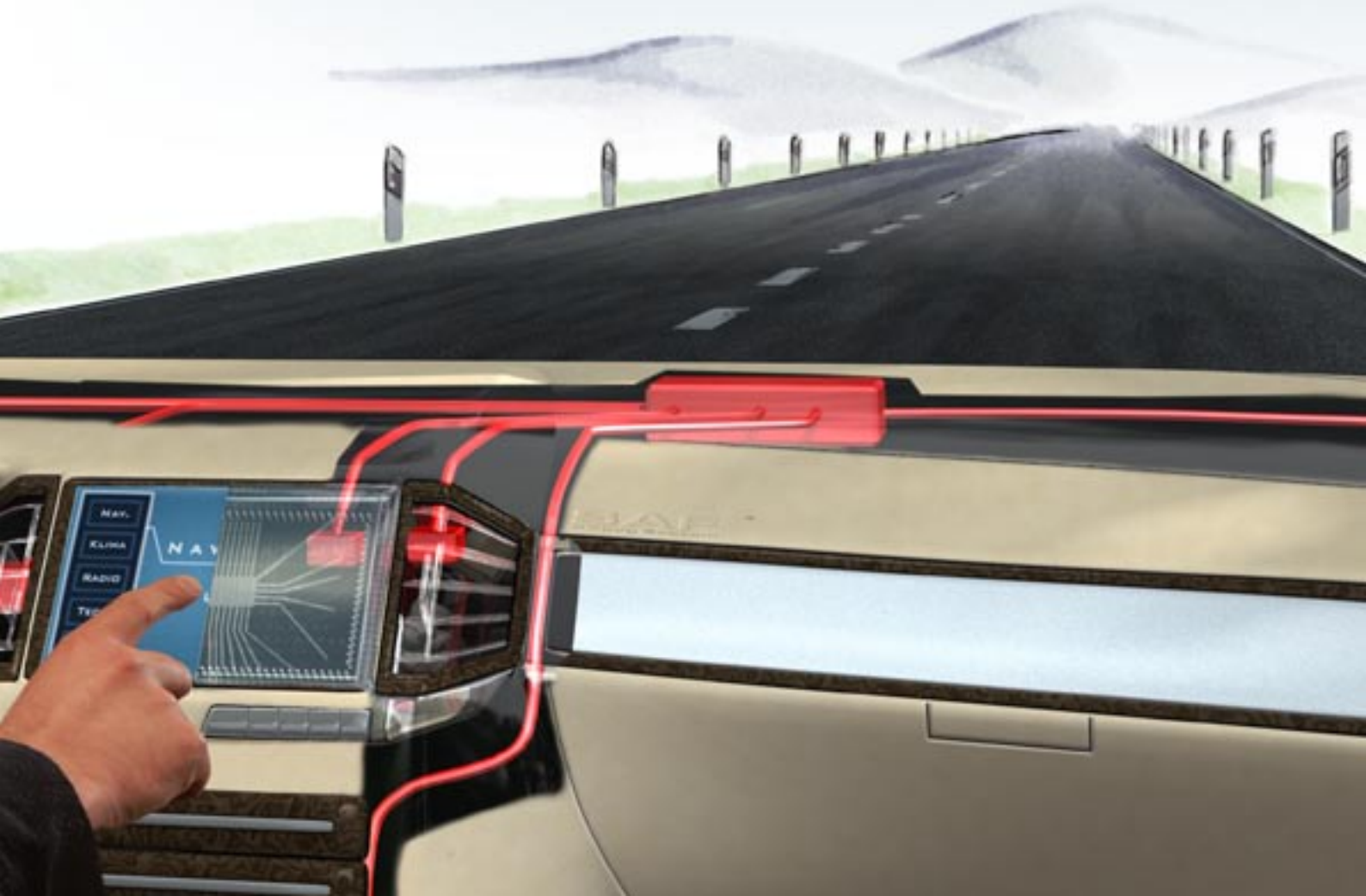
ELMOS IS A PART OF YOUR CAR'S FUTURE

The car of tomorrow will be safer,

more eco-friendly, and more comfortable:

- Our chips network the systems intelligently.
- Our chips assist your driving.
- Our chips connect electronics with mechanics.

We take an active part in shaping the future.



ELMOS – THE COMPANY

► Company profile

Do you have a car? An iron, a washing machine, or maybe a bathroom scale? Then you are most likely in possession of one of our chips. You don't see us, but our products are there.

Our ideas on 10 sqmm

We develop and produce these semiconductor chips. From the initial idea to the finished chip which is mostly from 10 to 15 sqmm small. Over 90 percent of these chips are used by the automobile industry. But our components serve their purpose in consumer and household items as well.

Key customers for our integrated circuits (ICs) are suppliers to the automobile industry such as Autoliv, Behr, Bosch, Delphi, Helbako, Kostal, Lear, Siemens VDO, Valeo, among others. They use our chips for their systems. That is why our ICs are contained in almost all models of the eminent manufacturers – from Audi, BMW, Citroën, DaimlerChrysler, Ford, Opel, Peugeot, to Porsche, Renault, Rover, Toyota, Volvo, and Volkswagen.

We profit from the increasing use of electronics in motor vehicles. Fields of application are safety functions such as airbags, anti-lock braking systems (ABS), rollover detection and tire pressure control, convenience systems as air conditioning, electrical window regulators with jamming protection, rain sensors, parking assistance, and bending lights, or systems for improved driving stability (electronic stability program, ESP) and optimized regulators for the generator.

In short: The sharp increase of automotive electronics is our gain. Today and even more so tomorrow.

► Products and applications

Your car's brain

Our chips take over an automobile's measuring, regulating, and controlling functions in the areas of safety, comfort, and engine management. In premium automobiles more than 100 of our chips are progressive thinkers and drivers behind complex electronic functions. But our chips are used also in middle-class and compact cars. Examples: Airbags and electrical window regulators are standard fittings of almost every automobile. We share our customers' aim to make driving for you even safer, more comfortable, and more eco-friendly.

Regarding household and consumer items, our chips will turn your iron off automatically before your shirt starts to catch fire. Inside washing machines our chips measure how much water is in the drum. Here we share our customers' aim to make your use of everyday household and consumer items as safe, convenient, and eco-friendly as possible.

Customers receive made-to-measure solutions from us. We develop our chips in close cooperation with them, always tuned to their wishes and requirements. This way our customers' know-how is protected; they receive their individual chip and often the deciding competitive edge as well. By integration we achieve what otherwise needs to be realized with many separate parts.

This is made possible by our experience of many years with automotive electronics. Up to now we have successfully brought more than 300 projects to serial production in cooperation with our customers. With any product the customer can be sure that his system costs are reduced, his quality is improved, and that we will supply our chips over the product's entire life cycle. In the fast-moving semiconductor industry, these long delivery periods are by no means obtainable from every manufacturer. We have been supplying some of our products for more than ten years now and will continue to produce them until the end of this decade. Our own semiconductor production makes it possible for us to offer a proven and unchanged product over the years – and unlike the large semiconductor factories we are not pressured into introducing new technologies quickly.

In addition to that, the customer profits from the use of special technology like our self-developed high-voltage CMOS technology. And our chips still work when your car is iced over in the winter or after it has been parked under the summer sun for hours. Because our chips hold out against temperatures of minus 40 degrees up to plus 175 degrees Celsius. This signifies: We attach importance to quality and reliability. Because nothing is more annoying than a car that will not move or is the cause of other problems.

► Locations

Close to the customer

We support and advise the customer from his initial idea over its development and first test products to the finished chip. This requires active exchange, many conversations, and fast help if problems occur. We are prepared for this: Our chip production is centralized at our Dortmund headquarters. On roughly 2,500 square meters, every day more than 350 150mm wafers are introduced into manufacturing. Our specialist for sensor systems, SMI in Milpitas, California, runs its manufacture in its own clean room measuring about 1,200 square meters. ELMOS Advanced Packaging (formerly eurasem), based in Nijmegen, Netherlands, takes care of the assembly and connection technology for our chips.

Our development centers and sales offices are in close proximity to our customers, for example in Munich, Stuttgart, Paris, or Detroit. In addition semiconductor chips and sensor applications are developed by our subsidiaries MECHALESS in Karlsruhe and Gärtner Electronic Design (GED) in Frankfurt/Oder, and by our cooperation partners MAZ Brandenburg in Berlin, DMOS in Dresden, and attoSENSOR in Penzberg.

We are always close to the customer. With regard to space and time.

► Prospect

Where are we going?

In the past 20 years electronics revolutionized automobile production. Progress regarding comfort, safety, and environmental protection was made possible primarily by the use of electronic components. But what electronic progress is going to distinguish tomorrow's car? Or put another way: How are we going to drive our cars tomorrow?

We used our 20-year company anniversary in particular to look ahead, rather than just looking back. To this purpose we invited the doers and thinkers with whom we are going to develop the car of tomorrow. We discussed the future of automotive semiconductor and sensor technology with experts from leading automobile manufacturers and their suppliers.

Electronics in tomorrow's car will network the separate components intelligently, assist your driving, and fuse mechanical and electronic applications in a way that makes sense.

This means in detail:

ELMOS networks your car effectively

- An ever-increasing number of functions requires more and more connections between sensors, control devices, and actuators. The separate systems for comfort, safety, and information are networked with each other and standardized. Thereby cars get lighter and more eco-friendly. We are a part of this development as our chips combine several components in a space and cost saving semiconductor. The consequence: Interfaces become redundant, standards get established, and problems with electronics are reduced.

ELMOS assists your driving

- Driver assistance systems are the next step on the way to make your driving safer and simpler. While in the past efforts were primarily directed at alleviating the consequences of an accident, now we pay particular attention to the prevention of accidents. But comfort and convenience will be further improved as well: Rain sensors, distance warning devices, and lane detection systems help you concentrate on what's important: the traffic. Our chips can make an important contribution with their high quality and reliability.

ELMOS connects electronics with mechanics

- In addition electronics will complete or replace purely mechanical components wherever appropriate. The combination of these elements opens up entirely new possibilities for the reduction of fuel consumption and the improvement of safety. Electrical steering aid, electrical water pump, electrical brake, and electrical valve train belong to this category, among other devices. These products are smaller, lighter, and more efficient, and they only deliver the performance that is required at the given moment.

ELMOS is part of your car's future. We are actively shaping the future.

If you want to know more about the automobile's electronic future or if you are interested in technical details, there is more to be found starting on page 46.

ELMOS NETWORKS YOUR CAR EFFECTIVELY

On hot days

the air conditioning must give a maximum performance.

ELMOS NETWORKS YOUR CAR EFFECTIVELY

On hot days

the air conditioning system permanently communicates

with heat sensors and control units. Information

flows over data lines networking your entire automobile.

1 The a/c flapper valve controls where the air stream pours out (LIN network).

2 The BUS system control connects the individual network systems with each other.

3 The solar sensor detects where direct solar radiation requires increased cooling (LIN network).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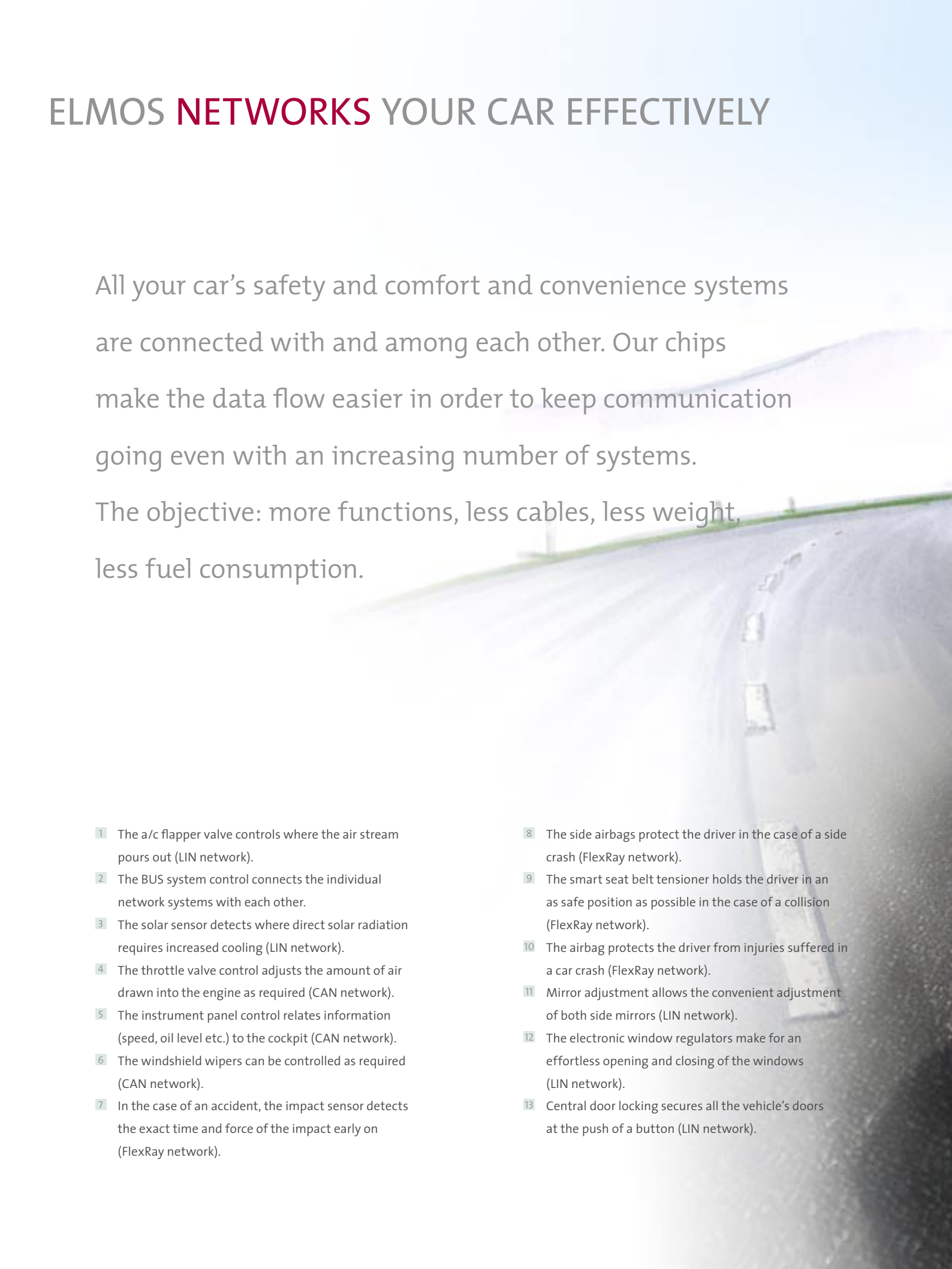
ELMOS NETWORKS YOUR CAR EFFECTIVELY

All your car's safety and comfort and convenience systems are connected with and among each other. Our chips make the data flow easier in order to keep communication going even with an increasing number of systems. The objective: more functions, less cables, less weight, less fuel consumption.



1. The a/c flapper valve controls where the air stream pours out (LIN network).
2. The BUS system control connects the individual network systems with each other.
3. The solar sensor detects where direct solar radiation requires increased cooling (LIN network).
4. The throttle valve control adjusts the amount of air drawn into the engine as required (CAN network).
5. The instrument panel control relates information (speed, oil level etc.) to the cockpit (CAN network).
6. The windshield wipers can be controlled as required (CAN network).
7. In the case of an accident, the impact sensor detects the exact time and force of the impact early on (FlexRay network).
8. The side airbags protect the driver in the case of a side crash (FlexRay network).
9. The smart seat belt tensioner holds the driver in an as safe position as possible in the case of a collision (FlexRay network).
10. The airbag protects the driver from injuries suffered in a car crash (FlexRay network).
11. Mirror adjustment allows the convenient adjustment of both side mirrors (LIN network).
12. The electronic window regulators make for an effortless opening and closing of the windows (LIN network).
13. Central door locking secures all the vehicle's doors at the push of a button (LIN network).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THE ELMOS SHARE

▸ General development on the stock markets

Good results, disappointing share price movement

In the past year 2004 the ELMOS share did not continue the above-average upward trend of the year before. Although the semiconductor net sales showed considerable growth throughout the industry, and ELMOS developed significantly stronger in the operational business than in the previous year, too, the semiconductor quotations did not follow this development in general. Investors rather anticipated a stronger weakening of the semiconductor market in the year 2005 than initially expected, showing in the negative trend of the semiconductor quotations from the middle of 2004.

And even though the ELMOS course of business is significantly less dependent on the semiconductor market's general trend than it is on the development of the proportion of electronics used in an automobile, the ELMOS price trend is seemingly inseparable from the development of typical semiconductor shares.

Relative share price development 2004

ELMOS share lost 5.6 points and closed the year at 11.80 Euro

In the year 2004 the price of the ELMOS share moved within a corridor of 11.00 Euro to 14.50 Euro for the most part. At the end of the year, at 11.80 Euro the share price closed lightly below the level shown at the beginning of the year (12.50 Euro). While the ELMOS share developed roughly parallel to the TecDAX during the first half-year, it left the TecDAX development behind by the beginning of August and reached its highest level on October 4, 2004 at 14.55 Euro.

From around the middle of the year the technology prices, and the semiconductor quotations in particular, suffered a downward slide ELMOS was able to resist at first. By the end of the year the general development caught up with the ELMOS share. The ELMOS share's annual performance is comparable to that of the TecDAX (minus four percent) but significantly better than that of the semiconductor share index Philadelphia Semiconductor Index (SOX, minus 15 percent).

Even though the long-term development of the ELMOS share since its IPO is not satisfactory, it still is much better than the development of TecDAX and most other technology indices worldwide.

Long-term development of the ELMOS share

Period until December 31, 2004	Since IPO (Oct. 11, 1999)	Since Jan. 1, 2003	Since Jan. 1, 2004
ELMOS (Xetra)	– 46.4%	47.3%	– 5.6%
Industry indices			
TecDAX	– 86.5%	44.9%	– 3.9%
Philadelphia Semiconductor Index (SOX)	– 18.0%	49.8%	– 14.7%
DJ Stoxx Semiconductor	– 60.0%	4.2%	– 27.7%
DJ Stoxx Technology	– 54.3%	31.9%	– 1.6%
Prime Technology	– 30.4%	26.4%	– 22.2%
Prime Automobile	– 13.0%	31.5%	– 1.5%
General market indices			
DAX	– 21.4%	47.1%	7.3%
DJ Stoxx 50	– 26.5%	15.3%	4.3%

Lower trading volume in second half-year

The trading volume of the ELMOS share counting Xetra trade and Frankfurt floor trading amounted to roughly 50,000 shares a day on an annual average. This figure shows a reduced trading volume compared to the previous year, but it is still clearly above the trading volume recorded in the years before that. While an average of more than 70,000 shares were traded in the first half-year of 2004, only about 30,000 shares a day changed hands during the second half of the year 2004. As before, the biggest proportion, about three fourth of the total volume, was traded on Xetra.

ELMOS key share data

	2004	2003
Number of shares outstanding	19,300,000	19,300,000
52-week-high (Xetra)	14.55 Euro October 4	14.25 Euro December 3
52-week-low (Xetra)	10.99 Euro March 22	4.30 Euro March 31
Closing price on December 31 (Xetra)	11.80 Euro	12.50 Euro
Annual performance (excluding dividend)	– 5.6%	+ 56.1%
Market capitalization by December 31	227.7 Mio Euro	241.3 Mio Euro
Fair value / book value* by December 31	1.7	1.9
Shares traded daily on average (Xetra and Frankfurt floor)	50.4 thousand	88.5 thousand
Thereof Xetra in percent	75.3%	67.7%
Earnings per share	0.85 Euro	0.52 Euro
Dividend per share	0.21 Euro**	0.13 Euro
Dividend yield as of December 31	1.8%	1.0%
Distribution total	4.1 Mio Euro	2.5 Mio Euro

** Shareholders' equity | ** Proposal to the General Meeting in April 2005*

The market capitalization of ELMOS came to 227.7 million Euro at the end of the year, based on 19.3 million shares outstanding. The number of shares outstanding has not changed since the IPO. Therefore the decreasing market capitalization as compared to the previous year is completely attributable to the fallen share price. The number of shares outstanding may be subject to change for the first time during the current fiscal year 2005 due to the issue of new shares based on the share option program. At the end of the year 2004, the number of options outstanding, which are exercisable in the summer of 2005 for the first time, amounted to roughly 280,000.

