Mobility 2020 and beyond

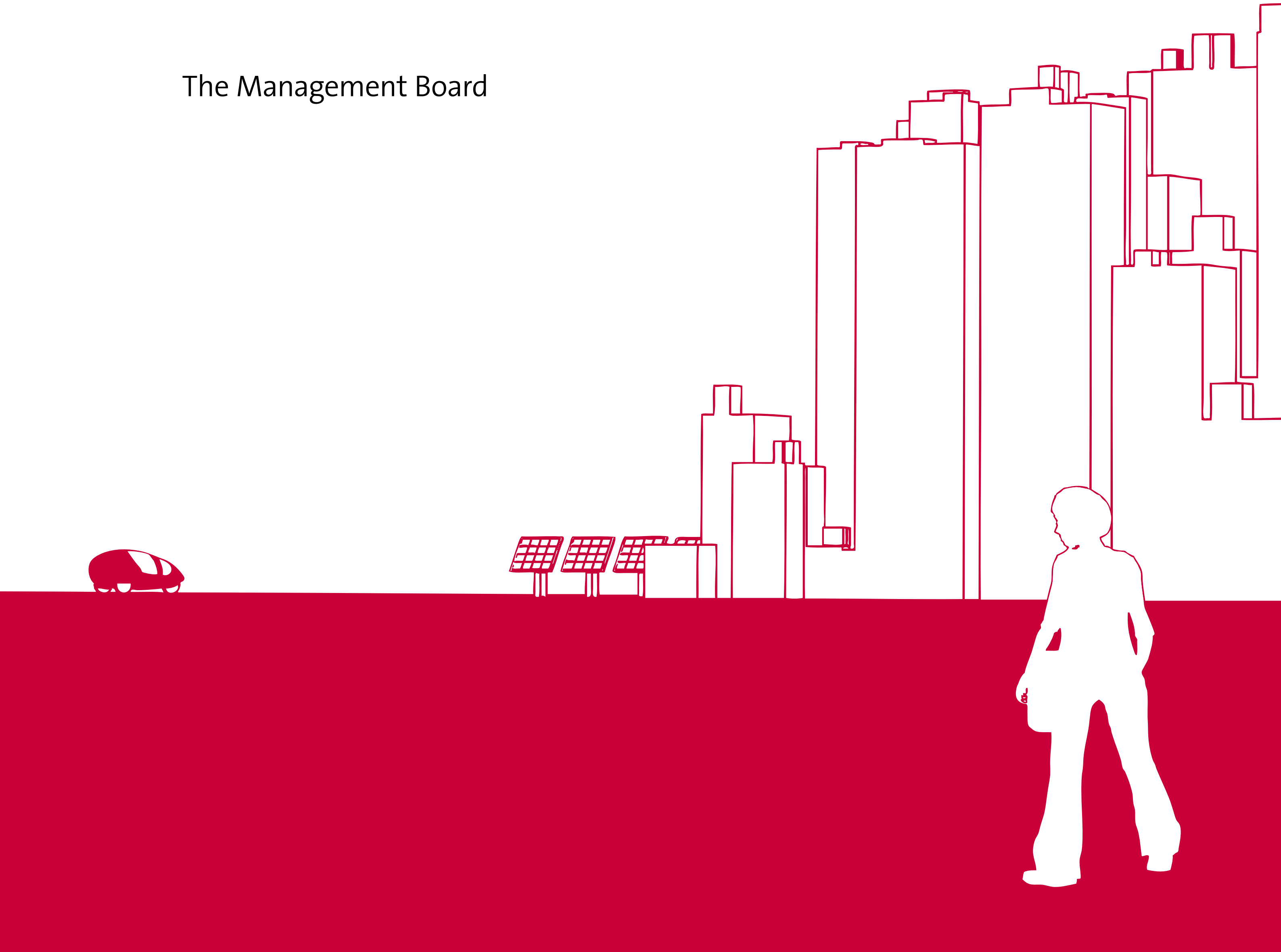
ANNUAL REPORT 2010

Note on the annual report 2010 of ELMOS Semiconductor AG

The consequences of the recent disastrous developments in Japan are currently not foreseeable and not reflected in the forecast of the annual report 2010. However, for ELMOS there are only marginal direct dependencies in terms of supply and customer relationships with Japan; indirect effects are currently not assessable.

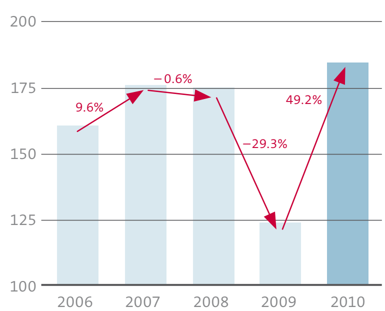
Dortmund, March 16, 2011

The Management Board

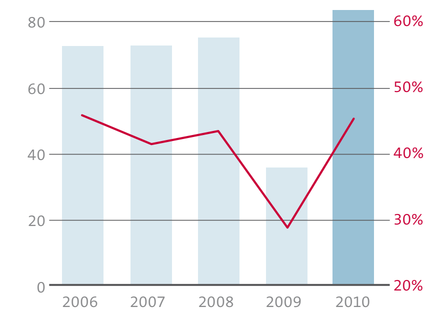


Five-Year Performance ELMOS Group

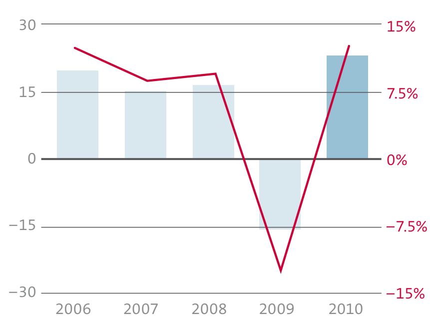
Sales in million Euro
and growth rate



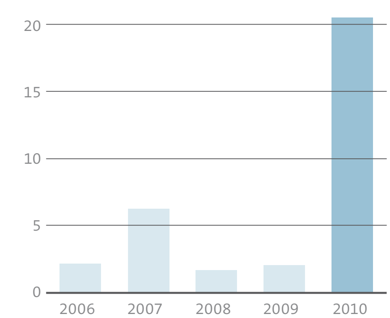
Gross profit in million Euro
and gross margin



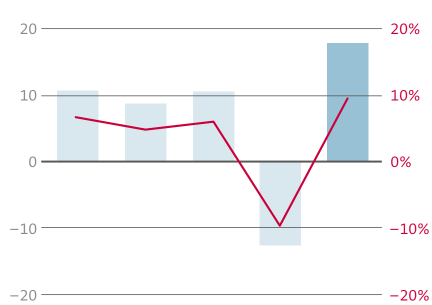
EBIT in million Euro
and EBIT margin



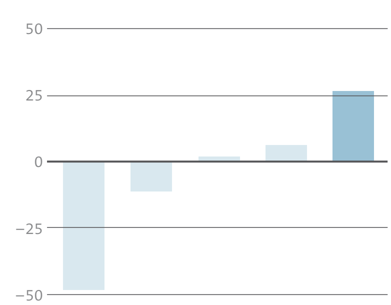
Adjusted free cash flow[3]
in million Euro



Net income in million Euro
and net income margin



Net cash/ (Net debt)
in million Euro



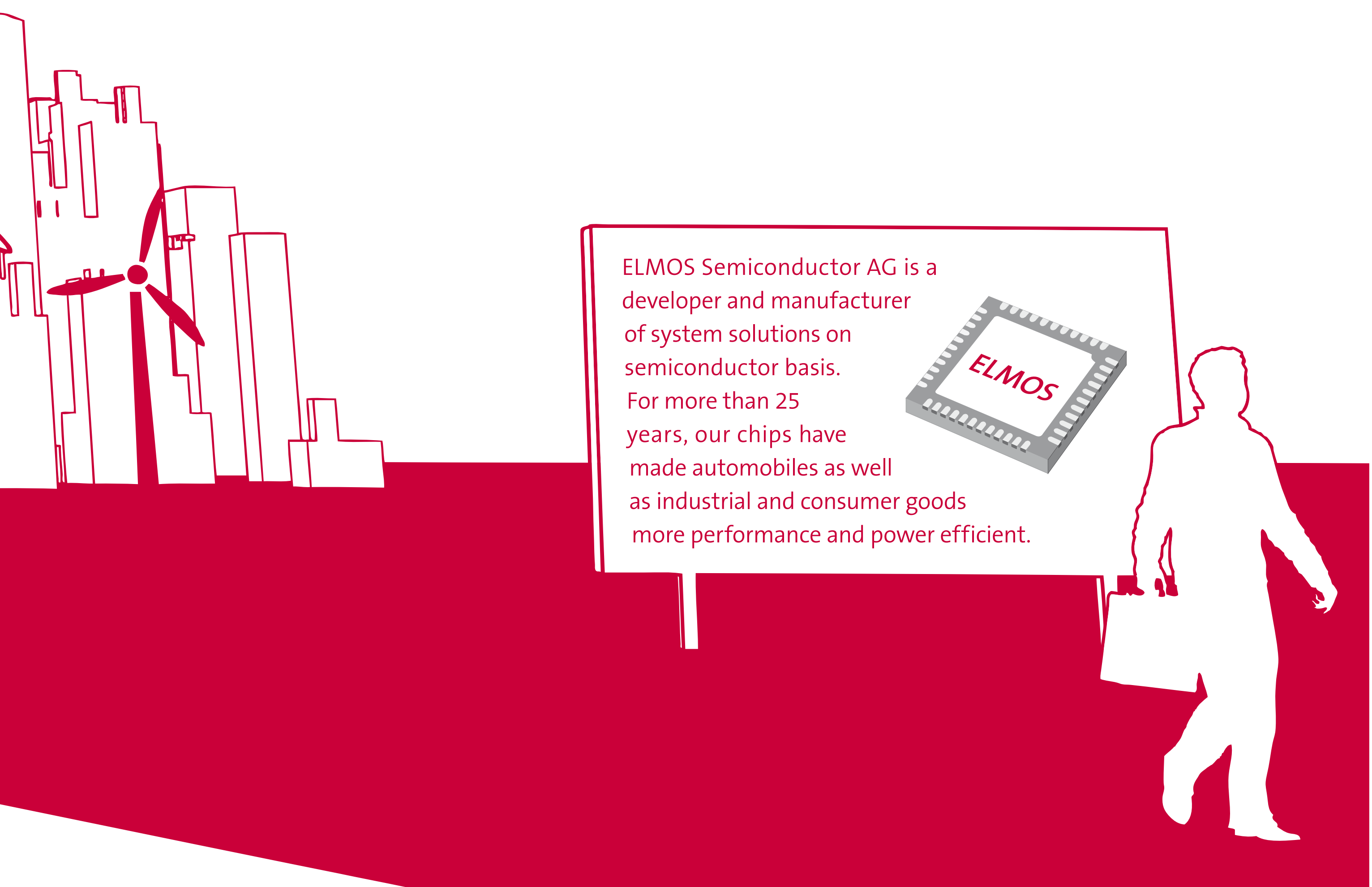
Five-Year Overview ELMOS Group (IFRS)

in million Euro unless otherwise indicated	2006	2007	2008	2009	2010
Sales	160.7	176.1	175.1	123.8	184.7
Sales growth	9.3%	9.6%	−0.6%	−29.3%	49.2%
Gross profit	73.0	73.1	75.6	35.9	83.8
Gross margin	45.5%	41.5%	43.2%	29.0%	45.3%
Research and development expenses	29.6	30.9	31.6	25.3	29.6
Research and development expenses in % of sales	18.4%	17.5%	18.1%	20.4%	16.0%
EBIT	19.8	15.2	16.5	−15.8	23.1
EBIT in % of sales	12.3%	8.6%	9.4%	−12.8%	12.5%
Income before income taxes	17.3	12.2	14.7	−17.3	21.7
Income before income taxes in % of sales	10.8%	6.9%	8.4%	−14.0%	11.7%
Net income / (Net loss)	10.7	8.8	10.6	−12.2	17.8
Net income margin	6.7%	5.0%	6.1%	−9.9%	9.6%
Earnings per share in Euro	0.55	0.45	0.55	−0.63	0.92
Total assets[1]	240.3	244.8	245.3	221.7	249.2
Shareholders' equity[1]	147.2	155.4	166.4	154.4	172.3
Equity ratio[1]	61.3%	63.5%	67.9%	69.6%	69.1%
Financial liabilities	65.0	54.0	40.6	40.8	40.5
Cash, cash equivalents and marketable securities	16.6	42.9	42.5	46.8	67.3
Net cash / (Net debt)	−48.4	−11.1	1.8	6.0	26.8
Cash flow from operating activities	28.5	30.8	22.5	9.4	30.0
Capital expenditures	26.4	24.5	20.8	7.4	12.4
Capital expenditures in % of sales	16.4%	13.9%	11.9%	6.0%	6.7%
Cash flow from investing activities	−19.9	−1.4	−12.2	−5.5	−17.5
Free cash flow[2]	8.6	29.4	10.3	3.9	12.5
Adjusted free cash flow[3]	2.2	6.3	1.7	2.1	20.6
Dividend per share in Euro	0.00	0.00	0.00	0.00	0.20[4]
Employees on annual average	1,131	1,177	1,117	1,038	990

[1] For adjustments of prior-year values please refer to "General notes" in the notes to the consolidated financial statements
[2] Cash flow from operating activities less cash flow from investing activities
[3] Cash flow from operating activities plus investments in marketable securities less capital expenditures
[4] Subject to shareholders' resolution at the Annual General Meeting in May 2011

Due to calculation processes, tables and references may produce rounding differences from the mathematically exact values (monetary units, percentage statements, etc.).

Content



ELMOS Semiconductor AG is a
developer and manufacturer
of system solutions on
semiconductor basis.
For more than 25
years, our chips have
made automobiles as well
as industrial and consumer goods
more performance and power efficient.
ELMOS

Mobility 2020 and beyond

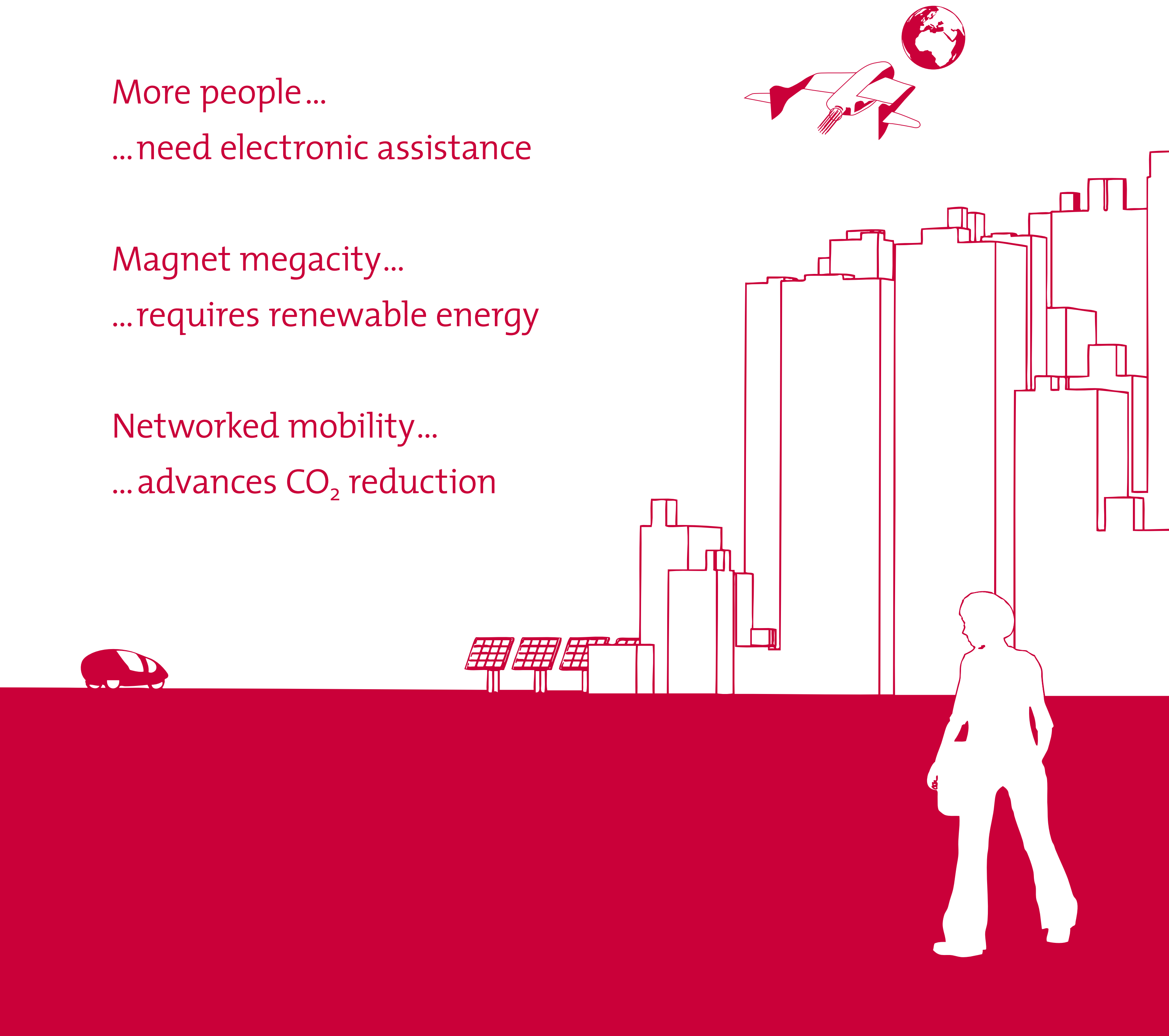
The future will change us and we are changing the future.

The global population will increase, the demographic change is changing processes, megacities will grow at great speed, energy will become eco-friendly, the traffic will find new ways, vehicles are getting more individual and intelligent...

More people...
...need electronic assistance

Magnet megacity...
...requires renewable energy

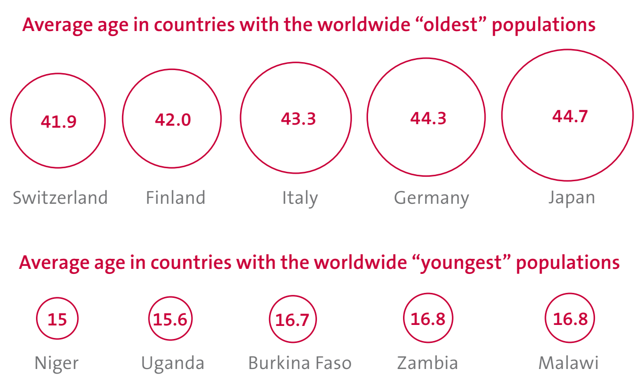
Networked mobility...
...advances CO_2 reduction



More people…

The population growth has rapidly picked up speed over the last years. At present some 6.9 billion people live on our planet, and there are 158 more every minute. If the ratio of children per woman remained constant at today's level until 2050 (approx. 2.5 children/woman), the global population would grow to probably 11 billion people by the year 2050, according to the UN. Therefore new strategies for the future must be developed and realized regarding the following aspects, among others: waste disposal, food production, drinking water supply, the production, transport and supply of energy, and many many more topics.

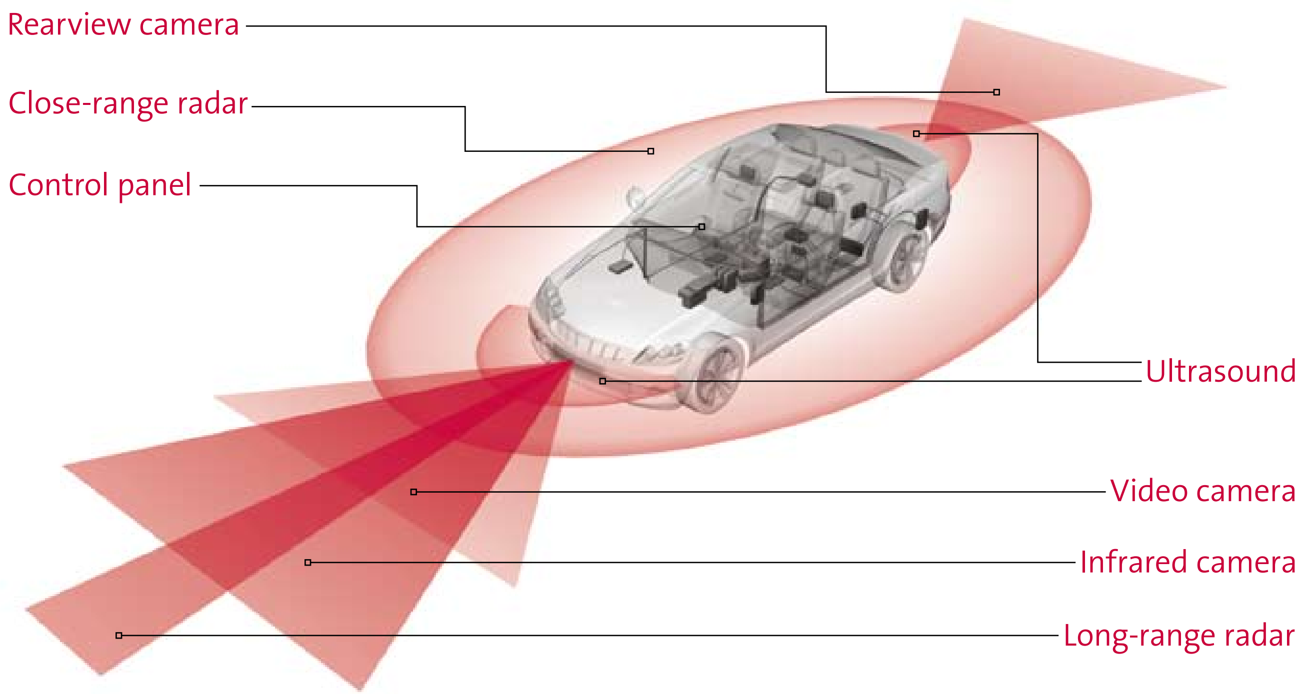
99% of the increase in population takes place in the emerging nations, according to the German Foundation for World Population (DSW). Growth rates are rising there and the average age is going down. The trend is exactly reverse in the industrialized countries. The population is hardly growing and it is getting older instead. Even today the average German citizen is 44.3 years old and lives in a country with one of the "oldest" populations worldwide. Even the automobile must adapt to this phenomenon: For an older road user, a car does not need to have that much power or cover such great distances anymore; but it must provide the optimum assistance to the driver in compensating for his or her age-related impairments.



Source: UN, Credit Suisse Demographics

"Ninety percent of all serious road accidents are caused by human failure," says Prof. Dr. Jürgen Leohold, Head of Volkswagen Group Research. Driver assistance systems must therefore help the driver keep track – they become the driver's 6th sense.

... need electronic assistance



Driver assistance systems help the driver in extreme and everyday situations

The driver can be supported by e.g. temporary interventions into braking or steering. This happens in dependence on the driving situation and the driver's specifically reduced responsiveness, e.g. due to fatigue. Thus a critical situation can be defused. Intelligent solutions are therefore in demand, able to detect the need for an intervention and its measure on their own.

Yet it is not only the driver's view that will be assisted by a 6th sense; the operation of cars will also be different in the years 2020 and beyond. Navigation systems recognize the approaching hand of the user, menu navigation in the car is intuitive by means of gesture detection and other intelligent human-machine interfaces. This is made possible by the HALIOS® technology of ELMOS. HALIOS® simplifies the car's operation so that the driver can focus more on the traffic. Intelligent systems are distinguished by the fact that the driver will not even notice them – they run in the background. A case in point is an automated air conditioning control unit that does not only "know", based on integrated sun position sensors, where there is a particular need for cooling but even analyzes the temperature of the surface of the skin. Manual operation will of course still be possible but not required in most situations.

What do these solutions have in common? Electronics is today's best choice whenever safety and comfort are meant to be increased through assistance systems. The "brains" and "sense organs" of electronics are always semiconductors and sensors, completing measuring and controlling tasks. Even the innovations that will help us navigate safely through the increasing traffic in the years 2020 and beyond will be based on this concept. Today ELMOS already provides solutions for virtually all driver assistance systems and operating concepts available in the market. And what is much more important: We have the expertise, the system know-how, and the technology to help create the next generations of products.

Magnet megacity…

Large cities have become magnets. In the newly industrializing countries, the rural population is pouring into the urban regions, driven by hopes of employment and prosperity. This leads to a rapid growth of the cities. Today more than half of the global population live in cities already. It will even be two thirds in 2030. The number of megacities (with a population of more than ten million) will probably come to 26 in 2015, 22 of which will be situated in newly industrializing and developing countries alone. In addition, there are many cities that are approaching the size of a megacity.

With size come new challenges…

-> Cities consume 80% of all energy produced worldwide and cause roughly 85% of the global CO_2 emissions.
-> The megacities are integrated into global economic and social networks and lay claim to resources from all over the world. This represents a logistical challenge.
-> The local resources (soil, ground water, vegetation) are worn out and the amount of waste produced is enormous.

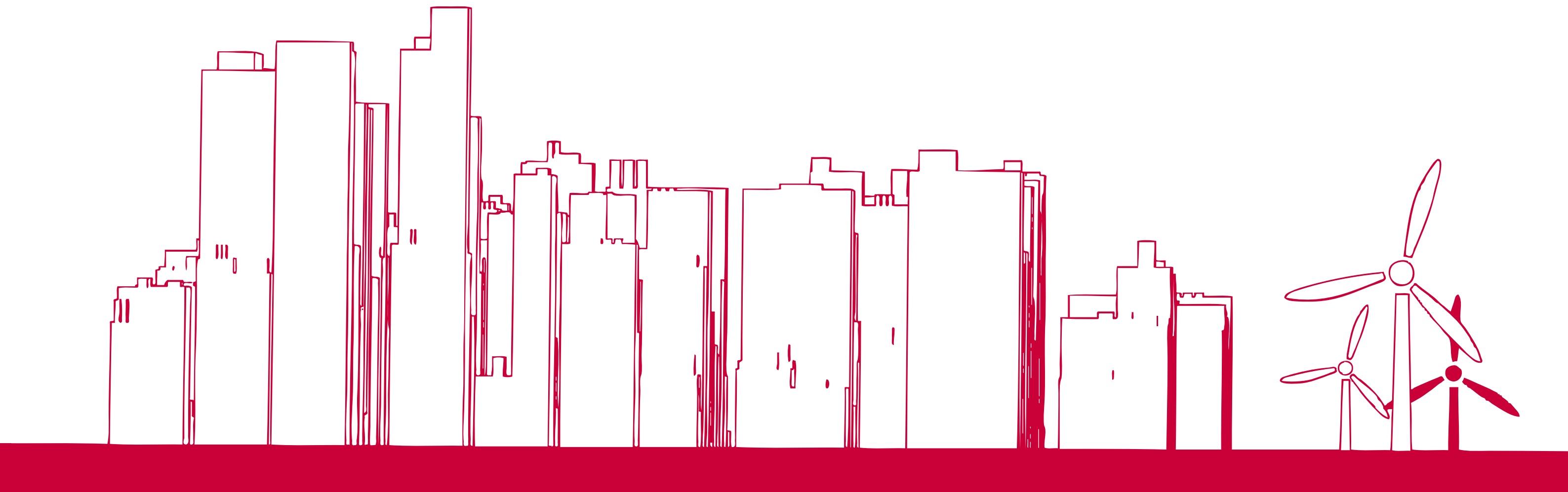
…and new opportunities.

-> By building apartment, work and service centers, energy efficiency, climate protection, and the flow of goods can be optimized.
-> Megacities can become incubators and pacemakers for new energy and infrastructure technologies.

The people in the megacities need energy to live. Yet electric power does not just come out of the socket like magic, it is provided by energy producers. They generate the energy from various sources. The best sources are sustainable ones; “green power” is the keyword.

Megacities 2007		**Megacities 2020**	
Tokyo	37 M inhabitants	Tokyo	37 M inhabitants
Mexico City	19 M inhabitants	Mumbai	27 M inhabitants
New York	19 M inhabitants	Delhi	23 M inhabitants
Sao Paulo	18 M inhabitants	Dhaka	22 M inhabitants
Mumbai	18 M inhabitants	Sao Paulo	21 M inhabitants

Source: UN Habitat 2008



... requires renewable energy

There has been a change of attitude over the last years. Whoever thinks of sustainability today, subscribes to green power, or has solar panels on the roof of the house does not automatically bring home the groceries in a hessian bag. Eco has grown up. Today it is all about protecting the environment and leaving a green world to our children.

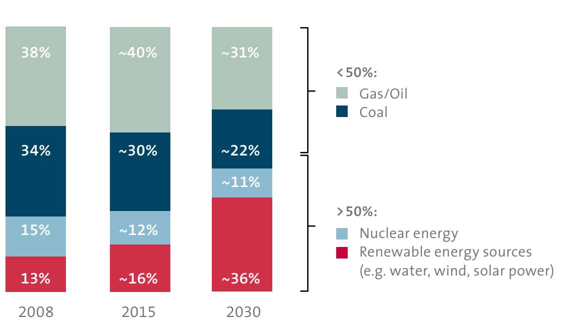
This is possible due to power generation from water, the sun's rays, and wind, among other aspects. In Germany some 4% of the energy is gained from hydroelectric power. The global share of this currently most important renewable energy source comes to more than 15%. The solar power industry has shown a rapid development over the past years. The total number of solar collectors in Germany amounts to more than 2 million. However, their share in the German power consumption still comes to less than 2%, yet it is expected to rise to some 25% until 2050. Wind energy has a share of 7.5% in Germany's power consumption. More than 21,000 wind farms have been erected in this country. On the global scale, China is particularly pushing the expansion of wind power.

The Desertec project pursues a transnational approach. Energy will be generated in North African countries in solar power plants and wind farms. This "clean power" will initially cover an essential part of the producing countries' own demand and additionally be channeled to Europe from 2020 in order to account for 15% of Europe's energy demand in 2050. The reason is obvious: "The deserts of the world receive more solar power in 6 hours than is consumed by humanity in one year," according to Dr. Gerhard Knies, one of the Desertec initiators.

ELMOS has many years of expertise in the field of power and voltage supply. The conversion from output to target voltage is a prerequisite for the utilization of renewable energy sources, as usually the "electric level" provided by the producer does not fit the consumer. Therefore it takes control systems that balance fluctuations in the energy produced and the electric level. Especially up-to-date photovoltaic power plants – fighting for every percentage point of higher yield – require intelligent electronics applied to voltage transformation in order to feed the power safely and efficiently to the grids.

In addition, ELMOS chips will help to consume less energy at work, on the road, and at home. Powerful control devices on the basis of up-to-date bus systems make it possible to e.g. activate household appliances depending on the availability of supply networks or the selection of low-cost rates. ELMOS will play an important part in creating "green" electronics.

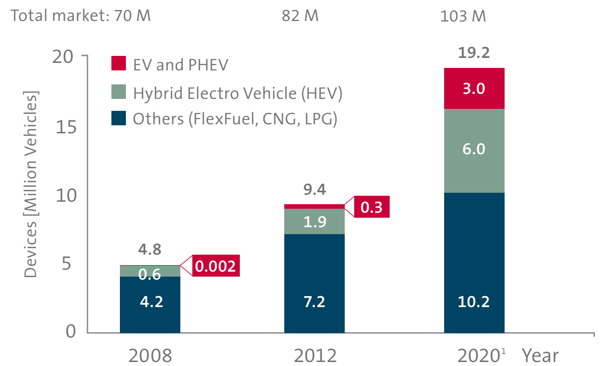
E.ON generation portfolio (planned)



Networked mobility…

City dwellers suffer from ballooning traffic streams worldwide. Cars crawl through the city of London at an average speed of 19 km/h for example, and at 24 km/h they are not much faster in Berlin. In Beijing every citizen spends an average two hours on the road each day – most of it by not moving at all.

Roadmap and forecast for electrification
Forecast until 2020

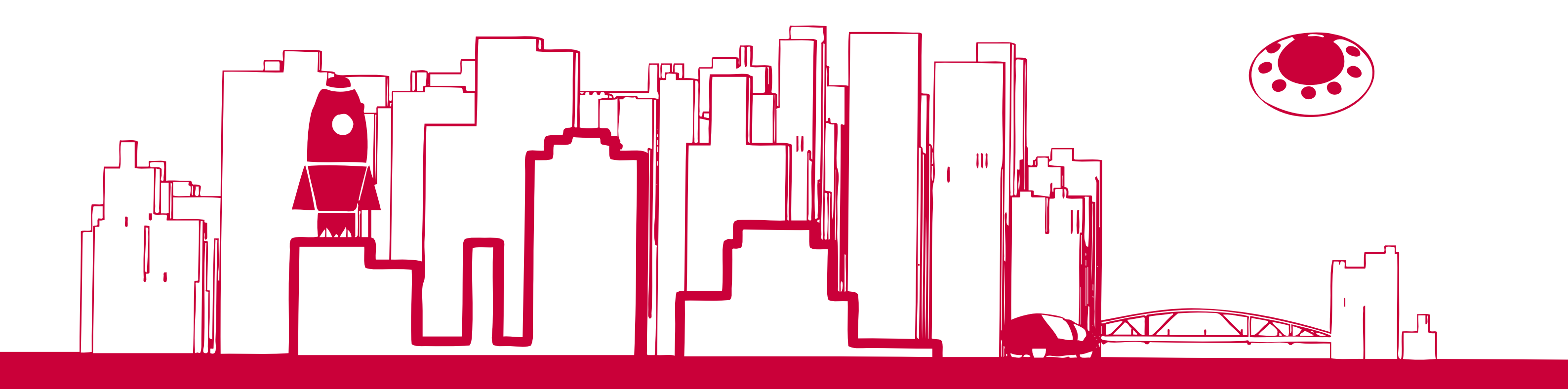


Source: SB LiMotive *¹Estimated total production*

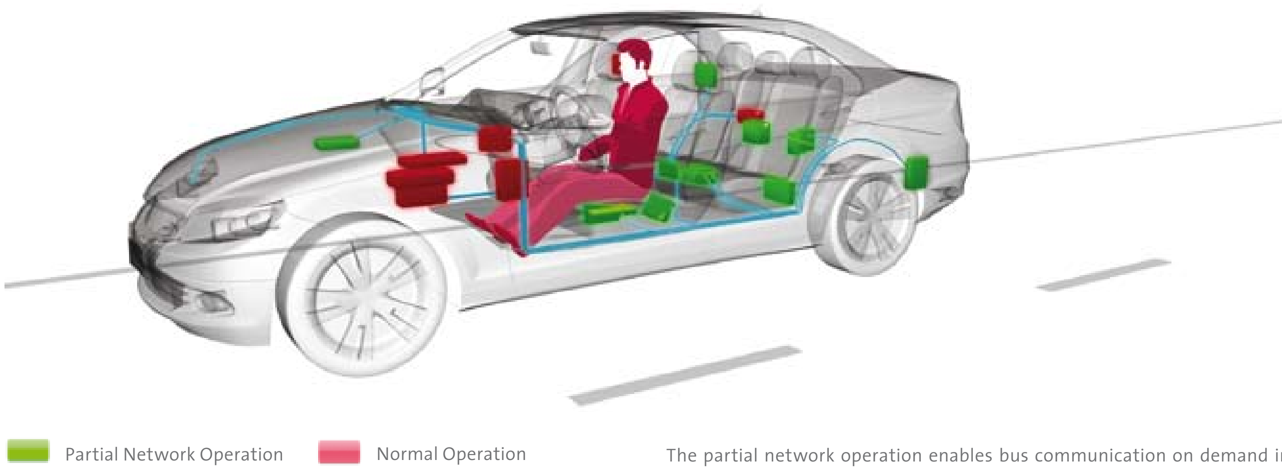
Mobility must become simpler in a more complex world. By means of vehicles for example that communicate constantly by radio with the car ahead and the traffic signs at the side of the road. Information about accidents, traffic jams, and road conditions are passed on, a traffic computer suggests alternate routes and even opens up additional lanes if necessary. And the traffic signals “know” in an instant how many cars are waiting behind the stop line and where they are headed; thus they can determine the optimum speed for the green wave and promote fuel efficient driving.

With a rising number of cars, the issue of traffic jams and corresponding economic impact will even increase. According to the World Business Council for Sustainable Development, the global number of cars, roughly 800 million now, continues to grow and will reach two billion passenger cars in the year 2050. Therefore eco and resource-friendly drivetrain concepts for automobiles must be developed. Based on today’s level of energy consumption, mineral oil will theoretically last for 44 more years and natural gas will last for 59 years. However, this calculation does not take into consideration that the wealth, the concentration of vehicles, and thus the fuel demand are rising rapidly in countries like China and India and that fossil fuels are therefore being consumed much faster.

One solution to this challenge is alternative powertrain concepts. They are the prerequisite for individual mobility that will still be affordable and accessible for everyone. The electric vehicle represents the current favorite. However, the electric cars available up to now are limited to niche markets. The essential reason is found in the drive batteries that are so far characterized by large weight, low storage capacity, and high cost.



...advances CO_2 reduction



The partial network operation enables bus communication on demand in the vehicle.

At present virtually all auto manufacturers and their suppliers focus on the lithium-ion battery as it best fulfills the requirements based on today's know-how and also provides high development potential. With lithium-ion batteries the manufacturers aim for cruising ranges between 200 and 400 kilometers. Time-consuming developments are still required to achieve this goal. Hybrid vehicles must be considered one evolution stage below the electric car. They combine a combustion engine with an electric motor and have been on the road for some years now. The combustion engine's excess power is transformed into electric energy and stored in the hybrid vehicle's battery.

To empower the new drivetrains to make full use of their ecological advantage, though, energy generation must be reorganized. Power generation in coal-fired power stations for example creates more CO_2 than could be saved by the use of electric drivetrains instead of gasoline and diesel powered vehicles. Only the combination "renewable energy sources + electric cars" results in a sustainable net plus for the environment.

Moreover, future vehicles must use energy more efficiently. This is possible if on the one hand the activation of the systems is improved and if on the other hand the applications consume less energy. This is the only way to achieve that the comfort of a modern car with its multitude of applications, e.g. an air conditioning system, can be realized in electric cars as well without compromising the cruising range that is at the driver's disposal.

One example points to the added value due to the use of ELMOS semiconductors and sensors. Partial network operation makes it possible to individually activate certain control devices whose functions are not needed permanently or put them to "sleep", e.g. the power seat adjustment or the rearview camera. These systems become active via partial network mode only when they are needed; the rest of the time they recline in an energy saving "sleep mode". By this measure alone, CO_2 emissions can be reduced by approximately 0.5 grams per kilometer. In 2010 ELMOS introduced the first semiconductor worldwide that realizes safe partial network operation.

