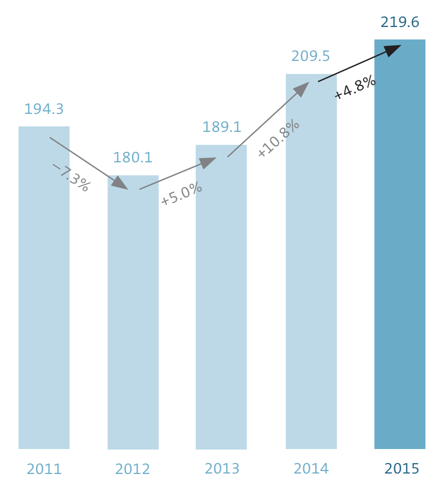
Products on the cutting edge

Annual report 2015

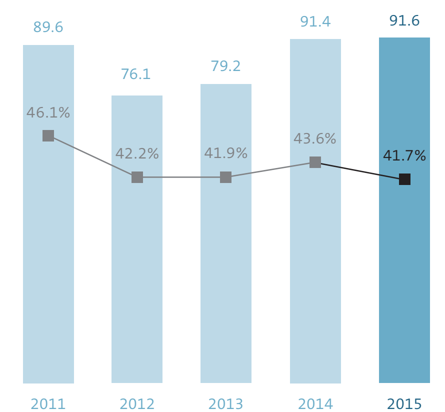
elmos

Five-year performance Elmos Group

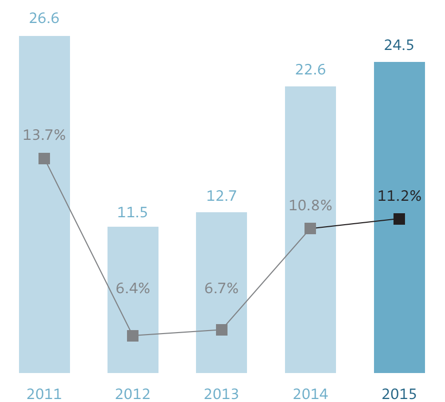
Sales in million Euro and growth rate



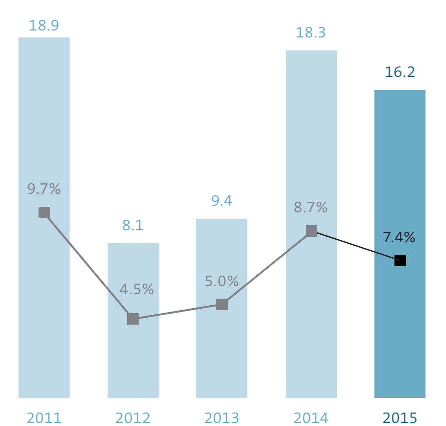
Gross profit in million Euro and gross margin



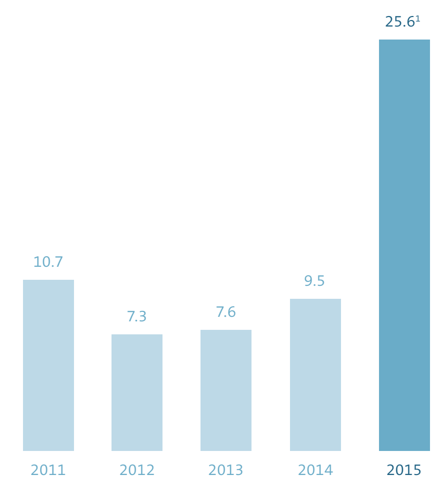
EBIT in million Euro and EBIT margin



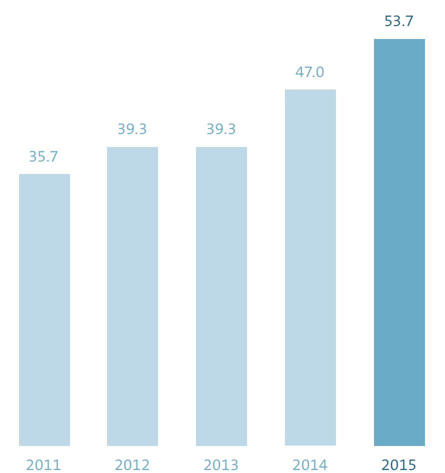
Consolidated net income in million Euro and net income margin



Adjusted free cash flow[2] in million Euro



Net cash in million Euro



Five-Year Overview Elmos Group (IFRS)

in million Euro unless otherwise indicated	2011	2012	2013	2014	2015
Sales	194.3	180.1	189.1	209.5	219.6
Sales growth	5.2%	–7.3%	5.0%	10.8%	4.8%
Gross profit	89.6	76.1	79.2	91.4	91.6
Gross margin	46.1%	42.2%	41.9%	43.6%	41.7%
Research and development expenses	32.5	35.0	34.4	36.1	37.1
Research and development expenses in % of sales	16.7%	19.4%	18.2%	17.2%	16.9%
EBIT	26.6	11.5	12.7	22.6	24.5
EBIT in % of sales	13.7%	6.4%	6.7%	10.8%	11.2%
Earnings before taxes	25.8	9.7	12.5	23.1	24.1
Earnings before taxes in % of sales	13.3%	5.4%	6.6%	11.0%	11.0%
Consolidated net income attributable to owners of the parent	18.9	8.1	9.4	18.3	16.2
Net income margin	9.7%	4.5%	5.0%	8.7%	7.4%
Basic earnings per share (in Euro)	0.98	0.42	0.49	0.94	0.82
Total assets	269.9	272.4	270.9	295.4	306.9
Shareholders' equity	188.0	189.6	192.7	206.9	219.4
Equity ratio	69.6%	69.6%	71.1%	70.0%	71.5%
Financial liabilities	40.7	42.9	37.8	37.4	36.8
Cash, cash equivalents and marketable securities	76.5	82.2	77.1	84.4	90.5
Net cash	35.7	39.3	39.3	47.0	53.7
Cash flow from operating activities	33.2	25.2	21.4	40.0	50.3
Capital expenditures for intangible assets and property, plant and equipment	19.4	17.9	15.6	30.5	24.7[1]
Capital expenditures in % of sales	10.0%	9.9%	8.2%	14.6%	11.3%[1]
Cash flow from investing activities	–28.7	–25.6	–36.4	–32.0	–24.6
Adjusted free cash flow[2]	10.7	7.3	7.6	9.5	25.6[1]
Dividend per share (in Euro)	0.25	0.25	0.25	0.33	0.33[3]
Employees on annual average	988	1,034	1,053	1,104	1,117

[1] Adjusted for the repurchase of land and building from prematurely terminated lease agreements in the amount of approx. 14 million Euro
[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 2016

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

Information for our shareholders

Combined management report

Consolidated Financial Statements

Appendix

Elmos solutions make everyday life easier, safer, and better.

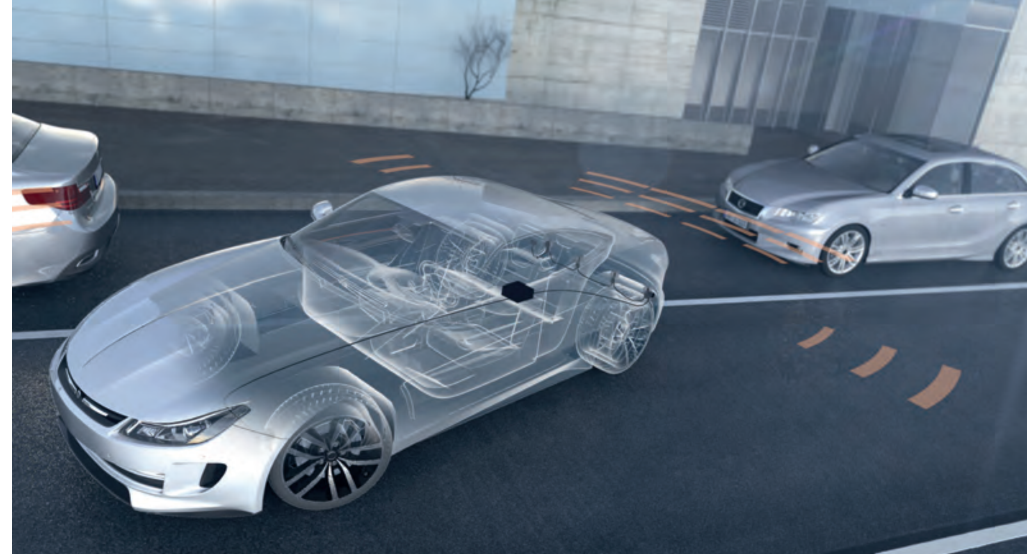

DO IC 523

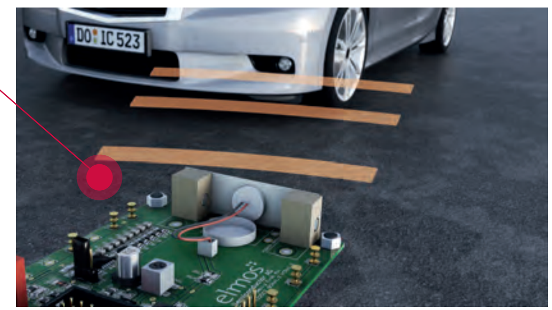
We know when things are changing.

Business line 1
Sensors

Parking made easy

Beep, beep, beep – today a new car almost always parks with that characteristic sound. Elmos has already supplied more than 500,000,000 ICs for ultrasonic parking assist systems and thus has certainly made parking easier for you, too. Think of Elmos whenever you park your car without having to crane your neck.





Please keep your distance

Stop-and-go traffic is quite the norm in the cities and on many highways today. Our distance control systems detect the space between your car and the one ahead of you and make your vehicle stop and start moving automatically. And if you lose your nerve in the next traffic jam, rest assured that our chips will always keep their cool.

Without pressing a button

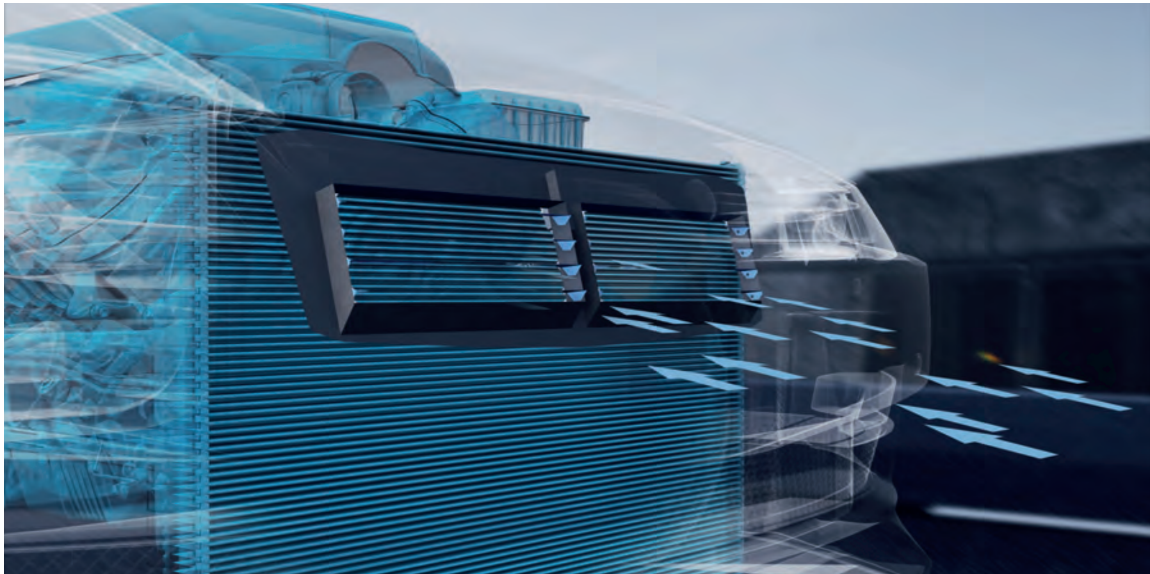
The hand approaches the screen and new menu options are popping up just like that, a phone call is taken with a hand swipe, and even at home the lights are switched on contact-free. Sounds like science fiction? Our gesture detection systems are integrated in millions of cars already and inspire drivers every day.

We know how the motor is supposed to turn.

Business line 2
Motor control

Open and close

Fuel consumption is significantly determined by aerodynamics. This is how the Elmos semiconductor's intelligent electronics reduces consumption: The grille shutters remain closed after starting the engine until the engine needs cooling, thus improving the air drag effect. Nice side effect: Your car heats up faster in the winter – this also saves fuel and CO_2.

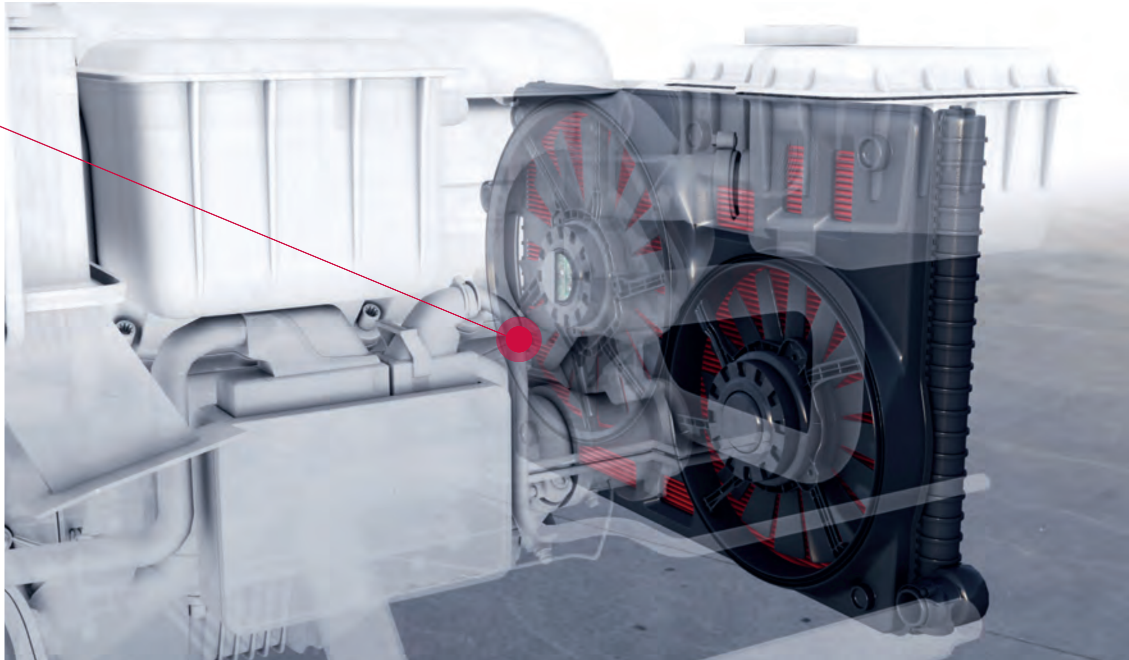


Powerful and quiet as a whisper

The fan behind the grille is bursting with strength – after all its job is to cool down all that horsepower even at full throttle. But when your car stops at a red light and the start-stop system is activated, everything is supposed to be quiet and energy saving. Even the radiator fan. Thanks to our IC the radiator fan will always turn just as the situation at hand requires.

Pretty cool

The water pump sees to it that the combustion engine does not overheat and always delivers top performance. Elmos semiconductors control the water pump exactly as needed. Thus the pump pushes the exact required amount of water through the pipe. This saves energy and therefore reduces fuel consumption.




98,5 Station 01 FM
P
23° Grad Cel.
10:05 Uhr
FUEL
Overview
28.8.2015 18:30 Uhr
START
STOP
Dortmund
München
AUTO
SYNC
Radio
Phone
CD

We know how cars light the way and become safer.

Business line 3
Embedded solutions

Shining beauty

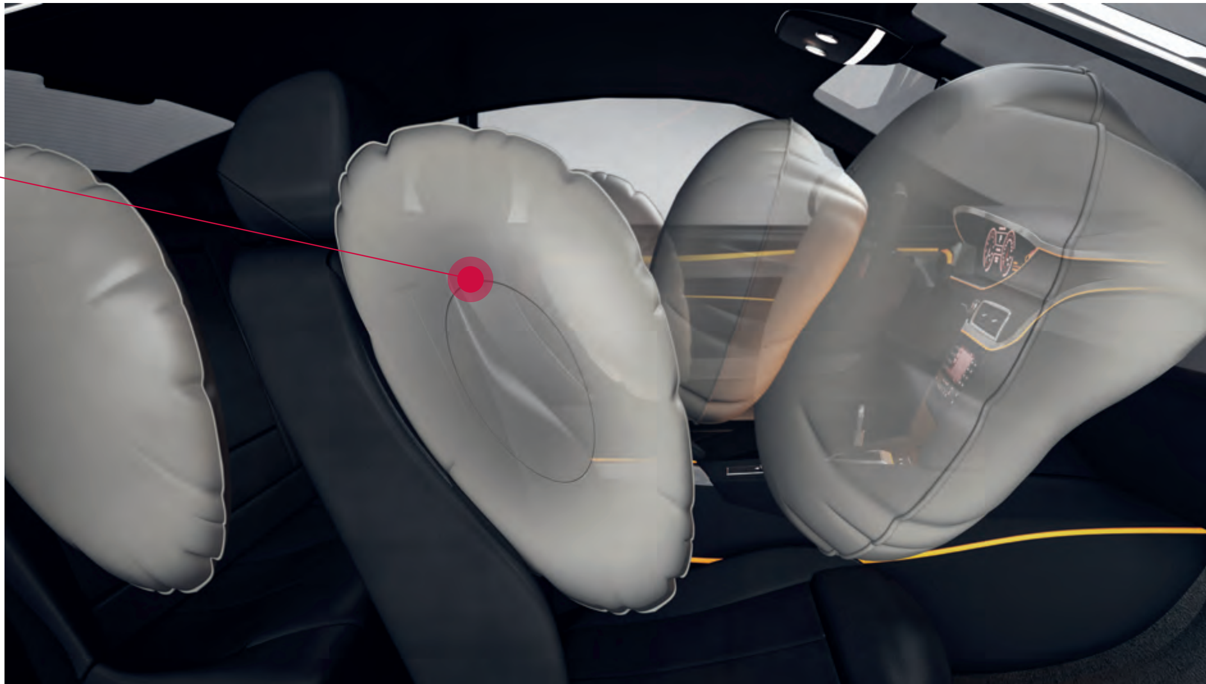
Headlights and taillights give the car a face. That's why the design of headlights and taillights has become a crucial part of automotive design philosophy. With our components for LED car light control, this claim to successful design can be turned into a competitive edge. New functionality and new design solutions will make your next car safer, more elegant, and give new expression to the cars' face.

Comfy atmosphere

As soon as you step into your car you should feel comfortable. The next generation of cars will welcome you with ambient lighting and shine in your favorite color while you're driving. Our semiconductors help the carmakers integrate LEDs and make the diodes keep shining evenly as your car is getting older.

Safety comes first

The airbag is a system everybody has and hopefully will never need. But if you do, you can rely on our semiconductors to trigger the airbag at exactly the right moment. Our customers have trusted our ICs for about 20 years now. And we don't only protect the passengers but, with an IC in a special external airbag, pedestrians as well.



Interview with the CEO

Structural improvements even in a challenging environment

Dortmund, March 2016: Reports of success from distribution, development and production co-incided with negative economic news from China and other parts of the world: The year 2015 had its ups and downs. We talked about the past fiscal year, new products, and his outlook for 2016 with the CEO.

Dr. Mindl, what comes first to your mind when you look back on 2015?
First of all I think of all our newly acquired customer orders. In this respect the year 2015 showed itself at its best near the finish line: A year-end rally helped us exceed our already ambitious acquisition targets. Just as satisfying is the fact that we won more than 20 new customers globally. We will not forget, though, that the real work has just begun. We have to master all project steps successfully and to transfer the projects to series production on schedule. As is customary in our industry, the successful acquisition will not have an immediate effect in numbers. It will take two to five years for its positive effects to show.

Can you name a few projects that have a lot of promise in your opinion?
Our semiconductors for the control and voltage supply of LEDs are very well received by our customers. Headlights and taillights as well a car's interior lighting will change completely in the future. Exterior lighting can be upgraded by new LED design and corresponding control with additional functionalities. Dynamic light and color effects will find entry in the interior, pointing the driver optically to events or dangerous situations for instance. The first cars equipped with a preliminary stage of this technology are just leaving the assembly lines. Yet our chips for LEDs aren't only used in vehicles

Dr. Anton Mindl

Personal profile
Dr. Anton Mindl has been heading the Company for ten years now. In a career that already spans close to 30 years, the physicist with a doctor's degree has worked for several suppliers to the auto industry. He is excited about gesture control in his own car, and he is also an enthusiastic biker.

but also in future motorbikes for example. Thus we cover the complete range of technological and pricing requirements. The market is very promising, this is about large numbers of units.

What other projects will make significant contributions to sales in the future?

We also have interesting products for motor and sensor applications in the pipeline. Our ICs will control air ventilation in industrial applications and see to it that the car engine is cooled efficiently and in a resource-friendly way. And we also keep winning new customers for our existing applications due to our know-how, our ultrasonic readout ICs being a case in point. We combine many years of experience with a thorough and deep understanding of the system. This results in products that give our customers a competitive edge. As is also the case with gesture control in cars, first introduced to the market by us a few years ago. Our next product generation is already on their marks and set to conquer further platforms one by one.

What do you consider the main reason for the success in the acquisition of projects?

Our three business lines Sensors, Motor Control, and Embedded Solutions provide the right structures to identify trends in the market, define and develop the right products, and offer perfect support in their implementation. The system know-how we have acquired is appreciated by our customers. In this Annual Report we present each of the three business lines with a small selection of key products.

Let’s come to financials now: Dr. Mindl, please complete this sentence: From an economic perspective, the year 2015 was…

…determined by a challenging political and global economic framework, high exchange rate volatility, but a still satisfying outcome for sales and earnings in the end.

A sales increase of 4.8% to 219.6 million Euro, an EBIT growth of 8.7% to 24.5 million Euro, equivalent to an EBIT margin of 11.2%, and consolidated net income of 16.2 million Euro – that looks pretty good at first sight. Why are you still not completely satisfied?

At the beginning of 2015 we anticipated a higher sales growth but due to uncertainty in the markets, particularly in China, our customers had fewer products delivered to them than we had expected. On the cost side, the weak euro also “dragged us down”. But the adjusted free cash flow “made good” with us. We managed to more than double it compared to the previous year with 25.6 million Euro in 2015. This is an indication of the cash strength inherent in our business model.

You have mentioned China already, what an impact do the developments have on Elmos?

Even though the Chinese auto market turned out the weakest growth for three years in 2015 as reported by the Chinese Association of Automobile Manufacturers, we achieved disproportionate growth there. Altogether we generated about 68.9 million Euro or 31.4% of sales with customers in Asia in 2015. The region’s share in sales has thus climbed by another 12.9 million Euro or 4.7% points compared to 2014. This roughly equals 23% growth over the previous year and was highly disproportionate. There has always been turbulence in the markets but for the medium and long term we keep regarding China and the whole Asian market as positive for Elmos.

What were the developments in business operations you were satisfied with in 2015?

In 2015 we successfully completed an in-house megaproject: Production has mastered the conversion to 8-inch wafers, capacity has been increased, and throughput times have been reduced. Of course we keep working on our competitiveness in 2016: not only

Over
25 million
Euro adjusted
free cash flow

4.8%
sales growth

EBIT-margin increased to
11.2%

More than
31%
of sales is
generated in Asia

Dividend proposal
0.33
Euro

Over
16 million
Euro consolidated
net income

Growth drivers

Driver assistance

Autonomous driving

Active and passive safety

Predicative safety

More information systems

The net-worked car

Less CO_2

Electro-mobility

throughout our own business units but also side by side with our partners who have become increasingly important in the course of our fab lite strategy. The successes achieved over the past year have altogether confirmed my conviction that we can achieve a gross margin of about 50% and an EBIT margin of about 15% in the medium term based on our structure.

What are the growth drivers that make you feel optimistic?
The megatrends such as driver assistance up to autonomous driving, less emission, and electromobility are all growth drivers for Elmos. We also expect large potential from an increased need for safety and the corresponding passive, active and predicative systems. ***All megatrends have measuring, control and regulating functions in common. But communication between the individual systems is a key task for automotive electronics today and tomorrow. And that is exactly where the strengths of Elmos chips and sensors are.***

What are the factors that will determine the business performance in 2016?
From a global economic perspective, we will take many of the 2015 topics with us to the new fiscal year. The economy, particularly in China but also in the U.S.A., the political developments in the Middle East and in Russia, and the volatile stock markets will keep having an effect on the world economy and thus on the consumers' spending behavior in 2016. According to forecasts of market research institutes, 2016 will become rather difficult for the global car market. The German Association of the Automotive Industry (VDA; German: Verband der Automobilindustrie) expects very little growth of only 2% in worldwide car registrations.

Taking these aspects into consideration, what does the forecast for 2016 look like?
In 2016 sales will be affected by the already mentioned slow growth in new car registrations and the Company's earnings will be affected by the strong U.S. dollar. Elmos therefore anticipates a sales increase between 2% and 6% for 2016 over the previous year. The EBIT margin is expected to come to roughly 10%. The capex ratio is scheduled to amount to less than 12% of sales. We are thus scaling the capex ratio target down compared to the targets of the past few years. Elmos will also generate a positive adjusted free cash flow once more. We raised the dividend in 2015 by roughly one third to 0.33 Euro and we want to propose the same dividend amount to the Annual General Meeting in May 2016 and have our investors participate in the Company's success again.

A summary might read like this: The environment continues to be challenging, the Asian markets are losing momentum, and many crises are unsolved. Why does Elmos still manage to have an optimistic outlook?
There is a simple answer to this: A major Elmos strength is its team performance. The very best plans and strategies will not help if you can't rely on your team. Staff and management work for solutions, with a vision and with expert know-how. I am proud of the performance of our employees and on behalf of the Supervisory Board and the Management Board, I would like to thank them for their great work in all divisions. This is also the reason why I am optimistic in my outlook for the future despite the insecure global economic situation: ***Elmos has the capability of achieving structural improvements even in challenging times.***

From left: Dr. Peter Geiselhart, Reinhard Senf, Dr. Anton Mindl, Dr. Arne Schneider

Management Board

Dr. Anton Mindl	Dr. Arne Schneider	Reinhard Senf	Dr. Peter Geiselhart
CEO – Chief Executive Officer	CFO – Chief Financial Officer	CPO – Chief Production Officer	CSO – Chief Sales Officer
Graduate physicist	Graduate economist	Graduate engineer	Graduate physicist
Born 1957	Born 1976	Born 1951	Born 1957
Management Board member since 2005	Management Board member since 2014	Management Board member since 2001	Management Board member since 2012
Appointed until 2020	Appointed until 2017	Appointed until 2016	Appointed until 2018
Strategy, quality, executives, corporate governance, micromechanics	Finance, management accounting, compliance, investor relations, human resources, purchasing, information technology	Production, foundry, assembly, logistics, product engineering	Sales, development, business lines, technology

Supervisory Board report

Prof. Dr. Günter Zimmer

Dear shareholders,

the Supervisory Board diligently attended to its duties and responsibilities imposed by law and the Articles of Incorporation in fiscal year 2015. The Board advised the Management Board in running the Company and supervised management activity. In oral and written reports, the Supervisory Board was supplied extensively and timely with comprehensive information on the Company's situation by the Management Board. 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 from the business plan 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 material business transactions by the CEO. Conflicting interests of Management Board or Supervisory Board members subject to mandatory disclosure to the Supervisory Board or rather the General Meeting did not occur.

There were four meetings altogether in fiscal year 2015, namely on March 4, 2015, May 8, 2015, September 2, 2015, and December 18, 2015. In a meeting held on March 2, 2016, the Supervisory Board concerned itself primarily with the 2015 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 current developments of the fiscal year ended December 31, 2015, the Company's situation, and recent 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 as well as future prospects. 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. The budget for the next fiscal year and planned capital expenditures were discussed in depth.

Key issues of the Supervisory Board meetings were the present state of new design wins from customers and the updated sales planning for the next five years. In addition to that, the Supervisory Board concerned itself with current and potential cooperation or acquisition projects. The subject of further debate were the implications of the performance of the U.S. dollar against the euro and the corresponding effects on business processes. Staff development in the Company was discussed as well. According to the "Act on the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector", which came into force recently, the Supervisory Board determined quotas for the memberships of Supervisory Board and Management Board. The corporate governance report provides further information on those quotas. Moreover, the extension of the contract of employment with Reinhard Senf, member of the Management Board for production, was resolved until the end of the year 2016 and his succession was debated.

As in the previous fiscal years, the Supervisory Board informed itself with the risk management system and its focal issues. The Management Board also reported to the Supervisory Board on the present state of the compliance program and presented measures already taken as well as planned further measures for the future. The Supervisory Board dealt with the recommendations and suggestions of the German Corporate Governance Code in depth and prepared the declaration of compliance together with the Management Board. Furthermore, the Supervisory Board discussed the agenda of the upcoming Annual General Meeting to be held on May 11, 2016 in Dortmund and, in this context, the candidates for the elections to the Supervisory Board in May 2016. The Supervisory Board 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.

In fiscal year 2015 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 2, 2016 with the audit of the separate financial statements and consolidated financial statements for the fiscal year ended December 31, 2015. According to the resolution of the Annual General Meeting of May 8, 2015 and the ensuing commission given by the Supervisory Board to the auditor, the separate financial statements prepared in accordance with HGB provisions (Commercial Code) for the fiscal year ended December 31, 2015 and the management report of Elmos Semiconductor AG which is combined with the group management report 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 joint 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 2, 2016, the statements and reports were also explained orally by the Management Board. The certified accountants also reported on the results of their audit in this session. After its own examination of the financial statements of Elmos Semiconductor AG, the consolidated financial statements and the joint management report as well as 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 0.33 Euro per share for fiscal year 2015 out of the retained earnings of 76.9 million Euro (according to HGB) and to carry forward the remaining amount to new accounts.

CORPORATE GOVERNANCE

Management Board and Supervisory Board work closely together for the Company's benefit and are committed to the sustained increase of shareholder value. The Supervisory Board informs itself regularly about the new standards of corporate governance. In September 2015, 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

Supervisory Board

Code in the version of May 5, 2015. It can be found in this Annual Report on page 27. This declaration of compliance and all previous ones have been made permanently available 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 26.

COMPOSITION OF SUPERVISORY BOARD AND MANAGEMENT BOARD

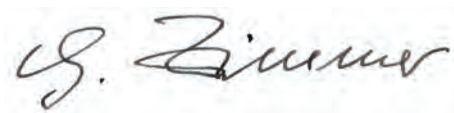
There were no changes on the Supervisory Board in fiscal year 2015. The next elections of shareholder representatives to the Supervisory Board will be held at the Annual General Meeting on May 11, 2016. Elections of the employee representatives will be held prior to the Annual General Meeting.

There were no changes on the Management Board either in fiscal year 2015.

More information about the members of the Management Board can be found on page 21 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 2015.

Dortmund, March 2, 2016



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

Management Board and Supervisory Board work closely together for the benefit of the Company.

