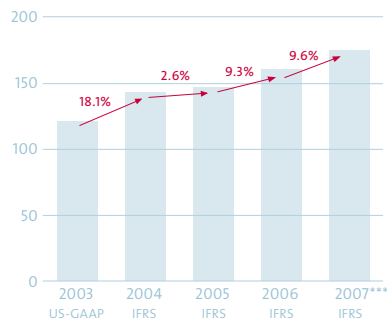


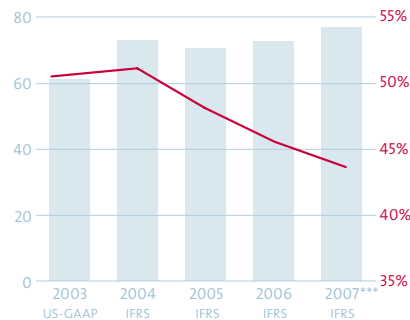
# THE KEY TO SUCCESS



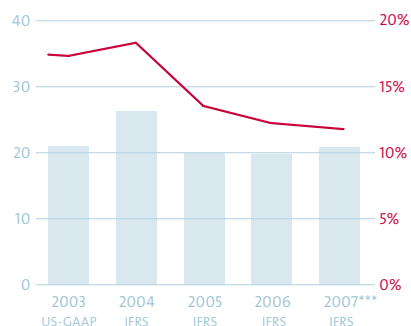
Sales in million Euro  
and growth rate



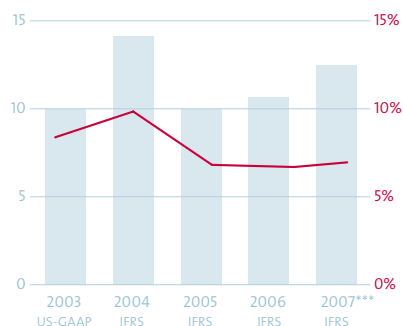
Gross profit in million Euro  
and gross margin



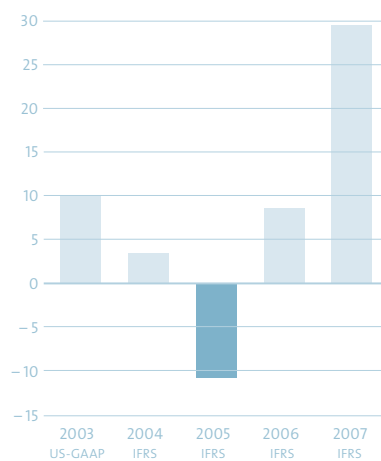
EBIT in million Euro  
and EBIT margin



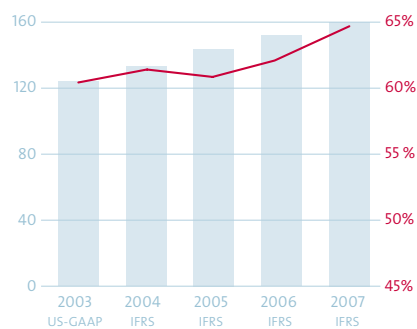
Net income in million Euro  
and net income margin



Free cash flow\*  
in million Euro



Shareholders' equity  
and equity ratio



\* Cash flow from operating activities less cash flow from investing activities

\*\*\* Adjusted by one-time effects (resulting from the restructuring of two subsidiaries)

## Five-year overview ELMOS Group

|  | 2003    | 2004  | 2005  | 2006  | 2007   | 2007*** |
|--|---------|-------|-------|-------|--------|---------|
| in million Euro unless otherwise indicated       | US-GAAP | IFRS  | IFRS  | IFRS  | IFRS   | IFRS    |
| Sales  | 121.4   | 143.3 | 147.0 | 160.7 | 176.1  | 176.1   |
| Sales growth                                     | 10.7%   | 18.1% | 2.6%  | 9.3%  | 9.6%   | 9.6%    |
| Gross profit                                     | 61.4    | 73.2  | 70.6  | 73.0  | 73.1   | 76.9    |
| Gross margin                                     | 50.6%   | 51.1% | 48.1% | 45.5% | 41.5%  | 43.6%   |
| Research and development expenses                | 20.4    | 24.7  | 28.1  | 29.6  | 30.9   | 30.7    |
| Research and development expenses in % of sales  | 16.8%   | 17.2% | 19.1% | 18.4% | 17.5%  | 17.5%   |
| EBIT   | 21.1    | 26.4  | 20.0  | 19.8  | 15.2   | 20.9    |
| EBIT in % of sales                               | 17.4%   | 18.4% | 13.6% | 12.3% | 8.6%   | 11.8%   |
| Income before income taxes                       | 17.3    | 22.9  | 16.4  | 17.3  | 12.2   | 17.9    |
| Income before income taxes in % of sales         | 14.2%   | 16.0% | 11.2% | 10.8% | 6.9%   | 10.2%   |
| Net income                                       | 10.0    | 14.2  | 10.0  | 10.7  | 8.8    | 12.5    |
| Net income margin                                | 8.3%    | 9.9%  | 6.8%  | 6.7%  | 5.0%   | 7.1%    |
| Earnings per share in Euro                       | 0.52    | 0.74  | 0.52  | 0.55  | 0.45   | 0.64    |
| Total assets                                     | 205.3   | 217.3 | 237.0 | 245.2 | 249.3  |         |
| Shareholders' equity                             | 124.7   | 133.8 | 144.3 | 152.3 | 160.0  |         |
| Equity ratio                                     | 60.7%   | 61.6% | 60.9% | 62.1% | 64.2%  |         |
| Financial liabilities                            | 60.6    | 57.6  | 67.9  | 65.0  | 54.0   |         |
| Cash, cash equivalents and marketable securities | 25.9    | 18.9  | 16.8  | 16.6  | 42.9   |         |
| Net debt   | 34.7    | 38.7  | 51.2  | 48.4  | 11.1   |         |
| Cash flow from operating activities              | 6.5     | 34.7  | 19.7  | 28.5  | 30.8   |         |
| Capital expenditures                             | -25.3   | -33.5 | -29.6 | -26.4 | -24.5  |         |
| Capital expenditures in % of sales               | 20.9%   | 23.4% | 20.1% | 16.4% | 13.9%  |         |
| Cash flow from investing activities              | 3.4     | -31.2 | -30.4 | -19.9 | -1.4   |         |
| Free cash flow*                                  | 10.0    | 3.5   | -10.7 | 8.6   | 29.4   |         |
| Dividend per share in Euro                       | 0.13    | 0.21  | 0.00  | 0.00  | 0.00** |         |
| Employees on annual average                      | 874     | 928   | 1,028 | 1,131 | 1,177  |         |

\* Cash flow from operating activities less cash flow from investing activities

\*\* Subject to shareholders' resolution at the Annual General Meeting in May 2008

\*\*\* Adjusted by one-time effects (resulting from the restructuring of two subsidiaries)

# Content

## INFORMATION FOR OUR SHAREHOLDERS

|                      |    |
|----------------------|----|
| Management Board     | 19 |
| Supervisory Board    | 26 |
| Corporate governance | 31 |
| Our responsibility   | 38 |
| Our share            | 41 |

## GROUP MANAGEMENT REPORT

|  |    |
|--|----|
| Business and economic framework          | 45 |
| Profit, financial and economic situation | 57 |
| Report according to Section 315 (4) HGB  | 67 |
| Risks and opportunities                  | 69 |
| Subsequent events                        | 73 |
| Outlook                                  | 74 |

## FINANCIAL STATEMENTS

|   |     |
|---|-----|
| Consolidated financial statements                   | 78  |
| Notes to consolidated financial statements          | 88  |
| Responsibility statement by the<br>Management Board | 123 |
| Auditor's certificate                               | 124 |

## APPENDIX

|                         |     |
|-------------------------|-----|
| 2007 at a glance        | 126 |
| Glossary                | 130 |
| Imprint                 | 133 |
| Financial calendar 2008 | 133 |



*Printed material  
available for order*



*Page  
reference*



*Internet reference  
to [www.elmos.de](http://www.elmos.de)*

# WHAT WE DO FOR OUR SUCCESS: ACT

|  |    |
|--|----|
| Offer and target price: <b>Sales</b>       | 2  |
| Of segments and blocks: <b>Development</b> | 6  |
| Layer by layer: <b>Wafer manufacture</b>   | 10 |
| Heat and coldness: <b>The test area</b>    | 14 |

”The key to success: ACT“

*Johann Wolfgang von Goethe, 1749 - 1832*

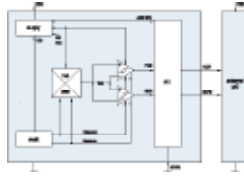


OFFER AND TARGET PRICE: SALES









The block diagram – the first concept of the semiconductor

Tuesday, 9.37 a.m. The telephone is ringing in the ELMOS customer consultant's office and the display shows the number of a customer of many years. "Hello, I would like to take you up on your offer of last Friday. We have checked the document and would now like to meet with you to discuss the last open details", a voice is sounding from the receiver. "Great. I will talk to our team and get back to you today with suggestions for a meeting appointment", the customer consultant replies, brief and pleasant.

Even before the first binding offer, the customer consultant and other departments have verified the feasibility, as this is one of the big strengths of ELMOS: close teamwork of the separate units. The chip designers analyze the technical requirements of the customer inquiry and calculate the expenditure of time and the chip size required. Staffers of the test area (backend) determine the anticipated testing effort and our subsidiary ELMOS Advanced Packaging in the Netherlands decides on the required package. These combined data form the basis of the subsequent pricing.

Prior to the offer and the short phone conversation, many consulting sessions and meetings have taken place and presentations have been given. The ELMOS customer consultant has discussed the inquiry with the customer intensively over months, consulted the right people in the specialist departments, and set the course for the project.

The upcoming meeting may now result in the next design win. The project would then be developed, manufactured and used in a great number of automobiles over the period of the next

eight years. Customer specific semiconductors (so-called ASICs) are the biggest drivers of growth for ELMOS. We generate more than 90 percent of sales with ASICs. It is important for these individual developments that the customer consultants speak the customer's language right from the start and have an understanding of the customer's systems and requirements. They must realize immediately just what the customer wants and which functions make sense for the chip required. Some of the questions to be asked are: What is the expected annual volume? In which application and which car models will the chip be used? What is the target price?

The meeting takes place at the ELMOS headquarters in Dortmund. It could have taken place at any of the other twelve domestic and international sales locations, from Munich, Stuttgart and Paris up to Detroit and Tokyo. After all, ELMOS can be found where the customers are in order to create a close relationship between partners.

At the so-called kick-off the project is started. For this occasion, the ELMOS team, made up of customer adviser, project manager, developer, production specialist, and quality manager, and the customer have come together. Among equals, they are now discussing the project's final details: These are among others which parameters special attention must be directed to and what the project's time reference is with regard to its separate stages.

Finally the signatures seal the agreement – another brick in support of a long-standing partnership.



| 11                      | 12                      |
|-------------------------|-------------------------|
| NREL Shape<br>w/pt NREL | ACB Shape<br>w/pt ACB   |
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Note: (2) cells are currently reserved for wall.  
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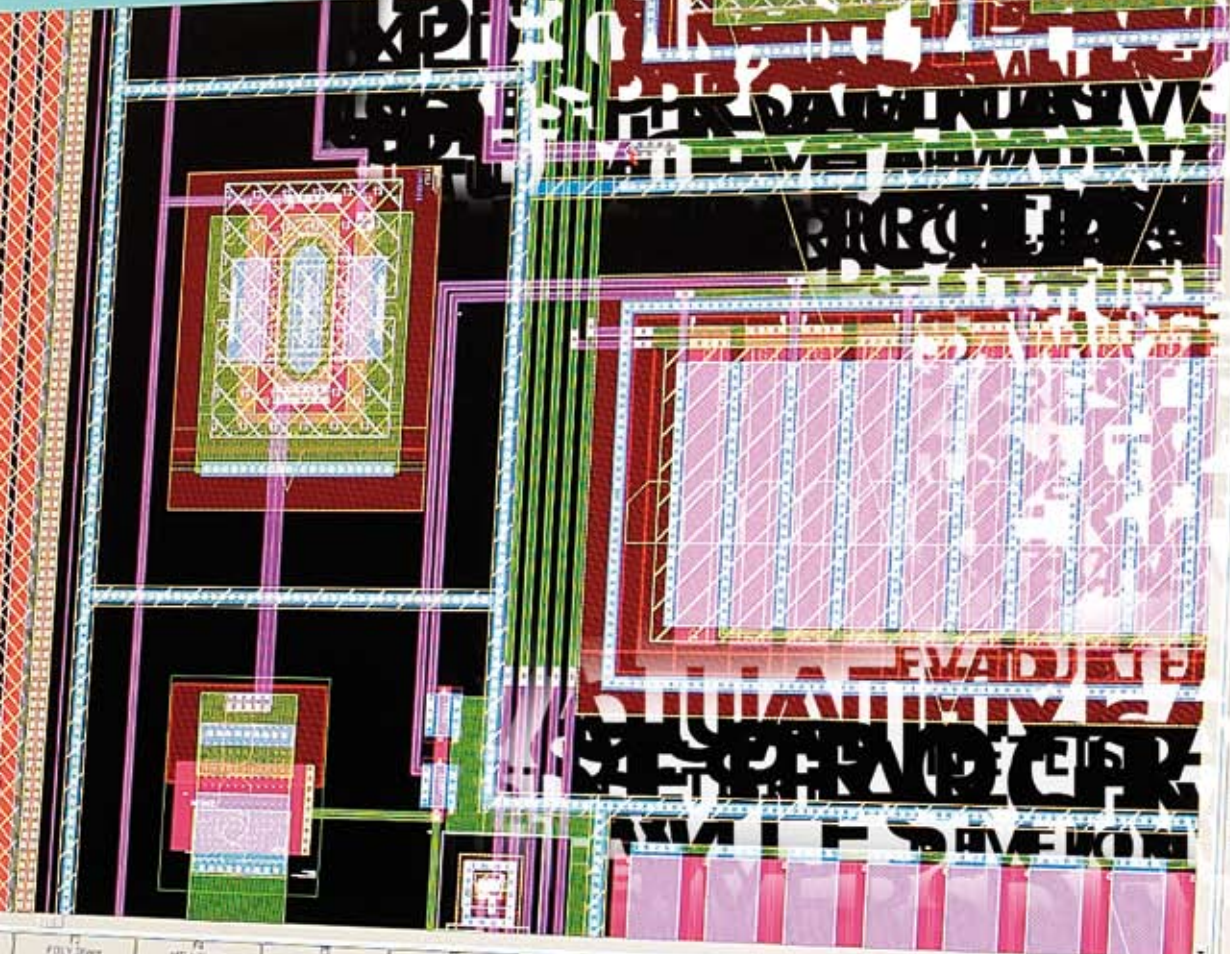
OF SEGMENTS AND BLOCKS: DEVELOPMENT

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Circle 1219 1305540

IC:KRD\_H20TH\*DESIGN\*14011



0\*

|       |     |
|-------|-----|
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| E:RT  | REV |
| L60V  | VE  |
| T: E3 | VE  |
| L5    | VE  |
| L3C   | VE  |
| GD    | VE  |
| DRCO  | VE  |
| CP    | VE  |

D\* VICEGEN

|           |           |
|-----------|-----------|
| Back      | Top       |
| Down      | Up        |
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| Zoom In   | Zoom Out  |
| Zoom 100% | Zoom 200% |
| MC        | shape     |
| ML        | shape     |
| AC        | shape     |
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| MM        |           |
| PEB       | out       |
| ELL       | out       |
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| Sub       | out       |
| AD        | path      |
| ADP D     | path      |
| DGP       | path      |
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| F1 POLY Shape edge POLY POLY F2 POLY B36 | F2 MTL1 Shape edge MTL1 MTL1 1.0 MTL1 0.42 | F3 MTL2 Shape edge MTL2 MTL2 1.0 MTL2 0.48 | F4 MTL3 Shape edge MTL3 MTL3 1.2 MTL3 0.64 | F5 LDU Shape LDU shape LDUV shape LDUV shape | F6 MTL34 Shape MTL34 gaps P.B.P Shape Trench Shape | F7 P1182 shape M1182 shape M1183 shape N1181 shape | F10 High. Set Unlight. Set Grid 0.02 Grid 0.1 | F11 Panel File File File Save File Figures & Icons |
|--|--|--|--|--|--|--|---|--|

Terminal IC Station Mentor Design Environment Fri Dec 14 10:56 AM





Chip layout – everyday tool of the development engineer

The developers analyze the concept and break it down into separate functional units. Usually the resulting rough block diagrams serve as the basis of a structural description which visualizes the requirements on the circuit. This structural description is then systematically examined for possible weak spots and corrections are worked in. After the structural description is completed, the developers advance it to the preliminary design and the test concept. Provided the customer accepts these drafts at a following “milestone” meeting, a large step is made on the way towards the mass-manufactured chip.

Now all the specific characteristics of the future component are defined: all special design parameters or process steps, the planned process flow of manufacturing, the technologies applied, package configurations or the qualification outline and schedule. All these details are binding for all parties involved. From this point conceptual changes have direct consequences for the time and cost schedule. Now the actual development stage begins. The separate circuit and functional blocks are broken down into further subdivisions, and interfaces and supply concepts are defined on the superior levels. Eventually smallest circuit units on transistor level remain, the so-called segments or circuit blocks.

These are functional circuit elements developed on the basis of ELMOS semiconductor technologies and available in design libraries for the most part. They can either be single components such as power drivers, diodes and resistors, or more complex circuit units such as voltage regulators or analog-digital converters.

Although digital signal processing increasingly provides for complex functions in ASICs as well, the chip’s operating conditions, the electric parameters, and the desired functionality have the result that not exclusively digital circuit elements are used for the design. Oftentimes signals are received from

the environment and must first undergo analog processing. Furthermore, automotive voltage levels and necessary protective structures require a higher electric strength of the electronics applied, which can only be achieved by semiconductor components specially developed for this purpose.

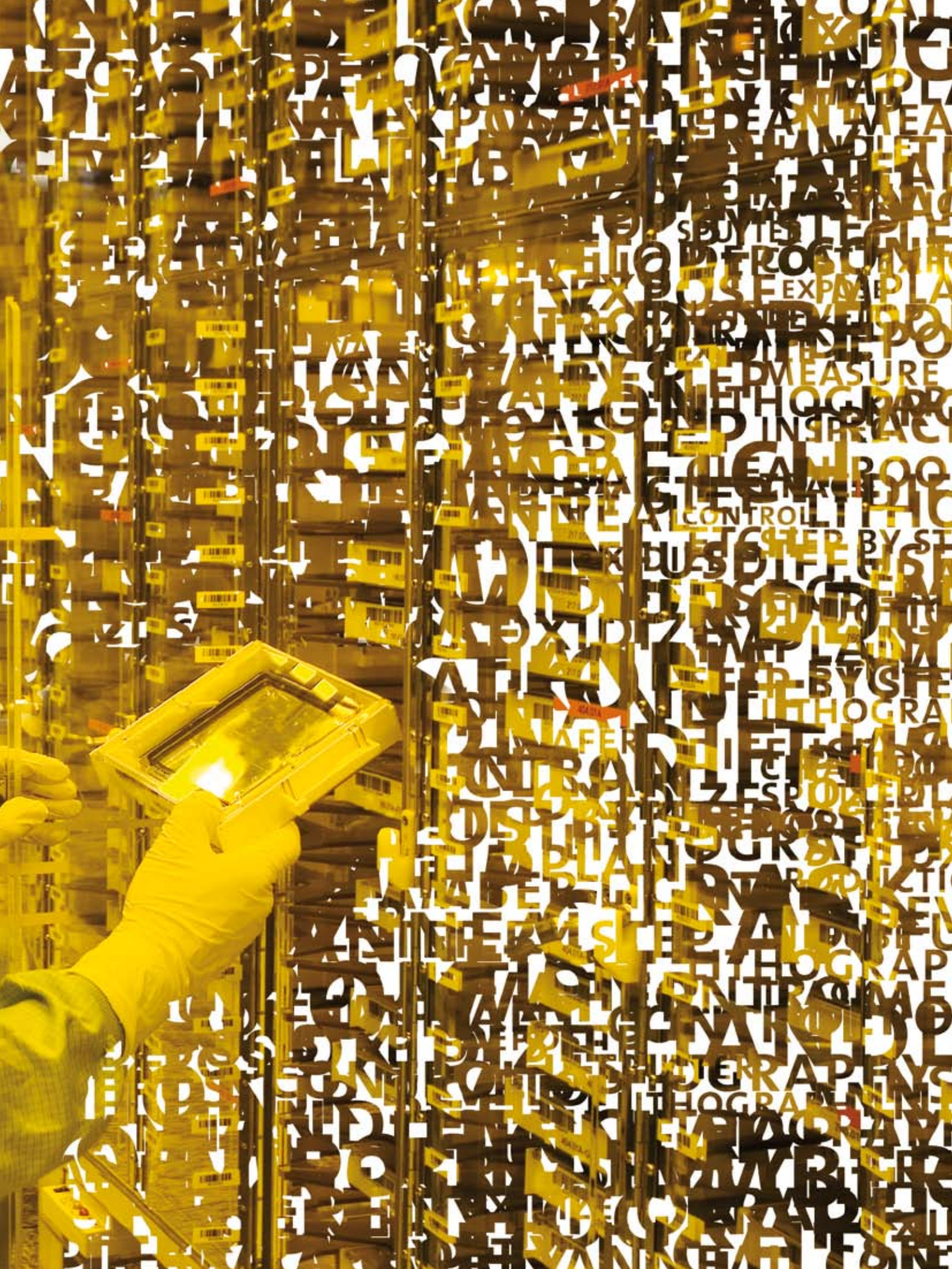
With its high-voltage CMOS technology basis, ELMOS offers a suitable solution for the requirements for automotive electronics. Voltage strength of up to 120 Volt at a low power input can thus be realized on a chip. In addition, many analog circuit elements have been optimized and provide, in combination with digital circuit blocks, a comprehensive mixed-signal circuit library. Once all of the chip’s functions are described as circuit elements with the help of segments and blocks, the semiconductor chip’s functionality can be simulated or mathematically verified either entirely or in part, considering the inevitable parameter dispersion caused by the processes. Parallel to the circuit development, a test strategy is devised for the later series production. The test strategy aims at achieving high functional test coverage of the semiconductor chip within the shortest possible amount of time.

Subsequent to the circuit development, realized for each functional block after the other, a netlist is generated from the circuit at the next stage. The netlist consists of an alphanumeric listing of all circuit elements and their electrical connections. With the netlist the designed circuit reaches a status which allows the transformation to a shape suitable for manufacture. To this end the circuit elements are converted into a layout presentation which considers the particulars of the available semiconductor technology.

After a final verification, the tools for manufacture can be designed based on the layout data. For each manufacturing level a lithography template, a so-called reticle, is created on the data basis. With the aid of these reticles, in chip production the structure information is exposed on one photoresist layer each per level.

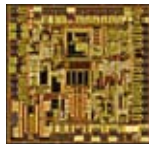


LAYER BY LAYER: WAFER MANUFACTURE



DOPE CLEAN MEASURE EXPOSE  
GRAFTING COAT SILICON HANDLE TRACK  
ANT MEASUREMENT DEVELOP  
SUN MEASUREMENT DEVELOP  
LOGOGRAPHY IMPLANT CLEAN  
REPRODUCTION  
AN ROOM  
ROOM  
NUMBER LIGHT DIZE IONS  
ETCH HANDLE COAT OXIDIZE  
DEPOSIT HANDLE  
IMPLANT HANDLE TRACK  
DUCTION ETCH  
WAFER CONTROL  
LITHOGRAPHY  
CONTROL DEVELOP MEASURE  
PRODUCTION SILICON  
HANDLE TRACK  
SILICON  
STEP BY STEP ANNEAL  
ACTION LIGHT  
CLEAN ROOM  
EXPOSE  
LITHOGRAPHY  
DEVELOP DIFFUSE  
CHAMBER LIGHT  
MEASURE DEVELOP DEPOSIT CLEAN ROOM  
TRACK ANNEAL SILICON  
MEASURE ANNEAL  
IMPLANT OXIDIZE STEP BY STEP WAFER  
EXPOSE PRODUCTION  
LITHOGRAPHY  
DIZE IMPLANT COAT ETCH  
STEP BY STEP CLEAN ROOM CONTROL





The chip on the wafer – its passage through manufacture

The outset of the production chain is the so-called frontend. That cleanness is a major issue here becomes obvious at first glance: All people wear clean room overalls, their faces are covered by protective hoods, the hands are inside special gloves. The extremely clean workplace in the clean room must not be contaminated under any circumstances. The avoidance of every single particle is decisive. The profoundly purified air in the clean room is the prerequisite for the products' quality.

0.6mm thick silicon discs serve as the basic material for chip production. These "wafers" are sawn out of a silicon crystal of precisely defined condition, ultrapure, and they meet the strictest requirements with regard to electric characteristics. We use wafers with diameters of either 150mm (6 inches) or 200mm (8 inches).

The circuit's electric function is achieved in the semiconductor material silicon by the deliberate, well-directed "contamination" of defined areas on the silicon wafer with small amounts of so-called doping agents. That is why not only the basic material and the clean room must be extremely clean but all auxiliary materials just as well: DI water for cleaning, nitrogen and oxygen for thermal processes in the oven, photoresist for lithography – everything is strictly specified and monitored. The electronic component, the chip, comes into being inside a layer of just a few micrometers' thickness on the silicon disc's surface. Every measure here is taken only in micrometers. Therefore cleanness reigns supreme. And that is why the wafers are cleaned up to 20 times and inspected constantly on their passage through the process line. Foreign substances would create an uncontrolled doping of the silicon discs.

The semiconductor itself consists of many thousand components: transistors, diodes, electric resistors, capacitors, etc. In the chip's layout, all separate components are combined

to an electronic circuit, and then the phototechnological reticles can be commissioned, to be applied "layer by layer" in production. Each reticle defines areas on the silicon disc destined to assume a specific function. As the different levels are on top of each other in part, it is really a structure of different layers. The production sequence then steers a lot of 25 silicon wafers cyclically through the production steps "coating" (silicon oxide and nitride as insulator, aluminum as wiring layer), "phototechnology" (spreading the photoresist, exposing with the reticle, developing the lacquer structure), "layer structuring" or "doping" and, finally, "lacquer stripping". During each production cycle – up to 30 cycles depending on the chip's complexity – the wafers are inspected, controlled, measured, and finally cleaned.

It is also necessary to detect or rather prevent the smallest process divergences in manufacture at every stage anytime. This is assured by numerous inspections over the regular manufacturing sequence. The surfaces are inspected for particles at regular intervals, and suspicious components are sorted out. Critical dimensions and certain coating thickness measurements are determined, compared with the reference values, and adjusted if necessary.

It takes about six weeks until a production lot with 25 wafers, which all undergo each production step simultaneously, exits the manufacturing line. On each silicon wafer are now up to 4,000 completed semiconductors. In the final step all the chips on each wafer are once again inspected optically by automatic procedure: a 100% control level.

ELMOS supplies more than 100 customers and manufactures more than 150 million chips each year. This is possible only by the highest grade of automation and employees with first-rate professional training.



HEAT AND COLDNESS: THE TEST AREA



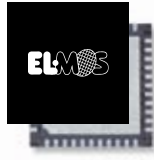
Testplatz 43  
Tester  
SZ 113  
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zu

Testplatz 44  
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OK-Bauteile  
nach Test





The complete chip – tested to 100% quality

The previous manufacturing sequence has yielded a processed wafer on whose surface many tiny rectangular areas are visible. These are the individual chips, and now the test marathon can begin. For this purpose the wafers leave the production area frontend to be systematically examined in the test area (backend). The first step is the parameter test. For this test specific standard components, depending on the semiconductor technology applied, have been processed in the spaces between the chips. Subsequent to the parameter test, the circuits can be subjected to further inspections. The chips, still embedded in the wafer composite, now arrive at that part of the test area where an electric performance check of the semiconductor chips takes place on the wafer. The wafer is put into a wafer prober which lays down each wafer separately on a probe table and contacts each chip with metering needles.

That way each individual IC can be stimulated with electrical signals and its “response” can be detected. The required electrical signals are created by a test pattern generator and analyzed with a multi-channel measurement system. This takes place inside a semiconductor test machine. The software applied is the test code written by the test engineer in charge in close collaboration with the designing engineers within the context of chip development. After the test has been run, the results are marked as “okay” or “not okay” in a so-called wafermap and saved in the searchable database.

After the on-wafer test the wafers arrive at the assembler, either one of our contracting partners in the Far East or our subsidiary ELMOS Advanced Packaging in the Netherlands. There the wafer discs are thinned out by means of a rear side grinding process and pasted onto metal frames, so-called leadframes, so that they can be recast with black molding mass after further treatment, such as setting up the connections between IC and package connector pin with capillary gold threads. The molding mass is meant to protect the chips against environmental impact and therefore needs

to be hermetically sealed. After the packaged components are stored in transport racks, the pieces are sent back to Dortmund for the concluding test, also called final part test. Because the chips already look like “proper” chips, but no one can tell at this point if they work a 100% according to the customer specifications. This is verified by the next tests conducted in the backend area again, in its final part test area. Depending on the customers’ requirements, several functional tests are made with each single semiconductor component at different ambient temperatures. Typically the chips are heated to a test temperature which may be +85°C, +125°C or even +150°C. In the opposite case, chips are cooled down for testing to –40°C. It goes without saying that they are also tested at room temperature.

Semiconductor components are also treated to artificial aging (burn-in) upon customer request to test safety-relevant components or achieve an even higher grade of quality assurance. The technical reason is the behavior of potential malfunction mechanisms in the semiconductor, liable to occur at an accelerated pace if exposed to increased temperatures. It is therefore quite obvious to operate the chips dynamically for a few hours at a higher temperature of +130°C for example, i.e. applying voltage to the chips and thus activating partial functions of the components. Subsequent to the numerous project specific tests, on wafer level, at up to two different temperature extremes, the comprehensive final part tests, and the burn-in, the treasured pieces can be packed on belt reels and shipped to the customer.

Each week roughly three million chips from various projects exit production to be dispatched to the customers all over the globe. At their locations the belt reels are inserted in automatic placement machines which place the delicate components piece by piece onto the circuit boards where they are finally soldered up – and where they will work faultlessly over the entire lifetime of the automobile.

# INFORMATION FOR OUR SHAREHOLDERS

|  |    |
|--|----|
| Management Board                         | 19 |
| CEO letter                               | 19 |
| Management Board members                 | 24 |
| Supervisory Board                        | 26 |
| Supervisory Board report                 | 26 |
| Supervisory Board members and committees | 30 |
| Corporate governance                     | 31 |
| Corporate governance report              | 31 |
| Declaration of compliance                | 37 |
| Our responsibility                       | 38 |
| Responsibility for our employees         | 38 |
| Responsibility for our environment       | 39 |
| Responsibility for society               | 40 |
| Our share                                | 41 |
| General stock market development         | 41 |
| Basic stock information                  | 42 |
| Shareholder structure                    | 42 |
| Investor relations                       | 43 |
| Annual General Meeting                   | 43 |

# Management Board

## CEO letter

*Dear Shareholders*

ELMOS can look back on an altogether positive year 2007. We have reached the essential economic goals, won new customers, and strengthened existing customer relationships. We have advanced the realization of our strategic orientation with important decisions and the results of operations. It is particularly satisfying that we achieved our growth target of roughly 10%.

In the past year we increased our sales by 9.6% to 176.1 million Euro. This is even more remarkable as the year under report was characterized by the restructuring of two subsidiaries, beginning in the first quarter, and difficult market conditions, especially in Germany and in the U.S. As reported, restructuring taking place at our subsidiary SMI in California and the location in the Netherlands resulted in extraordinary expenses of altogether 5.7 million Euro. With regard to the market conditions it must be said that the automotive sector in Western Europe, Germany in particular, and in the U.S. was weak. Reasons are manifold: The oil price reached new record highs in 2007, and the U.S. subprime mortgage crisis turning into an international loan crisis had its impact on consumer behaviour. Furthermore, the weak dollar rate reduced sales generated in the U.S. dollar area. Still some German car manufacturers were able to record significant growth in their export business.

Many of the market participants operating in our segment were forced to adjust their sales and profit forecasts – some of them significantly – by the end of the year because of the market conditions. ELMOS in contrast did reach the targeted sales and confirmed the profit forecast which had been adjusted after extraordinary measures at the beginning of the year. This gives proof of our customers' great confidence in our products and acceptance of our product mix, assuring solid growth even in difficult times.

Not considering special items from restructuring, the earnings before interest and taxes (EBIT) came to 20.9 million Euro or 11.8% of sales. This means a 5.3% increase. The net income gained 16.4% to reach 12.5 million Euro, corresponding to a level of 7.1% of sales. Without consideration of special items we have thus reached our goals to a large extent, supported in particular by a strong performance in the core business, the semiconductor segment.

Considering special items, the EBIT amounted to 15.2 million Euro or 8.6% of sales. The net income came to 8.8 million Euro or 5.0% of sales.

It is also good news that we were able to increase the free cash flow considerably to 29.4 million Euro. This is the result of the cash flow from operating activities, increased to 30.8 million Euro, significant cash accruals from sales and other dispositions, and modest capital expenditures despite the continued expansion of manufacturing capacity. In this context it is also worth mentioning that we refinanced the majority of our current loans in 2007 before the first signs of the impending loan crisis in the U.S. were the subject of debate. We have thus structurally strengthened the company's financial situation considerably.

Even though the cash flow development is positive, the decreased earnings, due to the extraordinary expenses from restructuring, lead us to propose to the Annual General Meeting to carry forward the retained earnings to new accounts again this year. We adhere to our statement of the last years that the company should pay a dividend only if the positive development of both earnings and cash flow is sustainable.

We cannot be satisfied with the development of our share price in the year under report. Even though we performed better than the semiconductor index SOX and ahead of the competition, the ELMOS share still lost 3% in value in 2007, closing the year at 7.35 Euro.

As in the years before, we continued to advance significant strategic and operative issues in 2007 successfully, reached important milestones, and brought projects to their positive conclusions. I would like to highlight the following items:

- ▶ The expansion of our strong position in the automotive ASIC market remains the sound growth pillar of our business. It made us win follow-up orders for ASICs without having to pass through the customary award procedures. Because we had convinced our customers with our cost-effective solutions, the outstanding quality and delivery reliability, and our development competence, they never questioned their decision for ELMOS. Our products have improved the competitive position of our customers.
- ▶ As the first company worldwide, we managed to develop a FlexRay™ star coupler up to series-production readiness. This makes us assume a globally leading position in this trendsetting market for bus systems. In 2007 this semiconductor received the customer release from BMW. This is an indication of our development department's efficiency and competence for finding solutions. FlexRay™ bus systems are going to replace CAN bus systems in many applications in the medium term. The bus system CAN is currently the most often installed automotive network. ELMOS has previously been underrepresented in the market for CAN systems so that we are opening a large future field of growth with our FlexRay™ activities.



