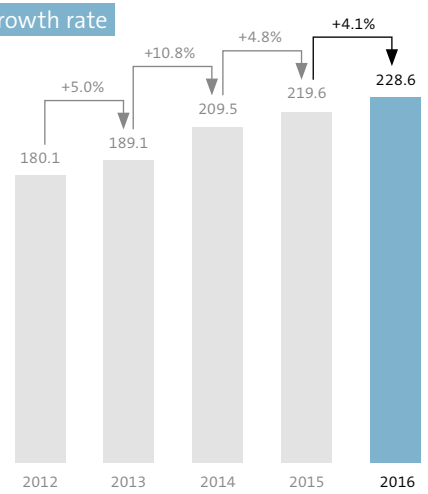
elmos

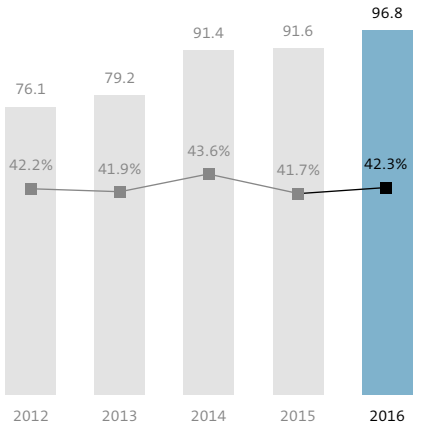
Strong Personalities. Strong Products.

Annual report 2016

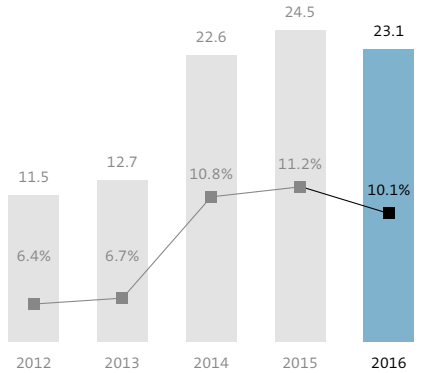
Sales in million Euro and growth rate



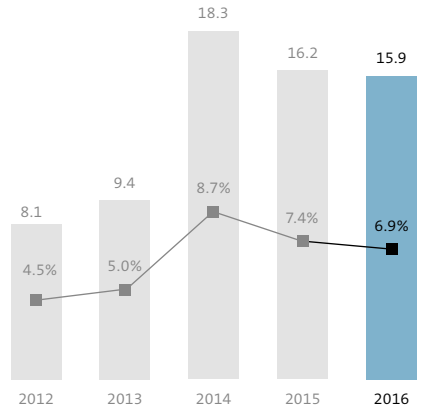
Gross profit in million Euro and gross margin



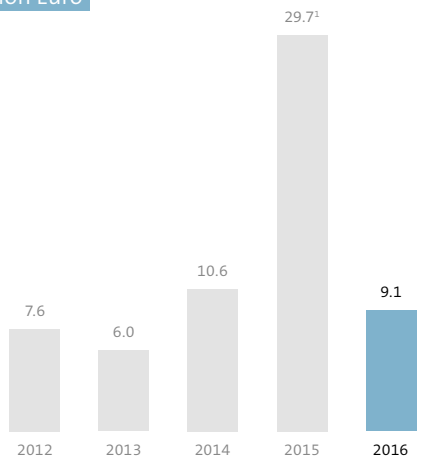
EBIT in million Euro and EBIT margin



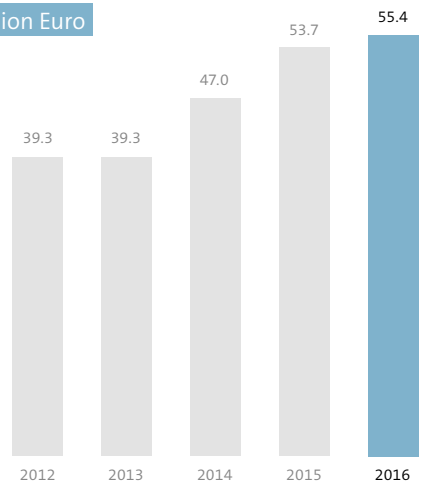
Consolidated net income in million Euro and net income margin