► Basic information on the share

The ELMOS share is a non-par bearer share (unit share). It is traded on all German stock markets and also represented on the Xetra trade.

ELMOS is part of the technology index TecDAX. TecDAX is the index of the 30 largest German and international companies of the technology industry below the DAX in the Prime Standard segment. Since January 2005, the ELMOS share is also part of the German Entrepreneurial Index (GEX), the new index for the performance of medium-sized companies. For this index the Deutsche Börse has defined the criterion of a founder- or owner-operated company as index relevant for the first time. Substantial

Key data

ISIN	DE0005677108
WKN	567710
Stock exchange symbol	ELG
Reuters	ELGG
Prime Industry	Technology
Industry Group	Semiconductors

Inclusion in the GEX

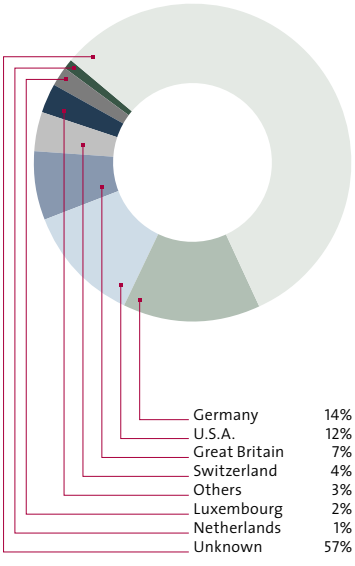
criteria for the admission to the GEX are owner dominance, i.e. members of the management and supervisory boards or their families hold between 25 and 75 percent of the voting rights, an IPO within the last ten years, and a listing in the Prime Standard. About 120 companies are represented by the GEX, with ELMOS carrying a weight of about one percent. In addition, ELMOS is represented by other indices.

Share details

Type of shares	Non-par value common bearer shares
Market segment	Prime Standard, regular market
Share capital	19,300,00 Euro
Share capital, shares	19,300,000
Start of trading	October 11, 1999
Designated sponsors	Deutsche Bank, HSBC Trinkaus & Burkhardt, WestLB
Index inclusion	TecDAX, GEX (since Jan. 2005), MidCap, CDAX, PrimeAll, Prime Technology, HDAX, TechAllShare

► Shareholder structure

Free float shareholder structure



Source: IR Channel | Thomson Financial

The share capital of ELMOS Semiconductor AG contains an unchanged 19,300,000 non-par value shares. 57.7 percent (about 11.1 million) of these shares are held by ELMOS Finanzholding GmbH (EFH), constituting the solid ELMOS shareholder basis. EFH is owned by Knut Hinrichs, Dr. Klaus Weyer, and Prof. Dr. Günter Zimmer. The remaining 42.3 percent (8.2 million) of the shares are free float. They are owned by a broad basis of institutional and private investors both domestic and abroad.

German shareholders own about 14 percent of the free float, investors in the English-speaking countries hold about 19 percent. Remaining continental Europe is represented by roughly nine percent of the free-floating shares. The regional distribution of attributable free float thereby indicates a shift from Great Britain to Germany if compared to the previous year. The structure of the other regions has hardly changed in comparison with the year before.

Apart from EFH, no shareholder holds more than five percent of the ELMOS share capital; the ten largest shareholders together (not counting EFH) own roughly 28 percent of the free-float.

► Dividend

The good result of the fiscal year 2003 enabled ELMOS Semiconductor AG to pay a dividend of 0.13 Euro per share after two years of no payments.

Dividend proposal for 0.21 Euro per share

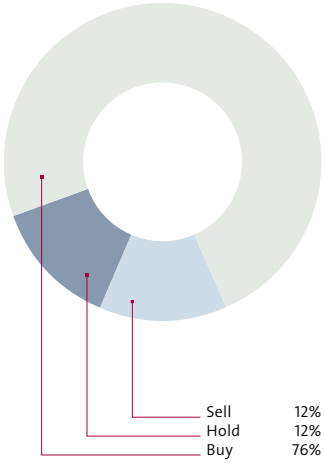
Because of the net income of 14.4 million Euro achieved by ELMOS Semiconductor AG in 2004, Management Board and Supervisory Board will propose the payment of a dividend of 0.21 Euro per share to the General Meeting in April 2005. The total distribution would thus amount to roughly 4.1 million Euro.

► Investor relations

The ELMOS management and the investor relations team continued to hold a large number of one-on-one conversations with investors in the year 2004. These took place within the context of roadshows, company visits at the Dortmund location, and on the occasion of technology and automotive conferences at which ELMOS presented itself. More than 20 roadshows throughout Europe were organized, from Great Britain via Germany, Switzerland, France, the Benelux countries, to Austria and Spain. Of course we went to the U.S. several times as well to give our shareholders and interested investors information on the spot.

In addition, we conducted numerous phone conferences after the publication of results and upon request by individual shareholders. On our Capital Market Days, after the publication of the annual results in March, and on the occasion of the opportunity to visit the production facilities in November, we also recognized great interest by analysts and investors.

Analysts' opinions



These activities will be continued in the following year on a large scale. We thus make it possible for our shareholders and other interested capital market participants to commensurately assess our business situation and consider our prospects. In doing this, it is our objective to inform comprehensively and in good time, and to be accessible at any time – to private and institutional investors, analysts, and other interested parties.

The ELMOS share is at present covered by 17 analysts. At the beginning of 2005 13 analysts (76 percent) appraised the share positively, two (12 percent) neutrally, and two (12 percent) negatively.

BW-Bank
Berenberg Bank
Cheuvreux
Credit Suisse First Boston
Dawnay Day Lockhart
Dresdner Kleinwort Wasserstein
DZ Bank
HSBC Trinkaus & Burkhardt
ING BHF-Bank
JPMorgan
Kepler Equities
LRP Landesbank Rheinland-Pfalz
M.M. Warburg & Co.
Main First Bank
SES Research
Viscardi Securities
WestLB

Aiming for equal information for all target groups, both comprehensive and timely, we provide a lot of corporate information on our website. Interested investors may inform themselves in detail about the company and its products and technologies in the internet on the newly designed website at www.elmos.de. Apart from information about corporate governance, the website also offers financial reports (annual and quarterly reports), a financial calendar listing all important events and publication dates, the Statutes of the corporation, information about General Meetings, press releases, and directors' dealings. The investor relations team also welcomes you to ask for information sent to you by mail, such as annual or quarterly reports.

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44227 Dortmund, Germany
Phone +49 (0) 231-75 49-0
Fax +49 (0) 231-75 49-548
invest@elmos.de

► General Meeting

As in the previous years about 300 private and institutional investors participated in the 5th Annual General Meeting on April 27, 2004. The event was held in the Goldsaal of the Westfalenhallen once more, in Dortmund, Germany. 12,287,470 Euro, or 63.7 percent of the share capital, were represented. The proposals to the separate items of the agenda were each approved by a significant majority. Apart from the usual items, a conditional capital increase to allow pre-emptive rights within the framework of the share option plan 2004 and the amendment of the Statutes made thus necessary as well as the authorization to repurchase the company's own shares were decided on.

Much use was made of the possibility to entrust one's voting rights to a proxy nominated by the company in the General Meeting 2004. Shareholders who could not be present in person were able to watch the General Meeting's live broadcast in the internet for the first time. With regard to the General Meeting on April 26, 2005, shareholders may take advantage of the opportunity to follow the live internet broadcast again. Shareholders may exercise their voting rights either directly, by use of a proxy of their choice, or by use of the company-nominated proxy according to their instructions.

ELMOS ASSISTS YOUR DRIVING

At night

you need to see the whole picture.

ELMOS ASSISTS YOUR DRIVING

At night

the bending light illuminates the direction you

are going. This assistance makes driving safer.

1 Bending light control moves the headlights in the same direction simultaneously.
2 The head-up display shows the driver all pertinent information on the windshield.
3 The steering angle sensor recognizes how far the steering wheel is turned.


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ELMOS ASSISTS YOUR DRIVING

Innovative driver assistance systems help you to be in command of every situation. Therefore our chips measure your car's speed and distance to other objects. Night vision cameras and lane detection will make future driving safer and more comfortable. Our chips make it possible.

1. Bending light control moves the headlights in the same direction simultaneously.
2. The head-up display shows the driver all pertinent information on the windshield.
3. The steering angle sensor recognizes how far the steering wheel is turned.
4. The rain/tunnel sensor automatically turns on windshield wipers or headlights.
5. Passenger detection controls which airbags are released in a crash and recognizes if the driver is tired.
6. The night vision camera helps the driver recognize his environment even in the dark by the use of infrared vision.
7. The blind spot sensor alerts the driver running the risk of overlooking a vehicle in a blind spot.
8. Lane detection warns the driver who leaves his lane unintentionally, e.g. during micro-sleep.
9. The tire pressure control system measures tire pressure and alerts the driver if irregularities occur.
10. Side distance reading controls on both sides if a minimum distance is maintained.
11. Park distance control assists parking with acoustic signals.


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CORPORATE GOVERNANCE

The Supervisory Board fulfilled its obligations as established by the law and the corporate Statutes in the year under report. During the past fiscal year we concerned ourselves intensively with the company's situation, advised the Management Board in leading the company, and supervised management activity. The Management Board informed us regularly, timely, and comprehensively about all relevant issues of business planning and strategic development, the course of business, and the corporate situation including the risk situation and risk management. We were involved in all decisions of essential importance; the Management Board also coordinated the strategic orientation with us. Divergences of the course of business from the plans and objectives were explained to us in detail. We discussed all business transactions of relevance to the company in the Supervisory Board meetings in detail, based on the Management Board's reports. Even outside the Supervisory Board meetings, the chairman of the Supervisory Board was informed about essential business transactions by the Management Board, and in particular by its chairman. The chairman of the Supervisory Board was in regular contact with him, and they discussed the company's strategy, business development, and risk management.

ACTIVITY IN THE FISCAL YEAR 2004

In five meetings, on April 27, 2004, July 8, 2004, September 16, 2004, December 17, 2004, and February 24, 2005, as well as on the basis of the Management Board's oral and written reports, the Supervisory Board was informed in detail about the development of the fiscal year ended December 31, 2004, the corporate situation, and current business policy decisions, discussed these issues with the Management Board, and supervised its activities. The Supervisory Board's resolutions were passed in the meetings. We also concerned ourselves with the efficiency of the Supervisory Board's work and assessed it within the framework of the meetings.

FOCAL SUBJECTS OF SUPERVISORY BOARD DISCUSSIONS

Within the context of Supervisory Board discussions the main emphasis was often put on the development of the subsidiaries as well as the development of sales, profit, and liquidity. A case in point, our meeting on July 8, 2004 took place at our subsidiary SMI in Milpitas. This setting gave the Supervisory Board members the opportunity to gain a direct insight into the local circumstances and to be informed of the course of business and strategic planning by the local management first-hand. In its meeting on December 17, 2004, the Supervisory Board approved the Management Board's reso-

lution on the issue of up to 160,000 share options to employees below Management Board level. In the same meeting the Supervisory Board decided on the issue of altogether 40,000 share options to the Management Board members under the same conditions as applicable to employees (and the additional determination of a cap). Other focal subjects were the plans for a lasting protection of production capacity as well as the ELMOS risk management system and the corporate fulfillment of the recommendations and suggestions of the German Corporate Governance Code. In addition to that, particularly the annual planning for 2005 and the long-term business development of the ELMOS Group were treated in detail together with the Management Board.

CORPORATE GOVERNANCE AND DECLARATION OF COMPLIANCE

For the benefit of the company, Management Board and Supervisory Board cooperate closely, and both are committed to the sustainable increase of the company's value. On December 17, 2004 the company issued an updated declaration in accordance with § 161 AktG on the compliance with the recommendations of the Corporate Governance Code in its version of May 21, 2003 and made it permanently accessible to the shareholders on the company website. It can also be found on page 30 of this annual report. This declaration announces that ELMOS differs from those recommendations only on five counts: personal excess of the Board members' D&O insurance, the limit for Management Board remuneration in the shape of share options, the constitution of Supervisory Board committees, and the individualized disclosure of the Management Board and Supervisory Board members' total income. In comparison to the last year, the issue of a cap to the Management Board's remuneration for future share option programs was considered in the last General Meeting at shareholders' request. Such a cap was already allowed for in the share option program decided on in December 2004.

AUDIT AND GROUP AUDIT

By consulting the auditors of Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Dortmund, the Supervisory Board concerned itself in its February 24, 2005 meeting with the audit of the financial statements and the consolidated financial statements as of December 31, 2004. According to the shareholders' resolution of April 27, 2004 and the ensuing commission given by the Supervisory Board, the financial statements prepared in accordance with HGB regulations for the fiscal year ended December 31, 2004 and the status report of ELMOS Semiconductor AG were audited by

Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Dortmund, as auditor. The auditor issued an unrestricted auditor's certificate. The consolidated financial statements of ELMOS Semiconductor AG were prepared in accordance with US-GAAP. As the exemption rule of § 292a HGB provides for, consolidated financial statements according to HGB were not prepared. Special notes in compliance with § 292a HGB were added accordingly. The consolidated financial statements according to US-GAAP and the Group status report also received an unrestricted auditor's certificate by the auditor.

In addition, the auditor examined the report of ELMOS Semiconductor AG on relationships with affiliated companies in accordance with § 312 HGB and issued an unrestricted auditor's 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 Supervisory Board approved the result of this audit.

The audit reports and documents were handed over to the Supervisory Board immediately after their preparation. In the financial meeting on February 24, 2005, in which the auditors participated as well, the financial statements and reports as of December 31, 2004 were dealt with and examined comprehensively. The auditors reported on the essential results of their examination and were available for additional information.

After its own examination of financial statements and status report as well as consolidated financial statements and Group status report, the Supervisory Board approved the result of the auditors' examination and, in its meeting on February 24, 2005, approved of financial statements and consolidated financial statements. Financial statements are hereby established. The Supervisory Board follows the Management Board's proposal for the appropriation of retained earnings, the payment of a dividend of 0.21 Euro per share from the retained earnings of ELMOS Semiconductor AG of 40.5 million Euro and the carry forward to new accounts of the remaining amount.

LINE-UP OF SUPERVISORY BOARD AND MANAGEMENT BOARD

During the fiscal year 2004 there were no changes in the line-ups of Management Board and Supervisory Board.

The employment contracts for Management Board members Knut Hinrichs and Dr. Klaus Weyer which expired in April 2004 were extended by another term of five years by the Supervisory Board.

The office period of the Supervisory Board members expires with the conclusion of the General Meeting on April 26, 2005. The Supervisory Board presents an election proposal for the re-election of its members. In selecting the candidates, attention is paid to the requirement that at any time the Supervisory Board must have members who have the necessary knowledge, capabilities, and specialist experience and who are sufficiently independent.

We thank the Management Board and the employees for their performances, their high commitment, and the success they achieved.

Dortmund, February 24, 2005

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

† Mr. Knut Hinrichs passed away on March 1, 2005. We consider his sudden death a huge and indispensable loss. With him ELMOS loses an outstanding entrepreneur and manager who lead the company from its humble beginnings to become a renowned semiconductor manufacturer. With great dedication and personal commitment, he directed his efforts towards the success of ELMOS as his life's work. We owe him the greatest debt of gratitude.

► Declaration of compliance

The following declaration required by § 161 AktG has been issued and made accessible to the shareholders by ELMOS Semiconductor AG in 2004. Management Board and Supervisory Board of ELMOS Semiconductor AG declare in accordance with § 161 AktG:

"ELMOS Semiconductor AG complies with the recommendations of the "Government Commission German Corporate Governance Code" (in short: GCGC) in its version of May 21, 2003 with the following exceptions:

- The currently valid D&O insurance for Supervisory Board and Management Board does not provide for a deductible for the board members (GCGC No. 3.8). Based on the undefined legal position concerning personal liability of the individual Board members, an adaptation of the insurance is currently not being realized.
- No limit ("cap") is possible for already issued share options with regard to the Management Board members' remuneration with share options in case of extraordinary, unforeseeable developments (GCGC No. 4.2.3). Beginning in the year 2004, the Supervisory Board will issue share options to members of the Management Board only with a cap provided for.
- Even though the Management Board members' remuneration is stated in the internet as well as in the annual report with reference to fixed components, success-dependent components, and components with a long-term incentive effect (share options), these statements are made in summarized and not individualized form (GCGC 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 (GCGC Nos. 5.3.1 and 5.3.2).
- The Supervisory Board members' remuneration also consists of fixed components and success-dependent components. Supervisory Board remuneration is stated in the internet as well as in the annual report with reference to its components, yet 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 (GCGC No. 5.4.5)."

Dortmund, December 2004
The Management Board — The Supervisory Board

► Supervisory Board

From left to right:

Herbert Sporea
Businessman | Altwittenbek

Prof. Dr. Günter Zimmer, ***chairman***
Institute director | Duisburg

Dr. Burkhard Dreher, ***deputy chairman***
Graduate economist | Dortmund

Dr. Roland Mecklinger
Graduate engineer | Steinfeld-Hausen

Dr. Wolfgang Heinke
Graduate physicist | Reutlingen

Not in this picture:

Dr. Karl-Thomas Neumann
Graduate engineer | Meine

ELMOS CONNECTS ELECTRONICS WITH MECHANICS

On a wet road,

stability gives you safety.


DO IC 1

ELMOS CONNECTS ELECTRONICS WITH MECHANICS

On a wet road,
the electronic stability program (ESP) corrects your vehicle's tendency to skidding. Components connecting electronics and mechanics respond in fractions of a second.

1. The ABS/ESP sensor measures wheel revolutions and transmits the data to the ABS/EPS control.
2. The yaw rate and tilt angle sensor detects if the vehicle gets into an irregular position.
3. Engine control regulates and measures all pertinent engine functions to achieve the optimum performance.
4. The steering angle sensor determines how far the steering wheel is turned.
5. The ABS/ESP control analyzes the sensor's information and balances irregular movements.
6. The power brake increases the impact of the step on the brake pedal.


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ELMOS CONNECTS ELECTRONICS WITH MECHANICS

Where purely mechanical systems used to work in the past, today and tomorrow combined electronic-mechanical solutions are found: Cooling fan, power steering, power brake, water pump, and valve train. Advantages: combined solutions save energy by employment as required, increase safety by quicker response, improve efficiency by individual cylinder control, and are less expensive than conventional components.

1. The ABS/ESP sensor measures wheel revolutions and transmits the data to the ABS/EPS control.
2. The yaw rate and tilt angle sensor detects if the vehicle gets into an irregular position.
3. Engine control regulates and measures all pertinent engine functions to achieve the optimum performance.
4. The steering angle sensor determines how far the steering wheel is turned.
5. The ABS/ESP control analyzes the sensor's information and balances irregular movements.
6. The power brake increases the impact of the step on the brake pedal.
7. Power steering increases the drivers steering power.
8. The electronic water pump regulates the engine's cooling as required.
9. The acceleration sensor detects if the vehicle begins to skid.
10. The active shock absorption adjusts to road conditions and the style of driving.
11. The starter-generator combines starter and generator in a "stop and go" solution saving space and energy.
12. The electronic valve train optimizes the combustion in the individual cylinder.


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GROUP STATUS REPORT OF ELMOS SEMICONDUCTOR AG FOR 2004

► Business and economic framework

BUSINESS ACTIVITY AND STRATEGY

Leading market position for automotive electronics achieved

ELMOS develops, produces, and sells highly integrated, mostly application specific microelectronic circuits, primarily for automotive use. Roughly 90 percent of sales keep originating from this market segment in 2004.

Within the past two decades ELMOS has achieved a leading market position as semiconductor manufacturer on the European market for automotive electronics. A survey by Gartner Dataquest lists ELMOS as the worldwide No.3 in the segment ASICs (Application Specific Integrated Circuits) for the automotive market.

