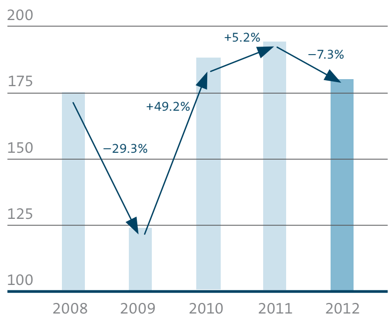
elmos

360° Elmos

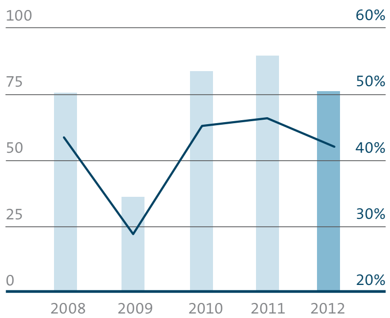
Annual Report 2012

Five-year Performance Elmos Group

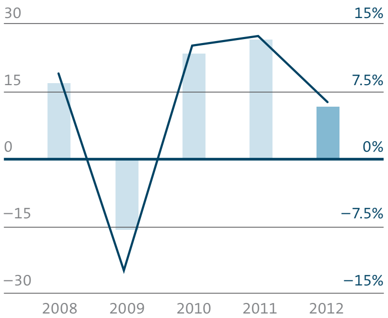
Sales in million Euro
and growth rate



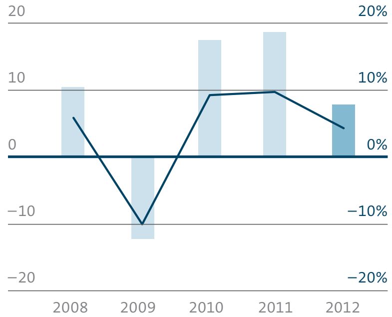
Gross profit in million Euro
and gross margin



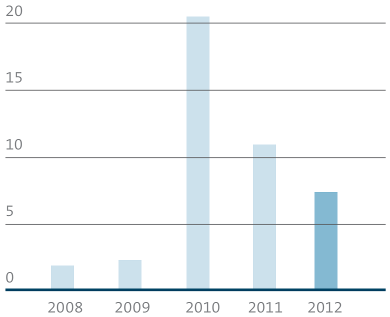
EBIT in million Euro
and EBIT margin



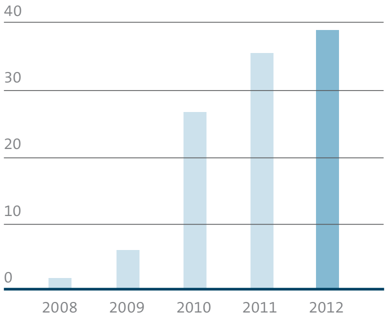
Net income in million Euro
and net income margin



Adjusted free cash flow[2]
in million Euro



Net cash
in million Euro



Five-year Performance Elmos Group (IFRS)

in million Euro unless otherwise indicated	2008	2009	2010	2011	2012
Sales	175.1	123.8	184.7	194.3	180.1
Sales growth	–0.6%	–29.3%	49.2%	5.2%	–7.3%
Gross profit	75.6	35.9	83.8	89.6	76.1
Gross margin	43.2%	29.0%	45.3%	46.1%	42.2%
Research and development expenses	31.6	25.3	29.6	32.5	35.0
Research and development expenses in % of sales	18.1%	20.4%	16.0%	16.7%	19.4%
EBIT	16.5	–15.8	23.1	26.6	11.4
EBIT in % of sales	9.4%	–12.8%	12.5%	13.7%	6.3%
Earnings before taxes	14.7	–17.3	21.7	25.8	9.6
Earnings before taxes in % of sales	8.4%	–14.0%	11.7%	13.3%	5.3%
Net income/(Net loss) attributable to owners of the parent	10.6	–12.2	17.8	18.9	8.0
Net income margin	6.1%	–9.9%	9.6%	9.7%	4.4%
Earnings per share (basic) in Euro	0.55	–0.63	0.92	0.98	0.41
Total assets	245.3	221.7	249.2	269.9	272.2
Shareholders' equity	166.4	154.4	172.3	187.9	190.1
Equity ratio	67.9%	69.6%	69.1%	69.6%	69.8%
Financial liabilities	40.6	40.8	40.5	40.7	42.9
Cash, cash equivalents and marketable securities	42.5	46.8	67.3	76.5	82.2
Net cash	1.8	6.0	26.8	35.7	39.3
Cash flow from operating activities	22.5	9.4	33.0	33.2	20.3
Capital expenditures for intangible assets and property, plant and equipment	20.8	7.4	12.4	19.4	13.1
Capital expenditures in % of sales	11.9%	6.0%	6.7%	10.0%	7.3%
Cash flow from investing activities	–12.2	–5.5	–20.5	–28.7	–20.7
Free cash flow[1]	10.3	3.9	12.5	4.4	–0.4
Adjusted free cash flow[2]	1.7	2.1	20.2	10.7	7.3
Dividend per share in Euro	0.00	0.00	0.20	0.25	0.25[3]
Employees on annual average	1,117	1,038	990	988	1,034

[1] Cash flow from operating activities less cash flow from investing activities
[2] Cash flow from operating activities less capital expenditures for intangible assets and property, plant and equipment, less payments for investments, plus disposal of investments
[3] Proposal to the Annual General Meeting in May 2013

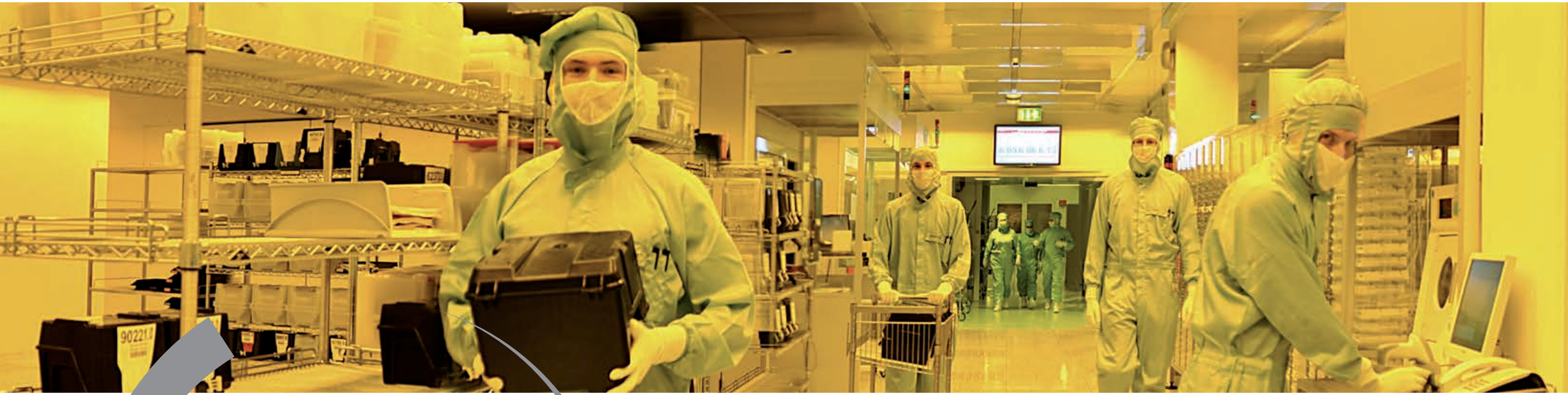
Due to calculation processes, tables and references may produce rounding differences from the mathematically exact values (monetary units, percentage statements, etc.).

360° Content

Elmos has a **360° perspective.** We want to see the big picture, not just pieces of a puzzle. A one-dimensional view produces distorted images where the all-around view helps to make the right decisions: For products, in production, for the environment, with respect to locations and quality, and on the path to success. Here you can see the **360° perspective** at work.

360° View

100 products, 1,000 potential applications, 550,000 chips on their way to customers every day. To keep a full **360° view** and not lose track requires **100 percent** process management from all **1,000 employees** in sales, in development, in planning, in production, etc.



360° Production

24 hours, 7 days, 52 weeks, 0 seconds standstill. Our Elmos production on **8,300 square meters** keeps working towards the **1 goal:** quality. **1 minor fact** as an afterthought: You recognize your colleagues' smiles even behind their clean room hoods.


OK-Bauteile
nach Test
Bauteile
noch zu testen
ADVANTEST
SZ 114
piranha

360° Quality

+150°C are not a problem, and neither are **–40°C.** Our **200,000,000 manufactured chips** a year are tough performers. That being said, our targeted **error rate is below 0.0001%.** The claim shared by the more than **1,000 Elmos employees** is: We want you to drive your car safely and comfortably.

CEO letter

Ladies and gentlemen,

it became apparent early on that 2012 would be a difficult year. As supplier to the suppliers, Elmos is right at the beginning of the supply chain. This means that we experience the weakness of our automotive customers even months in advance. And that is what happened in 2012. Before the volume and eventually also the premium manufacturers announced first problems, we saw them materialize in our receipt of orders. Even though we managed to record positive growth rates in the United States and in Asia, Europe – still by far the most important sales market for Elmos – continued its weak performance. Too tight was the grip of the euro crisis, the U.S. debit situation and other negative news on the world economy. Even today, at the beginning of 2013, volatility is the trend in the markets.

And yet I am confident when I look at the future. Why? Elmos has no tunnel vision. We commit ourselves to today's and tomorrow's topics with the full 360° perspective. Although 2012 was a disappointing year with respect to the performance of sales and earnings, Elmos has changed, improved and newly created many small and large pieces of the Company. Thus we have strengthened our foundation for our growth in the future. What follows now is a small selection of the key factors of success:

-> **Record in new orders:** Elmos has achieved a record in terms of the number as well as the volume of newly acquired projects. We surpassed our internal target significantly. Our customers are planning the future together with us and rely on us as a specialist for their next generations of applications. As far as the so-called design wins are concerned, we also managed to excel particularly with the customer-independently developed solutions, the ASSPs. Our customers appreciate our attractive package including up-to-date 8-inch manufacturing site, state-of-the-art 0.35µm and 0.18µm process families, and comprehensive application support.

-> **World market leader:** Elmos has optimized and advanced those products we supply as global market leaders, such as ultrasonic parking assistance, pressure sensors for tire pressure monitoring systems, intelligent sensor systems for airbags, and highly integrated actuators in air conditioning systems. Elmos does not rest on its world market leader positions but consolidates them with new product generations. These new generations must stand their ground on the frontlines also in the discipline of energy saving. For instance in the energy management of control units and their network connections, electronically controlled fuel injection, or the control of the myriad pumps and actuators in the powertrain.

-> **Innovations:** Several new ramp-ups were launched in the second half-year 2012. These will represent a growing share of the overall business of the next few years. One example for innovative solutions is gesture detection. Since the fall of 2012, an Elmos chip with a proximity function is placed in the center console of the new VW Golf and also in several car models of General Motors. This function has received highly positive feedback already by the press and in TV features. The automobile club ADAC wrote it was "child's play to understand, child's play to operate". One of the reasons for the good response is that our solution is unique worldwide: It is always active, consumes very little power, and works in bright daylight just as well as in the dark.

- **Design competence:** We have anchored our cooperation with two partners with whom we have worked together successfully for a long time now even more deeply in terms of corporate law. MAZ Brandenburg in Berlin is an expert for mixed-signal designs with large digital components and active especially in the industrial and medical technology business. We now have the majority of the voting rights. The design house GED in Frankfurt/Oder has been a 100% Elmos subsidiary since the beginning of the year 2013 and thus makes even more efficient workflows and designs possible. But we have further strengthened our design and application competence outside Germany as well. Thanks to our committed staff, our locations in Asia provide the best possible application support. Our customers in the Asian region have come to appreciate these services. This is the key to our success: With our innovative products we spark the interest of our customers, and based on our on-location support the customer can put our semiconductors to use quickly and efficiently.

This shows: 2012 was also a good year for Elmos. Despite economic disappointments, we maintained our perspective, did not lose track of our goal and moved in the right direction.

The 2012 financials reflect the consequences of the car sales crisis in Europe. Sales dropped 7.3% to 180.1 million Euro, the EBIT was reduced by 15.2 million Euro to 11.4 million Euro or rather an EBIT margin of 6.3%. Therefore it is even more remarkable that we managed to generate a positive adjusted free cash flow in the amount of 7.3 million Euro in 2012. Even though we are not satisfied with the performance of earnings in 2012 and today's view of 2013 does not lead us to perform somersaults for now, we are convinced of the Company's positive mid-term development. Therefore Supervisory Board and Management Board propose to the Annual General Meeting the distribution of a dividend once again in the amount of 25 Cent per share.

How will the year 2013 turn out? Will it become difficult? Is the upswing in sight already? Although 2013 is starting rather weakly, we anticipate significant growth stimulation to begin in the second quarter of 2013. Elmos has the right products for future growth. For 2013 we expect a growth in sales in the mid single-digit percentage range. The EBIT margin will be above the level of 2012 (6.3%). The adjusted free cash flow is expected to be positive. Capital expenditures are scheduled not to exceed 15% of sales.

There is one thing you can safely keep relying on in the future: Elmos does not have a one-dimensional view on the next quarter but a perspective on the long-term strategic orientation and the financial stability it requires.

On behalf of the entire Management Board I would like to give my sincere thanks to our customers and partners, our shareholders, and our Supervisory Board – and: in particular to our employees.

Dr. Anton Mindl

CEO of Elmos Semiconductor AG




360° Management

The members of the Management Board, from left to right:

Dr. Anton Mindl
CEO – Chief Executive Officer
Graduate physicist | born 1957 |
Management Board member since 2005 |
appointed until 2015

Key areas of responsibility
Strategy, quality, human resources development, corporate governance, micromechanics

Nicolaus Graf von Luckner
CFO – Chief Financial Officer
Graduate economist | born 1949 |
Management Board member since 2006 |
appointed until 2014

Key areas of responsibility
Finance, controlling, investor relations, administration, purchasing, information technology

Reinhard Senf
Management Board member for Production
Graduate engineer | born 1951 |
Management Board member since 2001 |
appointed until 2016

Key areas of responsibility
Production, foundry, assembly, logistics, product engineering

Dr. Peter Geiselhart
Management Board member for Development and Sales
Graduate physicist | born 1957 |
Management Board member since 2012 |
appointed until 2014

Key areas of responsibility
Sales, design, product lines, technology & innovation, optoelectronics

Supervisory Board Report

Prof. Dr. Günter Zimmer
Graduate physicist | Duisburg
Chairman of the Supervisory Board

Dear shareholders,

the Supervisory Board diligently attended to its duties and responsibilities imposed by law and the Articles of Incorporation in fiscal year 2012. 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 individually. 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. Outside the framework of Supervisory Board meetings, the chairman and other members of the Supervisory Board were also informed about essential business transactions by the CEO. Conflicting interests of Management Board or Supervisory Board members subject to mandatory disclosure to the Supervisory Board or the General Meeting did not occur. There were four meetings altogether in fiscal year 2012, namely on March 1, 2012, May 8, 2012, September 6, 2012, and December 14, 2012. In a meeting held on March 5, 2013, the Supervisory Board concerned itself primarily with the 2012 financial statements and consolidated financial statements; the auditor was present for a part of this session. During the sessions, the Supervisory Board informed itself in detail about the development of the fiscal year ended December 31, 2012, the Company's situation, and current business policy decisions on the basis of written and oral reports given by the Management Board. Based on these comprehensive explanations, the Supervisory Board passed the required resolutions. If necessary, resolutions were jointly passed by Supervisory Board and Management Board. The Supervisory Board regularly discussed the current performance of the Company with respect to sales, earnings and liquidity in its sessions. In the individual meetings, the situation and structure of the subsidiaries as well as the Group's strategic development beyond the year under review were dealt with in detail. Key issues were short-time work, temporarily implemented due to the current situation, and further cost cutting measures. In addition to that, the strategic development of subsidiary GED and the locations in Asia as well as the acquisition of the majority of the voting rights in MAZ Brandenburg were discussed. The performance of subsidiary SMI and the subsidiary's investment in solar start-up TetraSun were other topics of debate.

The Supervisory Board also concerned itself with the reorganization of sales division and the Company's business lines as well as changes in the realms of production and technology. The reorganization was initiated in order to focus the core competencies within the Company more effectively. Further central issues were the share buyback program, the 2012 stock option plan for employees and Management Board members, the risk management system, the status quo of the compliance program, the strategic process, and the Company's compliance with the recommendations and suggestions of the German Corporate Governance Code. Furthermore, the Supervisory Board discussed the agenda of the upcoming Annual General Meeting to be held on May 24, 2013 in Dortmund. It also debated the appointment of the auditor and supervised auditor independence. Moreover, the Supervisory Board examined the efficiency of its own work and evaluated it.

The chairman, Prof. Dr. Zimmer, was not able to attend the Supervisory Board meeting of September 6, 2012. This session was chaired by his deputy, Dr. Dreher. Save for this exception, all meetings of the Supervisory Board were attended by all of its members.

The Supervisory Board does not set up committees.

Audit of financial statements and consolidated financial statements Consulting the certified accountants of Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Dortmund, the Supervisory Board concerned itself in its meeting of March 5, 2013 with the audit of the financial statements and consolidated financial statements for the fiscal year ended December 31, 2012. According to the resolution of the Annual General Meeting of May 8, 2012 and the ensuing commission given by the Supervisory Board to the auditor, the financial statements prepared in accordance with HGB provisions (German Commercial Code) for the fiscal year ended December 31, 2012 and the management report of Elmos Semiconductor AG were audited by Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Dortmund. The auditor issued an unqualified audit opinion. The consolidated financial statements of Elmos Semiconductor AG were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU and completed with the statements required under Section 315 a (1) HGB. The consolidated financial statements according to IFRS and the group management report also received an unqualified audit opinion. 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 meeting held on March 5, 2013, the statements and reports were also explained by the Management Board. The certified accountants who had signed the audit reports also reported on the results of their audit in this session. After its own examination of financial statements and management report of Elmos Semiconductor AG, consolidated financial statements and group management report of the Elmos Group, and the Management Board's proposal for the appropriation of profits, the Supervisory Board approved the auditor's findings based on the audit and approved the financial statements of Elmos Semiconductor AG and the consolidated financial statements of the Elmos Group. The financial statements are thus adopted.

Supervisory Board and Management Board propose to the Annual General Meeting the resolution to pay a dividend of 0.25 Euro per share for fiscal year 2012 out of retained earnings of 69.6 million Euro (according to German Commercial Code) 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. The Supervisory Board informs itself regularly about the new standards of corporate governance. In September 2012, Management Board and Supervisory Board jointly released an updated declaration pursuant to Section 161 AktG (Stock Corporation Act) on compliance with the recommendations of the German Corporate Governance Code in the version of May 15, 2012. It can be found in this Annual Report on page 17. This declaration of compliance and all previous ones have been made permanently accessible to the shareholders on the Company's website. The joint Corporate Governance Report prepared by Management Board and Supervisory Board is also part of this Annual Report, starting on page 15.

Composition of Supervisory Board and Management Board
There were no changes on the Supervisory Board in fiscal year 2012.

Management Board member Jürgen Höllisch, formerly responsible for Development and Sales, left the Company as of February 29, 2012. Dr. Peter Geiselhart was appointed new Management Board member for Development and Sales effective January 1, 2012.

More information about the members of the Management Board can be found on pages 10-11 of this Annual Report. Information on the members of the Supervisory Board is listed in the column on the right.

The Supervisory Board thanks all employees and all members of the Management Board for their hard work and their contribution to the success in fiscal year 2012.

Dortmund, March 5, 2013

On behalf of the Supervisory Board
Prof. Dr. Günter Zimmer
Chairman of the Supervisory Board

Supervisory Board

Prof. Dr. Günter Zimmer, *chairman*
Graduate physicist | Duisburg

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

Dr. Klaus Egger
Graduate engineer | Steyr-Gleink, Austria

Thomas Lehner
Graduate engineer | Dortmund

Sven-Olaf Schellenberg
Graduate physicist | Dortmund

Dr. Klaus Weyer
Graduate physicist | Penzberg

Corporate governance report

including the statement on corporate governance

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

Implementation of the German Corporate Governance Code
For the Management Board and the Supervisory Board of Elmos Semiconductor AG, corporate governance means the implementation 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 2012 with the provisions of the German Corporate Governance Code in its last amended version of May 15, 2012. In September 2012, the Boards jointly released the declaration of compliance in accordance with Section 161 AktG once again. Apart from the four reported deviations, all recommendations of the German Corporate Governance Code are complied with. All previously released declarations of compliance have been made permanently accessible on the Elmos website.

Compliance One of the essential tasks of the Management Board is the control and monitoring of compliance in the Group. Compliance stands for the observance of applicable law as well as of all rules and guidelines that exist within a company. The compliance program at Elmos provides the organizational foundations for this. The essential principles applied by Elmos were put down in a Code of Conduct in 2011. The Code primarily includes guidance on the interaction with business partners and colleagues, dealing with information and data, and avoiding conflicting interests, and it also addresses the issues workplace safety and environmental protection. All employees were given copies of the Code of Conduct for their information. Training courses have been held for particularly sensitive areas. The Code of Conduct is a binding component of the employment contracts of all employees who joined Elmos in 2011 or later – and this also applies for all future employment contracts. The Code is available on the Elmos website and is effective throughout the Group. 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 share a commitment to responsible corporate governance. Their highest goal is to safeguard the Company's existence and to increase the shareholder value. The Management Board currently has four members. At the beginning of the year 2012, Dr. Peter Geiselhart joined the Management Board. He assumed responsibility for Development and Sales, taking over from Jürgen Höllisch, who left the Company as of February 29, 2012. For an interim period from January 1 to February 29, 2012, the Management Board thus had five members. The members of the Management Board are responsible for their respective key areas (overview on page 11); 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 resolutions of the General Meeting of shareholders. The Management Board represents the company to the outside world. The Board is responsible for the management of the Group, the definition and monitoring of the Group's strategic orientation and corporate targets, and the Group's 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 supervises the Management Board, appoints its members, and advises them with respect to the Company's management. Upon the nomination of candidates for the Management Board, the Supervisory Board examines the eligibility of women and men equally. Finding the right person for the position according to his or her qualification for the benefit of the Company remains the top priority.

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 12. The chairman gives a report to the shareholders on the Supervisory Board's work over the past fiscal year at each Annual General Meeting.

The Supervisory Board has six members, elected for five years in accordance with the Articles of Incorporation. Pursuant to the provisions of the German One-Third Participation Act (Drittelbeteiligungsgesetz), the Supervisory Board consists of four shareholder representatives and two employees' representatives. The representatives of the shareholders are elected by the Annual General Meeting, the employees' representatives are elected by the staff. The most recent elections were held in 2011 so that the Supervisory Board is elected until the 2016 Annual General Meeting. The Supervisory Board does not set up committees.

Goals of the Supervisory Board with respect to its composition Based on the requirements defined by the German Corporate Governance Code, the Supervisory Board established goals and principles with respect to the board's composition in the year 2010. Among them are international experience, technical and entrepreneurial expertise, strategic vision, knowledge of the Company, industry specific know-how, and experience with accounting and internal control processes. Diversity and the avoidance of conflicting interests are other goals. The Supervisory Board has also set itself the target that at least one woman shall be represented on the Supervisory Board in the future. Moreover, it has defined an age limit of 72 years for its members at the time of election. In its meeting held on September 6, 2012, the Supervisory Board confirmed these goals and principles.

During the same meeting, the Supervisory Board determined the target as recommended by the German Corporate Governance Code in the version of May 15, 2012 for the number of indepedent members, not considering employees' representatives. Of the four shareholders' representatives on the Supervisory Board, at least one member shall be independent for the purpose of No. 5.4.2 of the German Corporate Governance Code.

The goals and principles as described above – 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 and will also be considered for future nominations. At the last election, the pursued participation of women could not be realized yet; however, it remains the stated goal to consider women for these positions as well. The election proposals made by the Supervisory Board for the election of Supervisory Board members will primarily be oriented toward the Company's benefit while considering these goals.

The composition of the Supervisory Board is described on page 14 of this Annual Report.

Shareholders and General Meeting Shareholders make use of their rights at the Annual General Meeting. Prior to the meeting, they receive the agenda, information regarding participation, and upon request the Annual Report.

All the relevant documents relating to the upcoming and the past Annual General Meetings as well as further information on participation in 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 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 General Meeting, shareholder presence and voting results will be announced on the Internet. The next Annual General Meeting will be held on May 24, 2013 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 financial reports are available on the website. The CEO and the CFO regularly provide information on the current position of the Company to analysts and investors within the framework of road shows and conferences. The investor relations team of Elmos Semiconductor AG is also available for any questions the shareholders may have.

Declaration of compliance with the German 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 latest version of May 15, 2012, and will also comply with them in the future, 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.

-> The employment contracts for the Management Board do not provide for severance payment caps in the case of premature termination of a contract (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 the interests of the Management Board members’ commitment to the company.

-> Remuneration of the Supervisory Board members is disclosed in the corporate governance report with reference to its components but not individualized (GCGC No. 5.4.6 sentence 6). Compensation 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 the reports’ publication for the purpose of expeditious reporting (GCGC No. 7.1.2).

II. Statements with respect to the past

The GCGC 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 has been complied with since the release of the declaration of compliance in September 2011 with the exceptions mentioned above under I.“

Dortmund, September 2012

Prof. Dr. Günter Zimmer
Chairman of the Supervisory Board

Dr. Anton Mindl
Chief Executive Officer

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 the risk management system implemented at Elmos. 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 once again 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 for fiscal year 2012. This declaration furnished no doubts about auditor independence. Compliant with No. 7.2.3 of the German Corporate Governance Code, the Supervisory Board arranged for the auditor to give account without delay of any 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. 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 stock price is a central criterion for our shareholders to determine the return on an investment in the Company. The link to the stock price is therefore the beneficiaries' incentive within the framework of the 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. Therefore 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 and stock options as well as 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 markets. By resolution of the Annual General Meeting of May 4, 2010, the Company is exempt from its legal obligation for individualized disclosure of Management Board remuneration for the period of five years.

Management Board remuneration comprises fixed components and variable incentive components. In fiscal year 2012, the members of the Management Board received a total fixed remuneration of 1,637 thousand Euro (2011: 1,587 thousand Euro) and variable remuneration of 815 thousand Euro (2011: 1,051 thousand Euro). The variable incentive components are linked to the Group's current earnings before taxes on the one hand and personal, individualized targets, agreed on annually with the Supervisory Board, on the other hand.

In the year 2012, 80,000 stock options (2011: 50,000 stock options) were issued altogether to the members of the Management Board. The total time value of these options came to 114 thousand Euro at the time they were assigned (2011: 88 thousand Euro). There are indirect pension commitments to members of the Management Board of Elmos for which no accruals are required due to risk coverage provided by completely congruent pension plan reinsurance. In the year 2012, contributions to these pension plans amounted to 516 thousand Euro (2011: 520 thousand Euro). They are included in the fixed components of the remuneration.

Remuneration of former Management Board members or their surviving dependants amounted to 295 thousand Euro in fiscal year 2012 (2011: 268 thousand Euro). In addition, insurance premiums of 248 thousand Euro were paid for this group of beneficiaries (2011: 271 thousand Euro). Pension provisions for former Management Board members or their surviving dependants came to 2,552 thousand Euro as of December 31, 2012 (2011: 2,502 thousand Euro). After setting off pension provisions against the time value of pension plan reinsurance, 265 thousand Euro (2011: 364 thousand Euro) remain as pension provisions and similar obligations altogether recognized for the Group.

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 defined by Section 9 of the Articles of Incorporation. The Supervisory Board members receive fixed and incentive payments in addition to the reimbursement of their expenses. The incentive remuneration is linked to the dividend and thus oriented toward the Company's long-term and sustained success.

The last Annual General Meeting held on May 8, 2012 determined the remuneration of the Supervisory Board as follows: 25 percent of the fixed remuneration and 50 percent of the variable remuneration are paid in shares of the Company. The Supervisory Board members are not granted Elmos stock options for their positions on the Board. The employees' representatives receive stock options only in the context of their employment with Elmos.

