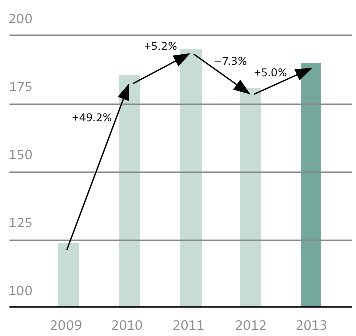
elmos

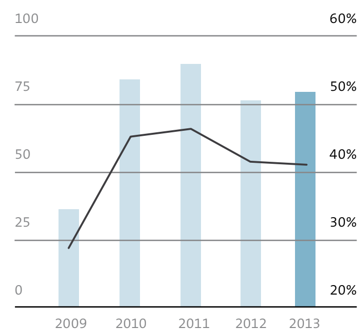
Elmos Product Quartets

Annual Report 2013 – With 32 playing cards

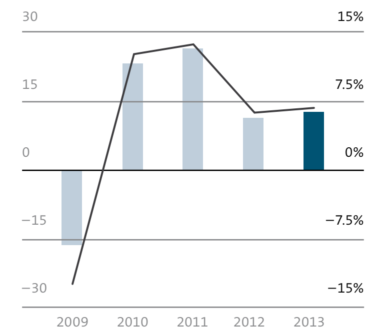
Sales in million Euro and growth rate



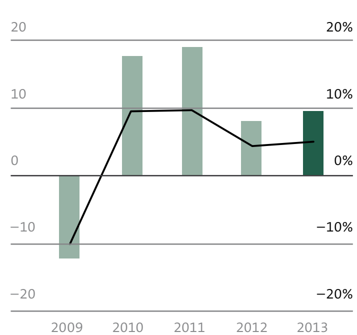
Gross profit in million Euro and gross margin



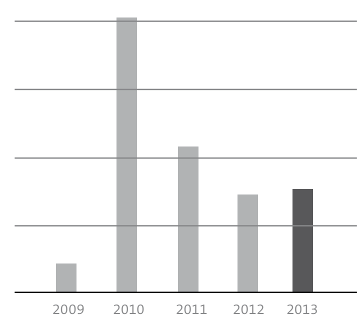
EBIT in million Euro and EBIT margin



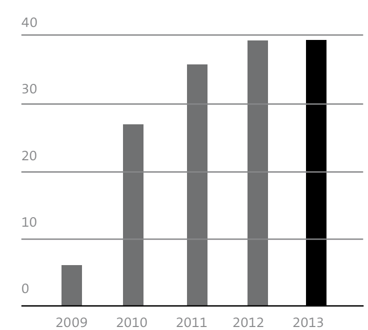
Consolidated net income in million Euro and net income margin



Adjusted free cash flow[2] in million Euro



Net cash in million Euro



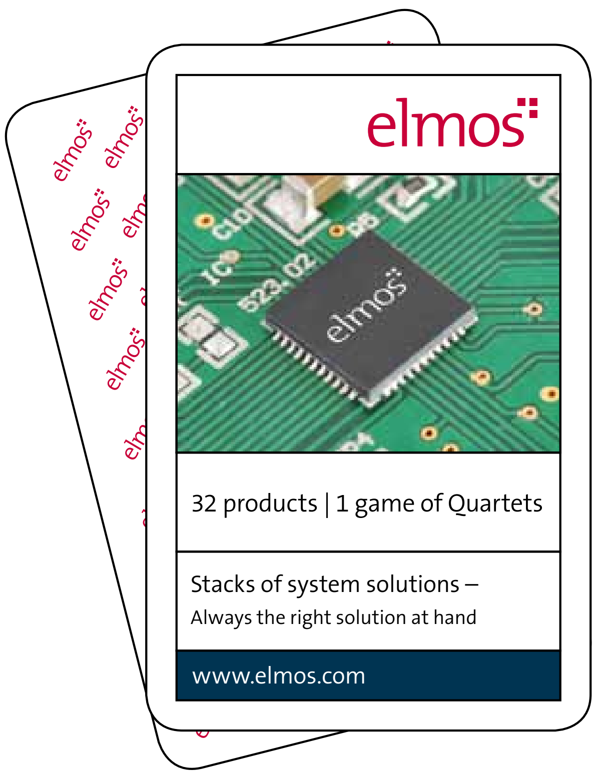
Five-year performance Elmos Group (IFRS)

in million Euro unless otherwise indicated	2009	2010	2011[4]	2012[4]	2013
Sales	123.8	184.7	194.3	180.1	**189.1**
Sales growth	–29.3%	49.2%	5.2%	–7.3%	**5.0%**
Gross profit	35.9	83.8	89.6	76.1	**79.2**
Gross margin	29.0%	45.3%	46.1%	42.2%	**41.9%**
Research and development expenses	25.3	29.6	32.5	35.0	**34.4**
Research and development expenses in % of sales	20.4%	16.0%	16.7%	19.4%	**18.2%**
EBIT	–15.8	23.1	26.6	11.5	**12.7**
EBIT in % of sales	–12.8%	12.5%	13.7%	6.4%	**6.7%**
Earnings before taxes	–17.3	21.7	25.8	9.7	**12.5**
Earnings before taxes in % of sales	–14.0%	11.7%	13.3%	5.4%	**6.6%**
Consolidated net income /(loss) attributable to owners of the parent	–12.2	17.8	18.9	8.1	**9.4**
Net income margin	–9.9%	9.6%	9.7%	4.5%	**5.0%**
Earnings per share (basic earnings) in Euro	–0.63	0.92	0.98	0.42	**0.49**
Total assets	221.7	249.2	269.9	272.4	**270.9**
Shareholders' equity	154.4	172.3	188.0	189.6	**192.7**
Equity ratio	69.6%	69.1%	69.6%	69.6%	**71.1%**
Financial liabilities	40.8	40.5	40.7	42.9	**37.8**
Cash, cash equivalents and marketable securities	46.8	67.3	76.5	82.2	**77.1**
Net cash	6.0	26.8	35.7	39.3	**39.3**
Cash flow from operating activities	9.4	33.0	33.2	25.2	**21.4**
Capital expenditures for intangible assets and property, plant and equipment	7.4	12.4	19.4	17.9	**15.6**
Capital expenditures in % of sales	6.0%	6.7%	10.0%	9.9%	**8.2%**
Cash flow from investing activities	–5.5	–20.5	–28.7	–25.6	**–36.4**
Free cash flow[1]	3.9	12.5	4.4	–0.4	**–15.0**
Adjusted free cash flow[2]	2.1	20.2	10.7	7.3	**7.6**
Dividend per share in Euro	0.00	0.20	0.25	0.25	**0.25**[3]
Employees on annual average	1,038	990	988	1,034	**1,053**

[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 2014
[4] Adjustment of prior-year amounts; please also refer to the chapter "General information" in the notes to the consolidated financial statements.

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

Contents



Creativity is the trump card.

We count on discipline, knowledge, commitment, lifelong learning and efficient structures, but also on motivation and creativity. The playful element contributes largely to brilliant ideas and thus often results in great team performances, the deciding factor for the competitiveness of our **semiconductors** in many cases. We have turned a part of our product portfolio into a game of Quartets for you to experience that playful quality. On 32 playing cards you will learn which semiconductor measures tire pressure, assists your parking, makes LEDs shine, or responds to the wave of your hand.

We hope you will enjoy the game. As we enjoy the work.

Networking

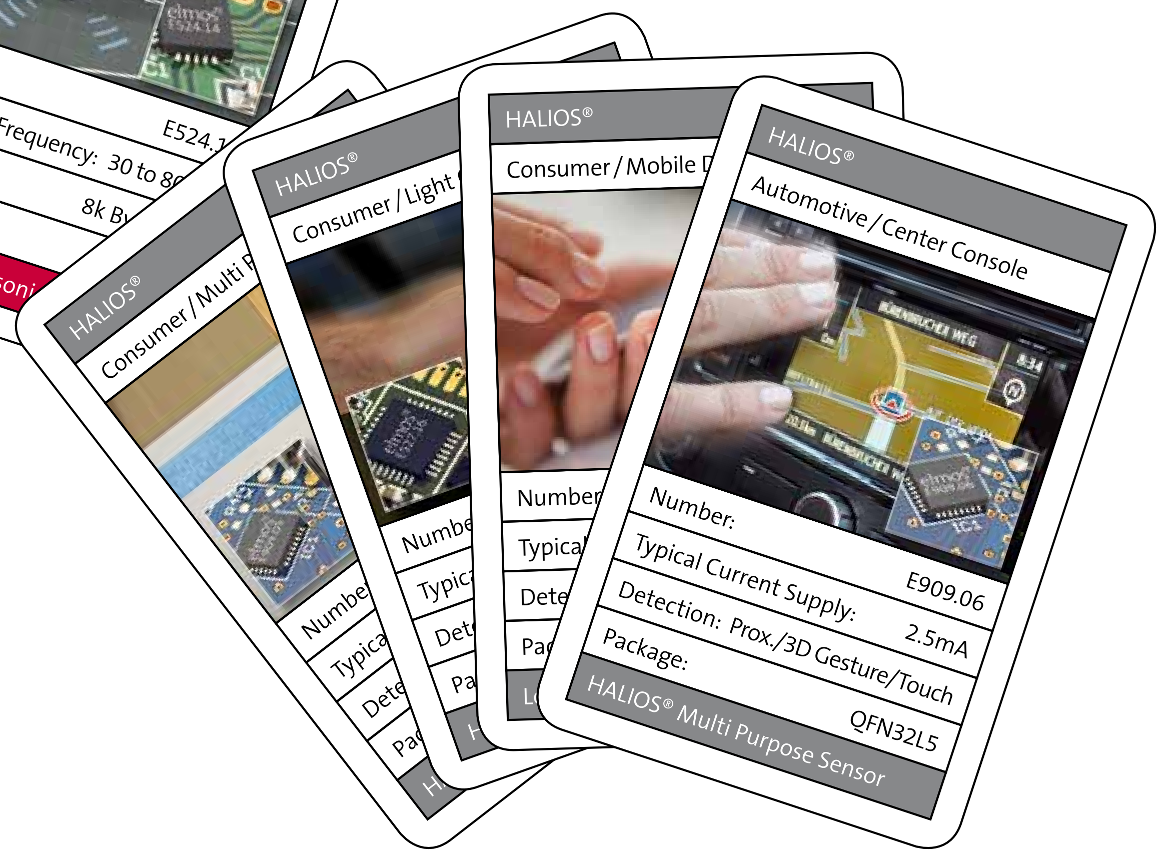
Our chips are communicators and they send exactly the message they are supposed to. Our network semiconductors make sure that electronic systems exchange data fast and without fault.

Power

Our chips are not only power charged,
they convert electric power so efficiently that
LEDs last longer and applications use less energy.

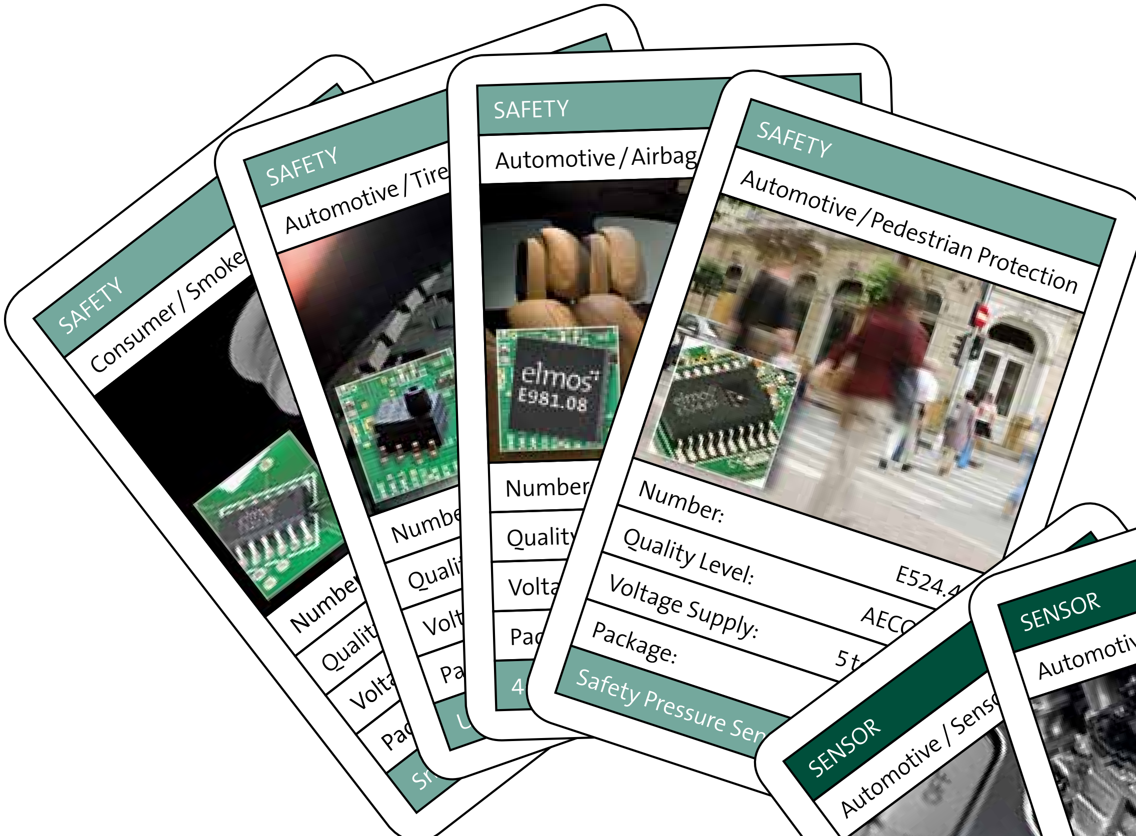
Ultrasonic

Our chips know exactly how much gas is left in your tank. But they can do your parking as well. Every day we help millions of people find the right parking space with ultrasonic sensors.



HALIOS®

Our chips respond to the wave of your hand. They don't need to be touched, they recognize gestures. With our Halios solutions it is easy as pie to develop intuitive operating concepts.



Safety

Our chips are your guardian angels. The airbag in the car and the smoke detectors in the house save lives every day. Our chips are a centerpiece of these safety applications.

Sensor

Our chips can handle pressure. The sensor components analyze the pressure or the temperature and translate their findings into the digital language of zeros and ones.

Automotive Motor Control

Our chips cool you down and heat you up. The precise management of electric motors makes it possible to control the air-conditioning system exactly and efficiently and to protect internal combustion engines against overheating.

Industrial Motor Control

Our chips help you with your housework. When you mow the lawn or hold the power drill in your hand, think of us for a second: Our chips drive their motors brilliantly.

ROUND 1

Information for our shareholders

MANAGEMENT BOARD

"Elmos has met the forecast and therefore we are generally satisfied with the data. But there is no cause for celebration on that account. The start of the year was difficult, while the strong performance over the final quarter 2013 made us feel more forgiving about the whole year."

SUPERVISORY BOARD

"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 2013 out of the retained earnings of 65.9 million Euro (according to HGB) and to carry forward the remaining amount to new accounts."

CORPORATE GOVERNANCE

"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."

SUSTAINABILITY

"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."

THE ELMOS SHARE

"The Elmos stock's performance was very satisfactory in the year 2013. Although all the relevant indices managed to record strong gains as well, the Elmos stock closed the year better then the benchmarks did, with a gain in value of close to 50%."

SIGNIFICANT EVENTS 2013

January – temperature measurement, February – active environmental protection, February – embedded world, March – electronica China, March – annual press conference, April – new distributor, May – a milestone for the HALIOS® IC family, May – Annual General Meeting, June – product catalog 2013/14 released...

"Management Board and Supervisory Board share the commitment to responsible corporate governance."

Interview with the CEO

For Elmos Semiconductor AG, 2013 was a year of challenges, with a remarkable finish. Difficult market conditions especially in Europe affected the first quarter in particular. Things went up from there, and finally a new record in quarterly sales was achieved – by reaching beyond the 50 million Euro mark in the final quarter for the first time. With this strong finish Elmos managed to fulfill its forecast for the year 2013. Sales of 189.1 million Euro, an EBIT margin of 6.7%, and a free cash flow (adjusted) of 7.6 million Euro are values with which Elmos justifies the confidence of the capital markets. Our investors were able to take delight in a pleasant stock price performance, gaining close to 50% in the year 2013. Furthermore, the dividend proposal to the Annual General Meeting in the amount of 0.25 Euro is a sign of continuity and reliability.

For the year 2014 Elmos is expecting further progress in operations and strategy – the product portfolio will be strengthened by the well-targeted addition of new chips so that Sales will always have another ace up their sleeve. Growth in sales and improvements in production are intended to increase the quality of earnings. A better mood among the European automotive industry and other factors will lead to higher sales.

In the following interview, CEO Dr. Anton Mindl talks about 2013 and provides an outlook of the markets, products, and strategic decisions that will be of relevance in 2014.

The fiscal year 2013 is over. Sales increased by 5.0% to 189.1 million Euro, the EBIT reached 12.7 million equaling 10.5% growth, and 7.6 million Euro in (adjusted) free cash flow were achieved. Are you satisfied with these numbers?
Elmos has met the forecast and therefore we are generally satisfied with the data. But there is no cause for celebration on that account. The start of the year was difficult, while the strong performance over the final quarter 2013 made us feel more forgiving about the year as a whole. We achieved gradual progress in respect of sales and earnings. We also continued to move forward in the development of our solid financial position. Despite notable capital expenditures, the repayment of our financial liabilities by 5 million Euro and the dividend payment, we managed to keep liquid assets at a high level.

As you just mentioned, the year 2013 was not easy. What were the challenges the Group was most occupied with?
The conversion of production from 6 to 8-inch wafers has been, and continues to be, a Herculean task. On the one side, converting a running production environment brings up many challenges. On the other side, we must find good-targeted solutions for the projects involved together with the customers. Therefore efficiency in 2013 was not at the level we would wish it to be. Yet modernization is absolutely necessary and the customers involved understand that. We almost double the number of semiconductors per wafer while manufacturing costs rise only to a much smaller degree. I am sure this will significantly improve our competitiveness. The positive effects will become apparent over the next years. But external factors were difficult as well: The euro crisis has had the result that the number of cars registered in Europe hasn't been lower in almost twenty years.

What were the best successes in 2013? What makes you feel proud when you think back on the past year?
I was happy about the breakthrough with two very large Asian customers. We fought for them for a long time, and soon we will deliver the first products. But the modernization of production has also been a success – despite all difficulties. The output achieved in the fourth quarter was good. Moreover, we have taken a few large steps forward in the standardization of our design methodology. And of course there are some new products of our three business lines – Sensors, Motor Control, and Embedded Solutions – that make me feel proud. For our subsidiary SMI with its focus on MEMS-based pressure sensors, 2013 was a year of updating the product portfolio. I am expecting promising orders for the new chip developments in the future. The customer feedback gives me good reason for this.

Asia has become an increasingly relevant region for Elmos with respect to the global distribution of sales. In 2013 sales in this region were up 20.0% from the previous year. Will this trend continue in 2014?
The Asian market is a growth driver of the automotive industry. Elmos has been on location for some three years now with our own sales and application engineers. The years before that we were active in the Asian countries with representatives. Thanks to this preparation over many years, now almost a quarter of our sales is generated in Asia. Elmos will continue to benefit from this region's growth in 2014 and we will expand our range of customers in Asia once again.

We would like to look into other core strategic elements. To what extent have the developments toward fab light production, a strengthening of MEMS efforts, the expansion of the non-automotive pillar, and more application specific products (ASSPs) based on in-house IP borne fruit?
Let me respond with some facts here: At present we manufacture a sizable share of about 15% of the production volume outside our in-house fab. This helps us enormously in our current conversion and growth phase. Following restructuring, MEMS have made a positive contribution to earnings for the fourth year in a row now and our industrial and consumer goods products have reached, at least in absolute terms, a new sales record. With respect to ASSP acquisitions we can look back on another successful year. The hard work of the past years, with some substantial changes in business processes and our organization, is starting to pay off. We are making good progress in all strategic areas.

Let us dare to offer an outlook for 2014. Beginning with the products, which are the ones that will have a material effect on sales in this fiscal year and what new products will be introduced to the market? Are we in for any surprises?
As far as products are concerned, upgrades of our high running products are being presented to our customers worldwide. First key customers are enthusiastic about our solutions. We will also win new customers with new products for sensors, motor drivers, and voltage supply systems. Our product pipeline has a number of exciting projects to offer. With them we want to surprise our customers in the best possible way. Especially the market for driver assistance systems will see another boost in 2014 and beyond. Such systems increasingly become a selling argument for compact and mid-sized cars. Elmos is very well positioned in this field with different solutions, particularly sensor systems, and leads the market in important applications.

What are the general economic conditions you anticipate for 2014? Has the downward trend of car sales in Europe bottomed out?
The last months of the year 2013 showed a slight upward trend for Europe. If this trend stabilizes and if the economies of the European countries develop without any negative surprises, then I see a friendlier outlook for the European market once again. Generally speaking, however, the relevance of the European market for Elmos with respect to sales will continue to diminish. Because even though our direct sales generated with European customers including Germany still come to a very high nominal value at 61.6%, many of the semiconductors distributed within the continent eventually find their destination outside Europe, as is evident already from the high export rates of e.g. the German carmakers. The defining markets will therefore be the international ones, above all China and the U.S.A. Market researchers assume that these two countries will be good for 45% of global car sales in the year 2014. That share amounted to 38% in the year 2010.

Let's get to financials now: What progress do you expect for 2014? Will there be another sales record, and how will the development of the quality of earnings turn out?
The management team is convinced that in 2014 we can expect the highest sales so far in company history indeed. We anticipate growth in the upper single-digit percentage. Profitability was affected negatively in 2013 by the conversion of production to up-to-date manufacturing technologies. We will still have these burdens in 2014, yet not to the same extent as in 2013. Therefore we see positive conditions for improvement of the quality of earnings as well. The EBIT margin is also expected to end up in the upper single-digit percentage range. We anticipate a positive adjusted free cash flow and will once again invest less than 15% of our sales.

What can shareholders and investors expect of the dividend for the year 2013?
Over the past two years we paid out 0.25 Euro per share. As the Company has sufficient liquidity and earnings show a sustained positive performance, we want our shareholders to participate in this development in the same scope again. Continuity in dividends – provided the general conditions are sound – also builds trust. Accordingly the Supervisory Board and the Management Board will propose to the Annual General Meeting in May 2014 the payment of a dividend of 0.25 Euro for 2013.

One final question off the track of strategy and numbers: With the Annual Report comes a board game. More specifically, it is a game of Quartets with Elmos products. To include a game with a financial report appears unusual. What made you do this?
The game of Quartets with our products on the card faces is intended to stand for the fun part of working at Elmos. At all links of the value-added chain, or put more simply: from development to production, to sales, in addition to discipline, knowledge, commitment and efficient structures, motivation and creativity are in demand as well. This makes us think that the playful element also makes a deciding contribution to a brilliant performance. And our employees managed to perform brilliantly in 2013 once again. On behalf of the entire Management Board and Supervisory Board, I would therefore like to extend my heartfelt gratitude for the work of the past year. Our achievements have only been possible on the strength of great teamwork.

Management Board Quart

Dr. Anton Mindl	Nicolaus Graf von Luckner	Reinhard Senf	Dr. Peter Geiselhart
CEO	CFO	COO	CTO/CSO
			
Graduate physicist	Graduate economist	Graduate engineer	Graduate physicist
Born 1957	Born 1949	Born 1951	Born 1957
Board member since 2005	Board member since 2006	Board member since 2001	Board member since 2012
Appointed until 2015	Appointed until 2014	Appointed until 2016	Appointed until 2018

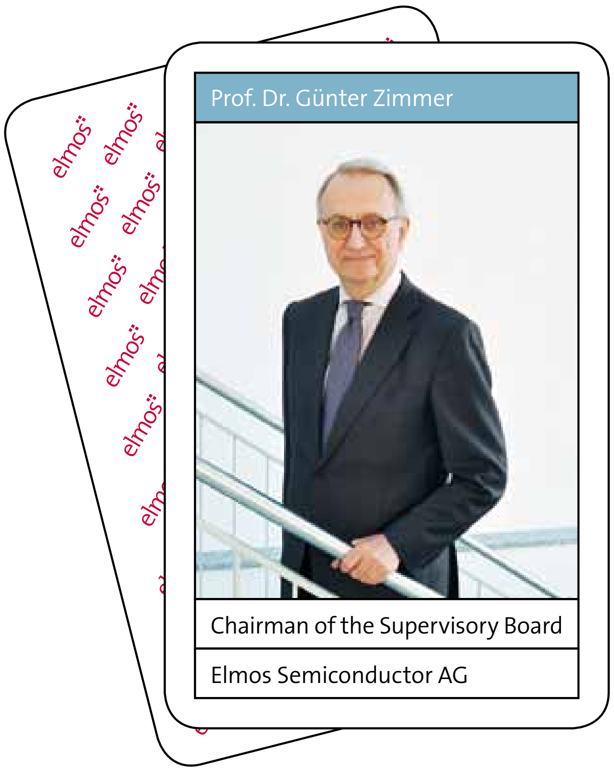
Key areas of responsibility
Strategy, quality, human resources development, corporate governance, micromechanics

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

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

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

Supervisory Board Report



Dear shareholders,

the Supervisory Board diligently attended to its duties and responsibilities imposed by law and the Articles of Incorporation in fiscal year 2013. The Board 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 any 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 2013, namely on March 5, 2013, May 24, 2013, September 11, 2013, and December 13, 2013. In a meeting held on March 6, 2014, the Supervisory Board concerned itself primarily with the 2013 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, 2013, 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 of the Supervisory Board meetings were the conversion of production from 6 to 8-inch wafers and the procurement of wafers produced by cooperation partner MagnaChip. Other topics of debate on the Supervisory Board were the sales and customer structure, the situation of new acquisitions, and the strategic development of the locations in Asia. Also discussed were the profit and loss transfer agreement between Elmos and GED Electronic Design GmbH, the acquisition of the building for the warehouse in Dortmund, and the performance of subsidiary SMI as well as the sale of its investment in solar start-up TetraSun Inc.

The Supervisory Board also informed itself about the outcome of the reorganization implemented in the year 2012 involving sales, business lines, production and technology. Succession planning for the position of CFO was addressed as was the first establishment of a works council at Elmos Semiconductor AG. One other issue was the contract extension with Management Board member Dr. Peter Geiselhart, responsible for sales and development, until the year 2018.

As in the previous fiscal years, the Supervisory Board also dealt with the risk management system, the present state of the compliance program, and the recommendations and suggestions of the German Corporate Governance Code commission. The declaration of compliance was prepared together with the Management Board. Furthermore, the Supervisory Board discussed the agenda of the upcoming Annual General Meeting to be held on May 13, 2014 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.

With one exception, all meetings of the Supervisory Board were attended by all of its members.

The Supervisory Board does not set up committees.

Audit of separate financial statements and consolidated financial statements

Consulting the certified accountants of Warth & Klein Grant Thornton AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, the Supervisory Board concerned itself in its meeting of March 6, 2014 with the audit of the separate financial statements and consolidated financial statements for the fiscal year ended December 31, 2013. According to the resolution of the Annual General Meeting of May 24, 2013 and the ensuing commission given by the Supervisory Board to the auditor, the separate financial statements prepared in accordance with HGB provisions (German Commercial Code) for the fiscal year ended December 31, 2013 and the management report of Elmos Semiconductor AG were audited by Warth & Klein Grant Thornton AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf. 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 6, 2014, the statements and reports were also explained by the Management Board. The certified accountants who signed the audit reports also reported on the results of their audit in this session. After its own examination of the financial statements and the management report of Elmos Semiconductor AG, the consolidated financial statements and the 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 2013 out of the retained earnings of 65.9 million Euro (according to HGB) 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 2013, 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 13, 2013. 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 2013. The next elections to the Supervisory Board will be held in 2016 according to schedule.