Position	Company	2003 (USD million)	Growth 2002-2003	Market share
1	ST Microelectronics	317	31%	26%
2	NEC Electronics	155	28%	13%
3	ELMOS Semiconductor	117	38%	10%
4	AMI Semiconductor	103	23%	9%
5	Philips	101	4%	8%
	Others	409	7%	34%
	Total	**1,202**	**19%**	**100%**

Source: Gartner Dataquest 2004

ELMOS ASICs are put to use by almost all European car manufacturers. Ever-increasing demands on the reduction of fuel consumption and the environmental compatibility of an automobile, and especially on its passengers' safety and comfort, lead to more and more electronic devices used in the car. Semiconductor components by ELMOS are ideally suited to the compact, reliable, and economical construction of those systems.

Ever since its establishment ELMOS caters to sheltered niche markets using its own know-how. It is the company's strategy to convince with production technology consistently optimized in response to market demands and also with customer specific product development. Therefore ELMOS usually develops products by the customer's order for a specific application and manufactures these products for the customer exclusively. ELMOS directs its efforts at running a successful business as the customers' competent partner and raising its own shares of the market.

Apart from customer specific circuits which comprise roughly 80 percent of the products, ELMOS offers a portfolio of marketable application specific standard products (ASSPs) as well as micromechanical sensors produced by the U.S. subsidiary company Silicon Microstructures Inc. (SMI). In addition to that, the producing subsidiary ELMOS Advanced Packaging B.V. (formerly eurasem) in the Netherlands supports the technology and product portfolio.

ELMOS produces all ASICs itself. For this purpose ELMOS operates its own production site for semiconductor components (wafer fab) in Dortmund. ELMOS distinguishes itself from most competitors both by automotive-suited high-voltage CMOS technology and by the system-compatible integration of analog and digital functions with on-chip driver performance.

ASIC*plus* combines the ELMOS Group's capabilities

With the slogan "ASIC*plus* – more than a chip!", ELMOS develops and markets application specific, mechatronic modules. These modules combine the capabilities of the three producing companies within the ELMOS Group and consist of signal processing semiconductor components, micromechanical sensors, and a functional packaging. With these modules ELMOS is able to realize economical system solutions for its customers.

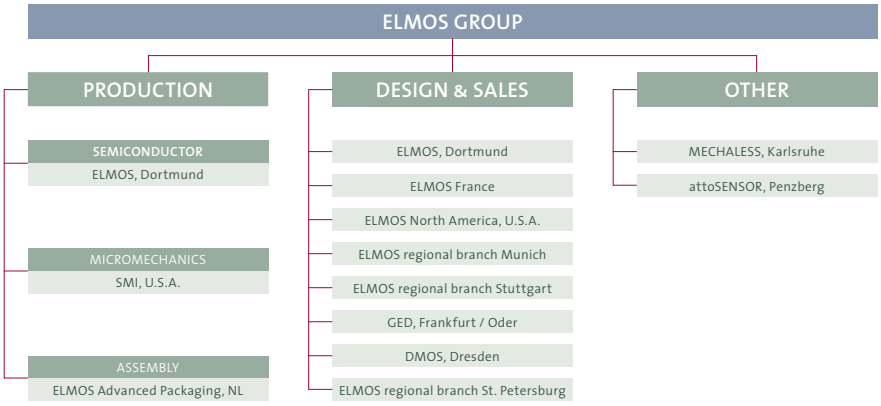
Apart from the automotive market, ELMOS is also active in the industrial and consumer markets and supplies customer specific circuits for applications in household appliances, cameras, installations, building technology, and machine control units. These markets amounted to about ten percent of sales in the past year.

ORGANIZATIONAL STRUCTURE

The business model responds to the automobile industry's demands as well as the customers' requirements for innovation, quality, flexibility, and delivery reliability. The resulting tight customer-supplier relationship is mirrored in the structure layout of the ELMOS Group. Several branches, subsidiary and partner companies at various locations in Germany, Europe, and worldwide provide distribution and application support to the customer on the spot. This network comprises, among others, the

branches in Munich and Stuttgart, the subsidiaries ELMOS France, MECHALESS, and GED, and cooperation partners attoSENSOR, DMOS, and MAZ. ELMOS France is present on the French market, apart from Germany the most important regional market to the company, and offers application and design support on the spot. ELMOS North America operates the North American market from its headquarters in Farmington Hills near Detroit, center of the American automobile industry.

Organizational structure overview



Located in Milpitas, California, SMI develops, distributes, and manufactures micromechanical components (MEMS) in its own plant. SMI ranks among the technology leaders for high-precision pressure sensors in silicon. The components are used primarily in sensorics. Besides pressure sensors SMI also develops sensors for acceleration and rotary motion which are of special interest to the automobile industry. SMI provides solid serial production facilities and capabilities at its own production site in California.

Apart from SMI, ELMOS Advanced Packaging is the only subsidiary with its own production. Located in Nijmegen, Netherlands, ELMOS Advanced Packaging is a highly specialized assembler for the semiconductor industry and develops and manufactures packaging for electronic semiconductor components and sensors. In addition to packages in compliance with JEDEC regulations, customer and application specific special packages – partly distinguished from the competition by patented know-how – belong to the portfolio in particular. The Nijmegen plant is equipped with state-of-the-art technology. As of December 31, 2004 ELMOS Advanced Packaging took over the operational business from the company eurasem, which covered

roughly 57 percent of all assembly services for ELMOS in 2004. Besides the assembly within the Group, the company also provides the assembly of special packages to external customers.

Both the software and hardware activities of the HALIOS® inventors and the ELMOS activities regarding optical sensor systems are combined, optimized, and specifically marketed under the roof of the company MECHALESS. Because two more percent of the shares were economically attributable to ELMOS, MECHALESS was fully consolidated in the year 2004 for the first time. The same year numerous order developments were carried out by MECHALESS. Especially remarkable is the successful development of an optical input medium for a major producer of telecommunication devices and the use of HALIOS® sensors for lane detection in an automobile.

attoSENSOR is an engineering office developing innovative inductive sensor systems for positioning by the use of patented know-how and ASICs by ELMOS. attoSENSOR products are high resolution encoders for industrial automation technology. The existing customer contacts were further developed and a large number of multi-annual serial delivery contracts were signed.

Distinction between semiconductor, micromechanics, and assembly

In its segmental reporting ELMOS makes a distinction between the segments semiconductor, micromechanics, and assembly. The segment micromechanics consists of SMI, assembly consists primarily of ELMOS Advanced Packaging. The remaining companies are recorded under the segment semiconductor. As the Group internal services provided by ELMOS Advanced Packaging exceed its external activities by far, ELMOS will discontinue segmental reporting on the segment assembly from 2005 on.

Relationships with affiliated companies

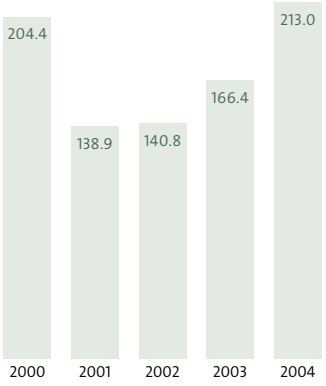
With indirect and direct shareholdings of 57.7 percent, ELMOS Finanzholding GmbH (EFH) is the major single shareholder of ELMOS Semiconductor AG. Therefore the Management Board prepared a report on the relationships with affiliated companies according to § 312 AktG (German Corporations Act) concluding 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 did not result for us from our relationships with affiliated companies."

ECONOMIC FRAMEWORK

As a manufacturer of semiconductors for the automobile industry, the semiconductor market is relevant to ELMOS from the producer's viewpoint, for example regarding the purchase of production machines. However, of far greater importance to the business development are the customer markets which primarily depend on automobile production, and particularly on the proportion of electrics/electronics per vehicle.

Semiconductor market in billion USD



Source: Semiconductor Industry Association (SIA)

Semiconductor market

In 2004 the semiconductor industry was able to achieve a two-digit growth in sales for the first time in years. After 2001, the year of crisis for the semiconductor industry with a decline in sales of 32 percent compared to the record year 2000, the total sales volume rose from roughly 166 billion US-Dollar in 2003 to 213 billion US-Dollar in 2004 worldwide. With a growth in sales of almost 30 percent in comparison with the previous year, the industry took up the high growth rates of former years. Memory chips for computers and camera chips for mobile phones were the biggest growth drivers in 2004. Global sales in 2004 even exceeded the high level of 2000.

The euphoria vanished in the second half-year after a satisfying first half-year, so that an upward trend for the semiconductor market can only be reckoned with for 2006, following a sideways motion in 2005.

The semiconductor market's economic situation is important to ELMOS insofar as the cost of raw materials, supplies and purchased goods as well as purchased services and the acquisition costs of capital equipment fluctuate in response to business conditions. The customers' order behavior is also highly dependent on the general state of the economy. There are always excessive "panic orders" in boom periods and significant reserve in periods of slackness.

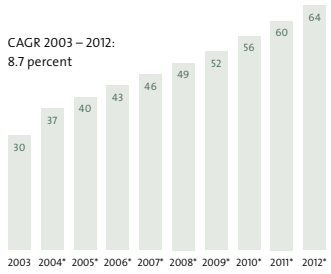
Automobile industry and automotive electronics

ELMOS profits from the growing share of electronics per vehicle

The development of the market for automotive electronics is crucial to ELMOS as it influences roughly 90 percent of ELMOS sales. Changes in the automotive semiconductor market are characterized by the state of the automobile industry's economy and the growing share of electronics in an automobile.

2004 was a successful year for the automobile industry: New vehicle registrations in 2004 showed a significant increase. This is a pleasant surprise keeping in mind the predictions for a declining trend. One of the reasons for that was a strong year's finish leading to an increase in new car registrations in Europe. This resulted in a plus of 2.1 percent for the whole year, corresponding with 14.5 million new registrations, the

Automotive electronics market in billion USD



** Prognosis | Source: Zentralverband Elektrotechnik und Elektronikindustrie (ZVEI)*

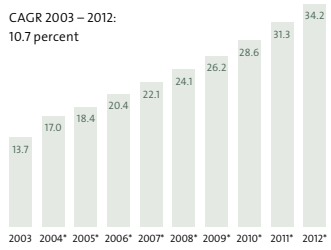
highest number since 2001. Car sales in Germany for the whole year 2004 increased by 0.9 percent, the first growth in five years. One percent more new automobiles were sold in the U.S. in 2004. The Japanese car market grew by seven percent. This results in a growth rate of about four percent for worldwide sales in 2004.

The automobile production shows low long-term growth rates. However, the automotive semiconductor market, in which the ELMOS Group is active, profits from the sustainable trend towards the increasing share of electronics per car. The sales growth of automotive electronics is generated less by increasing numbers of new registrations and to a higher extent by the increasing number of electronic fittings. This market looks forward to an annual sales increase of 8.7 percent on average until 2012. The ever-increasing requirements for safety, comfort, and environmental compatibility as well as the increasing replacement of mechanical functions by electronics are responsible for this prognosis.

Automotive semiconductor market

The market on which ELMOS unfolds most of its business activity, semiconductor chips for the automobile industry, is an interesting niche market of the global semiconductor industry. This special market comprises a worldwide share of about eight percent of the total market. Owing to the influence exerted by the automobile production and the increasing share of electronics per vehicle, the automotive semiconductor market shows a significantly higher stability than the global semiconductor market does, which is affected primarily by the developments of memory and communication chips. Special distinguishing features of the automotive semiconductor market are the product life cycles, atypically long for the semiconductor industry, and the resulting long delivery periods of partly more than ten years, the long-lasting customer-supplier relationships, the extremely high demands on quality, and high planning reliability.

Automotive semiconductor market in billion USD



** Prognosis | Source: Zentralverband Elektrotechnik und Elektronikindustrie (ZVEI)*

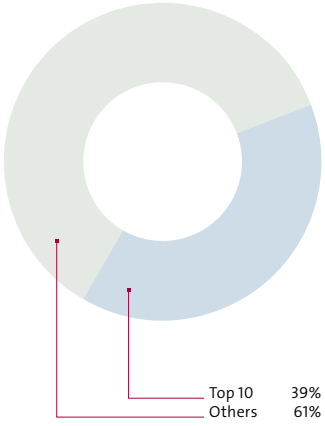
The market primarily addressed by ELMOS is in itself just a part of the automotive semiconductor market, namely the market for predominantly customer specific semiconductors. The large semiconductor producers, looking for utilization of their vast production capacity, do not focus upon these ASICs because of the comparably small number of annual units. Another feature which distinguishes the ASIC business is very close supplier relationships between the customer and one individual ASIC manufacturer as a result of the customer's wish to protect his own know-how. Therefore the automotive semiconductor market is primarily catered to by small and medium-sized suppliers with whom ELMOS is in competition. These are, among others, AMI Semiconductor, Bosch (semiconductor division), and Melexis.

PRODUCTION AND CAPACITY

Machine capacity currently at about 450 wafer starts a day

Since 1999 ELMOS has exclusively manufactured on the 150mm wafer line (corresponds with 6 inches) in Dortmund. This line was expanded in 2004 according to schedule in order to be prepared for the next technological generations and the increasing demands on production capacity. Production rooms and facilities are equipped with the latest technology to allow processes with structure sizes up to 0.35 micrometers. Thereby they provide a solid platform for the ELMOS production of the next ten years. Machine capacity came to roughly 450 wafer starts a day by the end of the year 2004, of which about 380 wafer starts a day were used – a utilization of roughly 85 percent in comparison with about 70 percent in 2003. More than 120,000 wafers were manufactured altogether in 2004.

Sales according to products



In 2004 about 150 different products with considerable sales volumes were produced parallel to each other, 21 of which were newly introduced to the production phase. Therefore a large number of new product starts characterized the year 2004.

In the assembly segment more than 63 million components were assembled for ELMOS alone, complemented with about five million components for third-party customers. ELMOS Advanced Packaging covered about 57 percent of the assembly services for ELMOS in the whole year 2004.

The bestselling ELMOS product in 2004 was an airbag ignition IC, coming to 6.1 percent of total sales. The ten bestselling products mounted up to 39.3 percent of sales. All of these were ASICs. In some cases a customer-specific product is delivered to several customers. This statement, appearing contradictory at first, results from certain co-developments of products, especially with BMW. These products are then used in different BMW models via several suppliers. ASSPs are also sold to several customers.

Future capacity

Dortmund production line expandable

Providing the production capacity that the future development requires is of the utmost importance to ELMOS as a producing company. Since investments in production make up the largest part of the entire investment budget, careful and long-term planning is necessary. The capacity of the existing production line in Dortmund can still be expanded by the recruitment of additional staff and further investments in machines and expansion of space. By the measures initiated in 2004 additional areas can be devoted to production in the medium term, hence expanding capacity to a maximum 600 wafer starts a day. This surpasses earlier estimates of a maximum 500 wafer starts daily. Thus sufficient production capacity for the growth planned for the next two to three years can be provided.

Cooperation with IMS secures additional capacity

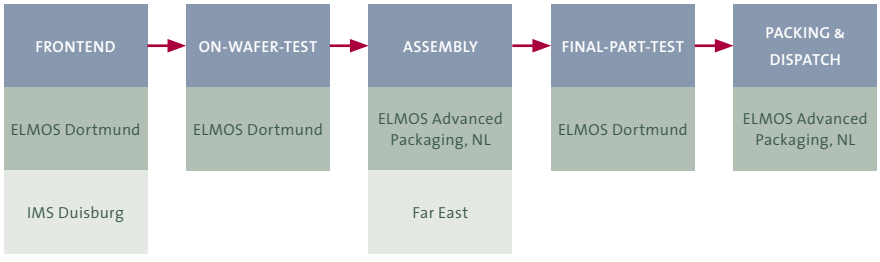
Since the end of 2003, ELMOS has carried on a cooperation project with the Fraunhofer Institute for Microelectronic Circuits and Systems (IMS) in Duisburg with the objective to conclude a contract with the Fraunhofer Gesellschaft on the use and operation of the institute's production line in order to further secure sufficient production capacity. The IMS runs a 200mm wafer line (corresponds with 8 inches) for research purposes. From today's perspective a capacity of up to 200 wafer starts a day can be established for ELMOS. In the year 2004 the process transfer was begun with on schedule and first test batches were manufactured in Duisburg. In 2005 the first products are scheduled to be qualified on the 200mm line, allowing for the start of first serial manufacture in 2006.

Because production on the larger 200mm wafers is less expensive, the IMS capacity is intended to be utilized first. Subsequently, the Dortmund capacity will be subject to expansion based on 150mm or even 200mm wafers.

Regardless of that an expansion of the testing (backend) area capacity in Dortmund is necessary in the year 2005 already. The initial plan provided for the gradual move of backend capacity towards the Dutch subsidiary ELMOS Advanced Packaging. However, the construction of a backend clean room of suitable size either in the Netherlands or in Germany is inevitable. The decision favored the expansion in Dortmund due to the advantage that the entire backend operation will be carried out at one location under one management.

In addition to the assembly, ELMOS Advanced Packaging in the Netherlands will take over the production steps packing and logistics which were carried out in Dortmund before. The future added value chain will look the following:

Production steps of an ELMOS ASIC



Long-term investment budget

The whole investment requirement for the long-term provision of production capacity and the requirements of the other companies of the ELMOS Group were combined into a multi-annual investment budget. This outline plan allows for investments to the annual amount of 30 million Euro for the next years.

RESEARCH AND DEVELOPMENT

ELMOS acts from a sheltered position

For the ELMOS Group, the non-automotive markets still serve as drivers for innovation as they used to in the past. The automobile industry's high demands on quality and reliability of the ICs as well as long development periods leading to serial production counteract a fast development of semiconductor technologies. The other fast-moving markets with short-term product life cycles and different demands on speed and chip size lead to the establishment of the latest technologies in the shortest amount of time and in fast succession. Technologies for these innovation driving markets are used in the automotive semiconductor market only with a significant delay. ELMOS always acts from a sheltered position both on the automotive and on the consumer and industrial fields, either due to technological reasons or special application know-how.

Activities for the development of new process technologies with smaller structure sizes and FLASH option as well as the further development of the silicon-on-insulator (SOI) technology amount to a part of the expenditure for research and development. The technologists' and process engineers' research and development expenditure (R&D) in the year 2004 focused on the product introduction of the 0.5 micrometer high-voltage process technology, the development of the FLASH option, and the structure minimization (shrink) within the framework of the SOI technology. Parallel to that several projects for the optimization of component size and features of important high-voltage components relevant to typical ELMOS applications were carried out. In addition the pre-development of 0.35 micrometer process technology was begun with. ELMOS consistently follows its strategy to offer innovative solutions superior to the competition by use of its own process technology.

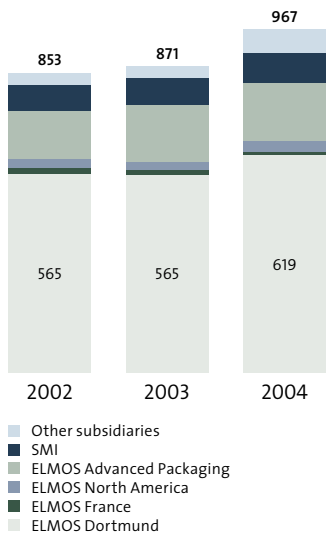
Apart from the development of new processes, by far the bigger part of the expenditure for research and development is spent for the development of new products. In the year 2004 the customers continued to exert pressure towards the supplier taking over the research and development costs for an ASIC. This means that a majority of the product development costs must be pre-financed by the ASIC supplier – ELMOS – and amortized only through serial unit production. In addition the automobile manufacturers have seen to it that their suppliers assume responsibility for systems which they in turn pass on to the second-line suppliers. These obligations are there-

fore taken over by ELMOS at an increasing rate. As a direct result the expenditure for research and development increased by 4.1 million Euro compared to the previous year, corresponding with a rate of roughly 17.0 percent of total sales.