Compliant with the recommendation of the German Corporate Governance Code for Supervisory Board remuneration in consideration of chairmanship and vice chairmanship, the chairman receives twice the amount of the regular fixed and variable payments and the vice chairman receives one and a half times of said amount. 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 consulting and mediation services.

The fixed remuneration paid to members of the Supervisory Board in fiscal year 2012 amounted to the total of 69 thousand Euro (2011: 59 thousand Euro). This amount includes expenses and disbursements. Payments of variable remuneration amounted to 127 thousand Euro (2011: 89 thousand Euro). The Company paid 29 thousand Euro (2011: 23 thousand Euro) to members of the Supervisory Board for consulting and other services.

Directors' dealings Individuals who hold executive positions with the issuer of stock and persons closely related to such individuals are obligated by law to disclose the purchase and sale of Elmos stock in accordance with Section 15a WpHG (Securities Trading Act). All such directors' dealings are announced immediately upon notification Europe-wide and made public on the Company's website. For detailed information about directors' dealings, please refer to the notes to consolidated financial statements (note 38) in this Annual Report.

Holdings of stock and stock options The disclosures of the Company's stock and stock 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. In accordance with No. 6.6 GCGC, the members of the Supervisory Board had combined direct or indirect holdings of approx. 40.5% of the stock issued by the Company and the members of the Management Board had combined direct or indirect holdings of 1.1% (as of December 31, 2012).

Integral labor, social and ethical standards

The “business run” events with a strong Elmos presence have become part of the corporate culture for many employees.

The employees represent a crucial asset and a deciding competitive edge for Elmos. For this reason it is important to Elmos that its employees pursue their assignments with commitment and that their initiative and creativity are promoted. By providing routine **expert training courses** Elmos safeguards work efficiency and a **continuous advancement** of its employees. One example for this is the retraining measure for industrial electricians/ industrial engineering (“Industrieelektriker Betriebstechnik”): Since the end of 2010 this part-time training measure has been organized in cooperation with TÜV Nord Bildung and the Dortmund Chamber of Commerce. 19 Elmos employees from production completed their retraining successfully in the summer of 2012.

Elmos invests just as much commitment and responsibility in **youth and training promotion.** A case in point, Elmos was recognized for best performance in 2012 among the companies that offer microtechnologist training in North Rhine-Westphalia (NRW). The 16 chambers of commerce in NRW awarded this prize to Elmos in the fall of 2012.

As a responsible employer, Elmos is aware of the fact that the work environment and personal aspects determine the employees’ commitment. Therefore Elmos cares for its employees’ **well-being** far beyond the necessary measure of occupational safety. The in-house gym belongs in this context; some 200 employees are registered members. Many of them use training programs such as aerobics, yoga and qigong as well as massages regularly. In addition to that, Elmos organizes the participation of its employees in various soccer tournaments and “business run” events. In the year 2012 the Elmos men’s team won the Dortmund AOK Business Run for the third time in a row, and Elmos teams also took part at the B2Run and the 1st Phoenix Half Marathon in Dortmund with great success.

The in-house **health team** is another component of this strategy. Apart from numerous events and examinations such as the annual voluntary flu shot, vein measurement appointments and mole examinations, Elmos gave its employees at the Dortmund location the opportunity to donate blood during working hours in the year 2012. An event within the framework of our **social responsibility.** As our partner we chose the Institute for Transfusion Medicine at the Municipal Medical Center responsible for the regional supply of hospitals in and around Dortmund. The event benefited the Medical Center in two respects: In the form of the blood donation itself and the reimbursement of expenses which was donated right back by Elmos. From this money the Institute set up a play corner at the children's cancer ward.

We have framed the principles of conduct toward employees in our **Code of Conduct.** This Code includes rules in respect of impeccable behavior toward the Company, one's colleagues and third parties and is binding for all employees. The Code of Conduct is available for download on our website (www.elmos.com/english/about-us/responsibility).

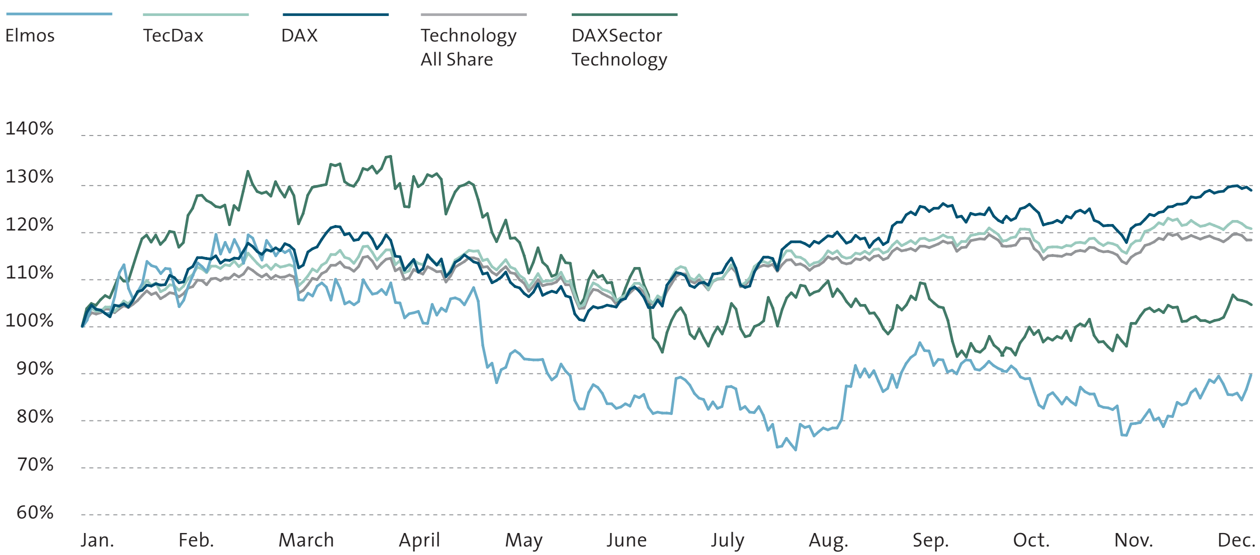
Environmental protection is one of our guiding corporate principles. We give account of our commitment to the responsible management of resources in our eco report. The eco report (in German only) is available for download on our website (www.elmos.com/english/about-us/responsibility). In addition to the existing certification in accordance with ISO 14001 (eco management), the energy management system of Elmos was certified in accordance with DIN EN ISO 50001 in the year 2012. The paramount goal is to save energy. Components of the energy management system are energy policy, the definition of energy targets, the identification of energy savings potential, the definition of measures, and supervision and monitoring of energy management. During this process, all employees were trained and among other things advised of conscious energy use because only if our employees are well-informed and above all motivated, **sustainability** can be established as a guiding principle for Elmos and brought to life. Another example for practiced environmental protection is the new combined heat and power plant, taken into service at headquarters at the end of 2012. From gas it very efficiently generates power, heat and, in the future, cooling energy as well. Its operation is extremely eco-friendly as the energy it generates is entirely used up by Elmos. This is one example for how Elmos contributes to less environmental impact.

Even today the new combined heat and power plant at the Dortmund location generates a considerable part of the demand for power and heat from gas with high efficiency.

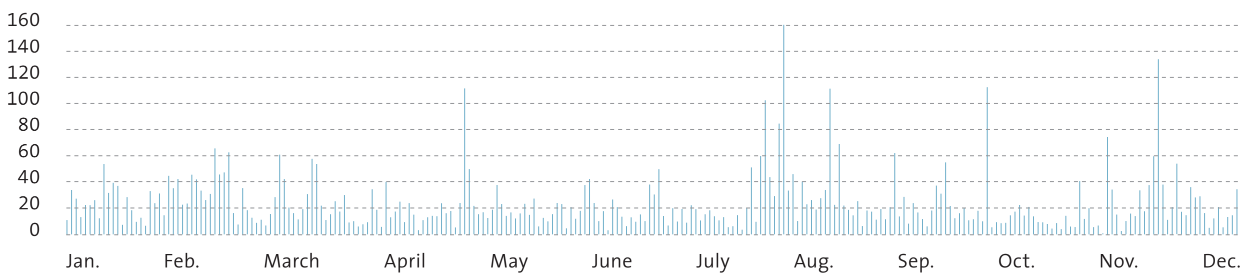
The Elmos share

General development in the stock markets

Relative price performance 2012



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



The financial markets were strongly affected by the political news in the year 2012 and thus hovered between hope and disillusion. The dominant issue was the European sovereign debt crisis. The economy profited to a large extent from the strong export yet also showed the effect of increasing uncertainty among the companies. Following temporary turbulences, the capital markets responded by and large positively to the decisions and statements issued by the European Central Bank (ECB). On the whole, the capital markets were characterized by high volatility at altogether declining volumes, driven by the continued debates about new rescue packages and rating downgrades. For some time now the new threat has been smoldering that the U.S. economy might be affected significantly by the so-called "fiscal cliff".

All this uncertainty could not affect the very good annual performances of most indices, though. Despite the crisis, the DAX gained 29.1% and thus more than compensated for the losses incurred over the previous year. The industry indices of relevance to Elmos showed rather different performances. While TecDax and Technology All Share gained strongly by 20.9% and 18.5% respectively, DaxSubsector Semiconductors (5.6%), DaxSector Technology (4.7%) and Dax Sector All Technology (–1.2%) did not record similarly large gains.

Elmos share price performance

Period ended 12/31/2012	Since 01/01/2011	Since 01/01/2012
Elmos (Xetra)	**–24.0%**	**–10.2%**
Industry indices		
TecDAX	–2.7%	20.9%
DAXSector Technology[1]	–24.2%	4.7%
DAXSector All Technology[1]	–41.3%	–1.2%
Technology All Share[1]	– 0.7%	18.5%
DAXSubsectorSemiconductors[1]	–23.2%	5.6%
DAXSector Automobile	14.9%	41.9%
General market indices		
DAX	10.1%	29.1%
Prime All Share[1]	10.5%	29.0%
CDAX[1]	10.1%	29.3%

[1] Elmos is included in these indices.

While the Elmos stock still performed in parallel to most indices and competitors at the beginning of the year, it lost more relative value in March and May and could not make up for the difference until the end of the year. The Elmos stock lost 10.2% in 2012 and closed at 7.15 Euro at the end of the year. It reached its 52-week low of 5.86 Euro on August 8, 2012 and its 52-week high on February 9, 2012 at 9.54 Euro.

The average daily trading volume of the Elmos stock (Xetra and Frankfurt/Main) recorded a considerably lower level over the past year, thus in line with the general trend in the capital markets. The trading volume of the Elmos stock in 2012 was an average 23.8 thousand shares a day (2011: 46.5 thousand shares).

Elmos key stock data

	2011	2012
Number of shares outstanding at the end of the year	19,414,205	19,615,705
52-week high (Xetra)	11.98 Euro (April 6)	9.54 Euro (February 9)
52-week low (Xetra)	6.03 Euro (Oct. 4)	5.86 Euro (August 8)
Year-end closing price (Xetra)	7.96 Euro	7.15 Euro
Annual performance	–15.4%	–10.2%
Market capitalization at the end of the year	154.5 million Euro	140.3 million Euro
Market value to book value[1] at the end of the year	0.8	0.7
Shares traded on daily average (Xetra and Frankfurt floor)	46.5 thousand	23.8 thousand
Earnings per share (basic)	0.98 Euro	0.41 Euro
Dividend per share	0.25 Euro	0.25 Euro[2]

[1] Shareholders' equity.
[2] Proposal to the Annual General Meeting in May 2013.

The importance of high frequency trading is increasing for the Elmos stock as well; the volumes of high frequency trading are not included in the stated values and cannot be determined completely.

The market capitalization of Elmos was 140.3 million Euro at the end of the year, based on 19.6 million shares issued (December 31, 2011: 154.5 million Euro based on 19.4 million shares).

Basic stock information

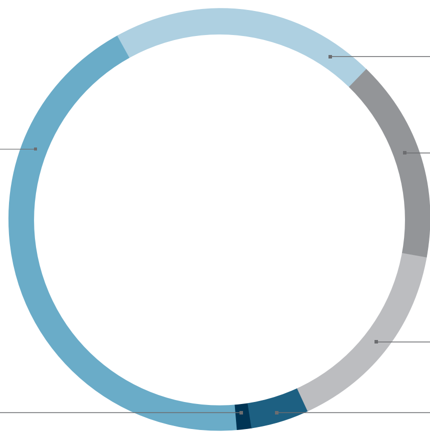
Key data	
ISIN	DE0005677108
WKN	567710
Stock symbol	ELG
Reuters	ELGG.DE
Industry	Technology
Sector	Technology
Subsektor	Semiconductor products

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 trading system. As a Prime Standard issuer of stock, 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.

Stock details

Key data	
Type of stock (category)	No-par value ordinary bearer shares
Transparency level	Prime Standard
Market segment	Regulated market
IPO	October 11, 1999
Designated sponsor	Close Brothers Seydler Bank
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 December 31, 2012



Shareholder structure The share capital of Elmos Semiconductor AG is divided into 19,615,705 no-par value shares with a proportionate amount of 1.00 Euro of the share capital allotted to each share. In August 2012 Elmos launched a share buyback program and repurchased altogether 160,602 Elmos shares by December 31, 2012 so that at the end of the year Elmos held 240,046 treasury shares or 1.2% of the share capital. In the year 2012 stock options from the tranche issued in 2009 could be exercised for the first time, leading to an increase in share capital by 201,500 Euro this past year. The 255,580 stock options outstanding from this tranche can still be exercised over the next years.

On October 23, 2012 FPM Funds SICAV (Luxembourg) fell below the voting rights threshold of 3% and held 2.99% or 586,000 voting rights at that date.

All voting rights announcements and disclosures of the total number of voting rights were made public Europe-wide according to statutory regulations and are also available at www.elmos.com.

Dividend In line with the policy of aiming at continuity in dividends and because the weaker financial development in 2012 is considered merely temporary, Management Board and Supervisory Board propose to the Annual General Meeting in May 2013 to pay a dividend of 0.25 Euro per share for fiscal year 2012 out of the retained earnings 2012 of 69.6 million Euro as reported in the HGB financial statements of Elmos. The total dividend payout would thus amount to 4.8 million Euro based on 19,375,659 shares entitled to dividend as of December 31, 2012.

Investor relations In the year 2012 Elmos continued to inform 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.com 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, directors' dealings, and the recordings of our conference calls on the occasion of quarterly and annual financial statements. Elmos is also happy to send out information such as annual reports or quarterly reports by mail or e-mail. We maintain an e-mail distribution list to inform interested investors regularly about corporate news, and we are also active in social networks (Twitter, YouTube, Xing, and SlideShare).

General Meeting 13,976,605 Euro, or 71.99% of the share capital, were represented at the thirteenth Annual General Meeting held on May 8, 2012 in Dortmund. In addition to the usual items on the agenda, an amendment to the Articles of Incorporation with respect to Supervisory Board remuneration was decided on. The adopted resolution provides for an increase of the cash component of the variable remuneration of the Supervisory Board and a reduction of the stock component so that the total amounts of fixed and variable remuneration of the members of the Supervisory Board were not affected by the amendment. Each agenda item was adopted with a large majority of the votes. At the Annual General Meeting 2012 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 24, 2013 will also provide shareholders and potential investors with the option to use the Internet broadcast. In addition to that, 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 In 2012 Elmos managed to raise the number of analysts covering the Elmos stock and gained Deutsche Bank, Hauck & Aufhäuser, and WGZ Bank/Independent Research. Due to the bank's closure of business, WestLB does not analyze the Elmos stock anymore.

Thus the following institutions provide regular coverage about the Elmos stock:
-> Close Brothers Seydler Research
-> Deutsche Bank
-> DZ Bank
-> Hauck & Aufhäuser
-> Mirabaud Securities
-> Natixis Securities
-> Warburg Research
-> WGZ Bank/Independent Research

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360° Products

Sensors

Sensors

Sensors made by Elmos measure or analyze distances, temperature or pressure, among other physical values.

Safety

Elmos safety components have been developed and manufactured with spezial regard to the high quality requirements (e.g. for use in airbag systems).

Optical sensors and HALIOS®

Elmos components for optical sensor systems according to the HALIOS® principle facilitate e.g. gesture control of smartphones and lamps.

Motor Control

Stepper motor control

Stepper motors are ideal for actuators as the motor position can be easily defined. Applications are e.g. flap actuators for many fields of use or headlight actuators.

DC motor control

Elmos semiconductors see to it that direct current motors are operated in an energy efficient way, e.g. in wipers and fans.

BLDC motor control

Brushless direct-current motors are used in an increasing number of applications (e.g. in pumps, power drills, e-bikes, and water radiator fans).

Embedded Solutions

Interface components

Interface products (e.g. FlexRay™, Partial CAN, LIN) made by Elmos facilitate communication between the individual electronic modules.

Voltage supply components

Components made by Elmos make the energy efficient adjustment of different voltage levels possible.

Special products

In the category of special products there is a large number of components made by Elmos that meet high demands for system integration.

Business and economic framework

Business activity

ELMOS Semiconductor AG (“the Company” or “Elmos”) was founded in the year 1984 in Dortmund where the company has its headquarters. The majority of sales (about 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, manufacturing and distribution of mixed-signal semiconductors. Mixed-signal semiconductors represent the brain of an electronic system. Among other tasks, our components analyze sensor data and convert those analog data into digital values. Only in this form can sensor data be exactly analyzed and recorded. With respect to an automobile this means that a mixed-signal chip makes perfect sense wherever data are analyzed and circuits are connected. An integrated sensor can for instance detect and analyze the yaw rate, acceleration, tilt angle, pressure, or even light. There are also a lot of fields of use in industrial and consumer goods applications, for example in motion detectors, gesture and proximity detectors, smoke detectors, or products run by electric motors.

The mixed-signal technology that Elmos offers is distinguished by manufacturing 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 provided by Elmos. Semiconductor chips in mixed-signal technologies are particularly suited for applications where the chip must have high packing density and work under extreme ambient conditions at the same time.

MEMS complete the product portfolio. At Elmos they come primarily in the form of high-precision microsystems, for the most part pressure sensors embedded in silicon, developed, manufactured and distributed by the subsidiary Silicon Microstructures (SMI) in Milpitas/U.S.A.

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 quantum leaps over the last few years. Especially lower fuel consumption has recently moved to the center 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 projects usually require development periods of several years before being series-produced for about three to eight years, while regional differences are noticeable. Sometimes the duration of the product life cycle changes considerably if car manufacturers put to use a similar technological platform for different car models. Elmos is able to supply its customers with the same chip over a long period because of special manufacturing options and the Company’s in-house manufacturing facility. Other characteristics of this 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 subsegments are ams, Micronas, Melexis, and ON Semiconductor. When it comes to very high volumes, Elmos also competes with major semiconductor manufacturers such as Freescale Semiconductor, Infineon Technologies, NXP Semiconductors, and STMicrolectronics.

Potential in the markets for industrial and consumer goods
For industrial and consumer goods, Elmos supplies semiconductors e.g. for applications in household appliances, photo cameras, medical technology, installation and facility technology and machine control systems. Many of the competencies achieved in automotive applications can be transferred to industrial and consumer goods products in similar form. However, partly different general conditions apply for these sectors. Particularly with respect to consumer goods applications, cyclicality regarding technical innovations is much higher than in the auto sector. The industrial and consumer goods business accounts for a 15% share of the Group's sales at present.

Customer and application specific components Elmos predominantly manufactures products by customer order exclusively for the respective customer. Apart from these customer specific circuits (ASICs), comprising about 80% of sales (2011: about 85%), Elmos also develops and offers an ever-growing portfolio of application specific standard products (ASSPs), to be used for specific applications only just like ASICs yet marketable to various customers. A majority of products currently in development are ASSPs; these will have an increasing significance for future sales.

Strategy

In the year 2012 Elmos advanced the corporate strategy consistently and made progress in its implementation as scheduled. The strategic cornerstones and the progress made in their realization are outlined in the following paragraphs.

From custom tailor to trendsetter Elmos has made a name for itself as a specialist for system solutions based on silicon. These system solutions can either be created exclusively or independent of a customer commitment. Semiconductors committed to individual customers are so-called application specific integrated circuits (ASICs); they are usually explicitly tailored to the customer's requirements and can be used only for the particular target application.

Over the past years there has been a continued tendency toward more standardized components. Many customers have decided to forgo exclusive solutions and to use application specific standard products (ASSPs) increasingly. Just like ASICs, they are tailored to an application, yet not developed exclusively for one customer.

The internal structures have been aligned in order to strengthen the position in the market for the long term. Due to the proximity to many customers, product ideas are identified and – in line with our motto, "Setting standards in innovation" – presented to the market first by Elmos. The market success of the ASSP solutions is becoming more and more encouraging. In addition to the immediate customer contact in Europe, the U.S. and Asia as well as the world's leading trade fairs like the Embedded World in Nuremberg, Elmos also presented its products at the following trade shows in 2012 for the first time: electronica Shanghai, electronica India in Bangalore, and Light+Building in Frankfurt/Main. Elmos has received very good feedback for the presented system solutions around the globe.

Stronger entry into industrial and consumer goods markets
Historically speaking, our strength resides in the automotive market. However, we also recognize considerable opportunities for our products in the markets for industrial and consumer goods. In order to seize these opportunities increasingly, Elmos has intensified its efforts in this area over the past few years. We have signed additional distributors to address a global customer base. The design teams expanded and strengthened in the last years, among other measures by the acquisition of the majority of the voting rights in design house MAZ Brandenburg in 2012, underline these targeted activities, especially in the realms of digital design and high-voltage applications. The fields of network systems, lighting concepts, sensorics and power supply meet with great customer attention.

Development of the Asian markets Over the past few years, the Company has successfully taken on the development of the Asian markets, particularly of South Korea, Japan, and China, and made very good progress. Sales generated in 2012 with customers in Asia have gained on the year before once more. In order to participate even more in this dynamic growth market, Elmos has opened own locations in Seoul/South Korea, Shanghai/China and Singapore in the last years and made them into competence centers for sales and application support in 2012.

Strategic partnerships Through strategic cooperation 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. Within a cooperation framework we are jointly developing a new technology generation together with the South Korean contract manufacturer MagnaChip and at the same time we also use MagnaChip as partner foundry. Since 2011 we have had MagnaChip manufacture wafers for us in series production. Thus Elmos will be able to cut down on expenditure requirements in the medium term and respond more flexibly to heavily fluctuating volumes. Apart from MagnaChip, we work together with a large number of partners for assembly and testing.

Larger share of MEMS and microsystems Elmos offers MEMS pressure sensors that are currently in series production for the automotive, medical and industrial markets. In the field of tire pressure sensorics (TPMS), the Elmos Group has established itself as a leading supplier through its subsidiary SMI. Furthermore, pressure sensors increasingly find successful use in various market segments, particularly in the medical sector. MEMS pressure sensors will see continued rising demand over the next years and open up many new options for applications. According to market surveys conducted by Gartner Dataquest, pressure sensors will represent the best selling MEMS segment in 2014. Elmos also combines MEMS pressure sensors with readout electronics to a so-called microsystem for use in safety applications.

Research and development

The development activity of Elmos centers on the market-oriented expansion of the product portfolio. The majority of the product development cost Elmos incurs is pre-financed by the Company and must be amortized through the current series production business. This applies in particular to the development of application specific standard products (ASSPs), currently a mainstay of development already and about to represent a larger share of the total sales of Elmos in the future.

Product developments are strictly aligned with market requirements. Elmos prioritizes different product ideas and takes into account unit numbers, information on competition and feasibility, among other factors. Only those projects are realized that meet the targets defined by the Company for market expectations, margin potential, and strategic orientation. The outcome of these product developments is a number of new semiconductors and sensors. Elmos continued to present innovations in 2012; among the products introduced are the following:

- A flexible digital PIR controller circuit working as a controller for single-chip passive infrared (PIR) motion sensors. The Elmos IC integrates all the functions for digital signal processing. The semiconductor saves costs and installed space as no additional external circuit is necessary.

- The KNX/EIB transceiver is a high-performance solution for networking components in building automation. The chip has passed the conformity tests and is certified by the KNX Association. KNX is an open field bus standard for home and building system technology for the exchange of data between KNX devices such as sensors, actuators, control units, and monitoring panels via the KNX communication medium to which all devices are connected.

- The sensor system for precise current measurement has a compact size and features the contactless measurement of currents. Assembly tolerances can be compensated in the application by calibrating zero point and sensitivity, thus reaching the system's high precision. Potential fields of use are electric vehicles and battery management as well as power inverters for solar and wind power stations.

- The component E981.57 is the first dual FlexRay™ star coupler available worldwide in series production. It meets all requirements of the car manufacturers with respect to electromagnetic compatibility and electrostatic discharge. With the active star coupler up to two branches of a FlexRay™ network can be connected to each other. Elmos has already delivered more than a total of 5 million FlexRay™ ICs to customers.

- The E523.30-35 product family of motor drivers for bipolar stepper motors comes with sensorless end position/stall detection. Furthermore, up to 3 Hall sensors or potentiometers can additionally be connected to the IC for highest demands on the motor's position detection. Possible fields of use or applications for the product family are stepper and DC drive systems as well as various automotive applications such as radiator grille shutters and headlight or valve control systems.

- A potential application of the RGB LED system basis chip (E521.30) is the individual ambient lighting of a car's interior with RGB LEDs. Thus the driver gets to choose between a rather stimulating or relaxing color variation, depending on situation and mood. The component features a special procedure for auto-addressing electric elements in an automotive network. Therefore the time consuming addressing of the network's individual participants has been rendered obsolete.

As in the past few years, the new developments focus on energy-efficient and eco-friendly products. A majority of the products aim at making the operation of the customer's application more efficient, thus achieving a competitive edge. In order to further expand the market position of Elmos in the future, research and development activities were intensified once again in 2012. By the addition of more design teams, Elmos has not only increased its capacity but also enhanced its competencies and will address additional application fields in the future.

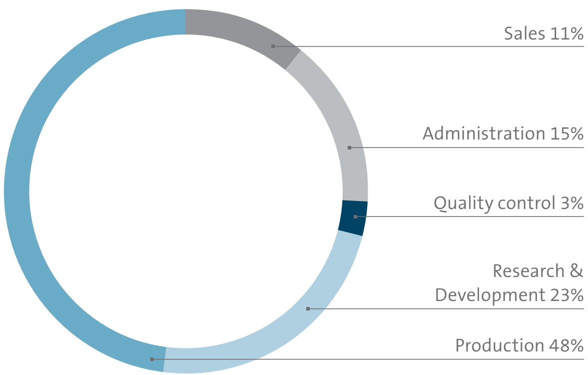
In 2012 Elmos started to align its IC development process with the requirements of ISO 26262. For this purpose, an organizational structure was established and employees were trained as certified “automotive functional safety professionals”. Elmos is a member of the ZVEI ad-hoc ISO 26262 working group. ISO 26262 is an elaborate international standard and focuses on the functional safety of electric/electronic systems in vehicles.

In the course of the year 2012, the 0.18µm technology was further developed closely together with cooperation partner MagnaChip/South Korea so that the first product developments in this new technology were launched at the end of the year 2012. The 0.18µm technology sets the course that enables us to offer competitive technologies for product development in the future as well. Research and development expenses amounted to 35.0 million Euro or 19.4% of sales in 2012. In view of the Company's scheduled growth, research and development activities will be continued on a comparable level in 2013.