Adjusted free cash flow[2, 3] in million Euro



Net cash in million Euro



Five-Year Overview

Elmos Group (IFRS)

in million Euro unless otherwise indicated	2012	2013	2014	2015	2016
Sales	180.1	189.1	209.5	219.6	228.6
Sales growth in % of sales	–7.3%	5.0%	10.8%	4.8%	4.1%
Gross profit	76.1	79.2	91.4	91.6	96.8
Gross margin in % of sales	42.2%	41.9%	43.6%	41.7%	42.3%
Research and development expenses	35.0	34.4	36.1	37.1	36.0
Research and development expenses in % of sales	19.4%	18.2%	17.2%	16.9%	15.7%
Operating income	7.6	10.3	19.4	18.1	22.0
Operating margin in % of sales	4.2%	5.5%	9.3%	8.2%	9.6%
EBIT	11.5	12.7	22.6	24.5	23.1
EBIT in % of sales	6.4%	6.7%	10.8%	11.2%	10.1%
Earnings before taxes	9.7	12.5	23.1	24.1	23.1
Earnings before taxes in % of sales	5.4%	6.6%	11.0%	11.0%	10.1%
Consolidated net income attributable to owners of the parent	8.1	9.4	18.3	16.2	15.9
Net income margin in % of sales	4.5%	5.0%	8.7%	7.4%	6.9%
Basic earnings per share (in Euro)	0.42	0.49	0.94	0.82	0.80
Total assets	272.4	270.9	295.4	306.9	312.9
Shareholders' equity	189.6	192.7	206.9	219.4	231.6
Equity ratio in % of total assets	69.6%	71.1%	70.0%	71.5%	74.0%
Financial liabilities	42.9	37.8	37.4	36.8	36.2
Cash, cash equivalents and marketable securities	82.2	77.1	84.4	90.5	91.6
Net cash	39.3	39.3	47.0	53.7	55.4
Cash flow from operating activities	25.2	21.4	40.0	50.3	33.5
Capital expenditures for intangible assets and property, plant and equipment	17.9	15.6	30.5	24.7[1]	24.5
Capital expenditures in % of sales	9.9%	8.2%	14.6%	11.3%[1]	10.7%
Cash flow from investing activities	–25.6	–36.4	–32.0	–24.6	–34.9
Adjusted free cash flow[2, 3]	7.6	6.0	10.6	29.7[1]	9.1
Dividend per share (in Euro)	0.25	0.25	0.33	0.33	0.35[4]
Employees on annual average	1,034	1,053	1,104	1,117	1,127

[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/plus disposal of intangible assets and property, plant and equipment
[3] Prior-year amounts adjusted according to new definition
[4] Proposal to the Annual General Meeting in May 2017

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

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elmos

Strong Personalities. Strong Products.

Fact Sheet

Fiscal Year 2016

A semiconductor is a team effort. Elmos has a team of strong personalities who work hand in hand. They lay the groundwork for new ideas, high quality, and profound application know-how – in other words, for strong products. We would like you to get to know a few of our employees who have contributed to a successful financial year.

The demanding one

When Tan looks at plans of functional hardware descriptions, he reads them as if they were a newspaper. He understands which function an element of just a few micrometers performs in a circuit. What makes his job as developer so demanding is the combination of analog and digital elements – with their fundamentally different requirements. “Our chips must process data from the real world and transform them into control signals,” says Tan. Once Tan and his team have completed the design of a chip, the draft looks like a city map: with conductive paths for streets and switching blocks that look like high raising buildings.

The reliable one

Knowing the right distance not only prevents damages to the paint work but saves lives, too. “Our semiconductors for parking assistance make parking stress-free for many drivers. They also give emergency brake assist systems the crucial signals for stopping the car on the last few meters before a potential crash,” Alex comments. Only if the measured distances are reproduced and transmitted reliably, the driver and the electronic system are able to come to the right conclusions. Thanks to the ultrasonic team with Alex, the car knows with certainty if the parking space is really big enough and if the distance to the car ahead is still sufficient.

The creative one

In her almost daily discussions with customers, Michaela identifies their product wishes in the domain of lighting, responds to their ideas and turns them into creative ideas. Thus she helps the customers to better understand semiconductors and contributes to making a car shine in a new light, both exterior and interior. “For automotive lighting designers, LEDs and OLEDs have opened new horizons. We enable our customers to enter this new territory safely.” Elmos semiconductors can adjust the desired color and intensity of light, run a specific light sequence, and provide for a long life cycle of the car’s lighting.