There were also no changes on the Management Board in fiscal year 2013. However, as already announced, there will be a change in the CFO position in 2014. Current Management Board member Nicolaus Graf von Luckner will leave the Management Board of Elmos Semiconductor AG effective June 30, 2014 as he has reached retirement age. His successor is Dr. Arne Schneider, who has been appointed new Management Board member as of July 1, 2014.

More information about the members of the Management Board can be found on page 11 of this Annual Report. Information on the members of the Supervisory Board is listed on the right.

The Supervisory Board thanks all employees and all members of the Management Board for their work and their contribution to the success achieved in fiscal year 2013.

Dortmund, March 6, 2014

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[1]
Graduate engineer | Dortmund

Sven-Olaf Schellenberg[1]
Graduate physicist | Dortmund

Dr. Klaus Weyer
Graduate physicist | Penzberg

[1] Employees' representative

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 2013 with the provisions of the German Corporate Governance Code in its last amended version of May 13, 2013. In September 2013, the Boards jointly released the declaration of compliance in accordance with Section 161 AktG once again. Apart from the 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.

The new version of the Code as of May 13, 2013 resulted in a few additions to the deviations reported in the previous year. These deviations concern the remuneration of the Management Board. The calculation of a comparative value in percent between Management Board remuneration and the remuneration of executives and other employees would entail a big bureaucratic effort for which there appears to be no corresponding benefit at present. A variable remuneration cap is not yet implemented in all Management Board contracts of employment. Such a limit is subject to gradual introduction to new contracts. According to shareholders' resolution of May 4, 2010, Management Board remuneration is disclosed not in individualized but summarized form. Therefore it is not possible to fill out the model tables provided by the Code. Moreover, this would entail a very big bureaucratic effort for our Company. Even though such tables would have to be presented beginning with fiscal year 2014 only according to the recommendations of the German Corporate Governance Code, we declare a corresponding deviation now as there are no plans to implement the recommendation.

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 the 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. The Elmos Code of Conduct was revised and enhanced in the 2013 fiscal year.

All employees were given copies of the Code of Conduct for their information. Training courses have been held for particularly sensitive areas; the employees were also informed about the revised edition of the Code on the occasion of a staff meeting. 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 Company's website.

In fiscal year 2013 a Supplier Code of Conduct was prepared as well, requesting the suppliers of Elmos to explicitly adhere to certain principles of compliance, too. Thus we fulfill the increased requirements for the implementation of compliance measures throughout the supply chain.

Employees and other persons 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 the 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. The individual 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. Nicolaus Graf von Luckner, CFO, will leave the Management Board effective June 30, 2014 as he has reached retirement age. His appointed successor is Dr. Arne Schneider, who is currently in charge of corporate development at Elmos.

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 of Elmos Semiconductor AG 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 shareholders' 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 acting 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 has established goals and principles with respect to the Board's composition. 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. Of the four shareholders' representatives on the Supervisory Board, at least one member shall be independent within the meaning 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.

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 (Corporations Act):

"I. Statements with respect to the future

Elmos Semiconductor AG will comply with the recommendations of the "Government Commission German Corporate Governance Code" (in short: GCGC) in the latest version of May 13, 2013 (released in the official section of the Federal Gazette on June 10, 2013) as of now, 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 Supervisory Board does not intend to compare the respective remuneration of members of the Management Board, senior executives, and other employees (GCGC No. 4.2.2). The Supervisory Board does not see a corresponding benefit of the increased effort.
- The Management Board's variable remuneration components do not provide for a payment cap with respect to all existing contracts at present (GCGC No. 4.2.3). The part that includes individual performance targets provides for payment caps today already. New contracts shall include payment caps that apply for all variable remuneration components.
- 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.
- Management Board remuneration is not disclosed separately for each of its members (GCGC No. 4.2.5 sentences 3 and 4) as the remuneration of the Management Board is provided, pursuant to the resolution of the Annual General Meeting of May 4, 2010, in the total amount only and not individualized. Accordingly, the model tables provided in the appendix of the GCGC are not filled out either as this would amount to individualization of the Management Board remuneration.
- 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

Period between the release of the last declaration of compliance in September 2012 and the announcement of the Code's new version on June 10, 2013:

The recommendations of the GCGC in the version of May 15, 2012 and announced by the Federal Ministry of Justice in the official section of the Federal Gazette on June 15, 2012 were complied with since the release of the declaration of compliance in September 2012 with the exceptions mentioned under I.

Period since the announcement of the Code's new version on June 10, 2013:

The recommendations of the GCGC in the version of May 13, 2013 and announced by the Federal Ministry of Justice in the official section of the Federal Gazette on June 10, 2013 have been complied with, subject to the exceptions mentioned above under I."

Dortmund, September 2013

On behalf of the Supervisory Board

Prof. Dr. Günter Zimmer
Chairman of the Supervisory Board

On behalf of the Management Board

Dr. Anton Mindl
Chief Executive Officer

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 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 13, 2014 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.

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 regularly and if necessary also on short-term notice. 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 Warth & Klein Grant Thornton

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 2013. 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. 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 scope 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 market. 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 2013, the members of the Management Board received a total fixed remuneration of 1,625 thousand Euro (2012: 1,637 thousand Euro) and variable remuneration of 689 thousand Euro (2012: 815 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 2013, no stock options were issued to the members of the Management Board (2012: 80,000 stock options/time value: 114 thousand Euro). There are indirect pension commitments of a pension fund to members of the Management Board of Elmos. The pension fund has taken out corresponding reinsurance policies for the completely congruent coverage of its plan contributions. In 2013 payments for these reinsurance policies amounted to 517 thousand Euro (2012: 516 thousand Euro), included in the fixed components of the remuneration.

Remuneration of former Management Board members or their surviving dependants amounted to 410 thousand Euro in fiscal year 2013 (2012: 295 thousand Euro). In addition, insurance premiums of 255 thousand Euro were paid for this group of beneficiaries (2012: 248 thousand Euro). Facing these amounts are reimbursements from reinsurance policies in the amount of 79 thousand Euro (2012: 79 thousand Euro). Pension provisions for former Management Board members or their surviving dependants came to 2,891 thousand Euro as of December 31, 2013 (2012: 2,552 thousand Euro). After setting off pension provisions against the time value of pension plan reinsurance, 450 thousand Euro (2012: 265 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 or as a consequence of a non-competition clause, 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 commitments 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. 25 percent of the fixed remuneration and 50 percent of the variable remuneration are paid in shares of the Company. A holding period of three calendar years applies to shares received as remuneration as of the shares' respective grant date. The Supervisory Board members are not granted Elmos stock options for their positions on the Board.

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 2013 amounted to the total of 83 thousand Euro (2012: 69 thousand Euro). This amount includes expenses and disbursements. Payments of variable remuneration amounted to 158 thousand Euro (2012: 127 thousand Euro). The Company paid 10 thousand Euro (2012: 29 thousand Euro) to members of the Supervisory Board for consulting and other services.

Directors' dealings

Persons who hold executive positions with an issuer of stock and persons closely related to such a person 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 the 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. 6.3 GCGC, the members of the Supervisory Board had combined direct or indirect holdings of approx. 40.7% of the stock issued by the Company and the members of the Management Board had combined direct or indirect holdings of 1.2% (as of December 31, 2013).

Sustainability

Sustainability is an essential component of our corporate strategy. We perceive added value in a comprehensive way and orient the success of our business activities not only toward financial key figures but also want to connect that success to social acceptance.

Environment

Environmental protection is one of our guiding corporate principles. Acting responsibly today means saving the future. The following principles determine our conduct:

Legal compliance: Laws and provisions on environmental protection and other standards the Company has committed to are strictly complied with.

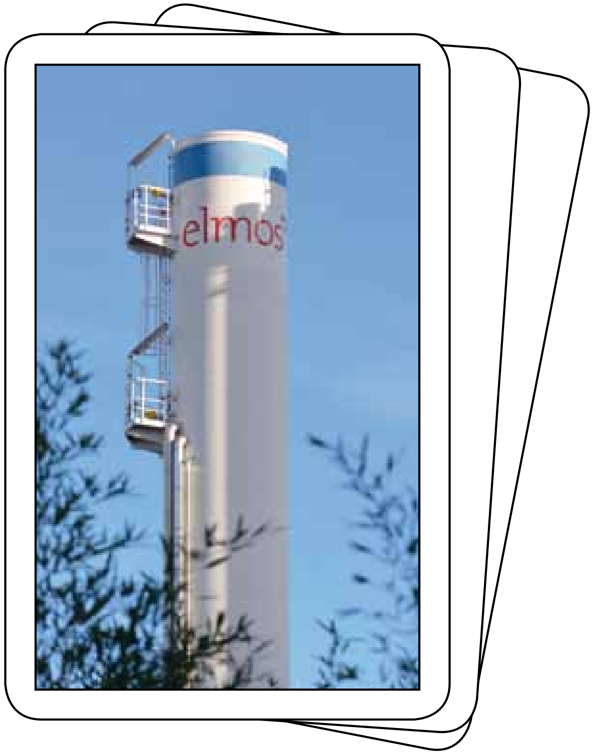
Minimization of environmental hazards: Environmental issues concern many processes and patterns of behavior in the Company. In this regard, we aim for an economical and efficient use of resources, the application of economically sound, state-of-the-art technologies, and precaution against accidents and the interruption of business.

Sense of responsibility among the staff: Each employee pays attention to environmentally responsible conduct. The active promotion of the sense of responsibility by employee training is a constant management task.

Eco management: Elmos has implemented an eco management system subject to continuous advancement. Part of this is an organization with clearly defined responsibilities and tasks.

Continuous improvement: The goal of the eco protection management system is a systematic and continuous improvement of our Company's environmental protection performance.

Elmos is certified annually in accordance with the high eco protection standards of DIN 14001. One example of the harmony between cost savings and environmental protection is the combined heat and power plant at the Dortmund location. In 2012 Elmos started operation of the power plant and now generates a considerable amount of the required electric power itself, and cheaper than buying it from a provider. Thus the Company not only saves costs but also 4,000 tons of CO_2 each year. Another eco goal achieved, due to further optimizations in one process step within one year, up to 30% of the deionized water required in production can be saved. More details on our environmental activities can be found in the Eco Report, available at **www.elmos.com/english/about-us/responsibility.**



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.

The principles of proper conduct among employees are defined in our Code of Conduct. The Code addresses issues such as values, law-abiding behavior, conflicting interests, dealing with information, data and the Company's assets, etc. The Code of Conduct is binding for all employees and represents an essential part of our corporate culture.

The condition for the Company's sustained success is a motivated and high-performing staff; therefore we are committed to our employees. In order to safeguard the continuous development of our staff as a general rule, Elmos offers its employees extensive specific training. In 2013 the Company carried out more than 700 professional training measures for its staff.

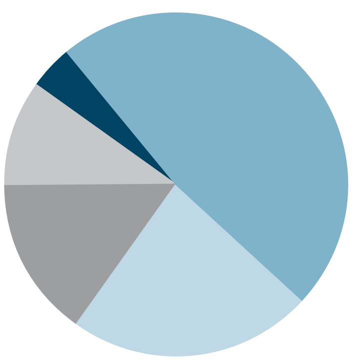
Among other benefits that go beyond the traditional understanding of an employer are the job rotation offers, the in-house cafeteria, our own parking garage, and our in-house gym, providing massages and various training programs. Elmos also has its own health team, involved in promoting the health of Elmos employees. Among the tasks of the health team are the organization of participation in public business runs and making medical examinations possible during working hours. In 2013 Elmos employees took part successfully in several business run events and in a dragon boat race on Dortmund's Lake Phoenix.

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

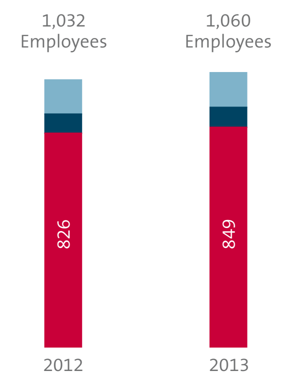
B2RUN business run

Dragon boat race

Employees by function
Elmos Group (annual average)



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



At the end of 2013, Elmos awarded graduates of electrical engineering of the Technical University of Dortmund for their excellent bachelor degrees for the first time. This way Elmos seeks to increase its popularity among college students and to present itself early on as an attractive employer.

The total number of employees has grown slightly in 2013 compared to the end of the year 2012. The number of employees at the NRW locations Dortmund and Duisburg went up from 826 as of December 31, 2012 to 849 as of December 31, 2013. The number of employees in the Group gained 2.7% on year-on-year comparison to 1,060 as of the reporting date (December 31, 2012: 1,032). On annual average, the number of employees of the Elmos Group rose to 1,053 (2012: 1,034). The average age of the staff was 40 years in 2013, unchanged from the previous year.

Elmos offers professional training for many technical and commercial professions, with an emphasis on microtechnologists. At the end of 2013, 39 trainees (2012: 37) were employed in Dortmund.

The cooperation of the Company's management and employees in Dortmund used to be supported by a voluntary employee representative committee. At the end of 2013, elections to the works council were held for the first time. Following its constitution in early 2014, a trusting cooperation is intended with the works council representatives as well. In accordance with the German One-Third Participation Act (Drittelbeteiligungsgesetz), the Supervisory Board has been composed of employees' representatives to one third since 2011. Please refer to the corporate governance report for more information.

Social responsibility

Elmos is committed to numerous social initiatives with donations, sponsoring, and other ways of support. Elmos particularly wants to promote projects that seek to raise the interest in technical professions among young people. Special mention deserves the Dortmund institution KITZ.do, which gives kids and teenagers the opportunity to conduct experiments in natural sciences. Apart from that, Elmos also wants to emphasize its local social commitment. Elmos employees gave donations to Kinderhospizdienst Ruhrgebiet e.V. (Ruhr Area Children's Hospice), KidsDO (Dortmund Clinical Center), Kinderschutzzentrum (Children's Protection Center), and Lydia-Kirchengemeinde Dortmund (local parish).

The Elmos share

General development in the stock markets

The international stock markets, particularly those of the industrialized nations, performed very well in 2013, and at relative low fluctuations. In the spring slight throwbacks were recorded in response to the U.S. announcement to continue its loose monetary policy only for a limited period of time; however, compensation came fast in the course of the year. The DAX reached several new historical highs over the year 2013 and came close to the mark of 10,000 points.

The general stock indices showed another good performance in 2013, following a considerable increase in 2012 already. DAX, Prime All Share and CDAX gained 25.5%, 28.1% and 26.7% respectively. Some of the industry indices of relevance to Elmos performed even better. DAXsector Technology and DAXsubsector Semiconductors climbed 25.5% and 25.9% in 2013 respectively. TecDax, DAXsector All Technology, Technology All Share, and DAXsector Automobile all achieved gains of around 40%.

Elmos stock price performance

Period ended December 31, 2013	Since 01/01/2012	Since 01/01/2013
Elmos (Xetra)	**34.4%**	**49.7%**
Industry indices		
TecDAX	70.3%	40.9%
DAXSector Technology [1]	31.4%	25.5%
DAXSector All Technology [1]	37.9%	39.6%
Technology All Share [1]	65.6%	39.8%
DAXSubsectorSemiconductors [1]	32.8%	25.9%
DAXSector Automobile	102.6%	42.8%
General market indices		
DAX	61.9%	25.5%
Prime All Share [1]	65.2%	28.1%
CDAX [1]	63.8%	26.7%

[1] Elmos is part of this index.

The Elmos stock's performance was very satisfactory in the year 2013. Although all the relevant indices managed to record strong gains as well, the Elmos stock closed the year better than the benchmarks did, with a gain in value of close to 50%. With the exception of the second quarter of 2013, the stock price went up rather evenly in the course of the year. The Elmos stock gained 49.7% in 2013 and closed at 10.70 Euro as of the end of the year. It reached its 52-week low of 7.17 Euro on January 3, 2013 and its 52-week high on November 28, 2013 at 10.83 Euro (all prices Xetra).

The average daily trading volume of the Elmos stock (Xetra and Frankfurt/Main) went down slightly year-on-year from 2012, coming to 21.6 thousand shares in the year 2013 (2012: 23.8 thousand shares). However, in contrast to 2012 the year under review records a significant increase in trading for the fourth quarter. High frequency and over-the-counter trading (OTC market) is increasingly gaining in importance for the Elmos share as well. The volumes traded there are not included in the numbers mentioned above and cannot be registered entirely.

Elmos key stock data

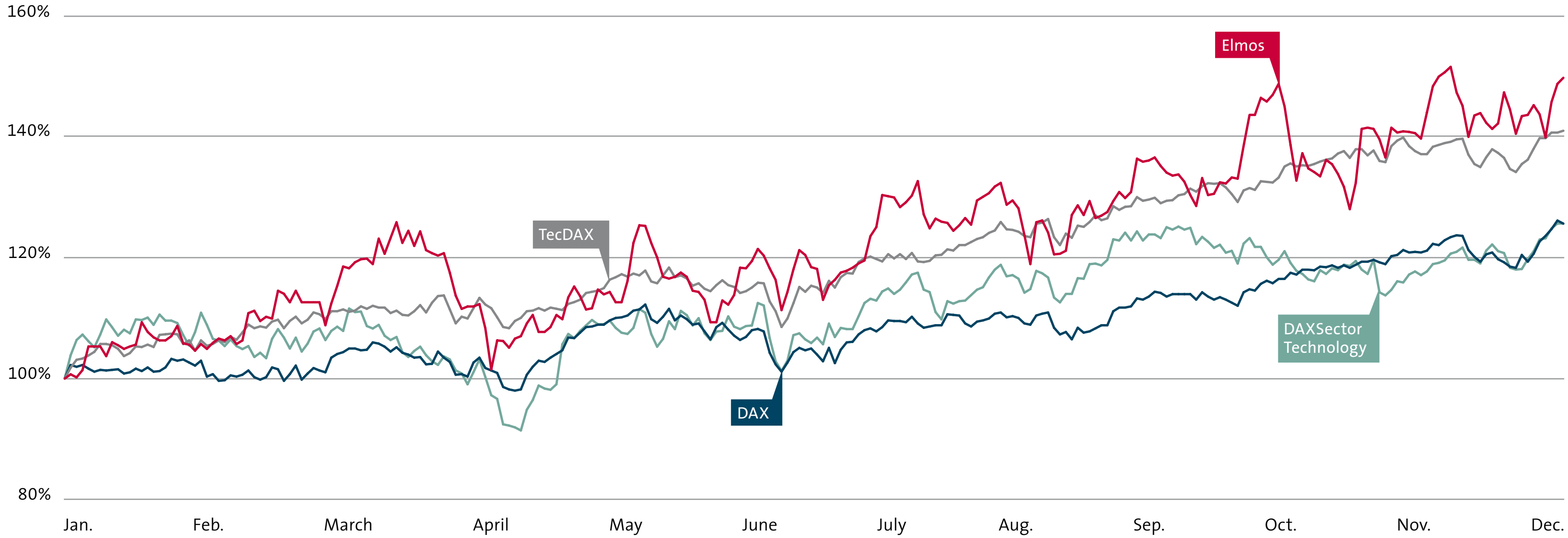
	2012	2013
Number of shares outstanding at the end of the year	19,615,705	19,674,585
52-week high (Xetra)	9.54 Euro (February 9)	10.83 Euro (November 28)
52-week low (Xetra)	5.86 Euro (August 8)	7.17 Euro (January 3)
Year-end closing price (Xetra)	7.15 Euro	10.70 Euro
Annual performance	−10.2%	49.7%
Market capitalization at the end of the year	140.3 million Euro	210.5 million Euro
Market value to book value [1] at the end of the year	0.7	1.1
Shares traded on daily average (Xetra and Frankfurt floor)	23.8 thousand	21.6 thousand
Earnings per share (basic earnings)	0.42 Euro [3]	0.49 Euro
Dividend per share	0.25 Euro	0.25 Euro [2]

[1] Shareholders' equity
[2] Proposal to the Annual General Meeting in May 2014
[3] Adjustment of prior-year figures; please also refer to "General information" in the notes

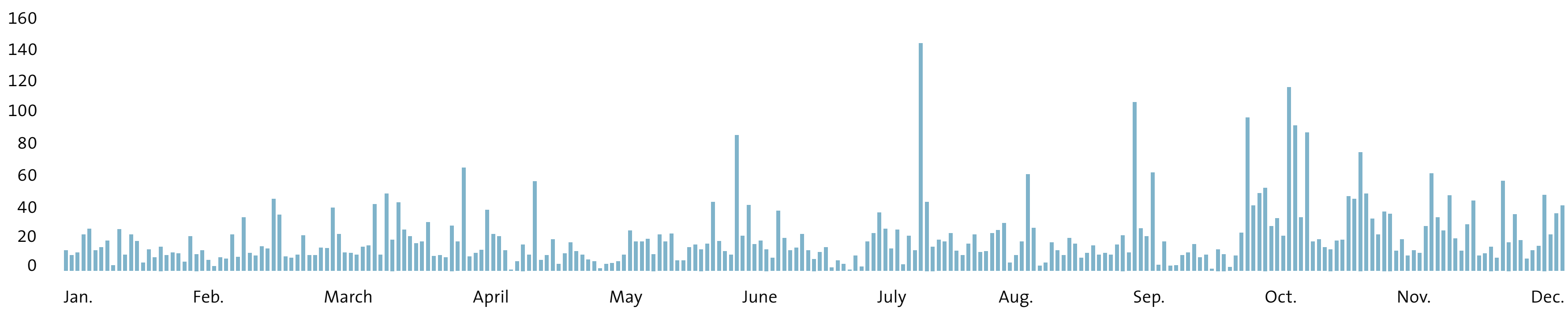
The market capitalization of Elmos amounted to 210.5 million Euro at the end of the year, based on 19.7 million issued shares (December 31, 2012: 140.3 million Euro based on 19.6 million shares).

Share price and trading volume

Relative price performance 2013



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



Basic stock information

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

The Elmos share is a no-par value bearer share (no-par share). It is traded on all German stock exchanges and 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

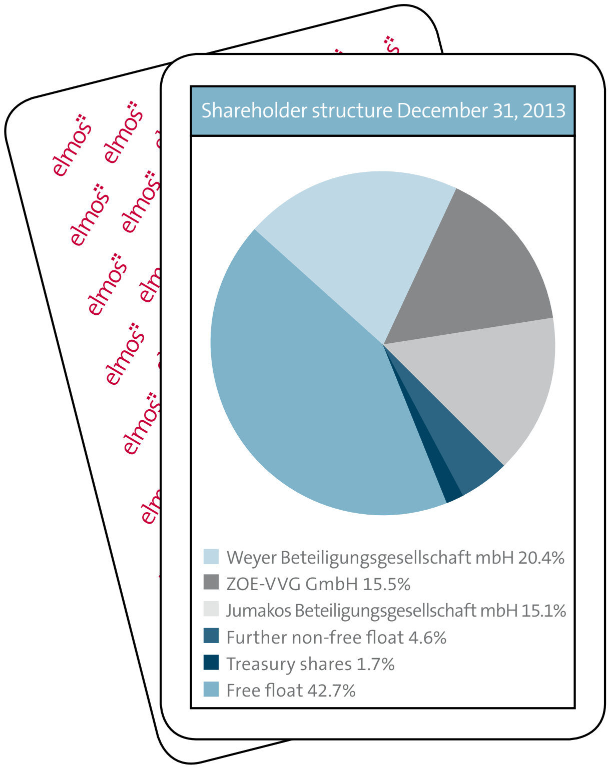
The share capital of Elmos Semiconductor AG is divided into 19,674,858 no-par value shares with a proportionate amount of 1.00 Euro of the share capital allotted to each share.

In March 2013 Elmos completed a share buyback program launched in August 2012. Between January and March 2013, altogether 188,181 shares were bought back so that over the entire length of the program 348,783 shares were repurchased at an average price of 7.57 Euro. On the whole, Elmos held 327,697 treasury shares as of the end of the year 2013, equivalent to 1.7% of the share capital.

In the year 2013 further stock options from the tranche issued in 2009 were exercised, leading to an increase in share capital by 58,880 Euro in 2013 (2012: 201,500 Euro). The 140,910 stock options still outstanding from this tranche can still be exercised over the next years. Moreover, the exercise timeframe for another tranche of stock options (tranche 2010) will open in the middle of the year 2014.

No voting rights announcements were made to the Company in the year 2013.

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

As a condition for the payment of a dividend, Elmos has defined a sustained positive performance of earnings and cash flows. Accordingly, Management Board and Supervisory Board propose to the Annual General Meeting in May 2014 to pay a dividend of again 0.25 Euro per share for fiscal year 2013 out of the 2013 retained earnings of 65.9 million Euro reported in the HGB financial statements of Elmos. The total dividend payout would thus amount to 4.8 million Euro based on 19,346,888 shares entitled to dividend as of December 31, 2013.

Investor relations

In 2013 Elmos continued to inform investors about the current situation and the corporate strategy within the framework of road shows in several European countries, conferences, and company visits on location. We also informed analysts and investors, and, upon request, individual shareholders as well by conducting conference calls after 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 conveniently accessible – for private and institutional investors and for analysts 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 & Press" 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. The 2013 relaunch of the Elmos website made it user-friendly for mobile devices as well. Elmos is also happy to send out information such as annual or quarterly financial 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

At the 14th Annual General Meeting held on May 24, 2013 in Dortmund, 14,003,935 Euro or 71.39% of the share capital were represented. In addition to the usual items on the agenda, the approval of a profit and loss transfer agreement with GED Electronic Design GmbH (formerly: GED Gärtner-Electronic-Design GmbH) and formal amendments to the Articles of Incorporation with respect to the lettering of the company name as a consequence of the logo redesign and the correct term of the Federal Gazette were decided on. Each agenda item was adopted with a large majority of the votes. At the 2013 Annual General Meeting 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 13, 2014 will also provide shareholders and potential investors with the option to use the Internet webcast. 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 2013 Elmos managed to raise the number of analysts covering the Elmos stock once again by winning the research agency Montega AG.

Thus the following analysts report routinely on the Elmos stock:

- Close Brothers Seydler Research
- Deutsche Bank
- DZ Bank
- Hauck & Aufhäuser
- Mirabaud Securities
- Montega AG
- Natixis Securities
- Warburg Research
- WGZ Bank/Independent Research

Contact

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Significant events 2013

January – temperature measurement

High-precision, compact-sized in-ear thermometers can be realized with a new chip made by Elmos. Elmos offers precise thermopile signal analysis. This means that a very exact analysis of the temperature is possible, with a tolerance of less than 0.02K. The low power input of less than 15µA allows the application in battery-charged devices without having to change batteries often.

February – active environmental protection

Elmos has successfully implemented an energy management system and has been certified in accordance with DIN EN ISO 50001. The goal is to save energy. Elements of the energy management system are energy policy, the definition of energy targets, the identification of energy savings potential, and the determination of measures and their monitoring and supervision. Energy consumption is measured and recorded and thus made transparent in order to allow for the optimization of processes.

February – embedded world

The trade show embedded world in Nuremberg has become a staple in the Elmos trade show calendar. In 2013 Elmos presented interfaces and DC/DC converters there. Transceivers for building and industrial automation were highlighted. More than 22,000 visitors from 64 countries and about 1,500 conference participants were welcomed in 2013. In 2014 Elmos was present at the trade show once again.