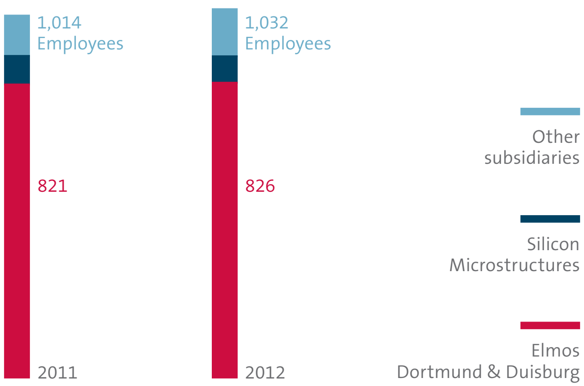
Employees

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 (NRW), Elmos is able to recruit from a large number of well-trained young engineers as there are more than 50 universities and colleges in the vicinity. Elmos has maintained close cooperation with these institutions ever since the Company's foundation and holds a singular position as the region's sole semiconductor manufacturer. We have also increased our efforts over the past years to find suitable applicants for openings. Elmos is active in recruitment events, on the

Employees by function
Elmos Group (annual average)



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



Internet (job search engines, Xing, our own website), cooperates with high schools and local institutions of education, and holds informative events for college students.

The total number of employees has grown slightly in 2012 compared to the end of the year 2011. The increase is primarily accounted for by the full consolidation of MAZ Brandenburg.

The number of employees at the NRW locations Dortmund and Duisburg remained virtually stable. 826 colleagues worked at these two locations as of December 31, 2012 (December 31, 2011: 821). The number of employees in the Group gained 1.8% on year-on-year comparison to 1,032 as of the reporting date (December 31, 2011: 1,014). On annual average, the number of employees of the Elmos Group rose to 1,034 (2011: 988). The average age of the staff was 40 years in 2012 (2011: 39 years).

Elmos offers professional training for a variety of technical and commercial professions, with an emphasis on the training of microtechnologists. By the end of 2012, the Dortmund location was home to 37 trainees (2011: 39). Management Board and employees work together in Dortmund in a trusting partnership supported by an employee representative committee. The employees' interests among each other and toward the management are discussed and channeled in subcommittees. There are subcommittees for social issues, human relations, personnel development, and economic issues. In accordance with the German One-Third Participation Act (Drittelbeteiligungsgesetz), the Supervisory Board of Elmos has been composed to one third of employees' representatives since 2011. Additional information can be found in the Supervisory Board Report.

Production

Elmos operates semiconductor manufacturing sites in Germany with 6-inch and 8-inch diameter wafers, using various CMOS technologies. The Dortmund manufacturing site was converted successively from 6-inch to 8-inch wafers over the past years so that now considerably more 8-inch than 6-inch wafers are processed. The conversion will be continued as required in the future. Currently 8-inch wafer capacity comprises a very large share of the total capacity already. This safeguards the competitiveness of wafer manufacturing at Elmos. Production utilization was below the capacity limit over the year 2012.

Apart from wafer production, the Dortmund location also includes a test area where whole wafers and packaged components are subject to electric tests. In addition to the German semiconductor manufacturing sites, Elmos has its own production location at the subsidiary SMI in Milpitas/California/U.S.A., at whose 6-inch site MEMS pressure sensors are manufactured.

The Company's in-house manufacturing sites are completed by cooperation agreements with contract manufacturers (foundries). These foundries make additional capacity available, thus enabling Elmos to respond flexibly even to heavily fluctuating demand. In 2012 Elmos continued to obtain processed wafers for series production from its partner foundry MagnaChip.

Quality

Within the framework of continuous improvement processes, Elmos puts its first-time-right and zero-error strategy consistently into practice. Elmos thus achieves an outstanding quality level with its products as well as in its business, manufacturing and service processes. Due to anticipatory quality planning and monitoring of customer requirements as early on as in the development stages, quality is produced with full competitiveness and a minimum number of rejects and safeguarded through subsequent selection.

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

The Elmos quality management system is audited annually at the certified locations for compliance with the requirements of DIN ISO 9001 and ISO/TS 16949 in monitoring audits or repeat audits by our certifier. Moreover, Elmos has been developing its semiconductors on a product-by-product basis since 2012 in accordance with ISO 26262 "Functional Safety" with the aim to prevent risks of injury that are caused by malfunctions of electronic systems.

Organizational structure

The organizational structure of Elmos is oriented toward the target markets, the customers' requirements for innovation, quality, flexibility and delivery reliability, and internal demands. The resulting tight customer-supplier relationship is reflected by the Elmos Group's structural layout. The headquarters of Elmos is in Dortmund. Various branches, subsidiaries and partner companies at several locations primarily in Europe, the Unites States and Asia provide sales and application support to the customers on the spot. The main manufacturing location for semiconductors is situated in Dortmund and for MEMS in Milpitas/California/U.S.A.

A recent development is the acquisition of the majority of the voting rights in design house MAZ Brandenburg/Berlin in 2012, so that MAZ is now included in the consolidated financial statements as a fully consolidated subsidiary (formerly proportionately consolidated at 50%). Furthermore, Elmos acquired the remaining 26.1% of the shares in GED/Frankfurt/Oder effective January 1, 2013, thus being the subsidiary's sole shareholder now. In addition to that, the company Elmos France was merged into Elmos in 2012.

In line with the increased sale of ASSPs and non-automotive products, Elmos additionally brings its products to market through various distributors. The Elmos Group collaborates with a large number of partners in Europe, U.S.A. and Asia. A complete overview of our distributor network can be found on our website.

Main locations of the Elmos Group

Europe

-> **Dortmund:** Elmos Semiconductor AG | Development, production, sales

-> **Bruchsal:** Design location and Mechaless Systems GmbH | Development

-> **Munich:** Sales

-> **Frankfurt/Oder:** Gärtner-Electronic-Design GmbH | Development

-> **Dresden:** DMOS Dresden MOS Design GmbH | Development

-> **Berlin:** MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg | Development, sales

-> **St. Petersburg:** Development

U.S.A.

-> **Milpitas, California:** Silicon Microstructures Inc. | Development, production, sales

-> **Detroit, Michigan:** Elmos N.A. Inc. | Development, sales

Asia

-> **Seoul, South Korea:** Elmos Korea Co. Ltd. | Development, sales

-> ***Seoul, South Korea:*** *Cooperation with MagnaChip Semiconductor | Development, production*

-> **Shanghai, China:** Elmos Semiconductor Technology (Shanghai) Co., Ltd. | Development, sales

-> **Tokyo, Japan:** Sales

-> **Singapore:** Elmos Semiconductor Singapore Pte. Ltd. | Development, sales

Africa

-> **Pretoria, South Africa:** Micro Systems on Silicon (MOS) Limited | Development, sales

General economic framework

Automotive industry The international car markets offered a mixed picture in 2012. While some countries (e.g. Japan) managed to catch up after the setback in the wake of Fukushima, registration numbers were on a decline in Western Europe, drastically in part, primarily as a result of the euro crisis. On the whole, the global passenger car market for new cars gained 4% to slightly more than 68 million units in 2012, according to the **German Association of the Automotive Industry** (VDA).

In **Western Europe** the number of new registrations went down 8% to 11.8 million vehicles in 2012. Great Britain was the sole major market to record growth (+5.3%). The other relevant auto markets such as Germany (–2.9%), Spain (–13.4%), France (–13.9%) and Italy (–19.9%) went down drastically in part. In the past year, Germany was the largest market in Western Europe once again, with 3.1 million new registrations, followed by Great Britain (2.0 million) and France (1.9 million), according to statistics of the European auto association ACEA.

The **U.S. market** for so-called light vehicles (passenger cars and light trucks) was in sound condition, growing by 13% to more than 14.4 million vehicles in 2012. According to the VDA, the German group brands continued the positive trend of the previous year on the U.S. market and even gained more than 21% to 1.3 million cars.

China closed 2012 with strong growth once more. In the course of the year some 8% more cars were sold than the year before, totaling 13.2 million new vehicles. **India** also manages to continue the positive trend with a growth of 10% to 2.8 million units. New registrations in **Japan** were positively affected by a federal support program (expiring in September 2012) on the one hand and a catch-up effect after the natural disaster on the other hand. Demand for passenger cars increased by about 30% to close to 4.6 million new vehicles. This number represents the highest level of new registrations since 2006.

General semiconductor market The general semiconductor market went on a decline due to the European sovereign debt crisis, a slowdown in growth in the emerging markets and regional tension, among other factors. According to information provided by the Semiconductor Industry Association, global semiconductor sales went down by 2.7% to about 292 billion U.S. dollars.

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. According to the trade association Components and Systems under the umbrella of the ZVEI (German Central Association of the Electronics Industry), the value of microelectronics per vehicle on average worldwide has gone up from 155 U.S. dollars in the year 2000 to 320 U.S. dollars in the year 2011, to 400 U.S. dollars in the year 2020. The market researcher IDC expects an average annual growth rate of 5.9% for the market of automotive semiconductors in the period from 2011 to 2016.

Profit, financial and economic situation

Financial statements according to IFRS

The consolidated financial statements of Elmos Semiconductor AG for fiscal year 2012 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union.

Elmos Group key figures according to IFRS

in million Euro or % unless otherwise indicated	2011	2012	Change
Sales	194.3	180.1	–7.3%
Gross profit	89.6	76.1	–15.1%
in %	46.1%	42.2%	
Research and development expenses	32.5	35.0	7.5%
in %	16.7%	19.4%	
Distribution expenses	16.2	17.7	9.6%
in %	8.3%	9.8%	
Administrative expenses	16.7	15.9	–4.6%
in %	8.6%	8.8%	
Operating income before other operating expenses/income	24.2	7.5	–69.1%
in %	12.5%	4.2%	
EBIT	26.6	11.4	–57.2%
in %	13.7%	6.3%	
Earnings before taxes	25.8	9.6	–62.9%
in %	13.3%	5.3%	
Consolidated net income attributable to owners of the parent	18.9	8.0	–57.7%
in %	9.7%	4.4%	
Earnings per share (basic) in Euro	0.98	0.41	
Dividend per share in Euro	0.25	0.25[1]	

[1] Proposal to the Annual General Meeting in May 2013.

Sales performance

Sales of the Elmos Group were on a decline in the year 2012 and reached 180.1 million Euro, equivalent to a 7.3% decrease compared to the previous year (2011: 194.3 million Euro). The lower sales level reflects the continued weakness of the entire European auto industry, first having reached the volume manufacturers and catching up with the premium carmakers as well in the course of the year 2012. Sales of Elmos were also affected by replacements of product generations in the year 2012.

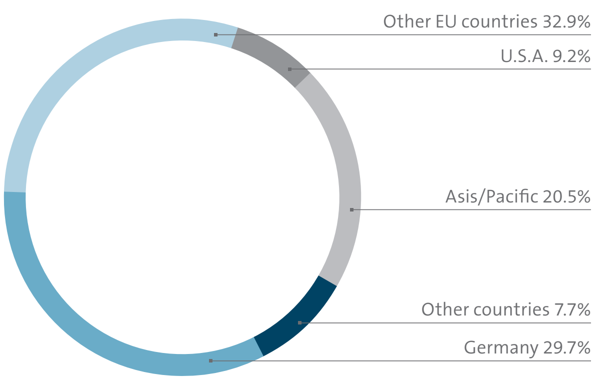
Sales by region The positive development of sales in the U.S. and in Asia/Pacific partly compensated for the declining sales in Europe. The share of the Asia/Pacific region in the Group's sales rose to 20.5% in the year 2012, coming to 36.9 million Euro, equivalent to a 6.0% gain on the previous year (2011: 34.8 million Euro). U.S. sales grew by 14.2% to 16.6 million Euro (2011: 14.5 million Euro), also carried by the stronger U.S. dollar in 2012. Sales generated in Germany and the other EU member states fell by 22.4% and 5.8% respectively to 53.5 million Euro and 59.3 million Euro, owing to the weak economic performance in Europe.

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 2012, two of our customers accounted for more than 10% of the Group's sales each. Sales generated with our top customers are usually attributable to a great many different products at different stages of their respective life cycles. The top ten customers amounted to roughly 66% of sales in 2012 (2011: 68%), the ten best selling products together came to roughly 44% (2011: 44%).

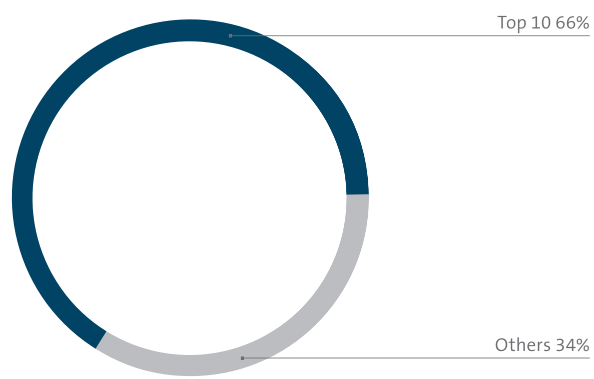
Order backlog The development of orders received continued to be affected by the uncertain general economic conditions; order receipt was weak in the year 2012. The weakness caused by the European sovereign debt crisis was noticeable throughout the year 2012. The book-to-bill ratio was below one at the end of the year 2012.

To determine the book-to-bill, the orders received for the next three months are compared 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 sales.

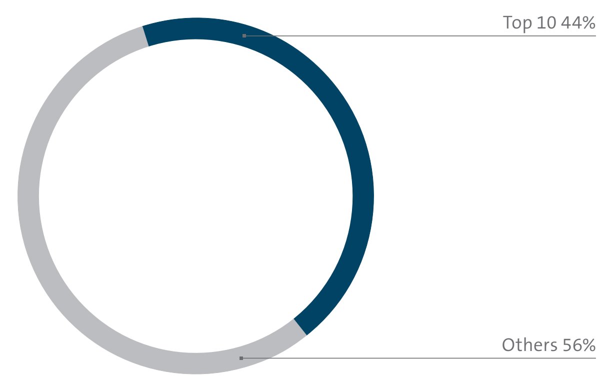
Sales by region



Sales by customer



Sales by product



New projects (design wins) The competition for new projects was intense as it has been over the past years. Elmos managed to be highly successful in the market for design wins: New records were achieved in terms of the number and volume of acquired new projects. In addition to that, the trend towards an increasing number of so-called design ins for our self-defined ASSPs indicates that we recognize market requirements with our innovations correctly and early on. Progress was also made regarding the acquisition of projects in the realm of industrial and consumer goods. The design wins cover a broad range of application fields addressed by Elmos with its three main product lines (Sensors, Motor Control, Embedded Solutions).

Profit situation

The sales decline had a disproportionately large effect on profitability due to the burden of fixed costs.

Gross profit The cost of sales was 104.0 million Euro in the year 2012 and thus essentially on the prior-year level despite lower sales (2011: 104.8 million Euro). Reasons for the amount of the cost of sales are primarily increasing assembly costs over the first half-year 2012, higher expenses for the 8-inch conversion than scheduled, and higher energy costs.

The gross profit fell from 89.6 million Euro in 2011 to 76.1 million Euro in 2012; the gross margin went down accordingly from 46.1% in the previous year to 42.2% in the year under review. The decline is accounted for by the underutilization of production to a large extent. However, a significant improvement of the cost situation is noticeable in the course of the year 2012. The improvement of the gross margin as the year progressed owes to the increase in production efficiency and the gradual elimination of the cost overrun effects. It also shows the effectiveness of the cost cutting program launched in the second quarter of 2012. The cost savings comprise extensive measures in all areas, particularly in production and production-related areas.

Operating income before other operating expenses/income and EBIT (earnings before interest and taxes) Research and development expenses altogether grew as scheduled in fiscal year 2012 and amounted to 35.0 million Euro compared to 32.5 million Euro the year before. The ratio of R&D expenses to sales climbed from 16.7% in 2011 to 19.4% in the reporting period due to the lower sales among other reasons. The increase of research and development expenses is substantially accounted for by the full consolidation of MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin (MAZ), in effect as of April 1, 2012 based on the acquisition of the majority of the voting rights in the holding initially acquired in 2011.

Distribution expenses also rose in the year 2012, by 9.6% to 17.7 million Euro (2011: 16.2 million Euro). The main reason for this is the establishment and development of the Asian locations. General administrative expenses were declining as a consequence of the cost cutting measures and amounted to 15.9 million Euro in the reporting period compared to 16.7 million Euro in 2011.

Due to the sales decline and the increase of functional costs in 2012 in comparison with the previous year, the operating income before other operating expenses/income dropped to 7.5 million Euro (2011: 24.2 million Euro). The operating income margin thus came to a ratio of 4.2% of sales (2011: 12.5%).

Earnings before interest and taxes (EBIT) were 11.4 million Euro in 2012 (2011: 26.6 million Euro) and benefited from the higher other operating income and lower other operating expenses to a somewhat larger degree than in the previous year. Thus the decline of the EBIT margin by 7.4 percentage points to 6.3% (2011: 13.7%) was not quite as sharp as the decline of the operating income margin. Other operating income considered for the EBIT include a profit in the amount of 1.8 million Euro from the revaluation of the old interest in MAZ from the first-time consolidation.

Earnings before taxes, net income, earnings per share Finance expenses include a write-down on the investment in TetraSun Inc. in the amount of 1.2 million Euro, resulting in the 2012 net finance expenses of 1.8 million Euro exceed net finance expenses of the year 2011 (2011: 0.8 million Euro). After taxes in the amount of 1.3 million Euro (2011: 6.6 million Euro), the consolidated net income attributable to owners of the parent came to 8.0 million Euro in 2012 as compared to 18.9 million Euro in the previous year. This amount equals basic earnings per share of 0.41 Euro (fully diluted: 0.41 Euro) compared to 0.98 Euro per share in 2011 (diluted: 0.96 Euro).

Proposal for the appropriation of retained earnings The net income of Elmos according to HGB[1] (German Commercial Code) is 7 thousand Euro in 2012. The profit carried forward from the year 2011 comes to 69.6 million Euro after dividend distribution. As condition for the payment of a dividend, the Company determined in the past years that the performance of earnings and the development of cash flows must both be sustainably positive. In view of the policy aiming at continuity in dividends and because the weaker financial development in 2012 is considered only temporary, Management Board and Supervisory Board propose to the Annual General Meeting of May 24, 2013 to distribute a dividend of 0.25 Euro per share out of the retained earnings in the amount of 69.6 million Euro. This equals a dividend per share that is unchanged from the previous year and a total dividend payout of 4.8 million Euro, based on 19,375,659 shares entitled to dividend as of December 31, 2012.

[1] The financial statements of Elmos Semiconductor AG have received an unqualified audit opinion. They will be released in the Federal Gazette, filed with the commercial register, can be requested as a special print publication, and are available on the company's website.

Sales and earnings by segment

in million Euro or %	Segment	2011	2012	Change
Sales				
	Semiconductor	177.4	161.6	–8.9%
	Micromechanics	16.9	18.5	9.5%
Segment income				
	Semiconductor	24.1	8.9	–63.2%
	Micromechanics	2.5	2.5	0.1%
Segment income margin				
	Semiconductor	13.6%	5.5%	
	Micromechanics	14.8%	13.5%	

Semiconductor Sales of the semiconductor segment dropped 8.9% to 161.6 million Euro (2011: 177.4 million Euro). Semiconductor sales are generated primarily with automotive customers. As the majority of sales is still generated in Europe, the effect of the European sovereign debt crisis is disproportionately large. The segment income of 8.9 million Euro or a margin of 5.5% reflected the underutilization of production.

Micromechanics The micromechanics segment comprises the activities of subsidiary SMI. Customers in the micromechanics segment belong for the most part to the automotive, industrial, consumer goods, and medical sectors. Contrary to the development in the semiconductor segment, sales of micromechanics gained 9.5% to 18.5 million Euro (2011: 16.9 million Euro). Sales in this segment are generated almost exclusively in U.S. dollars so that the stronger U.S. dollar additionally bolstered the sales growth. The segment income remained constant at 2.5 million Euro. The segment income margin was slightly reduced to 13.5% (2011: 14.8%) due to changes in the product mix compared to the previous year.

Financial position

Elmos Group key figures according to IFRS

in million Euro or %	2011	2012	Change
Consolidated net income	19.2	8.3	–56.8%
Depreciation and amortization	17.9	17.5	–1.9%
Changes in net working capital[1]	–5.0	–5.2	3.9%
Other items	1.1	–0.3	n/a
Cash flow from operating activities	**33.2**	**20.3**	**–38.6%**
Capital expenditures for intangible assets and property, plant and equipment	–19.4	–13.1	–32.6%
in % of sales	–10.0%	–7.3%	
Payments for investments/ Disposal of investments	–3.1	0.0	n/a
Payments for securities	–8.2	–9.0	9.5%
Other items	1.9	1.3	–31.1%
Cash flow from investing activities	**–28.7**	**–20.7**	**–27.9%**
Cash flow from financing activities	**–3.5**	**–2.9**	**–17.2%**
Changes in liquid assets	0.9	–3.3	n/a
Free cash flow[2]	**4.4**	**–0.4**	**n/a**
Adjusted free cash flow[3]	**10.7**	**7.3**	**–32.1%**

[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 less capital expenditures for intangible assets and property, plant and equipment, less payments for investments, plus disposal of investments.

Cash flow from operating activities Despite a significantly reduced consolidated net income compared to the previous year, a cash flow from operating activities in the amount of 20.3 million Euro was achieved (2011: 33.2 million Euro). The decline of the cash flow from operating activities essentially results from the lower consolidated net income in comparison with the previous year. Considering the net working capital, the decrease in the item trade payables particularly affected the cash flow from operating activities.

Cash flow from investing activities Capital expenditures for intangible assets and property, plant and equipment amounted to 13.1 million Euro or 7.3% of sales in the year 2012. Thus they were 32.6% below the respective amount of 2011 (19.4 million Euro or 10.0% of sales). The main reason for this decline was a lower investment in the conversion of production from 6-inch to 8-inch wafers. The total cash flow from investing activities amounted to –20.7 million Euro in 2012 after –28.7 million Euro in 2011. Here it must be taken into consideration that in 2012 as in 2011 a part of the respective amounts was invested in securities (2012: 9.0 million Euro and 2011: 8.2 million Euro) which are reported in cash flow from investing activities.

The adjusted free cash flow[3] reached the amount of 7.3 million Euro (2011: 10.7 million Euro) in spite of the declining performance of sales and earnings and the increase in net working capital.

Cash flow from financing activities In fiscal year 2012 the cash flow from financing activities came to –2.9 million Euro (2011: –3.5 million Euro) and was determined decisively by the distribution of the dividend in the total amount of 4.8 million Euro.

Liquid assets In addition to cash and cash equivalents totaling 55.6 million Euro, the Company holds long-term and short-term securities in the amount of 26.6 million Euro (December 31, 2011: 59.0 million Euro and 17.4 million Euro respectively). Cash and cash equivalents plus marketable securities thus amounted to altogether 82.2 million Euro as of December 31, 2012, a significant increase over the reporting date of the previous year (December 31, 2011: 76.5 million Euro).

Other financial obligations and disclosures of off-balance sheet financial instruments In addition to conventional loans, 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 83.9 million Euro as of December 31, 2012 (December 31, 2011: 94.5 million Euro). It is the Company's goal to continue the reduction of other financial obligations in the medium term.

Economic situation

Elmos Group key figures according to IFRS

in million Euro	12/31/2011	12/31/2012	Change
Intangible assets	29.2	30.2	3.4%
Property, plant and equipment	71.8	71.8	0.0%
Other non-current assets	9.1	7.2	–21.2%
Securities (short-term and long-term)	17.4	26.6	52.3%
Inventories	40.0	43.0	7.6%
Trade receivables	28.7	27.6	–3.7%
Cash and cash equivalents	59.0	55.6	–5.8%
Other current assets	14.7	10.2	–30.2%
Total assets	**269.9**	**272.2**	**0.8%**
Equity	187.9	190.1	1.1%
Financial liabilities (current and non-current)	40.7	42.9	5.2%
Other non-current liabilities	6.7	9.6	43.0%
Trade payables	21.3	17.8	–16.7%
Other current liabilities	13.2	11.9	–9.7%
Total equity and liabilities	**269.9**	**272.2**	**0.8%**

Total assets remains virtually unchanged and amounts to 272.2 million Euro as of December 31, 2012 (December 31, 2011: 269.9 million Euro). In assets there were minor shifts from other current assets (–4.4 million Euro) and cash and cash equivalents (–3.4 million Euro) toward securities (+9.1 million Euro) and inventories (+3.0 million Euro). In equity and liabilities, a shift – temporary due to upcoming maturity – in already refinanced financial liabilities shows, from non-current (–17.7 million Euro) to current liabilities (+19.8 million Euro). Moreover, trade payables are on a decline (–3.6 million Euro).

Elmos Group key figures

	Calculation	Unit	2011	2012
Net working capital	Trade receivables + inventories – trade payables	million Euro	47.3	52.9
of sales		%	24.4%	29.3%
Inventory turnover	Manufacturing costs/ inventories	x	2.6x	2.4x
Receivables turnover	Sales/trade receivables	x	6.8x	6.5x
Payables turnover	Manufacturing costs/ trade payables	x	4.9x	5.9x
Capital lockup period / Cash conversion cycle	Inventory days + debtor days – creditor days	days	119	144
Net cash/(Net debt)	Cash and cash equivalents + securities – financial liabilities	million Euro	35.7	39.3
Gearing	Net cash/equity	%	19.0%	20.7%
Equity ratio	Equity/total assets	%	69.6%	69.8%

Net working capital Net working capital rose from 47.3 million Euro as of the prior-year reporting date to 52.9 million Euro as of December 31, 2012. Inventories increased from 40.0 million Euro by 7.6% to 43.0 million Euro as of December 31, 2012; inventory turnover dropped to 2.4x in consequence of this. The main reason is the conversion of a part of manufacturing from 6-inch to 8-inch wafers. Trade receivables went down slightly to 27.6 million Euro (December 31, 2011: 28.7 million Euro), the receivables turnover went down from 6.8x in 2011 to 6.5x in 2012 due to the sales decline. Trade payables fell by 16.7% from 21.3 million Euro as of December 31, 2011 to 17.8 million Euro on the reporting date of the year under review. The trade payables turnover increased accordingly from 4.9x in 2011 to 5.9x. Capital lockup was extended considerably from an average 119 days in 2011 to 144 days owing to the sum of these effects.

Other key financial ratios Net cash increased further in comparison with December 31, 2011 (35.7 million Euro) to 39.3 million Euro. At 69.8% as of December 31, 2012 the equity ratio reached a virtually unchanged value compared to the end of the year 2011 (December 31, 2011: 69.6%).

Overall statement of the business situation Despite the uncertain general economic conditions and the declining sales and earnings performance Elmos managed to further expand its financial strength in 2012. The adjusted free cash flow was again clearly positive, making another stabilizing contribution to the net cash position and thus the strength of the financial position. Elmos also improved the structures, purposefully developed the Asian locations as well as research and development, increased efficiency, and optimized the product lines and the portfolio. All this and the solid financial base with a focus on the generation of free cash flow consolidate the competitive position and provide a sound foundation for the Company's continued development.

Legal information

Disclosures required by takeover law

In the following chapter, information required by takeover law as stipulated under Section 315 (4) HGB (German Commercial Code) is disclosed as of December 31, 2012 (also representing the explanatory report in accordance with Section 176 (1) sentence 1 AktG (German Stock Corporation Act)).

Composition of subscribed capital The subscribed capital (share capital) of Elmos amounts to 19,615,705 Euro and is comprised of 19,615,705 no-par value bearer shares. Each share carries the same rights and grants one vote in the General Meeting.

Limitations with regard to voting rights or the transfer of shares There are no limitations with regard to voting rights or the transfer of shares.

Direct or indirect shares in equity As of December 31, 2012 the following shareholdings are on record:

	Entity's registered office/country	Euro/shares	%
Weyer Beteiligungsgesellschaft mbH	Schwerte/ Germany	4,019,479	20.5
ZOE-VVG GmbH	Duisburg/ Germany	3,049,727	15.6
Jumakos Beteiligungsgesellschaft mbH	Dortmund/ Germany	2,971,016	15.1
Treasury shares		240,046	1.2
Shareholders <10% of the shares		9,335,437	47.6
		19,615,705	**100.0**

Owners of privileged shares No privileged shares have been issued.