Information for our shareholders

Management Board

(from left:) Reinhard Senf, Dr. Anton Mindl, Nicolaus Graf von Luckner, Jürgen Höllisch

Dr. Anton Mindl

-> CEO | Graduate physicist (born 1957)

-> Management Board member since 2005 | … appointed until 2015

-> **Key areas of responsibility:** strategy, quality, human resources development, and micromechanics

-> Member of the General Assembly of Dortmund Chamber of Industry and Commerce

Nicolaus Graf von Luckner

-> Graduate economist (born 1949)

-> Management Board member since 2006 | … appointed until 2013

-> **Key areas of responsibility:** finance, controlling, investor relations, corporate governance, administration, purchasing, information technology

Reinhard Senf

-> Graduate engineer (born 1951)

-> Management Board member since 2001 | … appointed until 2016

-> **Key areas of responsibility:** manufacturing, assembly, technology development

Jürgen Höllisch

-> Engineer (born 1971)

-> Management Board member since 2008 | … appointed until 2013

-> **Key areas of responsibility:** sales, design, product lines, projects, optoelectronics

CEO letter

Dear Shareholders,

future mobility in all its variety and diversity will not only change the global society considerably but it will also become an essential driving force behind the future of the company ELMOS. This is why we dedicated our recent customer workshop to this subject, held in the year under report 2010 within the framework of our „25+1"-year anniversary. Together with about 250 customer representatives and partners as well as top-notch speakers, among them Hannelore Kraft, Minister-President of North Rhine-Westphalia, we therefore threw light on "Mobility 2020 and beyond" from many angles. As the feedback was very positive throughout and as we received many further suggestions, we chose to adopt this slogan for our annual report, too. With a few selected topics of focus we want to give you an impression of what will engage us in the future. More people want and have to be more mobile in megacities, leading to totally new demands on infrastructure, logistics, communication, energy supply, and not least the concept of individual mobility itself. All developments required in this context are substantially influenced by electronic innovations.

We learned in our workshop that...

-> it is still a long way to go to "driving without a driver", but the infrastructure provides us with an increasing amount of data for regional and supra-regional traffic control,
-> our traditional combustion engines still have enormous potential for development with regard to the reduction of fuel consumption but they are also supplemented by electric motors increasingly, so that we will run on electric power in a second step,
-> driver assistance systems will equip the automobile with sensory perception.

Apart from the focus on changes affecting the private vehicle of the years 2020 and beyond, we therefore used our workshop to deliberately go beyond the range of subjects defined by our industry and to hear speeches about further important aspects of mobility of the future, enter into discussions and collect ideas. Subjects included the facts that ...

-> intelligent power generation and supply is a central issue for the future development of cities and societies,
-> electric power will come from the desert, too,
-> megacities pose new challenges to any kind of infrastructure,
-> increases in efficiency are required in all areas and harbor enormous potential,
-> communication will be faster and location independent and communication devices are getting more intuitive,
-> demographic change must always be taken into consideration.

It is remarkable, if not that surprising, that no solution to the challenges of the future will go without the help of electronics. Sensors and special mixed-signal semiconductors are of particular relevance as they are the factors that make the interface between the real world and electronics possible in the first place.

With this annual report, we want to introduce you to just a few selected aspects of mobility 2020 and beyond and the part ELMOS will be able to play in this by way of highlighting a handful of topics, among them population growth, the urbanization in megacities, and networked mobility.

Anyone who wants to play an important role in the international markets of the years 2020 and beyond must set the right course today already. We have done that with a number of decisions: For instance we have enhanced our development potential with a focus on various aspects of mixed-signal technology by expanding our design team at several locations. On the Asian market – the heart of the future's megacities – we increased our visibility and impact by opening our own sales offices. We sold the special packaging business of our subsidiary ELMOS Advanced Packaging and thus concentrate even more on our core business.

With respect to the general economic conditions 2010 was a good year, bringing an upswing that in its scope had not even been expected by economic experts. We benefited from this positive trend and were one of the very few semiconductor enterprises capable of servicing all customer orders. With us as supplier, allocation was not an issue for our customers. Sales gained almost 50% compared to the previous year and reached 184.7 million Euro, the highest sales figure ELMOS has so far recorded. The gross profit of 83.8 million Euro resulted in a gross margin of 45.3%. The EBIT (earnings before interest and taxes) climbed to 23.1 million Euro, equivalent to an EBIT margin of 12.5% of sales. The net income reached 17.8 million Euro or a margin of 9.6% of sales and thus equals basic earnings per share of 0.92 Euro – another record figure in our corporate history. The adjusted free cash flow of 20.6 million Euro was also strong and the pleasing result of a significantly improved operating performance combined with adequate investments. Thus we over-achieved the original as well as the updated higher targets for growth and earnings. This also has the effect that for the first time since 2004 Supervisory Board and Management Board will propose to the shareholders at the Annual General Meeting the payment of a dividend in the amount of 0.20 Euro per share in order to have our shareholders participate in the company's success this way, too.

For 2011 ELMOS expects sales between 190 and 200 million Euro or a growth rate between 6% and 12%, based on a 2010 sales figure of 178.6 million Euro adjusted by the sale of the special packaging business. The 2011 EBIT margin will reach or slightly exceed the level of 2010. This forecast allows for cost increases due to higher prices for materials on the global market, rising development expenses and distribution expenses within the framework of the enhancement of product lines and a broader market penetration in Asia. Capital expenditures are scheduled to come to less than 15% of sales. The free cash flow will be positive. The prognosis is based on an exchange rate of 1.30 U.S. dollars per Euro.

Our solid financial base enables us to continue pursuing our strategic goals in 2011:
-> Strengthening our resources in the development of products once more in order to offer our customers an ever growing number of innovative products in the future.
-> Increasing our presence in Asia. New locations make it possible to address customers over "short distance" and give them direct support for their applications.
-> Incorporating our partner MagnaChip into the supply chain for the first time and push the 8-inch expansion of our own manufacture as scheduled.
-> Expanding our sensor portfolio (MEMS) constantly and convincing new customers from different industries of our sensors.

These measures will assure that ELMOS will not only show a positive business performance 2011 again but that the company will also be well prepared for 2020 and beyond.

On behalf of the entire Management Board I would like to give my heartfelt thanks to our customers and partners, to our co-workers, to our Supervisory Board, and to anyone who made a contribution to the success of ELMOS.

If nothing else, we proved in 2010 that we are able to prepare well for the future. But we know this as well: We must give new proof of this ability each and every day.

Sincerely

Dr. Anton Mindl
CEO of ELMOS Semiconductor AG

Supervisory Board

Supervisory Board report

Dear Shareholders,

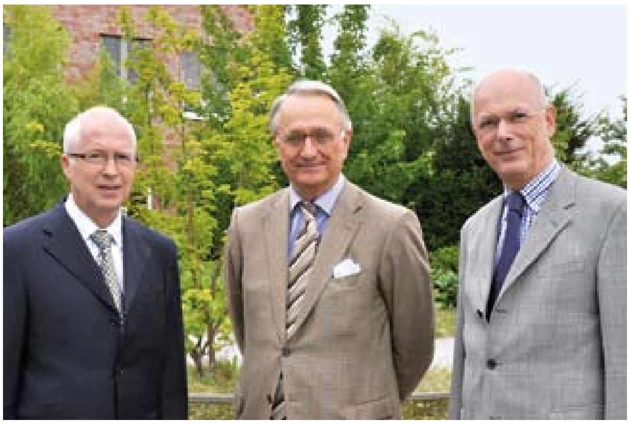
in fiscal year 2010 the Supervisory Board diligently attended to its duties and responsibilities imposed by the law and the articles of incorporation. Its members advised the Management Board in running the company and supervised management activity. In oral and written reports, the Management Board supplied the Supervisory Board regularly and timely with comprehensive information on the company's situation. The Supervisory Board was directly involved in all decisions of substantial importance. The Management Board consulted the Supervisory Board on the company's strategic orientation and analyzed divergences of the course of business in detail. The Management Board's reports on all business transactions of relevance to the company were examined and discussed at length in the Supervisory Board meetings. Insofar as stipulated by law or the articles of incorporation, the Supervisory Board gave its opinion on the Management Board's reports and resolutions following diligent examination and exhaustive discussion. Even outside of Supervisory Board meetings, the chairman and other members of the Supervisory Board were informed about essential business transactions by the chairman of the Management Board. Conflicting interests of Management Board and Supervisory Board members subject to mandatory disclosure to the Supervisory Board or the General Meeting did not occur.

There were altogether five meetings in fiscal year 2010, namely on March 17, 2010, May 4, 2010, August 4, 2010, October 28, 2010, and December 17, 2010.

As of the end of the Annual General Meeting of May 4, 2010, the board mandates of the six elected members had expired. Therefore a constituent Supervisory Board meeting with the newly elected three members was held on May 4, 2010.

During these sessions the Supervisory Board was informed in detail about the development of the fiscal year ended December 31, 2010, the company's situation, and current business policy decisions on the basis of the Management Board's oral and written reports. Based on this comprehensive body of information, the Supervisory Board passed the required resolutions in its meetings. If necessary, resolutions were passed jointly by the Supervisory Board and the Management Board.

The Supervisory Board concerned itself regularly with the current performance of the company with regard to sales, earnings and liquidity. The Supervisory Board discussed the improved economic situation and the noticeable upswing. Situation and structure of the group companies and the group's strategic development beyond the year under report were discussed in detail in the meetings. In this context, the Supervisory Board also exhaustively addressed the sale of the special packaging business of Dutch subsidiary ELMOS Advanced Packaging. Another topic was the preparation of the next Annual General Meeting to be held on May 17, 2011. The changes in the future composition of the Supervisory Board in accordance with the German One-Third Participation Act (Drittelbeteiligungs-Gesetz) were also dealt with. In addition, the Management Board detailed the planned distribution activities in Asia and the establishment of new development locations to the Supervisory Board. Subjects of debate were also the risk management system, the compliance program, the stock option plan for employees and Management Board members, the share buyback, and the company's compliance with the recommendations of the German Corporate Governance Code (GCGC). Furthermore, the Supervisory Board addressed the nomination of the auditor and monitored the auditor's independence. The Supervisory Board also concerned itself once again with the efficiency of its own work and assessed it.



(from left:) Dr. Klaus Weyer, Prof. Dr. Günter Zimmer, Dr. Burkhard Dreher

In a session held on March 1, 2011 the Supervisory Board studied the preliminary financial statements of ELMOS Semiconductor AG and the group. This meeting was attended in part by the auditor. In addition, all material risks as identified for the company by the risk management system were explained and the measures decided by the Management Board were discussed. Moreover, the Management Board informed the Supervisory Board in this meeting about new introductions to the compliance program. On March 16, 2011 the Supervisory Board approved the financial statements and the consolidated financial statements.

All of the Supervisory Board's regular meetings were attended by all of its members.

Supervisory Board committees

The Supervisory Board's audit committee met most recently on March 3, 2010. The nomination committee held one meeting in fiscal year 2010. It prepared proposals for the new election of the members of the Supervisory Board to be resolved at the Annual General Meeting of May 4, 2010 and made corresponding suggestions to the Supervisory Board in full session.

The committee chairmen or the committees' members gave account of their work in the Supervisory Board meetings. All committee meetings were attended by all of their respective members.

The human resources committee and the strategy committee did not meet in fiscal year 2010. The shareholders resolved the reduction of the Supervisory Board from six to three members at the Annual General Meeting of May 4, 2010. Since then the Supervisory Board does not have committees anymore.

Audit and group audit

By consulting the certified accountants of Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Dortmund, the Supervisory Board concerned itself in its meeting of March 1, 2011 with the audit of the financial statements and consolidated financial statements for the fiscal year ended December 31, 2010. According to shareholders' resolution of May 4, 2010 and the ensuing commission given by the Supervisory Board to the auditor, the financial statements prepared in accordance with HGB regulations (German Commercial Code) for the fiscal year ended December 31, 2010 and the management report of ELMOS Semiconductor AG were audited by Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Dortmund. The auditor issued an unqualified auditor's report. The consolidated financial statements of ELMOS 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 report. The financial statement documents, the annual report, and the audit reports were submitted to all Supervisory Board members in due time. In the Supervisory Board's meeting of March 1, 2011, the statements and reports were also explained by the Management Board. The undersigned certified accountants reported on the results of their examination in this session.

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 approved the financial statements and the consolidated financial statements on March 16, 2011. The financial statements are hereby adopted. Supervisory Board and Management Board propose to the Annual General Meeting the resolution to pay a dividend of 0.20 Euro per share from the retained earnings of ELMOS Semiconductor AG of 59.4 million Euro (HGB) for fiscal year 2010 and to carry forward the remaining amount to new accounts.

Corporate Governance

Management Board and Supervisory Board cooperate closely to the company's benefit and are committed to the sustainable increase of shareholder value. In December 2010 the company released an updated declaration pursuant to Section 161 AktG (German Corporations Act) on the company's compliance with the recommendations of the German Corporate Governance Code in the version of May 26, 2010 and made it permanently accessible to the shareholders on the company's website. It can also be found in this annual report on pages 18 and 19. The joint corporate governance report prepared by Management Board and Supervisory Board can also be found on page 18 et seq.

Supervisory Board and Management Board

Shareholders resolved a new Supervisory Board at the Annual General Meeting held on May 4, 2010. According to an amendment to the articles of incorporation also resolved by the General Meeting, the Board now consists of three instead of formerly six members. Prof. Dr. Günter Zimmer, Dr. Burkhard Dreher, and Dr. Klaus Weyer were elected members of the Supervisory Board. Jutta Weber, Dr. Klaus Egger, and Jörns Haberstroh retired from the Supervisory Board. The Supervisory Board thanks the former members for the good teamwork and their dedication to the company. In the constituent meeting of the Supervisory Board held right after the General Meeting, Prof. Dr. Günter Zimmer was again elected chairman and Dr. Burkhard Dreher was again elected vice chairman. No committees were established.

There were no changes in membership of the Management Board. More details on the members of Supervisory Board and Management Board can be found on pages 17 and 10 of this annual report, respectively.

Report pursuant to Section 314 AktG

The Supervisory Board also examined the report on relationships with affiliated companies according to Sections 312|313 AktG, prepared by the Management Board of ELMOS Semiconductor AG. The Supervisory Board came to the conclusion that the report's factual data 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 that is materially 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 audit opinion: "After our due audit and assessment, we confirm that the factual data contained in the report is correct."

The Supervisory Board approves the result of this audit. According to 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 thanks all employees and all members of the Management Board for the good work they have done and the great commitment they have shown.

Dortmund, March 16, 2011

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 the Board of Directors of Dolphin Intégration S.A.

Dr. Burkhard Dreher
Vice chairman, graduate economist | Dortmund
Mandates
-> Member of the Supervisory Board of Arcelor Mittal Eisenhüttenstadt GmbH
-> Member of the Supervisory Board of Vattenfall Europe Mining AG

Dr. Klaus Egger (until May 4, 2010)
Graduate engineer | Steyr-Gleink, Austria
-> no mandates

Jörns Haberstroh (until May 4, 2010)
Graduate economist | Kerken
Mandate
-> Vice chairman of the Supervisory Board of Ehlebracht AG

Jutta Weber (until May 4, 2010)
Graduate educationist | Tarrytown, New York, U.S.A.

Dr. Klaus Weyer
Graduate physicist | Penzberg
Mandate
-> Member of the Supervisory Board of Paragon AG (until September 30, 2010)

Supervisory Board committees

Audit committee (until May 4, 2010)
The audit committee concerns itself primarily with issues of accounting, risk management, and the auditor's independence.
Chairman
-> Dr. Burkhard Dreher
Members
-> Dr. Klaus Weyer, Prof. Dr. Günter Zimmer

Human resources committee (until May 4, 2010)
The human resources committee deals with the Management Board members' employment contracts and other issues concerning the Management Board.
Chairman
-> Prof. Dr. Günter Zimmer
Members
-> Dr. Burkhard Dreher, Dr. Klaus Weyer

Nomination committee (until May 4, 2010)
The nomination committee discusses suitable candidates in case of new elections to the Supervisory Board.
Chairman
-> Dr. Klaus Weyer
Members
-> Prof. Dr. Günter Zimmer

Strategy committee (until May 4, 2010)
The strategy committee discusses the group's strategic development.
Members
-> Dr. Burkhard Dreher, Jörns Haberstroh, Dr. Klaus Weyer, Prof. Dr. Günter Zimmer

Corporate governance report

(including the statement on corporate governance)

In the following chapter, the Management Board reports on corporate governance at ELMOS Semiconductor AG – also on behalf of the Supervisory Board – pursuant to No. 3.10 of the German Corporate Governance Code. The chapter includes the statement on corporate governance in accordance with Section 289a HGB (German Commercial Code) and the remuneration report.

Declaration of compliance 2010

In December 2010 Management Board and Supervisory Board released the declaration of compliance in accordance with Section 161 AktG. In this statement ELMOS discloses that the company follows the recommendations of the Code in the version of May 26, 2010 with four exceptions. The explanations for these exceptions are part of the declaration of compliance. The most recent declaration of compliance as well as the declarations of the past years are made permanently available on our website.

Declaration of compliance with the Corporate Governance Code

Management Board and Supervisory Board of ELMOS Semiconductor AG declare in accordance with Section 161 AktG (German Corporations Act):

„I. Statements with respect to the future

ELMOS Semiconductor AG complies with the recommendations of the "Government Commission German Corporate Governance Code" (in short: GCGC) in the version of May 26, 2010 with the following exceptions:

–> The currently valid D&O liability insurance for the Supervisory Board does not provide for a personal deductible for its members (GCGC No. 3.8). Motivation and responsibility cannot be increased by a deductible.

–> For currently existing Management Board member contracts, no severance payment caps were defined for the case of premature termination of a contract without a serious cause (GCGC No. 4.2.3). The Supervisory Board considers a limitation of the remuneration to a severance payment which is lower than the agreed upon contract duration as not appropriate in light of the company's interest to bind the Management Board members for the full contract duration.

–> Remuneration of the Supervisory Board members is stated in the corporate governance report with reference to its components but not individualized (GCGC No. 5.4.6 sentence 6). Remuneration paid by ELMOS Semiconductor AG to Supervisory Board members for individually performed services, in particular consultation and mediation services, is also not disclosed individually (GCGC No. 5.4.6 sentence 7). In order to assure equal treatment in the disclosure of the remuneration of Management Board and Supervisory Board, the Supervisory Board's remuneration is not disclosed in a more extensive individualized form.

–> The Supervisory Board does not discuss each half-year or quarterly financial report prior to publication for the purpose of expeditious implementation (GCGC No. 7.1.2).

II. Statements with respect to the past

1. The GCGC in the version of June 18, 2009 and announced by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on August 5, 2009 were complied with in the period between the release of the declaration of compliance in February 2010 and the announcement of the new version of the Code on July 2, 2010 with the exceptions mentioned above under I. and with the additional exception stated below.

–> While there were Supervisory Board committees, committee chairs and memberships were not subject to special compensation (GCGC No. 5.4.6). For reasons of economy, Supervisory Board committee functions are considered compensated through the Supervisory Board's remuneration. With the reduction from six to three Supervisory Board members pursuant to shareholders' resolution of May 4, 2010, setting up committees was no longer reasonable and also no longer necessary. Therefore special compensation linked to Supervisory Board committees was no longer an issue.

2. The GCGC in the version of May 26, 2010 and announced by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on July 2, 2010 have also been complied with since their announcement with the exceptions mentioned above under I."

Dortmund, December 2010

Prof. Dr. Günter Zimmer
Chairman of the Supervisory Board

Dr. Anton Mindl
Chief Executive Officer

Corporate Governance

Corporate governance means for us the realization of responsible and sustainable company management with the necessary transparency in all areas of the group. Management Board and Supervisory Board have again concerned themselves intensively in fiscal year 2010 with the provisions of the German Corporate Governance Code including in its discussions the amendments resolved by the Commission on May 26, 2010. In the Supervisory Board meeting of December 17, 2010, Management Board and Supervisory Board jointly released the declaration of compliance in accordance with Section 161 AktG (German Corporations Act).

The provisions on diversity introduced by the amendments to the Code are observed by ELMOS, especially those on an adequate consideration of women in executive positions and on the Management Board. In many areas employees, especially women, are offered flexible working hours or part-time jobs in order to balance family and work. If the respective workplace allows, the employee can in part work at his home office. Upon the nomination of candidates for the Management Board, the Supervisory Board examines the eligibility of women and men equally. However, finding the right person for the position according to qualification for the benefit of the company remains the top priority.

The Supervisory Board also considers the requirements of the German Corporate Governance Code with respect to its composition. The suggestions made to the Annual General Meeting for the election of the shareholders' representatives to the Supervisory Board are meant to safeguard that with respect to the composition of the Supervisory Board the following conditions are met, leading to the best possible composition of the Supervisory Board:

- Internationality
- Avoidance of potential conflicting interests
- Technical expertise
- Knowledge of the company
- Industry-specific experience
- Entrepreneurial insights and a strategic vision
- Knowledge and experience in the application of accounting policies and internal control procedures
- Adequate participation of women; the Supervisory Board has set the goal for at least one woman being represented on the Supervisory Board in the future
- Age limit of 72 years upon election proposal
- Diversity

The Supervisory Board's proposals for the election of Supervisory Board members will continue to be primarily oriented towards the benefit of the company while taking into consideration the above-mentioned aspects.

The goals defined for the composition of the Supervisory Board – with the exception of the intended participation of women – are fully realized already with the present composition of the Supervisory Board of ELMOS Semiconductor AG. With regard to the adequate participation of women, the Supervisory Board will try to realize the targeted goal.

The Management Board publicly announced on November 24, 2010 that the Supervisory Board has to be composed in the future in accordance with Sections 1 (1) no. 1; 4 DrittelbG (German One-Third Participation Act), Sections 95, 96 (1) AktG (German Corporations Act). Accordingly one third of the Board's members must be elected according to the provisions of the One-Third Participation Act; the remaining members will be appointed by the Annual General Meeting. Management Board and Supervisory Board will propose to the Annual General Meeting of May 17, 2011 an amendment to the articles of incorporation implementing an increase in the number of Supervisory Board members from three to six. If the resolution is passed in favor of this amendment, the Supervisory Board will include two employee representatives in the future.

Compliance

One of the essential tasks for the Management Board is the control and supervision of compliance in the group. Compliance stands for the observance of the applicable law as well as of all rules and guidelines that exist within the company. The compliance program at ELMOS provides the organizational foundations for this. The essential principles applied by ELMOS were put down in January 2011 in a code of conduct. The employees were given copies of the code of conduct for their information and training courses have been held. In the future the code of conduct will be a part of every employment contract. It is also available through the ELMOS Intranet and on our website.

Individuals with access to insider information find entry in an insider list and are informed about the applicable statutory provisions. They are regularly referred to trade restrictions due to their insider status.

Working methods of Management Board and Supervisory Board

Management Board and Supervisory Board feel jointly committed to responsible corporate governance. Its highest goal is to safeguard the company's existence and to increase the shareholder value.

The Management Board currently has four members. The members of the Management Board are responsible for their respective key areas (overview on page 10) and together they assume responsibility for the entire management in accordance with the applicable law, the articles of incorporation, the Board's rules of procedure, and the shareholders' resolutions. The Management Board represents the company to the outside world. It is responsible for the management of the group, the definition and monitoring of the group's strategic orientation and corporate targets, as well as group financing. The Management Board usually meets in full session once a week. The Management Board gives regular, extensive, and timely reports to the Supervisory Board on all developments and events of relevance to the company.

The Supervisory Board has three members at present, elected at the last Annual General Meeting held on May 4, 2010, Members of the Supervisory Board are elected for five years according to the articles of incorporation. Due to the future participation of employees in accordance with the German One-Third Participation Act (Drittelbeteiligungs-Gesetz), an increase to six members is planned and re-elections are made necessary as well. The next elections to the Supervisory Board will therefore already take place at the upcoming Annual General Meeting on May 17, 2011. Elections for the employee representatives will be held in March 2011.

The Supervisory Board appoints the members of the Management Board and supervises them, and gives advice with respect to the company's management. Management Board and Supervisory Board work together closely and with mutual trust. The Management Board always involves the Supervisory Board in essential decisions. The rules of procedure of the two boards define this cooperation, among other issues. A detailed summary of the Supervisory Board's work can be found in the Supervisory Board report starting on page 14. The chairman gives a report to the shareholders on the Board's work at the Annual General Meeting.

The composition of Management Board and Supervisory Board is described on pages 10 and 17 of this annual report.

Shareholders and Annual General Meeting

Our shareholders make use of their rights at the Annual General Meeting. Prior to the Meeting they receive our annual report, the agenda, and the conditions for participation. All the documents relating to the upcoming and the past Annual General Meetings as well as further information on participation and voting at the General Meeting are available on our website – also in English – and can be requested in print from the company. Shareholders who cannot attend the Annual General Meeting in person have the option to assign their voting rights to proxies nominated by ELMOS. The proxy can be contacted throughout the entire length of the General Meeting. Furthermore, the Annual General Meeting is broadcast in its entirety per webcast on our website. After the Meeting shareholder presence and voting results will be announced on our website. The next Annual General Meeting will be held on May 17, 2011 in Dortmund.

Dates of importance to the shareholders are compiled annually in a financial calendar which is published on the Internet and in the annual report. All quarterly and annual reports are available on the website. In the context of our investor relations effort, the CEO and the CFO provide information to analysts and investors. ELMOS regularly releases information on the current development of the company.

Anticipatory risk management

Efficient risk management contributes to the success 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 are involved in this process. Parameters for risk assessment are the probability of occurrence and the estimated amount of loss. This risk assessment is updated quarterly or at even shorter intervals if necessary. We give account of the principles of the risk management system as well as of current corporate risks in the group management report.

Audit conducted by Ernst & Young

Before submitting the proposal for the appointment of the auditor, the Supervisory Board obtained a declaration from the auditor on relationships between the auditor, its boards, and its audit manager with the company or the company’s board members. This declaration furnished no doubts about auditor independence. In fiscal year 2010 the Supervisory Board followed the suggestion made by its audit committee for the auditor’s appointment. 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 material findings and incidents 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 audit report if the auditor establishes differences from the declaration of compliance as issued by the Management Board and the Supervisory Board. No inconsistencies of this kind were established.

Stock option plans

ELMOS has issued stock option plans for employees, executives, and Management Board members. Another stock option plan was decided in 2010. Stock options continue to represent an important and customary component of a modern remuneration system and a suitable means for incentive and the long-term commitment of employees. The share price is a central criterion for our shareholders to determine the return on an investment in the company. The link to the share price will therefore continue to be the beneficiaries’ incentive within the framework of the new stock option plan. The performance hurdle and the absolute performance target are 20% so that options can only be exercised if the shareholder value has been increased considerably. Moreover, the pecuniary advantage the beneficiaries can achieve by exercising their options is limited to a fourfold of the exercise price defined upon the issue of options.

The plans are explained in detail in the notes to the consolidated financial statements. Please refer to note 23 for further information.

Remuneration report

Total remuneration of the Management Board

The Supervisory Board decides and routinely reviews the remuneration system and the essential contract terms and conditions for the Management Board members in full session. Total Management Board remuneration comprises a fixed monthly salary, a management bonus, stock options, fringe benefits, and pension benefits. 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 4, 2010 decided once again by shareholders' resolution to exempt the company from the legal obligation for individualized disclosure of Management Board remuneration for the period of five years.

In fiscal year 2010 the members of the Management Board received a total fixed remuneration of 1,318 thousand Euro (2009: 1,141 thousand Euro) and variable remuneration of 1,791 thousand Euro (2009: 658 thousand Euro). Management Board remuneration comprises fixed components and variable incentive components linked to target results and other key financials determined for the management of the ELMOS Group. In the year 2010 altogether 50,000 stock options (2009: 99,000 stock options) of ELMOS Semiconductor AG were issued to the members of the Management Board. The total time value of these options came to 112 thousand Euro at the time they were granted (2009: 69 thousand Euro). There are indirect pension commitments to members of the Management Board of ELMOS Semiconductor AG for which no accruals are required because of the volume of these commitments and risk coverage provided by completely congruent pension plan reinsurance. In the year 2010 contributions to these pension plans amounted to 341 thousand Euro (2009: 347 thousand Euro). They are included in the fixed components of the remuneration.

Remuneration of former Management Board members or their surviving dependants amounted to 364 thousand Euro in fiscal year 2010 (2009: 283 thousand Euro). In addition, premiums of 347 thousand Euro for insurance were paid for this group of beneficiaries (2009: 300 thousand Euro). Pension provisions for former Management Board members or their surviving dependants came to 2,533 thousand Euro as of December 31, 2010 (2009: 2,557 thousand Euro). After setting off pension provisions against the time value of pension plan reinsurance, 480 thousand Euro (2009: 828 thousand Euro) remain as pension provisions recognized for the group altogether.

Apart from pension commitments and compensation agreements in case of a change of control, no additional benefits have been promised to any Management Board member in case of the termination of occupation. Nor did any member of the Management Board receive benefits 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. The Supervisory Board members receive fixed and incentive payments apart from the reimbursement of their expenses. The incentive remuneration is linked to the dividend and thus oriented towards the company's long-term success. The Supervisory Board members are granted neither stocks nor stock options 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 membership of the Supervisory Board committees are not subject to separate compensation. Since May 4, 2010 the Supervisory Board has not set up committees anymore. The Supervisory Board members' remuneration is disclosed in summarized form, yet not individualized. This also applies for 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 65 thousand Euro in fiscal year 2010 (2009: 84 thousand Euro). This amount includes expenses and disbursements. Provisions made for variable remuneration comes to 88 thousand Euro. The company paid 140 thousand Euro (2009: 230 thousand Euro) to members of the Supervisory Board for consultations, inventor fees, and other services.

Directors' dealings

Individuals who hold executive positions with the issuer of stocks and persons closely related to such individuals are obligated by law to disclose the purchase and sale of stock of ELMOS Semiconductor AG according to Section 15a WpHG (Securities Trading Act). All such directors' dealings are announced immediately upon notification Europe-wide and publicized on the company's website. For detailed information about directors' dealings please refer to the notes to consolidated financial statements (note 38).

Stocks and stock options

The disclosures of the company's stocks and options held by members of Management Board and Supervisory Board are explained in detail in the notes to the consolidated financial statements. Please refer to note 35 for this information. According to No. 6.6 GCGC, the members of the Supervisory Board had combined direct or indirect holdings of 40% of the stocks issued by the company and the members of the Management Board had combined direct or indirect holdings of less than 1% (as of December 31, 2010).

ELMOS employees are given the opportunity to expand their personal potential by specific professional training, among other measures.

New Deals Award: This distinction is considered a quality label for an outstanding human resources policy.

Integral labor, social and ethical standards

Responsibility for the co-workers

Highly motivated employees are the basis of our company's success. For this reason it is important to ELMOS that all co-workers keep track of all performances given and demanded with high commitment and that their creativity is always actively promoted. One emphasis of this sustainable strategy is therefore the creation of professional prospects for our employees. They should be provided with the opportunity to expand their personal potential and to be able to deliver outstanding performances. By regular expert training, ELMOS safeguards efficient work conditions and our co-workers' continuous development.

ELMOS is aware of the social responsibility the company has for its employees and fulfills it with the greatest possible attention. Evidence for this is the New Deals Award for outstanding human resources policy, given to ELMOS in June 2010. The New Deals distinction is considered a quality label for a contemporary human resources policy and the successful balance between economic and social interests in the company. Distinguished are innovative single measures in a special area of human resources management as well as overall concepts for an integrated modern HR management. The recipients of the awards were selected by the jury of the New Deals initiators, consisting of chambers of industry and commerce, employer associations, unions, the Dortmund Business Development Agency, and the Employment Agency.

A cooperative and open style of corporate culture is an important principle at ELMOS and contributes to a sense of team spirit. We want to offer more to our co-workers than just a workplace. We have realized this strategy for instance with our in-house gym which provides many options for strength and endurance training. In addition, ELMOS introduced a health team in 2009, offering health screenings for employees in regular intervals. Among others, an examination of stroke risk, a stress check, and birthmark control were on the agenda of the year 2010.

Our conduct is based on universally accepted values such as honesty, openness, trust, and mutual respect as well as responsibility for society. These principles are defined in our new "Code of Conduct of ELMOS Semiconductor AG". The code of conduct is available for download on the website and can also be requested in print free of charge.

ELMOS regularly conducts specialist trainings with in-house and external experts, for instance project manager trainings and technology workshops. Thus we assure up-to-date knowledge, efficient employment of labor, and our employees' continuous professional development. During the phase of short-time work in the year 2009, additional trainings were carried out e.g. in the areas design and quality control. These measures were promoted by the European Social Fund (ESF) and took place on days with reduced working hours.

We consider it our social obligation to offer young people the opportunity of qualified professional training. Apart from classic jobs that require formal training such as industrial business management assistant or warehouse manager, ELMOS also trains future microtechnologists, preparing them specifically for work in clean room production. In addition to the theoretical basics of semiconductor technology, practical knowledge such as the operation of semiconductor manufacturing machinery is communicated as well. An additional microtechnologist training course took place within the scope of measures during the phase of short-time work.

Responsibility for the environment

Environmental protection is one of our company's guiding principles. For us, product quality, economy, occupational safety, and environmental protection are equally high ranking corporate goals and components of an integrated corporate philosophy. Our eco and health protection management system was certified according to ISO 14001:2004 in the year 2003 for the first time and it is reviewed regularly by external experts. The goal to reduce environmental pollution reflects the pronounced sense of social responsibility. ELMOS wants to make a contribution so that co-workers and neighbors can continue living in a healthy environment in the future.

Environmental protection is one of our company's guiding principles.

In the past year, ELMOS significantly reduced the consumption of solvents by the application of improved technologies. Water consumption per chip produced is being lowered constantly and additionally ELMOS reduces its CO_2 emissions by means of the company's own thermal power station which works very efficiently due to cogeneration.

ELMOS publishes all data and facts on the responsibility for the environment annually in an eco report. This report is also available on the website and can be requested in print free of charge.

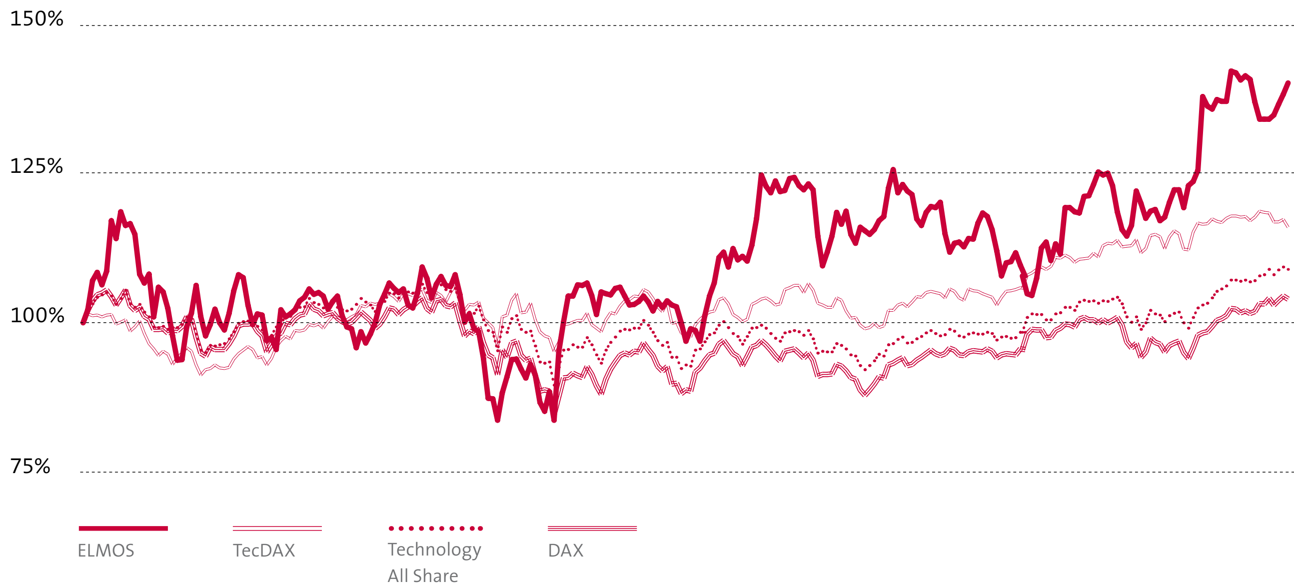
Responsibility for society

Beyond all business interests, ELMOS makes a contribution to society and assumes social responsibility. Over the past years a large number of charity events contributed to the alleviation of pressing domestic and international problems. Among other fundraisers in 2010, employees and the company donated to an organization for the fight against child prostitution with a raffle. Furthermore, money was collected for 'Doctors without Borders' during holiday season. ELMOS also regularly supports regional charitable institutions such as the initiative 'Dortmunder Tafel' and schools in carrying out for career guidance.

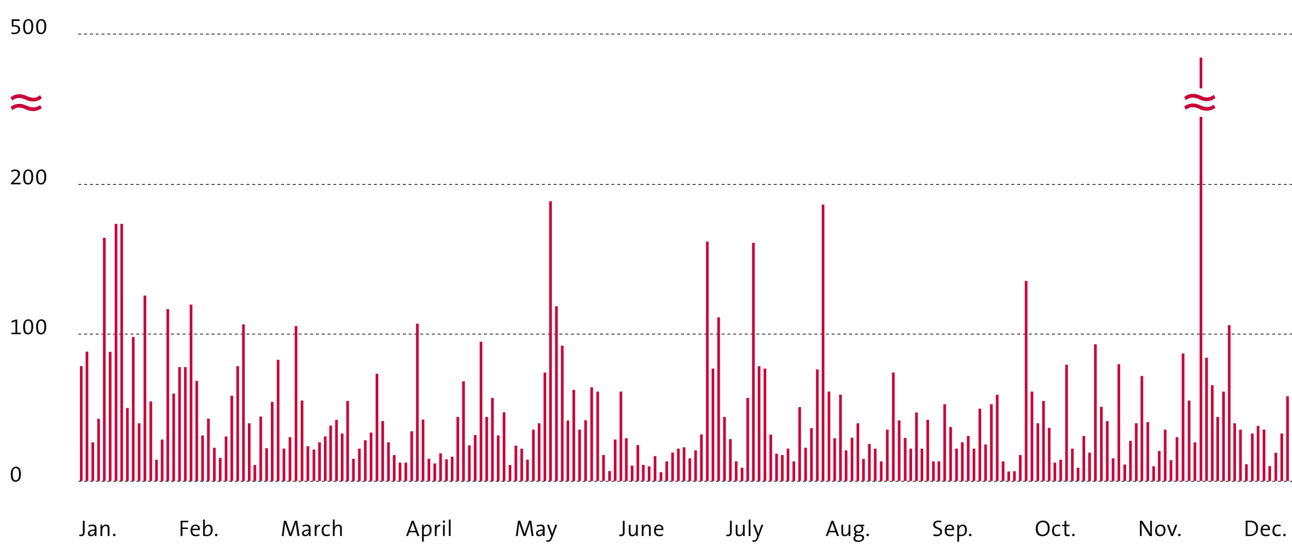
ELMOS share

General development in the stock markets

Relative price performance 2010



ELMOS trading volume (Xetra and Frankfurt floor) in thousand shares



In 2010 all relevant market indices showed a positive performance. The range of the price increase however was considerable in part. The general market indices recorded gains between 15% and 20%. The TecDAX and the Technology All Share, however, only entered increases of 4.0% and 9.0%, respectively. The DAXSector Technology, the DAXSector Automobile, and the DAXSubsector Semiconductors increased significantly by 59.2%, 56.5% and 62.8%, respectively, partly driven by the performances and weighting of individual shares.

After the pleasant price performance in 2009 (191.3%), the ELMOS share gained strongly in 2010 as well, climbing another 40.4% in the year under report. The ELMOS share thus performed ahead of most indices of relevance. It reached its 52-week low of 5.60 Euro on May 25, 2010 and its 52-week high on December 13, 2010 with 9.54 Euro. At the end of the year the ELMOS share was quoted close to its peak price at 9.41 Euro. The majority of the increase took place in the second half-year 2010 after the share had not shown major price movements over the first half of the year.