The driver

Tobias knows what he's driving at. For him this is not merely a figure of speech but his daily work. The small electric motors he drives with Elmos semiconductors provide for the fresh air circulation inside the car, among other things. "We want to find a precise solution for the customer, with the lowest possible power consumption," Tobias says. Depending on fittings and vehicle category, far more than 100 electric motors can be found inside a car: Each application comes with its specific requirements, posing ever new challenges for Tobias and his team.

The specialist

100% clean air and 100% pure water are required for semiconductor manufacturing. This is what Thorsten specializes in. “We lay the foundation for high manufacturing quality. Only if production performs under optimal conditions, zero-defect semiconductors can be made,” says Thorsten. One component of that is his job which sounds simple enough but is, down to the details, a science in itself: From standard tap water, Thorsten produces much more than 10,000 liters of the purest demineralized water per hour. Exactly the high quality we need for manufacturing our products.

The thorough one

Step by step, chip by chip, test by test. Dunja knows every single work process in wafer testing. “We have specific requirements for testing our products. And we must make sure that our tests are performed with the same precision, under the same conditions and according to specifications every time,” Dunja explains. No semiconductor leaves Elmos without having been tested several times. Therefore each push of a button, each configuration must be documented thoroughly. With the help of deliberate software-based processing of these data we assure that some 900,000 zero-defect products reach our customers every day.

The enabler

Jefry is being honest: “Nobody wants computer problems. My job is to prevent them from happening in the first place and to enable an optimal IT environment.” To that end he designs entire IT architectures for a new network node and ensures a reliable communication between all international Elmos locations. Each of Jefry’s tasks is linked to a coworker who either is in need of support or ends up working more efficiently on new products and ideas or in production thanks to Jefry’s help.

Each element of a semiconductor has a predetermined function.

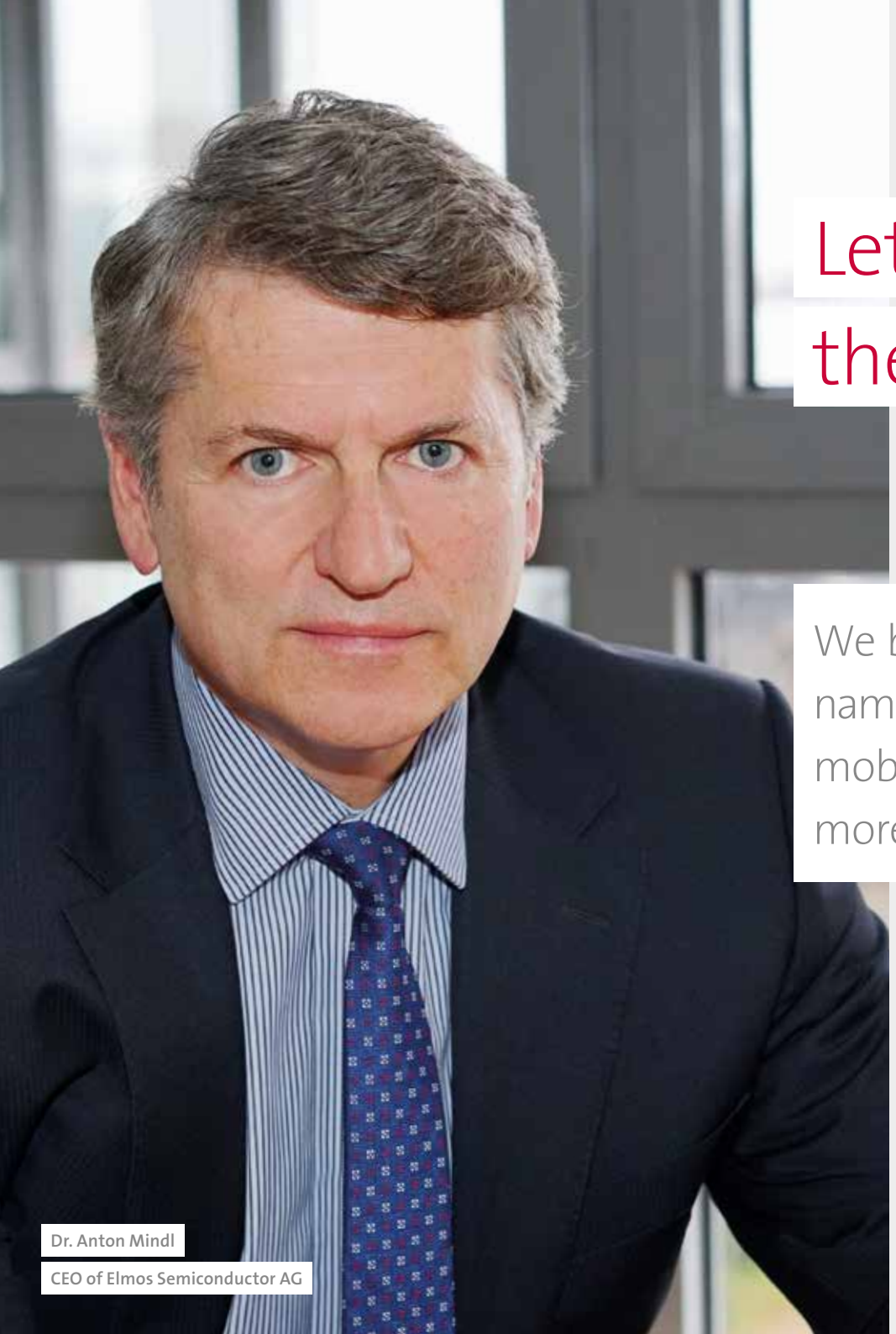
Strong personalities manage to skillfully combine these functions