March – electronica China

At the trade show electronica China in Shanghai, Elmos showed new products in the realm of sensors as well as motor control components and ICs for networking. Contactless current measurement, pressure sensor analysis, KNX, IO-Link, RGB control, stepper and DC as well as brushless DC (BLDC) motors were but a few of the buzzwords traded at the Elmos stand. Some 42,000 visitors make this electronics trade show one of the most important ones in China.

March – annual press conference

In March the Management Board presented figures and facts about the 2012 fiscal year to the press and the investors. As one of the issues addressed, the CEO illustrated with several examples how existing solutions in the areas of safety and comfort can be further improved. The Management Board explained the targets for the full year 2013 which were met as this Annual Report shows.

April – new distributor

Elmos and its subsidiary Silicon Microstructures, Inc. (SMI) signed a global distribution agreement with Mouser Electronics, Inc. The contract covers mixed-signal semiconductors, MEMS pressure sensors, HALIOS® sensors, and integrated microsystems. With a catalog that lists more than 3 million products from more than 500 manufacturers, Mouser is a major player in the industry. Mouser supplies more than 375,000 customers in 170 countries.

February

Active environmental protection

- Certificate
- DIN EN ISO 50001
- Energy targets
- Savings potential

February

embedded world

- Interface products
- DC/DC converter
- Transceiver for automation
- More than 22,000 visitors

March

electronica China

- Foremost trade show for electronics
- 42,000 visitors
- Sensors
- Motor control components

March

Annual press conference

- Fiscal year 2012
- Talking to the press
- Product examples
- Forecast 2013

April

Record at business run

AOK business run

50 runners

Personal bests

Elmos health plan

May

General Meeting

14th Annual General Meeting

Dividend of 0.25 Euro

Agenda items adopted

Speech of the CEO

June

Product catalog 2013/14

68 pages

Numerous application examples

System know-how

Advantages of Elmos semiconductors

August

New CEO at SMI

Omar Abed

Silicon Microstructures Inc.

CEO since mid-2013

MEMS experience of many years

April – record at business run

Elmos has set a new record for participants at the 5th AOK business run in Dortmund. For the first time more than 50 male and female Elmos runners took on the race. Many of them reached new personal bests. The Elmos health team had assumed in-house organization of the running event. Apart from business runs, the team offers an annual voluntary flu shot, vein measuring, mole checks, and back checks, among other things.

May – a milestone for the HALIOS® IC family

The use of a HALIOS® IC in a multifunctional wall scanner marks yet another milestone for this Elmos chip family. For the very first time, an IC equipped with HALIOS® technology by Elmos is not only used for an optical sensor system but also for a capacitive application. The new Zircon® MultiScanner™ x85 OneStep™, based on Elmos technology, detects all relevant materials in walls, floors and ceilings.

May – Annual General Meeting

With a large majority of the votes, the shareholders approved a dividend of 0.25 Euro per share at the 14th Annual General Meeting of Elmos. The other agenda items were also adopted with more than 98% of the votes respectively. Among other topics covered in his speech, CEO Dr. Mindl presented new products and upgrades of established semiconductors. He also addressed the successes in the Asian region and the difficult general economic conditions in Europe.

June – product catalog 2013/14 released

In June Elmos released the new product catalog 2013/14. On 68 pages all of the Company's ASSPs are presented. Elmos also gives evidence of its system know-how with many application examples. Cases in point, the entire set-ups of an airbag safety system, a car headlight and an a/c control system are illustrated with the help of Elmos components. The advantages of the semiconductors made by Elmos are described as well.

July – gesture control for light fixtures

Natural user control, interaction, touchless gesture control – buzzwords not everyone would immediately associate with a light switch. New lighting and light fixture concepts demand appropriate operating philosophies and technologies. The Elmos product E527.16 Gesture Switch is setting standards for the application of gesture control. If you can read German, all you need to know about this application can be found in a press article published in July 2013: http://tinyurl.com/pedwfct.

August – new CEO at SMI

Elmos subsidiary Silicon Microstructures Inc. (SMI) announced the appointment of Omar Abed as the new CEO in August. He succeeds Rainer Cholewa, who had reached retirement age. Omar had been head of development at SMI since the beginning of 2012. He has many years of experience in the development of automotive microsystems (MEMS sensor combined with signal processing IC).

September – new CFO appointed

The Supervisory Board of Elmos appointed Dr. Arne Schneider new member of the Management Board effective July 1, 2014. He will assume responsibility for finance and administration. Current CFO Nicolaus Graf von Luckner will retire on June 30, 2014 and leave the Management Board of Elmos Semiconductor AG. Dr. Schneider has been with Elmos since 2011 as head of corporate development.

September – website relaunched

Elmos took its new website online. Clearly laid-out product pages, sample ordering made easy, and all the facts at first glance: These were the main objectives Elmos had defined for its website redesign. The website is also compatible with mobile devices such as smartphones and tablets now. The site recognizes automatically with which device the user visits www.elmos.com and optimizes the presentation accordingly.

October – Smart metering with Elmos

Smart metering will increasingly find entry in our homes. With the help of smart meters, the consumption of power, water, gas and heat can be measured, controlled, and processed in an intelligent way. Elmos semiconductors can manage energy demand even more efficiently: The smart meters' internal energy consumption is reduced by Elmos voltage supply chips.

October – IC with pressure sensor for airbags

Analysis electronics, integrated pressure sensor, and an interface especially for safety applications. The chip introduced in October meets all these requirements and is thus particularly targeted at automotive safety applications (side airbag and pedestrian collision protection). The sensor detects sudden pressure changes regardless of the average ambient air pressure – and sets off the airbag in an emergency.

November – Equity Forum

The Equity Forum in Frankfurt/Main is a mainstay of the investor relations calendar of Elmos. In 2013 it was worth its while once again: The presentation to more than 70 investors and analysts received very good feedback and the informal discussions between the Company's management and investors were characterized by a high interest level and keen knowledge. In 2014 Elmos will be back again.

December – distinguished graduates

Elmos awarded graduates of the Technical University of Dortmund in electrical engineering for their excellent bachelor degrees for the first time. Elmos is hoping to thus motivate students to give their very best in their college studies. The prize is also an important component to further intensify the good relations of many years between TU Dortmund and Elmos.

September

New CFO appointed

Dr. Arne Schneider

CFO as of July 1, 2014

With Elmos since 2011

Finance and Administration

September

New website started

Clearly laid-out product pages

Sample ordering made easy

Fit for mobile devices

www.elmos.com

November

Equity Forum

Talks with investors

High interest level

Knowledgeable discussions

Back again in 2014

December

Distinguishing graduates

Students of electrical engineering

Excellent bachelor degrees

Top student performances

Technical University of Dortmund

ROUND 2

Group Management Report

BASIC INFORMATION ON THE GROUP

"The core competence of Elmos is the development, manufacturing and distribution of mixed-signal semiconductors which often represent the brain of an electronic system. Among other tasks, our components analyze sensor data and convert such analog data into digital values."

BUSINESS REPORT

"Elmos recorded a sales growth of 9.0 million Euro in 2013. Sales reached 189.1 million Euro, equivalent to a 5.0% increase (2012: 180.1 million Euro). After the year had started relatively slowly as expected ... business gradually improved in the course of the year."

SUBSEQUENT EVENTS

"There have been no reportable significant events after the end of the fiscal year."

OPPORTUNITIES AND RISKS

"Elmos consolidates and aggregates all risks reported by the various Company divisions and functions in accordance with the Group-wide control and risk management system. Risks are analyzed by applying state-of-the-art analysis technology."

OUTLOOK

"Due to the positive start of the year 2014 and based on internal and external evaluations of the market, Elmos anticipates an increase in sales in the upper single-digit percentage range."

LEGAL INFORMATION

"The subscribed capital (share capital) of Elmos amounts to 19,674,585 Euro and is comprised of 19,674,585 no-par value bearer shares. Each share carries the same rights and grants one vote in the General Meeting."

"The Asia/Pacific region contributed disproportionately to the 5.0% growth in sales of the Elmos Group with its growth rate of 20.0% from 2012 to 2013."

Basic information on the Group

The Group's business model

Elmos Semiconductor AG was founded in the year 1984 in Dortmund where the Company has its headquarters. At more than 90%, the majority of sales 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 which often represent the brain of an electronic system. Among other tasks, our components analyze sensor data and convert such analog data into digital values. Thus sensor data may 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.

The mixed-signal technology 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 centerpiece of the mixed-signal technology as provided by Elmos.

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.

System solutions for automotive electronics

Elmos generated 85% of sales with electronics for the automotive industry in 2013 (2012: 85%). The share of electronics in the automobile is constantly increasing: Comfort applications and driver assistance systems such as parking assist systems, tire pressure monitoring 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.

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.

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 carmakers worldwide. Immediate competitors in certain subsegments are ams, Melexis, ON Semiconductor, and ZMDI. When it comes to very high volumes, Elmos also competes with major semiconductor manufacturers such as Infineon Technologies, NXP Semiconductors, and STMicroelectronics.

Presence in industrial and consumer goods markets

For the sector of 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 through 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 automotive sector. The industrial and consumer goods business accounted for a 15% share of the Group's sales in 2013 (2012: 15%).

Organizational structure

The organization of Elmos is oriented toward the target markets, the customers' needs for innovation, quality, flexibility and delivery reliability, and internal requirements. The close customer-supplier relationship reflects in the structure of the Elmos Group. Elmos has its headquarters in Dortmund. Various branches, subsidiaries and partner companies at several locations essentially in Europe, the U.S.A. and Asia provide sales and application support close to the customers. The main production site for semiconductors is located in Dortmund, the MEMS production site is in Milpitas/California, U.S.A.

Main locations of the Elmos Group

Europe
- -> **Dortmund:** Elmos Semiconductor AG | Development, production, sales
- -> **Bruchsal:** Design location and Mechaless Systems GmbH | Development
- -> **Frankfurt/Oder:** GED Electronic Design GmbH | Development
- -> **Dresden:** DMOS Dresden MOS Design GmbH | Development
- -> **Berlin:** MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg | Development, sales
- -> **St. Petersburg, Russia:** Development

U.S.A.
- -> **Milpitas, California:** Silicon Microstructures Inc. | Development, production, sales
- -> **Detroit, Michigan:** Elmos N.A. Inc. | Sales

Asia
- -> **Seoul, South Korea:** Elmos Korea Co. Ltd. | Application development, sales
- -> ***Seoul, South Korea:*** *Cooperation with MagnaChip Semiconductor | Development, production*
- -> **Shanghai, China:** Elmos Semiconductor Technology (Shanghai) Co., Ltd. | Application development, sales
- -> **Tokyo, Japan:** Sales
- -> **Singapore:** Elmos Semiconductor Singapore Pte. Ltd. | Application development, sales

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

Elmos acquired the remaining 26.1% of the shares in GED/Frankfurt/Oder effective January 1, 2013, so that the subsidiary is now fully owned by Elmos. The Munich location was closed as of November 1, 2013 as changed customer needs can also be attended to from headquarters. It is also planned to increase the current investment of 20% in the company DMOS in Dresden to above 50% in the course of the year 2014. This underlines the excellent development work DMOS has done over the years and commits the company's know-how to the Elmos Group.

In line with increasing sales of ASSPs and non-automotive products, Elmos also sells its products through several distributors. The Elmos Group works together with a large number of partners in Europe, the U.S. and Asia. A complete overview of our network of distributors can be found on our website.

Goals and strategies

In the year 2013 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

Since its formation 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 independently 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 few years there has been a continued tendency toward more standardized components. Many customers have decided to forego exclusive solutions and increasingly use application specific standard products (ASSPs). Just like ASICs, they are tailored to an application, yet not developed exclusively for one customer. Thus they reflect the know-how and intellectual property of Elmos.

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 presented to the world by Elmos first. 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, Elmos also addressed its customers at the world's leading trade fairs such as the embedded world in Nuremberg, electronica China in Shanghai, and electronica India in Bangalore in 2013. Around the globe, Elmos has received very good feedback for the presented system solutions.

Over the past year, Elmos analyzed and updated its ASSP product portfolio for its sales potential based on recent market assessments. New market opportunities were also identified for existing and advanced products. Over the next years, the share in accounted for by ASSP products is scheduled to increase from 20% in 2013 (2012: 20%). The expected growth in ASSP sales is also underlined by the fact that a majority of products currently under development are ASSPs. Yet the ASIC business model is being pursued as well. ASICs will have their justification in the future as well, namely in those cases when customers seek an exclusive solution and want to protect the corresponding know-how accordingly.

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, strengthened in the last years, fortify these targeted activities especially in the realms of digital design and high-voltage applications. The areas of network systems, lighting concepts, sensorics, and power supply meet with great customer attention.

In 2013 new market opportunities were identified – also outside the automotive sector – and new products were transferred to series production. Moreover, the opportunities for generating sales with existing products were increased by product updates. Management wants to raise the share of industrial and consumer goods products in total sales to between 20 and 30% in the medium term (2013: 15%). However, it must be taken into consideration that order volumes from industrial-sector customers are often lower than those commissioned by automotive customers. This entails that Elmos needs to receive considerably more orders from industrial customers in order to increase the respective share in total sales significantly. The consumer goods market also provides interesting niches in the fields where Elmos has its core competencies. In this sector Elmos therefore also aims at winning new customers who might account for an important share in total sales in the future.

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 2013 with customers in Asia have gained on the year before once again. In order to continue to participate in this dynamic growth market, Elmos is present there with its own locations in Seoul/South Korea, Shanghai/China, and Singapore. These serve as competence centers for sales and application support for the customers on location and have been an important part of our acquisition success in Asia in the year 2013.

Elmos has not defined a sales target for its Asian customers. This is due to the fact that the Asian share in sales cannot be easily determined, among other factors. It must be assumed that a high percentage of products delivered especially within Europe is exported to Asia by our customers. The highly satisfactory development of the sales of Elmos in the Asian market proves the strong management focus on this region. Elmos will keep organizing its locations accordingly in Asia in view of required customer support, sales potential, and cost structure.

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. In 2013 we continued to have MagnaChip manufacture wafers for us in series production. Thus Elmos is able to cut down on expenditure requirements, respond more flexibly to heavily fluctuating unit numbers, and relieve its in-house production during the ongoing updates. In addition to that, we work together with various partners in assembly and testing.

The partnerships we have forged proved to be very reasonable once more in 2013. Moreover, new potential for other partnerships in different areas is constantly being analyzed.

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 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. According to the statistics web portal Statista, the market is expected to increase from global sales of 1.5 billion U.S. dollars in 2013 to more than 2.2 billion U.S. dollars in 2017. This implies an average annual growth rate of about 10%. Elmos also combines MEMS pressure sensors with readout electronics for use e.g. in safety applications.

MEMS have established themselves as effective factors of diversification of the product portfolio over the past few years. Furthermore, pressure sensors are also integrated into semiconductor systems and thus provide added value to the customer. In the next years pressure sensors are scheduled to grow at least in line with the market dynamics and contribute to the Group's targets with their profitability.

Management control system

Control factors

The Elmos management control system is based on four essential factors:

- Sales
- EBIT
- Capital expenditures
- Free cash flow (adjusted)

Each indicator is considered and analyzed both individually and in connection to the other ones. The **EBIT** is especially worth pointing out. As a result before interest and income tax, the EBIT reflects the quality of earnings of the business segments. This is one central control factor at Group level as well as for the separate segments. Each operational decision or performance is measured for the medium or long term at how sustainable its contribution to earnings is. Within the framework of the annual budgeting process, targets are defined for this indicator of the Company's success.

As a growth-oriented business, Elmos attaches great importance to the profitable growth of **sales.** All activities toward sales increase are also judged by their potential to increase the EBIT in the long term. Sales are positively affected by the following factors: success with new customers and new products, expansion to new regions, and the consistent advancement of marketable products in respect of their competitiveness. Semiconductor manufacturing comes at a high fixed cost burden. Therefore sales as an essential lever for determining capacity utilization become especially important. Efficiency improvements in production at high utilization thus have a large impact on the EBIT margin. In addition to that, operating expenses are strictly controlled, with the aim of limiting their increase in relation to sales to a disproportionately low amount.

Capital expenditures management evaluates planned and realized capex projects with respect to their contribution to the achievement of the Group's return targets. Only those projects are launched that give rise to expectations of a positive contribution to the increase of the Company's business performance. Clear budget definitions build the frame for the level of capital expenditures and development efforts; the specific demand is derived from medium-term sales planning and the resulting demands on manufacturing and development capacity. Within the framework of annual budget meetings, the responsible executives harmonize the budgeted level of capital expenditures, development efforts, and individual projects with Group-wide financial planning. Prior to each major project approval, an additional detailed check is conducted, applying established methods for cost-efficiency analysis. Only if this analysis yields a clearly positive result, the project and the corresponding budget are approved.

For increasing shareholder value, the Group focuses on generating a positive **free cash flow (adjusted).** A sustained positive free cash flow safeguards the Group's financial strength and independence. The essential starting points for improving the free cash flow are the positive performances of sales and earnings at relatively moderate capital expenditures. By the consistent management of the net working capital and disciplined capex activity, the performance of the free cash flow is positively affected as well.

Performance of material control factors

in million Euro	2012[1]	2013	Change
Sales	180.1	189.1	5.0%
EBIT	11.5	12.7	10.5%
EBIT margin (in percent)	6.4%	6.7%	
Capital expenditures	17.9	15.6	–13.0%
In percent of sales	9.9%	8.2%	
Free cash flow (adjusted)	7.3	7.6	3.9%

[1] Adjustment of prior-year amounts; please also refer to "General information" in the notes.

Reporting of the management control system

Depending on the indicator, the Management Board is informed either weekly or monthly in detail about the performance of business operations in the form of standardized reports. This reporting system is enhanced by ad hoc analyses in writing or oral reports if necessary. The actual data generated by the Group-wide reporting system are compared with the budget data each month. Deviations from the budget figures are analyzed, annotated, and adequate countermeasures are described. Developments with a material impact of the Group's earnings are reported to the Management Board without delay. Special emphasis is also placed on the analysis of leading indicators that are capable of providing an indication of the future business development. In this context, the analysis focuses on the development of orders, the order backlog, stock and consignment stock both in-house and at customers, production effectiveness and efficiency, and sales. Furthermore, in regular intervals a comparative analysis addresses the development of relevant market data and competitors.

Regular updates of Group budgeting

Group budgeting is prepared annually within the scope of the Group-wide budgeting process in consideration of the current business situation. Based on central targets defined by the Management Board, the individual divisions and subsidiaries prepare detailed planning for the business fields they are responsible for. Derived from that, management with support from the specialist departments determine the budgets for sales, EBIT, capital expenditures, and the free cash flow (adjusted). Medium-term product planning and the corresponding capacity and production planning are also considered for the preparation of the annual Group budgeting.

Annual budgets are revised in regular intervals in view of the actual business performance and updated sales and cost projections as well as apparent opportunities and risks within the scope of forecasts in order to determine the expected Group result for the fiscal year. On this basis, the expected cash flow development for the fiscal year is updated as well. Thus financial risks can be identified at an early stage and measures can be taken if necessary. In addition to that, the analysis of foreign currency sales and cost is one of the tools for the potential launch of currency hedging measures.

Research and development

The development activity of Elmos centers on the market-oriented expansion of the product portfolio along the three product lines Sensors, Motor Control, and Embedded Solutions. 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 and about to represent a larger share of the total sales of Elmos in the future.

Product developments

Product developments are strictly aligned with market demands. 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 Company's targets 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 2013; among the products introduced are the following:

- The IC 931.08 is specially designed for the interface between thermopile sensor and microcontroller or processor. Among the potential applications is a compact-sized in-ear thermometer.

-> The 522.7x IC family comprises high-efficiency step-down converters, designed consistently for low quiescent current input and high efficiency. The achievable efficiency factor is above 90%. Potential fields of use are industrial applications for voltage supply systems, e.g. in smart metering plants.

-> The IC E527.16 is based on the HALIOS® principle and especially suited for the control of light and lighting fixtures. The new product recognizes simple gestures such as approach or wiping up to a distance of approx. 25 cm.

-> The E524.40 is a second-generation IC with integrated pressure sensor and PSI5 interface. The pressure sensor is specially designed for automotive safety applications (side airbag and pedestrian protection). The sensor detects sudden changes in pressure regardless of the average ambient air pressure.

-> The IC E522.40 is a dual antenna protection IC with very compact dimensions. The semiconductor protects the antenna system against ESD, ground and battery short-circuit, and overheating of the semiconductor. The semiconductor can be used for antenna applications with an input voltage between 4.5V and 25V. The semiconductor features extensive diagnostic functions despite its small size.

-> The E909.05, an IC of the HALIOS® product family, was used not only in an optical sensor system but also in a capacitive application in 2013 for the first time. The high-performance wall scanner Zircon® MultiScanner™ x85 OneStep™, based on the unique Elmos technology, recognizes all relevant materials in walls, floors and ceilings, e.g. power lines, wood beams, and pipes. This gives proof of the precision, reliability, and versatility of the HALIOS® technology provided by Elmos. The device contains the Elmos IC E909.05. Today this technology is used for many optical applications already, such as rain/light sensors, human-machine interfaces in the new VW Golf VII (and derived platforms within the VW Group) and GM's Cadillac models, and also in light switches.

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 2013 Elmos already developed some projects according to this process.

In the course of the year 2013, the joint 0.18µm technology advancement project was continued with cooperation partner MagnaChip/South Korea. The 0.18µm technology sets the course for our ability to offer competitive technologies for product development in the future.

In 2013 research and development expenses amounted to 34.4 million Euro or 18.2% of sales (2012: 35.0 million Euro or 19.4% of sales). With regard to the Company's budgeted sales level, R&D activities will be continued in 2014 at a similar level in absolute terms.

Production

Elmos operates semiconductor manufacturing sites in Germany with 6-inch and 8-inch diameter wafers, using various CMOS technologies. The Dortmund manufacturing site has been converted successively from 6-inch to 8-inch wafers over the past years so that by the end of 2013 only a small portion of 6-inch wafers was processed. The conversion will be continued in 2014 and consequently 6-inch manufacturing will be discontinued at the end of 2014 or the beginning of 2015. Due to the ongoing conversion of production, capacity utilization was high in the year 2013, particularly during the second half of the year. The situation, with the conversion affecting production efficiency and thus manufacturing profitability, improved considerably in the course of the year 2013. In addition to the German semiconductor manufacturing sites, Elmos owns another production site at its subsidiary SMI in Milpitas/California, U.S.A., where MEMS pressure sensors are manufactured in 6-inch production.

The Company's in-house capacity is 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 2013 Elmos continued to obtain processed wafers for series production from its cooperation partner MagnaChip and other foundries.

Apart from wafer production, the Dortmund location also includes a test area where whole wafers and packaged components are subjected to electric tests.

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. The final test also contributes to the outstanding quality level.

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 from the desired state early on and to minimize their effects in an effective and sustained manner in order to provide efficient customer support. In-house and external 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 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 significantly and in advance.

Business report

Macroeconomic and industry specific general conditions

Automotive industry

The international car markets showed two diverging currents in 2013. While the U.S.A. and above all China represented the growth drivers with considerable gains, all other markets of relevance recorded a negative development compared to 2012 for the most part. However, it can be stated that those markets presented disappointing registration numbers especially for the first half-year 2013 while the mood slightly brightened during the second half-year 2013 particularly in Europe.

In **Western Europe,** "the recovery process [...] is obviously gaining momentum, people are regaining confidence in the economic development – and thus new cars top the shopping lists of the citizens," says Matthias Wissmann, President of the German Association of the Automotive Industry (VDA). While new car sales in Western Europe were still close to 7% behind the prior-year amount in the first half-year 2013, demand was up 4% in the second half-year. In the full year 2013, the Western European market for passenger cars reached a volume of close to 11.6 million new vehicles. It was thus only about 2% short of the 2012 level, according to the VDA. However, it should be noted that 2012 had been the weakest year for the auto industry in Western Europe in almost twenty years.

The markets in the **U.S.A.** and **China** performed much better. The **U.S. market** gained close to 8% to slightly more than 15.5 million light vehicles (passenger cars and light trucks) in the full year 2013, thus recording the best result since 2007. In comparison with the year of crisis 2009, the increase even corresponds to about 50% or more than 5 million new vehicles. In the full year 2013, passenger car sales in **China** exceeded the prior-year level by almost a fourth (+23%); altogether 16.3 million new cars were sold.

Yet, the **other relevant markets** did not achieve any growth. In India the sales volume dropped more than 7% to close to 2.6 million units. Russia also reported a declining market, going down by more than 5% compared to the previous year, coming to about 2.8 million units in 2013. The Japanese and the Brazilian passenger car markets almost achieved the prior-year levels at close to 4.6 million and close to 3.6 million new cars, respectively.

General semiconductor market

The general semiconductor market showed a positive performance in 2013. On a global scale the market gained 4.8% to 305.6 billion U.S. dollars, as reported by the Semiconductor Industry Association (SIA). The growth in Europe amounted to 5.2%.

Automotive semiconductor market

Usually the automotive semiconductor market grows even at steady car production volumes. This is accounted for by the steadily increasing share of electronic systems in the automobile. According to a Strategy Analytics survey, the value of semiconductors per car on global average climbed from 315 U.S. dollars in the year 2012 to 326 U.S. dollars in 2013.

Target achievement: Presentation of the business performance compared to the 2013 forecast

Outlook 2013

At the beginning of 2013, Elmos predicted a sales growth for the 2013 fiscal year in the mid single-digit percentage compared to 2012. This forecast was based on the assumption that significant growth stimulation would happen for Elmos beginning in the second quarter of 2013 and that generally a stable economic development would govern the general economic conditions. It was also expected that the EBIT margin would be above the 2012 level (2012: 6.3%[1]), that the adjusted free cash flow would turn out positive, and that capital expenditures would not exceed 15% of sales.

Target achievement 2013

	Forecast	Actual	
Sales growth 2013 (vs. 2012)	Mid single-digit % range	5.0%	✓
EBIT margin (in % of sales)	>2012 level (6.3%[1])	6.7%	✓
Adjusted free cash flow	Positive	+7.6 million Euro	✓
Capital expenditures (in % of sales)	<15%	8.2%	✓

[1] Due to the adjustments of prior-year amounts (please also refer to the comments on IAS 19 in the notes under "General information"), the 2012 EBIT has slightly changed as well, so that the EBIT margin comes to 6.4% after said adjustments. At the time of the preparation of the forecast, the 2012 EBIT margin was 6.3%.

Actual performance in fiscal year 2013

With a sales growth of 5.0% in 2013, an EBIT margin of 6.7%, an adjusted free cash flow of 7.6 million Euro, and capital expenditures amounting to 8.2% of sales, Elmos achieved the defined targets to the full extent in 2013.

Financial and non-financial performance indicators

The central financial performance indicators consulted internally for the management of the Group are sales growth, EBIT margin, capital expenditures, and adjusted free cash flow. The table to the left indicates the target and actual amounts for the reporting period.

For the evaluation of performances in the individual business units, Elmos also considers several non-financial performance indicators. These indicators are analyzed by the Management Board and other key executives for the management of the respective unit and the targets are regularly reviewed and revised if necessary.