Corporate Governance Report

and 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 also includes the statement on corporate governance in accordance with Section 289a HGB (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 business management with the necessary transparency across all areas of the Group. Management Board and Supervisory Board have again concerned themselves intensively in fiscal year 2015 with the provisions of the German Corporate Governance Code. In doing so, the amendments to the Code released in May 2015 by the Government Commission were considered. In September 2015, Supervisory Board and Management Board 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 available on the Elmos website.

COMPLIANCE

One of the essential tasks of the Management Board is the control and monitoring of compliance in the Group. Compliance stands for the observance of applicable law as well as of all rules and guidelines that exist within the Company. The compliance program at Elmos provides the organizational foundations for this. Its purpose is to strengthen the reputation of Elmos as a reliable business partner in a sustainable manner, prevent risks, and thus contribute to the Company's overall success.

The essential compliance principles applied by Elmos have been put down in a code of conduct. This code 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 of workplace safety and environmental protection. The Elmos Code of Conduct is binding for all employees of Elmos Semiconductor AG. Each new employee receives a copy with his employment contract and undergoes an introductory course addressing the most important topics. The Code of Conduct is permanently available on the Company's website. Aside from our general Elmos Code of Conduct there is also a version for our business partners in which we inform them about the Elmos guidelines.

Elmos has a compliance team that routinely evaluates the compliance system, launches and implements new measures, and initiates random testing in individual areas. Among other efforts in the year under review, in-house guidelines for various business areas were revised and advanced. The Company's intranet gives employees the opportunity to access the most important compliance guidelines, e.g. the IT security guidelines, purchasing guidelines, or the Company's compliance organization chart. The Compliance Officer is the person to address in all matters of compliance in addition to the respective superior. The Compliance Officer is in charge of the investigation of compliance cases and gives quarterly reports to the Management Board on compliance cases, requests, and new measures in order to enable the Management Board to assess the effectiveness of the compliance system. The Supervisory Board is informed annually about the compliance system and all measures of relevance.

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.

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 (Stock Corporation Act):

„I. Statements with respect to the future

Elmos Semiconductor AG will comply with the recommendations of the "Government Commission **G**erman **C**orporate **G**overnance **C**ode" (in short: GCGC) in the latest version of May 5, 2015 (released in the official section of the Federal Gazette on June 12, 2015) 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 sentence 5). 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, other senior executives, and other employees (GCGC No. 4.2.2 sentence 6). 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 sentence 6). 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 sentences 10 and 11). 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 sentence 5) as the remuneration of the Management Board, pursuant to the resolution of the Annual General Meeting of May 13, 2014, is disclosed 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 result in individualization of the Management Board remuneration (GCGC No. 4.2.5 sentence 6).

- In defining the targets for the composition of the Supervisory Board of Elmos Semiconductor AG, a regular time limit for membership of the Supervisory Board is not taken into consideration (GCGC No. 5.4.1 sentence 2). Elmos Semiconductor AG does not regard a regular time limit for membership of the Supervisory Board as productive. The balance between continuity and renewal should be found in the individual case and take into account the composition of the Supervisory Board as a whole as well as the individual situation and skill profile of each of its members.

- 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 5). 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 6). 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 respective report's publication for the purpose of expeditious reporting (GCGC No. 7.1.2 sentence 2).

II. Statements with respect to the past

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 since the release of the declaration of compliance in September 2014, subject to the exceptions listed in the declaration of compliance of September 2014 as mentioned under I."

Dortmund, September 2015

On behalf of
the Supervisory Board

Prof. Dr. Günter Zimmer
Chairman of the Supervisory Board

On behalf of
the Management Board

Dr. Anton Mindl
CEO

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 has four members. The individual members of the Management Board are responsible for their respective key areas (overview on page 21); together they assume responsibility for the entire management in accordance with the applicable law, the Articles of Incorporation, the Board's rules of procedure, and the resolutions of the General Meeting of shareholders. The Management Board represents the Company to the outside world. The Board is responsible for the management of the Group, the definition and monitoring of the Group's strategic orientation and corporate targets, and the Group's financing. The Management Board usually meets in full session once a week. The Management Board gives regular, extensive and timely reports to the Supervisory Board on all developments and events of relevance to the Company.

The Supervisory Board supervises the Management Board, appoints its members, and advises them with respect to the Company's management. Upon the nomination of candidates for the Management Board, the Supervisory Board examines the eligibility of women and men equally. Finding the right person for the position according to his or her qualification for the benefit of the Company remains the top priority.

Management Board and Supervisory Board work together closely based on 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 22. 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 shareholder representatives and two employee representatives. The representatives of the shareholders are elected by the General Meeting of shareholders, the employee 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

In its meetings held on September 2, 2015 and March 2, 2016, the Supervisory Board has renewed the goals and principles established 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 defined an age limit for the Board's members at the time of election. Of the four shareholder 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 target with respect to the adequate participation of women has been redefined within the framework of the implementation of the "Act on the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector" (see below).

The goals and principles are fully realized with the present composition of the Supervisory Board of Elmos Semiconductor AG and will also be considered for future nominations. The election proposals made by the Supervisory Board for the election of Supervisory Board members will primarily remain oriented toward the Company's benefit while considering all above-mentioned goals.

The composition of the Supervisory Board is listed on page 24 of this Annual Report.

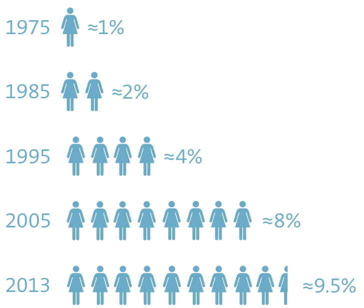
IMPLEMENTATION OF EQUAL PARTICIPATION

In accordance with the "Act on the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector", Elmos has defined quotas for the respective underrepresented sex for Management Board and Supervisory Board by the Supervisory Board and for the first and second senior executive levels by the Management Board.

Both on the Supervisory Board and the Management Board of Elmos Semiconductor AG, there are no women at present. At the next senior executive level, the share of women is 4%, at the second-next senior executive level, it comes to 5%. All data refer to the employees of Elmos Semiconductor AG in Germany.

Due to the short time span for the implementation of targets until June 30, 2017 and also due to the decidedly technical orientation with a typically low participation of women, maintaining the status quo was determined as the target for all groups of people. In selecting suitable candidates, Supervisory Board and Management Board will assess the suitability of female and male applicants equally. However, for the individual choice the candidate's suitability for the job will remain the deciding criterion for the benefit of the Company. Elmos thus keeps within the framework of statutory provisions.

FOR EXAMPLE: SUBJECT ELECTRICAL ENGINEERING, FEMALE GRADUATES



Source: Federal Statistical Office and Competence Center Technology – Diversity – Equal Chances
The data on 1975 and 1985 refer to the former federal territory prior to the German reunification.

Due to the decidedly technical orientation of the Company, most executives at Elmos have completed studies of corresponding subjects. Women have been and still are noticeably underrepresented in such study paths.

Based on the average age, the Elmos share of women in executive positions reflects the level of the corresponding graduating class. If women are increasingly schooled in technical professions, the share of women among the staff will probably rise as a whole and thus correspondingly in executive positions as well.

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 webcast in its entirety 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 11, 2016 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 roadshows 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 regularly updated, even at short notice if necessary. We give account of the principles of the risk management system as well as of current corporate risks in the joint management report under “Opportunities and risks”, starting on page 62.

AUDIT OF FINANCIAL STATEMENTS

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 2015. 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 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. Total Management Board remuneration comprises a fixed monthly salary, a management bonus and stock-based payment 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 13, 2014, 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 2015, the members of the Management Board received a total fixed remuneration of 1,515 thousand Euro (2014: 1,512 thousand Euro) and variable remuneration of 997 thousand Euro (2014: 775 thousand Euro). The variable incentive components are linked to the Group’s current earnings before taxes on the one hand and to personal, individualized targets, agreed on annually with the Supervisory Board, on the other hand.

Within the framework of a share matching plan, no stock claims were issued to the members of the Management Board in fiscal year 2015 (2014: 3,488 stock claims, time value: 86 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 2015 payments for these reinsurance policies amounted to 454 thousand Euro (2014: 451 thousand Euro), included in the fixed components of the remuneration.

Remuneration of former Management Board members or their surviving dependents amounted to 224 thousand Euro in fiscal year 2015 (2014: 167 thousand Euro). In addition, insurance premiums of 111 thousand Euro were paid for this group of beneficiaries (2014: 111 thousand Euro). Facing these amounts are reimbursements from reinsurance policies in the amount of 119 thousand Euro (2014: 123 thousand Euro). Pension provisions for former Management Board members or their surviving dependents came to 1,543 thousand Euro as of December 31, 2015 (2014: 1,610 thousand Euro). After setting off pension provisions against the time value of pension plan reinsurance, 67 thousand Euro (2014: 192 thousand Euro) remain as part of the pension provisions 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% of the fixed remuneration and 50% of the variable remuneration are paid in shares of the Company. A holding period of three calendar years as of the shares' respective grant date applies to shares received as remuneration. 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 2015 amounted to the total of 84 thousand Euro (2014: 82 thousand Euro). This amount includes expenses and disbursements. Payments of variable remuneration amounted to 218 thousand Euro (2014: 158 thousand Euro). The Company paid 0 thousand Euro (2014: 22 thousand Euro) to members of the Supervisory Board for consulting and other services rendered.

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 such 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. 34.5% and the members of the Management Board had combined direct or indirect holdings of 1.2% of the stock issued by the Company (as of December 31, 2015).

Sustainability

Sustainability is part 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 we also want to connect that success to social acceptance.

ENVIRONMENT

Environmental protection is one of our guiding corporate principles. Acting responsibly today means securing 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 operations.
- Sense of responsibility among the staff: Each employee pays attention to environmentally responsible conduct. The active promotion of a sense of responsibility by employee training is a constant management task.
- Eco management: Elmos has implemented an eco management system based on a structure of 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 in accordance with the high eco protection standards of DIN 14001 and the energy management certificate ISO 50001. One example of the accord between cost savings and environmental protection is the combined heat and power plant at the Dortmund location. Elmos generates a considerable amount of the required electric power by itself with its own power plant, in operation since 2012.

In 2015 the cooling units in production were optimized, among other measures, and conventional pumps were replaced by high-efficiency pumps. One reason for this was to reach the targets defined by the Federal Ministry for Economic Affairs and Energy (reduction of primary energy consumption by 20% until 2020). Power consumption of numerous plants has been improved as well.

In 2015 Elmos released statements on its policies with respect to conflict minerals, the EU chemicals regulation REACH (**R**egistration, **E**valuation, **A**uthorization and Restriction of **Ch**emicals) and EU regulation RoHS (**R**estriction **o**f **H**azardous **S**ubstances). These statements as well as other details of our environmental activities can be found on our website **(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 are the deciding criterion for innovation and growth.

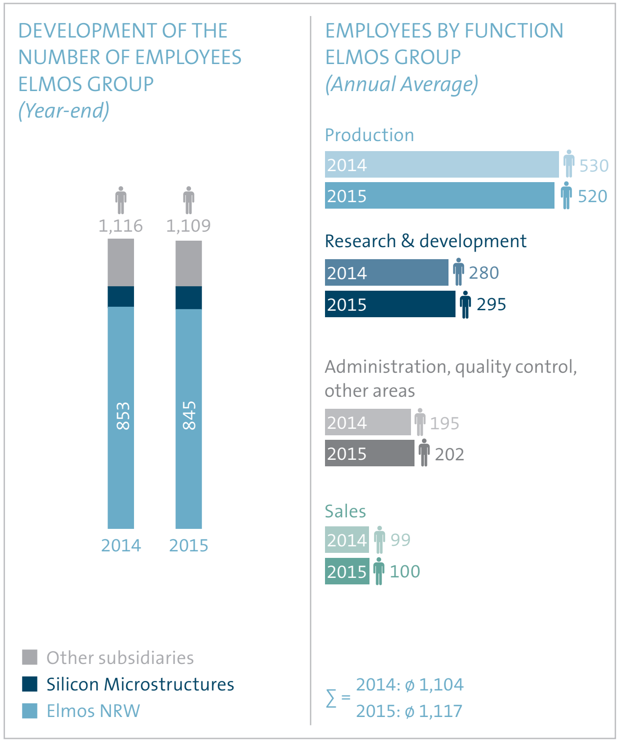
The principles of proper conduct towards and among employees are defined in our code of conduct. The code addresses issues such as values, law-abiding behavior, conflicting interests, dealing with information, data and the Company's assets, etc. The code of conduct is binding for all employees and represents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

In order to ensure the continuous professional development of the employees, Elmos offers specific topical training courses. Over the past year, selected training courses for certain employee groups were also conducted in the form of efficient online training.

In-house health management is an essential social standard implemented by Elmos Semiconductor AG. Elmos wants to provide more than just a workplace and the Company is aware of its social responsibility for its employees. Health management at Elmos rests on four pillars: general health programs, executive coaching, special offers for employees doing shift work, and talks with employees returning from sick leave. The health team provides for certain medical examinations, screenings, and influenza vaccination during working hours. In 2015 Elmos also offered courses for nicotine withdrawal. Moreover, the health team organizes the participation in running events and training. Elmos employees once again took part successfully in several business run events and in a dragon boat race on Dortmund's Lake Phoenix in 2015. Another Elmos soccer cup was held as well.

Among other benefits that go beyond the usual are the in-house cafeteria, our own parking garage, and our in-house gym, providing massages and various training programs.

At its locations 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 some of them ever since the Company's foundation and holds a unique position as the region's only semiconductor manufacturer. Elmos is also active in recruitment events in the region, such as "einstieg" for high school students or "konaktiva" for college students, and on the Internet of course (job search engines, Xing, our own website) in order to find suitable applicants for openings. We cooperate with high schools and local institutions of education and hold informative events for college students.



Furthermore, Elmos awarded graduates of electrical engineering of the Technical University of Dortmund for their excellent degrees for the third time at the end of 2015. 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 in the Group has gone slightly down by 0.6% to 1,109 in 2015 (December 31, 2014: 1,116). This also applies for the number of employees at NRW locations, reaching the number of 845 as of December 31, 2015 (December 31, 2014: 853). On annual average, the number of employees of the Elmos Group rose to 1,117 (2014: 1,104). The average age of the staff was unchanged at 41 years in 2015 (2014: 41 years).

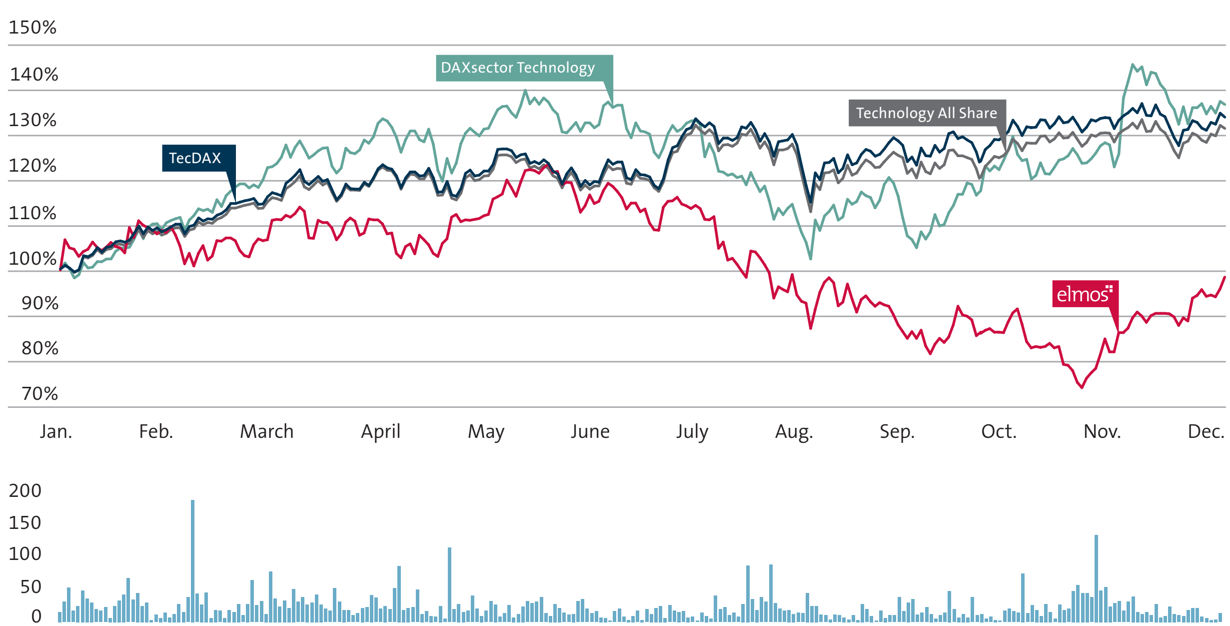
Elmos offers professional training in many technical and commercial professions with an emphasis on schooling microtechnologists. At the end of 2015, 53 trainees (2014: 42) were employed in Dortmund.

SOCIAL RESPONSIBILITY

Elmos honors its social commitment with donations, sponsoring, and other ways of support. Elmos particularly wants to promote projects that raise the interest in technical professions among young people. Apart from that, Elmos also wants to emphasize its local social commitment. Some of the donations went to a shelter for street kids in Dortmund and the "Kinderwünsche" (children's wishes) campaign devoted primarily to children in need.

The Elmos share

RELATIVE PRICE PERFORMANCE 2015



ELMOS TRADING VOLUME (XETRA AND FRANKFURT FLOOR) IN THOUSAND SHARES

GENERAL DEVELOPMENT IN THE STOCK MARKETS

The international stock markets eventually showed a positive development at high volatility in the year 2015. Especially the low interest rate policy and the expansive monetary policy were in support of the markets, troubled by various geopolitical hot spots, the debt debate about Greece, economic difficulties in China, and the oil price drop. Still the DAX, moving within a vast fluctuation range, managed to record a positive performance (+9.6%) and exceeded the record high of 12,000 points in April 2015.

The more diversified indices underwent a similar development in the course of the year. Prime All Share and CDAX gained 12.8% and 11.3% respectively. The industry indices of relevance to Elmos, especially in the technology sector, performed even better. TecDAX, DAXsector Technology, Technology All Share, and DAXsubsector Semiconductors all recorded gains between 30% and 37% in 2015. DAXsector All Technology and DAXsector Automobile increased by 15.5% and 7.1% respectively.

ELMOS COMPARED TO INDICES

Period ended December 31, 2015	Since 01/01/2014	Since 01/01/2015
Elmos (Xetra)	**49.5%**	**–1.2%**
Industry indices		
TecDAX	56.9%	33.5%
DAXsector Technology[1]	57.3%	36.2%
DAXsector All Technology[1]	32.4%	15.5%
Technology All Share[1]	51.0%	31.1%
DAXsubsectorSemiconductors[1]	63.7%	36.5%
DAXsector Automobile	14.5%	7.1%
General market indices		
DAX	12.5%	9.6%
Prime All Share[1]	15.8%	12.8%
CDAX[1]	14.8%	11.3%

[1] Elmos is part of this index.

ELMOS STOCK PRICE PERFORMANCE

The Elmos share continued its positive performance of the previous year during the first six months and reached its 10-year high on June 4, 2015 at 19.99 Euro (+23.4% compared to the beginning of the year). In the second half of the year, the share shed its gains again, in line with the developments in the global stock markets, particularly because of the economic slowdown in China and automotive stocks under pressure. Contrary to the named indices, the share recovered only near the end of the year. At year-end the share closed at 16.00 Euro, slightly below the prior-year closing price (16.20 Euro) with a 1.2% loss.

The stock registered its 52-week low of 12.00 Euro on November 13. The average daily trading volume of the Elmos share came to 22.9 thousand shares in the year under review (Xetra and Frankfurt/Main; 2014: 32.6 thousand shares). The trading volume was stronger during the first six months than in the second half of the year once again. High-frequency trading and off-market trading (OTC market) continue to gain in importance for the Elmos share, too. Those trading volumes cannot be completely recorded and are therefore not included in the indicated amounts. All stock prices refer to Xetra closing prices.

ELMOS KEY STOCK DATA

	2011	2012	2013	2014	2015
Number of outstanding shares at year-end	19,414,205	19,615,705	19,674,585	19,859,749	19,941,864
Free float	44.0%	43.2%	42.7%	49.1%	49.6%
52-week high (Xetra)	11.98 Euro (April 6)	9.54 Euro (February 9)	10.83 Euro (November 28)	16.25 Euro (December 22)	19.99 Euro (June 4)
52-week low (Xetra)	6.03 Euro (October 4)	5.86 Euro (August 8)	7.17 Euro (January 3)	10.65 Euro (January 2)	12.00 Euro (November 13)
Year-end (Xetra)	7.96 Euro	7.15 Euro	10.70 Euro	16.20 Euro	16.00 Euro
Annual performance	–15.4%	–10.2%	49.7%	51.4%	–1.2%
Market capitalization at year-end	154.5 million Euro	140.3 million Euro	210.5 million Euro	321.7 million Euro	319.1 million Euro
Market value to book value[1] at year-end	0.8	0.7	1.1	1.6	1.5
Shares traded on daily average (Xetra and Frankfurt floor)	46.5 thousand	23.8 thousand	21.6 thousand	32.6 thousand	22.9 thousand
Earnings per share	0.98 Euro	0.42 Euro	0.49 Euro	0.94 Euro	0.82 Euro
Distribution total	4.8 million Euro	4.8 million Euro	4.8 million Euro	6.5 million Euro	6.5 million Euro[2]
Dividend per share	0.25 Euro	0.25 Euro	0.25 Euro	0.33 Euro	0.33 Euro[2]
Dividend yield	3.4%[3]	2.9%[3]	1.7%[3]	1.8%[3]	2.0%[4]

[1] Shareholders' equity
[2] Proposal to the Annual General Meeting in May 2016
[3] Based on the stock price on the day of the Annual General Meeting
[4] Based on the stock price of December 31, 2015

BASIC STOCK INFORMATION

ISIN / WKN	DE0005677108 / 567710
Stock symbol / Reuters	ELG / ELGG
Industry	Chip manufacturer / Semiconductor
Type of shares	No-par ordinary bearer shares
Transparency level	Prime Standard
Market segment	Xetra Frankfurt 2 – Regulated Market
IPO	October 11, 1999
Designated sponsor	M.M. Warburg & Co.
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

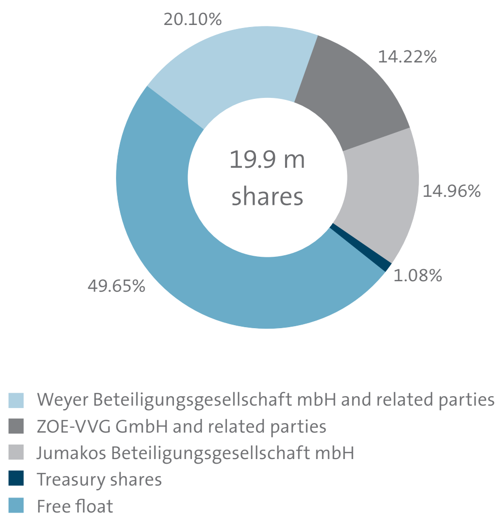
The market capitalization of Elmos amounted to 319.1 million Euro at the end of the year, based on 19.9 million issued shares (December 31, 2014: 321.7 million Euro based on 19.9 million shares).

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.

SHARE CAPITAL AND SHAREHOLDER STRUCTURE

The share capital of Elmos Semiconductor AG is divided into 19,941,864 no-par value shares with a proportionate amount of 1.00 Euro of the share capital allotted to each share.

SHAREHOLDER STRUCTURE DECEMBER 31, 2015



The number of treasury shares was reduced to 214,587 shares by the end of the year, equivalent to 1.08% of the share capital, by partially servicing stock options with treasury shares among other reasons (December 31, 2014: 280,825 shares or 1.41%).

In the year 2015 stock options from the tranches issued in 2009, 2010 and 2011 were exercised. This led to an increase in share capital by 82,115 Euro in the year 2015 (2014: 185,164 Euro). As the 2009 tranche expired in 2015, no stock options can be exercised from this tranche anymore in the future. 70,867 stock options from the 2010 tranche can still be exercised until 2017 and 177,902 stock options from the 2011 tranche can be exercised until 2018. Moreover, the exercise timeframe for another tranche of stock options (the 2012 tranche) will open in the year 2016. No further tranches of stock options are issued at present.

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

INVESTOR RELATIONS

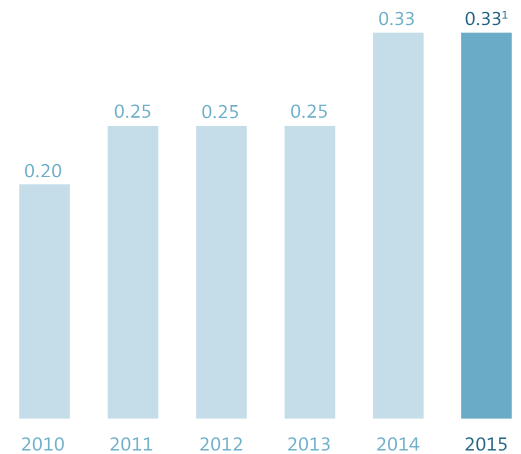
In 2015 Elmos continued to inform investors about the current situation and the corporate strategy within the framework of roadshows and conferences in Germany and several other European countries as well as company visits on location. We noticed yet another significant demand for meetings with new investors in the year 2015. We also cultivated our existing contacts. In addition to that, we informed analysts and investors by conducting conference calls after the announcement of results and, upon request, individual shareholders as well. 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 of informing comprehensively and quickly about economic developments 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 relations" section also offers financial reports, a financial calendar, the Company's Articles of Incorporation, information on the Annual General Meeting, press releases, directors' dealings, and the recordings of our conference calls on the occasion of quarterly and annual financial statements. Elmos is also happy to send out information such as annual or quarterly financial reports by mail or e-mail. We maintain an e-mail distribution list to inform interested investors routinely about corporate news, and we are also active in social networks (Twitter, YouTube, Xing, and SlideShare).

DIVIDEND

As a condition for the payment of a dividend, Elmos has defined a sustained positive performance of earnings and cash flows. Based on the positive business performance, Management Board and Supervisory Board propose to the Annual General Meeting in May 2016 to pay a dividend of 0.33 Euro per share for fiscal year 2015, a constant dividend compared to the previous year, out of the 2015 retained earnings of 76.9 million Euro reported in the HGB financial statements of Elmos. The total dividend distribution would thus amount to 6.5 million Euro based on 19,727,277 shares entitled to dividend as of December 31, 2015.

DIVIDEND PER SHARE IN EURO



[1] Proposal for AGM 2016

ANNUAL GENERAL MEETING

At the 16th Annual General Meeting held on May 8, 2015 in Dortmund, 12,966,167 Euro or 65.3% of the share capital were represented. All agenda items were adopted with a large majority of the votes. At the 2015 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 webcast of the General Meeting on the Internet again last year, either live or as a recording later. The upcoming Annual General Meeting on May 11, 2016 will again 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

The number of analysts covering the Elmos stock remained constant at ten in 2015. The analysts belong to the following institutes:

- Deutsche Bank
- DZ Bank
- equinet
- Hauck & Aufhäuser
- Mirabaud
- Montega
- Natixis
- Oddo Seydler
- Warburg
- WGZ Bank/Independent Research

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Significant events 2015

January – No. 1 in gesture control

The Consumer Electronic Show (CES) in Las Vegas (U.S.A.) presented the trends set by the electronics industry at the beginning of the year. Major carmakers displayed, among other things, different kinds of gesture control in vehicles. With several million supplied components, Elmos is global market leader in this field. The Elmos chip, making first functions possible – namely approaching and swiping – is currently being used in series production of cars of the major auto manufacturers.

February – Successful start at trade shows

Right at the beginning of the year, Elmos was present at two of the globally regarded trade shows: Electronica China in Shanghai and Embedded World in Nuremberg were the industry's stomping grounds. Among other solutions, Elmos introduced LED voltage supply components, sensor readout ICs, and pressure sensors.

April – Elmos wins the Dortmund Business Award

The 2015 Dortmund Business Award went to Elmos. The jury hat praised above all things the variety of ideas Elmos shows in all matters, spanning product innovations and performance as a training center and semiconductor manufacturing site. Even though Elmos has long had an international orientation with locations in the U.S.A., Asia and Africa, the Company is well aware of its local roots.

April – Pressure sensor for catheter applications

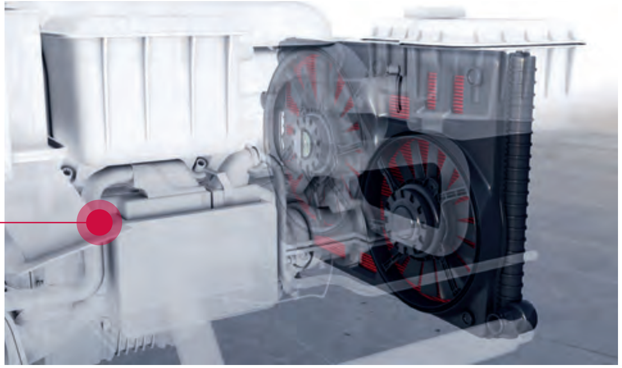
Our subsidiary SMI (Silicon Microstructures, Inc.) introduced a new pressure sensor in April. The extremely small sensor has a size of merely 220x75µm and is thus suited for use in sophisticated medical catheter applications. Possible fields of use include: bladder catheter, intracranial pressure measuring, various visceral cavity and back pressure measuring, and cardiac monitors for veterinarians.

May – Motor driver with up to 72V supply voltage

In May Elmos presented a motor controller for brushless DC (BLDC) motors. The chip can be operated at up to 72V supply voltage. Potential applications are BLDC motors in high-performance fans and utilization in the automotive 48V power supply system and in industrial applications between 24V and 72V.

May – Dividend increase resolved

At the 16th Annual General Meeting, shareholders approved the proposal of a dividend increase to 0.33 Euro per share with a large majority of the votes. Over the past years the dividend had been 0.25 Euro per share. By the dividend increase, the Company wants to have the shareholders participate in the Company's sustained positive performance, CEO Mindl explained in his speech to the shareholders in attendance. Apart from the dividend increase, all other items on the agenda were also adopted with a large majority of the votes cast.



June – Fast times, come rain or come shine

Elmos employees were quite athletic again in 2015. They crossed the finish lines at several business run events at new personal records. But even beyond the asphalt personal bests were delivered: At the dragon boat race in Dortmund, employees made the water of our serene Lake Phoenix splash once again.

June – LEDs for dynamic light applications

A new Elmos component facilitates the simple and variable setup of an RGB-LED system connected to the automotive network. The component can trigger up to six RGB-LEDs and is therefore suited in the car for both classical interior lighting and innovative ambient lighting with dynamic light effects.

July – Home automation made easy

The KNX network is the leading technology in home automation. For this network Elmos has introduced a new transceiver family. It can be adapted easily and precisely to a KNX system for controlling simple or complex applications depending on the IC. Via KNX the control of lighting, blinds, and heat as well as multimedia, security, and door communication systems can be combined into a thread and coordinated – for comfortable living and working.

August – Safe with Elmos technology

An IC for an optoelectronic smoke detector facilitates highest safety in large buildings. The smoke detectors allow networking via a wired bus interface. The new Elmos circuit minimizes the complexity of smoke detector systems because just a few external components are needed. The component also requires only low average power consumption of less than 90μA.