EMPLOYEES

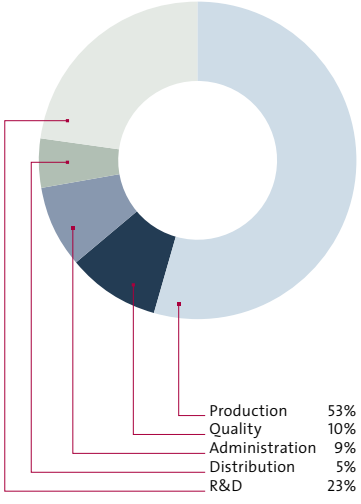
As a technology company, ELMOS profits to a great extent from the employees' know-how. Their motivation, understanding, and flexibility are the prerequisite to the company's long-term success. Especially with regard to the development of new products and processes, the employees constitute the deciding criterion for growth and innovation. At the Dortmund location, in Germany's most-populated federal state North Rhine-Westphalia, ELMOS is able to recruit from a great number of well-trained young engineers as there are more than 50 universities and colleges in the vicinity of Dortmund. As the sole semiconductor manufacturer in the region, ELMOS holds a singular position. It therefore keeps attracting satisfying numbers of young professionals even in times of declining student numbers in the engineering departments. Since its foundation ELMOS has closely cooperated with the neighboring universities, colleges, and institutes, and many employees now in executive functions once started out as ELMOS interns. Most employees have been with ELMOS for many years.

Staff development (end of year)



Despite a strict saving policy in 2004, ELMOS was among the few companies again providing new jobs. In the fiscal year 2004 the ELMOS Group had altogether 928 employees on the annual average as compared to 874 employees in 2003. The new appointments were primarily provided by the departments research and development and distribution, and they were influenced by the first-time consolidation of MECHALESS. By the end of the year 967 people were employed (2003: 871 employees), 619 of which at the Dortmund location. The average age of employees in the ELMOS Group is 35 years. In the year 2004 the fluctuation comes to 3.2 percent.

Employees grouped according to functions



On the occasion of the 20th company anniversary and in consideration of the difficult situation on the job market, ELMOS took on 20 additional trainees in the year 2004, amounting to 35 trainees altogether to start their job training at ELMOS in 2004. Nearly half the new trainees are trained in the profession of microtechnologist, a job outline which ELMOS helped form decisively, established at the end of the nineties. Apart from microtechnologists, ELMOS trains physics lab technicians, electricians for industrial technology, clerks for office communication, industrial clerks, information and telecommunication electricians, IT specialists, IT clerks, and electricians. By the end of 2004 57 Dortmund employees were trainees. The trainees of today are tomorrow's specialists.

Management Board and employees in Dortmund work together in a trusting partnership. An employee representative committee with its own statutes represents the employees' interests in numerous subcommittees both among each other and towards the management. There are subcommittees for social issues, human relations, employee promotion, and economic issues.

Share option programs

The employees' long-term commitment to the company and stake in the company's profits are both achieved by annual share option programs. These programs provide for the issue of share options to employees below Management Board level and, at identical conditions, to the Management Board members. As additional prerequisite to the Management Board members' share options, a limit ("cap") to the performance was introduced with the share option program 2004. Share options for Management Board members are also variable remuneration components with long-term incentive effect.

By shareholders' resolution of April 27, 2004 conditional capital up to an amount of Euro 930,000 is provided for the share option program. In its meeting on December 17, 2004, the Supervisory Board approved the Management Board's resolution on the issue of up to 160,000 share options to employees below Management Board level as well as 40,000 share options to Management Board members, at an issue price of 13.98 Euro. 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 hurdle of ten percent. Options may be exercised after two years at the soonest, and they are exercisable for the following three years. Options may only be exercised within certain exercise windows.

In 2004 employees and Management Board members subscribed for 295,722 share options stemming from the share option program of 2003. As of December 31, 2004 altogether 803,210 share options were outstanding, originating from the programs of the years 1999 through 2003. So far no options have been exercised.

QUALITY MANAGEMENT

Resolute implementation of the zero defect strategy

Within the context of continuous improvement processes, ELMOS resolutely implements its zero defect strategy, achieving an outstanding automotive-suited quality level. Regular examinations of the tools put to use, following the serial products from development up to manufacture, constant analyses and statistical procedures make this high quality level possible. Internal laboratories examine not only possible defect mechanisms of semiconductor manufacture but also sensor and packaging specific features.

Starting in the mid-nineties, ELMOS has set up a quality management system which is audited annually in accordance with DIN ISO 9001 and the standards QS 9000 and VDA 6.1. All these norms have been subsumed under ISO/TS 16949:2002 with worldwide validity. In 2004 ELMOS Dortmund, ELMOS North America, ELMOS France, and GED were audited and certified in accordance with the new norm.

As has been mentioned in the last annual report, ELMOS won the much-coveted "Delphi Electronic Europe Supplier of the Year 2003" award for the excellent quality of its products.

ENVIRONMENTAL PROTECTION AND WORKPLACE SAFETY

Occupational safety and environmental protection are considered equal in rank next to the products' quality and economy. Compliance with the law, minimization of environmental damages, the staff's sense of responsibility, conservation management, and continuous improvement and communication are some of the principles of the ELMOS environmental policy.

The environmental protection management was certified in accordance with DIN EN ISO 14001 (by TÜV Rheinland) at the Dortmund location in the year 2003 for the first time. In 2004 its confirmation followed in the shape of a supervision audit showing no divergences.

The departments workplace safety and environmental protection are established directly below Management Board level. ISO 14001 systematically and permanently anchors environmental protection in the management. In managing environmental protection, ELMOS emphasizes both effective prevention and efficient capacity utilization.

In 2004 ELMOS presented the eco report for the fiscal year 2003. It informs comprehensively about all environmentally relevant activities, the environmental effects resulting from these activities, and the organization of workplace safety. A case in point, the product related water consumption was decreased by more than 15 percent as compared to 2002. The relative electricity and natural gas consumption was also reduced in comparison with the year before.

► The future of automotive electronics

The market for automotive semiconductors has been standing out for many years due to solid growth and positive future prospects. The penetration with electronics has reached a high level in Europe with regard to all car manufacturers, and it makes good progress internationally. However, critical voices are being raised which point out problems with a supposed excess of electronics in automobiles. To prove their point, those critics often refer to the number of recall actions reaching a sad high point in 2004. Will this lead to a drop of the growth rate and eventually to a problem for ELMOS?

On the occasion of the 20th birthday of the company ELMOS organized a workshop at which experts from the companies Audi, BMW, ContiTeves, Hella, Kostal, Siemens VDO, Volkswagen, and ZF-Lenksysteme gave talks on the future of automotive semiconductor and sensor technology from different viewpoints. These reports taken together presented a jigsaw puzzle which showed the car of tomorrow – and the challenges and opportunities for ELMOS.

20th company anniversary program

In the last 20 years electronics have proven to be the innovation driving technology in automobile manufacturing. Only with the help of electronics the ever stricter statutory waste emission regulations or the required reduction of fuel consumption could be complied with, and the numerous improvements with regard to comfort and safety were only made possible by electronic systems. Those manufacturers that observed this trend early on and put to use electronics specifically as a distinguishing feature, as BMW did, have developed above average.

The trends established by those trailblazers have meanwhile seized the entire industry and have become accepted standards in many cases. Considering the variety of electronic components and systems in modern cars and the increasing occurrence of connected problems the question must be raised whether a market saturation might have already taken place or whether electronics might be on the retreat again. This is most certainly not the case as the combined solutions – in which mechanics and electrics/electronics work together – have replaced the former purely mechanical solutions increasingly in the last five years in particular. Those combined systems are the superior and, above all, more economical solutions today's cars cannot be imagined without primarily for financial reasons. Even the planned "low-price cars" will contain a minimum of electronic devices for engine control and safety systems. However, approaches must be developed on how to deal with the increasing demands on development, production, and maintenance while familiar mechanical solutions are increasingly replaced by more and more electronic control devices.

The experts' reports delivered during the ELMOS workshop paid attention primarily to three focal points.

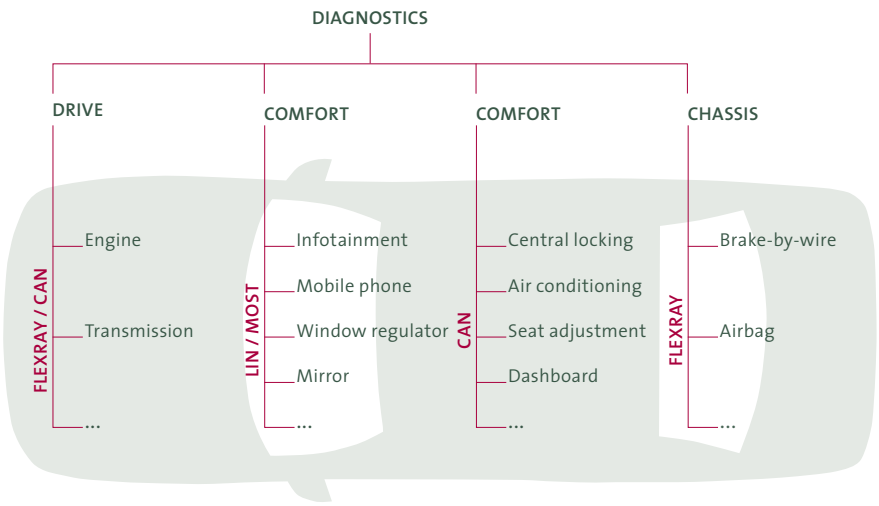
NETWORK AND STANDARDIZATION

An increasing amount of functions require more and more connections between sensors, control devices, and actuators in an automobile. Systems for comfort, safety, and information technology are networked with adjusted so-called BUS systems and made more efficient. This automotive network has clearly gained in importance since the mid-nineties and now arrives at U.S. automobiles. The advantages of multiplex wiring harnesses with significantly reduced weight are used in Europe in virtually every car already.

One example: More than 40 electronic control units are fitted in the new Golf V from Volkswagen. These are almost as many as in use in the premium cars Phaeton and Touareg. For comparison: The predecessor model Golf IV only had 16 control units. Thereby Volkswagen has caught up with the high amount of electronics customary with premium manufacturers. Now it is up to all manufacturers to master the entire system's complexity safely. Therefore efforts for standardization are increasingly successful. With regard to software the initiative AUTOSAR, which defines a sort of "open systems interface" and intends to guarantee the cooperation and interchangeability of system components, is worth mentioning. Regarding hardware the estab-

lished BUS systems are accepted as standards throughout the industry. These are LIN with regard to the bodywork, CAN for average requirements, and FLEXRAY in the safety temperamental high-speed area. In addition, the MOST protocol dominates the network of infotainment components.

Electronic layout in the modern car



Until today ELMOS has supplied more than 70 million BUS interface ICs

Since the introduction of BUS systems by BMW in the year 1999, ELMOS has been serial supplier and has delivered more than 70 million BUS interface ICs until today. No other ASIC manufacturer is able to look back on a comparable delivery history.

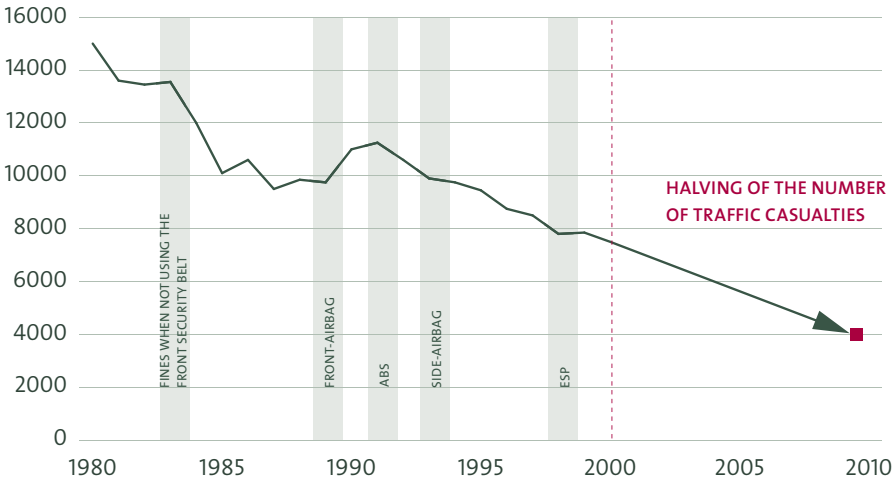
DRIVER ASSISTANCE SYSTEMS

Driver assistance systems will have a great future growth potential. They are the next step on the way to making driving even safer and simpler. Electronics are meant to compensate for human weaknesses such as long reaction time or fatigue and therefore make driving easier. Thus the driver is able to concentrate on what's important, the ever increasing traffic.

Airbags belong to the applications of greatest importance to ELMOS

For ELMOS the airbag is one of the most important applications. Thanks to the use of safety belt and airbag systems the number of traffic casualties in Europe was halved in the last 20 years despite tremendously increased density of traffic. The aim set in advance for the automobile manufacturers by the European Union is yet another halving until the year 2010.

Traffic casualties in Germany and target-setting by the European Commission

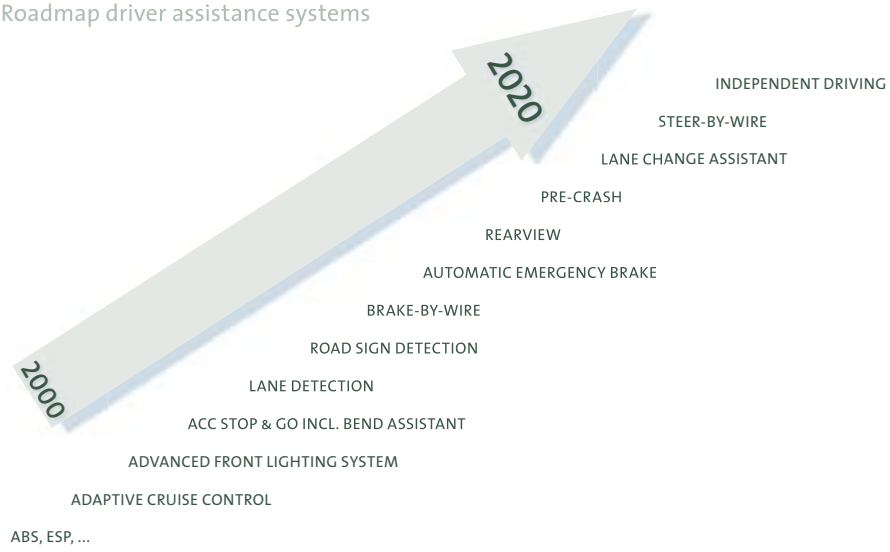


Source: Volkswagen | IRTAD

New systems integrate active and passive safety

Now the protection of other road-users besides automobile passengers becomes an issue, especially the protection of pedestrians. Above all it is necessary to detect the cause for accidents early on and to prevent them from happening if possible. This can be managed with the help of sensors directed both to the in- and exterior, recognizing the driver's state of well-being and his reactions, improve the vision in the dark and in the fog, read the distance to the shoulders of the road and to other road-users, and alert if necessary. Cameras of a new fashion and radar sensors belong to this category, "smart" lighting systems which illuminate bends dependent on current speed or even "know" the course of the road, controlled by GPS. The LED technology opens up tremendous potential for improvement especially for vehicle lighting for which the braking-power dependent brake light brightness is but one example.

Roadmap driver assistance systems

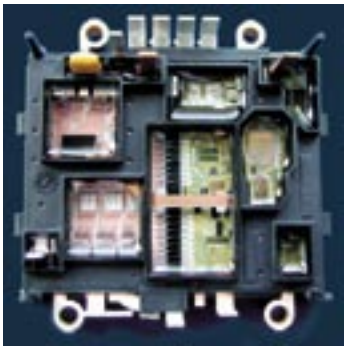


The lane detection system in Citroën's C4 and C5, advertised extensively by Citroën in the media since the end of 2004, also belongs to this category. In the TV commercial, the driver steers the car blindfold over a narrow bridge. This stunt is made possible by an optical lane detection system based on ELMOS HALIOS® technology which consists of six sensors inside the front bumper. It detects the road markings even if concealed under a layer of snow.

MECHANICS COMBINED WITH ELECTRONICS

Another big element of tomorrow's car is the increasing replacement of mechanics and its combination with electronics. The combination of these elements opens up entirely new possibilities for the reduction of fuel consumption and the increase of safety. Electrical systems can be turned on and off as required, and therefore save gasoline. This development started years ago with the electrically driven cooling fan. The electro-hydraulic or fully electrical steering aid followed suit, providing servo assistance when it was needed for maneuvering, turned off on the highway. Last year an electrically driven water pump was put to serial use for the first time, by BMW. Here as well ELMOS ASICs were the decisive components.

Electrical water pump/water pump control electronics in hybrid structure



Source: Kolbenschmidt Pierburg AG | AB Mikroelektronik GmbH

Intensive work is dedicated to the electrical or rather electrically supported brake because this device can gain deciding milliseconds during an emergency stop. Through a shortened braking distance, it can save lives. Together with the already highly developed components for driving stability (ESP or DSC), systems of a new kind are created in the laboratories, integrating active and passive safety. Sensors and modules by ELMOS often play a crucial part. Electronic ignition and electronic fuel injection have brought with them tremendous improvements regarding exhaust emissions and consumption with a simultaneous increase in performance. This gives an idea of another clear step being made towards an eco-friendlier car by an electrical valve train, replacing the old camshaft and operating each cylinder individually. With the connection between chip and sensor in a customer specific package, ELMOS offers innovative solutions for use close to the engine.

CONCLUSION

Electronics is the means of choice

On the basis of numerous very specific examples and projects from their own companies, the experts were able to show that there is no end in sight by any means for the growth of automotive electronics. On the contrary, electronics is the means of choice for the targeted halving of traffic casualties in the next year by compensating for human deficits with innovative assistance systems. The also aimed-for improvements regarding the reduction of exhaust emission are only possible by a resolute further development of electronics.

The high grade of equipment of European cars but indicates the level automobile manufacturers on the other continents are approaching increasingly. There is no doubt: The share of electronics per car keeps rising in the future. The share of electrics/electronics in the automobile's value will reach a ratio of about 35 to 40 percent in the year 2010. With its specialized ASICs, ELMOS has obtained an outstanding position for those applications in nearly all growth segments.

► Profit, financial and assets situation

SALES DEVELOPMENT

ELMOS Group key figures according to US-GAAP

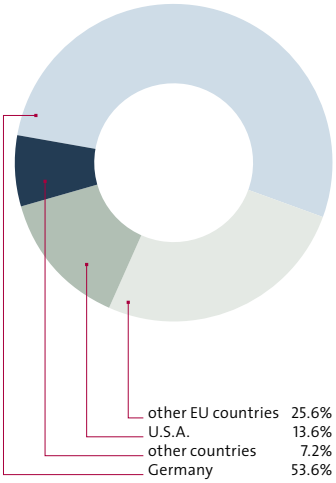
	2003	2004	Change
Sales	121.4 m Euro	143.3 m Euro	18.1%
Book-to-bill	1.12	0.97	
Gross profit	61.4 m Euro	73.6 m Euro	19.8%
in percent	50.6%	51.3%	
Expenditure for research and development	20.4 m Euro	24.4 m Euro	19.9%
in percent	16.8%	17.0%	
Operating income	21.6 m Euro	29.6 m Euro	36.9%
in percent	17.8%	20.6%	
EBIT	21.1 m Euro	28.7 m Euro	36.2%
in percent	17.4%	20.0%	
Income before taxes*	17.3 m Euro	25.3 m Euro	46.3%
in percent	14.2%	17.6%	
Group net income	10.0 m Euro	16.3 m Euro	62.8%
in percent	8.3%	11.4%	
Earnings per share (basic)	0.52 Euro	0.85 Euro	62.8%
Dividend per share	0.13 Euro	0.21 Euro**	

** Income before income taxes, equity in loss of unconsolidated subsidiaries and minority interest*
*** Proposal to the General Meeting in April 2005*

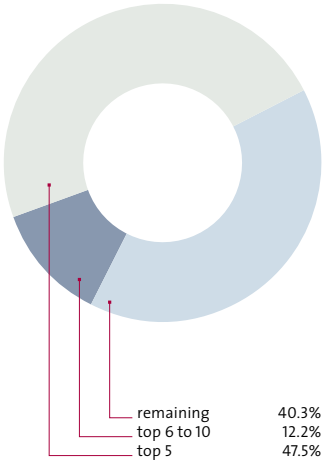
Sales increased by 18 percent

In the year 2004 ELMOS returned to the growth rates of the past. Sales increased in 2004 by 21.9 million Euro, or 18.1 percent, to 143.3 million Euro in comparison with the previous year. This is the highest growth rate of sales since 2000 and the consequence of the new projects won in the last years.

