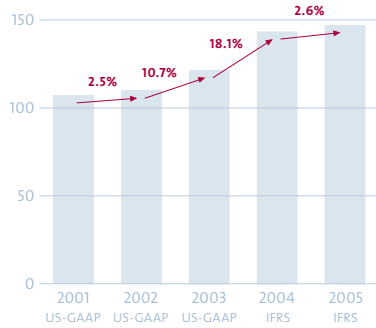


NEW

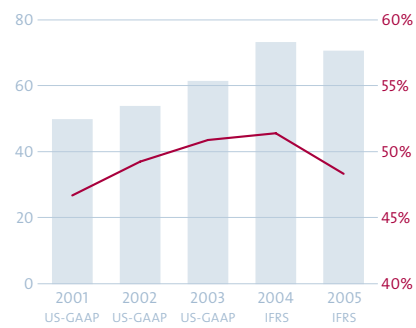
ANNUAL REPORT 2005

CHALLENGES | **BEGINNINGS**

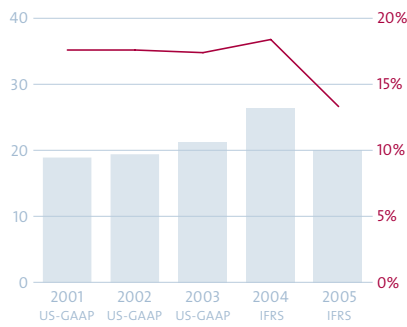
Sales in Euro million and growth rate



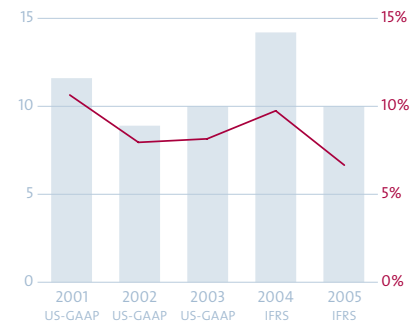
Gross profit in Euro million and margin



EBIT in Euro million and margin



Net income in Euro million and net margin



Share price and trading volume 2005



Share price in Euro Trading volume in thousands

Five-year overview ELMOS Group

◀ FIGURES

	2001	2002	2003	2004	2005
in Euro million unless otherwise indicated	US-GAAP	US-GAAP	US-GAAP	IFRS	IFRS
Sales	107.0	109.7	121.4	143.3	147.0
Gross profit	49.8	53.8	61.4	73.2	70.6
Research and development expenses	17.0	17.5	20.4	24.7	28.1
Operating income	17.0	18.3	21.6	28.6	20.1
EBIT	18.8	19.3	21.1	26.4	20.0
EBITDA	32.8	34.2	35.7	39.1	35.5
Income before income taxes	17.3	15.7	17.3	22.9	16.4
Net income	11.6	8.9	10.0	14.2	10.0
Earnings per share in Euro	0.60	0.46	0.52	0.74	0.52
Shareholders' equity	113.1	112.4	124.7	133.8	144.3
Total assets	208.0	208.5	205.3	217.3	237.0
Cash Flow from operating activities	20.9	26.0	6.5	34.7	19.7
Capital expenditures	-46.5	-34.1	-25.3	-33.5	-29.6
Cash Flow from investing activities	-77.7	-29.3	3.4	-31.2	-30.4
Dividend per share in Euro	0.00	0.00	0.13	0.21	0.00*
Employees (on annual average)	624	830	874	928	1,028

* Subject to shareholders' resolution at the annual general meeting in May 2006

Share data

	2001	2002	2003	2004	2005
Share price (Xetra) on December 31 in Euro	14.05	8.01	12.50	11.80	9.00
52-week-high (Xetra) in Euro	33.99	17.50	14.25	14.55	15.20
Date	Jan. 19	April 3	Dec. 3	Oct. 4	April 11
52-week-low (Xetra) in Euro	8.80	3.91	4.30	10.99	8.83
Date	Oct. 15	Oct. 7	March 31	March 22	Dec. 15
Number of shares outstanding on December 31 in million	19.3	19.3	19.3	19.3	19.4
Market capitalization (Xetra) on December 31 in Euro million	271	155	241	228	175

WE HAVE STRENGTHENED OUR MANAGEMENT BOARD WITH NEW MEMBERS.

WE PROVIDE OUR CUSTOMERS WITH EVEN MORE SUPPORT.

WE HAVE EXPERIENCED MAJOR SHIFTS IN THE MARKET.

WE ARE MORE THAN JUST A PLACE OF EMPLOYMENT.

WE HAVE EXPANDED OUR CAPACITY.

WE HAVE FACED **NEW CHALLENGES**.

WE ARE MAKING **NEW BEGINNINGS**.

WE ARE **ELMOS**.

We make your car smarter. Our semiconductor chips make driving safer, more comfortable and more eco-friendly. You can find our products anywhere inside your vehicle: from electrical window regulators and air conditioning to airbags and the engine. Our chips measure, control, and regulate the systems. This takes place inside consumer and household products as well: from your washing machine's water level to your garden sprinkler.

Chronicle 2005

1st QUARTER

Knut Hinrichs passes away

Our Chief Executive Officer of many years, Knut Hinrichs passes away on March 1, 2005 at the age of 61 after a serious illness. For almost 20 years, he made his mark on the company and determined its course. His will to live was admirable and his effort was always devoted. Hinrichs' contribution to the company's development can hardly be overrated.



Our CEO of many years, Knut Hinrichs †

Start of expansion

The beginning of the year signifies the start of the expansion activities. With the construction of our new employee center being in full swing already, work for the expansion of production is kicked off. This involves total investments of roughly 60 million Euro, including cost of machines and equipment: investments in the future.

Results presented

Dr. Klaus Weyer, the company's co-founder and interim CEO, presents the results of the financial year 2004 to the public at the press and analysts' conference. In particular, the net income's striking increase by approximately 63 percent stood out.

2nd QUARTER

Innovation award

The Auto Bild Group distinguishes the lane departure warning system introduced by Citroën with its "Auto1" innovation award for best new technical development. The system is controlled by one of our chips equipped with HALIOS® technology. Valeo, our customer of many years, developed this application. So far it provides better safety on the road in the Citroën C4, C5, and C6.



Receives "Auto1" innovation award: the lane departure warning system

General meeting

A new Supervisory Board is elected by the roughly 300 shareholders attending the Annual General Meeting in the Goldsaal at the Dortmund Westfallenhallen. Among the Supervisory Board members are two new additions: Jutta Weber, sister of the deceased Knut Hinrichs, and Jörns Haberstroh, former managing director of Nokia GmbH Deutschland.

► *more on page 21*

Cooperation with the IMS

An important step into the future: A cooperation agreement with the Fraunhofer Institute for Microelectronic Circuits and Systems (IMS) in Duisburg is signed. Now our employees develop and research together with the Fraunhofer staff. We are also going to share and expand the institute's eight-inch (200mm) wafer production line. Thus the next years' demands on production capacity will be met.

► *more on page 44*

Cornerstone laid

Our new production building is erected on top of a concrete slab 80 centimeters (31 inches) thick. More than 100 guests attend the laying of the cornerstone in September. The space of the new building adds up to 1,400 square meters (15,070 square feet) on four floors. It will primarily accommodate testing of semiconductor chips at first.

► *more on page 43*



New beginnings: laying of the cornerstone

Entry into new market

In July we manage to enter the market for tire pressure monitoring systems. We develop a multichip device for one of the leading manufacturers of these systems, consisting of read-out electronics and sensor in a customized package. The market for tire pressure monitoring systems is particularly interesting in the U.S. because from 2007 all new cars must be equipped with such a system.

Sales target reduced

It becomes obvious shortly before the end of the third quarter: We will not achieve our targeted sales figures. Sales contributions fail to materialize for different reasons. We inform the public at once and comment on the circumstances leading to the news.

► *more on page 41*

Code of conduct presented

Our code of conduct stands for more transparency. It provides information about our responsibility for the company, its employees, the environment, and society. It elucidates for example that about ten percent of all employees at the Dortmund location are trainees.

► *more on page 30*



More transparency: our code of conduct

New management board members

New beginnings on the Management Board: Dr. Anton Mindl joins the Board as of October 1 to become CEO as of January 1, 2006. His experiences gathered in the automobile industry over many years are a valuable contribution. Also effective October 1, 2005, Dr. Frank Rottmann takes over the conduct of business from Dr. Peter Thoma, responsible for Sales and Development, who joins the Supervisory Board in October.

► *more on page 43*

TecDax

After reducing our sales target, our stock price fell, and with it our market capitalization dropped by more than 30 percent. Even though our share's trading volume is comparatively high, our market capitalization is not good enough compared to other companies to justify the TecDax listing. This will not affect the high level of transparency established towards our shareholders.

► *more on page 20*

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MANAGEMENT BOARD

Dear ladies and gentlemen,

we look back on an eventful and difficult year 2005.

After a merely satisfactory start into the first quarter, a brilliant second quarter gave rise to hopes that our targets, already revised but still ambitious, might yet be reached. We had to abandon these hopes after a disappointing course of the third quarter. The target corridor for sales and profit, reduced once more, was reached. According to IFRS, we recorded a sales growth of 2.6 percent to 147 million Euro, a gross profit of 70.6 million Euro or 48.1 percent of sales, an EBIT of 20.0 million Euro or 13.6 percent, and a net income of 10 million Euro or 6.8 percent.

Various factors have led to this course of business, a disappointment to you as it is to us:

- ▶ high-volume and high-margin projects were discontinued ahead of schedule,
- ▶ postponements – on the part of our customers, but in part self-inflicted as well – lead to deferments or even loss of sales,
- ▶ the reduction of order volumes at short notice occurred due to the market weakness of individual models, and
- ▶ a high percentage of new, complex projects had an unfavorable effect on the margin situation.

We used about 29.6 million Euro for capital expenditure in 2005: for initial investments in the setup of our 8-inch (200mm) wafer plant in Duisburg and the expansion of testing facilities and clean room in Dortmund. Therefore the net cash provided by operating activities of 19.7 million Euro did not cover the finance requirements in their entirety. Nevertheless we stand by this expenditure. It represents investments in our future, essential to continued growth.

Because of the course of business, Management Board and Supervisory Board will recommend to the General Meeting not to pay a dividend for 2005 so that no additional capital needs to be raised. We consider this the right move with regard to the medium-term and long-term performance of ELMOS.

The year 2005 brought along decisive steps on a personnel level as well. Our CEO of many years and personal friend, Knut Hinrichs, passed away on March 1, 2005 after a serious illness. We pay tribute to his accomplishments and honor his memory. Dr. Klaus Weyer, co-founder of ELMOS, assumed the position of CEO until the end of the year.

Dr. Peter Thoma completed his term on the Management Board as scheduled and joined the Supervisory Board. Dr. Frank Rottmann, who has held executive functions at ELMOS for many years, succeeded Dr. Thoma as Management Board member responsible for Sales and Development.

And now it is my turn to introduce myself to you. My name is Anton Mindl. I have been working in the automotive industry for about 20 years now and I have gained experience with suppliers to the automobile industry, namely Bosch, Kostal, and SiemensVDO – all customers of ELMOS. The last three years I was CEO of SiemensVDO. I joined the ELMOS Management Board as of October 1, 2005. Since January 1, 2006 I have been CEO.

You see: ELMOS looks back upon a year of challenges. This year is a year of new beginnings. What are the decisive factors for our future development – our new beginnings?

- ▶ The market for automotive electronics, the market we are primarily active in, continues to grow by eight to ten percent annually. New, partly statutory demands made on road safety (the number of road fatalities must be reduced further) and environmental compatibility (the Directive relating to particulate matter, stricter exhaust emission standards) require new and more precise sensor technology, actuators, and controls. Driver assistance systems such as lane departure warning system and side assist – detecting objects in the “dead angle” – as well as comfort applications such as automatic parking systems and the ongoing automation of air conditioning provide substantial growth potential in areas of our core competence.
- ▶ In order to take disproportionately high advantage of these opportunities in the future, it is essential to expand our good customer relationships further. Innovative contributions in these fields require specialist system know-how and the utmost attention to applications. We are going to utilize this strength, already an ELMOS asset, as a matter of priority. Our sales department will operate proactively, achieving the integration of the customer system know-how. The good relationships we are on with both system suppliers and automobile manufacturers will prove beneficial to ELMOS as well as to our customers.
- ▶ In addition to the ASIC business, we are going to sell increasing numbers of existing, non-proprietary components as standard products, so-called ASSPs (Application Specific Standard Products). We can make use of our application know-how here as well in order to offer attractive ASSPs for specific applications on the market. This step towards standard products also reduces the relative development expense.



Inside a current BMW 7 Series car, more than 150 ELMOS chips are busy controlling, measuring and regulating.

- ▶ We have more than 20 years of experience with the development and manufacture of automotive electronics. We have our own production technologies, allowing us to gain substantial know-how. This is what we count on. This is our foundation for the future. That is why we continue to focus our technology on protected processes supportive of our product designs.
We will cooperate with partners in those application fields which demand higher micro-controller proportions. We have the ability to develop, produce and sell third-party silicon in one package with our own chips as so-called dual-die-solutions. This configuration has meanwhile been acknowledged by the market and represents a highly competitive solution. ELMOS has the key expertise required. The collaboration with partners on the field of semiconductor technologies makes it possible for us to conduct our core business without tying up too much capital in the future. This is one of the essential elements of our special program for efficiency increase, initiated in the fourth quarter of 2005.
- ▶ The cooperative use of the eight-inch wafer manufacture with the Fraunhofer IMS in Duisburg offers considerable cost savings. In mid-2006 we will deliver the first ASICs produced in Duisburg to our customers. The final stage of expansion will allow the production of almost twice the amount of chips at only slightly higher production costs as compared to a six-inch wafer manufacture.
Another aspect is of importance here: With the Dortmund and Duisburg production facilities, ELMOS will be among the few semiconductor producers for the automotive sector with two production sites which are compatible but independent by location. This provides our customers with an increased insurance against an interruption of the sales chain, a competitive edge not to be underestimated in our business.
- ▶ Our microsystem technology – micromechanical sensor plus ASIC plus functional package – will pass important project milestones in 2006 to make first considerable contributions to our business activity in 2007. Despite very challenging tasks, both technically and schedule-wise, we are convinced we will fulfill our customers' expectations with these solutions and make new substantial contributions to the success of our customers and thus the success of ELMOS once again.
- ▶ We have also made it our objective for 2006 to line up new measures in order to seize chances for growth on faster-growing markets than the automotive market. As a first step, we are going to create the structural conditions in the sales department for this purpose.

- ▶ Last but not least, our business activity in North America will contribute to sales more substantially due to preparatory work already accomplished. In Asia, we need to push our expansion harder than before. We recognize good chances for ELMOS to grow in this region in the medium term as well.
- ▶ As far as finances are concerned, we are operating on sound foundations. We have sufficient cash at our disposal to finance our operating activities and upcoming investments. This is all the more true as we have set ourselves the goal to reduce the investment needs of our operating activities by taking appropriate measures. In the medium term, this will allow us to finance investments out of the operating cash flow.

It is my goal to expand the position of ELMOS as one of the leading suppliers of semiconductor and microsystem solutions to the automobile industry. At the same time, we will develop additional potential on other growth markets for our innovative solutions to allow for faster growth.

Speaking for the Management Board, I want to express our special gratitude to our employees for their performance against all odds. Their first-rate skills, their identification with the tasks at hand and our company as a whole, and not least their commitment to performance confirm my conviction that ELMOS will manage to make successful new beginnings.

Sincerely



Dr. Anton Mindl
Chief Executive Officer



ELMOS chips for automotive networks e.g. control the connection between the separate airbags and the seat belt.

Management Board



Dr. rer. nat. Anton Mindl

Chief Executive Officer | Graduate physicist | Lüdenscheid

Dr. Anton Mindl joined ELMOS in October 2005 and became CEO in January 2006. He had been CEO of SiemensVDO since 2003 where he started out to run the division Cockpit Modules and Systems and later took over Infotainment Solutions. From 1998 to 2003, Dr. Mindl was managing director for Development and Sales at Kostal. The graduate physicist completed his studies at the Technical University Munich in 1982 and earned his doctorate in 1987.

Dr. rer. nat. Klaus G. 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 he has been member of the Board responsible for Technology. He also served as the company's CEO from March 2005 to December 2005.

Dr.-Ing. Frank Rottmann

Graduate engineer | Dortmund

Dr. Frank Rottmann has been with ELMOS since 1992, holding various positions. At the beginning of his career, he worked at Sales which he headed from 1997 to 2003. In October 2003, he became managing director at MECHALESS Systems GmbH, a subsidiary of ELMOS. Dr. Rottmann completed his degree in electrical engineering at the University of Dortmund in 1984 and earned his doctorate there subsequently. He has been member of the Board responsible for Development and Sales since October 2005.

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 member of the Board responsible for Production.



Each ELMOS chip is tested thoroughly at least four times.

Who we are
 What we do
 Where we are
 Why we faced new challenges
 and make new beginnings

OUR COMPANY

Who we are

More than
1,000 employees

Our company: We are a developer and producer of semiconductor chips. Our headquarters is located in Dortmund, Germany. We started out in 1984 with twelve employees. At present we have more than 1,000 employees at locations worldwide. Our employees' know-how and our own production are our foundation. We went public in 1999 and are listed in the Prime Standard.

Our focus: We achieve the majority of our sales with customer specific semiconductor chips. This means chips which effectively regulate, measure, or control a specific application for an individual customer. So far we have successfully introduced more than 300 projects with customers from the automobile industry to serial production. Faultless quality is always our first priority.

Our customers: Purchasers of our chips are mostly suppliers to the automobile industry – from Autoliv, Bosch, Delphi, Johnson, Kostal, and Lear to Pierburg, Saia, SiemensVDO, Valeo and many others. Numerous manufacturers of industrial, consumer and household items rank among our customer base as well. The majority of our products is soled in Germany and France. In the medium term we want to consolidate our position in the U.S. and win new customers in the Asian region with our solutions.

Own technology,
own design,
own production

Our strengths: We have many years of experience with the development and production of semiconductor circuits. As an integrated device manufacturer with our own technology, own design, and own production site, we cover the entire value chain. Together with our subsidiaries, we also combine the comprehensive expertise of a semiconductor producer, a sensor technology expert, and a packaging specialist. This edge makes us stand out from our competitors. We continue to expand our strengths with our committed employees every day.

Our responsibility: We accept social responsibility and attach great importance to environmental protection, especially regarding the operation of production facilities. We also offer good prospects to young people – about ten percent of our Dortmund-based employees are trainees. Furthermore we want to create the highest possible transparency towards society and to promote our employees' responsible conduct.

Our new beginnings: Stagnation is not part of our vocabulary. We are constantly monitoring the market, analyzing new opportunities, and realizing innovative ideas. The past year served as proof for this once more. We broke open outdated structures and created space for new ideas. We are making new beginnings.

This is ELMOS. This is us.

What we do

We make the electrical window regulator work if you flip the switch.

We make the airbag unfold within milliseconds of an emergency.

We make the combustion become optimized inside each cylinder of your engine.

Our semiconductor chips measure, control and regulate numerous comfort, safety and engine functions in your vehicle. Our products are inside almost all cars produced by European manufacturers. This is our principal market: We earn about 90 percent of our sales with products specially suited to the automobile industry. Industrial and consumer markets form our second revenue pillar. Here our circuits fulfill sophisticated functions as well, from the electric iron's automatic switch-off to the garden sprinkler's control.

From the idea to the finished product, we develop and produce semiconductor chips offered from one source. For this purpose, our employees in clean room and testing division work in four shifts, 24 hours a day, seven days a week. And our development and design divisions do constant research on new technologies, new components, and new modules.

We divide our products into two categories: The first one comprises customized circuits specially suited to customer needs (ASIC). We offer a customer one of those chips if he wants to optimize his system costs, integrate several special features, and improve quality at the same time. Last but not least, with an ASIC he can also protect his know-how. On the other hand, we also offer circuits which, as standard solutions, address a broader market (ASSP). This is the right solution if the customer's system does not require any special features but if he favors an economical alternative and wants to integrate the finished chip right away. We offer both types of semiconductor chips as it enables us to provide an ideal solution for our customers' problems in every single case. Regardless which solution our customer decides on, he can be certain that we always supply top quality. We bring in our whole experience to bear in his chip and thereby improve it decisively.

But what distinguishes our products from those of other manufacturers, e.g. of companies producing circuits for PCs and cell phones? Our chips for engine electronics cannot be bothered by temperatures of minus 40 degrees Celsius or up to 150 degrees Celsius. By comparison: For the processor inside your PC, 75 degrees Celsius is already a critical temperature. However, a chip for tire pressure control endures the rough environmental conditions directly on the road – including shock, wetness, and extreme temperatures. In return, our chips do not beat frequency speed records. They much rather impress with their compact design and the variety of features.

Chips measure,
control and regulate

This is what we do. This is what we are good at.



ELMOS annually produces more than a hundred million semiconductor chips.

Who we are
 What we do
 Where we are
 Why we faced new challenges
 and make new beginnings

Where we are

We have four production sites in three countries, each with its own characteristics.

We have five sales offices on three continents in close proximity to customers.

We have five subsidiaries and cooperation partners in Germany alone, helping us develop semiconductor chips and sensor applications.

Headquarters in Dortmund

Our headquarters in Dortmund comprises the production site for semiconductor production, our research and development center, and the sales head-office. Together with the divisions design, quality control and administration, as well as subsidiaries for facility management and IT, more than 600 employees work in Dortmund alone. Production is the location's centerpiece. Each day about 400 new 6-inch (150mm) wafers enter production in an area of over 2,500 square meters. Our products pass through more than half a million test procedures per day.

In the middle of 2005 we signed a cooperation agreement with the Fraunhofer Institute for Microelectronic Circuits and Systems (IMS) in Duisburg. The contract covers joint research and development as well as the cooperative use of the eight-inch (200mm) wafer production line. The first products are scheduled to enter serial production here in mid-2006.

Our specialist for sensor systems, SMI in Milpitas, California, produces innovative products for use in automotive electronics and the medical sector. For this purpose, SMI operates a clean room of more than 1,200 square meters.

Another production site is based in Nijmegen in the Netherlands, where ELMOS Advanced Packaging manufactures the packages for more than half our semiconductors.

Right where the customer is

Our five sales offices are right where our customers are. Namely in Munich, Stuttgart, Paris, Detroit, and Tokyo. Major car manufacturers and suppliers to the automobile industry are based close to these locations. Because support and advice from the initial idea to the finished chip require constant exchange and fast, straightforward help if problems arise. Both is best provided by a direct neighbor.

Our five subsidiaries or cooperation partners in Germany specialize in different fields. Our subsidiary MECHALESS in Karlsruhe for example focuses on the development of switches operated by optical sensors. Gärtner Electronic Design (GED) in Frankfurt/Oder and our cooperation partners MAZ Brandenburg in Berlin, DMOS in Dresden, and attoSENSOR in Penzberg work on new ideas and solutions for semiconductor chips and sensor systems.

These are our locations. This is more than just a place of employment.

Why we faced new challenges and new beginnings

The year 2005 was marked by challenges and beginnings. This is the theme of the annual report at hand. Various factors underwent changes in the past year, some slight, others essential. With this annual report, we want to point out to you what else has changed for our company besides mere facts and figures. Both the welcome and the less welcome aspects.

Changed factors

Five developments indicate why we have faced challenges and are now making new beginnings:

Two new members have strengthened the Management Board. Dr. Anton Mindl has gained experience in the automotive industry and the development of semiconductors over many years. He has been our new CEO since January 2006. Dr. Frank Rottmann took over the Board responsibility for Development and Sales. Both bring in valuable expertise and future-oriented strategies.

WE HAVE A MANAGEMENT BOARD WITH A CUSTOMER'S VIEWPOINT *page 16*

We have restructured our sales department. This enables us to offer our customers even better support of their systems. We have established new divisions, combining sales know-how with designer know-how.

WE SPEAK THE CUSTOMER'S LANGUAGE *page 22*

Drastic changes on the market lead to a fast shift from old to new products, accompanied by higher utilization of production capacity. In addition, sales did not grow as strongly as initially expected due to a large number of postponements on the part of our customers and pricing pressure.

WE MASTER MORE COMPLEX PRODUCTION PROCESSES *page 34*

Our new employee center offers another reason why we are more than merely a place of employment. The center incorporates a cafeteria, an assembly room, and a gym. An additional advantage we would not want to miss even after such a short time.

WE CREATE MORE SPACE FOR LIVING AND WORKING *page 64*

We have expanded our capacity considerably by means of the cooperation with the IMS and a production expansion at the Dortmund site. This is necessary to accommodate our planned growth. Now, we can also fulfill the increased demands on our testing division.

WE LAY THE CORNERSTONE FOR OUR FUTURE *page 120*

We faced challenges in 2005. Now we are making new beginnings.



About 90 percent of all ELMO3 chips are used for automobiles.

WE HAVE A MANAGEMENT BOARD WITH A CUSTOMER'S VIEWPOINT



NEW CHALLENGES The past year saw more changes in our management than ever before in the company's 21-year history. Knut Hinrichs, CEO of many years, passed away after a serious illness. His accomplishments, his personality, and his will to live are unforgettable.

NEW BEGINNINGS Dr. Anton Mindl has determined the company's course since January 2006. He is distinguished by a customer's viewpoint towards our products: For over 20 years he promoted innovations at our customers. Now he creates the way to the future with high commitment and new ideas.