ELMOS share price performance

Period until 12/31/2010	Since 1/1/2009	Since 1/1/2010
ELMOS (Xetra)	**309.1%**	**40.4%**
Industry indices		
TecDAX	67.4%	4.0%
DAXSector Technology[1]	409.2%	59.2%
DAXSector All Technology[1]	73.5%	14.8%
Technology All Share[1]	68.6%	9.0%
DAXSubsectorSemiconductors[1]	651.9%	62.8%
DAXSector Automobile	67.0%	56.5%
General market indices		
DAX	43.7%	16.1%
Prime All Share[1]	49.0%	18.4%
CDAX[1]	48.6%	18.5%

[1] *ELMOS is included in these indices*

The average daily trading volume of the ELMOS share (Xetra and Frankfurt/Main) grew considerably compared to the previous year once again. It amounted to some 42.3 thousand shares and was thus more than twice as large as in the previous year (roughly 27.4 thousand shares daily). About 90% of the shares continued to be traded on Xetra.

ELMOS key stock data

	2009	2010
Number of shares outstanding at the end of the year	19,414,205	19,414,205
52-week high (Xetra)	6.82 Euro | 12/16	9.54 Euro | 12/13
52-week low (Xetra)	1.41 Euro | 3/12	5.60 Euro | 5/25
Year-end closing price (Xetra)	6.70 Euro	9.41 Euro
Annual performance	191.3%	40.4%
Market capitalization at the end of the year	130.1 million Euro	182.7 million Euro
Market value to book value[1] at the end of the year	0.8	1.1
Shares traded on daily average (Xetra and Frankfurt floor)	27.4 thousand	42.3 thousand
Earnings per share (basic)	– 0.63 Euro	0.92 Euro
Dividend per share	0.00 Euro	0.20 Euro[2]

[1] *Shareholders' equity*
[2] *Proposal to the Annual General Meeting in May 2011*

The market capitalization of ELMOS amounted to 182.7 million Euro at the end of the year (December 31, 2009: 130.1 million Euro), based on 19.4 million shares issued. The number of shares in circulation at the end of the year was reduced slightly compared to December 31, 2009 to 19.3 million shares due to 119,607 repurchased shares.

Basic stock information

Key data	
ISIN	DE0005677108
German WKN	567710
Stock symbol	ELG
Reuters	ELGG.DE
Sector	DAXsector All Technology

The ELMOS share is a no-par value bearer share (no-par share). It is traded on all German stock exchanges as well as on the Xetra system. As Prime Standard issuer of stocks, ELMOS meets the highest transparency requirements beyond the level of the General Standard and thus beyond the transparency standards as defined by European Union regulation.

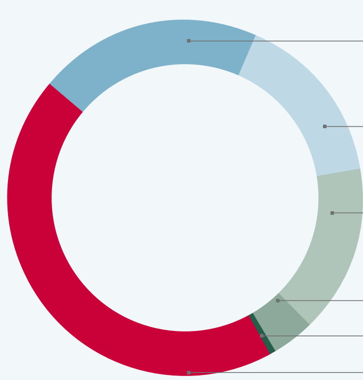
Share details	
Type of shares	No-par value ordinary bearer shares
Transparency level	Prime Standard
Market segment	Regulated market
IPO	October 11, 1999
Designated sponsors	Close Brothers Seydler Bank/ WestLB
Index inclusion	CDAX, DAX International Mid 100, DAXPLUS FAMILY, DAXsector All Technology, DAXsector Technology, DAXsubsector All Semiconductors, DAXsubsector Semiconductors, Prime All Share, Technology All Share

Shareholder structure

The share capital of ELMOS Semiconductor AG is divided into 19,414,205 no-par value shares with a proportionate amount of 1.00 Euro of the share capital allotted to each share.

Until EFH ELMOS Finanzholding GmbH (EFH) ceased to exist as of January 26, 2010, it indirectly and directly held an interest in the company's share capital of approx. 52.9% (roughly 10.3 million shares). In the course of reorganizing EFH, the shares formerly held by EFH became the property of the following companies: Weyer Beteiligungsgesellschaft mbH (20.5%), Jumakos Beteiligungsgesellschaft mbH (16.7%), and ZOE-VVG GmbH (15.7%).

Shareholder structure (December 31, 2010)



Another stake of 3.8% is allotted to shareholders included in the chart with shareholdings of more than 10%. Considering own shares held by the company as well (0.6%), the free float comes to 44.1% of the share capital (roughly 8.6 million shares) as of December 31, 2010.

On September 17, 2010, Fidelity Management & Research Company (Boston, MA, U.S.A.), a 100% subsidiary of FMR LLC (Boston, MA, U.S.A.), fell below the voting rights threshold of 5%. The company reported in its announcement that it held 4.97% or 964.785 shares of ELMOS. On November 17, 2010 the parent FMR LLC also fell below the voting rights threshold of 5%, taking into consideration the voting rights held by its subsidiaries attributed to the parent. At that time the company held 4.97% or 965,100 voting rights of ELMOS including the voting rights held by subsidiaries and attributed to the parent.

After the fiscal year, on January 7, 2011, Fidelity Management & Research Company fell below the voting rights threshold of 3%, too. As of that date, the company held 2.95% or 571,782 shares of ELMOS. On January 25, 2011 the parent FMR LLC also fell below the voting rights threshold of 3%, taking into consideration the voting rights held by its subsidiaries attributed to the parent. At that time the company held 2.96% or 575,000 voting rights of ELMOS including the voting rights held by subsidiaries and attributed to the parent.

All voting rights announcements were made public Europe-wide according to legal regulations and are also available at www.elmos.de.

Dividend

Management Board and Supervisory Board propose to the Annual General Meeting in May 2011 the payment of a dividend of 0.20 Euro per share for fiscal year 2010 out of the 2010 retained earnings of ELMOS Semiconductor AG in the amount of 59.4 million Euro. The total dividend payout would thus amount to some 3.9 million Euro.

Investor Relations

In the year 2010 ELMOS informed investors about the current situation and the corporate strategy within the framework of road shows, conferences, and company visits on location. We also informed analysts and investors, and upon request individual shareholders as well, by conducting conference calls subsequent to the announcement of results. Thus we enable our shareholders and other interested capital market participants to realistically assess our business situation and, in particular, to consider our prospects. ELMOS pursues the goal to inform comprehensively and quickly and to be accessible at any time – for private and institutional investors, analysts, and other interested parties alike. Aiming for both comprehensive and timely information provided equally to all target groups, we have compiled a large body 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 on the Internet. Apart from information about corporate governance, the Investor Relations section also offers financial reports, a financial calendar, the company's articles of incorporation, information on the Annual General Meeting, press releases, and directors' dealings. ELMOS is also happy to send out information such as annual reports or quarterly reports by mail.

Annual General Meeting

About 200 private and institutional investors participated in the 11th Annual General Meeting held on May 4, 2010 at the Casinosaal Hohensyburg in Dortmund. With a presence of 13,675,672 Euro or 70.44% of the share capital, each proposal to the separate items of the agenda was approved predominantly by a significant majority of votes. Apart from the usual agenda items, resolutions were passed for the reduction of the Supervisory Board from six to three members who were then newly elected and for conditional capital for the issue of convertible and option bonds due to a changed legal framework on the one hand and for the implementation of a stock option plan on the other hand. At the Annual General Meeting 2010, much use was made once again of the possibility to entrust one's voting rights to the proxy nominated by the company. Shareholders who could not attend in person were able to watch the broadcast of the General Meeting on the Internet again last year, either live or as a recording later. The upcoming Annual General Meeting on May 17, 2011 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 a company-nominated proxy according to their instructions.

Research coverage

- Close Brothers Seydler Research
- DZ Bank
- fairesearch
- Natixis Securities
- Mirabaud Securities
- Warburg Research
- WestLB

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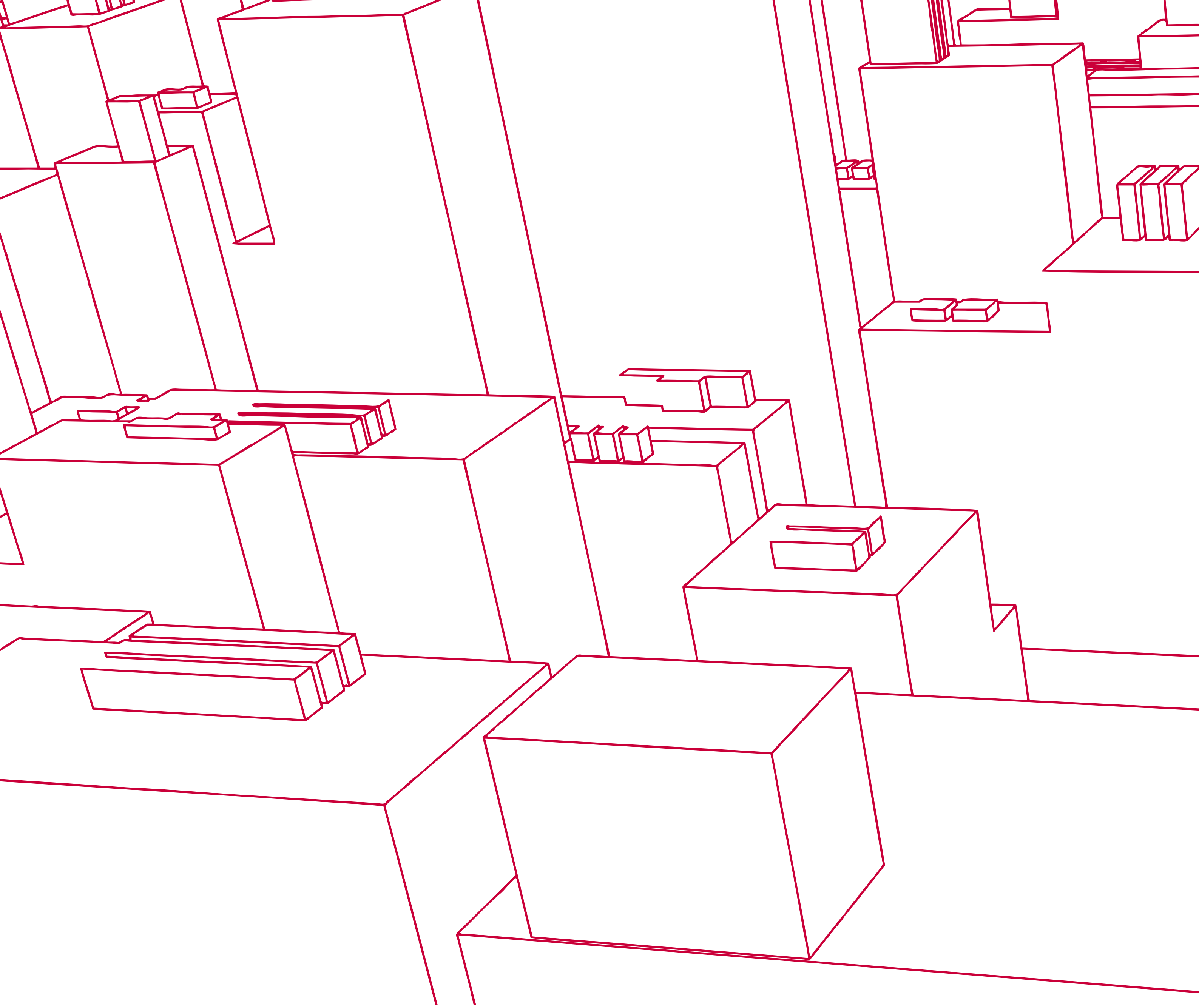
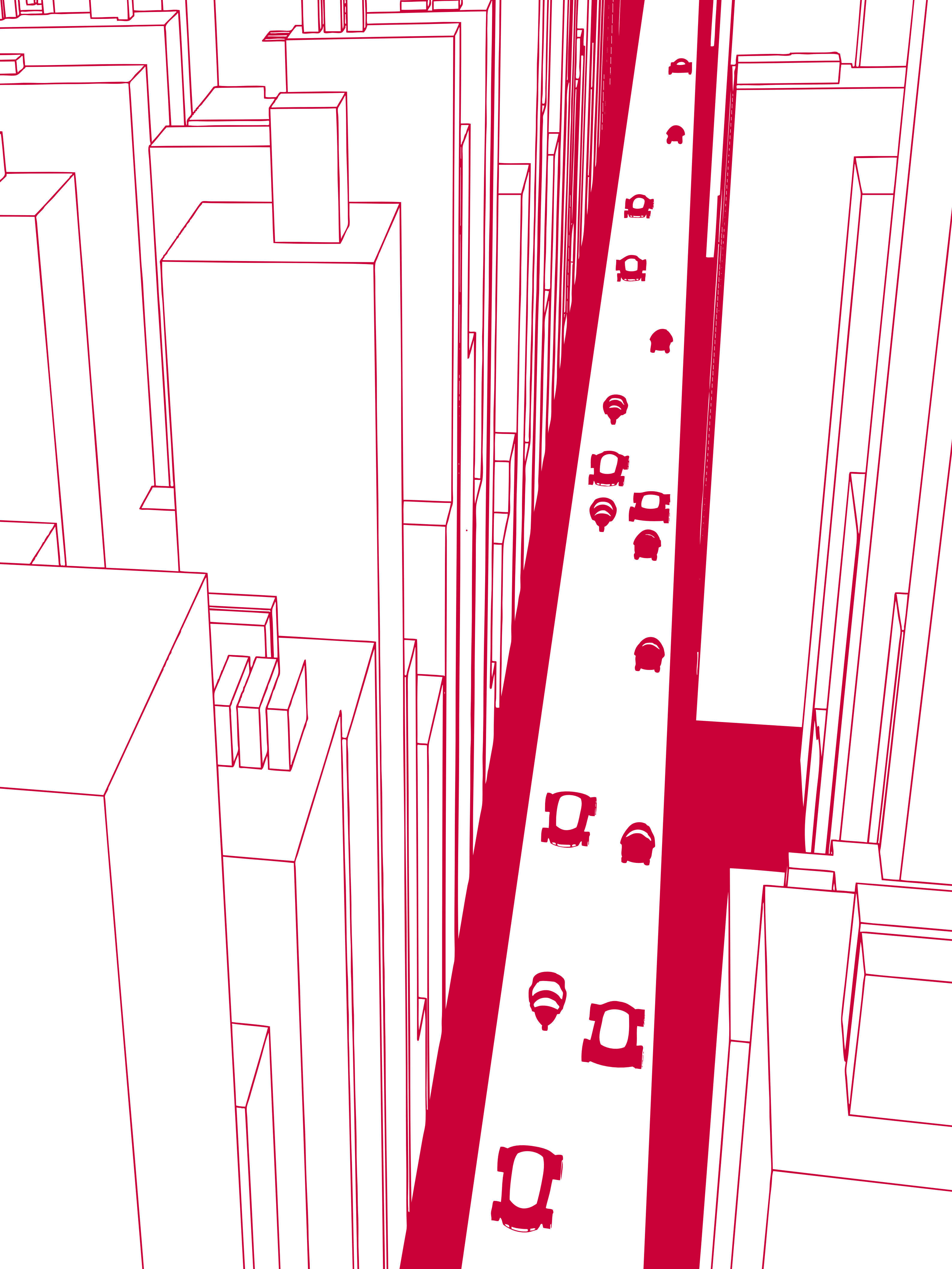


Group management report



Business and economic framework

Business activity

ELMOS was founded in the year 1984 in Dortmund where the company has its headquarters. The majority of sales (more than 90%) is generated with microelectronic circuits – so-called semiconductors. The smaller portion of shares is generated with micro-electro-mechanical systems (MEMS).

Extensive product portfolio

The core competence of ELMOS is the development, manufacture and distribution of mixed-signal semiconductors. The mixed-signal technology ELMOS provides is distinguished by the manufacturing of high-voltage components, sophisticated analog functions, and complex digital circuits in one compact process. This combination of rather entirely different requirements in one process is the core of the mixed-signal technology of ELMOS. Semiconductor chips in mixed-signal technologies are particularly suited for applications where the chip must have high packing density and is at the same time required to work under extreme ambient conditions. With respect to the automobile, this means that a mixed-signal chip makes sense wherever processes are analyzed and circuits are connected. An integrated sensor is capable of detecting and analyzing e.g. the rotary angle, acceleration, slope angle, pressure, and even light.

MEMS add to the product portfolio. At ELMOS these primarily come in the form of high-precision pressure sensors in silicon, developed, manufactured and distributed by the subsidiary Silicon Microstructures (SMI) in Milpitas/U.S.A.

The product range is completed by the combination of read-out chips and sensors in one package as so-called microsystems.

Furthermore, the manufacturing subsidiary ELMOS Advanced Packaging B.V. (ELMOS AP) based in Nijmegen, The Netherlands, supported the technology and product portfolio until the end of the year 2010 with the development and manufacture of special packages for electronic semiconductor components and sensors. ELMOS sold the special packaging business at the end of the year in order to focus more on the core business.

ELMOS: the specialist for automotive electronics

Roughly 85% of sales are generated with electronics for the automotive industry. The share of electronics in the automobile is constantly increasing: Comfort applications such as parking assist systems, air conditioning or power door locks are taken for granted today as features of contemporary vehicles. Safety and comfort electronics in particular have made a quantum leap over the last few years. Over the next years lower fuel consumption will be the focal point of attention. Further reductions are possible only through the intelligent use of electronics – this also holds true, and especially so, for the use of electric powertrains.

One characteristic of semiconductors for the automotive market is the long product life cycle. New automotive pro-jects usually require development periods between one and three years before being series-produced for about three to eight years. Sometimes the duration of the product life cycle is prolonged considerably if car manufacturers put to use a similar technology platform for a family of new car models. ELMOS is able to supply its customers with the same chip over a long period because of special manufacturing options and its in-house manufacture. Other characteristics of our business are the very high quality requirements and the robust semiconductor technology.

Since its formation, ELMOS has achieved a leading market position as semiconductor manufacturer in the market for automotive electronics. ELMOS chips are used by virtually all automakers worldwide. Immediate competitors in certain sub-segments are austriamicrosystems, Micronas, Melexis, and ON Semiconductor. When it comes to projects involving very high volumes, ELMOS also competes with major semiconductor manufacturers such as Freescale, Infineon, NXP, and STMicrolectronics.

Potential in the markets for industrial and consumer goods

Apart from the automotive market, ELMOS is also busy in the industrial and consumer goods markets, supplying semiconductors for applications e.g. in household appliances, photo cameras, medical, installation and facility technology, and machine control systems. The contribution to group sales currently amounts to roughly 15%. This sales share is scheduled to rise to 20 to 30% in the medium term.

Customer and application specific components

ELMOS predominantly manufactures products by customer order for a specific application, exclusively for the respective customer. Apart from these customer specific circuits (ASICs), comprising some 85% of sales (2009: more than 90%), ELMOS also develops and offers an ever-growing portfolio of application specific standard products (ASSPs).

Strategy

In the year 2010 ELMOS continued to make progress on schedule in the implementation of its strategy. This investment in the future will pay off from an economic viewpoint, too. The strategic cornerstones and the progress made in their realization are outlined in the following.

From custom tailor to trendsetter

ELMOS has made a name for itself as a specialist for solutions in the area of automotive and industrial semiconductors. These so-called application specific integrated circuits (ASICs) are based on the principle that exclusive customer requests and application requirements are identified and suitable approaches to solutions are developed – therefore these types of semiconductors are also called "customer specific". Over the past years there has been a continuing trend towards more standardized components. Driven by the general economic framework, many customers have decided to forgo exclusive solutions and to use application specific standard products increasingly – so-called ASSPs. Just like ASICs they are tailored to an application, yet not developed exclusively for one customer.

ELMOS has been identifying and developing such products for a few years now. The success in the market is encouraging. This was noticeable in 2010 for instance in the direct contact with customers at the globally leading trade shows for electronics, e.g. the "electronica" in Munich. Internal structures are being adjusted constantly to new market conditions in order to strengthen the market position with purpose and competence and to be the first supplier to introduce trend-setting products to the market due to the proximity to many customers.

Stronger entry into industrial and consumer goods markets

Historically speaking, our strength resides in the automotive market. However, we recognize considerable, as yet unaddressed opportunities for our products in the markets for industrial and consumer goods. In order to seize these opportunities, we have increased our efforts in this area significantly. We have contracted additional distributors to address a global customer base. In addition, we are targeting key customers in these markets with our own sales team specialized in industrial and consumer goods markets. The fields of network systems, lighting concepts, sensorics, and power supply meet with great customer attention.

Development of the Asian markets

Until a few years ago, ELMOS was positioned almost exclusively on the German and other European markets. The company has gained a foothold in the U.S. market and established valuable contacts there. Over the past years the company successfully took on the development of the Asian market, particularly in South Korea and Japan. In 2010 this effort focused increasingly on China as well. In support of this strategy we have strengthened our sales activities with our own staff and with representatives.

Strategic partnerships

Through strategic cooperations with partners, ELMOS can make useful additions to its own capabilities in order to offer a broader product portfolio in the long term and to thus increase competitiveness. We have forged the most important partnerships for the company's future development with MagnaChip and Renesas (formerly NEC Electronics). With the Korean foundry MagnaChip we are developing a new technology generation. Moreover, this partnership also enables us to purchase processed wafers from MagnaChip. Thus ELMOS is able to cut down on capital expenditure requirements in the medium term and react more flexibly to heavily fluctuating volumes.

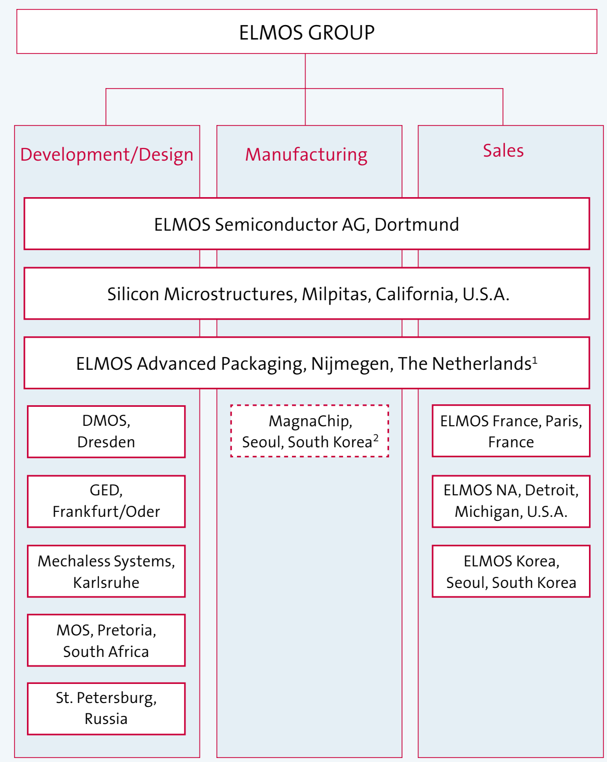
The agreement concluded with Renesas includes joint development, mutual access to development and manufacturing services, and joint marketing of products for the automotive and industrial markets. One first product line targets a new communication system used in industrial automation called IO-Link. For this product line jointly developed products are already on the market or close to market introduction.

Bigger share of microsystems and MEMS

Microsystems, consisting of ASICs or ASSPs and MEMS, will see rising demand over the next years. As one of only a few companies, ELMOS is capable of developing and manufacturing complete microsystems within the ELMOS Group. The development of microsystem projects has been pushed over the past fiscal years to the effect that a microsystem for a safety application entered series production. In addition, a standard microsystem – namely a pressure sensor system suited for applications in the industrial, medical and automotive markets –, is in series production for customer projects. Furthermore, pressure sensors increasingly find successful use in various market segments.

Organizational structure

Overview of key business locations



[1] The special packaging business of ELMOS Advanced Packaging was sold as of 12/31/2010.
[2] Cooperation partner

For further information please refer to note 33

The corporate structure of ELMOS is oriented towards demands defined by the customers and the target margets 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 all over the world provide sales and application support to the customer on the spot. The main production site for semiconductors is located in Dortmund, the one for MEMS is located in Milpitas/California/U.S.A. The special packaging business located in Nijmegen/The Netherlands was sold at the end of 2010.

The Munich branch and the companies ELMOS France, ELMOS North America, DMOS, Mechaless, and GED provide sales support or development services on location. ELMOS North America services the North American market from its office in Farmington Hills near Detroit/U.S.A. ELMOS is represented in Asia with representatives and an office in South Korea as well as recently with an office and development capacity in Singapore.

In the course of the increased sale of ASSPs and non-automotive products, ELMOS sells its products additionally through various distributors. The ELMOS Group collaborates with a large number of partners in Europe, U.S.A., and Asia. The collaboration facilitates design wins and the logistic realization of new contracts for electronics used in automotive, industrial and consumer goods applications and in medical technology. The distributors are distinguished by a broad customer portfolio, great comprehension of applications, and a high commitment to generate additional business.

In its segment reporting ELMOS distinguishes between the business sectors semiconductor and micromechanics. The micromechanics segment reflects the business operations of SMI. All other companies and activities are comprised in the semiconductor segment.

Relationships with affiliated companies

Until it ceased to exist on January 26, 2010, EFH ELMOS Finanzholding GmbH (EFH) directly and indirectly held an interest of approx. 52.9% (roughly 10.3 million shares) in the company's share capital and was thus the largest single shareholder of ELMOS Semiconductor AG. Therefore the Management Board prepared a report on relationships with affiliated companies according to Sections 312/313 AktG (German Corporations Act), concluding with the following declaration pursuant to Section 312 (3) AktG: "We declare in accordance with Section 312 (3) AktG that no reportable events took place in fiscal year 2010." In the course of reorganizing EFH, the shares formerly held by EFH became the property of the following companies: Weyer Beteiligungsgesellschaft mbH (20.5%), Jumakos Beteiligungsgesellschaft mbH (16.7%), and ZOE-VVG GmbH (15.7%).

General economic framework

Automotive industry

In **Western Europe,** at some 13 million vehicles new registrations 2010 did not repeat the high mark of 2009 as expected because of the expiry of many national state subsidy plans. With a minus of 5%, however, the decrease in demand was less pronounced than was still predicted at the beginning of the year. Sales in Germany were far below the level of 2009 (–23%), but since September 2010 incoming orders have been picking up again; in December alone they gained roughly 19% on the prior-year month of comparison. In the other European countries, the decline was less significant. France (–2%) and Italy (–9%) also recorded a sales loss for the full year while Spain (+3%) and Great Britain (+2%) slightly exceeded the prior-year values. The somewhat smaller sales markets of Western Europe entered a strong increase in new registrations for 2010. According to the German Association of the Automotive Industry (VDA), car sales were declining only in Greece, by more than a third.

Auto sales in the **U.S.** gained 11%. Overall close to 11.6 million passenger cars were sold on the U.S. market in the past year. The growth of 15% recorded by the German automakers was considerably above average.

China was the growth driver of the automotive industry. The passenger car business recorded an increase in demand of more than one third (+34%) in the past year, according to the VDA. With 11.3 million units sold, sales in the People's Republic close to doubled merely over the last two years. Almost each fifth new car in China belongs to a German group brand. New registrations in **Japan** gained 7% in 2010 to 4.2 million automobiles. Up to and including September 2010, the Japanese market was supported by a state economic stimulus program. The car business also performed well in **India** in 2010 as expected. This growth market recorded an increase in the sale of new cars of 31% to 2.4 million units.

Worldwide, more than 59 million passenger cars were sold in 2010 according to the University of Duisburg-Essen – a 10.5% plus.

Electronics industry

The increase in production output of the German electronics industry comes to 12% altogether, according to estimates released by the German Electrical and Electronic Manufacturers' Association (ZVEI). The industry's output is thus only 10% below its pre-crisis 2008 level. The global trends that define the industry are increasing requirements for energy efficiency and a growing demand for infrastructure equipment as well as up-to-date medical technology.

General semiconductor market

In the opinion of the market research institute Gartner Dataquest, 2010 was one of the best years ever for the general semiconductor market. The growth rate compared to 2009 was 31.5%. The market thus easily took the 300-billion-dollar mark. The strongest growth was accounted for by memory components with 49.8% plus. However, these products have shown a slight adjustment since the third quarter of 2010 which is supposed to continue for the next quarters.

Automotive semiconductor market

Usually the automotive semiconductor market grows even if car production remains constant. This is due to the constantly rising share of electronic systems in the automobile. Fast-growing segments of the past year were safety systems and driver assistance applications. Moreover, improved fuel efficiency is possible only with the help of electronic systems.

According to market researcher Data Beans, the semiconductor market for automotive applications gained 36% in 2010 on the previous year. Following the drastic slump in 2009, the pre-crisis level was thus exceeded already in 2010 (2008: 17.4 million U.S. dollar / 2009: 14.2 million U.S. dollar / 2010: 19.2 million U.S. dollar).

Production

ELMOS operates semiconductor manufacturing sites in Germany with 6-inch and 8-inch diameter wafers using various CMOS technologies. With investments in new equipment and the conversion from 6-inch machinery to 8-inch wafer diameter, the share of 8-inch wafers in the total manufacturing capacity is gradually increased. This expansion of 8-inch capacity progresses on schedule and safeguards the competitiveness of ELMOS' wafer manufacture. Presently roughly 60% of the total capacity is intended to be converted to 8-inch by the end of 2011. Apart from wafer production, the Dortmund location also includes a test area where wafers and packaged components are subjected to electric tests.

In addition to the German semiconductor production locations, ELMOS has other manufacturing sites: At the location of subsidiary SMI in Milpitas/California/U.S.A., MEMS pressure sensors are manufactured on 6-inch wafers in in-house production.

The subsidiary ELMOS Advanced Packaging based in Nijmegen, The Netherlands, develops and manufactures special packages for silicon chips. The special packaging business of ELMOS Advanced Packaging was sold at the end of 2010 so that ELMOS is able to focus more on the core business involving integrated circuits and MEMS. At the same time, ELMOS secured the know-how for the continued development of special packages, especially for microsystems, by concluding a cooperation agreement with the new owner.

The company's own manufacturing sites are completed by cooperations with contract manufacturers (foundries). In the future these foundries will make additional capacity available if necessary, thus enabling ELMOS to respond flexibly even to heavily fluctuating demand. The opportunity of producing at a foundry partner is also intended to be seized for ASSPs as well as for products intended for the industrial and consumer goods markets. In 2011 ELMOS will receive the first production wafers from the partner foundry MagnaChip and deliver these to the customers in the form of products.

Research and development

The development activity of ELMOS centers on the market-oriented expansion of the product portfolio. The majority of the company's product development cost is pre-financed by ELMOS and must be amortized through current series production. Obviously this applies in particular for the development of application specific standard products (ASSPs) which are going to represent a larger share of the total sales of ELMOS in the future.

Product developments are strictly aligned with market requirements. ELMOS prioritizes product ideas and takes into account volumes numbers, information on competition, and feasibility in a multi-stage process, among other factors. Only those projects are realized that meet the targets defined by the company with respect to market expectations, margin potential, and strategic orientation.

The result of such product developments is a number of new semiconductors and sensors; among the products presented in 2010 are the following:

-> The first semiconductor worldwide for safe partial network operation in the automobile (partial CAN). This technology makes a car communicate and run more power-efficiently.

-> A DC/DC converter, distinguished by outstanding efficiency rates and suited e.g. for use in high-performance LED lights, such as LED car headlights, the voltage supply of car audio power amplifiers, or for the design of power converters in the realm of industrial applications.

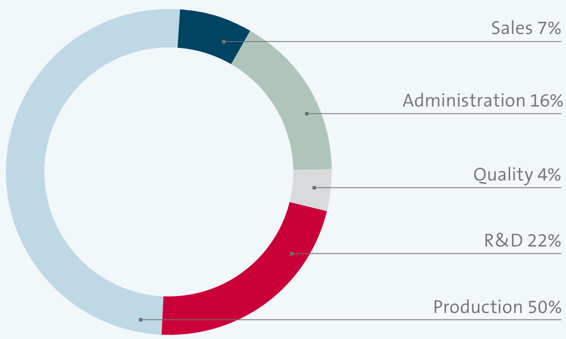
-> A motor drive IC for use in BLDC motors. Supported by a special procedure (VirtuHall®), a BLDC/PMSM motor can be controlled without any additional external sensors.

The new developments focus on energy-efficient and eco-friendly products. A majority of products has the goal of making the operation of the customer's application more efficient and thus reaching a competitive edge.

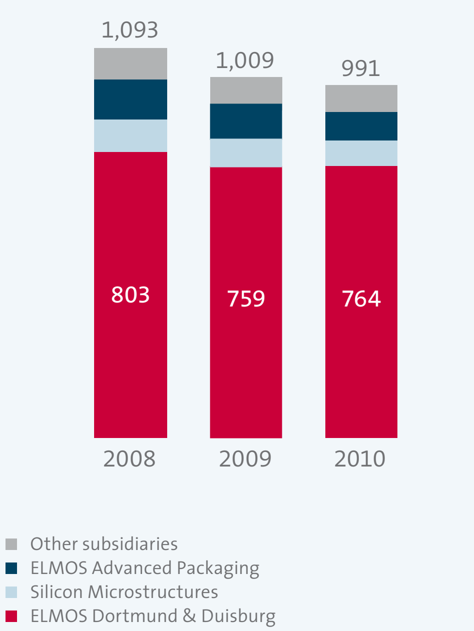
Other focal points were the development of the 0.35µm technology and the capacity expansion for current manufacturing processes. Furthermore, the development of a 0,18µm technology as a joint development with MagnaChip is setting the course so that competitive technologies for product development will also be provided in the future.

Research and development expenses came to 29.6 million Euro or 16.0% of sales in 2010. In view of the company's growth, research and development activities are forced in 2011.

Employees by function
ELMOS Group (annual average)



Development of the number of employees
ELMOS Group (year-end)



Employees

For ELMOS as a technology company, the employees' know-how is a particularly crucial factor. Their motivation, expert knowledge and flexibility are the prerequisite to the company's long-term success. Especially with regard to the development of new products and processes, the employees 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 the company's foundation and holds a singular position as the sole semiconductor manufacturer in the region. ELMOS offers professional training for a variety of commercial and technical professions with an emphasis on the training of microtechnologists. By the end of 2010 the Dortmund location had 29 trainees (2009: 36).

The total headcount at the North Rhine-Westphalian locations Dortmund and Duisburg of 764 employees as of December 31, 2010 was essentially stable (December 31, 2009: 759), the number of employees in the ELMOS Group dropped 1.8% by annual comparison to 991 as of the balance sheet date (December 31, 2009: 1,009). The number of ELMOS Group employees on annual average went down as well, to 990 (2009: 1,038). The average age of the staff was 40 years in 2010 (2009: 39 years). These figures include the 69 employees of the special packaging business sold as of December 31, 2010.

In Dortmund Management Board and employees work together in a trusting partnership supported by an employee representative committee. The employees' interests among each other and towards the management are discussed and settled in subcommittees. There are subcommittees for social issues, human relations, personnel development, and economic issues.

Professional training at ELMOS puts an emphasis on future microtechnologists.

The quality management is certified in accordance with the high requirements of DIN ISO 9001 and ISO/TS 16949.

In accordance with the German One-Third Participation Act (Drittelbeteiligungsgesetz), the Supervisory Board will be composed to one third of employee representatives. Their terms will begin as of the end of the Annual General Meeting 2011 or upon entry of the amendment to the articles of incorporation in the commercial register, respectively.

Quality

Within the framework of continuous improvement processes, ELMOS consistently forces its first-time-right and zero-defect strategy. ELMOS thus achieves an outstanding quality level with its products as well as in its business and manufacturing processes. Due to anticipatory quality planning and monitoring of customer requirements even during the development stage, quality is essentially achieved not by subsequent selection but rather from the beginning, with full competitiveness and a minimum number of rejects.

Regular examinations of the tools and processes put to use, closest attention to the series products from acquisition and development to manufacture and delivery, constant analyses, and cutting-edge statistical procedures make this high quality level possible. By means of a sophisticated traceability system, ELMOS is able to detect the reasons for slightest quality fluctuations early on and to minimize their effects in an effective and sustained manner in order to provide efficient customer support. In-house laboratories scrutinize not only possible defect mechanisms of the semiconductor manufacture but sensor and packaging specific features as well, thus closing the loop system for the continuous improvement of ELMOS' manufacturing processes.

The ELMOS quality management system is audited annually for compliance with the requirements of DIN ISO 9001 and ISO/TS 16949 in monitoring audits or repeat audits by our certifier.

Profit, financial and economic situation

Financial statements according to IFRS

The consolidated financial statements of ELMOS Semiconductor AG for fiscal year 2010 have been prepared in accordance with the International Financial Reporting Standards (IFRS).

ELMOS Group key figures according to IFRS

in million Euro or % unless otherwise indicated	2009	2010	Change
Sales	123.8	184.7	49.2%
Gross profit	35.9	83.8	>100%
in %	29.0%	45.3%	
Research and development expenses	25.3	29.6	17.2%
in %	20.4%	16.0%	
Distribution costs	10.6	12.6	18.4%
in %	8.6%	6.8%	
Administrative expenses	14.7	17.8	20.4%
in %	11.9%	9.6%	
Operating income before other operating expenses/ (income)	−14.8	23.8	n/a
in %	−11.9%	12.9%	
EBIT	−15.8	23.1	n/a
in %	−12.8%	12.5%	
Income before taxes	−17.3	21.7	n/a
in %	−14.0%	11.7%	
Net income/(loss)	−12.2	17.8	n/a
in %	−9.9%	9.6%	
Earnings per share (basic) in Euro	−0.63	0.92	n/a
Dividend per share in Euro	0.00	0.20[1]	

[1] *Proposal to the AGM in May 2011*

Sales development

The upswing in 2010 was highly satisfactory and turned out much stronger than predicted even at the beginning of the year under report. ELMOS benefited from this positive development and was one of the very few semiconductor companies capable of satisfying all customer orders. Accordingly, 2010 sales rose by nearly half compared to 2009, from 123.8 million Euro by 49.2% to 184.7 million Euro. This mark indicates the highest sales ELMOS has ever achieved in the company's corporate history. This is proof of the continuing strong demand of the customers for our innovative solutions and the delivery capability of ELMOS.

With respect to the development of the profit, financial and economic situation it must be taken into account that the consolidated financial statements includes the special packaging business of subsidiary ELMOS Advanced Packaging, The Netherlands – sold effective December 31, 2010 –, for the last time. With this sale ELMOS strengthens its core business, namely the development, production and sale of system solutions on the basis of semiconductors and sensors. Sales of the sold business unit amounted to 6.1 million Euro in 2010; the operating income was slightly positive.

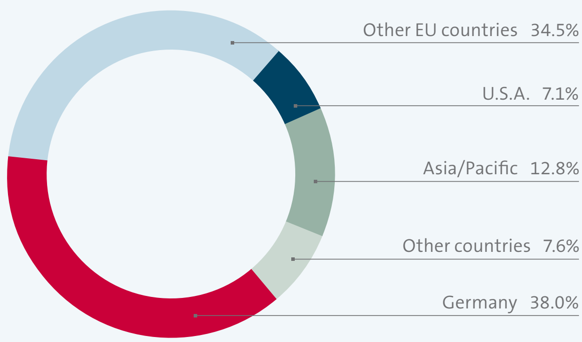
Sales by region

Significant increases in sales could be recorded in all regions. The region Asia/ Pacific is worth highlighting, more than doubling sales and thus increasing its contribution to group sales in 2010 to 12.8% (2009: 8.5%). This is primarily accounted for by the strong growth in China and South Korea. Sales contributions of the other regions did not show material changes from the previous year.