Sales according to regions



Sales according to customers



Sales according to regions*

The regional distribution of net sales in the Group shows a German share of 53.6 percent in 2004, roughly just as high as the year before (2003: 55.4 percent). Germany still is the highest-volume region for the ELMOS Group. The share of the other EU countries of the Group sales increased slightly to 25.6 percent (2003: 24.2 percent). The share of sales contributions from the U.S. remained nearly constant at 13.6 percent (2003: 14.8 percent) despite the weak US-Dollar.

Sales according to customers

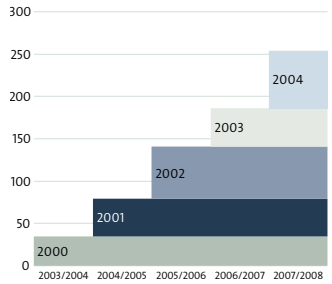
ELMOS supplies a large number of customers, altogether more than a hundred. Usually these are suppliers to the automobile industry. In 2004 the Swedish company Autoliv replaced the French company Valeo as top customer. Autoliv contributes about 15.0 percent of sales. At roughly 14.4 percent, Valeo is the new number two. The five top customers altogether generate 47.5 percent of the ELMOS sales, the top ten make up for 59.7 percent. In comparison with the previous year, the customer structure did not change essentially. The concentration is qualified by the fact that the customers each obtain a multitude of products from ELMOS. The company supplies Autoliv with more than 20 products for applications used in airbag systems for the most part, and it delivers over 30 products to Valeo for applications in bodywork electronics and generator regulators, for example. These products are used in different car models with different production periods that overlap with regard to sales generation.

Orders received

After strong incoming orders during the first half-year, a significant drop was recorded starting in August 2004. The order behavior of the ELMOS customers is characterized by the general situation of the semiconductor market despite a low correlation. The market cycle showing signs of overheating in the first half-year and corresponding precautionary orders resulted in a more reserved order behavior in the second half-year. On the annual basis, the ratio of orders received to sales in the semiconductor segment dropped to an amount of 0.97 as compared to 1.13 in the previous year.

* *Sales according to regions are established by the customer's invoice address. Changes within company structures may lead to the recording of different regional sales while not necessarily providing information about a structurally changed customer basis.*

Expected sales from design wins 2000-2004 in million Euro



Assumption: five years product life cycle

New projects (design wins)

The foundation for the long-term growth of the ELMOS Group is primarily determined by the acquisition of new projects. The sustained interest of the customers in individual solutions shows by the large number of newly won development projects. 29 development projects, also called design wins (2003: 31 projects), were acquired in the past year, amounting to a projected sales volume of roughly 340 million Euro over the life cycles (2003: 227 million Euro).

The majority of these projects, namely 22, consists of customer specific orders (ASICs) and will be sales-effective only in about three years, following product development, qualification, and release by the customer. The remaining seven projects are application specific standard products (ASSPs). The ASSPs marketed by ELMOS are usually derivates or generalizations of ASICs, always distinguished by innovative features and protected IP (intellectual property).

PROFIT SITUATION

Gross profit

Increased sales and higher capacity utilization

After deducting the cost of sales, the ELMOS Group achieved a gross profit of 73.6 million Euro. This increase is attributable in particular to the sales growth and the higher utilization of production capacity. The disproportionately low increase of cost of sales in relation to sales resulted in an increased gross margin of 51.3 percent in 2004 (2003: 50.6 percent). ELMOS thereby passed the targeted 50 percent clearly. Owing to higher utilization of production capacity, this result was reached in spite of the large number of production starts of new products (21 product starts in 2004), typically achieving lower yields and therefore lower margins during the beginning stages.

Operating income

Due to an altogether disproportionately low rise of cost of sales, the operating income 2004 was raised to 29.6 million Euro. This corresponds with an increase of 8.0 million Euro compared to the previous year. The proportion of operating income to sales came to 20.6 percent in comparison with 17.8 percent in the year before.

R&D expenditure meant to rise in proportion to sales

The expenditure for research and development rose to 24.4 million Euro, slightly out of proportion to sales. These expenses amounted to 17.0 percent of sales compared to 16.8 percent in 2003. Included in the expenditure for research and development is above all the development of new products and processes. Because these lay the foundation for the company's future, it is the ELMOS objective to keep the future development of R&D expenditure roughly in proportion to sales. However, considering the numerous design wins, the expenditure for research and development shows only a moderate cost increase.

Marketing and sales expenses rose to 7.0 million Euro, thereby coming to 4.9 percent of sales (2003: 5.5 percent). General administrative expenses fell by 1.5 percent to 12.6 million Euro in 2004. They only amount to 8.8 percent of sales as compared to 10.6 percent in the previous year. The reduction is a consequence of the restructuring measures taken in 2003.

EBIT

Earnings before interest and taxes climb by 36 percent

The earnings before interest and taxes (EBIT) rose to 28.7 million Euro by 36.2 percent in comparison with the previous year. That the EBIT showed a lesser increase in relation to the operating income is due to other net expenses. Allocations to write-downs of marketable securities, adjusted by counterbalancing tax effects, tax audit effects, the reversal of write-downs, and public funds in support of research and development expenditure lead to summarized expenses of 0.8 million Euro (previous year: 0.4 million Euro).

Income before income taxes, equity in loss of unconsolidated subsidiaries and minority interest (Pre-tax income)

In the fiscal year 2004 interest charges came to 3.4 million Euro, falling below the prior year interest charges by 9.7 percent. This was attributable mainly to the improvements of interest conditions negotiated with the lending banks and to a lesser degree to smaller liabilities due to banks. The pre-tax income amounted to 25.3 million Euro, surpassing the prior year amount by 46.3 percent.

Group net income and earnings per share

Group net income rose by 62.8 percent

The tax rate could be reduced to 34.4 percent in the fiscal year 2004. The Group net income 2004 increased disproportionately high by 62.8 percent to 16.3 million Euro. Earnings per share come to 0.85 Euro after 0.52 Euro in 2003.

Proposal for the appropriation of retained earnings

ELMOS Semiconductor AG* achieved retained earnings of 14.4 million Euro. The retained earnings carried forward from 2003 came to 26.1 million Euro. The Management Board and the Supervisory Board propose to the General Meeting on April 26, 2005 that a dividend of 0.21 Euro per share be paid. This payment would tally with a dividend total of roughly 4.1 million Euro.

** The financial statements of ELMOS Semiconductor AG have received an unrestricted auditor's certificate. It is published in the Federal Gazette ("Bundesanzeiger"), deposited with the Register of Corporations, and may also be ordered as a special publication in print.*

Sales and profit situation according to the segments

Segment key figures

Segment	2003	2004	Change
Sales in million Euro	**121.4**	**143.3**	**18.1%**
Semiconductor	107.7	130.7	21.3%
Micromechanics	9.3	9.1	– 2.7%
Assembly	4.4	3.5	– 18.5%
Book-to-bill	**1.12**	**0.97**	
Semiconductor	1.13	0.97	
Micromechanics	1.03	0.94	
Assembly	0.99	0.98	
Gross profit in million Euro	**61.4**	**73.6**	**19.8%**
Semiconductor	58.1	68.9	18.5%
Micromechanics	3.1	3.7	16.2%
Assembly	0.2	1.0	n.a.
Gross margin in million Euro	**50.6%**	**51.3%**	
Semiconductor	53.9%	52.7%	
Micromechanics	33.8%	40.4%	
Assembly	3.5%	29.3%	
Operating income in million Euro	**21.6**	**29.6**	**36.9%**
Semiconductor	21.2	27.1	27.9%
Micromechanics	0.3	0.8	n.a.
Assembly	0.1	1.7	n.a.

Semiconductor

The semiconductor core business of the ELMOS Group is operated through the various companies in Germany, France, and the U.S. Third-party sales in the semiconductor segment gained 21.3 percent to achieve 130.7 million Euro. The semiconductor segment remains to have the highest importance to ELMOS and amounts to roughly 90 percent of the ELMOS Group's sales as the year before. This is due primarily to the increasing number of products. The gross margin of the semiconductor segment achieved 52.7 percent, once more the highest margin of the three segments.

Micromechanics

The segment micromechanics comprises the activities of the subsidiary company SMI. Sales of SMI are achieved in US-Dollar exclusively. After sales of 10.9 million US-Dollar in 2003, SMI increased its sales to 12.0 million US-Dollar in 2004, but clearly fell below the targeted sales of 14 million US-Dollar. Third-party sales of the segment micromechanics lost 2.7 percent in Euro, due to exchange rates, and amounted to roughly six percent of Group sales.

Despite this slight growth in sales, SMI improved its profitability. After a net loss in 2003, the net result reached a positive amount in 2004, even though price reductions towards the previous owner MSI were to be compensated for. This improvement is above all attributable to the advanced conversion of the manufacture to 150mm wafers. By the end of the year 2004 70 percent of the products were manufactured on 150mm wafers, by the beginning of the year only ten percent were.

Manufacture and technology related delays in starting new products cause the lesser growth of the segment micromechanics. The operating income came to 0.8 million Euro, corresponding with a margin of 8.6 percent as compared with 3.1 percent in 2003.

Assembly

Segmental reporting for assembly to be discontinued in 2005

The segment assembly contains the business activities of ELMOS Advanced Packaging. Because of reduced activity in the external marketing of products, external sales decreased in 2004 in relation to 2003. In 2004 third-party sales came to 3.5 million Euro. ELMOS Advanced Packaging assembled roughly 57 percent of all packages for ELMOS in 2004. There are plans for a continuing increase of the Group internal services for ELMOS. In 2004 the margins of the assembly segment improved significantly in comparison with the previous year due to internal measures for efficiency increase and also to raised prices demanded from the external customers. Because of the relatively decreased third-party sales it is intended to discontinue segmental reporting for assembly in 2005.

FINANCIAL SITUATION

ELMOS Group key figures according to US-GAAP

in million Euro unless otherwise indicated	2003	2004	Change
Net income	10.0	16.3	+ 62.8%
Depreciation	14.6	12.7	– 12.9%
Changes in operating assets and liabilities	– 5.3	– 1.1	– 78.8%
Other items	– 12.7	7.0	n.a.
Net cash provided by operating activities	**6.5**	**34.9**	n.a.
Capital expenditure	– 25.3	– 33.5	+ 32.4%
in percent of sales	21%	23%	
Other items	28.8	2.4	– 91.7%
Net cash used in investing activities	**3.4**	**– 31.2**	n.a.
Net cash provided by financing activities	**– 1.2**	**– 5.9**	n.a.
Change in cash and cash equivalents	8.8	– 2.2	n.a.
Free cash flow (net cash provided by operating activities less net cash used in investing activities)	**10.0**	**3.7**	**– 62.9%**

Operating cash flow clearly higher than in the previous year

Net cash provided by operating activities

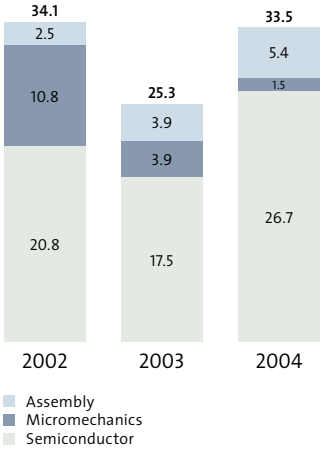
Net cash provided by operating activities was raised by more than five times in relation to 2003. It came to 34.9 million Euro for the whole year 2004 as opposed to 6.5 million Euro in 2003. Reasons are the significantly higher net income and improvements affecting the management of net working capital. There was also no significant cash outflow for taxes of past years which amounted to more than ten million Euro in 2003.

Net cash used in investing activities

In the past fiscal year ELMOS used altogether 33.5 million Euro for capital expenditure. This is an increase by 32.4 percent compared to 2003. In contrast to the previous year no sale and leaseback transactions for technical equipment and machines were carried out in 2004.

Of the total investments 26.7 million Euro or roughly 80 percent were allotted to the segment semiconductor. The major part of this expenditure was used for machines and production equipment. Because of the high utilization of production and the many incoming orders in the first half-year, expansion investments in frontend and backend were partly brought forward.

Capital expenditure by segment



About five million Euro were spent for intangible assets such as software for circuit development and simulation, order developments within the framework of new technologies, and the expanded use of SAP software in the ELMOS Group. Roughly one million Euro was invested in building substance and external areas; for the renewal of airing facilities and the capacity enhancement of the location infrastructure (such as de-ionized water supply, nitrogen generation) roughly 1.4 million Euro were spent.

Investments in the micromechanical segment come to 1.5 million Euro and contain machines and equipment for the ongoing conversion of production from 100mm to 150mm and for new technologies.

The assembly segment invested roughly 5.4 million Euro in machines for the assembly of special packages within the context of ASIC*plus* projects, in a neighboring building, in buildings and fittings as well as in the further expansion of the building in Nijmegen acquired in 2003. The production steps packing and logistics will be operated in the adjacent building starting in 2005.

Financing capex with operating cash flow

Net cash provided by financing activities

Despite high investment activity in 2004, the net cash provided by operating activities not only covered the required means but allowed the repayment of 3.6 million Euro in long-term liabilities on top of the payment of a dividend to an amount of 2.5 million Euro.

Cash and cash equivalents decreased by roughly 2.2 million Euro to 15.3 million Euro in the year under report. The share of cash and cash equivalents of the total assets comes to 7.0 percent.

ASSETS SITUATION

ELMOS Group key figures according to US-GAAP

in million Euro unless otherwise indicated	Dec. 31, 2003	Dec. 31, 2004	Change
Cash and cash equivalents	17.4	15.3	– 12.3%
Trade accounts receivable	26.6	27.8	4.6%
Inventories	22.1	25.1	13.6%
Other current assets	17.2	9.4	– 45.1%
Total current assets	**83.3**	**77.6**	**– 6.8%**
Intangible assets	28.9	34.2	18.3%
Property, plant and equipment	80.1	94.1	17.6%
Other assets	13.1	13.8	6.0%
Total assets	**205.3**	**219.8**	**7.0%**

ELMOS Group key figures according to US-GAAP

in million Euro unless otherwise indicated	Dec. 31, 2003	Dec. 31, 2004	Change
Trade accounts payable	7.9	11.0	38.9%
Amounts payable to banks	17.6	17.8	0.6%
Current portion of long-term obligations	4.0	3.7	– 6.7%
Other current liabilities	9.9	12.7	28.6%
Total current liabilities	**39.5**	**45.2**	**14.6%**
Long-term obligations	38.9	36.1	– 7.1%
Other obligations	2.3	2.2	– 2.9%
Shareholders' equity	124.7	136.2	9.3%
Total liabilities and shareholders' equity	**205.3**	**219.8**	**7.0%**

The ELMOS Group's total assets rose from 205.3 million Euro in the year 2003 by 7.0 percent to 219.8 million Euro. The main reason for this increase was the rise in property, plant and equipment, especially with regard to technical equipment and machinery. The distribution of the total assets according to segments shows the semiconductor segment was responsible for the highest increase both in absolute figures and percentage.

Segmental key figures

in million Euro unless otherwise indicated	Segment	Dec. 31, 2003	Dec. 31, 2004	Change
Total assets				
	Semiconductor	148.7	160.5	8.0%
	Micromechanics	24.0	24.5	2.0%
	Assembly	32.6	34.8	6.6%
		2003	**2004**	
Depreciation				
	Semiconductor	11.3	10.0	– 11.8%
	Micromechanics	0.8	0.7	– 18.6%
	Assembly	2.4	2.0	– 16.2%

Net working capital

Inventories increased from 22.1 million Euro at the beginning of the year under report to 25.1 million Euro as of December 31, 2004. The share of the total assets remained unchanged at roughly eleven percent. The inventory turnover was increased to 2.8 times in 2004.

Trade accounts receivable also gained lightly from 26.6 million Euro to 27.8 million Euro. The management of accounts receivable was significantly improved in the year under report; accounts receivable were outstanding only an average 71 days (previous year: 80 days).

Trade accounts payable managed more efficiently

Trade accounts payable were also managed more efficiently in the year under report 2004. Invoices were paid an average ten days later than in the previous year. Part of the increase is attributable to obligations from investments made in 2004 but not yet paid for. This makes trade accounts payable appear unusually high at first glance. Cash and cash equivalents tied in net working capital were altogether reduced from 166 days in 2003 to 145 days.

Liabilities and shareholders' equity

The interest-bearing liabilities were decreased in total from 60.6 million Euro to 57.6 million Euro as of December 31, 2004. Despite the repayment of obligations payable to banks, the net debt lightly increased from 34.7 million Euro to 38.7 million Euro. This is due primarily to the drop in marketable securities to 3.6 million Euro.

ELMOS Group key figures

	Calculation	Unit	2003	2004
Net working capital	Trade accounts receivable + inventories – trade accounts payable	million Euro	40.8	41.9
of sales		percent	33.6%	29.2%
Inventory turnover	Cost of sales / inventories	x	2.7x	2.8x
Receivables turnover	Sales / accounts receivable	x	4.6x	5.2x
Payables turnover	Cost of sales / trade accounts payable	x	7.6x	6.3x
Cash cycle	Inventory days + debtor days – creditor days	days	166	145
Net debt	Amounts payable to banks + current portion of long-term obligations + long-term obligations – cash and cash equivalents – marketable securities	million Euro	34.7	38.7
Gearing	Net debt / shareholders' equity	percent	27.8%	28.4%
Equity ratio	Shareholders' equity / total assets	percent	60.7%	62.0%

The ELMOS Group's shareholders' equity rose from 124.7 million Euro to 136.2 million Euro. Because of this disproportionately high increase of 9.3 percent in relation to the growth of total assets, the equity ratio increased from 60.7 percent at the end of the year 2003 to 62.0 percent as of December 31, 2004.

► Supplementary report

No events of particular importance can be reported.

CHANGE TO IFRS

Article 4 of Regulation No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 obliges ELMOS Semiconductor AG as a capital market oriented company to change the preparation of its consolidated financial statements over to IFRS. ELMOS will totally implement this change as of December 31, 2005.

This means that the financial statements as of December 31, 2005 to be published in the spring of 2006 will disclose accounting according to IFRS for the first time. These statements will show the given period as of December 31, 2004, correspondingly. The given period as of December 31, 2004 brought in according to IFRS will make it possible for capital market participants to compare between IFRS and US-GAAP. All quarterly consolidated financial statements and consolidated financial statements after December 31, 2005 will be prepared according to IFRS exclusively.

▸ Risk report

RISK MANAGEMENT SYSTEM

In the year under report, ELMOS Semiconductor AG applied its comprehensive risk management system, in accordance with § 91 (2) AktG and implemented in 2002, to the Group companies step by step and further refined it. The risk management system of ELMOS and its application were duly examined of accordance with the regulations of the German Commercial Code (HGB) and the Corporations Act (AktG) at the end of the year and found effective by Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Dortmund. It provides for the regular recording and assessment of new and known risks by the employees responsible and establishes a closed-loop reporting system. The company departments of the ELMOS Group report on a monthly basis on the development of finances and operations. In the year 2004 the risk management reporting was changed over to intranet based input. Thus an easier and more reliable collection of data and distribution of information is made possible. By these devices Management Board and Supervisory Board are informed regularly and timely of the risk situation and are enabled to take appropriate action for risk minimization or defense, respectively. This risk management system will be continuously expanded and refined in 2005 according to changing prevailing conditions.

It is the strategy of ELMOS to cover interest and currency risks by suitable instruments, such as corresponding derivative products. ELMOS enters from time to time 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 profit situation. ELMOS does not engage in speculation.