and thus turn a standard semiconductor into a strong product.

The definition, development, and production of such chips is the

strength of our employees. Chips that contribute to making

life easier, better and safer all over the world.



Dr. Anton Mindl

CEO of Elmos Semiconductor AG

Letter to the shareholders

We build our business on a solid foundation, namely on essential global megatrends for the mobility of the future: Cars will become safer, more comfortable, and more power efficient.

»The Next Smart Device: The Car.«

Dear shareholders and customers,
dear colleagues,

Elmos performed well in the past financial year and set new standards with its products once more. We are a reliable partner for our customers, have grown faster than the general semiconductor market, and met our financial targets.

Sales increased to about 229 million Euro. A remarkable sales jump from the third quarter to the fourth quarter of roughly 13% was the result of a sound performance of the running business and one-off effects. The Asian region made above-average contributions to our growth throughout the year. The sales growth of 17% compared to the previous year is based on good business relationships with existing and new customers.

We generated about 23 million Euro in earnings before interest and taxes (EBIT) over the full year, equivalent to a margin of 10.1%. The fourth quarter was particularly notable in this respect as well, with 11.2 million Euro or a margin of 17.7%. Earnings per share came to 0.80 Euro. In order to let shareholders participate in this sustained positive performance, we will propose to the Annual General Meeting, together with the Supervisory Board, a dividend increase to 0.35 Euro per share.

Strong foundation: mobility of the future

We build our business on a solid foundation, namely on essential global megatrends for the mobility of the future: Cars will become safer, more comfortable, and more power efficient. In the not too distant future, cars will even drive autonomously, and the majority of them will be powered electrically.

All this progress is made possible only through innovation. Innovation realized predominantly by new sensors, software, and electronics. Elmos as a semiconductor manufacturer specialized in automotive applications has a key role in this development. We are among the first to talk to when it comes to new functions, not only for our customers but for theirs as well – the carmakers. The other markets have shown it: Today's smartphones and tablets were made possible only by major progress in semiconductors, sensors and software. "The Next Smart Device" will be *The Car,* thus precisely the product environment where Elmos has been at home for decades now.

We claim to think "within the system" and to position our IC as a small yet deciding piece of an innovative system solution. Lately this has also been demonstrated through gesture control in cars. With our patented HALIOS® solution we enabled the new functionality in terms of technology and cost and created the trend for gesture control in the car together with our customers.

Business lines set standards through innovation

And we will be trailblazers again with the next generation of our sensor components for gesture control. The new products introduced by our business line *Sensors* are distinguished by low system costs and save constructed space at the same time. Thus we continue the success story: We have been global market leader since the introduction of gesture control to the market in the year 2012 and we will continue setting new standards for power efficiency, system costs, and functionality with our new solutions.