Form of voting rights 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 Company's share capital up to and including May 16, 2016, subject to the Supervisory Board's approval, by up to 9,707,100 Euro through the singular or repeated issue of new no-par value bearer shares against contributions in cash or in kind **(authorized capital 2011/I).** If the capital is increased against contributions in cash, subscription rights shall be granted to the shareholders. The shares may be taken over by banks under the obligation to offer them to the shareholders for subscription. However, the Management Board is authorized, subject to the Supervisory Board's approval, to exclude the shareholders' subscription rights. The total of the shares issued according to this authorization against contributions in cash or in kind under exclusion of the shareholders' subscription rights must not exceed a proportionate amount of the share capital of 4,853,551 Euro. The Management Board is further authorized, subject to the Supervisory Board's approval, to determine all other rights attached to the shares and the particulars of the issue.

The share capital is conditionally increased by up to 293,500 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 (AGM) 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 resolution of the AGM 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 treasury 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 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 (AGM) 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 resolution of the AGM 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 treasury 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 or a group company of Elmos within the meaning of Section 18 AktG (Stock Corporation Act) up to and including May 3, 2015 based on the authorization given by the Annual General Meeting (AGM) 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 treasury 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 resolution of the AGM of May 17, 2011, the Management Board is authorized, subject to the Supervisory Board's approval, to **repurchase the Company's shares** up to and including May 16, 2016. This authorization is limited to the purchase of shares representing a total of 10% of the current share capital. 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	Repurchase of the Company's shares
9,707,100 Euro *until May 16, 2016*	**2009:** **293,500 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 16, 2016*

Material agreements on the condition of a change of control as a result of a takeover 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 comprises a number of remuneration components. The details are explained in the remuneration report included as part of this Annual Report's corporate governance report in the chapter "corporate governance". This remuneration report, reviewed by the auditor, is part of the Group Management Report.

Risks and opportunities

Risk management system

and explanatory report on the internal control and risk management system in accordance with Section 315 (2) no. 5 HGB Elmos Semiconductor AG comprises 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, risks are avoided if possible. It is altogether assured that the Group is able to entirely cover the risks it takes.

Binding standards and rules have been defined for risk identification and risk 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 operating 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 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. Ad hoc risks and damages occurred 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 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 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 the companies and the Group's 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 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, 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. The majority of sales was made with chips for automotive electronics in the past fiscal year 2012. 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, especially in those regions where Elmos is increasingly committed, 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 legislation and other factors. The customer structure of Elmos indicates a certain degree of 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 with different 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 replaceability increases as the competition may offer comparable products, too.

Competition A large number of competitors in the semiconductor market for automotive applications 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 customers will rely on a competitor in cases where parallel developments are commissioned or when several suppliers are commissioned from the beginning due to the large volume of an individual project.

Dependence on individual employees The Company's highly development-intensive business activity leads to a clearly pronounced and very specific engineering know-how but not necessarily to patents. The consequence for Elmos as for any other technology company is an increased dependence on individual employees.

Shortage of qualified employees An important aspect of success in the market is the quality and availability of employees. There is the risk that qualified employees might leave the Company and no adequate replacements could be found in good time. There is also the risk that the Company might not be able to recruit qualified employees if new demand arose. This could affect the Company's development in a negative way. Elmos has therefore intensified its commitment to find suitable applicants for staff openings in the last years. Elmos is present at recruiting events, is active on the Internet, cooperates with local high schools and institutions of education, provides informative events and scholarships for college students, and offers professional training in many technical and commercial professions.

Development of new products and technologies The market for the products of Elmos is characterized by the products' constant advancement and improvement. Therefore the success of Elmos is closely related to the 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.

Because Elmos is able to develop and manufacture products for virtually 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 for only in part by the customers. Those development costs not covered in advance must be amortized through the later units 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 not willing to pay for development costs in advance and instead expects the supplier to pre-finance these expenses.

This holds usually true for product developments initiated by Elmos, e.g. all ASSPs, as there are no binding customer orders for such projects. However, in the development of ASSP components Elmos also works together with one key customer if possible. Such a key customer will usually provide Elmos with sales forecasts for the next years - similar to a customer specific project.

The future success of Elmos is also dependent on the ability to come up with new development and production technologies. Elmos develops analog and digital semiconductor structures and functions for its self-developed modular high-voltage CMOS process technology. Like 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, manufacturing 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 manufacturing are available worldwide from different suppliers and are not controlled by monopolists for the most part. However, it goes without saying that 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. The catastrophes of the year 2011 have narrowed the focus on this risk. Due to the temporarily uncertain supply situation in the entire supply chain of the semiconductor industry, the commitment to regional risk distribution was intensified and the number of potential partners was increased accordingly. There is a tendency towards consolidation among the machine suppliers, limiting the negotiating power of Elmos.

Energy supply Due to constantly rising energy prices and increasingly uncertain energy supply as a whole, Elmos took special measures for safeguarding energy efficient production in the past few years. At the end of 2012 external auditors gave the new energy management certificate according to ISO 50001 to our main location in Dortmund. The goal is to save energy. Elements of the energy management system are the energy policy, the definition of energy targets, the identification of energy savings potential, the determination of measures, and their monitoring and supervision. Among other measures, all employees were trained for efficient energy use at their respective workplaces. In addition to that, the demand for the external supply of energy resources was reduced for the long term by building a highly efficient combined heat and power plant at the Dortmund location at the end of 2012.

Product liability The products manufactured by Elmos are integrated as components into complex electronic systems. Defects or malfunctions of the semiconductors made 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 completely exclude its liability with regard to customers or third parties in its sales contracts.

Elmos consistently follows a zero-error 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 commencing delivery of its products, product defects might still show only on 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 of several million euros. 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 stages. 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 the information technology (IT) applied are of great importance. This applies increasingly to the utilization of IT systems in support of 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 integrated into infrastructure of high availability. These systems, equipped with redundancies in various data centers, minimize or eliminate the consequences of hardware malfunctions. Constantly automated monitoring of the IT infrastructure makes it possible to interfere swiftly in case of unforeseeable incidents. Special precautionary measures have also been taken for blocking viral attacks. Internet access is for instance protected most elaborately. Additional measures are realized for systems used in manufacturing. Yet IT failure or IT interferences could still have a negative effect on the manufacturing output or the Company's financial, profit and economic position.

Interruption of business According to the assessment of Elmos, the risk of the destruction of production facilities by fire or other disasters is a material business risk capable of significantly damaging the development of the Group and jeopardizing the Company's continued existence, in addition to the business risks already described and explained. 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.

Interruption of business could also occur by power outage. The production facilities are prepared for short-term power failures within the realm of possibilities; running processes for example would be ramped down in a controlled way.

The risk of an interruption of business is reduced by the fact that Elmos manufactures semiconductors at various locations. Furthermore, Elmos has been obtaining processed wafers from a cooperation partner in South Korea since 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 fire fighting operations, water, storm, theft, third-party liability, especially product liability including U.S. coverage, and costs of a possible recall action are adequately covered by insurance. Further risks capable of significantly damaging the development of the Group or jeopardizing its continued existence are not discernable at present.

Opportunities

Apart from our core business of customer specific semiconductors for the automotive industry, opportunities are provided for the Company by the continued implementation of our strategy. These opportunities lie in the increased development, production and sale of application specific semiconductors (ASSPs) and in a higher future share of sales in the sectors of industrial and consumer goods, implying a diminishing dependence on the automotive industry in the process as well. Elmos also intensifies its business in the Asian markets and cooperates with partners who either enable the Company to expand its product portfolio or provide opportunities for external production. Furthermore, the share of MEMS is scheduled to increase.

Events after the reporting period

As of acquisition date January 1, 2013 26.1% of the shares in GED Gärtner-Electronic-Design GmbH, Frankfurt/Oder were acquired. By this increase of the already existing investment Elmos now holds 100% of the shares in GED.

Outlook

Economic framework The general economic conditions are cloudy in 2013, primarily as a consequence of the euro crisis. The full scale of the euro crisis is uncertain and runs through all forecasts like a dark reminder. The economic research institutes thus offer a wide margin for the future development. One example is the forecast of the Ifo Institute, indicating a margin of –0.6% to +2.0% as a possible tendency for the economic performance in Germany in the year 2013.

The VDA considers the euro crisis an uncertainty factor, too: "... Yet obviously customers are unsettled by the debt crisis in the euro area which has lasted for two years now. This perennial issue is rather depressing. ... 2013 will become a challenging year for the auto industry," says Matthias Wissmann, President of the VDA. According to the association, the Western European passenger car market will turn out slightly weaker in the year 2013 than in 2012 and 11.4 million new vehicles (minus 3%) will be registered. Other forecasts also predict that 2013 will be Europe's weakest auto year in two decades.

Outside Western Europe the VDA sees a positive trend for the automotive economy. The global car market will continue its course for growth in 2013 and will take aim at the 70-million mark (2012: roughly 68 million vehicles). These growth dynamics are driven primarily by the Chinese and U.S. markets.

The market research company Databeans anticipates 9% growth in 2013 for the worldwide semiconductor market. However, sales with automotive semiconductors are expected to grow only by 6%. The euro crisis is named as a reason for the weaker forecast by this market researcher as well. Broken down to fields of use, Databeans sees a positive development for manufacturers of ICs for driver assistance systems and safety systems. Contrary to that, Databeans expects declining profit margins for manufacturers of infotainment and aftermarket products.

Market researcher IDC anticipates a growth rate of 5.9% for the market of automotive semiconductors both for the year 2013 and for the period from 2011 to 2016 as average annual growth rate.

The global market for MEMS sensor components is expected to gain an average 13% in sales annually until 2017, according to market researcher Yole Développement.

Outlook for the Elmos Group Elmos has pursued a solid economic policy in the past years. As a consequence of that Elmos now stands on a secure financial foundation. The equity ratio has been on a high level for years and the adjusted free cash flow has been positive repeatedly. Elmos has generated a considerable net cash position over the last years and expanded it further – even in the relatively weak year 2012 – so that the secure foundation could be solidified. This shows that Elmos implements a policy of sustainability even in volatile markets and acts with a 360° perspective.

Moreover, Elmos has achieved a good reputation among customers; the deciding factors were the strength of innovation, the high quality level and the delivery reliability. The acquisition of new projects from customers was highly successful. The new records for the number and volume of new projects are an immediate result of the market position we have worked for.

If we trim the view on 2013 we recognize that the following trends will influence our business:

-> **Expansion of the world market leading positions:** Elmos will not rest on its world leading positions in 2013 but expand them with new product generations. These new generations must not only pass the test in terms of quality and innovation but also give proof of their competitiveness in the discipline of energy saving on the frontlines. It is a definite goal for the future to counter an increase in gas consumption in vehicles or power consumption of industrial and consumer goods and thus to reduce CO_2 emissions.

- **Expansion of the MEMS position:** MEMS sensors have made substantial progress over the last years. Now the progress made must be channeled in the right direction and expanded. Even today they are indispensable in many applications. MEMS made by Elmos have made a material contribution to market penetration in tire pressure monitoring systems. In addition to that, regulatory provisions pave the way for MEMS products to find entry into safety applications increasingly. Our micromechanics segment will benefit from that.

- **Asia is becoming more important:** Elmos has achieved a reputation among Asian customers as a niche supplier of established systems as well as cutting-edge market innovations. This standing is pleasant, considering the relatively short period of business relationships with Asian customers. For Elmos it remains crucial to know the needs of this region's customers exactly and to fulfill them in the best possible way in order to capitalize on the growth in Asia.

Elmos is a specialist for solutions on semiconductor basis with a solid financial foundation. A majority of sales is generated with a considerable customer base in the automotive sector. Therefore Elmos is exposed strongly to the fluctuations of the global automotive market. As a result of the economic uncertainty, we have been observing a more cautious and volatile order behavior of our customers for a few quarters now, especially with respect to products meant for the European area. Despite this weakness of the market, the general trend remains valid: The electrification in the automobile and in industrial and consumer goods will continue.

Even though 2013 is starting rather weakly, we are expecting considerable growth stimulation to begin in the second quarter of 2013. Elmos has the right products for capitalizing on a sound economy. The many new ramp-ups at the end of last year and the success with acquisitions showed this as well. Elmos anticipates a sales growth in the mid single-digit percentage range. The EBIT margin will be above the level of 2012 (6.3%). The adjusted free cash flow is expected to be positive. Capital expenditures are scheduled not to exceed 15% of sales.

On the condition of a sound general economic environment Elmos is expected to participate in a positive development of the automotive and industrial semiconductor markets in 2014. The electrification will continue in these markets. Such a positive development for Elmos implies the success of our customers of today and tomorrow as well as our ability to sell products to them. The international competition among auto suppliers is subject to an ever increasing intensification. Effects from resulting shifts in the market or shifts in the portfolios of our customers are hard to predict. Growth of Elmos would have the consequence that we could realize the efficiency gains required in the semiconductor industry and the business of auto suppliers business on the one hand, depending on the extent of growth, and that we would on the other hand profit from the economies of scale, leading to positive development of the margins. It is also true that these expectations might be impaired by market turbulences. The targets for capital expenditures not to exceed 15% of sales and generating a positive free cash flow remain unchanged for 2014. This forecast applies for the semiconductor segment and for micromechanics as well.

Elmos will benefit from the global megatrends in the medium and long term: increasing urbanization, more renewable energy sources (and dealing with energy efficiently in general), and more and eco-friendlier mobility. To all these dynamically growing market segments Elmos will make important contributions.

Dortmund, March 5, 2013

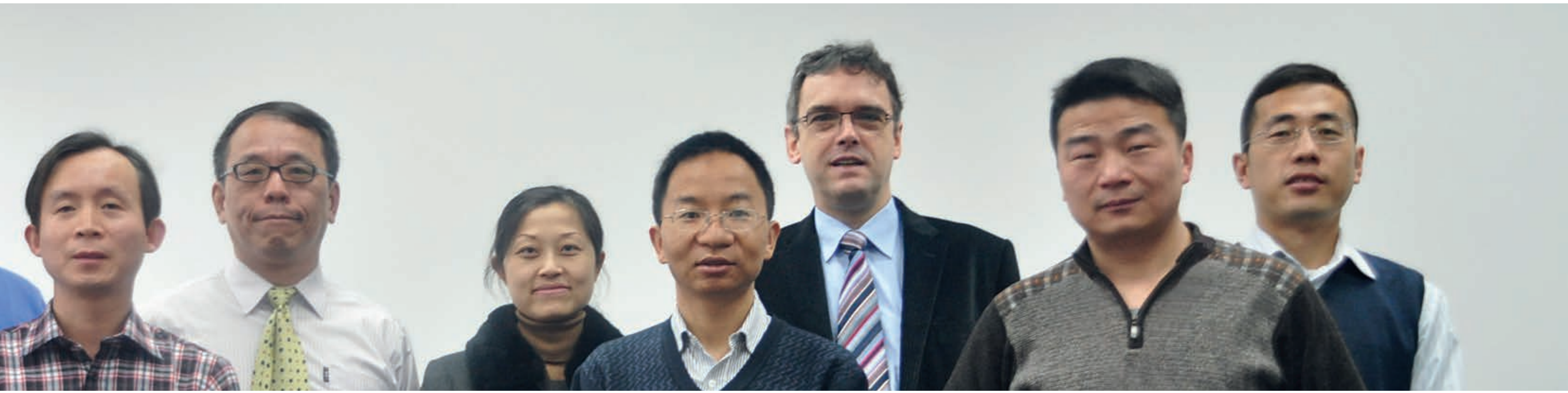
Dr. Anton Mindl **Nicolaus Graf von Luckner**

Reinhard Senf **Dr. Peter Geiselhart**

360° Success

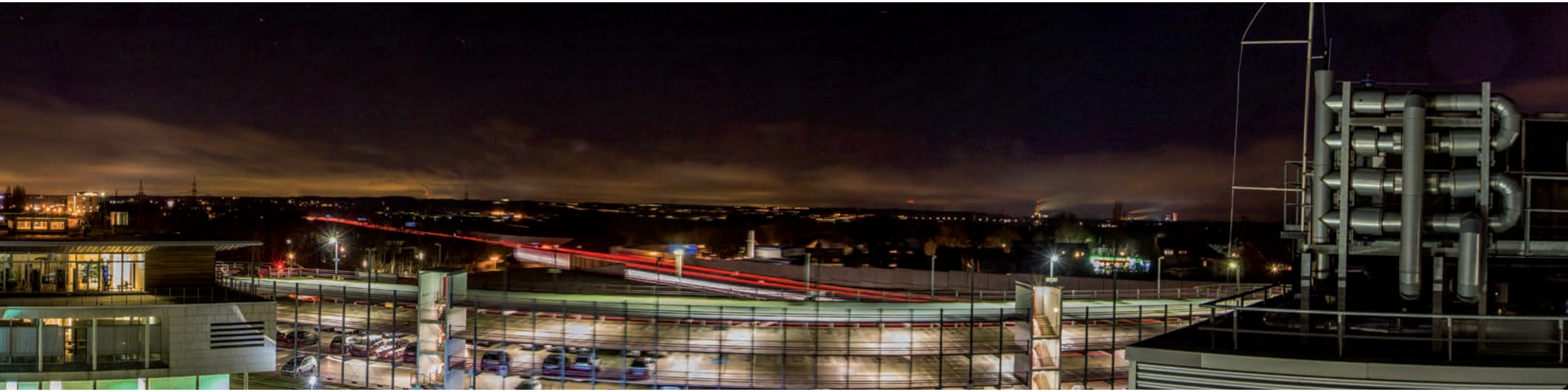
5 letters, 3 symbolic chips. These are the components of our new logo. Much has changed in the **29 years** since the Company's formation! High time to adjust the logo now as well. Yet our **3 pillars of success** remain: **0-error quality, 1st grade products, and the 100% will to succeed.**

360° Worldwide



130 employees work at altogether **8 locations** outside Germany. They provide our customers with valuable application support for the more than **100 ASSPs** and a large number of **ASICs** each day. This is paying off: The share of our sales generated in Asia/Pacific has meanwhile become more than **20%.**

360° Environment



Roughly **95% energy efficiency,** more than **2,800 horsepower,** and **46 tons** of weight. Those are the benchmark data of the **2 new combined heat and power plants.** What for? With **2 megawatts** Elmos generates up to **50% of the power demand** at the Dortmund location on its own steam. This makes us more independent of the electricity rates and saves **4,000 tons of CO_2** a year. As much as **500 German 2-person households** emit p.a.

Consolidated financial statements

Consolidated statement of financial position

Assets	Notes	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Non-current assets			
Intangible assets	13	30,236	29,240
Property, plant and equipment	14	71,755	71,770
Investments in associates	15	0	0
Securities	15	18,741	8,346
Investments	15	2,652	3,917
Other financial assets	20	1,116	1,630
Deferred tax assets	16	3,421	3,579
Total non-current assets		**127,921**	**118,482**
Current assets			
Inventories	17	42,968	39,951
Trade receivables	18	27,644	28,714
Securities	15	7,840	9,102
Other financial assets	20	4,203	4,837
Other receivables	20	5,479	6,499
Income tax assets	20	411	2,989
Cash and cash equivalents	19	55,576	59,002
		144,121	**151,094**
Non-current assets held for trading	21	144	338
Total current assets		**144,265**	**151,432**
Total assets		**272,186**	**269,914**

Consolidated statement of financial position

Equity and liabilities	Notes	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Equity			
Equity attributable to owners of the parent			
Share capital	22	19,616	19,414
Treasury shares	22	–240	–106
Additional paid-in capital	22	88,599	88,516
Surplus reserve		102	102
Other equity components	22	–2,869	–2,064
Retained earnings		82,255	81,450
		187,463	**187,312**
Non-controlling interests		**2,587**	**633**
Total equity		**190,050**	**187,945**
Liabilities			
Non-current liabilities			
Provisions	24	92	243
Financial liabilities	25	12,571	30,235
Other liabilities	26	5,277	2,466[1]
Deferred tax liabilities	16	4,219	3,994
Total non-current liabilities		**22,159**	**36,938**[1]
Current liabilities			
Provisions	24	8,107	8,450[1]
Income tax liabilities	26	1,409	2,006
Financial liabilities	25	30,290	10,496
Trade payables	27	17,755	21,325
Other liabilities	26	2,416	2,754
Total current liabilities		**59,977**	**45,031**[1]
Total liabilities		**82,136**	**81,969**
Total equity and liabilities		**272,186**	**269,914**

[1] The prior-year statement has been adjusted; please refer to note 1.

Consolidated income statement

For the year ended December 31	Notes	2012 thousand Euro	2011 thousand Euro
Sales	5	**180,114**	**194,346**
Cost of sales	6	104,038	104,752
Gross profit		**76,076**	**89,594**
Research and development expenses	6	34,968	32,541
Distribution expenses	6	17,712	16,163
Administrative expenses	6	15,909	16,680
Operating income before other operating expenses/income (–)		**7,487**	**24,210**
Share in profits of associates	8	0	30
Finance income	8	–1,856	–1,676
Finance costs	8	3,642	2,427
Foreign exchange losses/gains (–)	9	379	–275
Other operating income	10	–5,519	–4,867
Other operating expenses	10	1,258	2,762
Earnings before taxes		**9,583**	**25,809**
Income tax			
Current income tax	11	1,621	2,188
Deferred tax	11	–335	4,420
		1,286	**6,608**
Consolidated net income		**8,297**	**19,201**
Consolidated net income attributable to			
Owners of the parent		**8,010**	**18,921**
Non-controlling interests		287	280
		8,297	19,201
Earnings per share			
Basic earnings per share (in Euro)	12	0.41	0.98
Fully diluted earnings per share (in Euro)	12	0.41	0.96

Consolidated statement of comprehensive income

For the year ended December 31	Notes	2012 thousand Euro	2011 thousand Euro
Consolidated net income		**8,297**	**19,201**
Other comprehensive income			
Items potentially to be reclassified to the income statement including respective tax effects			
Foreign currency adjustments without deferred tax effect		–50	55
Foreign currency adjustments with deferred tax effect		–267	468
Deferred tax (on foreign currency adjustments with deferred tax effect)	22	60	–121
Value differences in hedges	22	–1,001	–1,016
Deferred tax (on value differences in hedges)	22	322	327
Changes in market value of available-for-sale financial assets	22	177	–37
Deferred tax (on changes in market value of available-for-sale financial assets)	22	–69	0
Other comprehensive income after taxes		**–828**	**–324**
Total comprehensive income after taxes		**7,469**	**18,877**
Total comprehensive income attributable to			
Owners of the parent		7,205	18,597
Non-controlling interests		264	280
		7,469	**18,877**

Consolidated statement of cash flows

For the year ended December 31	Notes	2012 thousand Euro	2011 thousand Euro
Cash flow from operating activities			
Consolidated net income		8,297	19,201
Depreciation and amortization	7	17,515	17,850
Write-down of investments	15	1,232	34
Financial result	8	554	751
Other non-cash income (–)/expense		–2,390	4,800
Current income tax	11	1,621	2,188
Expenses for stock option and stock award plans	23	370	315
Changes in pension provisions	24	–151	–133
Changes in net working capital:			
Trade receivables	18	1,262	–3,386
Inventories	17	–2,834	–4,125
Other assets	20	–83	–2,936
Trade payables	27	–3,602	2,533
Other provisions and other liabilities	24	–1,225	–318
Income tax payments/refunds		306	–2,872
Interest paid	8	–2,382	–2,427
Interest received	8	1,856	1,676
Cash flow from operating activities		**20,346**	**33,151**

Consolidated statement of cash flows (continuation)

For the year ended December 31	Notes	2012 thousand Euro	2011 thousand Euro
Cash flow from investing activities			
Capital expenditures for intangible assets	13	–2,152	–3,341
Capital expenditures for property, plant and equipment	14	–10,922	–16,047
Disposal of non-current assets held for trading	21	181	901
Payments-in/Payments-out (–) for the acquisition of shares in subsidiaries (2011: joint ventures) less acquired cash and cash equivalents	33	302	–557
Disposal of non-current assets		306	1,177
Payments for securities	15	–8,956	–8,179
Payments for investments	15	0	–3,058
Payments from other non-current financial assets	20	513	370
Cash flow from investing activities		**–20,728**	**–28,734**
Cash flow from financing activities			
Borrowing/Repayment (–) of non-current liabilities		12,336	–241
Repayment (–)/Borrowing of current liabilities to banks		–10,206	256
Issue of treasury shares		185	102
Purchase of treasury shares	22	–1,116	0
Capital increase from conditional capital	22	742	0
Dividend distribution		–4,827	–3,859
Newly created non-controlling interests		48	103
Other changes		–62	136
Cash flow from financing activities		**–2,900**	**–3,503**
Decrease (–)/increase in cash and cash equivalents		**–3,282**	**914**
Effects of exchange rate changes on cash and cash equivalents		–144	78
Cash and cash equivalents at beginning of reporting period	19	59,002	58,010
Cash and cash equivalents at end of reporting period	19	**55,576**	**59,002**

Consolidated statement of changes in equity

	Notes	Equity attributable to owners of the parent										Non-controlling interests	Group
							Other equity components						
		Shares thousand	Share capital thousand Euro	Treasury shares thousand Euro	Additional paid-in capital thousand Euro	Surplus reserve thousand Euro	*Provision for available-for-sale financial assets* thousand Euro	*Hedges* thousand Euro	*Foreign currency translations* thousand Euro	Retained earnings thousand Euro	Total thousand Euro	Total thousand Euro	Total thousand Euro
January 1, 2011		**19,414**	**19,414**	**–119**	**88,486**	**102**	**0**	**61**	**–1,801**	**66,380**	**172,523**	**–227**	**172,296**
Consolidated net income										18,921	18,921	280	19,201
Other comprehensive income for the period	22						–37	–688	401		–324		–324
Total comprehensive income							–37	–688	401	18,921	18,597	280	18,877
Share-based payment	22			13	88						101		101
Changes in basis of consolidation										–80	–80		–80
Dividend distribution										–3,859	–3,859		–3,859
Expenses for stock options and stock awards	23				315						315		315
Acquisition of non-controlling interests					–610						–610	610	0
Newly created non-controlling interests					103						103		103
Other changes					134					88	222	–30	192
December 31, 2011		**19,414**	**19,414**	**–106**	**88,516**	**102**	**–37**	**–627**	**–1,400**	**81,450**	**187,312**	**633**	**187,945**
January 1, 2012		**19,414**	**19,414**	**–106**	**88,516**	**102**	**–37**	**–627**	**–1,400**	**81,450**	**187,312**	**633**	**187,945**
Consolidated net income										8,010	8,010	287	8,297
Other comprehensive income for the period	22						108	–679	–234		–805	–23	–828
Total comprehensive income							108	–679	–234	8,010	7,205	264	7,469
Share-based payment	22			26	159						185		185
Capital increase from conditional capital		202	202		540						742		742
Transaction cost	22				–30						–30		–30
Purchase of treasury shares	22			–160	–956						–1,116		–1,116
Changes in basis of consolidation	33											1,659	1,659
Put option of non-controlling shareholder	26									–2,214	–2,214		–2,214
Dividend distribution										–4,827	–4,827		–4,827
Expenses for stock options and stock awards	23				370						370		370
Newly created non-controlling interests										17	17	31	48
Other changes										–181	–181		–181
December 31, 2012		**19,616**	**19,616**	**–240**	**88,599**	**102**	**71**	**–1,306**	**–1,634**	**82,255**	**187,463**	**2,587**	**190,050**

Notes to the 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 resolution of the Annual General Meeting of May 8, 2012, edited by resolution of the Supervisory Board of December 17, 2012.

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 and locations in Europe, Asia, South Africa and the U.S. and cooperates with other German and international companies in the development and manufacture of semiconductor chips.

The Company is a listed stock corporation. The Company's 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.

Accounting policies and valuation methods

1 // Accounting principles

General information The consolidated financial statements have been prepared in Euro. Values stated in thousand Euros have been rounded up or down to thousand Euros 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 315a (1) HGB (Commercial Code). 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 were 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, the consolidated income statement, and the consolidated statement of comprehensive income have been prepared according to IAS 1, “Presentation of Financial Statements”. Individual items have been summarized to improve clarity; those items are explained in the notes.

The consolidated financial statements will probably be released for publication by the Management Board in March 2013.