DEPENDENCE ON THE AUTOMOBILE INDUSTRY

Demand for ASICs is relatively robust

The ELMOS core business is directly connected to the automobile industry's demand for ASICs. Roughly 90 percent of sales are made with ASICs for automotive electronics. 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 in automobiles. Owing to the increase of electronic applications in cars, unit numbers of ASICs sold even rise if the number of cars produced stagnates or declines.

It can be observed that in times of slack markets the automobile industry often offers cars at standard prices with higher-value fittings. 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 robust in consequence and to be subjected to the fluctuations of vehicle units to a lesser extent.

In the past the car market used to be subjected to considerable fluctuations as a result of mergers of manufacturers, restrictive environmental laws, and other factors. A certain dependence is surely detectable in the ELMOS customer structure. However, it has to be taken into account that sales generated by a single customer are not usually attributable to a single product, i.e. overlapping life cycles are involved as well. Due to the importance and specialization of ASICs by ELMOS for the products of the car manufacturer suppliers, the relationship with the customer is really characterized by mutual dependence. Large sales volumes achieved with a few major customers can therefore indicate promising long-term customer relationships with corresponding sales potential. It very rarely happens that two suppliers are commissioned to develop one and the same ASIC at the same time. That is because the suppliers to the automobile industry operate under considerable cost-effecting pressure themselves, 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.

COMPETITION AND EMPLOYEES

Little competition for ELMOS by large manufacturers

There is a large number of competitors offering products similar to the ones ELMOS offers, based on a similar technological foundation, on the market for automotive semiconductors. In addition 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. This particular happens in phases in which the classic semiconductor business suffers drops in the segments memory chips and telecommunication. Attempted market penetrations by several competitors could be observed in the year 2004. However, as considerations with respect to profitability force these large manufacturers to focus on high-volume projects, their commitment to the niche market for customer specific circuits is always relatively low. On the other hand ELMOS has won an increasing number of high-volume contracts recently. Therefore ELMOS will compete with the large manufacturers increasingly in the future and feel the corresponding pressure on pricing.

The company's extremely development–intensive business activity leads to a clearly pronounced and highly specific engineering know-how, although not necessarily to patents. As a result ELMOS is increasingly dependent on individual employees. The risk of fluctuation is reduced at ELMOS by the perceptibly high motivation of the staff and their strong identification with the company. The employees for example participate in the success of ELMOS through a share option program.

Not covered development costs are amortized through serial production

DEVELOPMENT OF NEW PRODUCTS AND TECHNOLOGIES

It must be considered with regard to the customer specific development of products that today's manufacturer, winning a new contract, is usually no longer able to collect reimbursements for the total one-off development costs from the customers in advance anymore. The development costs not covered in advance are amortized through the later units in serial production. The risk remains that not amortized expenses from product developments not resulting in a supplier relationship will remain with the company. However, the number of products not resulting in a supplier relationship has been very small in the past.

The market for ELMOS products is characterized by constant further development and improvement of the products. Accordingly, the success of ELMOS is closely related to the company's ability to economically develop new sophisticated products, to introduce them to the market on time, and to ensure that these products are chosen by leading suppliers to the automobile industry.

The future success of ELMOS is also dependent on the ability to come up with new development and production technology. 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 to 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 in the future, significant effects on the assets, financial and profit situation would be likely to result.

Owing to the ability of ELMOS to develop and manufacture ASICs for all kinds of electronic automotive applications, ELMOS products are represented in almost any electronic car component so that the risks of order cancellation for an individual electronic component are widely spread and practically do not exist. A slump in the car industry for several years in a row, causing car manufacturers not to develop any new electronic products, 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 because 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 automotive use can be reduced.

The current ELMOS production capacity is sufficient for the growth targeted for 2005 and 2006. Parallel to the expansion of the manufacture in Dortmund, the process transfer to the Fraunhofer Institute in Duisburg was begun with in the year 2004, establishing another location for production from 2006 on. With this ELMOS gains access to additional production capacity allowing a maximum 200 wafer starts a day (200mm wafers), sufficient for the targeted sales increase until the end of this decade.

PROCUREMENT

The raw materials needed for ELMOS production are available from different suppliers worldwide and not subjected to monopolies. A certain dependence on individual Far East partners in the assembly segment 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 ELMOS Advanced Packaging. By the end of 2004 ELMOS Advanced Packaging provided approximately 57 percent of the assembly services required by ELMOS. As a consequence ELMOS grows increasingly independent from the Far East partners or rather fluctuations of the US-Dollar.

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 lives of third parties. ELMOS cannot reduce or exclude liability in its sales contracts with regard to customers or third parties.

Products tested several times

ELMOS resolutely follows a zero defect strategy and constantly invests in the detection and avoidance of sources of error and defects. The individual semiconductor chips are usually tested even several times at different temperatures with regard to quality and function inside the plant. Although 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 before delivering its products, product defects might still show only after installation and use of the product by the consumer.

If those product defects materialize, expensive and time-consuming product modifications might ensue, leading to disrupted customer relationships and a loss of market shares. A quality problem of whole batches might additionally result in customers' claims for compensation in the million Euro range. This risk is adequately covered by insurance. Still all this could affect the company's assets, financial and profit situation in a negative way.

PARTICIPATIONS

The high allocation of investments 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 for all subsidiary companies in order to make sure that no existential risks will ensue from the business activity of those companies.

INTERRUPTION OF BUSINESS

Apart from the business risks already described and discussed, according to ELMOS assessment 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.

Production lines operated independently

ELMOS already reduced this risk by its operation of an additional production line (200mm line) at the Fraunhofer Institute in Duisburg beginning in 2006. At a later point in time another production line can be constructed in a separate building at the Dortmund location. Thus ELMOS will have several independent production lines at its disposal which can be operated independently of each other.

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 recall action are adequately covered by insurance. Further risks capable of significantly damaging the development of the Group or jeopardizing its continued existence are not discernable at present.

► Outlook report

ELMOS remains niche supplier of customer specific automotive semiconductors

ELMOS will keep focusing on customer specific applications for the automobile industry as a niche supplier. The ELMOS technology, the ELMOS design, and the production in ELMOS manufacture are the solid pillars of this strategy.

The successful automotive ASIC business is going to be completed by the increased marketing of application specific mechatronic modules combining ASICs, sensors, and functional packages, with patented technologies if applicable. In addition application specific standard products, usually based on previously developed ASICs and aiming for demand by several customers, are intended to expand the product portfolio.

It is another objective of the ELMOS Group to increase the sales proportion on faster-developing markets besides the automotive market in order to use those markets as innovation drivers. Geographically speaking, ELMOS strives for a penetration of the North American market and in the medium term an increased expansion in the Asian market.

Share of electronics per car generates further growth of our market

Stagnation of the worldwide semiconductor markets is generally assumed for the year 2005. However, significant changes in worldwide demand for semiconductors in the automobile industry are not expected. The numbers of new automobile registrations will not carry surprises and follow the prior year numbers essentially. Owing to the continuously increasing share of electronics per car, the market for automotive semiconductors will keep growing. An increase by eight to nine percent is expected for automotive semiconductor chips until 2010.

This is underlined by a well-filled product pipeline due to the design wins of recent years and the satisfying incoming orders for 2005 despite a dropping book-to-bill ratio in the second half-year of 2004. A higher delivery volume corresponds with an increased utilization of production capacity in Dortmund destined to lead to a further improvement of the profit situation.

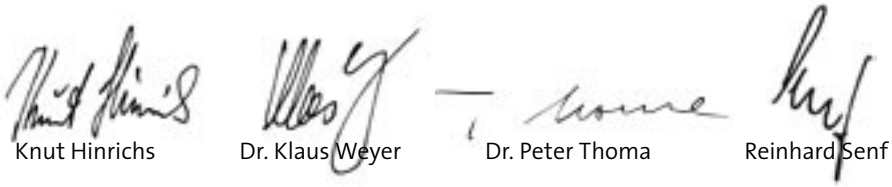
In the micromechanics segment the continuation of the conversion of the current production to 150mm wafers is on the SMI schedule. ELMOS expects from this another improvement of the gross margin especially in the foundry business for third-party customers. Of special importance are the planned serial starts of numerous new products. In cooperation with the semiconductor manufacture in Dortmund several important ASIC*plus* projects are developed with major European customers reaching deciding milestones in the year 2005. No substantial investments in either buildings or machines are scheduled for SMI in the year 2005.

Investments in the year 2005 will refer mainly to the described measures for the establishment of frontend capacity in both Duisburg and Dortmund as well as the backend expansion in Dortmund. As has been reported above, a corresponding medium-term investment plan for the next years has been devised. This outline plan of the ELMOS Group allows for investments in the next years of about 30 million Euro annually. The net cash provided by operating activities is targeted to cover the future investments so that the necessity of external financing will not arise.

Altogether the ELMOS Group aims for an increase in sales of more than 15 percent in the year 2005. The gross margin and the proportion of operating income to sales are supposed to reach their respective targeted values of 50 percent and 20 percent again.

Dortmund, February 2005

The Management Board



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

Sales	+ 18.1 %
Gross margin	51.3 %
Operating income	+ 36.9 %
Net income	+ 62.8 %
Earnings per share	0.85 €

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated balance sheet according to US-GAAP

Assets	Dec. 31, 2004 Euro	Dec. 31, 2003 Euro
Current assets		
Cash and cash equivalents	15,286,595	17,426,927
Marketable securities (note 2)	3,629,904	8,438,742
Trade accounts receivable less allowance for doubtful accounts of 156,500 Euro in 2004, 353,269 Euro in 2003	27,777,902	26,566,875
Inventories (note 3)	25,147,734	22,132,468
Prepaid expenses and other assets	5,803,386	8,757,505
	77,645,521	**83,322,517**
Deferred taxes	**13,274,744**	**12,709,374**
Intangible assets		
Goodwill after depreciation (notes 2 | 15)	8,314,399	7,622,344
Software (note 2)	35,138,106	28,715,741
Less accumulated depreciation	– 9,280,575	– 7,445,770
	34,171,930	**28,892,315**
Investments (note 4)	**559,828**	**342,739**
Property, plant and equipment		
Land	7,202,876	6,565,486
Buildings and improvements	63,040,386	60,185,797
Technical equipment and machinery	107,992,133	96,317,333
Construction in progress	14,253,989	6,219,503
Less accumulated depreciation	– 98,360,743	– 89,226,962
	94,128,641	**80,061,157**
Total assets	**219,780,664**	**205,328,102**

See notes to consolidated financial statements

Liabilities and shareholders' equity	Dec. 31, 2004 Euro	Dec. 31, 2003 Euro
Current liabilities		
Amounts payable to banks	17,750,354	17,638,171
Trade accounts payable	11,039,224	7,945,390
Provisions for salaries and wages, social security benefits and taxes	4,015,427	3,758,365
Other accrued liabilities	4,597,720	4,255,810
Accrued income taxes	4,072,637	1,853,268
Current portion of long-term obligations (note 5)	3,749,038	4,017,395
	45,224,400	**39,468,399**
Long-term obligations less current portion (note 5)	**36,127,507**	**38,898,265**
Non-current obligations	**1,608,986**	**2,104,340**
Minority interest	**608,040**	**178,496**
Shareholders' equity		
Share capital	19,300,000	19,300,000
Paid-in capital	84,918,244	84,716,644
Accumulated other comprehensive income (note 11)	– 11,081,400	– 8,613,429
Retained earnings	43,074,887	29,275,387
	136,211,731	**124,678,602**
Total liabilities and shareholders' equity	**219,780,664**	**205,328,102**

See notes to consolidated financial statements

Consolidated income statement according to US-GAAP

	2004 Euro	2003 Euro
Net sales (note 12)	**143,308,750**	**121,395,405**
Cost of sales	69,754,456	59,991,098
Gross profit	**73,554,294**	**61,404,307**
Research and development expenses	24,429,713	20,374,131
Marketing and sales expenses	6,954,423	6,642,202
General administrative expenses	12,619,265	12,809,220
Operating income	**29,550,893**	**21,578,754**
Interest expense (income)	3,442,848	3,812,961
Foreign exchange net loss (income)	41,059	134,089
Other net (income) / expenses	791,645	356,152
Income before income taxes, equity in loss of unconsolidated subsidiaries and minority interest	**25,275,341**	**17,275,552**
Income tax expenses (note 7)		
Current	9,628,627	6,307,541
Deferred	– 923,808	592,536
	8,704,819	**6,900,077**
Net income before equity in loss of unconsolidated subsidiaries and minority interest	**16,570,521**	**10,375,475**
Equity in losses of unconsolidated subsidiaries	– 57,233	247,090
Minority interest in earnings of consolidated subsidiaries	319,254	112,763
Net income	**16,308,500**	**10,015,622**
Basic earnings per share (notes 2 | 9 | 10)	**0.85**	**0.52**
Diluted earnings per share	0.84	0.52

See notes to consolidated financial statements

Consolidated statement of cash flow according to US-GAAP

	2004 Euro	2003 Euro
Net cash provided by operating activities		
Net income	16,308,500	10,015,622
Depreciation less appreciation	12,694,938	14,571,630
Non-cash effective expense	1,455,679	592,537
Minority interest	319,254	112,763
Equity in losses of unconsolidated subsidiaries	– 57,233	247,090
Share options granted	201,600	100,800
Changes in net working capital		
Accounts receivable	– 1,211,027	– 3,779,074
Inventories	– 3,015,266	1,948,233
Prepaid expenses and other assets	3,037,627	– 2,875,869
Accounts payable	3,093,834	– 3,516,759
Accrued liabilities	409,291	– 781,134
Accrued income taxes payable	1,618,345	– 10,091,636
	34,855,542	**6,544,203**
Net cash used in investing activities		
Capital expenditure	– 33,549,920	– 25,341,827
Disposal of fixed assets	706,629	29,983,506
Purchase / disposal of marketable securities	1,199,958	– 1,088,507
Purchase / disposal of investments	– 240,289	– 137,432
Purchase of cash and cash equivalents	720,851	0
	– 31,162,771	**3,415,740**
Net cash provided by financing activities		
Dividends paid	– 2,509,000	0
Change by minority shareholders	187,202	0
Dividends paid by consolidated subsidiary to minority shareholders	– 170,000	– 75,000
Proceeds of long-term obligations	91,292	6,605,921
Repayment of long-term obligations	– 3,625,761	– 3,213,545
Proceeds / repayment of notes payable	112,183	– 4,518,657
	– 5,914,084	**– 1,201,281**
Decrease / increase in cash and cash equivalents	**– 2,221,313**	**8,758,662**
Effect of exchange rate changes in cash and cash equivalents	80,981	– 370,563
Cash and cash equivalents at beginning of fiscal year	17,426,927	9,038,828
Cash and cash equivalents at end of fiscal year	**15,286,595**	**17,426,927**

See notes to consolidated financial statements

Consolidated statement of changes in shareholders' equity according to US-GAAP

	Shares	Share capital Euro	Paid-in capital Euro	Accumulated other comprehensive income / loss Euro	Retained earnings Euro	Total Euro
Balance as of 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
Share option expense			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 as of December 31, 2003	**19,300,000**	**19,300,000**	**84,716,644**	**– 8,613,429**	**29,275,387**	**124,678,602**
Net income					16,308,500	16,308,500
Dividends paid					– 2,509,000	– 2,509,000
Share option expense			201,600			201,600
Change in unrealized gains on marketable securities after taxes				– 985,515		– 985,515
Foreign currency adjustments				– 1,482,456		– 1,482,456
Balance as of December 31, 2004	**19,300,000**	**19,300,000**	**84,918,244**	**– 11,081,400**	**43,074,887**	**136,211,731**

See notes to consolidated financial statements

► Notes to consolidated financial statements

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 (US-GAAP). The company maintains its financial records in Euro 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 US-GAAP. The company has carried out all adjustments made necessary by the presentation of the consolidated financial statements in accordance with US-GAAP.

The preparation of consolidated financial statements in compliance 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.

In 2004 the Financial Accounting Standards Board (FASB) published new standards of accounting which could have an influence on the next consolidated financial statements:

The FASB published SFAS 123, "Share-Based Payment", in a revised version in December 2004. It replaces the FASB Statement No. 123, "Accounting for Stock-Based Compensation", abolishes APB Opinion No. 25, "Accounting for Stock Issued to Employees", and adjusts the FASB Statement No. 95, "Statement of Cash Flows".

The approach of the revised Statement 123 (R) corresponds in principle with the approach described in the replaced Statement 123. But from now on the recording of all share-based payments including share options at fair value is mandatory.

The company is expecting a significant influence on both the financial and profit situation of the fiscal year 2005 from the implementation. Regarding the amount of this effect please compare the pro forma earnings under note 9.

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 Standards 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 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 concluded an agreement with DMOS GmbH, Dresden (DMOS) on research and development services for particular projects effective November 1, 2002. In addition to pre-financing in the form of underwritten loans for the acquisition of property, plant and equipment 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. Since 2003 DMOS has predominantly provided 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, i.e. research and development activities. In excess of the means promised in the agreement of a maximum 370,000 Euro 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. Other financing agreements between DMOS and the shareholders or banking institutes do not exist.

Because of substance considerations DMOS was not included in the consolidation. The monthly payments are disclosed in the consolidated income statements under research and development expenses.

MECHALESS Systems GmbH, Karlsruhe

The company acquired a 49 percent interest in MECHALESS Systems GmbH, Karlsruhe (MECHALESS) as so-called "primary beneficiary" effective September 30, 2003. In addition to that, two percent of the share in MECHALESS have been attributable to ELMOS as economic owner since 2004. 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 activities. The amount of this quarterly installment will be reduced to zero until 2007 and substituted with a sales commission for products transferred to serial production.

Economically, the company is the proprietor of the basis 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, i.e. development and application activities. There are no promises of means by the other shareholders. They have also no recourse against the company. In excess of the means promised in the agreement of a maximum 400,000 Euro 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. MECHALESS was included in the consolidation as of January 1, 2004 for the first time. No considerable differences result from the purchase price allocation within the context of first consolidation. The net income of MECHALESS amounted to 94,000 Euro in 2004 and the included net assets came to 174,000 Euro as of December 31, 2004.

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 fair value as determined by the price achievable on the market as of 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".

Marketable securities

	Purchase cost Euro	Fair value Euro
Equity securities – December 31, 2003	20,260,320	8,438,742
Equity securities – December 31, 2004	19,060,318	3,629,904

SFAS No. 115 clarifies that a company is to determine for the individual equity securities classified as available-for-sale whether a decline in fair value below the amortized cost basis is other-than-temporary.

Insofar as the decline in fair value is assessed to be other-than-temporary, the total 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 equity securities in the portfolio showed a constantly rising performance in the past fiscal year up to March 2004. After that a repeated decrease in fair value occurred until the balance-sheet date. Because securities are still balanced significantly below purchase cost as of December 31, 2004 and this decline in value existed considerably longer than a year as of balance-sheet date, SFAS No. 115 rules that the qualification as 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 balanced equity securities is temporary or other-than-temporary, in particular

- the financial situation and current prospects of the issuer, especially the current cash flow data and the targeted earnings development,
- the company's intent and ability to retain its investment for a period of time sufficient to allow a complete recovery of the fair value,
- analysts' and industry experts' assessments and evaluations,
- the equity securities' performance after the balance-sheet date, and
- the equity securities' past performance in 2003 and 2004 and the comparison with the performances of comparable securities and indices.

Based upon its valuation as of December 31, 2004, the company management has assessed that the decline in fair value is essentially temporary. The write-down is considered other-than-temporary to an amount of three million Euro and is accordingly recorded as success-effective in the income statement at stated amount.

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 amounts payable to banks approximates the 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 at fixed and variable interest rates as well as of long-term and current obligations. Within this context, an examination of business and other financial 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 20,000,000 Euro. This agreement has a term of five years, expiring in 2008. The interest swap has not been treated 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 2004, 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 186,051 Euro as of December 31, 2004.

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 remained within the Management Board's expectations and customary limits.

Reclassifications

Certain prior period amounts were reclassified to conform with the current fiscal year's presentation and for the purpose of certain corrections.