- ▶ The relocation of the standard package assembly to the Far East was completed in the middle of last year. This has several advantages: Our assembly manufacture in the Netherlands can now focus entirely on the development and manufacture of special packages. And with this step we cut down on our capital expenditures in the medium and long term and increase the purchases in the U.S. dollar area. We have adjusted the structure of our location in the Netherlands accordingly.
- ▶ We have expanded our distributor basis in Europe and Asia considerably. On the whole, the ELMOS Group entered into agreements with ten new distributors. The cooperation facilitates the design wins and the logistic handling of new orders for electronics for automotive and industrial applications, consumer goods, and medical technology.
- ▶ Application specific standard products (ASSPs) have evolved into a major force within the group over the past year. A case in point is the extensive portfolio of products emphasizing our core competencies in the areas “sense”, “drive”, “connect”, and “supply”. We focus on our know-how for our ASSPs and convince our customers with our own patented solutions. Our development engineers are working on essential innovations: In the product group “sense” we will be offering new sensor elements, sensor read-out chips and microsystems for various physical measurement quantities in the near future. Our investment in the ELMOS-owned VirtuHall® process for the efficient drive of EC motors finds expression in an IC product family for the unit “drive” with derivatives. For the product group “connect”, further standardized bus ICs will soon be available in addition to the FlexRay™ transceivers already mentioned, finding use increasingly in the automobile as well as in industrial applications. For the application group “supply”, circuit concepts with highly efficient DC/DC converters are currently being realized, making it possible in LED lighting for cars and buildings to reduce our customers’ cooling effort up to 50%, depending on the specific application.
- ▶ At the U.S. location Milpitas, California, we have been working together with a new management at our subsidiary Silicon Microstructures Inc. (SMI) since the beginning of 2007. Apart from a sales increase and profit improvement on the strength of the existing products, the development of new sensor products and microsystems is being pushed intensively. The main emphasis is on the expansion of the core competencies in the field of “pressure sensorics”. The development of microsystems takes place across the locations between our subsidiaries in Milpitas and Nijmegen and our Dortmund headquarters.

- ▶ Our new production location for 8-inch wafers in Duisburg increased its capacity continuously in 2007. After a progress over three quarters as scheduled we had to suspend the continued increase of wafer introduction in the second half of the last quarter. We decided on this measure in consideration of the quality and stability of products and processes. The resulting delay in capacity expansion in Duisburg will not lead to a postponement of the planned partial conversion from 6 to 8-inch wafers in Dortmund. This is being assured by respective special measures.
- ▶ In early 2008 we concluded a cooperation agreement with a partner in Asia for contract manufacturing. Together with the Korean company MagnaChip we will develop a new technology generation and subsequently purchase processed wafers for automotive products and other applications from MagnaChip. MagnaChip will meet the required high automotive quality standards reliably. This deal will enable us to reduce our capital expenditure requirements and our development expenses for future technology generations significantly in the medium term and to react to fluctuating numbers of units more swiftly. It will also reduce our dependence on the U.S. dollar rate in the medium term and respond to the capacity requirements of our company's growth.
- ▶ In 2007 we were generally rather successful on the Asian market. A case in point, we won the contract of a major Japanese electronics group. The touchless switches realized for this contract on the basis of the HALIOS® process will be fitted in the first applications from the consumer goods sector in 2008. We will purchase our chips from a foundry (contract manufacturer) in Taiwan. We have also established close ties with the automotive suppliers and car manufacturers in South Korea which will result in specific contracts before long.

You will find on the basis of these examples that many issues were addressed and realized in 2007 once the strategy and orientation had been determined. After careful planning and conception work we placed our emphasis on "ACT". The goal remains: We will strengthen the competitiveness of ELMOS in order to safeguard sustainable growth. In doing so, we direct our special attention to performance improvement.

We also seek to expand our leadership among the specialized semiconductor manufacturers in all respects: product portfolio, quality, and efficiency in providing solutions. We want to achieve this goal on our own steam and – if and when the opportunity arises – by acquisitions.

That we are successful in our core business automotive is indicated for instance by the statistics of the market research institute Gartner Dataquest. In the latest survey we managed to make the leap from the third to the second position of the largest automotive ASIC manufacturers worldwide. With our company size and our application know-how, we are the ideal partner for the key technology microelectronics in the automotive and the industrial sectors, as well as for medium-sized enterprises in general.

In closing I would like to express my special gratitude to all our partners, starting with our customers. We appreciate the trust our customers place in us very much. We will spend each day's work with the highest commitment to merit this trust, exceed the expectations, and offer the best solution of the highest quality to them.

We owe the results achieved to our employees in the entire ELMOS Group. The commitment and know-how, the will to succeed, and the level of identification with the company were outstanding.

My gratitude also goes to our shareholders who have remained faithful to us despite the less than pleasant share price development. I am sure that our consistent orientation towards profitable growth at significantly reduced capital expenditures is going to increase the shareholder value in the long run.

In 2008 we want to achieve improvements all along the line. We are anticipating a growth above market average for the current year. Sales are expected to increase between 7% and 9%. The EBIT margin is anticipated to turn out between 12% and 14%. Capital expenditures are planned to amount to less than in the previous year. In addition, a positive free cash flow is planned once more.

The targets we have set for ourselves are ambitious yet achievable. For this purpose all employees and all members of the Management Board will give their very best, according to our motto. The key to success: ACT.

Sincerely



**Dr. Anton Mindl**

*CEO*

## Dr. rer. nat. Anton Mindl

*Graduate physicist | Lüdenscheid | Born 1957*

Chief Executive Officer



- ▶ Board member since 2005 | appointed until 2010
- ▶ **Essential fields of responsibility**  
 strategy | research and development | technology | quality  
 human resources development | sensorics and micromechanics
- ▶ Member of the general assembly of the IHK Dortmund  
 (Chamber of Commerce and Industry)

## Dr.-Ing. Frank Rottmann

*Graduate engineer | Dortmund | Born 1958*

Management Board member for  
 Sales and Development



- ▶ Board member since 2005 | appointed until 2010
- ▶ **Essential fields of responsibility**  
 product development and design | sales | marketing  
 distribution | microsystems | optoelectronics
- ▶ No other mandates

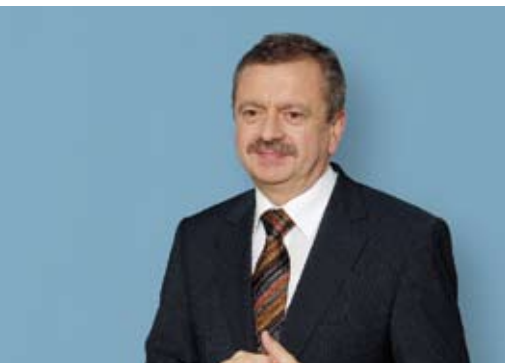


## Nicolaus Graf von Luckner

*Graduate economist | Oberursel | Born 1949*

Chief Financial Officer

- ▶ Board member since 2006 | appointed until 2011
- ▶ **Essential fields of responsibility**  
finances | controlling | investor relations | administration  
purchasing | information technology
- ▶ No other mandates



## Reinhard Senf

*Graduate engineer | Iserlohn | Born 1951*

Management Board member  
for Production

- ▶ Board member since 2001 | appointed until 2011
- ▶ **Essential fields of responsibility**  
production planning | frontend and backend manufacture  
process and product engineering | logistics | assembly | facility management
- ▶ No other mandates

# Supervisory Board

## Prof. Dr. Günter Zimmer

*Graduate physicist | Duisburg*

Chairman of the Supervisory Board



## Supervisory Board report

*Dear shareholders*

the Supervisory Board carefully attended to its duties and responsibilities as established by law and the Articles of Incorporation in the fiscal year 2007. During the past fiscal year we concerned ourselves intensively with the company's situation. We advised the Management Board in running the company and supervised management activity. In oral and written reports, the Management Board supplied us regularly and timely with comprehensive information. We were directly involved in all decisions of substantial importance. The Management Board consulted us on the company's strategic orientation.

Divergences of the course of business were explained to us in detail and examined by us on the basis of the reports supplied. We discussed the Management Board's reports on all business transactions of relevance to the company in the Supervisory Board meetings in detail. Even outside the Supervisory Board meetings, the chairman of the Supervisory Board was informed about essential business transactions by the Management Board. The chairman and other members of the Supervisory Board were in regular contact with the Management Board outside the Board meetings. The chairmen of Supervisory Board and Management Board discussed the company's strategy and business development extensively.

Conflicting interests of Management Board and Supervisory Board members subject to mandatory disclosure to the Supervisory Board or the General Meeting did not develop.

In five meetings held on May 10, 2007, July 26, 2007, October 25, 2007, December 14, 2007, and March 12, 2008, the Supervisory Board was informed in detail about the development of the fiscal year ended December 31, 2007, the company's situation, and current business policy decisions on the basis of the Management Board's oral and written reports. The Supervisory

Board discussed these issues with the Management Board and supervised management activities. Based on comprehensive information, the Supervisory Board passed the required resolutions in its meetings. The five meetings were attended by all members of the Supervisory Board. The Supervisory Board also concerned itself with the efficiency of the Supervisory Board's work and assessed it.

The main emphasis of Supervisory Board discussions was invariably placed on the development of volumes, sales, profit, and liquidity in the ELMOS Group. In the separate meetings, the situation of the group companies and sales activities were reviewed in detail. Other substantial issues were the restructuring measures taken for the subsidiaries Silicon Microstructures Inc. and ELMOS Advanced Packaging B.V., the annual planning for 2008 including capital budgeting, and the company's strategic orientation. The Supervisory Board also concerned itself with the plans for converting the Dortmund manufacture from 150mm (6 inch) to 200mm (8 inch) wafers. Furthermore, the risk management system and the company's compliance with the recommendations of the "Government Commission German Corporate Governance Code" were addressed. The Management Board presented and explained its compliance plan. The Supervisory Board assured itself that this plan complies with the legal requirements and corresponds with the company's risk situation. The appointment of the auditor and safeguarding the auditor's independence were also discussed. Another topic was the preparation of the Annual General Meeting 2008.

#### **SUPERVISORY BOARD COMMITTEES**

In its meeting on February 28, 2008, the Supervisory Board's audit committee concerned itself intensively with the preliminary financial statements of ELMOS Semiconductor AG and the ELMOS Group. The auditor was also present at this meeting. In addition, the company's material risks identified by its risk management were addressed, and the measures decided by the Management Board were discussed. The audit committee convened once in the year under report.

The human resources committee convened subsequent to meetings of the Supervisory Board and discussed the remuneration scheme for members of the Management Board. Other subjects of debate were the stock awards issued to Management Board members and employees in 2007 for the first time. The human resources committee met three times in the year under report.

The nomination committee, newly established in October 2007 for supplying the Supervisory Board with suitable candidates for its election proposals to the General Meeting in case of impending elections, did not meet in the year under report.

The committee chairmen gave account of their committee work in the Supervisory Board meetings.

### AUDIT AND GROUP AUDIT

By consulting the certified accountants of Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Dortmund, the Supervisory Board concerned itself in its March 12, 2008 meeting with the audit of the financial statements and consolidated financial statements for the fiscal year ended December 31, 2007. According to the shareholders' resolution of May 10, 2007 and the ensuing commission given by the Supervisory Board to the auditor, the financial statements prepared in accordance with HGB (German Commercial Code) regulations for the fiscal year ended December 31, 2007 and the management report of EL MOS 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 EL MOS Semiconductor AG were prepared in accordance with the International Financial Reporting Standards (IFRS) and completed with the statements required by Section 315 a (1) HGB. The consolidated financial statements according to IFRS and the group management 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 12, 2008, the statements and reports were also explained by the Management Board. The undersigned certified accountants reported on the results of their examination. After its own examination of financial statements and management report, consolidated financial statements and group management report, and the Management Board's proposal for the appropriation of profits, the Supervisory Board approved the result of the auditor's examination and, in its meeting on March 12, 2008, approved of the financial statements and the consolidated financial statements. The financial statements are hereby established. The Management Board and the Supervisory Board propose to the Annual General Meeting to carry forward the complete retained earnings of 39.6 million Euro to new accounts.

### CORPORATE GOVERNANCE

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 14, 2007 the company issued an updated declaration in accordance with Section 161 AktG (German Corporations Act) on the company's compliance with the recommendations of the German Corporate Governance Code in its version of June 14, 2007 and made it permanently accessible to the shareholders on the company website. It can also be found in this annual report on page 37.





### LINE-UP OF SUPERVISORY BOARD AND MANAGEMENT BOARD

On May 10, 2007 Dr. Klaus Weyer was elected by the Annual General Meeting as member of the Supervisory Board. By ruling of the District Court (Amtsgericht) Dortmund, Dr. Klaus Weyer had been member of the Supervisory Board as of January 1, 2007. There were no other changes in the line-up of Management Board and Supervisory Board in the fiscal year 2007.

The members of the Supervisory Board are introduced on page 30 of this annual report.



### REPORT ACCORDING TO SECTIONS 312|313 AKTG

The Supervisory Board also examined the report on relationships with affiliated companies according to Sections 312|313 AktG, provided by the Management Board of ELMOS Semiconductor AG. 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 Sections 312|313 AktG prepared by the Management Board of ELMOS Semiconductor AG and issued the following unqualified auditor's certificate:

"After our 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 either not inappropriately high or disadvantages were compensated, and 3. no circumstances indicate an evaluation essentially different from the Management Board's evaluation with respect to measures listed in the report."

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.

The Supervisory Board expresses its gratitude to the Management Board members and all employees for their performances, their high commitment, and the success achieved in the past fiscal year.

Dortmund, March 12, 2008

A handwritten signature in black ink that reads "G. Zimmer".

For the Supervisory Board

**Prof. Dr. Günter Zimmer**

*Chairman of the Supervisory Board*

## Supervisory Board members and committees

### SUPERVISORY BOARD

#### Prof. Dr. Günter Zimmer

*Chairman*

Graduate physicist | Duisburg

- Mandates**
- ▶ Member of Siltronic AG supervisory board
  - ▶ Member of Dolphin Intégration S.A. board of directors

#### Dr. Burkhard Dreher

*Vice-chairman*

Graduate economist | Dortmund

- Mandates**
- ▶ Member of EKO Stahl GmbH supervisory board
  - ▶ Member of GfV AG supervisory board
  - ▶ Member of Vattenfall Europe Mining AG supervisory board

#### Jörns Haberstroh

Graduate in business management | Kerken

- Mandates**
- ▶ Vice-chairman of Ehlebracht AG supervisory board
  - ▶ Member of 3M-Quante AG supervisory board

#### Dr. rer. nat. Peter Thoma

Graduate physicist | Unterschleißheim

- Mandates**
- ▶ Member of Behr GmbH & Co. KG technology advisory board (*until 7/1/2007*)
  - ▶ Member of Kromberg & Schubert GmbH & Co. KG advisory board

#### Jutta Weber

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

#### Dr. Klaus Weyer

Graduate physicist | Schwerte

- Mandates**
- ▶ Member of Paragon AG supervisory board
  - ▶ Member of MST Dortmund project advisory board

### SUPERVISORY BOARD COMMITTEES

#### Audit committee

The audit committee concerns primarily with issues of accounting, risk management, and the auditor's independence.

- Chairman** ▶ Dr. Burkhard Dreher
- Members** ▶ Prof. Dr. Günter Zimmer  
▶ Dr. Klaus Weyer (*since 25.10.2007*)

#### Human resources committee

The human resources committee concerns itself, if necessary, with the search for and employment of new members of the Management Board and with the Management Board remuneration system.

- Chairman** ▶ Prof. Dr. Günter Zimmer
- Members** ▶ Dr. Burkhard Dreher  
▶ Dr. Klaus Weyer (*since 25.10.2007*)

#### Nomination committee (*est. 10/25/2007*)

The nomination committee confers about eligible candidates for the Supervisory Board in case of new elections.

- Members** ▶ Prof. Dr. Günter Zimmer  
▶ Dr. Peter Thoma  
▶ Dr. Klaus Weyer

# Corporate Governance

## Corporate governance report

One of the most important aspects of our corporate culture is responsible and transparent company management. This applies to all divisions within the entire group. At ELMOS, Management Board and Supervisory Board report on corporate governance together.

In December 2007 Management Board and Supervisory Board issued the declaration of compliance according to Section 161 AktG. ELMOS discloses in this declaration that the company differs from the recommendations of the German Corporate Governance Code in its June 14, 2007 version on four counts. These are retention of the board members' D&O insurance (No. 3.8), the individualized disclosure of the Management Board and Supervisory Board members' remuneration (Nos. 4.2.4 und 5.4.7), and remuneration of the members of Supervisory Board committees (No. 5.4.7). The declaration of compliance is quoted in this annual report on page 37. It is also available on our company website, along with the declarations of compliance of the past years.

Deviation on  
four counts



### CLOSE COLLABORATION OF MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board is the executive body of ELMOS Semiconductor AG. The Supervisory Board advises and supervises the Management Board with respect to the company management. It is involved in all decisions of essential importance to the group and appoints and releases the Management Board members. The Management Board gives regular, extensive and up-to-date reports to the Supervisory Board on all developments and events of relevance to the ELMOS Group's business development and corporate situation. In the past year under report, Management Board and Supervisory Board continued to collaborate closely and with mutual trust. Both boards' rules of procedure concern themselves among other issues with the definition of this collaboration.

The Supervisory Board is composed of six members. Dr. Klaus Weyer was appointed member of the Supervisory Board by the District Court (Amtsgericht) Dortmund in January 2007. In May 2007 the Annual General Meeting elected Dr. Weyer as Supervisory Board member until the year 2010. This period corresponds to the remaining term of his predecessor on the Supervisory Board, Mr. Herbert Sporea. Each elected for five years, according to the Articles of Incorporation, the members of the Supervisory Board reflect the variety of the activities of ELMOS with their different professional backgrounds.

## TRANSPARENCY TOWARDS OUR SHAREHOLDERS

ELMOS constantly endeavors to provide the greatest possible transparency. Our shareholders are informed regularly on the latest company developments with regard to the financial situation and the strategic orientation.



Dates of importance to the shareholders are made public annually in a financial calendar. All quarterly and annual reports as well as information about the Annual General Meeting are published on the company's Internet site and communicated through other channels of distribution. We conduct routine meetings with analysts and institutional investors. The amount of information offered on our website is permanently expanded in order to inform our shareholders even more comprehensively

Section 15a WpHG (Securities Trading Act) stipulates that members of the Management Board and the Supervisory Board as well as closely related persons shall disclose the purchase and sale of company stock. We publicize the so-called directors' dealings on our company website and in the corporate governance report. These data are circularized Europe-wide and entered in the business register.

Next Annual General Meeting  
held on May 8, 2008



The Annual General Meeting (AGM) is the most important platform for the exercise of our shareholders' formal rights. The shareholders receive our annual report and the agenda ahead of the event. The AGM is broadcast in its entirety on our Internet site per webcast in order to allow those to follow the event who cannot participate in person in the AGM due to time constraints. Shareholders who cannot attend the AGM in person have the opportunity to entrust their voting rights to proxies nominated by ELMOS. All documents relating to the Annual General Meeting, current and past, as well as other information on the participation in the AGM and the exercise of voting rights are available on our Internet site and can also be requested in hardcopy from the company. The next Annual General Meeting will be held on May 8, 2008 in Dortmund.

## COMPLIANCE

The Management Board of ELMOS Semiconductor AG has taken measures to make sure that within the group all laws and regulations are complied with. The employees know that they must observe the rules imposed on and by the group and they are aware of the consequences resulting from breaches of these rules. The Supervisory Board receives the Management Board's report on the progress of the compliance scheme once a year.

### ANTICIPATORY RISK MANAGEMENT

Conscious corporate risk management is also a component of sound corporate governance. Risk management of this grade does its part in detecting risks at an early stage, assessing them, and initiating adequate countermeasures. All company divisions periodically provide assessments of identified risks with reference to their specific activities. The risks are assessed and countermeasures are taken. Parameters for risk assessment are the probability of occurrence and the possible amount of loss. This risk assessment is updated quarterly or at even shorter intervals if necessary. We give account of the current corporate risks in the group management report on page 69.



### 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 German Corporate Governance Code, the Supervisory Board arranged for the auditor to give account without delay of any findings and incidents of importance to the auditor's duties and responsibilities to occur 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 establishes differences from the declaration of compliance as issued by the Management Board and the Supervisory Board. Any incorrectness of this kind was not established.

### REMUNERATION REPORT

#### Total remuneration of the Management Board

The Management Board members' remuneration is oriented towards the group's economic and financial situation. The determination of the adequate remuneration and the various remuneration components is the responsibility of the Supervisory Board's human resources committee. Total remuneration comprises fixed components such as a fixed monthly salary, fringe benefits such as accommodation expenses and the use of company cars, and pension benefits, and there are incentive components dependent on the company's success such as a management bonus and the granting of stock of ELMOS Semiconductor AG on the basis of an incentive plan (stock awards) as a component with a long-term incentive effect. The management bonus is based on a percentage of the group earnings before taxes.

The company does not provide an individualized disclosure of the remuneration with respect to privacy protection. Management Board and Supervisory Board agree that such a disclosure would not contribute to greater transparency in the form of additional information relevant to the capital market. For this reason the Annual General Meeting of May 19, 2006 decided by shareholders' resolution to exempt the company from the legal obligation for individualized disclosure of Management Board remuneration as introduced by the Management Board Remuneration Disclosure Act of August 3, 2005 for the period of five years.

In the fiscal year 2007 the members of the Management Board received a total fixed remuneration of 1,655 thousand Euro and variable remuneration of 185 thousand Euro. In the year 2007 stock of ELMOS Semiconductor AG was issued to the members of the Management Board in accordance to an incentive plan for the first time. The total value of the shares issued came to 65 thousand Euro at the time they were granted.

ELMOS has accrued pension provisions of 611 thousand Euro for pension benefits (direct commitment) for members of the Management Board. In addition, there are indirect pension commitments to members of the Management Board which require no accruals because of the volume of these commitments and risk coverage provided by completely congruent pension plan reinsurance. In 2007 the contributions to these pension plans amounted to 432 thousand Euro. Remuneration of former Management Board members or their surviving dependants amounted to 79 thousand Euro in the fiscal year 2007. A premium of 200 thousand Euro for pension plan reinsurance has also been paid. The pension provision as of December 31, 2007 amounted to 2,536 thousand Euro.

Apart from pension commitments, no additional payments have been promised to any Management Board member for the termination of occupation. Nor did any member of the Management Board receive payments or corresponding promises from third parties with regard to his position on the Management Board in the past fiscal year.

#### **Total remuneration of the Supervisory Board**

The Supervisory Board's remuneration is determined by Section 9 of the Articles of Incorporation. Apart from the reimbursement of their expenses, the Supervisory Board members receive fixed and incentive payments. The incentive remuneration is linked to the dividend and thus oriented towards the company's long-term success. The Supervisory Board members are not granted shares of ELMOS Semiconductor AG.

Compliant with the recommendation of the German Corporate Governance Code with respect to Supervisory Board remuneration in consideration of chairmanship and vice-chairmanship, the chairman receives twice the amount of the regular fixed payment and the vice-chairman receives one and a half times of said amount. Chairmanship and vice-chairmanship of the Supervisory Board committees are not subject to separate compensation.

The Supervisory Board members' remuneration is disclosed in summarized form, yet not individualized. This also applies to payments made to Supervisory Board members for individually performed services, particularly consultation and mediation services.

The fixed remuneration paid to members of the Supervisory Board amounted to the total sum of 92 thousand Euro in the fiscal year 2007, expenses and disbursements included. As no dividend was paid to the shareholders in 2007, the members of the Supervisory Board did not receive variable remuneration in the fiscal year 2007. For other services, especially consultations and inventor fees, the company paid 377 thousand Euro to members of the Supervisory Board.

### DIRECTORS' DEALINGS

The transactions listed are those concerning shares of ELMOS Semiconductor AG (ISIN DE0005677108) in the year 2007.



| Date / Place                     | Name                         | Function  | Transaction                   | Number | Price/<br>Exercise price<br>in Euro | Total<br>volume<br>in Euro |
|----------------------------------|------------------------------|---|-------------------------------|--------|-------------------------------------|----------------------------|
| Sept. 28, 2007<br>Frankfurt/Main | Dr. Anton<br>Mindl           | CEO   | Purchase of<br>ELMOS shares   | 1,000  | 7.55                                | 7,550                      |
| Nov. 7, 2007<br>Xetra            | Dr. Anton<br>Mindl           | CEO   | Purchase of<br>ELMOS shares   | 1,000  | 7.52                                | 7,519                      |
| Nov. 8, 2007<br>off-market       | Dr. Anton<br>Mindl           | CEO   | Assignment of<br>ELMOS shares | 2,975  | 7.25                                | 21,569                     |
| Nov. 8, 2007<br>off-market       | Nicolaus Graf<br>von Luckner | CFO   | Assignment of<br>ELMOS shares | 1,975  | 7.25                                | 14,319                     |
| Nov. 8, 2007<br>off-market       | Dr. Frank<br>Rottmann        | Management<br>Board member for<br>Development and Sales | Assignment of<br>ELMOS shares | 1,975  | 7.25                                | 14,319                     |
| Nov. 8, 2007<br>off-market       | Reinhard<br>Senf             | Management<br>Board member<br>for Production            | Assignment of<br>ELMOS shares | 1,975  | 7.25                                | 14,319                     |

**SHARES HELD BY BOARD MEMBERS**

As of December 31, 2007 the following members of Management Board and Supervisory Board held ELMOS shares and share options:

| <b>Management Board</b>   | <b>Shares</b> | <b>Options</b> |
|---------------------------|---------------|----------------|
| Dr. Anton Mindl           | 12,225        | 0              |
| Reinhard Senf             | 3,923         | 40,000         |
| Dr. Frank Rottmann        | 1,975         | 6,200          |
| Nicolaus Graf von Luckner | 2,975         | 0              |

| <b>Supervisory Board</b> | <b>Aktien</b> | <b>Optionen</b> |
|--------------------------|---------------|-----------------|
| Prof. Dr. Günter Zimmer  | 0             | 0               |
| Dr. Burkhard Dreher      | 1,900         | 0               |
| Jörns Haberstroh         | 3,956         | 0               |
| Dr. Klaus Weyer          | 10,000        | 25,000          |
| Dr. Peter Thoma          | 9,200         | 40,000          |
| Jutta Weber              | 200           | 0               |

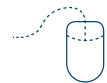
The members of the Supervisory Board had combined indirect holdings of 33% of the company's shares.



## Declaration of compliance

Management Board and Supervisory Board of ELMOS Semiconductor AG declare in accordance 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 14, 2007 with the following exceptions:

- ▶ The currently effective D&O insurance for Supervisory Board and Management Board does not provide for a deductible for the board members (GCGC No. 3.8). Based on the unclear legal situation 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 Internet site as well as in the annual report as divided into fixed components, success-dependent incentive 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). By shareholders’ resolution passed at the Annual General Meeting on May 19, 2006, the company is exempt from the legal obligation to disclose the Management Board members’ remuneration individually as introduced by the Management Board Remuneration Disclosure Act of August 3, 2005 for a period of five years.
- ▶ The Supervisory Board members’ remuneration also consists of fixed and incentive components. Supervisory Board remuneration is stated on the Internet site 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 consultation and negotiation services, is not individually stated in the corporate governance report (GCGC No. 5.4.7).
- ▶ Chairmanship of and membership in Supervisory Board committees are not subject to separate remuneration (GCGC No. 5.4.7).



Dortmund, December 2007

**The Supervisory Board**

**The Management Board**

# Our responsibility



## Responsibility for our employees

“Open-door”  
policy

Our employees are our most valuable resource and a great source of power for reaching our corporate goals. For this reason we are aware of the social responsibility we as employer have for our employees, and we assume our responsibility with the utmost attention. The employee turnover rate has been very low for years, reflecting the continuity and the sense of togetherness experienced in our company. As a technology company, ELMOS benefits especially from the employees' know-how. Their motivation, expert knowledge and flexibility are the prerequisite to our company's long-term success. The open and cooperative style of our corporate culture can be found everywhere in our company. The open-door policy is therefore an important principle of our corporate culture. One focal point of our sustainable strategy is the creation of professional perspectives for our employees. That is why we actively support their creativity and give them the opportunity to expand their personal potential and to deliver outstanding performances.



## Responsibility for our environment

It is our goal to bring ecology and economy in line. In the ideal case, with just one measure we reduce environmental impacts, improve workplace safety, and generate cost saving effects. We want our employees and neighbors to live and work in a healthy environment.

For more than ten years ELMOS has been taking active measures beyond the legal requirements for environmental and health protection. In order to give account of these efforts to the public, an integrated eco and health protection management system was implemented, certified in accordance with ISO 14001:2004 in the year 2003 for the first time.

Environmental protection, health protection and quality are regarded as equally important components of the ELMOS management system. The two supporting pillars of our eco management system are the close cooperation between eco management representative, senior managers and division managers, and the dedication of our eco auditors and employees. Our system is given additional support by the commitment of our training staff to environmental and safety issues as well as by initiatives for the sustained promotion of health protection.

Supporting pillars of the  
eco management system

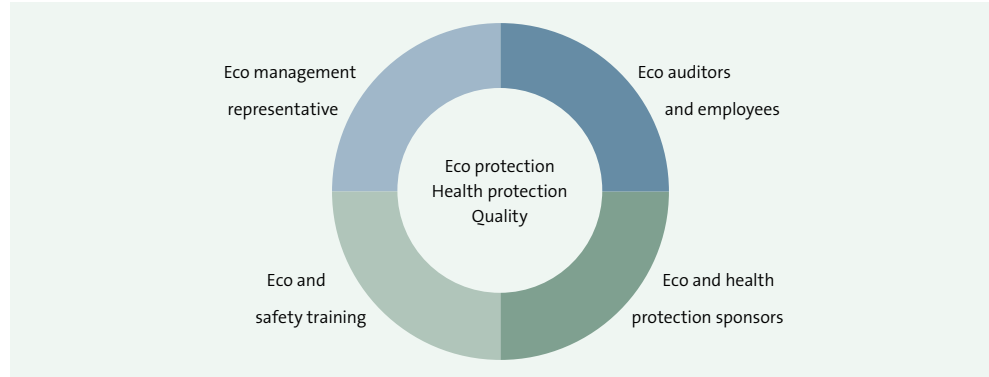
Each year a great number of our employees' proposals for improvements in eco and health protection are reviewed in the divisions and realized according to priority. We are expecting further support for our activities in environmental and health protection by the nomination of sponsors in manufacture whose special attention shall be directed to eco and health protection in their specific domain. As contact persons on location, they are supposed to pick up environmental issues and relate them to the proper managers.

One example for the high commitment of our employees is a project for saving water. Water is a valuable resource in semiconductor manufacture, needed for numerous production steps. Large quantities of deionized, purest water (DI water) are required for rinsing and cleansing processes in manufacture. Therefore an increasing amount of fresh water is used for the generation of DI water with rising manufacturing volume. Now the objective was a significant reduction of water consumption despite increasing production volumes. For this purpose, facility management staffers developed a new concept for the in-plant water circulation. The idea behind it: To replace the required soft water by the previously unused concentrate water and recycled water. With little expenditure the required pipes could be installed and the test was ready to begin: Month by month a rising portion of soft water was replaced by concentrate water and recycled water. The result of one year of continuously increasing the share of concentrate and recycled water is that soft water can easily be replaced. Thanks to this idea, ELMOS could limit the increase of fresh water consumption to 4% and has needed altogether 30.000 cubic meters less fresh water than before.

30,000 cubic meters  
of fresh water saved



We publish all data and facts concerning our responsibility for the environment in an annual eco report which informs comprehensively on environmental protection, workplace safety, and environmental impacts at the Dortmund location. This eco report is available for download on our company website and can also be requested as a print copy free of charge.



## Responsibility for society

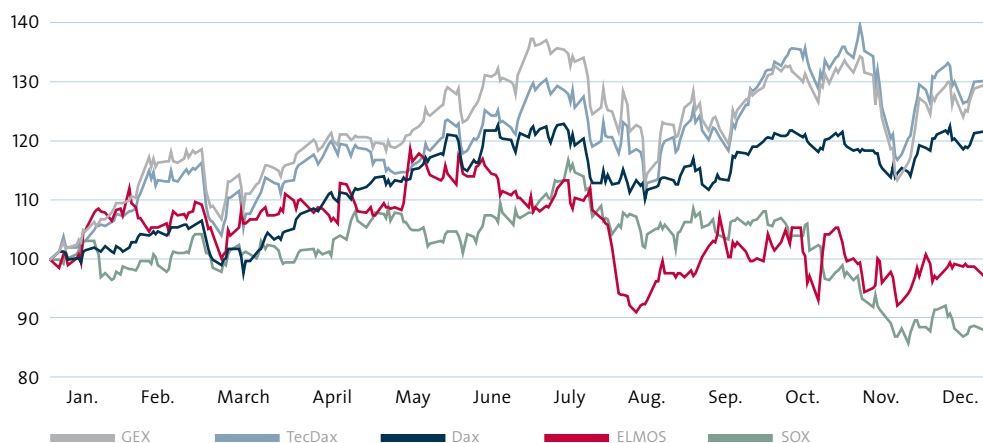
It is an important concern for us as a company to assume responsibility for society as well. Youth sponsorship and professional training belong to social responsibility for us, as does the support of charitable institutions. In the sense of sustainability, we want to make a contribution to society and to assume social responsibility even beyond our business interests. In the past years we have tried to make contributions to help ease acute emergencies, both domestic and abroad, by a multitude of different fundraising campaigns. Of course we also try to support local and regional institutions with our donations. Among other initiatives, we donated to Dortmunder Tafel e.V. and sponsored the city and state library Dortmund as well as several universities. We also regard it our social obligation to offer young people the chance of qualified professional training. The trainees of today are our experts of tomorrow. Roughly half of each new class of our trainees is usually trained for the profession of microtechnologist, oriented towards work in clean room manufacture. Apart from microtechnologists we train for a large number of professions, accommodating the interests and talents of our future employees.

Special training for  
 clean room work

# Our share

## General stock market development

### Relative development 2007



Some of the general market indices recorded quite considerable gains in 2007 despite a few turbulences at the stock exchanges as result of the highly increased oil price and the loan crisis triggered by the U.S. market. However, semiconductor shares did not benefit from this generally positive development in 2007. While the DAX gained 22%, the Philadelphia Semiconductor Index lost 12%. With a loss of 3%, the ELMOS stock asserted itself rather well within the semiconductor environment. It reached its 52-week high of 8.99 Euro on May 17, 2007. Seized by the impact of the loan crisis, the markets generally collapsed. Even though ELMOS is not affected by the crisis in any way, the stock price dropped, reaching its 52-week low of 6.90 Euro on August 13, 2007, and eventually leveling off in the next months between seven and eight Euro. At the end of the year the stock was quoted at 7.35 Euro.

Closing price of  
7.35 Euro

### DEVELOPMENT OF THE ELMOS STOCK

| Period ended December 31, 2007         | Since 1/1/2006 | Since 1/1/2007 |
|--|----------------|----------------|
| ELMOS (Xetra)                          | - 18.3%        | - 3.0%         |
| <b>Industry indices</b>                |                |                |
| TecDax                                 | 63.3%          | 30.2%          |
| Philadelphia Semiconductor Index (SOX) | - 14.5%        | - 12.4%        |
| Prime Technology                       | 12.5%          | - 14.7%        |
| Prime Automobile                       | 73.3%          | 37.9%          |
| <b>General market indices</b>          |                |                |
| Dax                                    | 49.2%          | 22.3%          |
| GEX                                    | 66.7%          | 30.3%          |

The average daily trading volume of the ELMOS stock (Xetra and Frankfurt/Main) came to roughly 26 thousand shares, thus below the previous year's level (about 37 thousand shares daily). Roughly 90 percent of the shares were traded on Xetra.