The business line *Motor Control* sets trends for driving small electric motors inside the car as market leader. We have already supplied more than 200 million ICs for various air control applications in automotive air conditioning systems to customers. Elmos has made

use of this competitive edge in the past few years to invest strongly in the research and development of a particularly efficient combination of hardware and software. As a consequence of this effort, a new generation of motor driver ICs is now available. Their efficient control combines several advantages for the customer: Almost noiseless motor operation, lower power consumption with a positive effect on the CO_2 footprint, and all of this at significantly reduced system costs.

One example among the many innovations brought about by the business line *Embedded Solutions* is an LED driver component for the car's rear lights. This IC offers a uniquely simple way to carry out a diagnosis of either individual LEDs or an entire LED string. Again, the system – in this case rear light control – benefits so significantly from our solution that one car manufacturer currently has defined our chip as standard.

Some new pressure sensor products of our subsidiary SMI also set standards for their respective applications. SMI has realized pressure sensors that have taken leading positions worldwide with respect to precision, stability and cost efficiency. They help make sure that respirators detect an interruption of breathing due to sleep apnea even after ten years of operation. For sensors with such a degree of stability we have designed the quality label AccuStable™. Only micromechanical sensors that show parameter variation of less than 1% after a 1,000 hour stress test at 150°C are awarded this label.

When I look at the definition and development of all these products, I can say with full confidence: These are not products of chance. We have implemented the right structures and employee expertise in the Company for solutions tailored to customer demands: We listen to our customers, have a strong team, and deliberately enhance our application know-how. Only this foundation enables us to set new standards through innovation in our markets. An immediate result is the sales potential of the new projects we have acquired. In 2016 we managed to exceed the previous records for design wins from the years 2012 and 2015: A strong indication of our growth prospects for three to five years ahead.

Accelerated growth in 2017

We expect to accomplish an increase in sales in the upper single digit percentage range compared to the previous year. For earnings before interest and taxes, we want to achieve a slightly better EBIT margin than in 2016.

We will lay the groundwork for further future growth in 2017 and seek to invest in areas related to products and markets. Regarding capital expenditures for machines and plants, we will invest less than 12% of sales. The adjusted free cash flow is scheduled to be positive as in the previous years.

Over the next years we will keep pursuing the same strategy: Elmos will further strengthen the core business of the business lines, grow globally, and offer leading products in terms of functionality and quality to the customers: Our chips will be the key to new functions within the system.

We owe the success of the past year and the good prospects for 2017 to the high commitment of our employees. On behalf of the entire Management Board, I would like to thank the employees for their great performance and I would like to encourage every one to give their best in 2017 once again – here at Elmos the efforts are worth it.

At high speed, Elmos actively contributes to creating the next steps of automotive evolution. Even today, the automotive market is very appealing to suppliers of electronics; in the future it will set the global standard for innovation, complexity, quality, and reliability.

We would be delighted, if you, dear shareholders, will join us on our journey to ***"The Next Smart Device."***

»Elmos Growth Drivers«

Driver assistance

Autonomous driving

Active and passive safety

Predictive safety

More information systems

The networked car

Less CO_2

Electro-mobility

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

Management Board

Dr. Anton Mindl
CEO – Chief Executive Officer

Graduate physicist
Born 1957
Management Board member since 2005,
appointed until 2020

Strategy,
Coordination of Board Responsibilities,
Executives, Quality,
Micromechanics

Dr. Arne Schneider
CFO – Chief Financial Officer

Graduate economist
Born 1976
Management Board member since 2014,
appointed until 2022

Finance, Management Accounting,
Investor Relations,
Human Resources, Purchasing,
Information Technology

Reinhard Senf
CPO – Chief Production Officer

Graduate engineer
Born 1951
Management Board member since 2001,
appointed until 2016*

*appointed until 12/31/2016; Guido Meyer appointed from 01/01/2017 until 12/31/2019

Production, Foundry,
Assembly,
Logistics,
Product Engineering

Dr. Peter Geiselhart
CSO – Chief Sales Officer

Graduate physicist
Born 1957
Management Board member since 2012,
appointed until 2018

Sales,
Development,
Business Lines,
Technology

Prof. Dr. Günter Zimmer

Chairman of the Supervisory Board of Elmos Semiconductor AG

Supervisory Board report

The Supervisory Board thanks all employees and the entire Management Board for their work and their contributions to success in the financial year 2016.