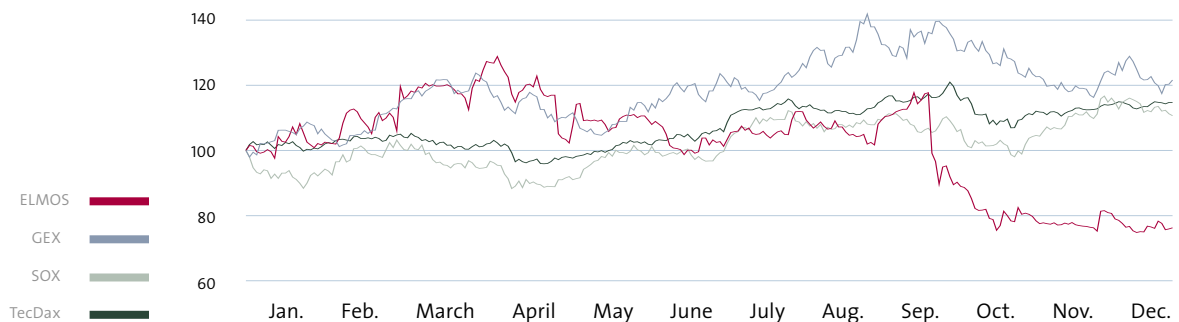
OUR SHARE

General development on the stock markets

No participation
in upswing

The overall positive mood of the stock market in the past year was taken up by semiconductor and technology shares only in part. The price of the ELMOS share did not participate in the general upswing. At the beginning of the year, the ELMOS share benefited from takeover rumors in the wake of the death of Knut Hinrichs, the former CEO. It reached its 52-week-high on April 11, 2005 at 15.20 Euro. On the whole the share price moved between 11 and 15 Euro for the most part in the first nine months of 2005. The ELMOS share decreased in value substantially as a reaction to the sales and profit warning for the year 2005, issued at the end of September 2005. By the end of the year, the share leveled off between 8.80 and 9.70 Euro. It closed on December 30, 2005 at 9.00 Euro, thus below the level recorded at the beginning of the year (11.80 Euro).

Relative share price development 2005



At -23.7 percent, the annual performance of the ELMOS share is much weaker than the performances of both TecDax (14.7 percent) and Philadelphia Semiconductor Index (SOX, 10.7 percent).

Long-term development of the ELMOS share

Period until December 31, 2005	Since ELMOS IPO	Since 1/1/2004	Since 1/1/2005
ELMOS (Xetra)	- 59.1%	- 28.0%	- 23.7%
Industry indices			
TecDax	- 84.5%	10.2%	14.7%
Philadelphia Semiconductor Index (SOX)	- 9.3%	- 5.6%	10.7%
DJ Stoxx Technology	- 33.0%	7.5%	21.9%
Prime Technology	- 33.2%	- 25.3%	- 4.0%
Prime Automobile	14.1%	29.1%	31.1%
General market indices			
Dax	- 0.1%	36.4%	27.1%
GEX	k.A.	k.A.	21.6%
DJ Stoxx 50	- 5.6%	29.6%	21.3%

At about 84,000 shares, the average daily trading volume of the ELMOS share on German stock markets and Xetra was much higher than the year before (approx. 53,000 shares a day). The annual average was boosted significantly by a second half-year with a considerably higher daily trading volume. More than 80 percent of the shares were traded on Xetra.

Increased trading volume

ELMOS key share data

	2004	2005
Number of shares outstanding	19,300,000	19,412,424
52-week-high (Xetra)	14.55 Euro 10/4	15.20 Euro 4/11
52-week-low (Xetra)	10.99 Euro 3/22	8.83 Euro 12/15
Closing price on December 31 (Xetra)	11.80 Euro	9.00 Euro
Annual performance (excluding dividend)	-5.6%	-23.7%
Market capitalization by December 31	227.7 million Euro	174.7 million Euro
Market value to book value* by December 31	1.7	1.2
Shares traded on daily average	53.3 thousand	84.0 thousand
Thereof Xetra in percent	72%	82%
Earnings per share	0.74 Euro	0.52 Euro
Dividend per share	0.21 Euro	0.00 Euro**

* Shareholders' equity | ** Proposal to the Annual General Meeting in May 2006

The market capitalization of ELMOS amounted to 174.7 million Euro on the basis of 19.4 million shares outstanding. The number of shares outstanding changed in 2005 for the first time due to the exercise of share options. In the current fiscal year 2006 further new shares might result because of the share option program.

Basic information on the share

The ELMOS share is a non-par value bearer share (unit share). It is traded on all German stock markets as well as on the Xetra system. ELMOS is listed in the Prime Standard of the Deutsche Börse. Prime Standard companies must meet high international transparency requirements beyond the level of the General Standard, which establishes the statutory minimum requirements of the official market or Regulated Market. ELMOS has also been part of the German Entrepreneurial Index (GEX) since its introduction in 2005. The GEX represents companies which, apart from being included in the Prime Standard, fulfill the criteria of being owner-dominated (companies run by their founders or owners) and post-IPO age (a maximum ten years after the IPO).

Key data

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



ELMOS was founded in 1984 with a capital of only ten million DM.

General development on the stock markets
 Basic information on our share
 Shareholder structure
 Investor relations
 General Meeting

Share details

Type of shares	Non-par value common bearer shares
Market segment	Prime Standard, Regulated Market
Share capital	19,412,424 Euro shares
IPO	October 11, 1999
Designated sponsors	HSBC Trinkaus & Burkhardt, WestLB
Index inclusion	CDax, GEX, Prime All Share, Tech All Share

Until December 2005 the ELMOS share was also part of the TecDax, the index of the 30 largest German and international companies of the technology industry, established below the Dax in the Prime Standard segment. ELMOS was removed from the TecDax owing to its fast exit rule. This decision was based on the lower free float market capitalization in comparison to other shares.

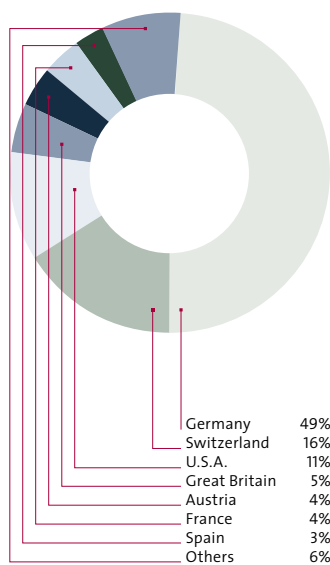
Shareholder structure

The share capital of ELMOS Semiconductor AG is divided into 19,412,424 non-par value shares with a proportionate amount of 1.00 Euro of the share capital allotted to each single share. 52.9 percent (or about 10.3 million) of these shares are held by ELMOS Finanzholding GmbH (EFH), constituting the solid ELMOS shareholder basis. EFH is owned by Dr. Klaus Weyer, Prof. Dr. Günter Zimmer, and the family of Knut Hinrichs, the former CEO. On May 25, 2005, EFH sold 870,000 ELMOS shares on the capital market for a share price of 12.50 Euro. The proceeds from the sale of these shares were used primarily to finance the inheritance tax imposed on the Hinrichs family.

47.1 percent (or about 9.1 million) of the shares are free float. Of the attributable free float (representing approximately a third of the entire free float), German shareholders own about 49 percent of the free float shares, investors in the English-speaking countries hold about 16 percent, and Swiss shareholders own about 16 percent as well. Remaining continental Europe is represented by roughly 19 percent of the free float shares. If compared to the previous year, a shift from the English-speaking countries towards the German-speaking region is noticeable.

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 24 percent of the free float (or about eleven percent of the share capital).

Shareholder structure free float



Source: IR Channel | Thomson Financial

Investor relations

The ELMOS management and the investor relations team continued to hold a large number of one-on-one conversations with investors in 2005. These took place within the framework of road shows, company visits at the Dortmund location, and on the occasion of technology and automobile conferences at which ELMOS presented itself. Despite the changes on the Management Board, more than 20 road shows were conducted, throughout Europe (Germany, France, Switzerland, Austria, Great Britain, and the Benelux countries) and in the U.S.

We also informed our investors by conducting phone conferences after the publication of results and individual shareholders as well upon request. And we experienced increased interest by analysts and investors alike on our Capital Market Days.

We will continue these activities in the following year on a large scale. Thus we enable 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. At the beginning of 2006, ten analysts gave the share a positive rating.

Aiming for equal information, both comprehensive and timely, directed at all target groups, we provide a lot of corporate information on our website. Interested investors can inform themselves in detail about the company and its products and technologies at www.elmos.de on the internet. Apart from information about corporate governance, the section Investor Relations also offers financial reports (annual and quarterly reports), a financial calendar listing all important events and publication dates, the articles of incorporation, information on the Annual General Meeting, 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.

General Meeting

As in the previous years about 300 private and institutional investors participated in the 6th Annual General Meeting on April 26, 2005. The event was held in the Goldsaal of the Westfalenhallen, in Dortmund, Germany. 12,883,647 Euro or 66.8 percent of the share capital were represented. The proposals to the separate items of the agenda were each approved by a significant majority of the General Meeting. Apart from the usual items, the General Meeting authorized the Management Board to repurchase own shares and elected a new Supervisory Board.

Much use was made again in the General Meeting 2005 of the possibility to entrust one's voting rights to a proxy nominated by the company. Shareholders who could not be present in person were able to watch the live broadcast of the General Meeting 2005 on the internet. The 7th General Meeting on May 19, 2005 will also be broadcast live on the internet for the shareholders' convenience. Shareholders can 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.

Research coverage

Berenberg Bank

CAI Cheuvreux

Credit Suisse First Boston

Dawney, Day Lockhart

DZ Bank

Fairesearch

HSBC Trinkaus & Burkhardt

ING BHF-Bank

JPMorgan

Kepler Equities

Landesbank Rheinland-Pfalz

Main First Bank

SES Research | MM Warburg

Viscardi Securities

WestLB

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ELMOS chips can be found in cars by almost all European manufacturers.

WE SPEAK THE CUSTOMER'S LANGUAGE





NEW CHALLENGES Our product portfolio has grown over the past few years: Customer specific products no longer constitute the sole pillar of sales. Standard products and integrated microsystems are an expanding business. However, these additional sales drivers require new organizational structures and a more advanced approach to customer meetings.

NEW BEGINNINGS Our new divisions Applications and Systems and ELMOS Microsystems always have an expert for ASICs, standard products and integrated microsystems on hand. Each expert knows the customer's area of activities inside out and speaks his language.



CORPORATE GOVERNANCE

Dear shareholders,

the Supervisory Board fulfilled its obligations as established by the law and the articles of incorporation in the fiscal year 2005. During the past fiscal year we concerned ourselves intensively with the company's situation, advised the Management Board in running 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, essential aspects relating to the course of business, important business transactions, and current profitability including risk situation and risk management, in writing or orally.

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 the CEO. 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 2005

In six meetings, on March 9, 2005, April 26, 2005, July 20, 2005, October 12, 2005, December 16, 2005, and March 15, 2006, 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, 2005, the corporate situation, and current business policy decisions, discussed these issues with the Management Board, and supervised its activities. Based on in-depth information, the Supervisory Board's required resolutions were passed in its meetings. We also concerned ourselves with the efficiency of the Supervisory Board's work and assessed it during these meetings. Each regular meeting was attended by all of the Supervisory Board's members.

Focal subjects of Supervisory Board discussions

In Supervisory Board discussions, the main emphasis was regularly put on the ELMOS Group's development of sales, revenues, profit, and liquidity. A focal subject of the Supervisory Board's first meetings was also the succession arrangement for the Management Board. In the following meetings, the situation of various group companies was debated on in detail, primarily regarding ELMOS North America and MECHALESS Systems GmbH.

Start and stages of the cooperation with the IMS Duisburg were also discussed. Another focus of the meetings taking place during the second half-year 2005 was on the development projects and the status of technology development. Furthermore, the ELMOS risk management system and the company's compliance with the recommendations of the "Government Commission German Corporate Governance Code" were addressed by the Supervisory Board. Annual planning including capital budgeting for 2006 and the ELMOS Group's long-term business development were discussed with the Management Board in particular.

Supervisory Board committees

In its meeting on December 16, 2005, the Supervisory Board decided on setting up an audit committee which had its initial meeting in February 2006. In this meeting, the committee concerned itself intensively with the preliminary financial statements of ELMOS Semiconductor AG and the Group. The auditor was also present at this meeting. The personnel committee debated primarily on the succession agreement and the Management Board members' remuneration system. The resolutions required for the employment contracts of Management Board members were prepared and passed as well.

The committee members gave detailed reports on their committee work in the Supervisory Board meetings.

Corporate governance and declaration of compliance

Management Board and Supervisory Board cooperate closely to the company's benefit, and both boards are committed to the sustained increase of the shareholder value. On December 16, 2005 the company issued an updated declaration in accordance with Section 161 AktG on the compliance with the recommendations of the Corporate Governance Code in its version of June 2, 2005 and made it permanently accessible to the shareholders on the company website. It can also be found on page 33 of this annual report. The declaration announces that ELMOS differs from those recommendations only on three counts: retention of the Board members' D&O insurance and the individualized disclosure of the Management Board and Supervisory Board members' total remuneration.



Almost all ELMOS locations are close to our customers.

Audit and group audit

By consulting the certified accountants of Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Dortmund, the Supervisory Board concerned itself in its March 15, 2006 meeting with the audit of the financial statements and consolidated financial statements as of December 31, 2005. According to the shareholders' resolution of April 26, 2005 and the ensuing commission given by the Supervisory Board to the auditor, the financial statements prepared in accordance with HGB regulations for the fiscal year ended December 31, 2005 and the status report of ELMOS Semiconductor AG were audited by Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Dortmund, as auditor. The auditor issued an unqualified auditor's certificate. The consolidated financial statements of ELMOS Semiconductor AG were prepared in accordance with the International Financial Reporting Standards (IFRS) for the first time and supplemented with the statements required by Section 315 a (1) HGB. The consolidated financial statements according to IFRS and the group status report also received an unqualified auditor's certificate.

The financial statement documents, the annual report, and the auditor's reports were handed over to all Supervisory Board members in due time. In the Supervisory Board's financial meeting on March 15, 2006, the financial statements and reports were explained by the Management Board. Furthermore, the undersigned certified accountants also reported on the auditor's reports and the essential results of their examination and were available for additional information as well. 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 auditor's examination and, in its meeting on March 15, 2006, approved of financial statements and consolidated financial statements.

The financial statements are hereby established. The Supervisory Board and the Management Board propose to the Annual General meeting to completely carry forward the retained earnings of 42,532,947.25 Euro to new accounts.

Line-up of Supervisory Board and Management Board

Several changes occurred in the line-up of Supervisory Board and Management Board during the fiscal year 2005.

Knut Hinrichs, CEO of many years, passed away on March 1, 2005. Knut Hinrichs had lead the company from its humble beginnings to becoming a renowned semiconductor producer and he had worked for the success of ELMOS as his life's work with great commitment and personal dedication. He had been managing director since 1987, Management Board member since 1999, and CEO of ELMOS Semiconductor AG since 2001. We are extraordinarily grateful to him and will always honor his memory. The Supervisory Board appointed Dr. Klaus Weyer as new CEO in its March 9, 2005 meeting.

After completing his five-year term on the Management Board, Dr. Peter Thoma resigned his Board membership for Sales and Development effective September 30, 2005 as scheduled. He is succeeded by Dr. Frank Rottmann, who has been with ELMOS since 1992.

Dr. Anton Mindl also joined the Management Board as of October 1, 2005, becoming Chief Executive Officer effective January 1, 2006.

A new Supervisory Board was elected at the Annual General Meeting on April 26, 2005. New Board members are Jörns Haberstroh and Jutta Weber; Dr. Roland Mecklinger and Dr. Karl-Thomas Neumann did not seek reelection. Dr. Peter Thoma, appointed Supervisory Board substitute member at the General Meeting on April 26, 2005, succeeded Dr. Wolfgang Heinke, who left the Supervisory Board as of September 30, 2005, in his Board membership. The Supervisory Board expresses its gratitude to Dr. Roland Mecklinger, Dr. Karl-Thomas Neumann and Dr. Wolfgang Heinke for their dedicated involvement and their commitment to the company's benefit.

Report according to Section §312 AktG

The Supervisory Board also examined the Management Board's report on relationships with affiliated companies according to Section 312 AktG (German Corporations Act). The Supervisory Board came to the conclusion that factual data in the report is correct, the company's performances resulting from the legal transactions specified in the report were not inappropriately high, and, with respect to the measures listed in the report, no circumstances indicate an evaluation essentially different from the Management Board's evaluation. In addition, the auditor examined the report on relationships with affiliated companies according to Section 312 AktG prepared by the Management Board of ELMOS Semiconductor AG and issued the following unqualified auditor's certificate:

"After due audit and assessment, we confirm that 1. the report's factual data is correct, 2. the company's performances resulting from the legal transactions listed in the report were not inappropriately high."

The Supervisory Board approves the result of this audit. After the concluding result of the Supervisory Board's examination, no objections are to be raised against the Management Board's declaration at the end of its report on relationships with affiliated companies.

We thank the Management Board and all employees for their performance, their high commitment, and the accomplishments they achieved in the past fiscal year.

Dortmund, March 2006



On behalf of the Supervisory Board

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



ELMOS has developed and produced more than 300 projects for the automobile industry.

Corporate governance report

Management Board and Supervisory Board report on corporate governance at ELMOS together. The commitment to responsible and conscientious company management is a key aspect of our corporate culture, and it is put to practice in the entire Group. One of the fundamental events in the past fiscal year relating to partnership law was the election of a new Supervisory Board. The following report summarizes the ELMOS Group's activity with regard to corporate governance.

Transparency towards our shareholders

We always endeavor to inform our shareholders of current developments within the company with reference to financial situation and strategic orientation. For this purpose, ELMOS shareholders are briefed about all substantial events and developments in various ways.

Furnished information includes the publication of a financial calendar, quarterly and annual reports, and up-to-date information on publications, directors' dealings and the Annual General Meeting, available on the internet website as well as through other distribution channels. We are constantly working on the completion of the information supply of our company website in order to provide even more comprehensive information to our shareholders and to enable them to get a clear picture of ELMOS. We also monitor on a continuous level if material business transactions occur between a company of the ELMOS Group and members of Management Board or Supervisory Board, or somebody close to any Board member. So-called directors' dealings are published on the internet site as usual and also in the notes to the consolidated financial statements according to IFRS.

Internet broadcast of the AGM

The Annual General Meeting is the most important platform for our shareholders to exercise their formal rights on. As we had done the previous year already, we broadcast the entire AGM via webcast on our website in order to allow those to follow the General Meeting who could not participate in person due to time constraints. We also made it possible for shareholders unable to attend the AGM in person to entrust their voting rights to a proxy nominated by the company. All documents relating to the Annual General Meeting and other information about attending the AGM and the exercise of voting rights can be found on our website under Investor Relations and can be requested there. The next Annual General Meeting will take place on May 19, 2006 in Dortmund.

Close collaboration of Management Board and Supervisory Board

The Supervisory Board advises and supervises the Management Board with respect to running the company. It takes part in all decisions of essential importance to the Group and it appoints or releases the Management Board's members. In the year 2005, a new Supervisory Board was elected at the Annual General Meeting on April 26, 2005. It is composed of six members. With its different professional backgrounds, the members, elected for five years, reflect the variety of activities of ELMOS. You can gather further information on the members of the Supervisory Board from the company boards overview.

The Management Board is the executive body of ELMOS. It also saw personnel changes in 2005. Long-time CEO Knut Hinrichs passed away in March 2005. At the end of September 2005, Dr. Peter Thoma left the Management Board as scheduled and joined the Supervisory Board at the beginning of October. Newly appointed members of the Management Board as of the beginning of October 2005 are Dr. Anton Mindl and Dr. Frank Rottmann.

The Management Board gives regular, comprehensive and up-to-date reports to the Supervisory Board on all events and developments of relevance to business development and status of the ELMOS Group. In the past year under report, Management Board and Supervisory Board again collaborated closely and with complete confidence. Both boards' rules of procedure are concerned with this collaboration, among other things.

Remuneration of Management Board and Supervisory Board

Fixed and variable remuneration of Management Board and Supervisory Board in the year 2005 adds up to a total amount of 97 thousand Euro for the Supervisory Board and 1,313 thousand Euro for the Management Board.

The Supervisory Board's variable remuneration is linked to the dividend. The Management Board's remuneration structure orients itself towards the group's economic and financial situation and is comprised of a fixed monthly salary, variable remuneration in the shape of a performance bonus (linked to the earnings before income taxes), payment in kind (company cars, etc.), and share options (under the same conditions as applicable to employees plus the predefinition of a cap). The variable components are structured in order to provide a clear incentive for achieving the predetermined objectives.

New Supervisory Board elected



We can guarantee long-time supply to our customers due to our own production facilities.

Neither Management Board nor Supervisory Board members received loans from ELMOS in the fiscal year 2005. Supervisory Board committee chairs and memberships are not subject to special compensation because we think special remuneration would not improve the dedication to committee work further.

ELMOS accrued pension provisions of 982 thousand Euro for pension commitments to members of the Management Board (direct commitment). In addition, there are indirect pension commitments to Management Board members which require no accruals because of the volume of these commitments and risk coverage by completely congruent pension plan reinsurance. In 2005 the contributions to these pension plans amounted to 181 thousand Euro. Remuneration for former Management Board members or their surviving dependants comes to 59 thousand Euro in the fiscal year 2005. For them, pension provisions of 1,573 thousand Euro were accrued.

We do not provide an individualized disclosure of the remuneration with regard to privacy protection and against the background that, according to the shared opinion of Management Board and Supervisory Board, such a disclosure would not contribute to more transparency in terms of additional information relevant to the capital market. For this reason, we will propose to the Annual General Meeting 2006 not to provide an individualized disclosure of the Board remuneration.

Anticipatory risk management

Proactive risk management

Conscious entrepreneurial risk management helps detect risks at an early stage, assess them, and initiate adequate countermeasures. All company divisions provide an assessment of identified risks with reference to their activity and countermeasures already introduced. Parameters of risk assessment are probability of occurrence and possible amount of damages. This risk assessment is updated quarterly or even at shorter intervals if necessary. We give account of current entrepreneurial risks in the status report starting on page 56.

Code of conduct

Code informs of our responsibilities

In the year under report, ELMOS summarized its high social, environmental and economic claims in a "code of conduct". The code informs in detail about our responsibility for company, employees, environment, and society. This code of conduct is directed at all executives and employees within the ELMOS Group. With this code we want to promote irreproachable conduct and adequate handling of conflicts of interests in a manner which is comprehensible to everyone.

Declaration of compliance according to Section 161 AktG

Management Board and Supervisory Board issued the declaration of compliance in December 2005. It discloses that ELMOS differs from the recommendations of the Corporate Governance Code only on three counts. These are retention of the Board members' D&O insurance (CGGC No. 3.8) and the individualized disclosure of the Management Board and Supervisory Board members' total remuneration (CGGC No. 4.2.4 and 5.4.5). We refer to our discussion of the individualized disclosure of remuneration above.

Audit conducted by Ernst & Young

Before submitting the proposal for the appointment of the auditor, the Supervisory Board obtained a declaration by the auditor on relationships between the auditor, its boards, and its audit manager with the company or its boards' members. There were no doubts about auditor independence. Compliant with No. 7.2.3 of the Corporate Governance Code, the Supervisory Board arranged for the auditor to report without delay on any findings and incidents of importance to the auditor's duties and responsibilities occurring during the performance of the audit. The Supervisory Board also determined that the auditor inform the Supervisory Board or make note in the auditor's report if the auditor established differences from the declaration of compliance as issued by Management Board and Supervisory Board. Incorrectness of this kind has not been established.

Dortmund, March 2006

On behalf of the Supervisory Board

Prof. Dr. Günter Zimmer

On behalf of the Management Board

Dr. Anton Mindl

Dr. Klaus Weyer



The customer specific chips made by ELMOS integrate a multitude of functions.

Supervisory Board



From left:

Herbert Sporea, Jutta Weber, Jörns Haberstroh, Prof. Dr. Günter Zimmer, Dr. Burkhard Dreher, Dr. Peter Thoma

Declaration of compliance

ELMOS Semiconductor AG has issued the following declaration required by Section 161 AktG and made it accessible to the shareholders. Management Board and Supervisory Board of ELMOS Semiconductor AG declare in compliance with Section 161 AktG:

“ELMOS Semiconductor AG complies with the recommendations of the “Government Commission German Corporate Governance Code” (in short: GCGC) in its version of June 2, 2005 with the following exceptions:

- ▶ The currently valid D&O insurance for Supervisory Board and Management Board does not provide for a retention for the board members (GCGC No. 3.8). Based on the undefined legal position concerning the individual board member’s personal liability, an adaptation of the insurance is currently not being realized.
- ▶ Even though the Management Board members’ remuneration is stated on the website as well as in the annual report divided into 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).
- ▶ The Supervisory Board members’ remuneration also consists of fixed and success-dependent components. Supervisory Board remuneration is stated on the website 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 2005

The Management Board **The Supervisory Board**



Our own HV-CMOS technology is particularly suited to automotive use.

WE MASTER MORE COMPLEX PRODUCTION PROCESSES





NEW CHALLENGES Old products were replaced by new ones faster than expected. These new products require higher manufacturing effort – partly by 50 percent. New products also generate lower yields than semiconductors chips the company has been familiar with for many years.

NEW BEGINNINGS An entire package of measures – from an efficiency increase in production and more space for new machines to specific steps towards yield improvement – makes us feel enthusiastic. And our in-house trained employees show a performance which would have been deemed impossible just a short time ago.



GROUP STATUS REPORT OF ELMOS SEMICONDUCTOR AG

Business and economic framework

Business activity

Leading market position
achieved

ELMOS develops, produces and sells highly integrated, mostly application specific microelectronic circuits, primarily for automotive use. Roughly 90 percent of sales originated from this market segment in 2005 once again. Within the past two decades, ELMOS has achieved a leading market position as semiconductor manufacturer on the European market for automotive electronics. According to the market research institute Gartner Dataquest, for the last years ELMOS has been the worldwide No.3 in the segment ASICs (Application Specific Integrated Circuits) for the automotive market.