## ELMOS KEY STOCK DATA

| Key data              |                |   | 2006                | 2007                |
|-----------------------|----------------|---|---------------------|---------------------|
| ISIN                  | DE0005677108   | Number of shares outstanding                  | 19,413,805          | 19,414,205          |
| SIC                   | 567710         | 52-week high (Xetra)                          | 10.60 Euro   9 Feb. | 8.99 Euro   17 May  |
| Stock exchange symbol | ELG            | 52-week low (Xetra)                           | 6.67 Euro   18 July | 6.90 Euro   13 Aug. |
| Reuters               | ELGG.DE        | Closing price (Xetra)                         | 7.58 Euro           | 7.35 Euro           |
| Bloomberg             | ELGG.GR        | Annual performance (dividend excluded)        | - 15.8%             | - 3.0%              |
| Prime industry        | Technology     | Market capitalization as of December 31       | 147.2 m Euro        | 142.7 m Euro        |
| Industry group        | Semiconductors | Market value to book value* as of December 31 | 1.0                 | 0.9                 |
|                       |                | Shares traded on daily average                | 37.2 thousand       | 25.6 thousand       |
|                       |                | Earnings per share                            | 0.55 Euro           | 0.45 Euro           |
|                       |                | Dividend per share                            | 0.00 Euro           | 0.00 Euro**         |

\* Shareholders' equity | \*\* Proposal to the AGM in May 2008

The market capitalization of ELMOS at the end of the year came to 142.7 million Euro based on 19.4 million shares outstanding. The number of shares outstanding in 2007 changed only insignificantly due to the exercise of stock options.

Within the framework of a stock award plan, ELMOS repurchased 29,000 shares in August 2007, assigned to employees and Management Board members in the course of the year. ELMOS plans to continue realizing stock award plans in the future.

## Basic stock information

The ELMOS share is a non-par bearer share (unit share). It is traded on all German stock markets as well as on the Xetra system. As Prime Standard issuer, ELMOS meets the highest transparency requirements, beyond the level of the General Standard and therefore beyond the transparency standards as defined by European Union regulation.

## Shareholder structure

The share capital of ELMOS Semiconductor AG is divided into 19,414,205 non-par value shares with a proportionate amount of 1.00 Euro of the share capital allotted to the single share. 52.9% (or about 10.3 million) of these shares are held by ELMOS Finanzholding GmbH (EFH).

47.1% of the shares (roughly 9.1 million shares) are free float. Apart from EFH, the only shareholder to hold more than 3% of the share capital of ELMOS at the end of the year under report is Credit Suisse.

## Share details

|                     |  |
|---------------------|--|
| Type of shares      | Non-par value common bearer shares         |
| Transparency level  | Prime Standard                             |
| Market segment      | Regulated market                           |
| IPO                 | October 11, 1999                           |
| Designated sponsors | HSBC Trinkaus & Burkhardt, WestLB          |
| Index inclusion     | CDax, GEX, Prime All Share, Tech All Share |

## Investor relations

The ELMOS management and the Investor Relations team held one-on-one conversations with investors in the year 2007, taking place within the framework of road shows, company visits at the Dortmund and Duisburg locations, and on the occasion of conferences where ELMOS presented itself. We also informed analysts and investors by conducting phone conferences after the publication of results and upon request individual shareholders as well. Thus we enable our shareholders and other interested capital market participants to assess our business situation and, in particular, consider our prospects realistically. In doing this, it is our objective to inform comprehensively and quickly and to be accessible at any time – for private and institutional investors, analysts, and other interested parties alike. At the end of 2007 the majority of the analysts covering ELMOS assess that the share has positive prospects.

Aiming for both comprehensive and timely information provided equally to all target groups, we have compiled a lot of corporate information on our website. Interested investors may inform themselves in detail about the company and its products and technologies at [www.elmos.de](http://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 company’s Articles of Incorporation, information on the Annual General Meeting, press releases, and directors’ dealings. In the year 2007 the entire website was redesigned, making it even more user-friendly. The Investor Relations team also welcomes you to ask for information sent to you by mail, such as annual or quarterly reports.

## Annual General Meeting

As in the previous years about 300 private and institutional investors participated in the 8<sup>th</sup> Annual General Meeting on May 10, 2007. The event was held again at the Casino Hohensyburg in Dortmund. 12,560,317.00 Euro or 64.7% of the share capital were represented. The proposals to the separate items of the agenda were each approved by a significant majority of the shareholders. Apart from the usual items, the agenda provided for the authorization to purchase own shares, a by-election to the Supervisory Board, the resolution on the issue of convertible bonds and option bonds in connection with the creation of conditional capital and corresponding amendments to the Articles of Incorporation, as well as another amendment to the Articles of Incorporation concerning the notification policy.

Much use was made once again at the Annual General Meeting 2007 of the possibility to entrust one’s voting rights to the proxy nominated by the company. Shareholders who could not be present in person were able to watch the broadcast of the past Annual General Meeting on the Internet, either live or later as a recording. The Annual General Meeting on May 8, 2008 will also be broadcast live on the Internet for the convenience of shareholders and potential investors. In addition, 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

Cheuvreux  
 Credit Suisse  
 Dawnay, Day Lockhart  
 DZ Bank  
 Exane BNP Paribas  
 Fairesearch  
 HSBC Trinkaus & Burkhardt  
 Natixis Securities  
 SES Research  
 Viscardi Securities  
 WestLB



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# GROUP MANAGEMENT REPORT

|   |    |
|---|----|
| Business and economic framework               | 45 |
| Business activity                             | 45 |
| Strategy                                      | 47 |
| Organizational structure                      | 49 |
| General framework                             | 51 |
| Production                                    | 53 |
| Research and development                      | 54 |
| Employees                                     | 55 |
| Quality, safety, and environmental protection | 56 |
| Profit, financial and economic situation      | 57 |
| Financial statements according to IFRS        | 57 |
| Sales development                             | 58 |
| Profit situation                              | 60 |
| Financial position                            | 63 |
| Economic situation                            | 65 |
| Report according to Section 315 (4) HGB       | 67 |
| Risks and opportunities                       | 69 |
| Risk management system                        | 69 |
| Risks   | 69 |
| Opportunities                                 | 72 |
| Subsequent events                             | 73 |
| Outlook                                       | 74 |



# Business and economic framework

## Business activity

ELMOS develops, manufactures and sells highly integrated, mostly application specific microelectronic circuits, primarily for automotive use. Roughly 90 percent of sales originated from this market segment in 2007 once again. Since its formation ELMOS has achieved a leading market position as semiconductor manufacturer on the European market for automotive electronics. According to the March 2007 survey conducted by the market research institute Gartner Dataquest, ELMOS has become the worldwide number two (number three in the previous year) in the segment ASICs (Application Specific Integrated Circuits) for the automotive market following STMicroelectronics. The immediate competitors AMI Semiconductor and Melexis follow on ranks four and five.

ELMOS is worldwide number 2 for ASICs in automobiles

ELMOS chips are used by almost all European car manufacturers as well as numerous American and Asian manufacturers. Ever-increasing demands on the reduction of fuel consumption and the environmental compatibility of an automobile, as well as on passenger 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.

New automotive projects usually require two to three years development time till they enter serial production for a period of roughly five to eight 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 has been busy in the industrial and consumer goods markets and supplies customer specific circuits e.g. for applications in household appliances, photocameras, installation and facility technology, and machine control. This non-automotive sector amounted to roughly 10% of sales in the past year, on the level of the previous years.

Industrial and consumer goods sector gets into the focus increasingly

ELMOS has served niche markets with its own know-how for more than 20 years. It is the company's strategy to excel with customer specific product development and consistently optimized production technology in response to market demands. At present ELMOS predominantly develops products by the customer's order for a specific application and then manufactures these products for the customer exclusively.

Apart from customer specific circuits, comprising approximately 90% of all products, ELMOS also offers a portfolio of application specific standard products (ASSPs) as well as micromechanical sensors. ELMOS has been manufacturing ASICs and ASSPs almost exclusively at the company's own production plants (wafer fabs) in Dortmund and Duisburg. ELMOS distinguishes itself



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.

We develop, manufacture and sell micromechanical components (MEMS) at our subsidiary company Silicon Microstructures Inc. (SMI), ranking among the technology leaders for high-precision silicon pressure sensors. With its own production site in California, SMI has solid serial production facilities and capabilities. The producing subsidiary ELMOS Advanced Packaging B.V. (ELMOS AP), based in Nijmegen in the Netherlands, supports the technology and product portfolio. ELMOS AP develops and manufactures special packages for electronic semiconductor components and sensors. The Nijmegen plant provides state-of-the-art technology. In 2007 ELMOS AP was reorganized to focus solely on customer and application specific special packages which stand out in part from the competition by patented know-how. Besides assembly for group companies, ELMOS AP also manufactures special packages for third-party customers.

Microsystems consist of semiconductor and sensor in a special package

The range of products is completed by the development and sale of application specific, micro-mechatronic modules realized by ELMOS Microsystems. These modules combine the capabilities of the ELMOS Group and consist of signal processing semiconductor components, micromechanical sensors, and functional packages. They make it possible for the customer to realize cost-effective system solutions.

## Strategy

As its core elements, the strategy of ELMOS comprises the expansion of the strong position in the automotive ASIC business, the enforced distribution of ASSPs for the completion of the existing product and customer portfolio, the forging of cooperation agreements for a reduction of capital expenditures and the completion of the existing technology and product portfolio, the establishment of the microsystem business as one of the company's pillars of growth, and the increased attention to the consumer goods and industrial markets. As far as regions are concerned, we aim at participating in the growth in Asia to a larger extent. In the year under report we achieved considerable progress in the realization of our strategy.

### AUTOMOTIVE ASIC BUSINESS

The expansion of our strong position in the automotive ASIC business is underscored by winning important follow-up orders for customer specific semiconductors to be used in automobiles in the year 2007. The main focus was on the core competencies in the fields of efficient motor drives for air-conditioning systems as well as various airbag ICs. Among the principals are customers in the automotive industry of many years. These follow-up orders furnish proof of the customers' confidence in specifically developed semiconductor solutions. The volume of these contracts provides solid foundations for the company's medium-term growth.

Great customer confidence

We continue to attach great importance to close customer relationships and their intensification. In the year under report we conducted an in-house customer event once more, at which numerous representatives of the automobile industry presented current topics in automotive electronics. Under the motto "Megatrends and Niches: Standardization, Modularization and Differentiation by Electronics", renowned speakers from Audi, BMW, Daimler, Ford, Hyundai-Kia, Opel, VW, and Tyco Electronics AMP gave their presentations.

### ASSPS

In the year 2007 we pushed ahead with the development and sale of application standards (ASSPs) strongly. These particularly involve patented processes such as HALIOS® (High Ambient Light Independent Optical System) and VirtuHall®, providing a competitive edge for both ELMOS and our customers. Such a family of application standards enables the user to come to a fast and simple realization of intelligent solutions, e.g. for sensor and drive applications.

In developing the ASSPs we focus on our core competencies in the areas "sense", "drive", "connect", and "supply". Within the sector "sense" we develop new sensor elements, sensor read-out ICs, and microsystems for various physical measurands. ELMOS' own VirtuHall® concept for the efficient drive of EC motors is featured by an entire IC family for the sector "drive", with various derivatives. A large number of standardized bus ICs are available for the product group "connect", for use in the automobile as well as in industrial applications increasingly. For the application group "supply", new circuit concepts are realized in order to supply our customers with highly efficient DC/DC converters, e.g. for LED lighting in vehicles or buildings. The products are suited for automotive use as well as for industrial and consumer goods applications.

Core competencies "sense", "drive", "connect", and "supply"

Other measures realized in the year 2007 to underline the increased significance of ASSPs for ELMOS are the expansion of the distributor basis, the relaunch of our website which now allows a targeted search for ASICs and ASSPs in the “products” area, and the updated and considerably enlarged standard product catalog, presenting 64 products on more than 130 pages.

### COOPERATIONS

In order to continue offering a competitive product portfolio in the long term and to generate a positive free cash flow at the same time, it is the strategy of ELMOS to enter into cooperations with partners and thus complete our own capabilities adequately. This also enables ELMOS to reduce its capital expenditures or development expenses.

ELMOS simultaneously pursues the approach of so-called two-chip solutions, making it possible to assemble chips made by two different manufacturers in one package, as well as the approach of external production, usually having large semiconductor foundries produce chips with technologies not provided by ELMOS according to our construction designs. A case in point, we realized operational chips for a consumer goods product in 2007 together with a foundry in Taiwan. We also signed a cooperation agreement with a partner in the beginning of 2008. Together with the Korean company MagnaChip we will develop a new technology and we will also purchase completely processed wafers from this partner. This move enables us to cut down on our expenditure requirements and react more flexibly to heavily fluctuating volumes.

Relocation of standard chip packages completed

In 2007 we also further intensified our partnerships with our packaging service providers in Southeast Asia, proven and tested over many years. In the middle of 2007 the relocation of standard chip packaging from ELMOS Advanced Packaging to Asia was completed.

### MICROSYSTEMS

ELMOS is one of the few companies able to develop and manufacture complete microsystems, consisting of ASICs and MEMS in a customer specific package. With this capability ELMOS clearly distinguishes itself from the competitors and offers a unique edge.

In 2007 the Management Board installed a new management team at SMI to be able to make better and more reliable use of the market opportunities for microsystems in the future. Requirements for restructuring and profit adjustments for 2007 were recognized as well. This also affected the location in the Netherlands. Due to delayed SMI product starts, the organizational structure in the Netherlands had to be adjusted.

## NEW MARKETS

Following the formation of ELMOS Industries at the end of 2006, in 2007 we established the foundations to allow for a growth of the non-automotive markets, i.e. industrial and consumer goods markets, scheduled to amount to a share of 20% to 30% of total sales in the medium term.

In the year under report, a number of ASIC projects in the fields of heating control, industry bus applications, industry control, etc. have been realized, partly already series-produced and delivered to the customers. Other ASIC and ASSP projects are currently being negotiated with several customers, justifying expectations for a significant sales increase in this segment over the next years.

By winning a contract from a major Japanese electronics group in the year under report, a significant success was achieved in the Asian non-automotive market. The product is a new chip based on our patented HALIOS® method, which among other things facilitates the contactless three-dimensional detection of objects or motion. The touchless switches realized according to this method are scheduled to be implemented in first applications from the consumer goods area, e.g. in remote controls, MP3 players, telephones, and computer peripherals in 2008.

Order won from a major Japanese electronics group

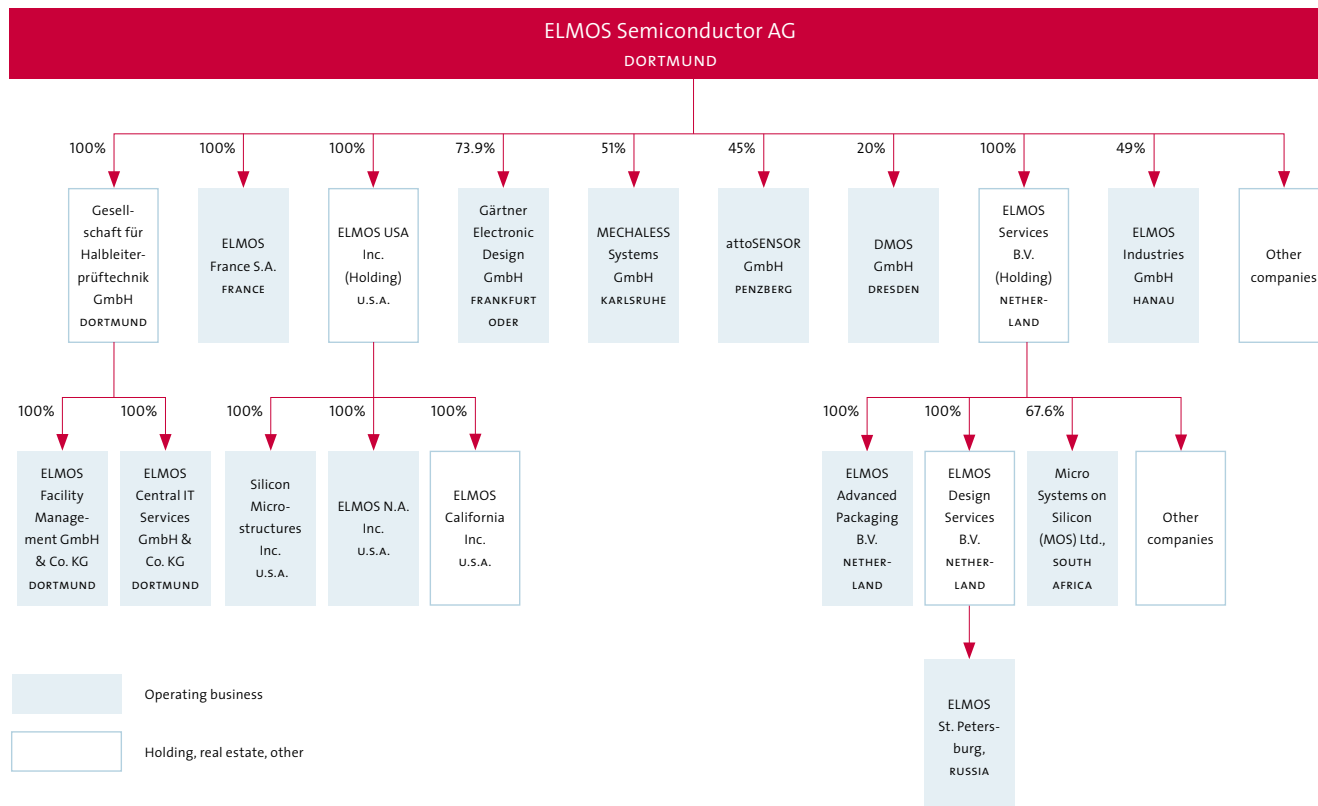
## Organizational structure

The ELMOS business structure 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 structural 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. Apart from the producing locations in Dortmund, Duisburg, Nijmegen/Netherlands, and Milpitas/California/U.S.A., this network comprises, among others, the Munich and Stuttgart branches, the subsidiary companies ELMOS France, ELMOS North America, MECHALESS, DMOS, GED, and attoSENSOR. ELMOS France attends to the French and Southern European markets and provides application support and customer service on the spot. For ELMOS, France is the most important regional market apart from Germany. ELMOS North America serves the North American market from its headquarters in Farmington Hills near Detroit, U.S.A., center of the American automobile industry. ELMOS is represented in Asia with offices in Japan and South Korea.

Close customer-supplier relationship

In the course of the increased sale of ASSPs and non-automotive products, ELMOS also sells its products over various distributors. In the year 2007 marketing was reorganized with a



recruitment of additional distributors. The ELMOS Group now collaborates with a large number of partners in Europe and Asia. The cooperation facilitates design wins and the logistic realization of new contracts for electronics used in automotive applications, industrial and consumer goods applications, and medical technology. The distributors are distinguished by a broad customer portfolio, great understanding of applications, and high reliability.

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

**RELATIONSHIPS WITH AFFILIATED COMPANIES**

With indirect and direct shareholdings of altogether 52.9%, ELMOS Finanzholding GmbH (EFH) is the major single shareholder of ELMOS Semiconductor AG.

## General framework of the automotive semiconductor market

The most important market for ELMOs is the market for semiconductor chips for the automobile industry. This market is a niche market of the global semiconductor industry. It comprises a share of roughly 7% of the entire worldwide semiconductor market. Due to the effect of the relatively steady car production and the increasing proportion of electronics used in vehicles, the automotive semiconductor market shows a significantly higher stability than the global semiconductor market, which is characterized primarily by the developments regarding memory and communication chips. 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 set apart by long-lasting customer-supplier relationships and the extremely high demands on quality as well as robust semiconductor technologies.

In 2007 the basis of our core business – the automotive sector – was weak in Western Europe, particularly in Germany, as well as in the U.S.A. This is attributable to the oil price, the loan crisis set off in the U.S. and its effects on consumer behavior, and the weak U.S. dollar, among other factors. However, some German car manufacturers were considerably successful in their export trade.

According to a survey made by the German Central Association of the Electronics Industry (ZVEI), the total car production is expected to grow annually by 4% in the period between 2006 and 2011. North America and Germany, with average annual production growth rates between 1% and 2%, are the regions with the weakest performances. For Eastern Europe and Asia significant production increase rates are anticipated, partly in the two-digit figures.

While the share of electronic systems came to just 3% of the entire production costs of a medium-sized vehicle in the year 1985, that share now comes to about 22% of the production value. At the same time, the semiconductors' value amounts to roughly 12%. It is expected due to the increasing integration of electronic systems and new technologies that the increase of the semiconductor portion is going to be disproportionately high. Accordingly, the value portion of all electronic controls in the vehicle is anticipated to grow to around 30% of production costs until the mid-2020s while the share of semiconductor elements is expected to rise to more than 20% over the same period. Several market research institutes predict annual growth rates of 7% to 8% for the automotive semiconductor market in the next years.

Value portion of electronics in the automobile: roughly 22%

The driving forces behind this growth are the new gasoline engines with high-pressure direct injection in addition to the continued increase in numbers of diesel automobiles with complex control systems. It is bolstered by ever stricter legal provisions for exhaust regulation, supporting the demand for increasingly complex electronic systems. Systems in support of passenger protection are also growing fast, for instance vehicle stabilizing systems.

Driving factors: environmental protection and safety

ASICs are specific to  
a certain customer

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 (ASICs) and application specific semiconductors (ASSPs). The large semiconductor producers, giving top priority to the best possible utilization of their vast production capacity, do not focus upon these components because of the comparably 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. ASSPs are distinguished by ASICs insofar as they can be used by various customers; however, ASSPs are suited for a specific application just like ASICs. With regard to typical medium-volume ASIC and ASSP projects, ELMOS competes with companies of similar size, such as AMI Semiconductor, Melexis, austria micro systems, and Micronas. When it comes to very large unit numbers, ELMOS also competes with major producers such as Infineon, STMicroelectronics, and Freescale.

The trend of the last years continued through the year 2007. The consolidation process on the automotive market has continued unabatedly, the number of suppliers has 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, who pass the pressure down to their suppliers in negotiations for new projects.



## Production



In 2007 about 150 million chips were produced altogether. The trend begun in the past years – rising demands on the products and their complexity in consideration of the number of layers to be structured – has continued at the same time.

150 million chips  
produced

The ASICs and ASSPs delivered to customers in 2007 originated predominantly from the 6-inch (150mm) production line at the Dortmund headquarters. The 8-inch (200mm) production line at the Duisburg location was ramped up. The Duisburg manufacture has not been used to full capacity by the end of the year 2007. In order to safeguard the quality and stability of products and processes, we did not further increase wafer entry in the second half of the last quarter of 2007. This second semiconductor production site is important for assuring the supply and also for its cost-cutting potential as a result of the larger wafer diameter.

It is satisfying that in the course of the year 2007 sufficient customer releases could be won for utilizing the capacity available at the Duisburg location. The products manufactured in Duisburg made an essential contribution to customer supply in the year under report. In 2008 the expansion in Duisburg will be continued. In particular targeted investments will be made for the elimination of machine bottleneck and for the creation of reserve capacity for volume stabilization.

Expansion of Duisburg  
location is continued

The production share of 8-inch wafers from Duisburg is planned to be further increased so that the capacity required for the expansion and conversion of manufacture at the Dortmund headquarters will be available on schedule. In mid-2008 the gradual conversion of the Dortmund production line from 6-inch to 8-inch wafers is set to begin. This is another important step towards the expansion of manufacturing capacity and the improvement of productivity. Production space for the successive conversion of a part of the Dortmund wafer manufacture to 200mm wafer diameter is provided for.

In 2007 machine capacity came to roughly 580 wafer starts a day on annual average (corresponding to 6-inch wafers). This indicates a significant increase over the level at the end of the year 2006 (December 31, 2006: 480 wafer starts a day), caused by the expansion of the Duisburg production line. At 550 wafer starts a day, the average utilization also exceeded the prior-year level considerably (2006: about 430 wafer starts a day).

Strong increase in daily  
wafer starts

Apart from the company's own wafer fabs, the necessary capacity will also be provided in the future by contract manufacturers (foundries). It has been announced after the end of the year under report that we will cooperate with the Korean enterprise MagnaChip. This cooperation enables ELMOS to react more flexibly to even heavier fluctuations in demand. In the year under report a consumer goods project was already started with a Taiwanese foundry and prototypes were manufactured. The opportunity offered by production at a foundry partner will be seized especially for ASSPs and for products in the industrial and consumer goods sector.

The standard assembly business was completely relocated to long-standing partners in Southeast Asia by the middle of 2007 as scheduled. The Dutch subsidiary ELMOS Advanced Packaging now focuses particularly on the business areas package development and manufacture of special packages for micromechanical systems (MEMS), wafer processing, and packaging (tape & reel).

## Research and development

Highest possible  
quality level

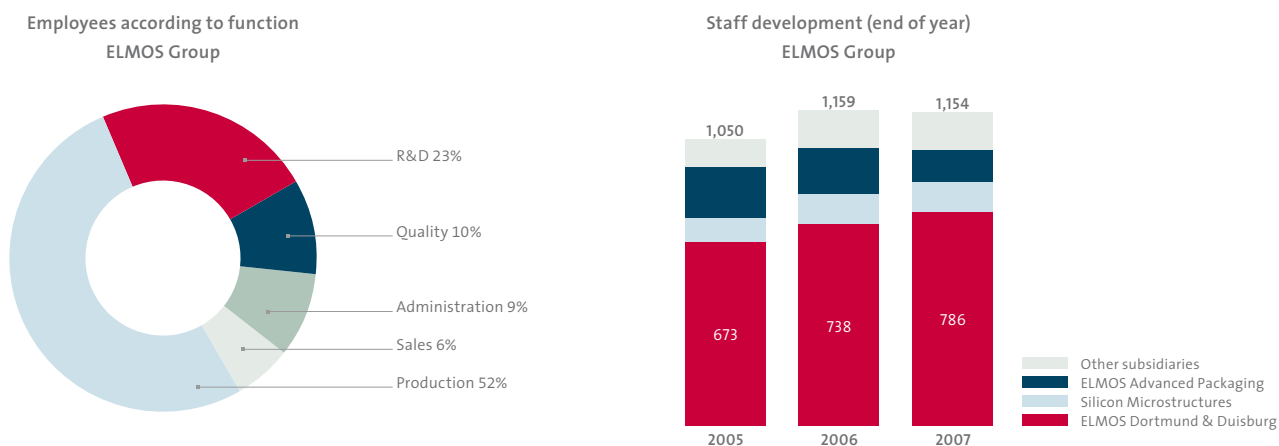
The ever increasing application of electronic components in the automobile leads to the automotive industry's constantly rising demands on quality and reliability of semiconductors used for automotive electronics. In order to give the proper response to this trend, ELMOS draws on its experience made in the industrial and consumer goods markets for new innovative technologies as innovation drivers. ELMOS benefits from this phenomenon insofar as e.g. innovations technically matured in consumer goods markets are later used in automotive applications, quality assured by own qualification procedures above the established standards. This results in the highest possible quality level for new products for automotive use as well.

In the year under report main emphasis of research and development activity was placed on the development of the 0.35 $\mu$ m process and the launch of the prototyping stage of this process. The fine tuning and the process integration with regard to the products series-manufactured at the Duisburg location was also pushed ahead forcefully in 2007. Manufacturing on 200mm wafers gives ELMOS the opportunity to offer innovative and cost-efficient solutions with the aid of in-house process technologies.

Apart from the development of new processes by far the larger portion of the expenditure for research and development is accounted for by the development of new products. It has become market practice that a majority of the product development costs must be pre-financed by the ASIC supplier to be amortized only through serial unit production. Of course this especially goes for the development of ASSP families, destined to amount to a bigger share of the sales of ELMOS than previously. As a result, research and development expenses rose by 1.3 million Euro from the previous year to reach 30.9 million Euro, corresponding with a ratio of roughly 17.5% of sales.

## Employees

As a technology company, ELMOS profits especially from the employees' know-how. Their motivation, expert 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 locations in Dortmund and Duisburg, 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. ELMOS has maintained a close cooperation with these institutions ever since its foundation and holds a singular position as the sole semiconductor manufacturer in the region.



ELMOS continued to create new jobs in 2007 at its locations in North Rhine-Westphalia. By the end of the year 2007 there were 786 employees in Dortmund and Duisburg (December 31, 2006: 738). The number of employees within the ELMOS Group also rose in 2007, to 1,177 on the annual average (annual average 2006: 1,131). As of balance sheet date, the number of 1,154 ELMOS Group staffers about remained on the prior-year level (December 31, 2006: 1,159). New openings were provided primarily in the quality department, contrasted by staff reduction at the Nijmegen location due to restructuring. The average age of the employees was 37 years in 2007 (2006: 36 years), employee turnover came to roughly 2%.

ELMOS offers professional training for a variety of commercial and technical professions, with an emphasis on the training of microtechnologists. By the end of 2007, 56 employees in Dortmund were in training (2006: 70). Many of the large number of trainees recruited in 2004 on the occasion of the company's 20-year anniversary completed their training successfully in 2007.

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

### STAFF PARTICIPATION

In the year 2007 a stock award plan for granting bonus shares was initiated for the first time. The stock awards were granted to selected employees, executives, and Management Board members in recognition of their performances delivered in the prior year. Granting these awards is intended to represent the connection between ELMOS and its top achievers and to be regarded as an incentive to inspire commitment and motivation.

The stock award plan 2007 comprised 29,000 shares which had been previously repurchased at the stock exchange within the authorization to repurchase own stock. A holding period of two years is in effect for the stock awards; this does not apply to a sale of shares in the number required to settle the interest incurred for the non-cash benefit. ELMOS intends to provide a similar stock award plan for the years to come.

### Quality, safety, and environmental protection

Within the context of continuous improvement processes, ELMOS consistently implements its zero defect strategy and thus achieves an outstanding automotive-suited quality level. Regular examinations of the tools put to use, close attention to the series 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-1990s ELMOS has had a quality management system in use which is audited annually in accordance with DIN ISO 9001 and the standards QS 9000 and VDA 6.1. These standards have been subsumed under ISO/TS 16949:2002 with worldwide validity. ELMOS Dortmund, ELMOS AP, SMI, ELMOS North America, GED, DMOS, and the manufacture in Duisburg were audited and certified in accordance with this standard in 2007.

The company's environmental protection management was certified in accordance with DIN EN ISO 14001 by TÜV Rheinland at the Dortmund location in the year 2003 and has been confirmed by supervision audits in the following years without qualification. The workplace safety and environmental protection departments are set up directly below Management Board level. ISO 14001 systematically and permanently anchors environmental protection in the company management. In managing environmental protection, ELMOS emphasizes effective prevention and the efficient utilization of natural resources in particular.



More information on safety and eco protection can be found in the chapter "Our responsibility" starting on page 38.

# Profit, financial and economic situation

## Financial statements according to IFRS

The consolidated financial statements of ELMOS Semiconductor AG for the fiscal year 2007 have been prepared in accordance with the International Financial Reporting Standards (IFRS).

In the year under report ELMOS provided the basis for an improved use of the market opportunities for microsystems. Within this context restructuring measures were taken at two subsidiaries. This resulted in special items of 5.7 million Euro. In order to give as transparent an overview of the profit situation as possible, the individual items of the income statement are listed both in and without consideration of the one-time restructuring expenses.

### ELMOS GROUP KEY FIGURES ACCORDING TO IFRS

| in million Euro or %, unless otherwise indicated | In consideration of one-time effects from restructuring |        |        | Results adjusted by restructuring expenses* |        |        |
|--|---|--------|--------|---|--------|--------|
|  | 2006  | 2007   | Change | 2006  | 2007   | Change |
| Sales  | 160.7   | 176.1  | 9.6%   | 160.7                                       | 176.1  | 9.6%   |
| Gross profit                                     | 73.0  | 73.1   | 0.1%   | 73.0  | 76.9   | 5.2%   |
| in %   | 45.5%   | 41.5%  |        | 45.5%                                       | 43.6%  |        |
| Research and development expenses                | 29.6  | 30.9   | 4.4%   | 29.6  | 30.7   | 3.9%   |
| in %   | 18.4%   | 17.5%  |        | 18.4%                                       | 17.5%  |        |
| Distribution costs                               | 9.7   | 11.6   | 20.0%  | 9.7   | 11.6   | 20.0%  |
| in %   | 6.0%  | 6.6%   |        | 6.0%  | 6.6%   |        |
| Administrative expenses                          | 14.2  | 16.1   | 13.5%  | 14.2  | 15.2   | 7.0%   |
| in %   | 8.8%  | 9.2%   |        | 8.8%  | 8.6%   |        |
| Operating income before other operating expenses | 19.6  | 14.5   | -26.0% | 19.6  | 19.3   | -1.3%  |
| in %   | 12.2%   | 8.2%   |        | 12.2%                                       | 11.0%  |        |
| EBIT   | 19.8  | 15.2   | -23.3% | 19.8  | 20.9   | 5.3%   |
| in %   | 12.3%   | 8.6%   |        | 12.3%                                       | 11.8%  |        |
| Income before taxes                              | 17.3  | 12.2   | -29.3% | 17.3  | 17.9   | 3.3%   |
| in %   | 10.8%   | 6.9%   |        | 10.8%                                       | 10.2%  |        |
| Group net income after minority interest         | 10.7  | 8.8    | -17.7% | 10.7  | 12.5   | 16.4%  |
| in %   | 6.7%  | 5.0%   |        | 6.7%  | 7.1%   |        |
| Earnings per share (basic) in Euro               | 0.55  | 0.45   | -17.7% | 0.55  | 0.64   | 16.4%  |
| Dividend per share in Euro                       | 0.00  | 0.00** |        | 0.00  | 0.00** |        |

\*from the restructuring of two subsidiaries

\*\*proposal to the Annual General Meeting in May 2008

## Sales development

The year 2007 was characterized by difficult market conditions. Uncertainty due to the loan crisis triggered in the U.S., the weak U.S. dollar and the high oil price each played a part. Despite these challenging conditions and the restructuring carried out at two subsidiaries, ELMOS performed well with a 9.6% sales increase to 176.1 million Euro. The targets were essentially reached.

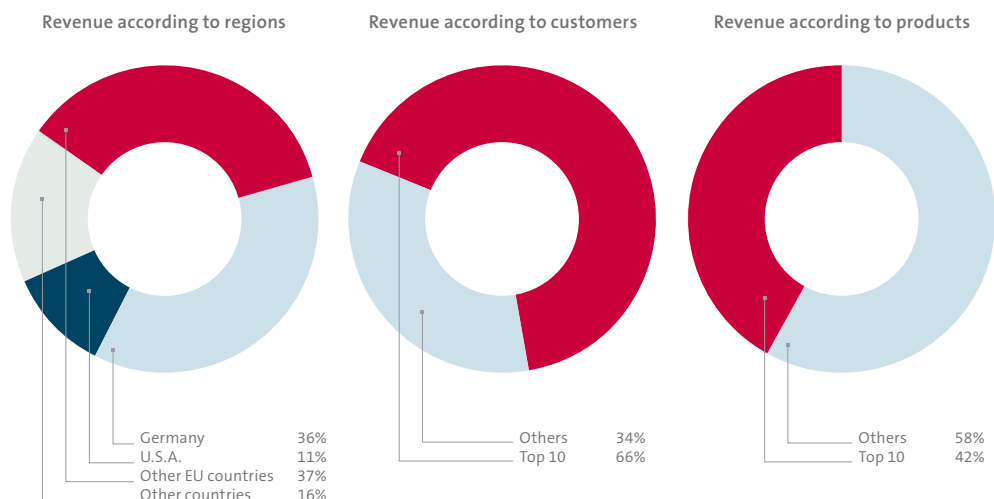
### SALES ACCORDING TO REGIONS

Regional sales breakdown essentially unchanged

The regional sales breakdown remained virtually unchanged from the previous year. The German sales portion came to 36.1% (2006: 37.4%); the share of the other EU countries reached a similar level at 36.7% (2006: 37.3%). While the U.S. share of total sales went down slightly, both in relative and absolute figures, coming to 10.9% (2006: 13.4%), the other countries gained and contributed 16.3% (2006: 11.9%) to the group's sales. Particularly Canada, China, Mexico, Switzerland, and Taiwan are the countries with an increase in sales. The changes are for the most part due to changes of individual customers' shipping addresses and increased sales generated with previous customers, not tantamount to a changed customer structure.