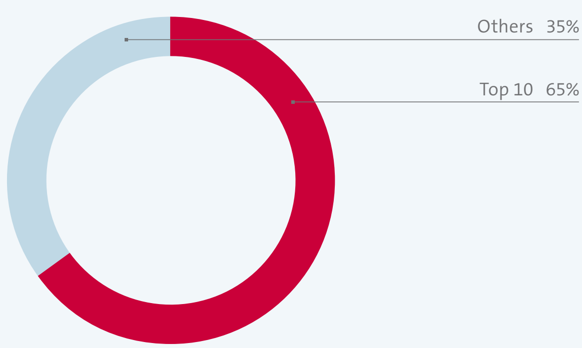
Sales by customer and product

ELMOS supplies more than 100 customers. Among them are predominantly suppliers to the auto industry and to a lesser extent industrial customers and manufacturers of consumer goods. In 2010 four of our customers once again accounted for more than 10% of group sales each. Sales generated with our top customers are usually attributable to a great many

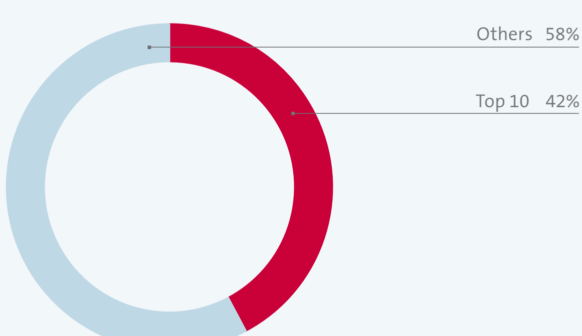
Sales by region



Sales by customer



Sales by product



different products at different stages of their respective life cycles. Our top ten customers amounted to roughly 65% of sales 2010 (2009: 68%). The ten best selling products together came to roughly 42% of sales in 2010 (2009: 43%).

Order backlog

At the end of December 2010, the book-to-bill ratio for the semiconductor segment was slightly above one. To determine the book-to-bill, we compare the orders received for the next three months with sales of the past three months. Order backlog is usually entered upon receiving the customer's order. It is influenced by different factors such as demand, order behavior, production lead time, etc. Order backlog may vary between the time of placing the order and delivery due to changes in customer demand or market conditions. As soon as production is started, an order usually cannot be canceled anymore. However, there is no guaranty for order backlog to turn automatically into future sales.

New projects (design wins)

The competition for projects was intense again in the past year. However, the number of contracts to be awarded was considerably higher again in comparison with the year of crisis 2009. ELMOS benefited from this situation and achieved a number of successes with design wins in 2010 once more. These include both ASIC and ASSP projects. Worth mentioning are new acquisitions in the Asian region, some which will result in sales sooner than usual. Considering design wins according to field of use it can be pointed out that the automotive market shows great dynamics after the crisis and opens further opportunities for growth with ASIC and ASSP projects. The success with industrial and consumer goods customers is gratifying. Volumes here are generally smaller than in the auto market. However, the readiness to use innovative applications is higher in this field. Among the design wins are projects for comfort and network applications as well as current transformers.

Profit situation

Due to the significant growth in sales and accompanying measures for limiting the resulting cost increase, the quality of earnings in 2010 was raised considerably over the previous year.

Gross profit

The much increased capacity utilization rate over 2009 shows primarily in the higher gross profit and the improved gross margin. The gross profit was more than doubled from 35.9 million Euro in 2009 to 83.8 million Euro in the year under report. The gross margin came to 45.3% compared to 29.0% in the previous year. The clearly disproportionate increase in gross profit is accounted for by the lower growth of both fixed cost and variable cost in relative terms. The positive inventory development and thus the higher performance in production also had a positive effect on the quality of earnings.

Operating income before other operating expenses/(income) and EBIT (earnings before interest and taxes)

Research and development expenses grew strongly in absolute terms from 25.3 million Euro in 2009 to 29.6 million Euro in 2010; in relation to sales, though, they were declining from 20.4% to 16.0% of sales. Distribution and administrative expenses were also on the rise, coming to 12.6 million Euro (2009: 10.6 million Euro) and 17.8 million Euro (2009: 14.7 million Euro), respectively. These growth rates were also below the growth rate for sales.

Over the next quarters both R&D expenses and distribution expenses will keep increasing. This trend is due to the enhancement of the product portfolio with more ASSPs on the one hand and the expansion of distribution activities, e.g. with the establishment of ELMOS locations in Asia, on the other hand.

The operating income before other operating expenses/(income) came to 23.8 million Euro in 2010 (2009: –14.8 million Euro) and was thus equivalent to a margin of 12.9% of sales (2009: –11.9%). The EBIT (earnings before interest and taxes) showed a similar performance, climbing to 23.1 million Euro or 12.5% of sales in the year under report (2009: –15.8 million Euro or –12.8%).

Income before taxes, net income, earnings per share

Even though cash and cash equivalents exceeded the financial liabilities, net finance expenses came to 1.4 million Euro due to currently low credit interest rates (2009: 1.5 million Euro). After deduction of taxes in the amount of 3.9 million Euro (2009: –5.1 million Euro), the group's net income reached 17.8 million Euro in 2010, compared to a net loss of 12.2 million Euro in the previous year. This result equals basic earnings per share of 0.92 Euro (fully diluted: 0.91 Euro), compared to a loss per share of 0.63 Euro the year before (basic and fully diluted).

Proposal for the appropriation of retained earnings

The net income of ELMOS Semiconductor AG* according to HGB amounted to 16.7 million Euro in 2010. The profit carried forward from the year 2009 comes to 42.7 million Euro. As the condition for the payment of a dividend, the company determined in the past years that the development of earnings and the development of cash flows must both be sustainably positive. In view of the satisfactory development in 2010, Management Board and Supervisory Board propose to the Annual General Meeting on May 17, 2011 the payment of a dividend of 0.20 Euro per share out of the retained earnings of 59.4 million Euro.

* *The financial statements of ELMOS Semiconductor AG have received an unqualified audit opinion. They will be released in the electronic Federal Gazette, filed with the Company Register, can be requested as a special print publication, and are available on the company's website.*

Sales and profit by segment

in million Euro or %	Segment	2009	2010	Change
Sales				
	Semiconductor	113.0	170.1	50.6%
	Micromechanics	10.8	14.6	35.0%
Segment earnings				
	Semiconductor	−14.4	22.1	n/a
	Micromechanics	−1.4	1.0	n/a
Segment earnings margin				
	Semiconductor	−12.7%	13.0%	
	Micromechanics	−13.2%	6.9%	

Semiconductor

The semiconductor core business of the ELMOS Group is operated through the various group companies in Germany, France, the Netherlands (up to the end of 2010), and the U.S. Sales of the semiconductor segment climbed 50.6% to 170.1 million Euro (2009: 113.0 million Euro). Semiconductor sales are highly dependent on automotive customers and thus benefited from the revitalization of this industry in 2010. With earnings of 22.1 million Euro, the margin came to 13.0% compared to losses in the previous year (2009: −14.4 million Euro or −12.7%).

Micromechanics

The micromechanics segment comprises the activities of subsidiary company SMI. Customers in the micromechanics segment belong for the most part to the industrial, consumer goods and medical sectors. These customers were not as strongly affected by the 2009 economic crisis as the automotive customers. The potential carried by the upswing was therefore not as huge as in the semiconductor segment. Sales still gained 35.0% to 14.6 million Euro in the year under report (2009: 10.8 million Euro); third-party sales are generated almost exclusively in U.S. dollars. Segment earnings were also improved considerably to 1.0 million Euro or 6.9% of sales (2009: −1.4 million Euro or −13.2%).

Financial position

Key figures of the ELMOS Group according to IFRS

in million Euro	2009	2010	Change
Net income/loss	−12.2	17.8	n/a
Depreciation/appreciation	16.9	16.3	−3.2%
Changes in net working capital[1]	10.1	−3.7	n/a
Investments in securities	0.0	−3.0	n/a
Other items	−5.3	2.6	n/a
Cash flow from operating activities	**9.4**	**30.0**	**>100%**
Capital expenditures for fixed assets	−7.4	−12.4	67.8%
in % of sales	6.0%	6.7%	
Investments in securities	0.0	−6.3	n/a
Other items	1.9	1.1	−39.9%
Cash flow from investing activities	**−5.5**	**−17.5**	**>100%**
Cash flow from financing activities	**0.0**	**−1.4**	**n/a**
Changes in cash and cash equivalents	3.9	11.0	>100%
Free cash flow[2]	**3.9**	**12.5**	**>100%**
Adjusted free cash flow[3]	**2.1**	**20.6**	**n/a**

[1] Net working capital in the narrow sense (trade receivables, inventories, trade payables)
[2] Cash flow from operating activities less cash flow from investing activities
[3] Cash flow from operating activities plus investments in marketable securities less capital expenditures for fixed assets

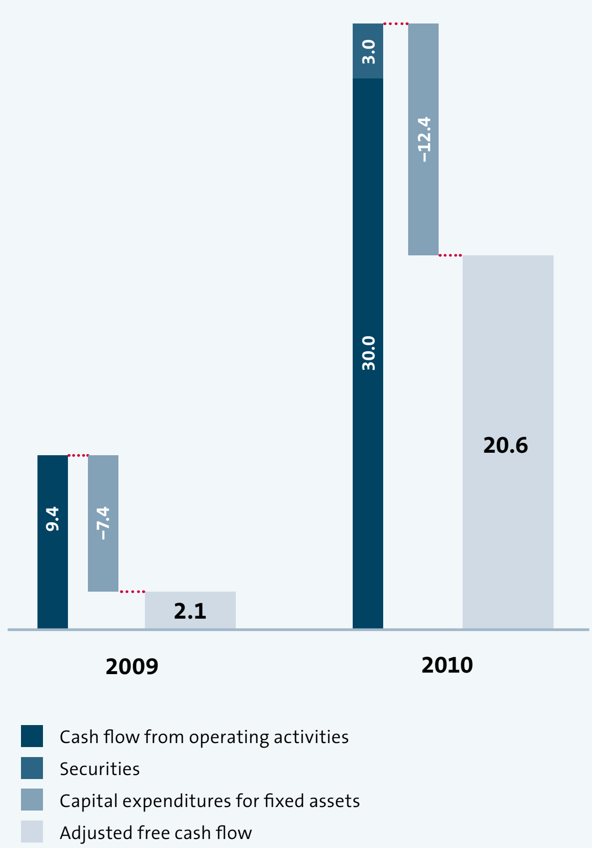
Cash flow from operating activities

Compared to the year before, the cash flow from operating activities was more than tripled, coming to 30.0 million Euro in 2010 after 9.4 million Euro in the previous year. This was achieved despite a considerable increase in net working capital on account of the strong growth in business volume, reflected in the operating cash flow with an additional capital lockup of altogether 3.7 million Euro. The increase in cash flow from operating activities is due essentially to the improved situation of earnings.

Cash flow from investing activities

The relation of capital expenditures for fixed assets to sales continued to be significantly below historic values in 2010. 12.4 million Euro or 6.7% of sales were invested in 2010 (2009: 7.4 million Euro or 6.0% of sales). A majority of these investments was allocated to the conversion of parts of the production line in Dortmund from 6-inch to 8-inch. Cash requirements out of investing activities amounted to 17.5 million Euro in 2010 after 5.5 million Euro in 2009. It must be taken into consideration that in 2010 6.3 million Euro of this amount were invested in securities.

Adjusted free cash flow



In 2010 a clearly positive free cash flow (cash flow from operating activities less cash flow from investing activities) was generated altogether in the amount of 12.5 million Euro (2009: 3.9 million Euro). The adjusted free cash flow (cash flow from operating activities plus investments in marketable securities less capital expenditures for fixed assets) was even raised to 20.6 million Euro (2009: 2.1 million Euro).

Cash flow from financing activities

The cash flow from financing activities came to –1.4 million Euro in the year under report (2009: 0.0 million Euro). These funds were used for the share buyback of own shares (–0.8 million Euro) and the repayment of non-current and current financial liabilities –0.6 million Euro).

Thus cash and cash equivalents went up by 11.2 million Euro to 58.0 million Euro as of December 31, 2010 compared to the prior-year balance sheet date (December 31, 2009: 46.8 million Euro). The share of cash and cash equivalents in total assets climbed to 23.3% as of December 31, 2010 (December 31, 2009: 21.1%).

Other financial obligations and information on off-balance-sheet financial instruments

In addition to classic credit facilities, the company finances its investments in real estate, technical equipment and machinery, factory and office equipment, and the use of development capacities and one production line through lease contracts and service agreements. The respective relation of advantages to risks is balanced, and the arrangements are customary in the market. The resulting repayment obligations are entered in "other financial obligations". They came to 106.0 million Euro as of December 31, 2010 (December 31, 2009: 119.6 million Euro).

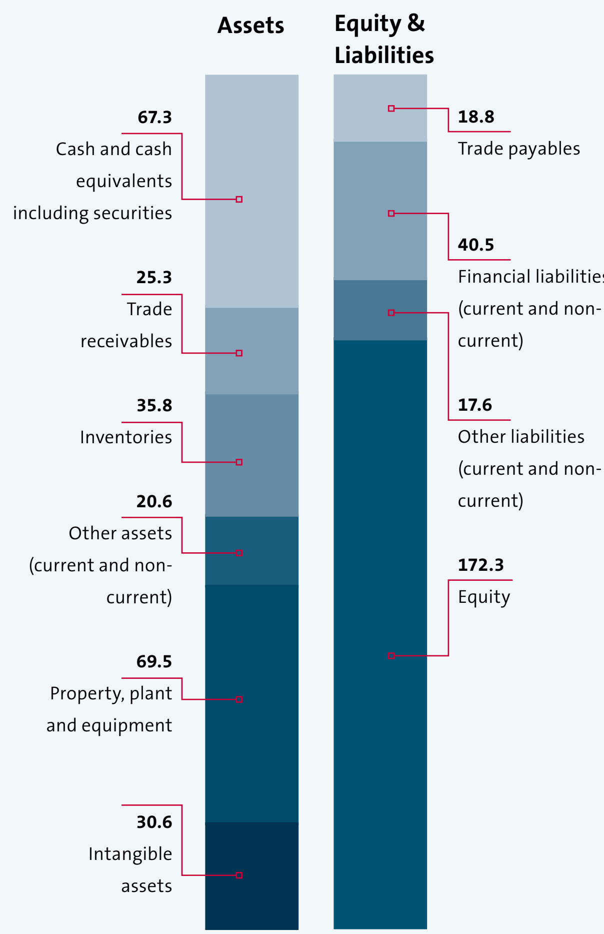
Economic situation

Comparative figures of the balance sheet of the previous year 2009 have been adjusted due to a statement made by the Financial Reporting Enforcement Panel (FREP) with respect to the consolidated financial statements as of December 31, 2008. For further details please refer to the notes under "general information".

Key figures of the ELMOS Group according to IFRS

in million Euro	12/31/2009	12/31/2010	Change
Intangible assets	33.7	30.6	−9.1%
Property, plant and equipment	72.8	69.5	−4.5%
Other non-current assets	8.3	8.0	−3.8%
Securities (current and non-current)	0.0	9.3	n/a
Inventories	31.5	35.8	13.6%
Trade receivables	20.0	25.3	26.6%
Cash and cash equivalents	46.8	58.0	23.8%
Other current assets	8.6	12.6	47.5%
Total assets	**221.7**	**249.2**	**12.4%**
Equity	154.4	172.3	11.6%
Financial liabilities (current and non-current)	40.8	40.5	−0.8%
Other non-current liabilities	2.8	3.5	23.9%
Trade payables	12.9	18.8	45.5%
Other current liabilities	10.8	14.2	31.3%
Total equity and liabilities	**221.7**	**249.2**	**12.4%**

Balance sheet structure as of December 31, 2010



Total assets went up 12.4% to 249.2 million Euro as of December 31, 2010 (December 31, 2009: 221.7 million Euro).

With regard to assets, this development is accounted for essentially by the increase in trade receivables (+5.3 million Euro) and inventories (+4.3 million Euro) based on the increase in business operations as well as the purchased securities (+9.3 million Euro) and the increase in cash and cash equivalents (+11.2 million Euro).

The deciding factors for the increase in total equity and liabilities are increased trade payables (+5.9 million Euro) and the increase in equity (+17.9 million Euro) as a result of the generated net income.

Net working capital

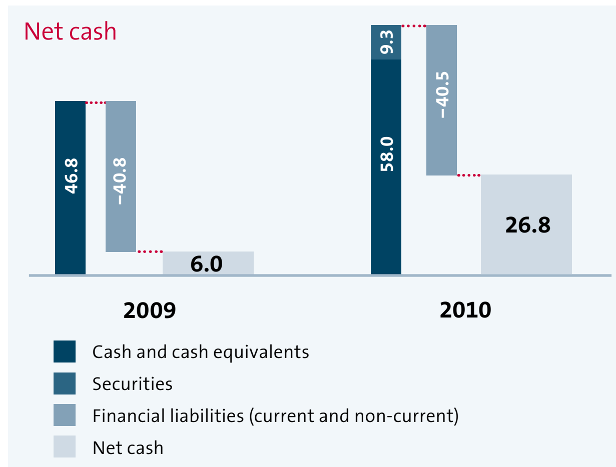
The net working capital climbed from 38.6 million Euro as of December 31, 2009 by 9.7% to 42.4 million Euro as of the balance sheet date in the year under report. Inventories gained 13.6% to 35.8 million Euro as of December 31, 2010; inventory turnover remained stable at 2.8x. Trade receivables were up 5.3 million Euro or 26.6% to 25.3 million Euro; the receivables turnover came to 7.3x, thus much higher once again than in the previous year (2009: 6.2x). Trade payables grew considerably faster than inventories and trade receivables and came to 18.8 million Euro as of December 31, 2010 (December 31, 2009: 12.9 million Euro); the payables turnover could thus be lowered again to 5.4x (2009: 6.8x). The cash conversion cycle thus improved from 136 days on average in 2009 to 112 days in the year under report. These key figures show the company places great emphasis on working capital management also during the upswing.

Key figures of the ELMOS Group

	Calculation	Unit	2009	2010
Net working capital	Trade receivables + inventories – trade payables	million Euro	38.6	42.4
of sales		%	31.2%	22.9%
Inventory turnover	Cost of sales/ inventories	x	2.8x	2.8x
Receivables turnover	Sales/ trade receivables	x	6.2x	7.3x
Payables turnover	Cost of sales/trade payables	x	6.8x	5.4x
Capital lockup period/cash conversion cycle	Inventory days + debtor days – creditor days	days	136	112
Net cash/(Net debt)	Cash and cash equivalents + securities – financial liabilities	million Euro	6.0	26.8
Gearing	Net cash/ equity	%	3.9%	15.6%
Equity ratio	Equity/total assets	%	69.6%	69.1%

Other key financials

Net cash was increased considerably once more in 2010, rising to 26.8 million Euro as of December 31, 2010 (6.0 million Euro as of December 31, 2009). The equity ratio of 69.1% remained essentially stable (December 31, 2009: 69.6%).



Overall statement on the economic situation

ELMOS has come through the economic and financial crisis stronger than before and managed to use the economic dynamics that followed in 2010 entirely for the improvement of the company's economic situation. Sales and quality of earnings give proof of this positive development. Apart from the economic recovery, ELMOS also benefited from numerous internal measures. ELMOS has improved structures, increased efficiency, and optimized product lines and the portfolio. All this plus the solid financial base with a focus on the generation of free cash flow is now strengthening the competitive position and forms a good foundation for the company's future development.

Information with respect to takeover law

In the following chapter, information with respect to takeover law as required under Section 315 (4) HGB (German Commercial Code) is disclosed as of December 31, 2010 (also representing the explanatory report according to Section 176 (1) sentence 1 AktG (Corporations Act)).

Composition of subscribed capital

The subscribed capital (share capital) of ELMOS Semiconductor AG remains at 19,414,205 Euro and is comprised of 19,414,205 no-par value bearer shares. Each share carries the same rights and grants one vote in the Annual General Meeting.

Limitations with regard to voting rights or the transfer of shares

Limitations with regard to voting rights or the transfer of shares do not apply for the company.

Direct or indirect shares in equity

As of December 31, 2010 the following shareholdings are recorded:

	Registered office/ country	Euro/ Shares	%
Weyer Beteiligungs-gesellschaft mbH	Schwerte/ Germany	3,979,479	20.5
ZOE-VVG GmbH	Duisburg/ Germany	3,049,727	15.7
Jumakos Beteiligungs-gesellschaft mbH	Dortmund/ Germany	2,971,614	15.3
Treasury stock		119,607	0.6
Shareholders <10% stake		9,293,778	47.9
		19,414,205	**100.0**

Until it ceased to exist on January 26, 2010, EFH ELMOS Finanzholding GmbH (EFH) held an indirect and direct interest of altogether approx. 52.9% (roughly 10.3 million shares) in the company's share capital. In the course of reorganizing EFH, the shares formerly held by EFH became the property of the following companies: Weyer Beteiligungsgesellschaft mbH (20.5%), Jumakos Beteiligungsgesellschaft mbH (16.7%). and ZOE-VVG GmbH (15.7%).

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 to the company.

Legal stipulations and provisions of the articles of incorporation for the appointment and dismissal of Management Board members and for 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). The company's articles of incorporation do not provide for supplementary provisions.

The Management Board's authorization to issue and repurchase shares

The Management Board is authorized to increase the share capital up to and including May 18, 2011 subject to the Supervisory Board's approval by up to 9,650,000 Euro through the singular or repeated issue of up to 9,650,000 new no-par value bearer shares against contributions in cash or 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 up to 145,244 Euro **(conditional capital 2004).** The conditional capital increase exclusively serves the granting of stock options to employees, executives, and Management Board members of the company as well as to executives and employees of affiliated companies (stock option plan 2004). The capital increase is realized only insofar as options are issued within the scope of the company's stock option plan 2004 in observance of the shareholders' resolution of April 27, 2004 and as these options are 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 share capital is conditionally increased by up to 495,000 Euro **(conditional capital 2009).** The conditional capital increase serves the redemption of stock options issued to employees, executives, and Management Board members of the company as well as to employees and executives of affiliated companies up to and including May 5, 2014 on the basis of the authorization given by the Annual General Meeting of May 6, 2009 (stock option plan 2009). The conditional capital increase is realized only insofar as options are issued within the scope of the company's stock option plan 2009 in observance of the shareholders' resolution of May 6, 2009 and as these options are exercised by their owners within the exercise period insofar as no cash compensation is granted or own shares are used for payment. 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 share capital is conditionally increased by up to 1,250,000 Euro **(conditional capital 2010/I).** The conditional capital increase serves the redemption of stock options issued to employees, executives, and Management Board members of the company as well as to executives and employees of affiliated companies up to and including May 3, 2015 on the basis of the authorization given by the Annual General Meeting of May 4, 2010 (stock option plan 2010). The conditional capital increase is realized only insofar as options are issued within the scope of the company's stock option plan 2010 in observance of the shareholders' resolution of May 4, 2010 and as these options are exercised by their owners within the exercise period insofar as no cash compensation is granted or own shares are used for payment. 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 share capital is conditionally increased by up to 7,800,000 Euro **(conditional capital 2010/II).** The conditional capital increase is realized only insofar as the owners of convertible bonds or option bonds, profit participation rights or profit participating bonds (or a combination of these instruments) issued by ELMOS Semiconductor AG or a group company of ELMOS Semiconductor AG pursuant to Section 18 AktG up to and including May 3, 2015 based on authorization given by the Annual General Meeting of May 4, 2010 under agenda item 10 b) make use of their conversion privileges or options or, if they are committed to conversion, realize this commitment to conversion, insofar as no cash compensation is granted or own shares are used for payment. The new shares are issued at the conversion or option price to be determined in accordance with the aforementioned authorization. The new shares are entitled to dividend from the beginning of the fiscal year in which they come into being by the exercise of conversion privileges or options or the fulfillment of conversion commitments.

Based on the shareholders' resolution of May 4, 2010, the company is authorized to repurchase own shares up to and including May 3, 2015. This authorization is limited to the purchase of shares representing a total of 10% of the current share capital altogether. The authorization may be exercised fully or in several parts, once or several times, and for one or several purposes within the scope of the aforementioned limitation.

Authorizations of the Management Board

Authorized capital I	Conditional capital	Share buyback
9,650,000 Euro *until May 18, 2011*	**2004: 145,244 Euro** Stock option plan 2004 **2009: 495,000 Euro** Stock option plan 2009 **2010/I: 1,250,000 Euro** Stock option plan 2010 **2010/II: 7,800,000 Euro** Option bonds or convertible bonds *until May 3, 2015*	up to 10% of the share capital *until May 3, 2015*

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

In case of a change of control, the members of the Management Board are entitled to terminate their respective employment contracts within three months from the occurrence of a change of control with six-month notice to the end of the month and to resign from their duties as of the termination of their employment contracts. In case of the exercise of this right of termination, each Management Board member is entitled to compensation in the amount of the remuneration for two years, limited by the amount of the remuneration to be paid for the remaining term of the respective employment contract. Applicable is the remuneration amount paid during the last fiscal year prior to the occurrence of the change of control.

Remuneration report

Total remuneration of the members of Management Board and Supervisory Board consists of a number of remuneration components. The details are explained in our remuneration report as part of this annual report's corporate governance report in the chapter "corporate governance". The audited remuneration report is part of the group management report.

Risks and opportunities

Risk management system

and explanatory report on the internal control and risk management system pursuant to Section 315 (2) no. 5 HGB (German Commercial Code)

ELMOS Semiconductor AG unites the measures for risk management in the company in an integrated risk management system. This risk policy focuses on safeguarding the company's existence and increasing the shareholder value systematically and continuously. The system complies with the legal stipulations for an anticipatory risk detection system and the principles defined by the German Corporate Governance Code.

Based on the internal control and risk management system, risks and opportunities are constantly identified and their effects on the company's operating and financial targets are analyzed. The group deliberately assumes containable and controllable risks in areas of its core competence if adequate yields can be expected at the same time. Beyond that, the assumption of risks is avoided if possible. It is altogether being assured that the group is able to entirely cover the risks it takes.

Binding standards and rules have been defined for risk identification and management. Speculative transactions or other actions of a speculative nature are generally prohibited. The observance of these principles is monitored regularly. In addition, numerous and repeated training courses make sure that all employees are aware of the rules at any time.

The respective operational superiors are directly responsible for the early detection and control of risks. The next levels of seniority see to the management of risks. The Management Board assumes the overall responsibility for the internal control and risk management system in the group. In a well-established top-down process, the divisions report on the current status of material risks through a risk inventory with defined gradual thresholds. Risks are valuated and classified according to the probability of occurrence and the estimated amount of loss. Measures for risk reduction are listed for each identified risk; early warning indicators are regularly updated and discussed with the responsible teams. Quality system audits are regularly conducted by external experts and the results are analyzed.

Data relating to material risks for the group are systematically processed in a transparent manner and presented to the Management Board and the Supervisory Board of ELMOS Semiconductor AG. Ad hoc risks and realized damages are communicated immediately and outside the usual reporting channels in case of urgency. The continuous refinement of instruments and methods for risk detection and management is an ongoing process which is constantly being reviewed for sources of error.

The internal control system consists of a number of structures and processes for risk control with the aim of identifying risks as well as containing known risks and indicating them in the consolidated financial statements. It contains the principles, processes and measures introduced by the management, oriented toward the organizational implementation of the management's decisions for safeguarding the efficiency and economy of business activity, the reliability and the truth and fairness of internal and external accounting, and compliance with the applicable legal stipulations. Structure and processes are adapted to recent internal and external developments at regular intervals.

With respect to the financial accounting process of the companies included in the basis of consolidation and the group, structures and processes have been implemented for safeguarding the truth and fairness of the consolidated financial statements. The Management Board assumes overall responsibility for the internal control and risk management system including its focus on financial accounting. All companies and group divisions included in the consolidated financial statements are involved through the strictly defined organization of seniority levels and reporting. The principles, the organizational structure, workflow management, and the processes of the internal control and risk management system with respect to financial accounting are regulated throughout the group by specific guidelines and operating procedures that are being adapted to internal and external developments whenever necessary. Material characteristics of the internal control and risk management system with respect to financial accounting are (i) the identification of material areas of risk and monitored domains of relevance to financial accounting in the group, (ii) examinations for monitoring the financial accounting process and its results, (iii) preventive control measures in finance and accounting and those areas where material information for the preparation of consolidated financial statements is generated, including defined authorization processes in relevant areas, and (iv) measures for the proper, EDP-supported processing of items and data relating to the group's financial accounting.

Essential elements of risk management and control in accounting are the unambiguous assignments of responsibility and examinations during the preparation of financial statements, transparent provisions by way of guidelines for accounting and the preparation of financial statements, appropriate regulations for the access to EDP systems relevant to financial statements, and the unambiguous arrangement of responsibilities for the involvement of external experts. The four-eye principle and the separation of functions are also important control principles in the process of financial accounting.

In summary of the above information, it can be stated that the risk management system and the internal control system introduced by the Management Board of ELMOS Semiconductor AG, particularly with respect to financial accounting, have proved efficient. Further information on the risk management system can be found under note 30 in the notes to consolidated financial statements.

Risks

Dependence on the automotive industry

The core business of ELMOS is linked directly to the automotive industry's demand for semiconductors. Roughly 85% of sales were made with chips for automotive electronics in the past fiscal year 2010. On the one hand, this demand depends on the number of cars produced, on the other hand, it is governed by the lasting trend towards more electronics in the automobile. A collapse in car production and sales figures also represents a risk for ELMOS as semiconductor supplier. The demand for semiconductors and sensors made by ELMOS is also affected by the delivery capability of other suppliers as systems and cars can be manufactured only if all suppliers are capable of delivery. A lasting decrease in demand on the part of the automotive industry could have significant effects on the financial, profit and economic situation.

The auto market used to be subjected to considerable fluctuations in the past as a result of mergers of system manufacturers, restrictive environmental law making, and other factors. The customer structure of ELMOS indicates a certain dependence on a few major suppliers to the automotive industry. However, it has to be taken into account that one customer usually purchases several products at different stages of respective life cycles. Moreover, the products ELMOS manufactures are generally neither easily replaceable nor on short notice due to their technical design. By the increased commitment of ELMOS to application specific standard products (ASSPs), this kind of customer dependence is reduced as such products can be marketed to several customers; on the other hand, the risk of interchangeability increases as the competition can offer comparable products, too.

Competition

A large number of competitors in the market for automotive semiconductors offer products similar to the ones ELMOS supplies, based on a similar technological foundation. ELMOS also competes with large manufacturers for high-volume contracts and is thus exposed to corresponding pricing pressure. Furthermore, ELMOS bears the risk that the customer will rely on a competitor in cases where parallel developments are commissioned.

Dependence on individual employees

The company's highly development-intensive business activity leads to a clearly pronounced and very specific engineering know-how but only in part to patents. The consequence for ELMOS as for any other technology company is an increased dependence on individual employees.

Development of new products and technologies

The market for ELMOS products is characterized by the products' constant advancement and improvement. Therefore the success of ELMOS is closely related to the company's ability to develop innovative and complex products economically, to introduce them to the market on time, and to see to it that these products are chosen by the auto suppliers.

Because ELMOS is able to develop and manufacture products for all kinds of electronic devices used in the automobile, products made by ELMOS can be found in a great number of electronic components of many different car models so that the dependence on individual products is low.

One-off development costs incurred for the customer specific development of products are usually paid only in part by the customers. Those development costs not covered in advance must be amortized through the later volumes in series production. There is the risk that not amortized expenses for product developments not resulting in a supplier relationship will remain with the company. Particularly with high-volume orders for which a greater number of suppliers are in competition, the customer is usually unwilling to pay development costs in advance and expects the supplier to pre-finance these expenses instead. This holds usually true for product developments initiated by ELMOS, e.g. all ASSPs, as there are no binding customer orders for such projects.

The future success of ELMOS is also dependent on the company's 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 all of its competitors, 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 capable of developing, producing and selling new products and product upgrades in the future, significant effects on the financial, profit and economic position will likely be the result.

Purchasing

The raw materials ELMOS needs for its manufacturing processes are available worldwide from different suppliers and are for the most part not controlled by monopolists. However, as a matter of course prices develop in correspondence with demand so that they typically rise in times of strong growth. With regard to assembly, a certain dependence on individual Far Eastern partners is typical of the trade. ELMOS has spread this risk by cooperating with several partners.

Product liability

The 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 into which they are integrated can be directly or indirectly damaging to the property, health, and lives of third parties. ELMOS cannot reduce or exclude its liability with regard to customers or third parties in its sales contracts.

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 tested several times at different temperatures in production, usually in view of automotive applications, with regard to quality and functionality. Even though the company applies elaborate test procedures before delivering its products, product defects might still show not until the occasion of installation or the end consumer's use of the product.

If such product defects materialize, expensive and time-consuming product modifications might ensue, leading to disrupted customer relationships and the 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 these risks could affect the company's financial, profit and economic position in a negative way.

Investments

The allocation of financial resources to the subsidiary companies results in an increased obligation to detect and, if necessary, to minimize potential risks by means of adequate controlling instruments and continuous target/actual analyses at the earliest possible stage. The implemented risk management and the internal control system are constantly being expanded and improved for this purpose. Still these risks could have negative effects on the company's financial, profit and economic position.

Information technology

For ELMOS as for other globally operating companies, the reliability and safety of IT are of great importance. This applies increasingly to the utilization of IT systems in support of our operational processes as well as to the support of internal and external communication. Despite all technical precaution, each serious failure of these systems can lead to data loss and/or the disturbance of production or the interference with operational processes.

Therefore all critical IT systems are embedded in infrastructure of high availability. These systems, equipped with redundancies in different data centers, minimize or eliminate the consequences of hardware malfunctions. Constant automated monitoring of the IT infrastructure enables ELMOS to interfere swiftly in case of unforeseeable incidents.

Special precautionary measures are taken for blocking viral attacks. Internet access is for instance protected most elaborately. Additional measures are realized for systems used in manufacturing. Still IT failure or interferences could have a negative effect on the company's financial, profit and economic position.

Interruption of business

According to ELMOS assessment, the single material business risk capable of significantly damaging the development of the group and jeopardizing the company's 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 interruption of business by such an occurrence is adequately covered by insurance, a significant threat of losing key customers remains in such a case. This risk cannot be insured against.

The risk is reduced by the fact that ELMOS manufactures semiconductors at two locations. Thus ELMOS has production lines at its disposal that are independent of each other and allow for self-contained yet only partially redundant production. Furthermore, ELMOS will receive processed wafers from a cooperation partner starting in 2011. However, interruption of business at one of the production sites could have negative effects on the company's financial, profit and economic position.

The usual insurable risks such as fire, interruption during firefighting 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

Apart from our core business of customer specific semiconductors for the automotive industry, opportunities are provided for the company by the further realization of our strategy. These opportunities lie in the increased development, production, and marketing of application specific semiconductors (ASSPs) and in the higher share of sales to be realized in the sectors of industrial and consumer goods in the future, implying a diminishing dependence on the automotive industry in the process as well. ELMOS also plans to expand its business in the Asian markets and to cooperate with partners who either enable the company to expand the product portfolio or provide opportunities for external production. Furthermore, the share of MEMS and microsystem projects, the combination of sensors and read-out electronics in one package, is scheduled for increase.

Events after the reporting period

There have been no reportable events of special significance.

Outlook

Economic framework

The general economic conditions are quite in favor of a good auto year 2011. However, according to the German Association of the Automotive Industry (VDA), the risks linked to the raw materials and financial markets are by now means dispelled. In the year 2011 more cars will be sold worldwide than ever before, according to a survey of University Duisburg-Essen. The experts anticipate global sales to gain 6.3% over 2010. With a 10.2% plus, Germany is expected to record the highest 2011 increase in percent right after Russia, the U.S., India, and China. The researchers assume that already in 2011 roughly 36% of all passenger cars sold worldwide will be sold in Asia and that the performance of Asia, China in particular, as global growth driver will thus continue.

The German Electrical and Electronic Manufacturers' Association (ZVEI) anticipates a 7% increase for production output in the electronics industry in 2011. The industry defining global trends are increasing requirements for energy efficiency and a rising demand for infrastructure equipment and modern medical technology.

The general semiconductor market will rise in 2011 by 4.6% to 314 billion U.S. dollars, according to the forecast provided by market research institute Gartner Dataquest.

Prospects for the niche market of automotive semiconductors appear even more promising. Safety systems will record this year's strongest growth. For the medium term, market researcher Data Beans expects an annual growth rate of 9% for automotive semiconductors in the period between 2010 and 2015.

Prospects for the ELMOS Group

Over the last years, ELMOS has provided a secure financial base and built high customer confidence. The background for this is consistent management of the available means and the permanent delivery capability even in difficult times, the steady enhancement of our product lines with innovative semiconductors and sensors, and the high degree of quality awareness.

Our stable financial base enables us in 2011 to...

-> strengthen our resources in the development of products once more so that we can offer our customers even more different semiconductors and sensors in our ASSP product lines in the future.

-> increase our effective power in Asia. New locations make it possible to address customers on "short distance" and to give them direct support with their application.

-> consider the production of our supplier and partner MagnaChip for our deliveries and to force the 8-inch expansion at the Dortmund manufacture as scheduled.

-> expand our sensor portfolio (MEMS) considerably and to convince new customers from different industries of our sensors.

-> support our "second" pillar – products for industrial and consumer goods – by the above-mentioned measures.

The economic upswing in 2010 was strong and the forecasts of the automotive and semiconductor experts for the next years are positive as well. How sustainable this development is cannot be predicted at the moment, though. The macroeconomic situation continues to be determined by local and global crises, examples are the Korea conflict, the economic crisis in several states of the euro alliance, and the political unrest and impending changes of government in nations of Northern Africa and the Near East. These and further crises could burden the global economy in 2011 which in turn could result in declining sales figures for cars and industrial and consumer goods. The Asian nations, especially China, will keep playing the key role for the global economy.