Position	Company	2004 (million USD)	Growth 2003-2004	Market share
1	ST Microelectronics	341	8%	26%
2	NEC Electronics	200	29%	16%
3	ELMOS Semiconductor	146	25%	11%
4	AMI Semiconductor	130	26%	10%
5	Melexis	84	38%	7%
	Others	399	-11%	30%
	Total	1.300	8%	100%

Source: Gartner Dataquest 2005

ELMOS chips are used 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 electronics inside the vehicle. Semiconductor components made by ELMOS are ideally suited to the compact, reliable and economical construction of those systems.

ELMOS has served niche markets using its own know-how for more than 20 years. It is the company's strategy to excel with consistently optimized production technology in response to market demands and with customer specific product development. Therefore ELMOS usually develops products by the customer's order for a specific application and then manufactures these products exclusively for the customer. ELMOS directs its efforts at running a successful business and growing ahead of the market as the customers' competent partner for customized integrated circuits.

Large share of
customer specific products

Apart from customer specific circuits, comprising approximately 90 percent of all products, ELMOS also offers a portfolio of application specific standard products (ASSPs) as well as micromechanical sensors produced by the U.S. subsidiary company Silicon Microstructures Inc. (SMI), based in Milpitas, California. SMI develops, produces and sells micromechanical components (MEMS) and ranks among the technology leaders for high-precision silicon pressure sen-

sors. Besides pressure sensors, SMI develops sensors for acceleration and rotary motion which are of special interest to the automobile industry. With its own production site in California, SMI has solid serial production facilities and capabilities. In addition, the producing subsidiary ELMOS Advanced Packaging B.V. (ELMOS AP), based in Nijmegen in the Netherlands, completes the technology and product portfolio. ELMOS AP develops and manufactures packages for electronic semiconductor components and sensors. Apart from standard packages compliant with JEDEC regulations, customer and application specific special packages – partly standing out from the competition by patented know-how – are part of the portfolio. The Nijmegen plant provides state-of-the-art technology. In 2005, ELMOS AP covered roughly 57 percent of all assembly services for ELMOS. Besides assembly within the group, the company manufactures special packages for third-party customers to a lesser extent.

ELMOS produces all ASICs at its own production site for semiconductor components (wafer fab) in Dortmund. ELMOS is distinguished from most of its competitors by automotive-suited high-voltage CMOS technology as well as the system-compatible integration of analog and digital functions with on-chip driver performance.

Furthermore, the division ELMOS Microsystems, newly created in the year under report, is going to push development and sale of application specific, micro-mechatronic modules. These modules combine the capabilities of all three producing companies within the ELMOS Group and consist of signal processing semiconductor components, micromechanical sensors, and functional packages. Thus the company can realize economical system solutions such as co-integrated pressure sensors.

New automotive projects usually require three to four years of development time till they enter serial production for roughly five years. Sometimes the production period is extended considerably if car manufacturers put to use a similar technical platform in a family of new car models. By the time a new project is won, prices are usually determined for the entire project life cycle dependent on the scheduled volume.

Apart from the automotive market, ELMOS also serves markets for industrial and consumer goods, supplying customer specific circuits for use in household appliances, cameras, installation and building technology, and machine control. These non-automotive markets contributed roughly ten percent of sales in the past year as in the previous years.

State-of-the-art
 technology

Three to four years
 development time



ELMOS chips work at extreme temperatures of -40 and $+175$ degree Celsius.

Strategy

In the year under report and at the beginning of this year, ELMOS has defined and enhanced its strategy as follows:

Strong in customizing

▶ **Focusing on customer specific automotive applications**

ELMOS has gained experience with automotive semiconductors over decades. Together with its assets own production site and technology, considered a prerequisite to the successful survival on the automotive market, ELMOS is going to utilize this strong point to keep developing customer specific automotive applications. Moreover, ELMOS will be able to address new applications on the market due to its new Management Board members' expertise.

Sales structure reorganized

▶ **Expanding sale of standard products (ASSPs)**

ELMOS is going to produce and sell standard products increasingly in the future. Qualified by its automotive expertise, ELMOS will develop products on the basis of manufactured customer specific circuits for other application fields and offer them to a wider circle of customers. Standard products are on demand for specific applications particularly in the U.S., as larger project volumes in the face of declining customer numbers are a matter of debate. For this reason, ELMOS restructured its sales department in 2005 to be able to address customers on their markets specifically with the newly created division "Applications and Systems"

Combination of ASIC and sensor
in special package

▶ **Marketing multi-chip solutions**

ELMOS clearly stands out from its competitors with the capability to develop and manufacture microsystems comprising ASICs and sensors inside a customer specific package and provides its customers with a unique advantage. Only very few companies offer the required in-house technologies. This makes it possible to address a new range of applications, especially decentralized, intelligent sensor systems. The in-house division ELMOS Microsystems is instructed to push marketing, development and production of these microsystems.

Purchase of components

▶ **Integrating third-party silicon into own system solutions**

In the future, our in-house production is going to be limited to products with special requirements for design and technology. Therefore in the future components will be purchased if they cannot be manufactured with technologies offered by ELMOS more efficiently. In addition to strategic partnerships, several semiconductor foundries accept commissions for production according to one's own construction plans. Thanks to the technical capabilities of ELMOS Advanced Packaging, own and purchased components are going to be integrated into functional packages as multi-chip modules. Our capability and willingness to integrate third-party components opens up a vast area of new applications. Thus in-house production will be reasonably supplemented in cases it is indicated technologically or for financial reasons. At the same time, the purchase of external components can contribute to reducing investments required for providing capacity.

► **Serving additional markets**

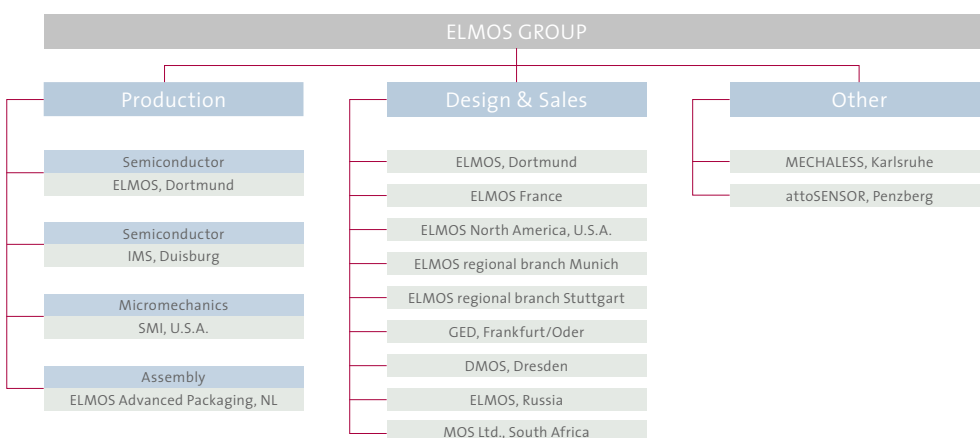
Because of its long development and production periods, the automotive market is only insufficiently qualified for the introduction of innovations. In order to still be able to bring innovative ideas on the market swiftly, ELMOS is going to expand its existing customer base in the consumer industry. In doing this, we will pay particular attention to operating from a patent-protected position. ELMOS is aiming for medium-term sales contributions of 20 to 30 percent of total sales to originate from non-automotive markets, i.e. industrial and consumer markets.

Increased focus on additional markets

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 reflected by the ELMOS Group’s diversified structure layout. Several branches, subsidiaries, 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 Munich and Stuttgart branches, the subsidiaries ELMOS France, ELMOS North America, MECHALESS, and GED, and cooperation partners attoSENSOR, DMOS, and MAZ. ELMOS France serves the French market and provides application support and customer service on the spot. For ELMOS, France is currently the most important regional market apart from Germany. ELMOS North America serves the North American market from its headquarters in Farmington Hills near Detroit, center of the American automobile industry.

Organizational structure overview



About 90 percent of all ELMOS chips are specially optimized for the customer.

In its segmental reporting, ELMOS makes a distinction between the segments semiconductor and micromechanics. The segment micromechanics reflects the business operations of SMI. The other companies and activities are recorded in the segment semiconductor.

Relationships with affiliated companies

With indirect and direct shareholdings of 52.9 percent, ELMOS Finanzholding GmbH (EFH) is the major single shareholder of ELMOS Semiconductor AG. Therefore the Management Board has prepared a report on the relationships with affiliated companies according to Section 312 AktG (German Corporations Act) concluding with the following statement in compliance with Section 312 (3) 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 as defined by Section 312 AktG did not result for us from our relationships with affiliated companies.”

General framework

Automotive semiconductor market

No end in sight to growth

The market for semiconductor chips for the automobile industry is the market of relevance for ELMOS. This market is a niche market of the global semiconductor industry. It comprises a share of roughly eight percent of the entire semiconductor market worldwide. Due to the effect of the relatively steady car production and the increasing proportion of electronics used inside vehicles, the automotive semiconductor market shows a significantly higher stability in comparison to the global semiconductor market which is primarily subjected to developments with regard to memory and communication chips. It is expected that the portion of total car value accounted for by electronic systems is going to rise from 25 percent today to about 35 percent until 2010. The market for electronics and microelectronics for automotive use has been growing and will continue to grow in the long term, many times faster than the number of produced automobiles does. This trend is expected to last well into the year 2025.

The automotive semiconductor market's special distinguishing features are the product life cycles, atypically long for the semiconductor industry, and the resulting long delivery periods of more than ten years in some cases. The market is also characterized by long-lasting customer-supplier relationships and the extremely high demands on quality.

The global automotive semiconductor market amounted to 16.8 billion USD in the year 2004. For the next years, experts forecast the automotive semiconductor market's growth of eight to ten percent per annum. The German Electrical and Electronic Manufacturers' Association (ZVEI) expects the market to grow to 25.8 billion USD by 2009.

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 so-called ASICs.

The large semiconductor producers, looking for utilization of their vast production capacity, do not focus upon these ASICs because of the comparatively small number of annual units. Another distinguishing feature of the ASIC business is very close supplier relationships between the customer and one individual ASIC manufacturer, among other factors a result of the customer's wish for protection of his own know-how. With regard to typical, medium-volume ASIC projects, ELMOS competes with companies of similar size, such as AMI Semiconductor, Melexis, Austria micro systems, and Micronas. When it comes to very large numbers of units, ELMOS also competes with major producers such as Infineon, ST Microelectronics, and Freescale.

Economic environment

The Market underwent a significant change in the year 2005. The consolidation process on the automotive market continues unabatedly, the number of suppliers declined. Average project volumes rise, and so does the pressure on prices. Pricing pressure is handed on by the car manufacturers in the form of cost-cutting plans to the so-called "Tier1" manufacturers, the suppliers on top of the supply chain. They pass the pressure down to their suppliers in negotiations for new projects.

Because product development periods are expected to become shorter and shorter, deadline pressure increases as well. A delayed placing of an order after lengthy negotiations often enforces this situation additionally. On the other hand, even the slightest exceeding of a project deadline can result in the order not being transferred to production.

Changes have occurred concerning the acceptance of development costs as well. In the past, the customer usually paid about half of the development costs. Owing to increased competition, the customers' willingness to accept development costs at all is rapidly on the decline today. Therefore the risk increases that the customer will abandon a project, e.g. if he loses an order from his customer.

Especially regarding very large projects, the customer demands the allocation of development costs through serial production. Furthermore, parallel development of two competing suppliers occurs more often, replacing single-sourcing which used to be the rule in the ASIC business. This new situation and the high pricing pressure today make a customer's change of suppliers possible even during a car's serial production in projects like these.

Course of business in the year 2005

The year 2005 reflects all the above-mentioned changes in the general framework. ELMOS started the year with optimism but suffered a number of setbacks in the process. This development was not continuous. The first quarter revealed a few problems, but the second quarter in par-

Consolidation continues



ELMOS provides its chips to the suppliers to the automobile industry who integrate them into their systems.

ticular unfolded very successfully. A substantial sales decline in the third quarter shattered all hopes of achieving the year's targets and forced us to reduce the forecast significantly in September. The problematic course of sales is represented by the orders received over the year under report. Only the fourth quarter showed a return to solid orders received. This negative development has been traced back to the following effects:

- ▶ **Faster discontinuation of old products:** The scheduled discontinuation of a number of old products had been expected for the year 2005, essentially as result of the model changeover for the BMW 3 Series and a technical modification of the current 5 Series. This discontinuation occurred much faster than expected because the customers' stock proved substantial. Obviously customers had worried about supply bottlenecks, therefore building up in-house supplies. Revenue generated by the new products was sufficient to make up for eliminated sales proceeds from the old products. However, it only allowed for moderate growth.
- ▶ **Changes in the product mix:** As a consequence of the faster discontinuation of old products, today's product mix shows a much higher share of new products as compared to the last years. Yet new products feature a significantly higher level of functionality and require more complex process technologies. Therefore the radical change of the product mix puts a strain on the margins in addition to effecting lower sales than initially planned.
- ▶ **Postponement of projects:** Turning away from the highly reliable time schedules of the past, stronger tendencies towards the customers' postponing intended serial production starts can be noted today. Some of the numerous development projects have not been completed on schedule due to delays, partly caused by customers, partly self-inflicted.
- ▶ **Cancellations of some significant projects:** Currently there is a tendency towards more abandoned projects, i.e. projects do not lead to revenue after development is completed. This is due in part to the customer's or its automotive customer's difficult economic situation. This affected a few high-volume projects as well, having a negative effect on our sales figures.
- ▶ **Weak economy in the first half-year:** Owing to the weakness of some American car manufacturers, several developments projects were postponed or canceled altogether in the spring. The hesitant sales development with reference to German automobiles, partly in connection with the debate over particulate matter, added to that.

Early detection initiative

In order to detect those negative developments at an early stage and to minimize their effects on our business development, an initiative for the improvement of planning reliability, accelerated introduction of new process technologies, and increased attention to development projects was kicked off in early summer. To support this program, ELMOS provided additional resources, both for technology development and product development. The cooperation with the Fraunhofer Institute for Microelectronic Circuits and Systems (IMS) in Duisburg, aiming for the soonest possible start-up of the second production line, was pressed ahead with. With these measures came additional expense.

Finally, the year 2005 is marked not only by economic challenges and beginnings, but also by essential personnel changes on the Management Board. After the death of former CEO Knut Hinrichs in March 2005, the replacement on the Management Board and the recruitment of younger blood was initiated earlier than scheduled. In October 2005, Dr. Anton Mindl, designated CEO, and Dr. Frank Rottmann joined the Management Board, the latter succeeding Dr. Peter Thoma, who had resigned his responsibilities effective September 30, 2005 after completing a five-year term on the Board. After Dr. Klaus Weyer had served as interim CEO for the remainder of the year 2005, Dr. Anton Mindl succeeded him as CEO effective January 1, 2006.

Personnel changes

Production

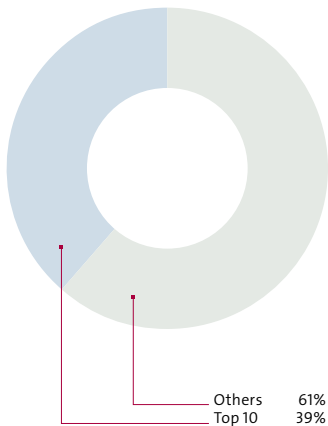
The ASICs and ASSPs delivered to customers in 2005 were produced exclusively at the main location Dortmund on the six-inch wafer line (150mm). This line was further expanded in the year under report to be prepared for the next technology generations and production's increasing capacity requirements. Even though the number of chips produced in 2005 in comparison to the year before did not rise substantially, the demands on the products and their complexity have increased considerably with reference to the number of reticles or layers. Therefore the capacity expansion became necessary to avoid supply bottlenecks. Production rooms and facilities at the Dortmund location are equipped with state-of-the-art technology to allow processes with structure sizes up to 0.35 micrometers. Unchanged from the previous year, machine capacity came to roughly 450 wafer starts a day by the end of the year 2005; at 400 wafer starts a day, utilization slightly exceeded the previous year's level (about 380 wafer starts). In absolute terms, wafer capacity has not increased as wafer complexity (photo technology layers) has risen significantly. Altogether more than 130,000 wafers were manufactured in 2005 (2004: over 120,000 wafers). The more or less constant capacity (with reference to wafer starts a day) proves that, rather than the volume, the products' complexity increase was the deciding factor for production in the year 2005.

The capacity of the Dortmund production line can still be expanded by the recruitment of additional staff and further investments in machines and expansion of production space. In the year 2005, the essential measures were taken for securing the next years' capacity. One step is the production expansion at the Dortmund location, starting work on the fourth construction stage which will provide additional clean room space for production from the second half-year 2006. This building structure is intended to accommodate the backend expansion first, from the middle of 2006, and can also provide space for the frontend expansion at a later time, if necessary. The second step to safeguarding future capacity is the cooperation with the Fraunhofer Institute for Microelectronic Circuits and Systems (IMS) in Duisburg, finalized by signing an agreement in 2005. ELMOS started operating the eight-inch production line at the IMS in 2005 and initiated the qualification of first products. Today's planning provides for the first production batches to be completed in Duisburg in the middle of 2006.



The development of an ELMOS chip takes about three years from initial idea to serial production.

Sales according to products



The cautious capacity expansion in Dortmund, the new production site in Duisburg, and future external purchase will safeguard the necessary production capacity for the future of ELMOS in the medium term.

ELMOS AP assembled about 63 million components for ELMOS alone, like the year before. About six million components were assembled for third-party customers (2004: five million). As in the previous year, ELMOS Advanced Packaging covered about 57 percent of the assembly services for ELMOS in 2005.

About 150 different products with considerable sales volumes were produced parallel to each other in 2005, like the year before. The ELMOS product with the highest sales contribution in 2005 was a chip for a comfort application, coming to 7.2 percent of total sales. The top ten products mounted up to roughly 39 percent of sales.

Research and development

For the ELMOS Group, the non-automotive markets serve as innovation drivers. The automobile industry's high demands on the semiconductor's quality and reliability as well as long development time until serial production starts counteract swift developments of semiconductor technologies. The faster-moving markets with short-term product life cycles and different demands on speed and memory size lead to the establishment of the latest technologies in the shortest amount of time, and in faster succession. Technologies for these innovation driving markets are used in the automotive semiconductor market only with a significant time delay. The decision to put to future use externally purchased components from these fast-moving markets as well is going to expand the ELMOS product portfolio considerably and will develop another driver of the technological development of ELMOS.

Transfer to the Duisburg location

Main emphasis of research and development activity in the year under report was put on the transfer of the 0.8 μ m process to the Duisburg location. At the end of the year, the first batches for qualification prototypes of the first two transferred products were introduced there. The efforts for the development of new process technologies at smaller structure sizes and FLASH option will consistently be realized directly on the eight-inch line in Duisburg in the future because it provides the largest cost benefit. Work on the development of 0.35 μ m technology constitutes another portion of the research and development expenditure. The strategy ELMOS follows here aims at providing innovative solutions ahead of the competition and utilizing the advantages from the combination of own products and highly integrated components manufactured by foundries at the same time.

Apart from the development of new processes, by far the bigger share of the expenditure for research and development is accounted for by the development of new products. In the year 2005, the trend of recent years towards research and development costs for an ASIC being paid

by the supplier intensified. This means that a majority of the product development costs must be pre-financed by the ASIC supplier – ELMOS – and is amortized only through serial unit production. In addition, the automobile manufacturers increasingly see to it that their suppliers assume system responsibility which they in turn pass down to the second-tier suppliers. These obligations are therefore taken over by ELMOS at an increasing rate. As a direct result, the expenditure for research and development rose by 3.4 million Euro from the previous year, corresponding with a ratio of roughly 19.1 percent of total sales.

Employees

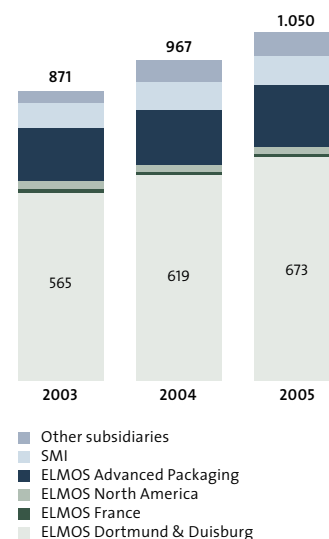
As a technology company, ELMOS benefits especially from the employees' know-how. Their motivation, knowledge and flexibility are the prerequisite to the company's long-term success. Particularly with regard to the development of new products and processes, the employees represent the deciding criterion 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. ELMOS has closely cooperated with these institutions ever since its foundation, holding a singular position as the sole semiconductor manufacturer in the region.

In spite of the difficult economic situation, ELMOS continued to create new jobs in 2005. In the fiscal year 2005, the ELMOS Group had altogether 1,028 employees on the annual average as compared to 928 employees in 2004. The new openings were provided primarily by the production area. Mostly frontend workers took up employment due to the expansion of the Duisburg location. By the end of the year 1,050 people were employed (2004: 967 employees), 673 of which at the Dortmund and Duisburg locations (2004: 619). The average age of employees in the ELMOS Group is 36 years (2004: 35 years). In the year 2005, employee turnover comes to 2.6 percent (2004: 3.2 percent).

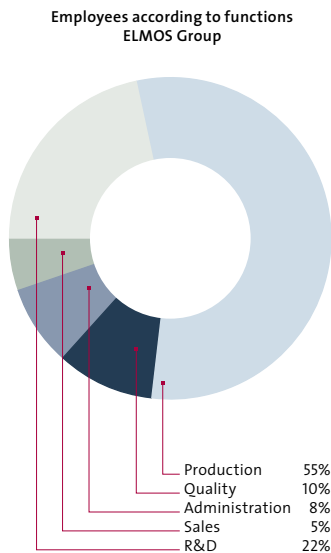
Roughly ten percent of all employees in Dortmund are trainees. ELMOS offers training in a variety of commercial and technical professions, with an emphasis on training microtechnologists. By the end of 2005, 59 Dortmund employees were in training (2004: 57).

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

Employee development (end of year)
ELMOS Group



The production of an ELMOS chip takes about three months including extensive tests.



Employee participation/share option plans

At present, employees participate in the company’s success through share option plans. These programs provide for the issue of share options to employees below Management Board level and to Management Board members at identical conditions. As additional prerequisite to the Management Board members’ share options, a limit (“cap”) to the performance has been in effect since the 2004 tranche. Share options for Management Board members are also variable remuneration components with a long-term incentive effect.

As of December 31, 2005, altogether 843,359 share options originating from the share option plans of the years 1999 to 2004 were outstanding (12/31/2004: 803,210). In 2005, options from the tranche decided in 2002 and issued in 2003 were exercised for the first time. 112,424 new shares were issued as a result. For in-depth information about the option plans’ different tranches please refer to item 24 in the notes to the IFRS statements.

The Supervisory Board did not decide on a new share option plan in December 2005 for the time being. Against the backdrop of higher share option costs if compared to former US-GAAP accounting, resulting from accounting based on fair value as stipulated by IFRS 2, Management Board and Supervisory Board decided that other measures might be taken to offer an incentive to employees and Management Board members. Alternative incentive systems are being discussed currently.

Quality, safety and environmental protection



Audit showed
no divergences

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, close attention to the serial products from the development stage up to manufacture, constant analyses, and statistical procedures facilitate this high quality level. In-house laboratories scrutinize not only possible defect mechanisms of the semiconductor production but sensor and packaging specific features as well.

Since the mid-90s, ELMOS has maintained a quality management system which is audited annually in accordance with DIN ISO 9001 and the standards QS 9000 and VDA 6.1. These standards have meanwhile been subsumed under ISO/TS 16949:2002 with worldwide validity. ELMOS Dortmund, ELMOS North America, ELMOS France, and GED were audited and certified in accordance with the new norm in 2005 once again.

Occupational safety and environmental protection are considered equal in importance next to the other company objectives, product quality and profitability. Compliance with the law, minimization of environmental damages, the staff’s sense of responsibility, conservation management, and continuous improvement and communication are the key principles governing 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 and confirmed by supervision audits in 2004 and 2005 without divergences. The divisions 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 effective prevention and the efficient utilization of natural resources in particular.

In addition to the publication of the eco report for 2004, informing comprehensively about environmentally relevant activity, the resulting environmental effects, and the organization of workplace safety, ELMOS summarized its high social, ecological and economic standards in a “code of conduct” in 2005 for the first time. The code gives detailed account of the responsibility for company, employees, environment, and society. This code of conduct addresses all executives and employees within the ELMOS Group. It is intended to promote irreproachable conduct and create more transparency in a way which is comprehensible to everyone.



More than 150 ELMOS products are in production at the same time.

Profit, financial and economic situation

Financial statements according to IFRS

First-time adoption
of IFRS

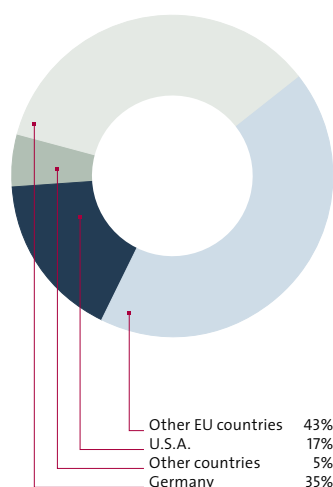
The consolidated financial statements of ELMOS Semiconductor AG for the fiscal year 2005 have been prepared in accordance with the International Financial Reporting Standards (IFRS) for the first time. Due to the adoption of IFRS, a number of reclassifications and revaluations in the balance sheet were necessary. A discussion of details and a reconciliation statement start on page 76 of this annual report. The decisive factor that affects the differences between US-GAAP and IFRS accounting is the recording of share option costs, based on the options' intrinsic value according to US-GAAP, based on their relevant time value (fair value) according to IFRS.