Inventories

Inventories are stated at average purchase or construction 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. Tangible assets are written off over their respective estimated useful lives using the straight-line method:

Buildings	25 years
Improvements	10 years
Plant and office equipment	5 to 12 years
Software	3 years

As of January 1, 2004 the company revised its estimate of the economic useful lives of certain machines (essentially testers). In previous years these machines were written off over eight to ten years. The useful lives were then extended to twelve years in view of the fact that testers have been used considerably longer than ten years in the past. The changes were carried out in order to present the terms of use of these assets more accurately. It has the effect that the write-off expense was decreased and the earnings after taxes were increased by roughly 605,828 Euro (0.03 Euro per share).

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 not included in net income and are stated success-ineffective as a separate item under shareholders' equity. Income and expense accounts are translated at weighted average exchange rates for the recorded period.

The company enters from time to time 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 profit situation. The company does not engage in speculation.

The company's foreign exchange contracts do not subject the company's profit situation to risk because gains and losses on these contracts generally offset losses and gains on the assets and liabilities being hedged. As of December 31, 2004 there were no outstanding forward exchange contracts.

Revenue recognition
Revenues are recognized when products are shipped to customers or, if not coinciding, when the risk of loss transfers to customers. Within the framework of consignment agreements with customers, revenues are recognized only with the withdrawal of the products by the customer.

Product warranty
Provision for product warranty is recognized as a liability at the time of sale based on the relation of warranty expense to sales in the past.

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 reimbursed by customers amounted to 4,203 thousand Euro in 2004 (4,233 thousand Euro in 2003).

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 – primarily 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 useful lives, principally over seven years.

Expenses of 1,790,979 Euro related to software development were capitalized in 2004 (previous year 3,557,000 Euro). Capitalized software development was written off to an amount of 929,256 Euro in 2004 (previous year 477,127 Euro). The book value of capitalized software development comes to 5,508,481 Euro as of December 31, 2004 (12/31/2003: 4,646,758 Euro).

Costs incurred for patent application and the acquisition of design and process technology are capitalized. Capitalized costs are written off applying the straight-line method over the specifically shortest period considering the estimated useful life of the technology, the patent protection term, or the term of the contract, yet over a maximum of 18 years. As of December 31, 2004 the capitalized book value of process technology purchased as property, plant and equipment came to 9,242,689 Euro, in comparison with 9,653,935 Euro as of December 31, 2003.

Goodwill

Goodwill represents the excess of the purchase price of acquired companies over the fair value of acquired assets and liabilities. It is not regularly written off but reviewed annually or more frequently if impairment indicators arise, with regard to the necessity of extraordinary depreciation. The company's goodwill results from the acquisition of Silicon Microstructures, Inc. to an amount of 7,622,344 Euro.

In the fiscal year 2004 the remaining minority interest in ELMOS North America and eurasem B.V. was acquired by the parent company. An increase of goodwill to an amount of 692,055 Euro arises from these acquisitions.

Funding

ELMOS receives public funds used for the financing of research and development projects as well as the acquisition of real estate and tangible assets. Funds are classified as other liabilities until utilized. Public funds used for research and development projects are stated as other income (491,468 Euro in 2004 and 565,947 Euro in 2003), while funds used for investments in property, plant and equipment 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 share options equals or exceeds the estimated fair value of the underlying shares on the date of grant.

Retirement obligations

There is a direct assurance to the Management Board members (benefit primacy) stated under accrued liabilities in compliance with SFAS No. 87. "Projected benefit obligation" and "accumulated benefit obligation" come to 2,212,928 Euro as of December 31, 2004 (12/31/2003: 1,536,650 Euro). "Prior service costs" no yet recorded amount to 475,752 Euro (2003: 539,898 Euro). The "additional minimum liability" is 434,014 Euro as of balance-sheet date. The interest rate comes to five percent annually and the indexation of the pension is 1.5 percent annually. Length of employment expenses as recorded in the income statement amounted to 83,804 Euro (2003: 93,263 Euro), interest expense was 76,833 Euro (2003: 86,732 Euro). Prior service costs to be offset were entered to an amount of 64,146 in 2004 and 2003. As of December 31, 2004 there are actuarial gains of altogether 41,738 Euro not realized.

The plan assets in the shape of reinsurance policies is offset against pension expenses and developed in the past fiscal year as follows: Plan assets in the shape of reinsurance policies came to 627,133 Euro as of December 31, 2003 and 797,881 Euro as of December 31, 2004. Insurance contribution amounted to 175,269 Euro in 2004. Actuarial loss (not realized) was 4,521 Euro in 2004.

There are also two contribution oriented pension plans for members of the Management Board for which contributions of 104,153 Euro were paid in 2004.

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 share options.

3. INVENTORIES

Inventories are composed as follows:

	Dec. 31, 2004 Euro	Dec. 31, 2003 Euro
Raw material	6,958,301	6,491,767
Work in process	11,136,905	11,335,590
Finished goods	7,052,528	4,305,111
	25,147,734	**22,132,468**

4. INTEREST IN UNCONSOLIDATED COMPANIES

The company has interests in the following unconsolidated companies:

	Dec. 31, 2004 Euro	Dec. 31, 2003 Euro
MECHALESS Systems GmbH (MECHALESS) (51% interest as of December 31, 2004)	0	78,432
attoSENSOR GmbH, Prenzberg (attoSENSOR) (30% interest as of December 31, 2004 and December 31, 2003)	57,234	1
Micro Systems on Silicon (MOS) Limited, Pretoria, South Africa (51% interest as of December 31, 2004)	376,441	163,941
Others	126,153	100,365
	559,828	**342,739**

attoSENSOR GmbH

On May 22, 2001 the company acquired a ten percent interest or rather stated value of 7,669 Euro of the share capital of attoSENSOR GmbH, a developer and producer of sensor technology located in Penzberg (Bavaria). The total purchase price of the interest in the company was 169,039 Euro. In addition ELMOS granted attoSENSOR GmbH a profit-participating loan of 766,938 Euro and later increased this loan by 613,550 Euro as of January 31, 2002. ELMOS receives no interest on the loan but receives two percent of the profit of attoSENSOR GmbH instead while not participating in any losses. The loan was repaid in 2004, resulting in a profit of 890 thousand Euro in 2004.

On January 8, 2002 ELMOS acquired an additional 20 percent interest or rather stated value of 15,338 Euro of the share capital for a purchase price of 307,051 Euro. In 2004 ELMOS recorded gains from this participation – which is recorded at equity according to APB 18 and SFAS 94 – to the amount of 57,233 Euro (losses 2003: 247,090 Euro).

Micro Systems on Silicon (MOS) Limited

MOS Ltd. is currently still in its start-up phase without carrying out significant operating business. For this reason the company has refrained from the inclusion in the consolidation despite the company's control.

5. AMOUNTS PAYABLE TO BANKS AND LONG-TERM DEBT

As of December 31, 2004 the company had various current credit limits at its disposal, approximating 37,340,605 Euro. As of December 31, 2004 the company took advantage of these credit facilities to an amount of 17,616,377 Euro at an average interest rate of 3.64 percent.

Long-term debt is composed as follows:

			Dec. 31, 2004 Euro	Dec. 31, 2003 Euro
Deutsche Bank AG, Dortmund, loan EGKS	Annual rate:	3.75%		
	Payment:	Monthly		
	Maturity:	March 2005	555,552	1,666,664
Deutsche Kreditbank AG, loan 6528970	Annual rate:	4.80%		
	Payment:	Monthly		
	Interest:	0,00 Euro		
	Maturity:	December 2004	0	65,000
Deutsche Kreditbank AG, loan 6501274	Annual rate:	4.30%		
	Payment:	Monthly		
	Interest:	6,889 Euro		
	Maturity:	December 2004	0	58,454
Nissan Bank, loan	Annual rate:	0%		
	Payment:	Monthly		
	Interest:	0 Euro		
	Maturity:	October 2006	17,124	0
BMW Bank GmbH, loan 3107129822	Annual rate:	5.99%		
	Payment:	Monthly		
	Interest:	1,417 Euro		
	Maturity:	March 2006	41,693	0
Sparkasse Frankfurt, loan 88051570	Annual rate:	5.65%		
	Payment:	Monthly		
	Interest:	47,297 Euro		
	Maturity:	December 2008	733,459	776,061
Lease financing			38,528,717	40,349,481
Total			**39,876,545**	**42,915,660**
Less current portion with remaining terms of up to one year			3,749,038	4,017,395
			36,127,507	**38,898,265**

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

On December 22, 1997 the company sold its main commercial building (including land and building improvements) for a total purchase price of 23,008,135 Euro. Concurrent with the sale, the company leased the property back for a period of nine 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 1,942,772 Euro (1,121,180 Euro for building improvements and 821,592 Euro for building and land) through 2006 and 1,917,207 Euro (for building and land) 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 6,287,853 Euro. 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 1,074,788 Euro through 2007 and 60,872 Euro (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 of its commercial buildings and the adjacent multi-story parking lot (including land and building improvements) for a total purchase price of 11,643,000 Euro. 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 making annual degressively falling lease payments, starting with the amount of 1,016,125 Euro, through 2021. In the fourth quarter of 2003 the story-addition onto the administration building was completed. Total investment amounted to 3,419,000 Euro. Leasing installments to be paid come to annual 279,000 Euro through 2021. Since the company has the option to repurchase the property (building, parking lot and story-addition) 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 3,851,008 Euro in 2004 and 3,829,431 Euro in 2003.

As of December 31, 2004, maturity of long-term debt including lease financing was as follows:

Maturity	Euro
2005	3,749,038
2006	3,298,227
2007	2,779,174
2008	1,693,640
2009	1,631,291
Later years	26,725,175
	39,876,545

6. RENTAL AND LEASING AGREEMENTS

The company has entered into non-cancelable leasing agreements for vehicles and office equipment. Total operating lease expenses amounted to 12,216,375 Euro in 2004 and 5,937,454 Euro in 2003. 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, 2004:

Lease payments excluding lease financing

Maturity	Euro
2005	13,021,953
2006	11,507,204
2007	1,575,681
2008	375,106
2009	290,517
Later years	1,633,327
	28,403,788

7. INCOME TAXES

German income taxes consist of trade, corporate, and solidarity taxes. The company paid 5,246,841 Euro in 2004 and 10,355,900 Euro in 2003 in income taxes.

The expense (income) for income taxes is composed as follows:

	2004 Euro	2003 Euro
Current tax expense		
Germany	9,051,705	5,561,662
Abroad	576,922	745,879
	9,628,627	**6,307,541**
Deferred taxes		
Germany	167,949	1,125,004
Abroad	– 1,091,757	– 532,468
	– 923,808	**592,536**
	8,704,819	**6,900,077**

Deferred incomes 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 in the following table:

	2004 Euro	2003 Euro
Deferred tax assets		
Marketable securities	1,817,000	372,042
Lease financing	2,714,885	2,659,306
Loss carry forward	12,492,863	13,269,072
Others	250,495	0
	17,275,243	**16,300,420**
Deferred tax liabilities		
Property, plant and equipment	1,151,186	1,465,552
Costs for software development	2,849,313	2,118,006
Others	0	7,488
	4,000,499	**3,591,046**
Net deferred tax assets	**13,274,744**	**12,709,374**

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

	2004 Percent	2003 Percent
German statutory tax rate	39,90	41,40
Non-deductible amortization of participations	0,00	0,60
Expenses disallowable against tax	0,40	0,40
Dividends on interest in corporations	– 3,90	– 0,50
Foreign tax rate differential	– 1,60	– 1,61
Others	0,00	0,50
Effective tax rate	**34,80**	**40,79**

8. SHARE CAPITAL

The company's share capital consists of 19,300,000 shares as of December 31, 2004 and December 31, 2003 (common shares exclusively).

9. SHARE OPTION PROGRAM

The company has a share option program for 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 this program the company is authorized to grant up to 1,000,000 new unit shares, of which 116,525 shares were granted in a first tranche in the fiscal year 1999.

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 issue and particulars of the respective tranche. The options can only be exercised if the share's closing price equals or exceeds the exercise price. The options vest after three or rather two years of continued employment (third and fourth tranche) and expire six or rather five years (third and fourth tranche) subsequent to the date of grant.

As of December 31, 2004 100,022 (12/31/2003: 102,222) exercisable options with an exercise price of 34.89 Euro originating from the first tranche were outstanding. From the second tranche 127,575 (2003: 129,775) exercisable options were outstanding with an exercise price of 35.14 Euro. From the third tranche granted in December 2002 at an exercise price of 7.87 Euro, 279,891 (12/31/2003: 286,160) non-exercisable options were still outstanding as of balance-sheet date. The fourth tranche was granted in December 2003 with an exercise price of 11.59 Euro. As of balance-sheet date 295,722 options from this tranche were still outstanding, all of which non-exercisable as well.

In the fiscal year 2004 2,200 (2003: 1,003) share options from the first tranche expired. Another 2,200 share options from the second tranche expired and 6,269 from the third tranche. Share options were exercised neither in 2004 nor 2003.

The company applies Accounting Principles Board Opinion No. 25 (APB No. 25) in accounting for its share option program. In compliance with APB No. 25 no compensation cost for the share option program has been recognized in the consolidated income statement regarding the first two tranches. Compensation cost for the third and fourth tranches to an amount of 201,600 in 2004 was entered as paid-in capital.

Pro forma earnings prepared under the assumption that share options granted had been accounted for on the basis of their fair value according to the Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", are as follows:

Pro forma earnings

	2004 Euro	2003 Euro
Net income*	15,610,101	9,345,052
Net income* per common share		
Basic	0.81	0.48
Fully diluted	0.80	0.48

**Considering SFAS 123*

The average fair value of share options was 14.23 Euro for the first and the second tranche, 4.40 Euro for the third tranche, and 5.07 Euro for the fourth tranche. The fair value of share 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	Tranche 4
Dividend yield	1.4%	2.0%	2.0%
Expected volatility	61.7	59.1	59.1
Risk-free interest rate at grant date	6%	5.5%	5.5%
Expected life in years	5 years	5 years	5 years

Because the grant of additional share options in future years is anticipated, the pro forma earnings presented above are not indicative of the future amounts.

10. EARNINGS PER COMMON SHARE

Basic and diluted earnings per common share were determined as follows:

Reconciliation of shares

	2004	2003
Weighted-average common shares outstanding	19,300,000	19,300,000
Effect of potentially diluting share options*	132,619	12,569
Weighted-average common shares outstanding assuming dilution	**19,432,619**	**19,312,569**

** determined applying the treasury stock method according to SFAS 128*

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

Total accumulated other comprehensive income represents the success-ineffective net change in equity 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:

	2004 Euro	2003 Euro
Foreign currency translation adjustments	– 2,989,936	– 1,507,480
Unrealized gains on available-for-sale securities after taxes	– 8,091,464	– 7,105,949
Accumulated other comprehensive income (loss)	**– 11,081,400**	**– 8,613,429**

12. 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 micromechanical sensor segment are made by the subsidiary company SMI in the U.S. Finally, third-party sales in the assembly segment are achieved by eurasem.

	Semiconductor Thousand Euro	Micromechanics Thousand Euro	Assembly Thousand Euro	Total Thousand Euro
Net sales	**130,709**	**9,054**	**3,546**	**143,309**
Cost of sales	61,847	5,399	2,509	69,755
Gross profit	**68,862**	**3,655**	**1,037**	**73,554**
Operating income	27,080	782	1,689	29,551
Inter-company sales	—	598	11,028	11,626
Total assets	160,513	24,501	34,767	219,781
Capital expenditure	26,653	1,459	5,438	33,550
Depreciation	10,002	688	2,005	12,695

Total sales with other than affiliated companies divided into geographic regions developed in the fiscal years 2004 and 2003 as follows:

	2004 Thousand Euro	2003 Thousand Euro
Germany	76,864	67,290
EU Countries	36,736	29,389
U.S.A.	19,355	17,921
Others	10,354	6,795
Total	**143,309**	**121,395**

As of December 31, 2004 assets recognized at the subsidiaries abroad came to 36,961 thousand Euro in the Netherlands, 28,655 thousand Euro in the U.S., and 10,243 thousand Euro in other EU countries. Assets in Germany amounted to 143,922 thousand Euro.

13. EMPLOYEES

In the fiscal year 2004 the average number of employees in the Group was 928 (2003: 874).

14. 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 applied these statements over the fiscal year ended December 31, 2004. Adoption of these statements resulted in goodwill not being amortized. In addition an impairment review was carried out in 2004 not showing a need for depreciation. The company states goodwill of 8,314,399 Euro as of December 31, 2004 and 7,622,344 Euro as of December 31, 2003.

15. 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 acquired the remaining free-floating interest of 2.66 percent in 2003 and 1.5 percent in 2004 and transferred this interest to the company. The total purchase price for the 100 percent interest was twelve million Dutch Guilders (5.45 million Euro). Financial statements and balance sheet of eurasem were included in the company's consolidated financial statements as of December 31, 2001. The company included the full twelve months' business activity of eurasem in its income statement. The acquisition resulted in goodwill of 137 thousand Euro as a consequence of the takeover of the remaining minority share in 2004.

16. BOARD REMUNERATION

Remuneration of Management Board and Supervisory Board for 2004

	Fixed remuneration Euro	Variable remuneration Euro	Share options
Management Board	897,000	435,000	60,000
Supervisory Board	89,000*	128,000	0

** expenses included*

As of December 31, 2004 the following members of Management Board and Supervisory Board held ELMOS shares:

Management Board	
Reinhard Senf	1,948 shares
Dr. Peter Thoma	7,200 shares
Dr. Klaus Weyer	10,000 shares

Aufsichtsrat	
Dr. Burkhard Dreher	1,900 shares
Herbert Sporea	2,265 shares

The following directors' dealings took place in 2004:

- Dr. Klaus Weyer
  Sale of 5,040 shares at 13.81 Euro on September 28, 2004 and of 1,166 shares at 13.84 Euro on September 29, 2004
- Elke Zimmer (wife of Prof. Dr. Günter Zimmer)
  Purchase of 1,407 shares at 13.07 Euro and of 593 shares at 13.08 Euro on November 12, 2004
- Dr. Peter Thoma
  Purchase of 1,000 shares at 12.96 Euro on November 30, 2004

17. DECLARATION ACCORDING TO § 161 AKTG ON THE CORPORATE GOVERNANCE CODE

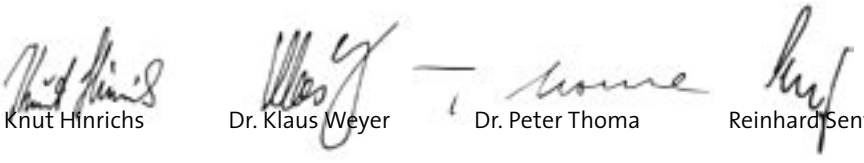
ELMOS Semiconductor AG issued the declaration required by § 161 AktG for 2004 and made it accessible to the shareholders. Management Board and Supervisory Board of ELMOS Semiconductor AG declare in accordance with § 161 AktG:

"ELMOS Semiconductor AG complies with the recommendations of the "Government Commission German Corporate Governance Code" (in short: GCGC) in its version of May 21, 2003 with the following exceptions:

- The currently valid D&O insurance for Supervisory Board and Management Board does not provide for a deductible for the board members (GCGC No. 3.8). Based on the undefined legal position concerning personal liability of the individual Board members, an adaptation of the insurance is currently not being realized.
- No limit ("cap") is possible for already issued share options with regard to the Management Board members' remuneration with share options in case of extraordinary, unforeseeable developments (GCGC No. 4.2.3). Beginning in the year 2004, the Supervisory Board will issue share options to members of the Management Board only with a cap provided for.
- 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 (share options), these statements are made in summarized and not individualized form (GCGC 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 (GCGC Nos. 5.3.1 and 5.3.2).
- The Supervisory Board members' remuneration also consists of fixed components and success-dependent components. Supervisory Board remuneration is stated in the internet as well as the annual report with reference to its components, yet 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 (GCGC No. 5.4.5)."