Business performance and economic situation

Financial statements according to IFRS

The consolidated financial statements of Elmos Semiconductor AG for fiscal year 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU.

in million Euro or % unless otherwise indicated	**2012[1]**	**2013**	**Change**
Sales	180.1	189.1	5.0%
Gross profit	76.1	79.2	4.1%
in %	42.2%	41.9%	
Research and development expenses	35.0	34.4	–1.6%
in %	19.4%	18.2%	
Distribution expenses	17.7	18.1	2.1%
in %	9.8%	9.6%	
Administrative expenses	15.8	16.4	3.9%
in %	8.8%	8.7%	
Operating income before other operating expenses/income	7.6	10.3	35.9%
in %	4.2%	5.5%	
EBIT	11.5	12.7	10.5%
in %	6.4%	6.7%	
Earnings before taxes	9.7	12.5	
in %	5.4%	6.6%	
Consolidated net income, attributable to owners of the parent	8.1	9.4	16.6%
in %	4.5%	5.0%	
Earnings per share (basic earnings) in Euro	0.42	0.49	
Dividend per share in Euro	0.25	0.25[2]	

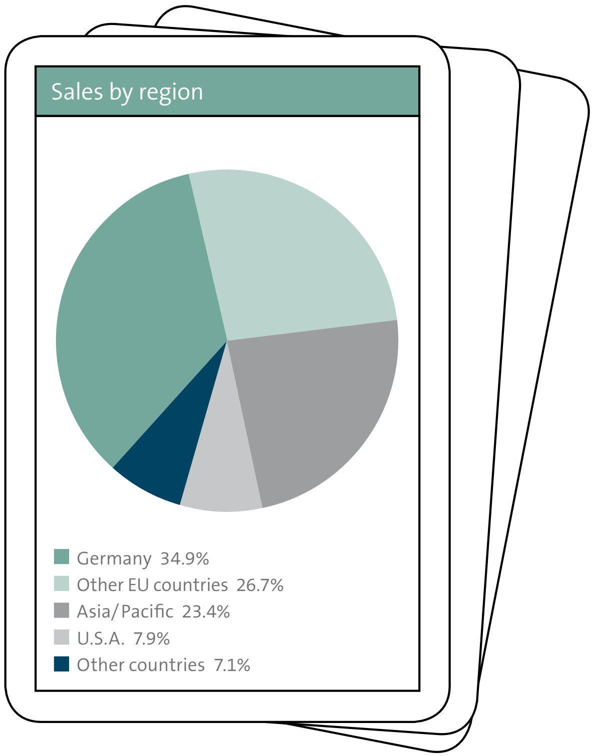
[1] Adjustment of prior-year amounts; please also refer to “General information” in the notes.
[2] Proposal to the Annual General Meeting in May 2014

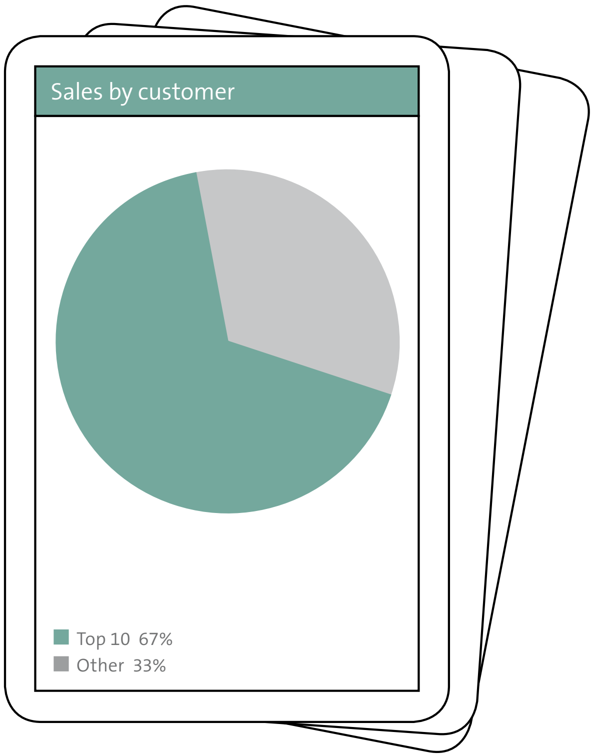
Sales performance

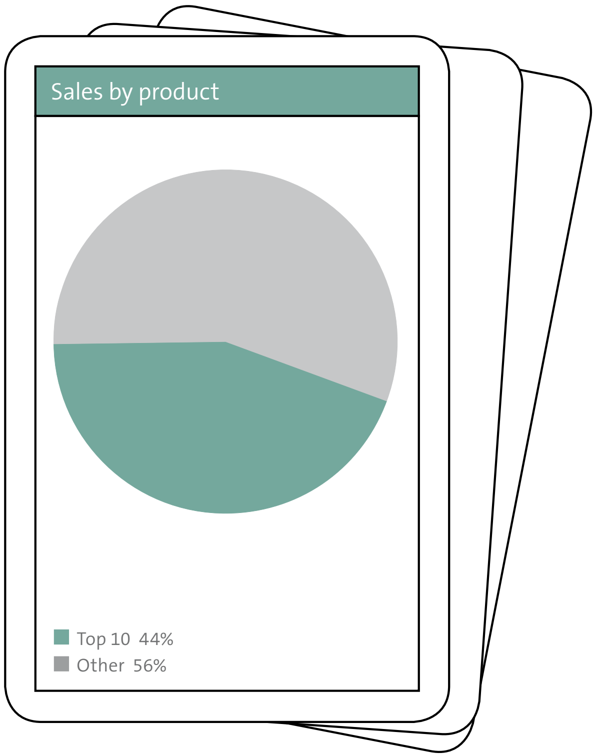
Elmos recorded a sales growth of 9.0 million Euro in 2013. Sales reached 189.1 million Euro, equivalent to a 5.0% increase (2012: 180.1 million Euro). After the year had started relatively slowly as expected and the first months were still determined by the weakness of the European auto industry, business gradually improved in the course of the year. In the final quarter of 2013, sales achieved a new record at 52.7 million Euro for quarterly sales.

Sales by region

On the whole, the business of carmakers and their suppliers was determined in the year 2013 throughout the industry by a weak development with European customers and a continuation of the satisfactory trend in Asia. The Asia/Pacific region contributed disproportionately to the 5.0% growth in sales of the Elmos Group with its growth rate of 20.0% from 2012 to 2013. In 2013 sales in this region amounted to 44.3 million Euro (2012: 36.9 million Euro) and thus accounted for 23.4% of Group sales (2012: 20.5%). Despite a weak market performance, combined sales growth in Germany and the other EU member states came to 3.3% in 2013. Germany and the other EU member states are of great importance to Elmos as a direct sales market despite a slightly declining tendency, with a share of 61.6% (2012: 62.6%). However, it must be noted that management assumes that a rather significant part of the semiconductors supplied to this region is exported in processed form. In the U.S.A., sales of Elmos were







on a decline for project and customer specific reasons, contrary to the generally rather positive market performance, by 10.5% to 14.9 million Euro (2012: 16.6 million Euro).

Sales by customer and product
Elmos supplies a large number of customers. Among them are predominantly suppliers to the auto industry and to a lesser extent industrial customers and manufacturers of consumer goods. In 2013, three of our customers accounted for more than 10% of sales each. Sales generated with the largest customers are usually attributable to a great many different products at different stages in their respective life cycles. Essentially unchanged from the previous year, the top ten customers amounted to roughly 67% of sales in 2013 (2012: 66%); the ten best selling products together came to roughly 44% (2012: 44%).

Order backlog
Orders received and order situation reflected the rising confidence with respect to the business performance in the course of the year. The book-to-bill ratio was constantly above one over the entire year 2013.

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.

New projects (design wins)
The competition for new projects was intense as it has been over the past years. While in 2013 Elmos did not manage to repeat the outstanding success of the year 2012 in respect of the number and volume of acquired new projects, the year was still successful as to addressing new customers. We managed to start a relationship with two major Asian customers in 2013. The trend toward an increasing number of so-called design-ins for our self-defined ASSPs continues. This indicates that we recognize market requirements with our innovations correctly and early on. Progress was also made regarding the acquisition of projects in the industrial market. 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

Gross profit
The cost of sales was 109.9 million Euro in the year 2013 (2012: 104.0 million Euro) and thus grew slightly out of proportion compared to sales. The main reason for this is the cost incurred by the conversion of production from 6 to 8-inch wafers.

The gross profit rose from 76.1 million Euro in 2012 to 79.2 million Euro in 2013; the gross margin reached 41.9% in 2013 (2012: 42.2%). Significant is the improvement of the quality of earnings in the course of the year 2013. The gross margin came to 44.5% in the second half-year after recording 39.0% in the first half of 2013; this increase is accounted for by higher sales and a lower cost burden from the conversion of production.

Operating income before other operating expenses/income and EBIT (earnings before interest and taxes)
Research and development expenses were on a slight decline in fiscal year 2013 compared to 2012, amounting to 34.4 million Euro or 18.2% of sales compared to 35.0 million Euro or 19.4% of sales the year before. There were no material structural changes relating to R&D expenses; the year 2013 saw slight relief particularly in the third quarter 2013 by research and development subsidies.

Distribution expenses remained stable at 18.1 million Euro in the year 2013 compared to the year before (2012: 17.7 million Euro). Due to the sales increase, the level of distribution expenses in relation to sales went down from 9.8% in 2012 to 9.6% in 2013. The increase in general administrative expenses was also disproportionately low compared to sales, coming to 16.4 million Euro in 2013 (2012: 15.8 million Euro).

The operating income before other operating expenses/income climbed from 7.6 million Euro in 2012 to 10.3 million Euro in 2013. The operating income margin thus came to 5.5% of sales (2012: 4.2%).

Earnings before interest and taxes (EBIT) amounted to 12.7 million Euro in 2013 (2012: 11.5 million Euro). The EBIT margin rose accordingly from 6.4% in 2012 to 6.7% in 2013. In this respect it must be noted that the prior-year EBIT benefited from the amount of 1.8 million Euro from the revaluation of the old interest in MAZ from the first-time consolidation, included in other operating income. This accounts for the lower EBIT increase compared to the operating income.

Earnings before taxes, net income, earnings per share
Net finance expenses of 0.2 million Euro for the year 2013 are much lower than in the year before (2012: 1.8 million Euro). This is essentially due to the write-down on the investment in TetraSun Inc. in the amount of 1.2 million

Euro, included in the prior-year amount. Net of taxes in the amount of 2.6 million Euro (2012: 1.3 million Euro) and non-controlling interests, the consolidated net income attributable to owners of the parent came to 9.4 million Euro in 2013 (2012: 8.1 million Euro). This amount equals basic earnings per share of 0.49 Euro (fully diluted: 0.48 Euro), compared to 0.42 Euro per share in 2012 (diluted: 0.41 Euro).

Proposal for the appropriation of retained earnings

The net income of Elmos[1] according to HGB (German Commercial Code) is 4.1 million Euro in 2013. The profit carried forward from the year 2012 comes to 64.8 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. Management Board and Supervisory Board propose to the Annual General Meeting of May 13, 2014 to again distribute a dividend of 0.25 Euro per share out of the retained earnings in the amount of 65.9 million Euro (adjusted by offsetting the difference from the acquisition of treasury shares in the amount of –3.0 million Euro). This equals a total dividend payout of 4.8 million Euro, based on 19,346,888 shares entitled to dividend as of December 31, 2013.

[1] The financial statements of Elmos 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 in the segments

The business performance of the two segments semiconductor and micromechanics met the expectations.

in million Euro or %	Segment	2012[1]	2013	Change
Sales				
	Semiconductor	161.6	173.1	7.1%
	Micromechanics	18.5	16.0	–13.6%
EBIT (segment income)				
	Semiconductor	9.0	10.8	19.9%
	Micromechanics	2.5	1.9	–23.4%
EBIT margin				
	Semiconductor	5.6%	6.2%	
	Micromechanics	13.5%	12.0%	

[1] Adjustment of prior-year amounts; please also refer to "General information" in the notes.

Semiconductor

The semiconductor segment contributed disproportionately to the recorded growth with a sales increase of 7.1% from 2012 to 2013. Sales reached 173.1 million Euro after 161.6 million Euro in the previous year. Semiconductor sales are generated primarily with automotive customers. Despite the weakness of the European auto industry that persisted for the most part of the year, growth was registered due to the development in Asia as well as customer and project-related changes. The EBIT was raised from 5.6% in 2012 to 6.2% in the reporting period, primarily on account of higher coverage of fixed costs.

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. Sales of micromechanics products went down as expected and amounted to 16.0 million Euro in 2013 (2012: 18.5 million Euro). The development in micromechanics has the background that some products were discontinued in the 2013 fiscal year and the next generations were only ramped up in late 2013 or will start in 2014. Sales in this segment are generated almost exclusively in U.S. dollars so that the weaker U.S. dollar in 2013 in comparison to 2014 added to the sales decline. Despite the sales drop of 13.6% from 2012 to 2013, the EBIT of 1.9 million Euro, with an EBIT margin of 12.0%, fell short only slightly of the prior-year figures due to the early launch of cost saving measures (2012: 2.5 million Euro or 13.5%).

Financial position

in million Euro or %	2012[1]	2013	Change
Consolidated net income	8.4	9.9	18.4%
Depreciation and amortization	21.4	22.8	6.9%
Changes in net working capital[2]	–4.2	–11.1	>100%
Other items	–0.4	–0.3	–28.6%
Cash flow from operating activities	**25.2**	**21.4**	**–15.0%**
Capital expenditures for intangible assets and property, plant and equipment	–17.9	–15.6	–13.0%
in % of sales	–9.9%	–8.2%	
Payments for investments / Disposal of investments	0.0	1.7	n/a
Payments for securities	–9.0	–22.6	>100%
Other items	1.3	0.1	–95.1%
Cash flow from investing activities	**–25.6**	**–36.4**	**42.4%**
Cash flow from financing activities	**–2.9**	**–11.7**	**>100%**
Changes in liquid assets	–3.3	–26.7	>100%
Free cash flow[3]	**–0.4**	**–15.0**	**>100%**
Adjusted free cash flow[4]	**7.3**	**7.6**	**3.9%**

[1] Adjustment of prior-year amounts; please also refer to "General information" in the notes.
[2] Net working capital in the narrow sense (trade receivables, inventories, trade payables).
[3] Cash flow from operating activities less cash flow from investing activities.
[4] 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

The cash flow from operating activities of 21.4 million Euro was slightly lower than the year before (2012: 25.2 million Euro). The main reason for this is the increase in trade receivables, due to increased sales activity especially toward the end of the year 2013.

Cash flow from investing activities

Cash-effective capital expenditures for intangible assets and property, plant and equipment amounted to 15.6 million Euro or 8.2% of sales in 2013, thus 13.0% below the amount of 2012 (17.9 million Euro or 9.9% of sales). Spare parts are subject to retrospective classification to property, plant and equipment as of 2013. In the statement of cash flows, the acquisition of spare parts is therefore allocated to the cash flow from investing activities.

The majority of capital expenditures went again to the plants required for the conversion of production from 6 to 8-inch wafers. The larger capex share of 14.6 million Euro (2012: 22.6 million Euro) was accordingly accounted for by the semiconductor segment in 2013; 1.1 million Euro were expended for the micromechanics segment (2012: 1.1 million Euro).

The cash flow from investing activities totaled –36.4 million Euro in 2013 after –25.6 million Euro in 2012. In this regard it must be noted that in 2013 and in 2012 a part of the respective amounts was invested in securities (2013: 22.6 million Euro; 2012: 9.0 milion Euro), reported in the cash flow from investing activities.

The adjusted free cash flow[4] reached the amount of 7.6 million Euro (2012: 7.3 million Euro) despite a considerable increase in net working capital.

Cash flow from financing activities

In fiscal year 2013 the cash flow from financing activities came to –11.7 million Euro (2012: –2.9 million Euro) and was determined decisively by the distribution of the dividend in the amount of 4.8 million Euro, the partial repayment of a loan in the amount of 5.0 million Euro, and the acquisition of treasury shares (–1.5 million Euro).

Liquid assets

In addition to cash and cash equivalents totaling 27.9 million Euro, the Company holds long-term and short-term securities in the amount of 49.2 million Euro (December 31, 2012: 55.6 million Euro and 26.6 million Euro respectively). Cash and cash equivalents plus marketable securities thus amounted to altogether 77.1 million Euro as of December 31, 2013, thus only slightly below the amount recorded for the reporting date of the previous year (December 31, 2012: 82.2 million Euro) despite sizable capital expenditures, repayment of a loan, and the dividend payment.

Financing situation

In addition to financing through equity, Elmos also draws on traditional long-term credit facilities in part (37.5 million Euro as of December 31, 2013), maturing essentially between 2016 and 2018. In addition to that, as of December 31, 2013 the Company had various short-term credit limits at its disposal in the total amount of 21.6 million Euro. As of December 31, 2013 the Company took advantage of these credit facilities in the amount of 0.4 million Euro.

Principles and goals of financial 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 other stakeholders. 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 in consideration of the economic framework as well as the risks carried by the corresponding assets. 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.

Other financial obligations and disclosures of off-statement-of-financial-position financial instruments

In addition to conventional loans, the Company also finances its capital expenditures 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 75.4 million Euro as of December 31, 2013 (December 31, 2012: 83.9 million Euro). Thus the trend of declining obligations over the years is continued. It is the Company's goal to continue the reduction of other financial obligations in the medium term.

Assets and liabilities

in million Euro	12/31/2012[1]	12/31/2013	Change
Intangible assets	30.2	26.7	–11.8%
Property, plant and equipment	76.3	72.4	–5.1%
Other non-current assets	8.8	5.6	–36.1%
Securities (short-term and long-term)	26.6	49.2	85.1%
Inventories	38.5	40.5	5.3%
Trade receivables	27.6	38.5	39.1%
Cash and cash equivalents	55.6	27.9	–49.7%
Other current assets	8.8	10.1	14.5%
Total assets	**272.4**	**270.9**	**–0.6%**
Equity	189.6	192.7	1.6%
Financial liabilities (current and non-current)	42.9	37.8	–11.8%
Other non-current liabilities	10.3	8.2	–20.1%
Trade payables	17.8	19.5	9.8%
Other current liabilities	11.9	12.7	6.3%
Total equity and liabilities	**272.4**	**270.9**	**–0.6%**

[1] Adjustment of prior-year amounts; please also refer to "General information" in the notes.

Total assets show only immaterial change and amounts to 270.9 million Euro as of December 31, 2013 (December 31, 2012: 272.4 million Euro). Apart from shifts from cash and cash equivalents (–27.6 million Euro) toward securities (+22.6 million Euro), in assets only the increase in trade receivables (+10.8 million Euro) is particularly worth mentioning, facing a decrease in intangible assets (–3.6 million Euro) and property, plant and equipment (–3.9 million Euro). Property, plant and equipment and inventories have been adjusted retrospectively due to the changed recognition of spare parts in accordance with IAS 16 due to the "Annual Improvements

Net working capital and other key financial ratios

	Calculation	Unit	2012[1]	2013
Net working capital	Trade receivables + inventories – trade payables	million Euro	48.3	59.4
Of sales		%	26.8%	31.4%
Inventory turnover	Cost of sales/inventories	x	2.7x	2.7x
Receivables turnover	Sales/trade receivables	x	6.5x	4.9x
Payables turnover	Cost of sales/trade payables	x	5.9x	5.6x
Cash conversion cycle	Inventory days + debtor days – creditor days	days	129	144
Net cash/(Net debt)	Cash and cash equivalents + securities – financial liabilities	million Euro	39.3	39.3
Gearing	Net cash/equity	%	20.7%	20.4%
Equity ratio	Equity/total assets	%	69.6%	71.1%

[1] Adjustment of prior-year amounts; please also refer to "General information" in the notes.

2009-2011 Cycle". In equity and liabilities, the completed refinancing reflects in the shift from current (–30.0 million Euro) toward non-current financial liabilities (+24.9 million Euro) at a simultaneous redemption of 5 million Euro.

Net working capital

Net working capital rose from 48.3 million Euro as of the prior-year reporting date to 59.4 million Euro as of December 31, 2013. Inventories increased from 38.5 million Euro by 5.3% to 40.5 million Euro as of December 31, 2013; inventory turnover remained constant at 2.7x due to higher sales and correspondingly higher cost of sales. The significant increase in trade receivables from 27.6 million Euro as of December 31, 2012 to 38.5 million Euro as of December 31, 2013 resulted in a much lower receivables turnover of 4.9x in 2013 (2012: 6.5x). Trade payables gained 9.8% and came to 19.5 million Euro (December 31, 2012: 17.8 million Euro), i.e. it gained somewhat more than sales and cost of sales so that the trade payables turnover improved slightly from 5.9x in 2012 to 5.6x in 2013. However, cash conversion cycle was extended from 129 days to 144 days owing to the sharp increase in trade receivables.

Other key financial ratios

Net cash remained unchanged in comparison with December 31, 2012 (39.3 million Euro) at 39.3 million Euro. At 71.1% as of December 31, 2013, the equity ratio reached a slightly higher amount compared to the end of the year 2012 (December 31, 2012: 69.6%).

Overall statement on the economic situation

Elmos managed to expand its financial strength further in 2013 due to a satisfactory performance in sales and earnings. The adjusted free cash flow was clearly positive again, making it possible to consolidate the net cash position and thus maintain the solid financial position in spite of sizable capital expenditures, the payment of a dividend, and the partial repayment of a loan. Elmos has continued to improve structures, increase efficiency, broaden the range of customers, and optimize the product lines and the portfolio. All this and the solid financial base with a focus on free cash flow generation strengthen the competitive position and provide a sound basis for the Company's continued development.

Subsequent events

There have been no reportable significant events after the end of the fiscal year.

Opportunities and risks

Opportunities

Opportunities are identified and analyzed in the Company. Just like the management of risks, opportunity management is aimed at increasing the shareholder value systematically and continuously. A quantification of opportunities is not possible as usually external general conditions and influencing factors are relevant to the exploitation of opportunities, as such controllable by Elmos only to a limited extent. We constantly monitor the markets and are thus able to detect market opportunities that become available. We are also in continuous dialog with customers in order to identify trends and developments early on.

The general economic conditions affect our financial, profit and economic position. Our outlook for 2014 and our medium-term prospects are based on the assumption that the future general economic framework will correspond to our presentation in the outlook report that is part of this management report.

Macroeconomic opportunities

Macroeconomic opportunities open up for Elmos because we are active in growth markets. Among those are especially the Asian markets at present, showing a sustained positive development. Here we want to participate in this growth and increase our market shares. At the same time we assert our position as a market leader in the niche of system solutions on semiconductor basis for the automotive industry in the established markets.

Industry specific opportunities

Industry specific opportunities become available to us as a consequence of the ongoing electrification of everyday life, and especially in the automobile. Elmos contributes to CO_2 reduction with its innovative products, helps increase efficiency, and participates in the general trends toward the increase of comfort and safety in vehicles. To our industrial customers we also want to offer solutions that will help us assume a market leading position.

Business strategy opportunities

Business strategy opportunities open up for Elmos due to innovation and technology leadership and the market leading quality of the products. In the sensor segment, we offer innovative or upgraded high-quality products in the technology fields ultrasonic, sensor analysis, pressure sensorics, and optical sensors/HALIOS®. We seek to continuously increase the efficiency of the systems we market in the area of embedded solutions (interface products and voltage supply components, among others) with new products. The products for electrical motor control (stepper, DC and BLDC motors) are also in the focus of management. New efficient systems for these motor types can generate further opportunities in the markets and with customers.

In addition to our core business of customer specific semiconductors for use in the automotive industry, the further implementation of our strategy provides opportunities to the Company. These exist in the increased development, production and sale of application specific semiconductors (ASSPs) and in a higher future share of sales generated in the segments industrial and consumer goods, implicating also a diminished dependency on the auto industry as a consequence.

Furthermore, we put a lot of effort and commitment into seizing these opportunities by investing into research and development consistently. If our research and development makes better progress than currently expected, this might have the effect that more new and improved products will be brought to market or that new products will be available sooner than scheduled at present.

Opportunities created by our employees

Our employees are the core of the Company. We are able to generate sustained growth and safeguard our Company's profitability only with motivated and committed colleagues. We make various efforts to increase our employees' performance, their know-how, and not least their loyalty to the Company.

Opportunities due to customer relationships

Elmos markets its products and services according to the respective application, region, and industry. Within the regions we focus our sales activities on the markets that show the fastest growth and the largest business and sales potential. We invest in the development of our sales division and the application support close to the customer in order to distribute our solutions effectively and to intensify our customer relationships.

Other opportunities

We also seize our opportunities beyond the issues mentioned above: We are working tirelessly at the optimization of our processes in the fields of development, production, technology, quality, administration, and logistics. We reduce lead times, for example. We invest throughout the Group in measures for efficiency increase and in projects for environmentally friendly power generation, and even today we supply a considerable portion of our energy demand by ourselves.

=> Overall assessment of the described opportunities: If we make better progress with these measures and methods than expected at present, this might have a positive effect on our financial, profit and economic position and make us exceed our outlook and our medium-term prospects.

Risk management system

and explanatory report on the internal control and risk management system in accordance with Section 315 (2) no. 5 HGB

Elmos comprises the measures for risk management in the Company in an integrated risk management system. This system focuses on safeguarding the Company's continued existence and increasing the shareholder value systematically and continuously. The management 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 targets are analyzed. The Group deliberately assumes certain risks in areas of its core competence if adequate yields can be expected at the same time. Beyond that, major risks are avoided if possible. It is altogether assured that the Group analyzes and assesses the known risks taken and, insofar as possible, initiates adequate countermeasures.

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, training courses make sure that all employees involved are aware of the rules. 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 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. Depending on estimated probability of occurrence and probable amount of loss in consideration of our reputation, our business and our financial, profit and economic position, we classify risks as "low", "medium", or "high".

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 are communicated immediately and outside the usual reporting channels in case of urgency. The continuous refinement of instruments and methods for risk detection and risk management is an ongoing process which is regularly reviewed for potentially required enhancement and sources of error.

Assessment categories and their classification

Probability of occurrence

Probability of occurrence	Description
1x in more than 2 years	Rather unlikely
1x within 2 years	Probable
1x within 1 year	Highly probable

Expected amount of damages

Impact level	Impact definition
Minor (0.1 to 0.5 million Euro)	Limited negative effects on financial, profit and economic situation
Moderate (0.5 to 5 million Euro)	Some negative effects on financial, profit and economic situation
Considerable (>5 million Euro)	Substantial negative effects on financial, profit and economic situation

Risk assessment

		Probability of occurrence		
		Rather unlikely	**Probable**	**Highly probable**
Amount of damages	**Minor**	Low	Low	Medium
	Moderate	Low	Medium	High
	Conside-rable	Medium	High	High

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 financial 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.

Summarizing the above information, it can be stated that the risk management and internal control system introduced by the Management Board of Elmos, particularly with respect to financial accounting, has proved efficient. Further information on the risk management system can be found in the notes to the consolidated financial statements.

Risks from the utilization of financial instruments

The maximum default risk from the utilization of financial instruments in the Elmos Group is limited to the carrying values of financial assets.

Risks

Economic, political, social, and regulatory risks

The willingness of our customers to invest in our products depends on the current economic, financial and political general conditions. In the medium and long term, events such as a global economic crisis, political changes, fluctuations in national currencies, a potential breakup of the euro area, a recession in the U.S.A. or Europe or other parts of the world, a significant slowdown of growth in Asia (particularly in China), and an increase in sovereign debt could have a negative effect on the ability and willingness of our customers to invest in our products. Such events could weaken the demand for automobiles and thus for our semiconductors as well.

Social and political instability, for instance caused by acts of terror, war or international conflicts, or by pandemics, natural disasters or lasting strikes, could affect our business. Acts of terror and other acts of violence or war, political unrest (as in the Middle East for instance) or natural disasters (such as “Superstorm Sandy” or similar natural phenomena) could have negative effects on the respective national economy or even beyond that scope.

=> Overall assessment of economic, political, social, and regulatory risks: These risks are determined by a large number of different factors that cannot be assessed in their entirety by the Company. Therefore we cannot rule out material effects on our financial, profit and economic position.