### SALES ACCORDING TO CUSTOMERS

ELMOS supplies more than 100 customers. These are predominantly suppliers to the automobile industry and to a lesser extent industrial customers and manufacturers of consumer products. As in previous years, French supplier to the auto industry Valeo, Swedish Autoliv, and the Swiss Saia group were our biggest customers in 2007, each with a contribution of more than 10% of sales. The sales generated with our top customers are usually accounted for by a great many different products at different stages of their respective life cycles. Our top ten customers amounted to roughly 66% or two thirds of our sales in 2007, hardly changed from the previous year (2006: 68%).



## ORDER BACKLOG

To determine the book-to-bill ratio, we compare the backlog of orders for the next months with the sales of the past months. By the end of December 2007 the book-to-bill for the semiconductor segment was above one.

Order backlog is usually recorded upon receiving the customer's order. The orders received which are considered for the calculation of the book-to-bill comprise products to be supplied within the next three months, set in relation to the sales of the past 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. 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 future sales.

## NEW PROJECTS (DESIGN WINS)

The tough competition for ASIC orders continued through the year 2007. The expansion of our strong position in the automotive ASIC market remains the sound pillar of our company's growth. In addition to numerous new design wins in 2007 we e.g. also won ASIC follow-up orders without having to pass through the customary award procedures. The main focus was on our core competencies in the fields of efficient motor drive for air-conditioning systems and various airbag ICs. Some of the principals are long-standing customers from the automobile industry. Because we had convinced our customers with our cost-effective solutions and the excellent quality and delivery reliability, they never questioned their decision for ELMOS. Our products have improved the competitive positions of our customers as well.

Follow-up orders  
won for ASICs

We also made progress with the development of our ASSP business in 2007. An outstanding success story is the 4-fold star coupler for the FlexRay™ network, which ELMOS developed as the first company worldwide for BMW. The newly developed component replaces four conventional single transceivers and thus facilitates the realization of space and cost-optimized control units. Over the next years BMW will apply the high-speed network FlexRay™ as the new standard for time-critical applications. FlexRay™ bus systems will replace CAN bus systems in many applications in the medium term. The bus system CAN is currently the network with the most unit numbers in automotive use. Another example of our achievements with regard to ASSPs is the contract won from a major Japanese electronics group. The product involved is a chip on the basis of our patented HALIOS® method.

ELMOS FlexRay™ component  
listed by BMW

## Profit situation

The results of the year under report are characterized – as announced in April 2007 – by the restructuring expenses of 5.7 million Euro.

### GROSS PROFIT

Without consideration of the special items due to restructuring, the gross profit's increase was disproportionately low compared to sales, by 5.2% to reach 76.9 million Euro (2006: 73.0 million Euro). This corresponds to a gross margin of 43.6% of sales (2006: 45.5%). It was affected primarily by rising expenditures for the ramp-up the new production site in Duisburg, leading to an increase in production costs from 87.6 million Euro in 2006 by 13.3% to 99.3 million Euro in 2007.

In consideration of the special items, the gross profit came to 73.1 million Euro and the gross margin was 41.5% accordingly. These amounts show that the majority of the restructuring expenses (3.8 million Euro) is included in production costs.

### OPERATING INCOME BEFORE OTHER OPERATING EXPENSES/(INCOME) AND EBIT (EARNINGS BEFORE INTEREST AND TAXES)

ASSP development  
intensified

We have further intensified our commitment to the development of standard products (ASSPs), especially towards the end of the fiscal year. We have also accelerated the development of the next technology generation. For this reason among others, the research and development expenses increased to 30.7 million Euro, yet remained clearly below the sales growth with a 3.9% increase. However, with a portion of 17.5% of sales (2006: 18.4%) they keep underscoring the great importance of product development and product innovation for ELMOS as a technology company. The increase of marketing and distribution costs to 11.6 million Euro was disproportionately high compared to sales. This is attributable to the intensified ASSP effort in general, the increased acquisition in the industrial and consumer goods sector, and the successful market penetration in Asia. General administrative expenses rose to 15.2 million Euro, roughly in proportion to sales (all figures excluding special items).

Without special items, the operating income of 19.3 million Euro virtually repeated the prior-year result (2006: 19.6 million Euro). As has been explained, the gross margin was two percentage points below the result of 2006. The functional expenses, which decreased slightly in relative terms to altogether 32.7% of sales (2006: 33.3%), had as a result that the operating income margin at 11.0% of sales (2006: 12.2%) was not reduced as much as the gross margin.

The other operating expenses were essentially affected (4.8 million Euro) by the restructuring of an existing lease agreement based on the expiry of the first fixed interest period. This contract, previously recorded as a finance lease agreement, was converted to an operating lease structure as of the end of the year 2007. The resulting effect had already been included with regard to its cause and approximate amount in planning for the fiscal year 2007.



The EBIT differs from the operating income in its additional consideration of foreign exchange loss/(income), equity in losses of unconsolidated companies, and other operating expenses/(income). The EBIT increased to 20.9 million Euro (2006: 19.8 million Euro), coming to 11.8% of sales (2006: 12.3%).

With regard to the functional expenses, the special items from restructuring affected research and development (0.2 million Euro) and general administration (0.9 million Euro). The position “other expenses” was additionally charged by 0.8 million Euro.

Restructuring expenses burdened the key figures, as forecast, by roughly three percentage points. In consideration of the special items, the operating income came to 14.5 million Euro or 8.2% of sales and the EBIT was 15.2 million Euro or 8.6% of sales.

Burdened by  
one-time effects

#### INCOME BEFORE TAXES, GROUP NET INCOME, AND EARNINGS PER SHARE

Finance income/expenses climbed to 3.0 million Euro in 2007 (2006: 2.5 million Euro). This increase is due primarily to higher interest rates in 2007 than in the previous year. Pre-tax income reached 17.9 million Euro or 10.2% of sales, a 3.3% increase (2006: 17.3 million Euro or 10.8%). In consideration of special items, the income before taxes came to 12.2 million Euro or 6.9% of sales.

Income taxes came to 5.6 million Euro without consideration of special items, thus 15.6% below the prior-year value (2006: 6.6 million Euro). The tax rate would have come to 31.3% accordingly. Due to the restructuring expenses, the tax load was down by 45.8% from the year before, amounting to 3.6 million Euro and resulting in the actual tax rate of 29.4%. In any case the tax rates are below the previous year's rate (2006: 38.4%). 2006 was impacted by a change in Dutch tax law owing to which deferred taxes affected the net income. The 2007 figure includes a positive effect from the reduction of tax rates in Germany within the framework of the corporate tax reform to the amount of 1.2 million Euro.

The group net income after minority interest amounted to 12.5 million Euro without special items, indicating an increase of 16.4% over the previous year (2006: 10.7 million Euro). At 7.1%, the net income margin is thus above the 2006 value (6.7%). Accordingly the earnings per share were raised significantly to 0.64 Euro (2006: 0.55 Euro).

In consideration of the restructuring expenses, the group net income after minority interest decreased to 8.8 million Euro, the earnings per share came to 0.45 Euro.

#### PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS

The net loss of ELMOS Semiconductor AG\* for the year 2007 according to HGB came to 5.3 million Euro. The retained earnings carried forward from the year 2006 amount to 44.9 million Euro. Management Board and Supervisory Board propose to the Annual General Meeting to decide



\* 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 companies and may also be ordered as a special print publication.

on May 8, 2008 per shareholders' resolution that the retained earnings of 39.6 million Euro be carried forward to new accounts entirely. Despite the improvement in liquidity compared to the previous year, Management Board and Supervisory Board propose not to pay a dividend against the background of burdened results due to special items from restructuring. The company affirms its intention to pay a dividend if the positive developments of earnings and cash flow are sustainable.

The following financial figures are presented only in consideration of the one-time restructuring expenses:

#### SALES AND PROFITS ACCORDING TO SEGMENTS

|   | Segment        | 2006  | 2007   | Change |
|---|----------------|-------|--------|--------|
| <b>Sales in million Euro</b>            |                |       |        |        |
|   | Semiconductor  | 150.0 | 163.6  | 9.1%   |
|   | Micromechanics | 10.7  | 12.5   | 17.4%  |
| <b>Gross profit in million Euro</b>     |                |       |        |        |
|   | Semiconductor  | 70.4  | 73.2   | 3.9%   |
|   | Micromechanics | 2.7   | 0.0    | Na     |
| <b>Gross margin in %</b>                |                |       |        |        |
|   | Semiconductor  | 46.9% | 44.7%  |        |
|   | Micromechanics | 25.0% | -0.4%  |        |
| <b>Operating income in million Euro</b> |                |       |        |        |
|   | Semiconductor  | 20.3  | 19.1   | -5.9%  |
|   | Micromechanics | -0.8  | -4.7   | Na     |
| <b>Operating income in %</b>            |                |       |        |        |
|   | Semiconductor  | 13.6% | 11.7%  |        |
|   | Micromechanics | -7.1% | -37.2% |        |

#### SEMICONDUCTOR

Semiconductor segment  
of greatest importance

The semiconductor core business of the ELMOS Group is operated through the various companies in Germany, France, the Netherlands, and the U.S. The third-party sales of the semiconductor segment gained 9.1% to achieve 163.6 million Euro. The semiconductor segment remains to be of paramount importance to ELMOS and represents over 90% of the ELMOS Group's sales, comparable to the year before. The gross profit improved by 3.9% to 73.2 million Euro (2006: 70.4 million Euro), yet the gross margin decreased to 44.7% (2006: 46.9%). The operating income margin also dropped by approximately two percentage points from 13.6% in 2006 to 11.7% in the year under report. This development is accounted for by increased expenditures for the ramp-up of the new location in Duisburg and the one-time restructuring expenses at a subsidiary company in the Netherlands.

## MICROMECHANICS

The segment micromechanics comprises the activities of the subsidiary company SMI. SMI generates its third-party sales in U.S. dollars almost exclusively. Despite the weak U.S. dollar in the year under report, sales of the segment micromechanics increased by 17.4% to 12.5 million Euro. The earnings and margins of this segment are strongly affected in 2007 by the restructuring expenses and are in effect negative.

## Financial position

### ELMOS GROUP KEY FIGURES ACCORDING TO IFRS

| in million Euro unless otherwise indicated             | 2006          | 2007         | Change         |
|--|---------------|--------------|----------------|
| Group net income after minority interest               | 10.7          | 8.8          | - 17.7%        |
| Depreciation/appreciation                              | 16.3          | 19.6         | 20.3%          |
| Changes in net working capital                         | 0.0           | - 1.3        | Na             |
| Other items  | 1.5           | 3.7          | Na             |
| <b>Cash flow from operating activities</b>             | <b>28.5</b>   | <b>30.8</b>  | <b>7.9%</b>    |
| Capital expenditures for property, plant and equipment | - 26.4        | - 24.5       | - 7.1%         |
| in % of sales  | 16.4%         | 13.9%        |                |
| Other items  | 6.4           | 23.1         | Na             |
| <b>Cash flow from investing activities</b>             | <b>- 19.9</b> | <b>- 1.4</b> | <b>- 93.0%</b> |
| <b>Cash flow from financing activities</b>             | <b>- 4.1</b>  | <b>- 3.9</b> | <b>- 4.4%</b>  |
| Changes in cash and cash equivalents                   | 4.5           | 25.5         | Na             |
| <b>Free cash flow*</b>                                 | <b>8.6</b>    | <b>29.4</b>  | <b>Na</b>      |

\* Cash flow from operating activities less cash flow from investing activities

### CASH FLOW FROM OPERATING ACTIVITIES

After an already significantly improved cash flow from operating activities in 2006 of 28.5 million Euro, this value could be raised again in 2007 by 2.3 million Euro or 7.9% to 30.8 million Euro. This was made possible despite the lower net income which was affected by the restructuring expenses. The essential reasons are that the restructuring expenses were not cash-effective in their entirety, the taxes paid were not as high as in the previous year, other receivables were on the decline, and a loan extended by ELMOS was repaid. These positive effects even more than compensated for the strongly adversarial effect of the non-cash-effective expenses/income (difference of 9.6 million Euro). While this position made a positive contribution to the operating cash flow in 2006 (5.5 million Euro), a net amount of 4.1 million Euro was non-cash-effective in the year under report and subtracted accordingly. This non-cash-effective profit essentially results from the restructuring of a lease agreement for an asset, converted from a finance lease agreement to an operating lease structure.

Cash flow from operating activities increased

### CASH FLOW FROM INVESTING ACTIVITIES

Capital expenditures reduced Following the reduction of capital expenditures in 2006, they were reduced in 2007 once again and amounted to 24.5 million Euro – despite the continued expansion of manufacturing capacity. Expressed in percent of sales, they fell from 16.4% in 2006 to 13.9% in the year under report. Capital expenditures were accounted for primarily by the equipment of the clean room at the Duisburg location and by machines and equipment for frontend and backend in Dortmund. With 23.8 million Euro, the semiconductor segment accounted for the largest share of the capital expenditures; 0.7 million Euro were spent in the micromechanics segment.

The assets held for sale were sold as scheduled in 2007 within the framework of sale and leaseback transactions. In addition, a lease agreement stated previously as a finance lease agreement was converted to an operating lease structure. These effects had a positive impact on the cash flow from investing activities of 23.1 million Euro. The resulting cash requirement from investing activities came to 1.4 million Euro.

Free cash flow raised considerably As a result of the increased cash flow from operating activities and the lower cash requirement from investing activities, the free cash flow was raised significantly to 29.4 million Euro in 2007 (2006: 8.6 million Euro). Even without consideration of the cash flow from the sale of assets and other factors of influence on the cash flow from financing activities, still a considerable amount of 6.3 million Euro free cash was generated (2006: 2.2 million Euro).

### CASH FLOW FROM FINANCING ACTIVITIES

By the lease agreement's conversion from finance lease agreement to an operating lease structure, the corresponding, predominantly non-current financial liabilities (16.3 million Euro) are adjusted. Furthermore, the refinancing from current to non-current liabilities had the result on the cash flow from financing activities that the financial liabilities showed a net reduction by altogether 3.9 million Euro. The refinancing supports the company's independence with regard to fluctuating interest rates.

Essentially a consequence of the high free cash flow, cash and cash equivalents were increased from 16.6 million Euro at the end of 2006 to 42.9 million Euro as of December 31, 2007. The share of cash and cash equivalents in total assets thus climbed to 17.2% (December 31, 2006: 6.8%).

## Economic situation

### ELMOS GROUP KEY FIGURES ACCORDING TO IFRS

| in million Euro unless otherwise indicated | 12/31/2006   | 12/31/2007   | Change      |
|--|--------------|--------------|-------------|
| Intangible assets                          | 39.8         | 42.1         | 5.9%        |
| Property, plant and equipment              | 96.3         | 87.0         | -9.7%       |
| Other non-current assets                   | 8.3          | 8.2          | -1.2%       |
| Inventories                                | 31.1         | 33.6         | 7.9%        |
| Trade receivables                          | 27.8         | 28.4         | 2.3%        |
| Other current assets                       | 42.1         | 50.0         | 18.8%       |
| <b>Total assets</b>                        | <b>245.3</b> | <b>249.3</b> | <b>1.6%</b> |
| Equity                                     | 152.3        | 160.0        | 5.1%        |
| Non-current liabilities                    | 33.8         | 59.8         | 77.0%       |
| Trade payables                             | 12.7         | 14.6         | 14.6%       |
| Other current liabilities                  | 46.5         | 14.9         | -67.9%      |
| <b>Total equity and liabilities</b>        | <b>245.3</b> | <b>249.3</b> | <b>1.6%</b> |

The presentation of deferred taxes was converted to the gross method in 2007 for the first time (and retroactively for 2006), resulting in a balance sheet extension. The total assets of the ELMOS Group increased from 245.3 million Euro in the year 2006 by 1.6% to 249.3 million Euro in 2007.

Total assets  
increased

Apart from the significant increase of the cash position, the essential changes to the balance sheet with regard to assets are the decline of the item buildings and building improvements (disposal of an asset previously recognized as finance lease), the reduction of the position of assets held for sale (expansion of a production building in Dortmund), and decreasing other assets. With regard to equity and liabilities, the only transactions of material significance are the refinancing from current to non-current liabilities mentioned above, the conversion of a contract from finance lease agreement to an operating lease structure, and the change in deferred tax liabilities.

#### NET WORKING CAPITAL

Inventories increased by 7.9% to 33.6 million Euro as of December 31, 2007, disproportionately low compared to sales. Compared to 2006, the inventories' share of the total assets rose slightly from 12.7% to 13.5%. Owing to continuously improved accounts receivable management, the trade receivables increased by 2.3%, below the sales increase, to 28.4 million Euro (December 31, 2006: 27.8 million Euro). Thereby the turnover ratio of trade receivables could be improved from 5.8x to 6.2x sales. Trade payables rose by 14.6% to 14.6 million Euro at the end of the year under report. The improvement of the essential key figures is represented in the slight increase of the net working capital to 47.4 million Euro (December 31, 2006: 46.2 million Euro).

Accounts receivable  
management  
further improved

**SHAREHOLDERS' EQUITY AND LIABILITIES**

Decrease in net debt The net debt fell to 11.1 million Euro as of balance sheet date 2007, a decrease by 77.0%. The financial liabilities were reduced by annual comparison (54.0 million Euro as of December 31, 2007 as opposed to 65.0 million Euro as of December 31, 2006); even more important, cash and cash equivalents increased significantly to 42.9 million Euro. Assets converted to lease or sold had their share in the improvement of the cash position; however, they also resulted in the increase of other financial obligations.

The shareholders' equity rose from 152.3 million Euro to 160.0 million Euro. The equity ratio increased as well, to 64.2% (December 31, 2006: 62.1%).

**ELMOS GROUP KEY FIGURES**

|                      | Calculation   | Unit            | 2006  | 2007  |
|----------------------|---|-----------------|-------|-------|
| Net working capital  | Trade receivables + inventories - trade payables  | million<br>Euro | 46.2  | 47.4  |
| of sales             |   | %               | 28.7% | 26.9% |
| Inventory turnover   | Cost of sales/inventories   | x               | 2.8x  | 3.1x  |
| Receivables turnover | Sales/trade receivables   | x               | 5.8x  | 6.2x  |
| Payables turnover    | Cost of sales/trade payables  | x               | 6.9x  | 7.1x  |
| Cash cycle           | Inventory days + debtor days - creditor days  | days            | 140   | 126   |
| Net debt             | Financial liabilities (current and non-current) – cash and cash equivalents – marketable securities | million<br>Euro | 48.4  | 11.1  |
| Gearing              | Net debt/equity   | %               | 31.8% | 6.9%  |
| Equity ratio         | Equity/total assets   | %               | 62.1% | 64.2% |

# Report according to Section 315 (4) HGB in the version of the German Takeover Directive Implementation Act (ÜbernRUmsG)

## COMPOSITION OF THE SUBSCRIBED CAPITAL

The share capital stated in the balance sheet as of December 31, 2007 at 19,414,205.00 Euro consisting of 19,414,205 non-par value common bearer shares is paid in entirety. Each share grants one vote in the Annual General Meeting.

## LIMITATIONS WITH REGARD TO VOTING RIGHTS OR THE TRANSFER OF SHARES

Limitations of this kind do not apply for the company.

## DIRECT OR INDIRECT SHARES IN EQUITY

As of December 31, 2007 the distribution of ownership is as follows:

|                              | Euro              | %            |
|------------------------------|-------------------|--------------|
| EFH ELMOS Finanzholding GmbH | 1,485,789         | 7.7          |
| Makos GmbH                   | 3,236,584         | 16.7         |
| Dr. Weyer GmbH               | 3,236,584         | 16.7         |
| ZOE-BTG GmbH                 | 2,306,833         | 11.9         |
| Free float                   | 9,148,415         | 47.1         |
|                              | <b>19,414,205</b> | <b>100.0</b> |

## OWNERS OF PRIVILEGED SHARES

No privileged shares have been issued.

## FORM OF VOTING RIGHT CONTROL IN CASE OF EMPLOYEE SHAREHOLDINGS

This issue does not apply for the company.

## LEGAL STIPULATIONS AND PROVISIONS OF THE ARTICLES OF INCORPORATION FOR THE APPOINTMENT AND DISMISSAL OF MANAGEMENT BOARD MEMBERS AND AMENDMENTS TO THE ARTICLES

We refer to the respective legal stipulations for the appointment and dismissal of management board members (Sections 84, 85 AktG) and for amendments to the articles of incorporation (Sections 133, 179 AktG). Our Articles of Incorporation do not provide amendatory provisions.

## THE MANAGEMENT BOARD'S AUTHORIZATION TO ISSUE AND REPURCHASE OWN SHARES

The Management Board is authorized to increase the share capital until May 18, 2011 with the Supervisory Board's approval by up to 9,650,000.00 Euro through the singular or repeated issuance of up to 9,650,000 new non-par value bearer shares against contributions in cash or contributions in kind and to decide on the rights represented by the new shares and the conditions of their issuance with the Supervisory Board's approval in accordance with Section 204 AktG (authorized capital I).

The share capital is conditionally increased by 885,795.00 Euro. The conditional capital increase exclusively serves the granting of pre-emptive rights to Management Board members and other executives and employees of the company as well as to executives and employees of affiliated companies. It is realized only insofar as subscription rights are granted within the framework of the company's share option plan in observance of the shareholders' resolution of September 22, 1999 and these rights are exercised by their owners. The new shares are entitled to dividend from the beginning of the fiscal year in which they come into being by the exercise of subscription rights.

The share capital is conditionally increased by a maximum of 5,000,000.00 Euro (conditional capital II). The conditional capital increase is realized only insofar as the owners of subscription warrants or conversion privileges originating from option bonds or convertible bonds issued by the company or the company's direct or indirect, domestic or international, 100% investment company until May 9, 2012, according to the shareholders' resolution of May 10, 2007, make use of their warrants or privileges, or as the owners of convertible bonds issued by the company or the company's direct or indirect, domestic or international, 100% investment company until May 9, 2012 who are committed to conversion realize this commitment to conversion. The new shares are entitled to dividend from the beginning of the fiscal year in which they come into being by the exercise of options or conversion privileges, or the realization of conversion commitments.

The share capital is conditionally increased by 930,000.00 Euro (conditional capital III). The conditional capital increase exclusively serves the granting of pre-emptive rights to Management Board members and other executives and employees of the company as well as to executives and employees of affiliated companies ("share option plan 2004"). It is realized only insofar as options are issued within the framework of the company's share option plan 2004 in observance of the shareholders' resolution of April 27, 2004 and effectively exercised by their owners. The new shares are entitled to dividend from the beginning of the fiscal year in which they come into being by the exercise of options.

The company is authorized to purchase own shares until November 9, 2008. The authorization is limited to the purchase of shares representing a maximum of altogether 10 percent of the current share capital. The authorization can be exercised entirely or in several parts, once or several times, and for one or several purposes within the framework of the aforementioned limitation.

#### **MATERIAL AGREEMENTS ON THE CONDITION OF A CHANGE OF CONTROL AS A RESULT OF A TAKEOVER BID**

There are no material agreements on the condition of a change of control as a result of a takeover bid.

#### **COMPENSATION AGREEMENTS**

There are no compensation agreements, either.



## Remuneration report

The total remuneration of the Management Board and Supervisory Board members consists of a number of remuneration components. The details are contained in our remuneration report, which is contained in this annual report's corporate governance report. The remuneration report, examined by the auditor, is part of the group management report.



# Risks and opportunities

## Risk management system

ELMOS operates an integrated system managing risks and opportunities for the consistent use of business opportunities without disregarding the risks involved. Risks and opportunities are analyzed constantly. ELMOS Semiconductor AG gathers the measures for risk assessment within the company in a comprehensive, integrated risk management system. It complies with the legal stipulations for an anticipatory risk management system as well as with the standards defined by the German Corporate Governance Code. You can find more information on risk management under note 30 to the consolidated financial statements.



## Risks

### DEPENDENCE ON THE AUTOMOBILE INDUSTRY

The core business of ELMOS is linked directly to the automobile industry's demand for ASICs. Roughly 90% 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 governed by the continuing trend towards more electronics in automobiles. Owing to the increase of electronic car applications, quantities of ASICs and ASSPs sold generally rise even if the number of cars produced stagnates or declines.

Trend towards more electronics in vehicles

The automotive 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 shows a certain dependence on a few major suppliers to the automobile industry. However, it has to be taken into account that one customer usually purchases several products with different life cycles. Owing to the fact that ASICs are customer specific products, there is a particular mutual dependence between supplier and customer. However, it may happen with very large order volumes involved that two suppliers are commissioned to develop one and the same ASIC at the same time. By the increased commitment of ELMOS to application specific standard products (ASSPs), customer dependence is reduced as such products can be sold to several customers.

### COMPETITION

A large number of competitors on the market for automotive semiconductors offer 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. 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. Still, ELMOS has won an increasing number of high-volume contracts recently. Therefore ELMOS will compete with the large manufacturers increasingly in the future and experience the corresponding pricing pressure. If customers commission parallel developments, ELMOS bears the risk that the customers fall back on a competitor.

### DEPENDENCE ON INDIVIDUAL EMPLOYEES

Very special engineering  
know-how

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 for ELMOS, as for any technology company, is an increased dependence on individual employees.

### DEVELOPMENT OF NEW PRODUCTS AND TECHNOLOGIES

The customer specific development of products requires the supplier to take into consideration that today's customer usually does not pay for the entire one-off development costs 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 compete for, the customer is usually unwilling to pay development costs but expects the supplier to pre-finance these expenses. This holds true particularly for product developments initiated by ELMOS, e.g. for ASSPs, as in some cases there is no binding customer order in advance.

Continuous advancement and  
improvement of products

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 continued ability to develop new complex products economically, to introduce them to the market on time, and to accomplish that these products are chosen by leading suppliers to the automobile industry.

Because ELMOS is able to develop and manufacture products for all kinds of electronic automotive applications, products made by ELMOS are present in almost any electronic car component, so that the risks of order cancelation 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 difficult times.

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 ceases 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 will likely be the result.

#### PROCUREMENT

The raw materials needed by ELMOS for the 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. However, ELMOS has spread this risk by cooperating with several partners.

Risk spreading at  
ELMOS

#### PRODUCT LIABILITY

Products manufactured by ELMOS are integrated as components into complex electronic systems. Defects or malfunctions of the semiconductors 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 its liability in its sales contracts with regard to customers or third parties.

ELMOS consistently 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 functionality during the production process. Although the company puts to use comprehensive test procedures before delivering its products, product defects might still show on occasion of installation or the end consumer's use of the product.

Consistent zero defect  
strategy

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. Yet 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 subsidiary companies results in an increased obligation to detect and, if necessary, minimize possible financial risks by means of adequate controlling instruments and continuous economic analyses at the earliest possible stage. The implemented monitoring and risk management system is constantly expanded and improved for this purpose.

## INTERRUPTION OF BUSINESS

According to ELMOS assessment, the single business 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. Even though 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.

Independent  
 manufacturing lines

This risk is already reduced by the fact that a second manufacturing line (eight-inch line) has been operated at the Duisburg location since 2006. At a later point in time yet another production line can be constructed in a separate building at the Dortmund location. Thus ELMOS has several self-contained production lines at its disposal which can be operated independently of each other.

The usual insurable risks such as fire, interruption during fire-fighting operations, water, storm, theft, third party liability, especially product liability, including U.S. coverage, 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.

## Opportunities

Customer specific semiconductors represent our core competence and the engine behind our current company growth. We are also working with the highest commitment at the development of new markets, technically and geographically speaking. From the technical viewpoint, the combination of sensors and read-out electronics in one application specific package – so-called microsystems – is especially interesting. It is also planned that in the future products for consumer goods and industrial applications will make higher contributions to total sales. In 2007 our efforts on the Asian markets have yielded significant progress. We are in active, close contact with business partners in the region and will continue to press ahead with our commitment to Asia. With regard to application specific components (ASSPs), the development and sales activities will be continued with a strong focus.

## Subsequent events

Until February 25, 2008 ELMOS has repurchased 50,000 own shares (corresponding to 0.26% of the share capital).

At the beginning of 2008 ELMOS and MagnaChip Semiconductor Ltd. entered into a cooperation agreement for the development of automotive semiconductor technologies. In a second step, ELMOS will make use of the foundry services provided by MagnaChip. This cooperation with a flexible and reliable service provider enables ELMOS to react swiftly to fluctuating product volumes. The wafers processed by MagnaChip will be tested and assembled under ELMOS management. The partnership is intended to increase our competitiveness in the market in the long term and represents another milestone in our network of cooperations.

Other subsequent events of material significance have not occurred.

# Outlook

## ECONOMIC FRAMEWORK

Market research institutes expect annual growth rates of 7% to 8% for the automotive semiconductor market in the medium term. The continued trend towards a growing share of automotive electronics keeps playing a more important part than a change in the automobile industry's production numbers. The portion of electronics in the automobile is anticipated to rise steadily.

In the year 2008 uncertainty with respect to the development of the situation of the real estate market in the U.S.A. and the international capital markets plays its part, overshadowing the economic outlook. In addition to that, the performance of the oil price has an impact on the economic development. We expect the market environment to remain difficult.

## OUTLOOK OF THE ELMOS GROUP

ELMOS seeks to expand its position as leading company of the automotive semiconductor industry in 2008 while developing new markets at an increasing rate. ELMOS benefits from the basis created in 2007 and will focus particularly on the following issues in 2008:

- ▶ Optimization of the Duisburg location
- ▶ Start of the partial conversion of manufacture in Dortmund from 6-inch to 8-inch
- ▶ Improved use of market opportunities for microsystems
- ▶ Increased sale of ASSPs
- ▶ Intensified collaboration with the cooperation partners for the optimization of the product portfolio and the reduction of capital expenditures
- ▶ Increased activity in new markets (industrial and consumer goods, Asia)

Contrary to the market trend, ELMOS could confirm and realize its forecast for the year under report in 2007 and communicate solid prospects for 2008 as well. Among other factors, this is the consequence of the improvements realized within the context of the quality initiative over the past years and the resulting confidence our customers have placed in ELMOS.

For the year 2008 we confirm our forecast dating from November 2007. Accordingly, we anticipate a sales increase between 7% and 9%. The EBIT margin is expected to increase to 12% to 14% of sales. Capital expenditures are supposed to drop compared to 2007; a positive free cash flow is expected. This forecast is based on an exchange rate of 1.40 U.S. dollars for the Euro. We also expect the volume of orders received to be realized according to the forecasts made by our customers.