ELMOS Group key figures according to IFRS

in million Euro or percent, unless otherwise indicated	2004	2005	Change
Revenue	143.3	147.0	2.6%
Gross profit	73.2	70.6	-3.5%
in percent	51.1%	48.1%	
Research and development expenses	24.7	28.1	13.9%
in percent	17.2%	19.1%	
Distribution costs	7.1	9.4	32.9%
in percent	4.9%	6.4%	
Administrative expenses	12.8	13.0	1.1%
in percent	9.0%	8.8%	
Operating income before other operating expenses	28.6	20.1	-29.6%
in percent	19.9%	13.7%	
EBIT	26.4	20.0	-24.2%
in percent	18.4%	13.6%	
Income before taxes	22.9	16.4	-28.6%
in percent	16.0%	11.2%	
Group net income after minority interest	14.2	10.0	-29.4%
in percent	9.9%	6.8%	
Earnings per share (basic) in Euro	0.74	0.52	-29.6%
Dividend per share in Euro	0.21	0.00*	n.a.

* Proposal to Annual General Meeting in May 2006

Revenue according to regions 2005



Sales development

The year 2005 was difficult for ELMOS. Because the sales increase was lower than initially expected, expenses for all essential items grew disproportionately. Revenue increased by 2.6 percent to 147.0 million Euro. The reasons for the lower-than-expected growth of sales are discussed in detail in this annual report starting on page 41.

Revenue according to regions

At the beginning of the year under report 2005, a shift occurred from the German sales portion towards the other European countries because of changes in the supply chains of several major customers. Thus the German share declined in comparison to the previous year (53.6 percent) to 35.2 percent while the portion of the other EU countries gained almost the exact difference to reach 42.9 percent (2004: 25.6 percent). The U.S. sales portion grew rather significantly due to increased activity of ELMOS North America in selling ASICs on the North American market, amounting to 16.6 percent (2004: 13.5 percent).

Revenue according to customers

ELMOS supplies altogether more than a hundred customers. These are primarily suppliers to the automobile industry, to a lesser extent industrial customers and manufacturers of consumer products. As in earlier years, French supplier to the auto industry Valeo was our biggest customer, contributing almost 16 percent of our group revenue. Unchanged from 2004, Autoliv purchased products for roughly 15 percent of our revenue. The Swiss Saia Group, supplied by us mostly with stepper motor drivers, grew fast as a customer. Revenue generated with our top customers is usually accounted for by 20 or more products at different stages of their respective life cycles. The top ten customers amounted to roughly 67 percent, or two thirds, of our revenue in 2005.

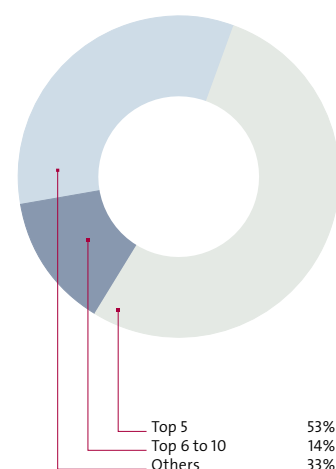
Order backlog

The book-to-bill ratio is determined by comparing the backlog of orders for the next months with the past months' revenue. By the end of December 2005, the book-to-bill for the semiconductor segment was 1.09.

Order backlog is usually recorded on receiving the customer's order. The orders received considered for determining the book-to-bill comprise products to be supplied within the next three months. The order backlog is influenced by different factors, such as demand, order behavior, production lead time, etc. It may vary between the time of placing the order and delivery. This is due to changes in customer demand or market conditions. As soon as production starts, an order usually cannot be canceled anymore. And customers typically invest a lot of time and expense in the development of a project themselves and therefore usually follow their orders through. However, there is no guaranty that order backlog will turn into revenue.

The past year's business development has shown us that the book-to-bill ratio as it had been formerly determined (orders received during the past quarter compared with the past quarter's revenue) allows no precise forecast of the future course of business. Therefore we decided to change its calculation as described above.

Revenue according to customers 2005



ELMOS supplies its customers with a complete microsystem from one source.

New projects (design wins)

Because of the growing sales increase per design win, we generated a life cycle volume of altogether 276 million Euro (2004: roughly 340 million Euro) with 17 new projects (2004: 29 new projects) in the year 2005. The smaller number of design wins makes it easier to focus on finalizing the ongoing projects.

Reporting on design wins
discontinued

As has been discussed above, we faced changed general conditions in the past year. Even though the old conditions still hold true for smaller projects, we will discontinue our detailed reporting on design wins due to its declining informative value from 2006 on as communicated earlier already. Only extraordinary new projects will be reported the future.

Profit situation

Gross profit

The gross profit decreased by 3.5 percent to reach 70.6 million Euro. This decline is attributable in particular to the cost of sales which grew by 8.9 percent to 76.3 million Euro due to drastically increased product complexity. A case in point, the average number of exposures per wafer grew significantly in the past months. An increase of product complexity is not unusual but rather reflects the regular progress of semiconductor production. However, the pace at which this increase occurred in the past year is very unusual and has its principal reason in the fast discontinuation of many old products and the grown portion of new ones. The resulting gross margin came to 48.1 percent as compared to 51.1 percent in 2004.

Operating income before other operating costs/(income)

The operating income dropped by 29.6 percent to 20.1 million Euro, leading to a margin of 13.7 percent (2004: 19.9 percent). Because sales had initially been expected to be higher, the expenditure for research and development and for distribution rose by 13.9 and 32.9 percent, respectively, explaining the operating income's deterioration.

Research and development expenses are affected by the great number of projects in development. Expenses came to 28.1 million Euro or 19.1 percent of revenue. This corresponded with the planned finalization of several development projects. Distribution costs climbed to 9.4 million Euro due to last year's restructuring of our sales department. Restructuring measures comprised the grouping of microsystem activities in one unit and the establishment of the new division "Applications and Systems". With a 1.1 percent increase, general administrative expenses hardly changed.

EBIT

The earnings before interest and taxes (EBIT) decreased to 20.0 million Euro by 24.2 percent, resulting in an EBIT margin of 13.6 percent of revenue (2004: 18.4 percent). The EBIT differs from the operating income in the additional consideration of foreign exchange loss/(income) and other operating expenses/(income).

Income before taxes, group net income, and earnings per share

At 3.6 million Euro, finance income/expenses were slightly above the previous year level (2004: 3.4 million Euro). Pre-tax income amounted to 16.4 million Euro or 11.2 percent of sales (2004: 22.9 million Euro or 16.0 percent). The income taxes of 6.1 million Euro clearly declined in comparison to 2004 because of the lower pre-tax income, corresponding with a basically unchanged tax rate of 37.0 percent (2004: 36.6 percent). The group net income after minority interest comes to 10.0 million Euro in 2005 compared to 14.2 million Euro in the past year. The net income margin reached 6.8 percent (2004: 9.9 percent). Earnings per share are 0.52 Euro as opposed to 0.74 Euro in 2004.

Proposal for the appropriation of retained earnings

ELMOS Semiconductor AG* achieved retained earnings of 6.1 million Euro. The retained earnings carried forward from 2004 came to 36.4 million Euro. The Management Board and the Supervisory Board propose to the Annual General Meeting on May 19, 2006 to carry forward the entire retained earnings to new accounts in their. This proposal is due to the fact that the investments made in the year under report were not financed from company resources. With regard to the company's long-term development, Management Board and Supervisory Board propose not to pay a dividend in order to avoid taking up additional outside capital.

Revenue and profitability according to segments

Segment key figures

	Segment	2004	2005	Change
Revenue in mil. Euro				
	Semiconductor	134.3	138.1	2.9%
	Micromechanics	9.1	8.9	-2.2%
Operating income in mil. Euro				
	Semiconductor	27.8	19.3	-30.5%
	Micromechanics	0.8	0.8	1.9%
Operating income in percent				
	Semiconductor	20.7%	14.0%	
	Micromechanics	8.6%	9.0%	



An ELMOS chip is in serial production for mostly five or more years.

* The financial statements of ELMOS Semiconductor AG have received an unqualified 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 print publication.

Semiconductor segment
of highest importance

Semiconductor

The semiconductor core business of the ELMOS Group is operated through the various companies in Germany, France, the Netherlands, and the U.S. Third-party revenue of the semiconductor segment gained 2.9 percent to achieve 138.1 million Euro. The semiconductor segment remains to be of paramount importance to ELMOS and represents over 90 percent of the ELMOS Group's revenue, comparable to the year before. Even though the operating income margin of the semiconductor segment dropped from 20.7 percent to 14.0 percent in 2005, it remains significantly above the margin of the micromechanics segment.

Micromechanics

The segment micromechanics comprises the activities of the subsidiary company SMI. SMI generates its revenue in U.S. Dollar exclusively. SMI sales declined by 2.2 percent to 8.9 million Euro in 2005, staying behind schedule. The operating income margin of the micromechanics segment of 9.0 percent is affected by insufficient utilization and puts a strain on the ELMOS Group's margins.

Important progress in
SMI production

The dissatisfying financial performance of SMI is attributable to delayed product starts in 2005. However, SMI did reach some significant milestones in the past fiscal year, e.g. the completion of the conversion of all substantial products to six-inch wafers and the certification of the manufacture in accordance with ISO TS16949. Furthermore, important progress was made with regard to manufacture automation and computer-aided material tracking. Finally, components intended for a few major automotive applications were delivered to customers for qualification; these applications are scheduled to start serial production in 2006.

Financial position

ELMOS Group key figures according to IFRS

in million Euro unless otherwise indicated	2004	2005	Change
Group net income	14.2	10.0	- 29.4%
Depreciation/appreciation	12.7	15.5	22.1%
Changes in net working capital	- 1.1	- 4.3	280.4%
Other items	8.9	- 1.6	- 117.5%
Cash flow from operating activities	34.7	19.7	- 43.3%
Capital expenditures for property, plant and equipment	- 33.5	- 29.6	- 11.7%
in percent of sales	23.4%	20.1%	
Other items	2.4	- 0.8	n.a.
Cash flow from investing activities	- 31.2	- 30.4	- 2.4%
Cash flow from financing activities	- 5.9	6.7	n.a.
Changes in cash and cash equivalents	- 2.4	- 4.0	66.8%
Free cash flow*	3.5	- 10.7	n.a.

* Cash flow from operating activities minus cash flow from investing activities

Cash flow from operating activities

The cash flow from operating activities declined in comparison to the previous year. Principal reasons were the lower Group net income, the increase of other assets, and the reduced provision for income taxes due to taxes being paid. Other assets increased because of higher claims to tax rebate and current loans.

Cash flow from investing activities

ELMOS invested altogether 29.6 million Euro in property, plant and equipment in 2005. This amount falls below the prior year mark (33.5 million Euro) and corresponds with about 20 percent of sales. Investments were accounted for primarily by the expansion of the production building in Dortmund (so-called fourth construction stage), frontend and backend machines and equipment, and the equipment of the clean room at the Fraunhofer IMS. Roughly 4.6 million Euro were invested in the construction of the employee center, which is going to be sold in the form of a sale and leaseback transaction in 2006. The semiconductor segment accounted for the biggest portion of investments, 1.2 million Euro were spent for micromechanics. The assembly area, included in the semiconductor segment, invested approximately 2.3 million Euro in machines for the manufacture of special packages. Even though sales grew only slightly, investments in the expansion of production were unavoidable. Principal reason is the rising complexity of products which has its effects on the required number of reticle levels and the necessitated testing effort due to the chips' higher functionality.

Cash flow from financing activities

The cash flow from operating activities did not cover necessary investments in 2005. The resulting financing requirements were fulfilled primarily by assuming current liabilities. Cash and cash equivalents dropped from 15.3 million Euro to 11.4 million Euro in the year under report. The share of cash and cash equivalents in totals assets comes to 4.8 percent.

Rising product complexity



The cooperation with the Fraunhofer IMS enables us to produce on 8" wafers.

Assets

ELMOS Group key figures according to IFRS

in million Euro unless otherwise indicated	12/31/2004	12/31/2005	Change
Intangible assets	31.5	34.8	10.6%
Property, plant and equipment	94.1	102.0	8.3%
Other non-current assets	14.0	9.7	-30.6%
Inventories	25.1	27.7	10.2%
Trade receivables	27.8	29.1	4.6%
Other current assets	24.7	33.7	36.3%
Total assets	217.3	237.0	9.1%
Equity	133.8	144.3	7.8%
Non-current liabilities	39.3	35.5	-9.7%
Trade payables	11.0	10.6	-4.2%
Other current liabilities	33.2	46.7	40.7%
Total equity and liabilities	217.3	237.0	9.1%

Fixed assets increased

Total assets of the ELMOS Group rose by 9.1 percent from 217.3 million Euro in the year 2004 to 237.0 million Euro. Main reason for this rise was the increased item property, plant and equipment, especially with reference to technical equipment and machinery. The breakdown of total assets according to segments shows that the semiconductor segment, recording a growth of 16.6 million Euro, was responsible for the rising assets' greater part.

Segment key figures

in million Euro unless otherwise indicated	Segment	2004	2005	Change
Total assets				
	Semiconductor	195.5	212.2	8.5%
	Micromechanics	21.8	24.9	14.0%
Depreciation				
	Semiconductor	12.0	14.5	21.1%
	Micromechanics	0.7	1.0	38.7%

Net working capital

Inventories increased from 25.1 million Euro at the beginning of the year under report to 27.7 million Euro as of December 31, 2005. Compared with 2004, its share of total assets as well as the inventory turnover remained virtually unchanged, at 11.7 percent and 2.8 times, respectively. Like the inventories, trade receivables also gained lightly, from 27.8 million Euro to 29.1 million Euro. Receivables were outstanding an average 72 days, almost unchanged from the year before (2004: 71 days).

The slight decline of trade payables from 11.0 million Euro in 2004 to 10.6 million Euro in 2005 is affected by the payment of investment invoices over the course of the fiscal year. Due to this, the number of days after which accounts were settled on average decreased from 57 in 2004 to 51 in 2005. The period for which cash and cash equivalents are tied by the net working capital increased from an average of 144 days in 2004 to 154 days in 2005.

Equity and liabilities

The net debt reached 51.2 million Euro as of balance sheet date, an increase by 32.2 percent compared with December 31, 2004. This is due essentially to rising current liabilities.

ELMOS Group key figures

	Calculation	Unit	2004	2005
Net working capital	Trade receivables + inventories – trade payables	Million Euro	41.9	46.2
of revenue		Percent	29.2%	31.4%
Inventory turnover	Cost of sales/inventories	x	2.8x	2.8x
Receivables turnover	Revenue/trade receivables	x	5.2x	5.1x
Payables turnover	Cost of sales/trade payables	x	6.4x	7.2x
Cash Cycle	Inventory days + debtor days – creditor days	Days	144	154
Net debt	Financial liabilities (current and non-current) – cash and cash equivalents – marketable securities	Million Euro	38.7	51.2
Gearing	Net debt/equity	Percent	28.9%	35.5%
Equity ratio	Equity/total assets	Percent	61.6%	60.9%

Equity increased from 133.8 million Euro to 144.3 million Euro. The equity ratio of 60.9 percent remained virtually unchanged from last year (12/31/2004: 61.6 percent).



ELMOS chips control safety systems such as airbags and lane departure warning.

Risk report

Risk management system

Constant monitoring
and evaluation

In the year under report, ELMOS Semiconductor AG gradually applied its comprehensive risk management system, compliant with Section 91 (2) AktG and implemented in 2002, to the Group companies and refined it. The ELMOS risk management system and its realization were duly examined of compliance with the regulations of the German Commercial Code (HGB) and the Corporations Act (AktG) at the end of the year by our certified accountants and found qualified for the detection of developments jeopardizing the company's continued existence at an early stage. The system provides for the constant 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. 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, prevention, or defense. This risk management system will be continuously expanded and improved in response to changing general conditions.

It is the strategy of ELMOS to cover interest and currency risks by suitable instruments, such as corresponding derivative products. ELMOS occasionally enters into forward exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with its committed exposures. These hedging activities minimize the impact of foreign exchange rate movements on the company's results from operations. ELMOS does not engage in speculation.

Dependence on the automobile industry

Demand depends on
two aspects

The ELMOS core business is linked directly to the automobile industry's demand for ASICs. Roughly 90 percent of sales are made with semiconductors for automotive electronics. On the one hand, this demand depends on the number of cars produced, on the other hand, it is controlled by the continuing trend towards more electronics in automobiles. Owing to the increase of electronic car applications, quantities of ASICs sold rise even if the number of cars produced stagnates or declines.

The car market used to be subjected to considerable fluctuations as a result of mergers of system manufacturers, restrictive environmental laws, and other factors in the past. The ELMOS customer structure surely shows a certain dependence on a few major suppliers to the automobile industry. However, it has to be taken into account that revenue generated with a single customer does usually not result from a single product, i.e. there are overlapping life cycles involved as well. Due to the importance and specialization of ASICs made by ELMOS for the products of the automotive suppliers, the relationship with the customer is in fact characterized by mutual dependence. Therefore large sales volumes achieved with a few major customers can indicate

promising long-term customer relationships with corresponding revenue potential. It happens only with very large order volumes that two suppliers are commissioned to develop one and the same ASIC at the same time, because the suppliers to the automobile industry operate under considerable cost-effecting pressure themselves; the simultaneous development of one ASIC by two suppliers leads to significant additional costs, both during development and later during production due to the lower quantities realized by each ASIC supplier.

Competition

ELMOS always operates from a protected position both on the automotive and consumer or industrial markets, either due to technology or special application know-how. A large number of competitors on the market for automotive semiconductors offers products similar to the ones ELMOS supplies, based on a similar technological foundation. Moreover, it 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 particularly happens in phases during which the classic semiconductor business in the segments memory chips and telecommunication suffers setbacks. However, as considerations with respect to profitability often force these large manufacturers to focus on high-volume projects, their commitment to the niche market for customer specific circuits has been relatively low. This makes the corresponding risk for ELMOS appear comparatively small. However, 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 pricing pressure. Especially in 2005, ELMOS felt the negative effect of competition insofar as some projects could not be transferred to production because customers were able to fall back on a competitor due to parallel developments.

Dependence on individual employees

The company's highly development-intensive business activity leads to a clearly pronounced and very specific engineering know-how – yet not necessarily to patents. The consequence is an increased dependence of ELMOS on individual employees. The fluctuation risk is reduced at ELMOS by the perceptibly high motivation and the employees' strong identification with the company.



Many employees have been with the company since its foundation.

Development of new products and technologies

The customer specific development of products requires the supplier to take into consideration that today the entire one-off development costs are usually not paid for by the customer upon placing the order anymore. The portion of development costs not covered in advance is amortized through the later quantities in serial production. The risk remains that not amortized expenses for product developments not resulting in a supplier relationship will remain with the company. Particularly with high-volume orders which a greater number of suppliers competes for, the customer is usually unwilling to pay development costs and expects the supplier to pre-finance these expenses.

With regard to the development of products not completed by ELMOS on schedule, delivery may occur a year later or not at all in the worst case, if the customer puts to use an alternative solution, be it a competitor's product or a conventional solution.

Constant product advancement

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

The future success of ELMOS also depends on the ability to come up with new development and production technologies. ELMOS develops analog and digital semiconductor structures and functions for its self-developed modular high-voltage CMOS process technology. Like its competition, ELMOS is forced to continuously improve its technology and 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 financial position and results from operations would likely be the result.

Because ELMOS is able to develop and manufacture ASICs for all kinds of electronic automotive applications, products made by ELMOS are a presence in almost any electronic car component so that the risks of order cancellation relating to an individual electronic component are widely spread. 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 present circumstances, particularly because the automobile industry rather tends to upgrade technical features in bad times.

Procurement

The raw materials ELMOS needs for manufacture are available from different suppliers worldwide and not subjected to monopolies. With regard to the assembly, a certain dependence on individual Far Eastern partners is typical of the trade, though. In this respect, ELMOS determined the course for a vertical penetration of the value chain by the acquisition of ELMOS Advanced Packaging.

Product liability

ASICs made 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 be directly or indirectly 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

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 several times at different temperatures with regard to quality and function during the production process. Although the company puts to use quality control systems certified in accordance with TS 16949, VDA 6.1 and QS 9000 as well as further comprehensive testing procedures before delivering its products, product defects might still show after installation and the end consumer's use of the product.

If such 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. All this could still affect the company's financial position and results from operations in a negative way.

Investments

The high allocation of resources to the subsidiaries results in an increased obligation to detect and, if necessary, 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 subsidiaries in order to make sure that no existential risks will ensue from the business activity of those companies.



ELMOS has more than 1,000 employees worldwide.

Interruption of business

According to ELMOS assessment, the single entrepreneurial risk capable of significantly damaging the development of the Group and jeopardizing its continued existence, apart from the business risks already described and explained, 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.

However, ELMOS already reduced this risk by its operation of another production line (eight-inch line) at the Fraunhofer Institute in Duisburg, beginning in 2006. At a later point in time, yet another production line can be constructed in a separate building at the Dortmund location. In any case ELMOS has several self-contained 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, especially 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.

Subsequent events

Subsequent to the end of the fiscal year, Dr. Anton Mindl was appointed Chief Executive Officer effective January 1, 2006. Other subsequent events of particular significance did not occur.



ELMOS went public in 1999 and is listed in the Prime Standard.

Outlook

Continued penetration of markets

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 at ELMOS production sites are the solid pillars of this strategy. The successful automotive ASIC business is supplemented by the increased marketing of micro-mechatronic modules combining ASICs, sensors and functional packages, partly featuring patented technologies, in the form of microsystems. In addition, application specific standard products, based on previously developed ASICs or 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 an increased expansion on the Asian market in the medium term.

A moderate growth of the global semiconductor market is generally assumed for the year 2006. The forecasts for the automobile industry do not indicate major changes in worldwide demand. However, owing to the continuously rising share of electronics per car, the market for automotive semiconductors will keep growing fast. An increase by eight to ten percent is expected for automotive semiconductor chips until 2010.

The year 2006 began pleasantly with regard to orders received. The book-to-bill ratio of 1.1 at the beginning of 2006 supports our expectations for achieving a sales increase of ten percent as scheduled. We do not expect a further stimulation of business to occur in the first half-year. Apart from orders received, it is essential for the course of the fiscal year to realize the serial starts scheduled for the second half-year in the segments semiconductor and micromechanics successfully and on time.

Success depends on production start

To a great extent, the current year 2006 is furthermore characterized by the start of production at the IMS in Duisburg. The speed at which the customers are going to qualify and release products for the Duisburg production line is crucial for the cost-effective use of the eight-inch manufacture. The conversion of current high-volume products to eight-inch wafer diameter will give us the chance to reduce the cost of sales in comparison with six-inch wafers and to increase production quantities.

Due to the importance of this start-up scenario for our margins, we are busy working on this mission with high priority, focusing on the technical realization as well as the customer's end.

Our expectations for margins and results of the years 2006 and 2007 have previously been stated according to US-GAAP. We hereby confirm our forecast as communicated in November 2005. Due to the conversion of accounting from US-GAAP to IFRS, there are the following effects on our targets: For the year 2006, we expect a gross margin of at least 45 percent (US-GAAP: at least 46 percent), an EBIT margin of roughly 14 percent (US-GAAP: roughly 15 percent), and a net income margin of about seven percent (US-GAAP: about eight percent), taking into consideration the targeted sales increase of at least ten percent (US-GAAP and IFRS). In the fourth quarter of 2005, we started a special program for efficiency and quality improvement. This initiative will help us stabilize the margin targets 2006 and lead ELMOS back to its previous strong margins in the medium term.

We expect a growth of sales of at least 15 percent for 2007. This growth is essentially accounted for by the starts of high-volume projects, originating from the ASIC/ASSP range as well as from the new business field microsystems.

We plan to invest roughly 25 million Euro in 2006. These investments will primarily support the setup of frontend capacities in Duisburg and Dortmund as well as backend expansion in Dortmund. Based on the adjusted strategy of the ELMOS Group with regard to the increased purchase of external components, we anticipate lower capital expenditure in proportion to sales for future years. Rising revenue and corresponding higher results will enable us to finance our capital expenditure with the cash flow from operating activities.