August – Electronica India

After the trade show appearances in Germany and China had been a great success, Elmos also presented at Electronica India in New Delhi. The focus is on LED and motor control as well as IC solutions for smoke detectors and PIR sensors. With over 700 exhibitors and represented businesses, this is the largest trade show in the region.

September – Reliable sensor-signal processors

Elmos has presented new **s**ensor-**s**ignal **p**rocessors (SSPs). The ICs are suited for use in virtually all automotive pressure sensor applications. Based on a special technology, pressure, torque, or similar physical quantities can be measured. The ICs are distinguished by simple calibration, extensive options for configuration, and high robustness to overvoltage.

October – Safe USB power supply in the automobile

Following its triumphs in the field of personal computers, the USB interface has conquered the car now. Almost every new car offers the option to charge your smartphone via USB or listen to music saved on your USB flash drive. When it comes to cars, safety comes first: The onboard power supply system must not be interfered with by different devices connected to the USB slot. Therefore the Elmos IC for USB voltage supply pays attention among other things to short-circuit protection for the USB interface, overvoltage and undervoltage monitoring of the USB supply, overtemperature protection, signals for error conditions, alerts, and many specific protective settings more.

October – High eco protection standard

Environmental protection is an integral part of the Company. In October Elmos released statements on its policy with respect to conflict minerals, the EU chemicals regulation REACH (**R**egistration, **E**valuation, **A**uthorization, and Restriction of **Ch**emicals), and the EU regulation RoHS (**R**estriction **o**f **H**azardous **S**ubstances). With these statements we present our high in-house eco protection standards to the outside world.

October – Motor control solutions

Elmos is a specialist for reliable IC solutions for BLDC and stepper motors in the car. The Elmos chip regulates the radiator grille's stepper motor in such a way for instance that the car's aerodynamics is optimized and fuel consumption is thus reduced. Elmos shows this and more applications in a video released in October. You find the video clip on the Elmos YouTube channel **https://youtu.be/tJvcYTkFMtc.**

November – Ultralow pressure measuring

At the end of the year SMI introduced the new MEMS pressure sensor SM9543. The sensor has been specially designed for medical and industrial applications in the ultralow pressure range and features highest precision, stability, and reliability. Possible applications include air conditioning systems, respirators, and spirometers.

December – Functional safety processes

Play it safe: Elmos has been certified for its functional safety processes in accordance with ISO 26262. The audit confirmed the most extensive functional safety implementation worldwide in semiconductor development and manufacturing processes. The development methodology is outstanding: Beginning at the very first step, ICs are designed strictly in accordance with functional safety requirements. The ISO standard applies to all safety-relevant systems that contain one or more electrical and/or electronic functions for the series production of vehicles. The ISO standard is targeted at avoiding unjustifiable risks.

Combined management report

In this combined management report we analyze the course of business in the year under report and the situation of the Elmos Group and Elmos Semiconductor AG. Based on a description of the basics of our business and its general conditions as well as our strategy, we present our financial control system and explain assets and liabilities and our profit and financial position in detail. We discuss the material opportunities and risks and finally provide an outlook on the expected development. The information about Elmos Semiconductor AG is included in the business report in a separate section providing disclosures according to HGB.

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 about 90%, the majority of sales is generated with semiconductors. The smaller share in sales is generated with micro-electro-mechanical systems (MEMS).

System solutions specialist

The core competence of Elmos is the development, manufacturing and distribution of mixed-signal semiconductors. Elmos considers itself a system solutions specialist. This means that we improve the customer's entire electronic system. The use of Elmos semiconductors can reduce system complexity, resulting in advantages for the customer with respect to production, costs, or reliability, among other aspects.

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

Extensive product portfolio

Elmos products are used in different industry sectors. Elmos generated about 85% of sales with electronics for the auto industry in 2015 (2014: about 85%). The share of the business with industrial and consumer goods as well as medical technology in consolidated sales amounted to about 15% in 2015 (2014: about 15%).

For electronics in the automobile, Elmos supplies a broad range of sensor readout ICs and sensor elements (e.g. ultrasonic parking assist ICs and pressure sensors), motor control components (e.g. water pump and fan control systems), and embedded solutions (e.g. network components and LED voltage supply systems). The components analyze data and convert those analog data into digital ones, among other things, so that the data can be exactly analyzed and gathered.

The share of electronics in the automobile is constantly increasing. Megatrends such as driver assistance up to autonomous driving, combined with many add-on systems for active and passive safety, less emissions up to electromobility, and efficiency improvements, with LEDs for the interior and exterior for instance, and the networking of all those systems with each other represent growth drivers for Elmos. Due to ever higher demands, quantum leaps are expected for the next years in these areas as in others.

Elmos has a leading position as semiconductor manufacturer in the market for automotive electronics, the Company's chips are used by virtually all carmakers worldwide. Among the immediate competitors in certain sub-segments are ams, Infineon Technologies, Melexis, NXP Semiconductors, ON Semiconductor, and STMicroelectronics.

For industrial and consumer goods and medical technology, Elmos supplies products e.g. for applications in household appliances, photo cameras, installation and facility technology, respirators, and machine control systems. Many of the competencies achieved in automotive applications can be transferred to industrial and consumer goods products in similar form. However, partly different general conditions and life cycles apply for these sectors.

Organizational structure

The organization of Elmos is oriented toward the target markets, the customers' needs for innovation, quality, flexibility and delivery reliability as well as internal requirements. 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 as well as product development. The main production site for semiconductors is in Dortmund, the main MEMS production site is located in Milpitas/California, U.S.A.

The companies Elmos Central IT Services GmbH and Elmos Facility Management GmbH were merged into Elmos Semiconductor AG in January 2015. The reason for this was a streamlining of administrative activity.

Europe

- **Dortmund:** Elmos Semiconductor AG | Development, production, sales
- **Bruchsal:** Design location & 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:** Development

U.S.A.

- **Milpitas, California:** Silicon Microstructures Inc. | Development, production, sales
- **Detroit, Michigan:** Elmos N.A. Inc. | Application development, sales

Asia

- **Seoul, South Korea:** Elmos Korea Co. Ltd. | Application development, sales
- **Shanghai, China:** Elmos Semiconductor Technology (Shanghai) Co., Ltd. | Application development, sales
- **Tokyo, Japan:** Elmos Japan K.K. | Application development, sales
- **Singapore:** Elmos Semiconductor Singapore Pte. Ltd. | Application development, sales

Africa

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

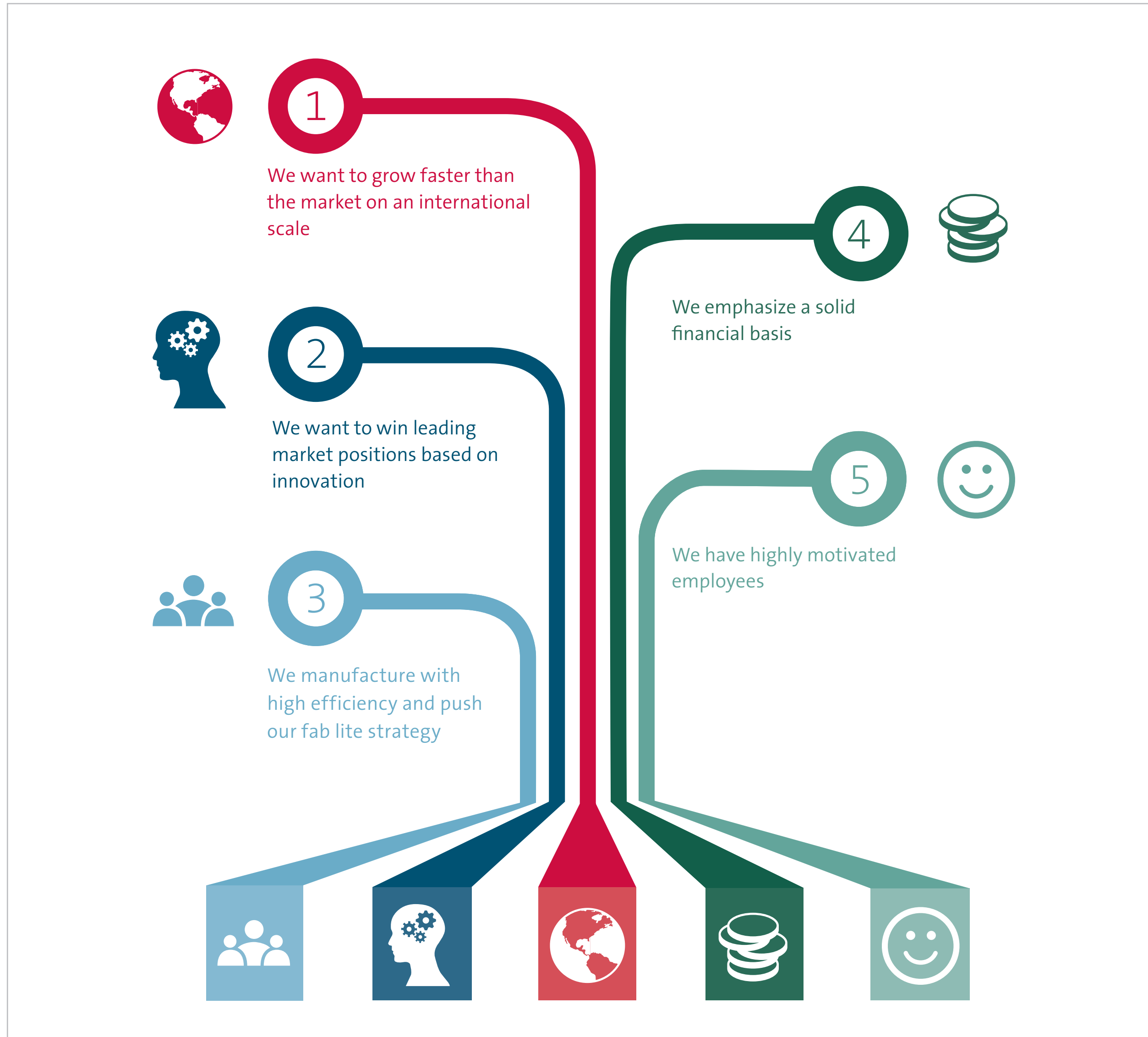
GOALS AND STRATEGIES

1. We want to grow faster than the market on an international scale

Elmos benefits from the global megatrends such as driver assistance up to autonomous driving, combined with many add-on systems for active and passive safety, less emissions up to electromobility, and efficiency improvements, with LEDs for the interior and exterior for instance, and the networking of all those systems with each other. These megatrends influence the ongoing electrification of vehicles, everyday objects, and industrial plants. The share of semiconductors in these areas has been growing continuously for years. Developments beyond the realm of the auto industry, such as industry 4.0 or home automation, give further stimulation to our growth. It is our goal to grow faster than the market. Apart from our domestic market Europe, we keep seeking to generate growth in Asia and the U.S.A. increasingly as well. Thus we create a solid basis for the future.

2. We want to win leading market positions based on innovation

In many markets we have taken leading positions with our products. Elmos wants to maintain this success and expand it wherever possible. Our three product lines Sensors, Motor Control, and Embedded Solutions develop innovative products in response to market needs. Our subsidiary SMI supplies competitive solutions with integrated microsystems



or microchips based on MEMS. With these innovative solutions – be it specially tailored customer solutions or application specific standard components – Elmos wants to be successful also by close cooperation with the customers. Roughly 35% of sales are currently achieved with application specific components (ASSPs) already (2014: about 25%). A majority of the products in development targets the growth field of ASSPs. We focus on our strengths and will keep convincing customers in application fields with specialized and in part protected solutions. The development of new products is based on our significant research and development efforts.

3. We manufacture with high efficiency and push our fab lite strategy

In our in-house production facilities we work daily at increasing efficiency by optimization in all areas and steps of the manufacturing process. In our in-house manufacturing we benefit from our specialized mixed-signal portfolio and our know-how. Apart from our own manufacture, we cooperate for a part of our value added chain with foundries, depending on requirements and volumes, and thus push our fab lite strategy. With this network we can respond more flexibly and offer an even broader portfolio to the customers. We will continue and expand the cooperation with partners over the next years. In addition to the technological advantages, we thus avoid costly investments in our in-house manufacturing for potentially short-lived volume peaks.

4. We emphasize a solid financial basis

Elmos operates from a solid financial basis. We want to protect this financial strength and flexibility Elmos has with continued profitable growth. The goal is to achieve a sustained positive (adjusted) free cash flow with solid business results and reasonable capital expenditures. The management's focus is also on the continued participation of the shareholders in the Company's success by the distribution of an adequate dividend.

5. We have highly motivated employees

Highly motivated employees are of particular importance to the successful development of our business. Elmos relies on a corporate culture geared to performance and development, combined with strong social responsibility. We promote personal and cultural diversity in the Company. We also place special emphasis on an appealing work environment, flexible working conditions, and good opportunities for further training. We offer attractive prospects and want to keep winning talented young professionals for our Company's successful and sustained development. We expect impeccable behavior from our employees in interaction with the Company, their colleagues, and third parties.

CONTROL SYSTEM

Control factors

The Elmos control system is based on four essential elements:

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

Each indicator is considered and analyzed both individually and in connection to the other ones. As a growth-oriented company, Elmos attaches great importance to the profitable growth of **sales.** Sales are positively affected by the following factors among others: 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. All activities toward sales increase are also judged by their potential to increase earnings in the long term.

As the result before interest and income tax, the **EBIT** (**E**arnings **B**efore **I**nterest and **T**axes) reflects the quality of earnings of the business segments. This is one central control factor at Group level as well as for both segments. Each operational decision or performance is measured for the short and 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.

Clear budget definitions build the frame for the level of **capital expenditures;** the specific demand is derived from medium-term sales planning and the resulting demands on manufacturing capacity as well as economic considerations. Within the framework of annual budget meetings, the responsible executives bring the budgeted level of capital expenditures and individual projects in line with Group-wide financial planning. Extra-budgetary capital expenditures are made only after an additional detailed check is conducted.

For increasing shareholder value, the Group focuses on generating a positive **(adjusted) free cash flow.** A sustained positive free cash flow safeguards the Group's financial strength. The essential starting points for improving the free cash flow are the positive performances of sales and earnings at relatively moderate capital expenditures. The adjusted free cash flow is cash flow from operating activities less capital expenditures for intangible assets and property, plant and equipment, less payments for investments, plus disposal of investments.

Identical control factors are applied for the two reporting segments (Semiconductor and MEMS).

PERFORMANCE OF MATERIAL CONTROL FACTORS

million Euro	2014	2015	Change
Sales	209.5	219.6	4.8%
EBIT	22.6	24.5	8.7%
EBIT margin (in percent)	10.8%	11.2%	
Capital expenditures	30.5	24.7[1]	–18.9%
in percent of sales	14.6%	11.3%	
Free cash flow (adjusted)[2]	9.5	25.6[1]	>100%

[1] Adjusted for the repurchase of land and building from a prematurely terminated lease contract in the amount of approx. 14 million Euro

[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

Reporting of the control system

Depending on the indicator, the Management Board is informed at least on a monthly basis 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 defined. Developments with a material impact on 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 in-house and/or at customers, and production effectiveness and efficiency. Furthermore, in regular intervals a comparative analysis addresses the development of relevant market data and the performance of 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, the management with support from the specialist departments determines the budgets for sales, EBIT, capital expenditures, and the (adjusted) free cash flow. Medium-term product planning and the corresponding capacity and production planning are also considered for the preparation of the annual Group budgeting.

The annual budget is 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 **a**pplication **s**pecific **s**tandard **p**roducts (ASSPs), a mainstay of development for a few years now and representing an ever larger share in total sales of Elmos.

Product developments are strictly aligned with market needs. Elmos prioritizes different product ideas and takes into account volumes, information on the competition, and technical 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. Among the innovations Elmos presented in 2015 are the following:

- Elmos introduced a component for optoelectronic smoke detectors with wired bus interface with the E520.30. The IC facilitates programmable smoke detector platforms.

- SMI presented the new MEMS pressure sensor SM9543. The sensor features the highest grade of precision and reliability worldwide. Possible applications include air conditioning systems, respirators, and spirometers (lung capacity measuring devices).

- Elmos showed its innovative motor control components in an application video. The video clip stars Elmos components in air flap control systems, engine radiator fans, water pumps, and headlight adjustment systems. The idea behind each application is explained as is the chip itself with its technical characteristics. The video is available on the Elmos YouTube channel **(www.youtube.com/user/ELMOS1984).**

- The Elmos IC E521.31 facilitates the simple and variable setup of an LED system. The component is especially suited for use in cost efficient dynamic light elements in vehicles.

- Elmos has expanded its KNX/EIB transceiver family. The customer can choose now from three components with different specifications for rigging up his optimal KNX system.

In 2015 research and development expenses amounted to 37.1 million Euro or 16.9% of sales (2014: 36.1 million Euro or 17.2% of sales).

PRODUCTION

Elmos operates semiconductor manufacturing sites in Germany using various CMOS technologies. The Dortmund manufacturing site was converted successively from 6-inch to 8-inch wafers over the past years. At the end of the first quarter of 2015 the final 6-inch wafer charge was completed. Remaining machines have since then been either converted to the larger 8-inch wafer diameter or otherwise utilized depending on demand and feasibility.

In addition to that, MEMS pressure sensors are manufactured predominantly in 6-inch production in-house at subsidiary SMI in Milpitas/California, U.S.A.

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, both with respect to delivery capability and the capital expenditures required. In 2015 Elmos continued to obtain processed wafers from foundries with a global reputation. The percentage share of acquired wafers went down to roughly 12% in 2015 compared to the previous year (2014: roughly 15%) despite increased sales as larger in-house capacity was available due to the finalized conversion from 6-inch to 8-inch wafers. That share will probably increase in the medium run in line with the fab lite strategy.

Apart from wafer production, the Dortmund location also accommodates the test area where wafers and packaged components are subjected to electric testing.

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 even 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.

Routine 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 and 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 or repeat audits by our certifier.

At the end of October Elmos was also certified for its functional safety processes in accordance with ISO 26262. The audit confirmed the most extensive functional safety implementation worldwide in semiconductor development and manufacturing processes. The development methodology is particularly outstanding: Elmos puts to use an optimal functional safety process to ICs based on methods for system development. The systematic derivation of requirements to chip architectures to be developed is embedded in the design process. Beginning at the very first step, ICs are designed strictly in accordance with functional safety requirements.

Standardized qualification of automotive products according to AEC-Q100

Functional safety according to ISO 26262

Quality management system of the automotive industry according to ISO 16949

ISO 14001
Certificate: 01 104 021415

Environmental management system according to ISO 14001

Avoidance of hazardous substances according to RoHS

Fab lite strategy: In-house production plus cooperation with service providers

Business report

MACROECONOMIC AND INDUSTRY SPECIFIC FRAMEWORK

Automotive industry

In the year 2015, new car registrations in the globally most important regions (China, U.S.A., and Western Europe) scored good growth rates even though increases were lower compared to the past few years for instance in China. Other regions such as Japan, Russia, and Brazil reported partly dramatically declining numbers, according to the German Association of the Automotive Industry (VDA; German: **V**erband **d**er **A**utomobilindustrie).

In **Western Europe,** new registrations reached the highest level in five years with a gain of 9.3% to 13.7 million car registrations. Even though the trend is positive, the volume still falls significantly below the 2007 record number of 14.4 million new automobiles. The most relevant European markets registered most different growth rates in 2015: Spain +20.9%, Italy +15.8%, France +6.8%, Great Britain +6.3%, and Germany +5.6%, the European association ACEA (French: **A**ssociation des **C**onstructeurs **E**uropéens d'**A**utomobiles) has announced.

The **U.S. market** showed an ambivalent picture in 2015: While light trucks gained 13% to 9.9 million units, the passenger car segment went down 2% to 7.5 million new registrations. The total market for light vehicles (light trucks and passenger cars) still set a new record of 17.4 million vehicles, equivalent to a 6% gain.

Passenger car sales in **China** gained 9% in the full year 2015 to some 20 million new vehicles, according to the VDA. The tax relief for passenger cars with small cubic capacity engines in force since October 2015 has had a positive effect. However, growth has slowed down considerably compared to 2014. In 2014 the increase in new vehicles was close to 13%.

In **Japan** the market volume was reduced by 10% to 4.2 million new cars. In **Brazil** (–26% to 2.5 million new cars) and **Russia** (–36% to 1.6 million new cars), the respective decline was even more dramatic.

DEVELOPMENT OF NEW CAR REGISTRATIONS

	Change 2014/15
Western Europe[1]	+9%
Germany[2]	+6%
China[2]	+9%
U.S.A.[2]	+6%

DEVELOPMENT OF SEMICONDUCTOR MARKET

	Change 2014/15
General semiconductor market (worldwide)[3]	–1.9%
Automotive semiconductor market (worldwide)[4]	0%

[1] Source: ACEA
[2] Source: VDA
[3] Source: Gartner
[4] Source: IHS

General semiconductor market

The **global semiconductor market** lost 1.9% to 333.7 billion U.S. dollar in 2015, according to the market research institute Gartner, citing as reasons for this decrease a weaker demand for electronic devices, the strong U.S. dollar, and increased inventories. While optoelectronic components, non-optical sensors, analog semiconductors, and ASICs recorded growth, sales with all other components, e.g. memory or logic semiconductors, went down.

Automotive semiconductor market

The global market for **automotive semiconductors** was subject to highly intense competition in the year 2015 and could not escape the negative trend in the general semiconductor market. According to data supplied by market researcher IHS (**I**nformation **H**andling **S**ervices), the sector stagnated. Sales with semiconductors for cars amounted to 29 billion U.S. dollar in the year 2014; expectations for 2015 come to the same amount, according to an IHS forecast of December 2015.

TARGET ACHIEVEMENT: PRESENTATION OF THE BUSINESS PERFORMANCE COMPARED TO THE FORECAST FOR 2015

TARGET ACHIEVEMENT 2015

	Forecast February 2015	Forecast May 2015	Forecast October 2015	Actuals	
Sales growth 2015 (vs. 2014)	Mid single-digit percentage range	Sales growth of 5% - 9%	Sales growth of about 4%	**4.8%**	✓
EBIT margin (in % of sales)	Slightly better than 2014 (10.8%)	Slightly better than 2014 (10.8%)	At prior-year level (10.8%)	**11.2%**	✓
Capital expenditures[1] (in % of sales)	Less than 15% of sales	Less than 15% of sales	Less than 15% of sales	**11.3%**	✓
Adjusted free cash flow[1, 2]	Positive	Positive	Positive	**25.6 million Euro**	✓
Assumed exchange rate	*1.20 USD/EUR*	*1.10 USD/EUR*	*1.10 USD/EUR*	**1.11 USD/EUR[3]**	

[1] Not including one-off effect from repurchase of land and building from prematurely terminated lease contracts in the amount of approx. 14 million Euro
[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] Average exchange rate 2015

With a sales growth of 4.8% in 2015, an EBIT margin of 11.2%, capital expenditures amounting to 11.3% of sales, and an adjusted free cash flow of 25.6 million Euro (capital expenditures and cash flow without one-off effect from prematurely terminated lease contracts), Elmos achieved all the targets defined in its updated October 2015 forecast in 2015.

BUSINESS PERFORMANCE AND ECONOMIC SITUATION

Financial statements according to IFRS

The consolidated financial statements of Elmos Semiconductor AG for fiscal year 2015 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU.

CONDENSED INCOME STATEMENT

in million Euro or % unless indicated otherwise	2014	2015	Change
Sales	209.5	219.6	4.8%
Gross profit	91.4	91.6	0.2%
in %	43.6%	41.7%	
Research and development expenses	36.1	37.1	2.7%
in %	17.2%	16.9%	
Distribution expenses	19.0	19.0	0.1%
in %	9.1%	8.7%	
Administrative expenses	16.9	17.4	2.9%
in %	8.1%	7.9%	
Operating income before other operating expenses/income	19.4	18.1	–6.8%
in %	9.3%	8.2%	
EBIT	22.6	24.5	8.7%
in %	10.8%	11.2%	
Earnings before taxes	23.1	24.1	4.5%
in %	11.0%	11.0%	
Consolidated net income attributable to owners of the parent	18.3	16.2	–11.4%
in %	8.7%	7.4%	
Earnings per share (basic) in Euro	0.94	0.82	
Dividend per share in Euro	0.33	0.33[1]	

[1] Proposal to the Annual General Meeting in May 2016

Sales performance

Sales were up 4.8% to 219.6 million Euro in the year under review 2015 (2014: 209.5 million Euro). Total sales were spread over the four quarters more or less evenly. This development is due to the fact that the first quarter was favored by closing date effects and the second half of the year was affected by the developments in China and a resulting more cautious order behavior. Considered on the whole, Elmos benefits from new product ramp-ups and a deeper penetration with existing products.

Sales by region

The Asia/Pacific region is increasingly gaining in relevance to Elmos. Despite the ailing economy in China, this region's contribution was increased once again in the year 2015, coming now to 68.9 million Euro or 31.4% of total sales (2014: 55.9 million Euro or 26.7%). With a growth rate of 23.1% or an increase in sales by 12.9 million Euro, Asia/Pacific compensates for the development in other regions. U.S. sales went up from 22.0 million Euro to 23.4 million Euro due to the strength of the U.S. dollar. Business with European customers went slightly down in the year under report, achieving sales of 116.9 million Euro (2014: 119.0 million Euro). However, Europe remains the region of the highest relevance to Elmos with a share in total sales of 53.2% in 2015 (2014: 56.8%).

Sales by customer and product

Elmos supplies a large number of customers. Among them are suppliers to the auto industry and also industrial customers and manufacturers of medical technology and consumer goods. In 2015 two of our customers accounted for more than 10% of sales each. Sales generated with the largest customers are usually attributable to different products at different stages in their respective life cycles. Further diversification took place with respect to customers as well as to products. The top ten customers thus amounted only to about 64% of sales in 2015 (2014: 68%). The combined share of the ten bestselling products went down as well, coming now to about 41% (2014: 44%).

Order backlog

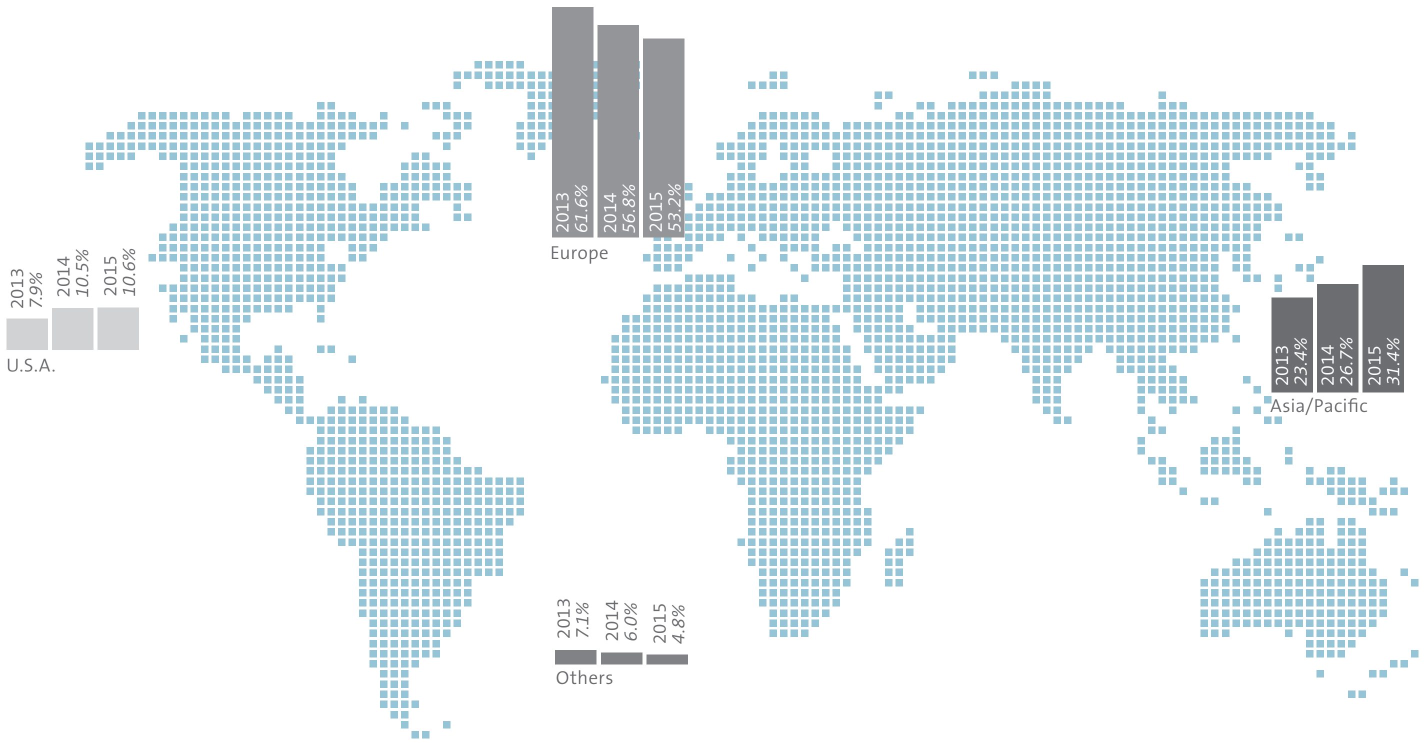
Orders received and order situation typically reflect the current business performance, giving account of the year's sales performance. To determine the book-to-bill, the orders received for the next three months are compared with sales of the past three months. At the end of the year 2015 the book-to-bill ratio was slightly above one.

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, market conditions, or closing date effects such as changes in consignment stock withdrawals. 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.

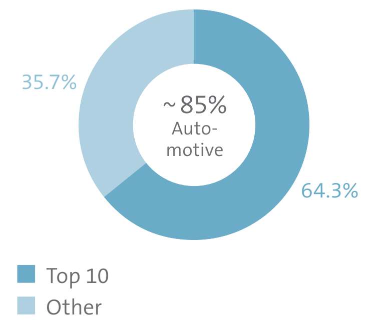
New projects (design wins)

The competition for new projects continued to be intense as it has been over the past years. The year 2015 was a very successful one for design wins, in respect of the number and volume of acquired new projects, and took up speed especially by the end of the year. As in the past few years the number of ASSPs clearly dominated design wins, proof of the fact that Elmos solutions are attractive in the marketplace. The number of about 20 partners won as new customers in 2015 is pleasant as well. The design wins cover a broad range of application fields addressed by Elmos with its three business lines (Sensors, Motor Control, and Embedded Solutions).

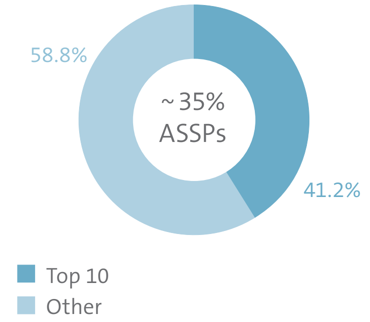
SALES BY REGION



SALES BY CUSTOMER



SALES BY PRODUCT



Profit situation

Gross profit

The cost of sales was 128.0 million Euro in the year under report (2014: 118.1 million Euro), a slightly disproportionate increase compared to sales. This was due especially to the fact that the U.S. dollar was stronger than the year before, affecting the cost of sales in particular. The gross margin went down accordingly in 2015 and came to 41.7% as compared to 43.6% in 2014. In absolute terms the gross profit remained close to constant at 91.6 million Euro (2014: 91.4 million Euro).