Dortmund, March 2008

The Management Board



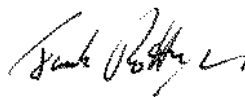
Dr. Anton Mindl



Nicolaus Graf von Luckner



Reinhard Senf



Dr. Frank Rottmann

## FISCAL YEAR 2007

|  |                   |
|--|-------------------|
| Sales                                  | + 9.6%            |
| Gross margin                           | 41.5%<br>of sales |
| EBIT                                   | 15.2 million Euro |
| Earnings per share                     | 0.45 Euro         |
| Cash flow<br>from operating activities | 30.8 million Euro |
| Capital expenditures                   | 13.9%<br>of sales |



## FINANCIAL STATEMENTS

|  |     |
|--|-----|
| Consolidated financial statements                | 78  |
| Consolidated balance sheet                       | 78  |
| Consolidated income statement                    | 80  |
| Consolidated cash flow statement                 | 81  |
| Consolidated statement of changes in equity      | 82  |
| Development of the group's non-current assets    | 84  |
| Notes to consolidated financial statements       | 88  |
| General notes                                    | 88  |
| Accounting policies and valuation methods        | 88  |
| Notes to the income statement                    | 97  |
| Notes to the balance sheet                       | 103 |
| Other information                                | 118 |
| Responsibility statement by the Management Board | 123 |
| Auditor's certificate                            | 124 |

# Financial statements

## Consolidated balance sheet according to IFRS

| ASSETS   | Notes | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|--|-------|--------------------|--------------------|
| <b>Non-current assets</b>                      |       |                    |                    |
| Intangible assets                              | 13    | 42,108,968         | 39,754,707         |
| Property, plant and equipment                  | 14    | 86,984,152         | 96,289,500         |
| Investments accounted for at equity            | 15    | 1                  | 2                  |
| Securities and investments                     | 15    | 73,932             | 126,154            |
| Deferred tax assets                            | 16    | 8,105,939          | 8,155,999          |
| <b>Total non-current assets</b>                |       | <b>137,272,992</b> | <b>144,326,362</b> |
| <b>Current assets</b>                          |       |                    |                    |
| Inventories                                    | 17    | 33,613,927         | 31,142,235         |
| Trade receivables                              | 18    | 28,406,265         | 27,774,401         |
| Cash and cash equivalents                      | 19    | 42,855,617         | 16,634,086         |
| Other assets and income tax assets             | 20    | 6,550,185          | 12,122,346         |
|  |       | <b>111,425,994</b> | <b>87,673,068</b>  |
| Non-current assets classified as held for sale | 21    | 625,877            | 13,343,658         |
| <b>Total current assets</b>                    |       | <b>112,051,871</b> | <b>101,016,726</b> |
| <b>Total assets</b>                            |       | <b>249,324,863</b> | <b>245,343,088</b> |

| <b>EQUITY AND LIABILITIES</b>                              | <b>Notes</b> | <b>12/31/2007<br/>Euro</b> | <b>12/31/2006<br/>Euro</b> |
|--|--------------|----------------------------|----------------------------|
| <b>Equity</b>  |              |                            |                            |
| <b>Equity attributable to equity holders of the parent</b> |              |                            |                            |
| Share capital  | 22           | 19,414,205                 | 19,413,805                 |
| Additional paid-in capital                                 | 22           | 88,736,563                 | 88,733,815                 |
| Surplus reserve  |              | 102,224                    | 102,224                    |
| Accumulated other comprehensive income                     | 22           | - 6,407,297                | - 5,587,888                |
| Retained earnings  |              | 57,809,788                 | 49,091,408                 |
|  |              | <b>159,655,483</b>         | <b>151,753,364</b>         |
| Minority interest  |              | 309,704                    | 505,088                    |
| <b>Total equity</b>  |              | <b>159,965,187</b>         | <b>152,258,452</b>         |
| <b>Liabilities</b>   |              |                            |                            |
| <b>Non-current liabilities</b>                             |              |                            |                            |
| Provisions   | 24           | 1,111,214                  | 1,142,637                  |
| Financial liabilities                                      | 25           | 51,622,281                 | 28,284,983                 |
| Other liabilities  | 26           | 2,533,246                  | 354,307                    |
| Deferred tax liabilities                                   | 16           | 4,575,409                  | 4,026,769                  |
| <b>Total non-current liabilities</b>                       |              | <b>59,842,150</b>          | <b>33,808,696</b>          |
| <b>Current liabilities</b>                                 |              |                            |                            |
| Provisions   | 24           | 6,110,536                  | 5,122,981                  |
| Income tax liabilities                                     | 26           | 1,879,590                  | 280,169                    |
| Financial liabilities                                      | 25           | 2,343,009                  | 36,712,756                 |
| Trade payables   | 27           | 14,589,724                 | 12,731,544                 |
| Other liabilities  | 26           | 4,594,667                  | 4,428,490                  |
| <b>Total current liabilities</b>                           |              | <b>29,517,526</b>          | <b>59,275,940</b>          |
| <b>Total liabilities</b>                                   |              | <b>89,359,676</b>          | <b>93,084,636</b>          |
| <b>Total equity and liabilities</b>                        |              | <b>249,324,863</b>         | <b>245,343,088</b>         |

## Consolidated income statement according to IFRS

|  | Notes | 2007<br>Euro      | 2006<br>Euro      |
|--|-------|-------------------|-------------------|
| Sales  | 5     | 176,133,528       | 160,673,887       |
| Cost of sales  | 6     | 103,024,409       | 87,629,925        |
| <b>Gross profit</b>  |       | <b>73,109,119</b> | <b>73,043,962</b> |
| Research and development expenses                                | 6     | 30,892,815        | 29,583,236        |
| Distribution expenses  | 6     | 11,610,720        | 9,679,254         |
| Administrative expenses  | 6     | 16,136,701        | 14,216,140        |
| <b>Operating income before other operating expenses/(income)</b> |       | <b>14,468,883</b> | <b>19,565,332</b> |
| Finance income   | 8     | – 822,450         | – 452,319         |
| Finance expenses   | 8     | 3,793,824         | 2,954,883         |
| Foreign exchange losses/(income)                                 | 9     | 381,093           | 288,115           |
| Equity in losses/(income) of unconsolidated subsidiaries         |       | – 48,999          | 48,999            |
| Other operating income   | 10    | – 9,312,235       | – 5,834,782       |
| Other operating expenses   | 10    | 8,240,100         | 5,239,685         |
| <b>Income before taxes</b>                                       |       | <b>12,237,550</b> | <b>17,320,751</b> |
| <b>Income tax expenses</b>                                       |       |                   |                   |
| Current taxes  | 11    | 2,994,630         | 1,185,589         |
| Deferred taxes   | 11    | 609,012           | 5,458,781         |
|  |       | <b>3,603,642</b>  | <b>6,644,370</b>  |
| <b>Net income</b>  |       | <b>8,633,908</b>  | <b>10,676,381</b> |
| Thereof:   |       |                   |                   |
| Minority interest  |       | – 163,809         | – 18,291          |
| <b>Attributable to equity holders of the parent</b>              |       | <b>8,797,717</b>  | <b>10,694,672</b> |
| <b>Earnings per share</b>  |       |                   |                   |
| Basic earnings per share   | 12    | 0.45              | 0.55              |
| Fully diluted earnings per share                                 | 12    | 0.45              | 0.55              |

## Consolidated cash flow statement

|  | Notes     | 2007<br>Euro       | 2006<br>Euro        |
|--|-----------|--------------------|---------------------|
| <b>Cash flow from operating activities</b>                                       |           |                    |                     |
| Net income after minority interest   |           | 8,797,717          | 10,694,672          |
| Depreciation   |           | 19,599,904         | 16,287,270          |
| Non-cash-effective income/(expense)  |           | - 4,147,108        | 5,458,781           |
| Current tax expense  |           | 2,994,630          | 1,185,589           |
| Minority interest  |           | - 163,809          | - 18,291            |
| Equity in losses of unconsolidated subsidiaries                                  |           | - 48,999           | 48,999              |
| Changes in pension liabilities   |           | - 31,423           | 20,933              |
| Share option expense   |           | 0                  | 453,611             |
| Changes in net working capital   |           |                    |                     |
| Trade receivables  |           | - 631,863          | 1,296,722           |
| Inventories  |           | - 2,471,692        | - 3,437,645         |
| Prepaid expenses and other assets  |           | 5,700,957          | - 1,907,421         |
| Trade payables   |           | 1,817,694          | 2,157,383           |
| Other provisions and other liabilities   |           | 840,051            | - 834,160           |
| Income tax payments  |           | - 1,472,368        | - 2,886,707         |
| <b>Cash flow from operating activities</b>                                       |           | <b>30,783,691</b>  | <b>28,519,736</b>   |
| <b>Cash flow from investing activities</b>                                       |           |                    |                     |
| Capital expenditures for intangible assets                                       |           | - 7,272,751        | - 9,578,886         |
| Capital expenditures for property, plant and equipment                           |           | - 17,214,995       | - 16,772,554        |
| Disposal/Capital expenditures for non-current assets classified as held for sale |           | 12,717,781         | - 7,346,464         |
| Disposal of fixed assets   |           | 10,309,057         | 10,198,918          |
| Disposal of marketable securities  |           | 0                  | 3,629,862           |
| Disposal/Purchase of investments   |           | 68,523             | - 45,723            |
| <b>Cash flow from investing activities</b>                                       |           | <b>- 1,392,384</b> | <b>- 19,914,847</b> |
| <b>Cash flow from financing activities</b>                                       |           |                    |                     |
| Payment from capital increase  |           | 3,148              | 10,868              |
| Proceeds from non-current liabilities  |           | 42,853,306         | 325,000             |
| Repayment of non-current liabilities   |           | - 14,794,111       | - 5,674,655         |
| Repayment/Proceeds of/from liabilities to banks                                  |           | - 31,954,157       | 1,266,460           |
| <b>Cash flow from financing activities</b>                                       |           | <b>- 3,891,814</b> | <b>- 4,072,327</b>  |
| <b>Decrease/Increase in cash and cash equivalents</b>                            |           | <b>25,499,493</b>  | <b>4,532,562</b>    |
| Effect of exchange rate changes in cash and cash equivalents                     |           | 722,038            | 682,884             |
| Cash and cash equivalents at beginning of fiscal year                            |           | 16,634,086         | 11,418,640          |
| <b>Cash and cash equivalents at end of fiscal year</b>                           | <b>19</b> | <b>42,855,617</b>  | <b>16,634,086</b>   |

## Consolidated statement of changes in equity according to IFRS

|  | Shares<br>Number  | Share<br>capital<br>Euro | Paid-in<br>capital<br>Euro |
|--|-------------------|--------------------------|----------------------------|
| <b>As of January 1, 2006</b>                                     | <b>19,412,424</b> | <b>19,412,424</b>        | <b>88,270,716</b>          |
| Share option expense   |                   |                          | 453,611                    |
| Exercise of share options  | 1,381             | 1,381                    | 9,487                      |
| Changes in unrealized gains on marketable securities after taxes |                   |                          |                            |
| Foreign currency adjustments                                     |                   |                          |                            |
| Changes of the basis of consolidation                            |                   |                          |                            |
| Net income 2006  |                   |                          |                            |
| <b>As of December 31, 2006</b>                                   | <b>19,413,805</b> | <b>19,413,805</b>        | <b>88,733,815</b>          |
| Exercise of share options  | 400               | 400                      | 2,748                      |
| Foreign currency adjustments                                     |                   |                          |                            |
| Changes of the basis of consolidation                            |                   |                          |                            |
| Net income 2007  |                   |                          |                            |
| <b>As of December 31, 2007</b>                                   | <b>19,414,205</b> | <b>19,414,205</b>        | <b>88,736,563</b>          |

| Surplus reserve<br>Euro | Accumulated other comprehensive income<br>Euro | Retained earnings<br>Euro | Total<br>Euro | Minority interest total<br>Euro | Group total<br>Euro |
|-------------------------|--|---------------------------|---------------|---------------------------------|---------------------|
| 102,224                 | - 2,943,060                                    | 38,912,998                | 143,755,302   | 528,190                         | 144,283,492         |
|                         |  |                           | 453,611       |                                 | 453,611             |
|                         |  |                           | 10,868        |                                 | 10,868              |
|                         | - 1,211,241                                    |                           | - 1,211,241   |                                 | - 1,211,241         |
|                         | - 1,433,587                                    |                           | - 1,433,587   |                                 | - 1,433,587         |
|                         |  | - 516,262                 | - 516,262     | - 4,811                         | - 521,073           |
|                         |  | 10,694,672                | 10,694,672    | - 18,291                        | 10,676,381          |
| 102,224                 | - 5,587,888                                    | 49,091,408                | 151,753,364   | 505,088                         | 152,258,452         |
|                         |  |                           | 3,148         |                                 | 3,148               |
|                         | - 819,409                                      |                           | - 819,409     |                                 | - 819,409           |
|                         |  | - 79,337                  | - 79,337      | - 31,575                        | - 110,912           |
|                         |  | 8,797,717                 | 8,797,717     | - 163,809                       | 8,633,908           |
| 102,224                 | - 6,407,297                                    | 57,809,788                | 159,655,483   | 309,704                         | 159,965,187         |

## Development of the group's non-current assets as of December 31, 2007

|  | ACQUISITION AND PRODUCTION COSTS |  |                        |                    |                           | 12/31/2007<br>Euro |
|--|----------------------------------|--|------------------------|--------------------|---------------------------|--------------------|
|  | 1/1/2007<br>Euro                 | Foreign<br>currency<br>adjustments<br>Euro | Additions<br>Euro      | Transfers<br>Euro  | Disposals<br>Euro         |                    |
| <b>Non-current assets</b>                                |                                  |  |                        |                    |                           |                    |
| <b>Intangible assets</b>                                 |                                  |  |                        |                    |                           |                    |
| Goodwill   | 7,435,643                        | - 550,840                                  | 0                      | 0                  | 0                         | 6,884,803          |
| Development projects                                     | 12,186,540                       | 0  | 1,859,737              | 738,995            | 0                         | 14,785,272         |
| Software and licenses                                    | 34,237,989                       | - 120,791                                  | 946,450 <sup>1</sup>   | 1,545,746          | 26,253                    | 36,583,141         |
| Advance payments incurred and projects under development | 3,635,053                        | 0  | 4,484,584              | - 936,599          | 0                         | 7,183,038          |
|  | <b>57,495,225</b>                | <b>- 671,631</b>                           | <b>7,290,771</b>       | <b>1,348,142</b>   | <b>26,253</b>             | <b>65,436,254</b>  |
| <b>Property, plant and equipment</b>                     |                                  |  |                        |                    |                           |                    |
| Land and buildings                                       | 3,837,235                        | 0  | 0                      | 0                  | 521,482                   | 3,315,753          |
| Buildings and building improvements                      | 64,080,468                       | - 219,606                                  | 2,710,435              | 1,503,189          | 14,898,492                | 53,175,994         |
| Technical equipment and machinery                        | 141,810,186                      | - 1,058,753                                | 2,029,395 <sup>2</sup> | 5,048,024          | 4,876,257                 | 142,952,595        |
| Advance payments and construction in process             | 4,252,184                        | 0  | 12,479,910             | - 7,899,355        | 269,908                   | 8,562,831          |
|  | <b>213,980,073</b>               | <b>- 1,278,359</b>                         | <b>17,219,740</b>      | <b>- 1,348,142</b> | <b>20,566,139</b>         | <b>208,007,173</b> |
| <b>Investments accounted for at-equity</b>               | <b>116,637</b>                   | <b>0</b>                                   | <b>0</b>               | <b>0</b>           | <b>49,000<sup>4</sup></b> | <b>67,637</b>      |
| <b>Securities and investments</b>                        | <b>126,154</b>                   | <b>0</b>                                   | <b>0</b>               | <b>0</b>           | <b>52,222</b>             | <b>73,932</b>      |
|  | <b>271,718,089</b>               | <b>- 1,949,990</b>                         | <b>24,510,511</b>      | <b>0</b>           | <b>20,693,614</b>         | <b>273,584,996</b> |

<sup>1</sup> thereof changes of the basis of consolidation 18,020 Euro

<sup>2</sup> thereof changes of the basis of consolidation 4,745 Euro

<sup>3</sup> thereof changes of the basis of consolidation 876 Euro

<sup>4</sup> transfer at-equity to full consolidation



| 1/1/2007<br>Euro   | Foreign<br>currency<br>adjustments<br>Euro | Additions<br>Euro       | Appreciation<br>Euro | Transfers<br>Euro | Disposals<br>Euro         | ACCUMULATED DEPRECIATION |                    | BOOK VALUE         |  |
|--------------------|--|-------------------------|----------------------|-------------------|---------------------------|--------------------------|--------------------|--------------------|--|
|                    |  |                         |                      |                   |                           | 12/31/2007<br>Euro       | 12/31/2007<br>Euro | 12/31/2006<br>Euro |  |
| 0                  | 0  | 0                       | 0                    | 0                 | 0                         | 0                        | 6,884,803          | 7,435,643          |  |
| 4,447,582          | 0  | 2,087,063               | 0                    | 0                 | 0                         | 6,534,645                | 8,250,627          | 7,738,958          |  |
| 13,292,936         | - 38,148                                   | 3,564,104               | 0                    | 0                 | 26,251                    | 16,792,641               | 19,790,500         | 20,945,053         |  |
| 0                  | 0  | 0                       | 0                    | 0                 | 0                         | 0                        | 7,183,038          | 3,635,053          |  |
| <b>17,740,519</b>  | <b>- 38,148</b>                            | <b>5,651,167</b>        | <b>0</b>             | <b>0</b>          | <b>26,251</b>             | <b>23,327,287</b>        | <b>42,108,968</b>  | <b>39,754,707</b>  |  |
| 612,702            | 0  | 0                       | 0                    | 0                 | 0                         | 612,702                  | 2,703,051          | 3,224,533          |  |
| 30,335,370         | 0  | 2,925,105               | 0                    | 0                 | 6,165,571                 | 27,094,904               | 26,081,090         | 33,745,098         |  |
| 86,742,501         | - 360,081                                  | 11,024,507 <sup>3</sup> | 0                    | 0                 | 4,091,512                 | 93,315,415               | 49,637,180         | 55,067,685         |  |
| 0                  | 0  | 0                       | 0                    | 0                 | 0                         | 0                        | 8,562,831          | 4,252,184          |  |
| <b>117,690,573</b> | <b>- 360,081</b>                           | <b>13,949,612</b>       | <b>0</b>             | <b>0</b>          | <b>10,257,083</b>         | <b>121,023,021</b>       | <b>86,984,152</b>  | <b>96,289,500</b>  |  |
| <b>116,635</b>     | <b>0</b>                                   | <b>0</b>                | <b>0</b>             | <b>0</b>          | <b>48,999<sup>4</sup></b> | <b>67,636</b>            | <b>1</b>           | <b>2</b>           |  |
| <b>0</b>           | <b>0</b>                                   | <b>0</b>                | <b>0</b>             | <b>0</b>          | <b>0</b>                  | <b>0</b>                 | <b>73,932</b>      | <b>126,154</b>     |  |
| <b>135,547,727</b> | <b>- 398,229</b>                           | <b>19,600,779</b>       | <b>0</b>             | <b>0</b>          | <b>10,332,333</b>         | <b>144,417,944</b>       | <b>129,167,053</b> | <b>136,170,363</b> |  |

## Development of the group's non-current assets as of December 31, 2006

|  | ACQUISITION AND PRODUCTION COSTS |  |   |                        |                   |                   | 12/31/2006<br>Euro |
|--|----------------------------------|--|---|------------------------|-------------------|-------------------|--------------------|
|  | 1/1/2006<br>Euro                 | Foreign<br>currency<br>adjustments<br>Euro | Correction<br>opening<br>values<br>Euro | Additions<br>Euro      | Transfers<br>Euro | Disposals<br>Euro |                    |
| <b>Non-current assets</b>                                |                                  |  |   |                        |                   |                   |                    |
| <b>Intangible assets</b>                                 |                                  |  |   |                        |                   |                   |                    |
| Goodwill   | 8,033,733                        | - 598,090                                  | 0                                       | 0                      | 0                 | 0                 | 7,435,643          |
| Development projects                                     | 8,556,162                        | 0  | 0                                       | 1,368,679              | 2,261,699         | 0                 | 12,186,540         |
| Software and licenses                                    | 27,905,869                       | - 131,153                                  | 0                                       | 1,660,340              | 4,896,524         | 93,591            | 34,237,989         |
| Advance payments incurred and projects under development | 4,155,055                        | 0  | 0                                       | 6,549,867              | - 6,997,868       | 72,001            | 3,635,053          |
|  | <b>48,650,819</b>                | <b>- 729,243</b>                           | <b>0</b>                                | <b>9,578,886</b>       | <b>160,355</b>    | <b>165,592</b>    | <b>57,495,225</b>  |
| <b>Property, plant and equipment</b>                     |                                  |  |   |                        |                   |                   |                    |
| Land and buildings                                       | 6,027,539                        | - 187,549                                  | 0                                       | 0                      | 0                 | 2,002,755         | 3,837,235          |
| Buildings and building improvements                      | 69,140,182                       | - 759,104                                  | 0                                       | 2,226,724              | 162,144           | 6,689,478         | 64,080,468         |
| Technical equipment and machinery                        | 128,405,757                      | - 824,771                                  | 155,275                                 | 6,405,443 <sup>1</sup> | 8,244,252         | 575,770           | 141,810,186        |
| Advance payments and construction in process             | 8,472,312                        | 1  | 0                                       | 8,193,032              | - 8,566,751       | 3,846,410         | 4,252,184          |
|  | <b>212,045,790</b>               | <b>- 1,771,423</b>                         | <b>155,275</b>                          | <b>16,825,199</b>      | <b>- 160,355</b>  | <b>13,114,413</b> | <b>213,980,073</b> |
| <b>Investments accounted for at-equity</b>               | <b>67,637</b>                    | <b>0</b>                                   | <b>0</b>                                | <b>49,000</b>          | <b>0</b>          | <b>0</b>          | <b>116,637</b>     |
| <b>Securities and investments</b>                        | <b>645,795</b>                   | <b>0</b>                                   | <b>0</b>                                | <b>0</b>               | <b>0</b>          | <b>519,641</b>    | <b>126,154</b>     |
|  | <b>261,410,041</b>               | <b>- 2,500,666</b>                         | <b>155,275</b>                          | <b>26,453,085</b>      | <b>0</b>          | <b>13,799,646</b> | <b>271,718,089</b> |

<sup>1</sup> thereof changes of the basis of consolidation 52,645 Euro

<sup>2</sup> thereof changes of the basis of consolidation 47,910 Euro

| 1/1/2006<br>Euro   | Foreign<br>currency<br>adjustments<br>Euro | Correction<br>opening<br>values<br>Euro | Additions<br>Euro      | Appreciation<br>Euro | ACCUMULATED DEPRECIATION |                   |                    | BOOK VALUE         |                    |
|--------------------|--|---|------------------------|----------------------|--------------------------|-------------------|--------------------|--------------------|--------------------|
|                    |  |   |                        |                      | Transfers<br>Euro        | Disposals<br>Euro | 12/31/2006<br>Euro | 12/31/2006<br>Euro | 12/31/2005<br>Euro |
| 0                  | 0  | 0                                       | 0                      | 0                    | 0                        | 0                 | 0                  | 7,435,643          | 8,033,733          |
| 2,709,938          | 0  | 0                                       | 1,737,644              | 0                    | 0                        | 0                 | 4,447,582          | 7,738,958          | 5,846,224          |
| 10,365,886         | - 32,215                                   | 0                                       | 2,978,827              | 0                    | 74,023                   | 93,585            | 13,292,936         | 20,945,053         | 16,809,225         |
| 0                  | 0  | 0                                       | 0                      | 0                    | 0                        | 0                 | 0                  | 3,635,053          | 4,155,055          |
| <b>13,075,825</b>  | <b>- 32,215</b>                            | <b>0</b>                                | <b>4,716,471</b>       | <b>0</b>             | <b>74,023</b>            | <b>93,585</b>     | <b>17,740,519</b>  | <b>39,754,707</b>  | <b>34,844,237</b>  |
| 612,702            | 0  | 0                                       | 0                      | 0                    | 0                        | 0                 | 612,702            | 3,224,533          | 5,414,837          |
| 27,637,455         | - 51,800                                   | 0                                       | 3,354,909              | 0                    | 0                        | 605,194           | 30,335,370         | 33,745,098         | 41,502,727         |
| 81,103,036         | - 323,279                                  | 155,275                                 | 8,263,800 <sup>2</sup> | 0                    | - 74,023                 | 2,382,308         | 86,742,501         | 55,067,685         | 46,569,711         |
| 0                  | 0  | 0                                       | 0                      | 0                    | 0                        | 0                 | 0                  | 4,252,184          | 8,472,312          |
| <b>109,353,193</b> | <b>- 375,079</b>                           | <b>155,275</b>                          | <b>11,618,709</b>      | <b>0</b>             | <b>- 74,023</b>          | <b>2,987,502</b>  | <b>117,690,573</b> | <b>96,289,500</b>  | <b>101,959,587</b> |
| <b>67,636</b>      | <b>0</b>                                   | <b>0</b>                                | <b>48,999</b>          | <b>0</b>             | <b>0</b>                 | <b>0</b>          | <b>116,635</b>     | <b>2</b>           | <b>1</b>           |
| <b>0</b>           | <b>0</b>                                   | <b>0</b>                                | <b>0</b>               | <b>0</b>             | <b>0</b>                 | <b>0</b>          | <b>0</b>           | <b>126,154</b>     | <b>645,795</b>     |
| <b>122,496,654</b> | <b>- 407,294</b>                           | <b>155,275</b>                          | <b>16,384,179</b>      | <b>0</b>             | <b>0</b>                 | <b>3,081,087</b>  | <b>135,547,727</b> | <b>136,170,363</b> | <b>137,449,620</b> |

# 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 companies kept at the District Court (Amtsgericht) Dortmund, section B, under no. 13698. The Articles of Incorporation are in effect in the version of March 26, 1999, last amended on December 14, 2007.

The company’s business is the development, manufacture 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 conduct all transactions suitable for serving the object of the business directly or indirectly. The company is authorized to establish branches, acquire or lease businesses of the same or a similar kind or invest in them, and conduct 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 sales companies in France and the U.S. and cooperates with other German and international companies in 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

#### General notes

The consolidated financial statements have been prepared in Euro. The values stated in thousand Euro have been rounded up or down to thousand Euro according to financial rounding.

The consolidated financial statements of ELMOS have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU) and completed with the statements required by German commercial law in Section 315 a (1) HGB. All of the IFRS released by the International Accounting Standards Board (IASB) in effect at the time of the preparation of the consolidated financial statements and applied by ELMOS have been adopted by the European Commission for application in the EU. The consolidated financial statements of ELMOS therefore also comply with the IFRS released by the IASB. In the following the uniform term IFRS is therefore used.

The consolidated balance sheet and the consolidated income statement have been prepared according to IAS 1: Presentation of Financial Statements. Individual items have been summarized for the sake of clarity; those items are explained in the notes.

The financial statements will presumably be released for publication by the Management Board in March 2008.

#### Estimates and expectations

The most important future-related expectations as well as other material sources of estimate uncertainty identified as of balance sheet date which lead to a considerable risk that a material adjustment of the book values of assets and liabilities will become necessary within the next fiscal year are explained in the following.

### Impairment of goodwill

The group reviews the goodwill for impairment at least once a year. This requires an estimate of the use values of the cash-generating units the goodwill is allocated to. For an appreciation of the use value, the company management needs to estimate the cash-generating unit's anticipated future cash flows and also choose an adequate discount rate in order to determine the cash value of these cash flows. The goodwill's book value was 6,884,803 Euro as of December 31, 2007 (2006: 7,435,643 Euro). More details can be found under note 13.

### Deferred tax assets

Deferred tax assets are stated for all unused tax loss carry-forward to the extent it appears probable that taxable income will be available so that the carry-forward can in fact be used. For the determination of the amount of deferred tax assets, a material discretionary decision made by the company management on the basis of the expected time of occurrence and the amount of the taxable future income as well as future tax planning strategies is necessary. More details can be found under note 16.

### Pensions and other benefits after the termination of employment

The expenditure for performance-oriented plans and other medical benefits after the termination of employment is determined according to actuarial calculations. The actuarial valuation is made on the basis of assumptions with regard to discount rates, expected return on the pension plans' assets, future raises of wages and salaries, mortality, and future retirement pension raises. Due to the long-term orientation of these plans, those estimates are subject to material uncertainty. Provisions for pensions and other benefits amounted to 1,111,214 Euro as of December 31, 2007 (2006: 1,142,637 Euro). More details can be found under note 24.

### Development expenses

Development expenses are capitalized in accordance with the accounting policies and valuation methods as described under note 3. For the purpose of determining the values to be capitalized, the company management must make assumptions about the amount of the expected future cash flows from assets, the applicable discount rates, and the inflow period of expected future cash flows generated by the assets. According to best possible estimation, the book value of the capitalized development expenses was 9,118,381 Euro as of December 31, 2007 (2006: 7,993,837 Euro).

### Accounting policies and valuation methods

The accounting policies and valuation methods applied generally correspond to the policies and methods applied in the previous year, with the following exceptions:

The group has applied the following new or revised IFRS Standards and Interpretations in this fiscal year. The application of these new and revised IFRS Standards and Interpretations had no effect on the group's profit, financial and economic situation. However, they led to additional statements in part.

- ▶ IFRS 7: Financial Instruments : Disclosures
- ▶ Amendment to IAS 1: Presentation of Financial Statements
- ▶ IFRIC 8: Scope of IFRS 2
- ▶ IFRIC 9: Reassessment of Embedded Derivatives
- ▶ IFRIC 10: Interim Financial Reporting and Impairment

#### *IFRS 7: Financial Instruments: Disclosures*

This Standard requires disclosures that enable the user to evaluate the significance of financial instruments for the group's financial position and performance and the nature and extent of risks arising from the financial instruments used. The resulting new disclosures (including corresponding comparative information for the previous year) are included in the consolidated financial statements presented. The application had no effect on the group's profit, financial and economic situation.

#### *IAS 1: Presentation of Financial Statements*

This amendment requires disclosures that enable the user to evaluate the group's objectives, methods, and processes with regard to its capital management. The new disclosures are presented under note 30.

#### *IFRIC 8: Scope of IFRS 2*

This Interpretation requires the application of IFRS 2 to all those transactions where the company is not able to specifically identify some or all of the goods or services received in return. This particularly applies if the consideration received by the company for the issue of equity instruments appears to be less than the fair value of the equity instruments granted. As within the group equity instruments are granted only to employees within the framework of the employee share option plan, the application of this Interpretation had no effect on the group's profit, financial and economic situation.

*IFRIC 9: Reassessment of Embedded Derivatives*

According to IFRIC 9 the company is required to always assess at the time it enters into an agreement on a hybrid instrument whether an embedded derivative is involved. Subsequent reassessment is admissible only if there is a change in the terms of contract which significantly modifies the cash flows. As the group does not have embedded derivatives to be separated from the host contract, this Interpretation had no effect on the group's profit, financial and economic situation.

*IFRIC 10: Interim Financial Reporting and Impairment*

The group has applied IFRIC Interpretation 10 as of January 1, 2007 for the first time. The Interpretation governs that impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at acquisition costs shall not be reversed in the following financial statement. As the group has not carried out such adjustments of impairment loss recognized in the past, this Interpretation had no effect on the group's profit, financial and economic situation.

The IASB and the IFRIC have released the following Standards and Interpretations, already adopted by EU law within the framework of the comitology procedure but not subject to mandatory application in the fiscal year 2007. ELMOS does not apply these Standards and Interpretations ahead of time.

*IFRS 8: Operating Segments*

IFRS 8 was released in November 2006 and is applicable for the fiscal years beginning on or after January 1, 2009 for the first time. IFRS 8 requires the disclosure of information about a company's operating segments in replacing the obligation to determine primary (business segments) and secondary (geographical segments) segment reporting formats for a company. IFRS 8 follows the so-called management approach according to which segment reporting only conforms to the financial information the company's executives use for the internal management of the company. Decisive are the internal reporting and organizational structure as well as such financial values considered for the decision making on the allocation of resources and the evaluation of the performance. The group decided not to apply IFRS 8 ahead of time and keeps applying IAS 14: Segment Reporting. The new Standard will influence the mode of the presentation of financial information on the group's business segments yet will not affect the inclusion and valuation of assets and liabilities in the consolidated financial statements. The definition of the segments in accordance with IFRS 8 will correspond to the definition in accordance with IAS 14.

*IFRIC 11: IFRS 2 – Group and Treasury Share Transactions*

IFRIC Interpretation 11 was also released in November 2006 and is applicable for the fiscal years beginning on or after March 1, 2007. According to this Interpretation, agreements granting employees rights to a company's equity instruments shall be accounted for as equity-settled share-based payment transactions if the company receives the instruments from a third party or if the shareholders supply the required equity instruments. Because of the insignificant volume of share-based payments within the group, no material consequences on the company's profit, financial and economic situation are anticipated for the first-time application of this new regulation in the future.

The IASB and the IFRIC have released the following Standards and Interpretations which are not subject to mandatory application in the fiscal year 2007. These Standards and Interpretations have not been adopted by the EU yet and are not applied by ELMOS.

*IFRS 2 Amendment: Share-based Payment*

The amendment to IFRS 2 was released in January 2008 and is applicable for the fiscal years beginning on or after January 1, 2009. The revision introduces the clarification that the term vesting conditions exclusively refers to the conditions of services and performances. Furthermore, the regulations for the financial reporting of an early exercise of share-based payment plans are extended to include early exercise by employees. The transitional provisions provide for a retrospective application of the revision. The only share-based payment plans run by the group that include vesting conditions according to above-mentioned definition are stock option plans; accordingly, no effects on the financial reporting of share-based payment are expected.

### *IFRS 3: Business Combinations*

The amended Standard IFRS 3 was released in January 2008 and is applicable for the fiscal years beginning on or after July 1, 2009. Within the context of a convergence project of IASB and FASB, this Standard was subjected to an elaborate revision. The essential changes particularly concern the introduction of a right to choose for the valuation of minority interest between accounting of the proportionate identifiable net asset (so-called purchased goodwill method) and the so-called full goodwill method, according to which the full goodwill is recognized, including the portion attributable to minority equity holders. Furthermore, the revaluation of existing investments upon first-time obtainment of control in the income statement (successive business acquisition), the mandatory accounting of a consideration tied to the occurrence of future events at the time of acquisition, and the treatment of transaction costs as income-effective are particularly worth mentioning. The transitional provisions provide for the revision's prospective application. No changes arise for assets and liabilities resulting from business combinations prior to the first-time application of the new Standard. The revised Standard will have an effect on future business combinations and transactions with minorities.

### *IAS 1: Presentation of Financial Statements*

The revised Standard IAS 1 was released in September 2007 and is applicable for the fiscal years beginning on or after January 1, 2009. The Standard revision includes material changes to the presentation and disclosure of financial information in the financial statements. Among the revisions is in particular the introduction of an overall account that includes the income realized within a financial period as well as not yet realized gains and losses previously disclosed within the equity statement, replacing the income statement in its previous shape. Furthermore, the Standard requires that in addition to the balance sheet as of balance sheet date and the balance sheet as of the preceding balance sheet date, a balance sheet shall be presented as of the beginning of the period of comparison if the company retroactively applies accounting policies and valuation methods, corrects a mistake, or reclassifies an item. The new Standard will have an effect on the mode of the publication of the group's financial information, yet it will not affect the inclusion and valuation of assets and liabilities in the consolidated financial statements.

### *IAS 23: Borrowing Costs*

Revised Standard IAS 23 was released in March 2007 and is applicable for the fiscal years beginning on or after January 1, 2009. The Standard requires borrowing costs that can be attributed to a qualified asset to be capitalized. An asset is defined as a qualified asset if a considerable period of time is necessary to put the asset in its intended condition for use or sale. The Standard provides for the revision's prospective application. No changes arise for borrowing costs previously incurred that have immediately been charged to expense. Due to the insignificant borrowing of outside capital that is attributable to a qualified asset, no material effects from the first-time application on the profit, financial and economic situation are to be expected for the fiscal year.

### *IAS 27: Consolidated Financial Statements and Accounting for Investments in Subsidiaries*

Revised Standard IAS 27 was released in January 2008. The changes are applicable for the fiscal years beginning on or after July 1, 2009. The changes result from a joint project of IASB and FASB for the revision of accounting regulations for business combinations. The changes primarily concern the accounting of investments with no control over the entity (minority interest), participating in the group's losses to the full amount in the future, and of transactions that lead to a loss of control over a subsidiary and whose consequences shall be recognized in the income statement. The consequences of the sale of investments not resulting in a loss of control shall be recognized in equity, not affecting net income. The transitional provisions, generally requiring a retrospective application of realized changes, provide for a prospective application with respect to the above-mentioned cases. Therefore no changes arise for assets and liabilities resulting from such transactions prior to the first-time application of the new Standard. The revised Standard will have an effect on future transactions with minorities.

#### *Amendment to IAS 32: Financial Instruments: Presentation and IAS 1: Presentation of Financial Statements*

The amendment to IAS 32 and IAS 1 was released in February 2008 and is applicable for the fiscal years beginning on or after January 1, 2009. The amendment addresses the classification of redeemable financial instruments as equity or financial liability. According to previous regulation, companies were forced in part to disclose capital as financial liability due to the shareholders' lawful rights of cancellation. In the future these financial instruments shall be generally classified as equity if compensation at the respective market value is agreed on and the instruments belong in the most subordinate class of instruments. Because of the legal structure of the parent company and the pertinent statutory and corporate law provisions, the revision will not affect the classification, valuation, and disclosure of financial instruments in the consolidated financial statements.

#### *IFRIC 12: Service Concession Arrangements*

IFRIC Interpretation 12 was released in November 2006 and is applicable for the fiscal years beginning on or after January 1, 2008. The Interpretation governs the accounting of obligations assumed and rights granted within the context of service concession arrangements in the lessee's financial statements.

The companies included in the consolidated financial statements are not lessees of concessions in accordance with IFRIC 12. This Interpretation will therefore have no effect on the group.

#### *IFRIC 13: Customer Loyalty Programmes*

IFRIC Interpretation 13 was released in June 2007 and is applicable for fiscal years beginning on or after July 1, 2008. According to this Interpretation, loyalty award credits granted to customers shall be accounted for as sales separate from the transaction within whose framework they have been granted. Therefore a part of the fair value of the consideration received is attributed to the loyalty award credits and deferred as a liability. The realization of sales occurs in the period in which the customer loyalty award credits are executed or expired. As the group currently has no customer loyalty programs, no effects on the consolidated financial statements are expected to arise from this Interpretation.

#### *IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC Interpretation 14 was released in July 2007 and is applicable for the fiscal years beginning on or after January 1, 2008. This Interpretation provides guidelines for the determination of the limit on the amount of the surplus from a defined benefit plan that can be capitalized as an asset according to IAS 19: Employee Benefits. As all of the group's pension benefit plans are currently underfunded, no effects from this Interpretation on the group's profit, financial and economic situation are expected.

## 2 Principles of consolidation

### **Basis of consolidation and consolidation methods**

Besides ELMOS Semiconductor AG, the consolidated financial statements prepared for the fiscal year 2007 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 as defined by IAS 27: Consolidated Financial Statements and Accounting for Investments in Subsidiaries, based on other rights. The 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 their respective time values. As of the acquisition date, recognizable assets and liabilities are set completely at their respective time values. The balance of a remaining asset difference is stated as goodwill.

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

Investments of more than 20% but not in excess of 50% were recognized, if material, in application of the equity method.