Industry/market risks

Dependence on the automotive industry

The core business of Elmos is linked directly to the automotive industry’s and their suppliers’ demand for semiconductors. The majority of sales was made with chips for automotive electronics in the past fiscal year 2013. On the one hand this demand depends on the number of cars produced, on the other hand it is governed by the lasting trend toward 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.

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. 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.

Competition risk
A large number of competitors in the semiconductor market for automotive applications offers 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.

=> Overall assessment of industry/market risks: In consideration of the measures taken, we regard the occurrence of this risk as probable. We cannot entirely rule out moderate effects on our financial, profit and economic position. We classify this risk as a medium risk.

Personnel risk

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.

=> Overall assessment of personnel risk: In consideration of the measures taken, we regard the occurrence of this risk as between rather unlikely and probable. We cannot entirely rule out minor effects on our financial, profit and economic position. We classify this risk as a low risk.

Research and development risks

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 by the customers.

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 that do not result in a supplier relationship will remain with the Company. Particularly with high-volume projects for which a greater number of suppliers are in competition, the customer is usually not willing to pay for development costs in advance but expects the supplier to pre-finance these expenses instead.

This holds usually true for product developments initiated by Elmos, e.g. all ASSPs, as there are no binding customer orders for such projects. However, in the development of ASSP components Elmos also works together with a key customer if possible.

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. 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.

=> Overall assessment of research and development risks: In consideration of the measures taken, we regard the occurrence of this risk as between probable and highly probable. We cannot entirely rule out moderate effects on our financial, profit and economic position. We classify this risk as a medium risk.

Operational risks

Purchasing risk

The raw materials Elmos needs for manufacturing are available worldwide from different suppliers and are not controlled by monopolists for the most part. 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 same applies for the cooperation with foundries. Due to past supply bottlenecks typical for the industry, the commitment to regional risk distribution was intensified and the number of potential partners was increased accordingly. There is a tendency among the machine suppliers toward an oligopoly, limiting the negotiating power of Elmos.

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. In most cases Elmos cannot completely exclude its liability 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 extensively 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.

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 internal control system is constantly being expanded and improved for this purpose.

IT risk

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.

Business interruption

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 operational risks already described and explained. Even though the risk of business interruption by such events is adequately covered by insurance, a significant threat of losing key customers remains in such a case. This risk cannot be insured against.

Business interruption could also occur as a result of power outage. The production facilities are prepared for short-term power failures as far as possible; running processes for example would be ramped down in a controlled way.

The risk of business interruption is reduced by the fact that Elmos manufactures semiconductors at various locations. Furthermore, Elmos obtains processed wafers from a cooperation partner in South Korea and from other foundries in part.

The usual insurable risks such as fire, water, storm, theft, third-party liability, 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.

=> Overall assessment of operational risks: In consideration of the measures taken, we regard the occurrence of this risk as between rather unlikely and probable. We cannot entirely rule out moderate to considerable effects on our financial, profit and economic position. We classify this risk as a medium risk.

Overall management assessment of opportunities and risks

Elmos consolidates and aggregates all risks reported by the various Company divisions and functions in accordance with the Group-wide control and risk management system. Risks are analyzed by applying state-of-the-art analysis technology; however, individual risks can cause considerable financial damage in extreme cases. This scenario is neither foreseeable nor can it be ruled out. Apart from that it must be noted that the occurrence of an individual risk can have material negative effects on the Company's financial, profit and economic position even without escalating to extremes.

The Elmos management is optimistic that the Group's profitability creates a solid base for our future business performance and provides the resources required in order to seize the opportunities that become available to the Group.

Outlook

Economic and industry specific general conditions

The outlook for the **global economy** is better than it has been in a long time, according to the appraisal of the World Bank (as of January 2014). This is primarily attributable to the positive development of the industrialized nations. The gross domestic product (GDP) is expected to gain 3.2% worldwide in 2014, after a growth of 2.4% in the previous year. The International Monetary Fund (IMF) also predicts growth.

However, according to the World Bank global risks remain, such as the possibility of rising interest rates due to a stricter monetary policy pursued by the central banks. This might raise problems for the growth of the emerging markets. Uncertainties persist in the financial markets, with a large number of risk factors such as currency risks, real estate overvaluation, etc. The past few months in particular put the focus on potential negative developments in the emerging markets.

Among the positive aspects it must be noted that for the first time in five years there are indications of the beginning of a sustained recovery in the economically stronger markets, according to the World Bank. They might now turn into a second growth driver next to the emerging markets. Stronger growth is expected particularly for the U.S.A.

Prospects go up for the euro area as well: It is supposed to record 1.1% growth in the current year; 1.4% is expected for 2015 and a 1.5% growth in the GDP is anticipated for 2016. The U.S. prospects are much better still. The World Bank expects growth rates of 2.8% in 2014, 2.9% in 2015, and 3.0% in 2016 for the world's largest national economy.

For the **automotive industry,** the President of the German Association of the Automotive Industry (VDA), Matthias Wissmann, expects a good year 2014. Fortunately there are more and more indications for a slow stabilization of the European market, says Wissmann. The VDA assumes that the global car market will grow in 2014 by 3% to 74.7 million cars. Wissmann referred to expert forecasts according to which even 90 million cars will be newly registered annually by 2020, primarily on account of rising demand in the emerging markets. According to a Center Automotive Research survey, China and the U.S.A. together will account for 45% of all global passenger car sales in 2014. The two countries' 2010 share in the global car market was 38%.

The global **semiconductor market** is supposed to gain 5.4% to almost 320 billion U.S. dollars in 2014, according to a ZVEI estimate (German Central Association of the Electronics Industry).

The **automotive semiconductor market** continues its course for growth. The average amount of semiconductors per passenger car is supposed to increase from 326 U.S. dollars in 2013 to 348 U.S. dollars in 2017, according to a Strategy Analytics survey.

Strategy

Strategy for profitable long-term growth

We want to achieve profitable growth throughout our entire product portfolio. As in the previous years, emphasis is placed on a long-term sales increase. Customer relationships solidly based on trust over many years are meant to remain the foundation of our business development. Partnerships with new customers are intended to open new opportunities.

Our strategic elements are scheduled for increased commitment in 2014:

-> New **products,** customer specific (ASICs) as well as standards for specific applications (ASSPs), will be presented to the customers. This includes entirely new products and upgrades of existing solutions. The customers will be introduced to new circuits for the application fields sensors, motor driver, and voltage supply, among other product areas.

-> **Semiconductors and sensors for industrial and consumer goods** are intended to become increasingly relevant key factors, too. While the automotive segment will remain the center of our business activity, the range of customers and the product portfolio in other industries will be constantly expanded. This contributes not only to the diversification of our customer structure but may also even promote our auto business based on new ideas and approaches.

-> The market in **Asia** has become an important pillar in the meantime. In 2014 sales in this region are scheduled to be further increased. We also expect to win new Asian customers. Our locations in this region will increasingly provide customer support in 2014 for the implementation of the circuits to the applications.

-> Our **partnerships** are oriented toward long-term collaboration. Accordingly we seek to continue the cooperation with our reliable partners in 2014 based on mutual trust. Yet we will also increase our performance in production and sales continuously with new partners as well.

-> **MEMS and microsystems** have achieved a very good awareness level in some niche markets over the past few years and even assumed market leadership in some cases. These positions are scheduled to be consolidated and expanded. Elmos also assumes that sales with MEMS and microsystems will go up in the course of the year 2014 as interesting new products and product upgrades are delivered to customers.

Operational targets 2014

Targets for sales and earnings

Based on currently available information, the Management Board presents the following outlook for the full year 2014.

The recovery of the European market increasingly reflects in the receipt of orders and in sales. All indicators show that Elmos will grow faster than the global auto market. Due to the positive start of the year 2014 and based on internal and external evaluations of the market, Elmos anticipates an increase in sales in the upper single-digit percentage range.

For the EBIT margin, Elmos predicts a value in the upper single-digit percentage range. A higher margin as compared to 2013 reflects the disproportionately high increase in earnings from higher sales and the budgeted effectiveness gains in production and compensates for the cost increases and price effects typically to be coped with.

With respect to the performances of sales and EBIT margin, the same tendencies are expected for the semiconductor and micromechanics segments. However, it is also possible that micromechanics will show a more volatile development due to its relatively small share in sales and earnings.

Targets for capital expenditures

Capital expenditures for intangible assets and property, plant and equipment are budgeted at a maximum 15% of sales in 2014. Capital expenditures are primarily required for the continued expansion of production facilities at the Dortmund location. For an increase of 8-inch capacity and efficiency, new plants and systems will be introduced and operated over the entire year. A much smaller portion of capital expenditures will be made for production at the subsidiary SMI.

Targets for liquidity and finances

We expect Elmos to generate a positive adjusted free cash flow in 2014 again.

Dividend targets

Free liquidity is scheduled to be utilized in part for the payment of a dividend. Supervisory Board and Management Board will propose to the Annual General Meeting in May 2014 the payment of a dividend of 0.25 Euro per share for 2013. A dividend payment in this amount means a stable continuation of the dividend payments made in the years 2013 and 2012.

Underlying assumptions of our forecasts

Under the condition of a stable general economic framework, it is expected that Elmos will participate in a positive development of the automotive and industrial semiconductor markets in 2014. Electrification will continue in these markets. Such a positive development for Elmos is based on the success of our current and future customers and on our ability to sell our products to them. The international competition of the automotive suppliers is subject to ever increasing intensification. Effects from resulting market shifts or portfolio changes at our customers can hardly be predicted. Growth for Elmos would have the result that, depending on the amount of growth, we could realize the efficiency gains required in the semiconductor industry and the automotive supplier business on the one hand and benefit from the economies of scale on the other hand, leading to a positive development of the margins. At the same time it is true that such expectations can be affected by market turbulence.

Our forecasts consider all events with a potential material effect on the business performance of the Elmos Group known at the time of the preparation of this report. The outlook is based among other factors on the assumptions for the economic development as described as well as the remarks in the report on opportunities and risks.

The forecast is based on an exchange rate of 1.30 USD/EUR.

Legal information

Disclosures required by takeover law

In this chapter, information required by takeover law as stipulated under Section 315 (4) HGB (German Commercial Code) is disclosed as of December 31, 2013 (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 19,674,585 Euro and is comprised of 19,674,585 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, 2013 the following shareholdings are on record:

	Entity's registered office/country	Euro/ Shares	%
Weyer Beteiligungs-gesellschaft mbH	Schwerte/ Germany	4,019,479	20.4
ZOE-VVG GmbH	Duisburg/ Germany	3,049,727	15.5
Jumakos Beteiligungs-gesellschaft mbH	Dortmund/ Germany	2,971,016	15.1
Treasury shares		327,697	1.7
Shareholders <10% of the shares		9,306,666	47.3
		19,674,585	**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 for 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 as well as the particulars of the issue.

The share capital is conditionally increased by up to 234,620 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 utilized 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 utilized 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 utilized 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:** **234,620 Euro** Stock option plan 2009 *Until May 5, 2014* **2010/I:** **1,250,000 Euro** Stock option plan 2010 *Until May 3, 2015* **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 bid

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

Compensation agreements

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

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 in this Annual Report's corporate governance report. The remuneration report, reviewed by the auditor, is part of the group management report.

ROUND 3

Consolidated financial statements

CONS. FINANCIAL STATEMENTS

-> Statement of financial position

-> Income statement

-> Statement of comprehensive income

-> Statement of cash flows

-> Statement of changes in equity

NOTES TO FINANCIAL STATEMENTS

-> General information

-> Accounting policies and valuation methods

-> Notes to segments

-> Notes to income statement and statement of comprehensive income

-> Notes to statement of financial position

-> Other information

RESPONSIBILITY STATEMENT

“To the best of our know-ledge, and in accordance with the applicable repor-ting principles, the consoli-dated financial statements give a true and fair view of the assets, liabilities, finan-cial position and profit or loss of the Group ... ”

AUDITOR’S REPORT

“Our audit has not led to any reservations.
In our opinion, based on the findings of our audit, the consolidated financi-al statements ... give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements.”

"Management Board and Supervisory Board propose to the Annual General Meeting in May 2014 the payment of a dividend of 25 cents per share for fiscal year 2013 out of the 2013 retained earnings of Elmos Semiconductor AG in the amount of 65.9 million Euro."

Consolidated financial statements

Consolidated statement of financial position

Assets	Notes	12/31/2013 thousand Euro	12/31/2012 thousand Euro[1]	01/01/2012 thousand Euro[1]
Non-current assets				
Intangible assets	13	26,664	30,236	29,240
Property, plant and equipment	14	72,388	76,266	75,296
Investments in associates	15	0	0	0
Securities	15	48,987	18,741	8,346
Investments	15	470	2,652	3,917
Other financial assets	20	2,493	2,539	2,748
Deferred tax assets	16	2,671	3,624	3,579
Total non-current assets		**153,674**	**134,058**	**123,126**
Current assets				
Inventories	17	40,480	38,457	36,425
Trade receivables	18	38,450	27,644	28,714
Securities	15	203	7,840	9,102
Other financial assets	20	2,905	2,780	3,719
Other receivables	20	7,007	5,479	6,499
Income tax assets	20	61	411	2,989
Cash and cash equivalents	19	27,949	55,576	59,002
		117,055	**138,187**	**146,450**
Non-current assets held for trading	21	121	144	338
Total current assets		**117,176**	**138,331**	**146,788**
Total assets		**270,850**	**272,389**	**269,914**

[1] Adjustment of prior-year amounts; please also refer to "General information" in the notes

Equity and liabilities	Notes	12/31/2013 thousand Euro	12/31/2012 thousand Euro[1]	01/01/2012 thousand Euro[1]
Equity				
Equity attributable to owners of the parent				
Share capital	22	19,675	19,616	19,414
Treasury shares	22	−328	−240	−106
Additional paid-in capital	22	88,161	88,599	88,516
Surplus reserve		102	102	102
Other equity components	22	−3,920	−3,402	−2,021
Retained earnings		86,868	82,327	81,444
		190,559	**187,002**	**187,349**
Non-controlling interests		2,127	2,587	633
Total equity		**192,686**	**189,589**	**187,982**
Liabilities				
Non-current liabilities				
Provisions	24	492	756	188
Financial liabilities	25	37,491	12,571	30,235
Other liabilities	26	4,650	5,277	2,466
Deferred tax liabilities	16	3,049	4,219	4,012
Total non-current liabilities		**45,682**	**22,823**	**36,901**
Current liabilities				
Provisions	24	7,505	8,107	8,450
Income tax liabilities	26	1,613	1,409	2,006
Financial liabilities	25	303	30,290	10,496
Trade payables	27	19,492	17,755	21,325
Other liabilities	26	3,569	2,416	2,754
Total current liabilities		**32,482**	**59,977**	**45,031**
Total liabilities		**78,164**	**82,800**	**81,932**
Total equity and liabilities		**270,850**	**272,389**	**269,914**

[1] Adjustment of prior-year amounts; please also refer to "General information" in the notes

Consolidated income statement

For the year ended December 31	Notes	2013 thousand Euro	2012 thousand Euro[1]
Sales	5	**189,072**	**180,114**
Cost of sales	6	–109,863	–104,038
Gross profit		**79,209**	**76,076**
Research and development expenses	6	–34,393	–34,968
Distribution expenses	6	–18,076	–17,712
Administrative expenses	6	–16,412	–15,795
Operating income before other operating expenses (–)/income		**10,328**	**7,601**
Finance income	8	2,169	1,856
Finance costs	8	–2,337	–3,642
Foreign exchange losses (–)/gains	9	–170	–379
Other operating income	10	4,320	5,519
Other operating expenses	10	–1,789	–1,258
Earnings before taxes		**12,520**	**9,697**
Income tax			
Current income tax	11	–2,795	–1,621
Deferred tax	11	194	299
		–2,601	**–1,322**
Consolidated net income		**9,920**	**8,375**
Consolidated net income attributable to			
Owners of the parent		**9,430**	**8,088**
Non-controlling interests		489	287
		9,920	8,375
Earnings per share		**Euro**	**Euro**
Basic earnings per share	12	0.49	0.42
Fully diluted earnings per share	12	0.48	0.41

[1] Adjustment of prior-year amounts; please also refer to "General information" in the notes

Consolidated statement of comprehensive income

For the year ended December 31	Notes	2013 thousand Euro	2012 thousand Euro[1]
Consolidated net income		**9,920**	**8,375**
Other comprehensive income			
Items potentially to be reclassified to the income statement including respective tax effects			
Foreign currency adjustments without deferred tax effect		–174	–50
Foreign currency adjustments with deferred tax effect		–581	–267
Deferred tax (on foreign currency adjustments with deferred tax effect)	22	145	60
Value differences in hedges	22	261	–1,001
Deferred tax (on value differences in hedges)	22	–74	322
Changes in market value of available-for-sale financial assets	22	–24	177
Deferred tax (on changes in market value of available-for-sale financial assets)	22	31	–69
Items not to be reclassified to the income statement including respective tax effects			
Actuarial gains/losses (–) from pension plans	22	–224	–115
Deferred tax on actuarial gains/losses (–) from pension plans	22	69	37
Other comprehensive income after taxes		**–571**	**–906**
Total comprehensive income after taxes		**9,348**	**7,469**
Total comprehensive income attributable to			
Owners of the parent		8,912	7,205
Non-controlling interests		436	264
		9,348	**7,469**

[1] Adjustment of presentation; please also refer to "General information" in the notes

Consolidated statement of cash flows

For the year ended December 31	Notes	2013 thousand Euro	2012 thousand Euro[1]
Cash flow from operating activities			
Consolidated net income		9,920	8,375
Depreciation and amortization	7	22,838	21,368
Write-down of investments	15	0	1,232
Financial result	8	168	554
Other non-cash income (–)/expense		–8	–2,468
Current income tax	11	2,795	1,621
Expenses for stock option and stock award plans	23	403	370
Changes in pension provisions	24	–489	–151
Changes in net working capital:			
Trade receivables	18	–10,806	1,262
Inventories	17	–2,023	–1,849
Other assets	20	–1,157	–83
Trade payables	27	1,737	–3,602
Other provisions and other liabilities	24	234	–1,225
Income tax refunds/payments		–2,241	306
Interest paid	8	–2,119	–2,382
Interest received	8	2,149	1,856
Cash flow from operating activities		**21,401**	**25,184**

[1] Adjustment of prior-year amounts; please also refer to "General information" in the notes

For the year ended December 31	Notes	2013 thousand Euro	2012 thousand Euro[1]
Cash flow from investing activities			
Capital expenditures for intangible assets	13	–1,775	–2,152
Capital expenditures for property, plant and equipment	14	–13,806	–15,760
Capital expenditures for (–)/Disposal of non-current assets held for trading	21	–121	181
Payments-in from the acquisition of shares in subsidiaries	3	0	302
Disposal of non-current assets		184	306
Payments for securities	15	–22,633	–8,956
Disposal of investments	15	1,739	0
Payments-in from other non-current financial assets	20	0	513
Cash flow from investing activities		**–36,412**	**–25,566**
Cash flow from financing activities			
Repayment (–)/Borrowing of non-current liabilities		–80	12,336
Repayment (–)/Borrowing of current liabilities to banks		–4,986	–10,206
Issue of treasury shares/Share-based payment		457	185
Purchase of treasury shares	22	–1,525	–1,116
Capital increase from conditional capital	22	220	742
Dividend distribution		–4,814	–4,827
Newly created non-controlling interests		0	48
Dividend distribution to non-controlling shareholders		–400	0
Increase of majority interest		–570	0
Other changes		–23	–62
Cash flow from financing activities		**–11,721**	**–2,900**
Decrease (–) in cash and cash equivalents		**–26,732**	**–3,282**
Effects of exchange rate changes on cash and cash equivalents		–895	–144
Cash and cash equivalents at beginning of reporting period	19	55,576	59,002
Cash and cash equivalents at end of reporting period	19	**27,949**	**55,576**

[1] Adjustment of prior-year amounts; please also refer to "General information" in the notes

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	*Unrealized actuarial gains/losses* thousand Euro	Retained earnings thousand Euro	Total thousand Euro	Total thousand Euro	Total thousand Euro
January 1, 2012 before adjustments		**19,414**	**19,414**	**–106**	**88,516**	**102**	**–37**	**–627**	**–1,400**	**0**	**81,450**	**187,312**	**633**	**187,945**
Effects of first-time application of IAS 19R										43	–6	37		37
January 1, 2012 after adjustments		**19,414**	**19,414**	**–106**	**88,516**	**102**	**–37**	**–627**	**–1,400**	**43**	**81,444**	**187,349**	**633**	**187,982**
Consolidated net income											8,088	8,088	287	8,375
Other comprehensive income for the period	22						108	–679	–234	–78		–883	–23	–906
Total comprehensive income							108	–679	–234	–78	8,088	7,205	264	7,469
Share-based payment	22			26	159							185		185
Capital increase from conditional capital	22	202	202		540							742		742
Transaction costs	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
Expense 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**	**–35**	**82,327**	**187,500**	**2,587**	**190,087**
January 1, 2013 before adjustments		**19,616**	**19,616**	**–240**	**88,599**	**102**	**71**	**–1,306**	**–1,634**	**0**	**82,255**	**187,463**	**2,587**	**190,050**
Effects of first-time application of IAS 19R										–533	72	–461		–461
January 1, 2013 after adjustments		**19,616**	**19,616**	**–240**	**88,599**	**102**	**71**	**–1,306**	**–1,634**	**–533**	**82,327**	**187,002**	**2,587**	**189,589**
Consolidated net income											9,430	9,430	489	9,920
Other comprehensive income for the period	22						7	187	–557	–155		–518	–53	–571
Total comprehensive income							7	187	–557	–155	9,430	8,912	436	9,348
Share-based payment	22			46	209							255		255
Capital increase from conditional capital	22	59	59		161							220		220
Issue of treasury shares	22			55	147							202		202
Transaction costs	22				–22							–22		–22
Purchase of treasury shares	22			–189	–1,336							–1,525		–1,525
Dividend distribution											–4,814	–4,814		–4,814
Dividend distribution to non-controlling shareholders												0	–400	–400
Expense for stock options and stock awards	23				403							403		403
Increase of majority interest											–85	–85	–485	–570
Other changes											11	11	–11	0
December 31, 2013		**19,675**	**19,675**	**–328**	**88,161**	**102**	**78**	**–1,119**	**–2,191**	**–688**	**86,868**	**190,559**	**2,127**	**192,686**

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 24, 2013 and edited by resolution of the Supervisory Board of January 13, 2014.

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.

In the year 2013 retrospective adjustments to the consolidated statement of financial position and the consolidated income statement were necessary due to amendments to standards and clarifications of existing standards, among other reasons (please also refer to note 1).

1. Amendment to IAS 19 "Employee Benefits"

The amended standard IAS 19 was released in June 2011 and endorsed by the EU in June 2012. The amendments are generally subject to mandatory application for fiscal years beginning on or after January 1, 2013 with retrospective effect. The Group used to apply the so-called corridor method. Upon elimination of the corridor method by amended IAS 19, actuarial gains and losses have immediate effect on the consolidated statement of financial position and resulted in an increase of pension provisions and a decrease in equity. The consolidated income statement will now remain unaffected by effects of actuarial gains and losses as these must be recognized in other comprehensive income. Elmos has adjusted the reported prior-year amounts for the effects of the amendments to IAS 19. For Elmos the amendments to IAS 19 have the following effects altogether (please also refer to notes 1 and 24 as well as the consolidated statement of cash flows):

Retrospective presentation of the consolidated statement of financial position as of January 1, 2012

thousand Euro	January 1, 2012 before adjustments	Effects of first-time application of IAS 19R	January 1, 2012 after adjustments
Consolidated statement of financial position			
Other equity components	–2,064	43	–2,021
Retained earnings	81,450	–6	81,444
Non-current provisions	243	–55	188
Deferred tax liabilities	3,994	18	4,012

Retrospective presentation of the consolidated statement of financial position as of January 1, 2013

thousand Euro	January 1, 2013 before adjustments	Effects of first-time application of IAS 19R	January 1, 2013 after adjustments
Consolidated statement of financial position			
Deferred tax assets	3,421	203	3,624
Other equity components	–2,869	–533	–3,402
Retained earnings	82,255	72	82,327
Non-current provisions	92	664	756

Retrospective presentation of the consolidated income statement for fiscal year 2012

thousand Euro	1/1-12/31/2012 before adjustments	Effects of first-time application of IAS 19R	1/1-12/31/2012 after adjustments
Consolidated income statement			
Administrative expenses	15,909	–114	15,795
Operating income before other operating expenses (–)/income	7,487	114	7,601
Earnings before taxes	9,583	114	9,697
Deferred tax	335	–36	299
Consolidated net income	8,297	78	8,375

Due to above adjustments, basic earnings per share increase by 0.01 Euro in fiscal year 2012. Fully diluted earnings per share remain constant.

2. Clarification of accounting treatment of spare parts pursuant to IAS 16 by "Annual Improvements 2009-2011 Cycle"

Pursuant to IAS 16.8 items such as spare parts are recognized according to the standard applicable to property, plant and equipment if they meet the definition of property, plant and equipment. Otherwise those items are treated as inventories. Within the framework of the "Annual Improvements 2009-2011 Cycle", the IASB provided a clarification to the effect that spare parts and maintenance equipment must generally be capitalized as property, plant and equipment if they meet the corresponding definition (please refer to IAS 16.6) whether or not they can only be used in connection with an asset of property, plant and equipment. In previous years Elmos used to recognize all spare parts in inventories. In order to respond to the IASB clarification, spare parts were reclassified retrospectively to property, plant and equipment in the financial year. This resulted in the following effects altogether (please also refer to notes 14 and 17 as well as the consolidated statement of cash flows):

Retrospective presentation of the consolidated statement of financial position as of January 1, 2012

thousand Euro	January 1, 2012 before adjustments	Corrections in accordance with IAS 8	January 1, 2012 after adjustments
Consolidated statement of financial position			
Property, plant and equipment	71,770	3,526	75,296
Inventories	39,951	–3,526	36,425

Retrospective presentation of the consolidated statement of financial position as of January 1, 2013

Thousand Euro	January 1, 2013 before adjustments	Corrections in accordance with IAS 8	January 1, 2013 after adjustments
Consolidated statement of financial position			
Property, plant and equipment	71,755	4,511	76,266
Inventories	42,968	–4,511	38,457

Above adjustments had no effect on the consolidated income statement or the earnings per share in fiscal year 2012.

3. Correction of disclosure of other financial assets in consolidated statement of financial position

Due to the non-current nature of the presented corrections in accordance with IAS 8, amounts incorrectly disclosed under other current financial assets in the previous year were retrospectively reclassified to other non-current financial assets.

Retrospective presentation of the consolidated statement of financial position as of January 1, 2012

thousand Euro	January 1, 2012 before adjustments	Corrections in accordance with IAS 8	January 1, 2012 after adjustments
Consolidated statement of financial position			
Other non-current financial assets	1,630	1,118	2,748
Other current financial assets	4,837	–1,118	3,719

Retrospective presentation of the consolidated statement of financial position as of January 1, 2013

thousand Euro	January 1, 2013 before adjustments	Corrections in accordance with IAS 8	January 1, 2013 after adjustments
Consolidated statement of financial position			
Other non-current financial assets	1,116	1,423	2,539
Other current financial assets	4,203	–1,423	2,780

Above adjustments had no effect on the consolidated income statement or the earnings per share in fiscal year 2012.

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 endorsed by the European Commission for adoption 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 have been released for publication by the Management Board in March 2014.

Estimates and assumptions

The most important forward-looking 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 valuation 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 current market assessments and have been estimated on the basis of customary weighted average cost of capital.