Adjustments in presentation compared to the previous year Deviating from the presentation in fiscal year 2011, hedged derivatives are not reported under current provisions but under other liabilities. The prior-year presentation was adjusted accordingly so that compared to the prior-year statement (9,376 thousand Euro) current provisions as of December 31, 2011 are stated at 8,450 thousand Euro, i.e. reduced by the amount of 926 thousand Euro attributable to hedged derivatives as of December 31, 2011. Corresponding to that, the prior-year statement of other non-current liabilities was increased from 1,540 thousand Euro in the previous year by 926 thousand Euro to 2,466 thousand Euro. As of January 1, 2011 hedged derivatives had a positive market value of 90 thousand Euro and were included in current financial assets.

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. Beyond the scope of the areas described below, assumptions and estimates are also necessary for allowances for bad debt as well as for contingent liabilities and other provisions. In accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors,* changes in estimates are recognized in profit or loss as of the time new information becomes available. Changes in estimates did not result in material consequences in the reporting period nor are such effects expected for future reporting periods.

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 assessment of the value in use, the Company's management needs to estimate the respective cash-generating unit's probable future cash flows and also choose an adequate discount rate in order to determine the net present 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 have been estimated on the basis of historical 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 book value of goodwill was 3,631 thousand Euro as of December 31, 2012 (2011: 2,919 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-forward to the extent it appears probable that taxable income will be available so that loss carry-forward can in fact be used. For the determination of the amount of deferred tax assets, a material discretionary decision made by the Company's management is required, based on 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 returns on pension plan assets, future raises of wages and salaries, mortality, and increased future retirement pensions. Due to the long-term orientation of those plans, estimates are subject to material uncertainty. Provisions for pensions and other benefits amounted to 92 thousand Euro as of December 31, 2012 (2011: 243 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's 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 6,553 thousand Euro as of December 31, 2012 (2011: 7,391 thousand Euro). More details can be found under note 13.

New and amended standards and interpretations The accounting policies and valuation methods applied generally correspond with the policies and methods applied in the previous year. One exception is the following amended standard, subject to first-time mandatory application for fiscal year 2012. First-time application of this amended standard did not have any material consequences for the Elmos Group.

-> Amendment to IFRS 7 – *Disclosures of Transfers of Financial Assets*

Another change in the accounting policies and valuation methods results from the following amended standard applied in advance. The IASB has released the following amendment to a standard that was adopted by EU law within the framework of the so-called comitology procedure but was not subject to mandatory application for fiscal year 2012.

Amendment to IAS 1 – *Presentation of Items of Other Comprehensive Income* The amendment to IAS 1 was released in June 2011 and is subject to mandatory application for fiscal years beginning on or after July 1, 2012. The amendment to IAS 1 regards the presentation of items of other comprehensive income. Accordingly, items designated for future reclassification through profit or loss (so-called recycling) must be presented separately from items to remain in equity. This amendment only had an effect on presentation in the financial statements and no consequences for the Group's financial, profit and economic situation.

The IASB has released the following standards and interpretations which have already been adopted by EU law within the framework of the comitology procedure yet were not subject to mandatory application in fiscal year 2012 yet. The Group does not apply these standards and interpretations in advance.

Amendments to IAS 32 and IFRS 7 – *Offsetting Financial Assets and Financial Liabilities* The amendments to IAS 32 and IFRS 7 were released in December 2011 and are subject to mandatory application for fiscal years beginning on or after January 1, 2014 and January 1, 2013 respectively. The revision is intended to eliminate existing inconsistencies by introducing enhanced guidance. However, the essential provisions for offsetting financial instruments have been retained. With the amendments comes a definition of additional disclosures. The amendments will not affect the accounting policies applied by the Group, yet lead to additional information to be disclosed.

IFRS 10 – *Consolidated financial statements* IFRS 10 was released in May 2011 and is subject to mandatory application for fiscal years beginning on or after January 1, 2014. The new standard supersedes the provisions of previous IAS 27: *Consolidated and Separate Financial Statements* on group accounting and interpretation SIC 12 *"Consolidation – Special Purpose Entities"*. IFRS 10 establishes a consistent concept of control to be applied to all entities including special purpose entities. Moreover, revised transitional directives on IFRS 10-12 were released in June 2012 intended to make the new standard's first-time application easier. Compared to the previous legal situation, the changes introduced with IFRS 10 require considerable discretionary management decisions in assessing which entities are controlled in the group and whether those entities must therefore be included in consolidated financial statements by way of full consolidation.

IFRS 11 – *Joint Arrangements* IFRS 11 was released in May 2011 and is subject to mandatory application for fiscal years beginning on or after January 1, 2014. The standard supersedes

IAS 31: *Interests in Joint Ventures* and interpretation SIC 13 *"Jointly Controlled Entities – Non-Monetary Contributions by Venturers"*. With IFRS 11, the previous right to choose the application of the proportionate consolidation method for joint ventures has been eliminated. Such entities are henceforth to be included in consolidated financial statements by using the equity method of accounting exclusively. The first-time application of the new standard will not lead to material changes. At present Elmos does not include any entities in the consolidated financial statements by way of proportionate consolidation (please also refer to note 33).

IFRS 12 – *Disclosure of Interests in Other Entities* IFRS 12 was released in May 2011 and is subject to mandatory application for fiscal years beginning on or after January 1, 2014. The standard governs consistent mandatory disclosures for group accounting and consolidates disclosures for subsidiaries, formerly stipulated in IAS 27, disclosures for joint arrangements and associates, previously regulated in IAS 31 and IAS 28 respectively, and for unconsolidated structured entities. As the new standard establishes new requirements for disclosure of information in addition to previously effective mandatory disclosures, the Group's information supplied on this group of entities will be more extensive in the future.

IFRS 13 – *Fair Value Measurement* IFRS 13 was released in June 2011 and is subject to mandatory application for fiscal years beginning on or after January 1, 2013. The standard provides guidance for the determination of fair value and defines comprehensive quantitative and qualitative information on measurement at fair value. However, the question when assets and liabilities must or may be measured at fair value is not part of the scope of this standard. IFRS 13 defines fair value as the price one party would receive for selling an asset or pay for transferring a liability in a regular transaction between market participants on the cutoff date. The Group is currently looking into the effects the new standard will have on the Group's financial, profit and economic situation. According to initial assessment no material effects are expected.

IAS 19 – *Employee Benefits (amended 2011)* The amended standard IAS 19 was released in June 2011 and is subject to mandatory application for fiscal years beginning on or after January 1, 2013. The revisions include a wide range from essential changes, e.g. with respect to the determination of expected income from plan assets and the elimination of the so-called corridor method, which helped distribute and smooth the volatility resulting from pension obligations over time, to mere clarifications and rewording. The elimination of the corridor method has the consequence for the Elmos Group that the amount of pension provisions will reflect benefit obligations in the full amount and that actuarial gains and losses will no longer be recognized proportionately through profit or loss but in the full amount in other comprehensive income for the period in which they arise. First-time application of this amended standard will result in an increase in pension provisions by 664 thousand Euro outside profit or loss as of the date of first application on January 1, 2013. There will be no material effects on the financial and profit situation.

IAS 28 – *Investments in Associates and Joint Ventures (amended 2011)* The amended standard IAS 28 was issued in May 2011 and is subject to mandatory application for fiscal years beginning on or after January 1, 2014. With the adoption of IFRS 11 and IFRS 12, the scope of IAS 28 – in addition to associates – was expanded to application of the equity method to joint ventures as well. For its effects, we refer to our comment on IFRS 11: *Joint Arrangements*.

The IASB has released the following standards and interpretations that were not subject to mandatory application in fiscal year 2012. These standards and interpretations have so far not been adopted by the EU and are not applied by the Group.

IFRS 9 – Financial Instruments: Classification and Measurement The first part of phase I in preparing IFRS 9: *Financial Instruments* was released in November 2009. The standard includes new regulations for the classification and measurement of financial assets. Accordingly, debt instruments are to be recognized either at amortized cost or at fair value through profit or loss, depending on their respective characteristics and in consideration of the business model applied. 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 returns on 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 completed the second part of project phase I. The standard was thus amended by provisions for financial liabilities, and it determines that existing classification and measurement regulations for financial liabilities be maintained, 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. IFRS 9 is subject to mandatory application for fiscal years beginning on or after January 1, 2015. The completion of the project is expected for 2013. The application of the first part of phase I will have effects on the classification and measurement of the Group's financial assets. From the second part of this project stage, no material effects on the Group's financial, profit and economic situation are expected. 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.

Improvements to IFRS (2009-2011) The Improvements to IFRS 2009-2011 represent a collection of amendments released in May 2012, carrying amendments to several IFRS subject to mandatory application for fiscal years beginning on or after January 1, 2013. The Group has not applied the following amendments:

-> IFRS 1: Clarification that an entity that has abandoned financial reporting according to IFRS and decides or is obligated to resume IFRS reporting has the opportunity to apply IFRS 1 anew. If the entity does not apply IFRS again, it has to adjust its financial statements retroactively as if it had never abandoned the application of IFRS;

-> IAS 1: Clarification of the difference between voluntary additional comparative information and the minimum required comparative information which generally involves the previous reporting period;

-> IAS 16: Clarification that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory;

-> IAS 32: Clarification that income tax on distributions to equity holders is accounted for in accordance with IAS 12: Income Taxes;

-> IAS 34: Provision for the alignment of segment information for assets and for liabilities in interim financial statements and the alignment of information in interim financial statements and information in annual financial statements.

The following new provisions do not apply to the Group and will therefore have no effect on the Group's financial, profit and economic situation:

- Amendment to IFRS 1 – *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- Amendment to IFRS 1 – *Government Loans*
- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment Entities*
- IAS 27 – *Separate Financial Statements (amended 2011)*
- IFRIC 20 – *Stripping Costs in the Production Phase of a Surface Mine*
- Amendment to IAS 12 – *Deferred Tax: Recovery of Underlying Assets*

2 // Principles of consolidation

Basis of consolidation and consolidation methods In addition to Elmos Semiconductor AG, the consolidated financial statements prepared for fiscal year 2012 include all entities whose voting rights Elmos has the direct or indirect majority of or based on other rights in cases of control over the entity as defined by IAS 27 *"Consolidated Financial Statements and Accounting for Investments in Subsidiaries"*. 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, identifiable assets and liabilities are fully accounted for at their respective time values. The balance of a remaining asset difference is stated as goodwill.

The separate 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 investments in associated companies are accounted for in accordance with the equity method. An associate is an entity over which the Group has significant influence.

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 foreign 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 exchange rate as of the reporting date.

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 economically independent international subsidiaries are translated into Euro at the closing exchange 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 historical rates and closing rates 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 transactions 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 transactions do not pose a risk to the Company's profit situation as the gains and losses from these transactions are usually offset by the gains and losses from the hedged assets and liabilities. Beyond the reporting date December 31, 2012 the Company did not enter into forward exchange transactions. For the exchange rate gains and losses from currency hedges altogether realized during fiscal year 2012, please refer to note 30.

Statement of cash flows The statement of cash flows shows how cash and cash equivalents have changed in the course of the fiscal year by inflows and outflows of funds. The effects of acquisitions and divestitures 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 income statement essentially correspond with the amounts paid, with the exception of the impairment loss presented in notes 8 and 15 regarding the Californian investment in TetraSun Inc.

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 sales tax and after deduction of any discounts given.

Sales are realized either at the time that 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 but reviewed for recoverability 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 might have fallen below its book value. As of the 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 perpetuity growth rate of 0.5%, the net present 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 if, among other criteria, 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 (pilot) series production (so-called PPAP status; until June 30, 2011: so-called QBII status) is launched.

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 three to seven years (depending on the classification of the projects according to the sectors automotive, industry, or consumer).

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 cost and amortized over their estimated useful lives of 3 to 20 years under the straight-line method.

Amortization is entered in the consolidated income statement.

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

Property, plant and equipment are depreciated 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 loss is recognized for this asset in accordance with IAS 36.

On the sale or disposal of property, plant and equipment, corresponding acquisition cost and corresponding cumulative 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 income statement as expense.

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

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

Investments in Joint Ventures Elmos had an investment in a joint venture until March 31, 2012. A contractual agreement between the partners provided for the joint management of the entity's economic activities. The agreement required the partners' unanimous decision on financial and operational issues. The Group accounted for its share in the joint venture until March 31, 2012 in application of proportionate consolidation. The Group recorded its proportionate share in the joint venture's assets, liabilities, income and expenses in the corresponding items in the consolidated financial statements. The joint venture's financial statements were prepared as of the same reporting date as the consolidated financial statements. Insofar as necessary, adjustments were made in line with the Group's consistent accounting and valuation methods.

Adjustments were made in the consolidated financial statements in order to eliminate the Group's share in intra-Group balances, business transactions as well as unrealized gains and losses from such transactions between the Group and its joint venture. Inclusion of the joint venture in the consolidated financial statements by way of proportionate consolidation ended at the time when the Group was no longer involved in the joint management of the joint venture. As of April 1, 2012 the joint venture, until then proportionately consolidated at 50% due to its control by voting trust agreement, has been included in the consolidated financial statements as a subsidiary by way of full consolidation.

Investments in Associates Investments in associates are accounted for using the equity method of accounting. Associates are entities over which a group can exert significant influence without having control. Significant influence is generally assumed if Elmos has a direct or indirect share of the voting rights of at least 20% up to 50%. According to the equity method, investments in associates are initially recognized at cost at the time of acquisition plus post-acquisition changes in the Group's share in the associate's net assets. The Group's share in the profits and losses of associated companies is presented in the income statement under the item "share in profit/loss of associates" from the time of acquisition. Cumulative changes after the acquisition are set off against the investment's book value. If the Group's share in losses of an associate equals or exceeds the Group's investment in this associate, the Group does not record any further losses.

Investments Investments represent interests in entities over which Elmos has neither control nor significant influence. Investments for which there is a quoted market price are classified as "available for sale" and measured at that price. Investments for which there is no active market are classified as "available for sale" and measured at amortized cost. Insofar as there is no active market for those entities, it is assumed that the book value corresponds with the market value. For the Californian investment in TetraSun Inc., impairment loss was recognized on the investment's book value as of December 31, 2012 based on the market value determination (please also refer to notes 8 and 15).

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

Financial instruments are recognized according to IAS 39.14 as of the time the Company becomes the financial instrument's contracting party. With respect to regular purchase and sales transactions, the recognition occurs as of settlement date. Financial assets are classified in accordance with IAS 39 in the following categories:

-> financial assets held for trading
-> financial assets held to final maturity
-> loans and receivables originated by the enterprise
-> available-for-sale financial assets
-> financial liabilities measured at amortized cost and
-> financial liabilities measured at fair value through profit or loss

Financial instruments accounted for include liquid assets, securities, trade receivables, trade payables, forward loans including corresponding interest swap transactions (cash flow hedges), forward exchange transactions, and other outside financing.

Financial assets Financial assets with determined or determinable payments and fixed terms which the Company is willing and able to hold to final maturity are classified as held-to-maturity financial assets, with the exception of loans and receivables originated 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 originated 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 are regarded as current assets. Available-for-sale financial assets are regarded as non-current or current assets depending on their remaining term to maturity. If they are intended to be sold within twelve months of the reporting date, they are categorized as current assets. In fiscal year 2012 a part of the securities classified as held-to-maturity financial assets in the previous year was sold before the term to maturity was completed. In consequence of that, the part of the securities formerly classified as held-to-maturity financial assets that was not sold was also reclassified to the category of available-for-sale financial assets in accordance with IAS 39.52.

Upon their first-time recognition, financial assets are measured at 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 taken into account. 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 at that point in time.

Changes in fair value of financial assets held for trading are recognized in finance income/expenses insofar as there is a direct connection with the Company's financing or its financial investments. Held-to-maturity financial assets are measured at amortized cost using the effective interest method.

Financial liabilities Financial liabilities generally constitute a claim for return in cash or in the shape of another financial asset. This category particularly includes trade payables, financial liabilities, and other liabilities.

After their first-time recognition, financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and liabilities for which the fair value option has been exercised. Derivatives are classified as held for trading unless they are designated as hedging instruments and are effective as such. Gains or losses from financial liabilities held for trading or from liabilities for which the fair value option has been exercised are recognized in profit or loss.

Upon their first-time recognition, financial instruments are classified either 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 income statement 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.

Upon their first-time recognition, put options written on non-controlling interests are recorded as financial liabilities at the net present value of their repurchase amounts in accordance with IAS 32.23. Such financial liabilities are measured in accordance with IAS 39 and any changes resulting from subsequent measurement are recognized in profit or loss.

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 his payment obligations on the due date according to the terms and conditions of a liability instrument. Upon first-time recognition, financial guarantee contracts are recognized 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 rate 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 at all times.

According to IAS 39, all derivative financial instruments are to be assigned to the category "at fair value through profit or loss" and to be 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 utilized 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. 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 on the basis of established valuation models.

The hedging strategy pursued by the Elmos Group is to exclusively enter into effective derivatives for hedging interest and currency risks. The conditions defined by IAS 39 as required for accounting treatment as hedging transactions were met upon conclusion of the hedging instruments as well as at the reporting date.

Inventories Inventories are measured at acquisition or production cost or at the lower net recoverable value as of the reporting date. In addition to directly attributable cost, production cost also includes manufacturing cost and overhead as well as amortization. Overhead costs are recognized as fixed amounts on the basis of the production facilities' usual utilization. Costs of unused production capacity (idle capacity costs) are disclosed in the consolidated income statement under cost of sales. Inventory allowances are made insofar as acquisition or production cost exceeds the expected recoverable net sales proceeds.

Trade receivables Trade receivables as well as other receivables are basically recognized at face value in consideration of adequate allowances.

The allowance for bad debt comprises to a considerable degree estimates and assessments of individual receivables based on the respective customer's creditworthiness, current economic developments, and the analysis of historical bad debt loss on portfolio basis. Insofar as the allowance is deduced from historical 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) Liquid assets comprise cash on hand, checks and cash in banks.

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 historical origins if it is probable that the fulfillment of the obligation will lead to an outflow of the Group's resources and if a reliable estimate of the amount of the obligation can be made.

Recurring net pension expenses 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 using 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 as of 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 made as of the time of sale based on the historical ratio of warranty costs to sales. Furthermore, in individual cases adequate provisions are made upon risk assessment with respect to sales-oriented and legal consequences.

Taxes Current tax assets and tax liabilities for the current period and for previous periods are measured 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 using 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 measurement of deferred tax assets and liabilities considers the tax effects resulting from the way a company expects to realize its assets' carrying amounts 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 non-current 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 entity 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 carry-forwards in the following years insofar as their realization appears assured with sufficient reliability.

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

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 reclaimed 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 respectively.

Government grants Subsidies or government grants are accounted for 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 recognized in the statement of financial position as reduction of acquisition cost and amortized in equal installments over the corresponding asset's estimated period of use through 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 manufacture 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 expense 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

The 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 separate 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, South Africa, Asia, and the U.S. Sales in this segment are generated primarily with automotive electronics. Elmos is also active in the sector of industrial and consumer goods, supplying 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-electro-mechanical 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 with 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, 2012 and December 31, 2011.

Fiscal year ended December 31, 2012	Semiconductor thousand Euro	Micromechanics thousand Euro	Consolidation thousand Euro	Group thousand Euro
Sales				
Third-party sales	161,596	18,518	0	180,114
Inter-segment sales	254	1,003	–1,257[1]	0
Total sales	**161,850**	**19,521**	**–1,257**	**180,114**
Earnings				
Depreciation	16,885	630	0	17,515
Other material non-cash expenses	–620	–49	0	–669
Other material non-cash income	151	0	0	151
Segment income	8,870	2,499	0	11,369
Finance income				1,856
Finance expenses				–3,642
Earnings before taxes				**9,583**
Income tax				–1,286
Consolidated net income including non-controlling interests				**8,297**
Assets and liabilities				
Segment assets	196,462	13,664	59,408[2]	269,534
Investments	470	2,182	0	2,652
Total assets				272,186
Segment liabilities/Total liabilities	31,620	2,027	48,489[3]	82,136
Other segment information				
Capital expenditures for intangible assets and property, plant and equipment	17,757	1,097	0	18,854

[1] Sales from inter-segment transactions are eliminated for consolidation purposes.
[2] Non-attributable assets as of December 31, 2012 include cash and cash equivalents (55,576 thousand Euro), income tax assets (411 thousand Euro), and deferred taxes (3,421 thousand Euro), as these assets are managed on group level.
[3] Non-attributable liabilities as of December 31, 2012 include current financial liabilities (30,290 thousand Euro), non-current financial liabilities (12,571 thousand Euro), current tax liabilities (1,409 thousand Euro), and deferred taxes (4,219 thousand Euro), as these liabilities are managed on group level.

Other non-cash expenses primarily comprise stock option expense, among other items.

Fiscal year ended December 31, 2011	Semiconductor thousand Euro	Micromechanics thousand Euro	Consolidation thousand Euro	Group thousand Euro
Sales				
Third-party sales	177,427	16,919	0	194,346
Inter-segment sales	242	635	–877[1]	0
Total sales	**177,669**	**17,554**	**–877**	**194,346**
Earnings				
Depreciation	16,511	1,339	0	17,850
Other material non-cash expenses	–794	–39	0	–833
Other material non-cash income	133	0	0	133
Segment income	24,093	2,497	0	26,590
Share in profits of associates				–30
Finance income				1,676
Finance expenses				–2,427
Earnings before taxes				**25,809**
Income tax				–6,608
Consolidated net income including non-controlling interests				**19,201**
Assets and liabilities				
Segment assets	186,404	14,024	65,569[2]	265,997
Investments	470	3,447	0	3,917
Total assets				269,914
Segment liabilities/Total liabilities	33,189	2,049	46,731[3]	81,969
Other segment information				
Capital expenditures for intangible assets and property, plant and equipment	19,236	687	0	19,923

[1] Sales from inter-segment transactions are eliminated for consolidation purposes.
[2] Non-attributable assets as of December 31, 2011 include cash and cash equivalents (59,002 thousand Euro), income tax assets (2,989 thousand Euro), and deferred taxes (3,579 thousand Euro), as these assets are managed on group level.
[3] Non-attributable liabilities as of December 31, 2011 include current financial liabilities (10,496 thousand Euro), non-current financial liabilities (30,235 thousand Euro), current tax liabilities (2,006 thousand Euro), and deferred taxes (3,994 thousand Euro), as these liabilities are managed on group level.

Other non-cash expenses comprise extraordinary write-down on non-current assets and stock option expense, among other items.

Geographic information The geographic segment “Other EU countries” basically includes all member states of the European Union as of the respective reporting date, with the exception of Germany. 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 by the customers’ delivery locations.

Geographic information

Third-party sales	2012 thousand Euro	2011 thousand Euro
Germany	53,491	68,962
Other EU countries	59,269	62,923
U.S.A.	16,598	14,536
Asia/Pacific	36,910	34,807
Other countries	13,846	13,118
Group sales	**180,114**	**194,346**

Geographic breakdown of non-current assets	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Germany	112,054	99,060
Other EU countries	4,796	6,832[1]
U.S.A.	6,458	7,360
Other countries	76	21
Non-current assets	**123,384**	**113,273[1]**

[1] Reduction of prior-year value by other non-current financial assets

Sales generated with the top two customers who both account for more than 10% of sales each amount to 26.2 million Euro and 20.5 million Euro respectively and result from sales in the semiconductor segment.

Notes to the consolidated income statement and the consolidated statement of comprehensive income

5 // Sales

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

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

	2012 thousand Euro	2011 thousand Euro
Semiconductor	161,596	177,427
Micromechanics	18,518	16,919
Group	**180,114**	**194,346**

Sales went down by 7.3% to 180,114 thousand Euro. The reason for this development is the sales decline from 177,427 thousand Euro by 8.9% to 161,596 thousand Euro in the semiconductor segment. Contrary to that, sales in the micromechanics segment increased by 9.5% to 18,518 thousand Euro.

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

Cost of sales The cost of sales contains costs of performances rendered toward 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:

	2012 thousand Euro	2011 thousand Euro
Material costs	44,329	44,552
Personnel expense	28,857	28,038
Other overhead	34,260	34,424
Changes in inventories	–3,408	–2,262
	104,038	**104,752**

Cost of sales was reduced by 0.7% from 104,752 thousand Euro in 2011 to 104,038 in the year under review. Due to the slightly reduced demand compared to the previous year and the resulting slightly lower production output, a decrease in material costs by the amount of 223 thousand Euro is noticeable. The immaterially reduced other overhead compared with the previous year is due essentially to lower costs of maintenance and repair. Adjusted by effects of changes in inventories, the resulting increase in expenses amounts to 0.4%.

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 recognized in profit or loss according to the amount of work invested. Development expenses are capitalized depending on the project and then amortized or – insofar as capitalization requirements are not met – recognized in profit or loss. In fiscal year 2012, R&D expenses of 34,968 thousand Euro (previous year: 32,541 thousand Euro) were charged to expenses.

Distribution expenses Distribution expenses in the amount of 17,712 thousand Euro (previous year: 16,163 thousand Euro) essentially include expenses for personnel, leases, and depreciation.

Administrative expenses Administrative expenses of 15,909 thousand Euro (previous year: 16,680 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 and amortization as well as for legal and consulting fees.

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

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

Within the scope of the presentation of the statement of comprehensive income in accordance with the cost of sales method, expenses are allocated with regard to functional areas. Cost of sales, distribution expenses, administrative expenses, and research and development expenses contained the following cost types as indicated below:

Material costs Material costs amounted to 52,607 thousand Euro in the year under review and are down 3.0% from the previous year (2011: 54,233 thousand Euro). They include expenses for raw materials, supplies, consumables, and for services claimed.

Personnel expense Personnel expense climbed 5.3% from 62,185 thousand Euro in fiscal year 2011 to 65,494 thousand Euro in fiscal year 2012. Over the same reporting period, the number of employees – based on an average employment ratio – went slightly up from 988 in fiscal year 2011 to 1,034 (+4.6%) in fiscal year 2012. Further staff information can be found under note 40.

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

Depreciation and amortization came to 17,515 thousand Euro in the year under report (2011: 17,850 thousand Euro), equivalent to a decrease of 1.9%.

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

8 // Finance expenses, finance income and share in profits of associates

Finance expenses came to 3,642 thousand Euro in 2012 compared to 2,427 thousand Euro in 2011. Apart from interest expenses for liabilities to banks and for non-current liabilities, this item also includes the impairment loss recognized in 2012 for the write-down on the investment in TetraSun Inc., Santa Clara/U.S.A. in the amount of 1,232 thousand Euro (please refer to note 15).

Under the item finance income, essentially interest income was reported in fiscal year 2012. Finance income added up to 1,856 thousand Euro (previous year: 1,676 thousand Euro).

Finance expenses and finance income reported in the consolidated income statement essentially correspond with the amounts paid, with the exception of the impairment loss recognized in 2012.

	2012 thousand Euro	2011 thousand Euro
Finance income/Interest income	–1,856	–1,676
Interest expenses	2,382	2,427
Impairment loss TetraSun Inc.	1,232	0
Appreciation in value of put option	28	0
Financial result	**1,786**	**751**

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

	2012 thousand Euro	2011 thousand Euro
Interest income	–1,856	–1,676
Interest expenses	2,375	2,411
Interest result	**519**	**735**

The share in profits of associates comes to 0 thousand Euro in fiscal year 2012 (2011: proportionate loss in the amount of 30 thousand Euro). The prior-year loss resulted from the accounting treatment of the investment in California's TetraSun Inc. as an associate in that reporting period. In the fourth quarter of 2011, Elmos Semiconductor AG lost its significant influence over the entity. Accordingly, as of December 31, 2011 and December 31, 2012, the investment in TetraSun Inc. has been accounted for as an available-for-sale financial asset in accordance with IAS 39 (please refer to note 29).

9 // Foreign exchange gains/losses

Losses from exchange rate differences recognized in profit or loss amount to 379 thousand Euro in fiscal year 2012 (previous year: gains of 275 thousand Euro).