Dear shareholders,

the Supervisory Board diligently attended to its duties and responsibilities imposed by law and the Articles of Incorporation in financial year 2016. The Board advised the Management Board in running the Company and supervised management activity. In oral and written reports, the Supervisory Board was supplied regularly 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.

There were four meetings altogether in financial year 2016, namely on March 2, 2016, May 11, 2016, September 7, 2016, and December 16, 2016. In a meeting held on March 2, 2017, the Supervisory Board concerned itself primarily with the 2016 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 financial year ended December 31, 2016, 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 as well as future prospects during its sessions. In the individual meetings, the situation and structure of the subsidiaries as well as the Group's strategic development beyond the year under review were dealt with in detail. The budget for the next financial year and planned capital expenditures were discussed in depth.

Discussions covered the present state of design wins of the past years as well as new ones combined with updated sales planning. In addition to that, the Supervisory Board concerned itself with current and potential cooperation or acquisition projects. Business performance and strategy of subsidiary Silicon Microstructures, Inc. (SMI) was also the subject of debate, and the effects of the transition from combustion engines to increased electromobility on the Company were discussed. Other topics of Supervisory Board consultations were the appointment of Guido Meyer as Chief Production Officer and the extension of the contract of the Chief Financial Officer, general staff development in the Group, and changes in capital market legislation and the Audit Reform Act (Abschlussprüfungs-reformgesetz). In the context of the new requirements introduced by the Audit Reform Act, admissible and inadmissible non-audit services were defined, among other things.

As in the previous financial years, the Supervisory Board informed itself about the risk management system and its focal issues. The Management Board also reported to the Supervisory Board on the internal control system, the financial accounting process, and the present state of the compliance program. Moreover, the Supervisory Board discussed the agenda of the upcoming Annual General Meeting to be held on May 11, 2017 in Dortmund. The Supervisory Board also debated the appointment of the auditor and supervised auditor independence.

With respect to all meetings of the Supervisory Board held in the 2016 financial year, members' attendance was beyond 90%. 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, 2017 with the audit of the separate financial statements and consolidated financial statements for the financial year ended December 31, 2016. According to the resolution of the Annual General Meeting of May 11, 2016 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 financial year ended December 31, 2016 and the management report of Elmos Semiconductor AG as included in the combined management report were audited by Warth & Klein Grant Thornton AG, Wirtschaftsprüfungsgese llschaft, 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 315a (1) HGB. The consolidated financial statements according to IFRS and the combined 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, 2017, 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 combined 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 0.35 Euro per share for financial year 2016 out of the retained earnings of 107.1 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 concerned itself intensively with recommendations and suggestions of the German Corporate Governance Code in the 2016 financial year once more. In September 2016, Management Board and Supervisory Board jointly released an updated declaration pursuant to Section 161 AktG (Stock Corporation Act) on compliance with the recommendations of the German Corporate Governance Code in the version of May 5, 2015. It can be found in this Annual Report on page 21. This declaration of compliance and all previous ones have been made permanently available to the shareholders on the Company's website.

Furthermore, the Supervisory Board updated its targets for the Board's composition. It also dealt with the efficiency of its work and evaluated it. Conflicts of interest among members of Management Board or Supervisory Board subject to disclosure to the Supervisory Board or rather the General Meeting of Shareholders did not arise.

Further information on corporate governance can be found in the corporate governance report starting on page 20.

COMPOSITION OF SUPERVISORY BOARD AND MANAGEMENT BOARD

The terms of all Supervisory Board members expired as of the end of the Annual General Meeting held on May 11, 2016. The members of the Supervisory Board therefore had to be newly elected. The mandates of Prof. Dr. Günter Zimmer, Dr. Klaus Weyer and Dr. Klaus Egger were extended by five years by the General Meeting of shareholders. Dr. Gottfried Dutiné was elected to the Supervisory Board for the first time. Our gratitude goes to Dr. Burkhard Dreher, who belonged to the Supervisory Board since 2000 as its vice chairman and now retired for reasons of age. The representatives of the employees, Thomas Lehner and Sven-Olaf Schellenberg, had been reelected prior to the Annual General Meeting in staff elections. The Supervisory Board held its inaugural session after the Annual General Meeting, electing

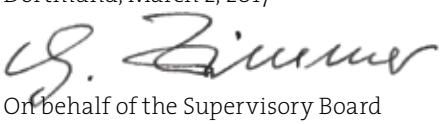
Prof. Dr. Zimmer as chairman and Dr. Weyer as vice chairman.