The book value of goodwill was 3,623 thousand Euro as of December 31, 2013 (2012: 3,631 thousand Euro). More details can be found under notes 3 and 13.

Deferred tax assets

Deferred tax assets are recognized for all unutilized 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 utilized. 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 defined benefit pension 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 492 thousand Euro as of December 31, 2013 (2012: 756 thousand Euro[1]). More details can be found under “General information” in the notes and 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 4,947 thousand Euro as of December 31, 2013 (2012: 6,553 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 to the policies and methods applied in the previous year. Exceptions are the following new and amended standards, subject to first-time mandatory application for fiscal year 2013.

[1] Adjustment of prior-year disclosure due to amendment to IAS 19; please also refer to “General information” in the notes

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 adoption for fiscal years beginning on or after July 1, 2012. It was voluntarily adopted in fiscal year 2012 ahead of schedule. 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 the presentation of other comprehensive income in the financial statements and no consequences for the Group's financial, profit and economic situation.

Amendment to IFRS 7 – Financial Instruments-Disclosures – *Offsetting Financial Assets and Financial Liabilities*

The amendment to IFRS 7 was released in December 2011 and is subject to mandatory application for fiscal years beginning on or after January 1, 2013. 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 amendment comes a definition of additional disclosures. The amendment had no effect on the accounting policies applied by the Group, yet it resulted in additional information to be disclosed in the notes to the consolidated financial statements.

IAS 19 – *Employee Benefits (amended 2011)*

The amended Standard IAS 19 was released in June 2011 and was subject to mandatory application for fiscal years beginning on or after January 1, 2013. The effects of first-time application of this amended standard are explained in detail in the notes under “General information”.

IFRS 13 – *Fair Value Measurement*

The IASB released IFRS 13 “Fair Value Measurement” in May 2011, merging the regulations on fair value measurement previously contained in the individual IFRS in a single standard and superseding them by a uniform regulation. IFRS 13 is subject to prospective application for fiscal years beginning on or after January 1, 2013. First-time application did not result in material effects on the measurement of assets and liabilities in 2013. Changes did primarily affect the presentation of the fair value of financial assets and liabilities in the notes to the consolidated financial statements.

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. It contains the following amendments:

-> IFRS 1: Clarification that an entity that has abandoned financial reporting according to IFRS and later decides or is obligated to resume IFRS reporting has the opportunity to apply IFRS 1 anew. If the entity does not apply IFRS 1 again, it has to adjust its financial statements retrospectively as if it had never abandoned financial reporting according to IFRS. As first-time adopter status does not apply, this amendment had no effect on the consolidated financial statements;

-> 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 relevant spare parts and maintenance equipment that meet the definition of property, plant and equipment are not subject to accounting provisions for inventories;

-> 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 on assets and liabilities in interim financial statements and the alignment of information in interim financial statements and information in annual financial statements.

The clarification mentioned above under IAS 16 according to which relevant spare parts must be disclosed under property, plant and equipment required a correction of the disclosure in the consolidated statement of financial position as of December 31, 2013 and retrospectively as of January 1, and December 31, 2012 (please also refer to “General information” in the notes). The other listed amendments had no effect on the Group's financial, profit and economic situation.

The following new provisions subject to first-time application as of December 31, 2013 had 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*
-> **IFRIC 20 –** *Stripping Costs in the Production Phase of a Surface Mine*
-> **Amendment to IAS 12 –** *Deferred Tax: Recovery of Underlying Assets*

The IASB has released the following standards and interpretations which have already been incorporated into EU law within the framework of the comitology procedure yet were not subject to mandatory application in fiscal year 2013 yet. The Group does not apply these standards and interpretations in advance.

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. The application of this standard will have no material effect on the consolidated financial statements. The basis of consolidation representing the subsidiaries included in the consolidated financial statements has not changed since January 1, 2014.

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 structured entities. As the new standard establishes new requirements for the 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.

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 introduction of IFRS 11 and IFRS 12, the scope of IAS 28 was expanded – in addition to associates – to application of the equity method to joint ventures as well. For its effects we refer to our comment on IFRS 11: *Joint Arrangements*.

Amendment to IAS 32 – *Offsetting Financial Assets and Financial Liabilities*

The amendment to IAS 32 was released in December 2011 and is subject to mandatory application for fiscal years beginning on or after January 1, 2014. 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 amendment comes a definition of additional disclosures. The amendment will not affect the accounting policies applied by the Group but lead to additional information to be disclosed.

Amendment to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets*

The amendment to IAS 32 was released in May 2013 and is subject to first-time application for fiscal years beginning on or after January 1, 2014. As a consequential amendment to IAS 36, IFRS 13 introduced the obligation to disclose the recoverable amount of each cash-generating unit or group of cash-generating units to which material goodwill or material intangible assets with indefinite useful lives are allocated. Thus the new requirement was framed more extensively than intended by the IASB. With the amended standard issued in May, the mandatory disclosure is now limited, in accordance with the original intention of the IASB, to cases where impairment or a reversal of impairment loss was recorded in the current reporting period. In addition to that, mandatory disclosures are defined in case that impairment or a reversal of impairment loss was recorded with respect to an individual asset or cash-generating unit and the recoverable amount was determined at fair value less cost to sell. The amendments are subject to retrospective application for fiscal years beginning on or after January 1, 2014. As the recoverable amount is determined on the basis of value in use in the Group, no additional disclosures are to be expected.

Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting*

In June 2013 the IASB released amendments to IAS 39 – Financial Instruments. The revision makes sure that under certain conditions a change of the contracting party of a hedging instrument to a central counterparty as a consequence of legal or regulatory requirements does not bring about a termination of a hedging relationship. The amendments are subject to retrospective application for fiscal years beginning on or after January 1, 2014. The Group expects the amendments not to have any effects.

The amendments to **IFRS 10 – Consolidated Financial Statements, IFRS 12 – Disclosure of Interests in Other Entities: Transition Guidance,** and **IAS 27 – Separate Financial Statements: Investment Entities** as well as the revision of **IAS 27 – Separate Financial Statements,** all subject to first-time application for the fiscal years beginning on or after January 1, 2014, will not have any effects on the presentation of the Group's financial, profit and economic situation.

The IASB has released the following standards and interpretations that were not subject to mandatory application in fiscal year 2013 yet. These standards and interpretations have so far not been endorsed by the EU and are not adopted by the Group.

Amendments to IAS 19 – *"Employee Benefits": Employee Contributions*

In November 2013 the IASB released narrow-scope amendments to IAS 19 – Employee Benefits: Employee Contributions. The amendments are applicable to the recognition of contributions made by employees or third parties to defined benefit pension plans. It is now permitted to recognize employee or third-party contributions as a reduction of current service cost in the period in which the corresponding service was provided if contributions are independent of the number of years of service. The amendments to IAS 19 are subject to application for fiscal years beginning on or after July 1, 2014; early adoption is permitted. These amendments will have no effect on the consolidated financial statements.

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 cost anymore.

IFRS 9 was initially scheduled – after a postponement of first-time application announced in December 2011, combined with additional disclosures in the notes for an understanding of the effects of first-time application of IFRS 9 on the recognition and measurement of financial instruments – for first-time application for fiscal years beginning on or after January 1, 2015. The application of the first part of phase I will have effects on the classification and measurement of the Group's financial assets if this part of the standard is endorsed by the EU as issued. From the second part of this project stage, no material effects on the Group's financial, profit and economic situation are expected.

In November 2013 the IASB released amendments to IFRS 9 – *Financial Instruments,* IFRS 7 *Financial Instruments – Disclosures,* and IAS 39 *Financial Instruments – Recognition and Measurement: Hedge Accounting*. The amendments to IFRS 9 comprise a fundamental revision of the provisions on hedge accounting intended to enable companies to improve the presentation of their risk management activities in the notes. Extensive new mandatory disclosures are introduced as well. The amendments also provide the option to apply the disclosure outside profit or loss of credit rating related changes in the market value of liabilities measured at fair value ahead of schedule without applying the complete regulations of IFRS 9. Furthermore, mandatory first-time application as of January 1, 2015 previously contained in IFRS 9 was abandoned; a new date for first-time application will be determined only when the entire IFRS 9 project approaches completion. Endorsement of the standard including its amendments by the EU is pending.

At present the Group cannot assess with finality what effects first-time application of the standard including its amendments will have insofar as the standard will be endorsed by the EU as issued.

IFRIC 21 – *Levies*

With IFRIC 21 – *Levies,* the IASB issued an interpretation of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* in May 2013. This interpretation governs the accounting treatment of public levies that are not income taxes in accordance with IAS 12 and particularly clarifies when an obligation to pay such levies must be recognized as a liability. The interpretation is subject to application for fiscal years beginning on or after January 1, 2014; early adoption is permitted. At present the Group expects the interpretation not to have a material effect on the presentation of the consolidated financial statements if it is endorsed by the EU as issued.

Improvements to IFRS 2010 -2012

The Improvements to IFRS 2010-2012 represent a collection of amendments released in December 2013, carrying amendments to several IFRS. It contains the following amendments:

- IFRS 2: Specification of the definition of vesting conditions;
- IFRS 3 and consequential amendment to IFRS 9: Clarification that an entity has to apply IAS 32 if it classifies a contingent consideration within the scope of a business combination as financial liability or equity. IFRS 9 is intended to be amended accordingly to assure that contingent consideration cannot be recognized at amortized cost;
- IFRS 8: Extension of mandatory disclosures by a description of combined business segments and the economic indicators thus analyzed and clarification that a reconciliation of the total amount of the assets of reportable segments to the assets of the entity must be presented in the financial statements only if the chief operating decision maker is regularly informed about the measurement of the assets of the business segments;

-> IFRS 13: Clarification of the option to measure current receivables and liabilities without discounting despite consequential amendments to IFRS 9 and IAS 39;

-> IAS 16 / IAS 38: Calculation (or reconciliation) of accumulated depreciation/amortization in applying the revaluation method;

-> IAS 24: Treatment of cases where key management functions are assumed by legal entities.

This collection of amendments is subject to mandatory application for fiscal years beginning on or after July 1, 2014; early adoption is permitted. Endorsement of the collection of amendments by the EU is pending. At present the Group cannot assess with finality what effects first-time application of the collection of amendments will have insofar as it will be endorsed by the EU as issued.

Improvements to IFRS 2011-2013

The Improvements to IFRS 2011-2013 represent a collection of amendments released in December 2013, carrying amendments to several IFRS. It contains the following amendments:

-> IFRS 1: First-time Adoption of International Financial Reporting Standards: Clarification that a first-time IFRS adopter may choose to apply new, non-mandatory IFRS if early adoption is permitted;

-> IFRS 3: Clarification that all kinds of joint agreements within the meaning of IFRS 11 – *Joint Agreements* are excluded from the scope of IFRS 3;

-> IFRS 13: Fair Value Measurement: Clarification that the portfolio exception of Paragraph 52 of IFRS 13 is applicable to all agreements within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether or not such agreements meet the definitions of financial assets or financial liabilities in accordance with IAS 32 *Financial Instruments: Presentation;*

-> IAS 40: Investment Property: Clarification that IAS 40 and IFRS 3 are not mutually exclusive. The assessment if the acquisition of investment property represents the acquisition of an asset or rather a group of assets or a business combination in accordance with IFRS 3: Business Combinations must be made on the basis of the provisions of IFRS 3.

This collection of amendments is subject to mandatory application for fiscal years beginning on or after July 1, 2014; early adoption is permitted. Endorsement of the collection of amendments by the EU is pending. At present the Group cannot assess with finality what effects first-time application of the collection of amendments will have insofar as it will be endorsed by the EU as issued.

2 – Principles of consolidation

Basis of consolidation and consolidation methods

In addition to Elmos Semiconductor AG, the consolidated financial statements prepared for fiscal year 2013 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 and Separate Financial Statements*. 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 fair values. The balance of a remaining asset difference is stated as goodwill.

The separate financial statements of the companies included in the Elmos consolidated financial statements are stated in correspondence to the reporting date of the consolidated financial statements.

All material receivables and liabilities as well as transactions between the consolidated entities 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.

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 denominated 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 contracts and option transactions to hedge foreign currency transactions for periods consistent with committed exposures. These hedging activities minimize the impact of foreign exchange rate fluctuations on the Company's profit situation. The Company does not engage in speculative transactions. The forward exchange contracts do not pose a risk to the Company's profit situation as the 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, 2013, the Company did not enter into forward exchange contracts. For the exchange rate gains and losses from currency hedges altogether realized during fiscal year 2013, 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 to the amounts paid.

3 – Accounting and valuation principles

Sales

The Company generates sales by selling ASICs, ASSPs, and micromechanical sensor elements, as well as by their development. Sales are stated net of 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 test is made 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.

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

In accordance with IAS 38, intangible assets originating from development are capitalized only if, among other criteria, it is a) sufficiently probable that the Company will receive the asset's future economic benefit and b) if the asset's cost can be valuated reliably. These criteria apply to 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) is launched.

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

Cost is 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 projects 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
Technical equipment and machinery / Factory and office equipment	5 to 12 years

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

Upon the sale or disposal of property, plant and equipment, corresponding acquisition cost and corresponding accumulated depreciation are eliminated from accounts. Gains or losses from the disposal of property, plant and equipment are stated as other operating income or expenses. Costs for maintenance and repair are recorded in the consolidated 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 control 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 of 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 the 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% and no more than 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 equals 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. In fiscal year 2013 all shares in TetraSun Inc. were sold (please also refer to note 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 to the origination of a financial liability or an equity instrument for another entity at the same time.

Financial instruments are recognized according to IAS 39.14 as of the time the Company becomes the financial instrument's contracting party. Regular purchase and sale transactions are entered as of settlement date. Financial instruments 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 granted by the Company,
- available-for-sale financial assets,
- financial liabilities measured at amortized cost, and
- financial liabilities measured at fair value through profit or loss.

The financial instruments accounted for include liquid assets, securities, trade receivables, trade payables, forward loans including corresponding interest swap transactions (cash flow hedges), forward exchange contracts, 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 granted 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 granted 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 that was not sold of the securities formerly classified as held-to-maturity financial assets was also reclassified to the category of available-for-sale financial assets in accordance with IAS 39.52 in 2012.

Upon their first-time recognition, financial assets are measured at fair value corresponding to 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 fair value 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 accumulated gains or losses previously recognized in equity are included in income/loss 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 to 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. 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 cash 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 guarantee holder because a specific debtor has not fulfilled his payment obligations on the due date according to the terms and conditions of a debt 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 accumulated 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 in equity 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 to the market 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 rate 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 generally recognized at face value in consideration of adequate allowances.

The valuation 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 valuation 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 an discontinued operations

According to IFRS 5, an operation is classified as discontinued at the time that operation meets the criteria for a classification as available-for-sale. Such an operation represents a separate material line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate material 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 corresponding 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,

-> actuarial gains and losses are directly recognized outside profit or loss in other comprehensive income.

Adequate provisions for warranty are made in individual cases upon risk assessment with respect to sales-oriented and legal consequences.

Income tax

Current tax assets and tax liabilities for the current period and 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 is 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 an entity 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 in order 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 utilization of loss carry-forwards in the following years insofar as their realization appears assured with sufficient reliability.

Deferred tax is 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 recognized 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 manufacture 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 an entity incurs in connection with borrowing outside capital. The Group continues to recognize borrowing costs connected to projects started before January 1, 2009 as expenses.

Notes to the segments

4 – Segment reporting

The segments correspond to 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 to those applied by the Group.

The Company divides its activities into 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.A. 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 to prices paid in transactions with third parties.

The following tables provide information on sales and earnings and certain information on assets and liabilities of the Group's business segments for the fiscal years ended December 31, 2013 and December 31, 2012.

Fiscal year ended December 31, 2013	Semiconductor thousand Euro	Micromechanics thousand Euro	Consolidation thousand Euro	Group thousand Euro
Sales				
Third-party sales	173,069	16,003	0	189,072
Inter-segment sales	304	944	–1,248[1]	0
Total sales	**173,373**	**16,947**	**–1,248**	**189,072**
Earnings				
Depreciation	22,134	704	0	22,838
Other material non-cash expenses	–1,050	–40	0	–1,090
Other material non-cash income	263	0	0	263
Segment income	10,774	1,914	0	12,688
Finance income				2,169
Finance expenses				–2,337
Earnings before taxes				**12,520**
Income tax	–1,914	–687		–2,601
Consolidated net income including non-controlling interests				**9,920**
Assets and liabilities				
Segment assets	223,533	16,166	30,681[2]	270,380
Investments	470	0	0	470
Total assets				270,850
Segment liabilities / Total liabilities	33,881	1,827	42,456[3]	78,164
Other segment information				
Additions to intangible assets and property, plant and equipment	14,633	1,091	0	15,724

[1] Sales from inter-segment transactions are eliminated for consolidation purposes.
[2] Non-attributable assets as of December 31, 2013 include cash and cash equivalents (27,949 thousand Euro), income tax assets (61 thousand Euro), and deferred taxes (2,671 thousand Euro), as these assets are managed on group level.
[3] Non-attributable liabilities as of December 31, 2013 include current financial liabilities (303 thousand Euro), non-current financial liabilities (37,491 thousand Euro), current tax liabilities (1,613 thousand Euro), and deferred tax (3,049 thousand Euro), as these liabilities are managed on group level.

Other non-cash expenses comprise stock option expense and valuation allowances for intangible assets, among other items.

Finance income almost exclusively contains interest income; they relate to the semiconductor segment at 2,149 thousand Euro and to the micromechanics segment at 20 thousand Euro. Finance expenses of 2,337 thousand Euro include interest expense in the amount of 2,119 thousand Euro, relating entirely to the semiconductor segment.

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[2]	0
Total sales	**161,850**	**19,521**	**–1,257**	**180,114**
Earnings				
Depreciation	20,738	630	0	21,368
Other material non-cash expenses	–620	–49	0	–669
Other material non-cash income	151	0	0	151
Segment income	8,984	2,499	0	11,483
Finance income				1,856
Finance expenses				–3,642
Earnings before taxes				**9,697**
Income tax	–1,288	–34		–1,322
Consolidated net income including non-controlling interests				**8,375**
Assets and liabilities				
Segment assets	196,462	13,664	59,611[3]	269,737
Investments	470	2,182	0	2,652
Total assets				272,389
Segment liabilities / Total liabilities	32,284	2,027	48,489[4]	82,800
Other segment information				
Additions to intangible assets and property, plant and equipment	22,596	1,097	0	23,693

[1] Adjustment of prior-year amounts; please also refer to “General information” in the notes
[2] Sales from inter-segment transactions are eliminated for consolidation purposes.
[3] 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 (3,624 thousand Euro), as these assets are managed on group level.
[4] 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 tax (4,219 thousand Euro), as these liabilities are managed on group level.

Other non-cash expenses primarily comprise stock option expense.

Finance income exclusively contains interest income relating to the semiconductor segment. Finance expenses of 3,642 thousand Euro include interest expense in the amount of 2,382 thousand Euro, relating entirely to the semiconductor segment.

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 location.

Geographic information

Third-party sales	2013 thousand Euro	2012 thousand Euro
Germany	65,967	53,491
Other EU countries	50,458	59,269
U.S.A.	14,856	16,598
Asia/Pacific	44,303	36,910
Other countries	13,488	13,846
Group sales	**189,072**	**180,114**

Geographic breakdown of non-current assets	12/31/2013 thousand Euro	12/31/2012 thousand Euro[1]
Germany	139,613	116,565
Other EU countries	4,297	4,796
U.S.A.	4,511	6,458
Other countries	89	76
Non-current assets	**148,510**	**127,895**

[1] Adjustment of prior-year disclosure connected to the changes in disclosure of spare parts (IAS 16) explained under “General information” in the notes

Sales generated with the top three customers who account for more than 10% of sales each amount to 31.3 million Euro, 23.2 million Euro, and 21.0 million Euro respectively and result from sales in the "semiconductor" segment (2012: top two customers with sales of 26.2 million Euro and 20.5 million Euro respectively).

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:

	2013 thousand Euro	2012 thousand Euro
Semiconductor	173,069	161,596
Micromechanics	16,003	18,518
Group	**189,072**	**180,114**

Sales increased by 5.0% to 189,072 thousand Euro. The reason for this performance is the sales increase from 161,596 thousand Euro by 7.1% to 173,069 thousand Euro in the semiconductor segment. Contrary to that, sales in the "micromechanics" segment decreased by –13.6% to 16,003 thousand Euro.

6 – Notes to the 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:

	2013 thousand Euro	2012 thousand Euro[1]
Material costs	–42,477	–40,476
Personnel expense	–30,956	–28,857
Other overhead	–37,589	–38,113
Changes in inventories	1,158	3,408
	–109,863	**–104,038**

[1] Adjustment of prior-year disclosure connected to the changes in disclosure of spare parts (IAS 16) explained under "General information" in the notes

Cost of sales was up 5.6% from 104,038 thousand Euro in 2012 to 109,863 thousand Euro in the year under review. Due to the higher demand compared to the previous year and the resulting increased production output, an increase in material costs by the amount of 2,001 thousand Euro is noticeable. The immaterially reduced other overhead compared with the previous year is due essentially to lower expenses for interim staff. Adjusted for the effects of changes in inventories, the resulting increase in expenses comes to 3.3%.

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 2013, R&D expenses of 34,393 thousand Euro (2012: 34,968 thousand Euro) were charged to expenses.

Distribution expenses

Distribution expenses in the amount of 18,076 thousand Euro (2012: 17,712 thousand Euro) essentially include expenses for staff, leases, and depreciation.

Administrative expenses

Administrative expenses of 16,412 thousand Euro (2012: 15,795 thousand Euro[1]) 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 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.

[1] Adjustment of prior-year disclosure connected to the changes in disclosure of spare parts (IAS 16) explained under "General information" in the notes

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 52,223 thousand Euro in the year under review and are up 7.1% from the previous year (2012: 48,754 thousand Euro[1]). They include expenses for raw materials, supplies, consumables, and for services claimed.

Personnel expense

Personnel expense climbed 6.2% from 65,494 thousand Euro in fiscal year 2012 to 69,558 thousand Euro in fiscal year 2013. Over the same reporting period, the number of employees – based on an average employment ratio – went slightly up from 1,034 in fiscal year 2012 to 1,053 (+ 1.8%) in fiscal year 2013. 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 22,838 thousand Euro in the year under report (2012: 21,368 thousand Euro[1]), equivalent to an increase of 6.9%.

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.

[1] Adjustment of prior-year disclosure connected to the changes in disclosure of spare parts (IAS 16) explained under "General information" in the notes

8 – Finance expenses and finance income

Finance expenses came to 2,337 thousand Euro in 2013 compared to 3,642 thousand Euro in 2012. They essentially include interest expenses for liabilities to banks and non-current liabilities.

Under the item finance income, essentially interest income was reported in fiscal year 2013. Finance income added up to 2,169 thousand Euro (2012: 1,856 thousand Euro).

Finance expenses and finance income reported in the consolidated income statement essentially correspond to the amounts paid.

	2013 thousand Euro	2012 thousand Euro
Finance income / Interest income	2,169	1,856
Interest expenses	–2,119	–2,382
Impairment loss TetraSun Inc.	0	–1,232
Valuation allowance earnout (please refer to note 20)	–62	0
Write-down call option	–6	0
Write-up put option (please refer to note 29)	–150	–28
Financial result	**–168**	**–1,786**

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:

	2013 thousand Euro	2012 thousand Euro
Interest income	2,169	1,856
Interest expenses	–2,181	–2,375
Interest result	**–12**	**–519**

9 – Foreign exchange losses/gains

Losses from exchange rate changes recognized in profit or loss amount to 170 thousand Euro in fiscal year 2013 (2012: losses of 379 thousand Euro).

Exchange rate changes attributable to the owners of the parent and recognized outside profit or loss amount to 2,191 thousand Euro in fiscal year 2013 (2012: 1,634 thousand Euro), considering corresponding deferred tax. 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 4,320 thousand Euro (2012: 5,519 thousand Euro) primarily includes income from the reversal of provisions in the amount of 1,003 thousand Euro (2012: 1,372 thousand Euro), insurance settlements in the amount of 388 thousand Euro (2012: 62 thousand Euro), rental income in the amount of 299 thousand Euro (2012: 307 thousand Euro), and various individual items. In the previous year, 1,824 thousand Euro from the revaluation of the old shares in MAZ were recognized in other operating income.

Other operating expenses in the amount of 1,789 thousand Euro (2012: 1,258 thousand Euro) include, among other items, real-estate charges in the amount of 265 thousand Euro (2012: 322 thousand Euro), extraordinary write-down on a part of a building assigned to the semiconductor segment in the amount of 401 thousand Euro (2012: 401 thousand Euro), and the portion of the valuation allowance of the earnout component allocated to other operating expenses in the amount of 500 thousand Euro (2012: 0 thousand Euro); please refer to note 20.

11 – Income tax

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

	2013 thousand Euro	2012 thousand Euro[1]
Current income tax		
Germany	–1,380	–648
Outside Germany	–1,415	–973
	–2,795	**–1,621**
thereof taxes from previous years	–215	–67
Deferred tax		
Germany	1,058	457
Outside Germany	–864	–158
	194	**299**
	–2,601	**–1,322**

[1] Adjustment of prior-year amounts; please also refer to "General information" in the notes.

Deferred tax has been calculated in accordance with the so-called liability method pursuant to IAS 12. For Germany, the combined income tax rate of 32.805% (2012: 32.21%) has been applied. The Company's combined income tax rate includes the trade tax collection rate of 485% (2012: 468%), the corporate tax rate of 15.0% (2012: 15.0%), and the solidarity surcharge of 5.5% (2012: 5.5%). With respect to the international subsidiaries, respective country-specific tax rates have been applied for the calculation of deferred tax.

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 on the consolidated net income and the Company's effective income tax are as follows:

	2013 %	2012 %
Statutory tax rate	32.81	32.21
Foreign tax rate differential	–5.13	–5.28
Expenses disallowable against tax	0.92	1.88
Trade tax additions/cuts	2.48	3.62
Taxes from previous years	–1.72	–2.80
Changes in tax rates	0.13	–0.25
Consumption of loss carry-forward	4.90	0.00
Tax-free income	–13.67	–16.59
Others	0.06	0.63
Effective tax rate	**20.78**	**13.42**

12 – Earnings per share

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

	2013	2012
Weighted average number of ordinary shares outstanding	19,303,068	19,375,671
Stock options with dilutive potential	201,387	132,038
Weighted average number of ordinary shares outstanding, including dilutive effect	**19,504,455**	**19,507,709**

Calculation of earnings per share

in Euro	2013	2012[1]
Consolidated net income attributable to owners of the parent	9,430,229	8,088,158
Basic earnings per share	0.49	0.42
Fully diluted earnings per share	0.48	0.41

[1] Adjustment of prior-year disclosure due to the amendment to IAS 19; please also refer to "General information" in the notes

The weighted average number of shares in 2012 and 2013 includes 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 years 2012 and 2013.

Outstanding stock options originating from the tranches 2009, 2010, 2011 and 2012 have been included in the calculation of diluted earnings per share 2012 and 2013. 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 no further share buyback transactions.