Capital expenditures shall decline mid-term

Dortmund, March 2006

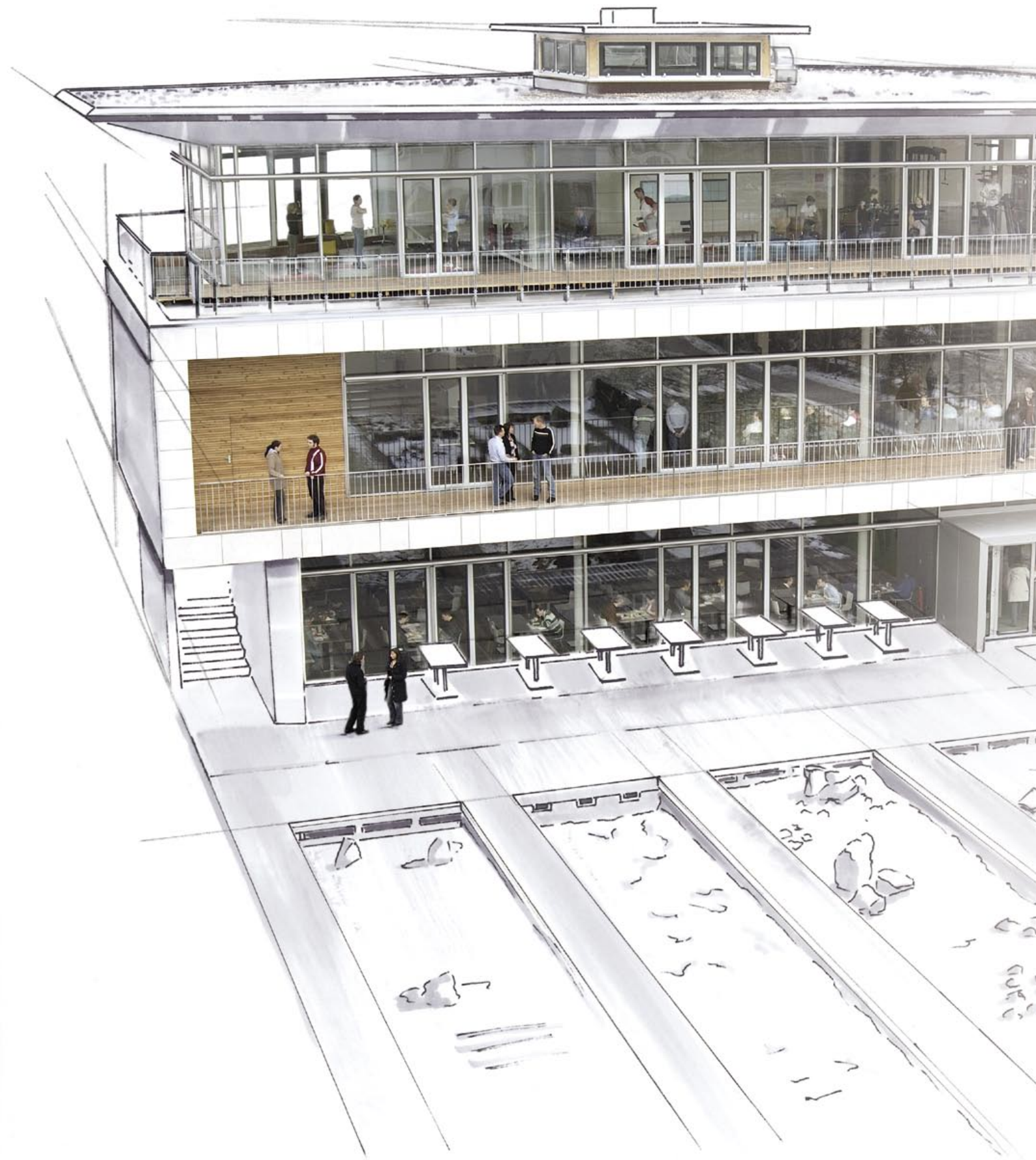
The Management Board


Dr. Anton Mindl Dr. Klaus Weyer Reinhard Senf Dr. Frank Rottmann



ELMOS relies on patents and its employees' high level of identification with the company.

WE CREATE MORE SPACE FOR LIVING AND WORKING





NEW CHALLENGES The space for our employees became too confined at the Dortmund location. Our old cafeteria was too small and large assembly rooms were lacking altogether – we needed more space.

NEW BEGINNINGS Our new employee center in Dortmund provides more than just working space. Because creativity and productivity unfold only in places that leave space for living. Even shortly after their introduction, we would not want to do without our new cafeteria, assembly room, and gym.



CONSOLIDATED FINANCIAL STATEMENTS

Financial statements

Consolidated balance sheet according to IFRS

Assets	Notes	12/31/2005 Euro	12/31/2004 Euro
Non-current assets			
Intangible assets	13	34,844,237	31,500,449
Property, plant and equipment	14	101,959,587	94,128,641
Investments accounted for at equity	15	1	57,234
Securities and investments	15	645,795	502,594
Deferred tax assets	16	9,101,839	13,488,424
Total non-current assets		146,551,459	139,677,342
Current assets			
Inventories	17	27,704,590	25,147,734
Trade receivables	18	29,064,040	27,777,902
Securities	19	5,350,375	3,629,904
Cash and cash equivalents	20	11,418,640	15,286,595
Other assets	21	10,937,674	5,803,386
		84,475,319	77,645,521
Non-current assets classified as held for sale	22	5,997,193	0
Total current assets		90,472,512	77,645,521
Total assets		237,023,971	217,322,863

	Notes	12/31/2005 Euro	12/31/2004 Euro
Equity and liabilities			
Equity			
Equity attributable to equity holders of the parent			
Share capital	23	19,412,424	19,300,000
Additional paid-in-capital	23	88,270,716	86,208,638
Surplus reserve		102,224	102,224
Accumulated other comprehensive income	23	- 2,943,060	- 5,307,063
Retained earnings		38,912,998	32,930,171
		143,755,302	133,233,970
Minority interest		528,190	592,427
Total equity		144,283,492	133,826,397
Liabilities			
Non-current liabilities			
Provisions	25	1,121,704	1,538,592
Financial liabilities	26	32,864,259	36,127,507
Other liabilities	27	1,488,110	1,608,986
Total non-current liabilities		35,474,073	39,275,085
Current liabilities			
Provisions	25	4,392,625	3,996,100
Income tax liabilities	27	1,245,929	4,072,637
Financial liabilities	26	35,060,684	21,499,392
Trade payables	28	10,574,161	11,039,224
Other liabilities	27	5,993,007	3,614,028
Total current liabilities		57,266,406	44,221,381
Total liabilities		92,740,479	83,496,466
Total equity and liabilities		237,023,971	217,322,863



The average age of the ELMOS employees is 36 years.

Consolidated Income Statement according to IFRS

	Notes	2005 Euro	2004 Euro
Sales	5	146,963,437	143,308,750
Cost of sales	6	76,336,529	70,129,388
Gross profit		70,626,908	73,179,362
Research and development expenses	6	28,124,440	24,695,637
Distribution expenses	6	9,409,620	7,080,546
Administrative expenses	6	12,970,297	12,831,387
Operating income before other operating expenses/(income)		20,122,551	28,571,792
Finance income	8	- 3,973,355	- 5,493,780
Finance expenses	8	7,588,365	8,936,628
Foreign exchange losses/(income)	9	- 193,744	219,750
Equity in losses of unconsolidated subsidiaries		67,636	- 57,233
Other operating expenses/(income)	10	242,971	2,021,037
Income before taxes		16,390,678	22,945,390
Income tax expenses			
Current taxes	11	3,663,913	9,628,627
Deferred taxes	11	2,394,482	- 1,219,377
		6,058,395	8,409,250
Net income		10,332,283	14,536,140
Thereof:			
Minority interest		296,456	317,277
Attributable to equity holders of the parent		10,035,827	14,218,863
Earnings per share			
Basic earnings per share	12	0.52	0.74
Fully diluted earnings per share	12	0.52	0.73

Consolidated Cash Flow Statement according to IFRS

	Notes	2005 Euro	2004 Euro
Cash Flow from operating activities			
Net income after minority interest		10,035,827	14,218,863
Depreciation less appreciation		15,499,930	12,694,938
Non-cash effective expense		2,394,482	2,389,501
Current tax expense		3,663,913	9,628,627
Minority interest		296,456	317,277
Equity in losses of unconsolidated subsidiaries		67,636	- 57,233
Changes in pension liabilities		- 416,888	- 343,757
Share option expense		1,289,725	1,219,800
Changes in net working capital:			
Trade receivables		- 1,286,139	- 1,211,027
Inventories		- 2,556,856	- 3,015,266
Prepaid expenses and other assets		- 5,059,327	3,037,627
Trade payables		- 465,063	3,093,834
Other provisions and other liabilities		2,775,504	713,949
Income tax payments		- 6,565,582	- 8,010,282
Cash Flow from operating activities		19,673,618	34,676,851
Cash Flow from investing activities			
Capital expenditures for intangible assets		- 7,006,925	- 7,285,086
Capital expenditures for property, plant and equipment		- 22,604,502	- 26,264,834
Capital expenditures for non-current assets classified as held for sale		- 4,631,966	0
Disposal of fixed assets		4,070,876	706,629
Purchase/Disposal of marketable securities		42	1,199,958
Purchase/Disposal of investments		- 244,296	- 240,289
Purchase of cash and cash equivalents		0	720,851
Cash Flow from investing activities		- 30,416,771	- 31,162,771
Cash Flow from financing activities			
Dividends paid/received		- 4,053,000	- 2,509,000
Payment from capital increase		884,777	0
Change by minority shareholders		0	187,202
Dividends paid by consolidated subsidiary to minority shareholders		- 270,000	- 170,000
Proceeds from long-term liabilities		0	91,292
Repayment of long-term liabilities		- 3,852,822	- 3,625,761
Proceeds/Repayment of current liabilities		14,029,988	112,183
Cash Flow from financing activities		6,738,943	- 5,914,084
Decrease/Increase in cash and cash equivalents		- 4,004,210	- 2,400,004
Effect of exchange rate changes in cash and cash equivalents		136,255	259,672
Cash and cash equivalents at beginning of fiscal year		15,286,595	17,426,927
Cash and cash equivalents at end of fiscal year	20	11,418,640	15,286,595



Roughly ten percent of all ELMOS employees at the Dortmund location are in training.

Consolidated statement of changes in equity according to IFRS

	Shares Number	Share capital Euro	Paid-in capital Euro
US-GAAP as of December 31, 2003	19,300,000	19,300,000	84,716,644
Changes due to the reconciliation to IFRS			272,194
IFRS as of January 1, 2004	19,300,000	19,300,000	84,988,838
Dividends paid			
Share option expense			1,219,800
Foreign currency adjustments			
Acquisition of minority interest in ELMOS NA			
First-time consolidation of MECHALESS			
Net income 2004			
December 31, 2004	19,300,000	19,300,000	86,208,638
Dividends paid			
Share option expense			1,289,725
Exercise of share options	112,424	112,424	772,353
Changes in unrealized gains on marketable securities after taxes			
Foreign currency adjustments			
Acquisition of minority interest in ELMOS France			
Net income 2005			
December 31, 2005	19,412,424	19,412,424	88,270,716

Consolidated financial statements
 Comment on conversion to IFRS
 Notes to consolidated financial statements
 Auditor's certificate

Surplus reserve Euro	Accumulated other comprehensive income Euro	Retained earnings Euro	Total Euro	Minority interest total Euro	Group total Euro
102,224	- 8,613,429	29,173,163	124,678,602	178,496	124,857,098
	5,080,226	- 7,952,855	- 2,600,435	- 13,636	- 2,614,071
102,224	- 3,533,203	21,220,308	122,078,167	164,860	122,243,027
		- 2,509,000	- 2,509,000	- 170,000	- 2,679,000
			1,219,800		1,219,800
	- 1,773,860		- 1,773,860		- 1,773,860
				202,065	202,065
				78,225	78,225
		14,218,863	14,218,863	317,277	14,536,140
102,224	- 5,307,063	32,930,171	133,233,970	592,427	133,826,397
		- 4,053,000	- 4,053,000	- 270,000	- 4,323,000
			1,289,725		1,289,725
			884,777		884,777
	1,211,241		1,211,241		1,211,241
	1,152,762		1,152,762		1,152,762
				- 90,693	- 90,693
		10,035,827	10,035,827	296,456	10,332,283
102,224	- 2,943,060	38,912,998	143,755,302	528,190	144,283,492



Our eco management system guarantees very resource-friendly manufacturing.

Development of the Group's non-current assets as of December 31, 2005

	ACQUISITION AND PRODUCTION COSTS					12/31/2005 Euro
	1/1/2005 Euro	Foreign currency adjustments Euro	Additions Euro	Transfers Euro	Disposals Euro	
Non-current assets						
Intangible assets						
Goodwill	5,642,918	776,237	1,614,578	0	0	8,033,733
Development projects	6,594,140	0	1,582,932	732,535	353,445	8,556,162
Software and licenses	23,382,269	170,219	695,843	2,943,238	16,458	27,175,111
Advance payments incurred and projects under development	5,161,697	0	3,113,572	- 3,675,773	444,441	4,155,055
	40,781,024	946,456	7,006,925	0	814,344	47,920,061
Property, plant and equipment						
Land and buildings	7,202,876	242,945	0	0	1,418,282	6,027,539
Buildings and buildings improvement	63,040,386	982,895	1,326,680	3,820,908	30,687	69,140,182
Technical equipment and machinery	107,992,133	599,262	6,012,317	16,402,740	3,333,705	127,672,747
Advance payments and construction in process	14,253,989	0	15,265,505	- 20,223,648	823,534	8,472,312
	192,489,384	1,825,102	22,604,502	0	5,606,208	211,312,780
Investments accounted for at-equity	57,234	0	10,403	0	0	67,637
Securities and investments	502,594	0	143,201	0	0	645,795
	233,830,236	2,771,558	29,765,031	0	6,420,552	259,946,273

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1/1/2005 Euro	Foreign currency adjustments Euro	Additions Euro	Transfers Euro	ACCUMULATED DEPRECIATION		BOOK VALUE	
				Disposals Euro	12/31/2005 Euro	12/31/2005 Euro	12/31/2004 Euro
0	0	0	0	0	0	8,033,733	5,642,918
1,529,498	0	1,289,322	0	108,882	2,709,938	5,846,224	5,064,642
7,751,077	29,865	2,601,216	0	16,272	10,365,886	16,809,225	15,631,192
0	0	0	0	0	0	4,155,055	5,161,697
9,280,575	29,865	3,890,538	0	125,154	13,075,825	34,844,237	31,500,449
612,702	0	0	0	0	612,702	5,414,837	6,590,174
23,703,326	41,896	3,898,165	0	5,932	27,637,455	41,502,727	39,337,060
74,044,715	200,925	7,711,226	0	853,830	81,103,036	46,569,711	33,947,418
0	0	0	0	0	0	8,472,312	14,253,989
98,360,744	242,821	11,609,391	0	859,762	109,353,193	101,959,587	94,128,641
0	0	67,636	0	0	67,636	1	57,234
0	0	0	0	0	0	645,795	502,594
107,641,319	272,686	15,567,565	0	984,916	122,496,654	137,449,620	126,188,918



Our standard product catalog includes 45 products from DC/DC converter to sensor IC.

Development of the Group's non-current assets as of December 31, 2004

	ACQUISITION AND PRODUCTION COSTS					12/31/2004 Euro
	1/1/2005 Euro	Foreign currency adjustments Euro	Additions* Euro	Transfers Euro	Disposals Euro	
Non-current assets						
Intangible assets						
Goodwill	5,353,665	- 402,803	692,056	0	0	5,642,918
Development projects	4,954,829	0	1,068,793	570,518	0	6,594,140
Software and licenses	16,545,680	- 96,398	2,720,299	4,339,035	126,347	23,382,269
Advance payments incurred and projects under development	7,215,232	0	2,456,019	- 4,509,553	0	5,161,697
	34,069,406	- 499,201	6,937.166	400.000	126.347	40.781.024
Property, plant and equipment						
Land and buildings	6.565.486	- 131.132	768.521	0	0	7.202.876
Buildings and buildings improvement	60.185.797	- 509.793	2.214.084	1.217.778	67.480	63.040.386
Technical equipment and machinery	96.317.333	- 317.688	9.899.762	3.825.018	1.732.293	107.992.133
Advance payments and construction in process	6.219.503	0	13.997.213	- 5.442.796	519.931	14.253.989
	169.288.119	- 958.612	26.879.580	- 400.000	2.319.704	192.489.384
Investments accounted for at-equity	1	0	57.233	0	0	57.234
Securities and investments	342.738	0	159.856	0	0	502.594
	203.700.264	- 1.457.813	34.033.836	0	2.446.051	233.830.236

* Thereof consolidation changes of 266,826 Euro

** Thereof consolidation changes of 121,821 Euro

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1/1/2004 Euro	Foreign currency adjustments Euro	Additions** Euro	Appreciation Euro	Transfers Euro	ACCUMULATED DEPRECIATION		BOOK VALUE	
					Disposals Euro	12/31/2004 Euro	12/31/2004 Euro	12/31/2003 Euro
0	0	0	0	0	0	0	5,642,918	5,353,665
600,241	0	929,257	0	0	0	1,529,498	5,064,642	4,354,588
6,845,530	-15,195	990,102	0	0	69,359	7,751,077	15,631,192	9,700,150
0	0	0	0	0	0	0	5,161,697	7,215,232
7,445,771	-15,195	1,919,360	0	0	69,359	9,280,575	31,500,449	26,623,635
612,702	0	0	0	0	0	612,702	6,590,174	5,952,784
20,696,937	-10,548	3,626,234	-615,495	6,198	0	23,703,326	39,337,060	39,488,860
67,917,322	-83,007	7,886,661	0	-6,198	1,670,063	74,044,715	33,947,418	28,400,011
0	0	0	0	0	0	0	14,253,989	6,219,503
89,226,961	-93,556	11,512,895	-615,495	0	1,670,063	98,360,743	94,128,641	80,061,158
0	0	0	0	0	0	0	57,234	1
0	0	0	0	0	0	0	502,594	342,738
96,672,732	-108,751	13,432,255	-615,495	0	1,739,422	107,641,318	126,188,918	107,027,532



Chips made by ELMOS combine analog and digital functions.

Comment on the conversion to IFRS

Reconciliation of equity as of January 1, 2004

Assets	Notes	12/31/2003 Euro US-GAAP	IFRS conversion effects	1/1/2004 Euro IFRS/IAS
Non-current assets				
Intangible assets	(a)	28,892,315	- 2,268,678	26,623,637
Property, plant and equipment		80,061,157	0	80,061,157
Investments accounted for at equity		1	0	1
Securities and investments		342,738	0	342,738
Deferred tax assets	(e)	12,709,374	229,279	12,938,653
Total non-current assets		122,005,585	- 2,039,399	119,966,186
Current assets				
Inventories		22,132,468	0	22,132,468
Trade receivables		26,566,875	0	26,566,875
Securities		8,438,742	0	8,438,742
Cash and cash equivalents		17,426,927	0	17,426,927
Other assets		8,757,505	0	8,757,505
Total current assets		83,322,517	0	83,322,517
Total assets		205,328,102	- 2,039,399	203,288,703

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	Notes	12/31/2003 Euro US-GAAP	IFRS conversion effects	1/1/2004 Euro IFRS/IAS
Equity and liabilities				
Equity				
Equity attributable to equity holders of the parent				
Share capital		19,300,000	0	19,300,000
Additional paid-in capital	(c)	84,716,644	272,194	84,988,838
Surplus reserve		102,224	0	102,224
Accumulated other comprehensive income	(a), (b)	-8,613,429	5,080,226	-3,533,203
Retained earnings		29,173,163	-7,952,855	21,220,308
		124,678,602	-2,600,435	122,078,167
Minority interest		178,496	-13,636	164,860
Total equity		124,857,098	-2,614,071	122,243,027
Liabilities				
Non-current liabilities				
Provisions	(d)	0	1,882,349	1,882,349
Financial liabilities		38,898,265	0	38,898,265
Other liabilities		2,104,340	0	2,104,340
Total non-current liabilities		41,002,605	1,882,349	42,884,954
Current liabilities				
Provisions	(d)	4,255,810	-1,307,677	2,948,133
Income tax liabilities		1,853,268	0	1,853,268
Financial liabilities		21,655,566	0	21,655,566
Trade payables		7,945,390	0	7,945,390
Other liabilities		3,758,365	0	3,758,365
Total current liabilities		39,468,399	-1,307,677	38,160,722
Total liabilities		80,471,004	574,672	81,045,676
Total equity and liabilities		205,328,102	-2,039,399	203,288,703



ELMOS was the very first company at the Dortmund technology park.

Reconciliation of equity as of December 31, 2004

	Notes	12/31/2004 Euro US-GAAP	IFRS conversion effects	12/31/2004 Euro IFRS/IAS
Assets				
Non-current assets				
Intangible assets	(a)	34,171,930	- 2,671,481	31,500,449
Property, plant and equipment		94,128,641	0	94,128,641
Investments accounted for at equity		57,234	0	57,234
Securities and investments		502,594	0	502,594
Deferred tax assets	(e)	13,274,744	213,680	13,488,424
Total non-current assets		142,135,143	- 2,457,801	139,677,342
Current assets				
Inventories		25,147,734	0	25,147,734
Trade receivables		27,777,902	0	27,777,902
Securities		3,629,904	0	3,629,904
Cash and cash equivalents		15,286,595	0	15,286,595
Other assets		5,803,386	0	5,803,386
Total current assets		77,645,521	0	77,645,521
Total assets		219,780,664	- 2,457,801	217,322,863

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	Notes	12/31/2004 Euro US-GAAP	IFRS conversion effects	12/31/2004 Euro IFRS/IAS
Equity and liabilities				
Equity				
Equity attributable to equity holders of the parent				
Share capital		19,300,000	0	19,300,000
Additional paid-in capital	(c)	84,918,244	1,290,394	86,208,638
Surplus reserve		102,224	0	102,224
Accumulated other comprehensive income	(a), (b)	-11,081,400	5,774,337	-5,307,063
Retained earnings		42,972,662	-10,042,491	32,930,171
		136,211,731	-2,977,761	133,233,970
Minority interest		608,040	-15,613	592,427
Total equity		136,819,771	-2,993,374	133,826,397
Liabilities				
Non-current liabilities				
Provisions	(d)	0	1,538,592	1,538,592
Financial liabilities		36,127,507	0	36,127,507
Other liabilities		1,608,986	0	1,608,986
Total non-current liabilities		37,736,493	1,538,592	39,275,085
Current liabilities				
Provisions	(d)	4,999,119	-1,003,019	3,996,100
Income tax liabilities		4,072,637	0	4,072,637
Financial liabilities		21,499,392	0	21,499,392
Trade payables		11,039,224	0	11,039,224
Other liabilities		3,614,028	0	3,614,028
Total current liabilities		45,224,400	-1,003,019	44,221,381
Total liabilities		82,960,893	535,573	83,496,466
Total equity and liabilities		219,780,664	-2,457,801	217,322,863



ELMOS has produced more than 150 million Bus ICs for car networks.

Reconciliation of consolidated income for the year 2004

	Notes	2004 Euro US-GAAP	IFRS conversion effects	2004 Euro IFRS/IAS
Sales		143,308,750	0	143,308,750
Cost of sales	(c)	69,754,456	374,932	70,129,388
Gross profit		73,554,294		73,179,362
Research and development expenses	(c)	24,429,713	265,924	24,695,637
Distribution expenses	(c)	6,954,423	126,123	7,080,546
Administrative expenses	(c), (d)	12,619,265	212,122	12,831,387
Operating income		29,550,893		28,571,792
Finance income		- 5,493,780	0	- 5,493,780
Finance expenses		8,936,628	0	8,936,628
Foreign exchange losses/(income)	(a)	41,059	178,691	219,750
Equity in losses of unconsolidated subsidiaries		- 57,233	0	- 57,233
Other operating expenses/(income)	(b)	791,645	1,229,392	2,021,037
Income before taxes		25,332,574		22,945,390
Income tax expenses				
Current taxes		9,628,627	0	9,628,627
Deferred taxes	(e)	- 923,808	- 295,569	- 1,219,377
		8,704,819		8,409,250
Net income		16,627,754		14,536,140
Thereof:				
Minority interest		319,254	- 1,977	317,277
Attributable to equity holders of the parent		16,308,500	- 2,089,638	14,218,863
Earnings per share				
Basic earnings per share		0.85		0.74
Fully diluted earnings per share		0.84		0.73

The changes are due to adjustments relevant to accounting (IFRS – US-GAAP). In detail, changes in the balance sheet are based on the following material differences from the accounting policies and valuation methods formerly applied.

(a) Currency translation

The reconciliation of financial accounts stated in foreign currency resulted in two material IFRS conversion effects, showing primarily in the different recording as affecting or not affecting net income. As opposed to the approach according to US-GAAP, exchange differences from receivables and payables regarding subsidiaries are recorded in the income statement. Conversion effects also result from the translation of goodwill of foreign companies outside the Euro zone, now recognized as equity at the balance-sheet date's closing rate (IAS 21.47).

(b) Financial instruments

Shares held are recognized as available-for-sale. The changes in value incurred until January 1, 2004, or rather December 31, 2004, are recognized as permanent and therefore recorded entirely in the income statement. The definition of a permanent impairment according to IAS 36 regards both a time component and the extent of the impairment. Because the impairment of the shares held was valued as significant, the recognition of the impairments was required in the income statement as of January 1, 2004 as well as of December 31, 2004. Under US-GAAP, shares held were also recognized as available-for-sale and valued at market value.

(c) Share options

Share option expense is determined on the basis of time value according to IFRS 2, based on the options' intrinsic value according to US-GAAP. According to IFRS, the expense for the fiscal year 2004 is higher by 1,018,200 Euro.

(d) Pension provisions

According to IFRS 1, the pension liabilities' entire cash equivalent including actuarial losses was recorded as a liability as of January 1, 2004.

(e) Deferred taxes

The differences in deferred taxes due to the IFRS conversion result from the calculation of deferred taxes on the conversion effects.



ELMOS trains microtechnologists, a job outline the company helped define.

Notes to consolidated financial statements

General notes

ELMOS Semiconductor Aktiengesellschaft (“the company” or “ELMOS”) has its headquarters in Dortmund (Germany) and is entered in the register of corporations kept at the Dortmund district court, in section B under no. 13698. The articles of incorporation are in effect in the version of March 26, 1999, last updated on December 16, 2005.

The company’s business is the development, production and distribution of microelectronic components and system parts (application specific integrated circuits or in short: ASICs) and technological devices with similar functions. The company may transact all business suitable for serving the object of the business directly or indirectly. The company is authorized to establish branches, acquire or lease operations of the same or a similar kind or invest in them and make all business transactions which are beneficial to the articles of association. The company is authorized to conduct business in Germany as well as abroad.

In addition to its domestic branches, the company has distribution companies in France and the U.S. and cooperates with other German companies on the development and production of ASIC chips.

The company is listed on the stock exchange. Its shares are traded in the Prime Standard in Frankfurt.