On January 1, 2017 Guido Meyer took over the Management Board position for Production from Reinhard Senf, who left the Company for reasons of age as of December 31, 2016. We thank Reinhard Senf, who was in charge of the production as Board member for many years, for his contributions to the positive development of the Company. Furthermore, Chief Financial Officer Dr. Arne Schneider was reappointed and his contract was extended for five years. Apart from that, there were no changes on the Management Board in the reporting period.

More information about the members of the Management Board can be found on page 15 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 financial year 2016.

Dortmund, March 2, 2017



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

Supervisory Board

Prof. Dr. Günter Zimmer
Chairman
Graduate physicist | Duisburg

Dr. Burkhard Dreher
Vice Chairman and independent financial expert for the purpose of Section 100 (5) AktG
Graduate economist | Dortmund
Supervisory Board member, vice chairman and independent financial expert until May 11, 2016

Dr. Klaus Weyer
Vice Chairman
Graduate physicist | Penzberg
Vice Chairman since May 11, 2016

Dr. Gottfried H. Dutiné
Graduate engineer | Kleve
Supervisory Board member since May 11, 2016

Dr. Klaus Egger
Independent financial expert for the purpose of Section 100 (5) AktG
Graduate engineer | Steyr-Gleink, Austria
Independent financial expert since May 11, 2016

Thomas Lehner
Employee representative
Graduate engineer | Dortmund

Sven-Olaf Schellenberg
Employee representative
Graduate physicist | Dortmund

LED headlight: Elmos semiconductors constantly and with highest precision supply the efficient LED headlights with energy, making a long operating life with low energy consumption possible.

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 pursuant to No. 3.10 of the German Corporate Governance Code. This chapter also includes the statement on corporate governance in accordance with Sections 289a, 315a HGB (Commercial Code) and the remuneration report.

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

For the Management Board and the Supervisory Board of Elmos, 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 in financial year 2016 with the provisions of the German Corporate Governance Code. In September 2016, Supervisory Board and Management Board jointly released the declaration of compliance in accordance with Section 161 AktG (Stock Corporation Act) 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 on the internet.

COMPLIANCE

One of the essential tasks of the Management Board as a whole 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. Elmos has a compliance management system. 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 Management Board has appointed a compliance officer who supervises and develops the compliance program together with his team. At international locations and subsidiaries,

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 Corporations Act):

"I. STATEMENTS WITH RESPECT TO THE FUTURE

Elmos Semiconductor AG will comply with the recommendations of the "Government Commission German Corporate Governance Code" (in short: GCGC) in the latest version of May 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, 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 is provided, pursuant to the resolution of the Annual General Meeting of May 13, 2014, in the total amount only and not individualized. Accordingly, the model tables provided in the appendix of the GCGC are not filled out either as this would amount to individualization of the Management Board remuneration (GCGC No. 4.2.5 sentence 6).

-> In specifying concrete objectives for the composition of the Supervisory Board of Elmos Semiconductor AG, a regular limit of length of membership to be specified for the Supervisory Board members is not provided for (GCGC No. 5.4.1 sentence 2). Elmos Semiconductor AG does not consider a regular limit of length of Supervisory Board membership expedient. A consideration of continuity or change in the composition of the Supervisory Board shall be made in the individual case, taking into account both the overall composition of the Supervisory Board and the individual situation and skills profile of each member of the Supervisory Board.

-> Remuneration of the Supervisory Board members is disclosed 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 reports' 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 5, 2015 and announced by the Federal Ministry of Justice in the official section of the Federal Gazette on June 12, 2015 have been complied with since the release of the declaration of compliance in September 2015 with the exceptions mentioned above under I."