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

SIC 12: Consolidation – Special Purpose Entities clarifies the application of IAS 27 with regard to those companies to be consolidated whose equity provider does not exercise control according to the control concept. It requires the consolidation of companies whose expected losses and gains are taken over for the most part by the reporting group based on the terms of partnership or other contractual terms, or based on financial interests.

A list of the subsidiaries included in the consolidated financial statements can be found under note 34.



### 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 translated at the exchange rate as of balance sheet date as a basic rule.

With regard to subsidiaries whose functional currency is the national currency of the country in which the subsidiary is based, assets and liabilities balanced in foreign currency in the balance sheets of the international, economically independent subsidiaries are translated into Euro at the closing rate as of respective balance sheet dates. Income and expenses 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 net income.

The company enters from time to time into forward exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with committed exposures. 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. No forward exchange contracts were in effect as of December 31, 2007 or December 31, 2006.

### 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. The effects of acquisitions and disinvestments as well as other changes of the basis of consolidation are eliminated in this statement. In accordance with IAS 7, the statement distinguishes between cash flows from operating activities, investing activities, and financing activities. The finance expenses and the finance income recognized in the consolidated income statement essentially correspond with the amounts paid.

## 3 Accounting and valuation principles

### Sales

The company generates sales by selling ASICs, ASSPs, and micromechanical sensor elements, as well as by their development. Sales are stated less value-added tax and after the deduction of discounts given.

Sales are realized either at the time products are shipped to the customer or at the time the risk of loss transfers to the customer. Within the framework of consignment warehousing agreements, sales are realized either at the time of acceptance by the customer or at the time the consignment warehouse is stocked up, depending on the time of risk of loss transfer. Sales from development activities are realized after predefined so-called milestones are reached, depending on the degree of the project's completion.

### 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 (CGU) expected to benefit from the business combination's synergy effects. The impairment is identified by determining the recoverable amount of the 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.

An impairment review must also be performed if significant events or market developments indicate that the reporting unit's carrying value might have fallen below its book value.

The impairment review is performed essentially as follows: All goodwill is allocated to the respective CGUs. Each subsidiary is usually one CGU.

For each CGU, future cash flows are determined on the basis of long-term planning which involves a period of five years. Based on a growth rate of 1.5%, the future cash flows' cash value or value in use is then calculated. The applied interest rate has been established with the aid of the Capital Asset Pricing Model (CAPM) and comes to 6.32% for SMI and 7.58% for ELMOS France (before growth rate deduction). This interest rate corresponds with the weighted average cost of capital. This so-called WACC is based on a risk-free interest rate (5.1%) plus the average market risk premium (4.5%), multiplied by a company-specific equity beta based on a so-called raw  $\beta$  of 0.7. All stated amounts are derived from market data.

### Other intangible assets

According to IAS 38, intangible assets originating from development are capitalized only, among other criteria, 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 apply to the capitalized 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 or realizability is provided and the engineering stage (so-called QB II status) is reached.

Only projects on sales order are capitalized.

Expenses are amortized from production start on a straight-line basis over the estimated useful life of seven years.

Expenses for patent applications and the acquisition of design and process technology are capitalized. Expenses 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 set at acquisition costs and amortized under the straight-line method over their estimated useful lives of three to eight years.

The depreciation is included in the consolidated income statement.

### Property, plant and equipment

Property, plant and equipment are basically capitalized at acquisition or production costs.

Property, plant and equipment are written off on schedule over their estimated useful lives using the straight-line method as follows:

|                              |                |
|------------------------------|----------------|
| Buildings                    | 25 to 50 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 (revised 2004).

On sale or disposal of property, plant and equipment, corresponding acquisition costs as well as corresponding accumulated depreciation are eliminated from the accounts. Gains or losses from the disposal of property, plant and equipment are stated as other operating income or expenses.

Costs for maintenance and repair are recorded in the consolidated income statement as expenses.

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

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

## Financial instruments

The financial instruments assessed include cash and cash equivalents, marketable securities, trade receivables, trade payables, other outside financing, and finance lease.

Financial instruments are recognized according to IAS 39.14 as of the time the company becomes the financial instrument's contracting party. With respect to regular purchase and sales transactions, the recognition occurs as of settlement date.

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 terms which the company is willing and able to hold until final maturity are classified as held-to-maturity financial assets, with the exception of loans and receivables extended by the company. 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 extended by the company are classified as available-for-sale financial assets.

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

Upon its first-time recognition, a financial asset is set at the fair value corresponding with the time value attributable to the consideration received; 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 transaction expense incurred 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 values 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 recognized in the financial result. Held-for-maturity financial assets are valued at their unchanged acquisition costs in application of the effective interest method.

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

Interest, dividends, and 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 are 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 a liability unless it is highly improbable at the time of the issuance that the issuer is obligated to fulfill cash and cash equivalents or other financial assets. If the latter applies, the instrument is classified as equity.

The company has so far made no use of the option to designate financial assets as financial assets at fair value through profit or loss upon their first-time recognition.

With respect to financial liabilities, the company has so far made no use of the option to designate them upon their first-time balance recognition as financial liabilities at fair value through profit or loss.

### Inventories

Inventories are valued at acquisition or production costs or the 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 recognized as fixed amounts on the basis of the production facilities' usual utilization. Costs of unused production capacity (waste costs) are disclosed 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 set at nominal value in consideration of appropriate allowances.

According to IFRS 7.21/IAS 1.108, the allowance for bad debt includes estimates and assessments of individual receivables to a considerable degree, based on the respective customer's creditworthiness, current economic developments, and the analysis of historic bad debt loss on portfolio basis. Insofar as the allowance is deduced from historic loss rates on portfolio basis, a decline of the order backlog leads to a corresponding reduction of such allowances and vice versa.

### Cash and cash equivalents

For the purpose of 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

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. 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 of resale.

A non-current 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.

### Provisions

Provisions are made for legal or factual obligations with historic origins if it is probable that the fulfillment of the obligation will lead to a disposal of group resources and if 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. These components are determined by applying the actuarial cost method on the basis of actuarial assumptions as stated under note 24.

The company's accounting policies provide for:

- ▶ the reflection of all benefit improvements the company is committed to in the planned benefit obligation from the current valuation date,
- ▶ the amortization of the cumulative actuarial gains and losses in excess of 10% 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 sales. In addition, for individual cases appropriate provisions are made after risk assessment with respect to the sales-oriented as well as legal consequences.

### Income taxes

The tax load of the income taxes 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 expense/income 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 as 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 values or repay its debts as of balance sheet date.

Deferred tax assets and liabilities are recognized 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 included 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. As of each balance sheet date the company assesses unbalanced deferred tax assets anew. The company balances 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.

In the opposite case, the deferred tax asset's accountable amount is reduced to the extent it appears 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 that 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 appears assured with sufficient reliability.

The deferred taxes are determined on the basis of the tax rates in effect at or expected for the time of realization according to the respective countries' current legal situation.

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 product categories while each segment represents a strategic business unit, supplying different products and serving different markets. Sales generated 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 the various national subsidiaries and branches in Germany, the Netherlands, France, South Africa, and the U.S.A.

Sales in the micromechanics segment are generated by the U.S. subsidiary SMI.

The following tables provide information on sales and earnings and specific information on assets and liabilities of the group's business segments for the fiscal years ended December 31, 2007 and December 31, 2006.

| Fiscal year ended December 31, 2007  | Semiconductor<br>thousand Euro | Micromechanics<br>thousand Euro | Consolidation<br>thousand Euro | Total<br>thousand Euro |
|--|--------------------------------|---------------------------------|--------------------------------|------------------------|
| <b>Sales</b>   |                                |                                 |                                |                        |
| Sales with third-party customers   | 163,611                        | 12,523                          | 0                              | 176,134                |
| Sales with other segments  | 261                            | 1,303                           | -1,564                         | 0                      |
| <b>Segment sales total</b>   | <b>163,872</b>                 | <b>13,826</b>                   | <b>-1,564</b>                  | <b>176,134</b>         |
| <b>Earnings</b>  |                                |                                 |                                |                        |
| Segment earnings   | 20,711                         | -5,551                          | 0                              | 15,160                 |
| Finance income   |                                |                                 |                                | -2,971                 |
| Equity in losses of unconsolidated subsidiaries                              | 49                             | 0                               | 0                              | 49                     |
| <b>Income before taxes</b>   |                                |                                 |                                | <b>12,238</b>          |
| Income taxes   |                                |                                 |                                | -3,604                 |
| <b>Net income including minority interest</b>                                |                                |                                 |                                | <b>8,634</b>           |
| <b>Assets and liabilities</b>  |                                |                                 |                                |                        |
| Segment assets   | 181,424                        | 16,788                          | 0                              | 198,212                |
| Investments  | 74                             | 0                               | 0                              | 74                     |
| Non-attributable assets  | -                              | -                               | -                              | 51,039                 |
| <b>Total assets</b>  |                                |                                 |                                | <b>249,325</b>         |
| Segment liabilities  | 24,821                         | 2,131                           | 0                              | 26,952                 |
| Non-attributable liabilities   | -                              | -                               | -                              | 62,408                 |
| <b>Total liabilities</b>   |                                |                                 |                                | <b>89,360</b>          |
| <b>Other segment information</b>   |                                |                                 |                                |                        |
| Capital expenditures for intangible assets and property, plant and equipment | 23,781                         | 707                             |                                | 24,488                 |
| Depreciation   | 17,903                         | 1,697                           |                                | 19,600                 |
| Other material non-cash expense  | 2,176                          | 0                               |                                | 2,176                  |

| Fiscal year ended December 31, 2006  | Semiconductor<br>thousand Euro | Micromechanics<br>thousand Euro | Consolidation<br>thousand Euro | Total<br>thousand Euro |
|--|--------------------------------|---------------------------------|--------------------------------|------------------------|
| <b>Sales</b>   |                                |                                 |                                |                        |
| Sales with third-party customers   | 150,009                        | 10,665                          | 0                              | 160,674                |
| Sales with other segments  | 352                            | 1,690                           | - 2,042                        | 0                      |
| <b>Segment sales total</b>   | <b>150,361</b>                 | <b>12,355</b>                   | <b>- 2,042</b>                 | <b>160,674</b>         |
| <b>Earnings</b>  |                                |                                 |                                |                        |
| Segment earnings   | 19,519                         | 353                             |                                | 19,872                 |
| Finance income   |                                |                                 |                                | - 2,503                |
| Equity in losses of unconsolidated subsidiaries                              | - 49                           | 0                               | 0                              | - 49                   |
| <b>Income before taxes</b>   |                                |                                 |                                | <b>17,321</b>          |
| Income taxes   |                                |                                 |                                | - 6,644                |
| <b>Net income including minority interest</b>                                |                                |                                 |                                | <b>10,676</b>          |
| <b>Assets and liabilities</b>  |                                |                                 |                                |                        |
| Segment assets   | 199,826                        | 19,866                          | 0                              | 219,691                |
| Investments  | 126                            | 0                               | 0                              | 126                    |
| Non-attributable assets  | -                              | -                               | -                              | 25,526                 |
| <b>Total assets</b>  |                                |                                 |                                | <b>245,343</b>         |
| Segment liabilities  | 22,403                         | 1,377                           | 0                              | 23,780                 |
| Non-attributable liabilities   | -                              | -                               | -                              | 69,305                 |
| <b>Total liabilities</b>   |                                |                                 |                                | <b>93,085</b>          |
| <b>Other segment information</b>   |                                |                                 |                                |                        |
| Capital expenditures for intangible assets and property, plant and equipment | 23,730                         | 2,621                           |                                | 26,351                 |
| Depreciation   | 15,496                         | 791                             |                                | 16,287                 |
| Other material non-cash expense  | 6,202                          | 0                               |                                | 6,202                  |

### Secondary reporting format

The following tables contain information on sales, expenses, and certain assets relating to the group's geographic segments for the fiscal years ended December 31, 2007 and December 31, 2006.

Compared to 2006, the regional sales breakdown essentially shows a shift from the U.S. to the other countries. Particularly Canada, China, Mexico, Switzerland, and Taiwan are the countries that record an increase in sales. The changes are for the most part due to individual customers' changed shipping addresses and increased sales generated with previous customers in the above-mentioned countries, not tantamount to a changed customer structure.

| Fiscal year ended December 31, 2007                    | Germany<br>th. Euro | Other EU countries<br>th. Euro | U.S.A.<br>th. Euro | Others<br>th. Euro | Consolidation<br>th. Euro | Total<br>th. Euro |
|--|---------------------|--------------------------------|--------------------|--------------------|---------------------------|-------------------|
| <b>Sales</b>   |                     |                                |                    |                    |                           |                   |
| Sales with third parties                               | 63,695              | 64,619                         | 19,176             | 28,644             |                           | 176,134           |
| Sales with other segments                              | 1,303               |                                | 261                |                    | - 1,564                   | 0                 |
| <b>Total sales</b>                                     | <b>64,998</b>       | <b>64,619</b>                  | <b>19,437</b>      | <b>28,644</b>      | <b>- 1,564</b>            | <b>176,134</b>    |
| <b>Assets</b>  |                     |                                |                    |                    |                           |                   |
| Segment assets   | 168,538             | 12,170                         | 17,489             | 15                 |                           | 198,212           |
| Investments  | 55                  | 0                              | 19                 | 0                  |                           | 74                |
| Non-attributable assets                                |                     |                                |                    |                    |                           | 51,039            |
| <b>Total assets</b>                                    |                     |                                |                    |                    |                           | <b>249,325</b>    |
| <b>Others segment information</b>                      |                     |                                |                    |                    |                           |                   |
| Capital expenditures for property, plant and equipment | 23,362              | 372                            | 754                | 0                  |                           | 24,488            |
| <b>Sales</b>   |                     |                                |                    |                    |                           |                   |
| Sales with third parties                               | 60,019              | 59,933                         | 21,545             | 19,177             | 0                         | 160,674           |
| Sales with other segments                              | 1,688               | 2                              | 352                | 0                  | - 2,042                   | 0                 |
| <b>Total sales</b>                                     | <b>61,707</b>       | <b>59,935</b>                  | <b>21,897</b>      | <b>19,177</b>      | <b>- 2,042</b>            | <b>160,674</b>    |
| <b>Assets</b>  |                     |                                |                    |                    |                           |                   |
| Segment assets   | 180,839             | 17,982                         | 20,854             | 17                 |                           | 219,692           |
| Investments  | 107                 | 0                              | 19                 | 0                  |                           | 126               |
| Non-attributable assets                                |                     |                                |                    |                    |                           | 25,525            |
| <b>Total assets</b>                                    |                     |                                |                    |                    |                           | <b>245,343</b>    |
| <b>Others segment information</b>                      |                     |                                |                    |                    |                           |                   |
| Capital expenditures for property, plant and equipment | 22,698              | 956                            | 2,697              | 0                  |                           | 26,351            |



## 5 Sales

The company generates sales by selling ASICs, ASSPs, and micromechanical sensor elements, as well as by their development.

Sales of the group and its segments are made up as follows:

|                | 2007<br>Euro       | 2006<br>Euro       |
|----------------|--------------------|--------------------|
| Semiconductor  | 163,610,067        | 150,009,437        |
| Micromechanics | 12,523,461         | 10,664,450         |
| <b>Group</b>   | <b>176,133,528</b> | <b>160,673,887</b> |

Sales gained 9.6% to reach 176,134 thousand Euro. The contribution made by the micromechanics segment was disproportionately high, climbing 17.4% to reach 12.5 million Euro in 2007.

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

### Cost of sales

The cost of sales contains costs of performances for generating sales. In addition to direct material costs, direct labor costs, and special direct costs, the cost of sales includes manufacturing and material overhead as well as depreciation. The cost of sales also contains changes in work in process and finished goods inventories and has developed as follows:

|                    | 2007<br>Euro       | 2006<br>Euro      |
|--------------------|--------------------|-------------------|
| Material expense   | 39,664,957         | 31,474,574        |
| Personnel expense  | 30,215,962         | 29,595,550        |
| Other overhead     | 38,607,182         | 31,137,729        |
| Inventory increase | - 5,463,691        | - 4,577,928       |
|                    | <b>103,024,409</b> | <b>87,629,925</b> |

The cost of sales increased from 87.6 million Euro in 2006 by 17.6% to 103.0 million Euro in the year under report, disproportionately high compared to sales. This development is accounted for primarily by the increased expenditures for the establishment of the production location in Duisburg. In addition, the restructuring of two subsidiaries resulted in a 3,761 thousand Euro increase in the cost of sales, particularly with respect to material expense and other overhead.

### 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 charged to expense according to the amount of work invested. 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 2007, R&D expenses of 30,892,815 Euro (2006: 29,583,236 Euro) were charged to expense, 153 thousand Euro of which as restructuring expenses.

### Distribution costs

Distribution costs essentially include personnel expense and depreciation.

### 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. Expenses also incur on the administrative level for legal consultations and administrative consultation as well as restructuring expenses of 926 thousand Euro.

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

Within the context of the presentation of the income statement according to the cost of sales method, expenses are allocated with regard to functional areas. Cost of sales, distribution costs, administrative expenses, and research and development expenses contain the following cost types as indicated below:

### Material expense

The material expense amounts to 43,262,055 Euro in the fiscal year 2007, increased in comparison with the previous year (2006: 37,954,353 Euro). It is composed of expenses for raw materials, supplies, and purchased goods as well as purchased services.

### Personnel expense

Personnel expense increased by 5.8% from 59,456,302 Euro in the fiscal year 2006 to 62,898,042 Euro in the fiscal year 2007. Over the same reporting period the number of employees – based on an average employment ratio – rose from 1,131 in the fiscal year 2006 to

1,177 in the fiscal year 2007. The increase in personnel expense is due primarily to the increased number of employees. Further information on the workforce can be found under note 41.

### Depreciation

The itemization of depreciation can be drawn from the development of the group's non-current assets.

Depreciation according to schedule came to 19,214,438 Euro in the fiscal year 2007 (2006: 16,336,279 Euro).

Due to the application of the cost of sales method, depreciation for property, plant and equipment and other intangible assets are allocated in the income statement to the items cost of sales, research and development expenses, distribution costs, and administrative expenses.

## 8 Finance expenses and finance income

Finance expenses came to 3,793,824 Euro in 2007 as opposed to 2,954,883 Euro in 2006. They essentially include interest expenses for bank loans as well as for non-current liabilities.

Under the item finance income essentially interest income was disclosed in the fiscal year 2007. Finance income added up to 822,450 Euro (2006: 452,319 Euro).

Finance expenses and finance income as stated in the consolidated income statement essentially correspond with the amounts paid.

The total amounts of interest income and interest expenses for financial assets and financial liabilities valued at their fair values not affecting net income are as follows:

|                        | 2007<br>Euro     | 2006<br>Euro     |
|------------------------|------------------|------------------|
| Interest income        | - 822,450        | - 451,418        |
| Interest expenses      | 3,790,291        | 2,914,957        |
| <b>Interest result</b> | <b>2,967,841</b> | <b>2,463,539</b> |

## 9 Foreign exchange losses and foreign exchange income

Losses from exchange rate differences included in the income statement come to 381,093 Euro in the fiscal year 2007 (2006: losses of 288,115 Euro).

Exchange rate differences not affecting the net income amount to 6,407,297 Euro in the fiscal year 2007 (2006: 5,587,888 Euro), deferred taxes considered. Further information on exchange rate differences not affecting the net income can be found under note 22.

## 10 Other operating expenses and operating income

Other operating income of 9,312,235 Euro (2006: 5,834,782 Euro) includes investment grants of 298 thousand Euro and income from the disposal of a leased object.

Within the context of the sale and leaseback agreement "Exedra" from the year 1997, previously presented as finance lease, the previously capitalized lease asset of 8,994 thousand Euro and the corresponding lease liability of 16,175 thousand Euro were deleted as a result of the conversion of the lease agreement to an operating lease agreement. To the amount of the difference between market value (13,750 thousand Euro) and the property's remaining book value, the full resulting amount was included in the income statement under other operating income (4,756 thousand Euro).

Other operating expenses of 8,240,100 Euro (2006: 5,239,685 Euro) include, among other values, expenses for performances pursuant to a warranty (including additions to provisions) and allowances for receivables.

From the restructuring of two international subsidiaries, other operating expenses resulted to the amount of 821 thousand Euro.

## 11 Income taxes

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

|   | 2007<br>Euro     | 2006<br>Euro     |
|---|------------------|------------------|
| <b>Current income taxes</b>   |                  |                  |
| Germany   | 309,395          | 627,597          |
| Other countries   | 2,685,235        | 557,992          |
|   | <b>2,994,630</b> | <b>1,185,589</b> |
| thereof adjustments to effective income taxes incurred in the previous year | 226,000          | 23,140           |
| <b>Deferred taxes</b>   |                  |                  |
| Germany   | 826,722          | 2,257,994        |
| Other countries   | - 217,710        | 3,200,787        |
|   | <b>609,012</b>   | <b>5,458,781</b> |
|   | <b>3,603,642</b> | <b>6,644,370</b> |

Deferred taxes have been calculated according to the so-called liability method in compliance with IAS 12. For Germany the combined income tax rate of 31.58% (2006: 39.9%) has been applied. The company's combined income tax rate includes the trade tax collection rate of

450% (2006: 450%), the corporation tax rate of 15.0% (2006: 25.0%), and the solidarity tax contribution of 5.5% (2006: 5.5%).

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. Material components of the company's deferred tax assets and deferred tax liabilities are described under note 16.

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

|   | 2007<br>%    | 2006<br>%    |
|---|--------------|--------------|
| Statutory tax rate  | 39.90        | 39.90        |
| Expenses disallowable against tax                           | 1.31         | 0.58         |
| Taxes previous years  | 1.85         | 0.00         |
| Foreign tax rate differential                               | -11.67       | -7.70        |
| Domestic tax rate changes<br>(previous year: international) | -9.97        | 6.34         |
| Non-capitalization<br>of deferred tax assets                | 7.28         | 0.00         |
| Others  | 0.75         | -0.80        |
| <b>Effective tax rate</b>                                   | <b>29.45</b> | <b>38.32</b> |

The positive effect of the reduction of the tax rates from 2008 in Germany amounts to 1,190 thousand Euro.

## 12 Earnings per share

The basic earnings per common share are calculated on the basis of the average number of common shares outstanding in the particular fiscal year. The 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 common share and diluted earnings per common share have been determined as follows:

### Number of shares

|  | 2007              | 2006              |
|--|-------------------|-------------------|
| Average number of common shares outstanding                                  | 19,406,855        | 19,413,310        |
| Share options with dilutive potential  | 1,633             | 14,056            |
| <b>Average number of common shares outstanding including dilutive effect</b> | <b>19,408,488</b> | <b>19,427,366</b> |

### Calculation of earnings per share

|                                    | 2007      | 2006       |
|------------------------------------|-----------|------------|
| Net income after minority interest | 8,797,717 | 10,694,672 |
| Basic earnings per share           | 0.45      | 0.55       |
| Diluted earnings per share         | 0.45      | 0.55       |

## Notes to the balance sheet

### 13 Intangible assets

#### Goodwill

The company's goodwill has developed as follows:

|                             | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|-----------------------------|--------------------|--------------------|
| <b>SMI</b>                  |                    |                    |
| Acquisition costs           | 7,567,365          | 7,567,365          |
| Foreign currency adjustment | -3,044,227         | -2,513,636         |
| <b>Carrying value</b>       | <b>4,523,138</b>   | <b>5,053,729</b>   |
| <b>ELMOS NA</b>             |                    |                    |
| Acquisition costs           | 554,617            | 554,617            |
| Foreign currency adjustment | -13,700            | 6,549              |
| <b>Carrying value</b>       | <b>540,917</b>     | <b>561,166</b>     |
| <b>ELMOS France</b>         | <b>1,614,578</b>   | <b>1,614,578</b>   |
| <b>ELMOS Services B.V.</b>  | <b>206,170</b>     | <b>206,170</b>     |
|                             | <b>6,884,803</b>   | <b>7,435,643</b>   |

According to IFRS 3, goodwill is no longer amortized on schedule but reviewed for impairment. The valuation is conducted on the basis of cash generating units, corresponding to the legal entities the respective goodwill is attributed to. The impairment reviews carried out in 2007 did not result in allowances to be made.

### Other intangible assets

Other intangible assets are composed as follows:

|   | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|---|--------------------|--------------------|
| Development projects                            | 8,250,627          | 7,738,958          |
| Software and licenses                           | 19,790,500         | 20,945,053         |
| Advance payments and projects under development | 7,183,038          | 3,635,053          |
|   | <b>35,224,165</b>  | <b>32,319,064</b>  |

### Development projects

In 2007 expenses of 3,211,607 Euro in connection with product developments were capitalized (2006: 2,692,363 Euro). Depreciation for capitalized developments amounted to 2,087,063 Euro in 2007 (2006: 1,737,644 Euro). The book value of the capitalized developments (including projects under development) is 9,118,381 Euro as of December 31, 2007 (2006: 7,993,837 Euro).

### Software and licenses

In 2007 expenses of 2,581,761 Euro for process technology were capitalized (2006: 2,119,337 Euro). Depreciation came to 420,713 Euro in 2007 (2006: 420,713 Euro). As of December 31, 2007, the capitalized carrying amounts for process technology capitalized as property, plant and equipment added up to 11,480,850 Euro; they amounted to 9,319,802 Euro as of December 31, 2006.

Additions to depreciation of software and licenses include 158,761 Euro of extraordinary depreciation expense. Depreciation expense was disclosed in the income statement under other operating expenses. The assets are attributed to the segment semiconductor.

### Others

Costs linked to research and development projects for new products as well as significant product upgrades are charged to expense to the extent they incur and are included under research and development expenses. Research and development expenses of 3,532,515 Euro were reimbursed by customers in 2007 (3,189,853 Euro in 2006).

The company has transferred 730 thousand Euro from other assets to intangible assets in order to present the assets of a special purpose entity according to group accounting standards. The previous year was adjusted accordingly to the same amount. Earnings per share were not affected.

## 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.

|  | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|--|--------------------|--------------------|
| Property                                     | 2,703,051          | 3,224,533          |
| Buildings and building improvements          | 26,081,090         | 33,745,098         |
| Technical equipment and machinery            | 49,637,180         | 55,067,685         |
| Advance payments and construction in process | 8,562,831          | 4,252,184          |
|  | <b>86,984,152</b>  | <b>96,289,500</b>  |

Depreciation expenses came to 13,949,612 Euro in the fiscal year 2007 (2006: 11,618,709 Euro).

Additions to depreciation expense for technical equipment and machinery include 226,705 Euro of extraordinary depreciation expense. The depreciation expense was disclosed in the income statement under other operating expenses. The assets are attributed to the segment semiconductor.

In the fiscal year 2007 as in the year before, no borrowing costs were capitalized.

The company has transferred 733 thousand Euro from other assets to intangible assets in order to present the assets of a special purpose entity according to group accounting standards. The previous year was adjusted accordingly to the same amount. Earnings per share were not affected.

### Lease agreements

On December 11, 2007 the company sold various pieces of installed equipment to Exedra for a total purchase price of 5,124,648 Euro. Parallel to the sale, the company leased these building improvements for a term of 5 years. Within the framework of this lease agreement with Exedra, the company is committed to total annual payments of 1,064,946 Euro until 2012.

On December 11, 2007 the company also entered into a supplementary agreement to an existing finance lease agreement with Exedra, to the effect that the original agreement is restructured into an operating lease agreement in compliance with the accounting standards according to IAS/IFRS and extended to a building erected on the lessor's property to the amount of 4,816,107 Euro. The leased

assets to be subsumed under the existing contract were previously classified as finance lease and were disclosed accordingly under property, plant and equipment. By the adjustment of the contract modalities, the contract was converted to operating lease; thus the corresponding lease liabilities (December 22, 1997: 23,008,135 Euro; December 28, 2007: 16,175,178 Euro) as well as the leased assets are no longer included in accounting. The profit resulting from this transaction was immediately stated to the amount of 4,756 thousand Euro (disclosure under other operating income) and disclosed as so-called deferred income under other liabilities to the amount of 2,530 thousand Euro. Depreciation occurs over the remaining term of 13 years until 2020. Within the context of the newly negotiated lease agreement, the company is committed to total lease payments of 30,871,320 Euro until 2020.

On November 8, 2001 the company sold another commercial building 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 garage back for a period of 20 years. Under the lease terms, the company is committed to annual degressively falling lease payments through 2021, starting with the amount of 1,016,125 Euro. In 2003 the story-addition to the administration building was completed. The total expenditure amounted to 3,351,519 Euro. Lease installments to be paid come to 303,000 Euro per annum through 2011. By that time the future lease payments until 2021 will be adjusted according to the capital market conditions in 2011. The transaction was recorded as a financing transaction rather than as a sale, so that the building and building improvements continue to be recognized in these consolidated financial statements.

The carrying value of the leased assets is composed as follows:

|                          | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|--------------------------|--------------------|--------------------|
| Leased assets            | 27,677,758         | 48,013,030         |
| Accumulated depreciation | - 17,401,032       | - 25,991,428       |
|                          | <b>10,276,726</b>  | <b>22,021,602</b>  |

The depreciation is carried out over the term of contract or the longer period of use according to IAS 17.28. It is included in the depreciation expense and amounts to 2,856,171 Euro in the year 2007 (2006: 2,041,809 Euro). Extraordinary depreciation was not carried out.

Finance lease liabilities are disclosed by the company as current or non-current liabilities. The development is as follows:

|  | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|--|--------------------|--------------------|
| Current portion<br>(maturity within twelve months) | 1,035,478          | 3,432,057          |
| Non-current portion<br>(maturity > one year)       | 10,861,624         | 27,528,059         |
|  | <b>11,897,102</b>  | <b>30,960,116</b>  |

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

|  | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|--|--------------------|--------------------|
| Within twelve months                                     | 1,548,857          | 4,756,033          |
| Between one year and five years                          | 5,328,878          | 13,417,288         |
| Later than five years                                    | 8,229,533          | 21,068,127         |
|  | <b>15,107,268</b>  | <b>39,241,448</b>  |
| Future interest share of finance<br>lease agreements     | 3,210,165          | 8,281,332          |
| <b>Discounted value of finance lease<br/>liabilities</b> | <b>11,897,102</b>  | <b>30,960,116</b>  |

## 15 Investments valued at-equity, securities and interests

The company has investments in the following companies.

|                           | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|---------------------------|--------------------|--------------------|
| attoSensor                | 1                  | 1                  |
| ELMOS Industries          | 0                  | 1                  |
| Exedra                    | 0                  | 26,434             |
| Epigone                   | 20,824             | 20,824             |
| IndustrieAlpine           | 0                  | 25,788             |
| Advanced Appliances Chips | 34,000             | 34,000             |
| ELMOS USA Inc.            | 19,107             | 19,107             |
|                           | <b>73,933</b>      | <b>126,156</b>     |

### attoSensor GmbH, Penzberg

As of December 31, 2007 ELMOS holds 45% of the shares. The company's share capital amounts to 40,000 Euro.

### ELMOS Industries GmbH, Hanau

As of December 31, 2007 the company holds 49% of the shares of ELMOS Industries. The company was included in the consolidated financial statements for the first time in 2007. Even though ELMOS does not hold a majority of the voting rights, the company was included based on the fact that ELMOS has the economic control over the operating business of the investment company and its other shareholders. The purchase price for the shares in August 2006 came to 49 thousand Euro. It was raised within the framework of the company's formation by cash subscription.

### Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz and Exedra Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz

Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz was not included in the basis of consolidation because ELMOS does not hold the majority of voting rights.

This company is an entity founded exclusively for the realization of sale and leaseback transactions. It leases back the administration buildings and land (including parking garage) sold by ELMOS. The corresponding assets and financial liabilities are accounted for in the consolidated balance sheet.

The interest in Exedra Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz was sold in the fiscal year within the framework of a conversion of the finance lease agreement to operating lease.

### ELMOS USA Inc., Farmington Hills, USA

This company is a holding entity for the U.S. subsidiaries. It conducts no independent business operations.

### Summarized financial information

| Associated companies                   | Total assets<br>th. Euro | Total liabilities<br>th. Euro | Sales<br>th. Euro | Period net income<br>th. Euro |
|--|--------------------------|-------------------------------|-------------------|-------------------------------|
| attoSensor <sup>1</sup>                | 423                      | 363                           | 816               | 7                             |
| Epigone <sup>1</sup>                   | 12,632                   | 12,601                        | 503               | 6                             |
| Advanced Appliances Chips <sup>1</sup> | 503                      | 232                           | 801               | 185                           |
| ELMOS USA Inc. <sup>2</sup>            | –                        | –                             | –                 | –                             |

<sup>1</sup> Presented figures are based on preliminary unaudited financial statements as of December 31, 2007

<sup>2</sup> No financial statements of the companies are available at present

## 16 Deferred tax assets

|                                  | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|----------------------------------|--------------------|--------------------|
| <b>Deferred tax assets</b>       |                    |                    |
| Property, plant and equipment    | – 108,316          | – 128,914          |
| Goodwill                         | 5,455,379          | 6,234,495          |
| Loss carry-forward               | 2,736,621          | 1,785,878          |
| Others/Exchange rate differences | 22,255             | 264,540            |
|                                  | <b>8,105,939</b>   | <b>8,155,999</b>   |
| <b>Deferred tax liabilities</b>  |                    |                    |
| Intangible assets                | – 5,246,286        | – 5,313,373        |
| Property, plant and equipment    | – 5,933,848        | – 1,878,105        |
| Finance lease                    | 3,690,076          | 3,051,795          |
| Pension provisions               | 295,066            | 303,602            |
| Loss carry-forward               | 1,879,010          | 0                  |
| Others/Exchange rate differences | 740,573            | – 190,688          |
|                                  | <b>– 4,575,409</b> | <b>– 4,026,769</b> |
| <b>Net deferred tax assets</b>   | <b>3,530,530</b>   | <b>4,129,230</b>   |

The balance sheet for 2007 provides a gross presentation of deferred tax assets and deferred tax liabilities for the first time. The presentation for the previous year was adjusted accordingly. Within the individual positions offsets were applied in accordance with IAS 12.74 a) and b), i.e. deferred tax assets and deferred tax liabilities were offset against each other insofar as they belonged to the same taxable entity and that taxable entity was entitled to offset current tax assets against current tax liabilities. The gross presentation resulted in an extension of the total assets by 3,430 thousand Euro in the previous year. There were no effects on the earnings per share. The company also decided in 2007 not to accrue deferred taxes on differences from the translation of foreign financial statements into the currency of group reporting any more. The effect on the previous year's balance was 596 thousand Euro and resulted in a reduction of the deferred tax assets and a reduction of changes in equity not affecting net income. There were no effects on the earnings per share.

The total of temporary differences with respect to investments in subsidiaries and associated companies for which no deferred tax liabilities have been assessed amounts to 909 thousand Euro.

The capitalization of deferred tax assets on loss carry-forward was made on the basis of the involved companies' medium-term business planning. Loss carry-forward on the taxable entity in the U.S. (so-called

tax consolidation) of 2,737 thousand Euro has been capitalized, to be utilized within the context of restructuring at the beginning of 2008. The loss carry-forward is non-forfeitable. No deferred tax assets were accrued for other loss carry-forward and temporary differences of 3,754 thousand Euro based on the U.S. companies' available business planning. Deferred taxes on loss carry-forward included in deferred tax liabilities refer to the parent company.