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

Research and development expenses climbed slightly in fiscal year 2015 by 2.7% to 37.1 million Euro (2014: 36.1 million Euro). In the year under review technology licenses were acquired, partly due to the more pronounced implementation of the fab lite strategy, affecting R&D expenses. There were no material structural changes relating to R&D expenses in the year under report. As a result of increased sales, R&D expenses dropped slightly, however, from 17.2% of sales in 2014 to 16.9% in 2015.

Distribution expenses were kept constant at 19.0 million Euro (2014: 19.0 million Euro). Thus the ratio to sales fell once more from 9.1% of sales in 2014 to 8.7% in 2015. The increase of general administrative expenses was disproportionately low compared to sales, coming to 17.4 million Euro or 7.9% of sales (2014: 16.9 million Euro or 8.1%). On the whole, operating expenses continued to go down compared to 2014 from 34.4% to 33.5% of sales.

Owing to the strained gross profit by the strong U.S. dollar, the operating income before other operating expenses/income was on a slight decline – despite higher sales and the disproportionately low increase in operating expenses –, amounting to 18.1 million Euro in 2015 as compared to 19.4 million Euro in the previous year. The operating income margin thus came to 8.2% of sales (2014: 9.3%).

Earnings **b**efore **i**nterest and **t**axes (EBIT) were increased, however, amounting to 24.5 million Euro or 11.2% of sales (2014: 22.6 million Euro or 10.8%). This pleasant performance was supported by exchange rate gains and other operating income. In 2015 exchange rate gains in the amount of 2.3 million Euro (2014: 2.4 million Euro) were realized, based in part on U.S. dollar hedges. The other operating income came to 4.2 million Euro in 2015 (2014: 0.7 million Euro) and particularly includes one-off effects from the termination of lease contracts and prior-period income/expenses from renegotiations with suppliers and partners.

Earnings before taxes, consolidated net income, and earnings per share

In contrast to the previous year, net finance expense in the amount of 0.4 million Euro was incurred in 2015 (2014: net finance income of 0.5 million Euro). This is due to lower interest income from investments based on the deterioration of market interest rates and higher other finance expenses in connection with the sale or devaluation of securities, among other factors. After taxes and non-controlling interests, Elmos achieved a consolidated net income attributable to owners of the parent in the amount of 16.2 million Euro in the reporting period (2014: 18.3 million Euro). In comparing these numbers, it has to be taken into account that the prior-year consolidated net income was positively influenced by one-off tax effects. The tax rate of 2014 came only to 18.9% as compared to 31.0% in 2015. The consolidated net income equals basic **e**arnings **p**er **s**hare (EPS) of 0.82 Euro in 2015 (2014: 0.94 Euro).

Proposal for the appropriation of retained earnings

The net income of Elmos according to HGB[1] (Commercial Code) is 7.7 million Euro in 2015. The profit carried forward from the year 2014 comes to 69.2 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

[1] The financial statements of Elmos have received the auditor's 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.

General Meeting of May 11, 2016 to distribute a dividend of 0.33 Euro per share out of the retained earnings in the amount of 76.9 million Euro. This equals a total dividend distribution of 6.5 million Euro, based on 19,727,277 shares entitled to dividend as of December 31, 2015.

Sales and earnings in the segments

CONDENSED SEGMENT REPORTING

in million Euro or %	Segment	2014	2015	Change
Sales				
	Semiconductor	190.9	196.6	3.0%
	Micromechanics	18.6	23.0	23.6%
EBIT (segment earnings)				
	Semiconductor	19.7	21.5	9.3%
	Micromechanics	2.9	3.0	4.1%
EBIT margin				
	Semiconductor	10.3%	10.9%	
	Micromechanics	15.7%	13.2%	

Semiconductor

With a sales increase of 3.0%, the Semiconductor segment's performance was slightly below the Group's total sales. Segment sales reached 196.6 million Euro in the year under report after 190.9 million Euro in the previous year. Semiconductor sales are generated primarily with automotive customers and were thus affected by the more cautious order behavior of our automotive customers over the second half-year.

The EBIT margin of the Semiconductor segment increased slightly by 0.6 percentage points to 10.9% yet turned out below the Group's total EBIT margin.

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 were increased in 2015 by 23.6% to 23.0 million Euro (2014: 18.6 million Euro). This growth is largely influenced by the strong U.S. dollar as SMI generates U.S. dollar sales almost exclusively. The growth rate is 3.2% on U.S. dollar basis. The EBIT rose from 2.9 million Euro to 3.0 million Euro, at 4.1% a disproportionately low increase compared to sales, however, so that the EBIT margin came to 13.2% in 2015 as compared to 15.7% in 2014. An increasing pricing pressure, due in part to standardization, and a consolidating marketplace were noticeable in the MEMS market.

Financial position

CONDENSED STATEMENT OF CASH FLOWS

in million Euro or %	2014	2015	Change
Consolidated net income	18.7	16.7	–11.1%
Depreciation and amortization	25.6	28.8	12.3%
Change in net working capital[1]	–8.6	–2.1	–75.7%
Other items	4.2	7.0	67.2%
Cash flow from operating activities	**40.0**	**50.3**	**25.9%**
Capital expenditures for intangible assets and property, plant and equipment[2]	–30.5	–24.7	–18.9%
in % of sales	–14.6%	–11.3%	
Repurchase of land and building from prematurely terminated lease contracts	0.0	–14.0	n/a
in % of sales	0.0%	–6.4%	
Payments for (–)/Disposal of securities	–2.7	10.3	n/a
Other items	1.1	3.8	>100%
Cash flow from investing activities	**–32.0**	**–24.6**	**–23.1%**
Cash flow from financing activities	**–4.6**	**–9.3**	**>100%**
Change in liquid assets	3.3	16.4	>100%
Adjusted free cash flow[2, 3]	**9.5**	**25.6**	**>100%**

[1] Net working capital in the narrow sense (trade receivables, inventories, trade payables)
[2] Adjusted for the repurchase of land and building from prematurely terminated lease contracts in the amount of approx. 14 million Euro
[3] Cash flow from operating activities less capital expenditures for intangible assets and property, plant and equipment, less payments for investments, plus disposal of investments

Cash flow from operating activities

The cash flow from operating activities was increased again over the previous year to 50.3 million Euro in the year 2015 in comparison with 40.0 million Euro in 2014. Lower additions to inventories in the year under review are a main reason for this (4.0 million Euro in 2015 vs. 12.7 million Euro in 2014). In addition to that, the decrease in other assets (3.0 million Euro), caused essentially by diminished current financial assets and lower sales tax assets, made a major contribution to the improvement of the operating cash flow compared to the increase of the previous year (–1.7 million Euro).

Cash flow from investing activities

The cash-effective capital expenditures for intangibles and property, plant and equipment, adjusted for the one-off effect of approx. 14 million Euro from the repurchase of land and building from prematurely terminated lease contracts, amounted to 24.7 million Euro or 11.3% of sales in the year 2015 (2014: 30.5 million Euro or 14.6%). Thus capital expenditures have been reduced after the completed conversion of production from 6-inch to 8-inch wafers. A material part of capex was utilized for the expansion of testing capacity.

The largest portion of the reporting period's capital expenditures in the amount of 23.6 million Euro (2014: 29.5 million Euro) was accounted for by the Semiconductor segment; 1.1 million Euro was invested in the Micromechanics segment (2014: 1.0 million Euro).

The cash flow from investing activities amounted to –24.6 million Euro in 2015 after –32.0 million Euro in 2014. It has to be taken into account here that securities in the net amount of 10.3 million Euro were sold in the year under review (2014: payments for securities in the net amount of 2.7 million Euro), reported in the cash flow from investing activities. Apart from that, 3.0 million Euro more were collected from the disposal of non-current assets than the year before.

The adjusted free cash flow was thus increased again in 2015 and came to 25.6 million Euro after 9.5 million Euro in the previous year.

Cash flow from financing activities

The cash flow from financing activities came to –9.3 million Euro for this fiscal year (2014: –4.6 million Euro) and was determined, apart from the higher dividend payment of 6.5 million Euro compared to the previous year (2014: 4.8 million Euro), by payments to non-controlling shareholders in the amount of 3.4 million Euro, essentially for the increase of the interest in MAZ Brandenburg from 50% to 80% in fiscal year 2014.

Liquid assets

In addition to cash and cash equivalents totaling 50.0 million Euro, the Company holds long-term and short-term securities in the amount of 40.5 million Euro (December 31, 2014: 32.5 million Euro and 51.9 million Euro respectively). Cash and cash equivalents plus marketable securities thus amounted to altogether 90.5 million Euro as of December 31, 2015, thus exceeding the value of the prior-year reporting date in spite of continued sizable capital expenditures, the higher dividend payment, and the premature repurchase of land and building from leases (December 31, 2014: 84.4 million Euro).

Financing

In addition to financing through equity, Elmos also draws on traditional long-term credit facilities in part (36.6 million Euro as of December 31, 2015), maturing essentially in fiscal years 2017 and 2018. Effective interest rates of the long-term loans range between 1.75% and 4.90%. In addition to that, as of December 31, 2015 the Company had various short-term lines of credit at its disposal in the total amount of 16.5 million Euro. As of December 31, 2015 the Company provided these credit facilities in the amount of 0.7 million Euro as security.

Principles and goals of financial management

It is the primary objective of the Elmos Group's capital management to assure that an adequate credit rating, liquidity provision at any time and at high financial flexibility, as well as 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 shareholders, employees, and other stakeholders. Elmos thus 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 and the risks carried by the corresponding assets. The Group monitors its capital based on net debt or net cash in absolute terms and on 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 in part 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 53.3 million Euro as of December 31, 2015 (December 31, 2014: 68.9 million Euro). The decrease in such obligations in the year under report is determined essentially by the repurchase of real property used by Elmos at the Dortmund location from prematurely terminated lease contracts. Thus the trend of declining other financial obligations over the past years is actively continued. It is the Company's goal to continue this reduction in the medium term.

Assets and liabilities

CONDENSED STATEMENT OF FINANCIAL POSITION

in million Euro unless otherwise indicated	12/31/2014	12/31/2015	Change
Intangible assets	21.4	20.8	–2.9%
Property, plant and equipment	82.4	91.0	10.4%
Other non-current assets	6.6	5.7	–13.9%
Securities (short-term and long-term)	51.9	40.5	–21.8%
Inventories	53.2	57.2	7.4%
Trade receivables	35.0	32.8	–6.3%
Cash and cash equivalents	32.5	50.0	53.8%
Other current assets	12.3	8.9	–27.9%
Total assets	**295.4**	**306.9**	**3.9%**
Equity	206.9	219.4	6.0%
Financial liabilities (current and non-current)	37.4	36.8	–1.6%
Other non-current liabilities	7.4	4.6	–36.9%
Trade payables	21.9	21.8	–0.2%
Other current liabilities	21.9	24.2	10.7%
Total equity and liabilities	**295.4**	**306.9**	**3.9%**

Total assets went up to 306.9 million Euro (December 31, 2014: 295.4 million Euro), essentially because of capital expenditures made in 2015, the repurchase of land and building, the increase in inventories, and the higher amount of cash and cash equivalents. This reflects on assets in the increase in property, plant and equipment by 8.6 million Euro, the increase in inventories by 4.0 million Euro, and the changes in cash and cash equivalents plus securities in the amount of 6.1 million Euro. The obvious change in equity and liabilities is the increase in equity (+12.5 million Euro) due to the consolidated net income.

Net working capital and other key financials

SELECTED KEY FINANCIAL FIGURES/RATIOS

	Calculation	Unit	2014	2015
Net working capital	Trade receivables + inventories – trade payables	million Euro	66.4	68.2
of sales		%	31.7%	31.0%
Inventory turnover	Cost of sales/inventories	x	2.2x	2.2x
Receivables turnover	Sales/trade receivables	x	6.0x	6.7x
Payables turnover	Cost of sales/trade payables	x	5.4x	5.9x
Cash conversion cycle	Inventory days + debtor days – creditor days	days	158	155
Return on invested capital (RoIC)	EBIT/(intangible assets + property, plant and equipment + net working capital)	%	13.3%	13.6%
Net cash	Cash and cash equivalents + securities – financial liabilities	million Euro	47.0	53.7
Equity ratio	Equity/total assets	%	70.0%	71.5%

Net working capital

Net working capital was kept close to constant year-on-year with 68.2 million Euro as of December 31, 2015 (December 31, 2014: 66.4 million Euro). The increase in inventories (+4.0 million Euro) was compensated in part by the decrease in trade receivables (–2.2 million Euro). The inventory turnover remained constant at 2.2x due to the relatively parallel development of the cost of sales and inventories (2014: 2.2x). The decline in trade receivables in combination with higher sales resulted in an improved receivables turnover of 6.7x in 2015 (2014: 6.0x). Trade payables remained more or less unchanged from the previous year at 21.8 million Euro as of December 31, 2015 (December 31, 2014: 21.9 million Euro). Thus the payables turnover was up slightly due to the increased cost of sales and came to 5.9x in 2015 after 5.4x in 2014. The cash conversion cycle, however, declined from 158 days to 155 days.

Return ratio

For calculating the return on invested capital used for business operations, Elmos introduces the return ratio RoIC (**R**eturn **o**n **I**nvested **C**apital) with its 2015 reporting. This key ratio is defined as **e**arnings **b**efore **i**nterest and **t**axes (EBIT) divided by invested capital which equals the total of intangible assets, property, plant and equipment, and net working capital.

$$\text{RoIC} = \frac{\text{EBIT}}{\text{Invested capital}}$$

Thus a connection is created between profitability and the invested capital used for business operations. The RoIC therefore also serves as an indicator of added value.

The RoIC for fiscal years 2014 and 2015 is determined as follows:

DETERMINATION OF ROIC

million Euro	2014	2015
❶ Earnings before interest and taxes (EBIT)	**22.6**	**24.5**
	12/31/2014	12/31/2015
Intangible assets	21.4	20.8
Property, plant and equipment	82.4	91.0
Inventories	53.2	57.2
Trade receivables	35.0	32.8
Less		
Trade payables	–21.9	–21.8
❷ Invested capital	**170.3**	**180.0**
RoIC (❶/❷)	13.3%	13.6%

The RoIC increased from 13.3% in 2014 to 13.6% in 2015. In spite of considerable capital expenditures, particularly for the premature repurchase of land and building from lease contracts, the increase in return was achieved by an increased EBIT and an improved receivables management.

Other key financial figures/ratios
Net cash increased year-on-year to 53.7 million Euro as of December 31, 2015 (December 31, 2014: 47.0 million Euro). The equity ratio reached 71.5% as of December 31, 2015, slightly increased over the prior year ratio (December 31, 2014: 70.0%).

OVERALL STATEMENT ON THE ECONOMIC SITUATION

Despite the challenging environment during the past year, Elmos managed to extend its financial strength further in 2015 owing to the solid corporate structure. The adjusted free cash flow was clearly positive once more, thus making it possible to further strengthening the net cash position and thus consolidating the solid financial position despite sizable capital expenditures and the higher dividend payment. The equity ratio was also increased over the previous year once again. Based on structural changes, Elmos has further expanded and optimized the product portfolio of the business lines. The Company continued to invest in new products and their development as well. Thus existing customer relationships were intensified and new customers were won.

All this together with the solid financial basis strengthen the competitive position and provide a good foundation for the Company's future development.

ELMOS SEMICONDUCTOR AG (ANNOTATIONS BASED ON HGB)

Elmos Semiconductor AG is the parent company of the Elmos Group. The Management Board of Elmos Semiconductor AG is responsible for managing the Company and the Group. Elmos Semiconductor AG is a semiconductor manufacturer of chips for Sensors, Motor Control, and Embedded Solutions primarily for the automotive industry. Elmos Semiconductor AG is also influenced by its directly and indirectly held subsidiaries and investments. Apart from responsibility for business operations, the Group's parent is also responsible for the Group's strategic orientation and thus determines the corporate strategy within the framework of higher-level group functions, represented by the members of the Management Board.

Unlike the consolidated financial statements, Elmos Semiconductor AG does not prepare its separate financial statements according to International Financial Reporting Standards (IFRS) but pursuant to the provisions of the German Commercial Code (HGB). The complete financial statements are released separately. The financial statements have received the auditor's unqualified audit opinion. They are released in the Federal Gazette, filed with the register of companies, they can be requested in print and are available on the Company's website.

Business performance 2015

The business performance and economic situation of Elmos Semiconductor AG essentially determine the business performance and success of the Group. We give detailed account of this in the chapters "Basic information on the Group" and "Business report".

Business outlook 2016 and material opportunities and risks

The expectations for Elmos Semiconductor AG reflect in the outlook for the Group due to the Company's ties with the Group companies and its relevance for the Group. The expected performance of Elmos Semiconductor AG in fiscal year 2016 also depends essentially on the performance of the Group and its situation with respect to opportunities and risks. This is the subject of the report on "Opportunities and risks" and the Group's "Outlook". Insofar the statements made therein on the Group's expected performance and its risk position also apply to the expected performance and risk position of Elmos Semiconductor AG. The description of the internal control system concerning Elmos Semiconductor AG pursuant to Section 289 (5) HGB follows in the chapter "Opportunities and Risks ".

As the Group's parent, Elmos Semiconductor AG receives income especially from its subsidiaries. The income from investments is composed of transfers of profit or loss from domestic subsidiaries and distributions from foreign subsidiaries. Accordingly the business performance expected for the Group in 2016 can be assumed to influence the business result of Elmos Semiconductor AG as well. On the whole we expect 2016 retained earnings of Elmos Semiconductor AG in an amount which makes it possible to have our shareholders participate adequately in the performance of the Group's earnings.

Development of sales and earnings

CONDENSED INCOME STATEMENT

in million Euro unless otherwise indicated	2014	2015	Change
Sales	**188.5**	**192.4**	**2.0%**
Material costs	72.6	74.1	2.0%
Personnel expense	53.0	57.6	8.8%
Amortization of intangible assets and depreciation of property, plant and equipment	19.4	22.0	13.7%
Other operating expenses	55.5	44.5	–19.8%
Operating income	**9.2**	**13.1**	**42.1%**
Income from investments and financial result	9.4	0.0	–100%
Earnings from ordinary business operations	**18.6**	**13.1**	**–29.8%**
Net income	**14.7**	**7.7**	**–47.7%**

Sales increased in the year 2015 by 2.0% from 188.5 million Euro to 192.4 million Euro. A majority of the sales growth is accounted for by the Asia/Pacific region.

The increase in material costs of 2.0% to 74.1 million Euro was proportionate to sales (2014: 72.6 million Euro). The personnel expense increased disproportionately to sales and amounted to 57.6 million Euro in 2015 (2014: 53.0 million Euro). Amortization of intangible assets and depreciation of property, plant and equipment were up considerably by 13.7% to 22.0 million Euro. This increase is accounted for by higher capital expenditures and the increase in depreciation of new machines and spare parts, among other reasons. Other operating expenses of 44.5 million Euro turned out much lower in 2015 than in the previous year (2014: 55.5 million Euro). This is due on the one hand to the elimination of expenses for services due to the merger of subsidiaries (Elmos Central IT Services GmbH and Elmos Facility Management GmbH) and on the other hand to the reduction of lease expenses due to the repurchase of the administration building.

Thus the 2015 operating income of 13.1 million Euro or rather a margin of 6.8% was improved considerably over the previous year (2014: 9.2 million Euro or rather 4.9%).

Income from investments and financial result dropped from 9.4 million Euro in 2014 to 0.0 million Euro in 2015. It has to be taken in consideration here that in 2014 one-off income from the discontinuation of a profit participation transaction with a Dutch subsidiary was collected.

Due to the above-mentioned positive one-off effect in 2014, earnings from ordinary business operations went down from 18.6 million Euro in the previous year to 13.1 million Euro in 2015. The margin of earnings from ordinary business operations performed accordingly and came to 6.8% in 2015 as compared to 9.9% in 2014. This effect as well as the lower tax rate of the previous year also reflects in the reduced net income of 7.7 million Euro for the year under report (2014: 14.7 million Euro).

Financial position

CONDENSED STATEMENT OF CASH FLOWS

in million Euro unless otherwise indicated	2014	2015	Change
Net income	**14.7**	**7.7**	**–47.7%**
Depreciation and amortization	19.4	22.0	13.8%
Changes in provisions, other non-cash income, income/loss from disposal of investments and write-down on financial investments	8.8	6.9	–21.3%
Increase (–)/Decrease (+) in inventories, trade receivables and other assets	8.9	49.6	>100%
Increase (+)/Decrease (–) in trade payables and other liabilities	–3.7	–28.9	>100%
Cash flow from operating activities	**48.1**	**57.3**	**19.1%**
Cash flow from investing activities	**–30.9**	**–37.5**	**21.4%**
Cash flow from financing activities	**–3.2**	**–5.4**	**70.7%**
Changes in cash and cash equivalents	14.0	14.4	2.6%
Cash and cash equivalents at beginning of period	22.6	36.6	62.2%
Cash and cash equivalents at end of period	**36.6**	**51.0**	**39.3%**

The **cash flow from operating activities** was higher than in the year 2014 and came to 57.3 million Euro (2014: 48.1 million Euro). This is largely accounted for by the decrease in receivables and other assets (41.9 million Euro) in the past fiscal year. There also was a higher amount of depreciation (+2.7 million Euro) due to the number of new machines initially operated in the course of the conversion of production. These effects more than compensated for the decrease in net income (7.0 million Euro).

The **cash flow from investing activities** was –37.5 million Euro in 2015 (2014: –30.9 million Euro). This increase is especially due to the repurchase of land and building from prematurely terminated lease contracts.

The **cash flow from financing activities** in the amount of –5.4 million Euro in the year 2015 (2014: –3.2 million Euro) materially reflects the payment of the dividend (–6.5 million Euro) and the opposing effect of the capital increase (+0.9 million Euro) as well as the issue of treasury shares (+0.6 million Euro) for servicing stock options.

In addition to liquid assets in the amount of 41.6 million Euro, the Company holds 40.0 million Euro in long-term and short-term securities (December 31, 2014: 26.6 million Euro and 50.8 million Euro respectively). Cash and cash equivalents plus marketable securities came to a total of 81.5 million Euro as of December 31, 2015 and were thus above the amount of the prior-year closing date (December 31, 2014: 77.5 million Euro) in spite of the land and building repurchase and the increased dividend distribution.

Assets and liabilities

CONDENSED STATEMENT OF FINANCIAL POSITION

in million Euro unless otherwise indicated	2014	2015	Change
Fixed assets	143.3	145.7	1.7%
Inventories	46.5	48.9	5.1%
Receivables and other assets	77.2	35.3	–54.3%
Marketable securities	0.2	9.6	–5.9%
Cash in hand, cash in banks	26.6	41.6	56.2%
Other assets	1.4	1.0	–28.7%
Total assets	**305.2**	**282.0**	**–7.6%**
Equity	183.4	186.1	1.5%
Provisions	16.5	23.2	41.0%
Liabilities	105.4	72.7	–31.0%
Total equity and liabilities	**305.2**	**282.0**	**–7.6%**

Total assets went down compared to December 31, 2014 by 7.6% to 282.0 million Euro as of December 31, 2015 (December 31, 2014: 305.2 million Euro). As for assets, this is accounted for essentially by a decrease in receivables and other assets in the year 2015 by 41.9 million Euro, compensated for in part by the increase in liquid assets in the amount of 15.0 million Euro. As for equity and liabilities, the decrease in liabilities by 32.6 million Euro due to repaid loans is the main reason for the lower total. This partly balances the increase in provisions by 6.7 million Euro. The decrease in receivables and liabilities is connected to the Group internal offsetting of receivables and liabilities.

Retained earnings and proposal for the appropriation of retained earnings

The legal basis for a distribution is represented by the retained earnings of Elmos Semiconductor AG determined in accordance with financial accounting provisions under commercial law. The financial statements report retained earnings of 76.9 million Euro. Management Board and Supervisory Board propose to the Annual General Meeting of May 11, 2016 to use the retained earnings of fiscal year 2015 for the distribution of a dividend of 0.33 Euro per no-par share entitled to dividend and to carry forward the remaining amount to new accounts.

Subsequent events

In January 2016 Elmos Semiconductor AG acquired shares in a company concerned with sensor technology. The company will be included in the consolidated financial statements of Elmos as an associated company starting in fiscal year 2016.

There have been no other reportable events or transactions of special significance after the end of the fiscal year.

Opportunities and risks

OPPORTUNITIES

Opportunities are identified and analyzed in the Group. We constantly monitor our markets and are thus able to detect market opportunities that become available. We are also in continuous dialogue with customers in order to identify trends and developments early on.

Just like risk management, the management of opportunities is aimed at increasing the shareholder value systematically and continuously. A quantification of opportunities is not possible as they are usually affected by external general conditions and influencing factors as well as complex interrelations which are controllable by Elmos only to a limited extent.

The economic framework influences our assets and liabilities, financial position, and profitability. Our outlook for 2016 and our medium-term prospects are based on the expectation that the future general economic conditions will correspond to our presentation in the outlook report that is part of this joint management report.

Macroeconomic opportunities

Macroeconomic opportunities open up for Elmos because we operate in growth markets. Most notable among those is the Asian market that has shown a sustained positive development for us. We want to participate in growth and increase our market shares. At the same time we assert our position as a market leader for automotive semiconductors in certain applications in the established markets. Moreover, we consider the U.S.A. a market of disproportionate opportunity for us because of the low degree of penetration at present.

Industry specific opportunities

Industry specific opportunities become available to us as a consequence of the following megatrends: driver assistance up to autonomous driving, combined with many add-on systems for active and passive safety, less emissions up to electromobility, and efficiency improvements, e.g. with the interior and exterior use of LEDs, as well as networking these systems. To our industrial customers we also want to offer solutions that will help them assume market leading positions.

Business strategy opportunities

Business strategy opportunities open up for Elmos due to innovation leadership. In the segment of sensors, we offer innovative or advanced high-quality products in the technology fields of ultrasonics, sensor analysis, pressure sensorics, and optical sensors/HALIOS®. With new and efficient systems for electric motor control (stepper, DC and BLDC motors) we can generate further opportunities in the markets and with customers. With new products we seek to continuously increase the efficiency of the systems we bring to market in the field of embedded solutions (interface products and LED voltage supply components, among others).

In addition to our core business of customer specific semiconductors for the automotive industry, the ongoing implementation of our strategy provides opportunities to the Company. These exist in the increased development, production and sale of application specific semiconductors (ASSPs). Furthermore, we put a lot of effort and commitment into seizing these opportunities by consistently investing in research and development. 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, that they are better received than expected, or that new products will be available sooner than scheduled.

Elmos also sees an opportunity in the expansion of its product portfolio. This can take place by the convenient enhancement through acquisitions of third-party entities or technologies and thus open up new markets as well.

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. With various efforts we aim at increasing our employees' performance, their know-how, and not least their commitment to the Company.

Opportunities based on customer relationships

Elmos markets its products and services according to the respective application, region, and industry. Within the regions we focus our sales capacities on the markets that show the largest business and sales potential. We invest in the development of our sales division and 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 scope mentioned above: We are working tirelessly at the optimization of our processes in development, production, technology, quality, administration, and logistics. We invest throughout the Group in measures for efficiency increase and in projects for environmentally friendly power generation. In addition to that, we provide a considerable part of our energy demand by ourselves.

MANAGEMENT'S OVERALL ASSESSMENT OF OPPORTUNITIES

The Elmos management is confident that the Group's profitability presents a solid foundation for our future business performance and provides the necessary resources in order to pursue and seize the opportunities that become available to the Group.

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 forecast and our medium-term prospects. Particularly the macroeconomic, industry specific and business strategy opportunities have considerable potential to make a positive contribution to the financial, profit and economic position.

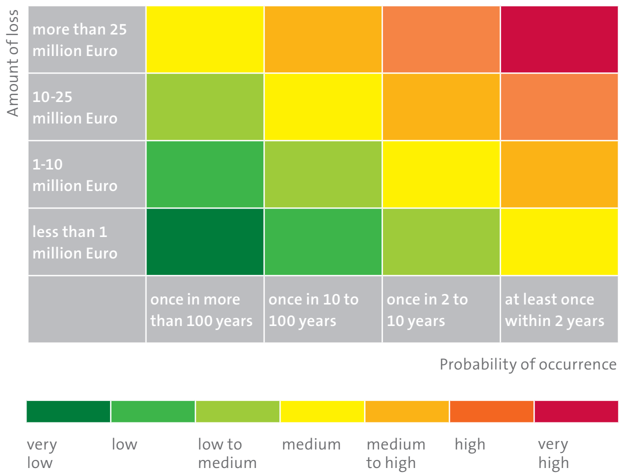
RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM WITH RESPECT TO FINANCIAL ACCOUNTING

The following explanations also include information in accordance with Sections 289 (5) and 315 (2) no. 5 HGB (Commercial Code) as well as the explanatory report on the key features of the accounting-related internal control and risk management system.

Elmos comprises the measures for risk management as well as early risk detection 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 routinely identified and their effects on the Company's targets are analyzed. The Group deliberately assumes certain risks in areas of its 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 any known risks taken and, insofar as possible, develops 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. 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 overall responsibility for the internal control and risk management system in the Group. In a well-established process, the divisions report on the current state 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 business as well as our financial, profit and economic position, we classify risks according to the matrix presented on the next page and accordingly assess them as "very low", "low", "low to medium", "medium", "medium to high", "high", or "very high".



Individual risks are aggregated in risk groups. Risk assessment is reported for these risk groups; it represents the overall assessment of the evaluation of the large number of individual risks included in each of the risk groups. The respective risk group contains individual risks with higher or lower estimated amounts of loss and/or higher or lower probability of occurrence than reflected in the overall assessment reported for the risk group. That being said, none of the risk groups contain any individual risk attributable to the category "very high", i.e. a risk that carries a potential loss amount of "more than 25 million Euro" and a probability of occurrence of "at least once within two years".

Measures for risk reduction are listed for each identified risk and they are regularly discussed with the responsible executives in consideration of early warning indicators. 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 necessary enhancement and sources of error. The risk management system fulfills the requirements of Section 91 (2) AktG (Stock Corporation Act) and has been scrutinized by the auditing firm for compliance with the regulations of the Stock Corporation Act and found qualified for detecting developments that could jeopardize the Company's continued existence at an early stage.

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 reflecting 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. Structures and processes are adapted to recent internal and external developments at regular intervals.

With respect to the financial accounting process of the consolidated companies 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. Key features 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 assignment 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 access to EDP systems relevant to financial statements, and the unambiguous definition of responsibilities for the involvement of external experts. The four-eye principle and the separation of functions are also important control principles in the financial accounting process.

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 the financial accounting process, has proven efficient. Further information on the risk management system can be found in the notes to the consolidated financial statements

RISKS

Economic, political, social and regulatory risks *(risk assessment: medium)*

The willingness of our customers to use our products depends on the current economic, financial and political general conditions. Events such as a global economic crisis, political changes, fluctuations in national currencies, a potential breakup of the euro area, a recession in 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 use 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 long-lasting strikes, could have negative effects on the respective national economy or even beyond that scope and therefore on our business, too.