The address of the company’s registered headquarters is:

44227 Dortmund, Heinrich-Hertz-Straße 1.

Accounting policies and valuation methods

1. Accounting standards

The consolidated financial statements have been prepared in Euro.

For the first time, the consolidated financial statements as of December 31, 2005 for the fiscal year 2005 have been prepared in accordance with International Financial Reporting Standards (IFRS) as established by the International Accounting Standards Board (IASB). All mandatory International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) applicable to the fiscal year 2005 as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC, formerly: Standing Interpretations Committee (SIC)) have been considered.

The consolidated financial statements of ELMOS Semiconductor AG have been prepared as if IAS/IFRS and the interpretations (SIC/IFRIC) in force as of December 31, 2005 had always been applied. The optional right to exemption from retrospective conversion relating to company acquisitions before January 1, 2003 has been exercised in accordance with IFRS 1.

The resulting differences from the previous consolidated financial statements prepared in accordance with accepted American accounting principles have been set off against retained earnings. Based on the last consolidated financial statements prepared in accordance with US-GAAP, the effects of the conversion of consolidated financial statements to IFRS for the fiscal year ended December 31, 2004 have been presented in the reconciliation for these consolidated financial statements.

The consolidated financial statements as of December 31, 2005 contain the reconciliations from previously applied accounting principles in accordance with US-GAAP to IFRS as required by IFRS 1, "First-time Adoption of International Financial Reporting Standards", including commentary on the effects of the IFRS conversion on the company's financial position, results from operations and cash flows.

The financial statements of the companies included in the consolidated financial statements of ELMOS are stated in correspondence as of the balance-sheet date of the consolidated financial statements.

The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards requires the management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures made in income statements and notes to consolidated financial statements. Actual results may differ from estimates.

The consolidated balance sheet and the consolidated income statement have been prepared according to IAS 1, "Presentation of Financial Statements". IAS 1 has also been applied to the periods under report starting before January 1, 2005 within the context of reconciliations. Individual items have been summarized for the sake of clarity; those items are explained in the notes.

The accounting policies and valuation methods applied to 2005 correspond with the accounting policies and valuation methods applied to the presentation of the consolidated balance sheet as of January 1, 2004 and the consolidated balance sheet as of December 31, 2004. The standards IFRS 2, "Share-based Payment", IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations", IAS 2, "Inventories", IAS 10, "Events After the Balance Sheet Date", IAS 16, "Property, Plant and Equipment", IAS 17, "Leases", IAS 21, "The Effects of Changes in Foreign Exchange Rates", IAS 19, "Employee Benefits", IAS 24, "Related Party Disclosures", IAS 28, "Accounting for Investments in Associates", IAS 32, "Financial Instruments: Disclosure and Presentation", IAS 33, "Earnings per Share", and IAS 39, "Financial Instruments: Recognition and Measurement" have been applied.

The consolidated financial statements are expected to be approved by the Supervisory Board in March 2006.



The ELMOS subsidiary SMI produces the smallest pressure sensor in the world.

2. Principles of consolidation

Group of consolidated companies and consolidation methods Besides ELMOS Semiconductor AG, the consolidated financial statements prepared for the fiscal year 2005 include all companies – if not immaterial – whose voting rights ELMOS has the direct or indirect majority of, or in cases of control over the company based on other rights as defined by IAS 27, “Consolidated Financial Statements and Accounting for Investments in Subsidiaries”. Capital consolidation is based on the purchase method. The investments’ acquisition values are set off against the proportionate balance of assets and liabilities acquired at the respective time value. At the acquisition date, recognizable assets and liabilities are stated completely at respective time value. The balance of a remaining asset difference is stated as goodwill.

All material payables and liabilities as well as transactions between the consolidated companies have been eliminated in the consolidated financial statements.

Investments of more than 20 percent but not in excess of 50 percent are recognized, if material, in applying the equity method.

A list of the subsidiaries included in the consolidated financial statements can be found under item 33.

In January 1998, the Standing Interpretations Committee published Interpretation No. 12, “Consolidation – Special Purpose Entities” (SIC 12). SIC 12 clarifies the application of IAS 27 with regard to those companies to be included whose equity provider does not exercise control according to the control concept. It provides for the consolidation of companies whose expected losses and gains are taken over for the most part by the reporting group based on terms of partnership or other contractual terms, or based on financial interests.

The application of this interpretation leads to mandatory consolidation of the following company, operating in the field of research and development.

DMOS GmbH, Dresden

Effective November 1, 2002, the company concluded an agreement with DMOS GmbH, Dresden (DMOS) on research and development services for particular projects and the granting of an unlimited buyer’s option on the acquisition of a majority interest in the company, modified by agreement of January 23, 2004.

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 DMOS development services. The agreement also includes specifications of the 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”.

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Economically and legally, the company is the proprietor of the results stemming from the joint project activity. Furthermore, the company is granted an unlimited purchase option on the acquisition of a majority interest in DMOS, which has been exercisable since October 2005.

The company regards the resources provided by the shareholders as sufficient in order to realize the object of the research and development activity. In excess of the resources promised in the agreement of a maximum 651 thousand Euro per quarter, the company does not assume any further 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 considerations of materiality, DMOS has not been included in the group of consolidated companies. The monthly payments are stated in the consolidated income statement under research and development expenses.

Foreign currency translation and transactions The functional currency of ELMOS Semiconductor AG and its European subsidiaries is the Euro. The consolidated financial statements have been prepared in Euro.

Foreign currency assets and liabilities are essentially translated at the closing rate at balance sheet date.

With regard to subsidiaries whose functional currency is the country's national currency in which the subsidiary is based, assets and liabilities – balanced in foreign currency in the balance sheets of the foreign, economically independent subsidiaries – are translated into Euro at the closing rate at respective balance sheet dates. Income and expense items are translated at average exchange rates over the underlying period. Resulting exchange differences from the valuation of equity at historic rate and balance sheet date are recognized under changes in equity not affecting the income statement.

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 only. These hedging activities minimize the impact of foreign exchange rate movements on the company's results from operations. The company does not engage in speculation. The forward exchange contracts do not pose a risk to the company's results from operations as the profits and losses gained from these transactions are usually offset by the profits and losses from the hedged assets and liabilities. There were no forward exchange contacts in effect as of December 31, 2005.

Cash flow statement The cash flow statement shows how cash and cash equivalents have changed over the course of the year under report owing to additions and disposals. In this statement, the effects of acquisitions and disinvestments as well as other changes of the group of consolidated companies are eliminated. In accordance with IAS 7, the statement distinguishes between cash flows from operating activities, investing activities, and financing activities.



ELMOS continues its presence on all major industry trade fairs in 2006.

3. Accounting and valuation principles

Revenue The company generates revenue with the sale of ASICs, ASSPs and micromechanical sensor elements as well as from their development. Revenue is stated without income taxes and after deduction of discounts given. Revenue is realized at the time products are shipped to the customer or when the risk of loss transfers to the customer. Within the framework of consignment agreements with customers, revenues are realized only upon the customer's withdrawal of the products.

Goodwill By the application of IFRS 3, IAS 36 (updated 2004) and IAS 38 (updated 2004) beginning with the fiscal year 2004, goodwill from company acquisitions is no longer amortized on schedule but reviewed for its carrying value at least annually. As of acquisition date, the acquired goodwill is allocated to the cash-generating unit expected to benefit from the business combination's synergy effects. The impairment is identified by determining the recoverable amount of the cash-generating unit (CGU) the goodwill is allocated to. If the recoverable amount of the CGU is below its book value, the impairment of goodwill needs to be recognized.

Moreover, an impairment test must be performed if significant events or market developments indicate that the reporting unit's carrying value might have fallen below its book value. Essentially, the impairment test is performed as follows. All goodwill is allocated to the respective CGU. The subsidiaries are usually CGUs. For each CGU, future cash flows are determined on the basis of long-term planning. Long-term planning involves a period of five years. Based on a growth rate of 1.5 percent thereafter, the discounted value (value in use) of the future cash flows is then calculated. The applied interest rate has been established with support of the Capital Asset Pricing Model (CAPM) and comes to 6.04 percent for ELMOS Semiconductor AG. The interest rate corresponds with the weighted average cost of capital. The so-called WACC is based on a country-specific risk-free interest rate (4.64 percent) plus the average market risk premium (5.0 percent) multiplied by a company-specific equity beta (β) of 0.6 to 0.7. All stated amounts are derived from market data.

Other intangible assets According to IAS 38, intangible assets originating from development are recognized as assets only if it is (a) sufficiently probable that the company is going to derive the asset's future economic benefit and (b) the asset's costs can be valued reliably. These criteria do apply to development projects for the development of ASICs. Depreciation is begun with after the development stage is completed or at the start of the pilot series production.

The capitalization of development expenses occurs after technological feasibility is realized and the engineering phase (so-called QB II status) is reached. Only projects on customer order are recognized as assets. Expenses are amortized from production start on a straight-line basis over the estimated useful life of seven years.

Costs incurred for patent application and the acquisition of design and process technology are capitalized. Capitalized costs are amortized under the straight-line method over the shortest respective period of the estimated useful life of the technology, the patent protection term, or the term of the contract, yet over a maximum of 18 years.

Acquired intangible assets are stated at acquisition costs and amortized under the straight-line method over their estimated useful lives of three to eight years. Depreciation is recognized in the consolidated income statements.

Property, plant and equipment Property, plant and equipment are recognized under assets at acquisition or production costs, with borrowing costs being capitalized at the time they are incurred. Property, plant and equipment are written off on schedule over their estimated useful lives using the straight-line method as follows.

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

If the book value exceeds the probable recoverable amount, impairment is recognized for this asset in accordance with IAS 36 (updated 2004).

On sale or disposal of property, plant and equipment, respective acquisition costs as well as corresponding accumulated depreciation are eliminated from the accounts. Profits or losses from the disposal of property, plant and equipment are stated as other operating income or expenses. Maintenance and repair expenses are recorded in the income statement as expense.

In applying IAS 17, leased property attributable to the company as economic proprietor is capitalized and depreciated over its estimated useful life (so-called finance lease). Accordingly, liabilities originating from the contract of lease are recognized as liabilities and reduced by the amortization portion of repayments made.

Other lease agreements the company has entered into are considered operating leases. Repayments made are recognized in the income statement under the straight-line method over the contract lives.

Financial instruments Balanced financial instruments include cash and cash equivalents, marketable securities, trade receivables, trade payables, other external financing, and finance leases.

Financial assets are classified as follows: financial assets held to final maturity, financial assets held for trading, and financial assets held as available-for-sale. Financial assets with determined or determinable payments and fixed maturities which the company is willing and able to hold until final maturity, except for loans and receivables originated by the company, are classified as held-to-maturity financial assets. Financial assets acquired primarily to gain profits from short-term price fluctuations are classified as financial assets held for trading. All other financial assets except for loans and receivables originated by the company are classified as available-for-sale financial assets.



The new employee center's gym enjoys great popularity already.

Held-to-maturity financial assets are stated under non-current assets unless they mature within twelve months of the balance sheet date. Financial assets held for trading are stated under current assets. Available-for-sale financial assets are considered current if they are meant to be realized within twelve months of the balance sheet date.

Upon first-time recognition, a financial asset is stated at the acquisition costs corresponding with the consideration's attributable time value; transaction costs are included. Available-for-sale financial assets and financial assets held for trading are subsequently stated at their attributable time values without deduction of any incurred transaction expense and under disclosure of their listed market prices as of balance sheet date.

Gains and losses from the valuation of available-for-sale financial assets at attributable time value are recognized directly in other comprehensive income until the financial asset is sold, collected or otherwise disposed of or until the financial asset's impairment is determined, so that the cumulative gains and losses previously recognized in equity are included in the period net income at that time.

Changes of the attributable time values of financial assets held for trading are stated in the financial result. Held-to-maturity financial assets are valued with their unchanged acquisition costs in applying the effective interest method.

Upon first-time recognition, financial instruments are classified as liabilities or equity according to the contractual agreement's economic matter.

Interest, dividends, gains and losses in connection with financial instruments classified as financial liabilities are recognized as income or expenses in the income statement for the period in which they incurred. Dividend payments to holders of financial instruments classified as equity are deducted directly from equity. If rights and obligations relating to the kind of the financial instrument's realization depend on the occurrence or non-occurrence of future contingencies or the outcome of uncertain circumstances beyond the issuer's as well as the holder's control, the financial instrument is classified as liability unless it is highly improbable at the time of the issue that the issue is obligated to fulfill cash and cash equivalents or other financial assets. In that case, the instrument would be classified as equity.

Inventories Inventories are valued at acquisition or production costs or lower recoverable net amount as of balance sheet date. In addition to directly attributable costs, production costs also include manufacturing costs and overhead costs as well as amortization. Overhead costs are considered as fixed amounts on the basis of the production facilities' usual utilization. Costs of unused production capacity (waste costs) are recorded in the income statement under cost of sales. Inventory allowances are made insofar as acquisition or production costs exceed the expected recoverable net amounts.

Trade receivables Trade receivables as well as other receivables are basically valued at nominal value in consideration of appropriate allowances.

Cash and cash equivalents For the purpose of the financial calculation, cash and cash equivalents include cash on hand, checks, cash in banks, and available-for-sale securities.

Non-current available-for-sale assets and discontinued operations The Group has applied IFRS 5 prospectively in accordance with the applicable transitional provisions, resulting in a conversion of accounting policies and valuation methods with regard to discontinued operations. According to IAS 35, the initiator of first-time disclosure would have been the occurrence of one of the following events, depending on which event would have occurred first.

- ▶ the time of the Group's conclusion of a binding agreement' or
- ▶ the time of the management's approval and announcement of a formal plan for disposal

According to IFRS 5, an operation is classified as discontinued at the time that operation meets the criteria for a classification as available-for-sale. An asset is to be classified as available-for-sale if the attached book value is realized primarily by a sale transaction rather than by continued use. Such an operation represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with the intent to resale. Due to the stricter criteria of IFRS 5, the conversion of accounting policies and valuation methods has the result that the Group recognizes a discontinued operation as such at a later time than according to IAS 35.

Provisions Provisions are made for legal and factual obligations with historic origins if it is probable that the fulfillment of the obligation will lead to a disposal of Group resources and a reliable estimate of the amount of the obligation can be made.

Recurring net pension benefits in accordance with IAS 19 are made up of different components reflecting different aspects of the company's financial agreements as well as the expenses for the benefits received by the employees. Those components are determined by applying the actuarial cost method and on the basis of actuarial assumptions as stated under item 25.



Employee turnover at ELMOS is very low.

The company's accounting policies provide for:

- ▶ reflecting all benefit improvements the company is committed to from the current valuation date in the planned benefit obligation
- ▶ amortizing the accumulated actuarial gains and losses in excess of ten percent of the planned benefit obligation over the expected future benefits of active employees included in the plan.

Provisions for warranty are set up from the time of sale, based on the ratio of warranty costs to historic revenues.

Income taxes The income taxes' tax load is based on the amount of annual income and considers deferred taxes. Deferred taxes are determined in applying the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes in the balance sheet and their tax values. The calculation of deferred tax assets and liabilities is carried out on the basis of the tax rates expected applicable for the period in which an asset is realized or a debt is repaid. The valuation of deferred tax liabilities and assets considers the tax effects resulting from the way the company expects to realize its assets' carrying value or repay its debts at the balance sheet date.

Deferred tax assets and liabilities are stated regardless of the point in time at which the temporary accounting differences are expected to reverse. Deferred tax assets and liabilities are not discounted and are disclosed in the balance sheet as non-current assets or liabilities.

A deferred tax asset is balanced for all deductible temporary differences to the extent it is probable that taxable income will be available against which the temporary difference can be offset. At each balance sheet date, the company assesses unbalanced deferred tax assets anew. The company enters a previously unbalanced deferred tax asset to the extent it has become probable that future taxable income will allow the deferred tax asset's realization. As the opposite, the deferred tax asset's accountable amount is reduced to the extent it is no longer probable that there will be sufficient taxable income to make use of the deferred tax asset in its entirety or in part.

Current taxes and deferred taxes are charged or credited directly to equity if the tax relates to items credited or charged directly to equity in the same or another period.

No deferred tax liabilities incur to the extent that non-distributed profits of foreign investments are to remain invested in this company. Deferred tax liabilities are disclosed for all taxable temporary differences insofar as the deferred tax liability does not result from goodwill which does not allow for depreciation for tax purposes.

Deferred tax assets also include tax relief claims resulting from the expected use of loss carried forward in the following years and whose realization is ensured with sufficient reliability. Deferred taxes are determined on the basis of the tax rates in effect at or expected for the time of realization according to the concerned countries' current legal position. In compliance with IAS 1.70, deferred taxes are disclosed as non-current.

Notes to the income statement

4. Segment reporting

The company's primary reporting format is based on business segments, its secondary reporting format is based on geographic segments. The operating activities are organized and controlled independently with regard to the kinds of products, while each segment is a strategic business unit, supplying different products and serving different markets. Revenues between the segments are realized at transfer prices – less commissions paid –, corresponding with prices paid in transactions with third parties.

Primary reporting format The company divides its business activity in two segments. The semiconductor business is conducted through various international subsidiaries and branches in Germany, the Netherlands, France, and the U.S. Revenues in the micromechanics segment are generated by the U.S. subsidiary SMI.

The following charts provide information on income and results and specific information on assets and liabilities of the Group's business segments for the fiscal years ended December 31, 2005 and 2004.



Our eco-management system meets the high requirements of DIN EN ISO 14001.

Fiscal year ended 12/31/2005	Semiconductor Thousand Euro	Micromechanics Thousand Euro	Elimination Thousand Euro	Total Thousand Euro
Sales with third-party customers	138,104	8,859	0	146,963
Sales with other segments	119	1,638	- 1.757	0
Segmental sales	138,223	10,497	- 1.757	146,963
Result				
Operating income	19,326	797		20,123
Financial result				- 3,421
Equity in losses of unconsolidated subsidiaries	- 68			- 68
Other expenses				- 243
Income before taxes				16,391
Income tax expenses				- 6,058
Net income including minority interest				10,332
Assets and liabilities				
Segmental assets	211,506	24,872		236,378
Investment expenditure	646	0		646
Total assets	212,152	24,872		237,024
Segmental liabilities	89,356	3,384		92,740
Other segment information				
Capital expenditure for intangible assets and property, plant and equipment	28,430	1,181		29,611
Depreciation	14,547	953		15,500
Other material non-cash expenses	-	-		-

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	Semiconductor Thousand Euro	Micromechanics Thousand Euro	Elimination Thousand Euro	Total Thousand Euro
Fiscal year ended 12/31/2004				
Sales with third-party customers	134,255	9,054	0	143,309
Sales with other segments	0	598	- 598	0
Segmental sales	134,255	9,652	- 598	143,309
Result				
Operating income	27,790	782		28,572
Financial result				- 3,663
Equity in losses of unconsolidated subsidiaries	57	-		57
Other expenses				- 2,021
Income before taxes				22,945
Income tax expenses				- 8,409
Net income including minority interest				14,536
Assets and liabilities				
Segmental assets	194,947	21,816		216,763
Investment expenditure	560	0		560
Total assets	195,507	21,816		217,323
Segmental liabilities	80,881	2,615		83,496
Other segment information				
Capital expenditure for intangible assets and property, plant and equipment	32,091	1,459		33,550
Depreciation	12,007	688		12,695
Other material non-cash expenses	-	-		-

Different from the previous year, the segment assembly was included in the segment semiconductor because its informative value is much reduced due to the large inter-company revenue share. The adjustment was realized by adding the revenue, income, assets and liabilities as well as the other stated items of the segments semiconductor and assembly. Thus the statement of the segment semiconductor contains the following financial effects of the segment assembly in the year 2004: Sales with third-party customers of 3,546 thousand Euro, operating income of 1,689 thousand Euro, segmental assets of 34,767 thousand Euro, segmental liabilities of 5,197 thousand Euro, capital expenditures for property, plant and equipment of 5,438 thousand Euro, and depreciation of 2,005 thousand Euro.

Secondary reporting format The following charts contain information on revenue, expenses and certain assets relating to the Group's geographic segments for the fiscal years ended December 31, 2005 and 2004.



Human hair is more than a hundred times thicker than the connecting wires on a chip.

Fiscal year ended 12/31/2005	Germany Thousand Euro	EU countries Thousand Euro	U.S.A. Thousand Euro	Others Thousand Euro	Elimination Thousand Euro	Total Thousand Euro
Sales with third-party customers	51,716	63,055	24,438	7,754	0	146,963
Sales with other segments	119	0	1,638	0	-1,757	0
Segmental sales	51,835	63,055	26,076	7,754	-1,757	146,963
Assets and liabilities						
Segmental assets	165,057	39,874	31,447	0		236,378
Investment expenditure	107	0	19	520		646
Total assets	165,164	39,874	31,466	520		237,024
Segmental liabilities	83,659	5,402	3,679	0		92,740
Other segment information						
Capital expenditures for property, plant and equipment	26,311	2,051	1,249	0		29,611
Depreciation	12,196	2,232	1,072	0		15,500
Fiscal year ended 12/31/2004						
Fiscal year ended 12/31/2004	Germany Thousand Euro	EU countries Thousand Euro	U.S.A. Thousand Euro	Others Thousand Euro	Elimination Thousand Euro	Total Thousand Euro
Sales with third-party customers	76,864	36,736	19,355	10,354	0	143,309
Sales with other segments	0	0	598	0	-598	0
Segmental sales	76,864	36,736	19,953	10,354	-598	143,309
Assets and liabilities						
Segmental assets	143,952	46,842	25,969	0		216,763
Investment expenditure	184	0	0	376		560
Total assets	144,136	46,842	25,969	376		217,323
Segmental liabilities	74,299	6,365	2,832	0		83,496
Other segment information						
Capital expenditures for property, plant and equipment	24,728	7,107	1,715	0		33,550
Depreciation	9,770	2,118	807	0		12,695

5. Revenue

The company generates revenue with the sale of ASICs, ASSPs and micromechanical sensor elements as well as with their development. Revenue of the Group and its segments is made up as follows.

	2005 Euro	2004 Euro
Semiconductor	138,104,306	134,254,957
Micromechanics	8,859,131	9,053,793
Group	146,963,437	143,308,750

Despite a significant sales decrease in the third quarter, revenues were raised by altogether 2.6 percent in the year under report. The development of revenues was affected by customers' postponements of production starts and customers' cancellations of development projects. The merely moderate sales development on the market for suppliers to the car manufacturers in Germany and the U.S. also contributed to weakening sales.

6. Information on the income statement according to the cost of sales method

Cost of sales Cost of sales contains costs of performances effected for generating revenues. In addition to attributable direct material costs, direct labor costs and special direct costs, it includes manufacturing and material overhead as well as depreciation. Cost of sales also contains changes in work in process and finished goods inventories. Cost of sales developed as follows.

	2005 Euro	2004 Euro
Material expense	22,727,634	20,560,803
Personnel expense	28,833,110	27,192,664
Other overhead	27,242,520	22,927,626
Inventories decrease (increase)	- 2,466,735	- 551,705
	76,336,529	70,129,388

The radical change of the product mix put a strain on the cost of sales in addition to the lower-than-expected revenues. For ELMOS, the year 2005 is characterized by numerous product discontinuations and product starts. The new products usually have a higher level of complexity, based on the average number of reticles, and initially generate lower margins. This change occurred more abruptly than expected because products which had been in production for some time, carrying higher margins on average, ceased to be ordered sooner than initially planned due to well-stocked customers' inventories. Moreover, the expenses for our quality initiative, started in the third quarter, and the start-up of the IMS production line in Duisburg lead to increased cost of sales.

Research and development expenses Significant expenses regularly incur with regard to research and development projects, carried out in anticipation of future sales. Research expenses are recorded in the income statement according to the amount of work. Development expenses are capitalized depending on the project and then amortized on schedule or – insofar as capitalization requirements are not met – charged to expense. In the fiscal year 2005, R&D expenses of 28,124,440 Euro (previous year: 24,695,637 Euro) were charged to expense.

Distribution costs Distribution costs essentially contain personnel expense and depreciation.



In our clean room areas, there are less than 380 particles with a diameter in excess of 0.1µm per 27 liters of air.

Administrative expenses Administrative expenses include personnel expense for the administrative staff and proportionate personnel expense for the Management Board members. Other essential items are expenses for depreciation. Costs also incur for legal and tax consultation as well as auditing on the administrative level.

7. Further information on the income statement according to the cost of sales method

Within the context of the income statement in the form of the cost of sales method, expenses are allocated with regard to functions. Cost of sales, distribution expenses, administrative expenses, and research and development expenses contain the following cost types as indicated below.

Material expense Material expense came to 38,830,018 Euro in the fiscal year 2005, increased in comparison with the previous year (previous year: 33,716,460 Euro). It is composed of expenses for raw materials, supplies and purchased goods as well as purchased services.

Personnel expense Personnel expense increased by 9.0 percent from 48,128,717 Euro in the fiscal year 2004 to 52,466,931 Euro in the fiscal year 2005. During the same period under report, the number of employees rose from 928 in the fiscal year 2004 to 1,028 in the fiscal year 2005, based on the average employment ratio. The increase in personnel expense is due primarily to the increase in the number of employees. Further information on the workforce can be found under item 40, "Number of employees".

Depreciation The breakdown of depreciation can be drawn from the development of the Group's non-current assets. Owing to the cost of sales method applied, depreciation for property, plant and equipment and other intangible assets are allocated in the income statement to cost of sales, research and development expenses, distribution costs, and administrative expenses.

8. Finance expenses and finance income

Finance expenses came to 7,588,365 Euro in 2005 as opposed to 8,936,628 Euro in 2004. They essentially include interest expenses for bank loans as well as non-current liabilities. Under the item finance income, essentially interest income was disclosed in the year under report. Finance income added up to 3,973,355 Euro (previous year: 5,493,780 Euro).