## 17 Inventories

The inventories are composed as follows:

|                 | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|-----------------|--------------------|--------------------|
| Raw materials   | 8,126,138          | 9,477,183          |
| Work in process | 18,762,550         | 17,735,397         |
| Finished goods  | 6,725,239          | 3,929,655          |
|                 | <b>33,613,927</b>  | <b>31,142,235</b>  |

The devaluation of inventories assessed as expense comes to 1,408 thousand Euro (2006: 0 Euro). This expense is disclosed under the position cost of sales (554 thousand Euro), development expenses (800 thousand Euro), and other operating expenses (54 thousand Euro).

## 18 Trade receivables

The trade receivables are composed as follows:

|                   | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|-------------------|--------------------|--------------------|
| Trade receivables | 28,944,222         | 28,006,064         |
| Allowances        | – 537,957          | – 231,663          |
|                   | <b>28,406,265</b>  | <b>27,774,401</b>  |

The company conducts ongoing credit evaluations of its customers and generally requires no collateral. The company has carried out allowances for potential credit loss. Credit loss incurred corresponded with the Management Board's estimates and expectations and remained within customary limits.

The following table presents the changes in adjustments made on current and non-current receivables.

|  | 2007<br>Euro   | 2006<br>Euro   |
|--|----------------|----------------|
| Allowances as of January 1                                 | 231,663        | 337,861        |
| Appropriation in reporting period (allowance expense)      | 395,396        | 79,400         |
| Consumption  | – 55,368       | 0              |
| Reversals (write-up of originally written-off receivables) | – 28,527       | – 210,361      |
| Currency translation effects                               | – 5,208        | 24,763         |
| <b>Allowances as of December 31</b>                        | <b>537,957</b> | <b>231,663</b> |

The impairment of trade receivables is included for the most part in allowance accounts. The decision whether to recognize a contingency risk through an allowance account or a direct write-down of the receivable depends on the assessment of the probability of the debt loss. If receivables are considered unrecoverable, the corresponding depreciated asset is adjusted.

The following table provides information on the credit risk carried by the financial assets and performances.

| Euro                   | Carrying value | Thereof: neither depreciated nor overdue as of balance sheet date | Thereof: not depreciated and overdue in the following time bands as of balance sheet date |                        |                        |                         |                          |                    |
|------------------------|----------------|---|---|------------------------|------------------------|-------------------------|--------------------------|--------------------|
|                        |                |   | Less than 30 days   | Between 30 and 60 days | Between 61 and 90 days | Between 91 and 180 days | Between 181 and 360 days | More than 360 days |
| Trade receivables      | 12/31/2007     | 21,374,473  | 6,403,248   | 86,691                 | 287,855                | 109,884                 | 296,987                  | 8,998              |
| Other financial assets | 12/31/2007     | 1,392,280   | 888   | 884                    | 881                    | 2,571                   | 5,146                    | 31,347             |
| Trade receivables      | 12/31/2006     | 20,411,858  | 5,583,076   | 599,594                | 1,037,438              | 202,135                 | 131,501                  | 4,500              |
| Other financial assets | 12/31/2006     | 4,657,234   | 845   | 842                    | 838                    | 2,487                   | 4,903                    | 19,138             |

## 19 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 the preparation of the consolidated financial statements, cash and cash equivalents include cash on hand and cash in banks.

## 20 Other assets and income tax assets

Other assets come to 6,550,185 Euro as of balance sheet date (2006: 12,122,346 Euro) and essentially include tax relief claims, current loans extended by ELMOS, and various current receivables.

## 21 Non-current assets classified as held for sale

Assets held for sale are made up of auxiliary IT equipment and various technical equipment and machinery. The sale of these assets is expected for 2008.

A material disposal of non-current assets classified as held for sale resulted from the sale and leaseback transactions with Exedra (please refer to note 14). In the fiscal year 2007 the company sold various building improvements for a selling price of 5,124,648 Euro and a building for a selling price of 4,816,107 Euro. The selling prices corresponded to the respective carrying values.

Further disposals were the parceled property in Munich, still disclosed under this position in the previous year, as well as the buildings erected on that property.

There was also a transfer of the entries of various technical equipment and machinery from assets classified as held for sale to

property, plant and equipment in the current fiscal year. The company had initially intended to sell the assets accounted for a total book value of 534,312 Euro. The company changed its intention in the fiscal year 2007 as the company's utilization of these assets appeared more beneficial. The consequences of this decision on the profit situation are limited to the depreciation to be considered from that point in time; the plant of the most value has been transferred to construction in process and is therefore not subject to depreciation yet.

The aforementioned assets are each attributed to the semiconductor segment.

## 22 Equity

### Share capital

The share capital recognized at 19,414,205 Euro (2006: 19,413,805 Euro) in the balance sheet as of December 31, 2007, consisting of 19,414,205 (2006: 19,413,805) non-par value common bearer shares, is paid in entirety.

The development of shares in circulation is as follows.

|   |                   |
|---|-------------------|
| Shares as of January 1, 2007                    | 19,413,805        |
| Issuance of shares due to share option exercise | 400               |
| <b>Shares as of December 31, 2007</b>           | <b>19,414,205</b> |

In the year 2007 one employee exercised his option right to the purchase of shares, resulting in the issuance of 400 non-par value bearer shares at a proportional amount of the share capital of 1.00 Euro per share.

The distribution of ownership as of December 31, 2007 is as follows.



|                              | Euro              | %            |
|------------------------------|-------------------|--------------|
| EFH ELMOS Finanzholding GmbH | 1,485,789         | 7.6          |
| Makos GmbH                   | 3,236,584         | 16.7         |
| Dr. Weyer GmbH               | 3,236,584         | 16.7         |
| ZOE-BTG GmbH                 | 2,306,833         | 11.9         |
| Free float                   | 9,148,415         | 47.1         |
|                              | <b>19,414,205</b> | <b>100.0</b> |

### Authorized capital and conditional capital

The Management Board is authorized to increase the share capital by a maximum amount of 9,650,000 Euro through one issuance or several issuances of up to 9,650,000 new bearer shares against contributions in cash or kind until May 18, 2011 with the Supervisory Board's approval (authorized capital I).

The share capital is conditionally increased by 885,795 Euro, consisting of 885,795 non-par bearer shares, at a proportional amount of the share capital of 1.00 Euro to each share (conditional capital I). The conditional capital increase exclusively serves the granting of pre-emptive rights to Management Board members and 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 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.

### Additional paid-in capital

The composition of the additional paid-in capital can be drawn from the following table:

|                | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|----------------|--------------------|--------------------|
| Share premiums | 84,784,588         | 84,781,840         |
| Share options  | 3,951,975          | 3,951,975          |
|                | <b>88,736,563</b>  | <b>88,733,815</b>  |

The additional paid-in capital includes share premiums from capital increases and the issuance of shares of ELMOS Semiconductor AG. In addition, the expense for the issuance of share options to employees is offset under this item.

### Other comprehensive income

Exchange rate translation effects relating to international subsidiaries are directly included in equity.

Accumulated other comprehensive income comprises the following items:

|   | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|---|--------------------|--------------------|
| Foreign currency adjustments                        | - 6,882,829        | - 6,063,420        |
| Deferred taxes<br>(on foreign currency adjustments) | 475,532            | 475,532            |
| <b>Accumulated other comprehensive income</b>       | <b>- 6,407,297</b> | <b>- 5,587,888</b> |

## 23 Share-based payments

### Share option plan

The company has a share option plan for Management Board members and other executives and employees. The plan 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 114,205 share options have already been exercised, or rather 930,000 new common shares (conditional capital III).

The exercise price corresponds with respectively 120%, for the first four tranches, or 110%, for the fifth tranche, of the average amount of the closing prices of the last ten trading days prior to the 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 three or two years, respectively, subsequent to the option grant. Options expire after six or five years, respectively.

The first tranche of share options expired in 2006, the second tranche expired in 2007. In 2007 400 options from the third tranche were exercised (2006: 1,381). The average share price at the day of exercise was 8,84 Euro. As of December 31, 2007 altogether 582,380 options are outstanding. They are divided between the tranches as follows:

| 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 12/31/2006 (number) | Exercised in 2007 (number) | Expired in 2007 (number) | Options outstanding as of 12/31/2007 (number) |
|-----|--------------------|---------------|------------------------|----------------------------------|---|---|----------------------------|--------------------------|---|
| 2   | 2000               | 2001          | 35.14                  | 3                                | 3   | 124,100                                       | 0                          | 124,100                  | 0   |
| 3   | 2002               | 2003          | 7.87                   | 2                                | 3   | 164,836                                       | 400                        | 2,150                    | 162,286                                       |
| 4   | 2003               | 2004          | 11.59                  | 2                                | 3   | 274,622                                       | 0                          | 3,800                    | 270,822                                       |
| 5   | 2004               | 2005          | 13.98                  | 2                                | 3   | 151,643                                       | 0                          | 2,371                    | 149,272                                       |
|     |                    |               |                        |                                  |   | <b>715,201</b>                                | <b>400</b>                 | <b>132,421</b>           | <b>582,380</b>                                |

The valuation of share options was conducted in compliance with the regulations of IFRS 2 for equity-settled share-based payment transactions as of balance sheet date, December 31, 2007, according to 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 on the basis of the following assumptions:

#### Assumptions for the calculation of attributable value

|                                       | Tranche 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 years   | 5 years   | 5 years   | 5 years   |

In the fiscal year 2007 the company incurred expenses of 0 Euro (2006: 453,611 Euro) for the share option plan.

#### Stock awards

In the year 2007 a stock award plan was implemented for the first time. The stock awards were granted to selected employees, executives and members of the Management Board in recognition of their performances given in the past year. Granting these awards is intended to represent the connection between ELMOS and its top achievers and to be regarded as an incentive to inspire commitment and motivation.

The stock award plan 2007 comprised 29,000 shares which had been previously repurchased at the stock exchange within the authorization to repurchase own stock. The shares were purchased

between August 16 and 23, 2007 for an average purchase price of 7.23 Euro per share and issued to employees, executives and members of the Management Board in their entirety until December 31, 2007. Corresponding personnel expense of 212,332 Euro was split between the functional areas cost of sales (70,507 Euro), development (32,020 Euro), sales (43,959 Euro), and administration (65,846 Euro). A blocking period of two years is in effect for the stock awards; this does not apply to a sale of shares in the number required to settle the tax incurred for the non-cash benefit. ELMOS intends to provide a similar stock award plan for the years to come.

## 24 Provisions

### Current provisions

|                   | 1/1/2007<br>Euro | Consumption<br>Euro | Release<br>Euro | Additions<br>Euro | 12/31/2007<br>Euro |
|-------------------|------------------|---------------------|-----------------|-------------------|--------------------|
| Vacation bonus    | 1,157,339        | 1,157,339           | 0               | 1,122,293         | 1,122,293          |
| Bonus payments    | 772,512          | 765,960             | 0               | 667,939           | 674,491            |
| Trade association | 267,200          | 265,442             | 1,758           | 313,800           | 313,800            |
| Warranties        | 1,559,974        | 1,410,141           | 0               | 1,612,867         | 1,762,700          |
| Licenses          | 462,567          | 414,166             | 0               | 505,292           | 553,693            |
| Other Licenses    | 903,389          | 609,638             | 0               | 1,389,808         | 1,683,559          |
|                   | <b>5,122,981</b> | <b>4,622,686</b>    | <b>1,758</b>    | <b>5,611,999</b>  | <b>6,110,536</b>   |

The warranty provision was calculated on the general basis of sales as well as in consideration of special incidents in the past fiscal year.

The provision for licenses includes payment obligations to in-house and external inventors. This provision is calculated on the basis of existing payment agreements.

### Non-current provisions / Pension provisions

The development of the net debt recognized in the balance sheet is as follows:

|  | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|--|--------------------|--------------------|
| Cash value of obligations                          | 2,916,788          | 3,229,159          |
| Fair value of pension plan reinsurance             | - 2,036,152        | - 1,923,742        |
| Unrecognized actuarial income/losses               | 230,578            | - 162,780          |
| <b>Liabilities recognized in the balance sheet</b> | <b>1,111,214</b>   | <b>1,142,637</b>   |

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 period of 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% per annum. The expected pay increase is determined at 0.0%.

The calculation of the present values is carried out in accordance with IAS 19. The interest rate is 5.6% per annum in the fiscal year. For actuarial assumptions regarding the mortality and disability risks, the Heubeck mortality tables 2005 G have been applied.

Pension plan expenses are made up as follows.

|                                 | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|---------------------------------|--------------------|--------------------|
| Service costs                   | 49,666             | 84,068             |
| Interest                        | 160,597            | 126,526            |
| <b>Net pension plan expense</b> | <b>210,263</b>     | <b>210,594</b>     |

Changes in the cash values of the defined benefit liabilities are as follows:

|  | 2007<br>Euro     | 2006<br>Euro     |
|--|------------------|------------------|
| Pension liabilities as of 1/1          | 3,229,159        | 3,006,721        |
| Pension plan expense                   | 210,263          | 210,594          |
| Payments to retirees                   | - 79,261         | - 79,262         |
| Actuarial gains and losses             | - 443,373        | 27,168           |
| Past service costs                     | 0                | 63,938           |
| <b>Pension liabilities as of 12/31</b> | <b>2,916,788</b> | <b>3,229,159</b> |

|  | 2007<br>Euro | 2006<br>Euro |
|--|--------------|--------------|
| Fair value of pension plan reinsurance | 2,036,152    | 1,923,742    |

Actuarial gains recognized in the reporting period came to 50 thousand Euro in 2007 (2006: losses of 3 thousand Euro).

Income from pension plan reinsurance amounts to 110,137 Euro (2006: 174,337 Euro) including payments made in the event of death. Premiums of 318,042 Euro are paid (2006: 290,681 Euro).

There are also indirect pension commitments to Management Board members of ELMOS Semiconductor AG which require 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 2007 the contributions to these pension plans amounted to 431,743 Euro (2006: 341,048 Euro).

The employer's social security contributions made for employees amounted to 3,868,617 Euro in 2007 (2006: 3,339,327 Euro). The contributions to employees' direct insurance came to 12,000 Euro in 2007.

The amounts of the current reporting period and the three preceding reporting periods are as follows:

|   | 2007<br>Euro | 2006<br>Euro | 2005<br>Euro | 2004<br>Euro |
|---|--------------|--------------|--------------|--------------|
| Pension liabilities                                 | 2,916,788    | 3,229,159    | 3,006,721    | 2,649,311    |
| Fair value of pension plan reinsurance              | -2,036,152   | -1,923,742   | -1,749,405   | -1,110,719   |
| Underfunding (-)                                    | -880,636     | -1,305,417   | -1,257,316   | -1,538,592   |
| Adjustments to plan liabilities based on experience | -12,878      | 124,078      | 173,540      | 41,738       |
| Adjustments to plan assets based on experience      | 0            | 0            | 0            | 0            |

Because of the first-time adoption of IFRS in the year 2004, a corresponding statement for the reporting period 2003 as provided for by IAS 19.120A (p) has not been made.

## 25 Financial liabilities

### Non-current financial liabilities

The non-current financial liabilities as of December 31, 2007 are made up as follows.

|  |                | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|--|----------------|--------------------|--------------------|
| <b>Sparkasse Frankfurt/Oder, loan</b>                            |                |                    |                    |
| Annual interest rate   | 4.99%          |                    |                    |
| Effective interest rate  | 5.63%          |                    |                    |
| Payment  | monthly        |                    |                    |
| Interest   | 8,779 Euro     |                    |                    |
| Maturity   | January 2011   | 173,560            | 293,089            |
| <b>Sparkasse Frankfurt/Oder, loan</b>                            |                |                    |                    |
| Annual interest rate   | 5.399%         |                    |                    |
| Effective interest rate  | 5.98%          |                    |                    |
| Payment  | monthly        |                    |                    |
| Interest   | 28,175 Euro    |                    |                    |
| Maturity   | March 2012     | 189,546            | 0                  |
| <b>BMW Bank GmbH, loan</b>                                       |                |                    |                    |
| Annual interest rate   | 5.12%          |                    |                    |
| Effective interest rate  | 6.49%          |                    |                    |
| Payment  | monthly        |                    |                    |
| Interest   | 1,370 Euro     |                    |                    |
| Maturity   | October 2007   | 0                  | 34,844             |
| <b>Sparkasse Frankfurt/Oder, loan</b>                            |                |                    |                    |
| Annual interest rate   | 5.65%          |                    |                    |
| Effective interest rate  | 5.80%          |                    |                    |
| Payment  | monthly        |                    |                    |
| Interest   | 37,171 Euro    |                    |                    |
| Maturity   | September 2016 | 590,249            | 640,700            |
| <b>Dortmunder Volksbank, loan</b>                                |                |                    |                    |
| Annual interest rate   | 5.50%          |                    |                    |
| Effective interest rate  | 5.69%          |                    |                    |
| Payment  | monthly        |                    |                    |
| Interest   | 46,250 Euro    |                    |                    |
| Maturity   | June 2013      | 10,000,000         | 0                  |
| <b>Sparkasse Dortmund, loan</b>                                  |                |                    |                    |
| Annual interest rate   | 5.38%          |                    |                    |
| Effective interest rate  | 5.49%          |                    |                    |
| Payment  | quarterly      |                    |                    |
| Interest   | 269,000 Euro   |                    |                    |
| Maturity   | July 2013      | 20,000,000         | 0                  |
| <b>Deutsche Bank AG, bonded loan</b>                             |                |                    |                    |
| Annual interest rate   | 5.63%          |                    |                    |
| Effective interest rate  | 5.96%          |                    |                    |
| Payment  | quarterly      |                    |                    |
| Interest   | 269,000 Euro   |                    |                    |
| Maturity   | July 2013      | 10,000,000         | 0                  |
| Finance lease  |                | 11,897,102         | 30,960,116         |
| <b>Total</b>   |                | <b>52,850,456</b>  | <b>31,928,749</b>  |
| Less current portion with remaining terms of up to twelve months |                | 1,228,175          | 3,643,766          |
|  |                | <b>51,622,281</b>  | <b>28,284,983</b>  |

## Current financial liabilities

As of December 31, 2007 the company had various current credit limits adding up to 50,369,065 Euro at its disposal. As of December 31, 2007 the company took advantage of these credit facilities to an amount of 36,084 Euro at an average interest rate of 6.5%. Current liabilities to banks also principally include checks in circulation to the amount of 1,078,750 Euro that were not yet cashed as of balance sheet date.

In addition, the portion of non-current financial liabilities with remaining terms of up to twelve months is disclosed under current financial liabilities.

|                                      | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|--------------------------------------|--------------------|--------------------|
| Current liabilities to banks         | 1,307,531          | 33,280,699         |
| Current portion of lease liabilities | 1,035,478          | 3,432,057          |
|                                      | <b>2,343,009</b>   | <b>36,712,756</b>  |

The following table lists all contractually framed payments for redemptions, repayments, and interest with respect to accounted financial liabilities as of December 31, 2007 and December 31, 2006, respectively. These are disclosed with the undiscounted payment flows including interest payment for the next fiscal years. Included are all payment flows from derivative financial instruments at positive and negative attributable fair values.

| December 31, 2007           | 2008<br>th. Euro | 2009<br>th. Euro | 2010-2012<br>th. Euro | ab 2013<br>th. Euro |
|-----------------------------|------------------|------------------|-----------------------|---------------------|
| Liabilities to banks        | 2,987,834        | 1,819,000        | 5,286,000             | 31,232,617          |
| Other finance debt          | 563,000          | 563,000          | 11,626,444            | 0                   |
| Finance lease liabilities   | 1,548,857        | 1,332,219        | 3,996,658             | 8,229,534           |
| Trade payables              | 14,589,724       | 0                | 0                     | 0                   |
| Other financial liabilities | 2,680,791        | 0                | 0                     | 0                   |

| December 31, 2006           | 2007<br>th. Euro | 2008<br>th. Euro | 2009-2011<br>th. Euro | from 2012<br>th. Euro |
|-----------------------------|------------------|------------------|-----------------------|-----------------------|
| Liabilities to banks        | 34,087,297       | 141,000          | 390,000               | 413,000               |
| Finance lease liabilities   | 4,756,033        | 3,486,384        | 9,930,904             | 21,068,127            |
| Trade payables              | 12,731,543       | 0                | 0                     | 0                     |
| Other financial liabilities | 1,030,433        | 146,084          | 0                     | 0                     |

The presentation of the liquidity analysis is based on the following assumptions: With respect to financial instruments at variable interest rates, the presentation of future interest payments is carried out on the basis of the current fixing. Foreign currency amounts have been translated at the current balance sheet date's exchange rate; the resulting amount has been used for the determination of future payments.

## 26 Other current and non-current liabilities

The other liabilities include as of balance sheet date:

|                               | 12/31/2007<br>Euro | 12/31/2006<br>Euro |
|-------------------------------|--------------------|--------------------|
| Tax liabilities               | 1,879,590          | 280,169            |
| Other current liabilities     | 4,594,667          | 4,428,490          |
| Other non-current liabilities | 2,533,246          | 354,307            |
|                               | <b>9,007,503</b>   | <b>5,062,966</b>   |

Tax liabilities essentially include income tax liabilities of foreign subsidiaries. Other current liabilities include, among other debt, wage income tax liabilities and social security contributions to be made.

Furthermore, in connection with the newly signed lease agreement with Exedra, the difference between the dissolved finance lease liability and the determined fair value of the leased assets is disclosed under other non-current liabilities. The amount is treated as a deferred item proportionally over the term of the lease agreement.

## 27 Trade payables

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

## 28 Market value of financial instruments

The carrying value of financial instruments such as receivables and payables approximates the fair value because of these financial instruments' current maturities.

The carrying value of liabilities to banks approximates the fair value, based on the fair value determined for the same or comparable loan particulars and the current interest rates 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 has 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 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 swap transaction, immaterial in 2006 and 2007, are immediately affecting net income and are recorded under liabilities.

The fair value of the interest swap, determined on the basis of official price offers, comes to 0 Euro as of December 31, 2007 (December 31, 2006: 76 Euro).

ELMOS pursues the strategy of covering 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 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.

Derivative transactions for hedging are generally assessed on the basis of current price offers. If a price cannot be determined, the assessment is made in accordance with suitable valuation procedures. The attributable fair value of derivative financial instruments corresponds to the amount ELMOS would have to pay or would be paid upon the financial instrument's termination as of balance sheet date. It is calculated in application of the exchange rates, interest rates, and securities of the contracting parties as of balance sheet date.

## 29 Other information on financial instruments

### Carrying values, valuation rates, and fair values according to valuation categories

With respect to the classification of financial instruments, the company follows IAS 39, as the spreading of risks within these valuation categories is similar.

The following table discloses the carrying values of each category of financial assets and financial liabilities.

| Euro  | Cat. | Carrying value<br>12/31/2007 | Valuation according to IAS 39 |                   |  | Valuation according to IAS 17 | Fair value<br>12/31/2007 | Carrying value<br>12/31/2006 | Valuation according to IAS 39 |                   |  | Valuation according to IAS 17 | Fair value<br>12/31/2006 |
|---|------|------------------------------|-------------------------------|-------------------|--|-------------------------------|--------------------------|------------------------------|-------------------------------|-------------------|--|-------------------------------|--------------------------|
|   |      |                              | Continued acquisition costs   | Acquisition costs | Not affecting/Affecting the net income at fair value |                               |                          |                              | Continued acquisition costs   | Acquisition costs | Not affecting/Affecting the net income at fair value |                               |                          |
| <b>Financial assets</b>                             |      |                              |                               |                   |  |                               |                          |                              |                               |                   |  |                               |                          |
| Other investments                                   | AfS  | 73,932                       |                               | 73,932            |  | 73,932                        | 126,154                  |                              | 126,154                       |                   |  |                               | 126,154                  |
| Trade receivables                                   | LaR  | 28,406,265                   | 28,406,265                    |                   |  | 28,406,265                    | 27,774,401               | 27,774,401                   |                               |                   |  |                               | 27,774,401               |
| Cash and cash equivalents                           | LaR  | 42,855,617                   | 42,855,617                    |                   |  | 42,855,617                    | 16,634,086               | 16,634,086                   |                               |                   |  |                               | 16,634,086               |
| <b>Other financial assets</b>                       |      |                              |                               |                   |  |                               |                          |                              |                               |                   |  |                               |                          |
| Other receivables and assets                        | LaR  | 905,511                      | 905,511                       |                   |  | 905,511                       | 937,750                  | 937,750                      |                               |                   |  |                               | 937,750                  |
| Other loans receivable                              | LaR  | 528,489                      | 528,489                       |                   |  | 528,489                       | 3,748,536                | 3,748,536                    |                               |                   |  |                               | 3,748,536                |
| <b>Total financial assets</b>                       |      | <b>72,769,814</b>            | <b>72,695,882</b>             | <b>73,932</b>     |  | <b>72,769,814</b>             | <b>49,220,927</b>        | <b>49,094,773</b>            | <b>126,154</b>                |                   |  |                               | <b>49,220,927</b>        |
| <b>Financial liabilities</b>                        |      |                              |                               |                   |  |                               |                          |                              |                               |                   |  |                               |                          |
| Trade payables                                      | OL   | 14,589,724                   | 14,589,724                    |                   |  | 14,589,724                    | 12,731,544               | 12,731,544                   |                               |                   |  |                               | 12,731,544               |
| Liabilities to banks                                | OL   | 32,068,188                   | 32,068,188                    |                   |  | 32,044,501                    | 34,037,623               | 34,037,623                   |                               |                   |  |                               | 34,009,222               |
| Other finance debt                                  | OL   | 10,000,000                   | 10,000,000                    |                   |  | 9,917,510                     | 0                        |                              |                               |                   |  |                               |                          |
| Finance lease liabilities                           | N/A  | 11,897,102                   | 11,897,102                    |                   | 11,897,102   | 10,327,958                    | 30,960,116               | 30,960,116                   |                               |                   | 30,960,116   | 29,278,840                    |                          |
| <b>Other financial liabilities</b>                  |      |                              |                               |                   |  |                               |                          |                              |                               |                   |  |                               |                          |
| Derivatives without hedging relationship            | HfT  | 0                            |                               | 0                 |  | 0                             | 0                        |                              |                               | 0                 |  |                               | 0                        |
| Other remaining financial liabilities               | OL   | 2,680,791                    | 2,680,791                     |                   |  | 2,680,791                     | 1,176,517                | 1,176,517                    |                               |                   |  |                               | 1,176,517                |
| <b>Total financial liabilities</b>                  |      | <b>71,235,805</b>            | <b>71,235,805</b>             |                   | <b>11,897,102</b>                                    | <b>69,560,484</b>             | <b>78,905,800</b>        | <b>78,905,800</b>            |                               |                   | <b>30,960,116</b>                                    | <b>77,196,122</b>             |                          |
| <b>Aggregated according to valuation categories</b> |      |                              |                               |                   |  |                               |                          |                              |                               |                   |  |                               |                          |
| Finance lease (N/A)                                 |      | 11,897,102                   |                               |                   | 11,897,102   | 10,327,958                    | 30,960,116               |                              |                               |                   | 30,960,116   | 29,278,840                    |                          |
| Loans and receivables (LaR)                         |      | 72,695,882                   | 72,695,882                    |                   |  | 72,695,882                    | 49,094,773               | 49,094,773                   |                               |                   |  | 49,094,773                    |                          |
| Available for sale (AFS)                            |      | 73,932                       |                               | 73,932            |  | 73,932                        | 126,154                  |                              | 126,154                       |                   |  | 126,154                       |                          |
| Held for trading (HfT)                              |      |                              |                               |                   |  |                               |                          |                              |                               |                   |  |                               |                          |
| Held to maturity (HtM)                              |      |                              |                               |                   |  |                               |                          |                              |                               |                   |  |                               |                          |
| Other liabilities (OL)                              |      | 59,338,703                   | 59,338,703                    |                   |  | 59,232,526                    | 47,945,684               | 47,945,684                   |                               |                   |  | 47,917,283                    |                          |

## Notes to the income statement

The following table shows the net income and net loss from financial instruments recognized in the income statement.

|                       | <b>2007</b><br><b>Euro</b> | <b>2006</b><br><b>Euro</b> |
|-----------------------|----------------------------|----------------------------|
| Loans and receivables | 871,373                    | 234,550                    |
| Held for trading      | 18,449                     | – 39,739                   |
| Other liabilities     | – 141,860                  | – 77,396                   |

ELMOS recognizes valuation adjustments of trade receivables classifiable as loans and receivables under other operating expenses. Losses from foreign currency translations of financial assets classifiable as loans and receivables result from trade receivables for the most part. Net gains and losses contain value adjustments, debt loss, and interest and dividend income or expenses. With respect to securities held for trading, net income and losses also include capital gains and losses.

In the result of the subsequent measurement of financial instruments classifiable as held for trading, interest and currency effects are included.

Expenses classifiable as other liabilities result from exchange rate differences of trade payables.

The interest on financial instruments is disclosed under interest income (please refer to note 8).

## 30 Financial risk management and financial derivatives

### Basic principles of risk management

ELMOS Semiconductor AG includes the various measures for risk management within the group in an integrated and consistent risk management system. The system provides for the regular identification and assessment of new and known risks by the respective employees in charge and establishes a closed loop reporting system. In addition, the business units of the ELMOS Group give reports on the development of finances and operations on a monthly basis. By these measures, Management Board and Supervisory Board are informed about the risk situation regularly and in good time and are thus enabled to decide on appropriate measures for risk minimization and risk prevention.

The risk management system fulfills the requirements of Section 91 (2) AktG and has been audited by the auditing firm for its compliance with the provisions of commercial law and corporate law and found capable of recognizing developments that could jeopardize the company's continued existence at an early stage.

In the year under report the system was advanced, sharpening the focus on risks of the highest priority rating. The risk management system will be expanded continuously and advanced in response to a changing legal and economic framework in the future.

With respect to its assets, liabilities, planned transactions, and firm commitments, ELMOS is particularly exposed to credit risks, liquidity risks, and risks from changes in exchange rates and interest rates. The financial risk management aims at limiting these market risks due to operating and finance-oriented activities. It is the strategy of ELMOS to hedge interest and exchange rate risks by applying suitable instruments such as corresponding derivative products. The company enters from time to time into forward exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with committed exposures. 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 basics of the corporate finance policy are determined annually by the Management Board and monitored by the Supervisory Board. The implementation of the finance policy and the operation of the risk management are the responsibility of the Management Board.

### Credit risk

The liquid assets essentially include cash and cash equivalents. With respect to the investment of liquid assets, the group is exposed to losses due to credit risk if banks do not fulfill their obligations. ELMOS manages the resulting risk position by a diversification of the contracting parties. Liquid assets are invested only with reputable parties of high credit ratings.

Trade receivables primarily originate from sales activities concerning microelectronic components and system parts as well as function-related technological units. The customers are primarily automotive suppliers, to a lesser extent companies of the industrial sector and consumer goods industry. The accounts receivables are monitored continuously and for the most part centralized. Contingency risks are met with specific allowances for bad debt and blanket allowances. The arrangement of the specific terms of payment also reflects the historic development of the customer-supplier relationship. With respect to new customers, creditworthiness information is gathered as well. The business transactions with key customers are subject to special contingency risk supervision. The maximum contingency risk is reflected by the carrying amounts of the financial assets disclosed in the balance sheet.



### Liquidity risk

The liquidity risk of ELMOS addresses the contingency that the company might not be able to fulfill its financial obligations anymore, e.g. the payment of finance debt, the payment of trade payables, and the payment obligations from lease agreements. A liquidity reserve of cash and credit limits is provided so that this risk will not materialize and the liquidity and financial flexibility of ELMOS are assured at any time. In addition, the group's liquidity is constantly monitored. Further information about available credit limits can be found under note 25.

### Financial market risks

Because of its international business activity, ELMOS is exposed to market price risks due to changes of exchange rates and interest rates. These market price risks may have a negative effect on the group's financial position and results from operations.

#### a) Foreign exchange rate risk

Because of the international orientation, the operating business as well as the reported financial results and the cash flows are exposed to risks due to exchange rate fluctuations. These occur principally between U.S. dollar and the Euro.

The exchange rate risks borne by ELMOS result from operating activities, investments, and funding measures. The individual group companies conduct business for the most part in their respective functional currencies. Therefore the exchange rate risk of ELMOS from operating activities is regarded as low. Insofar operating activities are conducted in foreign currencies by the separate group companies, the effect is usually balanced within the group. Furthermore, services are paid in U.S. dollar, such as assembly services from Southeast Asia or the acquisition of producer's goods typically offered on the global semiconductor market in U.S. dollar. There are also group-internal commitments such as foreign-currency loans granted to group companies for funding purposes.

Apart from the so-called natural hedging, i.e. when specific incoming U.S. dollar payments face corresponding outgoing payments within a short period of time, hedging activities take place in certain cases. Foreign currency risks not affecting the group's cash flows (i.e. risks resulting from the translation of foreign subsidiaries' assets and liabilities into the currency of the group's financial reporting) are generally not hedged. Due to insignificant scale, ELMOS was not exposed to material foreign currency risks as of balance sheet date.

Had the Euro been revalued (devalued) against the U.S. dollar by 10% as of December 31, 2007, the result from operations would have been 579,778 Euro higher (708,548 Euro lower) (December 31, 2006: 330,357 Euro higher (403,782 Euro lower)). The group's equity effect would be the same amount via the result effect.

#### b) Risk of changes in interest rates

The risk of changes in interest rates borne by ELMOS primarily results from finance debt such as variable-interest loans. ELMOS is exposed to interest risks primarily in the Euro area. The Management Board determines the target mix between fixed and variable-interest liabilities in regular intervals. The funding structure is realized on that basis. Interest derivatives are put to use if necessary.

Had the market interest level been higher (lower) by 10 basis points as of December 31, 2007, the result would have been 16,634 Euro lower (higher) (December 31, 2006: 73,356 Euro). The hypothetical result effect results from the potential effects from original variable-interest liabilities. The group's equity effect would be the same amount via the result effect.

#### c) Other price risks

In the company's opinion there is no other material price risk as of December 31, 2007 (2006).

## Capital assessment

It is the primary objective of the group's capital assessment to assure that a high credit rating and a sound equity ratio are maintained in support of the company's business operations and for maximizing the shareholder value.

The group controls its capital structure and makes adjustments in consideration of the economic framework. For the maintenance or adjustment of the capital structure, the group may e.g. pay adjusted dividends to the shareholders or issue new shares. As of December 31, 2007 and as of December 31, 2006 no changes were made to the objectives, guidelines, or procedures.

The group monitors its capital based on the debt ratio, which corresponds to the net debt to equity ratio (gearing), the absolute amount of net debt, and the equity ratio. The net debt includes current and non-current financial liabilities less cash and cash equivalents as well as securities, without consideration of discontinued operations. The equity includes the equity attributable to shareholders of the parent less unrealized gains. The equity ratio presents the equity in proportion to total assets.

|              | 2007        | 2006        |
|--------------|-------------|-------------|
| Net debt     | 11.1 m Euro | 48.4 m Euro |
| Debt ratio   | 6.9%        | 31.8%       |
| Equity ratio | 64.2%       | 62.1%       |

## Other information

### 31 Subsidies

ELMOS receives subsidies utilized for funding 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 (643,942 Euro as of December 31, 2007, 0 Euro as of December 31, 2006). Subsidies used for research and development projects were offset against research and development expenses (298,157 Euro in 2007, 362,586 Euro in 2006). Subsidies for capital expenditures for property, plant and equipment of 1,110,734 Euro were recognized as reduction of acquisition costs in the current year.