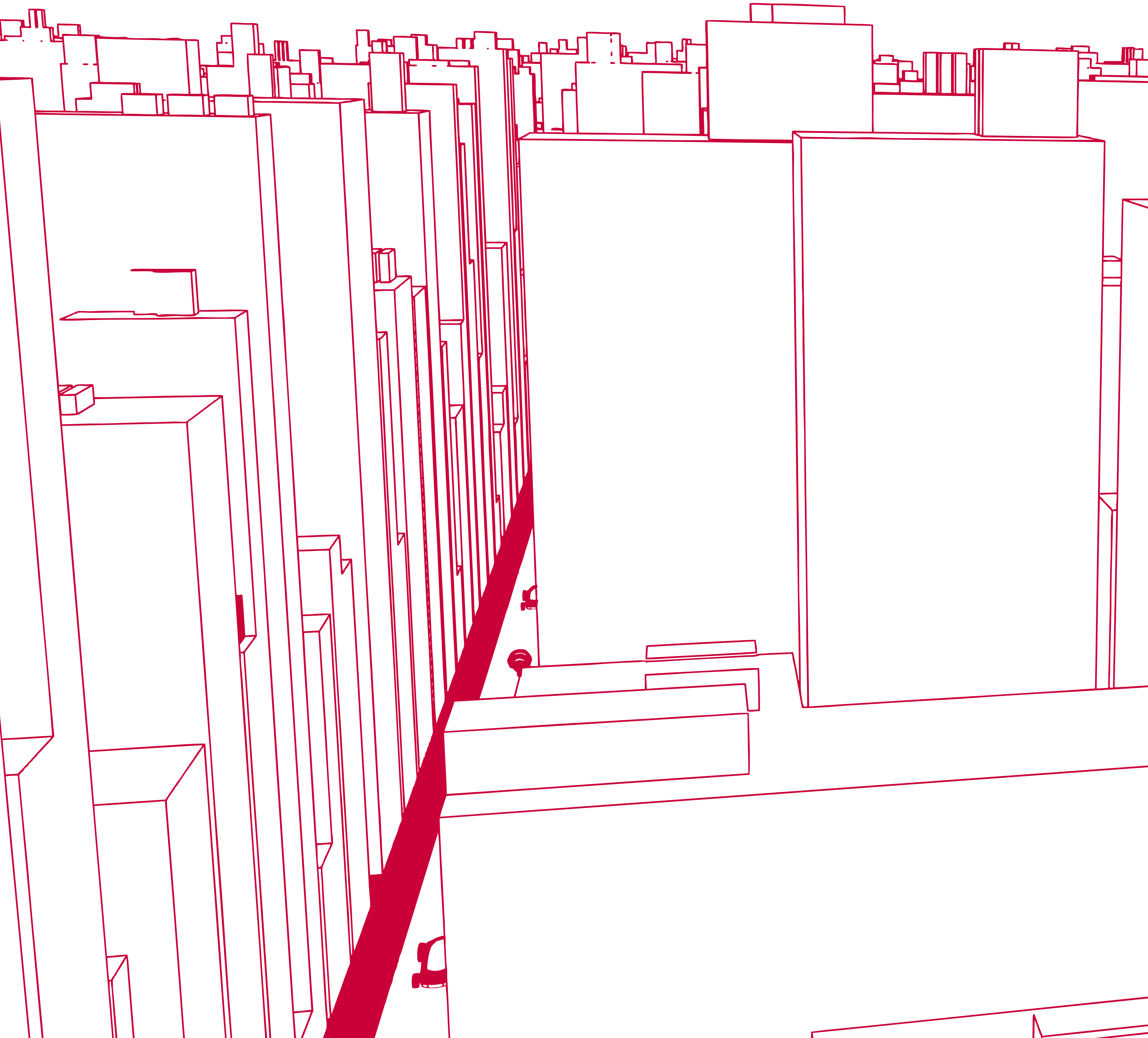
The start into the year 2011 was satisfactory. Under the assumption of a stable economy, ELMOS anticipates sales between 190 and 200 million Euro or a growth rate between 6% and 12% for 2011, based on 2010 sales of 178.6 million Euro, adjusted by the sale of the special packaging business. The EBIT margin will reach or slightly exceed the 2010 level in 2011. This forecast allows for cost increases due to higher world market prices for materials and rising development expenses and distribution expenses in the context of the expansion of product lines and wider market coverage in Asia. Investments are scheduled to amount to less than 15% of sales. The free cash flow will be positive. The forecast is based on an exchange rate of 1.30 U.S. dollars/Euro.

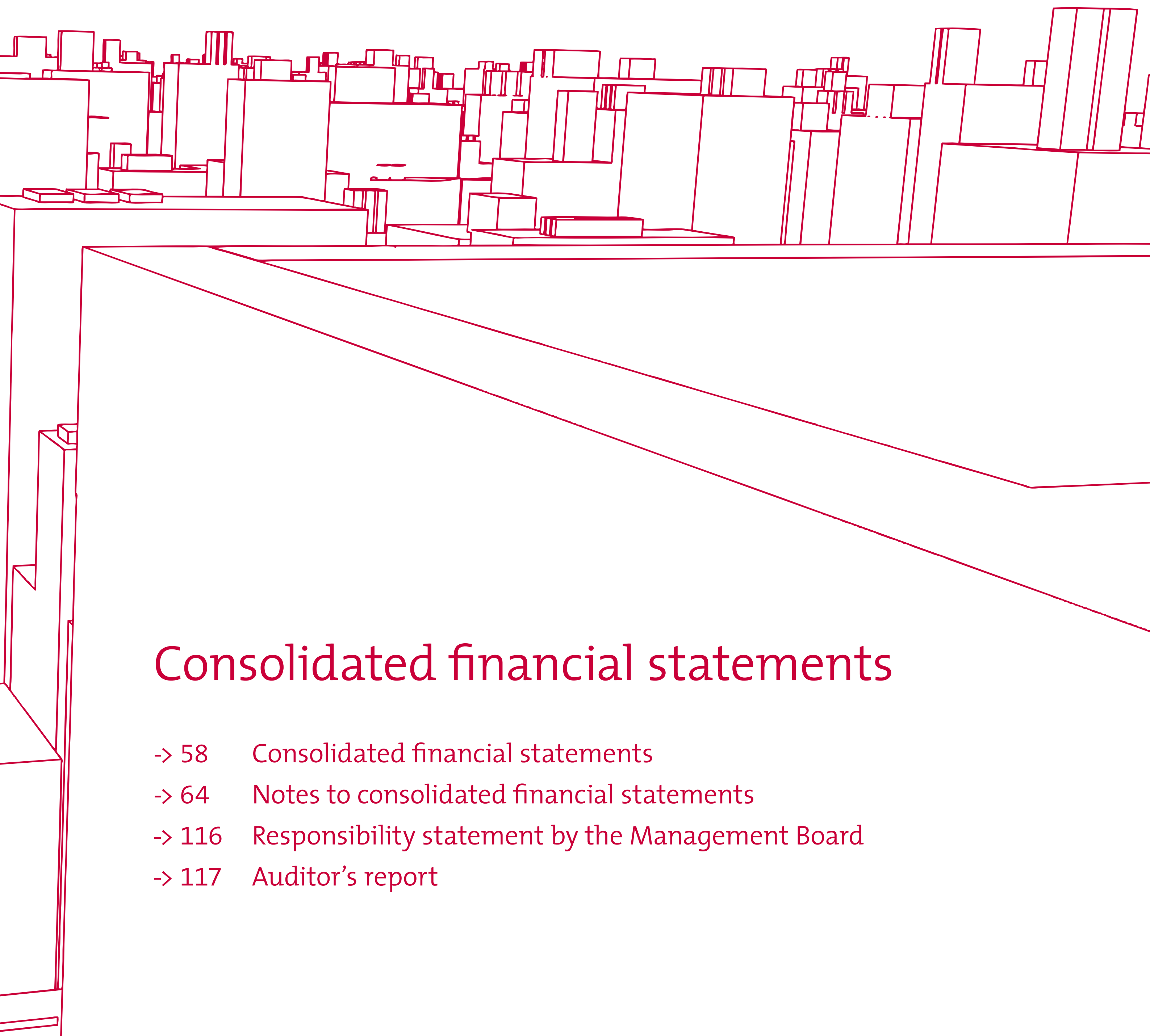
ELMOS will benefit from global megatrends in the medium and long term. Mobility 2020 and beyond will be more diverse and individual on the one hand, more standardized in some areas than in the concepts of today on the other hand. At the same time, society will have to face new challenges due to the demographic change and the population growth in some nations. The expansion of infrastructure, logistics, and power generation and supply will only be possible by the use of semiconductors and sensors in electronic systems. ELMOS will therefore benefit from the ongoing electrification of vehicles and of daily life in general.

Dortmund, March 2011

The Management Board

Dr. Anton Mindl **Nicolaus Graf von Luckner** **Reinhard Senf** **Jürgen Höllisch**





Consolidated financial statements

Consolidated financial statements

Consolidated balance sheet

Assets	Notes	12/31/2010 thousand Euro	12/31/2009 thousand Euro	1/1/2009 thousand Euro
Non-current assets				
Intangible assets	13	30,589	33,668	35,438
Property, plant and equipment	14	69,494	72,779	80,698
Investments accounted for using the equity method	15	0	0	0
Securities	15	6,272	0	0
Investments in associates	15	911	504	518
Other financial assets	20	2,090	0	0
Deferred tax assets	16	5,015	7,832	6,619
Total non-current assets		**114,371**	**114,783**	**123,273**
Current assets				
Inventories	17	35,826	31,539	37,380
Trade receivables	18	25,328	20,008	29,736
Securities	15	3,033	0	0
Other financial assets	20	5,253	3,803	3,600
Other receivables	20	3,148	4,447	6,636
Income tax assets	20	2,926	306	111
Cash and cash equivalents	19	58,010	46,841	42,463
		133,524	**106,944**	**119,926**
Assets included in disposal groups classified as held for sale	21	1,291	0	2,105
Total current assets		**134,815**	**106,944**	**122,031**
Total assets		**249,186**	**221,727**	**245,304**

Equity and liabilities	Notes	12/31/2010 thousand Euro	12/31/2009 thousand Euro	1/1/2009 thousand Euro
Equity				
Equity attributable to owners of the parent				
Share capital	22	19,414	19,414	19,414
Treasury stock	22	–119	0	0
Additional paid-in capital	22	88,486	89,001	88,737
Surplus reserve		102	102	102
Other equity components	22	–1,740	–2,489	–2,640
Retained earnings		66,380	48,626	60,844
		172,523	**154,654**	**166,457**
Non-controlling interests		–227	–242	–14
Total equity		**172,296**	**154,412**	**166,443**
Liabilities				
Non-current liabilities				
Provisions	24	376	792	911
Financial liabilities	25	40,101	40,237	40,435
Other liabilities	26	1,781	2,011	2,244
Deferred tax liabilities	16	1,316	0	3,935
Total non-current liabilities		**43,574**	**43,040**	**47,525**
Current liabilities				
Provisions	24	9,568	8,440	6,744
Income tax liabilities	26	2,627	200	3,862
Financial liabilities	25	374	576	186
Trade payables	27	18,792	12,918	18,404
Other liabilities	26	1,955	2,141	2,140
Total current liabilities		**33,316**	**24,275**	**31,336**
Total liabilities		**76,890**	**67,315**	**78,861**
Total equity and liabilities		**249,186**	**221,727**	**245,304**

Consolidated statement of comprehensive income

For the year ended December 31, 2010	Notes	2010 thousand Euro	2009 thousand Euro
Sales	**5**	**184,723**	**123,774**
Cost of sales	6	100,962	87,892
Gross profit		**83,761**	**35,882**
Research and development expenses	6	29,637	25,298
Distribution expenses	6	12,593	10,632
Administrative expenses	6	17,753	14,740
Operating income before other operating expenses/(income)		**23,778**	**−14,788**
Finance income	8	−1,031	−968
Finance costs	8	2,436	2,434
Foreign exchange gains/losses	9	291	681
Other operating income	10	−3,405	−2,702
Other operating expenses	10	3,789	3,043
Income before taxes		**21,698**	**−17,276**
Taxes on income			
Current income tax expense	11	−345	250
Deferred taxes	11	4,282	−5,329
		3,937	**−5,079**
Net income/(loss)		**17,761**	**−12,197**
Other comprehensive income			
Foreign currency adjustments without deferred tax effect		−150	1,161
Foreign currency adjustments with deferred tax effect		1,130	−1,327
Deferred taxes (on foreign currency adjustments with deferred tax effect)	22	−284	317
Value differences with respect to hedges	22	90	0
Deferred taxes (on value differences with respect to hedges)	22	−29	0
Other comprehensive income after taxes		**757**	**151**
Total comprehensive income		**18,518**	**−12,046**
Net income/(loss) attributable to :			
Owners of the parent		**17,754**	**−12,217**
Non-controlling interests		7	20
		17,761	**−12,197**
Total comprehensive income attributable to:			
Owners of the parent		18,503	−12,066
Non-controlling interests		15	20
		18,518	**−12,046**
Earnings per share			
Basic earnings per share (in Euro)	12	0.92	−0.63
Fully diluted earnings per share (in Euro)	12	0.91	−0.63

Consolidated statement of cash flows

	Notes	2010 thousand Euro	2009 thousand Euro
Cash flow from operating activities			
Net income/loss		17,761	−12,197
Depreciation	7	16,327	16,873
Finance result		1,405	1,466
Other non-cash expenses/income		4,253	−5,104
Current income tax expense	11	−345	250
Expenses for stock option plan and stock awards	23	207	65
Changes in pension provisions	24	−416	−120
Changes in net working capital:			
Trade receivables	18	−5,320	9,728
Inventories	17	−4,287	5,841
Securities	15	−3,033	0
Other assets	20	−2,150	1,986
Trade payables	27	5,874	−5,486
Other provisions and other liabilities	24	942	1,697
Income tax refunds/payments		153	−4,107
Interest paid	8	−2,436	−2,434
Interest received	8	1,031	968
Cash flow from operating activities		**29,966**	**9,426**
Cash flow from investing activities			
Capital expenditure for intangible assets		−2,513	−4,150
Capital expenditure for property, plant and equipment		−9,847	−3,216
Payments for/Disposal of non-current assets held for sale		−1,291	1,689
Disposal of property, plant and equipment		2,821	214
Payments for securities	15	−6,272	0
Payments for/Disposal of investments		−407	14
Acquisition of non-controlling interests	33	0	−49
Cash flow from investing activities		**−17,509**	**−5,498**
Cash flow from financing activities			
Repayment of non-current liabilities		−427	−419
Repayment/Borrowing of current liabilities to banks		−141	380
Share buyback	22	−841	0
Cash flow from financing activities		**−1,409**	**−39**
Increase in cash and cash equivalents		**11,048**	**3,889**
Effects of exchange rate changes on cash and cash equivalents		121	489
Cash and cash equivalents at beginning of reporting period	19	46,841	42,463
Cash and cash equivalents at end of reporting period	19	**58,010**	**46,841**

Consolidated statement of changes in equity

	Notes	Equity attributable to owners of the parent			
		Shares thousand shares	Share capital thousand Euro	Treasury stock thousand Euro	Additional paid-in capital thousand Euro
January 1, 2009 (before corrections according to IAS 8)		**19,414**	**19,414**	**0**	**88,737**
Corrections according to IAS 8	**General information**				
January 1, 2009 (after corrections according to IAS 8)		**19,414**	**19,414**	**0**	**88,737**
Corrections according to IAS 8	**General information**				
Net loss 2009					
Other comprehensive income for the period	**22**				
Total comprehensive income (after corrections according to IAS 8)					
Stock option expense	**23**				65
Acquisition of non-controlling interest in Mechaless					199
December 31, 2009 (after corrections according to IAS 8)		**19,414**	**19,414**	**0**	**89,001**
Net income 2010					
Other comprehensive income for the period	**22**				
Total comprehensive income					
Share buyback	**22**			–119	–722
Stock option expense	**23**				207
December 31, 2010		**19,414**	**19,414**	**–119**	**88,486**

Equity attributable to owners of the parent					Non-controlling interests	Group
Surplus reserve thousand Euro	Other equity components – hedges thousand Euro	Other equity components – foreign currency translations thousand Euro	Retained earnings thousand Euro	Total thousand Euro	Total thousand Euro	Total thousand Euro
102	**0**	**–5,445**	**68,411**	**171,219**	**–14**	**171,205**
				–4,762		–4,762
		2,805	–7,567			
102	**0**	**–2,640**	**60,844**	**166,457**	**–14**	**166,443**
				120		120
		120				
			–12,217	–12,217	20	–12,197
		31		31		31
		151	–12,217	–12,066	20	–12,046
				65		65
				199	–248	–48
102	**0**	**–2,489**	**48,626**	**154,654**	**–242**	**154,412**
			17,754	17,754	7	17,761
	61	688		749	8	757
	61	688	17,754	18,503	15	18,518
				–841		–841
				207		207
102	**61**	**–1,801**	**66,380**	**172,523**	**–227**	**172,296**

Notes to consolidated financial statements

General information

ELMOS Semiconductor AG ("the company" or "ELMOS") has its registered office 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 by shareholders' resolution at the Annual General Meeting of May 4, 2010.

The company's business is the development, manufacture and distribution of microelectronic components and system parts (**A**pplication **S**pecific **I**ntegrated **C**ircuits, 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 that 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 maintains 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 a listed stock corporation. Its shares are traded in the Prime Standard in Frankfurt/Main.

The address of the company's registered office is:
44227 Dortmund, Heinrich-Hertz-Straße 1.

The German Financial Reporting Enforcement Panel (FREP) identified erroneous financial accounting in its examination of the consolidated financial statements for the year ended December 31, 2008 conducted in the years 2009 through 2010 according to Section 342b (2) sentence 3 no. 3 HGB (Commercial Code).

"Equity and goodwill resulting from the acquisition of American subsidiary SMI are overstated in the consolidated financial statements for the year ended December 31, 2008 by 4.8 million Euro, respectively."

Management Board and Supervisory Board of ELMOS Semiconductor AG have essentially accepted this finding of an error.

Apart from that, SMI has shown a positive performance due to continuous optimization measures and focusing on strengthening sales, the diversification of the customer base, and the development of innovative technologies, during the financial and economic crisis as well as over the past fiscal year 2010. Management Board and Supervisory Board remain convinced of the attractive prospects for the development of SMI and provide extensive support to the subsidiary for this purpose.

For better understanding, the following tables indicate in what amounts and in what form the correction changed the initially reported business figures as of January 1, 2009.

in thousand Euro	Initially stated 1/1/2009	Corrections according to IAS 8	After corrections 1/1/2009
Goodwill SMI			
Acquisition cost	7,567	−7,567	0
Foreign currency adjustment	−2,805	2,805	0
Book value	4,762	−4,762	0
Consolidated statement of financial position			
Intangible assets	40,200	−4,762	35,438
Other equity components (foreign currency translations)	−5,445	2,805	−2,640
Retained earnings	68,411	−7,567	60,844

Furthermore, the following subsequent effects have ensued as of December 31, 2009:

thousand Euro	Initially stated 12/31/2009	Corrections according to IAS 8	After corrections 12/31/2009
Consolidated statement of financial position			
Intangible assets	38,311	– 4,643	33,668
Other equity components (foreign currency translations)	–5,414	2,925	– 2,489
Retained earnings	56,193	–7,567	48,626
Consolidated statement of comprehensive income			
Foreign currency adjustments without deferred tax effect	1,041	120	1,161

Corresponding prior-year statements have been adjusted accordingly in these consolidated financial statements.

The above-mentioned adjustments did not have an effect on the 2009 earnings per share.

Accounting policies and valuation methods

1 Accounting principles

General information

The consolidated financial statements have been prepared in Euro. 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 the supplementary applicable regulations of German commercial law as stipulated by 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 statement of financial position and the consolidated statement of comprehensive income have been prepared according to IAS 1, “Presentation of Financial Statements”. Individual items have been summarized for the improvement of clarity; those items are explained in the notes.

The consolidated financial statements will probably be released for publication by the Management Board in March 2011.

Estimates and assumptions

The most important future-related assumptions as well as other material sources of estimate uncertainty identified as of the end of the reporting period, on the basis of which there is 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 goodwill for impairment at least once a year. This requires an estimate of the values in use of the cash-generating units goodwill is allocated to. For an appreciation of the value in use, the company management needs to estimate the cash-generating unit’s probable future cash flows and also choose an adequate discount rate in order to determine the cash value of these cash flows.

With respect to the assumptions on the basis of which the value in use is determined, uncertainties of estimates especially relate to gross margins and discount rates. Gross margins are estimated on the basis of historic values of the past years in consideration of expected changes in demand and increases in efficiency. Discount rates reflect the current market assessments and have been estimated on the basis of customary weighted average cost of capital.

The goodwill's book value was 2,379 thousand Euro as of December 31, 2010 (2009: 2,366 thousand Euro). More details can be found under notes 3 and 13.

Deferred tax assets

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

Pensions and other benefits after the termination of employment

Expenses for performance-oriented plans and other medical benefits after the termination of employment are determined according to actuarial calculations. The actuarial evaluation 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 those plans, such estimates are subject to material uncertainty. Provisions for pensions and other benefits amounted to 376 thousand Euro as of December 31, 2010 (2009: 792 thousand Euro). More details can be found under note 24.

Development expenses

Development expenses are capitalized in accordance with the accounting policies and valuation methods 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 development expenses to be capitalized amounted to 6,993 thousand Euro as of December 31, 2010 (2009: 7,827 thousand Euro). More details can be found under note 13.

Accounting policies and valuation methods

The accounting policies and valuation methods applied generally correspond with 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 for this fiscal year.

IAS 27: *Consolidated and Separate Financial Statements*

The revised Standard IAS 27 was released in January 2008 and is subject to mandatory application for fiscal years beginning on or after July 1, 2009. The Standard stipulates that a change in the amount of an interest in a subsidiary that does not lead to loss of control must be accounted as a transaction with shareholders in their capacity as shareholders. From such a transaction, therefore neither goodwill nor income or loss may result. In the event of loss of control over a subsidiary, the remaining interest must be newly measured at fair value and recognized within the scope of the determination of the result of the sale. Losses incurred from the subsidiary must be allocated to the owners of the parent and non-controlling interests (previously called "minority interest") even if it has the consequence that the non-controlling interests show a negative balance. Transitional regulations provide for prospective application. This revision therefore carries no changes for assets and liabilities resulting from such transactions prior to the first application of the new Standard. In 2010 the first application of this new regulation had no effect on the financial, profit and economic situation.

Amendments to IAS 39 – *Eligible Hedged Items*

The amendments to IAS 39 were released in July 2008 and are subject to mandatory retrospective application for fiscal years beginning on or after July 1, 2009. It is clarified that it is admissible only to designate a part of the changes in fair value or the cash flow fluctuations of a financial instrument as underlying transaction, or hedged item. This also applies for the designation of inflation as risk or part of a financial instrument in certain cases. In 2010 the first application of this new regulation had no effect on the financial, profit and economic situation.

IFRS 1: ***First-time Adoption of IFRS***

The revised Standard IFRS 1 was released in November 2008 and is subject of mandatory application for fiscal years beginning on or after July 1, 2009. The revision of the Standard consisted solely of editorial changes and the Standard's new structure. No changes of the accounting and valuation regulations result from this revision for first-time adoption of IFRS. The regulations of IFRS 1 are directed at first-time adopters of IFRS and therefore had no effect on the group.

Amendment to IFRS 1 – ***Additional Exemptions for First-time Adopters***

The amendment to IFRS 1 was released in July 2009 and is subject to mandatory application for fiscal years beginning on or after January 1, 2010. IFRS 1 was amended to provide for additional exemptions from complete retrospective application of IFRS for the measurement of assets in the area "oil and gas" as well as for lease agreements. The provisions of IFRS 1 address first-time adopters of IFRS and do therefore not affect the group.

Amendment to IFRS 2 – ***Group Cash-settled Share-based Payment Transactions***

The amendment to IFRS 2 was released in June 2009 and is subject to mandatory application for fiscal years beginning on or after January 1, 2010. The revision of IFRS 2 modified the definition of share-based payments and the scope of IFRS 2 and added new guidelines for the accounting treatment of group-internal share-based payment transactions. In this regard the regulation provides that a company has to treat goods and services received according to the provisions for share-based payment compensated by equity instruments if the company's own equity instruments are granted in consideration or if the company has no obligation for the settlement of the share-based payment agreement. In all other cases, the agreement is treated as cash-settled share-based payment. These principles apply regardless of any group-internal redemption agreements. Within the scope of this amendment, regulations of IFRIC 8: *Scope of IFRS 2* and IFRIC 11: *Group and Treasury Share Transactions* were adopted by IFRS 2 and both Interpretations were withdrawn. The amendment to IFRS 2 had no material effects on the group's financial, profit and economic situation.

IFRS 3: ***Business Combinations***

The revised Standard IFRS 3 was released in January 2008 and is subject to mandatory application for fiscal years beginning on or after July 1, 2009. The Standard was extensively revised within the scope of a convergence project of IASB and FASB. The essential changes concern especially the introduction of an optional model for the measurement of non-controlling interests (previously called "minority interest") either at fair value or at the proportionate identifiable net asset of the acquired business. Also noteworthy is the revaluation of existing investments through profit or loss upon first-time attainment of control (successive business acquisition), the mandatory recognition of a consideration linked to the occurrence of future events as of the date of acquisition, and the recognition of transaction cost in profit or loss. These revisions will have an effect on the measurement of goodwill, the result for the reporting period in which a business combination occurs, and future results. Transitional regulations provide for prospective application of this new regulation. As there are no changes for assets and liabilities resulting from business combinations prior to the new Standard's first application, effects on the group can only come from future business combinations. In 2010 the first application of this new regulation had no effect on the financial, profit and economic situation.

Amendments to IFRS 5 within the Scope of *Improvements to IFRS 2008*

The amendments from improvement project 2008 were released in May 2008 and were – with the exception of IFRS 5 (applicable as of July 1, 2009) – subject to mandatory application for fiscal years beginning on or after January 1, 2009. The amendments to IFRS 5 clarified that all assets and liabilities of a subsidiary the planned sale of which will result in loss of control over the subsidiary must be recognized as held for sale even if the company will keep a non-controlling interest in the former subsidiary after the sale. In 2010 the first application of this new regulation had no effect on the financial, profit and economic situation.

Improvements to IFRS 2009

The ***Improvements to IFRS 2009*** represent a collection of amendments released in April 2009 and carrying amendments to several IFRS. The reporting periods subject to application and the transitional regulations are indicated for each amended Standard. Unless otherwise indicated in the following, individual regulations were subject to mandatory application for fiscal years beginning on or after January 1, 2010. The primary objective of the ***Improvements to IFRS 2009*** was to eliminate inconsistencies and clarify definitions. While the application of the following revisions did lead to changes in accounting policies, it had no material effects on the group's financial, profit and economic situation.

–> **IFRS 2: *Share-based Payment* –** It was clarified that contributions of a business upon formation of a joint venture as well as common control transactions are excluded from the scope of IFRS 2. First application was stipulated for fiscal years beginning on or after July 1, 2009.

–> **IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations* –** It was clarified that generally the disclosures required by IFRS 5 are exclusively applicable for non-current assets and disposal groups held for sale as well as for discontinued operations. Disclosures required by other IFRS must be observed only if the respective Standards or Interpretations specifically require those disclosures for assets as defined by IFRS 5 and discontinued operations.

–> **IFRS 8: *Operating Segments* –** It was clarified that segment assets and segment liabilities must be disclosed only if those assets and liabilities are reported regularly to the company's chief operating decision maker.

–> **IAS 1: *Presentation of Financial Statements* –** Assets and liabilities classified as held for trading in accordance with **IAS 39: *Financial Instruments: Recognition and Measurement*** may not automatically be classified as current in the statement of financial position.

–> **IAS 7: *Statement of Cash Flows* –** It was determined that only those payments that lead to an asset's recognition can be classified as cash flows from investing activities.

–> **IAS 17: *Leases* –** The special guidelines for the classification of leases of land were withdrawn. They are superseded by the general guidance on lease classification.

–> **IAS 18: *Revenue* –** The board has provided additional guidance for addressing the issue whether a company is acting as principal or agent. For this addition to the appendix to IAS 18, which is not part of the Standard, no effective date is provided so that it came into effect upon release.

–> **IAS 36: *Impairment of Assets* –** It is clarified that a cash-generating unit to which goodwill acquired in the context of a business combination is allocated may not be larger than an operating segment for the purpose of IFRS 8 prior to the aggregation according the criteria therein defined.

- **IAS 38: *Intangible Assets* –** If an intangible asset acquired in the context of a business combination is identifiable only together with another intangible asset, the acquirer may recognize the group of those intangible assets as one single asset if individual assets within this group have the same useful lives. It is further determined that the methods for the determination of the fair value of intangible assets acquired in the context of business combinations presented in the Standard are merely examples. The companies are free to use other methods. These amendments were subject to mandatory application for fiscal years beginning on or after July 1, 2009.

- **IAS 39: *Financial Instruments: Recognition and Measurement* –** A prepayment option is considered closely related to the host debt contract if the prepayment option's exercise price is calculated in such a way that the lender is compensated for the approximate cash value of the loss of interest over the remaining term of the host contract. It is also determined that the exemption for contracts between acquirer and vendor for a company's acquisition or sale at a future point in time only applies for binding forward contracts and not for derivative contracts which require additional measures. The third revision stipulates that gains or losses on the cash flow hedge of an anticipated transaction that later leads to the recognition of a financial instrument or on the cash flow hedge of recognized financial instruments must be reclassified in the period in which the hedged anticipated cash flows affect profit or loss.

- **IFRIC 9: *Reassessment of Embedded Derivatives* –** IFRIC 9 is not applied to the possible reassessment of embedded derivatives acquired in common control transactions as of the acquisition date or in the formation of a joint venture. This revision was subject to mandatory application for fiscal years beginning on or after July 1, 2009.

- **IFRIC 16: *Hedges of a Net Investment in a Foreign Operation* –** Hedging instruments may be held by any company within the group if the conditions for designation, documentation, and effectiveness determined in IAS 39 are met. This revision was subject to mandatory application for fiscal years beginning on or after July 1, 2009.

The following amendments within the framework of ***Improvements to IFRS 2009*** have no effect on the group's accounting policies or the presentation of its financial, profit and economic situation:

- **IFRS 7: *Financial Instruments: Disclosures***

- **IAS 8: *Accounting Policies, Changing in Accounting Estimates and Errors***

IFRIC 12: *Service Concession Arrangements*

IFRIC Interpretation 12 was released in November 2006 and was generally subject to application for fiscal years beginning on or after January 1, 2008. This Interpretation was adopted by EU law in March 2009 with the statement that the Interpretation is subject to mandatory application in the EU for fiscal years beginning on or after July 1, 2009. The Interpretation governs the accounting treatment of obligations and rights assumed within the framework of service concession arrangements in the financial statements of the concession operator. As no group company is a holder of concessions, this Interpretation had no effect on the group.

IFRIC 15: *Agreements for the Construction of Real Estate*

IFRIC Interpretation 15 was released in July 2008 and was generally subject to mandatory application for fiscal years beginning on or after January 1, 2009. This Interpretation was adopted by EU law in July 2009 with the statement that the Interpretation is subject to mandatory application in the EU for fiscal years beginning on or after January 1, 2010. The Interpretation provides guidelines with regard to the point in time and the scope of the realization of sales from projects for the construction of property. IFRIC 15 had no effect on the consolidated financial statements as the group does not engage in such business activity.

IFRIC 16: ***Hedges of a Net Investment in a Foreign Operation***
IFRIC Interpretation 16 was released in July 2008 and was generally subject to mandatory application for fiscal years beginning on or after October 1, 2008. This Interpretation was adopted by EU law in June 2009 with the statement that the Interpretation is subject to mandatory application in the EU for fiscal years beginning on or after July 1, 2010. IFRIC 16 communicates guidelines for the identification of foreign currency risks that can be hedged within the scope of hedging a net investment, for the determination which group companies can hold hedging instruments for hedging the net investment, and for the determination of foreign currency gains or losses to be reclassified upon the sale of the net investment of the hedged foreign operation from equity to profit or loss. The Interpretation provides for prospective application. In 2010 the first application of this new regulation had no effect on the group's financial, profit and economic situation.

IFRIC 17: ***Distributions of Non-cash Assets to Owners***
IFRIC Interpretation 17 was released in November 2008 and is subject to mandatory application for fiscal years beginning on or after July 1, 2009. This Interpretation defines guidelines for the accounting treatment and measurement of obligations committing to a payment of dividends in kind to shareholders. The Interpretation gives an opinion especially with regard to the point in time of the recognition of such a liability, the measurement of the liability and the assets affected, and the point in time of the derecognition of those assets and the recognized liability. This Interpretation provides for prospective application. IFRIC 17 had no effect on the consolidated financial statements as no payment of a dividend in kind was made in the group.

IFRIC 18: ***Transfers of Assets from Customers***
IFRIC Interpretation 18 was released in January 2009 and is subject to mandatory application for fiscal years beginning on or after July 1, 2009. This Interpretation provides guidelines for the accounting treatment of agreements based on which a company receives assets of property, plant and equipment or cash from a customer for the company to use for e.g. connecting the customer with a distribution network or/and to provide the customer with permanent access to the supply with goods or services. The Interpretation particularly gives an opinion on the recognition criteria of customer contributions and the point in time and the scope of realization of sales from such business transactions. This Interpretation provides for prospective application. IFRIC 18 had no effect on the consolidated financial statements as the group does not conduct such business transactions.

The IASB has released the following Standards and Interpretations that have already been adopted by EU law within the framework of the so-called comitology procedure but that are not subject to mandatory application in fiscal year 2010. The group does not apply these Standards and Interpretations in advance.

Amendment to IFRS 1 – ***Limited Scope Exemptions for IFRS 7 Disclosures***
The amendment to IFRS 1 was released in January 2010 and is subject to mandatory application for fiscal years beginning on or after July 1, 2010. The revision enables IFRS first-time adopters to make use of the transitional regulations that apply to the amendment to IFRS 7: Improving Disclosures about Financial Instruments, released in March 2009. These regulations exempt first-time adopters from the statutory inclusion of comparative information in the notes with respect to the required disclosures. The provisions of IFRS 1 address IFRS first-time adopters and therefore have no effect on the group.

Amendment to IAS 24 – ***Related Party Disclosures***
The revised Standard IAS 24 was released in November 2009 and is subject to mandatory reporting for fiscal years beginning on or after January 1, 2011. On the one hand, the definition of related parties was modified in order to simplify the identification of relationships with related businesses or individuals, and on the other hand, companies under government control were exempted from the disclosure of business transactions with the government or other government-controlled companies. The Standard provides for retrospective application. Application of the revised Standard is currently under review. From the expansion of the definition of related parties, probably additional information on the circle of the group's related businesses will result in the future. However, the amendment will have no effect on the recognition and measurement of assets and liabilities in the consolidated financial statements and on earnings in future fiscal years.

Amendment to IAS 32 – *Classification of Rights Issues*

This amendment to IAS 32 was released in October 2009 and is subject to mandatory application for fiscal years beginning on or after February 1, 2010. The revision carries a modification of the definition of a financial liability for the purpose that certain rights (as well as certain options and subscription warrants) can be classified as equity if those rights are issued pro rata to all current owners of the company's non-derivative equity instruments of the same class for the purchase of a determined number of the company's equity instruments for a fixed price regardless of the currency. This Standard provides for retrospective application. The group assumes that this amendment will not have an effect on the group's financial, profit and economic situation as the group has not granted any such rights yet.

Amendment to IFRIC 14 – *Prepayments of a Minimum Funding Requirementn*

The amendment to IFRIC 14 was released in November 2009 and is subject to mandatory application for fiscal years beginning on or after January 1, 2011. The application of Interpretation IFRIC 14 released in July 2007, aiming for the limitation of an asset resulting from a benefit plan to the asset's recoverable amount, had a few unintended consequences for companies in certain countries. This amendment is intended to enable companies to recognize an asset for prepayments of a minimum funding requirement. The amendment provides for retrospective application. As no prepayments of minimum funding requirements are intended in the group, the amendment to this Interpretation has no effect on the group's financial, profit and economic situation.

IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments*

IFRIC Interpretation 19 was released in November 2009 and is subject to mandatory application for fiscal years beginning on or after July 1, 2010. This Interpretation clarifies that if a debtor issues equity instruments to a creditor to extinguish a financial liability, the equity instrument must be classified as "consideration paid" according to IAS 39.41. The issued equity instruments are recognized at fair value. In case it cannot be reliably determined, they are recognized at the extinguished liability's fair value. Any gains or losses are recognized in profit or loss. The amendment provides for retrospective application. From today's perspective no issue of equity instruments to creditors to extinguish financial liabilities is intended so that this Interpretation has no effect on the group's financial, profit and economic situation.

The IASB has released the following Standards and Interpretations that were not subject to mandatory application in fiscal year 2010. These Standards and Interpretations have so far not been adopted by the EU and are not applied by the group.

Amendment to IFRS 1 – *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

This amendment to IFRS 1 was released in December 2010 and is subject to mandatory application for fiscal years beginning on or after July 1, 2011. The amendment removes determined dates for application with respect to derecognition and the regulations on recognition of profit or loss as of the date of addition according to IFRS 1 and supersedes them with the date of transition to IFRS. The amendment further clarifies how the accounting treatment according to IFRS is to be resumed after a period during which the company could not comply with IFRS due to a functional currency that was subject to severe hyperinflation. The provisions of IFRS 1 address IFRS first-time adopters and have therefore no consequences for the group.

Amendment to IFRS 7 – *Disclosures: Transfers of Financial Assets*

This amendment to IFRS 7 was released in October 2010 and is subject to mandatory application for fiscal years beginning on or after July 1, 2011. The amendment determines extensive new qualitative and quantitative information on transferred financial assets that have not been derecognized and on the continued commitment with respect to transferred financial assets as of the reporting date. This amendment will probably further extend the scope of required information on financial instruments. However, it will have no effect on the recognition and measurement of assets and liabilities in the consolidated financial statements and on the earnings of future fiscal years.

IFRS 9 – *Financial Instruments: Classification and Measurement*

The first part of phase I in preparing IFRS 9: *Financial Instruments* was released in November 2009 and is subject to mandatory application for fiscal years beginning on or after January 1, 2013. The Standard includes new regulations for the classification and measurement of financial assets. Accordingly debt instruments are to be recognized either at amortized acquisition cost or at fair value through profit or loss, depending on their respective characteristics and in consideration of the business model. Equity instruments are always to be accounted for at fair value. Changes in value of equity instruments, however, may be recognized in other comprehensive income due to the granted instrument-specific option exercisable as of the date of the financial instrument's addition. In that case only certain dividend profits of equity instruments would be recognized in profit or loss. One exception are financial assets held for trading, subject to mandatory recognition at fair value through profit or loss. In October 2010 the IASB has completed the second part of phase I of the project. The Standard was amended by provisions for financial liabilities and determines to maintain existing classification and measurement regulations for financial liabilities, with the following exceptions: Effects of changes in the inherent credit risk of financial liabilities that have been classified as measured at fair value through profit or loss must be recognized outside profit or loss and derivative liabilities on unlisted equity instruments must not be recognized at acquisition cost anymore. The application date remains unchanged (January 1, 2013). However, the reporting entities are free to apply the regulations carried by the 2009 version in advance and separately from the regulations for financial liabilities. The application of the regulations for financial liabilities in advance is also permitted, yet only together with the 2009 version. The Standard generally provides for retrospective application. The completion of this project is expected for mid-2011. The application of the first part of phase I will have effects on the classification and measurement of the group's financial assets. No material effects on the group's financial, profit and economic situation are expected from the second part of this project stage. In order to present a comprehensive picture of potential effects, the group will quantify such effects only in connection with the other phases upon their release.

Amendment to IAS 12 – *Deferred Tax: Recovery of Underlying Assets*

The amendment to IAS 12 was released in December 2010 and is subject to mandatory application for fiscal years beginning on or after January 1, 2012. The amendment provides that deferred tax assets and tax liabilities for certain assets must be measured based on the assumption that the carrying value of those assets will be recovered through sale in the full amount. No effects are expected to result from the application of this amendment on the group's financial, profit and economic situation.

Improvements to IFRS 2010

The ***Improvements to IFRS 2010*** represent a collection of amendments released in May 2010 and carrying amendments to several IFRS. The reporting periods subject to application and the transitional regulations are indicated for each amended Standard. Unless otherwise indicated in the following, individual regulations are subject to mandatory application for fiscal years beginning on or after January 1, 2011. While the application of the following revisions will partially lead to changes in accounting policies, it will probably have no material effects on the group's financial, profit and economic situation:

IFRS 1: First-time Adoption of International Financial Reporting Standards

- ***Accounting policy changes in the year of adoption:*** The amendment clarifies that a first-time adopter who changes the accounting policies or the application of the exemption granted by IFRS 1 after the release of interim financial statements according to IAS 34: Interim Financial Reporting has to explain those changes and to update the reconciliation from previously applied accounting policies to IFRS. This amendment provides for prospective application.