Notes to the statement of financial position

13 – Intangible assets

thousand Euro	Goodwill	Development projects	Software and licenses and similar rights and values	Payments on account and projects under development	Total
Acquisition and production cost					
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**
Foreign currency adjustments	–8	0	–124	0	–132
Additions	0	402	687	686	1,775
Transfers	0	585	409	–994	0
Disposals	0	–364	–8	0	–372
December 31, 2013	**3,623**	**22,309**	**54,034**	**848**	**80,814**
Depreciation and amortization					
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**
Foreign currency adjustments	0	0	–104	0	–104
Additions	0	1,975	3,160	0	5,135
Disposals	0	–180	–8	0	–188
December 31, 2013	**0**	**17,497**	**36,653**	**0**	**54,150**
Book value December 31, 2013	**3,623**	**4,812**	**17,381**	**848**	**26,664**
Book value December 31, 2012	3,631	5,984	19,465	1,156	30,236

Goodwill

Changes in goodwill are as follows:

	12/31/2013 thousand Euro	12/31/2012 thousand Euro
Elmos N.A.		
Acquisition cost	555	555
Foreign currency adjustments	–3	5
Book value	**552**	**560**
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**	**1,250**
	3,623	**3,631**

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 left the Elmos Group's basis of consolidation effective March 30, 2012. Elmos Semiconductor AG, Dortmund, is the legal successor with respect to the subsidiary's assets and liabilities accounted for. 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 tests 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 in turn are 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 estimation 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 business divisions. Methodically, the detailed planning phase comprises a five-year planning period from 2014 to 2018. For the value added from 2019, it is enhanced by the perpetual annuity, which is based on a growth rate of 0.5%, corresponding to a general expectation of the future business performance.

Further basic assumptions for the calculation of 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.

Development of prices 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 shares – These assumptions are relevant insofar as the Company's management assesses – as in establishing assumptions on growth rates – how the positions of the individual entities might change in relation to their competitors during the budgeting period. Management anticipates steady market shares in probably growing markets.

Discount rates – The pre-tax interest rates applied were determined according to the *capital asset pricing model* (CAPM) and come to 16.46% for Elmos N.A., 15.15% for Elmos Semiconductor AG, 13.92% for Elmos Services B.V., and 15.01% for MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, before deduction of respective growth rates. These interest rates correspond to the weighted average cost of capital.

This so-called WACC is based on a risk-free interest rate (2.75%) plus an average market risk premium (6.00%), multiplied by an entity specific equity beta based on a so-called levered beta of 1.27. All stated rates are derived from market data.

In 2013 impairment tests 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 2014 by 10% compared to the adopted corporate budgets, a weighted average cost of capital increased by another 1.0 percentage point, 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 impairment of the goodwill of Elmos N.A., Elmos Semiconductor AG, and 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 58 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 523 thousand Euro.

Other intangible assets

Development projects

In 2013 expenses linked to product developments were capitalized as development projects and projects under development in the amount of 553 thousand Euro (2012: 1,195 thousand Euro). Depreciation of capitalized developments amounted to 1,975 thousand Euro in 2013 (2012: 2,034 thousand Euro). The book value of capitalized development efforts (including projects under development) is 4,947 thousand Euro as of December 31, 2013 (2012: 6,553 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 2013 as in the year before, no expenses for process technology were capitalized. Amortization came to 1,254 thousand Euro in 2013 (2012: 1,254 thousand Euro). As of December 31, 2013, the capitalized book values for process technology capitalized as non-current assets added up to 8,559 thousand Euro; they amounted to 9,812 thousand Euro as of December 31, 2012.

Additions reported under “Software and licenses and similar rights and values” in the year 2013 resulted from purchases in the amount of 556 thousand Euro (2012: 341 thousand Euro) and in-house developments in the amount of 131 thousand Euro (2012: 229 thousand Euro).

Payments on account and projects under development

The item “Payments on account and projects under development” recorded additions from in-house developments in the amount of 666 thousand Euro (2012: 627 thousand Euro) and from purchases in the amount of 20 thousand Euro (2012: 0 thousand Euro) in the fiscal year.

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 and are included in research and development expenses. Research and development expenses of 5,996 thousand Euro were reimbursed by customers in 2013 (2012: 5,882 thousand Euro).

14 – Property, plant and equipment

thousand Euro	Land	Buildings and building improvements	Technical equipment and machinery / Factory and office equipment	Payments on account and construction in process	Total
Acquisition and production cost					
December 31, 2011 (before corrections according to IAS 8)	**1,504**	**27,395**	**167,636**	**8,018**	**204,553**
December 31, 2011 (after corrections according to IAS 8)	**1,504**	**27,395**	**171,876**	**8,018**	**208,793**
Foreign currency adjustments	0	–44	–177	–7	–227
Additions (before corrections according to IAS 8)	0	4,781	5,636	2,352	12,768
Additions (after corrections according to IAS 8)	0	4,781	10,474	2,352	17,607
Transfers	0	550	6,284	–6,893	–60
Disposals (before corrections according to IAS 8)	0	–6	–2,061	–19	–2,085
Disposals (after corrections according to IAS 8)	0	–6	–5,415	–19	–5,440
December 31, 2012 (before corrections according to IAS 8)	**1,504**	**32,676**	**177,318**	**3,450**	**214,948**
December 31, 2012 (after corrections according to IAS 8)	**1,504**	**32,676**	**183,042**	**3,450**	**220,672**
Foreign currency adjustments	0	–102	–439	–28	–569
Additions	195	1,542	9,202	3,010	13,949
Transfers	0	773	1,721	–2,493	0
Disposals	0	0	–8,906	0	–8,906
December 31, 2013	**1,699**	**34,889**	**184,620**	**3,939**	**225,147**
Depreciation and amortization					
December 31, 2011 (before corrections according to IAS 8)	**0**	**14,780**	**118,003**	**0**	**132,783**
December 31, 2011 (after corrections according to IAS 8)	**0**	**14,780**	**118,717**	**0**	**133,497**
Foreign currency adjustments	0	–19	–168	0	–187
Additions (before corrections according to IAS 8)	0	1,339	11,037	0	12,376
Additions (after corrections according to IAS 8)	0	1,339	14,891	0	16,230
Disposals (before corrections according to IAS 8)	0	–4	–1,776	0	–1,780
Disposals (after corrections according to IAS 8)	0	–4	–5,129	0	–5,133
December 31, 2012 (before corrections according to IAS 8)	**0**	**16,095**	**127,097**	**0**	**143,192**
December 31, 2012 (after corrections according to IAS 8)	**0**	**16,095**	**128,311**	**0**	**144,406**
Foreign currency adjustments	0	–48	–397	0	–445
Additions	0	2,043	15,661	0	17,704
Disposals	0	0	–8,906	0	–8,906
December 31, 2013	**0**	**18,090**	**134,669**	**0**	**152,759**
Book value December 31, 2013	**1,699**	**16,799**	**49,951**	**3,939**	**72,388**
Book value December 31, 2012 (before corrections according to IAS 8)	1,504	16,581	50,220	3,450	71,755
Book value December 31, 2012 (after corrections according to IAS 8)	1,504	16,581	54,731	3,450	76,266

No borrowing costs were capitalized in fiscal year 2013 or the previous year.

Lease agreements

On December 11, 2007 the Company 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 2013. Future minimum payments from non-cancelable subletting agreements are immaterial as well. Please refer to note 32 for further information.

15 – Investments in associates, securities and other investments

a) Investments in associates

attoSENSOR GmbH i.L., Penzberg

As of December 31, 2013 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 to a memo value of 1 Euro following impairment loss recognized in 2006.

b) Securities

In fiscal years 2010, 2011, 2012 and 2013, 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 (48,987 thousand Euro; 2012: 18,741 thousand Euro). Bonds maturing within one year have been allocated to current assets (203 thousand Euro; 2012: 7,840 thousand Euro).

c) Other investments

The Company holds shares 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.

	12/31/2013 thousand Euro	12/31/2012 thousand Euro
Epigone	1	1
Elmos USA Inc.	19	19
DMOS	450	450
TetraSun Inc.	0	2,182
	470	**2,652**

Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz

Elmos holds 6% of the shares as of December 31, 2013, unchanged from the previous year.

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, 2013. The entity does not conduct independent business operations.

DMOS Dresden MOS Design GmbH, Dresden

As of December 31, 2013 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 notarized declaration. This waiver of the call option exercise was extended until midnight, March 31, 2014 by notarized declaration of December 20, 2013. 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.

The shares held in TetraSun Inc. through the subsidiary Silicon Microstructures Inc. as of December 31, 2012 (8.6%) were sold in this fiscal year. Sale proceeds are based, in addition to a purchase price payment due immediately, on various benchmarks defined for fiscal years 2014, 2015 and 2016 (please refer to note 20).

Summarized financial information

Entity	Currency	Total assets thousand	Total liabilities thousand	Earnings thousand	Net income for the period thousand
attoSENSOR[1]	EUR	34	4	6	–10
Epigone[2]	EUR	10,075	10,075	653	–8
Elmos USA Inc.[3]	USD	–	–	–	–
DMOS[2]	EUR	7,495	6,411	3,532	557

[1] Presented figures are based on the preliminary unaudited financial statements as of September 30, 2013.
[2] Presented figures are based on the preliminary, unaudited financial statements as of December 31, 2013.
[3] Presently no financial statements of the entity are available.

16 – Deferred tax

	12/31/2013 thousand Euro	12/31/2012 thousand Euro[1]
Deferred tax assets		
Intangible assets	148	222
Property, plant and equipment	647	684
Investments	0	443
Other financial assets	186	0
Pension provisions	498	451
Other provisions	144	700
Payments on account/Accruals and deferrals	432	489
Other liabilities	546	0
Loss carry-forward	2,822	3,002
Tax credits	174	470
Others	143	110
Subtotal	5,740	6,571
Balance	–3,069	–2,947
	2,671	**3,624**
Deferred tax liabilities		
Intangible assets	–3,274	–3,977
Property, plant and equipment	–2,533	–2,742
Other provisions	–59	–196
Others	–252	–251
Subtotal	–6,118	–7,166
Balance	3,069	2,947
	–3,049	**–4,219**
Deferred taxes, net	**–378**	**–595**

[1] Adjustment of previous year due to amendment to IAS 19

The balances stated 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 outside profit or loss. The increase of the net amount of deferred tax coming to 217 thousand Euro comprises deferred tax in the consolidated income statement in the amount of 194 thousand Euro (income) as well as other changes outside profit or loss in the amount of 23 thousand Euro. Other changes outside profit or loss essentially result from deferred tax effects within 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 in the amount of 430 thousand Euro (2012: 853 thousand Euro) were capitalized for loss carry-forward of domestic companies in the amount of 2,718 thousand Euro (corporate tax) or rather 0 thousand Euro (trade tax) (2012: loss carry-forward of 5,327 thousand Euro (corporate tax) or rather 61 thousand Euro (trade tax)).

For foreign entities, deferred tax assets were recognized in the amount of 2,392 thousand Euro (2012: 2,149 thousand Euro) on taxable loss carry-forward and in the amount of 174 thousand Euro (2012: 470 thousand Euro) on tax credits.

17 – Inventories

Inventories can be broken down as follows:

	12/31/2013 thousand Euro	12/31/2012 thousand Euro[1]
Raw materials	3,866	2,921
Work in process	28,731	27,464
Finished goods	7,883	8,072
	40,480	**38,457**

[1] Prior-year disclosure has been adjusted; please also refer to "General information" in the notes

Impairment of inventories recognized as expense amounts to 137 thousand Euro (2012: 771 thousand Euro). This expense is disclosed under the item cost of sales. It comprises inventories whose future sale has become improbable. These assets are attributable to the micromechanics segment.

18 – Trade receivables

Trade receivables can be broken down as follows:

	12/31/2013 thousand Euro	12/31/2012 thousand Euro
Trade receivables	38,591	27,876
Valuation allowances	–141	–232
	38,450	**27,644**

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

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

	2013 thousand Euro	2012 thousand Euro
Valuation allowances as of January 1	232	192
Additions in the reporting period (valuation allowance expense)	100	30
Consumption	0	0
Reversals (appreciation in value of initially written-off receivables)	–193	–26
Currency translation effects	2	36
Valuation allowances as of December 31	**141**	**232**

The impairment of trade receivables is included for the most part in allowance accounts. The decision whether to recognize a contingency risk through an allowance account or a direct write-down 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.

thousand Euro	Book value	Neither impaired nor overdue as of the reporting date	Not impaired as of the reporting date and overdue in the following time bands: 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	12/31/2013	32,902	4,531	577	26	117	19	7
Other financial assets	12/31/2013	5,399	0	0	0	0	0	0
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

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 can be broken down as follows:

	12/31/2013 thousand Euro	12/31/2012 thousand Euro[1]
Earnout (please refer to note 29)	0	562
Loan receivables from third parties	0	500
Call option	48	54
Receivables from joint ventures	1,390	902
Tenant loans	694	521
Receivable - sale of investment in TetraSun	361	0
	2,493	**2,539**

[1]Adjustment from previous year; please also refer to “General information” in the notes.

b) Other current financial assets

Other current financial assets can be broken down as follows:

	12/31/2013 thousand Euro	12/31/2012 thousand Euro[1]
Receivables from joint ventures	321	403
Other financial assets	2,449	2,377
Receivable - sale of investment in TetraSun	135	0
	2,905	**2,780**

[1] Adjustment from previous year; please also refer to "General information" in the notes

c) Other receivables

Other receivables can be broken down as follows:

	12/31/2013 thousand Euro	12/31/2012 thousand Euro
Other tax assets	4,958	3,938
Accruals and deferrals	855	1,029
Other current receivables	1,194	512
	7,007	**5,479**

d) Income tax assets

Income tax assets amount to 61 thousand Euro (December 31, 2012: 411 thousand Euro).

21 – Non-current assets held for sale

Non-current assets held for sale in the amount of 121 thousand Euro (2012: 144 thousand Euro) are essentially made up of IT equipment as in the previous year.

The IT equipment is scheduled to be sold to various leasing companies in 2014 within the framework of sale and leaseback transactions.

Non-current assets held for sale are entirely attributable to the semiconductor segment (2012: 121 thousand Euro semiconductor segment and 23 thousand Euro micromechanics segment).

22 – Equity

Share capital

The share capital of 19,675 thousand Euro entered in the statement of financial position as of December 31, 2013 (December 31, 2012: 19,616 thousand Euro) and consisting of 19,674,583 (December 31, 2012: 19,615,705) no-par value bearer shares is fully paid up. It was increased from the previous year by 59 thousand Euro due to exercised stock options.

Treasury stock

As of December 31, 2013 the Company holds 327,697 (December 31, 2012: 240,046) of the Company's no-par shares, adding up to a theoretical share in the share capital of 328 thousand Euro (December 31, 2012: 240 thousand Euro).

Additional paid-in capital

Additional paid-in capital is composed as follows:

	12/31/2013 thousand Euro	12/31/2012 thousand Euro
Premiums	82,849	83,690
Stock options and stock awards	5,312	4,909
	88,161	**88,599**

Additional paid-in capital essentially includes premiums from capital increases and the issue of shares of Elmos Semiconductor AG. In fiscal year 2013 this item was reduced by 1,336 thousand Euro due to the share buyback of 188,181 shares at an average stock price of 8.1015 Euro in the period from January 2, 2013 to March 28, 2013. By the exercise of stock options from a stock option plan, in 2013 additional paid-in capital was simultaneously increased by altogether 308 thousand Euro. In 2013 45,840 treasury shares were assigned as remuneration components. By this transfer of shares, premiums included in additional paid-in capital were increased by 209 thousand Euro. Premiums were reduced by 22 thousand Euro on account of transaction costs.

The item stock options and stock awards was increased by the expense incurred in 2013 for the issue of stock options (353 thousand Euro) and stock awards (50 thousand Euro; please refer to note 23).

Other equity components

Other equity compnents can be broken down as follows:

	12/31/2013 thousand Euro	12/31/2012 thousand Euro[1]
Foreign currency adjustments	–2,747	–2,045
Deferred tax (on foreign currency adjustments)	556	411
Hedges	–1,665	–1,926
Deferred tax (on hedges)	546	620
Changes in market value of available-for-sale financial assets	116	140
Deferred tax (on changes in market value of available-for-sale financial assets)	–38	–69
Actuarial gains/losses	–994	–769
Deferred tax (on actuarial gains/losses)	306	236
Other equity components	**–3,920**	**–3,402**

[1] Prior-year disclosure has been adjusted; please also refer to “General information” in the notes.

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 2013 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).

Reserves for actuarial gains/losses are made in order to reflect the gains or losses resulting from changes in actuarial assumptions for the determination of the cash value of the defined benefit obligation and/or the fair value of the plan assets.

The development of changes in equity outside profit or loss that are attributable to the owners of the parent is shown in the following table for the years 2012 and 2013:

	thousand Euro[1]
Balance as of 01/01/2012	**–2,021**
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
Changes in actuarial gains/losses	–824
Changes in deferred tax on actuarial gains/losses	248
Balance as of 12/31/2012	**–3,402**
Exchange rate changes	–702
Changes in deferred tax on exchange rate differences	145
Changes in hedges	261
Changes in deferred tax on hedges	–74
Changes in available-for-sale financial assets	–24
Changes in deferred tax on available-for-sale financial assets	31
Changes in actuarial gains/losses	–224
Changes in deferred tax on actuarial gains/losses	69
Balance as of 12/31/2013	**–3,920**

[1] Prior-year disclosure has been adjusted; please also refer to “General information” in the notes.

Ownership

Ownership as of December 31, 2013 is as follows:

	thousand Euro	%
Weyer Beteiligungsgesellschaft mbH, Schwerte	4,019	20.4
ZOE-VVG GmbH, Duisburg	3,050	15.5
Jumakos Beteiligungsgesellschaft mbH, Dortmund	2,971	15.1
Treasury stock	328	1.7
Shareholders with <10% of the shares	9,307	47.3
	19,675	**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 235 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 1,014,241 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

In accordance with 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 2013 Elmos Semiconductor AG distributed a dividend of 0.25 Euro per share out of the retained earnings of fiscal year 2012.

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 234,620 shares by the exercise of stock options) and 1,250,000 new no-par shares (conditional capital 2010/I).

As of December 31, 2013 altogether 1,014,241 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 12/31/2012 (number)	255,580	238,088	246,410	400,000	1,140,078
Granted 2013 (number)	0	0	0	0	0
Exercised 2013 (number)	113,570	0	0	0	113,570
Forfeited 2013 (number)	1,100	2,960	2,900	5,307	12,267
Options outstanding as of 12/31/2013 (number)	**140,910**	**235,128**	**243,510**	**394,693**	**1,014,241**
Options exercisable as of 12/31/2013 (number)	140,910	0	0	0	140,910

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. 201,500 stock options were exercised in 2012 and 113,570 stock options were exercised in 2013 from the 2009 tranche.

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 as of grant date	1.79%	1.67%	1.69%	0.31%
Expected term	3 years	4 years	4 years	4 years

In fiscal year 2013 the Company incurred expenses of 355 thousand Euro for its stock option plans 2009, 2010, 2011, and 2012 (2012: 317 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 could demand the assignment of the shares only after midnight of April 30, 2013 and received the shares in May 2013 by the Company. In fiscal year 2013 the Group incurred expenses in the amount of 13 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.

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) respectively, 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 2013 the Group incurred expenses in the amount of 35 thousand Euro for these stock award plans. 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 liabilities accounted for is as follows:

	12/31/2013 thousand Euro	12/31/2012 thousand Euro[1]
Cash value of obligations	4,140	3,963
Time value of pension plan reinsurance	–3,648	–3,207
Debt recognized in statement of financial position	**492**	**756**

[1] Adjustment of prior-year disclosure due to first-time application of IAS 19R; please also refer to “General information” in the notes

The Company has 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, 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 3.1% per annum as of December 31, 2013 (December 31, 2012: 3.5% p. a.). For 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 and can be broken down as follows:

	2013 thousand Euro	2012 thousand Euro[1]
Service cost	0	40
Interest	136	170
Pension expense (net)	**136**	**210**

[1] Adjustment of prior-year disclosure due to first-time application of IAS 19R

Changes in the cash values of defined benefit obligations and the fair values of reinsurance policies are as follows:

Cash value of defined benefit obligations

	2013 thousand Euro	2012 thousand Euro[1]
Pension commitment as of 1/1	3,963	3,105
Pension expense	136	210
Pension benefits	–154	–154
Past service cost	0	–38
Actuarial losses	195	840
Pension commitment as of 12/31	**4,140**	**3,963**

[1] Adjustment of prior-year disclosure due to first-time application of IAS 19R

In accordance with past legislation, until December 31, 2012 actuarial gains or losses were 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 was allocated over the average remaining term of employment of the active employees through profit or loss. Actuarial losses recognized in profit or loss for 2012 came to 114 thousand Euro. Upon the elimination of the corridor method by IAS 19R as of January 1, 2013, actuarial gains or losses are no longer recognized proportionately in profit or loss but entirely recognized in other comprehensive income in the period in which they incur (please also refer to “General information” in the notes).

Fair value of reinsurance policies

	2013 thousand Euro	2012 thousand Euro
Fair value of reinsurance policies as of 1/1	3,207	2,972
Income from plan assets	116	165
Employer’s contributions	434	240
Benefits from reinsurance policies	–79	–79
Actuarial losses	–30	–91
Fair value of reinsurance policies as of 12/31	**3,648**	**3,207**

Income from pension plan reinsurance amounts to 440 thousand Euro (2012: 235 thousand Euro) including payments made in the event of death. Premiums of 519 thousand Euro were paid (2012: 324 thousand Euro). Contribution payments in the amount of 218 thousand Euro are expected for 2014.

There are also indirect pension commitments to (former) Management Board members of Elmos Semiconductor AG through a pension fund. For completely congruent coverage of their obligations, the pension fund has taken out corresponding reinsurance policies for the exact agreed contribution amount. In 2013 contributions to these pension plans amounted to 541 thousand Euro (2012: 576 thousand Euro).

The employer’s social security contributions made for employees amounted to 3,920 thousand Euro in 2013 (2012: 3,915 thousand Euro). The contributions to employees’ direct insurance came to 0 thousand Euro in 2013 as in the previous year.

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

	2013 thousand Euro	2012 thousand Euro	2011 thousand Euro	2010 thousand Euro	2009 thousand Euro
Pension commitment	4,140	3,963	3,160	3,299	3,136
Fair value pension plan reinsurance	–3,648	–3,207	–2,972	–2,797	–2,514
Underfunding (–)	–492	–756	–188	–502	–622
Adjustments to plan liabilities based on experience	–24	–114	–8	–20	–7
Adjustments to plan assets based on experience	0	0	0	0	0

One of the essential valuation parameters is the discount rate applied. It is congruent to term and currency pursuant to IAS 19.83 and must be chosen in consideration of the interest rates of high-quality corporate bonds. A change of 1 percentage point in the assumption of the interest rate would have had the following effect in the year under review:

	Increase by 1% point	Decrease by 1% point
Effects on defined benefit obligations (thousand Euro)	–505	647

Based on the sensitivity analyses carried out, there are no material effects on personnel expense. For materiality considerations, sensitivity analyses are not carried out for other parameters.

Current provisions

	01/01/2013 thousand Euro	Consumption thousand Euro	Reversal thousand Euro	Transfer thousand Euro[1]	Addition thousand Euro	12/31/2013 thousand Euro
Vacation bonus	604	604	0	0	563	563
Bonus provisions	1,212	600	0	–586	734	760
Employer's liability insurance association	378	331	46	0	391	392
Warranty	2,322	31	1,197	0	0	1,094
Licenses	251	114	40	0	268	365
Other provisions for employee benefits	2,156	2,194	394	586	2,916	3,071
Other provisions	1,184	853	187	0	1,116	1,261
	8,107	**4,727**	**1,864**	**0**	**5,989**	**7,505**

[1] As of 2013 bonus provisions exclusively contain the share of the legal representatives of Elmos Semiconductor AG.

Beginning in 2013, the warranty provision has been made only for special incidents. Warranty provision calculated generally on the basis of sales in previous years was dissolved over the reporting period.

Provision for licenses includes payment commitments 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 commitments, 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

Non-current financial liabilities as of December 31, 2013 can be broken down as follows:

	12/31/2013 thousand Euro	12/31/2012 thousand Euro
Loans	**37,491**	**12,571**

Loans

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

Current financial liabilities

As of December 31, 2013 the Company had various short-term credit limits at its disposal in the total amount of 21,612 thousand Euro. As of December 31, 2013 the Company took advantage of these credit facilities in the amount of 403 thousand Euro (2012: 428 thousand Euro). Current financial liabilities (December 31, 2013: 303 thousand Euro; December 31, 2012: 30,290 thousand Euro) represent the current portion of financial liabilities reported as non-current as well as other current liabilities to banks.

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, 2013 and December 31, 2012. 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, 2013	2014 thousand Euro	2015 thousand Euro	2016-2018 thousand Euro	from 2019 thousand Euro
Liabilities to banks	1,311	1,411	39,537	331
Trade payables	19,492	0	0	0
Other financial liabilities	429	0	2,392	0
Hedged derivatives	519	519	974	0

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
Trade payables	17,755	0	0	0
Other financial liabilities	342	0	0	2,242
Hedged derivatives	128	334	960	0

The presentation of the liquidity analysis is based on the following assumptions: With respect to financial instruments at variable interest rates, the statement of future interest payments is based on current fixing 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:

	12/31/2013 thousand Euro	12/31/2012 thousand Euro
Other current liabilities	3,569	2,416
Other non-current liabilities	4,650	5,277
	8,219	**7,693**

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

Furthermore, in connection with the lease agreement concluded with Exedra in 2007, the difference between the dissolved 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. note 29), recognized outside profit or loss upon first-time measurement. By the subsequent measurement through profit or loss in the amount of 150 thousand Euro in 2013 (2012: 28 thousand Euro), a liability of 2,392 thousand Euro is recognized as of December 31, 2013, reported under other non-current liabilities. In addition to that, other non-current liabilities include the non-current portion of hedged derivatives (1,144 thousand Euro; December 31, 2012: 1,719 thousand Euro). Hedged derivatives are presented under note 29.

Income tax liabilities amount to 1,613 thousand Euro (December 31, 2012: 1,409 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 performance 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 given. 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, 2013 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 to 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. The equity item is released if the hedged item must be recognized in profit or loss. Deferred tax outside profit or loss is 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). The loan with a term until June 30, 2018 (10 million Euro) represents follow-up financing of a loan expired as of June 30, 2013. Both loans have been reported under the Group's financial liabilities since the beginning of the respective terms.

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 2013. 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, 2013 are limited to the exchange rate gains generated in the amount of 9 thousand Euro and exchange rate losses incurred at 290 thousand Euro, reported in the consolidated income statement under the item exchange rate gains/losses.

Moreover, the Company concluded various transactions toward interest rate improvement in 2013, adding an additional component to investments in bonds already made. Repayment is to be made in USD if a predefined USD/EUR reference exchange rate is exceeded upon the loan's date of maturity. The effects on the financial position as of December 31, 2013 of the transactions expired by the end of the year are limited to the collected (additional) interest income and the exchange rate gains generated in the amount of 2 thousand Euro and exchange rate losses incurred at 0 thousand Euro, reported in the consolidated income statement under the item exchange rate gains/losses.

29 – Additional information on financial instruments

Book values, recognition and fair values according to measurement categories

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

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

The book values of short-term securities and long-term securities classified as available for sale correspond to the market value. Measurement was made on the basis of market values provided by the involved banks as of the reporting date. Securities classified as loans and receivables were measured at amortized cost.

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 maturities. The determination of the market values as of December 31, 2013 was based on a discounted cash flow (DCF) model in consideration of current interest 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 model 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.