Industry/Market risks *(risk assessment: medium to high)*

Dependence on the automotive industry

The core business of Elmos is linked directly to the automotive industry's demand or rather its suppliers' demand for semiconductors. The majority of sales was generated with chips for automotive electronics in the past fiscal year 2015. On the one hand this demand depends on the number of cars produced, on the other hand it is governed by the lasting trend towards more electronics in the automobile. A collapse in car production and sales figures also represents a risk for Elmos as semiconductor supplier. The demand for semiconductors and sensors made by Elmos is also affected by the delivery capability of other suppliers as systems and cars can be manufactured only if all suppliers are capable of delivery.

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, often to be used for different car models, brands, and markets. By the increased commitment of Elmos to application specific standard products (ASSPs) over the past few years, 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 offer products similar to the ones Elmos supplies, based on a similar technological foundation. Elmos also competes with large manufacturers for high-volume contracts and is thus exposed to corresponding pricing pressure.

Personnel risk (risk assessment: low to medium)

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 can be found in good time. There is also the risk that the Company might not be able to recruit qualified employees if new demand arises. 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 course of the past few years. Elmos is present at recruiting events, active on the Internet, cooperates with local high schools and other institutions of education, provides informative events and scholarships for college students, and offers professional training in many technical and commercial professions.

Research and development risk *(risk assessment: medium to high)*

The market for Elmos products is characterized by the constant advancement and improvement of products. Therefore the success of Elmos is closely related to the ability to judge market trends and technological development correctly in order to develop innovative and complex products or successors of existing products efficiently, to introduce them to the market on time, and to see to it that these products are chosen by the customers. There is also the risk that products or entire application fields relevant to the sales of Elmos are replaced by new technologies either completely or partly so that Elmos cannot offer any competitive products in such fields anymore.

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 volumes 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.

For product developments initiated by Elmos, e.g. all ASSPs, there are no binding customer orders so that Elmos bears the development costs. However, Elmos works together with a lead customer if possible in the development of ASSP components as well in order to increase the chances of success in the market.

The future success of Elmos also depends on the ability to develop or apply new development and production technologies. Elmos develops analog and digital semiconductor structures and functions for its self-developed modular high-voltage CMOS process technology and also develops products applying processes provided by foundries.

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.

Financial risks *(risk assessment: medium)*

Risks associated with financial instruments

The maximum default risk associated with the use of financial instruments in the Elmos Group is limited to the book values of the financial assets.

Investments

The allocation of financial resources to the subsidiary companies and investments 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. In addition to that, the subsidiaries and investments are subject to routine reviews.

Currency risk

Due to the international scope of business activity and the Group's global structure, Elmos is exposed to risks and opportunities from fluctuating exchange rates. These result from operating receivables and payables, expected future cash flows from sales and costs in foreign currencies, capital expenditures, and financial transactions. For Elmos, opportunities and risks primarily result from price movements of the U.S. dollar. For controlling and containing the above-mentioned risks, Elmos applies different derivatives. Elmos also pursues the goal for the medium term to achieve a natural hedge, i.e. a balance between the inflow and outflow of foreign currency payments.

Business and operational risks
(risk assessment: medium to high)

Purchasing risk

The raw materials Elmos needs for manufacturing are available worldwide from different suppliers in part, yet controlled by monopolists in some cases. 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 cooperation with foundries. Due to past supply bottlenecks, also 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 towards 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, or 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. In order to minimize potential sources of error with respect to safety-relevant components for vehicles, Elmos has introduced a development process in accordance with ISO 26262 (functional safety), which has also been audited already. The semiconductor chips are tested extensively in production as well, 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 and further liability claims might be raised.

Legal risk

At present there are no legal disputes whose outcome might have a material effect on the financial, profit and economic position. However, it cannot be ruled out that it might come to such litigations in the future. Legal disputes might arise from business operations or in matters of property rights or trademarks. Depending on risk assessment, adequate provisions are made for legal risks in the statement of financial position as a preventive measure; recognition and measurement find entry in the consolidated financial statements in accordance with IAS 37. As the results of lawsuits cannot be predicted, expenses may incur that might have a material effect on our business and might exceed the respective provisions made.

Information technology risk

For Elmos as for other globally operating companies, the reliability and safety of the **i**nformation **t**echnology (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, any 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 operational 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. The risk of business interruption is reduced by the fact that Elmos manufactures semiconductors at various locations. Furthermore, Elmos obtains processed wafers from foundries.

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. However, it cannot be ruled out that the costs of a potential recall might exceed the maximum amount covered. Further typically insurable risks capable of significantly damaging the development of the Group or jeopardizing its continued existence are not discernable at present.

MANAGEMENT'S OVERALL ASSESSMENT OF 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 might cause considerable damage in extreme cases. Such a scenario is neither foreseeable nor can it be ruled out. Apart from that it must be noted that the occurrence of an individual risk might have material negative effects on the Company's financial, profit and economic position even without escalating to extremes.

The above-mentioned risks are assessed by management for potential amounts of loss and probability of occurrence according to the respective risk category as stated. It must be stated that some categories contain risks that pose potential threats to the Company's continued existence; however, those risks usually carry a relatively low probability of occurrence. As a consequence, no individual risks are currently assessed as belonging to the categories for both the highest amount of loss and the highest probability of occurrence (i.e. no risk assessment as "very high").

Elmos has an efficient risk management and control system.

Outlook

ECONOMIC AND INDUSTRY SPECIFIC FRAMEWORK

The **I**nternational **M**onetary **F**und (IMF) sees the **world economy** exposed to great challenges in 2016. Therefore the IMF has reduced its 2016 forecast to 3.4% growth (as of January 2016). This is 0.2% points less than still assumed in October 2015. Expectations for growth seem to be sagging, according to the IMF's chief economist. Currently the IMF sees the largest risks for growth in the economic development of China, the tightening monetary policy in the U.S.A. combined with a strong U.S. dollar, and in a possible escalation of the existing geopolitical tensions.

Especially the slowdown in **China's** economic growth strongly affects prospects. The IMF assumes dropping growth rates for the Chinese economy from 7.4% in 2014 and 6.9% in 2015 to 6.3% in 2016.

Both IMF and the Bundesbank anticipate a positive development for **Germany.** The Fund expects 1.7% growth in Germany. This indicates a slightly faster growth compared to the previous forecast. The Bundesbank predicts similar growth at an increased economic output of 1.8% compared to the previous year and also additional potential: In the course of the year 2016 the German economy might pick up even more speed, according to the Bundesbank in December 2015.

PREDICTED MARKET DEVELOPMENT

Performance of gross domestic product[1]	2016 forecast
Worldwide	+3.4%
Europe	+1.7%
Germany	+1.7%
China	+6.3%
U.S.A.	+2.6%
Development of new car registrations	
Worldwide[2]	+2%
Europe[3]	+2%
Germany[2]	0%
China[4]	+5.4%
U.S.A.[2]	+1%
Performance of automotive semiconductor market[5]	**ø 2016-2021**
Worldwide (average in the period from 2016 to 2021)	+4.5%

[1] Source: IWF
[2] Source: VDA
[3] Source: ACEA
[4] Source: IHS
[5] Source: ZVEI

For the **global automotive market** in 2016, the German Association of the Automotive Industry (VDA; German: **V**erband **d**er **A**utomobilindustrie) anticipates little growth of 2% to 78.1 million new registrations. The fight against terror, the economic risks in emerging countries such as Russia and Brazil, and the political tensions in the Middle East darken the moods of the carmakers, according to the VDA.

No growth is predicted for the car market in **Germany** in 2016. Both Central Association of the German Automobile Industry as well as VDA anticipate 3.2 million new car registrations for 2016 (2015: 3.2 million new registrations). For **Europe,** European manufacturers' association ACEA (French: **A**ssociation des **C**onstructeurs **E**uropéens d'**A**utomobiles) expects an increase in new registrations by 2% to roughly 14 million vehicles. As reasons for this little growth, the association cites e.g. the weak economic activity in the region and concerns for security. Especially in the major Western European markets such as Spain, Great Britain, France, and Italy, growth is supposed to slow down.

The market research company IHS (**I**nformation **H**andling **S**ervices) anticipates a 5.4% gain in new registrations for **China.** This forecast falls significantly short of the increase achieved in 2015 at about 9%.

Due to the high level of new registrations in the **U.S.A.** of some 17.4 million light vehicles in 2015, the VDA assumes a saturated market for 2016 and expects a low increase by 1% to 17.5 million new vehicles.

The uncertainty with respect to the **global semiconductor market** in 2016 is high. This reflects in the margin of available forecasts. According to the market research company IHS Technology, the market is supposed to shrink by 0.4%. The German Electrical and Electronic Manufacturers' Association (ZVEI; German: **Z**entral**v**erband **E**lektrotechnik- und Elektronik**i**ndustrie), however, assumes an increase in the worldwide semiconductor market of roughly 2%.

With respect to the product categories, some memory types are expected to record losses of more than 9%, according to IHS; microprocessors are supposed to register a sales loss in excess of 5% in 2016 compared to 2015. The market researchers anticipate a positive trend for optical components (+3.8%), analog ICs (+3.4%), and sensors (+2.8%).

For the worldwide **automotive semiconductor market,** the ZVEI expects an average annual growth of roughly 4.5% for the next five years. Today innovation in carmaking usually is not based on automobile technology anymore but driven to 80% by microelectronics and software, according to the ZVEI.

The market researchers of IHS expect the market for automotive **MEMS** to increase at an average annual growth rate of 3.4% over the period from 2014 to 2021, according to a survey of June 2015.

STRATEGY

We want to achieve profitable growth throughout our entire product portfolio. As in the previous years, the emphasis is placed on the long-term increase in sales, EBIT, and (adjusted) free cash flow. Customer relationships of many years solidly based on trust provide the foundation of our business performance. Partnerships with new customers are intended to open additional opportunities.

We will continue our strategy for long-term profitable growth in 2016:

-> We want to seize our opportunities on an international scale. The foundation for this plan are new and existing products that stimulate our business in the context of the global megatrends. We will introduce these products in our home market Europe, in Asia, the U.S.A., as well as other international markets.

-> Based on the three product lines, Elmos will present innovative solutions to the market. The goal is to take the leading position in the market if possible. Application specific components (ASSPs) are increasingly in focus and will account for a growing share in sales. We will push the development of new products in all three product lines with great commitment.

-> We will target the analysis of optimization potential in our production and our processes and implement improvements. We will also continuously extend our fab lite strategy together with partners.

-> Elmos seeks to strengthen its financial basis even further. Sales, EBIT, capital expenditures and (adjusted) free cash flow are therefore of the highest importance as Group-wide control indicators. The focus is also on the participation of the shareholders in the Company's success.

-> We want our employees to develop themselves professionally and personally and to have input in a corporate culture oriented towards performance and development. We also want to recruit new young professionals so that we will remain capable of applying our know-how in all areas and enhancing it.

OPERATIONAL TARGETS 2016

Targets for sales and earnings

Based on currently available information, the Management Board presents the following outlook for the full year 2016. The forecasts for the automotive market in Germany and Europe as a whole are modest: No or little growth is expected. And only little growth or rather a considerable slowdown in growth is predicted for other important regional markets such as the U.S.A. or China.

Even though we regard the medium and long-term growth prospects for automotive electronics as positive and market dynamics still as high, the year 2016 is dominated by difficult signals. The Asian markets, particularly China, the political developments in the Middle East, and the exchange rates and the responses of the central banks remain determining factors. These prospects influence our sales forecast for 2016.

Based on internal and external assessments of the market, Elmos expects the following results for sales and EBIT margin.

Elmos expects an increase in sales in 2016 of 2% to 6% compared to 2015. We also assume we will be able to further expand the strength of business operations. However, heavier burdens by the currently stronger U.S. dollar than in the previous year will have a negative effect on our earnings. In addition to that, the volume increase necessary for realizing efficiency gains will be relatively low in 2016. We therefore anticipate an EBIT margin of roughly 10% for 2016.

The two segments Semiconductor and Micromechanics will make contributions to the increase in sales and EBIT in a similar way.

Targets for capital expenditures

Due to the focus on the increasing implementation of the fab lite strategy over the past few years, a significant expansion of in-house frontend capacity is not on the agenda for the time being. This will lead to lower capital expenditures in this area than in previous years so that capital expenditures for intangible assets and property, plant and equipment are expected to come to no more than 12% of sales in 2016, as compared to the previous target of up to 15% of sales. Capital expenditures will concern both segments.

Targets for liquidity and finance

We expect Elmos to generate a positive adjusted free cash flow in 2016 once 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 2016 the payment of a dividend, constant in comparison with the previous year, in the amount of 0.33 Euro per share.

FORECAST 2016

2016 sales growth (vs. 2015)	2% to 6%
EBIT margin (in % of sales)	Roughly 10%
Capital expenditures (in % of sales)	< 12%
Adjusted free cash flow	Positive

Underlying assumptions of our forecasts

Under the condition of an essentially unchanged general economic framework, it is expected that Elmos will show modest growth in the automotive semiconductor market in 2016. Electrification will continue in this market even if it stagnates. A positive development for Elmos is based on the success of our current and future customers as well as on our ability to sell our products to them. The international competition among suppliers to the auto industry is subject to ever increasing intensification. Effects from resulting market shifts or portfolio changes at our customers can hardly be predicted.

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 included in the report on opportunities and risks. Expectations can be affected by market turbulence. The forecast is based on an exchange rate of 1.10 USD/EUR.

Legal information

DISCLOSURES PURSUANT TO TAKEOVER LAW

In this chapter, information required by takeover law as stipulated under Sections 289 (4), 315 (4) HGB (Commercial Code) is disclosed as of December 31, 2015 (also representing the explanatory report in accordance with Section 176 (1) sentence 1 AktG (Stock Corporation Act)).

Composition of subscribed capital

As of December 31, 2015 the subscribed capital (share capital) of Elmos amounted to 19,941,864 Euro and was comprised of 19,941,864 no-par value bearer shares with a theoretical share in the share capital of 1 Euro each. Each share carries the same rights and grants one vote in the General Meeting. As of December 31, 2015 the Company held 214,587 treasury shares included in the above-mentioned total number of issued shares. Treasury shares held by the Company on the day of the Annual General Meeting (AGM) are neither entitled to vote nor entitled to dividend.

Limitations with regard to voting rights or the transfer of shares

We are not aware of any contractual limitations with regard to voting rights or the transfer of shares.

Shareholdings in excess of 10% of the voting rights

The following shareholdings are on record as of December 31, 2015:

SHAREHOLDERS OF THE COMPANY

Entity's registered office/country	Euro/Shares	%
Weyer Beteiligungsgesellschaft mbH Schwerte/Germany	3,626,584	18.19
Jumakos Beteiligungsgesellschaft mbH Dortmund/Germany	2,983,600	14.96
ZOE-VVG GmbH Duisburg/Germany	2,306,833	11.57
Treasury shares	214,587	1.08
Shareholders <10% interest	10,810,260	54.21
	19,941,864	**100.00**

More information on shareholder structure can be found in this Annual Report in the chapter "The Elmos share" starting on page 34.

Shares with special rights conferring powers of control

Shares with special rights conferring powers of control have not been issued.

Form of voting rights control in case of employee shareholdings

Employees who hold shares in Elmos Semiconductor AG exercise their control rights just like other shareholders directly in accordance with legal stipulations and the Articles of Incorporation.

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 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 consent, by up to 9,707,100 Euro, once or more than once, through the 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 to exclude the shareholders' subscription rights, subject to the Supervisory Board's approval. 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 to determine all other rights attached to the shares as well as the particulars of the issue, subject to the Supervisory Board's consent.

The share capital is conditionally increased by up to 33,720 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 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 665,198 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 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 1,200,000 Euro **(conditional capital 2015/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 7, 2020 on the basis of the authorization given by the AGM of May 8, 2015 (stock option plan 2015). The conditional capital increase is realized only insofar as options are issued within the scope of the Company's stock option plan 2015 in observance of the resolution of the AGM of May 8, 2015 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. Deviating from this, the Management Board or, insofar as members of the Management Board are concerned, the Supervisory Board may determine that the new shares are entitled to dividend from the beginning of the fiscal year for which no resolution by the AGM on the appropriation of retained earnings has been adopted yet at the time of exercising stock options.

Further information can be found under notes 22 and 23.

The management board's authorization to issue convertible bonds and option bonds

The share capital is conditionally increased by up to 7,800,000 Euro **(conditional capital 2015/II).** The conditional capital increase is carried out only to the extent that the holders or creditors of convertible bonds or subscription warrants from option bonds, issued by Elmos or one of the Company's group companies within the meaning of Section 18 AktG until May 7, 2020 on the basis of the Management Board's authorization by the AGM of May 8, 2015 under agenda item 7, make use of their conversion or option privileges or fulfill their conversion obligations, or shares are supplied under tender rights unless other forms of performance are utilized for servicing. The new shares are issued at the conversion or option prices to be determined respectively in the terms and conditions of the convertible bonds or option bonds in accordance with the above-mentioned authorization resolution. 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 or option privileges or the fulfillment of conversion obligations. Deviating from this, the Management Board may determine that the new shares are entitled to dividend from the beginning of the fiscal year for which no resolution by the AGM on the appropriation of retained earnings has been adopted yet at the time of exercising conversion or option privileges or fulfilling conversion obligations, subject to the Supervisory Board's consent. The Management

Board is authorized to determine the further particulars of the implementation of the conditional capital increase, subject to the Supervisory Board's consent.

More information can be found under note 22.

The management board's authorization to buy back shares

The Management Board is authorized by the AGM's resolution of May 8, 2015 to purchase the **Company's shares** up to and including May 7, 2020, subject to the Supervisory Board's consent. This authorization is limited to the purchase of shares in the total volume of up to 10% of the current share capital. The authorization may be exercised entirely or in several parts, once or more than once, and for one or more than one purpose within the scope of the aforementioned limitation. The purchase may be made at the stock exchange or through a public purchase bid tendered to all shareholders of the Company, or through purchasing from individual shareholders based on individual agreements, yet not from Weyer Beteiligungsgesellschaft mbH, ZOE-VVG GmbH, Jumakos Beteiligungsgesellschaft mbH, or other reportable entities or persons in accordance with Section 15a WpHG (Securities Trading Act). The authorization contains differentiating requirements for the separate purchase types, particularly with respect to the admissible purchase price.

AUTHORIZATIONS OF THE MANAGEMENT BOARD

Authorized capital	Conditional capital	Repurchase of the Company's shares
2011/I: 9,707,100 Euro up to and including May 16, 2016	2009: 33,720 Euro stock option plan 2009 up to and including May 5, 2014 2010/I: 665,198 Euro stock option plan 2010 up to and including May 3, 2015 2015/I: 1,200,000 Euro stock option plan 2015 up to and including May 7, 2020 2015/II: 7,800,000 Euro Option bonds or convertible bonds Up to and including May 7, 2020	up to 10% of the share capital up to and including May 7, 2020

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 takeover bid

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 to three 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. In some cases provisions also govern the exercise of options and retirement provision in case of a change of control.

REMUNERATION REPORT

Total remuneration of the members of Management Board and Supervisory Board comprises a number of remuneration components. The details are explained in the remuneration report included in the corporate governance report, starting on page 26 of this Annual Report. The remuneration report, audited by the auditor, is part of the joint management report.

STATEMENT ON CORPORATE GOVERNANCE

The statement on corporate governance pursuant to Section 289a HGB is part of the joint management report and can be found in the chapter "Corporate Governance" on page 27.

Consolidated financial statements

Consolidated statement of financial position

Assets	Notes	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Non-current assets			
Intangible assets	13	20,822	21,439
Property, plant and equipment	14	90,991	82,429
Securities	15	30,944	41,632
Investments	15	20	20
Other financial assets	20	3,627	4,147
Deferred tax assets	16	2,068	2,468
Total non-current assets		**148,472**	**152,136**
Current assets			
Inventories	17	57,168	53,217
Trade receivables	18	32,811	35,022
Securities	15	9,584	10,226
Other financial assets	20	1,796	3,640
Other receivables	20	6,875	8,078
Income tax assets	20	86	562
Cash and cash equivalents	19	50,000	32,520
		158,320	**143,265**
Non-current assets available for sale	21	93	0
Total current assets		**158,413**	**143,265**
Total assets		**306,886**	**295,400**

Equity and liabilities	Notes	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Equity			
Equity attributable to owners of the parent			
Share capital	22	19,942	19,860
Treasury shares	22	–215	–281
Additional paid-in capital	22	90,956	89,657
Surplus reserve		102	102
Other equity components	22	–1,032	–2,366
Retained earnings		108,778	99,083
		218,531	**206,055**
Non-controlling interests		860	844
Total equity		**219,391**	**206,898**
Liabilities			
Non-current liabilities			
Provisions for pensions	24	496	599
Financial liabilities	25	36,639	37,076
Other liabilities	26	2,458	3,878
Deferred tax liabilities	16	1,684	2,874
Total non-current liabilities		**41,277**	**44,427**
Current liabilities			
Provisions	24	14,705	12,811
Income tax liabilities	26	6,889	2,565
Financial liabilities	25	185	333
Trade payables	27	21,810	21,856
Other liabilities	26	2,629	6,509
Total current liabilities		**46,217**	**44,075**
Total liabilities		**87,495**	**88,502**
Total equity and liabilities		**306,886**	**295,400**

Consolidated income statement

for the year ended December 31	Notes	2015 thousand Euro	2014 thousand Euro
Sales	5	**219,626**	**209,517**
Cost of sales	6	–128,021	–118,075
Gross profit		**91,605**	**91,442**
Research and development expenses	6	–37,075	–36,101
Distribution expenses	6	–19,030	–19,009
Administrative expenses	6	–17,414	–16,921
Operating income before other operating expenses (–)/income		**18,085**	**19,412**
Foreign exchange gains/losses (–)	9	2,293	2,433
Other operating income	10	5,973	3,066
Other operating expenses	10	–1,820	–2,333
Earnings before interest and taxes (EBIT)		**24,532**	**22,577**
Finance income	8	2,279	2,315
Finance costs	8	–2,682	–1,796
Earnings before taxes		**24,129**	**23,097**
Income tax			
Current income tax	11	–8,306	–4,410
Deferred tax	11	837	45
		–7,469	**–4,365**
Consolidated net income		**16,660**	**18,732**
Consolidated net income attributable to			
Owners of the parent		**16,180**	**18,268**
Non-controlling interests		480	463
		16,660	18,732
Earnings per share		**Euro**	**Euro**
Basic earnings per share	12	0.82	0.94
Fully diluted earnings per share	12	0.81	0.92

Consolidated statement of comprehensive income

for the year ended December 31	Notes	2015 thousand Euro	2014 thousand Euro
Consolidated net income		**16,660**	**18,732**
Other comprehensive income			
Items to be reclassified to the income statement in later periods including respective tax effects			
Foreign currency adjustments without deferred tax effect		313	347
Foreign currency adjustments with deferred tax effect		1,563	1,728
Deferred tax (on foreign currency adjustments with deferred tax effect)	22	–397	–436
Value differences in hedges	22	463	83
Deferred tax (on value differences in hedges)	22	–152	–27
Changes in market value of available-for-sale financial assets	22	–806	17
Deferred tax (on changes in market value of available-for-sale financial assets)	22	264	–6
Items not to be reclassified to the income statement in later periods including respective tax effects			
Actuarial gains/losses (–) from pension plans	22	35	–316
Deferred tax on actuarial gains/losses (–) from pension plans	22	–6	159
Other comprehensive income after taxes		**1,277**	**1,548**
Total comprehensive income after taxes		**17,937**	**20,280**
Total comprehensive income attributable to			
Owners of the parent		17,513	19,822
Non-controlling interests		424	458
		17,937	**20,280**

Consolidated statement of cash flows

for the year ended December 31	Notes	2015 thousand Euro	2014 thousand Euro
Cash flow from operating activities			
Consolidated net income		16,660	18,732
Depreciation and amortization	7	28,775	25,623
Gains (–)/Losses from disposal of assets		–464	1,869
Financial result	8	403	–519
Other non-cash income (–)/expense		–1,748	–623
Current income tax	11	8,306	4,410
Expenses for stock options/stock awards/share matching		253	340
Changes in pension provisions	24	–68	–209
Changes in net working capital:			
Trade receivables	18	2,211	3,882
Inventories	17	–3,951	–12,737
Other assets	20	3,047	–1,655
Trade payables	27	–340	294
Other provisions and other liabilities		921	4,361
Income tax payments		–3,506	–4,280
Interest paid	8	–2,223	–1,796
Interest received	8	2,050	2,272
Cash flow from operating activities		**50,327**	**39,964**

Consolidated statement of cash flows

for the year ended December 31	Notes	2015 thousand Euro	2014 thousand Euro
Cash flow from investing activities			
Capital expenditures for intangible assets	13	–4,858	–1,853
Capital expenditures for property, plant and equipment	14	–33,848[1]	–28,659
Disposal of non-current assets held for trading	21	0	2
Payments-in from acquisition of shares in subsidiaries	33	0	547
Disposal of non-current assets		4,128	1,145
Disposal of securities/Payments for (–) securities	15	10,297	–2,651
Payments for other non-current financial assets	20	–343	–551
Cash flow from investing activities		**–24,624**	**–32,020**
Cash flow from financing activities			
Repayment (–) of non-current liabilities		–437	–415
Repayment (–)/Borrowing of current liabilities to banks		–148	29
Share-based payment/Issue of treasury shares		587	336
Capital increase from conditional capital	22	627	1,082
Dividend distribution		–6,475	–4,844
Distribution/Other Payments to non-controlling shareholders		–3,408	–667
Other changes		–29	–142
Cash flow from financing activities		**–9,283**	**–4,621**
Increase in cash and cash equivalents		**16,420**	**3,323**
Effects of exchange rate changes on cash and cash equivalents		1,060	1,247
Cash and cash equivalents at beginning of reporting period	19	32,520	27,949
Cash and cash equivalents at end of reporting period	19	**50,000**	**32,520**

[1] Includes capital expenditures from the repurchase of land and building from prematurely terminated lease contracts in the amount of approx. 14 million Euro

Consolidated statement of changes in equity

		Equity attributable to owners of the parent											Non-controlling interests	Group
							Other equity components							
	Notes	Shares	Share capital	Treasury shares	Additional paid-in capital	Surplus reserve	*Provisions for available-for-sale financial assets*	*Hedges*	*Foreign currency translation*	*Unrealized actuarial gains/losses*	Retained earnings	Total	Total	Total
		thousand	thousand Euro	thousand Euro	thousand Euro	thousand Euro	thousand Euro	thousand Euro	thousand Euro	thousand Euro	thousand Euro	thousand Euro	thousand Euro	thousand Euro
January 1, 2014		**19,675**	**19,675**	**–328**	**88,161**	**102**	**78**	**–1,119**	**–2,191**	**–688**	**86,868**	**190,559**	**2,127**	**192,686**
Consolidated net income											18,268	18,268	463	18,732
Other comprehensive income for the period	22						11	56	1,644	–157		1,554	–5	1,548
Total comprehensive income							11	56	1,644	–157	18,268	19,822	458	20,280
Share-based payment/Issue of treasury shares	22			47	289							336		336
Capital increase from conditional capital	22	185	185		897							1,082		1,082
Transaction costs	22				–30							–30		–30
Adjustment to put option of non-controlling shareholders											392	392		392
Increase of majority interest											–1,415	–1,415	–1,585	–3,000
Changes in basis of consolidation												0	483	483
Dividend distribution											–4,844	–4,844		–4,844
Distribution to non-controlling shareholders												0	–667	–667
Expenses for stock options/stock awards/share matching					340							340		340
Other changes											–187	–187	28	–160
December 31, 2014		**19,860**	**19,860**	**–281**	**89,657**	**102**	**89**	**–1,063**	**–547**	**–845**	**99,083**	**206,055**	**844**	**206,898**
January 1, 2015		**19,860**	**19,860**	**–281**	**89,657**	**102**	**89**	**–1,063**	**–547**	**–845**	**99,083**	**206,055**	**844**	**206,898**
Consolidated net income											16,180	16,180	480	16,660
Other comprehensive income for the period	22						–541	311	1,535	29		1,334	–56	1,277
Total comprehensive income							–541	311	1,535	29	16,180	17,513	424	17,937
Share-based payment/Issue of treasury shares	22			66	521							587		587
Capital increase from conditional capital	22	82	82		545							627		627
Transaction costs	22				–19							–19		–19
Dividend distribution											–6,475	–6,475		–6,475
Distribution to non-controlling shareholders												0	–408	–408
Expenses for stock options/share matching					253							253		253
Other changes											–9	–9		–9
December 31, 2015		**19,942**	**19,942**	**–215**	**90,956**	**102**	**–452**	**–752**	**988**	**–816**	**108,778**	**218,531**	**860**	**219,391**

Notes to the consolidated financial statements

GENERAL INFORMATION

Elmos Semiconductor AG ("the Group", "the Company", or "Elmos") has its registered office in Dortmund (Germany) and is entered in the register of companies kept at the District Court (Amtsgericht) Dortmund, section B, under no. 13698. The Articles of Incorporation are in effect in the version of March 26, 1999, last amended by resolution of the Annual General Meeting of May 8, 2015 and edited by resolution of the Supervisory Board of December 18, 2015.

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 **a**pplication **s**pecific **s**tandard **p**roducts or, in short: ASSPs) 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.A. and cooperates with other German and international companies in the development and manufacture of semiconductor chips.

The Company is a listed stock corporation and its shares are traded in the Prime Standard in Frankfurt/Main.

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

ACCOUNTING POLICIES

1 – Principles of financial accounting

General information

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

The consolidated financial statements of Elmos have been prepared in accordance with the **I**nternational **F**inancial **R**eporting **S**tandards (IFRS) as applicable in the **E**uropean **U**nion (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 **I**nternational **A**ccounting **S**tandards **B**oard (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 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 for improved clarity; those items are explained in the notes.

The consolidated financial statements have been released for publication by the Management Board in March 2016.

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 date on which 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 has 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 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.

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.

Pension commitments

Expenses for defined benefit pension plans 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, such estimates are subject to material uncertainty. More details can be found under note 24.

Development expenses

Development expenses are capitalized in accordance with the accounting policies and valuation methods described under note 3 at the best possible estimates. More details can be found under note 13.

New and amended standards and interpretations

The accounting policies applied generally correspond to the policies applied in the previous year. Exceptions were the following standards subject to first-time mandatory application for fiscal year 2015.

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 the circumstances under which 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 June 17, 2014. This new interpretation had no effect on the Group's financial reporting.

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 individual amendments:

- IFRS 1: 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 and that the scope exception as defined in paragraph 2 (a) of IFRS 3 only applies to the financial statements of the joint venture or the joint operation itself;

- IFRS 13: 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: 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. First-time application of this collection of amendments had no effect on the consolidated financial statements..

Standards and interpretations voluntarily applicable in advance (EU endorsed)

The IASB has released the following standards and interpretations which have already been incorporated into EU law within the framework of the comitology procedure but were not subject to mandatory application in fiscal year 2015 yet. The Group does not apply these standards and interpretations in advance.

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 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 February 1, 2015; early adoption is permitted. These amendments will have no effect on the consolidated financial statements.

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 individual 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 considerations 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 February 1, 2015; early adoption is permitted. Apart from partially expanded disclosures in the notes, the Group does not expect material effects on the consolidated financial statements from first-time application of this collection of amendments at present.