- ***Revaluation basis as deemed cost:*** This amendment makes it possible for first-time adopters to use a fair value determined on the basis of a business event as deemed acquisition or production cost even if the event takes place after the transition to IFRS yet before the publication of the first IFRS financial statements. If such revaluation is made after the transition to IFRS yet during the reporting period of the first IFRS financial statements, the adjustment is to be recognized outside profit or loss in the surplus reserve (or another appropriate equity item). Companies that adopted IFRS in previous periods may apply this amendment retrospectively in the first fiscal year after this amendment has come into effect.

- ***Use of deemed cost for operations subject to rate regulation:*** This amendment extends the scope of deemed acquisition or production cost with respect to property, plant and equipment and intangible assets to such assets used within the framework of business operations on markets that are subject to the regulatory process. The exemption is applied on individual case basis. All these assets are to be reviewed for impairment as of the time of transition to IFRS. The amendment enables companies with business operations on markets that are subject to the regulatory process to use the book values of property, plant and equipment and intangible assets determined on the basis of previously applied accounting policies as deemed acquisition or production cost upon transition to IFRS. These book values may include amounts that would not have been eligible for capitalization according to IAS 16: Property, Plant and Equipment, IAS 23: Borrowing Costs, and IAS 38: Intangible Assets. This amendment provides for prospective application.

IFRS 3 *Business Combinations*

- ***Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS:*** This amendment clarifies that the amendments to IFRS 7: ***Financial Instruments: Disclosures,*** IAS 32: ***Financial Instruments: Presentation,*** and IAS 39: ***Financial Instruments: Recognition and Measurement,*** repealing the exclusion of contingent considerations from the scope of these Standards, do not apply for contingent considerations that result from business combinations whose acquisition date is prior to the application of IFRS 3 (revised 2008). This amendment provides for mandatory application for fiscal years beginning on or after July 1, 2010.

- ***Measurement of non-controlling interests:*** The amendment limits the scope of optional measurement insofar as exclusively components of non-controlling interests that establish a current property right and in case of liquidation the owner's pro-rata share in the company's net assets may be measured either at fair value or at the pro-rata share of the current property right in the identifiable net assets of the acquired company. Other components of non-controlling interest are measured at acquisition-date fair value unless another IFRS (e.g. IFRS 2) provides for different measurement criteria. This amendment provides for mandatory application for fiscal years beginning on or after July 1, 2010.

–> ***Un-replaced and voluntarily replaced share-based payment awards:*** According to this amendment, a company (in the context of a business combination) is obligated to recognize the replacement of share-based payment (either obligatory or voluntary), i.e. to differentiate between the consideration and the expense incurred from the business combination. If the company replaces the share-based payment commitments of the acquired company that forfeit because of the business combination, it recognizes them as expense incurred after the business combination. The amendment also clarifies the accounting treatment of share-based payment transactions that the acquiring company does not replace with its own share-based payment commitments: If they are exercisable they represent non-controlling interests and are recognized at their market-based value. If they are not yet exercisable they must be measured at their market-based value as if granted as of acquisition date and differentiated between non-controlling interests and expense incurred after the business combination. This amendment provides for mandatory application for fiscal years beginning on or after July 1, 2010. The standard provides for prospective application beginning at the first application of IFRS 3 (2008).

IFRS 7: *Financial Instruments – Disclosures*

This amendment indicates the interaction of quantitative and qualitative disclosures as well as the kind and extent of risks linked to financial instruments and especially contains modifications that address quantitative disclosures on contingency risks. This amendment provides for retrospective application.

IAS 1: *Presentation of Financial Statements*

This amendment clarifies that the analysis of other comprehensive income relating to individual equity components must take place either in the statement of changes in equity or in the notes to financial statements. This amendment provides for retrospective application.

IAS 27: *Consolidated and Separate Financial Statements*

This amendment clarifies that the subsequent amendments to IAS 21: ***The Effects of Changes in Foreign Exchange Rates,*** IAS 28: ***Investments in Associates,*** and IAS 31: ***Interests in Joint Ventures*** resulting from IAS 27 must be applied prospectively for fiscal years beginning on or after July 1, 2009 or at an earlier date if the application of IAS 27 in advance has been decided. This amendment provides for mandatory application for fiscal years beginning on or after July 1, 2010. The Standard provides for retrospective application.

IAS 34: *Interim Financial Reporting*

This amendment contains guidance for the application of disclosure principles according to IAS 34 and enhances the list of reportable events and business transactions by the following examples in particular: factors that will probably affect the fair values of financial instruments and their classification, the transfer of financial instruments between the various hierarchy stages of the determination of fair value, changes in the classification of financial assets, changes in contingent liabilities and contingent assets. This amendment provides for retrospective application.

IFRIC 13: *Customer Loyalty Programs*

This amendment clarifies that if the fair value of a loyalty award credit is measured on the basis of the fair value of the award for which it can be used, other cash discounts or incentives granted to those customers who have not acquired loyalty award credit from an initial sale transaction must be taken into consideration. This amendment provides for retrospective application.

2 Principles of consolidation

Basis of consolidation and consolidation methods

In addition to ELMOS Semiconductor AG, the consolidated financial statements prepared for fiscal year 2010 include all companies whose voting rights ELMOS has the direct or indirect majority of, or based on other rights in cases of control over the company as defined by IAS 27 "Consolidated and Separate Financial Statements". 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 fully accounted for 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 reporting date of the consolidated financial statements.

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

The group's investment in an associated company is assessed according to the equity method. An associate is a company which is controlled by the group.

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 33.

Foreign currency translation and currency transactions

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

Assets and liabilities in foreign currencies are generally translated at the closing rate as of the end of the reporting period.

With regard to subsidiaries whose functional currency is the national currency of the respective country in which the subsidiary keeps its registered office, assets and liabilities stated in foreign currency in the statements of financial position of the international, economically independent subsidiaries are translated into Euro at the closing rates as of the respective reporting dates. Income and expense items are translated at average exchange rates over the underlying period. Differences resulting from the valuation of equity at historic rate and closing rate as of the end of the reporting period are recognized outside profit or loss as changes in equity under other equity components.

The company enters from time to time into forward exchange contracts and option transactions to hedge foreign currency transactions for periods consistent with committed exposures. These hedging activities minimize the impact of foreign exchange rate fluctuations on the company's profit situation. The company does not engage in speculative transactions. The forward exchange contracts do not pose a risk to the company's profit situation as the profits and losses from these transactions are usually offset by the profits and losses from the hedged assets and liabilities. There were no forward exchange contracts or options in effect as of December 31, 2010 or December 31, 2009 that were not cleared yet (please refer to note 30 for exchange rate gains and losses from currency hedges during fiscal year 2010).

Statement of cash flows

The statement of cash flows shows how cash and cash equivalents have changed over the course of the fiscal year by additions and disposals of funds. The effects of acquisitions and divestments 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. Finance expenses and finance income recognized in the consolidated statement of comprehensive income 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 net of value-added taxes and after 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 passes 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 the passing of risk. Sales from development activities are realized upon reaching predefined so-called milestones, depending on the degree of the project's completion.

Goodwill

Goodwill from business acquisitions is not amortized on schedule but reviewed for carrying value at least once a year. In addition, an impairment review is performed if special events or market developments indicate that the fair value of a reporting unit may have fallen below its book value. 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. The recoverable amount is the higher of the two amounts of fair value less cost to sell and value in use.

All goodwill is allocated to the respective CGUs. Each subsidiary usually represents one CGU.

The determination of the CGU's recoverable amount is based on the value in use. For each CGU, future cash flows are determined on the basis of detailed long-term planning which involves a period of five years. Based on an assumed growth rate of 0.5%, the cash value of these future cash flows is then calculated by way of discounting.

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) if the asset's costs can be valuated reliably. These criteria apply to the capitalized development projects in connection with the development of ASICs. Depreciation is begun with after the development stage is completed or at the start of pilot series production.

Development expenses are capitalized after technological feasibility or realizability is provided and the engineering or (pilot) series production stage (so-called QB II status) is reached.

Projects that do not correspond with customer orders yet (ASSPs) are capitalized as well. They are reviewed annually for recoverability by the company.

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

Expenses for the in-house development 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 20 years.

Acquired intangible assets are recognized at acquisition cost and amortized under the straight-line method over their estimated useful lives of 3 to 20 years.

Amortization is entered in the consolidated statement of comprehensive income.

Property, plant and equipment

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

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

Buildings	25 to 50 years
Building improvements	8 to 10 years
Factory and office equipment	5 to 12 years

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

On the sale or disposal of property, plant and equipment, corresponding acquisition cost as well as corresponding accumulated depreciation are eliminated from 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 statement of comprehensive income 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 statement of comprehensive income applying the straight-line method over the contract terms.

Financial instruments

According to IAS 39, a financial instrument is a contract that leads to the origination of a financial asset for one company and at the same time to the origination of a financial liability or an equity instrument for another company.

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 instruments reported include cash and cash equivalents, marketable securities, trade receivables, trade payables, forward loans including corresponding interest swap transactions (cash flow hedges), and other outside financing.

Financial assets are classified as follows: financial assets held-to-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 accounted for under non-current assets unless they mature within twelve months of the reporting date. Financial assets held for trading and available-for-sale financial assets are regarded as current assets if they are meant to be realized within twelve months of the reporting date.

Upon its first-time recognition, a financial asset is recognized at the fair value corresponding with the time value attributable to the consideration received. With respect to financial assets classified at fair value outside profit or loss, transaction costs directly attributable to the asset's acquisition are also considered. Subsequent measurement of financial assets depends on their classification:

Available-for-sale financial assets and financial assets held for trading are subsequently measured at their fair values without deduction of any transaction costs incurred and under disclosure of their listed market prices as of the reporting date.

Gains and losses from the measurement of available-for-sale financial assets at fair value are recognized directly under other equity components 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 or losses previously recognized in equity are included in income for the period as of that point in time.

Changes of the fair values of financial assets held for trading are recognized in finance income/expenses insofar there is a direct connection with the company's financing or financial investments. Held-for-maturity financial assets are measured at amortized acquisition cost 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 expenses or income in the consolidated statement of comprehensive income for the period in which they incur. Dividend payments to owners of financial instruments classified as equity are deducted directly from equity.

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

Financial guarantee contracts issued by the group are contracts that commit to payments in compensation of a loss incurred by the holder because a specific debtor has not fulfilled its payment obligations on the due date according to the terms and conditions of a liability instrument. Financial guarantee contracts are stated upon first-time recognition as liabilities at fair value less transaction costs directly linked to the contract's issuance. Subsequently the liability is measured at the best possible estimate of expenses required for the fulfillment of the obligation as of the reporting date or the higher stated amount less cumulative amortization.

Derivative financial instruments

ELMOS makes use of derivative financial instruments exclusively for hedging interest and currency risks.

On concluding hedges, certain derivatives are assigned to certain hedged items. The conditions stipulated by IAS 39 for the qualification of transactions as hedges are met anytime.

According to IAS 39, all derivative financial instruments are to be assigned to the category "at fair value through profit or loss" accounted for at fair value, regardless of the purpose or intention for which they have been concluded. Changes in fair value of derivative financial instruments are recognized in profit or loss.

Insofar as derivative financial instruments applied are effective hedges within the framework of a hedging relationship in accordance with IAS 39 (cash flow hedges), changes in fair value do not have an effect on the income for the period during the term of the derivative. Changes in fair value are recognized outside profit or loss in equity. The amortized value in equity is considered in income for the period as profit or loss upon maturity of the hedged cash flow.

The fair value generally corresponds with the market value or stock market price. If there is no active market, the fair value is determined based on recognized option pricing models and bank valuation.

The ELMOS group's hedging strategy is to exclusively enter into effective derivatives for hedging interest and currency risks. The conditions defined by IAS 39 as required for a treatment as hedging transactions are met upon conclusion of the hedging instruments as well as upon the reporting date.

Inventories

Inventories are measured at acquisition or production cost or the lower recoverable net amount as of the reporting date. In addition to directly attributable costs, production costs also include manufacturing and material overhead as well as depreciation. Fixed overhead costs are recognized on the basis of the production facilities' usual utilization. Costs of unused production capacity (waste costs) are disclosed in the consolidated statement of comprehensive income 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 recognized at nominal value in consideration of appropriate allowances.

According to IFRS 7.21/IAS 1.117, the allowance for bad debt includes to a considerable degree estimates and assessments of individual receivables 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 decrease in order backlog leads to a corresponding reduction of such allowances and vice versa.

Cash and cash equivalents (liquid assets)

For the purpose of preparing the financial accounts, cash and cash equivalents include cash on hand, checks, cash in banks, and marketable securities.

Non-current available-for-sale assets and discontinued operations

According to IFRS 5, an operation is classified as discontinued at the time the 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 to sell. An asset is to be classified as available-for-sale if the attached book value is realized primarily by a sale transaction and not 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 according to IAS 19 are made up of different components, reflecting different aspects of the company's financial agreements as well as the expense 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 principles provide that:

- all benefit improvements the company is committed to from the current valuation date are reflected in the planned benefit obligation,
- the cumulative actuarial gains and losses in excess of 10% of the planned benefit obligation are amortized through the expected future benefits of active employees included in the plan (so-called corridor method).

Provisions for warranty are set up as of the time of sale, based on the ratio of warranty costs to historic sales. In addition, for individual cases appropriate provisions are made upon risk assessment with respect to the sales-oriented and the legal consequences.

Taxes

Current tax assets and tax liabilities for the current period and for previous periods are stated at the amounts expected for tax refunds to be received from the tax authorities or tax payments to be made to the tax authorities. The calculation of these amounts are based on the tax rates and tax laws in effect at the end of the reporting period in those countries where the group has operations and generates taxable income.

Deferred taxes are determined in application of the liability method. Deferred income taxes reflect the net tax expense/income of temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their respective 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 assets and liabilities considers the tax effects resulting from the way a company expects to realize its assets' carrying values or repay its debts as of the reporting 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 they are included in the statement of financial position as non-current assets or liabilities.

A deferred tax asset is recognized 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 reporting date, the company assesses deferred tax assets not accounted for anew. The company recognizes a deferred tax asset previously unaccounted for 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 book value is reduced to the extent it appears no longer probable that there will be sufficient taxable income to make use of the benefit of the deferred tax asset – either 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 period or in another period.

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

Deferred tax assets also include tax relief claims resulting from the expected use of loss carried forward in the following years, the realization of which 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.

Income, expenses, and assets are recognized net of sales tax. Exceptions are the following cases:

-> If the sales tax incurred upon the acquisition of assets or the claiming of services cannot be claimed from the tax authorities by way of refund, the sales tax is recognized as part of the asset's production cost or as part of the expenses.

-> Receivables and liabilities are stated including sales tax.

The sales tax amount to be refunded by or paid to the tax authorities is recognized in the statement of financial position under receivables or liabilities.

Government grants

Government grants or subsidies are recognized if it is sufficiently assured that the grants are given and that the company fulfills the corresponding conditions. Grants linked to expenses are recognized on schedule as income over the period that is required to offset them against the corresponding expenses they are meant to compensate. Grants for an asset are stated in the statement of financial position as reduction of acquisition costs and amortized in equal installments over the corresponding asset's estimated period of use in profit or loss. More details can be found under note 31.

Borrowing costs

Borrowing costs directly attributable to an asset's acquisition, construction, or manufacturing, and for which a considerable period of time is required to put it into the intended state for use or sale, are capitalized as part of the respective asset's acquisition or production cost with respect to all qualified assets the construction or manufacturing of which has been started on or since January 1, 2009. All other borrowing costs are stated as expense in the period in which they incur. Borrowing costs are interest expenses and other costs a company incurs in connection with borrowing outside capital. The group continues to recognize borrowing costs connected with projects started before January 1, 2009 as expenses.

Notes to the segments

4 Segment reporting

Segments correspond with the ELMOS Group's internal organizational and reporting structure. The definition of segments considers the group's different products and services. The accounting principles applied for the segments correspond with those applied by the group.

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, South Korea, and the U.S.A. Sales in this segment are generated primarily with automotive electronics. ELMOS is also active in the sector of industrial and consumer goods and supplies semiconductors e.g. for applications in household appliances, photo cameras, installation and building technology, and machine control systems.

Sales in the micromechanics segment are generated by the subsidiary SMI in the U.S.A. The product portfolio contains micro-electromechanical systems (MEMS) which are for the most part silicon-based high-precision pressure sensors.

Business operations are organized and managed separately from each other with respect to the type of products, with each segment representing one strategic business unit that provides different products and supplies different markets. Inter-segment sales are based on cost-plus pricing or on settlement prices – less commission paid – that correspond to prices paid in transactions with third parties.

The following tables provide information on sales and earnings and certain information on assets and liabilities of the group's business segments for the fiscal years ended December 31, 2010 and December 31, 2009.

Fiscal year ended 12/31/2010	Semiconductor thousand Euro	Micromechanics thousand Euro	Consolidation thousand Euro	Group thousand Euro
Sales				
Third-party sales	170,114	14,609	0	184,723
Inter-segment sales	366	196	–562[1]	0
Total segment sales	**170,480**	**14,805**	**–562**	**184,723**
Earnings				
Depreciation	14,876	1,451		16,327
Other material non-cash expenses	–1,117	–17		–1,134
Other material non-cash income	451	0		451
Segment income	22,088	1,015	0	23,103
Finance income				1,031
Finance expenses				–2,436
Income before taxes				**21,698**
Income taxes				–3,937
Net income including non-controlling interests				**17,761**
Assets and liabilities				
Segment assets	168,837	13,487	65,951[2]	248,275
Investments	537	374		911
Total assets				249,186
Segment liabilities/Total liabilities	30,780	1,692	44,418[3]	76,890
Other segment information				
Capital expenditures for intangible assets and property, plant and equipment	12,182	178		12,360

Other non-cash expenses comprise extraordinary depreciation of non-current assets and stock option expense, among other items.

[1] *Sales from inter-segment transactions are eliminated for consolidation purposes.*
[2] *Non-attributable assets as of December 31, 2010 include cash and cash equivalents (58,010 thousand Euro), income tax assets (2,926 thousand Euro), and deferred taxes (5,015 thousand Euro), as these assets are controlled on group level.*
[3] *Non-attributable liabilities as of December 31, 2010 include current financial liabilities (374 thousand Euro), non-current financial liabilities (40,101 thousand Euro), current tax liabilities (2,627 thousand Euro), and deferred taxes (1,136 thousand Euro), as these liabilities are controlled on group level.*

Fiscal year ended 12/31/2009	Semiconductor thousand Euro	Micromechanics thousand Euro	Consolidation thousand Euro	Group thousand Euro
Sales				
Third-party sales	112,951	10,823	0	123,774
Inter-segment sales	386	176	−562[1]	0
Total segment sales	**113,337**	**10,999**	**−562**	**123,774**
Earnings				
Depreciation	15,455	1,418		16,873
Other material non-cash expenses	−433	0		−433
Other material non-cash income	153	0		153
Segment income	−14,379	−1,430	0	−15,809
Finance income				968
Finance expenses				−2,434
Income before taxes				**−17,276**
Income taxes				5,079
Net loss including non-controlling interests				**−12,197**
Assets and liabilities				
Segment assets	155,275	10,969	54,979[2]	221,223
Investments	504	0		504
Total assets				221,727
Segment liabilities/Total liabilities	24,702	1,600	41,013[3]	67,315
Other segment information				
Capital expenditures for intangible assets and property, plant and equipment	7,207	159		7,366

Other non-cash expenses comprise extraordinary depreciation of non-current assets and stock option expense, among other items.

[1] *Sales from inter-segment transactions are eliminated for consolidation purposes.*
[2] *Non-attributable assets as of December 31, 2009 include cash and cash equivalents (46,841 thousand Euro), income tax assets (306 thousand Euro), and deferred taxes (7,832 thousand Euro), as these assets are controlled on group level.*
[3] *Non-attributable liabilities as of December 31, 2009 include current financial liabilities (576 thousand Euro), non-current financial liabilities (40,237 thousand Euro) and current tax liabilities (200 thousand Euro), as these liabilities are controlled on group level.*

Geographic information

The geographic segment "other EU countries" basically includes, with the exception of Germany, all member states of the European Union as of the respective reporting date. Those European countries that are currently not members of the European Union are included in the segment "other countries". Third-party sales are broken down according to the customers' locations.

Geographic information

Third-party sales	2010 thousand Euro	2009 thousand Euro
Germany	70,180	47,146
Other EU countries	63,706	45,593
U.S.A.	13,144	8,805
Asia/Pacific	23,658	10,516
Other countries	14,035	11,714
Group sales	**184,723**	**123,774**

Geographic breakdown of non-current assets	12/31/2010 thousand Euro	12/31/2009 thousand Euro
Germany	95,758	93,888
Other EU countries	8,767	8,426
U.S.A.	4,829	4,634
Other countries	2	3
Non-current assets	**109,356**	**106,951**

Sales generated with the top four customers amount to 23.9 million Euro, 22.8 million Euro, 22.3 million Euro and 21.9 million Euro, respectively, and correspond to sales in the semiconductor segment.

Notes to the consolidated statement of comprehensive income

5 Sales

The company generates sales with the sale of ASICs, ASSPs, and micromechanical sensor elements as well as with their development.

Sales of the group and its segments can be broken down as follows:

	2010 thousand Euro	2009 thousand Euro
Semiconductor	170,114	112,951
Micromechanics	14,609	10,823
Group	**184,723**	**123,774**

Sales climbed 49.2% to 184,723 thousand Euro. The semiconductor segment contributed disproportionately to this growth, gaining 50.6% to reach 170,114 thousand Euro in 2010.

6 Notes to the consolidated statement of comprehensive income according to the cost of sales method

Cost of sales

The cost of sales contains costs of performances rendered towards the generation of 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 lease expenses and depreciation. The cost of sales also contains changes in work in process and finished goods inventories and shows the following development:

	2010 thousand Euro	2009 thousand Euro
Material costs	37,909	23,692
Personnel expense	28,715	23,917
Other overhead	37,693	35,736
Changes in inventories	−3,355	4,547
	100,962	**87,892**

The cost of sales went up from 87,892 thousand Euro in 2009 by 14.9% to 100,962 thousand Euro in the year under report. Due to the significantly improved demand compared to the previous year and the resulting higher production output, a considerable increase in material costs by the amount of 14,217 thousand Euro is noticeable. Adjusted by effects of changes in inventories, the increase in expenses came to 25.2%.

Research and development expenses

Substantial expenses regularly incur with regard to research and development projects carried out in anticipation of future sales. Research expenses are entered in profit or loss 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 – entered in profit or loss. In fiscal year 2010, R&D expenses of 29,637 thousand Euro (previous year: 25,298 thousand Euro) were charged to expenses.

Distribution expenses

Distribution costs in the amount of 12,593 thousand Euro (previous year: 10,632 thousand Euro) essentially include expenses for personnel, leases, and depreciation.

Administrative expenses

Administrative expenses of 17,753 thousand Euro (previous year: 14,740 thousand Euro) include personnel expense for the administrative staff and proportionate personnel expense for the Management Board members. Other material items are expenses for leases, amortization and legal consultations and administrative consultation.

Due to the cost of sales method, expenses for lease agreements and depreciation and amortization have been allocated to the items cost of sales, research and development expenses, distribution expenses, and administrative expenses in the consolidated statement of comprehensive income.

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

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

Material costs

Material costs amounted to 46,792 thousand Euro in fiscal year 2010, up 49.8% from the previous year (2009: 31,228 thousand Euro). They include expenses for raw materials, supplies, consumables, and for services claimed.

Personnel expense

Personnel expense climbed 21.0% from 49,363 thousand Euro in fiscal year 2009 to 59,720 thousand Euro in fiscal year 2010. Over the same reporting period, the number of employees – based on an average employment ratio – went down from 1,038 in fiscal year 2009 to 990 in fiscal year 2010. The increase in personnel expense is due primarily to the positive sales performance and the effect of short-time work on 2009 that was lacking in 2010, with respect to companies ELMOS Semiconductor AG, GED Gärtner Electronic Design GmbH, ELMOS Facility Management GmbH & Co. KG, and ELMOS Central IT Services GmbH & Co. KG. Further staff information can be found under note 40.

Depreciation

The itemization of depreciation can be drawn from the development of the group's non-current assets (please refer to notes 13 and 14).

Depreciation on schedule came to 16,327 thousand Euro in the year under report (2009: 16,873 thousand 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 consolidated statement of comprehensive income to the items cost of sales, research and development expenses, distribution expenses, and administrative expenses.

8 Finance income and expenses

Finance expenses came to 2,436 thousand Euro in 2010 compared to 2,434 thousand Euro in 2009. They essentially include interest expenses for liabilities to banks and for non-current liabilities.

Under the item finance income, essentially interest income was reported in fiscal year 2010. Finance income added up to 1,031 thousand Euro (previous year: 968 thousand Euro).

Finance expenses and finance income reported in the consolidated statement of comprehensive income essentially correspond with the amounts paid.

The total amounts of interest income and interest expenses for financial assets and financial liabilities recognized outside profit or loss at their fair values are as follows:

	2010 thousand Euro	2009 thousand Euro
Interest income	−1,029	−961
Interest expenses	2,436	2,267
Interest result	**1,407**	**1,306**

9 Foreign exchange gains and losses

Losses from exchange rate differences recognized in profit or loss amount to 291 thousand Euro in fiscal year 2010 (previous year: 681 thousand Euro).

Exchange rate changes recognized outside profit or loss amount to 1,801 thousand Euro in fiscal year 2010 (previous year: 2,489 thousand Euro), considering corresponding deferred taxes. Further information on changes in foreign currency exchange rates recognized outside profit or loss can be found under note 22.

10 Other operating income and expenses

Other operating income in the amount of 3,405 thousand Euro (2009: 2,702 thousand Euro) includes income from the reversal of provisions (1,248 thousand Euro).

Other operating expenses in the amount of 3,789 thousand Euro (2009: 3,043 thousand Euro) include, among other items, expenses for performances pursuant to a warranty (including additions to provisions) in the amount of 1,409 thousand Euro and extraordinary depreciation of parts of buildings no longer used in the amount of 666 thousand Euro allocated to the semiconductor segment.

Other operating expenses include expenses of 495 thousand Euro relating to other reporting periods. In addition, extraordinary expenses arose in the amount of 824 thousand Euro linked to derecognition of development projects or projects under development initially recognized under intangible assets (please refer to note 13). These assets were allocated to the semiconductor segment.

11 Income taxes

Taxes on income either paid or owed as well as corresponding tax deferrals are reported as income taxes.

	2010 thousand Euro	2009 thousand Euro
Current income taxes		
Germany	2,165	59
Other countries	−2,510	191
	−345	**250**
Thereof taxes from previous years	−2,144	−294
Deferred taxes		
Germany	2,401	−5,402
Other countries	1,881	73
	4,282	**−5,329**
	3,937	**−5,079**

The income from current taxes relating to previous years especially results from loss carry-back of foreign subsidiaries.

Deferred taxes have been calculated according to the so-called liability method pursuant to IAS 12. For Germany, the combined income tax rate of 32.21% (previous year: 32.21%) has been applied. The company's combined income tax rate includes the trade tax collection rate of 468% (previous year: 468%), the corporation tax rate of 15.0% (previous year: 15.0%), and the solidarity surcharge of 5.5% (previous year: 5.5%). With respect to the international group companies, respective country-specific tax rates have been applied for the calculation of deferred taxes.

Deferred taxes are determined for the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax statement of the separate financial statements. The deferral of taxes shows tax assets and tax liabilities that result from the approximation of book value differences over time. Material components of the company's deferred tax assets and deferred tax liabilities are described under note 16.

The differences between the anticipated tax amount in application of the statutory tax rate on the group's net income and the company's effective income taxes are as follows:

	2010 %	2009 %
Statutory tax rate	32.21	31.58
Foreign tax rate differential	−1.57	2.70
Expenses disallowable against tax	0.43	−11.44
Trade tax additions/cuts	2.08	0.00
Capitalization of interest carry-forward	0.00	5.58
Taxes from previous years (particularly loss carry-back)	−9.88	1.70
Consumption of loss carry-forward (loss carry-back)	10.36	0.00
Non-capitalization of deferred taxes from loss carry-forward	0.10	−6.37
Capitalization of impaired loss carry-forward	−10.78	0.00
Use of impaired interest carry-forward	−0.76	0.00
Tax-free income	−4.91	5.79
Others	0.83	−0.18
Effective tax rate	**18.11**	**29.36**

Due to the negative group result before taxes in 2009, the above-listed reconciling items were considered for 2009 compared to 2010 with the opposite +/- sign.

12 Earnings per share

The basic earnings per ordinary share are calculated on the basis of the weighted average number of ordinary shares outstanding in the respective fiscal year. Diluted earnings per ordinary share are calculated on the basis of the weighted average number of ordinary shares outstanding plus all stock options with dilutive potential according to the so-called treasury stock method.

Basic earnings and diluted earnings per ordinary share have been determined as follows:

Reconciliation of shares

	2010	2009
Weighted average number of ordinary shares outstanding	19,351,378	19,414,205
Stock options with dilutive character	234,859	0
Weighted average number of ordinary shares outstanding including dilutive effect	**19,586,237**	**19,414,205**

Calculation of earnings per share

	2010	2009
Net income (net loss) attributable to owners of the parent (in Euro)	17,754,373	−12,217,410
Basic earnings per share (in Euro)	0.92	−0.63
Fully diluted earnings per share (in Euro)	0.91	−0.63

The weighted average number of shares 2010 includes the weighted average effect of changes from transactions with own stock in the course of the year 2010.

Outstanding stock options originating from the 2005 and 2009 tranches have not been included in the calculation of diluted earnings per share 2009 and outstanding stock options originating from the 2010 tranche have not been included in the calculation of diluted earnings per share 2010 as they counteract the dilutive effect for the respective periods presented. Further information on the stock option plans can be found under note 23.

Notes to the balance sheet

13 Intangible assets

in thousand Euro	Goodwill	Development projects	Software and licenses	Advance payments and projects under development	Total
Acquisition and production cost					
December 31, 2008	**2,371**	**15,757**	**39,244**	**8,413**	**65,785**
Foreign currency adjustments	−5	0	−58	0	−63
Additions	0	666	481	3,002	4,149
Transfers	0	1,542	8,135	−9,677	0
Disposals	0	0	−87	0	−87
December 31, 2009	**2,366**	**17,965**	**47,715**	**1,738**	**69,784**
Foreign currency adjustments	13	0	182	0	195
Additions	0	870	633	1,010	2,513
Transfers	0	1,074	123	−1,197	0
Disposals	0	−1,805	−36	−102	−1,943
December 31, 2010	**2,379**	**18,103**	**48,617**	**1,449**	**70,548**
Depreciation					
December 31, 2008	**0**	**8,849**	**21,498**	**0**	**30,347**
Foreign currency adjustments	0	0	−24	0	−24
Additions	0	2,685	3,195	0	5,880
Disposals	0	0	−87	0	−87
December 31, 2009	**0**	**11,534**	**24,582**	**0**	**36,116**
Foreign currency adjustments	0	0	93	0	93
Additions	0	1,769	3,064	0	4,833
Disposals	0	−1,083	0	0	−1,083
December 31, 2010	**0**	**12,220**	**27,739**	**0**	**39,959**
Book value December 31, 2010	**2,379**	**5,883**	**20,878**	**1,449**	**30,589**
Book value December 31, 2009	**2,366**	**6,431**	**23,133**	**1,738**	**33,668**

Goodwill

The changes in goodwill are as follows:

	12/31/2010 thousand Euro	12/31/2009 thousand Euro
ELMOS N.A.		
Acquisition cost	555	555
Foreign currency adjustments	3	−10
Book value	**558**	**545**
ELMOS France	**1,615**	**1,615**
ELMOS Services B.V.	**206**	**206**
	2,379	**2,366**

According to IFRS 3, goodwill is not amortized on schedule but reviewed for impairment at least once every year. Measurement is determined on the basis of cash generating units, corresponding here to the legal entities the respective goodwill is attributed to. The results of impairment testing in 2010 did not require the recognition of impairment loss. In the current consolidated financial statements, recognition of the goodwill of U.S. subsidiary SMI in the statement of financial position was retrospectively corrected outside profit or loss (for details please refer to "general information" provided in the notes).

The pre-tax interest rate applied was determined according to the *capital asset pricing model* (CAPM) and comes to 15.26% for ELMOS N.A., 14.36% for ELMOS France S.A.S., and 13.57% for ELMOS Services B.V. (all 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 (4.45%) plus the average market risk premium (5.00%), multiplied by a company-specific equity beta based on a so-called raw beta of 1.14. All stated amounts are derived from market data.

Other intangible assets

Development projects

In 2010 expenses of 1,758 thousand Euro linked to product developments were capitalized (previous year: 2,903 thousand Euro) as development projects and projects under development. Depreciation for capitalized developments amounted to 1,769 thousand Euro in 2010 (previous year: 2,685 thousand Euro). The carrying value of capitalized development performances (including projects under development) is 6,993 thousand Euro as of December 31, 2010 (previous year: 7,827 thousand Euro).

Amounts reported under "development projects" exclusively relate to the group's in-house developments.

Software and licenses

In 2010 expenses for process technology were capitalized in the amount of 0 thousand Euro (2009: 907 thousand Euro). Amortization came to 1,241 thousand Euro in 2010 (2009: 1,105 thousand Euro). As of December 31, 2010 the capitalized carrying amounts for process technology capitalized as assets included in property, plant and equipment added up to 12,219 thousand Euro; they amounted to 13,461 thousand Euro as of December 31, 2009.

Additions reported under "software and licenses" in the year 2010 resulted from purchases in the amount of 293 thousand Euro (previous year: 227 thousand Euro) and in-house efforts in the amount of 340 thousand Euro (previous year: 254 thousand Euro).

Advance payments and projects under development

The item "advance payments and projects under development" solely registered additions due to in-house efforts in the fiscal year (1,010 thousand Euro; 2009: additions from in-house efforts: 2,236 thousand Euro; additions from purchases: 766 thousand Euro).

Other information

Costs linked to research and development projects for new products as well as significant product upgrades are charged to expenses to the extent they incur, included under research and development expenses. Research and development expenses of 1,607 thousand Euro were reimbursed by customers in 2010 (685 thousand Euro in 2009).

Due to the derecognition of development projects or projects under development that will yield no economic benefit for the company, expenses of 824 thousand Euro incurred in 2010, reported under other operating expenses (compare note 10). The assets were allocated to the semiconductor segment.

14 Property, plant and equipment

in thousand Euro	Property	Buildings and building improvements	Technical equipment and machinery	Advance payments and construction in process	Total
Acquisition and production cost					
December 31, 2008	**1,499**	**27,557**	**148,771**	**11,386**	**189,213**
Foreign currency adjustments	0	−51	−192	−7	−250
Additions	0	27	953	2,426	3,406
Transfers	0	119	6,336	−6,455	0
Disposals	0	−18	−3,018	−75	−3,111
December 31, 2009	**1,499**	**27,634**	**152,850**	**7,275**	**189,258**
Foreign currency adjustments	0	148	573	11	732
Additions	5	13	8,895	934	9,847
Transfers	0	0	5,024	−5,024	0
Disposals	0	−83	−7,096	−472	−7,651
December 31, 2010	**1,504**	**27,712**	**160,246**	**2,724**	**192,186**
Depreciation					
December 31, 2008	**0**	**9,840**	**98,675**	**0**	**108,515**
Foreign currency adjustments	0	−7	−123	0	−130
Additions	0	1,913	9,079	0	10,992
Disposals	0	−12	−2,886	0	−2,898
December 31, 2009	**0**	**11,734**	**104,745**	**0**	**116,479**
Foreign currency adjustments	0	24	384	0	408
Additions	0	2,362	9,132	0	11,494
Disposals	0	−83	−5,606	0	−5,689
December 31, 2010	**0**	**14,037**	**108,655**	**0**	**122,692**
Book value December 31, 2010	**1,504**	**13,675**	**51,591**	**2,724**	**69,494**
Book value December 31, 2009	**1,499**	**15,900**	**48,105**	**7,275**	**72,779**

No borrowing costs were capitalized in fiscal year 2010 or the previous year.

Lease agreements

On December 11, 2007 the company sold various pieces of installed equipment to Exedra for a total purchase price of 5,125 thousand Euro. Parallel to this sale transaction, the company leased these building improvements for a period of five years. Within the framework of this lease agreement with Exedra, the company is committed to total lease payments of 3,631 thousand Euro (including contribution to administrative expenses) until 2012. According to the contractual arrangements, additional payments are owed for loans extended to the lessee in the amount of 1,823 thousand Euro until the end of the lease term.

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 was restructured into an operating lease agreement in compliance with the accounting principles according to IAS/IFRS and extended to a building erected on the lessor's property in the amount of 4,816 thousand Euro. The leased assets to be subsumed under the existing contract were previously classified as finance lease and were disclosed accordingly under non-current assets. By the adjustment of the contract modalities, the contract was converted to operating lease in fiscal year 2007; thus the corresponding lease liabilities (December 28, 2007: 16,175 thousand Euro) as well as the leased assets are no longer included in the statement of financial position. The profit resulting from this transaction was collected in the amount of 4,756 thousand Euro in 2007 (reported under other operating income) and recognized as so-called deferred income under other liabilities in the amount of 2,530 thousand Euro. This item is amortized over the remaining term of 12.5 years until 2020. Within the framework of the newly negotiated lease contract, the company is committed to total lease payments of 23,050 thousand Euro (including contribution to administrative expenses) until 2020. According to the contractual arrangements, additional payments are owed for loans extended to the lessee in the amount of 7,330 thousand Euro until the end of the lease term.

Furthermore, on December 30, 2008 the company entered into a supplementary agreement to an existing finance lease agreement with Epigone, to the effect that the original agreement was restructured into an operating lease agreement in compliance with the accounting principles according to IAS/IFRS. The leased assets to be subsumed under the existing contract were previously classified as finance lease and were disclosed accordingly under non-current assets. By the adjustment of the contract modalities, the contract was converted to operating lease in fiscal year 2008; thus the corresponding lease liabilities (December 30, 2008: 10,862 thousand Euro) as well as the leased assets are no longer included in the statement of financial position. The profit resulting from this transaction was collected in the amount of 2,565 thousand Euro in 2008 (reported under other operating income). Within the framework of the newly negotiated lease contract, the company is committed to total lease payments of 11,873 thousand Euro (including contribution to administrative expenses) until 2021. According to the contractual arrangements, additional payments are owed for loans extended to the lessee in the amount of 4,033 thousand Euro until the end of the lease term.

The group did not generate material income from subletting in fiscal year 2010. Future minimum payments from uncancelable subletting agreements are immaterial as well.