Exchange rate changes attributable to the owners of the parent and recognized outside profit or loss amount to 1,634 thousand Euro in fiscal year 2012 (previous year: 1,400 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 expenses and income

Other operating income in the amount of 5,519 thousand Euro (2011: 4,867 thousand Euro) includes income from the release of provisions (1,372 thousand Euro) and income from the revaluation of the old shares in MAZ (1,824 thousand Euro; please also refer to note 33), among other items.

Other operating expenses in the amount of 1,258 thousand Euro (2011: 2,762 thousand Euro) include, among other items, real-estate charges in the amount of 321 thousand Euro, extraordinary write-down on a part of a building assigned to the semiconductor segment in the amount of 401 thousand Euro, and other prior-period expense in the amount of 171 thousand Euro.

11 // Income tax

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

	2012 thousand Euro	2011 thousand Euro
Current income tax		
Germany	648	1,718
Outside Germany	973	470
	1,621	**2,188**
thereof taxes from previous years	67	196
Deferred tax		
Germany	–493	3,075
Outside Germany	158	1,346
	–335	**4,420**
	1,286	**6,608**

Deferred taxes have been calculated in accordance with 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 corporate 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 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 book values of assets and liabilities in the consolidated financial statements and the tax statements in 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 to the consolidated net income and the Company's effective income tax are as follows:

	2012 %	2011 %
Statutory tax rate	32.21	32.21
Foreign tax rate differential	–5.28	–2.13
Expenses disallowable against tax	1.88	0.76
Trade tax additions/cuts	3.62	1.26
Taxes from previous years	–2.80	0.76
Changes in tax rates	–0.25	0.00
Consumption of loss carry-forward	0.00	–0.01
Capitalization of impaired loss carry-forward	0.00	–1.85
Tax-free income	–16.59	–5.54
Others	0.63	0.14
Effective tax rate	**13.42**	**25.60**

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

	2012	2011
Weighted average number of ordinary shares outstanding	19,375,671	19,302,994
Stock options with dilutive potential	132,038	344,556
Weighted average number of ordinary shares outstanding, including dilutive effect	**19,507,709**	**19,647,550**

Calculation of the earnings per share

	2012	2011
Consolidated net income attributable to owners of the parent (in Euro)	8,010,158	18,920,962
Basic earnings per share (in Euro)	0.41	0.98
Fully diluted earnings per share (in Euro)	0.41	0.96

The weighted average number of shares in 2011 includes the weighted average effect of changes from transactions with treasury shares in the course of the year 2011. The weighted average number of shares in 2012 includes both the weighted average effect of changes from transactions with treasury shares and the weighted average effect of the exercise of stock options from the 2009 tranche in the course of the year 2012.

Outstanding stock options originating from the 2010 and 2011 tranches have not been included in the calculation of diluted earnings per share 2012 as they counteract the dilutive effect for the period presented. Further information on stock option plans can be found under note 23.

In the period between the reporting date and the preparation of the consolidated financial statements, Elmos Semiconductor AG carried out further share buyback transactions. However, these transactions only resulted in immaterial changes to the ordinary shares outstanding.

Notes to the statement of financial position

13 // Intangible assets

thousand Euro	Goodwill	Development projects	Software and licenses and similar rights and values	Advance payments and projects under development	Total
Acquisition and production cost					
December 31, 2010	**2,379**	**18,103**	**48,617**	**1,449**	**70,548**
Foreign currency adjustments	6	0	82	0	88
Additions	534	1,536	682	1,124	3,876
Transfers	0	790	252	–1,042	0
Disposals	0	–509	–422	–1	–932
December 31, 2011	**2,919**	**19,920**	**49,211**	**1,530**	**73,580**
Foreign currency adjustments	–5	0	–51	0	–56
Additions	716	967	3,776	627	6,086
Transfers	0	800	261	–1,001	60
Disposals	0	–1	–127	0	–128
December 31, 2012	**3,631**	**21,686**	**53,070**	**1,156**	**79,543**
Depreciation and amortization					
December 31, 2010	**0**	**12,220**	**27,739**	**0**	**39,959**
Foreign currency adjustments	0	0	81	0	81
Additions	0	1,772	3,272	0	5,044
Disposals	0	–323	–421	0	–744
December 31, 2011	**0**	**13,669**	**30,671**	**0**	**44,340**
Foreign currency adjustments	0	0	–44	0	–44
Additions	0	2,034	3,105	0	5,139
Disposals	0	–1	–127	0	–128
December 31, 2012	**0**	**15,702**	**33,605**	**0**	**49,307**
Book value December 31, 2012	**3,631**	**5,984**	**19,465**	**1,156**	**30,236**
Book value December 31, 2011	2,919	6,251	18,540	1,530	29,240

Goodwill Changes in goodwill are as follows:

	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Elmos N.A.		
Acquisition cost	555	555
Foreign currency adjustments	5	9
Book value	**560**	**564**
Elmos Semiconductor AG (formerly Elmos France S.A.S.)	**1,615**	**1,615**
Elmos Services B.V.	**206**	**206**
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg	**1,250**	**534**
	3,631	**2,919**

The increase in goodwill at MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg is based on attaining control over this entity by concluding a voting trust agreement. The entity has thus been included in the consolidated financial statements by way of full consolidation as of April 1, 2012 for the first time (please refer to note 33).

In accordance with IFRS 3, goodwill is not amortized but reviewed for impairment at least once every year. Measurement is determined on the basis of cash generating units, corresponding here with the legal entities the respective goodwill is attributed to. The subsidiary Elmos France S.A.S., Levallois Perret/France has left the Elmos Group's basis of consolidation effective March 30, 2012. In terms of corporate law, this transaction represents winding-up the entity without liquidation. Elmos Semiconductor AG, Dortmund, is the legal successor with respect to the assets and liabilities accounted for at the subsidiary. The goodwill attributed to the former subsidiary is reported on the level of Elmos Semiconductor AG as of the date of this transaction.

For the purpose of the impairment reviews to be conducted annually in accordance with IAS 36, the Group determines the recoverable amount on the basis of value in use. The forecasts are based on free cash flows. They are in turn based on detailed planning adopted by management and consider the Company's own empirical data as well as external general economic data. The forecasts are based both on historical values and the general market performance expected for the future. In determining the value in use, there is estimating uncertainty with respect to individual sales and cost planning as approved by management. Material parameters are established in the context of bottom-up planning by the subsidiaries and the business divisions. Methodically, the detailed planning phase comprises a five-year planning period from 2013 to 2017. For the value added from 2018, it is enhanced by the perpetual annuity, which is based on a growth rate of 0.5%, corresponding with a general expectation of the future business performance.

Further basic assumptions for determining the value in use *Gross margins* – Gross margins are generally determined on the basis of the average values generated in the previous fiscal years before the beginning of the planning period. These margins are increased in the individual case by the expected efficiency increases in the course of the detailed planning period. For the individual cash generating units, gross margins with different bandwidths are taken as a basis. The budgeted annual performance of the gross margins was established individually for each cash generating unit, ranging from constant gross margins to double-digit percentage growth rates in the detailed planning period.

Price developments for raw materials – Raw material price developments of the past are regarded as indicative of future price developments. Forecast data are used only if they are accessible to the public.

Assumptions on market share – These assumptions are relevant insofar as the Company's management assesses – as in establishing assumptions for growth rates – how the positions of the individual companies might change in relation to their competitors during the budgeting period. Management anticipates steady market shares in probably growing markets. Market research institutes predict a growth of 9% for the global semiconductor market. Sales with automotive semiconductors are supposed to increase by 6%.

Discount rates – The pre-tax interest rates applied were determined according to the capital asset pricing model (CAPM) and come to 14.35% for Elmos N.A., 13.92% for Elmos Semiconductor AG (formerly Elmos France S.A.S.), 13.15% for Elmos Services B.V., and 14.28% for MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg. These interest rates correspond with the weighted average cost of capital. This so-called WACC is based on a risk-free interest rate (2.50%) plus an average market risk premium (6.00%), multiplied by a company-specific equity beta based on a so-called raw beta of 1.24. All the rates stated are derived from market data.

In 2012 impairment reviews were conducted that did not result in impairment. It was established that the recoverable amounts of the respective units exceeded the respective book values.

Elmos has conducted sensitivity analyses, examining the effects of the simultaneous reduction of the budgeted earnings before interest and taxes (EBIT) in all planning periods beginning in 2013 by 10% compared to the adopted corporate budgets, a weighted average cost of capital increased by another 1.0 percentage points, and a reduction of the growth rate for perpetual annuity to 0.0% with respect to the recoverability of goodwill in the business divisions. The sensitivity analyses have shown that from today's viewpoint there would be no need for the impairment of the goodwill of Elmos N.A., Elmos Semiconductor AG (formerly Elmos France S.A.S.) and der Elmos Services B.V. even under these changed assumptions. Regarding the cash generating unit MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, the estimated recoverable amount is 671 thousand Euro higher than the book value. A sensitivity analysis based on the parameters described above results in a devaluation risk of goodwill in the amount of 285 thousand Euro.

Other intangible assets

Development projects

In 2012 expenses linked to product developments were capitalized as development projects and projects under development in the amount of 1,195 thousand Euro (previous year: 2,357 thousand Euro). Depreciation of capitalized developments amounted to 2,034 thousand Euro in 2012 (previous year: 1,772 thousand Euro). The book value of capitalized development expenses (including projects under development) is 6,553 thousand Euro as of December 31, 2012 (previous year: 7,391 thousand Euro).

Amounts reported under “development projects” exclusively relate to the Company’s in-house developments.

Software and licenses and similar rights and values

In 2012 as in the year before, no expenses for process technology were capitalized. Amortization came to 1,254 thousand Euro in 2012 (2011: 1,254 thousand Euro). As of December 31, 2012, the capitalized book values for process technology capitalized as non-current assets added up to 9,812 thousand Euro; they amounted to 11,066 thousand Euro as of December 31, 2011.

Additions reported under “Software and licenses and similar rights and values” in the year 2012 resulted from purchases in the amount of 341 thousand Euro (previous year: 476 thousand Euro) and in-house developments in the amount of 229 thousand Euro (previous year: 206 thousand Euro). In addition to that, additions resulted in the amount of 3,206 thousand Euro from the elimination of hidden reserves at the time of attaining control over MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin (please refer to note 33).

Advance payments and projects under development

The item “Advance payments and projects under development” recorded exclusively additions from in-house developments in the fiscal year (627 thousand Euro; 2011: in-house developments 1,115 thousand Euro, purchases 9 thousand Euro).

Other information

Costs linked to research and development projects for new products as well as for significant product upgrades are charged to expenses to the extent in which they incur, included under research and development expenses. Research and development expenses of 5,882 thousand Euro were reimbursed by customers in 2012 (3,003 thousand Euro in 2011).

14 // Property, plant and equipment

thousand Euro	Property	Buildings and building improvements	Technical equipment and machinery	Advance payments and construction in process	Total
Acquisition and production cost					
December 31, 2010	**1,504**	**27,712**	**160,246**	**2,724**	**192,186**
Foreign currency adjustments	0	71	281	5	357
Additions	0	151	8,362	7,534	16,047
Transfers	0	284	1,558	−1,842	0
Disposals	0	−823	−2,811	−403	−4,037
December 31, 2011	**1,504**	**27,395**	**167,636**	**8,018**	**204,553**
Foreign currency adjustments	0	−44	−177	−7	−227
Additions	0	4,781	5,636	2,352	12,768
Transfers	0	550	6,284	−6,893	−60
Disposals	0	−6	−2,061	−19	−2,085
December 31, 2012	**1,504**	**32,676**	**177,318**	**3,450**	**214,948**
Depreciation and amortization					
December 31, 2010	**0**	**14,037**	**108,655**	**0**	**122,692**
Foreign currency adjustments	0	33	300	0	333
Additions	0	1,533	11,272	0	12,805
Disposals	0	−823	−2,224	0	−3,047
December 31, 2011	**0**	**14,780**	**118,003**	**0**	**132,783**
Foreign currency adjustments	0	−19	−168	0	−187
Additions	0	1,339	11,037	0	12,376
Disposals	0	−4	−1,776	0	−1,779
December 31, 2012	**0**	**16,095**	**127,097**	**0**	**143,192**
Book value December 31, 2012	**1,504**	**16,581**	**50,220**	**3,450**	**71,755**
Book value December 31, 2011	1,504	12,615	49,633	8,018	71,770

No borrowing costs were capitalized in fiscal year 2012 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. They were repurchased by the Company as of December 28, 2012 for the purchase price of 2,562 thousand Euro offset against the tenant loan extended in the past in the amount of 1,819 thousand Euro.

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 recognized 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 have no longer been accounted for. 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 tenant loans 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 recognized 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 have no longer been accounted for. 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 tenant loans 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 2012. Future minimum payments from non-cancelable subletting agreements are also immaterial. For further information, please refer to note 32.

15 // Investments in associates, securities and other investments

a) Investments in associates attoSENSOR GmbH i.L., Penzberg
As of December 31, 2012 Elmos holds 45% of the shares. The entity has a share capital of 40 thousand Euro. attoSENSOR GmbH i.L., Penzberg is accounted for in accordance with 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 years 2010, 2011 and 2012, 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 (18,741 thousand Euro; previous year: 8,346 thousand Euro). Bonds maturing within one year have been allocated to current assets (7,840 thousand Euro; previous year: 9,102 thousand Euro).

c) Other investments The Company holds stakes in the following other entities listed below. Investments in subsidiaries or associates considered of minor significance from the Group's viewpoint are accounted for in accordance with IAS 39.

	12/31/2012 thousand Euro	12/31/2012 thousand Euro
Epigone	1	1
Advanced Appliances Chips	0	0
Elmos USA Inc.	19	19
DMOS	450	450
TetraSun Inc.	2,182	3,447
	2,652	**3,917**

Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz Elmos holds 6% of the shares as of December 31, 2012, unchanged from the previous year.

Advanced Appliances Chips GmbH i.L., Riedstadt By partners' resolution of September 30, 2011, the liquidation of the entity was decided, effective midnight of September 30, 2011. At that time Elmos held 33.33% of the shares in the entity that had a share capital of 102 thousand Euro. By resolution of December 4, 2012, the share capital remaining after offsetting the entities cumulated losses in the amount of 43 thousand Euro was proportionately distributed to the partners. The Company's liquidation was entered in the commercial register on December 28, 2012.

Elmos USA Inc., Farmington Hills/U.S.A. This entity is a holding company for the U.S. subsidiaries of the Elmos Group. Elmos continues to hold 100% of the shares as of December 31, 2012. The entity does not conduct independent business operations

DMOS Dresden MOS Design GmbH, Dresden As of December 31, 2012 Elmos continues to hold 20% of the shares in DMOS. By the end of 2008 Elmos irrevocably waived the right to exercise a call option on the acquisition of a controlling 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 exert significant influence. The DMOS management governs the entity's business independently and acquires third-party business on its own authority. Thus there is no significant influence over the entity.

TetraSun Inc., Santa Clara/U.S.A. In July 2011 Elmos had increased its interest in California's TetraSun Inc. through the U.S. subsidiary Silicon Microstructures Inc., Milpitas/U.S.A. Due to this investment the Elmos Group gained significant influence over TetraSun Inc. according to the contractual arrangement. Therefore the entity had to be included in the interim financial statements as of September 30, 2011 as an associate. After contractual adjustments made in December 2011, Elmos lost its significant influence over TetraSun so that the entity was reported as a mere investment as of December 31, 2012 as was the case as of December 31, 2011. The market development resulted in permanent impairment of the investment in TetraSun Inc., Santa Clara/U.S.A. as of December 31, 2012 so that in 2012 impairment loss in the amount of 1,232 thousand Euro had to be recognized (please also refer to note 8). As of December 31, 2012, Elmos holds an indirect interest in TetraSun Inc. of 8.6% through its subsidiary Silicon Microstructures Inc.

Summarized financial information

Entity	Currency	Total assets thousand	Total liabilities thousand	Earnings thousand	Net income for the period thousand
attoSENSOR[1]	EUR	51	11	61	–4
Epigone[2]	EUR	10,487	10,487	653	–8
Elmos USA Inc.[3]	USD	–	–	–	–
DMOS[2]	EUR	5,961	5,434	3,904	–1
TetraSun Inc.[4]	USD	5,856	231	0	–2,612

[1] Presented figures are based on the preliminary unaudited financial statements as of September 30, 2012.
[2] Presented figures are based on the preliminary, unaudited financial statements as of December 31, 2012.
[3] Presently no financial statements of the entity are available.
[4] Presented figures are based on the audited financial statements as of December 31, 2011.

16 // Deferred tax

	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Deferred tax assets		
Intangible assets	222	286
Property, plant and equipment	684	1,175
Investments	443	0
Pension provisions	248	193
Other provisions	700	359
Advance payments/Accruals and deferrals	489	554
Loss carry-forward	3,002	3,661
Tax credits	470	294
Others	110	92
Subtotal	6,368	6,614
Balance	–2,947	–3,035
	3,421	**3,579**
Deferred tax liabilities		
Intangible assets	–3,977	–4,505
Property, plant and equipment	–2,742	–2,295
Other provisions	–196	–102
Others	–251	–127
Subtotal	–7,166	–7,029
Balance	2,947	3,035
	–4,219	**–3,994**
Net amount of deferred tax	**–798**	**–415**

The balances stated above were determined 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 related to the same tax authority and if the taxable entity was entitled to offset current tax assets against tax liabilities.

Deferred tax assets also include tax effects from changes in equity. The reduction of the net amount of deferred tax coming to 383 thousand Euro comprises deferred tax in the consolidated income statement in the amount of 335 thousand Euro (income), deferred tax liabilities in the amount of 967 thousand Euro on hidden reserves in intangible assets disclosed within the framework of the first-time consolidation of MAZ as of April 1, 2012 in the amount of 3,206 thousand Euro as well as other changes outside profit or loss in the amount of 249 thousand Euro. Other changes outside profit or loss in the amount of 249 thousand Euro essentially result from deferred tax effects within the other comprehensive income as presented in the consolidated statement of comprehensive income and under note 22.

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

Deferred tax assets were capitalized for loss carry-forward of domestic companies in the amount of 5,327 thousand Euro (corporate tax) or rather 61 thousand Euro (trade tax) (previous year: 6,587 thousand Euro (corporate tax) or rather 656 thousand Euro (trade tax)).

For foreign entities, deferred tax assets were recognized in the amount of 2,149 thousand Euro (previous year: 2,506 thousand Euro) on taxable loss carry-forward and in the amount of 470 thousand Euro (previous year: 294 thousand Euro) on tax credits.

17 // Inventories

Inventories can be broken down as follows:

	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Raw materials	7,432	7,900
Work in process	27,464	23,842[1]
Finished goods	8,072	8,209[1]
	42,968	**39,951**

[1] Prior-year value has been adjusted.

The impairment of inventories recognized as expense amounts to 771 thousand Euro (previous year: 797 thousand Euro). This expense is disclosed under the item cost of sales. The impairment loss expense includes write-down on special spare parts attributable to the semiconductor segment in the amount of 500 thousand Euro. The write-down is based on the limited usability of spare parts toward the end of the product life cycle. In addition, inventories whose future sale has become improbable were written down in the amount of 192 thousand Euro. These assets are attributable to the micromechanics segment.

18 // Trade receivables

Trade receivables can be broken down as follows:

	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Trade receivables	27,876	28,906
Valuation allowances	–232	–192
	27,644	**28,714**

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

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

	2012 thousand Euro	2011 thousand Euro
Valuation allowances as of January 1	192	190
Additions in the reporting period (valuation allowance expense)	30	33
Consumption	0	0
Reversals (revaluation of initially written-off receivables)	–26	–1
Currency translation effects	36	–30
Valuation allowances as of Dezember 31	**232**	**192**

The valuation 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 on 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.

		Neither impaired nor overdue as of the reporting date	Not impaired as of the reporting date and overdue in the following time bands					
thousand Euro	**Book value**		**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	12/31/2012	24,163	3,148	52	117	87	98	13
Other financial assets	12/31/2012	5,319	0	0	0	0	0	0
Trade receivables	12/31/2011	26,500	1,806	358	13	47	7	0
Other financial assets	12/31/2011	6,447	0	0	20	0	0	0

19 // Cash and cash equivalents

The Company treats all highly liquid investments with a maturity of three months or less as of the date of acquisition 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 include the following components:

	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Earn-out (cf. note 29)	562	530
Loan receivables from third parties	500	1,100
Call option	54	0
	1,116	**1,630**

b) Other current financial assets Other current financial assets include the following components:

	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Receivables from equity investments	1,305	1,425
Tenant loans	521	1,729[1]
Other financial assets	2,377	1,670[1]
Market valuation of forward exchange transactions	0	13
	4,203	**4,837**

[1] More detailed breakdown compared to year under report 2011.

c) Other receivables Other receivables include the following components:

	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Other tax assets	3,938	4,592
Accruals and deferrals	1,029	1,476
Other current receivables	512	431
	5,479	**6,499**

d) Income tax assets Income tax assets amount to 411 thousand Euro (December 31, 2011: 2,989 thousand Euro) and essentially include tax refund claims from corporate tax.

21 // Non-current assets held for sale

Non-current assets held for sale in the fiscal year are made up of IT equipment and various technical equipment and machinery as in the previous year.

These accounted-for assets of which 121 thousand Euro are attributable to the semiconductor segment and 23 thousand Euro are attributable to the micromechanics segment are intended to be sold to various lease companies in 2013 within the framework of sale and leaseback transactions.

22 // Equity

Share capital The share capital of 19,616 thousand Euro entered in the statement of financial position as of December 31, 2012 (December 31, 2011: 19,414 thousand Euro) and consisting of 19,615,705 (December 31, 2011: 19,414,205) no-par value bearer shares is fully paid up. It was increased from the previous year by 202 thousand Euro due to exercised stock options.

Treasury stock As of December 31, 2012 the Company holds 240,046 (December 31, 2011: 105,931) of the Company's no-par shares, adding up to a theoretical share in the share capital of 240 thousand Euro (December 31, 2011: 106 thousand Euro).

Additional paid-in capital Additional paid-in capital is composed as follows:

	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Premiums	83,690	84,350
Stock options and stock awards	4,909	4,539
Others	0	–373
	88,599	**88,516**

Additional paid-in capital essentially includes premiums from capital increases and the issue of shares of Elmos Semiconductor AG. In fiscal year 2012 this item was reduced by 956 thousand Euro due to the share buyback of 160,602 own shares at an average stock price of 6.953 Euro in the period from August 28, 2012 to December 27, 2012. By the exercise of stock options from a stock option plan, in 2012 additional paid-in capital was increased at the same time by altogether 540 thousand Euro. In 2012 26,487 treasury shares were assigned as remuneration components. By this transfer of shares, premiums included in additional paid-in capital were increased by 159 thousand Euro. Premiums were reduced by 30 thousand Euro on account of transaction costs.

The item stock options and stock awards were increased by the expense incurred in 2012 for the issue of stock options (317 thousand Euro) and stock awards (53 thousand Euro; please refer to note 23). For the previous year, the item "Others" comprises transactions with owners or rather changes in the context of the reorganization efforts made in 2011.

Other equity components Other equity components can be broken down as follows:

	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Foreign currency adjustments	–2,045	–1,751
Deferred tax (on foreign currency adjustments)	411	351
Hedges	–1,926	–925
Deferred tax (on hedges)	620	298
Changes in market value of available-for-sale financial assets	140	–37
Deferred tax (on changes in market value of available-for-sale financial assets)	–69	0
Other equity components	**–2,869**	**–2,064**

Reserves for foreign currency differences include differences from the currency translation of the 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). Changes in reserves for hedges in 2012 and 2011 solely result from changes in the market values of hedges.

Reserves for available-for-sale financial assets are made in order to cover changes in the fair values of selected financial instruments (please refer to notes 29 and 30).

The development of changes in equity that are attributable to the owners of the parent is shown in the following table for the years 2011 and 2012:

	thousand Euro
Balance as of 01/01/2011	**–1,740**
Exchange rate changes	522
Changes in deferred tax on exchange rate differences	–121
Changes in hedges	–1,015
Changes in deferred tax on hedges	327
Changes in available-for-sale financial assets	–37
Balance as of 12/31/2011	**–2,064**
Exchange rate changes	–294
Changes in deferred tax on exchange rate differences	60
Changes in hedges	–1,001
Changes in deferred tax on hedges	322
Changes in available-for-sale financial assets	177
Changes in deferred tax on available-for-sale financial assets	–69
Balance as of 12/31/2012	**–2,869**

Ownership Ownership as of December 31, 2012 is a follows:

	thousand Euro	%
Weyer Beteiligungsgesellschaft mbH, Schwerte	4,019	20.5
ZOE-VVG GmbH, Duisburg	3,050	15.6
Jumakos Beteiligungsgesellschaft mbH, Dortmund	2,971	15.1
Treasury stock	240	1.2
Shareholders <10% of the shares	9,336	47.6
	19,616	**100.0**

Authorized and conditional capital The Management Board is authorized to increase the Company's share capital up to and including May 16, 2016 subject to the Supervisory Board's approval by up to 9,707 thousand Euro through the singular or repeated issue of new no-par value bearer shares against contributions in cash or in kind **(authorized capital 2011/I).**

The share capital is conditionally increased by up to 294 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 thousand 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 pursuant to Section 18 AktG up to and including May 3, 2015 based on the 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 treasury 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 1,140,078 shares. Each option entitles to the acquisition of one no-par value share with a theoretical share in the share capital of 1.00 Euro each.

Dividend According to the German Stock Corporation Act, the dividend eligible for distribution is determined on the basis of the retained earnings Elmos Semiconductor AG reports in its annual financial statements (separate financial statements) prepared in accordance with the provisions of the German Commercial Code (HGB). In fiscal year 2012 Elmos Semiconductor AG distributed a dividend of 0.25 Euro per share out of the retained earnings of fiscal year 2011.

23 // Share-based payment plans

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 initially 495,000 new no-par shares (conditional capital 2009; meanwhile reduced to 293,500 shares by the exercise of stock options) and 1,250,000 new no-par shares (conditional capital 2010/I).

As of December 31, 2012 altogether 1,140,078 stock options are outstanding. These are accounted for by the different tranches as follows:

	Tranche 2009	Tranche 2010	Tranche 2011	Tranche 2012	Total
Year of resolution	2009	2010	2011	2012	
Year of issue	2009	2010	2011	2012	
Exercise price in Euro	3.68	7.49	8.027	7.42	
Blocking period ex issue (years)	3	4	4	4	
Exercise period after blocking period (years)	3	3	3	3	
Options outstanding as of 12/31/2011 (number)	458,230	239,863	248,900	n/a	946,993
Granted 2012 (number)	0	0	0	400,000	400,000
Exercised 2012 (number)	201,500	0	0	0	201,500
Forfeited 2012 (number)	1,150	1,775	2,490	0	5,415
Options outstanding as of 12/31/2012 (number)	**255,580**	**238,088**	**246,410**	**400,000**	**1,140,078**
Options exercisable as of 12/31/2012 (number)	255,580	0	0	0	255,580

The **2009 tranche,** based on the authorization given by the Annual General Meeting (AGM) 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 the Xetra trading platform prior to the resolution. The **2010, 2011 and 2012 tranches,** based on the authorization given by the AGM 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, were issued respectively in the years 2010, 2011 and 2012 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 the Xetra trading platform prior to the resolution.

Options can be exercised only if the closing price of the Company's stock 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, 2011 and 2012 tranches from the respective issue date. The other particulars of the granting and exercise of stock options can be derived from the specifications provided by the resolutions passed at the AGM of May 6, 2009 for the 2009 tranche and at the AGM of May 4, 2010 for the 2010, 2011 and 2012 tranches. With respect to these four tranches, the Company is authorized to offer compensation in cash to the beneficiaries instead of supplying shares.

No options were exercised in 2011 and in 2010. In 2012 201,500 stock options from the 2009 tranche were exercised.