Amendments to IAS 1 – *Disclosure Initiative*

In December 2014 the IASB released amendments to IAS 1 aimed at eliminating obstacles perceived by reporting entities with respect to the exercise of judgments regarding the presentation of financial statements. These amendments to IAS 1 contain the following changes or clarifications:

- Materiality: The amendments clarify that (1) information should not be obscured by aggregation, (2) considerations of materiality have to be applied to all components of the financial statements, and (3) materiality has to be considered even if a standard stipulates a certain disclosure.

- Presentation of assets and liabilities and presentation in the income statement or in other comprehensive income: The IASB clarifies that (1) the list of line items for the statements can be aggregated and disaggregated for considerations of relevance and provides additional guidance with respect to subtotals in the statements; the IASB clarifies that (2) the share of an entity in other comprehensive income of associates or joint ventures accounted for at equity should be disclosed in aggregate as single line items on the basis of whether or not it will later be reclassified to profit or loss in the income statement.

- Disclosures: Additional examples for the potential sequences of disclosures are included in order to clarify that comprehensibility and comparability should be considered in determining the order of the notes and that notes do not have to be made in the order shown at present in IAS 1.114. The IASB has also eliminated provisions and examples with respect to identifying the significant accounting policies and valuation methods regarded as potentially not that helpful.

The amendments are subject to mandatory application for fiscal years beginning on or after January 1, 2016; early adoption is permitted. The Group management does not expect the amendments to have a material effect on the presentation of consolidated financial statements.

Amendments to IAS 16 – *Property, Plant and Equipment* and 38 – *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization*

In May 2014 the IASB released amendments to IAS 16 – *Property, Plant and Equipment* and IAS 38 – *Intangible Assets*. With these amendments the IASB makes further guidance available for determining acceptable methods of depreciation and amortization. Accordingly sales-based methods of depreciation and amortization are not appropriate for property, plant and equipment and appropriate only in certain exceptional cases for intangible assets. The amendments are subject to mandatory application for fiscal years beginning on or after January 1, 2016; early adoption is permitted. As the Group does not apply any sales-based methods of depreciation and amortization, the Group management does not expect the application of the amended standards to have any effects.

Amendments to IAS 16 – *Property, Plant and Equipment* and IAS 41 – *Agriculture: Bearer Plants*

In June 2014 the IASB released amendments to IAS 16 – *Property, Plant and Equipment* and IAS 41 – *Agriculture: Bearer Plants*. With these amendments bearer plants used only for the production of agricultural products have been included in the scope of IAS 16 so that they have to be accounted for like items of property, plant and equipment. In order to exclude bearer plants from the scope of IAS 41 and include them in the scope of IAS 16, thus enabling entities to account for them at amortized cost or according to the revaluation model, the definition of a bearer plant is included in both standards. The amendments are subject to mandatory application for fiscal years beginning on or after January 1, 2016; early adoption is permitted. As the Group's business model is not based on bearer plants, the amendments are not expected to have any effect on the consolidated financial statements.

Amendment to IAS 27 – *Separate Financial Statements: Equity Method in Separate Financial Statements*
In August 2014 the IASB released amendments to IAS 27 – *Separate Financial Statements*. With these amendments the equity method is permitted again as an option for the accounting treatment of investments in subsidiaries, joint ventures and associated companies in the investor's separate financial statements. The amendments are subject to mandatory application for fiscal years beginning on or after January 1, 2016; early adoption is permitted. As the option for accounting treatment concerns separate financial statements, the amendments will have no effect on the consolidated financial statements.

Amendments to IFRS 11 – *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*
In May 2014 the IASB released amendments to IFRS 11 – *Joint Arrangements*. They clarify that the initial acquisition as well as the subsequent acquisition of interests in joint operations that constitute a business have to be accounted for in application of the provisions for the accounting treatment of business combinations under IFRS 3 unless these provisions contradict the provisions under IFRS 11. The disclosure requirements under IFRS 3 must be fulfilled as well. The amendments are subject to mandatory application for fiscal years beginning on or after January 1, 2016; early adoption is permitted. As such acquisitions have not been made, the Group management currently assumes that the application of the amended standard will have no effect.

Improvements to IFRS 2012-2014
The annual *Improvements to IFRS 2012-2014* represent the collection of amendments released in September 2014, carrying amendments to four standards:

- IFRS 5: Inclusion of specific guidance for cases in which an entity reclassifies an asset from "held for sale" to "held for distribution" or vice versa and cases in which held-for-distribution accounting is discontinued.

- IFRS 7: Inclusion of additional guidance to clarify whether a servicing contract is a continuing involvement in a transferred asset; clarification of the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

- IAS 19: Clarification that high-quality corporate bonds used for determining the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid so that the depth of the market for high-quality corporate bonds should be assessed at currency level.

- IAS 34: Clarification of the meaning of the phrase "elsewhere" in the interim report and inclusion of a requirement for a cross-reference to that other place unless it is within the main part of the report.

The amendments are subject to mandatory application for fiscal years beginning on or after January 1, 2016, providing for prospective or retrospective application depending on the respective amendment; early adoption is permitted. Group management currently assumes that the application of this collection of amendments will have no effect.

Standards and interpretations not yet applicable in the EU (no EU endorsement yet)

The IASB has released the following standards and interpretations that were not subject to mandatory application in fiscal year 2015 yet. These standards and interpretations have so far not been endorsed by the EU and are therefore not adopted by the Group.

Amendments to IAS 7 – *Statement of Cash Flows*
Within the context of its disclosure initiative, the IASB released amendments to IAS 7 – *Statement of Cash Flows*. The heart of these amendments represents provisions for additional disclosures in the notes aimed at enabling the reader of financial statements to evaluate changes in liabilities from the reporting entity's financing activities. The amendments are subject to mandatory first-time application for fiscal years beginning on or after January 1, 2017; early adoption is permitted. Upon first-time application no comparative information on previous reporting periods has to be provided. EU endorsement is still pending. Except for extended disclosures in the notes, the Group management does not expect any effect on the consolidated financial statements.

Amendments to IAS 12 – *Income Taxes*

In January 2016 the IASB released amendments to IAS 12 – *Income Taxes*. The amendment contains clarifications for the accounting treatment of deferred tax assets for unrealized losses on debt instruments. Accordingly unrealized losses on debt instruments measured at fair value yet whose tax base is acquisition cost generally result in deductible temporary differences. This applies regardless of whether the holder of the instrument expects to realize the asset's book value by holding until maturity and collecting all contractual payments or if he intends to sell it in the meantime. The book value of an asset does not represent the upper limit for the estimate of probable future taxable profit. Tax deductions from the reversal of deductible temporary differences must be excluded in the estimate of probable future taxable profit. An entity must not only assess a deferred tax asset by itself but also in combination with other deferred tax assets. If the respective applicable tax law restricts the utilization of tax losses, the reporting entity has to assess a deferred tax asset in combination with other deferred tax assets of the same (admissible) type. The amendments are subject to mandatory first-time application for fiscal years beginning on or after January 1, 2017. EU endorsement is still pending. The Group management cannot conclusively assess at present what effects the first-time application of this amended standard will have provided it will be endorsed by the EU as released.

Amendments to IAS 28 – *Investments in Associates and Joint Ventures* and IFRS 10 – *Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

In September 2014 the IASB released amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The amendments address a known inconsistency between the two standards in the accounting treatment of a sale of an investor's assets or rather the contribution to the investor's associate or joint venture. Insofar the transaction involves a business within the meaning of IFRS 3, the investor has to account for the full gain or loss; if the transaction involves only the sale of assets that do not constitute a business, only part of the gain or loss has to be accounted for. Determination of the date of initial mandatory application of these amendments has been suspended indefinitely by the IASB. Endorsement of the amendments by the EU is still pending. The Group management cannot assess conclusively yet which effects the first-time application of the amended standards might have provided they will be endorsed by the EU as released.

IFRS 9 – *Financial Instruments: Classification and Measurement*

IFRS 9 *Financial Instruments* contains requirements for measurement, recognition and derecognition as well as for the accounting treatment of hedges. The IASB released the final version of the standard within the framework of the completion of the various stages of its elaborate project on financial instruments on July 24, 2014. Thus the accounting treatment of financial instruments previously governed by IAS 39 *Financial Instruments: Recognition and Measurement* can now be superseded entirely by accounting treatment according to IFRS 9. This new release of IFRS 9 supersedes all previous versions. The key requirements of the finalized IFRS 9 can be summarized as follows:

- The requirements of IFRS 9 with respect to scope and recognition and derecognition are largely unchanged compared to the predecessor standard IAS 39.
- However, compared to IAS 39 the provisions under IFRS 9 do provide for a new classification model for financial assets.
- Subsequent measurement of financial assets is now aligned with three categories, providing different principles of valuation and different recognition of changes in value. The categorization depends on the contractual cash flows of the instrument as well as on the business model according to which the instrument is held. The categories are therefore mandatory as a general rule. However, a few options are available to reporting entities beyond that.

- Existing provisions for financial liabilities have for the most part been adopted by IFRS 9, however. The only material new provision concerns financial liabilities under the fair value option. For those liabilities, fluctuations in fair value due to changes in their own contingency risk have to be recognized in other comprehensive income.

- IFRS 9 provides for three levels that determine the amount of losses and collected interest to be recognized. Upon addition expected losses in the amount of the cash value of an expected 12-month credit loss have to be recognized (level 1). If there is a significant increase in contingency loss, provision for risk has to be increased up to the amount of the losses expected for the entire remaining term (level 2). Upon objective indication of impairment, the collection of interest has to be made on the basis of the net book value (book value less provision for risk) (level 3).

- Apart from extensive transitional provisions, IFRS 9 is also linked to comprehensive disclosure provisions both in the transition period and in ongoing application. New requirements compared to IFRS 7 *Financial Instruments: Disclosures* primarily result from new impairment regulation.

The final IFRS 9 standard is subject to mandatory application for fiscal years beginning on or after January 1, 2018; early adoption is permitted. Endorsement of the amendments by the EU is still pending. The Group assumes that future application of IFRS 9 might affect the reporting of the Group's financial assets and financial liabilities. However, a reliable assessment of the effects of the application of IFRS 9 can only be made once a detailed analysis has been conducted, scheduled for 2016 at present.

IFRS 14 – *Regulatory Deferral Accounts*

In January 2014 the IASB released the new standard IFRS 14 – *Regulatory Deferral Accounts*. This standard aims at allowing entities that are first-time IFRS adopters and have so far recognized regulatory deferral accounts according to their previous financial reporting provisions to continue to do so after adopting IFRS. As the Group is not a first-time IFRS adopter, this standard (not yet endorsed by the EU) has no relevance to the Group.

IFRS 15 – *Revenue from Contracts with Customers*

In May 2014 the IASB released the new standard IFRS 15 – *Revenue from Contracts with Customers*. The new standard for the recognition of revenue aims at harmonizing the large number of provisions previously contained in various standards and interpretations. At the same time consistent basic principles are determined, applicable for all industries and all kinds of sales transactions. The questions to what amount and at what time or over what time period revenue has to be recognized are to be answered with the help of a 5-stage model. Apart from that, the standard includes a number of other provisions on questions of detail as well as an extension of the disclosures required in the notes. Due to the amendment to IFRS 15 released in September 2015, the initial date of mandatory first-time application has been postponed from January 1, 2017 to fiscal years beginning on or after January 1, 2018. Generally adoption has to take place retrospectively; however, various options for simplification are granted; early adoption continues to be permitted. Endorsement of the standard including its amendment by the EU is still pending. In fiscal year 2016 the Group management will specifically assess the potential effects of the first-time application of IFRS 15 on the consolidated financial statements and determine the date of first-time application as well as the interim method provided the standard will be endorsed by the EU as released. Extended disclosures in the notes are to be expected in any case.

IFRS 16 – *Leases*

In January 2016 the IASB released the new standard IFRS 16 – *Leases*. IFRS 16 defines principles for the recognition, measurement, disclosure, and the notes relating to leases with the purpose of assuring that lessee and lessor make relevant information available with respect to the effects of leases. At the same time, the previous accounting model according to IAS 17 with a distinction between operating and finance leases is abandoned in favor of a uniform accounting model for leases committed to the control concept. The new standard provides for a single accounting model for the lessee. This model leads to the lessee entering all assets and liabilities from leases in the statement of financial position provided the lease term exceeds 12 months and the asset is not immaterial (right to choose). The lessor will maintain the distinction between finance and operating leases for the purpose of accounting. IFRS 16 – *Leases* is subject to mandatory first-time application for fiscal years beginning on or after January 1, 2019; early adoption is generally permitted if IFRS 15 – *Revenue from Contracts with Customers* is also completely applied (early). The lessee has to either apply IFRS 16 completely and retrospectively include previous reporting periods or recognize the cumulative effect of adjustment as of first-time application as an entry in equity as of the beginning of the fiscal year of first-time application. EU endorsement of this standard is still pending. The Group management is currently assessing what effects the first-time application of IFRS 16 will have on the consolidated financial statements and it will determine both the date of first-time application and the interim method provided the standard will be endorsed by the EU as released.

Amendments to IFRS 10, IFRS 12 and IAS 28: *Applying the Consolidation Exception*

In the collection of amendments on the new consolidation exception for investment entities now released, the following clarifications have been framed:

- Exception to the preparation of consolidated financial statements: The amendments clarify that an entity may apply the consolidation exception even if its parent accounts for its subsidiaries at fair value in accordance with IFRS 10.
- A subsidiary that renders services linked to the investment activity of the parent does not have to be consolidated if the subsidiary is also an investment entity.
- Upon application of the equity method to an associate or a joint venture that is an investment entity, an investor that is not an investment entity may maintain the measurement at fair value applied by the holding company to its investments in subsidiaries.
- Required disclosures: An investment entity that measures all its subsidiaries at fair value has to provide the disclosures with respect to investment entities as stipulated by IFRS 12.

The amendments are subject to mandatory application for fiscal years beginning on or after January 1, 2016; early adoption is permitted. Endorsement of the amendments by the EU is still pending. Provided the amendments will be endorsed by the EU as released, the Group management currently assumes that their application will have no effect.

2 – Principles of consolidation

Basis of consolidation and consolidation methods

In addition to Elmos Semiconductor AG, the consolidated financial statements prepared for fiscal year 2015 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 IFRS 10 *Consolidated 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 entities 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.

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

Foreign currency translation and transactions

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

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 occasionally enters into forward exchange contracts and option transactions to hedge foreign currency transactions for periods consistent with committed exposures. These hedging activities reduce the impact of foreign exchange rate fluctuations on the Company’s profitability. The Company is not involved in speculative transactions. For the realized and unrealized exchange rate gains and losses from currency hedges during fiscal year 2015, please refer to note 30.

Statement of cash flows

The cash flow statement 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 have been considered. 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 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 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 to that, 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 **c**ash-**g**enerating **u**nit (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. For that purpose, 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. Such projects are capitalized even if they are not yet connected to customer orders (ASSPs). Their recoverability is reviewed annually by the Company. 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.

Cost is amortized as of the start of production on a straight-line basis over the estimated useful life of three to seven years.

Expenses for the in-house development of design and process technology are capitalized if all conditions in accordance with IAS 38 are met. 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 period 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 (cf. note 7).

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 expected 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 the accounts. Gains or losses from the disposal of property, plant and equipment are stated as other operating income or expenses. Costs for maintenance and repair are recorded in the consolidated income statement as 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 lease payments.

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

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.

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 into the following categories:

- Financial assets held for trading
- Financial assets held to 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.

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 the financial result 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, depending on the contractual agreement's economic matter.

Interest, dividends, 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 uses derivative financial instruments for hedging interest rate 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.

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 risks. The conditions defined by IAS 39 as required for the accounting treatment as hedging transactions were met upon conclusion of the hedging instruments as well as at the reporting date.

Elmos also makes use of derivative financial instruments such as foreign exchange option transactions and forward exchange transactions in order to hedge against currency risk.

According to IAS 39, such 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.

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 depreciation. 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.

Cash and cash equivalents (liquid assets)

Liquid assets comprise cash on hand, checks, and cash in banks.

Non-current assets available-for-sale

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 the asset’s continued use.

Provisions

Provisions are made for legal or factual obligations with historical origins if it is probable that the sufficiently reliable 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 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, and

- 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 collected 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 as of the reporting date in those countries where the Group has operations and generates taxable income.

Deferred taxes are determined under 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 and tax credits 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.

Sales tax

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. 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 after 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, 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 that correspond to prices paid in transactions with third parties.

The following tables provide information on expenses, income and earnings and certain information on assets and liabilities of the Group's business segments for the fiscal years ended December 31, 2015 and December 31, 2014.

Fiscal year ended December 31, 2015	Semiconductor thousand Euro	Micromechanics thousand Euro	Consolidation thousand Euro	Group thousand Euro
Sales				
Third-party sales	196,649	22,977	0	219,626
Inter-segment sales	367	1,369	–1,736[1]	0
Total sales	**197,016**	**24,346**	**–1,736**	**219,626**
Earnings				
Depreciation	27,552	1,223	0	28,775
Other material non-cash expenses	–283	–163	0	–446
Other material non-cash income	1,577	0	0	1,577
Segment income	21,493	3,039	0	24,532
Finance income				2,279
Finance expenses				–2,682
Earnings before taxes				**24,129**
Income tax	–6,830	–639		–7,469
Consolidated net income including non-controlling interests				**16,660**
Assets and liabilities				
Segment assets	233,575	21,137	52,154[2]	306,866
Investments	20	0	0	20
Total assets				306,886
Segment liabilities/Total liabilities	39,471	2,627	45,397[3]	87,495
Other segment information				
Additions to intangible assets and property, plant and equipment	38,844	1,093	0	39,937

[1] Sales from inter-segment transactions are eliminated for consolidation purposes.
[2] Non-attributable assets as of December 31, 2015 include cash and cash equivalents (50,000 thousand Euro), income tax assets (86 thousand Euro), and deferred taxes (2,068 thousand Euro), as these assets are managed at group level.
[3] Non-attributable liabilities as of December 31, 2015 include current financial liabilities (185 thousand Euro), non-current financial liabilities (36,639 thousand Euro), current tax liabilities (6,889 thousand Euro), and deferred tax (1,684 thousand Euro), as these liabilities are managed at group level.

Other non-cash expenses comprise among other items expenses from stock option and share matching plans and losses from the disposal of non-current assets. Other non-cash income includes profits from the disposal of non-current assets and income from the reversal of an item of deferred income.

Finance income in the amount of 2,279 thousand Euro almost exclusively contains interest income of 2,030 thousand Euro relating entirely to the Semiconductor segment. Finance expenses of 2,682 thousand Euro essentially represent interest expense (2,224 thousand Euro) relating also entirely to the Semiconductor segment (please also refer to note 8).

Fiscal year ended December 31, 2014	Semiconductor thousand Euro	Micromechanics thousand Euro	Consolidation thousand Euro	Group thousand Euro
Sales				
Third-party sales	190,923	18,594	0	209,517
Inter-segment sales	667	1,727	–2,394[1]	0
Total sales	**191,590**	**20,321**	**–2,394**	**209,517**
Earnings				
Depreciation	24,789	834	0	25,623
Other material non-cash expenses	–2,209	–127	0	–2,336
Other material non-cash income	710	0	0	710
Segment income	19,659	2,918	0	22,577
Finance income				2,315
Finance expenses				–1,796
Earnings before taxes				**23,097**
Income tax	–3,853	–512		–4,365
Consolidated net income including non-controlling interests				**18,732**
Assets and liabilities				
Segment assets	241,553	18,277	35,550[2]	295,380
Investments	20	0	0	20
Total assets				295,400
Segment liabilities/Total liabilities	43,424	2,230	42,848[3]	88,502
Other segment information				
Additions to intangible assets and property, plant and equipment	31,302	972	0	32,274

[1] Sales from inter-segment transactions are eliminated for consolidation purposes.
[2] Non-attributable assets as of December 31, 2014 include cash and cash equivalents (35,520 thousand Euro), income tax assets (562 thousand Euro), and deferred taxes (2,468 thousand Euro), as these assets are managed at group level.
[3] Non-attributable liabilities as of December 31, 2014 include current financial liabilities (333 thousand Euro), non-current financial liabilities (37,076 thousand Euro), current tax liabilities (2,565 thousand Euro), and deferred tax (2,874 thousand Euro), as these liabilities are managed at group level.

Other non-cash expenses comprise among other items expenses from stock option/stock award/share matching plans and accounting losses from the derecognition of intangible assets. Other non-cash income includes income connected to the first-time consolidation of DMOS Dresden MOS Design GmbH, Dresden, and income from the reversal of an item of deferred income.

Finance income in the amount of 2,315 thousand Euro almost exclusively contains interest income of 2,165[4] thousand Euro relating entirely to the Semiconductor segment. Finance expenses of 1,796 thousand Euro exclusively include interest expense relating entirely to the Semiconductor segment (please also refer to note 8).

[4] Adjustment from the previous year

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 according to the customers' delivery location.

Geographic information

Third-party sales	2015 thousand Euro	2014 thousand Euro
Germany	71,166	70,423
Other EU countries	45,732	48,621
U.S.A.	23,378	21,975
Asia/Pacific	68,853	55,914
Other countries	10,496	12,584
Consolidated sales	**219,626**	**209,517**

Geographic breakdown of non-current assets	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Germany	136,387	136,444
Other EU countries	804	3,846
U.S.A.	5,499	5,113
Other countries	87	118
Non-current assets	**142,777**	**145,521**

Sales generated with the top two customers who account for more than 10% of sales each amount to 36.2 million Euro and 25.9 million Euro respectively and result from sales in the Semiconductor segment (2014: top two customers with sales of 41.2 million Euro, 21.9 million Euro respectively).

NOTES TO THE CONSOLIDATED INCOME STATEMENT AND THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

5 – Sales

The Company generates sales from selling semiconductors and micromechanical sensor elements as well as from developing them.

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

	2015 thousand Euro	2014 thousand Euro
Semiconductor	196,649	190,923
Micromechanics	22,977	18,594
Group	**219,626**	**209,517**

Sales increased by 4.8% to 219,626 thousand Euro. An increase in sales is recorded in both of the Group's segments. While sales in the Semiconductor segment gained 3.0% to 196,649 thousand Euro, sales in the Micromechanics segment climbed 23.6% to 22,977 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 also includes manufacturing and material overhead as well as lease expenses and depreciation. Furthermore, the cost of sales contains changes in work in process and finished goods inventories and shows the following development:

	2015 thousand Euro	2014 thousand Euro
Material costs	–51,882	–50,166
Personnel expense	–33,709	–33,223
Other overhead	–44,286	–46,630
Changes in inventories	1,856	11,944
	–128,021	**–118,075**

The cost of sales was up 8.4% from 118,075 thousand Euro in 2014 to 128,021 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 1,716 thousand Euro was recorded. Other overhead (–2,344 thousand Euro) went down despite higher depreciation compared to fiscal year 2014. The main reason for this are one-off effects due to the termination of lease agreements (cf. note 14) and renegotiations with suppliers and partners. Adjusted for the effects of changes in inventories, the resulting cost of sales is almost unchanged.

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 2015, R&D expenses of 37,075 thousand Euro (2014: 36,101 thousand Euro) were charged to expenses.

Distribution expenses

Distribution expenses in the amount of 19,030 thousand Euro (2014: 19,009 thousand Euro) essentially include expenses for staff, leases, travel, commission, and depreciation.

Administrative expenses

Administrative expenses of 17,414 thousand Euro (2014: 16,921 thousand Euro) include personnel expense for the administrative staff and proportionate personnel expense for the Management

Board members. Other material items are expenses for leases and amortization as well as legal and consulting fees.

7 – Additional information on the statement of comprehensive income according to the cost of sales method

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

Material costs

Material costs amounted to 57,988 thousand Euro in the year under review and are up 4.0% from the previous year (2014: 55,747 thousand Euro). They include expenses for raw materials, supplies, consumables, and for services claimed.

Personnel expense

Personnel expense climbed 4.2% from 76,103 thousand Euro in fiscal year 2014 to 79,266 thousand Euro in fiscal year 2015. Over the same reporting period, the number of employees – based on an average employment ratio – went up from 1,104 in fiscal year 2014 to 1,117 in fiscal year 2015 (+1.2%). 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 28,775 thousand Euro in the year under report (2014: 25,623 thousand Euro), equivalent to an increase of 12.3%. This increase is due primarily to the capital expenditures made in fiscal year 2015 and the termination of the lease agreements with Exedra.

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 statement of comprehensive income.

8 – Finance income and finance expenses

Finance income and finance expenses can be broken down as follows for fiscal years 2015 and 2014:

	2015 thousand Euro	2014 thousand Euro
Interest income	2,030	2,165
Other finance income	249	150
Finance income	**2,279**	**2,315**

	2015 thousand Euro	2014 thousand Euro
Interest expense	–2,224	–1,796
Other finance expenses	–458	0
Finance expenses	**–2,682**	**–1,796**

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

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:

	2015 thousand Euro	2014 thousand Euro
Interest income	2,030	2,142[1]
Interest expense	–2,204	–1,783
Interest result	**–174**	**359[1]**

[1] Prior-year amount adjusted

9 – Foreign exchange gains/losses

Gains from exchange rate changes recognized in profit or loss amount to 2,293 thousand Euro in fiscal year 2015 (2014: 2,433 thousand Euro). Gains result essentially from price gains realized in forward exchange contracts and option transactions made by the Company (please refer to note 30).

Exchange rate changes attributable to the owners of the parent and recognized outside profit or loss amount to 988 thousand Euro in fiscal year 2015 (2014: –547 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 5,973 thousand Euro (2014: 3,066 thousand Euro) include among other items income from the reversal of provisions in the amount of 1,053 thousand Euro (2014: 463 thousand Euro), insurance settlements in the amount of 411 thousand Euro (2014: 100 thousand Euro), rental income in the amount of 418 thousand Euro (2014: 355 thousand Euro), income from the derecognition of deferred income connected to the termination of the lease agreements with Exedra in the amount of 1,113 thousand Euro (2014: 202 thousand Euro), income from the sale of non-current assets in the amount of 464 thousand Euro (2014: 0 thousand Euro), other prior-period income in the amount of 1,716 thousand Euro (2014: 620 thousand Euro), and various individual items.

Other operating expenses in the amount of 1,820 thousand Euro (2014: 2,333 thousand Euro) include among other items real-estate charges in the amount of 338 thousand Euro (2014: 283 thousand Euro), write-down on a part of a building in the amount of 416 thousand Euro (2014: 390 thousand Euro) allocated to the Semiconductor segment, other prior-period expenses in the amount of 265 thousand Euro (2014: 144 thousand Euro), accounting loss from the disposal of non-current assets in the amount of 30 thousand Euro (2014: 146 thousand Euro), and various individual items.

11 – Income tax

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

	2015 thousand Euro	2014 thousand Euro
Current income tax		
Germany	–5,705	–3,903
Outside Germany	–2,601	–507
	–8,306	**–4,410**
thereof taxes from previous years	–400	151
Deferred tax		
Germany	1,065	208
Outside Germany	–228	–163
	837	**45**
thereof taxes from previous years	229	236
Total	**–7,469**	**–4,365**

Deferred tax has been calculated under the so-called liability method pursuant to IAS 12. For Germany, the combined income tax rate of 32.805% (2014: 32.805%) has been applied. The Company's combined income tax rate includes the trade tax collection rate of 485% (2014: 485%), the corporate tax rate of 15.0% (2014: 15.0%), and the solidarity surcharge of 5.5% (2014: 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:

	2015 %	2014 %
Statutory tax rate	32.81	32.81
Foreign tax rate differential	–3.23	–0.49
Expenses disallowable against tax	0.62	0.84
Trade tax additions/cuts	1.13	1.02
Taxes from previous years	0.71	–1.67
Tax-free income	–2.13	–12.17
Others	1.05	–1.44
Effective tax rate	**30.96**	**18.90**

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

	2015	2014
Weighted average number of ordinary shares outstanding	19,653,847	19,454,715
Stock options with dilutive potential	334,364	369,689
Weighted average number of ordinary shares outstanding, including dilutive effect	**19,988,210**	**19,824,404**

Calculation of earnings per share

in Euro	2015	2014
Consolidated net income attributable to owners of the parent	16,179,631	18,268,231
Basic earnings per share	0.82	0.94
Fully diluted earnings per share	0.81	0.92

The weighted average number of shares in 2015 and 2014 includes the weighted average effect of changes from transactions with treasury shares, the weighted average effect of the exercise of stock options from the 2009, 2010 and 2011 tranches in the course of the year 2015, and the weighted average effect of the exercise of stock options from the 2009 and 2010 tranches in the course of the year 2014.

All outstanding stock options originating from the 2010, 2011 and 2012 tranches (for 2015) or rather from the 2009, 2010, 2011 and 2012 tranches (for 2014) have been included in the calculation of diluted earnings per share. 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

in thousand Euro	Goodwill	Development projects	Software and licenses and similar rights and assets		Payments on account and projects under development		Total
Acquisition and production cost			In-house effort	Purchase	In-house effort	Purchase	
December 31, 2013	**3,623**	**22,309**	**6,322**	**47,712**	**793**	**55**	**80,814**
Foreign currency adjustments	25	0	0	351	0	0	376
Additions	0	533	663	684	92	24	1,996
Additions to basis of consolidation	0	0	0	466	0	0	466
Transfers	0	99	580	73	–689	–38	25
Disposals	0	–99	0	–7,862	–12	0	–7,973
December 31, 2014	**3,648**	**22,842**	**7,565**	**41,424**	**184**	**41**	**75,705**
Foreign currency adjustments	23	0	0	136	0	0	159
Additions	0	1,572	0	2,439	248	626	4,885
Transfers	0	124	0	10	–124	0	10
Disposals	0	–27	–3	–3,990	0	0	–4,020
December 31, 2015	**3,671**	**24,511**	**7,562**	**40,019**	**308**	**667**	**76,739**
Depreciation and amortization							
December 31, 2013	**0**	**17,497**	**3,365**	**33,288**	**0**	**0**	**54,150**
Foreign currency adjustments	0	0	0	295	0	0	295
Additions	0	1,684	819	2,487	0	0	4,990
Additions to basis of consolidation	0	0	0	461	0	0	461
Disposals	0	–99	0	–5,530	0	0	–5,629
December 31, 2014	**0**	**19,082**	**4,184**	**31,001**	**0**	**0**	**54,266**
Foreign currency adjustments	0	0	0	85	0	0	85
Additions	0	1,859	882	2,829	0	0	5,570
Disposals	0	–11	–3	–3,990	0	0	–4,004
December 31, 2015	**0**	**20,930**	**5,063**	**29,925**	**0**	**0**	**55,917**
Book value December 31, 2015	**3,671**	**3,581**	**2,499**	**10,095**	**308**	**667**	**20,822**
Book value December 31, 2014	3,648	3,760	3,381	10,424	184	41	21,439

Goodwill

Goodwill shows the following development:

	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Elmos N.A.		
Acquisition cost	555	555
Foreign currency adjustments	45	22
Book value	**600**	**577**
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**
	3,671	**3,648**

In accordance with IFRS 3. B63(a) read in conjunction with IAS 38 and IAS 36, goodwill is not amortized but reviewed for impairment at least once every year. Measurement is made 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 at the level of Elmos Semiconductor AG as of the date of the 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. Forecasts are based on free cash flows. They in turn are based on detailed planning adopted by the 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. Determining the value in use implies 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 2016 to 2020. For the value added from 2021 it is enhanced by the perpetual annuity which is based on an annual growth rate of 0.5%.