Dortmund, February 2005

The Management Board



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

DEVELOPMENT OF THE GROUP'S FIXED ASSETS

	PURCHASE PRICE AND PRODUCTION COST					
	Jan. 1, 2004	Foreign currency adjustment	Additions*	Conversions	Disposals	Dec. 31, 2004
Intangible assets						
Goodwill	7,757,079	0	692,055	0	0	8,449,134
Software	21,500,510	– 96,399	3,789,092	4,909,553	– 126,347	29,976,409
Software (work-in-process)	7,215,231	0	2,456,019	– 4,509,553	0	5,161,697
	36,472,820	**– 96,399**	**6,937,166**	**400,000**	**– 126,347**	**43,587,240**
Property, plant and equipment						
1. Land and buildings	**66,751,283**	**– 640,924**	**2,982,605**	**1,217,778**	**– 67,480**	**70,243,262**
Land	6,565,486	– 131,131	768,521	0	0	7,202,876
Buildings and building improvements	60,185,797	– 509,793	2,214,084	1,217,778	– 67,480	63,040,386
2. Technical equipment and machinery	**96,317,333**	**– 317,687**	**9,899,762**	**3,825,018**	**– 1,732,293**	**107,992,133**
Technical equipment and machinery	96,317,333	– 317,687	9,899,762	3,825,018	– 1,732,293	107,992,133
3. Construction in process	**6,219,503**	**0**	**13,997,213**	**– 5,442,796**	**– 519,931**	**14,253,989**
Construction in process	6,219,503	0	13,997,213	– 5,442,796	– 519,931	14,253,989
	169,288,119	**– 958,611**	**26,879,580**	**– 400,000**	**– 2,319,704**	**192,489,384**
Total	**205,760,939**	**– 1,055,010**	**33,816,746**	**0**	**– 2,446,051**	**236,076,624**

** There of changes in consolidation of 266,826 Euro | ** Thereof changes in consolidation of 121,821 Euro*

					ACCUMULATED DEPRECIATION		
1. Jan. 2004	Foreign currency adjustment	Additions**	Allocation	Conversions	Disposals	Dec. 31, 2004	Book value Dec. 31, 2004
134,735	0	0	0	0	0	134,735	8,314,399
7,445,770	– 15,195	1,919,359	0	0	– 69,359	9,280,575	20,695,834
0	0	0	0	0	0	0	5,161,697
7,580,505	**– 15,195**	**1,919,359**	**0**	**0**	**– 69,359**	**9,415,310**	**34,171,930**
21,309,639	**– 10,548**	**3,626,234**	**– 615,495**	**6,198**	**0**	**24,316,028**	**45,927,234**
612,702	0	0	0	0	0	612,702	6,590,174
20,696,937	– 10,548	3,626,234	– 615,495	6,198	0	23,703,326	39,337,060
67,917,323	**– 83,008**	**7,886,661**	**0**	**– 6,198**	**– 1,670,063**	**74,044,715**	**33,947,418**
67,917,323	– 83,008	7,886,661	0	– 6,198	– 1,670,063	74,044,715	33,947,418
0	**0**	**0**	**0**	**0**	**0**	**0**	**14,253,989**
0	0	0	0	0	0	0	14,253,989
89,226,962	**– 93,556**	**11,512,895**	**– 615,495**	**0**	**– 1,670,063**	**98,360,743**	**94,128,641**
96,807,467	**– 108,751**	**13,432,254**	**– 615,495**	**0**	**– 1,739,422**	**107,776,053**	**128,300,571**

► Auditor's certificate

We issued the following auditor's certificate to the consolidated financial statements and the Group status report:

"We have audited the consolidated financial statements prepared by ELMOS Semiconductor AG, Dortmund, consisting of consolidated balance sheet, consolidated income statement, consolidated statements of changes in shareholders' equity, consolidated statements of cash flows, and notes to consolidated financial statements for the fiscal year ended December 31, 2004. Both preparation of and disclosures in the consolidated financial statements are the responsibility of the company's Management Board. It is our responsibility to assess, on the basis of our audit, if the consolidated financial statements are compliant with the accounting principles generally accepted in the United States of America (US-GAAP).

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 identifiable with sufficient reliability. In establishing the audit procedures, knowledge of the business activity, the Group's 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 amounts and disclosures in the consolidated financial statements are examined on the basis of random sampling. The audit includes an assessment of the accounting and consolidation principles applied 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 reliable basis for our opinion.

We are convinced that the consolidated financial statements prepared in compliance with US-GAAP communicate a presentation of the group's assets, financial and profit situation and cash flow corresponding to the actual conditions.

Our audit which also covered the Group status report prepared by the Management Board for the fiscal year ended December 31, 2004 has not resulted in any objections. We are convinced that the Group status report in combination with the other disclosures in the consolidated financial statements gives an overall correct impression of the situation of the Group and describes the risks of future development coherently. In addition we confirm that the consolidated financial statements and the Group status report for the fiscal year ended December 31, 2004 fulfill the requirements to exempt the corporation from preparing consolidated financial statements and a Group status report in compliance with German law."

Dortmund, February 11, 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Brorhilker
Wirtschaftsprüfer

Muzzu
Wirtschaftsprüfer

GROUP STRUCTURE

► Company boards

MANAGEMENT BOARD

Knut S. Hinrichs, *chairman*
Born 1944 | Managing director since 1987 | Management Board member since 1999 | Chairman since 2001 | Appointed until 2009

Mandates:
- Member of district advisory council of Deutsche Bank AG, Essen
- Member of MST project advisory council, Dortmund

† deceased on March 1, 2005

Dr. rer. nat. Klaus G. Weyer
Born 1948 | Company co-founder | Managing director since 1984 | Management Board member since 1999 | Appointed until 2009

Mandates:
- Member of supervisory board of Paragon AG
- Member of IHK industrial committee and IHK general assembly
- Member of advisory council of Mikroelekronik-Verbund FhG

Dr. rer. nat. Peter Thoma
Born 1945 | Management Board member since 2000 | Appointed until 2005

Mandates:
- Member of technical advisory council of Behr GmbH & Co.KG
- Member of advisory council of Kromberg & Schubert GmbH & Co.KG

Reinhard Senf
Born 1951 | Management Board member since 2001 | Appointed until 2006

SUPERVISORY BOARD

Prof. Dr. Günter Zimmer, *chairman*
Institute director FhG | Duisburg

Mandates:
- Member of supervisory board of Wacker Siltronic AG
- Member of supervisory board of active photonics AG

Dr. Burkhard Dreher, *deputy chairman*
Graduate economist | Dortmund

Mandates:
- Member of supervisory board of Deutsche Steinkohle AG (until May 24, 2004)
- Member of supervisory board of Siepe AG (until November 16, 2004)
- Member of supervisory board of EKO Stahl GmbH (since June 22, 2004)
- Member of supervisory board of Harpen AG

Dr. Wolfgang Heinke
Graduate physicist | Reutlingen

Dr. Roland Mecklinger
Graduate engineer | Steinfeld-Hausen

Dr. Karl-Thomas Neumann
Graduate engineer | Meine

Mandates:
- Member of supervisory board of SupplyOn AG

Herbert Sporea
Businessman | Altwittenbek

Mandates:
- Member of supervisory board of TOP Business AG (until July 31, 2004)
- Member of advisory council of MECHALESS Systems GmbH

► Selected participations

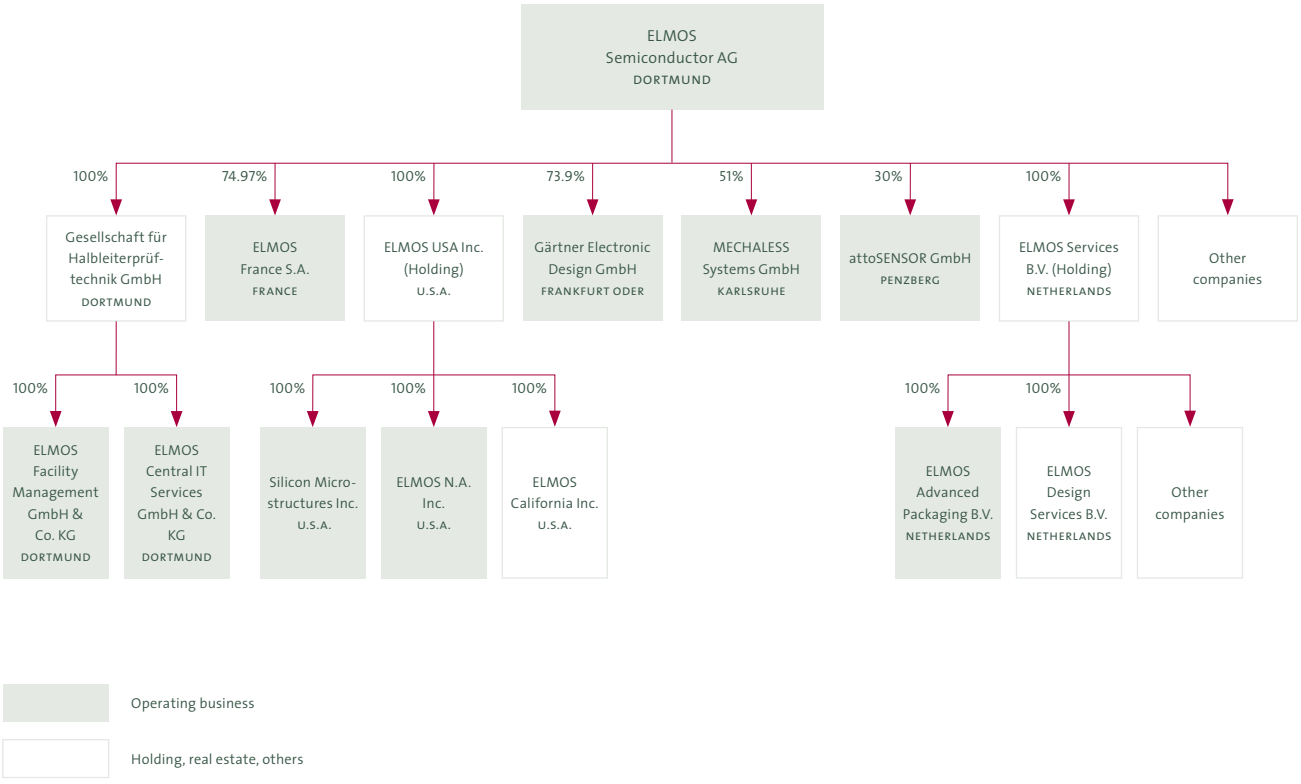
Substantial Group companies and participations

Domestic	Location	Interest Percent	Currency	Equity Thousand	Net income Thousand
Advanced Appliances Chips GmbH**	Riedstadt	33.33	Euro	—	—
attoSENSOR GmbH	Penzberg	30.00	Euro	97.6	1,287.1
ELMOS Central IT Services GmbH & Co. KG	Dortmund	100.00*	Euro	173.0	54.8*
ELMOS Facility Management GmbH & Co. KG	Dortmund	100.00*	Euro	92.2	91.1*
ELMOS Semiconductor Süd GmbH	Unterschleißheim	100.00*	Euro	187.5	17.9
Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG	Mainz	100.00	Euro	16.7	2.5
Exedra Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG	Mainz	94.00	Euro	0.8	– 5.6
GED Gärtner Electronic Design GmbH	Frankfurt / Oder	73.90	Euro	345.2	56.3
Gesellschaft für Halbleiterprüftechnik mbH**	Dortmund	100.00	Euro	—	—
MECHALESS Systems GmbH	Karlsruhe	51.00	Euro	343.1	240.9

International	Location/Country	Interest Percent	Currency	Equity Thousand	Net income Thousand
ELMOS Advanced Packaging B.V.	Nijmegen / Netherlands	100.00*	Euro	17.8	– 0.2
ELMOS California, Inc.	Milpitas / California / U.S.A.	100.00*	USD	133.9	63.0
ELMOS Design Services B.V.	Nijmegen / Netherlands	100.00*	Euro	– 425.4	– 461.0
ELMOS France S.A.	Nanterre / France	74.97	Euro	2,182.5	1,082.1
ELMOS N.A., Inc.	Farmington Hills / Michigan / U.S.A.	100.00*	USD	– 3,586.5	– 940.2
ELMOS Services B.V.	Nijmegen / Netherlands	100.00	Euro	73,137.6	27,977.4
ELMOS Quality Services B.V.	Nijmegen / Netherlands	100.00*	Euro	4,553.1	14,872.6
ELMOS USA, Inc.**	Farmington Hills / Michigan / U.S.A.	100.00	USD	—	—
European Semiconductor Assembly (eurasem) B.V.	Nijmegen / Netherlands	100.00*	Euro	31,548.0	20,050.9
Micro Systems on Silicon (MOS) Limited**	Pretoria / South Africa	51.00*	Rand	—	—
Silicon Microstructures, Inc. (SMI)	Milpitas / California / U.S.A.	100.00*	USD	4,212.3	93.5

** Indirect participation of ELMOS Semiconductor AG | ** Data of fiscal year 2003*

► Organizational structure



GLOSSARY

ANALOG
The representation of a physical quantity is called analog if it continuously occurs by a different amount.

ASSEMBLY
Means the processing of a wafer into a packaged chip.

ASIC
An Application Specific Integrated Sensor is a circuit developed individually for a specific application as opposed to standard components not configured customer specifically, for example voltage regulators, memory, processors.

ASSP
An ASSP (Application Specific Standard Product) is an application specific integrated circuit which was developed individually for a specific application and is now offered as a standard product to several customers.

BACKEND MANUFACTURE
The backend manufacture is part of the semiconductor production process carried out after the wafer has left the clean room. The examination of the chips on the wafer, burn-in, taping, and functional testing of the assembled components belong to this process.

BCD
BCD (Bipolar CMOS DMOS) combines the basic elements of bipolar, CMOS, and DMOS (Double-Diffused MOS) process technologies into a complex and universal semiconductor technology.

BURN-IN
A method for artificial aging of electronic circuits and components used to detect defects at an early stage.

BUS
A joint communication system allowing the exchange of electronic or optical information.

CAN
The CAN-BUS (Controller Area Network) is an incident controlled communication system with a transmission rate of up to 1Mbit/s. It is currently the most often used vehicle network.

CHIP
An electronic circuit containing electric functions realized in semiconductor material.

CLEAN ROOM
A sealed part of a building where humidity, temperature, and dust particle concentration are precisely monitored and controlled.

CMOS
Complementary Metal Oxide Semiconductor is the basic technology for the production of microchips with high integration rates and low energy consumption.

DC-DC (DIRECT CURRENT TO DIRECT CURRENT)
A component, a device, or a fitting for the transformation of electric currents and voltage from an input level to an output level.

DIGITAL

Digital signals are composed of gradual, quantisized, discrete, separate steps, e.g. binary (zeros and ones).

DRAM

Dynamic Random Access Memory is the memory type most often used in computers. DRAM components lose their data content when electricity is switched off.

DSC

Dynamic Stability Control corrects skidding motions of a vehicle occurring for example on a slippery road surface.

ELECTRONIC CIRCUIT

A combination of different electrical components each taking over a specific function in an electrical system.

ESP

Electronic Stability Program, see DSC.

FLASH

FLASH memory is similar to RAM in that it is freely addressable. However, FLASH memory does not lose its data when the electricity is turned off.

FLEXRAY

FlexRay is the future network standard for applications with high requirements. It supports active and passive safety systems as well as synchronous and asynchronous data transmission at a speed of up to 10Mbit/s.

FOUNDRY

A semiconductor manufacture whose primary business objective is the production and sale of processed silicon wafers.

FRONTEND MANUFACTURE

The production of electronic circuits on silicon wafers by means of physical and chemical manufacturing methods under clean room conditions.

GPS

The Global Positioning System is a satellite-bound system for the determination of terrestrial positions. The analysis of the duration differential of a minimum three independent radio signals can be used for positioning.

GYRO SENSOR

Gyro or gyroscope sensors are mechanically or micromechanically constructed sensors able to detect rotary and rolling motions, for example of vehicles and airplanes, by analyzing the Coriolis force.

HALIOS®

HALIOS® (High Ambient Light Independent Optical System) is characterized by the recording of three-dimensional motion. Optical outside influences such as strong incidence of light do not affect the performance. The electronic compensation of external light influence is the technically deciding function.

INTEGRATED CIRCUIT, IC

An electronic circuit consisting of different, miniaturized electronic components (e.g. resistors, capacitors, transistors, etc.) integrated into semiconductor material.

INTERFACE
Establishes the exchange of different systems and controls the connection, activity, and transfer of information between the system parts.

JEDEC
Joint Electron Devices Engineering Council is the standardization panel for electronic package shapes.

LAYOUT
Describes the information gained from circuit development required for the manufacture of integrated circuits by use of simple geometric shapes.

LCD
Liquid Crystal Display is an energy saving display of information, e.g. used in a mobile phone.

LED
A Light Emitting Diode is a diode giving off light due to an electric current.

LIN
The LIN-BUS (Local Interconnect Network) is a communication network in vehicles. It particularly connects comfort applications with a bandwidth up to 20Kbit/s.

LOGIC
An accumulation of transistors and other circuit components describing Boole logic operations, e.g. AND, OR, NOT, IF, etc.

MEMS
Micro-Electro-Mechanical Systems.

MICROMETER
One µm is one millionth of a meter.

MICROPROCESSOR/MICROCONTROLLER
An integrated complex electronic unit controlling and operating an electronic system. Microprocessors are the central brains of an electronic system such as a computer.

MIXED-SIGNAL
A combination of analog and digital signals simultaneously generated, controlled, or modified on one and the same chip.

MOS
Metal Oxide Semiconductor describes the construction of the central control device for the field effect in a special type of semiconductor transistor.

MOST PROTOCOL
The MOST protocol is a network standard for products requiring a high data bandwidth. This standard connects infotainment and telematics applications in particular.

OEM
An Original Equipment Manufacturer is a manufacturer selling (partial) systems to a reseller. In the automobile industry, an OEM is an automobile manufacturer.

PPM
Parts Per Million (one in a million)

SEMICONDUCTOR

A solid material (e.g. of silicon or germanium) which can change its electrical characteristics if physically modified. By well-directed doting of the material, usually with boron or phosphor, the electronic characteristics are changeable.

SENSOR

An electronic unit measuring or recognizing a real physical quantity, e.g. motion, heat, or light, and subsequently converting it into an analog or digital electric signal.

SILICON, SI

The most common semiconductor material used for roughly 95 percent of all chips produced.

SMART-POWER

Symbolizes the intelligent use of higher voltage and currents in an electronic circuit. By the use of smart power voltage of several 100V and currents up to several 10A can be realized on a chip.

SOI

Silicon-On-Insulator is a special basic material for semiconductor manufacture showing a perfect vertical insulation by means of non-conducting intermediate layers.

SYSTEM ON CHIP

Progress in semiconductor manufacturing technology and development methodology make it possible today to manufacture ASICs with several thousands of transistors. The idea described as system on chip is to integrate as many complex functions into a chip as possible.

TPMS

A Tire Pressure Monitoring System monitors the automobile's tire pressure and alerts the driver if the pressure is too low.

TRANSISTOR

A transistor, or transfer resistor, is the basic component of semiconductor technology for the amplification or rather control of electronic signals.

UMTS

The Universal Mobile Telecommunications System allows the effortless exchange of photos, street maps, and movies between mobile devices.

WAFER

The basic material in chip manufacture. A wafer is a disc sawn out of a silicon crystal and polished, approximately 0.3 to 1mm thick. Typical diameters are 150 (6"), 200 (8"), and 300 (12") mm.

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FINANCIAL CALENDAR

Press conference
March 16, 2005
ELMOS Dortmund

Analysts' conference
March 16, 2005
DVFA-Zentrum, Frankfurt

Annual general meeting
April 26, 2005
Goldsaal, Congress-Center
Westfalenhallen, Dortmund

Quarterly report
January to March 2005
May 4, 2005

Quarterly report
for the first half-year 2005
August 3, 2005

Analysts' conference
September 2005, tbc
ELMOS Dortmund

Quarterly report
January to September 2005
November 3, 2005

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