### 32 Other financial obligations and contingent liabilities

The company has entered into non-cancelable rental and lease agreements for a plant and an administration building, an employee center, a parking garage, and another office building, whose terms extend until 2014, 2020, 2021, 2022, and 2030. The company has also entered into lease agreements for technical equipment and machinery as well as furniture and office equipment, whose terms extend until 2008 and, in individual cases, until 2011. Furthermore, there are lease agreements for the car pool, office machines, and technical equipment and machinery to a customary extent.

The company entered into an agreement in 2005 for the provision of research and development services as well as the use of a production line with a contract term until 2015.

On December 16, 2005 ELMOS entered into a real estate agreement for a service building with a cafeteria and recreation rooms with LABRUM Grundstücks- und Vermietungsgesellschaft mbH & Co. Objekt Eins KG, Düsseldorf, over a term of nine years. The annual lease amounts to 518 thousand Euro. The lease is raised by 1.0% per annum each calendar year, on December 16, 2006 for the first time. The agreement is not cancelable over the lease term. After the completion of the term of lease, ELMOS is entitled to demand the extension of the lease contract for another five years.

Within the framework of the newly negotiated lease agreement with

Exedra, ELMOS is committed to total lease payments of 30,871,320 Euro until 2020 (see note 14).

SMI entered into a real estate leasing agreement on January 26, 2006 for a property including the factory erected on this property with McCarthy Manager LLC, Washington/U.S.A. The contract provides for a term of 15 years. The monthly lease is 60,000 USD, with the provision of an annual adjustment according to the U.S. Consumer Price Index. The agreement is not cancelable over the lease term. After the completion of the term of lease, SMI is entitled to demand the extension of the lease contract for another 10 years.

The total expenditure for rental and lease agreements amounted to 18,559,477 Euro in 2007 and 14,200,331 Euro in 2006. As of December 31, 2007 future minimum payments owed from non-cancelable contracts with initial terms or remaining terms of more than one year are as follows:

|             | <b>Rental and lease payments<br/>(finance lease not included)<br/>Euro</b> |
|-------------|--|
| 2008        | 22,164,937   |
| 2009        | 18,559,890   |
| 2010        | 17,347,505   |
| 2011        | 12,494,415   |
| 2012        | 10,775,351   |
| Later years | 45,212,369   |
|             | <b>126,554,467</b>   |

The carrying value of financial assets pledged as security by a subsidiary for a bank loan comes to 410 thousand Euro. The security comes in the shape of first-ranking land charge on a building object. As of balance sheet date, ELMOS has not furnished securities according to IFRS 7.14.

## 33 Acquisitions

ELMOS acquired 20% of the shares of DMOS Dresden MOS Design GmbH, Dresden on May 10, 2007. The company's business objective is the development, manufacture and sale of integrated circuits and electronic systems. The interest's acquisition costs came to 49,000 Euro. Despite the fact that ELMOS has no control over the company from a formal viewpoint, the investment company was included in the consolidated financial statements according to SIC 12 as ELMOS receives the majority of the benefit from DMOS from an economic viewpoint and holds an option on the acquisition of further 54.8% of the shares, exercisable at any time. The company was included in the consolidated financial statements in previous years.

## 34 Group companies

According to IAS 27, the consolidated financial statements shall include the parent company and the subsidiaries under the parent's legal and effective control.

Accordingly, the consolidated financial statements include the following companies:

|  | <b>Capital share<br/>(indirect and direct) in %</b> |
|--|---|
| <b>Parent company</b>  |   |
| ELMOS Semiconductor AG, Dortmund                                     |   |
| <b>Subsidiaries</b>  |   |
| 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 Industries GmbH, Hanau   | 49.0  |
| ELMOS N.A. Inc., Farmington Hills/U.S.A.                             | 100.0   |
| ELMOS Quality Services B.V., Nijmegen/Netherlands                    | 100.0   |
| ELMOS Semiconductor Süd GmbH, Munich                                 | 100.0   |
| ELMOS Services B.V., Nijmegen/Netherlands                            | 100.0   |
| European Semiconductor Assembly (eurasem) B.V., Nijmegen/Netherlands | 100.0   |
| DMOS Dresden MOS Design GmbH, Dresden                                | 20.0  |
| GED Gärtner Electronic Design GmbH, Frankfurt/Oder                   | 73.9  |
| IndustrieAlpine Bauträger GmbH, Munich                               | 51.0  |
| Mechaless Systems GmbH, Karlsruhe                                    | 51.0  |
| Micro Systems on Silicon (MOS) Limited, Pretoria/South Africa        | 67.6  |
| Silicon Microstructures Inc., Milpitas/U.S.A.                        | 100.0   |

### Companies accounted for in the consolidated financial statements under the equity method

attoSENSOR GmbH, Penzberg (45% interest as of December 31, 2007) is accounted for in accordance with the equity method. The valuation of the investment corresponds with a memo value of 1 Euro subsequent to impairment carried out in the previous year.

## Information on share property

|  | Currency | Interest % | Equity in th. Euro/<br>national<br>currency | Result in th. Euro/<br>national<br>currency |
|--|----------|------------|---|---|
| <b>Germany</b>   |          |            |   |   |
| Advanced Appliances Chips GmbH, Riedstadt                                  | Euro     | 33.33      | 271   | 184 <sup>1</sup>                            |
| attoSENSOR GmbH, Penzberg  | Euro     | 45.00      | 60  | 7 <sup>1</sup>                              |
| ELMOS Central IT Services GmbH & Co. KG, Dortmund                          | Euro     | 100.00     | 173   | 168 <sup>2</sup>                            |
| ELMOS Facility Management GmbH & Co. KG, Dortmund                          | Euro     | 100.00     | 92  | 338 <sup>2</sup>                            |
| ELMOS Semiconductor Süd GmbH, Munich                                       | Euro     | 100.00     | 175   | - 2 <sup>2</sup>                            |
| Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz | Euro     | 100.00     | 30  | 6 <sup>1</sup>                              |
| GED Gärtner Electronic Design GmbH, Frankfurt/Oder                         | Euro     | 73.90      | 1,000                                       | 282   |
| Gesellschaft für Halbleiterprüftechnik mbH, Dortmund                       | Euro     | 100.00     | -   | - <sup>3</sup>                              |
| IndustrieAlpine Bauträger GmbH, Munich                                     | Euro     | 51.00      | - 865                                       | - 114                                       |
| Mechalless Systems GmbH, Karlsruhe   | Euro     | 51.00      | 741   | 8   |
| ELMOS Industries GmbH, Hanau   | Euro     | 49.00      | - 755                                       | - 693                                       |
| DMOS Dresden MOS Design GmbH, Dresden                                      | Euro     | 20.00      | 625   | 216   |
| <b>Other countries</b>   |          |            |   |   |
| ELMOS Services B.V., Nijmegen (NL)   | Euro     | 100.00     | 91,643                                      | 11,804                                      |
| ELMOS Advanced Packaging B.V., Nijmegen (NL)                               | Euro     | 100.00     | - 1,175                                     | - 2,133 <sup>2</sup>                        |
| ELMOS Design Services B.V., Nijmegen (NL)                                  | Euro     | 100.00     | - 2,425                                     | - 735 <sup>2</sup>                          |
| ELMOS Quality Services B.V., Nijmegen (NL)                                 | Euro     | 100.00     | 12,298                                      | 318 <sup>2</sup>                            |
| European Semiconductor Assembly (Eurasem) B.V., Nijmegen (NL)              | Euro     | 100.00     | 31,547                                      | 0 <sup>2</sup>                              |
| Micro Systems on Silicon (MOS) Limited, Pretoria (SA)                      | ZAR      | 67.60      | - 592                                       | - 559 <sup>2</sup>                          |
| EL-MOS France S.A., Nanterre (F)   | Euro     | 100.00     | 2,238                                       | 1,166                                       |
| ELMOS USA Inc., Michigan (U.S.A.)  | USD      | 100.00     | -   | - <sup>3</sup>                              |
| ELMOS California Inc., Milpitas (U.S.A.)                                   | USD      | 100.00     | - 296                                       | 24 <sup>2</sup>                             |
| ELMOS N.A. Inc., Farmington Hills (U.S.A.)                                 | USD      | 100.00     | - 3,005                                     | 912 <sup>2</sup>                            |
| Silicon Microstructures Inc., Milpitas (U.S.A.)                            | USD      | 100.00     | - 3,889                                     | - 8,392 <sup>2</sup>                        |

<sup>1</sup> Presented figures are based on preliminary, unaudited financial statements as of December 31, 2007.

<sup>2</sup> Indirect share property of ELMOS Semiconductor AG, Dortmund.

<sup>3</sup> The company's financial statements are not yet available.

## 35 Information on Management Board and Supervisory Board

### Remuneration of Management Board and Supervisory Board in 2007

|                   | Fixed remuneration<br>th. Euro | Variable remuneration<br>th. Euro | Stock awards<br>th. Euro |
|-------------------|--------------------------------|-----------------------------------|--------------------------|
| Management Board  | 1,655                          | 185                               | 65                       |
| Supervisory Board | 92                             | 0                                 | 0                        |

The remuneration paid to former Management Board members or their dependants amounted to 79 thousand Euro in the fiscal year 2007 (2006: 132 thousand Euro). In addition, insurance premiums of 200 thousand Euro were paid (2006: 53 thousand Euro). The pension provision amount is 2,536 thousand Euro as of December 31, 2007 (2006: 1,494 thousand Euro). For other services, particularly consultation services, the company paid compensations of 377 thousand Euro to members of the Supervisory Board (2006: 281 thousand Euro).

The Annual General Meeting of May 19, 2006 decided with the required three-quarter majority not to make the disclosures provided for by Section 285 (1) no. 9a sentences 5-9 HGB over the next five years.

## 36 Shares and share options held by Management Board and Supervisory Board members

As of December 31, 2007 the following members of Management Board and Supervisory Board held ELMOS shares and share options:

#### Management Board

|                           |               |                |
|---------------------------|---------------|----------------|
| Dr. Anton Mindl           | 12,225 shares | 0 options      |
| Reinhard Senf             | 3,923 shares  | 40,000 options |
| Dr. Frank Rottmann        | 1,975 shares  | 6,200 options  |
| Nicolaus Graf von Luckner | 2,975 shares  | 0 options      |

#### Supervisory Board

|                         |               |                |
|-------------------------|---------------|----------------|
| Prof. Dr. Günter Zimmer | 0 shares      | 0 options      |
| Dr. Burkhard Dreher     | 1,900 shares  | 0 options      |
| Jörns Haberstroh        | 3,956 shares  | 0 options      |
| Dr. Klaus Weyer         | 10,000 shares | 25,000 options |
| Dr. Peter Thoma         | 9,200 shares  | 40,000 options |
| Jutta Weber             | 200 shares    | 0 options      |

## 37 Information on auditor's fees

The companies within the ELMOS Group received the following services rendered by Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, appointed group auditor, in the fiscal year 2007:

|   | 2007<br>th. Euro |
|---|------------------|
| Audit                                       | 134              |
| Other certification and assessment services | 208              |
| Tax counseling services                     | 144              |
| Other services                              | 2                |
|   | <b>488</b>       |

## 38 Appropriation of retained earnings

The Management Board proposes (with the agreement of the Supervisory Board) to carry forward the retained earnings of ELMOS Semiconductor AG of 39,621,311.85 Euro to new accounts.

## 39 Information according to Section 160 AktG

Listed are all directors' dealings of the year 2007 with respect to shares of ELMOS Semiconductor AG (ISIN DE0005677108). The issuer is ELMOS Semiconductor AG, Heinrich-Hertz-Str. 1, 44227 Dortmund, Germany.

| Date/Place                       | Name                      | Function  | Transaction                | Number | Price/Exercise price in Euro | Total volume in Euro |
|----------------------------------|---------------------------|---|----------------------------|--------|------------------------------|----------------------|
| Sept. 28, 2007<br>Frankfurt/Main | Dr. Anton Mindl           | CEO   | Purchase of ELMOS shares   | 1,000  | 7.55                         | 7,550                |
| Nov. 7, 2007<br>Xetra            | Dr. Anton Mindl           | CEO   | Purchase of ELMOS shares   | 1,000  | 7.52                         | 7,520                |
| Nov. 8, 2007<br>off-market       | Dr. Anton Mindl           | CEO   | Assignment of ELMOS shares | 2,975  | 7.25                         | 21,569               |
| Nov. 8, 2007<br>off-market       | Nicolaus Graf von Luckner | CFO   | Assignment of ELMOS shares | 1,975  | 7.25                         | 14,319               |
| Nov. 8, 2007<br>off-market       | Dr. Frank Rottmann        | Management Board member for Development and Sales | Assignment of ELMOS shares | 1,975  | 7.25                         | 14,319               |
| Nov. 8, 2007<br>off-market       | Reinhard Senf             | Management Board member for Production            | Assignment of ELMOS shares | 1,975  | 7.25                         | 14,319               |

## 40 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 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% or more, a position on the Management Board or Supervisory Board of ELMOS Semiconductor AG, or another key function in management.

In the fiscal year 2007 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

2007 the ELMOS Group provided supplies of 430 thousand Euro (2006: 739 thousand Euro) to unconsolidated associates (AAC). The ELMOS Group received performances from attoSensor of 356 thousand Euro in 2007 (2006: 200 thousand Euro). Apart from the remuneration of Management Board and Supervisory Board disclosed under note 35, there are no material relationships with closely related persons.

Furthermore, companies of the ELMOS Group did not engage in any transactions subject to mandatory 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 for close relatives of said groups of people.

## 41 Number of employees

The average number of group employees was 1,177 in the fiscal year 2007 (2006: 1,131).

The average number of employees is split up as follows:

| Group                | 2007<br>Number | 2006<br>Number |
|----------------------|----------------|----------------|
| Salaried employees   | 709            | 655            |
| Industrial employees | 468            | 476            |
| <b>Total</b>         | <b>1,177</b>   | <b>1,131</b>   |

## 42 Subsequent events

The Annual General Meeting of ELMOS Semiconductor AG authorized the Management Board by shareholders' resolution of May 10, 2007 to purchase own stock of up to 10% of the share capital until November 9, 2008. The Management Board decided to start the share repurchase on January 30, 2008. The repurchase of a maximum number of 50,000 own shares (ISIN DE0005677108), or 0.26% of the share capital, was planned. By February 25, 2008 these 50,000 own shares were repurchased. The total purchase price was 297,547 Euro at an average price of 5.95 Euro per share.

No other events of particular importance have occurred.

## 43 Declaration of compliance according to Section 161 AktG

In December 2007 ELMOS Semiconductor AG issued the declaration of compliance required by Section 161 AktG and made it accessible to the shareholders on its Internet site. The declaration can also be requested from the company as a print publication and is quoted in the annual report at hand in the section "corporate governance".

# Responsibility statement by the Management Board

We assure to the best of our knowledge that the consolidated financial statements provide a presentation of the group's financial position and results from operations which corresponds with the actual conditions, in accordance with applicable accounting standards, and

that the group management report presents the course of business including the business result and the situation of the group in a way that corresponds to the actual conditions and describes the essential opportunities and risks of the probable future development.

Dortmund, March 2008



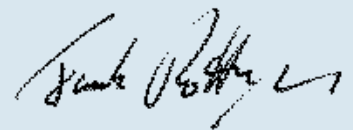
Dr. Anton Mindl



Nicolaus Graf von Luckner



Reinhard Senf



Dr. Frank Rottmann

# Auditor's certificate

We have issued the following auditor's certificate to the consolidated financial statements and the group management report:

"We have audited the consolidated financial statements prepared by ELMOS Semiconductor AG, Dortmund, consisting of consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and notes to the consolidated financial statements, as well as the group management report for the fiscal year ended December 31, 2007. The preparation of consolidated financial statements and group management report according to IFRS as applicable in the European Union and in compliance with the additional provisions of commercial law as applicable according to Section 315 a (1) HGB 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 management report on the basis of our audit.

In compliance with Section 317 HGB, we have conducted our audit in accordance with the German 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 presentation of financial position and results from operations as presented by the group management 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 management

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 management 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 and the additional provisions of commercial law as applicable according to Section 315 a (1) HGB, 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 management report is consistent with the consolidated financial statements, communicates an overall correct impression of the situation of the group, and describes the opportunities and risks of the future development coherently."

Dortmund, March 3, 2008

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Muzzu  
*Wirtschaftsprüfer*

Krebs  
*Wirtschaftsprüfer*



## APPENDIX

|                         |     |
|-------------------------|-----|
| 2007 at a glance        | 126 |
| Glossary                | 130 |
| Imprint                 | 133 |
| Financial calendar 2008 | 133 |

# 2007 at a glance

1/23/2007

Award as eco-friendly and socially committed company



We take sustainability and responsible resource management for granted. Kempen Capital Management and SNS Asset Management have honored this attitude and nominated ELMOS as a candidate for the Kempen/SNS Smaller Europe SRI. SRI stands for Social Responsibility Index. This index is the index of its kind focusing on European small caps which attach great importance to environmental protection and social concerns. ELMOS was also commended as a company which attaches special value to eco-friendliness and social matters.

3/27/2007

Standard IC package for high-temperature application



At a workshop ELMOS introduced new possibilities and solutions for the high-temperature application of semiconductors. The focus was directed to standard package technologies working under temperatures up to 200°C. The entire production chain from chip manufacture and packaging process to qualification and high-temperature testing was considered. The presented results were achieved within the framework of a research project promoted by the Federal Ministry of Education and Research.

JANUARY

FEBRUARY

MARCH

1/11/2007

Successful ESP microsystem ramp-up

2/14/2007

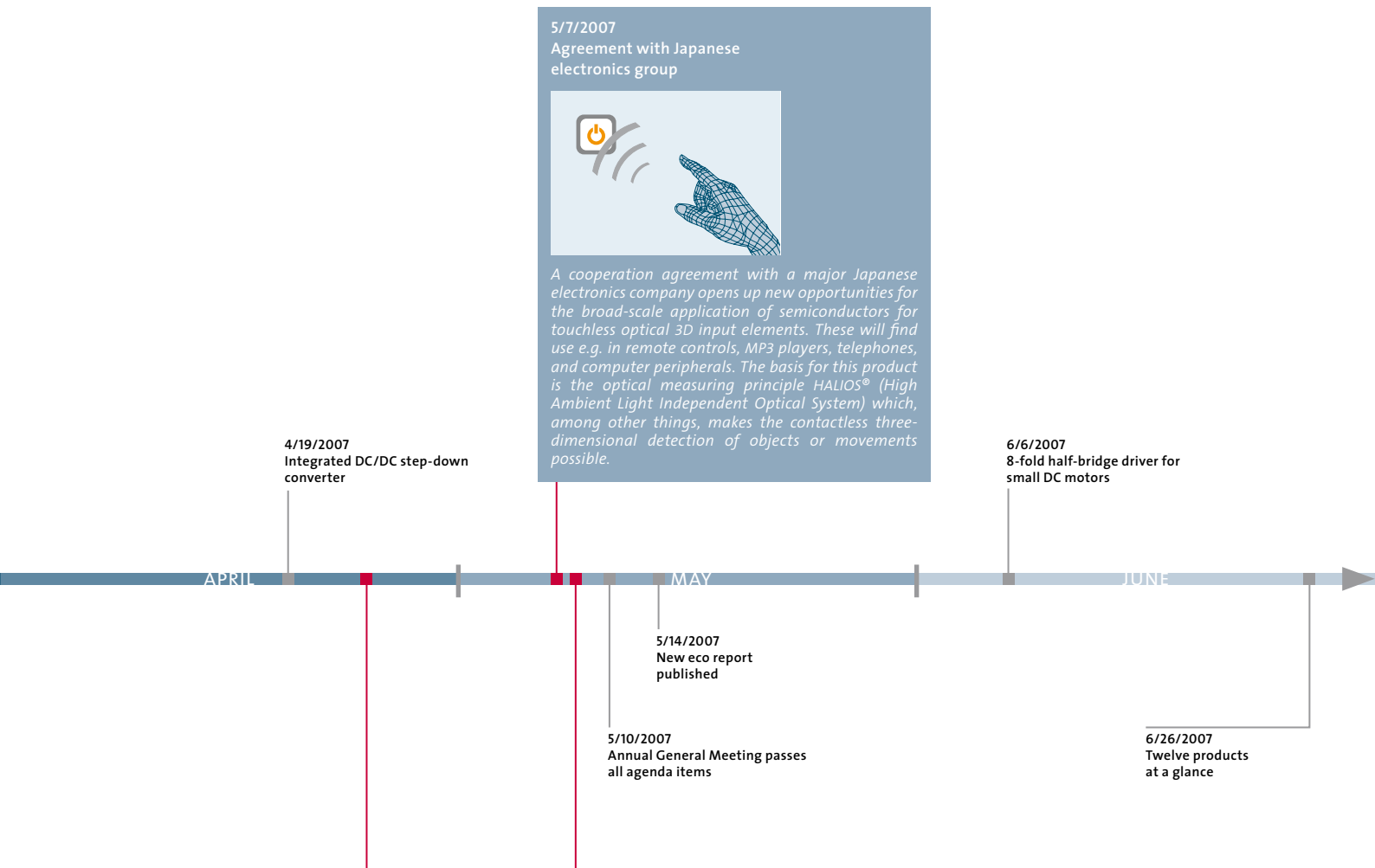
Solid upward trend

3/14/2007

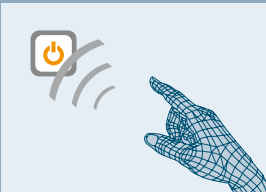
ELMOS increases sales and net income



The Management Board presented the financial statements 2006 in March. At the press conference and the analysts' conference, a 9.3% sales increase and a significant improvement of the free cash flow were announced. Strategic decisions for the expansion of business areas and cooperations were also highlighted. For example, Dr. Mindl explained the relocation of the assembly business to Asia.



**5/7/2007**  
 Agreement with Japanese electronics group




A cooperation agreement with a major Japanese electronics company opens up new opportunities for the broad-scale application of semiconductors for touchless optical 3D input elements. These will find use e.g. in remote controls, MP3 players, telephones, and computer peripherals. The basis for this product is the optical measuring principle HALIOS® (High Ambient Light Independent Optical System) which, among other things, makes the contactless three-dimensional detection of objects or movements possible.

**4/24/2007**  
 Extraordinary one-time expenses caused by U.S. subsidiary SMI



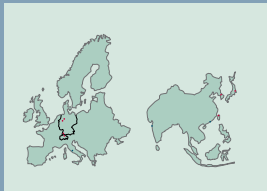
In order to seize market opportunities for microsystems more efficiently and reliably, ELMOS installed a new management at the U.S. subsidiary Silicon Microstructures Inc. (SMI). Requirements for restructuring and profit adjustments for 2007 were recognized as well. This also affected the location in the Netherlands. Due to delayed SMI product starts employees in the Netherlands had to be released. By the measures initiated, both locations have been integrated into the ELMOS strategy as more competitive and more efficient constituents.

**5/8/2007**  
 ELMOS with new web presence



More clarity, more content, more transparency – that was the central theme of the complete relaunch of the ELMOS website. The navigation provides a specific structure for each target group. With regard to products for instance, the totally revised structure now allows the search for applications, ASICs, and ASSPs. Furthermore, new content is being added to the website constantly, e.g. a 360° panoramic view of the corporate headquarters in Dortmund. This feature offers insights into e.g. wafer manufacture and the test area.

**8/2/2007**  
Distributors for standard products



*In 2007 we placed our distribution on a new basis with the selection of additional distributors. ELMOS and SMI now cooperate with altogether five partners in Europe. In Asia we also strengthened the sales activities with five distributors. The cooperation facilitates design wins and the logistic realization of new contracts for electronics used in automotive applications, industrial and consumer goods applications, and medical technology. The distributors are the ideal partners as they are distinguished by a broad customer portfolio, great understanding of applications, and high reliability.*

**8/15/2007**  
ELMOS starts repurchase of shares

**8/8/2007**  
Optical detection of approach and touch

**9/13/2007**  
Silicon Microstructures expands distribution channels

**8/1/2007**  
Microtechnologists complete professional training

**9/21/2007**  
Sensorless speed control of DC motors

**7/11/2007**  
Important follow-up orders won



*In the first half-year 2007 ELMOS won important follow-up orders for customer specific automotive semiconductors, so-called ASICs. The main emphasis was on the core competencies in the field of efficient motor drive for air-conditioning systems as well as various airbag ICs. Among the principals are customers in the automotive industry of many years. These follow-up orders furnish proof of the necessity of and the customers' confidence in specifically developed semiconductor solutions. The volume of these contracts provides solid foundations for the company's medium-term growth.*

**8/6/2007**  
Relocation of packaging completed



*By the middle of the year we completed the relocation of standardized chip packaging to Asia. The service providers in the Asian area met the high requirements successfully. ELMOS thus increases the purchase of services from the dollar area. ELMOS subsidiary, ELMOS Advanced Packaging in the Netherlands has since oriented its development and manufacture entirely towards special packages, as required e.g. for microsystems for pressure measuring or for optical*

**9/11/2007**  
DC motor controller with ripple detection

10/9/2007  
 BMW counts on ELMOS FlexRay™ chips



As the first company worldwide, ELMOS offers a 4-fold star coupler for the FlexRay™ network. BMW is convinced of the performance and chooses ELMOS as supplier. Start of series production is scheduled for mid-2008. The newly developed component replaces four conventional single transceivers and thus facilitates the realization of space and cost-optimized control units. Over the next years BMW will apply the high-speed network FlexRay™ as the new standard for time-critical applications.

11/23/2007  
 Successful customer workshop



In November we were pleased to welcome numerous representatives of the automotive industry at our customer workshop. Under the motto "Megatrends and Niches: Standardization, Modularization and Differentiation by Electronics", renowned speakers from Audi, BMW, Daimler, Ford, Hyundai-Kia, Opel, VW, and Tyco Electronics AMP presented current topics. The presentations covered a broad spectrum of subjects, such as the interface between development and production, motorbike electronics, chassis electronics, and on-board supply system architectures.

OCTOBER

NOVEMBER

DECEMBER

10/17/2007  
 ELMOS Industries at  
 SPS/IPC/Drives

10/31/2007  
 ELMOS records solid  
 growth

12/5/2007  
 PIR light controller for comfort  
 light applications

12/12/2007  
 German automotive industry  
 kicks off Innovation Alliance  
 Automotive Electronics

12/7/2007  
 Donation to  
 Dortmund Tafel e.V.

10/12/2007  
 ELMOS presents new product catalog



The new standard product catalog is even more extensive and gives proof of the business consolidation by application specific semiconductor and sensor components (ASSPs): 64 products are introduced on more than 130 pages. The products include chips for application in bus systems, DC/DC converters, motor drivers, ripple detection, sensors, sensor read-out circuits, and input/output components. The presented products are suited for use in automotive applications as well as industrial and consumer goods applications.

11/28/2007  
 ELMOS strengthens its  
 European distribution  
 network

# Glossary

## ASIC

An **A**pplication **S**pecific **I**ntegrated **S**ensor (ASIC) is a circuit developed individually for a specific application as opposed to standard components which are not configured in a customer specific way, for example voltage regulators, memory, processors.

## ASSEMBLY

The processing of a wafer towards a packaged chip.

## ASSP

An **A**pplication **S**pecific **S**tandard **P**roduct (ASSP) is an integrated circuit originally developed individually for a specific application. It can be sold to various customers as an application standard.

## BACKEND MANUFACTURE

The backend manufacture is the part of the semiconductor manufacturing process to be carried out after the wafer has left the clean room. The inspection of the chips on the wafer, burn-in, taping, and functional testing of the assembled components are part of this process.

## BIT

Information unit which can either assume the quantity “0” or “1”.

## BRUSHLESS DC MOTOR (EC/BLDC MOTOR)

For an EC/BLDC motor a control circuit (IC) creates an artificial three-phase current. By means of coils inside the stator a rotating magnetic field is generated.

## BURN-IN

A method for the artificial aging of electronic circuits and components used to detect so-called early failure. For burn-in, chips are exposed to high temperatures over a certain period of time.

## BUS

A communication system which allows the exchange of electronic or optical information. Among the standards used in automobiles are the following: LIN, CAN, MOST, and FlexRay™.

## BYTE

The byte is an information unit quantity. One byte contains eight bits.

## CAN

The CAN bus (**C**ontroller **A**rea **N**etwork) is an incident-controlled communication system with a transmission rate of up to 1Mbit/s. It is currently the most often used automotive network.

## CHIP

An electronic circuit which contains electrical functions realized in semiconductor material.

## CLEAN ROOM

A sealed-off part of a building where humidity, temperature and dust particle contamination are monitored and controlled precisely.

## CMOS

**C**omplementary **M**etal **O**xide **S**emiconductor (CMOS) is the basic technology for the production of microchips with a high integration rate and low energy consumption.

## CONNECT

The product group “connect” includes the chips used for the electrical linkage of applications or the configuration of networks. In the automotive product segment, these are among others components for application in LIN, CAN and FlexRay™ networks.

## DC/DC (DIRECT CURRENT TO DIRECT CURRENT)

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

## DC MOTOR

The DC motor (DC=**D**irect **C**urrent) is an electric motor energized with direct current. It can e.g. consist of a static inductor (or stator) and a rotor.

## DISTRIBUTORS

Distributors are business partners pushing the marketing and distribution primarily of standard products.

## DOPING

In microelectronics doping means the implantation of foreign atoms in very low concentration into a layer or the basic material of an IC for the manufacture of a chip. Thereby the characteristics of the layer or material are deliberately modified, most often affecting its conductivity or the crystal structure.

## DRIVE

The product group “drive” includes application specific products (ASSPs) used for driving electric motors. ELMOs has developed unique solutions with the ripple count and VirtuHall® procedures.

## EC MOTOR

For an EC/BLDC motor a control circuit (IC) creates an artificial three-phase current. By means of coils inside the stator a rotating magnetic field is generated.

#### ELECTRONIC CIRCUIT

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

#### EXPOSURE

Exposure means the selective processing of the photolayer through a photomask or reticle with the aim to change the dissolubility of this layer locally by means of a photochemical reaction. The reticles have a UV-transmissive protection layer.

#### FLASH

Flash memory is freely addressable. Flash memory does not lose its data if the electricity is turned off.

#### FLEXRAY™

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

#### FOUNDRY

A semiconductor manufacturing enterprise 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 processing methods under clean room conditions.

#### HALIOS®

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

#### INTEGRATED CIRCUIT, IC

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

#### IONIZATION

Ionization means that ions are generated (of positive and/or negative polarity) to e.g. neutralize electrically charged surfaces. The ionization systems devised for application in clean rooms are implemented in the airstream. By the release of positive and negative ions these are transported with the air to the various work areas and neutralize or at least minimize the charges of surfaces as well as particles.

#### JEDEC

Joint Electron Devices Engineering Council (JEDEC) is the standardization panel for the shapes of electronic packages.

#### LAYOUT

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

#### LED

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

#### LIN

The LIN bus (Local Interconnect Network) is an automotive communication network. It particularly connects comfort applications at a bandwidth of up to 20Kbit/s.

#### MEMS

Micro-Electro-Mechanical Systems (MEMS) are particularly sensors based on semiconductor technologies. They can detect pressure or tilt for example.

#### MICROMETER

One  $\mu\text{m}$  is one millionth of a meter.

#### MICROPROCESSOR/MICROCONTROLLER

An integrated, complex electronic unit which controls and operates an electronic system. Microprocessors are the central brains of an electronic system such as a computer.

#### MICROSYSTEM

A microsystem is the combination of sensorics and read-out electronics in a special package. Due to the high level of integration, a microsystem requires very little constructed space, among other advantages.

#### MIXED-SIGNAL

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

#### MOS

Metal-Oxide-Semiconductor (MOS) describes the setup of the central control device for the field effect in a particular category of semiconductor transistors.

**MOST PROTOCOL**

The MOST protocol is a network standard for products which require a high data bandwidth. MOST particularly connects infotainment and telematics applications.

**OEM**

An **O**riginal **E**quipment **M**anufacturer (OEM) is a manufacturer selling (partial) systems to a reseller. In the automotive industry OEMs are the car manufacturers.

**PPM**

Parts per million (one in a million).

**PRESSURE SENSOR**

The pressure sensor can detect low or high pressure, depending on the application, and transmit the data to the read-out electronics. Pressure sensors find use for instance in medical applications (e.g. respirators, blood pressure meters) or automotive applications (e.g. tire pressure).

**RECEIVER**

The receiver picks up (mostly electromagnetic) signals. The receiver is most often used in connection with the reception of high-frequency signals.

**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.

**SENSE**

The product group "sense" includes in particular the application specific products (ASSPs) able to measure, analyze or control physical measurements. Among those products are for instance pressure sensors.

**SENSOR**

An electronic unit which measures or detects a real physical quantity, e.g. motion, heat or light, and subsequently converts it into an analog or digital electrical signal.

**SILICON, SI**

The most common semiconductor material, used for the production of roughly 95 percent of all chips.

**SOI**

**S**ilicon-**o**n-**I**nsulator (SOI) is a special basic material for semiconductor production, showing a perfect vertical insulation achieved by the use of non-conducting intermediate layers.

**STAR COUPLER**

The star coupler is a network component connecting several circuits, comparable to a hub. Star couplers are used for example as central components of star-shaped networks in order to feed one signal into several circuits at the same time.

**STEPPER MOTOR**

A stepper motor is an electric motor whose rotor (rotary motor part) can be rotated at a certain angle by the clever choice of the stator coils energized (non-rotary motor part).

**SUPPLY**

The product portfolio termed „supply“ includes the semiconductor components needed to provide applications with power and voltage supply. One application example is LED voltage control.

**SYSTEM ON CHIP**

Progress in semiconductor manufacturing technology and design methodology makes it possible today to produce ASICs with several millions of transistors. The idea behind system on chip is to integrate as many complex functions into a chip as possible.

**TRANSCEIVER**

Transceiver is an invented word made up of transmitter and receiver. It indicates a combination of transmitter and receiver as a design-engineering component.

**TRANSISTOR**

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

**VIRTUHALL®**

The VirtuHall® method enables the sensorless detection of the rotor position of brushless DC motors. What is special with this method is that it works according to the same principle, from standstill to high motor revolutions, and is therefore not exposed to disturbances during transitions.

**WAFER**

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

**YELLOW ROOM**

Yellow room is a special term for clean rooms where photolithography is applied in semiconductor manufacture; because of the photo-sensitivity of the photoresist, these rooms are equipped with yellow light.



# Imprint

## INFORMATIVE MATERIAL

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

- ▶ Annual report
- ▶ Quarterly reports
- ▶ Code of conduct
- ▶ Eco report
- ▶ Our technology brochure
- ▶ Our manufacturing process brochure
- ▶ Our competencies brochure
- ▶ Our company (image brochure/company profile)
- ▶ Newsletter (quarterly)
- ▶ Product catalogue
- ▶ Product flyers for the application groups  
sense, drive, connect, supply

All listed documents can also be found on our Internet website at [www.elmos.de](http://www.elmos.de). If you want to subscribe to our ad hoc announcements and press releases, please send an e-mail to [invest@elmos.de](mailto:invest@elmos.de).

This annual report is also available in German.

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# Financial calendar

## FINANCIAL CALENDAR 2008

|                             |                  |
|-----------------------------|------------------|
| Financial Results 2007      | March 13, 2008   |
| Press Conference            | March 13, 2008   |
| Analysts' Conference        | March 13, 2008   |
| Quarterly Results Q1 / 2008 | April 30, 2008   |
| AGM in Dortmund             | May 8, 2008      |
| Quarterly Results Q2 / 2008 | August 13, 2008  |
| Quarterly Results Q3 / 2008 | November 5, 2008 |

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