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 decreasing gross margins to mid single-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 under the **c**apital **a**sset **p**ricing **m**odel (CAPM) and come to 15.69% for Elmos N.A., 14.69% for Elmos Semiconductor AG, 11.76% for Elmos Services B.V., and 12.18% 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. The cost of equity is based on a risk-free interest rate (1.5% or 3.25% for Elmos N.A.) plus an average market risk premium (6.25%), multiplied by an entity specific equity beta based on a so-called levered beta of 1.18. All values stated are derived from market data.

In 2015 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 **e**arnings **b**efore **i**nterest and **t**axes (EBIT) in all planning periods beginning in 2016 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 any of the entities even under these changed assumptions.

Other intangible assets

Development projects

In 2015 expenses linked to product developments were capitalized as development projects and projects under development in the amount of 1,750 thousand Euro (2014: 624 thousand Euro). Depreciation of capitalized developments amounted to 1,859 thousand Euro in 2015 (2014: 1,684 thousand Euro). The book value of capitalized development efforts (including projects under development) is 3,762 thousand Euro as of December 31, 2015 (2014: 3,886 thousand Euro).

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

Software and licenses and similar rights and assets

In 2015 as in the year before, no expenses for process technology were capitalized. Amortization came to 1,513 thousand Euro in 2015 (2014: 1,299 thousand Euro). As of December 31, 2015, the book values for process technology capitalized as non-current assets added up to 5,747 thousand Euro; they amounted to 7,260 thousand Euro as of December 31, 2014.

Other information

Costs linked to research and development projects are charged to expenses to the extent in which they incur and included in research and development expenses, provided they do not meet the criteria for capitalization under IAS 38.57. Research and development expenses of 5,273 thousand Euro were reimbursed by customers in 2015 (2014: 4,008 thousand Euro) and reported under consolidated sales.

14 – Property, plant and equipment

in 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, 2013	**1,699**	**34,889**	**184,620**	**3,939**	**225,147**
Foreign currency adjustments	0	298	1,385	115	1,798
Additions	498	3,883	24,631	1,266	30,278
Additions to basis of consolidation	146	0	2,666	80	2,892
Transfers	0	391	3,594	–4,011	–25
Disposals	0	–107	–12,973	–11	–13,091
December 31, 2014	**2,343**	**39,354**	**203,924**	**1,377**	**246,998**
Foreign currency adjustments	0	286	979	36	1,301
Additions	4,185	10,962	17,121	2,784	35,052
Transfers	–146	395	788	–1,047	–10
Disposals	–1,012	–5,700	–15,925	0	–22,637
December 31, 2015	**5,370**	**45,297**	**206,887**	**3,150**	**260,704**
Depreciation and amortization					
December 31, 2013	**0**	**18,090**	**134,669**	**0**	**152,759**
Foreign currency adjustments	0	162	1,218	0	1,380
Additions	7	2,232	18,395	0	20,634
Additions to basis of consolidation	56	0	1,707	0	1,763
Disposals	0	–31	–11,935	0	–11,967
December 31, 2014	**63**	**20,452**	**144,054**	**0**	**164,569**
Foreign currency adjustments	0	165	670	0	835
Additions	0	2,576	20,630	0	23,206
Transfers	–63	63	0	0	0
Disposals	0	–4,125	–14,772	0	–18,897
December 31, 2015	**0**	**19,131**	**150,582**	**0**	**169,713**
Book value December 31, 2015	**5,370**	**26,166**	**56,305**	**3,150**	**90,991**
Book value December 31, 2014	2,280	18,902	59,870	1,377	82,429

Additions to "Technical equipment and machinery/Factory and office equipment" include purchase transactions for fiscal year 2015 (2014) in the amount of 1,696 thousand Euro (December 31, 2014: Euro 1,429 thousand Euro) where the corresponding cash outflows only take place in 2016 (2015).

No borrowing costs were capitalized in fiscal year 2015 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 were no longer 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 deferred income under other liabilities in the amount of 2,530 thousand Euro. This item was amortized over the remaining term of 12.5 years until 2020. Within the framework of the negotiated lease contract, the Company was committed to total lease payments of 23,050 thousand Euro (including contribution to administrative expenses) until 2020. According to the contractual arrangements, additional payments were owed for tenant loans in the amount of 7,330 thousand Euro until the end of the lease term. In August 2015 Elmos and the lessor prematurely terminated the existing lease agreement amicably and Elmos bought back the leased assets. The Group's property, plant and equipment include additions in the amount of about 14 million Euro (not including real estate transfer tax) for the land and buildings concerned. The accrued tenant loan was offset against the corresponding expenditures and the profit from the previous transaction reported as deferred income under other liabilities was capitalized in profit or loss (cf. note 10).

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 were no longer 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). In August 2015 Elmos entered into a supplementary agreement to the existing lease agreement with the lessor under which future lease and tenant loan payments were reduced. Starting in 2016, the Company is committed to total lease payments of 4,988 thousand Euro (including contribution to administrative expenses) and total payments for tenant loans in the amount of 2,340 thousand Euro until 2021.

The Group did not generate material income from subletting in fiscal year 2015 (2014). Future minimum payments from non-cancelable subletting agreements are immaterial as well. Please refer to note 32 for further information.

15 – Securities and investments

a) Securities

In fiscal years 2010 through 2015, 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 (30,944 thousand Euro; 2014: 41,632 thousand Euro). Bonds that mature within one year have been allocated to current assets (9,584 thousand Euro; 2014: 10,226 thousand Euro).

b) Investments

Investments in subsidiaries considered of minor significance from the Group's perspective are accounted for in accordance with IAS 39. The Company holds shares in the following other entities:

	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Epigone	1	1
Elmos USA Inc.	19	19
	20	**20**

Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz

Elmos holds 6% of the shares as of December 31, 2015, 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, 2015. The entity does not conduct independent business operations.

Summarized financial information

Entity	Currency	Total assets thousand	Total liabilities thousand	Earnings thousand	Net income for the period thousand
Epigone[1]	EUR	9,266	9,266	643	–7
Elmos USA Inc.[2]	USD	–	–	–	–

[1] Presented figures are based on preliminary unaudited financial statements as of December 31, 2015.
[2] No financial statements of this entity are available at present.

16 – Deferred tax

	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Deferred tax assets		
Intangible assets	25	95
Property, plant and equipment	553	600
Securities	221	0
Other financial assets	0	120
Provisions for pensions	478	493
Other provisions	478	529
Payments on account/Accrued income	0	365
Other liabilities	367	519
Loss carry-forward	584	1,411
Tax credits	1,507	1,135
Others	137	172
Subtotal	4,350	5,439
Balance	–2,282	–2,971
	2,068	**2,468**
Deferred tax liabilities		
Intangible assets	–1,822	–2,662
Property, plant and equipment	–1,706	–2,274
Securities	–49	–770
Other financial liabilities	–165	0
Others	–224	–139
Subtotal	–3,966	–5,845
Balance	2,282	2,971
	–1,684	**–2,874**
Net deferred tax	**384**	**–406**

The balances stated above were determined in accordance with IAS 12.74 a) and b), i. e. deferred tax assets and deferred tax liabilities were netted against each other insofar as assets and liabilities related to the same tax authority and 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 in the net amount of deferred tax coming to 790 thousand Euro comprises deferred tax in the consolidated income statement of 837 thousand Euro (income), other changes outside profit or loss in the amount of 279 thousand Euro (decrease in equity), and foreign currency adjustments in the amount of 232 thousand Euro (income). Other changes outside profit or loss essentially result from deferred tax effects within other comprehensive income as reported in the consolidated statement of comprehensive income and explained 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.

As of December 31, 2015 there was no loss carry-forward for domestic entities (2014: 32 thousand Euro in deferred tax assets on loss carry-forward in the amount of 99 thousand Euro (corporate tax) or rather 99 thousand Euro (trade tax)).

For foreign entities, deferred tax assets were recognized in the amount of 584 thousand Euro (2014: 1,379 thousand Euro) on taxable loss carry-forward and in the amount of 1,507 thousand Euro (2014: 1,135 thousand Euro) on tax credits.

17 – Inventories

Inventories can be broken down as follows:

	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Raw materials	5,494	4,069
Work in process	41,190	38,463
Finished goods	10,472	10,685
Payments on account	12	0
	57,168	**53,217**

Impairment of inventories recognized as expense amounts to 523 thousand Euro (2014: 342 thousand Euro). This expense is disclosed under the item cost of sales. It comprises inventories whose future sale is improbable. These assets are attributable to the Micromechanics segment.

18 – Trade receivables

Trade receivables can be broken down as follows:

	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Trade receivables	32,834	35,151
Valuation allowances	–23	–129
	32,811	**35,022**

The Elmos Group constantly assesses its customers' creditworthiness and usually requests no collateral. The Elmos Group has made valuation allowances for potential bad debt. Such 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:

	2015 thousand Euro	2014 thousand Euro
Valuation allowances as of January 1	129	141
Additions in the reporting period (valuation allowance expense)	0	185
Consumption	–185	–130
Reversals (appreciation in value of initially written-off receivables)	0	0
Currency translation effects	79	–67
Valuation allowances as of December 31	**23**	**129**

The impairment of trade receivables is entered 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	12/31/2015	29,471	2,161	243	513	16	17	123
Other financial assets	12/31/2015	5,423	0	0	0	0	0	0
Trade receivables[1]	12/31/2014	30,323	3,741	437	46	132	315	7
Other financial assets	12/31/2014	7,787	0	0	0	0	0	0

[1] Prior-year amounts have been adjusted

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:

	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Loan receivable from third parties	680	800
Receivables from joint ventures	1,585	1,314
Tenant loans	1,048	1,751
Receivable – sale of TetraSun investment	313	282
	3,627	**4,147**

b) Other current financial assets

Other current financial assets can be broken down as follows:

	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Loan receivable from third parties	120	120
Forward exchange contracts/Currency option transactions	453	2,191
Receivable – sale of TetraSun investment	0	156
Other financial assets	1,223	1,173
	1,796	**3,640**

c) Other receivables

Other receivables can be broken down as follows:

	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Other tax assets	4,403	5,830
Accrued income	1,546	1,544
Other current receivables	926	704
	6,875	**8,078**

d) Income tax assets

Income tax assets amount to 86 thousand Euro (December 31, 2014: 562 thousand Euro).

21 – Non-current assets held for sale

Non-current assets held for sale in the amount of 93 thousand Euro (December 31, 2014: 0 thousand Euro) comprise various production machines probably to be sold in fiscal year 2016.

These assets are entirely attributable to the Semiconductor segment.

22 – Equity

Share capital

The share capital of 19,942 thousand Euro entered in the statement of financial position as of December 31, 2015 (December 31, 2014: 19,860 thousand Euro) and consisting of 19,941,864 (December 31, 2014: 19,859,749) no-par value bearer shares is fully paid up. It was increased from the previous year by 82 thousand Euro due to exercised stock options.

Treasury stock

As of December 31, 2015 the Company holds 214,587 (December 31, 2014: 280,825) of the Company's no-par shares, adding up to a theoretical share in the share capital of 215 thousand Euro (December 31, 2014: 281 thousand Euro).

Additional paid-in capital

Additional paid-in capital can be broken down as follows:

	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Premiums	85,052	84,005
Stock options/Stock awards/Share matching	5,905	5,652
	90,956	**89,657**

Additional paid-in capital essentially includes premiums from capital increases and the issue of shares of Elmos Semiconductor AG. In 2015 this item was increased by altogether 545 thousand Euro due to the exercise of stock options from stock option plans. Additional paid-in capital was also increased by 521 thousand Euro due to share-based payments and the issue of treasury shares. Within this framework 66,238 treasury shares were assigned in 2015. Premiums were reduced by 19 thousand Euro on account of transaction costs.

The share made up of stock options, stock awards, and share matching increased by the amount of the 2015 expense from the issue of stock options (190 thousand Euro) and the share matching plan (63 thousand Euro, cf. note 23).

Other equity components

Other equity components can be broken down as follows:

	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Foreign currency adjustments	1,265	–667
Deferred tax (on foreign currency adjustments)	–277	120
Hedges	–1,119	–1,582
Deferred tax (on hedges)	367	519
Changes in market value of available-for-sale financial assets	673	133
Deferred tax (on changes in market value of available-for-sale financial assets)	221	–44
Actuarial gains/losses	–1,275	–1,310
Deferred tax (on actuarial gains/losses)	459	465
Other equity components	**–1,032**	**–2,366**

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.

Hedging reserves represent the recognition of the market value of hedges outside profit or loss as of the reporting date (cf. notes 28 and 29). Changes in hedging reserves in 2014 and 2015 solely result from changes in the market value of hedges.

Reserves for available-for-sale financial assets are made in order to recognize changes in the fair value of selected financial instruments (cf. 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 2014 and 2015:

	thousand Euro
Balance as of 01/01/2014	**–3,920**
Exchange rate changes	2,081
Changes in deferred tax on exchange rate differences	–437
Changes in hedges	83
Changes in deferred tax on hedges	–27
Changes in available-for-sale financial assets	17
Changes in deferred tax on available-for-sale financial assets	–6
Changes in actuarial gains/losses	–316
Changes in deferred tax on actuarial gains/losses	159
Balance as of 12/31/2014	**–2,366**
Exchange rate changes	1,932
Changes in deferred tax on exchange rate differences	–397
Changes in hedges	463
Changes in deferred tax on hedges	–152
Changes in available-for-sale financial assets	–806
Changes in deferred tax on available-for-sale financial assets	264
Changes in actuarial gains/losses	35
Changes in deferred tax on actuarial gains/losses	–6
Balance as of 12/31/2015	**–1,032**

"Recycling" of equity components outside profit or loss

In fiscal year 2015 the Company sold or devalued bonds. For these bonds adjustments in equity have been made outside profit or loss until the respective date of purchase or devaluation. Pursuant to IAS 1.92 these amounts recognized outside profit or loss have to be reported as reclassification adjustment ("recycling") as of the date of realization. The following table contains the effects of the sale transactions or devaluation on the consolidated income statement and the consolidated statement of comprehensive income in fiscal year 2015:

	before "recycling" (thousand Euro)	"Recycling" (thousand Euro)	After "recycling" (thousand Euro)
Consolidated net income with respect to the sold/devalued bonds in the consolidated income statement for fiscal year 2015	–119	–273	–392
Other comprehensive income with respect to the sold/devalued bonds in the consolidated statement of comprehensive income for fiscal year 2015	0	273	273
Total comprehensive income with respect to the sold/devalued bonds in fiscal year 2015	–119	0	–119

Altogether 273 thousand Euro were reclassified from "Other comprehensive income" to the consolidated income statement in 2015 through profit or loss.

Ownership

Ownership of the Company is as follows as of December 31, 2015:

	thousand Euro	%
Weyer Beteiligungsgesellschaft mbH, Schwerte	3,627	18.19
Jumakos Beteiligungsgesellschaft mbH, Dortmund	2,984	14.96
ZOE-VVG GmbH, Duisburg	2,307	11.57
Treasury shares	215	1.08
Shareholders <10% shares	10,810	54.21
	19,942	**100.00**

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 consent, once or more than once by up to 9,707 thousand Euro through the 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 34 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). Stock option plan 2009 expired in 2015 and no more new stock options can be issued from conditional capital 2009. For this reason Supervisory Board and Management Board will propose the cancelation of conditional capital 2009 to the 2016 Annual General Meeting.

The share capital is conditionally increased by up to 665 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 1,200 thousand Euro **(conditional capital 2015/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 7, 2020 on the basis of the authorization given by the Annual General Meeting of May 8, 2015 (stock option plan 2015). No stock options have so far been issued under this plan.

The share capital is conditionally increased by up to 7,800 thousand Euro **(conditional capital 2015/II).** The conditional capital increase is carried out by the issue of up to 7,800,000 no-par bearer shares only to the extent that the holders or creditors of convertible bonds or subscription warrants from option bonds, issued on the basis of the authorization of the Management Board of Elmos Semiconductor Aktiengesellschaft or one of the Company's group companies within the meaning of Section 18 AktG until May 7, 2020, make use of their conversion privileges or option rights or fulfill their conversion obligations, or shares are supplied under tender rights unless other forms of performance are utilized for servicing.

The Management Board is authorized by the Annual General Board's resolution of May 8, 2015 to **purchase the Company's shares** up to and including May 7, 2020, subject to the Supervisory Board's consent. This authorization is limited to the purchase of shares in the total volume of up to 10% of the current share capital. The authorization may be exercised entirely or in several parts, once or more than once, and for one or more than one purpose within the scope of the aforementioned limitation.

There are stock options in accordance with Section 192 (2) no. 3 AktG from stock option plans for employees, executives and Management Board members on the purchase of 621,398 shares. Each stock 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 2015 Elmos Semiconductor AG distributed a dividend of 0.33 Euro per share out of the retained earnings of fiscal year 2014.

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 33,720 shares by the exercise of stock options) and 1,250,000 new no-par shares (conditional capital 2010/I, meanwhile reduced to 665,198 shares by the exercise of stock options). Furthermore, the Company is authorized to grant 1,200,000 new no-par shares (conditional capital 2015/I) out of which no stock options have been granted as of now.

As of December 31, 2015 altogether 621,398 stock options are outstanding. These are accounted for by the various tranches as follows:

	2009 tranche	2010 tranche	2011 tranche	2012 tranche	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	
Average share price of exercised options in Euro	17.80	18.12	14.19	n/a	
Blocking period ex issue (years)	3	4	4	4	
Exercise period after blocking period (years)	3	3	3	3	
Options outstanding as of 12/31/2014 (number)	38,940	123,744	233,505	384,844	781,033
Granted 2015 (number)	0	0	0	0	0
Exercised 2015 (number)	26,790	50,357	48,523	0	125,670
Forfeited 2015 (number)	12,150	2,520	7,080	12,215	33,965
Options outstanding as of 12/31/2015 (number)	**0**	**70,867**	**177,902**	**372,629**	**621,398**
Options exercisable as of 12/31/2015 (number)	0	70,867	177,902	0	248,769

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 closing prices of the share of Elmos Semiconductor AG on the Xetra trading platform over the last ten trading days 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 closing prices of the share of Elmos Semiconductor AG on the Xetra trading platform over the last ten trading days 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 exercise price. The pecuniary benefit the beneficiaries can achieve by exercising their options is limited to four times the exercise 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 by the AGM of May 6, 2009 for the 2009 tranche and by 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 instead of supplying shares to the beneficiaries.

In 2012 for the first time 201,500 stock options were exercised and in 2013 another 113,570 stock options, both from the 2009 tranche. In the year 2014, 100,320 stock options were exercised from the 2009 tranche and 105,044 stock options from the 2010 tranche. In the year 2015, 26,790 stock options were exercised from the 2009 tranche, 50,357 stock options from the 2010 tranche, and 48,523 stock options from the 2011 tranche.

The stock options' average fair 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 fair value at grant date was determined under the Black-Scholes method for option pricing based on the following assumptions:

Assumptions for the determination of fair value

	2009 tranche	2010 tranche	2011 tranche	2012 tranche
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 2015 the Company incurred expenses of 190 thousand Euro (2014: 277 thousand Euro) for its stock option plans 2011 and 2012 (2014: for stock option plans 2010, 2011, and 2012).

Share matching plan

In 2014 Elmos issued a share matching plan; eligible are members of the Management Board, selected other executives, and selected managing directors of affiliates who receive a written invitation to participate by Elmos. The share matching plan 2014 has a term until granting the final matching shares in the year 2018. The condition for participation is the beneficiaries' investment in Elmos stock from personal funds. For three Elmos shares acquired as a personal investment, over the next four years the participants generally receive one Elmos stock award each. Elmos assumes the obligation to pay taxes and other levies linked to the granting of matching shares. The right to matching shares exists only insofar as the beneficiary has not sold any of the shares acquired as a personal investment (including all matching shares received in the meantime) within the term of the plan. The participant has no rights to further matching shares if the employment relationship with Elmos ends by termination either by Elmos or by the employee. In fiscal year 2015 the Group incurred expenses in the amount of 109 thousand Euro (2014: 153 thousand Euro) for the share matching plan. Basis for the determination of fair value is the stock market price at the time the transaction is granted. Expected dividends have additionally been considered for the determination of fair value.

24 – Provisions

Provisions for pensions

The development of net liabilities accounted for is as follows:

	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Cash value of obligations	3,175	3,215
Time value of pension plan reinsurance	–2,679	–2,616
Liabilities recognized in the statement of financial position	**496**	**599**

The Company has pension plans for (former) members of the Management Board of Elmos Semiconductor AG and 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 1.95% per annum as of December 31, 2015 (December 31, 2014: 1.9% 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:

	2015 thousand Euro	2014 thousand Euro
Service cost	0	0
Interest	61	126
Pension expense (net)	**61**	**126**

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

Cash value of defined benefit obligations

	2015 thousand Euro	2014 thousand Euro
Pension commitments as of 01/01	3,215	4,141
Pension expense	61	126
Benefits paid to pensioners	–79	–154
Benefits paid on settlement	0	–1,123
Gains on settlement	0	–281
Actuarial gains (–)/losses	–22	506
Pension commitments as of 12/31	**3,175**	**3,215**

Fair value of reinsurance policies

	2015 thousand Euro	2014 thousand Euro
Fair value of reinsurance policies as of 1/1	2,616	3,648
Income from plan assets	50	114
Employer's contributions	90	87
Benefits from reinsurance policies	–79	–79
Benefits based on settlement	0	–1,123
Actuarial gains/losses (–)	2	–31
Fair value of reinsurance policies as of 12/31	**2,679**	**2,616**

In fiscal year 2014 the pension plan for a former member of the Management Board of Elmos Semiconductor AG was adjusted. Due to the changed conditions, the pension agreement with the beneficiary is no longer considered a direct defined benefit commitment with benefits to be paid by Elmos Semiconductor AG but rather an indirect pension commitment for which no provisions must be made due to the scope of the commitment and completely congruent coverage by reinsurance policies. The cash value of the defined benefit obligation has been reduced by the amount of 1,404 thousand Euro within the framework of this adjustment. At the same time the fair value of reinsurance policies had to be adjusted in the amount of 1,123 thousand Euro so that the Company collected net income in the amount of 281 thousand Euro in the previous year.

Income from pension plan reinsurance amounts to 63 thousand Euro (2014: 48 thousand Euro) including payments made in the event of death. Premiums of 88 thousand Euro were paid (2014: 88 thousand Euro). Contribution payments in the amount of 88 thousand Euro are expected for 2016 as well.

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 2015 contributions to these pension plans amounted to 478 thousand Euro (2014: 475 thousand Euro).

The employer's social security contributions made for employees amounted to 4,510 thousand Euro in 2015 (2014: 4,405 thousand Euro). The contributions to employees' direct insurance came to 11 thousand Euro in 2015 (2014: 8 thousand Euro).

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

	2015 thousand Euro	2014 thousand Euro	2013 thousand Euro	2012 thousand Euro	2011 thousand Euro
Pension commitment	3,175	3,215	4,140	3,963	3,160
Fair value of pension plan reinsurance	–2,679	–2,616	–3,648	–3,207	–2,972
Underfunding (–)	–496	–599	–492	–756	–188
Adjustments to plan liabilities based on experience	1	153	–24	–114	–8
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 in accordance with IAS 19.83 and must be chosen in consideration of the interest rates of high-quality corporate bonds. A change of 1% 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
Effect on defined benefit obligations (thousand Euro)	–420	529

Based on the sensitivity analyses carried out, there would be no material effect on pension expense. For materiality considerations, sensitivity analyses are not carried out for other parameters.

The following maturities are expected for pension payments of the next five years:

	thousand Euro
2016	80
2017	80
2018	142
2019	143
2020	144

The weighted average term of the pension benefit commitments is 16.7 years.

Current provisions

	01/01/2015 thousand Euro	Consumption thousand Euro	Reversal thousand Euro	Addition thousand Euro	12/31/2015 thousand Euro
Vacation bonus	828	537	8	810	1,093
Bonus provisions	1,115	1,115	0	1,110	1,110
Employer's liability insurance association	457	415	42	479	479
Warranty	3,100	4	1,646	3,513	4,963
Licenses	234	169	0	205	270
Other provisions for employee benefits	4,296	3,799	228	3,108	3,377
Other provisions	2,780	719	662	2,013	3,412
	12,811	**6,758**	**2,586**	**11,238**	**14,705**

The warranty provision is made only on the basis of known individual risks according to risk assessment made as of the reporting date. This concerns individual warranty claims for which there is uncertainty regarding their utilization as of the reporting date. Provision for licenses includes payment commitments to in-house and external inventors. This provision is calculated on the basis of existing payment agreements. Other provisions for employee benefits essentially include bonus payment commitments, settlement payments, overtime, 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 can be broken down as follows as of December 31, 2015:

	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Loans	**36,639**	**37,076**

Loans

The effective interest rates of non-current loans are between 1.75% and 4.90%.

Current financial liabilities

As of December 31, 2015 the Company had various short-term lines of credit at its disposal in the total amount of 16,510 thousand Euro. As of December 31, 2015 the Company provided these credit facilities as security in the amount of 686 thousand Euro (2014: 617 thousand Euro). Current financial liabilities (December 31, 2015: 185 thousand Euro; December 31, 2014: 333 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 values in the following table) from borrowing as well as payouts (indicated as positive values in the following table) for redemption, repayment and interest on financial liabilities accounted for as of December 31, 2015 and December 31, 2014. 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 value.

December 31, 2015	2016 thousand Euro	2017 thousand Euro	2018-2020 thousand Euro	From 2021 thousand Euro
Liabilities to banks	1,562	26,480	11,008	0
Trade payables	21,810	0	0	0
Other financial liabilities	301	0	2,000	0
Hedged derivatives	592	519	0	0

December 31, 2014	2015 thousand Euro	2016 thousand Euro	2017-2019 thousand Euro	From 2020 thousand Euro
Liabilities to banks	1,707	1,695	37,764	0
Trade payables	21,856	0	0	0
Other financial liabilities	3,705	0	2,000	0
Hedged derivatives	555	555	487	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:

	12/31/2015 thousand Euro	12/31/2014 thousand Euro
Other current liabilities	2,629	6,509
Other non-current liabilities	2,458	3,878
	5,087	**10,387**

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. The decrease from the previous year is essentially based on the 2015 settlement of payment obligations to non-controlling shareholders outstanding as of the prior-year reporting date (3,000 thousand Euro).

Other non-current liabilities essentially include the put option for non-controlling shareholders (2,000 thousand Euro; December 31, 2014: 2,000 thousand Euro; cf. note 29), recognized outside profit or loss. In view of the increase of the investment in MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin, from 50% to 80% of the shares, reorganizing the existing call and put options became necessary. As a consequence the put option, treated as a deferred item in the amount of 2,392 thousand Euro in fiscal year 2013, was dissolved outside profit or loss in 2014 and the fair value of the put option on the remaining 20% interest was treated as a deferred item outside profit or loss based on the adjusted agreement. In combination with this put option Elmos Semiconductor AG simultaneously concluded a new call option. The identity of the vesting conditions of both options results in the immediate transfer of the economic property of the optioned shares (please also refer to note 33). From an economic perspective this meant an acquisition of 100% of the shares with the recognition of a purchase price liability (in this case in the amount of 2,000 thousand Euro). In addition to that, other non-current liabilities include the non-current portion of hedged derivatives (459 thousand Euro; December 31, 2014: 967 thousand Euro). Hedged derivatives are presented under note 29. The decrease in other non-current liabilities is based primarily on the reversal of the deferred income item (please also refer to note 14) in connection with the termination of an existing lease agreement, reported at 911 thousand Euro (non-current portion of the 1,113 thousand Euro cited under note 10) as of December 31, 2014.

Income tax liabilities amount to 6,889 thousand Euro (December 31, 2014: 2,565 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 development 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 match (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, 2015 did result in no changes to the assessment as “highly effective”.

The interest rate swap is recognized at its fair value (market value including accrued interest) in the statement of financial position (cf. note 29). The cash flow hedging reserve or the cash flow hedge market value corresponds to the fair value. Changes in the fair value 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 reversed 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 their 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 has concluded several currency-related hedges. Those are forward exchange rate contracts for the currency U.S. dollar; corresponding income or expenses have been stated under the item "Exchange rate gains/losses" (cf. note 29). The market value of forward exchange rate contracts is measured in application of the exchange rates as of the reporting date based on market assessments of the banks involved.

Moreover, the Company concluded structured term deposit transactions in 2015, providing for repayment of the investment amount in a foreign currency (essentially U.S. dollar) if a predefined EUR/foreign currency reference exchange rate is exceeded upon the date of maturity of the transaction (cf. note 29 for further information).

29 – Additional information on financial instruments

Book values, measurement, and fair value 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 value due to the short-term maturities of these financial instruments.

The book values of short-term 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 (cf. 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, 2015 was based on a **d**iscounted **c**ash **f**low (DCF) model in consideration of current interest yield curves as of the reporting date.

The market value of forward exchange contracts/currency option transactions (cf. note 30) was determined on the basis of the currency exchange rates provided by the involved banks 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 26).