15 Investments accounted for by using the equity method, securities and other investments

a) Investments accounted for by using the equity method

attoSENSOR GmbH i. L., Penzberg

As of December 31, 2010, ELMOS holds 45% of the shares. The company has a share capital of 40 thousand Euro. attoSENSOR GmbH, Penzberg, is accounted for according to the equity method. The recognition of the investment corresponds with a memo value of 1 Euro following impairment loss recognized in 2006.

b) Securities

In fiscal year 2010 the company purchased securities (bonds) from different banks. Insofar as the bonds' remaining terms to maturity are more than one year, they have been allocated to non-current assets (6,272 thousand Euro). Bonds maturing within one year have been allocated to current assets (3.033 thousand Euro).

c) Other investments

The company holds stakes in the following other companies. Investments in subsidiaries or associates considered of minor significance from the group's viewpoint are accounted for according to IAS 39.

	12/31/2010 thousand Euro	12/31/2009 thousand Euro
GfH	0	0
Epigone	1	1
Advanced Appliances Chips	34	34
ELMOS USA Inc.	19	19
DMOS	450	450
TetraSun Inc.	374	0
ELMOS Korea Co. Ltd.	33	0
	911	**504**

Gesellschaft für Halbleiterprüftechnik mbH, Dortmund (GfH)
As of December 31, 2010, ELMOS continues to hold 100% of the shares. This subsidiary, not included by way of full consolidation, amounts to less than 1% of the group's sales, earnings, and debt. The carrying value of this investment has been depreciated in the past years down to a memo value.

Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz
ELMOS holds 6% of the shares as of December 31, 2010, unchanged from the previous year.

Advanced Appliances Chips GmbH, Riedstadt
As of December 31, 2010, ELMOS still holds 33.33% of the shares. The company has a share capital of 102 thousand Euro.

ELMOS USA Inc., Farmington Hills, U.S.A.
This company is a holding company for the U.S. subsidiaries of the ELMOS Group. The company does not conduct independent business operations.

DMOS Dresden MOS Design GmbH, Dresden
As of December 31, 2010, ELMOS keeps holding 20% of the shares in DMOS. By the end of 2008, ELMOS irrevocably waived the right to exercise a buy option on the acquisition of a majority interest for a period of the next five years by notarial declaration. ELMOS waived the right to exercise the option deliberately in order not to be able to control the company. The DMOS management governs the company's business independently and acquires third-party business on its own authority. Thus control is not exerted over the company.

TetraSun Inc., Santa Clara, U.S.A.
ELMOS acquired shares in TetraSun Inc. in fiscal year 2010 and holds 1.3% of the shares as of December 31, 2010. The investment is held indirectly through the U.S. subsidiary SMI.

ELMOS Korea Co. Ltd., Seoul, South Korea
ELMOS founded ELMOS Korea Co. Ltd. in fiscal year 2010. Dieses subsidiary, not included by way of full consolidation, amounts to less than 1% of the group's sales, earnings, and debt.

Summarized financial information

Company	Total assets thousand Euro	Total liabilities thousand Euro	Sales thousand Euro	Income for the period thousand Euro
attoSENSOR[1]	122	59	310	0
GfH[2]	130	1	5	5
Epigone[3]	11,285	11,285	648	–12
Advanced Appliances Chips[3]	142	75	28	–151
ELMOS USA Inc.[4]	–	–	–	–
DMOS[3]	6,004	5,784	3,983	–11
TetraSun Inc.[5]	2,050	187	207	–1,023
ELMOS Korea Co. Ltd.[3]	87	137	0	–82

[1] Presented figures are based on the preliminary unaudited financial statements as of September 30, 2010.
[2] Presented figures are based on the unaudited financial statements as of December 31, 2009.
[3] Presented figures are based on the preliminary unaudited financial statements as of December 31, 2010.
[4] Presently no financial statements of the company are available.
[5] Presented figures are based on the financial statements for the short fiscal year from April 6, 2009 to December 31, 2009.

16 Deferred taxes

	12/31/2010 thousand Euro	12/31/2009 thousand Euro
Deferred tax assets		
Intangible assets	374	260
Property, plant and equipment	15	0
Goodwill	0	3,897
Pension provisions	194	676
Other provisions	157	0
Advance payments/Accruals and deferrals	620	671
Loss carry-forward	8,693	8,912
Interest carry-forward	0	964
Others	160	96
Subtotal	10,213	15,476
Balance	–5,198	–7,644
	5,015	**7.832**
Deferred tax liabilities		
Intangible assets	–4,660	–5,111
Property, plant and equipment	–1,718	–1,892
Special tax-allowable reserves	0	–622
Others	–136	–19
Subtotal	–6,514	–7,644
Balance	5,198	7,644
	–1,316	**0**

Balancing as stated above was carried out in accordance with IAS 12.74 a) and b), i.e. deferred tax assets and deferred tax liabilities were netted against each other if assets and liabilities relate to the same tax authority and if the taxable entity was entitled to offset current tax assets against tax liabilities.

The capitalization of deferred tax assets on taxable loss carry-forward or interest carry-forward was made on the basis of the involved companies' medium-term business planning.

Deferred tax assets were capitalized for loss carry-forward of domestic companies in the amount of 15,641 thousand Euro (corporate tax) or rather 10,902 thousand Euro (trade tax). No deferred tax assets were capitalized for loss carry-forward in the amount of 1,197 thousand Euro (corporate tax) and 1,193 thousand Euro (trade tax). Loss carry-forward can be carried forward indefinitely. Impairment loss recorded for loss carry-forward of ELMOS Semiconductor AG in the past year (3,659 thousand Euro in corporate tax, 3,195 thousand Euro in trade tax) and interest carry-forward (585 thousand Euro) has been reversed in the current year.

For foreign companies, deferred taxes on taxable loss carry-forward were capitalized in the amount of 13,676 thousand Euro. Included is loss carry-forward in the amount of 146 thousand Euro that was still recorded as impairment loss in the previous year.

The reduction of the net amount of deferred taxes coming to –4.133 thousand Euro includes deferred taxes reported in the income statement of –4.282 thousand Euro and changes recognized outside profit or loss in the amount of 149 thousand Euro.

17 Inventories

Inventories are broken down as follows:

	12/31/2010 thousand Euro	12/31/2009 thousand Euro
Raw materials	6,709	6,099
Work in process	20,929	19,535
Finished goods	8,188	5,905
	35,826	**31,539**

The impairment of inventories recognized as expense comes to 599 thousand Euro (previous year: 449 thousand Euro). This expense is disclosed under the position cost of sales. The impairment expense includes write-down of special spare parts attributable to the semiconductor segment in the amount of 350 thousand Euro. Devaluation is based on the limited usability of spare parts towards the end of the product life cycle. In addition, inventories whose future sale has become improbable were written down in the amount of 179 thousand Euro. These assets are attributable to the micromechanics segment.

18 Trade receivables

Trade receivables are broken down as follows:

	12/31/2010 thousand Euro	12/31/2009 thousand Euro
Trade receivables	25,518	20,269
Allowances	−190	−261
	25,328	**20,008**

The company constantly assesses its customers' creditworthiness and generally requests no collateral. The company has carried out allowances for bad debts. Bad debt loss incurred corresponded with the Management Board's estimates and assumptions and remain within customary limits.

The following table presents the changes in allowances made on current and non-current receivables:

	2010 thousand Euro	2009 thousand Euro
Allowances as of January 1	261	848
Additions in reporting period (impairment expense)	61	225
Consumption	−17	−156
Reversals (appreciation in value of initially written-off receivables)	−151	−531
Currency translation effects	36	−125
Allowances as of December 31	**190**	**261**

The allowances made for trade receivables are 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 debt loss. If receivables are considered unrecoverable, the corresponding impaired asset is derecognized.

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

			Not impaired as of the reporting date and overdue in the following time bands					
thousand Euro	**Book value**	**Neither impaired nor overdue as of the reporting 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	12/31/2010	23,549	1,718	182	19	18	0	0
Other financial assets	12/31/2010	7,269	0	0	0	0	0	74
Trade receivables	12/31/2009	15,222	3,586	1,047	82	185	4	2
Other financial assets	12/31/2009	3,577	0	0	0	0	4	222

19 Cash and cash equivalents

The company regards all highly liquid investments with a maturity of three months or less as of the date of purchase as cash equivalents.

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

20 Other non-current and current financial assets, other receivables and income tax assets

a) Other non-current financial assets

Other non-current financial assets are composed as follows:

	12/31/2010 thousand Euro	12/31/2009 thousand Euro
Earn out (cf. note 29)	500	0
Loan receivables from third parties	1,500	0
Market evaluation of hedges (cf. note 28)	90	0
	2,090	**0**

b) Other current financial assets

Other current financial assets are composed as follows:

	12/31/2010 thousand Euro	12/31/2009 thousand Euro
Receivables from associates	1,848	1,675
Current loans	125	440
Other financial assets	3,280	1,688
	5,253	**3,803**

c) Other receivables

Other receivables are broken down as follows:

	12/31/2010 thousand Euro	12/31/2009 thousand Euro
Other tax assets	1,415	1,821
Accruals and deferrals	1,507	2,347
Other current receivables	226	279
	3,148	**4,447**

d) Income tax assets

Income tax assets amount to 2,926 thousand Euro (December 31, 2009: 306 thousand Euro) and essentially include tax refund claims relating to corporate tax.

21 Assets included in a disposal group classified as held for sale and assets and liabilities disposed of in the fiscal year

Assets held for sale in the fiscal year are made up of IT equipment and various technical equipment and machinery.

These assets, entered in the statement of financial position and attributable to the semiconductor segment, are intended to be sold to various lease companies in 2011 in the scope of sale and lease-back transactions.

With economic effect as of December 31, 2010, the group company ELMOS Advanced Packaging B.V. sold assets and liabilities (disposal group) to an investment company owned by Dutch financial investor NIMBUS Hands-On-Investors. This disposal group included intangible assets, machinery, inventories, trade receivables and trade payables, and customer relationships of the Dutch special packaging business belonging to the semiconductor segment (development and production of packages for semiconductors and sensors). From the sale of this disposal group within the framework of an asset deal, the resulting book profit including partial capitalization of the contractually agreed earn out came to 44 thousand Euro, recognized under other operating income. The transaction supports increased focusing on the core business and the optimization of margin structures.

22 Equity

Share capital

The share capital of 19,414,205 Euro entered in the statement of financial position as of December 31, 2010 (December 31, 2009: 19,414,205 Euro) and consisting of 19,414,205 no-par value bearer shares (December 31, 2009: 19,414,205) is fully paid up.

Treasury stock

As of December 31, 2010, the company holds 119,607 own no-par shares with a proportionate amount of 1.00 Euro of the share capital of altogether 119 thousand Euro; the company did not hold any of its own shares as of the prior-year reporting date.

Additional paid-in capital

Additional paid-in capital is composed as follows:

	12/31/2010 thousand Euro	12/31/2009 thousand Euro
Premiums	84,262	84,984
Stock options	4,224	4,017
	88,486	**89,001**

Additional paid-in capital essentially includes premiums from capital increases and the issue of shares of ELMOS Semiconductor AG. In fiscal year 2010, this item was reduced by 722 thousand Euro by the share buyback of 119,607 own shares at an average price of 7.034 Euro. Moreover, the item was offset against the expense from the issue of stock options and stock awards (please refer to note 23).

Other equity components

Other equity components are broken down as follows:

	12/31/2010 thousand Euro	12/31/2009 thousand Euro
Foreign currency adjustments	– 2,273	– 3,245
Deferred taxes (on foreign currency adjustments)	472	756
Hedges	90	0
Deferred taxes (on hedges)	– 29	0
Other equity components	**–1,740**	**–2,489**

Reserves for foreign currency differences facilitate the recognition of differences from the translation of financial statements of foreign subsidiaries. They also facilitate the recognition of translation differences relating to a net investment in a foreign business operation.

Reserves for hedges represent the recognition of the market value of hedges outside profit or loss as of the reporting date (please refer to notes 28 and 29).

The development of changes in equity outside profit or loss that are attributable to the owners of the parent is shown in the following table for the years 2009 and 2010:

	thousand Euro
Balance as of 1/1/2009 (before corrections according to IAS 8)	**– 5,445**
Corrections according to IAS 8	2,805
Balance as of 1/1/2009 (after corrections according to IAS 8)	**– 2,640**
Corrections according to IAS 8	120
Exchange rate differences	–286
Changes in deferred taxes on exchange rate differences	317
Balance as of 12/31/2009 (after corrections according to IAS 8)	**– 2,489**
Exchange rate differences	972
Changes in deferred taxes on exchange rate differences	–284
Changes in hedges	90
Changes in deferred taxes on hedges	–29
Balance as of 12/31/2010	**– 1,740**

Ownership

Ownership as of December 31, 2010 is as follows:

	thousand Euro	%
Weyer Beteiligungsgesellschaft mbH, Schwerte, Germany	3,979	20.5
ZOE-VVG GmbH, Duisburg, Germany	3,050	15.7
Jumakos Beteiligungsgesellschaft mbH, Dortmund, Germany	2,972	15.3
Treasury stock	119	0.6
Shareholders <10% shares	9,294	47.9
	19,414	**100.0**

Until it ceased to exist on January 26, 2010, EFH ELMOS Finanzholding GmbH (EFH) held an interest of approx. 52.9% (roughly 10.3 million shares) in the company's share capital. In the course of reorganizing EFH, the shares held formerly by EFH became the property of the following companies: Weyer Beteiligungsgesellschaft mbH (20.5%), Jumakos Beteiligungsgesellschaft mbH (16.7%), and ZOE-VVG GmbH (15.7%).

Authorized and conditional capital

The Management Board is authorized to increase the share capital up to and including May 18, 2011 subject to the Supervisory Board's approval by up to 9,650 thousand Euro through the singular or repeated issue of up to 9,650,000 new no-par value bearer shares against contributions in cash or 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 up to 145 thousand Euro **(conditional capital 2004).** The conditional capital increase exclusively serves the granting of stock options to employees, executives, and Management Board members of the company as well as to employees and executives of affiliated companies (stock option plan 2004).

The share capital is conditionally increased by up to 495 thousand Euro **(conditional capital 2009).** The conditional capital increase serves the redemption of stock options issued to employees, executives, and Management Board members of the company as well as to employees and executives of affiliated companies up to and including May 5, 2014 on the basis of the authorization given by the Annual General Meeting of May 6, 2009 (stock option plan 2009).

The share capital is conditionally increased by up to 1,250 thousand Euro **(conditional capital 2010/I).** The conditional capital increase serves the redemption of stock options issued to employees, executives, and Management Board members of the company as well as to employees and executives of affiliated companies up to and including May 3, 2015 on the basis of the authorization given by the Annual General Meeting of May 4, 2010 (stock option plan 2010).

The share capital is conditionally increased by up to 7,800,000 Euro **(conditional capital 2010/II).** The conditional capital increase is realized only insofar as the owners of convertible bonds or option bonds, profit participation rights or profit participating bonds (or a combination of these instruments) issued by ELMOS Semiconductor AG or a group company of ELMOS Semiconductor AG pursuant to Section 18 AktG up to and including May 3, 2015 based on authorization given by the Annual General Meeting of May 4, 2010 make use of their conversion privileges or options or, if they are committed to conversion, realize this commitment to conversion, insofar as no cash compensation is granted or own shares are used for payment.

There are stock options in accordance with Section 192 (2) No. 3 AktG from a stock option plan for employees, executives and Management Board members on the purchase of 710,365 shares. Each option entitles to the acquisition of one no-par value share with a proportionate amount of 1.00 Euro of the share capital.

23 Share-based payments

Stock option plans

ELMOS has issued stock option plans for employees, executives and Management Board members aimed at safeguarding the company's success by enabling this circle of people to acquire the company's shares. Within the framework of these plans, the company is authorized to grant 145,244 new no-par shares (conditional capital 2004), 495,000 new no-par shares (conditional capital 2009), and 1,250,000 new no-par shares (conditional capital 2010/I).

As of December 31, 2010 altogether 710,365 options are outstanding. These are accounted for by the different tranches as follows:

	Tranche 2005	Tranche 2009	Tranche 2010	Total
Year of resolution	2004	2009	2010	
Year of issue	2005	2009	2010	
Exercise price in Euro	13.98	3.68	7.49	
Blocking period ex issue (years)	2	3	4	
Exercise period after blocking period (years)	3	3	3	
Options outstanding as of 12/31/2009 (number)	140,306	486,800	n/a	627,106
Granted 2010 (number)	0	0	250,000	250,000
Exercised 2010 (number)	0	0	0	0
Forfeited 2010 (number)	0	20,850	5,585	26,435
Expired 2010 (number)	140,306	0	0	140,306
Options outstanding as of 12/31/2010 (number)	**0**	**465,950**	**244,415**	**710,365**
Options exerciseable as of 12/31/2010 (number)	0	0	0	0

The **2005 tranche** expired in 2010. The **2009 tranche,** based on the authorization given by shareholders' resolution at the Annual General Meeting of May 6, 2009 on the implementation of a stock option plan for the company's employees, executives and Management Board members as well as employees and executives of affiliated companies, was issued in the year 2009 with an exercise price of 150% of the average amount of the last ten trading days' closing prices of the share of ELMOS Semiconductor Aktiengesellschaft on Xetra trade prior to the resolution. The **2010 tranche,** based on the authorization given by shareholders' resolution at the Annual General Meeting of May 4, 2010 on the implementation of a stock option plan for the company's employees, executives and Management Board members as well as employees and executives of affiliated companies, was issued in the year 2010 with an exercise price of 120% of the average amount of the last ten trading days' closing prices of the share of ELMOS Semiconductor Aktiengesellschaft on Xetra trade prior to the resolution.

Options can only be exercised if the closing price of the company's share equals or exceeds the exercise price. Options can be exercised against payment of the issue price. The blocking period is three years for the 2009 tranche and four years for the 2010 tranche from the issue date. The other particulars of the granting and exercise of stock options can be derived from the specifications provided by the shareholders' resolutions passed at the Annual General Meeting of May 6, 2009 for the 2009 tranche and at the Annual General Meeting of May 4, 2010 for the 2010 tranche. With respect to both tranches, the company is authorized to offer compensation in cash to the beneficiaries instead of shares.

In 2010 and 2009 no options were exercised.

The stock options' average attributable value was 6.06 Euro for 2005 tranche, 0.70 Euro for the 2009 tranche, and 2.24 Euro for the 2010 tranche. The value attributable 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 determination of attributed value

	Tranche 2005	Tranche 2009	Tranche 2010
Dividend yield	1.5%	0.0%	0.0%
Expected volatility	85.0%	75.0%	62.5%
Risk-free interest rate as of grant date	2.76%	1.79%	1.67%
Expected term in years	5 years	3 years	4 years

In fiscal year 2010 the company incurred expenses in the amount of 189 thousand Euro for stock option plans 2009 and 2010 (2009: 65 thousand Euro).

Stock awards

In 2010 ELMOS Semiconductor AG promised stock awards to executives of the American subsidiary SMI. The stock award plan comprises the issue of 15,000 shares previously bought back on the stock market. The beneficiaries cannot demand the assignment of the shares before midnight of April 30, 2013. In fiscal year 2010 the group incurred expenses in the amount of 17 thousand Euro for this stock award plan. Basis for the determination of value is the stock market price of the shares at the time the transaction is granted. Expected dividends have not been considered for the determination of fair value.

24 Provisions

Non-current provisions / Pension provisions

The development of net debt accounted for is as follows:

	12/31/2010 thousand Euro	12/31/2009 thousand Euro
Cash value of the commitment	3,299	3,136
Time value of pension plan reinsurance	−2,797	−2,514
Unrecognized actuarial (losses)/gains	−126	170
Debt recognized in statement of financial position	**376**	**792**

The company provides pension plans for (also former) members of the Management Board of ELMOS Semiconductor AG and for members of the management of subsidiaries. According to the pension plans, the benefits depend on the remuneration paid during the period of occupation.

The company has taken out pension plan reinsurance policies, the claims of which have been assigned to the beneficiaries

During the terms of the pensions, these are adjusted by 1.5% per annum. The expected pay increases are determined at 0.0%.

Evaluation is carried out in accordance with IAS 19. The interest rate is 5.1% per annum in the fiscal year. For actuarial assumptions with respect to the mortality and disability risks, the Heubeck mortality tables 2005 G have been applied.

Pension plan expenses are allocated to the personnel expenses of the different business units (service cost) and financial result (interest) and broken down as follows:

	2010 thousand Euro	2009 thousand Euro
Service cost	38	34
Interest	168	166
Recognized actuarial gains	−9	0
Net pension expense	**197**	**200**

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

	2010 thousand Euro	2009 thousand Euro
Pension commitment as of 1/1	3,136	2,958
Pension expense	197	200
Pension benefits	−154	−79
Actuarial losses	120	57
Pension commitment as of 12/31	**3,299**	**3,136**

	2010 thousand Euro	2009 thousand Euro
Time value pension plan reinsurance	**2,797**	**2,514**

Actuarial gains recognized in the reporting period came to 9 thousand Euro in 2010 (2009: gains in the amount of 0 thousand Euro).

Income from pension plan reinsurance amounts to 433 thousand Euro (previous year: 254 thousand Euro) including payments made in the event of death. Premiums of 313 thousand Euro were paid (previous year: 318 thousand Euro). Amounts of similar order are expected for 2011.

There are also indirect pension commitments to (also former) 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 2010 the contributions to these pension plans amounted to 455 thousand Euro (previous year: 460 thousand Euro).

The employer's social security contributions made for employees amounted to 3,671 thousand Euro in 2010 (previous year: 3,249 thousand Euro). The contributions to employees' direct insurance came to 12 thousand Euro in 2010 (previous year: 12 thousand Euro).

Respective amounts of the current reporting period and the four preceding reporting periods are as follows:

	2010 thousand Euro	2009 thousand Euro	2008 thousand Euro	2007 thousand Euro	2006 thousand Euro
Pension commitment	3,299	3,136	2,958	2,917	3,229
Time value of pension plan reinsurance	−2,797	− 2,514	−2,274	−2,036	−1,924
Underfunding (–)	−502	− 622	−684	−881	−1,305
Adjustments to plan liabilities based on experience	−20	− 7	− 10	−13	124
Adjustments to plan assets based on experience	0	0	0	0	0

A change of 1 percentage point in the assumption of the interest rate would have had the following effect in the year under report and in the previous year:

	Fiscal year 2010		Fiscal year 2009	
in thousand Euro	**Increase by 1% point**	**Decrease by 1% point**	**Increase by 1% point**	**Decrease by 1% point**
Effect on current service costs and interest expense	−1	13	2	17
Effects on performance-oriented commitments	−386	473	−396	379

Current provisions

	1/1/2010 thousand Euro	Consumption thousand Euro	Reversal thousand Euro	Allocation thousand Euro	12/31/2010 thousand Euro
Vacation bonus	672	559	77	488	524
Bonus payments	919	774	0	1,256	1,401
Trade association	331	313	18	273	273
Warranties	3,011	592	883	1,425	2,961
Licenses	985	172	11	681	1,483
Other provisions	2,522	1,460	77	1,941	2,926
	8,440	**3,870**	**1,066**	**6,064**	**9,568**

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

Other provisions essentially include various personnel-related provisions for e.g. bonus payment obligations, awards, and partial retirement.

The majority of current provisions will probably be consumed in the course of next fiscal year.

25 Financial liabilities

Non-current financial liabilities

The breakdown of non-current financial liabilities as of December 31, 2010 is as follows:

	12/31/2010 thousand Euro	12/31/2009 thousand Euro
Non-current financial liabilities from loans	30,237	30,434
Non-current financial liabilities from bonded loans	10,000	10,000
Less current portion with remaining terms of up to one year	−136	−197
	40,101	**40,237**

The effective interest rates of non-current loans and bonded loans range between 5.49% and 5.96%.

Current financial liabilities

As of December 31, 2010, the company had various current credit limits at its disposal adding up to 19,612 thousand Euro. As of December 31, 2010, the company did not take advantage of these credit facilities. Current financial liabilities (December 31, 2010: 374 thousand Euro; December 31, 2009: 576 thousand Euro) represent the portion of non-current financial liabilities with remaining terms of up to one year and checks in circulation issued by the company.

Cash flows from financial liabilities

The following table lists all contractually defined incoming payments (indicated as negative in the following table) and payouts (indicated as positive in the following table) from borrowing and for redemption, repayments, and interest on accounted for financial liabilities. Payments are stated at undiscounted cash flows including interest payment for the next fiscal years. Also included are all cash flows from derivative financial instruments at positive and negative fair values.

December 31, 2010	2011 thousand Euro	2012 thousand Euro	2013-2015 thousand Euro	from 2016 thousand Euro
Liabilities to banks	2,015	1,783	−719	37,726
Other finance debt	563	10,500	0	0
Trade payables	18,792	0	0	0
Other financial liabilities	373	17	0	0
Hedged derivatives	0	6	939	739

December 31, 2009	2010 thousand Euro	2011 thousand Euro	2012-2014 thousand Euro	from 2015 thousand Euro
Liabilities to banks	2,227	1,777	32,641	0
Other finance debt	563	563	10,500	0
Trade payables	12,918	0	0	0
Other financial liabilities	247	0	0	0

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

26 Other current and non-current liabilities and income tax liabilities

Other liabilities include as of the reporting date:

	12/31/2010 thousand Euro	12/31/2009 thousand Euro
Other current liabilities	1,955	2,141
Other non-current liabilities	1,781	2,011
	3,736	**4,152**

Other current liabilities include, among other items, wage income tax liabilities, liabilities relating to social security contributions yet to be made, and advance payments received on orders.

Furthermore, in connection with the lease agreement concluded with Exedra in 2007, the difference between the reversed finance lease liability and the determined fair value of the leased assets is disclosed under "other non-current liabilities" as in the previous year. The amount is treated as a deferred item proportionally over the term of the lease agreement.

Income tax liabilities amount to 2,627 thousand Euro (December 31, 2009: 200 thousand Euro) and include liabilities of the domestic and international subsidiaries, originating in part from previous years.

27 Trade payables

Trade payables primarily concern the purchase of materials and the claiming of services for maintaining business operations. Trade payables fully mature within one year.

28 Derivative financial instruments

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

In 2010 the company entered into two variable-interest loan agreements (forward loans) to safeguard financing through fiscal year 2017 within the framework of a comprehensive and long-term financing strategy oriented towards solidity. These transactions are accompanied by the respective agreement of a forward interest rate swap in form of a payer swap that corresponds with the respective underlying transaction in terms of volume, term, currency, and reference interest, i.e. economically the variable interest rate of the forward loan is converted into a fixed interest rate. The agreed forward loan agreements in the amounts of 15 million Euro (term: August 1, 2013 to September 30, 2017) and 2.5 million Euro (term: November 20, 2012 to November 20, 2017) form a hedging relationship according to IAS 39 with the respective forward interest rate swap with the forward loan being declared as hedged item and the respective corresponding forward interest rate swap being declared as hedge. The reverse cash flows of forward loans and corresponding forward interest rate swaps will probably balance each other completely over the respective terms. Due to the correspondence of the material parameters and terms and conditions of hedged item and hedge, the hedge is generally suited to provide effective protection of the hedged item. The hedge as forward interest swap is suited to adequately cover the risk of interest rate changes which affects the performance of the hedged item. This way ELMOS secures the market interest rate for borrowing costs, considered favorable as of the reporting date as well as by historic consideration, and reduces the liquidity risk of future changes in market interest through the chosen strategy of hedging. The effectiveness of the hedging connection is regarded as highly effective for the beginning, the future, and the term of the hedging relationship. As the material terms and conditions and the parameters of hedged item and hedge are matching *(critical term match)* and as the transaction as a whole can also be referred to as a perfect *micro hedge,* the conditions for an assessment as "highly effective" are entirely provided. The assessment of effectiveness based on a comparison of the critical terms will be conducted as of the following reporting dates as well.

The interest rate swap is recognized at its *dirty fair value* (market value including accrued interest) in the statement of financial position (please refer to note 29). The cash flow hedge provision or the cash flow hedge market value corresponds with the *clean price.* Changes in the clean price of the hedge are adjusted outside profit or loss if changes in the hedged item are outside profit or loss or not yet to be recognized. A reversal of the equity item takes place if the hedged item must be recognized in profit or loss. Deferred taxes outside profit or loss are considered for the market value of the cash flow hedge recognized in the statement of financial position.

Within the framework of the comprehensive approach described above, the company also concluded two fixed-interest forward loans in 2010 with terms until 2017 (7.5 million Euro) and 2018 (10 million Euro) for which there are no corresponding hedges. These transactions represent follow-up financing of the non-current financial liabilities reported under note 25 expiring in the years 2012 and 2013, respectively. By the conclusion of said transactions, the company secures the market interest rate for borrowing costs, considered favorable as of the reporting date as well as by historic consideration and also covers the prospective financing requirements of the ELMOS Group. The market values of the forward loans as of December 31, 2010 can be found under note 29. Compliant with IAS 39.2 (h) and IAS 39.BC16, the loan commitments are exempt from the scope of IAS 39 and are therefore not recognized in the statement of financial position as of the reporting date.

The measurement of the interest rate swap follows corresponding evaluation procedures or on the basis of evaluations provided by the banks involved. The market value of recognized interest rate swaps is determined in applying the interest rates and credit ratings of the contracting parties as of the reporting date on the basis of a discounted cash flow model.

29 Additional information on financial instruments

Book values, recognition, and fair values according to measurement categories

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

The book value of financial instruments such as trade receivables and trade payables essentially corresponds with the market value due to current maturities.

The book value of current securities essentially corresponds with the market value due to the bonds' current maturities. The market value was determined on the basis of values provided by the involved banks as of the reporting date.

The forward interest rate swaps reported under the item hedged derivatives (please refer to note 28) were recognized at market value under financial assets outside profit or loss. The determination of the positive market values as of December 31, 2010 was based on a discounted cash flow model in consideration of current yield curves as of the reporting date.

The market value of the fixed-interest forward loans for which there are no corresponding hedges was determined on the basis of a discounted cash flow model in consideration of current yield curves as of the reporting date.

The market value of liabilities to banks was determined on the basis of market prices determined for the same or comparable issues and of the interest rates presently offered to the company.

The following tables indicate book values and fair value of each category of financial assets and liabilities.

			Recognition according to IAS 39					Recognition according to IAS 39			
thousand Euro	**Cat.**	**Book value 12/31/2010**	Amortized acquisition cost	Acquisition cost	At market value through profit or loss	**Fair Value 12/31/2010**	**Book value 12/31/2009**	Amortized acquisition cost	Acquisition cost	At market value through profit or loss	**Fair value 12/31/2009**
Financial assets											
Other investments	AfS	911		911		911	504		504		504
Securities (non-current)	HtM	6,272	6,272			6,213					
Securities (current)	HtM	3,033	3,033			3,037					
Trade receivables	LaR	25,328	25,328			25,328	20,008	20,008			20,008
Cash and cash equivalents	LaR	58,010	58,010			58,010	46,841	46,841			46,841
Other financial assets											
Other receivables and assets	LaR	4,077	4,077			4,077	2,593	2,593			2,593
Other loans	LaR	2,676	2,676			2,676	1,211	1,211			1,211
Earn out	AfS	500			500	500					
Hedged derivatives	n/a	90				90					
Fixed-interest forward loans	n/a	0				262					
Total financial assets		**100,897**	**99,396**	**911**	**500**	**101,104**	**71,157**	**70,653**	**504**		**71,157**
Financial liabilities											
Trade payables	OL	18,792	18,792			18,792	12,918	12,918			12,918
Liabilities to banks	OL	30,476	30,476			30,997	30,814	30,814			31,193
Other finance debt (bonded loans)	OL	10,000	10,000			10,242	10,000	10,000			10,153
Other financial liabilities											
Other remaining financial liabilities	OL	390	390			390	247	247			247
Total financial liabilities		**59,658**	**59,658**			**60,421**	**53,979**	**53,979**			**54,511**
Aggregated by measurement category											
Loans and Receivables (LaR)		90,091	90,091			90,091	70,653	70,653			70,653
Available for Sale (AfS)		1,411		911	500	1,411	504		504		504
Held to Maturity (HtM)		9,305	9,305			9,250					
Other Liabilities (OL)		59,658	59,658			60,421	53,979	53,979			54,511
n/a		90				352					

Hierarchy of fair values

according to the respective methods for measurement:

Stage 1: quoted (unadjusted) prices on active markets for similar assets or liabilities

Stage 2: methods where all input parameters with material effect on the determined fair value can be monitored either directly or indirectly

Stage 3: methods using input parameters that have material effect on the determined fair value and are not based on market data that can be monitored

As of December 31, 2010, the group held the following financial instruments measured at fair value:

Available-for-sale financial assets	Stage 1 thousand Euro	Stage 2 thousand Euro	Stage 3 thousand Euro
January 1, 2009	0	0	518
Disposal of Epigone interests Epigone	0	0	–14
December 31, 2009	0	0	504
Addition TetraSun Inc. interests	0	0	374
Addition ELMOS Korea Co. Ltd. interests	0	0	33
Addition of earn out	0	0	500
December 31, 2010	**0**	**0**	**1,411**
Hedged derivatives			
January 1, 2009	0	0	0
December 31, 2009	0	0	0
Addition of hedged derivatives	0	90	0
December 31, 2010	**0**	**90**	**0**

The available-for-sale financial assets reported under hierarchy stage 3 are investments in various companies and the earn out component. With this respect, the book value essentially corresponds with the market value.

The interest originating from the formation of ELMOS Korea Ltd. and the interest in TetraSun Inc. acquired in 2010 (cf. note 15) were reported in the consolidated statement of financial position under non-current assets. Plausible alternative assumptions would not lead to material changes in the fair value as stated.

Within the framework of the sale of assets and liabilities (disposal group) by subsidiary ELMOS Advanced Packaging B.V. (please refer to note 21), the contracting parties agreed on an earn out component. This implies that the company will receive a certain percentage of the gross margin achieved by the buyer in fiscal years 2013 and 2014 if the gross margin exceeds a previously defined amount. The payment of the due amount will be made as of March 30, 2015 and March 30, 2016, respectively, upon fulfillment of the defined criteria. An initial payment on the part of ELMOS Advanced Packaging B.V. was not necessary. The company has classified the earn out component as an available-for-sale financial asset according to IAS 39.9. The book value was determined on the basis of current estimates of the cash flows as of the reporting date, discounted by the initial effective interest rate according to IAS 39.AG8. The corresponding income in the amount of 500 thousand Euro was reported in the consolidated statement of comprehensive income under the item other operating income. Plausible alternative assumptions would not lead to material changes in the fair value as stated.

Notes to the consolidated statement of comprehensive income

The following table shows the net gains and net losses from financial instruments recognized in the statement of comprehensive income.

Gains (–) / Losses (+)	2010 thousand Euro	2009 thousand Euro
Loans and Receivables	78	594
Available for Sale	0	10
Other Liabilities	103	299
Held for Trading	357	0

In fiscal year 2010, ELMOS Semiconductor AG realized foreign currency gains in the amount of 1 thousand Euro and incurred foreign currency losses in the amount of 358 thousand Euro from currency-related hedges of the U.S. dollar (2009: 0 thousand Euro, respectively). These exchange rate gains and losses have been reported in the consolidated statement of comprehensive income under the item foreign exchange gains/losses.

ELMOS recognizes allowances on 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 essentially comprise allowances, debt loss, and interest income or expenses.

Expenses or income attributed to the category "other liabilities" result from exchange rate differences of trade payables.

Expenses or income attributed to the category "available for sale" include gains and losses from the disposal of non-current financial assets (investments).

Interest resulting from financial instruments is stated in interest income (please refer to note 8).

30 Financial risk management and financial derivatives

Basic principles of risk management

ELMOS Semiconductor AG unites the various risk managing measures within the company in a uniform and consistent risk management system. The system provides for the regular identification and assessment of new and known risks by the respective responsible employees and defines a closed-loop reporting system.

In addition, the ELMOS Group's business units deliver reports on the development of finance 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 reviewed by the auditing firm for its compliance with the provisions of the Commercial Code (HGB) and Corporations Act (AktG) and found suitable for detecting developments that could jeopardize the company's continued existence at an early stage. The focus is directed on risks of the highest priority rating. The risk management system will be expanded continuously and advanced in response to changing basic conditions 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 detecting these market risks early on and limiting them if necessary through operational control measures. It is the strategy of ELMOS to hedge interest and exchange rate risks by applying suitable instruments such as corresponding derivative products. ELMOS enters from time to time into forward exchange contracts and options to hedge foreign currency transactions for periods consistent with committed exposures. These derivative transactions for price hedging minimize the impact of foreign exchange rate fluctuations on the company's profit situation. ELMOS exclusively uses these hedging instruments for non-speculative risk containing purposes.

The basic principles of finance policy are determined annually by the Management Board and are monitored by the Supervisory Board. The implementation of finance policy and the operation of risk management are the responsibility of the Management Board.

Credit risk and contingency risk

Liquid assets are essentially cash and cash equivalents. With respect to the investment of liquid assets, the group is exposed to losses due to credit risk if banks or issuers do not fulfill their obligations. ELMOS controls the resulting risk position by a diversification of contracting parties and financial products.

For the purpose of a portfolio approach, investments of liquid assets are usually current or medium-term in consideration of highest possible flexibility, essentially secured by deposit guarantee funds or in the form of loans of the minimum rating “investment grade” and placed exclusively with reputable parties of very high credit ratings. Trade receivables primarily originate from sales activities involving microelectronic components and system parts as well as function-related technological units. The customers are for the most part automotive suppliers, to a lesser extent companies of the industrial sector and the consumer goods industry.

Accounts receivable are monitored continuously and centralized for the most part. 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 respective customer-supplier relationship; observation of the terms is monitored continuously. With respect to new customers, creditworthiness information is also gathered in advance. Business transactions with major customers are subject to special contingency risk supervision. The maximum contingency risk is reflected by the book values of the financial assets reported in the statement of financial position. The global financial market and economic crisis had the result that outstanding receivables are monitored and reminded with even more scrutiny.

Within the framework of the sale of the operational business of ELMOS Advanced Packaging B.V., the contracting parties involved agreed on an earn out component (please refer to notes 20 and 21). ELMOS is therefore exposed to the risk that operational business targets oriented towards business planning will not be reached or payments in compensation of the claim cannot be made. The extent of this risk is limited to the book value of the financial asset (cf. note 29).

Liquidity risk

The liquidity risk ELMOS is exposed to 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 arising from lease agreements. A liquidity reserve in the form of cash and cash equivalents, investments of high fungibility and accounting liquidity, and sufficiently available free 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 and updated within the framework of short-term and long-term liquidity planning. Apart from respective internal financing power, liquidity of the domestic and international subsidiaries is provided through credit limits and loans extended by group companies and banks. Further information about safeguarding medium-term financing can be found under note 28.

Financial market risks

Due to its international business activity, ELMOS is exposed to market price risks as a result of changes in exchange rates and interest rates. These market price risks could have a negative effect on the group’s financial, profit and economic situation.

a) Exchange rate risk

Business operations as well as reported financial results and cash flows are exposed to risks from exchange rate fluctuations due to the international orientation. These fluctuations occur principally between the U.S. dollar and the Euro.

The exchange rate risks ELMOS is exposed to result from operating activities, investments, and financing measures. The individual group companies conduct business for the most part in their respective functional currencies. The exchange rate risk of ELMOS from operating activities is therefore regarded as low. Insofar as operating activities are conducted in foreign currencies by the individual 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 extended to group companies for financing purposes.