9. Foreign exchange losses and income

Income from exchange rate differences recorded in the income statement amount to 193,744 Euro (previous year: -219,750 Euro) in the fiscal year 2005.

Exchange rate differences not affecting net income come to 4,154,301 Euro (previous year: 5,307,063 Euro) in the fiscal year 2005. Further information on exchange rate differences not affecting net income can be found under item 23, "Equity".

10. Other operating expenses and income

Other operating income (2005: 2,051,664 Euro, 2004: 3,664,615 Euro) primarily include income from asset disposals and investment grants. Other operating expenses (2005: 2,294,635 Euro, 2004: 5,685,652 Euro) contain, among other items, expenses for performances pursuant to a warranty (including additions to provisions) and allowances for receivables.

11. Income taxes

Taxes on the income paid and owed as well as tax deferrals of ordinary operations are disclosed as income taxes.

	2005 Euro	2004 Euro
Current income taxes		
Germany	2,493,839	9,051,705
Other countries	1,170,074	576,922
	3,663,913	9,628,627
Deferred taxes		
Germany	592,686	– 871,090
Other countries	1,801,796	– 348,287
	2,394,482	– 1,219,377
	6,058,395	8,409,250

Deferred taxes have been calculated with the so-called liability method in accordance with IAS 12. For Germany, the combined income tax rate of 39.9 percent (previous year: 39.9 percent) has been applied. This combined tax rate of the company considers the trade tax collection rate of 450 percent (previous year: 450 percent), the corporation tax rate of 25.0 percent (previous year: 25.0 percent), and the solidarity tax surcharge of 5.5 percent (previous year: 5.5 percent).

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the statements under commercial law on the one hand and the amounts used for income tax statements on the other hand. Significant components of the company's deferred tax assets and deferred tax liabilities are presented under item 16, "Deferred tax assets".

The differences between the statutory tax rate and the company's effective income taxes are as follows.

	2005 Percent	2004 Percent
German statutory tax rate	39.90	39.90
Expenses disallowable against tax	0.83	0.40
Dividends on interest in corporations	– 5.56	– 3.90
Foreign tax rate differential	0.03	– 0.20
Foreign tax rate changes	1.28	0.00
Others	0.48	0.20
Effective tax rate	36.96	36.40



Among other things, ELMOS does without sealing its parking lot floors in favour of the environment.

12. Earnings per share

Basic earnings per common share are calculated based on the average number of common shares outstanding in the particular fiscal year. Diluted earnings per common share are calculated on the basis of the average number of outstanding common shares plus all share options with dilutive potential according to the so-called treasury stock method. Basic earnings per share and diluted earnings per share have been determined as follows.

Reconciliation of shares

	2005	2004
Average number of common shares outstanding	19,343,663	19,300,000
Share options with dilutive potential	68,014	132,619
Average number of common shares outstanding including dilutive effect	19,411,677	19,432,619

Calculation of earnings per share

Net income after minority interest	10,035,827	14,218,863
Basic earnings per share	0.52	0.74
Diluted earnings per share	0.52	0.73

Notes to the balance sheet

13. Intangible assets

Goodwill Goodwill developed as follows.

	12/31/2005 Euro	12/31/2004 Euro
SMI		
Acquisition costs	7,567,365	7,567,365
Foreign currency adjustment	- 1,937,532	- 2,685,234
Carrying value	5,629,833	4,882,131
ELMOS NA		
Acquisition costs	554,617	554,617
Foreign currency adjustment	28,535	0
Carrying value	583,152	554,617
ELMOS France	1,614,578	0
ELMOS Services B.V.	206,170	206,170
	8,033,733	5,642,918

The amount of 7,567,365 Euro of the company's goodwill results from the acquisition of Silicon Microstructures, Inc. In the fiscal year 2005, the remaining minority interest in ELMOS France was acquired. From this transaction, an increase of goodwill of 1,614,578 Euro resulted.

According to IFRS 3, goodwill is no longer amortized on schedule but reviewed for impairment. The valuation is effected on the basis of a CGU. In 2005, impairment tests carried out did not result in allowances to be made.

Other intangible assets Other intangible assets are made up as follows.

	12/31/2005 Euro	12/31/2004 Euro
Development projects	5,846,224	5,064,642
Software and licenses	16,809,225	15,631,192
Advance payments and projects under development	4,155,055	5,161,697
	26,810,504	25,857,531

In 2005, expenses in connection with product developments of 2,359,434 Euro were capitalized (previous year: 2,140,000 Euro) in 2005. Depreciation for capitalized developments amounted to 1,289,322 Euro in 2005 (previous year: 929,256 Euro). The capitalized developments' carrying value is 5,846,224 Euro as of December 31, 2005 (previous year: 5,064,642 Euro).

As of December 31, 2005, capitalized carrying values for process technology purchased as property, plant and equipment added up to 7,621,177 Euro; as of December 31, 2004, they came to 8,041,890 Euro.

Costs connected to research and development projects for new products as well as significant product improvements are charged to expense to the extent they incur; they are included in research and development expenses. Research and development expenses of 3,124 thousand Euro were reimbursed by customers in 2005 (previous year: 4,203 thousand Euro).

14. Property, plant and equipment

Property, plant and equipment The development of property, plant and equipment is presented in the development of the Group's non-current assets.

	12/31/2005 Euro	12/31/2004 Euro
Land and buildings	5,414,837	6,590,174
Buildings and building improvements	41,502,727	39,337,060
Technical equipment and machinery	46,569,711	33,947,418
Advance payments and construction in process	8,472,312	14,253,989
	101,959,587	94,128,641



The air inside the clean room is exchanged up to 60 times per hour.

Depreciation expenses came to 11,609,391 Euro in the fiscal year 2005 (previous year: 11,512,895 Euro). In the fiscal year 2005 and in the year before, no cost of debt was capitalized. Various loan-financed assets of the company's property, plant and equipment are pledged to different lending institutions.

Lease agreements On December 22, 1997, the company sold one of its commercial buildings (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 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. The transaction was recorded as a financing transaction rather than a sale, so that building and building improvements continue to be recognized in the consolidated financial statements at hand. The finance amount is entered as finance lease under non-current liabilities.

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 combined annual lease payments of 1,074,788 Euro through 2007 (for building and building improvements) and 60,872 Euro (for the building) through 2022. The transaction was recorded as a financing transaction rather than a sale, so that the building and building improvements continue to be recognized in the consolidated financial statements at hand. The finance amount is entered as finance lease under non-current liabilities.

On November 8, 2001, the company sold another of its commercial buildings and the adjacent multi-story parking garage (including land and building improvements) for a total purchase price of 11,643,000 Euro. Concurrent with the sale, the company leased the land, building and parking garage back for a period of 20 years. Under the lease terms, the company is committed to annual, degressively falling lease payments, starting with the amount of 1,016,125 Euro, through 2021. In the fourth quarter of the fiscal year 2003, the story-addition onto the administration building was completed. Total expenditure amounted to 3,419,000 Euro. Leasing installments to be paid come to 279,000 Euro per annum through 2021. This transaction was also recorded as a financing transaction rather than a sale, so that the building and building improvements continue to be recognized in the consolidated financial statements at hand.

The leased assets' carrying amount is composed as follows.

	12/31/2005 Euro	12/31/2004 Euro
Leased assets	48,363,030	48,363,030
Accumulated depreciation	- 23,949,619	- 21,319,069
	24,413,411	27,043,961

Depreciation is effected over the contract period, is included in the depreciation expense and amounts to 2,630,550 Euro in the year 2005 (previous year: 2,538,676 Euro). Extraordinary depreciation was not effected. Lease finance liabilities are disclosed by the company as current or non-current liabilities, respectively. The development is as follows.

	12/31/2005 Euro	12/31/2004 Euro
Current portion (maturity within twelve months)	3,213,414	3,126,590
Non-current portion (maturity > one year)	32,188,714	35,402,127
	35,402,128	38,528,717

The following chart contains a reconciliation of the amount of future minimum lease payments at their discounted value as of the balance sheet date.

	12/31/2005 Euro	12/31/2004 Euro
Within twelve months	5,476,968	5,476,968
Between one year and five years	14,866,075	17,032,741
Later than five years	33,487,355	37,837,133
	53,830,398	60,346,842
Future interest share of finance lease agreements	18,428,270	21,818,125
Discounted value of finance lease liabilities	35,402,128	38,528,717

15. Investments valued at-equity, securities and interests

The company has interests in the following companies.

	12/31/2005 Euro	12/31/2004 Euro
attoSensor	1	57,234
MOS Limited	519,642	376,441
Exedra	26,434	26,434
Epigone	20,824	20,824
IndustrieAlpine	25,788	25,788
Advanced Appliances Chips	34,000	34,000
ELMOS USA Inc.	19,107	19,107
	645,796	559,828

attoSensor GmbH As of December 31, 2004, the company held 30 percent of the shares. On January 26, 2005, the company acquired another 15 percent or stated value of 10,200 Euro of the share capital for a purchase price of 10,403 Euro. The company's capital stock has been increased to 40,000 Euro. ELMOS now holds an interest of 45 percent. In 2005, the company recorded losses from investments, valued at-equity in accordance with IAS 28, of 67,636 Euro (income 2004: 57,233 Euro).



We achieve an even higher level of transparency with our code of conduct.

Micro Systems on Silicon (MOS) Limited, Pretoria, South Africa The company holds a 67.6 percent interest in MOS. Because MOS is still in its start-up phase without significant operating business activity, the company has so far refrained from including MOS in its group of consolidated companies despite fulfillment of the control criterion.

Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz, and Exedra Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz None of the two subsidiaries have been included in the group of consolidated companies because ELMOS does not hold the majority of voting rights. Both companies are entities founded exclusively for the realization of two sale and leaseback transactions and to undertake the leasing administration of buildings and land (including parking garage), sold by ELMOS.

Industrie Alpine Bauträger GmbH, München This company has not been included in the group of consolidated companies due to materiality considerations. The company's total assets with regard to its operating business have been recognized by ELMOS Semiconductor AG in the consolidated financial statements.

Advanced Appliances Chips GmbH, Penzberg Advanced Appliances Chips GmbH, Penzberg, (33.3 percent interest) has not been balanced at-equity because of its secondary significance.

Summarized financial information

Associated companies	Total assets Thousand Euro	Total liabilities Thousand Euro	Revenues Thousand Euro	Period net income Thousand Euro
attoSensor*	143	130	509	- 61
Exedra*	16,316	16,315	1,947	- 3
Epigone*	13,446	13,426	505	4
IndustrieAlpine*	2,044	2,219	0	0
Advanced Appliances Chips*	404	347	516	116
MOS Limited**	69	32	22	- 185
ELMOS USA Inc.***	—	—	—	—

* The figures presented are based on preliminary, unaudited financial statements as of December 31, 2005. | ** The figures presented are based on preliminary, unaudited financial statements as of December 31, 2004. | *** No financial statements of the company are available at present.

16. Deferred tax assets

	12/31/2005 Euro	12/31/2004 Euro
Deferred tax assets		
Finance lease	2,955,242	2,714,885
Allowances for financial instruments	836,211	1,817,451
Pension provisions	281,226	213,680
Loss carry forward	10,883,110	12,492,863
Others	0	250,044
	14,955,789	17,488,923
Deferred tax liabilities		
Property, plant and equipment	1,925,011	1,151,186
Capitalization of development expenses	3,577,811	2,849,313
Others	351,128	0
	5,853,950	4,000,499
Net deferred tax assets	9,101,839	13,488,424

The sum of temporary differences in connection with investments in subsidiaries and associates, for which no deferred tax liabilities were recognized, is 588,600 Euro. The capitalization of deferred tax assets on loss carry forward was effected on the basis of medium-term business planning of the companies concerned.

17. Inventories

Inventories are composed as follows.

	12/31/2005 Euro	12/31/2004 Euro
Raw materials	7,020,874	6,958,301
Work in process	15,311,787	11,136,905
Finished goods	5,371,929	7,052,528
	27,704,590	25,147,734

The amount of inventories recognized as expenses in the year under report comes to 136,692 Euro (previous year: 0 Euro).

18. Trade receivables

Trade receivables are made up as follows.

	12/31/2005 Euro	12/31/2004 Euro
Trade receivables	29,401,902	27,934,402
Allowances	- 337,862	- 156,500
	29,064,040	27,777,902



ELMOS broadcasts its analysts' conference and Annual General Meeting on the internet.

The company performs ongoing credit evaluations of its customers and generally requires no collateral. Reserves are maintained for potential credit losses. Such credit losses corresponded with the Management Board's estimates and expectations and remained within customary limits.

19. Securities

Securities are composed as follows.

	12/31/2005 Euro	12/31/2004 Euro
Equity securities	5,350,375	3,629,862
Other securities	0	42
	5,350,375	3,629,904

Marketable securities essentially comprise 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 only invests in high-grade marketable securities. All marketable securities meet the definition of "available-for-sale" in accordance with IAS 39. The following is a breakdown of marketable securities.

	Acquisition costs Euro	Fair value Euro
Equity securities – December 31, 2004	19,060,360	3,629,904
Equity securities – December 31, 2005	19,060,318	5,350,375

IAS 39 clarifies that a company is to determine for individual equity securities which are 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 allowance must be reported in the income statement. Allowances incurred as of December 31, 2004 were entered cumulatively in the income statement to the amount of 15,430,456 Euro. The appreciation stated in the year under report comes to 1,720,513 Euro and does not affect net income.

20. Cash and cash equivalents

The company recognizes all highly liquid investments purchased with an original maturity of three months or less as cash equivalents. For the purpose of consolidated financial statements, cash and cash equivalents include cash on hand and cash in banks.

21. Other assets

Other assets total 10,937,674 Euro as of balance sheet date (previous year: 5,803,386 Euro) and essentially include tax relief claims, current loans, and various current receivables.

22. Non-current assets classified as held for sale

Assets held for sale are made up of the new employee center in Dortmund, which was erected in 2005, including land and another parceled lot in Munich. The employee center will be sold in 2006 within the legal framework of a sale and leaseback transaction. The company has entered into definite sales negotiations on the sale of the Munich property. A sale is expected to be effected in 2006. The disclosure as "assets classified as held for sale" has no effect on the income statement in 2005.

23. Equity

Share capital The share capital recognized at 19,412,424 Euro in the balance sheet as of December 31, 2005, consisting of 19,412,424 non-par value common bearer shares, is paid in entirety. The distribution of ownership as of December 31, 2005 is as follows.

	Euro	Percent
EFH ELMOS Finanzholding GmbH	1,485,789	7.7
Hinrichs GmbH	3,236,584	16.7
Dr. Weyer GmbH	3,236,584	16.7
ZOE-BTG GmbH	2,306,833	11.9
Free float	9,146,634	47.1
	19,412,424	100.0

Authorized and conditional capital The Management Board is authorized to increase the share capital by a maximum amount of 9,650,000 Euro through one issue or several issues of up to 9,650,000 new bearer shares against contributions in cash or kind until April 5, 2006 with the Supervisory Board's approval (authorized capital I).

The share capital is conditionally increased by 887,576 Euro, consisting of 887,576 non-par value bearer shares, at a proportional amount of the share capital of 1.00 Euro to each share. The conditional capital increase exclusively serves the granting of pre-emptive rights to Management Board members, other executives, and employees of the company as well as to executives and employees of affiliated companies.

The share capital is conditionally increased by a maximum amount of 5,000,000 Euro, consisting of up to 5,000,000 non-par bearer shares (conditional capital II).

The share capital is conditionally increased by a maximum nominal amount of 930,000 Euro (conditional capital III). The conditional capital increase is realized only by the issue of up to 930,000 new non-par value bearer shares entitled to dividend from the beginning of the fiscal year of the shares' issue and only for the purpose of exercising pre-emptive rights granted within the context of the share option plan 2004 of ELMOS Semiconductor AG in the period between October 1, 2004 through April 26, 2009.



More than 300 shareholders attended each of the Annual General Meetings over the last years.

Additional paid-in capital The composition of additional paid-in capital can be drawn from the following breakdown.

	12/31/2005 Euro	12/31/2004 Euro
Premiums	84,772,353	84,000,000
Share options	3,498,363	2,208,638
	88,270,716	86,208,638

Additional paid-in capital includes premiums from capital increases and the issue of shares of ELMOS Semiconductor AG. In addition, the expense for the issue of share options to employees is offset here.

Other comprehensive income According to IAS 39, available-for-sale financial assets must be recognized at fair value. Income or losses from an available-for-sale financial asset are credited or charged directly to equity. Exchange rate translation effects relating to foreign subsidiaries are also reported in this item. Accumulated other comprehensive income comprises the following items.

	12/31/2005 Euro	12/31/2004 Euro
Foreign currency adjustments	- 3,940,912	- 6,376,137
Deferred taxes (on foreign currency adjustments)	- 213,389	1,069,074
Unrealized gains on marketable securities	1,720,513	0
Deferred taxes (on unrealized gains on marketable securities)	- 509,272	0
Accumulated other comprehensive income	- 2,943,060	- 5,307,063

24. Share-based payments

The company has a share option program for Management Board members, other executives, and employees. The program aims at assuring the company's success by enabling its employees to acquire the company's shares. Within the framework of this program, the company is authorized to issue 1,000,000 new common shares (conditional capital I), of which 112,424 share options have already been exercised, or rather 930,000 new common shares (conditional capital III). The following tranches of share options are in existence.

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No.	Year of resolution	Year of issue	Exercise price in Euro	Blocking period ex issue (years)	Exercise period after blocking period (years)	Options outstanding as of 12/31/2004 (number)	Exercised in 2005 (number)	Forfeited in 2005 (number)	Options outstanding as of 12/31/2005 (number)
1	1999	2000	34.89	3	3	100,022	0	575	99,447
2	2000	2001	35.14	3	3	127,575	0	1,125	126,450
3	2002	2003	7.87	2	3	279,891	112,424	500	166,967
4	2003	2004	11.59	2	3	295,722	0	5,900	289,822
5	2004	2005	13.98	2	3	0	0	0	160,673
						803,210	112,424	8,100	843,359

The exercise price corresponds with respectively 120 percent, for the first four tranches, or 110 percent, for the fifth tranche, of the average amount of the closing prices of the last ten trading days prior to Management Board's resolution on the issue and the regulation of particulars of each tranche. Options may be exercised only if the closing price of the company's shares equals or exceeds the exercise price. Pre-emptive rights can be redeemed against payment of the exercise price. The beneficiary may exercise his or her options after uninterrupted company employment of two or three years, respectively, subsequent to the option grant. Options expire after six or rather five years, respectively.

No options were exercised in 2004. In 2005, options from the third tranche, 112,424 on the whole, were exercised for the first time.

The valuation of share options was effected according to the regulations of IFRS 2 for "equity-settled share-based payment transactions" as of the balance sheet date, December 31, 2005, with the aid of the Black-Scholes method. The share options' average attributable value came to 14.23 Euro for the first two tranches, 4.40 Euro for the third tranche, 5.07 Euro for the fourth tranche, and 6.06 Euro for the fifth tranche. The attributable value at grant date was determined in applying the Black-Scholes method for option price calculation based on the following assumptions.

Assumptions for determination of attributable value

	Tranche 1+2	Tranche 3	Tranche 4	Tranche 5
Dividend yield	1.4%	2.0%	2.0%	1.5%
Expected volatility	61.7	59.1	59.1	85.0
Risk-free interest rate at grant date	6.0%	5.5%	5.5%	2.76%
Expected life in years	5	5	5	5

In the year under report, expenses of 1,289,725 Euro (previous year: 1,219,800 Euro) incurred for the company's share option program.



All important documents are available as downloads on the ELMOS website.

25. Provisions

Current provisions

	As of 1/1/2005	Consumption	Release	Appropriation	As of 21/31/2005
Vacation bonus	940,751	786,844	0	1,043,243	1,197,150
Royalty payments	899,528	898,947	581	611,478	611,478
Trade association	223,500	220,131	3,369	218,900	218,900
Warranties	649,000	639,700	0	1,099,500	1,108,800
Licenses	428,099	375,755	52,344	472,910	472,910
Other provisions	855,222	474,240	168,890	571,295	783,387
	3,996,100	3,395,617	225,184	4,017,326	4,392,625

Non-current provisions

	12/31/2005 Euro	12/31/2004 Euro
Discounted value of liability	3,006,721	2,607,573
Pension plan reinsurance assets	-1,749,405	-1,110,719
Unrecognized actuarial gains/losses (-)	-135,612	41,738
Liability recorded in the balance sheet	1,121,704	1,538,592

The company provides pension plans for members of the Management Board of ELMOS Semiconductor AG and members of the subsidiaries' management boards. According to the pension plans, the benefits depend on the remuneration paid during the professional occupation. The company has entered into pension plan reinsurances whose claims have been assigned to the beneficiaries.

During the term of the pensions, these are adjusted by 1.5 percent per annum. The expected pay increase is established at 0.0 percent. The calculation of the present values is carried out in accordance with IAS 19. The interest rate is 4.0 percent per annum in the year under report. For actuarial assumptions regarding the mortality and disability risk, the Heubeck mortality tables 2005 G have been applied.

For determination of actuarial income and losses, the company applies the "corridor approach" according to IAS 19.92. The balance of actuarial losses not recorded in the consolidated balance sheet amounts to 135,612 Euro (previous year: income of 41,738 Euro). Pension plan expenses are made up as follows.

	12/31/2005 Euro	12/31/2004 Euro
Service costs	150,876	109,403
Interest	130,368	94,118
Actuarial gains and losses	0	0
Net pension plan expenses	281,244	203,521

The development of balanced net liabilities in the year 2005 shows as follows.

	2005 Euro	2004 Euro
Pension liabilities as of Jan. 1	2,649,311	1,888,411
Pension plan expenses	281,244	203,521
Pension benefits	- 59,446	0
Past service costs	0	557,379
Pension liabilities	2,871,109	2,649,311
Pension plan reinsurance assets	- 1,749,405	- 1,110,719
Balanced liabilities as of Dec. 31	1,121,704	1,538,592

Income from pension plan reinsurance amount to 405,075 Euro (previous year: 197,569 Euro) including payments made in the event of death. Contributions of 233,611 Euro are paid (previous year: 175,269 Euro). Moreover, there are indirect pension commitments to Management Board members of ELMOS Semiconductor AG, requiring no pension provisions according to IAS 19.104D because of the volume of these commitments and risk coverage by completely congruent pension plan reinsurance. In 2005, the contributions to these pension plans amounted to 181,494 Euro (previous year: 104,153 Euro).

The employer's social security contributions made for employees amounted to 3,336,841 Euro in 2005 (previous year: 3,060,943 Euro).



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26. Financial liabilities

Non-current liabilities Non-current financial liabilities as of December 31, 2005 are made up as follows.

		12/31/2005 Euro	12/31/2004 Euro
Deutsche Bank AG, Dortmund loan EGKS		0	555,552
Annual interest rate	3.75%		
Payment	monthly		
Interest	5,208 Euro		
Maturity	March 2005		
Nissan Bank, loan		7,339	17,124
Annual interest rate	0%		
Payment	monthly		
Interest	0 Euro		
Maturity	October 2006		
BMW Bank GmbH, loan 3107129822		0	41,693
Jahreszinssatz	5.99%		
Payment	monthly		
Interest	1,417 Euro		
Maturity	March 2006		
BMW Bank GmbH, loan 3109465479		46,747	0
Jahreszinssatz	6.49%		
Payment	monthly		
Interest	457 Euro		
Maturity	October 2007		
Sparkasse Frankfurt, loan 88051570		688,386	733,459
Jahreszinssatz	6.00%		
Payment	monthly		
Interest	40,285 Euro		
Maturity	December 2008		
Finance lease		35,402,128	38,528,717
Total		36,144,600	39,876,545
Less current portion with remaining terms of up to one year		3,280,341	3,749,038
		32,864,259	36,127,507

Current financial liabilities As of December 31, 2005, the company had various current credit limits adding up to 44,494,888 Euro at its disposal. As of December 31, 2005, the company took advantage of these credit facilities to an amount of 31,780,343 Euro at an average interest rate of 3.69 percent. In addition, the portion of non-current financial liabilities with remaining terms of up to one year is disclosed under current financial liabilities.

	12/31/2005 Euro	12/31/2004 Euro
Current liabilities due to banks	31,780,343	17,750,354
Current portion of lease liabilities	3,280,341	3,749,038
	35,060,684	21,499,392

27. Other current and non-current liabilities

As of the balance sheet date, other liabilities contain

	12/31/2005 Euro	12/31/2004 Euro
Tax liabilities	1,245,929	4,072,637
Other current liabilities	5,993,007	3,614,028
Other non-current liabilities	1,488,110	1,608,986
	8,727,046	9,295,651

Other current liabilities are, among other things, liabilities from income taxes on salaries and overdue social security contributions.

28. Trade payables

Trade payables primarily concern the purchase of materials used for operating activities. Trade payables mature in full within one year.

29. Market value of financial instruments

The carrying value of financial instruments such as receivables and payables approximates the fair value, owing to these financial instruments' current maturities. The carrying value of liabilities due to banks approximates the fair value, based on the fair value determined for the same or comparable loan particulars and the current interest rate offered to the company.

The company observes the performances of liabilities at fixed and variable interest rates and of current and non-current liabilities. Within this context, business and other finance risks are reviewed.

To hedge against interest rate fluctuations from current revolving liabilities at variable interest rates, the company concluded an interest rate swap agreement over a base amount of 20,000,000 Euro. The agreement has a term of five years and expires in 2008. The interest rate swap has not been stated as a hedging instrument according to IAS 39 in the consolidated financial statements. The fair value changes of the interest rate swap transaction, immaterial in 2004 and 2005, are immediately recorded under liabilities affecting the income statement. The fair value of the interest rate swap, determined on the basis of official price offers, comes to -39,739 Euro as of December 31, 2005 (December 31, 2004: -186,051 Euro).