The stock options' average attributable value was 0.70 Euro for the 2009 tranche, 2.24 Euro for the 2010 tranche, 1.75 Euro for the 2011 tranche, and 1.42 Euro for the 2012 tranche. The value attributable at grant date was determined using the Black-Scholes method for option price calculation on the basis of the following assumptions:

Assumptions for the determination of attributable value

	Tranche 2009	Tranche 2010	Tranche 2011	Tranche 2012
Dividend yield	0.0%	0.0%	3.0%	3.0%
Expected volatility	75.00%	62.50%	52.25%	47.50%
Risk-free interest rate at grant date	1.79%	1.67%	1.69%	0.31%
Expected term in years	3 years	4 years	4 years	4 years

In fiscal year 2012 the Company incurred expenses of 317 thousand Euro for its stock option plans 2009, 2010, 2011, and 2012 (2011: 277 thousand Euro).

Stock award plans

In 2010 Elmos Semiconductor AG promised stock awards to executives of its American subsidiary SMI. The stock award plan comprised the issue of 15,000 shares previously bought back on the stock market. The beneficiaries can demand the assignment of the shares only after midnight of April 30, 2013. In 2012 the Company granted further stock awards to executives of American subsidiary SMI and Korean subsidiary Elmos Korea. The issue comprises 5,000 shares (SMI) and 4,000 shares (Elmos Korea) previously bought back on the stock market. The beneficiaries can demand the assignment of the shares only after midnight of April 30, 2014. In fiscal year 2012 the Group incurred expenses in the amount of 53 thousand Euro for this stock award plan. Basis for the determination of value is the market price of the stock at the time the transaction is granted. Expected dividends have not been considered for the determination of fair value.

24 // Provisions

Non-current provisions/Provisions for pensions and similar obligations

The development of net liability accounted for is as follows:

	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Net present value of the commitment	3,963	3,160
Time value of pension plan reinsurance	–3,207	–2,972
Unrecognized actuarial losses (–)/gains	–664	55
Debt recognized in statement of financial position	**92**	**243**

The Company provides pension plans for (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 was 3.5% per annum as of December 31, 2012 (December 31, 2011: 5.5% p. a.). For the purpose of actuarial assumptions with respect to mortality and disability risk, 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, actuarial losses) and financial result (interest) and can be broken down as follows:

	2012 thousand Euro	2011 thousand Euro
Service cost	40	42
Interest	170	166
Recognized actuarial losses	114	0
Pension expense (net)	**324**	**208**

Changes in the net present values of defined benefit obligations are as follows:

	2012 thousand Euro	2011 thousand Euro
Pension commitment as of 1/1	3,160	3,299
Pension expense	324	208
Pension benefits	–154	–154
Past service cost	–38	0
Actuarial gains (–)/losses	671	–193
Pension commitment as of 12/31	**3,963**	**3,160**

	2012 thousand Euro	2011 thousand Euro
Time value of pension plan reinsurance	**–3,207**	**–2,972**

Actuarial gains or losses are recognized in the income statement only if they exceed the 10% corridor (maximum of 10% of the defined benefit obligation and 10% of plan assets). The exceeding amount is allocated over the average remaining term of employment of the active employees through profit or loss. Actuarial losses recognized in profit or loss for the reporting period came to 114 thousand Euro (previous year: 0 thousand Euro).

Income from pension plan reinsurance amounts to 235 thousand Euro (previous year: 175 thousand Euro) including payments made in the event of death. Premiums of 324 thousand Euro were paid (previous year: 280 thousand Euro). Similar amounts are expected for 2013.

There are also indirect pension commitments to (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 2012 the contributions to these pension plans amounted to 576 thousand Euro (previous year: 569 thousand Euro).

The employer's social security contributions made for employees amounted to 3,915 thousand Euro in 2012 (previous year: 3,805 thousand Euro). The contributions to employees' direct insurance came to 0 thousand Euro in 2012 as in the previous year.

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

	2012 thousand Euro	2011 thousand Euro	2010 thousand Euro	2009 thousand Euro	2008 thousand Euro
Pension commitment	3,963	3,160	3,299	3,136	2,958
Time value pension plan reinsurance	–3,207	–2,972	–2,797	–2,514	–2,274
Underfunding (–)	–756	–188	–502	–622	–684
Adjustments to plan liabilities based on experience	–114	–8	–20	–7	–10
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 review and in the previous year:

	Fiscal year 2012		Fiscal year 2011	
	Increase by 1% point	Decrease by 1% point	Increase by 1% point	Decrease by 1% point
Effects on current service cost and interest expense (in thousand Euro)	0	0	–7	6
Effects on performance-oriented commitment (in thousand Euro)	–495	613	–352	429

Current provisions

	01/01/2012 thousand Euro	Consumption thousand Euro	Release thousand Euro	Allocation thousand Euro	12/31/2012 thousand Euro
Vacation bonus	560	387	0	431	604
Bonus provisions	1,206	1,045	156	1,207	1,212
Employer's liability insurance association	299	297	6	382	378
Warranty	2,444	62	63	3	2,322
Licenses	127	70	5	199	251
Other provisions for employee benefits	2,580	1,530	579	1,685	2,156
Other provisions	1,234[1]	547	506	1,003	1,184
	8,450[1]	**3,938**	**1,315**	**4,910**	**8,107**

[1] The prior-year value was reduced by the amount of hedged derivatives of 926 thousand Euro; cf. explanation under note 1.

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

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

Other provisions for employee benefits essentially include bonus payment obligations, awards, and partial retirement.

Other provisions comprise different identifiable individual risks and contingent obligations.

Current provisions will probably be drawn on in the course of the next fiscal year.

25 // Financial liabilities

Non-current financial liabilities The breakdown of non-current financial liabilities as of December 31, 2012 is as follows:

	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Loans	**12,571**	**30,235**

Loans The effective interest rates of non-current loans are between 1.75% and 5.35%.

Current financial liabilities As of December 31, 2012 the Company had various short-term credit limits at its disposal totaling 21,612 thousand Euro. As of December 31, 2012 the Company took advantage of these credit facilities in the amount of 428 thousand Euro. Current financial liabilities (December 31, 2012: 30,290 thousand Euro; December 31, 2011: 10,496 thousand Euro) represent the portion of financial liabilities initially reported as non-current with remaining terms of one year or less 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) from borrowing as well as payouts (indicated as positive in the following table) for redemption, repayment, and interest on financial liabilities accounted for as of December 31, 2012 and December 31, 2011. Payments are stated at undiscounted **cash flows including interest payments** for the next fiscal years. Also included are all cash flows from derivative financial instruments at positive and negative fair values.

December 31, 2012	2013 thousand Euro	2014 thousand Euro	2015-2017 thousand Euro	from 2018 thousand Euro
Liabilities to banks	6,828	1,585	30,630	11,040
Other finance debt	0	0	0	0
Trade payables	17,755	0	0	0
Other financial liabilities	342	0	0	2,242
Hedged derivatives	128	334	960	0

December 31, 2011	2012 thousand Euro	2013 thousand Euro	2014-2016 thousand Euro	from 2017 thousand Euro
Liabilities to banks	–8,192	6,749	4,205	36,545
Other finance debt	10,500	0	0	0
Trade payables	21,325	0	0	0
Other financial liabilities	593	0	0	0
Hedged derivatives	5	128	1,001	293

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 as of the reporting date. 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:

	12/31/2012 thousand Euro	12/31/2011 thousand Euro
Other current liabilities	2,416	2,754
Other non-current liabilities	5,277	2,466[1]
	7,693	**5,220[1]**

[1] The prior-year value was increased by the amount of hedged derivatives of 926 thousand Euro; cf. explanation under note 1.

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

Furthermore, in connection with the lease agreement concluded with Exedra in 2007, the difference between the released 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 underlying lease agreement. Other non-current liabilities also include the put option for non-controlling shareholders (2,214 thousand Euro; cf. notes 29 and 33), recognized for the first time outside profit or loss. By the subsequent measurement through profit or loss in the amount of 28 thousand Euro, a liability of 2,242 thousand Euro is recognized as of December 31, 2012, reported under other non-current liabilities. In addition to that, other non-current liabilities include the non-current portion of hedged derivatives (1,719 thousand Euro; December 31, 2011: 926 thousand Euro). Hedged derivatives are presented under note 29.

Income tax liabilities amount to 1,409 thousand Euro (December 31, 2011: 2,006 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 purchasing of materials and the claiming of services for maintaining business operations. Trade payables fully mature within one year.

28 // Derivative financial instruments

The Company monitors 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 rate loan agreements (forward loans) to safeguard financing through fiscal year 2017 within the framework of a comprehensive and long-term financing strategy oriented toward 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 rate, 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 with the respective forward interest rate swap in accordance with IAS 39, 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 are expected to 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 for the hedged item. The hedge as forward interest rate swap is suited to adequately cover the risk of interest rate changes which affects the performance of the hedged item. 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. A review conducted as of December 31, 2012 did result in no changes to the assessment as “highly effective”.

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 accounted for. A release 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 rate forward loans in 2010 with terms until 2017 (face value 7.5 million Euro) and 2018 (face value 10 million Euro) for which there are no corresponding hedges. The loan with a term until November 20, 2017 (7.5 million Euro) represents follow-up financing of a loan expired as of November 20, 2012 (10 million Euro) and is reported under the Company’s financial liabilities. The loan with a term until June 30, 2018 (10 million Euro) represents follow-up financing of the financial liabilities presented under note 25 and to expire as of June 30, 2013. The market value of the forward loan as of December 31, 2012 can be found under note 29. Compliant with IAS 39.2 (h) and IAS 39.BC16, the loan commitment is exempt from the scope of IAS 39 and therefore not recognized in the statement of financial position as of the reporting date.

The measurement of the interest rate swaps follows corresponding evaluation procedures or is based on evaluations provided by the banks involved. The market value of interest rate swaps accounted for is determined by 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.

The Company concluded various currency-related hedges in 2012. Those are forward exchange rate contracts for the currency USD. With respect to the transactions expired by the end of the year, the effects on the financial position as of December 31, 2012 are limited to the exchange rate gains generated in the amount of 123 thousand Euro and exchange rate losses incurred at 101 thousand Euro, reported in the consolidated income statement under the item exchange rate gains/losses.

Moreover, the Company concluded various structured time deposits in 2012 according to which a fixed Euro investment yields interest over a certain period. The time deposits were provided with an additional component allowing for repayment of the invested amount in USD if a predefined USD/EUR reference exchange rate is exceeded at a certain point of time during the term. The effects on the financial position as of December 31, 2012 are limited to the collected finance income and the exchange rate gains generated in the amount of 1 thousand Euro and exchange rate losses incurred at 275 thousand Euro, reported in the consolidated income statement under the item exchange rate gains/losses. There were no more structured time deposits in effect as of the reporting date December 31, 2012.

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 appears similar.

The book values of financial instruments such as trade receivables and trade payables essentially correspond with the market values due to the short-term maturities of these financial instruments.

The book values of short-term securities and long-term securities correspond with the market value due to the securities' classification as available-for-sale. The market value of short-term and long-term securities was determined on the basis of values provided by the involved banks as of the reporting date. In fiscal year 2012 a part of the securities classified as held-to-maturity in the previous year was sold before maturity as the intention to hold to final maturity no longer existed in the process. In consequence of that, the part of the securities formerly classified as held-to-maturity that was not sold was also reclassified to the category available-for-sale in accordance with IAS 39.52.

The forward interest rate swaps reported under the item hedged derivatives (please refer to note 28) were recognized at (negative) market value under other financial liabilities outside profit or loss according to their respective maturity. The determination of the market values as of December 31, 2012 was based on a discounted cash flow model in consideration of current yield curves as of the reporting date.

The market value of those 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 established on the basis of market prices determined for the same or comparable issues and of the interest rates currently offered to the Company.

With respect to other financial liabilities accounted for at fair value, the market value of the put option for non-controlling shareholders was determined on the basis of a DCF procedure according to the terms and conditions of the contract agreed on with the shareholder (please also refer to note 33).

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

thousand Euro	Cat.	Book value 12/31/2012	Recognition according to IAS 39: Amortized cost	Recognition according to IAS 39: Acquisition cost	Recognition according to IAS 39: At market value through profit or loss	Recognition according to IAS 39: At market value outside profit or loss	Fair Value 12/31/2012	Book value 12/31/2011	Recognition according to IAS 39: Amortized cost	Recognition according to IAS 39: Acquisition cost	Recognition according to IAS 39: At market value through profit or loss	Recognition according to IAS 39: At market value outside profit or loss	Fair Value 12/31/2011
Financial assets													
Investments	AfS	2,652	2,182	470			2,652	3,917		3,917			3,917
Securities (long-term)	LaR	2,500	2,500				2,500						
Securities (long-term)	HtM							8,346	8,346				8,064
Securities (long-term)	AfS	16,241				16,241	16,241						
Securities (short-term)	LaR	1,000	1,000				1,000	1,500	1,500				1,500
Securities (short-term)	HtM							3,428	3,428				3,408
Securities (short-term)	AfS	6,840				6,840	6,840	4,174				4,174	4,174
Trade receivables	LaR	27,644	27,644				27,644	28,714	28,714				28,714
Cash and cash equivalents	LaR	55,576	55,576				55,576	59,002	59,002				59,002
Other financial assets													
Other receivables and other assets	LaR	2,398	2,398				2,398	2,889	2,889				2,889
Other loans	LaR	2,305	2,305				2,305	3,035	3,035				3,035
Forward exchange transactions	HfT							13			13		13
Call option	HfT	54			54		54						
Earn-out	LaR	562	562				562	530	530				530
Total financial assets		**117,772**	**94,167**	**470**	**54**	**23,081**	**117,772**	**115,548**	**107,444**	**3,917**	**13**	**4,174**	**115,246**
Financial liabilities													
Trade payables	OL-AK	17,755	17,755				17,755	21,325	21,325				21,325
Liabilities to banks	OL-AK	42,861	42,861				44,027	30,731	30,731				31,316
Other finance debt (bonded loans)	OL-AK							10,000	10,000				10,172
Other financial liabilities													
Misceallaneous financial liabilities	OL-AK	342	342				342	593	593				593
Put option	OL-FV	2,242			2,242		2,242						
Hedged derivatives (short-term)[1]	OL-FV	207				207	207						
Hedged derivatives (long-term)[1]	OL-FV	1,719				1,719	1,719	926				926	926
Fixed-interest forward loans	n/a	0					1,373	0					410
Total financial liabilities		**65,126**	**60,958**	**0**	**2,242**	**1,926**	**67,665**	**63,575**	**62,649**	**0**	**0**	**926**	**64,742**
Aggregated by measurement category													
Loand and Receivables (LaR)		91,985	91,985				91,985	95,670	95,670				95,670
Available for Sale (AfS)		25,733	2,182	470		23,081	25,733	8,091		3,917		4,174	8,091
Held to Maturity (HtM)		0	0				0	11,774	11,774				11,472
Held for Trading (HfT)		54			54		54	13			13		13
Financial liabilities recognized at amortized cost (OL-AK)		60,958	60,958				62,124	62,649	62,649				63,406
Financial liabilities recognized at fair value (OL-FV)		4,168			2,242	1,926	4,168	926				926	926
n/a		0					1,373	0					410

[1] The classification of hedged derivatives was adjusted regarding the prior-year presentation.

Hierarchy of fair values The Group applies the following hierarchy for the determination and statement of the fair values of financial instruments according to the respective valuation methods:

Stage 1: quoted (unadjusted) prices in 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, 2012 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, 2011	**0**	**0**	**911**
Addition shares in TetraSun Inc.	0	0	3,073
Addition securities (short-term)	4,174	0	0
Disposal shares in Elmos Korea Co. Ltd. (full consolidation)	0	0	–33
Write-down shares in Advanced Appliances Chips	0	0	–34
December 31, 2011	**4,174**	**0**	**3,917**
Write-down shares in TetraSun Inc.	0	0	–1,232
Foreign currency measurement shares in TetraSun Inc.	0	0	–33
Addition securities (short-term)	2,666	0	0
Addition securities (long-term)	16,241	0	0
December 31, 2012	**23,081**	**0**	**2,652**
Hedged derivatives			
January 1, 2011	**0**	**90**	**0**
Correction of valuation of hedged derivatives outside profit or loss (short-term and long-term)	0	–1,016	0
December 31, 2011	**0**	**–926**	**0**
Correction of valuation of hedged derivatives outside profit or loss (short-term and long-term)	0	–1,000	0
December 31, 2012	**0**	**–1,926**	**0**
Forward exchange rate contracts			
January 1, 2011	**0**	**0**	**0**
Addition forward exchange rate contracts	0	13	0
December 31, 2011	**0**	**13**	**0**
Disposal forward exchange rate contracts	0	–13	0
December 31, 2012	**0**	**0**	**0**
Call option			
January 1, 2011	**0**	**0**	**0**
December 31, 2011	**0**	**0**	**0**
Addition call option	0	0	54
December 31, 2012	**0**	**0**	**54**
Put option			
January 1, 2011	**0**	**0**	**0**
December 31, 2011	**0**	**0**	**0**
Addition put option	0	0	–2,214
Write-up on put option	0	0	–28
December 31, 2012	**0**	**0**	**–2,242**

The securities reported under hierarchy stage 1 are bonds classified by Elmos as available for sale. Plausible alternative assumptions would not result in material changes of the reported fair value.

The hedged derivatives allocated to hierarchy stage 2 comprise the Company's interest rate swaps explained under note 28. The effects of a changed market interest rate level on fair value are discussed under note 30 in the context of the explanation of the interest rate risk.

The available-for-sale financial assets reported under hierarchy stage 3 are investments in various entities. In this respect the book values essentially correspond with the market values.

The shares in TetraSun Inc. acquired in previous years were reported under non-current assets in the consolidated statement of financial position. In fiscal year 2012 impairment loss was recognized for the shares in the amount of 1,232 thousand Euro based on the market valuation as of December 31, 2012. The impairment loss expense of 1,232 thousand Euro has been recognized in 2012 through profit or loss under finance expense (cf. note 8). Plausible alternative assumptions would not result in material changes of the reported fair value.

Within the framework of the sale of assets and liabilities (disposal group) by subsidiary Elmos Advanced Packaging B.V. in fiscal year 2010, 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 amounts will be made as of March 30, 2015 and March 30, 2016 respectively, providing the fulfillment of the defined criteria. In fiscal year 2012, the earn-out component was compounded by the amount of 32 thousand Euro. Plausible alternative assumptions would not lead to material changes in the fair value as stated.

The call option agreed on with a non-controlling shareholder was measured at fair value in fiscal year 2012 in application of the DCF method and in consideration of the terms and conditions of the contract. The put option agreed on with a non-controlling shareholder was measured at the net present value of the repurchase amount in fiscal year 2012 in application of the DCF method. Plausible alternative assumptions would not lead to material changes in the fair value as stated.

Notes to the consolidated income statement The following table shows the net gains and net losses from financial instruments recognized in the consolidated income statement.

Gains (–)/losses (+)	2012 thousand Euro	2011 thousand Euro
LaR	123	–590
AfS	1,232	0
OL-AK	–40	459
OL-FV	28	0
HfT	252	–174

In fiscal year 2012 Elmos realized exchange rate gains in the amount of 123 thousand Euro and incurred exchange rate losses in the amount of 101 thousand Euro from currency-related hedges (2011: exchange rate gains of 197 thousand Euro and exchange rate losses of 36 thousand Euro). These exchange rate gains and losses have been reported in the consolidated income statement under the item "Exchange rate gains/losses".

Moreover, the Company concluded various structured time deposits in 2012. The effects on the financial position as of December 31, 2012 are limited to the collected finance income and the exchange rate gains generated in the amount of 1 thousand Euro and exchange rate losses incurred at 275 thousand Euro, reported in the consolidated income statement under the item exchange rate gains/losses.

Elmos recognizes allowances on trade receivables classifiable as “loans and receivables” under other operating expenses. Gains from foreign currency translation of financial assets classifiable as “loans and receivables” result from trade receivables for the most part. Net gains and losses essentially comprise allowances, currency translation effects, and debt loss.

Losses reported in the amount of 1,232 thousand Euro in the category available for sale regard the impairment loss from the write-down on the value of the investment in TetraSun Inc., Santa Clara/U.S.A. reported under finance expense (please refer to notes 8 and 15).

Expenses or income attributed to the category “other liabilities” result from exchange rate differences relating to trade payables.

Interest relating to 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 comprises 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 to that, 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, has been reviewed by the auditing firm for its compliance with the provisions of the Commercial Code (HGB) and Stock Corporation 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 and assessing these market risks early on in a continuous process and in close cooperation with the Group’s operating business units and at limiting them if necessary through control measures in the operating business. It is part of the strategy in this respect to control and contain interest and exchange rate risks by utilizing suitable derivatives. In doing so, Elmos also enters from time to time into forward exchange transactions 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 profitability. Elmos exclusively uses these hedging instruments for non-speculative risk containing purposes in connection with the hedged items.

The basic principles of finance policy and its guidelines 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 products and contracting parties.

For the purpose of a portfolio approach, investments of liquid assets are usually short-term to medium-term in consideration of highest possible flexibility, essentially placed with banks with high credit ratings under the protection of the deposit protection fund and in pursuit of an investment mix Elmos also invests in bonds of the minimum rating “investment grade”. The investments are diversified in respect of the partner banks and issuers.

Trade receivables primarily originate from sales generated with microelectronic components and system parts as well as function-related technological units. The customers are for the most part automotive suppliers and to a lesser extent companies of the industrial sector, the consumer goods industry, and other sectors. Accounts receivable are essentially monitored continuously and centralized. Contingency risks are met with specific allowances for bad debt and blanket allowances. The arrangement of the specific terms of payment reflects the historical 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.

Against the backdrop of the continued global uncertainty in the course of the financial market and economic crisis, outstanding receivables are monitored and reminded with scrutiny as part of a continuous operational process.

Within the framework of the sale of the operating business of Elmos Advanced Packaging B.V. at the end of 2010, the contracting parties agreed on an earn-out component (please refer to notes 20 and 29). Elmos is therefore exposed to the risk that targets of the operating business oriented toward budgeting 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.

Liquidity risk and financing risk The liquidity risk of Elmos addresses the contingency that the Company might not be able to fulfill its financial obligations, 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 convertibility into cash, 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 to that, the Group’s liquidity is constantly monitored and updated within the framework of short-term and long-term liquidity planning. Apart from internal financing power, liquidity of the domestic and international subsidiaries is provided through credit limits and loans extended by group companies and banks. The cash flows from financial liabilities are presented under note 25. 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 euro and the U.S. dollar.

The exchange rate risks result from operating activities, investments, and financing measures. The individual group companies conduct business for the most part in their respective functional currencies. Therefore the exchange rate risk of Elmos from operating activities is considered low. Insofar as operating activities are conducted in foreign currencies by the individual group companies, the effect is essentially 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 intra-Group financial commitments such as foreign-currency loans extended to group companies for financing purposes.

Apart from so-called natural hedging, i.e. 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. Elmos was not exposed to material currency risks as of the reporting date. In fiscal year 2012, Elmos realized exchange rate gains in the amount of 123 thousand Euro and incurred exchange rate losses in the amount of 101 thousand Euro from currency-related hedges relating to the U.S. dollar. Elmos realized exchange rate gains in the amount of 1 thousand Euro and incurred exchange rate losses in the amount of 275 thousand Euro from structured time deposits.

Had the euro been revalued (devalued) against the U.S. dollar by 10% as of December 31, 2012 with respect to the monetary financial instruments, the operating income (before taxes) would have been 931 thousand Euro lower (1,137 thousand Euro higher) (2011: 91 thousand Euro higher (101 thousand Euro lower)). The Group's equity effect would have been the same amount via the result effect in consideration of income taxes incurred.

b) Interest rate risk The risk of interest rate changes of Elmos as of the reporting date primarily results from the forward interest rate swaps concluded in fiscal year 2010 with respect to the concluded forward loans (please refer to note 28). Had the market interest rate level been higher (lower) by 100 basis points, equity would have been higher by 761 thousand Euro (decrease in equity by 804 thousand Euro) due to group accounting outside profit or loss (2011: increase (decrease) in equity by 704 (755) thousand Euro). Deferred taxes on this amount would have to be considered.

There is also a risk of interest rate changes with respect to the securities classified as available for sale. Had the market interest rate level been higher (lower) by 100 basis points, equity would have been lower by 585 thousand Euro (increase in equity by 600 thousand Euro) (2011: decrease (increase) in equity by 36 (47) thousand Euro).

With respect to the put option, a 100 basis points higher (lower) market interest rate level would result in an increase (decrease) in earnings before taxes of 108 (63) thousand Euro. The effect on other non-current liabilities would come to a corresponding amount.

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 derived and implemented on that basis. For long-term financing projects, fixed interest rates are usually agreed on. Interest derivatives are also put to use if necessary.

Further information about securing long-term financing can be found under note 28.

c) Other price risks As in the previous year there is no other material price risk as of December 31, 2012 from the Company's viewpoint.

Capital management It is the primary objective of the Elmos Group's capital management to assure that a high credit rating, liquidity provision at any time and at high financial flexibility, and a solid capital structure 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. Elmos stands for the strategy of a continuous, sustained increase in shareholder value.

The Management Board actively controls the capital structure of the Elmos Group and makes adjustments to it 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, e.g. dividends may be paid to the shareholders or new stock may be issued. As of December 31, 2012 and December 31, 2011, no changes were made to the objectives, guidelines, or procedures.

The Group monitors its capital based on the gearing ratio which corresponds to the relation of net debt or net cash to equity as well as on the absolute amounts of net debt or net cash and the equity ratio. Net cash includes cash and cash equivalents as well as securities less current and non-current financial liabilities. The equity ratio puts equity in proportion to total assets.

	2012	2011
Net cash	39.3 million Euro	35.7 million Euro
Gearing	20.7%	19.0%
Equity ratio	69.8%	69.6%

Other information

31 // Government grants

The Company receives subsidies or government grants used for financing research and development projects. Government grants are recognized as other liabilities until the performance date (0 thousand Euro as of December 31, 2012; 24 thousand Euro as of December 31, 2011). Subsidies used for research and development projects were offset against research and development expenses and recognized in that item (983 thousand Euro in 2012, 623 thousand Euro in 2011).

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 part. 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 property 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 as of 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 lease payments of 14,139 thousand Euro (including contributions to administrative expenses and sales tax) until 2020 plus payments of 6,965 thousand Euro for tenant loans (cf. note 14).

Within the framework of the lease agreements with Epigone, Elmos is committed to lease payments of 9,076 thousand Euro (including contributions to administrative expenses and sales tax) until 2021 plus payments of 3,132 thousand Euro for tenant loans (cf. note 14).

SMI entered into a property lease agreement on January 26, 2006 for real estate and the plant erected thereon 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 linked 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 12,020 thousand Euro in 2012 and 13,059 thousand Euro in 2011.

As of December 31, 2012, future minimum payments owed under non-cancelable rental, lease, maintenance, and insurance agreements with initial or remaining terms of more than one year are as follows:

	Rent and lease payments, maintenance, insurance premiums, etc. thousand Euro
2013	25,563
2014	14,209
2015	11,767
2016	10,345
2017	6,916
Later years	15,083
	83,883

There is a purchase commitment in the amount of 1,113 thousand Euro from investment orders placed.

The book value of assets pledged as security by a subsidiary for a bank loan comes to 280 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. Elmos has not accepted securities according to IFRS 7.14 as of the reporting date.

Elmos has assumed joint liability with respect to lease liabilities transferred to a third-party company within the framework of an asset deal in the amount of 776 thousand Euro as of the reporting date. Joint liability is granted respectively for a period of twelve months. The third-party company is obligated to compensation payment in the amount of 100 thousand Euro per annum for the respective period, until 2016 at the latest. So far no claims have been made. The risk of future claims made on the Company is considered low; there are currently no indications of such a scenario.