Apart from so-called natural hedging, i.e. when certain incoming U.S. dollar payments face corresponding outgoing payments within a short period of time, spot transactions or derivative transactions are made to hedge exchange rates if necessary. Foreign currency risks that do not affect the group's cash flows (i.e. risks resulting from the translation of foreign subsidiaries' assets and liabilities into the group's reporting currency) are generally not hedged. Due to insignificant order of magnitude, ELMOS was not exposed to material currency risks as of the reporting date. In fiscal year 2010, ELMOS Semiconductor AG realized exchange rate gains in the amount of 1 thousand Euro and incurred exchange rate losses in the amount of 358 thousand Euro from currency-related hedges of the U.S. dollar.

Had the Euro been revalued (devalued) against the U.S. dollar by 10% as of December 31, 2010, the operating income (before taxes) would have been 77 thousand Euro higher (94 thousand Euro lower) (2009: 27 thousand Euro lower (33 thousand Euro higher)). The group's equity effect would have been the same amount via the result effect in consideration of income taxes incurred.

b) Risk of interest rate changes

The risk of interest rate changes borne by ELMOS as of the reporting date primarily results from interest on cash and cash equivalents and, potentially, from interest on current variable-interest finance debt (the latter as of December 31, 2010 and December 31, 2009: 0 thousand Euro). In fiscal year 2010 the company entered into reverse forward interest rate swaps for the elimination of the risk of interest rate changes with reference to concluded forward loans (cf. note 28).

ELMOS is exposed to interest risks primarily in the Euro area. The Management Board regularly determines the target mix of fixed and variable-interest liabilities, and the financing structure is implemented on that basis. For non-current financing projects, fixed interest rates are usually agreed. Interest derivatives are put to use if necessary.

Had the market interest level been higher (lower) by 100 basis points as of December 31, 2010, the income before taxes would have been 238 thousand Euro higher (lower). In order to allow for the volatility of the markets, a change of 100 basis points was assumed for conducting the sensitivity analysis, different from the previous year (2009: 10 basis points). The 2009 sensitivity analysis resulted in income that would have been 31 thousand Euro higher (lower) had the market interest level been higher (lower) by 10 basis points. The hypothetical effect on income results from the potential effects of original variable-interest assets and liabilities. The group's equity effect would have been the same amount via the result effect in consideration of income taxes incurred. With respect to the forward loans including corresponding forward interest rate swaps concluded in the fiscal year, a market interest level changed by 100 basis points would have resulted in an adjustment of the recognition in equity outside profit or loss by 672 thousand Euro (2009: 0 thousand Euro). Deferred taxes would also have to be considered on this amount.

Further information about safeguarding medium-term financing can be found under note 28.

c) Other price risks

From the company's viewpoint there is no other material price risk as of December 31, 2010 (2009).

Capital management

It is the primary objective of the group's capital management to assure that a high credit rating, liquidity provision at any time, and a sound equity ratio are maintained in support of the company's business operations for the long term and for the protection of the interests of the shareholders, employees, and all other addressees of the annual report. The ELMOS Group pursues a strategy of a continuous, sustainable increase in shareholder value.

The group controls its capital structure and makes adjustments in consideration of the economic framework as well as the risks carried by the corresponding assets. For the maintenance or adjustment of the capital structure, the group may e.g. pay dividends to the shareholders or issue new shares. As of December 31, 2010 and December 31, 2009, no changes were made to the objectives, guidelines, or procedures.

The group monitors its capital based on the debt ratio which corresponds to the relation of net debt or net cash to equity (gearing) as well as the absolute amounts of net debt or net cash and the equity ratio. Net cash includes cash and cash equivalents as well as securities without consideration of discontinued operations and less current and non-current financial liabilities. Equity includes the equity attributable to owners of the parent less unrealized gains. The equity ratio puts equity in proportion to total equity and liabilities.

	2010	2009
Net cash	26.8 million Euro	6.0 million Euro
Gearing	15.6%	3.9%
Equity ratio	69.1%	69.6%

Other information

31 Subsidies

The company receives government grants or subsidies used for financing research and development projects as well as the acquisition of real estate and assets of property, plant and equipment. Subsidies are recognized as other liabilities until the investment or performance date (24 thousand Euro as of December 31, 2010; 248 thousand Euro as of December 31, 2009). Subsidies granted for payments for property, plant and equipment are recognized as reduction of acquisition cost (375 thousand Euro in 2010, 0 thousand Euro in 2009). Subsidies in the amount of 559 thousand Euro plus interest were paid back. Subsidies used for research and development projects were offset against research and development expenses and recognized in that item (771 thousand Euro in 2010, 193 thousand Euro in 2009), including the collection of other liabilities through profit or loss in the amount of 248 thousand Euro from the year 2009.

Short-time work was registered for GED Gärtner-Electronic-Design GmbH with the Federal Employment Agency (Bundesagentur für Arbeit – BA), and short-time allowance (including proportionate social security contributions) was requested in the amount of 20 thousand Euro in accordance with Social Security Code III (Sozialgesetzbuch III) in 2010. This amount was fully paid by the BA to the applicant. In addition, the BA paid a total amount of 218 thousand Euro on outstanding claims for short-time allowance from the year 2009 to the companies ELMOS Semiconductor AG, GED Gärtner-Electronic-Design GmbH, ELMOS Facility Management GmbH & Co. KG, and ELMOS Central IT Services GmbH & Co. KG in the year 2010.

32 Other financial obligations and contingencies

The company has entered into non-cancelable rental and lease agreements for the combined plant and administration building, an employee center, a parking garage, and another office building, the respective terms of which extend until 2014, 2019, 2020, and 2021. The company has also entered into lease agreements for technical equipment and machinery as well as furniture and office equipment, the terms of which extend until 2019 in some cases. Furthermore, there are lease agreements for the car pool, office machines and technical equipment and machinery to a customary extent.

On December 16, 2005, ELMOS concluded a real estate rental 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 570 thousand Euro. The lease is raised by 1.0% per annum each calendar year, for the first time on December 16, 2006. 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 term for another five years.

Within the framework of the lease agreements with Exedra, ELMOS is committed to total lease payments of 21,217 thousand Euro (including contributions to administrative expenses and sales tax) plus payments of 8,176 thousand Euro for loans extended to the lessee until 2020 (cf. note 14).

Within the framework of the lease agreements with Epigone, ELMOS is committed to total lease payments of 11,532 thousand Euro (including contributions to administrative expenses and sales tax) plus payments of 3,410 thousand Euro for loans extended to the lessee until 2021 (cf. note 14).

SMI entered into a real estate lease agreement on January 26, 2006 for property including the plant erected on that property with McCarthy Manager LLC, Washington/U.S.A. The contract provides for a term of 15 years. The monthly lease is 60 thousand U.S. dollars with the provision of an annual adjustment according to the U.S. consumer price index, plus supplementary lease of currently 18 thousand U.S. dollars. 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 term for another ten years, and the lessor may demand an extension for another five years.

In 2005 ELMOS entered into an agreement for the provision of research and development services as well as the use of a production line with a contract term until 2015; the period for using the production line has meanwhile been extended to 2017.

Total expenditure for rental and lease agreements amounted to 15,551 thousand Euro in 2010 and 16,372 thousand Euro in 2009.

As of December 31, 2010, future minimum payments owed under non-cancelable rental, lease and insurance agreements with initial or remaining terms of more than one year are as follows:

	Rent and lease payments, insurance rates thousand Euro
2011	24,023
2012	18,012
2013	13,500
2014	10,459
2015	9,266
Later years	30,723
	105,983

The book value of assets pledged as security by a subsidiary for a bank loan comes to 331 thousand Euro. The security comes in the shape of a first-ranking land charge on a building. This land charge amounts to 1,023 thousand Euro. The same subsidiary also reports collateral assignments for machinery in the amount of 947 thousand Euro. As of the reporting date, ELMOS has not furnished securities according to IFRS 7.14.

ELMOS Semiconductor AG is liable for the existing lease obligations of an associate in the maximum amount of 404 thousand Euro until the terms expire, which will occur in the years 2012 to 2017 depending on the individual contract. Moreover, the company has assumed joint liability from lease liabilities transferred to a third-party company within the framework of an asset deal in the amount of 2,117 thousand Euro. This kind of collateral is generally granted for a period of twelve months while the hedging relationship is maintained by the contracting party for the term of the lease obligations (until 2017) against an annual payment of 100 thousand Euro. The risk of a claim on the company is considered low as there are currently no indications of such a scenario.

33 Group companies

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

The following companies have thus been included in the 2010 consolidated financial statements:

	Capital share (indirect and direct) in%
Parent	
ELMOS Semiconductor AG, Dortmund	
Subsidiaries	
ELMOS Advanced Packaging B.V., Nijmegen/The Netherlands	100.0
ELMOS Central IT Services GmbH & Co. KG, Dortmund	100.0
ELMOS Design Services B.V., Nijmegen/The Netherlands	100.0
ELMOS Facility Management GmbH & Co. KG, Dortmund	100.0
ELMOS France S.A.S., Levallois Perret/France	100.0
ELMOS Industries GmbH, Mainhausen	49.0
ELMOS N.A. Inc., Farmington Hills/U.S.A.	100.0
ELMOS Quality Services B.V., Nijmegen/The Netherlands	100.0
ELMOS Semiconductor Süd GmbH, Munich	100.0
ELMOS Services B.V., Nijmegen/The Netherlands	100.0
European Semiconductor Assembly (eurasem) B.V., Nijmegen/The Netherlands	100.0
GED Gärtner-Electronic-Design GmbH, Frankfurt/Oder	73.9
IndustrieAlpine Bauträger GmbH, Munich	51.0
Mechaless Systems GmbH, Karlsruhe	100.0
Micro Systems on Silicon (MOS) Limited, Pretoria/South Africa	67.6
Silicon Microstructures Inc., Milpitas/U.S.A.	100.0

As of December 31, 2010, the company held 49% of the shares in ELMOS Industries. Despite the lack of a majority of voting rights, the holding was included due to the fact that ELMOS exerts the economic control over the business operations of the holding and its other shareholders.

Information on share ownership

	Currency	Investment %	Equity in thousand Euro	Net result in thousand Euro
Germany				
Advanced Appliances Chips GmbH, Riedstadt	Euro	33.33	74	–144[1]
attoSENSOR GmbH i. L., Penzberg	Euro	45.00	62	0[4]
DMOS Dresden MOS Design GmbH, Dresden	Euro	20.00	219	–11[1]
ELMOS Central IT Services GmbH & Co. KG, Dortmund	Euro	100.00	173	116[2]
ELMOS Facility Management GmbH & Co. KG, Dortmund	Euro	100.00	92	108[2]
ELMOS Industries GmbH, Mainhausen	Euro	49.00	– 1,164	–70
ELMOS Semiconductor Süd GmbH, Munich	Euro	100.00	175	–1
Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	Euro	6.00	–19	–12[1]
GED Gärtner-Electronic-Design GmbH, Frankfurt/Oder	Euro	73.90	1,694	222
Gesellschaft für Halbleiterprüftechnik mbH, Dortmund	Euro	100.00	129	5[3]
IndustrieAlpine Bauträger GmbH, Munich	Euro	51.00	–1,229	–150[1]
Mechaless Systems GmbH, Karlsruhe	Euro	100.00	518	88
Other countries				
ELMOS Services B.V., Nijmegen (NL)	Euro	100.00	6,853	2,136
ELMOS Advanced Packaging B.V., Nijmegen (NL)	Euro	100.00	–11,965	–10,716[2]
ELMOS Design Services B.V., Nijmegen (NL)	Euro	100.00	4,120	149[2]
ELMOS Quality Services B.V., Nijmegen (NL)	Euro	100.00	218	8[2]
European Semiconductor Assembly (eurasem) B.V., Nijmegen (NL)	Euro	100.00	18	0[2]
Micro Systems on Silicon (MOS) Limited, Pretoria (South Africa)	ZAR	67.60	– 786	994[2]
ELMOS France S.A.S., Levallois Perret (F)	Euro	100.00	1,178	19
ELMOS USA Inc., Farmington Hills (U.S.A.)	USD	100.00	–	–[5]
ELMOS N.A. Inc., Farmington Hills (U.S.A.)	USD	100.00	2,178	1,611[2]
Silicon Microstructures Inc., Milpitas (U.S.A.)	USD	100.00	–3,709	–67[2]
ELMOS Korea Ltd., Seoul (South Korea)	KRW	100.00	–75,585	–125,585[1]

[1] *Presented figures are based on preliminary, unaudited financial statements as of December 31, 2010.*
[2] *Indirect investment of ELMOS Semiconductor AG, Dortmund.*
[3] *Presented figures are based on unaudited financial statements as of December 31, 2009.*
[4] *Presented figures are based on preliminary, unaudited financial statements as of September 30, 2010*
[5] *Financial statements of the company are not yet available.*

34 Information on Management Board and Supervisory Board

Remuneration of Management Board and Supervisory Board in 2010

	Fixed remuneration thousand Euro	Variable remuneration thousand Euro	Stock options (fair value) thousand Euro
Management Board	1,318	1,791	112
Supervisory Board	65	88	–

There are indirect pension commitments to Management Board members for which no pension provisions must be made because of risk coverage by completely congruent pension plan reinsurance. In 2010 the contributions to these pension plans amounted to 341 thousand Euro (previous year: 347 thousand Euro), included in the fixed remuneration components. Within the framework of stock option plan 2010, 50,000 stock options were assigned to the members of the Management Board.

Remuneration paid to former Management Board members or their surviving dependants amounted to 364 thousand Euro in fiscal year 2010 (previous year: 283 thousand Euro). In addition, insurance premiums in the amount of 347 thousand Euro were paid (previous year: 300 thousand Euro).

The amount of pension provisions is 2,533 thousand Euro as of December 31, 2010 (previous year: 2,557 thousand Euro).

For other services, particularly consultation services, the company compensated members of the Supervisory Board in the total amount of 140 thousand Euro (previous year: 230 thousand Euro).

The Annual General Meeting of May 4, 2010 decided in excess of the required three-quarter majority not to provide the disclosures stipulated by Section 285 (1) no. 9a sentences 5-9 HGB for the next five years.

35 Shares and stock options held by Management Board and Supervisory Board

As of December 31, 2010 the following numbers of ELMOS shares and stock options were held by Management Board and Supervisory Board members:

Management Board	Shares	Stock options
Dr. Anton Mindl	0	49,667
Reinhard Senf	16,923	33,111
Nicolaus Graf von Luckner	10,614	33,111
Jürgen Höllisch	0	33,111

Supervisory Board	Shares	Stock options
Prof. Dr. Günter Zimmer	29,027	0
Dr. Burkhard Dreher	5,000	0
Dr. Klaus Weyer	77,500	0
Jörns Haberstroh (until May 4, 2010)	0	0
Jutta Weber (until May 4, 2010)	0	0
Dr. Klaus Egger (until May 4, 2010)	0	0

36 Information on auditor fees

The companies of the ELMOS Group received the following services rendered by appointed group auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, in fiscal year 2010:

	2010 thousand Euro
Audit services	177
Other certification services	81
Tax counseling	168
Other services	19
	445

The position "other certification services" includes fees for the review of the interim consolidated financial statements as of June 30, 2010, among other items.

37 Appropriation of retained earnings and dividend proposal

Management Board and Supervisory Board propose to the Annual General Meeting in May 2011 the payment of a dividend of 0.20 Euro per share for fiscal year 2010 out of the 2010 retained earnings of ELMOS Semiconductor AG in the amount of 59.4 million Euro. The total dividend payout would thus amount to approx. 3.9 million Euro.

38 Information according to Section 160 AktG

Listed are all directors' dealings of the year 2010 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 of shares	Price/Basic price (Euro)	Total volume (Euro)
3/31/2010 Off-market	ZOE Beteiligungs GmbH	Legal entity closely related to the chairman of the Supervisory Board	Purchase of ELMOS shares	100,000	6.87	687,000
5/10/2010 Off-market (corrected by following announcement)	Dr. Anton Mindl	CEO ELMOS Semiconductor AG	Purchase of ELMOS shares	15,000	5.58	83,700
5/10/2010 Off-market	Alegra GmbH & Co. KG	Legal entity closely related to the CEO	Purchase of ELMOS shares	15,000	5.58	83,700
5/25/2010 Off-market (corrected by following announcement)	Dr. Anton Mindl	CEO ELMOS Semiconductor AG	Purchase of ELMOS shares	10,000	5.545	55,450
5/25/2010 Off-market	Alegra GmbH & Co. KG	Legal entity closely related to the CEO	Purchase of ELMOS shares	10,000	5.545	55,450
12/14/2010 Off-market	Dr. Anton Mindl	CEO ELMOS Semiconductor AG	Transfer of ELMOS shares (disposal)	103,725	0.00	0
12/14/2010 Off-market	Alegra GmbH & Co. KG	Legal entity closely related to the CEO	Transfer of ELMOS shares (addition)	103,725	0.00	0

39 Related party disclosures

According to IAS 24: Related Party Disclosures, individuals or companies in control of or controlled by the ELMOS Group must be disclosed unless they have already 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 in ELMOS Semiconductor AG or if the shareholder is in a position, by virtue of the articles of incorporation or contractual agreement, to control the financial and business policies of the ELMOS Group's management.

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

In fiscal year 2010, the ELMOS Group is concerned by the mandatory disclosures of IAS 24 only with regard to business connections to associated companies, members of the Management Board and Supervisory Board of ELMOS Semiconductor AG, and other key executives in management.

The ELMOS Group maintains connections to closely related companies and individuals in the context of usual business activity. These supply and performance relationships are transacted at market prices. In 2010 ELMOS Semiconductor AG provided deliveries in the amount of 14 thousand Euro (previous year: 53 thousand Euro) to unconsolidated associates (AAC). ELMOS Semiconductor AG received performances from DMOS in the amount of 3,573 thousand Euro in 2010 (previous year: 3,090 thousand Euro). Interest-bearing loans amounting to a nominal total of 1,000 thousand Euro were extended to DMOS by ELMOS Semiconductor AG and a subsidiary, used essentially for the advance lease payment for an office building. The loans can be canceled by both parties in observance of 6-month notice.

As of the end of the year, the principal including incurred interest comes to 1,047 thousand Euro altogether. The initially agreed annual repayment of the loans extended in 2008 with a 20% redemption including respective interest was modified in 2009 against the backdrop of the effects of the financial and economic crisis within the scope of supplementary agreements, and an adjusted debt service schedule was agreed on, providing for annual interest/redemption payments from 2010. For the loan extended in 2007, a debt service schedule was concluded as well.

ELMOS Semiconductor AG founded a sales company, ELMOS Korea Ltd. (Seoul, South Korea), in 2010 (please refer to note 33). The company was granted interest-bearing loans in the total nominal amount of 125 thousand Euro, used essentially for starting business operations. The loan amounts of 75 thousand Euro and 50 thousand Euro can be terminated by the borrower anytime and bear interest 6% p.a. As of the end of the year, the principal including incurred interest comes to 126 thousand Euro altogether.

Apart from the remuneration of Management Board and Supervisory Board disclosed under note 34 (information on Management Board and Supervisory Board), there are no material relationships with related individuals.

Apart from that, companies of the ELMOS Group did not engage in any material reportable transactions 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 individuals are represented in. This also applies for close relatives of said group of people.

40 Number of employees

In fiscal year 2010, the average number of employees throughout the group was 990 (2009: 1,038).

The average number of employees is split up as follows

Group	2010 Number
Production	499
Sales	72
Administration	162
Quality control	40
Research & development	217
Total	**990**

41 Events after the reporting period

There have been no reportable events or transactions of special significance after the reporting period.

42 Declaration of compliance according to Section 161 AktG

In December 2010, Management Board and Supervisory Board of ELMOS Semiconductor AG released the declaration in accordance with Section 161 AktG and made it permanently accessible to the shareholders on the company's website.

Responsibility statement

We assure to the best of our knowledge that the consolidated financial statements provide, in accordance with applicable accounting standards, a true and fair view of the group's financial, profit and economic situation 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 with the actual conditions and describes the material opportunities and risks of the group's probable future development.

Dortmund, March 2011

Dr. Anton Mindl **Nicolaus Graf von Luckner** **Reinhard Senf** **Jürgen Höllisch**

Auditor's report
Audit opinion

We have issued the following opinion on the consolidated financial statements and the group management report:

"We have audited the consolidated financial statements prepared by the ELMOS Semicondutor AG, Dortmund, comprising the statement of financial position, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1, 2010 to December 31, 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

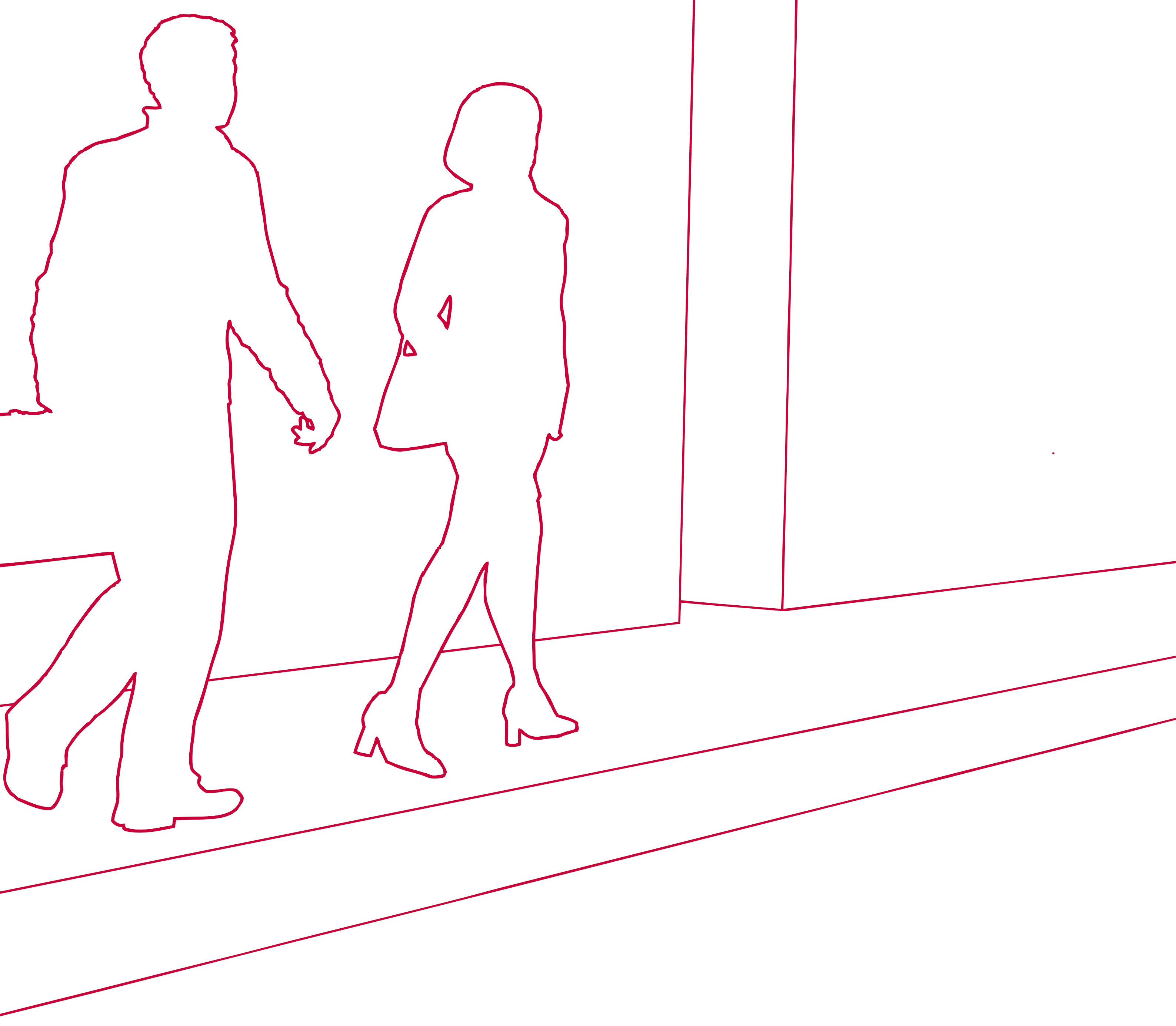
Dortmund, March 1, 2011

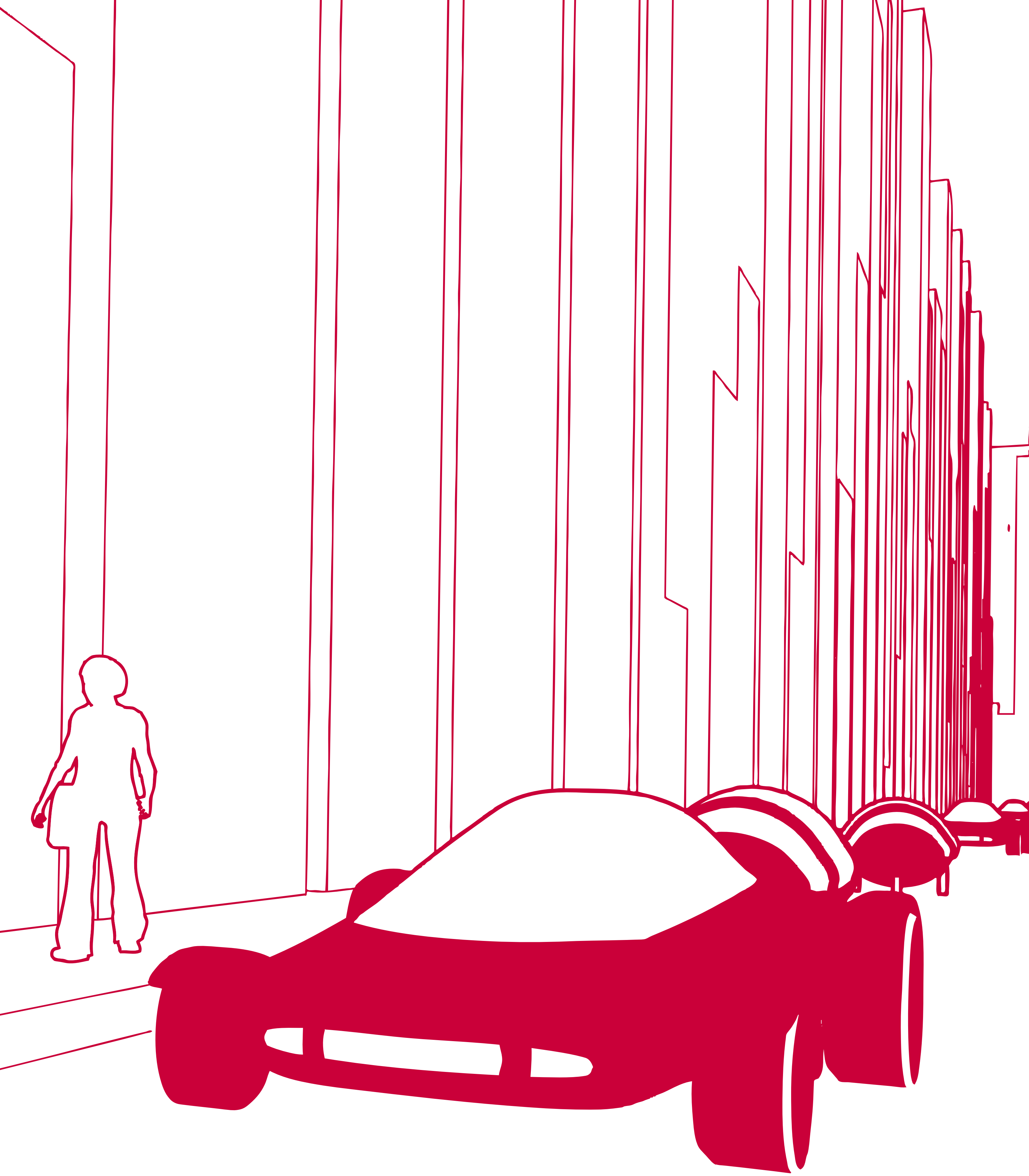
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Krebs Wirtschaftsprüfer

Fürst Wirtschaftsprüfer

Appendix





The year 2010

Overview

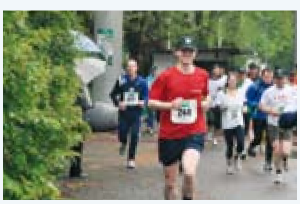
IO-Link™ transceiver

Semiconductor released for series production

Feb. Series production of the IO-Link transceiver component E981.10 is started. IO-Link is a low-cost communication system in the industrial sector for point-to-point connection of sensors and actuators with remote IOs. The E981.10 makes the continuous transmission of process data as well as parameter and diagnostic data possible down to the lowest level of automation.

2nd Dortmund Corporate Challenge

First prize for men's team



May The ELMOS team won the men's competition at the 2nd Dortmund Corporate Challenge. Finish times of the three best runners were added for a team result. The fastest ELMOS runners thus outpaced all the other 70 companies. One Euro of the starting fee was donated to charity, supporting the Dortmund district of the German Society for the Protection of Children.

Human resources management distinction

New Deals Award 2010

June ELMOS was given the New Deals Award for its outstanding human resources policy. The jury assessed the overall concept of HR management in the year of crisis 2009 as excellent, particularly the measures taken in the context of short-time work and the continued provision of trainee positions. The recipients of the awards were selected by the jury of the New Deals initiators, comprising chambers of industry and commerce, employer associations, unions, the Dortmund Business Development Agency, and the Employment Agency.

Product catalog

New product catalog released

Oct. The new ELMOS product catalog has been released. On 24 pages altogether 63 products are presented. 18 semiconductors have been newly included. These new ASSPs are just the beginning of the new products that will essentially determine our growth over the next years.

Website relaunch

Nothing is more constant than change

Nov. This saying particularly applies for the Internet. Design and layout trends are hailed and dismissed again. However, some of them remain and define the still young medium Internet. We have studied the trends of the last years, analyzed them, and adopted them for our website. In November, the fourth version of **www.elmos.de** went online.

electronica 2010, Munich

Products for a clean environment

Nov. ELMOS presents products for a clean environment on the 24th globally leading trade show, the electronica in Munich. Focal points are efficient networks (partial CAN) and precise motor drive systems as well as power supply components. As another highlight, ELMOS displayed the latest developments for devices with touchscreen operation concepts – including approach and gesture detection sensorics (HALIOS®). The reception was very good throughout all product areas.

Partial network operation in the automobile

Partial CAN lowers CO_2 emissions

Nov. With the E520.13, ELMOS introduces the first IC worldwide to realize safe CAN partial network operation. The partial network mode makes it possible to individually activate such control devices whose functions are not permanently required. If for instance ten control devices of an automobile are equipped for such partial network operation, CO_2 emissions can be reduced by approx. 0.5 grams per kilometer. One application example is the device that controls the power seat.

Sale of the special packaging business

Focus on the core business

Dec. ELMOS sells the special packaging business of its subsidiary ELMOS Advanced Packaging B.V., Nijmegen, The Netherlands, to an investment company owned by Dutch financial investor 'Nimbus Hands-On Investors'. Through this sale, ELMOS strengthens its core business, namely the development, manufacture and distribution of system solutions based on semiconductors and sensors.

The year 2010

25+1-year anniversary

(from left:) Dr. Klaus Weyer, Nicolaus Graf von Luckner, Prof. Dr. Günter Zimmer, Dr. Anton Mindl, Jürgen Höllisch, Hannelore Kraft (Minister-President of NRW), Reinhard Senf, Dr. Burkhard Dreher

With verve to the future

Electronics for a better environment

(from left:) Udo Mager (Managing Director of the Dortmund Business Development Agency), Dr. Anton Mindl, Guido Baranowski (Managing Director of the Dortmund Technology Center)

Ullrich Sierau (Mayor of the City of Dortmund)

September 2010: ELMOS celebrated its 25+1-year anniversary. Customers, friends and neighbors took a look back before looking ahead: to a future with more electronics in automobiles, industrial and consumer goods. "The next years will be defined by three trends: lower energy consumption, more comfort, and more safety. From the beginning we have been a constituent of this progress. Now and in the future," said CEO Dr. Anton Mindl. "When we founded ELMOS, we never dreamed of this kind of growth. We considered even a staff of 70 a bold forecast. Today ELMOS has some 1,000 employees and 14 locations worldwide," added Dr. Klaus Weyer and Prof. Dr. Günter Zimmer, cofounders of ELMOS.

Our anniversary was kicked off with a two-day customer workshop featuring top-notch speakers from, among other companies, Audi, BMW, Daimler, Ford, Opel, and VW, as well as from supply and infrastructure enterprises. Among the guests were some giants of the industry, e.g. ***Dr. Karl-Thomas Neumann,*** President & CEO Volkswagen Group China. The speeches followed the slogan "Mobility 2020 and beyond". Focal topics were future electronic drivetrains, alternative power supply from the desert (Desertec), individual mobility concepts, including those on two wheels, mobility suited to senior citizens, and the operation concepts and not least the lighting and visibility technology of the future.

Our guests: Politicians, friends, and the press

We were happy to welcome the Minister-President of the State of North Rhine-Westphalia, ***Hannelore Kraft,*** as our guest of honor: "We can learn from the corporate history of ELMOS that the intelligent interaction of colleges and universities, economy, and politics creates the general conditions for the formation of innovative companies. If we want to be among the technological and economic global leaders, we need innovation, we need new insights, marketable products, intelligent processes, and expedient services."

Official speeches were given by ***Udo Mager,*** Managing Director of the Dortmund Business Development Agency, and ***Guido Baranowski,*** Managing Director of the Dortmund Technology Center (TZDO). They explained the regional importance of ELMOS as a high-tech company and the position ELMOS has as the first and largest company located at the TZDO.

The Mayor of the City of Dortmund, ***Ullrich Sierau,*** stressed in his speech the important role ELMOS had in the successful structural change and addressed the idea and the evolution of the "new Dortmund": "That ELMOS celebrates 25+1 year makes me confident that ELMOS will also celebrate 50+2 years."

Glossary

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

ASSEMBLY The processing of components on a wafer toward a chip in a protective package.

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

BACKEND MANUFACTURE The backend manufacture is the part of the semiconductor manufacturing process that is carried out after the wafer has left the clean room. The inspection of the chips on the wafer, assembly, burn-in, the functional testing of the assembled components, and packing (tape&reel) are all part of this process.

BUS A communication system that allows the exchange of information between several participants on an electronic or optical basis. Among the standards used in automobiles are the following: LIN, CAN, MOST, and FlexRay™.

CHIP An electronic circuit which contains electric functions realized in semiconductor material.

CLEAN ROOM A sealed-off part of a building where humidity, temperature and dust particle contamination are monitored and maintained 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.

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

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

FOUNDRY A semiconductor manufacturing enterprise whose primary business objective is the production and sale of processed silicon wafers. Development and distribution of the wafer-based products are provided by the foundry's customers.

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

HALIOS® HALIOS® **(H**igh **A**mbient **L**ight **I**ndependent **O**ptical **S**ystem) technology is distinguished by the detection of three-dimensional motion. Optical outside influences such as strong incidence of light do not affect the performance. The electronic compensation of external light influence is the technically deciding function.

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

IO-LINK IO-Link is a new open communication standard below field bus level realized by point-to-point connection between sensors/actuators and a control system. IO-Link was developed for use in industrial automation.

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

MEMS **M**icro-**E**lectro-**M**echanical **S**ystems (MEMS) are in particular sensors based on semiconductor technologies. They can detect pressure, acceleration, or tilt, among other quantities.

MICROPROCESSOR/MICROCONTROLLER An integrated, complex electronic unit programmed to control and operate 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. Among other advantages, a microsystem requires very little constructed space due to its high integration level.

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

MOS **M**etal-**O**xide-**S**emiconductor (MOS) describes the set-up of the central control device for the field effect in a particular category of semiconductor transistors.

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

PARTIAL CAN/PARTIAL NETWORK OPERATION Partial CAN **(C**ontroller **A**rea **N**etwork) is a new option for communication with the CAN Bus: Control devices whose function is not needed permanently can be "put to sleep" and reactivated quickly. In "sleep" mode these control devices (e.g. for power seats) have a significantly reduced power input. This option is also referred to as partial network operation.

PPM **P**arts **P**er **M**illion (one in a million).

PRESSURE SENSOR The pressure sensor can detect low or high pressure, depending on the application, and transmit the data to 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).

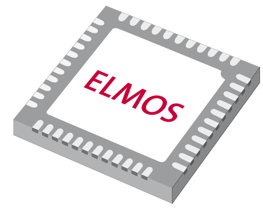
SEMICONDUCTOR A solid material (e.g. silicon or germanium) whose electrical conductivity can be changed toward positive and/or negative currents by deliberate doping (mostly with phosphor or boron).

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 electric signal.

SILICON The most commonly applied semiconductor material, used for the production of roughly 95% of all chips.

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-inch), 200 (8-inch), and 300 mm (12-inch).

Informative material | Financial calendar 2011



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

-> Annual report
-> Interim reports/Quarterly reports
-> Our company
(image brochure/company profile)
-> Code of conduct
-> Product catalog

All listed documents can also be found on our internet site at **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.**

This annual report is also available in German.

Financial calendar 2011

Annual press conference/Analysts' conference (Financial results 2010)	March 17, 2011
Quarterly results Q1/2011	May 10, 2011
Annual General Meeting in Dortmund	May 17, 2011
Quarterly results Q2/2011	August 9, 2011
Quarterly results Q3/2011	November 3, 2011
Analysts' conference at German Equity Forum in Frankfurt	November 2011

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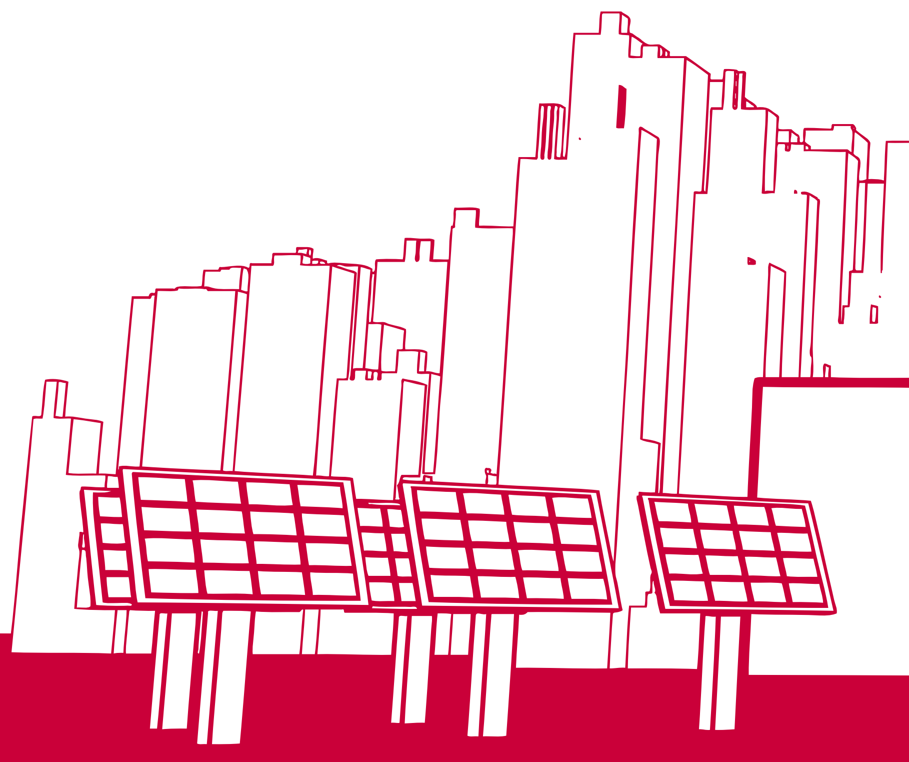

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