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

			Measurement according to IAS 39						Measurement according to IAS 39				
thousand Euro	Cat.	Book value 12/31/2015	Amortized cost	Acquisition cost	At market value through profit or loss	At market value outside profit or loss	Fair value 12/31/2015	Book value 12/31/2014	Amortized cost	Acquisition cost	At market value through profit or loss	At market value outside profit or loss	Fair value 12/31/2014
Financial assets													
Investments	AfS	20	0	20	0	0	20	20	0	20	0	0	20
Securities (long-term)	LaR	1,000	1,000	0	0	0	1,000	0	0	0	0	0	0
Securities (long-term)	AfS	29,944	0	0	0	29,944	29,944	41,632	0	0	0	41,632	41,632
Securities (short-term)	LaR	0	0	0	0	0	0	4,000	4,000	0	0	0	4,000
Securities (short-term)	AfS	9,584	0	0	0	9,584	9,584	6,226	0	0	0	6,226	6,226
Trade receivables	LaR	32,811	32,811	0	0	0	32,811	35,022	35,022	0	0	0	35,022
Cash and cash equivalents	LaR	50,000	50,000	0	0	0	50,000	32,520	32,520	0	0	0	32,520
Other financial assets													
Other receivables and assets	LaR	1,646	1,646	0	0	0	1,646	1,709	1,709	0	0	0	1,709
Other loans	LaR	3,314	3,314	0	0	0	3,314	3,865	3,865	0	0	0	3,865
Forward exchange contracts/Currency option transactions	HfT	453	0	0	453	0	453	2,190	0	0	2,190	0	2,190
Call options	HfT	3	0	0	3	0	3	0	0	0	0	0	0
Embedded derivatives	HfT	7	0	0	7	0	7	23	0	0	23	0	23
Total financial assets		**128,782**	**88,771**	**20**	**463**	**39,528**	**128,782**	**127,207**	**77,116**	**20**	**2,213**	**47,858**	**127,207**
Financial liabilities													
Trade payables	OL-AC	21,810	21,810	0	0	0	21,810	21,856	21,856	0	0	0	21,856
Liabilities to banks	OL-AC	36,824	36,824	0	0	0	37,852	37,409	37,409	0	0	0	38,737
Other financial liabilities													
Miscellaneous financial liabilities	OL-AC	301	301	0	0	0	301	3,705	3,705	0	0	0	3,705
Forward exchange contracts/Currency option transactions	HfT	107	0	0	107	0	107	0	0	0	0	0	0
Embedded derivatives	HfT	4	0	0	4	0	4	0	0	0	0	0	0
Put option	OL-FV	2,000	0	0	2,000	0	2,000	2,000	0	0	2,000	0	2,000
Hedged derivatives (short-term)	OL-FV	661	0	0	0	661	661	616	0	0	0	616	616
Hedged derivatives (long-term)	OL-FV	459	0	0	0	459	459	967	0	0	0	967	967
Total financial liabilities		**62,166**	**58,935**	**0**	**2,111**	**1,120**	**63,194**	**66,553**	**62,970**	**0**	**2,000**	**1,583**	**67,881**
Aggregated by measurement category													
Loans and receivables (LaR)		88,771	88,771	0	0	0	88,771	77,116	77,116	0	0	0	77,116
Available for sale (AfS)		39,548	0	20	0	39,528	39,548	47,878	0	20	0	47,858	47,878
Financial assets held for trading (HfT)		463	0	0	463	0	463	2,213	0	0	2,213	0	2,213
Financial liabilities held for trading (HfT)		111	0	0	111	0	111	0	0	0	0	0	0
Financial liabilities accounted for at amortized cost (OL-AC)		58,935	58,935	0	0	0	59,963	62,970	62,970	0	0	0	64,298
Financial liabilities accounted for at fair value (OL-FV)		3,120	0	0	2,000	1,120	3,120	3,583	0	0	2,000	1,583	3,583

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 value and are not based on observable market data

As of December 31, 2015 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, 2014	**42,691**	**0**	**0**
Addition securities (long-term)	5,350	0	0
Disposal securities (long-term)	0	0	0
Market valuation securities (long-term)	189	0	0
Addition securities (short-term)	0	0	0
Disposal securities (short-term)	–200	0	0
Market valuation securities (short-term)	–172	0	0
December 31, 2014	**47,858**	**0**	**0**
Addition securities (long-term)	3,971	0	0
Disposal securities (long-term)	–4,787	0	0
Transfer securities (long-term)	–9,996	0	0
Market valuation securities (long-term)	–876	0	0
Addition securities (short-term)	255	0	0
Disposal securities (short-term)	–6,652	0	0
Transfer securities (short-term)	9,996	0	0
Market valuation securities (short-term)	–241	0	0
December 31, 2015	**39,528**	**0**	**0**

	Level 1 thousand Euro	Level 2 thousand Euro	Level 3 thousand Euro
Investments			
January 1, 2014	**0**	**0**	**470**
Disposal DMOS investment	0	0	–450
December 31, 2014	**0**	**0**	**20**
December 31, 2015	**0**	**0**	**20**
Hedged derivatives			
January 1, 2014	**0**	**–1,665**	**0**
Correction of measurement of hedged derivatives outside profit or loss (short-term and long-term)	0	83	0
December 31, 2014	**0**	**–1,583**	**0**
Correction of measurement of hedged derivatives outside profit or loss (short-term and long-term)	0	463	0
December 31, 2015	**0**	**–1,120**	**0**
Forward exchange contracts/Currency option transactions			
January 1, 2014	**0**	**0**	**0**
Addition forward exchange contracts/currency option transactions	0	2,190	0
December 31, 2014	**0**	**2,190**	**0**
Addition forward exchange contracts/currency option transactions	0	346	0
Disposal forward exchange contracts/currency option transactions	0	–2,190	0
December 31, 2015	**0**	**346**	**0**
Call options			
January 1, 2014	**0**	**0**	**48**
Derecognition call option	0	0	–48
December 31, 2014	**0**	**0**	**0**
Addition call option	0	0	3
December 31, 2015	**0**	**0**	**3**

	Level 1 thousand Euro	Level 2 thousand Euro	Level 3 thousand Euro
Put option			
January 1, 2014	**0**	**0**	**–2,392**
Derecognition put option	0	0	2,392
Addition put option	0	0	–2,000
December 31, 2014	**0**	**0**	**–2,000**
December 31, 2015	**0**	**0**	**–2,000**
Embedded derivatives			
January 1, 2014	**0**	**0**	**0**
Addition embedded derivatives	0	23	0
December 31, 2014	**0**	**23**	**0**
Addition embedded derivatives	0	3	0
Market valuation embedded derivatives	0	–23	0
December 31, 2015	**0**	**3**	**0**

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 Company's forward exchange contracts/currency option transactions are also presented under this hierarchy level (cf. note 28). The effects of a changed exchange rate on fair value are discussed under note 30 in the context of the explanation of exchange rate risk.

The available-for-sale financial assets reported under *hierarchy level 3* are investments in various entities, among other items. For considerations of materiality, the book values are assumed to essentially correspond to the market values. The call and put options agreed on with a non-controlling shareholder are measured annually at fair value under the DCF method and in consideration of the contract terms and conditions. In the course of the measurement process, the required publicly accessible market data are collected, and non-observable input parameters are reviewed on the basis of available recent in-house information and updated if necessary. Material changes to input parameters and their effects on book values are routinely reported to management. In the second quarter of 2015 Elmos Semiconductor AG entered into a cooperation agreement with a foreign development company. Part of this agreement is an option on the purchase of shares in this company. The purchase price for this call option corresponds to the fair value as of the reporting date.

For changes in the accounting treatment of the call and put options reported under hierarchy level 3 please refer to note 26. The put option agreed on with a non-controlling shareholder was measured at the cash value of the repurchase amount in fiscal year 2015 in application of the DCF method. Taken into consideration were the planning period from 2017 to 2020 defined in the put option agreement as well as a discount rate of 0.00% (2014: 0.00%). 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 or losses from financial instruments recognized in the consolidated income statement.

Gains (+)/Losses (–)	2015 thousand Euro	2014 thousand Euro
LaR (loans and receivables)	80	–14
AfS (available for sale)	–311	0
OL-AC (other liabilities-acquisition cost)	–135	–455
OL-FV (other liabilities-fair value)	0	0
HfT (held for trading)	2,431	2,742

In fiscal year 2015 Elmos realized exchange rate gains in the amount of 2,328 thousand Euro and incurred exchange rate losses in the amount of 223 thousand Euro from currency-related hedges (2014: exchange rate gains of 580 thousand Euro and exchange rate losses of 52 thousand Euro), reported in the consolidated income statement under the item "Exchange rate gains/losses". The forward contracts that reach beyond the reporting date December 31, 2015 result in a positive market value of 453 thousand Euro (2014: 2,190 thousand Euro) and a negative market value of 107 thousand Euro (2014: 0 thousand Euro), reported in the consolidated income statement under the item "Exchange rate gains/losses".

Moreover, the Company concluded structured term deposit transactions in 2015. The effects on the financial position as of December 31, 2015 are limited to the collected interest income (2014: collected interest income and exchange rate gains generated in the amount of 0 thousand Euro and exchange rate losses incurred at 66 thousand Euro).

In the category "available for sale", securities were written down through profit or loss as the market value of these financial assets is below their book value and there are objective indications of impairment within the meaning of IAS 39.59 (f). The corresponding expense of 311 thousand Euro was determined according to the listed stock market price of these securities and reported in the consolidated income statement under the item finance expense.

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" primarily result from trade receivables. Net gains and losses essentially comprise valuation allowances, currency translation effects, and debt loss.

Expenses or income classifiable as "OL-AC" result from exchange rate differences of trade payables.

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 routine 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 and has been reviewed by the auditing firm for its compliance with the provisions of the Stock Corporation Act (AktG) and found suitable for detecting developments that could jeopardize the Company's continued existence at an early stage. 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 as well as other price risks. 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 adequate measures. A case in point, interest and exchange rate risks are controlled and contained by utilizing suitable derivatives. In doing so, Elmos enters into forward exchange contracts and currency option transactions 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 discussed regularly by Management Board and Supervisory Board. The implementation of the strategy and the operation of financial and risk management are the obligation of the Management Board and the responsible employees.

In fiscal year 2015 a review of the system for compliance with the requirements resulting from Section 20 (1) WpHG (German Securities Trading Act) was conducted ("EMIR"), leading to no objections.

Credit risk and contingency risk

Liquid assets are essentially cash and cash equivalents. With respect to the investment of liquid assets, the Group is potentially 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 high 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 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, structured bonds with credit rating components) and to a lesser extent, in pursuit of an investment mix, in borrower's notes ("Schuldscheinanlagen"). The emphasis of issuer's ratings continues to be placed on investment grade ratings.

Trade receivables primarily originate from sales generated with microelectronic components, sensors, system parts, and development services. Customers are for the most part automotive suppliers and to a lesser extent companies in the industrial sector, consumer goods industry, medical technology industry, and other sectors. Accounts receivable are continuously monitored in the individual segments; contingency risks are met with specific allowances for bad debt. The terms of payment reflect the historical development of the respective customer-supplier relationship; observation of the terms is monitored continuously. With respect to new customers, creditworthiness information is gathered in advance and credit limits are determined if necessary. Business transactions with major customers are subject to special contingency risk supervision. Elmos pursues a stringent credit policy altogether. 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 uncertainties, outstanding receivables are monitored and reminded with scrutiny as part of a continuous operational process.

Liquidity 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, at maturity. A liquidity reserve in the form of cash and cash equivalents, investments of high fungibility and convertibility into cash, and sufficiently available free lines of credit 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 within the framework of short-term and long-term liquidity planning. Apart from their respective internal financing power, liquidity of the domestic and international subsidiaries is provided through the Group's lines of credit and loans as well as by 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, interest rates, and prices for raw materials (e.g. gold). There are also market price risks within the scope of guaranteeing electric power and natural gas supplies for the medium term. 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 financial results and cash flows are partly 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 (USD).

Exchange rate risks result from operating activities (sales, purchasing) and investments. Due to increased purchasing of services in U.S. dollar, especially assembly and foundry services from Southeast Asia typically billed in U.S. dollar in the global market, the Group's currency exposure has expanded. Generally Elmos still aims for natural hedging, i.e. a balance of U.S. dollar cash inflow and outflow, and takes measures throughout the Group for containing the exposure. If the Group management considers it necessary, the excess volume not covered by natural hedging is controlled actively by concluding derivative financial instruments for currency hedging, among other measures. 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 exposed to currency risks as of the reporting date. In fiscal year 2015, Elmos realized exchange rate gains in the amount of 2,328 thousand Euro (2014: 580 thousand Euro) and incurred exchange rate losses in the amount of 223 thousand Euro (2014: 52 thousand Euro) from U.S. dollar currency hedges. In addition to that, from the measurement of U.S. dollar hedges still open by the reporting date, Elmos recorded income of 453 thousand Euro (2014: 2,190 thousand Euro) and expenses of 107 thousand Euro (2014: 0 thousand Euro) in the consolidated income statement. Furthermore, exchange rate gains in the amount of 0 thousand Euro (2014: 0 thousand Euro) and exchange rate losses in the amount of 0 thousand Euro (2014: 66 thousand Euro) resulted in 2015 from structured term deposits where the repayment of the investment amount in foreign currency (essentially U.S. dollar) is called for insofar as a previously fixed reference exchange rate between EUR and the foreign currency is exceeded as of the due date of the transaction. These investments thus resulted solely in interest advantages.

Had the euro been revalued (devalued) against the U.S. dollar by 10% as of December 31, 2015 with respect to the monetary financial instruments, the income (before taxes) would have been 1,138 thousand Euro lower (1,361 thousand Euro higher) (2014: 1,998 thousand Euro lower (2,424 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 correspondingly concluded forward loans (cf. note 28), among other factors. Had the market interest rate level been higher (lower) by 100 basis points, equity would have been higher by 295 thousand Euro (decrease in equity by 304 thousand Euro) due to group accounting outside profit or loss (2014: increase (decrease) in equity by 493 (501) 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 738 thousand Euro (increase in equity by 759 thousand Euro) (2014: decrease (increase) in equity by 1,265 (1,236) thousand Euro) and expenses of 23 thousand Euro (income of 24 thousand Euro) (2014: 0 (0) thousand Euro). Deferred tax on these amounts would also have to be considered.

With respect to the put option, a 100 basis points higher (lower) market interest rate level would result in an increase (decrease) in equity of 4 (0) thousand Euro (2014: increase (decrease) in equity by 59 (0) 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, 2015 – corresponding with the previous year – as all loan commitments have been utilized and there are no new loan commitments.

Elmos is exposed to interest rate risks primarily in the euro area. Within the context of financing decisions, 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 for securing the basis of calculation. Interest derivatives are also utilized if necessary.

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

c) Other price risks

Elmos has secured the supply with electricity and natural gas since fiscal year 2014 for the medium term by concluding a fixed price in advance. A 10% higher (lower) electricity rate would result in an increase (decrease) in earnings by 175 thousand Euro (175 thousand Euro) for fiscal year 2015 (2014: increase (decrease) in earnings by 142 thousand Euro (141 thousand Euro)). A 10% higher (lower) gas price would result in an increase (decrease) in earnings by 238 thousand Euro (237 thousand Euro) for fiscal year 2015 (2014: increase (decrease) in earnings by 317 thousand Euro (317 thousand Euro)). The Group's equity effect with respect to electricity and natural gas would have been the same amount via the result effect in consideration of income tax incurred.

Capital management

It is the primary objective of the Elmos Group's capital management to assure that an adequate credit rating, liquidity at any time and at high financial flexibility, and a solid capital structure are maintained in support of the Company's business operations and their continuation in 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, 2015 and December 31, 2014, no changes were made to the objectives, guidelines, or procedures.

The Group monitors its capital based on net debt or rather net cash in absolute terms 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.

	2015	2014
Net cash	53.7 million Euro	47.0 million Euro
Equity ratio	71.5%	70.0%

OTHER INFORMATION

31 – Government grants

The Company receives subsidies or government grants used for financing research and development projects as well as subsidies in accordance with the German Combined Heat and Power Act ("**K**raft-**W**ärme-**K**opplungs**g**esetz" – KWKG). Government grants used for research and development projects were offset against research and development expenses and recognized in that item (653 thousand Euro in 2015, 611 thousand Euro in 2014). Subsidies according to the KWKG were allocated to the individual functional areas depending on causation and offset accordingly (399 thousand Euro in 2015, 491 thousand Euro in 2014). Government grants for capital expenditures for property, plant and equipment were collected in the amount of 46 thousand Euro in 2015 (0 thousand Euro in 2014).

32 – Other financial liabilities and contingencies

The Company has entered into non-cancelable rental and lease agreements for the administration building and a parking garage, the terms of which extend until 2021. The Company has also entered into lease agreements for technical equipment and machinery as well as factory 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.

In fiscal year 2015 lease agreements with respect to the production building were terminated amicably ahead of schedule. The underlying assets (land and building) were bought back and are now reported under property, plant and equipment in the consolidated financial statements (cf. note 14).

Within the framework of the lease agreements with Epigone, Elmos is committed to lease payments of 4,988 thousand Euro until 2021 (including contributions to administrative expenses and sales tax) plus payments of 2,340 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 during the lease term. After the completion of the lease term, SMI may demand the extension of the lease 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 8,404 thousand Euro in 2015 and 9,791 thousand Euro in 2014.

As of December 31, 2015 and December 31, 2014, 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, various purchase obligations, etc.

	December 31, 2015 thousand Euro	December 31, 2014 thousand Euro
2015	n/a	24,312
2016	25,615	17,242
2017	10,898	10,733
2018	7,556	6,159
2019	4,164	5,429
2020	3,060	n/a[1]
Later years	2,043	5,043
	53,336	**68,918**

[1] Included in later years

There is a purchase commitment in the amount of 4,283 thousand Euro from investment orders placed (2014: 2,867 thousand Euro).

Elmos has assumed joint liability, in effect until 2016 at the latest, with respect to lease liabilities transferred to a third-party company within the framework of an asset deal in the amount of 45 thousand Euro as of the reporting date (2014: 379 thousand Euro). So far no claims have been filed. The risk of future claims is considered low.

33 – Group companies

The parent company as well as the subsidiaries controlled in accordance with IFRS 10 have been included in the consolidated financial statements at hand.

	Capital share[1] (direct and indirect) in %
Parent	
Elmos Semiconductor AG, Dortmund	
Subsidiaries	
Elmos Design Services B.V., Nijmegen/Netherlands	100.0
Elmos Korea Co. Ltd., Seoul/Korea	100.0
Elmos N.A. Inc., Farmington Hills/U.S.A.	100.0
Elmos Semiconductor B.V., Nijmegen/Netherlands	100.0
Elmos Semiconductor Singapore Pte. Ltd., Singapore	100.0
Elmos Japan K.K., Tokyo/Japan	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
DMOS Dresden MOS Design GmbH, Dresden	74.8
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin	80.0
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

[1] Unchanged from the previous year

Subsidiaries Elmos Central IT Services GmbH and Elmos Facility Management GmbH were merged into Elmos Semiconductor AG in fiscal year 2015. This measure aimed at streamlining structures and processes and at realizing synergy effects.

Information on share ownership

	Currency	Shares %	Equity thousand	Earnings thousand
Germany				
DMOS Dresden MOS Design GmbH, Dresden	Euro	74.8	1,550	203[1]
Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	Euro	6.0	–64	–7[1]
GED Electronic Design GmbH, Frankfurt/Oder	Euro	100.0	1,498	0[1,4]
Mechaless Systems GmbH, Bruchsal	Euro	100.0	339	129[1]
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin	Euro	80.0	2,236	684[1]
International				
Elmos Services B.V., Nijmegen (NL)	Euro	100.0	65,698	42,518[1]
Elmos Semiconductor B.V., Nijmegen (NL)	Euro	100.0	11,233	3,070[1,2]
Elmos Design Services B.V., Nijmegen (NL)	Euro	100.0	405	0[1,2]
European Semiconductor Assembly (eurasem) B.V., Nijmegen (NL)	Euro	100.0	107	29[1,2]
Micro Systems on Silicon (MOS) Limited, Pretoria (South Africa)	ZAR	51.0	15,286	14,934[1,2]
Elmos USA Inc., Farmington Hills (U.S.A.)	USD	100.0	–	–[3]
Elmos N.A. Inc., Farmington Hills (U.S.A.)	USD	100.0	1,017	62[1,2]
Silicon Microstructures Inc., Milpitas (U.S.A.)	USD	100.0	4,245	1,888[1,2]
Elmos Korea Co. Ltd., Seoul (Korea)	KRW	100.0	526,944	94,548[1]
Elmos Semiconductor Singapore Pte. Ltd., Singapore	SGD	100.0	740	44[1]
Elmos Japan K.K., Tokyo (Japan)	JPY	100.0	35,475	3,312[1]
Elmos Semiconductor Technology (Shanghai) Co., Ltd., Shanghai (China)	CNY	100.0	3,674	521[1,2]

[1] Presented figures are based on preliminary unaudited financial statements as of December 31, 2015.
[2] Indirect investment of Elmos Semiconductor AG, Dortmund
[3] Financial statements of this entity are not available yet.
[4] Profit and loss transfer agreement

Additional summarized financial information on non-controlling interests as of December 31, 2015 (IFRS 12 B10):

Entity	Non-controlling interests %	Current assets thousand Euro	Non-current assets thousand Euro	Current liabilities thousand Euro	Non-current liabilities thousand Euro	Sales thousand Euro	Allocated dividend thousand Euro
DMOS Dresden MOS Design GmbH, Dresden	25.2%	1,250	2,001	1,562	37	4,333	0
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin	20.0%	2,927	3,419	853	604	5,849	0
Micro Systems on Silicon (MOS) Limited, Pretoria/South Africa	49.0%	959	4	56	0	1,666	408

Additional summarized financial information on non-controlling interests as of December 31, 2014 (IFRS 12 B10):

Entity	Non-controlling interests %	Current assets thousand Euro	Non-current assets thousand Euro	Current liabilities thousand Euro	Non-current liabilities thousand Euro	Sales thousand Euro	Allocated dividend thousand Euro
DMOS Dresden MOS Design GmbH, Dresden	25.2%	1,193	1,949	1,300	42	3,096	0
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin	20.0%	2,373	3,699	952	701	4,085	400
Micro Systems on Silicon (MOS) Limited, Pretoria/South Africa	49.0%	801	6	11	0	1,361	266

34 – Information on Management Board and Supervisory Board

Remuneration of Management Board and Supervisory Board for 2015

	Short-term payments		Share-based payments	
	Fixed remuneration thousand Euro	Variable remuneration thousand Euro	Stock options (fair value) thousand Euro	Share matching plan (fair value) thousand Euro
Management Board	1,515	997	0	0
Supervisory Board	84	218	0	0

Remuneration of Management Board and Supervisory Board for 2014

	Short-term payments		Share-based payments	
	Fixed remuneration thousand Euro	Variable remuneration thousand Euro	Stock options (fair value) thousand Euro	Share matching plan (fair value) thousand Euro
Management Board	1,512	775	0	86
Supervisory Board	82	158	0	0

There are indirect pension commitments to Management Board members for benefits after termination of employment for which no pension provisions must be made because of completely congruent coverage by reinsurance policies. In 2015 contributions to these pension plans amounted to 454 thousand Euro (2014: 451 thousand Euro), included in the fixed remuneration component. Within the framework of the share matching plan no stock claims were issued to members of the Management Board in fiscal year 2015 (2014: 3,488 stock claims).

Remuneration paid to former Management Board members or their surviving dependents amounted to 224 thousand Euro in fiscal year 2015 (2014: 167 thousand Euro). Moreover, insurance premiums in the amount of 111 thousand Euro were paid (2014: 111 thousand Euro). These amounts are balanced by reimbursements from reinsurance policies in the amount of 119 thousand Euro (2014: 123 thousand Euro).

The amount of pension provisions for acting and former members of the Management Board or their surviving dependents was 1,543 thousand Euro as of December 31, 2015 (2014: 1,610 thousand Euro).

For other services, particularly consulting services, the Company compensated members of the Supervisory Board in the amount of 0 thousand Euro (2014: 22 thousand Euro).

The Annual General Meeting of May 13, 2014 decided with a majority in excess of the required three quarters not to provide the disclosures stipulated under Section 285 no. 9a sentences 5-8 HGB (Commercial Code) for the next five years.

Mandates of Management Board and Supervisory Board members in 2015

As of December 31, 2015 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

35 – Shares, stock options, and share matching claims held by Management Board and Supervisory Board members

As of December 31, 2015 the following members of Management Board and Supervisory Board held Elmos shares, stock options, and share matching claims:

Management Board	Shares	Stock options	Share matching stock (claims)
Dr. Anton Mindl	14,337	48,333	654
Dr. Arne Schneider	2,146	6,050	327
Reinhard Senf	26,529	35,000	654
Dr. Peter Geiselhart	11,077	17,778	654

Supervisory Board	Shares	Stock options
Prof. Dr. Günter Zimmer	41,851	0
Dr. Burkhard Dreher	14,619	0
Dr. Klaus Egger	14,000	0
Thomas Lehner	6,199	3,750
Sven-Olaf Schellenberg	4,300	750
Dr. Klaus Weyer	216,276	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 2015:

	2015 thousand Euro	2014 thousand Euro
Audit services	165	141
Other certification services	39	39
Tax counselling	116	161
Other services	8	17
	327	**358**

The position "Other certification services" includes fees for the review of the interim consolidated financial statements as of June 30, 2015 (or rather as of June 30, 2014 for 2014).

37 – Appropriation of retained earnings and dividend proposal

Management Board and Supervisory Board propose to the Annual General Meeting in May 2016 the payment of a dividend of 33 cents per share for fiscal year 2015 out of the 2015 retained earnings of Elmos Semiconductor AG in the amount of 76.9 million Euro. The total dividend payout would thus amount to 6.5 million Euro, based on 19,727,277 shares entitled to dividend as of December 31, 2015.

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

Listed below are directors' dealings reportable under the German Securities Trading Act (WpHG) for the year 2015 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)
03/26/2015 Off-market	Sven-Olaf Schellenberg	Supervisory Board member	Sale of Elmos shares from exercise of stock options	400	17.22	6,887
05/22/2015 Off-market	Dr. Anton Mindl	CEO	Sale of Elmos shares from exercise of stock options	5,000	19.43	97,146
06/01/2015 Off-market	Dr. Anton Mindl	CEO	Sale of Elmos shares from exercise of stock options	6,667	19.83	132,184
06/01/2015 Off-market	Reinhard Senf	Management Board member	Sale of Elmos shares from exercise of stock options	2,500	19.83	49,567
06/02/2015 Off-market	Reinhard Senf	Management Board member	Sale of Elmos shares from exercise of stock options	2,500	19.66	49,153
08/11/2015 Xetra	Sven-Olaf Schellenberg	Supervisory Board member	Sale of Elmos shares	500	16.17	8,085
09/21/2015 Xetra	Sven-Olaf Schellenberg	Supervisory Board member	Sale of Elmos shares	488	14.01	6,837
11/13/2015 Xetra	Dr. Klaus Egger	Supervisory Board member	Purchase of Elmos shares	603	12.15	7,327

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 management.

Mandatory disclosure pursuant to 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.

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.

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 2015 the average number of employees in the Group was 1,117 (2014: 1,104).

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

Group	2015 Number	2014 Number
Production	520	530[1]
Sales	100	99[1]
Administration	162	158[1]
Quality control	40	37
Research & development	295	280[1]
Total	**1,117**	**1,104**

[1] Prior-year number has been adjusted

41 – Significant events after the end of the fiscal year

In January 2016 Elmos Semiconductor AG acquired shares in a company concerned with sensor technology. The company will be included in the consolidated financial statements of Elmos as an associated company starting in fiscal year 2016.

There have been no other 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 2015 Management Board and Supervisory Board of Elmos Semiconductor AG released the declaration pursuant to Section 161 AktG (Stock Corporation Act) and made it permanently available to the shareholders on the Company's website.

Dortmund, March 2, 2016

Dr. Anton Mindl   Dr. Arne Schneider   Reinhard Senf   Dr. Peter Geiselhart

Auditor's report

We have issued the following audit opinion on the consolidated financial statements and the joint 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 consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity, and the notes to the consolidated financial statements, together with the group management report, combined with the management report of Elmos Semiconductor AG, for the fiscal year ended December 31, 2015. The preparation of the consolidated financial statements and the joint 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 (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 joint management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). Under those standards we are required to 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 joint 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 joint management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the entities included in the consolidated financial statements, the definition of the basis of consolidation, the accounting and consolidation principles used and the significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the joint 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 of Elmos Semiconductor AG, Dortmund, for the fiscal year ended December 31, 2015 comply with the 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 joint management report is consistent with the consolidated financial statements and as a whole provides a fair view of the Group's position and presents the opportunities and risks of future development correctly."

Düsseldorf, March 2, 2016

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

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

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, which has been combined with the management report for Elmos Semiconductor AG, 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 2, 2016

Dr. Anton Mindl   Dr. Arne Schneider   Reinhard Senf   Dr. Peter Geiselhart

Glossary

Advanced driver assistance systems **A**dvanced **d**river **a**ssistance **s**ystems (ADAS) are electronic devices in cars for the driver's support in certain driving situations. The focus is often placed on safety aspects but also on increasing the driving comfort (e.g. by automatic parking or automatic braking systems).

Ambient lighting Colored LEDs are used for lighting car interiors. Using such flexible LEDs results in new concepts for the interior the driver can influence in terms of color.

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

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

Backend 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), the functional testing of the assembled components, and packing (tape&reel) are all part of this process.

BLDC motor A **b**rush**l**ess **DC** motor is a rotating electric machine with a classic three-phase stator. BLDC motors operate lossless unlike brush motors. They are also maintenance-free and durable.

BUS A communication system that allows the exchange of information between several participants on an electronic or optical basis. Among the standards used in the automobile 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 **C**omplementary **m**etal **o**xide **s**emiconductor (CMOS) is the basic technology for manufacturing microchips with a high integration rate and low energy consumption.

Design win or design in 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, so-called design in), 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.

ESD **E**lectro**s**tatic **d**ischarge (ESD) is for instance a spark which causes a short high electric voltage pulse in an electronic device. Depending on the circumstances, such a voltage pulse can damage electrical components.

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.

Functional safety Functional safety according to ISO 26262 defines a process model for the development of safety relevant systems, aiming at the avoidance of unjustifiable risks.

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 or dust do not affect the performance. The electronic compensation of external light influence is the technically deciding function.

HMI The acronym HMI stands for **H**uman-**M**achine **I**nterface. It describes the different ways a human being can operate a machine. This can happen for instance by way of switches, voice command, or gesture control.

Industry 4.0 The term industry 4.0 stands for creating an intelligent network of product development, production, logistics, and customers. Its goal is the autonomous sensor-supported planning and control of production resources (manufacturing machinery, robots, feed and storage systems, and operating material).

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.

KNX The KNX protocol is a global standard for data exchange most often used in building automation. KNX controls the heat, lights, blinds, air condition, multimedia, and security technology, among other things.

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 the 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 (MOS) 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 (OEM) distributes (partial) systems to a reseller. In the automotive industry, the car manufacturers are referred to as OEMs.

PIR sensor The PIR sensor (for **p**assive **i**nfra**r**ed) is the most commonly used type of motion detector. It shows the optimal response to angle changes, i.e. if a person walks by the sensor.

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).

RoIC The **r**eturn **o**n **i**nvested **c**apital (RoIC) is a key ratio used in finance and describes the profitability of invested capital. RoIC is determined by earnings before interest and taxes divided by invested capital.

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, pressure, 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.

Stepper motor A stepper motor is a synchronous motor whose rotor (rotatable motor part with a shaft) can be rotated through a controlled electromagnetic field of stator coils (stator = non-rotatable motor part), rotating step by step, by either a minimal angle (step) or its multiple.

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 (TPMS) monitors the pressure in the car tire and notifies the driver if the pressure is too low.

USPA USPA stands for **U**ltra**s**onic **P**ark **A**ssist Systems, monitoring the parking process and informing the driver optically and acoustically on the distance to the next object.

Wafer The basic material in chip production. A wafer is a disc sawn out of a single silicon crystal and polished. Typical diameters are 150mm (6-inch), 200mm (8-inch), and 300 mm (12-inch). In series production wafers are processed in so-called charges of 25 wafers each.

Elmos: Elektronik in MOS Technologie

MOS: Metal Oxide Semiconductor

Informationsmaterial

Wenn Sie mehr über Elmos erfahren möchten, senden wir Ihnen gerne folgende Dokumente zu:

- Geschäftsbericht
- Zwischenberichte/Quartalsberichte
- Verhaltenskodex (Code of Conduct)
- Produktkatalog

Alle aufgeführten Dokumente befinden sich auch auf unserer Internetseite unter **www.elmos.com**. Wenn Sie regelmäßig unsere Veröffentlichungen erhalten möchten, schicken Sie uns bitte eine E-Mail an invest@elmos.com.

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[1] Das deutsche Wertpapierhandelsgesetz verpflichtet Emittenten, Informationen mit erheblichem Kursbeeinflussungspotenzial – unabhängig vom Finanzkalender – unverzüglich zu veröffentlichen. Aufgrund dessen ist es möglich, dass wir Eckdaten unserer Quartals- und Geschäftsjahresergebnisse vor den oben genannten Terminen publizieren. Da wir Terminverschiebungen grundsätzlich nicht ausschließen können, empfehlen wir, die Termine und Nachrichten kurzfristig zu überprüfen **(www.elmos.com).**

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