ELMOS keeps in touch with the investors and expands its investor network at about 20 road shows each year.

Other information

30. Subsidies

ELMOS receives subsidies utilized in the financing of research and development projects as well as the acquisition of real estate and property, plant and equipment. Subsidies are classified as other liabilities until utilized. Subsidies used for research and development projects are stated as other income (290,744 Euro in 2005 and 491,468 Euro in 2004). Subsidies for capital expenditures in property, plant and equipment were recorded as reduction of acquisition costs neither in the current year nor in the previous year.

31. Other financial liabilities

The company has entered into non-cancelable rent and lease agreements for vehicles and office equipment. Total rent and operating lease expenses amounted to 12,084,571 Euro in 2005 and 12,216,375 Euro in 2004. Future minimum rent and lease payments under non-cancelable operating leases with initial or remaining terms in excess of one year are the following as of December 31, 2005:

	Rent and lease payments not including finance leases Euro
2006	16,946,277
2007	12,832,204
2008	8,126,647
2009	5,270,661
2010	4,815,793
Later years	21,781,288
	69,772,870

32. Acquisitions

ELMOS France S.A.S., Nanterre/France On June 9, 2005, the company – buyer – acquired the minority interest in the company ELMOS France S.A.S. Seller and buyer had been the sole shareholders of ELMOS France S.A.S., whose share capital is 1,000 thousand Euro. According to Section 1 of the purchase agreement, the company acquired the shares of 250 thousand Euro. The transfer of title in rem occurred as of January 1, 2005. All profit-sharing rights attached to these shares were transferred to the buyer effective January 1, 2005.

33. Group companies

According to IAS 27, the parent company and the subsidiaries under the parent's legal and effective control must be included in the parent's consolidated financial statements. In the consolidated financial statements at hand, the following companies have been included accordingly.

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	Capital share (direct and indirect) in percent
Parent company	
ELMOS Semiconductor AG, Dortmund	
Subsidiaries	
ELMOS Advanced Packaging B.V., Nijmegen/Netherlands	100.0
ELMOS California, Inc., Milpitas/U.S.A.	100.0
ELMOS Central IT Services GmbH & Co.KG, Dortmund	100.0
ELMOS Design Services B.V., Nijmegen/Netherlands	100.0
ELMOS Facility Management GmbH & Co.KG, Dortmund	100.0
ELMOS France S.A.S., Nanterre/France	100.0
ELMOS N.A., Inc., Farmington Hills/U.S.A.	100.0
ELMOS Quality Services B.V., Nijmegen/Netherlands	100.0
ELMOS Semiconductor Süd GmbH, München	100.0
ELMOS Services B.V., Nijmegen/Netherlands	100.0
ELMOS USA, Inc., Farmington Hills/U.S.A	100.0
European Semiconductor Assembly (eurasem) B.V., Nijmegen/Netherlands	100.0
GED Gärtner Electronic Design GmbH, Frankfurt/Oder	73.9
MECHALESS Systems GmbH, Karlsruhe	51.0
Silicon Microstructures, Inc. (SMI), Milpitas/U.S.A	100.0

Companies not included in the consolidated financial statements

	Capital share in percent
Subsidiaries	
Gesellschaft für Halbleiterprüftechnik mbH, Dortmund	100.0
Micro Systems on Silicon (MOS) Limited, Glen Gables/South Africa	67.6
Industrie Alpine Bauträger GmbH, München	51.0

The above-mentioned companies have not been included in the group of consolidated companies due to materiality considerations. Their effect – even if accumulated – is only of immaterial significance for the financial position and results from operations. The material items of assets and liabilities of Industrie Alpine Bauträger GmbH are already recorded by ELMOS Semiconductor AG in the consolidated financial statements.

	Capital share in percent
Subsidiaries	
Exedra Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	100.0
Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	100.0



In 2005, ELMOS was visited by a delegation of prospective diplomats from the Arab region.

Both above-mentioned companies have not been included in the group of consolidated companies because ELMOS does not hold the majority of voting rights. Both companies are entities founded exclusively for the realization of two sale and leaseback transactions, leasing administration buildings and land (including parking garage), sold by ELMOS, to the company.

Owing to the fact that the sale and leaseback transactions relating to Epigone and Exedra do not qualify as sales because of “continuing involvement” restrictions according to SIC 12, the assets transferred in accordance with civil law are still stated in the consolidated balance sheet of ELMOS. At the same time, the discounted value of the payable lease installments are stated as liabilities towards the two companies. In balancing buildings and land, thereby no substantial differences occur from balancing within the framework of a possible inclusion of Epigone and Exedra in the group of consolidated companies.

Companies included in the consolidated financial statements under the equity method attoSENSOR GmbH, Penzberg, (30 percent interest as of 12/31/2004) is balanced using the equity method of accounting. On January 26, 2005, the company acquired another 15 percent or stated value of 10,200 Euro of the share capital for a purchase price of 10,403 Euro. The company’s capital stock has been increased to 40,000 Euro. ELMOS now holds an interest of 45 percent. In 2005, the company recorded losses from investments, valued at equity in accordance with IAS 28, of 67,636 Euro (profit 2004: 57,233 Euro). The valuation of the investment has been corrected to a memo value.

Advanced Appliances Chips GmbH, Penzberg (33,3 percent interest) has not been balanced according to the equity method because of immateriality.

34. Information on Management Board and Supervisory Board

Remuneration of Management Board and Supervisory Board for 2005

	Fixed remuneration Thousand Euro	Variable remuneration Thousand Euro	Share options Number
Management Board	878	435	30,000
Supervisory Board	97	0	0

In the fiscal year 2005, remuneration paid to former Management Board members or their survivors come to 59 thousand Euro (previous year: 0 Euro). Provisions of 1,573 thousand Euro were made for pensions. For other services rendered, particularly consultations, the company paid 475 thousand Euro to members of the Supervisory Board (previous year: 154 thousand Euro).

35. Shares and share options held by Management Board and Supervisory Board

As of December 31, 2005 the following members of Management Board and Supervisory Board held ELMOS shares and share options.

	Shares	Options
Management Board		
Dr. Klaus Weyer	10,000	25,000
Dr. Anton Mindl	4,250	0
Reinhard Senf	1,948	40,000
Dr. Frank Rottmann	0	9,200
Supervisory Board		
Prof. Dr. Günter Zimmer	0	0
Dr. Burkhard Dreher	1,900	0
Jörns Haberstroh	3,956	0
Herbert Sporea	4,165	0
Dr. Peter Thoma	9,200	40,000
Jutta Weber	200	0

36. Information on auditor's fees

In the fiscal year 2005, the companies of the ELMOS Group enlisted the following services rendered by Ernst & Young AG Wirtschaftsprüfungsgesellschaft, appointed Group auditor.

	2005 Thousand Euro
Audit, including audit of IFRS balance sheet as of January 1, 2004	167
Other confirmation and consultation services	24
Tax consultation	115
Other services	5
	311

37. Appropriation of retained earnings

The Management Board (in accordance with the Supervisory Board) proposes to carry forward the retained earnings of ELMOS Semiconductor AG of 42,532,947.25 Euro to new accounts.

38. Information according to Section 160 AktG

Listed are all directors' dealings of the year 2005 with regard to shares of ELMOS Semiconductor AG (ISIN DE0005677108). The issuer is ELMOS Semiconductor AG, Heinrich-Hertz-Straße 1, 44227 Dortmund, Germany.



ELMOS designers can fall back on a comprehensive library of components.

Date	Name	Function	Transaction	Number	Price/ Exercise price (Euro)	Total volume (Euro)
5/25/2005 Off-market	ELMOS Finanz- holding GmbH, Dortmund	Legal entity closely related to executives (Dr. Klaus Weyer, CEO; Prof. Dr. Günter Zimmer, chairman of the Supervisory Board of ELMOS Semiconductor AG)	Sale of ELMOS shares	870,000	12.50	10,875,000
6/20/2005 Xetra	Dr. Peter Thoma	Management Board member of ELMOS Semiconductor AG	Purchase of ELMOS shares	2,000	11.92	23,840
6/30/2005 Off-market	Dr. Klaus Weyer	CEO of ELMOS Semiconductor AG	Granting of options	10,000	13.98	—
6/30/2005 Off-market	Dr. Peter Thoma	Management Board member of ELMOS Semiconductor AG	Granting of options	10,000	13.98	—
6/30/2005 Off-market	Reinhard Senf	Management Board member of ELMOS Semiconductor AG	Granting of options	10,000	13.98	—
8/10/2005 Xetra	Dr. Klaus Weyer	CEO of ELMOS Semiconductor AG	Sale of ELMOS shares*	15,000	12.81	192,120
9/12/2005 Xetra	Herbert Sporea	Supervisory Board member of ELMOS Semiconductor AG	Purchase of ELMOS shares	1,900	13.13	24,944
11/3/2005 Xetra	Laila Rottmann	Wife of Dr. Frank Rottmann, Management Board member of ELMOS Semiconductor AG	Purchase of ELMOS shares	246	9.47	2,330
11/4/2005 Frankfurt	Dr. Anton Mindl	Management Board member of ELMOS Semiconductor AG	Purchase of ELMOS shares	1,000	9.45	9,450
11/24/2005 Frankfurt	Dr. Anton Mindl	Management Board member of ELMOS Semiconductor AG	Purchase of ELMOS shares	1,000	9.07	9,070

* Shares resulting from exercise of share options based on employment contract (options' exercise price: 7.87 Euro).

39. Related party disclosures

According to IAS 24, "Related Party Disclosures", people or companies in control of or controlled by the ELMOS Group must be disclosed if they have not been included in the consolidated financial statements of the ELMOS Group as a consolidated company. Control is assumed if a shareholder holds more than half of the voting rights of ELMOS Semiconductor AG or if he is in a position, by the articles of incorporation or by contractual agreement, to control the financial and operating policies of the ELMOS Group's management.

Mandatory disclosure according to IAS 24 also includes transactions with associates and transactions with people who have significant influence on the ELMOS Group's financial and operating policies, including close relatives or interconnected companies. Significant influence on the ELMOS Group's financial and operating policies may be based on an interest in the ELMOS Group of 20 percent or more, membership on the Management Board or Supervisory Board of ELMOS Semiconductor AG, or another key function in management.

In the fiscal year 2005, the ELMOS Group is concerned by the mandatory disclosures of IAS 24 only with regard to business connections to associates, members of the Management Board and Supervisory Board of ELMOS Semiconductor AG, and other key executives in management.

The ELMOS Group has connections to closely related companies and people within the context of usual business activity. These supply and performance relationships are transacted at market prices. In 2005, the ELMOS Group provided supplies of 283 thousand Euro (previous year: 0 thousand Euro) to unconsolidated associates (AAC). The ELMOS Group received performances by attoSENSOR of 200 thousand Euro in 2005 (previous year: 1,200 thousand Euro) and by DMOS of 2,644 thousand Euro in 2005 (previous year: 1,150 thousand Euro). Apart from the remuneration of Management Board and Supervisory Board as disclosed under item 34, "Information on Management Board and Supervisory Board", there are no material relationships with closely related persons.

Furthermore, companies of the ELMOS Group did not engage in any transactions subjected to reporting with members of the Management Board or Supervisory Board of ELMOS Semiconductor AG, other key executives in management, or with companies whose managing or supervising bodies these persons are represented in. This also applies to close relatives of this group of people.

40. Number of employees

In the fiscal year 2005, the average number of employees in the Group was 1,028 (previous year: 928). The average number of employees is divided as follows.

	2005 Number	2004 Number
Group		
Salaried employees	652	610
Industrial employees	376	318
Total	1,028	928

41. Significant events after the balance sheet date

Subsequent to the end of the fiscal year, Dr. Anton Mindl was appointed CEO effective January 1, 2006. There are no other significant events subsequent to the balance sheet date.

42. Declaration of compliance according to Section 161 AktG

In December 2005, ELMOS Semiconductor AG issued the declaration of compliance required by Section 161 AktG and made it accessible to the shareholders on its website. The declaration can also be requested from the company as print publication.

Dortmund, March 2006

Dr. Anton Mindl Dr. Klaus Weyer Reinhard Senf Dr. Frank Rottmann



By statistical quality control, different chips are analyzed on one level.

Auditor's Certificate

We have 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 statement of changes in equity, consolidated cash flow statement, and notes to consolidated financial statements – as well as group status report for the fiscal year ended December 31, 2005. The preparation of consolidated financial statements and group status report according to IFRS as applicable in the European Union, the additional provisions of commercial law as applicable according to Section 315 a (1) HGB, and the additional regulations of the articles of association are the responsibility of the company's legal representatives. It is our responsibility to issue an assessment of the consolidated financial statements and the group status report on the basis of our audit.

In compliance with Section 317 HGB, we have conducted our audit in accordance with the accounting principles established by the Institut der Wirtschaftsprüfer (IDW). These principles require the audit to be planned and performed in such a way that inaccuracies and violations which materially effect the disclosure of financial position and results from operations as presented by the group status report and the consolidated financial statements with regard to applicable accounting provisions are identified 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 disclosures made in the consolidated financial statements and the group status report are predominantly examined on the basis of random sampling. The audit contains assessments of the financial statements of the companies included in the consolidated financial statements, the definition of the basis of consolidation, the accounting and consolidation principles applied, and the legal representatives' material estimates as well as an evaluation of the overall presentation of the consolidated financial statements and the group status report. It is our opinion that our audit provides a sufficiently reliable basis for our assessment.

Our audit has not resulted in any objections.

According to our assessment based on the conclusions from our audit, the consolidated financial statements are compliant with the IFRS as applicable in the European Union, the additional provisions of commercial law as applicable according to Section 315 a (1) HGB, and the additional regulations of the articles of association, and they communicate – with regard to these provisions – a presentation of the group's financial position and results from operations which corresponds with the actual conditions. The group status report is consistent with the consolidated financial statements, communicates an overall correct impression of the situation of the group, and describes the chances and risks of the future development coherently.

Dortmund, March 10, 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Brorhilker
Auditor

Sultana
Auditor



Additional sensor elements of a semiconductor chip measure pressure, angular rate or temperature.

WE LAY THE CORNERSTONE FOR OUR FUTURE





NEW CHALLENGES Larger quantities and increased demands on our production require more space. Our response is to enlarge construction facilities and expand capacity.

NEW BEGINNINGS By the new construction of a production building in Dortmund, we provide sufficient space for the expansion of the clean room. Beginning in the summer of 2006, our chips are going to be tested here. We also cooperate with the Fraunhofer IMS. Its eight-inch wafer production line and our joint development open up new horizons for us.



GROUP STRUCTURE

Company boards

Supervisory Board

Prof. Dr. Günter Zimmer *Chairman*

Provisional institute director FhG | Duisburg

Mandates:

- ▶ Member of supervisory board of Siltronic AG
- ▶ Member of supervisory board of active photonics AG

Dr. Burkhard Dreher *Deputy Chairman*

Graduate economist | Dortmund

Mandates:

- ▶ Member of supervisory board of EKO Stahl GmbH
- ▶ Member of supervisory board of Harpen AG
- ▶ Member of supervisory board of Vattenfall Europe Mining AG

Jörns Haberstroh *since 4/26/2005*

Graduate in business management | Kerken

Mandates:

- ▶ Deputy chairman of supervisory board of Ehlebracht GmbH
- ▶ Member of supervisory board of 3M-Quante AG
- ▶ Member of advisory board of QSC AG
- ▶ Member of advisory board of MECHALESS Systems GmbH

Herbert Sporea

Businessman | Altwittenbek

Mandates:

- ▶ Member of advisory board of MECHALESS Systems GmbH

Dr. rer. nat. Peter Thoma *since 10/1/2005*

Graduate physicist | Unterschleißheim

Mandates:

- ▶ Member of Management Board of ELMOS Semiconductor AG until 9/30/2005
- ▶ Member of technology advisory board of Behr GmbH & Co.KG
- ▶ Member of advisory board of Kromberg & Schubert GmbH & Co.KG

Jutta Weber *since 4/26/2005*

Graduate educationist | Tarrytown, New York, U.S.A.

The following members of the Supervisory Board left the Supervisory Board in the course of the fiscal year 2005. Insofar as they had other mandates at the time of their retirement from the Supervisory Board, these mandates are stated below.

Dr. Wolfgang Heinke *until 9/30/2005*

Graduate physicist | Reutlingen

Dr. Roland Mecklinger *until 4/26/2005*

Graduate engineer | Steinfeld-Hausen

Dr. Karl-Thomas Neumann *until 4/26/2005*

Graduate engineer | Meine

Mandates at the time of retirement from the Supervisory Board:

- ▶ Member of supervisory board of SupplyOn AG

Supervisory Board committees

Audit committee

Chairman: Dr. Burkhard Dreher

Members: Prof. Dr. Günter Zimmer
Herbert Sporea

Personnel committee

Chairman: Prof. Dr. Günter Zimmer

Member: Dr. Burkhard Dreher

Management Board

Dr. Anton Mindl *Chairman since 1/1/2006*

Born 1957 | Management Board member since 2005 |
Appointed until 2010

Dr. Klaus Weyer *Chairman until 12/31/2005*

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, Dortmund
- ▶ Member of advisory board of Mikroelektronik-Verbund FhG
- ▶ MST project advisor Dortmund

Reinhard Senf

Born 1951 | Management Board member since 2001 |
Appointed until 2011

Dr. Frank Rottmann *since 10/1/2005*

Born 1958/Management Board member since 2005 |
Appointed until 2010

Knut S. Hinrichs *Chairman until 3/1/2005*

Born 1944 | Deceased 2005

Mandates:

- ▶ MST project advisor Dortmund



ELMOS offers special components for all kinds of car networks.

Selected investments

Essential Group companies and investments

Domestic	Location	Interest Percent	Currency	Equity Thousand	Net income Thousand
Advanced Appliances Chips GmbH	Riedstadt	33.33	Euro	47	107
attoSENSOR GmbH***	Penzberg	45.00	Euro	14	- 61
ELMOS Central IT Services GmbH & Co. KG*	Dortmund	100.00	Euro	173	399
ELMOS Facility Management GmbH & Co. KG*	Dortmund	100.00	Euro	92	1,206
ELMOS Semiconductor Süd GmbH*	Unterschleißheim	100.00	Euro	167	- 21
Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG***	Mainz	100.00	Euro	20	4
Exedra Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG***	Mainz	94.00	Euro	552	- 3
GED Gärtner Electronic Design GmbH	Frankfurt/Oder	73.90	Euro	514	206
Gesellschaft für Halbleiterprüftechnik mbH**	Dortmund	100.00	Euro	—	—
Industrie Alpine Bauträger GmbH***	München	51.00	Euro	- 175	0
MECHALESS Systems GmbH	Karlsruhe	51.00	Euro	866	523

Abroad	Location	Interest Percent	Currency	Equity Thousand	Net income Thousand
ELMOS Advanced Packaging B.V.*	Nijmegen/Netherlands	100.00	Euro	225	207
ELMOS California, Inc.*	Milpitas/California/ U.S.A.	100.00	USD	234	100
ELMOS Design Services B.V.*	Nijmegen/Netherlands	100.00	Euro	- 1,040	- 615
ELMOS France S.A.S.	Nanterre/France	100.00	Euro	3,373	2,270
ELMOS N.A., Inc.*	Farmington Hills/ Michigan/U.S.A.	100.00	USD	- 4,100	- 513
ELMOS Services B.V.	Nijmegen/Netherlands	100.00	Euro	51,812	2,772
ELMOS Quality Services B.V.*	Nijmegen/Netherlands	100.00	Euro	14,872	1
ELMOS USA, Inc.**	Farmington Hills/ Michigan/U.S.A.	100.00	USD	—	—
European Semiconductor Assembly (eurasem) B.V.*	Nijmegen/Niederlande	100.00	Euro	31,548	0
Micro Systems on Silicon (MOS) Limited****	Pretoria/South Africa	67.60	ZAR	275	- 1,385
Silicon Microstructures, Inc. (SMI)*	Milpitas/California/ U.S.A.	100.00	USD	4,381	168

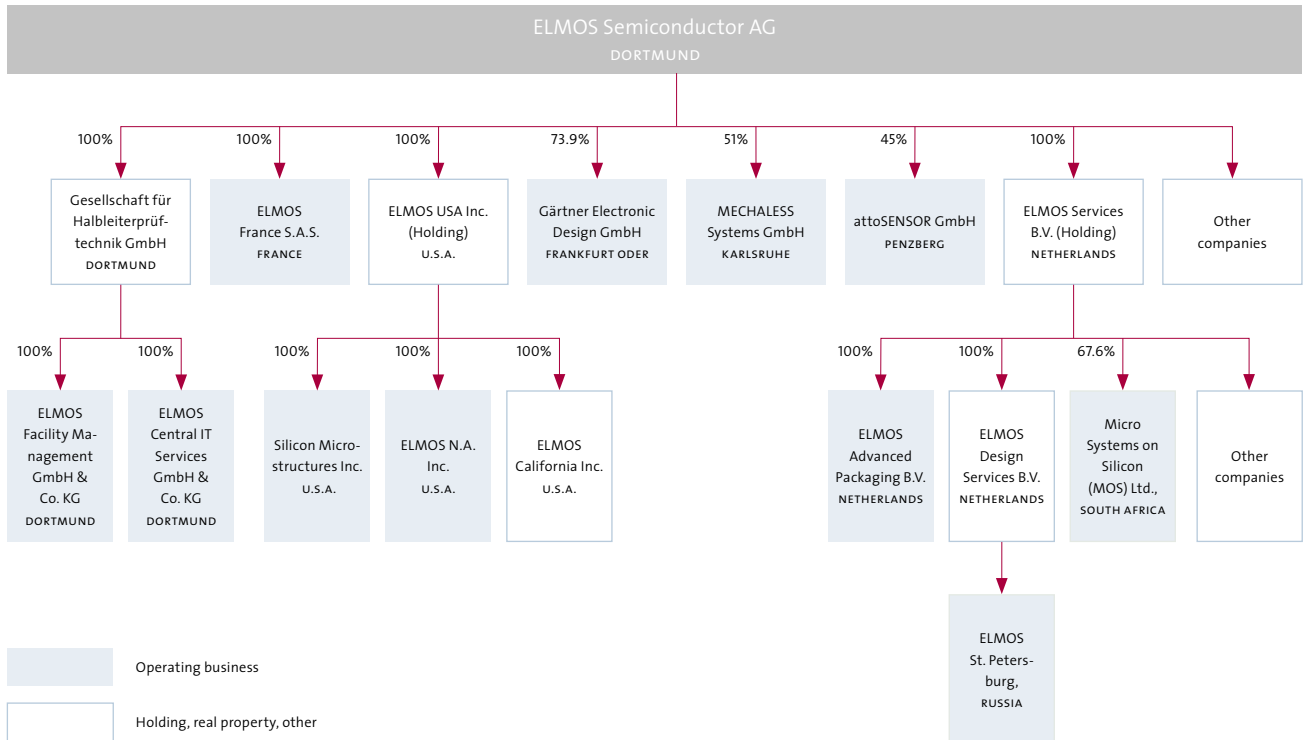
* This is an indirect investment of ELMOS Semiconductor AG, Dortmund.

** The latest financial statements have not been available yet.

*** The figures presented are based on preliminary, unaudited financial statements as of December 31, 2005.

**** The figures presented are based on preliminary, unaudited financial statements as of December 31, 2004.

Organizational structure



With more than 100 visitors, the ELMOS customer workshop in 2005 was greatly appreciated.

GLOSSARY

ANALOG

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

ASSEMBLY

The processing of a wafer into a packaged chip.

ASIC

An Application Specific Integrated Circuit is a circuit developed individually for a specific application. As opposed to standard components not configured in a customer specific way, for example voltage regulators, memory, processors.

ASSP

An Application Specific Standard Product is an application specific integrated circuit initially developed individually for a specific application and now sold to several customers as a standard product.

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 are part of 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 so-called early failure.

BUS

A 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 a high integration rate and low energy consumption.

DC-DC (DIRECT CURRENT TO DIRECT CURRENT)

A component, device or fitting for the transformation of electric currents and voltage from an input level to an output level.

DIGITAL

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

DRAM

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

ELECTRONIC CIRCUIT

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

FLASH

FLASH memory is similar to RAM in that it is freely addressable. However, FLASH memory does not lose its data if 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.

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.

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 of 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, the automobile manufacturers are OEMs.

PPM

Parts Per Million (one in a million).

SEMICONDUCTOR

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

SENSOR

An electronic unit measuring or recognizing a real physical quantity, e.g. motion, heat, 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 millions of transistors. The idea behind 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.

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 (0.012 to 0.039 inches) thick. Typical diameters are 6 (150mm), 8 (200mm), and 12 inches (300mm).



With more than 600 employees, ELMOS is the largest employer at the technology park Dortmund.

INFORMATIVE MATERIAL

If you want to know more about ELMOS, we are happy to send you the following documents:

- ▶ Annual report
- ▶ Annual report abstract
- ▶ Quarterly reports
- ▶ Code of conduct
- ▶ Eco report
- ▶ Our technology
- ▶ Newsletter (quarterly)
- ▶ Standard product catalog

All listed documents can also be found on our website at www.elmos.de

If you want to subscribe to our ad hoc announcements and press releases, please send us an e-mail to invest@elmos.de

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FINANCIAL CALENDAR

Press conference

March 16, 2006
ELMOS Dortmund

Analysts' conference

March 16, 2006
Marriott Hotel, Frankfurt

Interim report

January to March 2006
May 3, 2006

Annual general meeting

May 19, 2006
Casino Hohensyburg, Dortmund

Interim report

January to June 2006
August 2, 2006

Interim report

January to September 2006
October 31, 2006

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