33 // Group companies

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

The following entities have thus been included in the consolidated financial statements at hand:

	Capital share (indirect and direct) in %
Parent	
Elmos Semiconductor AG, Dortmund	
Subsidiaries	
Elmos Central IT Services GmbH, Dortmund	100.0
Elmos Design Services B.V., Nijmegen/Netherlands	100.0
Elmos Facility Management GmbH, Dortmund	100.0
Elmos Korea Co. Ltd., Seoul/Korea	100.0
Elmos N.A. Inc., Farmington Hills/U.S.A.	100.0
Elmos Quality Services B.V., Nijmegen/Netherlands	100.0
Elmos Semiconductor B.V., Nijmegen/Netherlands	100.0
Elmos Semiconductor Singapore Pte. Ltd., Singapore	100.0
Elmos Semiconductor Technology (Shanghai) Co., Ltd., Shanghai/China	100.0
Elmos Services B.V., Nijmegen/Netherlands	100.0
European Semiconductor Assembly (eurasem) B.V., Nijmegen/Netherlands	100.0
GED Gärtner-Electronic-Design GmbH, Frankfurt/Oder	73.9
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin	50.0
Mechaless Systems GmbH, Bruchsal	100.0
Micro Systems on Silicon (MOS) Limited, Pretoria/South Africa	51.0
Silicon Microstructures Inc., Milpitas/U.S.A.	100.0

Compared to the previous year, the following entities no longer belonged to the basis of consolidation as of December 31, 2012:

Subsidiary **Elmos France S.A.S., Levallois Perret/France,** left the Elmos Group's basis of consolidation effective March 30, 2012. In terms of corporate law, this transaction represents winding-up the entity without liquidation. Elmos Semiconductor AG, Dortmund, is the legal successor with respect to the assets and liabilities accounted for at the subsidiary. Therefore the winding-up without liquidation of Elmos France S.A.S. had no effect on the consolidated financial statements.

Subsidiary **IndustrieAlpine Bauträger GmbH, Eching,** left the Elmos Group's basis of consolidation effective August 22, 2012. As of that date, Elmos Semiconductor AG sold all its shares in this entity. Deconsolidation had no material effect on the consolidated financial statements.

In the year under report, the following affiliated companies have newly been included as subsidiaries:

As of April 1, 2012 **MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin,** a joint venture previously consolidated proportionately at 50%, has been included in the consolidated financial statements as a subsidiary by way of full consolidation due to its control by the conclusion of a voting trust agreement. The entity does business in the semiconductor industry and operates as a provider of development services and consulting services for all issues of system integration and also as a supplier of application specific integrated circuits (ASIC). The services and software solutions offered by the subsidiary find use primarily in the field of industrial applications so that the Group's customer base and product portfolio are thus expanded.

The preliminary fair values of the identifiable assets and liabilities of MAZ as of the date of attaining control are as follows:

	Fair value upon attaining control (in thousand Euro)
Assets	
Intangible assets	3,229 (thereof 3,206 disclosure of hidden reserves)
Cash and cash equivalents	976
Trade receivables	383
Inventories	366
Other assets	186
	5,140
Liabilities	
Provisions and other liabilities	–780
Deferred tax liabilities	–967
Others	–74
	–1,821
= Total identifiable net assets at fair value	**3,319**
Non-controlling interests at fair value	–2,724
Non-controlling interests at acquisition date	–1,659
Goodwill from entity's acquisition (note 13)	1,250
= Consideration brought forward	**186**

Breakdown of cash inflow from attaining control:	
Cash and cash equivalents acquired with the transition from joint venture to subsidiary status (included in cash flows from investing activities)	488
Cash outflow	–186
Actual cash inflow from entity's acquisition	302

The fair value of trade receivables corresponds with the gross amount of trade receivables and comes to 383 thousand Euro. These receivables were not impaired and the entire contractually agreed amount is probably recoverable.

Since the acquisition date, MAZ has contributed 2,780 thousand Euro to sales and 356 thousand Euro to the net income for the period of the Group. Had the successive business combination taken place at the beginning of the year, sales would have been 330 thousand Euro higher and the net income for the year had been 51 thousand Euro higher in the year 2012.

The recognized goodwill results from the expected synergy effects and other advantages from the combination of assets and activities of MAZ with those of the Group. It is expected that the recognized goodwill will not be tax-deductible.

Transaction cost of 30 thousand Euro was charged to expenses and is reported in the consolidated income statement under administrative expenses.

From the revaluation of the previously held 50% interest at fair value, a positive contribution to earnings resulted in the amount of 1,824 thousand Euro, reported under other operating income in the consolidated income statement.

Within the scope of the voting trust agreement (start April 1, 2012, term of 5 years, extension unless canceled) concluded with the other 50% partner and managing director of MAZ, the partner was granted the right to sell his interest to Elmos (put option). These shares were recognized as a liability in the amount of 2,214 thousand Euro outside profit or loss within the framework of first-time recognition as of April 1, 2012.

On the whole, the basis of consolidation has not changed materially compared with the previous year so that comparability with the prior-year consolidated financial statements is not materially compromised with respect to the financial, profit and economic situation.

Information on share ownership

	Currency	Shares %	Equity in thousand	Net income in thousand
Germany				
attoSENSOR GmbH i.L., Penzberg	Euro	45.00	40	–4[3]
DMOS Dresden MOS Design GmbH, Dresden	Euro	20.00	527	–1[1]
Elmos Central IT Services GmbH, Dortmund	Euro	100.00	373	0[1,5]
Elmos Facility Management GmbH, Dortmund	Euro	100.00	221	0[1,5]
Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	Euro	6.00	–38	–8[1]
GED Gärtner-Electronic-Design GmbH, Frankfurt/Oder	Euro	73.90	2,248	215[1]
Mechaless Systems GmbH, Bruchsal	Euro	100.00	613	55[1]
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin	Euro	50.00	1,438	458[1]
Outside Germany				
Elmos Services B.V., Nijmegen (NL)	Euro	100.00	13,522	3,210[1]
Elmos Semiconductor B.V., Nijmegen (NL)	Euro	100.00	42,047	1,672[1,2]
Elmos Design Services B.V., Nijmegen (NL)	Euro	100.00	404	147[1,2]
Elmos Quality Services B.V., Nijmegen (NL)	Euro	100.00	236	10[1,2]
European Semiconductor Assembly (eurasem) B.V., Nijmegen (NL)	Euro	100.00	6	–11[1,2]
Micro Systems on Silicon (MOS) Limited, Pretoria (South Africa)	ZAR	51.0	7,716	2,991[1,2]
Elmos USA Inc., Farmington Hills (U.S.A.)	USD	100.00	–	–[4]
Elmos N.A. Inc., Farmington Hills (U.S.A.)	USD	100.00	2,271	80[1,2]
Silicon Microstructures Inc., Milpitas (U.S.A.)	USD	100.00	–1,756	318[1,2]
Elmos Korea Co. Ltd., Seoul (Korea)	KRW	100.00	268,756	128,284[1]
Elmos Semiconductor Singapore Pte. Ltd., Singapore	SGD	100.00	592	42[1]
Elmos Semiconductor Technology (Shanghai) Co., Ltd., Shanghai (China)	CNY	100.00	2,343	551[1,2]
TetraSun Inc., Santa Clara (U.S.A.)	USD	8.60	5,625	–2,612[2,6]

[1] Presented figures are based on preliminary, unaudited financial statements as of December 31, 2012.
[2] Indirect investment of Elmos Semiconductor AG, Dortmund.
[3] Presented figures are based on preliminary, unaudited financial statements as of September 30, 2012.
[4] Financial statements of the company are not yet available.
[5] Profit and loss transfer agreement.
[6] Presented figures are based on audited financial statements as of December 31, 2011.

34 // Information on Management Board and Supervisory Board

Remuneration of Management Board and Supervisory Board for 2012

	Fixed remuneration thousand Euro	Variable remuneration thousand Euro	Stock options (time value) thousand Euro
Management Board	1,637	815	114
Supervisory Board	69	127	0

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 2012 the contributions to such pension plans amounted to 516 thousand Euro (previous year: 520 thousand Euro), included in the fixed remuneration components. Within the framework of stock option plan 2012, 80,000 stock options were assigned to the members of the Management Board.

Remuneration paid to former Management Board members or their surviving dependants amounted to 295 thousand Euro in fiscal year 2012 (previous year: 268 thousand Euro). In addition, insurance premiums in the amount of 248 thousand Euro were paid for this group of beneficiaries (previous year: 271 thousand Euro).

The amount of pension provisions was 2,552 thousand Euro as of December 31, 2012 (previous year: 2,502 thousand Euro).

For other services, particularly consulting services, the Company compensated members of the Supervisory Board in the amount of 29 thousand Euro (previous year: 23 thousand Euro).

The Annual General Meeting of May 4, 2010 decided with a majority in excess of the required three quarters not to provide the disclosures stipulated by Section 285 (1) no. 9a sentences 5-8 HGB (German Commercial Code) for the next five years.

Mandates of Management Board and Supervisory Board in 2012 As of December 31, 2012 the following members of Management Board and Supervisory Board were members of statutory supervisory boards or comparable domestic or foreign supervisory bodies.

Management Board

- Dr. Anton Mindl: Member of the Assembly of IHK Dortmund (Chamber of Commerce)

Supervisory Board

- Prof. Dr. Günter Zimmer: Member of the Board of Directors of Dolphin Intégration S.A.
- Dr. Burkhard Dreher: Member of the Supervisory Board of Arcelor Mittal Eisenhüttenstadt GmbH; member of the Supervisory Board of Vattenfall Europe Mining AG
- Dr. Klaus Egger: Member of the Board of Hilite International Inc.

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

As of December 31, 2012 the following members of Management Board and Supervisory Board held Elmos shares and stock options:

Management Board	Shares	Stock options
Dr. Anton Mindl	0	60,000
Reinhard Senf	21,731	62,000
Nicolaus Graf von Luckner	15,176	62,000
Dr. Peter Geiselhart	0	17,778

Supervisory Board	Shares	Stock options
Prof. Dr. Günter Zimmer	35,056	0
Dr. Burkhard Dreher	9,522	0
Dr. Klaus Egger	10,000	0
Thomas Lehner	4,044	6,250
Sven-Olaf Schellenberg	1,891	2,150
Dr. Klaus Weyer	170,979	0

36 // Information on group auditor fees

The companies of the Elmos Group received the following services rendered by appointed group auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, in fiscal year 2012:

	2012 thousand Euro
Audit services	156
Other certification services	57
Tax counseling	131
Other services	22
	366

The position “other certification services” includes fees for the review of the interim consolidated financial statements as of June 30, 2012.

37 // Appropriation of retained earnings and dividend proposal

Management Board and Supervisory Board propose to the Annual General Meeting in May 2013 the payment of a dividend of 25 cents per share for fiscal year 2012 out of the 2012 retained earnings of Elmos Semiconductor AG in the amount of 69.6 million Euro. The total dividend payout would thus amount to 4.8 million Euro, based on 19,375,659 shares entitled to dividend as of December 31, 2012.

38 // Directors' dealings in accordance with Section 15a WpHG

Listed below are all directors' dealings of the year 2012 involving shares of Elmos Semiconductor AG (ISIN DE0005677108). The issuer is Elmos Semiconductor AG, Heinrich-Hertz-Str. 1, 44227 Dortmund, Germany.

Date Place	Name	Function	Transaction	Number	Price/Basic price (Euro)	Total volume (Euro)
05/22/2012 off-market	Dr. Klaus Weyer	Supervisory Board member	Purchase of Elmos shares	24,000	7.37	176,952
05/24/2012 off-market	Dr. Klaus Weyer	Supervisory Board member	Purchase of Elmos shares	30,139	7.39	222,757
06/18/2012 off-market	Dr. Klaus Weyer	Supervisory Board member	Purchase of Elmos shares	26,656	6.62	176,462
08/24/2012 Xetra	Dr. Klaus Egger	Supervisory Board member	Purchase of Elmos shares	2,631	6.88	18,101
08/27/2012 Xetra	Dr. Klaus Egger	Supervisory Board member	Purchase of Elmos shares	1,817	7.02	12,748
08/31/2012 off-market	Weyer Beteiligungs-gesellschaft mbH[1]	Legal entity closely related to a Supervisory Board member	Purchase of Elmos shares	40,000	6.98	279,166
09/26/2012 Xetra	Dr. Klaus Egger	Supervisory Board member	Purchase of Elmos shares	4,000	7.15	28,600

[1] Please refer to correction notice of October 25, 2012.

39 // Related party disclosures

Pursuant 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 in accordance with IAS 24 also includes transactions with associated companies and individuals who have significant influence over the Elmos Group's financial and business policies, including close relatives or interconnected companies. Significant influence on the Elmos Group's financial and business policies 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 2012, the Elmos Group is concerned by the mandatory disclosures of IAS 24 only with regard to business relationships with associates.

The Elmos Group maintains relationships with closely related companies and persons in the context of usual business activity. These supply and performance relationships are transacted at market prices.

In 2012 Elmos Semiconductor AG received performances rendered by DMOS in the amount of 4,027 thousand Euro (previous year: 4,294 thousand Euro). Interest-bearing loans amounting to a nominal total of 800 thousand Euro (previous year: 1,000 thousand Euro, granted by Elmos Semiconductor AG and by one subsidiary) were extended to DMOS by Elmos Semiconductor AG, used essentially for the advance lease payment for an office building. The loans can be canceled by both parties in observance of a six-month notice. As of the end of the year, the loan balance including accrued interest altogether amounts to 400 thousand Euro (previous year: 760 thousand Euro). The initially agreed annual repayment on the two loans extended in 2008, providing for 20% redemption including the respective interest, was newly framed 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 with annual interest and redemption payments as of 2010. The loan extended by a subsidiary to DMOS, still disclosed in the previous year, was fully paid back in 2012.

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.

Beyond that, companies of the Elmos Group did not engage in any material reportable transactions with members of the Management Board or the 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 2012 the average number of employees in the Group was 1,034 (2011: 988).

The average number of employees can be broken down as follows:

Group	2012 Number
Production	499
Sales	109
Administration	151
Quality control	36
Research & development	239
Total	**1,034**

As MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin, has been included in the consolidated financial statements as of April 1, 2012 by way of full consolidation, this entity’s employees have been fully included in the determination of the number of employees as of that date. In the first quarter of 2012, the altogether 24 employees have only been considered at 50 percent for the determination of the average number of the Group’s employees (based on the entity’s proportionate consolidation until March 31, 2012).

41 // Significant events after the end of the fiscal year

As of acquisition date January 1, 2013, 26.1% of the shares in GED Gärtner-Electronic-Design GmbH, Frankfurt/Oder were acquired. Following this increase of the already existing majority interest, Elmos Semiconductor AG holds 100% of the shares in this affiliate.

42 // Declaration of compliance in accordance with Section 161 AktG

In September 2012, Management Board and Supervisory Board of Elmos Semiconductor AG released the declaration pursuant to Section 161 AktG (Stock Corporation Act) and made it permanently accessible to the shareholders on the Company’s website.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Dortmund, March 5, 2013

Dr. Anton Mindl **Nicolaus Graf von Luckner** **Reinhard Senf** **Dr. Peter Geiselhart**

Auditor's report

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

"We have audited the consolidated financial statements prepared by Elmos Semiconductor AG, Dortmund, comprising the statement of financial position, income statement, statement of comprehensive income, statement of cash flows, 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, 2012 to December 31, 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as applicable in the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] and the articles of incorporation are the responsibility of the 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 (IDW) [Institute of Public Auditors in Germany]. 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 IFRS as applicable in the EU and 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 5, 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Muzzu	**Schlüter**
Wirtschaftsprüfer	Wirtschaftsprüfer

Highlights 2012

January // Building automation

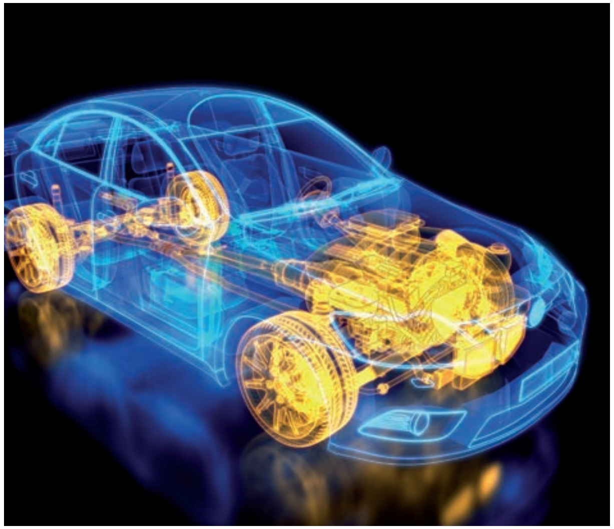
With the KNX/EIB transceiver, Elmos introduced an integrated high-performance chip for networking components of building services automation. KNX is a standard for home and building system technology for the exchange of data between KNX devices such as sensors, actuators, control units, and monitoring devices via the KNX communication medium to which all the devices are connected.

January // Chip for motion detectors

In early 2012 Elmos launched a controller for motion detectors on infrared basis. The Elmos IC integrates all functions for digital signal processing. Thus the E931.97 saves costs and installed space as no additional external circuits are necessary. The Elmos chip is designed especially for energy-optimized and reliable operation – a trend that runs through the whole year like a leitmotif.

February // electronica China 2012

For the very first time, Elmos presented its products at the trade show “electronica China 2012” in Shanghai. The display centered on automotive applications, industrial applications and building technology, for instance sensorics, actuators, networks, and efficient voltage and power supply. The exhibition was a great success and an important part of our activities in Asia in 2012. More than 40,000 guests, thus ten percent more than the previous year, visited the trade show.

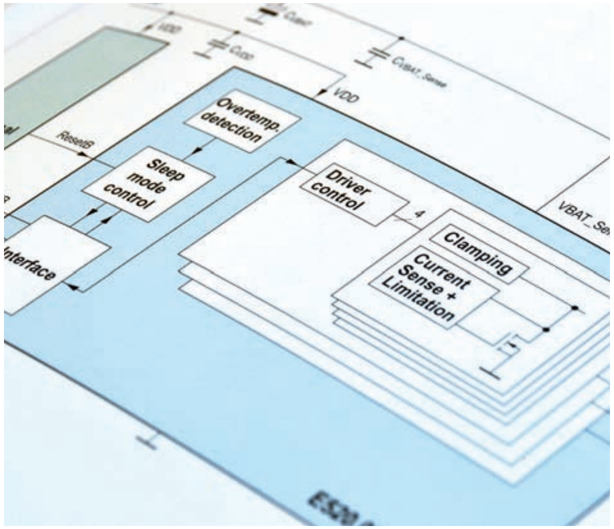


March // 5 million FlexRay™ components delivered

Elmos emphasized its status as a pioneer in FlexRay™ star couplers and transceivers with the five million[th] delivered FlexRay™ component. Elmos FlexRay™ semiconductors are used today by many manufacturers in all cars that use this standard for networking control units. Elmos keeps investing in this technology – and introduced new FlexRay™ semiconductors only a few months later.

March // Stepper motor driver with stall detection

Elmos presented motor drivers for stepper motors with the E523.30-35 product family. The components feature sensorless end position/ stall detection – thus the electric motor's operating life is extended considerably. Potential fields of use are among others automotive applications such as the control of radiator grille shutters, headlights and valves.



March, October // New product catalogs

Elmos updated the product catalog twice in 2012. Some 100 semiconductors were depicted in the spring issue and about 110 in the fall issue. All information is presented in a clear layout so that each customer will immediately find the right product. The application examples, newly introduced in the fall issue, provide additional customer support. They explain and demonstrate the complete configuration of a system, e.g. an airbag safety system, with the help of Elmos components.

April // Trade show: Light+Building 2012

In the future, light will be controlled by hand gestures. Just how this works, visitors learned at the Light+Building 2012 in Frankfurt/Main. Elmos showcased the HALIOS® sensor system in combination with light fixtures. The system has minimum power consumption and is capable of precisely detecting hand movements. You will find a short film on our trade show presence on our YouTube channel (direct access from our website www.elmos.com).

May // 4th Dortmund business run

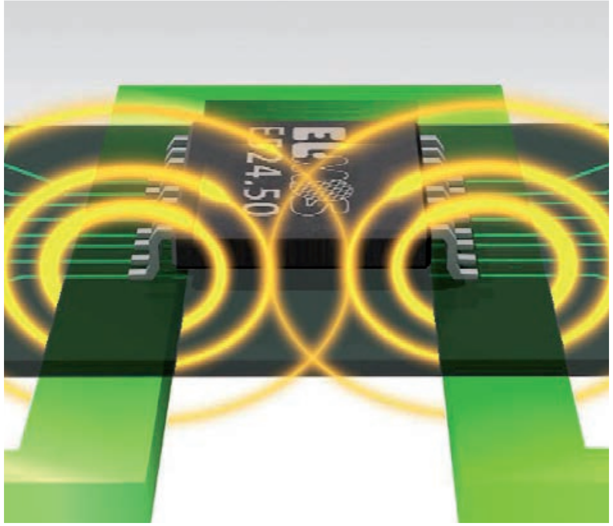
The Elmos men's team won the team competition at the 4th Dortmund business run, thus defending the title for the second time in a row. Two women's teams started for Elmos, too, for the first time ever. The ladies recorded new personal records. Over the course of the year, Elmos employees also set new personal bests at the B2Run event and the 1st Dortmund Phoenix Half Marathon.

May // 13th Annual General Meeting

All items on the agenda were passed by a large majority at the 13th Annual General Meeting. The dividend increase by 25% to 0.25 Euro per share had particular appeal to the shareholders. In his keynote speech, Dr. Mindl presented innovations for the automobile as well as for industrial and consumer goods, among other topics. Control devices in cars for example are activated only on demand, thus saving energy, and our chips in airbag systems save lives every day.

May // Smoke detector IC

Elmos introduced a fully programmable platform for an optical smoke detector with network functionality required in particular for larger systems and buildings. The component operates on the low power input of 88µA. Furthermore, interference signals and false alarms are avoided due to the amplifier's special filter characteristics. Altogether more than 250 smoke detectors can be connected to each other.



June // Contactless current measurement

Electric vehicles, battery management and power inverters for solar power plants and wind farms require the precise measurement of currents. For this purpose Elmos has developed the E524.50, a sensor system for precise current measurement. The system is capable of measuring currents of up to 500 kHz AC. You can see the system in action in an animation on our YouTube channel (direct access from our website www.elmos.com).

July // Safe motor driver

Elmos presented an EC motor driver with all the functions required for the configuration of a complete low-cost system. Comprehensive diagnostic and protection features such as short-circuit detection and voltage, current and temperature monitoring provide for the best possible safety. The IC is suited for radiator and blower fans as well as gas, hydraulic, oil and water pumps, and also wiper applications. Industrial applications center on motors (fans and pumps).

August // Share buyback

Elmos decided on a share buyback, to begin on August 28, 2012. On the whole, up to 400,000 treasury shares are intended to be repurchased. This equals 2.05% of the company's current share capital. Prior to the start of the share buyback program the company held treasury shares in the volume of 0.41% of the share capital. The share buyback is scheduled to be completed by March 31, 2013.

September // Golf VII with Elmos technology

The new VW Golf VII hits the streets and with it a new technology courtesy of Elmos. Part of the infotainment system, an Elmos chip detects motion toward the display terminal in the center console, among other things. The core of this solution is a chip based on the patented HALIOS® principle (**H**igh **A**mbient **L**ight **I**ndependent **O**ptical **S**ystem). The press had this to say: "Child's play to understand, child's play to operate." (ADAC)

September // Dual FlexRay™ star coupler

With the component E981.57, Elmos introduced the first dual FlexRay™ star coupler available in series production worldwide, thus expanding the FlexRay™ family. With the active star coupler, up to two branches of a FlexRay™ network can be connected to each other. The interface to a communication controller which is implemented as well makes it possible to use the chip as a standard transceiver.

October // LED for interior lighting

Realizing LED lighting in a vehicle's interior cost-efficiently and preferably maintenance-free is a tough assignment. With the Elmos semiconductor E521.30 it now can be done. A potential application of this chip is thus the individual lighting composition of the car interior with RGB LEDs. Depending on situation and mood, the driver may opt for a rather stimulating or relaxing color scheme.

December // Microtechnologist training

Elmos has been recognized for best performance in the microtechnologist professional training program in North Rhine-Westphalia (NRW). The 16 chambers of commerce in NRW awarded this prize to Elmos. They also distinguished Marius Kobbeloer as top microtechnologist trainee. Kobbeloer completed his training at Elmos most successfully in mid-2012.

December // Elmos gets a new logo

After going with a hardly changed trademark for some 29 years, Elmos now features a completely redesigned logo. It underlines the corporate philosophy: no frills, with a focus on our products. And these, namely for the most part small and square semiconductors, have now also found their way into the trademark's redesign, as three little squares to the right of the "elmos" lettering.

Glossary

ASIC An Application Specific Integrated Circuit (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.

ASSP An Application Specific Standard Product (ASSP) is an integrated circuit developed individually for a specific application. It can be marketed to several customers as an application standard.

Backend manufacturing Backend manufacturing describes 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 that 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 Complementary Metal Oxide Semiconductor is the basic technology for manufacturing microchips with a high integration rate and low energy consumption.

Design Win A design win is a new contract for a project acquired from a customer. Such a contract covers product development (in case of an ASIC) or the use of an existing component (in case of an ASSP), usually specifying planned unit numbers and prices. Binding orders are placed at a later point in time.

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.

Feature size This term is used for integrated circuits, indicating the technical feasibility of current paths and electrical properties. Feature size is measured in micrometers (µm) or nanometers (nm).

FlexRay™ The high-speed bus system FlexRay™ is a standard for time-critical applications e.g. in car networks. Among other fields of use, FlexRay™ facilitates real-time communication in active chassis control systems.

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

HALIOS® HALIOS® (High Ambient Light Independent Optical System) 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.) embedded in semiconductor material.

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 manufacturing integrated circuits by using simple geometric shapes.

MEMS Micro-Electro-Mechanical Systems (MEMS) are in particular sensors based on semiconductor technologies. Among other values, they can detect pressure, acceleration, or tilt.

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

OEM The Original Equipment Manufacturer distributes its manufactured (partial) systems to a reseller. In the automotive industry, the car manufacturers are referred to as OEMs.

Partial CAN/Partial network operation Partial CAN (Controller Area Network) is an option for communicating with the CAN bus. Control devices whose function is not needed permanently can thus 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.

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

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 that measures or detects a real physical quantity, e.g. motion, heat, or light, and converts it subsequently into an analog or digital electric signal.

Silicon The most common semiconductor material, used for approx. 95% of all chips produced.

TPMS The Tire Pressure Monitoring System monitors the pressure in car tires and notifies the driver in cases of too low pressure.

Wafer The basic material in chip production. A wafer is a polished disc sawn out of a single silicon crystal. Typical diameters are 150mm (6-inch), 200mm (8-inch) and 300 mm (12-inch).

Financial calendar 2013

Analysts' conference (conference call/webcast)	March 19, 2013
Quarterly results Q1/2013[1]	May 7, 2013
Annual General Meeting in Dortmund	May 24, 2013
Quarterly results Q2/2013[1]	August 7, 2013
Quarterly results Q3/2013[1]	November 6, 2013

[1] Results are usually released after trading hours. Conference calls are usually made one day after the release of quarterly results.

Informative material

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

-> Annual Report
-> Interim financial reports/Quarterly reports
-> Eco Report
-> Our Company (image brochure/company profile)
-> Code of Conduct
-> Product catalog

All listed documents can also be found on our website at www.elmos.com. If you want to subscribe to our ad hoc announcements and press releases, please send an e-mail to invest@elmos.com.

This Annual Report is also available in German.
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YouTube: www.youtube.com/user/ELMOS1984

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SlideShare: de.slideshare.net/ELMOS_AG

Of course you can visit our profiles on Twitter, YouTube, Xing and SlideShare through our website (www.elmos.com) as well.

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Forward-looking statements
This report contains statements directed to the future that are based on assumptions and estimates made by the management of Elmos. Even though we assume the underlying expectations of our statements to be realistic, we cannot guarantee these expectations will prove right. The assumptions may carry risks and uncertainties, and as a result actual events may differ materially from the current statements made with respect to the future. Among the factors that could cause material differences are changes in general economic and business conditions, changes in exchange and interest rates, the introduction of competing products, lack of acceptance of new products, and changes in business strategy. Elmos neither intends nor assumes any obligation to update its statements with respect to future events.

This English translation is for convenience purposes only.

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