			Recognition according to IAS 39						Recognition according to IAS 39				
thousand Euro	**Cat.**	**Book value 12/31/2013**	Amortized cost	Acquisition cost	At market value through profit or loss	At market value outside profit or loss	**Fair value 12/31/2013**	**Book value 12/31/2012**	Amortized cost	Acquisition cost	At market value through profit or loss	At market value outside profit or loss	**Fair value 12/31/2012**
Financial assets													
Investments	AfS	470	0	470	0	0	470	2,652	2,182	470	0	0	2,652
Securities (long-term)	LaR	6,500	6,500	0	0	0	6,500	2,500	2,500	0	0	0	2,500
Securities (long-term)	AfS	42,489	0	0	0	42,489	42,489	16,241	0	0	0	16,241	16,241
Securities (short-term)	LaR	0	0	0	0	0	0	1,000	1,000	0	0	0	1,000
Securities (short-term)	AfS	203	0	0	0	203	203	6,840	0	0	0	6,840	6,840
Trade receivables	LaR	38,450	38,450	0	0	0	38,450	27,644	27,644	0	0	0	27,644
Cash and cash equivalents	LaR	27,949	27,949	0	0	0	27,949	55,576	55,576	0	0	0	55,576
Other financial assets													
Other receivables and assets	LaR	2,639	2,639	0	0	0	2,639	2,398	2,398	0	0	0	2,398
Other loans	LaR	2,711	2,711	0	0	0	2,711	2,305	2,305	0	0	0	2,305
Call option	HfT	48	0	0	48	0	48	54	0	0	54	0	54
Earnout	LaR	0	0	0	0	0	0	562	562	0	0	0	562
Total financial assets		**121,459**	**78,249**	**470**	**48**	**42,692**	**121,459**	**117,772**	**94,167**	**470**	**54**	**23,081**	**117,772**
Financial liabilities													
Trade payables	OL-AK	19,492	19,492	0	0	0	19,492	17,755	17,755	0	0	0	17,755
Liabilities to banks	OL-AK	37,795	37,795	0	0	0	38,811	42,861	42,861	0	0	0	44,027
Other financial liabilities													
Miscellaneous financial liabilities	OL-AK	429	429	0	0	0	429	342	342	0	0	0	342
Put option	OL-FV	2,392	0	0	2,392	0	2,392	2,242	0	0	2,242	0	2,242
Hedged derivatives (short-term)	OL-FV	522	0	0	0	522	522	207	0	0	0	207	207
Hedged derivatives (short-term)	OL-FV	1,144	0	0	0	1,144	1,144	1,719	0	0	0	1,719	1,719
Total financial liabilities		**61,774**	**57,716**	**0**	**2,392**	**1,666**	**62,790**	**65,126**	**60,958**	**0**	**2,242**	**1,926**	**67,665**
Aggregated by measurement category:													
Loans and receivables (LaR)		78,249	78,249	0	0	0	78,249	91,985	91,985	0	0	0	91,985
Available for sale (AfS)		43,162	0	470	0	42,692	43,162	25,733	2,182	470	0	23,081	25,733
Held for trading (HfT)		48	0	0	48	0	48	54	0	0	54	0	54
Financial liabilities recognized at amortized cost (OL-AK)		57,716	57,716	0	0	0	58,732	60,958	60,958	0	0	0	62,124
Financial liabilities recognized at fair value (OL-FV)		4,058	0	0	2,392	1,666	4,058	4,168	0	0	2,242	1,926	4,168

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:

Level 1: quoted (unadjusted) prices in active markets for similar assets or liabilities

Level 2: methods where all input parameters with material effect on the determined fair value are observable either directly or indirectly

Level 3: methods using input parameters that have material effect on the determined fair values and are not based on observable market data

As of December 31, 2013 the Group held the following financial instruments measured at fair value:

	Level 1 thousand Euro	Level 2 thousand Euro	Level 3 thousand Euro
Securities			
January 1, 2012	**4,174**	**0**	**0**
Addition securities (long-term)	16,241	0	0
Addition securities (short-term)	2,666	0	0
December 31, 2012	**23,081**	**0**	**0**
Addition securities (long-term)	27,781	0	0
Disposal securities (long-term)	–1,534	0	0
Disposal securities (short-term)	–6,637	0	0
December 31, 2013	**42,691**	**0**	**0**
Investments			
January 1, 2012	**0**	**0**	**3,917**
Write-down shares in TetraSun Inc.	0	0	–1,232
Foreign-currency measurement shares in TetraSun Inc.	0	0	–33
December 31, 2012	**0**	**0**	**2,652**
Disposal shares in TetraSun Inc.	0	0	–2,182
December 31, 2013	**0**	**0**	**470**

	Level 1 thousand Euro	Level 2 thousand Euro	Level 3 thousand Euro
Hedged derivatives			
January 1, 2012	**0**	**–926**	**0**
Correction of measurement of hedged derivatives outside profit or loss (short-term and long-term)	0	–1,000	0
December 31, 2012	**0**	**–1,926**	**0**
Correction of measurement of hedged derivatives outside profit or loss (short-term and long-term)	0	261	0
December 31, 2013	**0**	**–1,665**	**0**
Forward exchange contracts			
January 1, 2012	**0**	**13**	**0**
Disposal forward exchange contracts	0	–13	0
December 31, 2012	**0**	**0**	**0**
Addition forward exchange rate contracts	0	0	0
December 31, 2013	**0**	**0**	**0**
Call option			
January 1, 2012	**0**	**0**	**0**
Addition call option	0	0	54
December 31, 2012	**0**	**0**	**54**
Write-down call option	0	0	–6
December 31, 2013	**0**	**0**	**48**
Put option			
January 1, 2012	**0**	**0**	**0**
Addition put option	0	0	–2,214
Write-up put option	0	0	–28
December 31, 2012	**0**	**0**	**–2,242**
Write-up put option	0	0	–150
December 31, 2013	**0**	**0**	**–2,392**

The securities reported under hierarchy level 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 level 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 level 3 are investments in various entities. For considerations of materiality, the book values are assumed to essentially correspond to the market values.

The shares in TetraSun Inc. acquired in previous years were sold in fiscal year 2013 (cf. note 15).

The call option agreed on with a non-controlling shareholder was measured at fair value in fiscal year 2013 in application of the DCF method and in consideration of the terms and conditions of the contract. Equally considered were the parameters mentioned under note 13, regarded for the impairment test pursuant to IAS 36 for the goodwill of MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg. The put option agreed on with a non-controlling shareholder was measured at the cash value of the repurchase amount in fiscal year 2013 in application of the DCF method. Considered were the planning period 2016 to 2019 defined in the put option agreement as well as a discount rate of 0.46% (2012: 0.56%). With respect to both call option and put option, plausible alternative assumptions would not lead to material changes in the fair values as stated.

Information on 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 (–)	2013 thousand Euro	2012 thousand Euro
LaR	–401	–123
AfS	0	–1,232
OL-AK	153	40
OL-FV	–150	–28
HfT	–279	–252

In fiscal year 2013 Elmos realized exchange rate gains in the amount of 9 thousand Euro and incurred exchange rate losses in the amount of 290 thousand Euro from currency-related hedges (2012: exchange rate gains of 123 thousand Euro and exchange rate losses of 101 thousand Euro). These exchange rate gains and losses have been reported in the consolidated income statement under the item “Exchange rate losses/gains”.

Moreover, the Company concluded various transactions toward interest rate improvement in 2013. The effects on the financial position as of December 31, 2013 are limited to the collected finance income and the exchange rate gains generated in the amount of 2 thousand Euro, reported in the consolidated income statement under the item “Exchange rate losses/gains”.

Elmos recognizes valuation allowances for 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 valuation allowances, currency translation effects, and debt loss.

Expenses or income classifiable as “OL-AK” result from exchange rate differences of trade payables.

The write-up on the put option agreed on with a non-controlling shareholder in the amount of 150 thousand Euro was disclosed in the category “OL-FV” through profit or loss.

The category “LaR” includes valuation allowances of 500 thousand Euro for an earnout component. This earnout component was agreed in fiscal year 2010 within the scope of the sale of assets and liabilities (disposal group) by subsidiary Elmos Advanced Packaging B.V. Insofar the buyer’s gross margin exceeds a predefined amount, Elmos receives a certain percentage of this margin in fiscal years 2013 and 2014. Due to non-fulfillment of the criteria in fiscal year 2013 and a low chance of fulfillment in 2014, the earnout was written off as of December 31, 2013.

Interest relating to financial instruments is stated in interest income (cf. 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. This system provides for regular interviews and the regular identification and assessment of new and known risks by the respective responsible executives and employees and defines a closed-loop reporting system.

In addition to that, the Elmos Group’s business units give 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 the 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 contracts and options to hedge foreign currency transactions for periods consistent with committed exposures. These derivative transactions for currency hedging minimize the impact of 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 financial policy and risk strategy and the derived guidance are determined regularly, at least once every year, by the Management Board and monitored by the Supervisory Board. The implementation of the strategy and the operation of financial and risk management are the responsibility of the Management Board and the responsible employees.

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 and diversification with respect to banks and issuers, among other factors. A substantial part of the portfolio is placed with banks with high credit ratings under the protection of the deposit protection (e.g. overnight deposits and fixed deposits, structured time deposits). In addition to that, liquid assets are invested in listed bonds (corporate bonds, among others) and to a lesser extent, in pursuit of an investment mix, in borrower's notes ("Schuldscheinanlagen"), partly with credit rating components. The emphasis of issuer's ratings is placed on "investment grade" ratings.

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. 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 continued global uncertainty, outstanding receivables are monitored and reminded with scrutiny as part of a continuous operational process.

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 risk

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 Company's international orientation. These fluctuations occur principally between the euro and the U.S. dollar.

Exchange rate risks result from operating activities, investments, and financing measures. The individual group companies conduct their 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 compensated 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 granted 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 2013, Elmos realized exchange rate gains in the amount of 9 thousand Euro (2012: 123 thousand Euro) and incurred exchange rate losses in the amount of 290 thousand Euro (2012: 101 thousand Euro) from currency-related hedges relating to the U.S. dollar. Elmos realized exchange rate gains in the amount of 2 thousand Euro (2012: 0 thousand Euro) and incurred exchange rate losses in the amount of 0 thousand Euro (2012: 0 thousand Euro) through transactions toward interest rate improvement.

Had the euro been revalued (devalued) against the U.S. dollar by 10% as of December 31, 2013 with respect to the monetary financial instruments, the operating income (before taxes) would have been 109 thousand Euro higher (133 thousand Euro lower) (2012: 931 thousand Euro lower (1,137 thousand Euro higher)). The Group's equity effect would have been the same amount via the result effect in consideration of income tax incurred.

b) Interest rate risk

The risk of interest rate changes of Elmos as of the reporting date results from the forward interest rate swaps concluded in fiscal year 2010 with respect to the concluded forward loans (please refer to note 28), among other factors. Had the market interest rate level been higher (lower) by 100 basis points, equity would have been higher by 650 thousand Euro (decrease in equity by 679 thousand Euro) due to group accounting outside profit or loss (2012: increase (decrease) in equity by 761 (804) thousand Euro). Deferred tax on this amount would also have to be considered.

There is also the 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 1,395 thousand Euro (increase in equity by 1,410 thousand Euro) (2012: decrease (increase) in equity by 585 (600) 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 93 (44) thousand Euro (2012: increase (decrease) in earnings before taxes by 108 (63) thousand Euro). The effect on other non-current liabilities would come to a corresponding amount.

For the forward loans described under note 28, there is no risk from loan commitments as of December 31, 2013 as all loan commitments have been utilized and there are no new loan commitments (2012: fair value risk linked to a forward loan representing follow-up financing of the financial liability expired as of June 30, 2013).

Elmos is exposed to interest rate 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, 2013 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 in consideration of the economic framework as well as the risks carried by the corresponding assets. For maintaining or adjusting the capital structure, e.g. dividends may be paid to the shareholders or new stock may be issued. As of December 31, 2013 and December 31, 2012, 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.

	2013	2012[1]
Net cash	39.3 million Euro	39.3 million Euro
Gearing	20.4%	20.7%
Equity ratio	71.1%	69.6%

[1] Adjustment due to amendment to IAS 19

Other information

31 – Government grants

The Company receives subsidies or government grants used for financing research and development projects as well as, from 2013, subsidies in accordance with the German Combined Heat and Power Act ("Kraft-Wärme-Kopplungsgesetz" – KWKG). Government grants used for research and development projects were offset against research and development expenses and recognized in that item (1,309 thousand Euro in 2013, 983 thousand Euro in 2012). Government grants utilized for capital expenditures for property, plant and equipment were collected in 2013 in the amount of 748 thousand Euro (0 thousand Euro in 2012). Subsidies of 210 thousand Euro (0 thousand Euro in 2012) were recognized as other receivables in accordance with the German Combined Heat and Power Act.

32 – Other financial liabilities 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 11,402 thousand Euro until 2020 (including contributions to administrative expenses and sales tax) plus payments of 6,808 thousand Euro for tenant loans (cf. note 14).

Within the framework of the lease agreements with Epigone, Elmos is committed to lease payments of 7,905 thousand Euro until 2021 (including contributions to administrative expenses and sales tax) plus payments of 2,944 thousand Euro for tenant loans (cf. note 14).

SMI entered into a property lease agreement on January 26, 2006 for land and a 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 10,278 thousand Euro in 2013 and 12,020 thousand Euro in 2012.

As of December 31, 2013 and 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:

Rental and lease payments, maintenance, insurance premiums, etc.

	thousand Euro December 31, 2013	thousand Euro December 31, 2012
2013	n/a	25,563
2014	25,302	14,209
2015	14,187	11,767
2016	12,697	10,345
2017	7,561	6,916
2018	5,647	n/a[1]
Later years	9,970	15,083
	75,364	**83,883**

[1] Included in later years

There is a purchase commitment in the amount of 3,305 thousand Euro from investment orders placed (2012: 1,113 thousand Euro).

The book value of assets pledged as security by a subsidiary for a bank loan comes to 250 thousand Euro (2012: 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 (2012: 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 (2012: 776 thousand Euro). 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 claim has been filed. 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:

	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 Electronic Design GmbH, Frankfurt/Oder	100.0
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

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.

As of acquisition date January 1, 2013, an interest of 26.1% in GED Electronic Design GmbH (formerly: GED Gärtner-Electronic-Design GmbH), Frankfurt/Oder, was acquired. A profit transfer agreement was concluded with this entity. A fiscal unity was established for income tax purposes ("ertragsteuerliche Organschaft").

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

Information on share ownership

	Currency	Shares %	Equity in thousand	Earnings in thousand
Germany				
attoSENSOR GmbH i.L., Penzberg	Euro	45.00	31	−10[3]
DMOS Dresden MOS Design GmbH, Dresden	Euro	20.00	1,083	−557[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	–47	−8[1]
GED Electronic Design GmbH, Frankfurt/Oder	Euro	100.00	2,248	0[1, 5]
Mechaless Systems GmbH, Bruchsal	Euro	100.00	667	53[1]
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin	Euro	50.00	1,818	416[1]
International				
Elmos Services B.V., Nijmegen (NL)	Euro	100.00	19,452	5,929[1]
Elmos Semiconductor B.V., Nijmegen (NL)	Euro	100.00	43,170	1,423[1, 2]
Elmos Design Services B.V., Nijmegen (NL)	Euro	100.00	405	1[1, 2]
Elmos Quality Services B.V., Nijmegen (NL)	Euro	100.00	246	10[1, 2]
European Semiconductor Assembly (eurasem) B.V., Nijmegen (NL)	Euro	100.00	57	51[1, 2]
Micro Systems on Silicon (MOS) Limited, Pretoria (South Africa)	ZAR	51.00	8,638	8,522 [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	2,347	76[1, 2]
Silicon Microstructures Inc., Milpitas (U.S.A.)	USD	100.00	–1,259	479[1, 2]
Elmos Korea Co. Ltd., Seoul (Korea)	KRW	100.00	345,426	76,670[1]
Elmos Semiconductor Singapore Pte. Ltd., Singapore	SGD	100.00	655	64[1]
Elmos Semiconductor Technology (Shanghai) Co., Ltd., Shanghai (China)	CNY	100.00	2,790	447[1, 2]

[1] Presented figures are based on preliminary, unaudited financial statements as of December 31, 2013.
[2] Indirect investment of Elmos Semiconductor AG, Dortmund.
[3] Presented figures are based on preliminary, unaudited financial statements as of September 30, 2013.
[4] Financial statements of this entity are not available at present.
[5] Profit and loss transfer agreement

34 – Information on Management Board and Supervisory Board

Remuneration of Management Board and Supervisory Board in 2013

	Fixed remuneration thousand Euro	Variable remuneration thousand Euro	Stock options (fair value) thousand Euro
Management Board	1,625	689	0
Supervisory Board	83	158	0

There are indirect pension commitments to Management Board members of Elmos through a pension fund. For completely congruent coverage of their obligations, the pension fund has taken out corresponding reinsurance policies for the exact agreed contribution amount. In 2013 contributions to these pension plans amounted to 517 thousand Euro (2012: 516 thousand Euro) included in the fixed remuneration component.

Remuneration paid to former Management Board members or their surviving dependants amounted to 410 thousand Euro in fiscal year 2013 (2012: 295 thousand Euro). In addition, insurance premiums in the amount of 255 thousand Euro were paid for this group of beneficiaries (2012: 248 thousand Euro). These amounts face reimbursements from reinsurance policies in the amount of 79 thousand Euro (2012: 79 thousand Euro).

The amount of pension provisions was 2,891 thousand Euro as of December 31, 2013 (2012: 2,552 thousand Euro).

For other services, particularly consulting services, the Company compensated members of the Supervisory Board in the amount of 10 thousand Euro (2012: 29 thousand Euro).

Fixed and variable remuneration of Management Board and Supervisory Board and compensation for other services are to be classified as short-term benefits, stock options granted are to be classified as share-based payment, and pension and insurance payments are to be classified as benefits after the termination of employment.

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 2013

As of December 31, 2013 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, 2013 the following members of Management Board and Supervisory Board held Elmos shares and stock options:

Management Board	Shares	Stock options
Dr. Anton Mindl	6,672	60,000
Reinhard Senf	23,584	50,000
Nicolaus Graf von Luckner	18,144	62,000
Dr. Peter Geiselhart	7,669	17,778

Supervisory Board	Shares	Stock options
Prof. Dr. Günter Zimmer	38,170	0
Dr. Burkhard Dreher	11,858	0
Dr. Klaus Egger	11,557	0
Thomas Lehner	5,601	6,250
Sven-Olaf Schellenberg	3,448	1,150
Dr. Klaus Weyer	214,436	0

36 – Information on group auditor fees

The companies of the Elmos Group received the following services rendered by appointed group auditor Warth & Klein Grant Thornton AG in fiscal year 2013:

	2013 thousand Euro
Audit services	124
Other certification services	38
Tax counseling	126
Other services	3
	291

The position "Other certification services" includes fees for the review of the interim consolidated financial statements as of June 30, 2013. For Ernst & Young GmbH, appointed group auditor in the previous year, expenses incurred in 2013 in the amount of 35 thousand Euro (8 thousand Euro audit services and 27 thousand Euro tax counseling services).

37 – Appropriation of retained earnings and dividend proposal

Management Board and Supervisory Board propose to the Annual General Meeting in May 2014 the payment of a dividend of 25 cents per share for fiscal year 2013 out of the 2013 retained earnings of Elmos Semiconductor AG in the amount of 65.9 million Euro. The total dividend payout would thus amount to 4.8 million Euro, based on 19,346,888 shares entitled to dividend as of December 31, 2013.

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

Listed below are all directors' dealings of the year 2013 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)
3/19/2013 Xetra	Dr. Klaus Weyer	Supervisory Board member	Purchase of Elmos shares	19,000	8.63	163,938
3/21/2013 Xetra	Dr. Klaus Weyer	Supervisory Board member	Purchase of Elmos shares	18,400	8.71	160,272
3/22/2013 Off-market	Reinhard Senf	Management Board member	Sale of Elmos shares from exercise of stock options	6,000	8.76	52,584
3/22/2013 Off-market	Ute-Karin Senf	Spouse of Management Board member	Sale of Elmos shares from exercise of stock options	400	8.76	3,506
3/22/2013 Xetra	Dr. Klaus Weyer	Supervisory Board member	Purchase of Elmos shares	4,500	8.74	39,318
8/12/2013 Off-market	Sven-Olaf Schellenberg	Supervisory Board member	Sale of Elmos shares from exercise of stock options	1,000	9.26	9,260
9/26/2013 Off-market	Reinhard Senf	Supervisory Board member	Sale of Elmos shares from exercise of stock options	6,000	9.417	56,502

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 are already 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 2013, 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 2013 Elmos Semiconductor AG received performances rendered by DMOS in the amount of 4,555 thousand Euro (2012: 4,027 thousand Euro). Interest-bearing loans amounting to a nominal total of 1,200 thousand Euro (2012: 800 thousand Euro) were extended to DMOS by Elmos Semiconductor AG, used essentially for the lease payment on account for an office building and for the purchase of plants. As of the end of the year, the loan balance including accrued interest altogether amounts to 619 thousand Euro (2012: 400 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.

Apart from the remuneration of Management Board and Supervisory Board, representing the key management personnel of the Elmos Group, 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 2013 the average number of employees in the Group was 1,053 (2012: 1,034).

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

Group	2013 Number	2012 Number
Production	510	499
Sales	105	109
Administration	159	151
Quality control	38	36
Research & Development	241	239
Total	**1,053**	**1,034**

41 – Significant events after the end of the fiscal year

There were no reportable events or transactions of special significance after the end of the fiscal year.

42 – Declaration of compliance in accordance with Section 161 AktG

In September 2013, 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.

Dortmund, March 6, 2014

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

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 6, 2014

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, the audited version of which includes the complete and identical remuneration report as contained here as part of the corporate governance 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 changes in equity, statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the fiscal year ended December 31, 2013. 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 [German Commercial Code] is 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 and violations 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 for the fiscal year ended December 31, 2013 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."

Düsseldorf, March 6, 2014

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Dr. Thomas Senger	**Ulrich Diersch**
Wirtschaftsprüfer	Wirtschaftsprüfer

Glossary

ASIC An **A**pplication **S**pecific **I**ntegrated **C**ircuit 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 chips, and processors.

ASSP An **A**pplication **S**pecific **S**tandard **P**roduct 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 (fitting the IC into the package), burn-in (pre-aging by applying heat and voltage), 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 **M**etal **O**xide **S**emiconductor 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 by 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 assuming a specific function within an electrical system.

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 manufacturer 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® **(H**igh **A**mbient **L**ight **I**ndependent **O**ptical **S**ystem) technology is distinguished by its 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 communication standard for connecting sensors and actuators to an industrial automation system.

Layout Describes the information gained from circuit development that is required for manufacturing integrated circuits with simple geometric shapes.

MEMS **M**icro-**E**lectro-**M**echanical **S**ystems 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 **M**etal-**O**xide-**S**emiconductor describes the setup of the central control device for the field effect in a particular category of semiconductor transistors.

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

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.

Structure width The term structure width is used for integrated circuits and identifies the technical feasibility of the width of current circuits and electrical components. Structure width is indicated in micrometers (µm) or nanometers (nm).

TPMS A **T**ire **P**ressure **M**onitoring **S**ystem monitors the pressure in car tires and notifies the driver if the pressure is too low.

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).

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 these documents can also be found on our website at www.elmos.com. If you want to subscribe to our publications, please send an e-mail to invest@elmos.com.

This Annual Report is also available in German.
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Of course you can visit our Twitter, YouTube, Xing and SlideShare profiles through our website (www.elmos.com) as well.

Financial calendar 2014

Analysts' conference (conference call/webcast)	March 20, 2014
Quarterly results Q1/2014[1]	May 6, 2014
Annual General Meeting in Dortmund	May 13, 2014
Quarterly results Q2/2014[1]	August 6, 2014
Quarterly results Q3/2014[1]	November 5, 2014

[1] The German Securities Trading Act ("Wertpapierhandelsgesetz") obliges issuers to announce immediately any information which may have a substantial price impact, irrespective of the communicated schedules. Therefore we cannot exclude that we have to announce key figures of quarterly and fiscal year results ahead of the dates mentioned above. As we can never rule out changes of dates, we recommend checking them on this website (www.elmos.com). Conference Calls usually take place one day following the publication of quarterly results.

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Further information

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.

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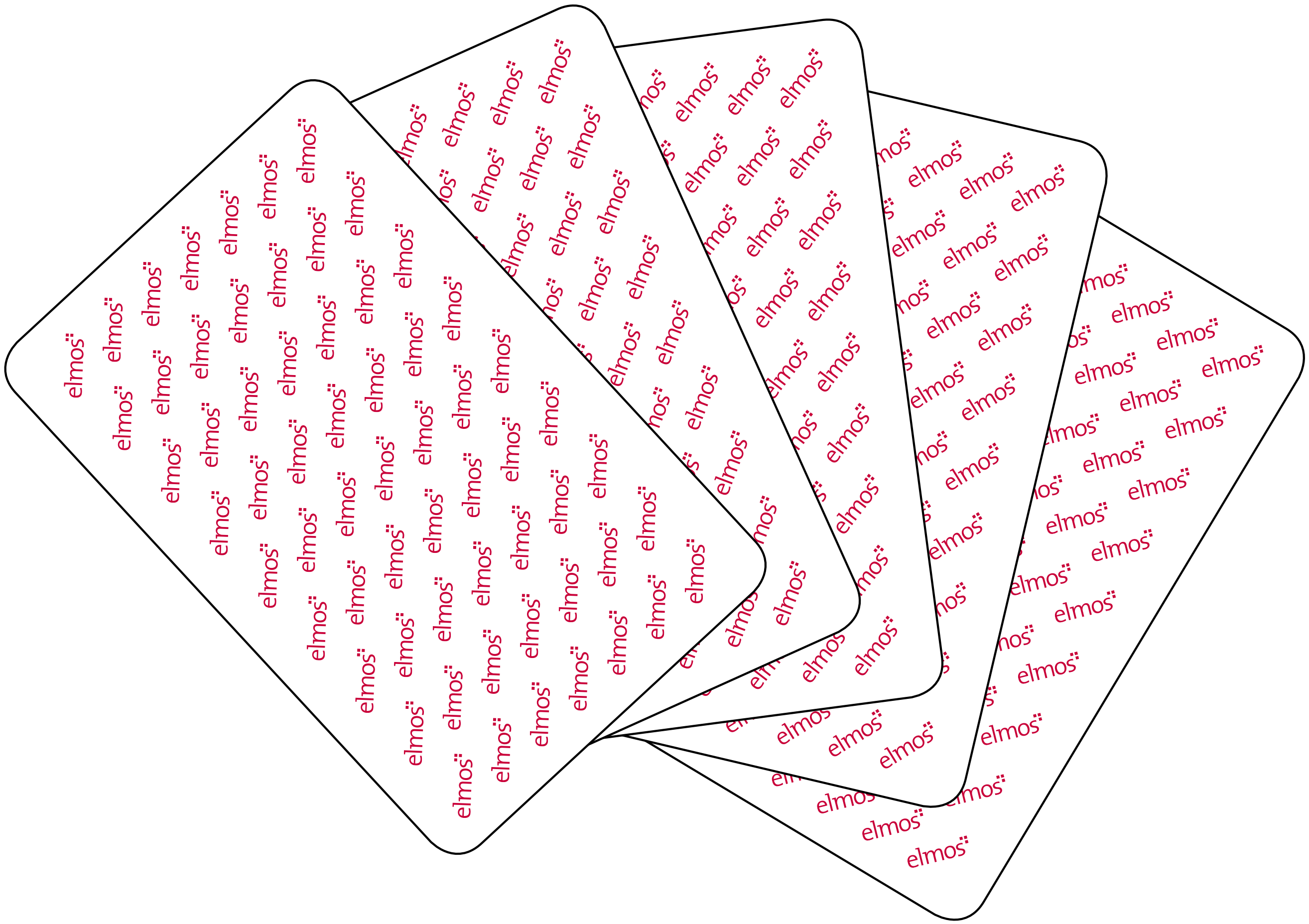

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