Dortmund, September 2016

On behalf of the
Supervisory Board

Prof. Dr. Günter Zimmer
Chairman of the Supervisory Board

On behalf of the
Management Board

Dr. Anton Mindl
Chief Executive Officer

the compliance officer can rely on the support of local compliance officers in many cases. Potential breaches of compliance and cases of suspicion are evaluated by the compliance officer. The compliance officer reports regularly on compliance to the Management Board. The Supervisory Board is informed at least once a year about the compliance system and all measures of relevance.

Elmos commits all its employees to compliance with a code of conduct, summarizing all guiding principles applied by the Company. Employees are trained regularly on the subject of the code of conduct. In addition to that, a compliance site is available to all employees on the intranet, providing the most important information such as the persons to address in compliance matters and relevant documents, e.g. purchasing guidelines or IT security guidance. There is also a code of conduct directed at suppliers and business partners. The codes are available for download on the internet.

Employees and other persons with potential access to insider information find entry in an insider register and are informed about the applicable statutory provisions. They are regularly referred to statutory and internal trade restrictions.

WORKING METHODS OF MANAGEMENT BOARD AND SUPERVISORY BOARD

Management Board and Supervisory Board share the commitment to the Group's 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 15); 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.

Management Board and Supervisory Board work closely together 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 16. The chairman gives a report to the shareholders on the Supervisory Board's work over the past financial year at each Annual General Meeting.

The Supervisory Board of Elmos 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 2016 so that the acting Supervisory Board is elected until the 2021 Annual General Meeting. The Supervisory Board does not set up committees.

GOALS OF THE SUPERVISORY BOARD WITH RESPECT TO ITS COMPOSITION

The Supervisory Board has defined the goals and principles with respect to the Board's composition. Among them are international experience, technical and entrepreneurial expertise, strategic vision, knowledge of the Company, industry specific know-how, and experience with accounting and internal control processes. Diversity and the avoidance of conflicting interests are additional goals. The Supervisory Board has also defined an age limit for its 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 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. While considering all above-mentioned goals, the election proposals made by the Supervisory Board for the election of Supervisory Board members will primarily remain oriented toward the Company's benefit.

The composition of the Supervisory Board is listed on page 19 of this Annual Report.

IMPLEMENTATION OF EQUAL PARTICIPATION

In accordance with applicable statutory provisions, as of September 30, 2015 Supervisory Board and Management Board defined quotas according to the status quo for the representation of women on Supervisory Board and Management Board as well as for the first and second senior executive levels. These quotas are as follows: 0% for Supervisory Board and Management Board, 4% for the first and 5% for the second senior executive level. Pursuant to statutory provisions, these quotas will be newly determined as of June 30, 2017. In selecting suitable candidates, Supervisory Board and Management Board 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. Both on the Supervisory Board and the Management Board of Elmos Semiconductor AG, there are no women at present. At the first senior executive level, the share of women is 4%, at the second senior executive level, it comes to 5%. Elmos thus fulfills all determined quotas for the women's share at Elmos and complies with statutory provisions. All data refer to the employees of Elmos Semiconductor AG in Germany as of December 31, 2016.

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 in good time.

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 also be requested from the Company.

Shareholders who cannot attend the Annual General Meeting in person have the option to assign their voting rights to proxies nominated by Elmos. The proxy can be contacted throughout the entire length of the General Meeting. Furthermore, the Annual General Meeting is 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, 2017 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 our website. The CEO and the CFO regularly provide information on the current development of the Company to analysts and investors within the framework of road shows, conferences and other events. The investor relations team is also available for any questions the shareholders may have.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Responsible risk management contributes to the success of sound corporate governance. Risk management does its part in detecting risks at an early stage, assessing them, and initiating adequate countermeasures. The Management Board reports regularly to the Supervisory Board on risk management and the internal control system. The principles of the control and risk management system as well as current corporate risks can be found in the combined management report under "Opportunities and risks" starting on page 60.

AUDIT OF FINANCIAL STATEMENTS

Before submitting the proposal for the appointment of the auditor, the Supervisory Board obtained a declaration from the auditor on relationships between the auditor, its boards, and its audit manager with the Company or the Company's Board members for financial year 2016 once more. 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

detects deviations from the declaration of compliance as issued by the Management Board and the Supervisory Board. No inconsistencies of this kind were established.

SHARE-BASED PAYMENT PROGRAMS

Elmos has issued stock option plans, a share matching plan, and other individual share-based payment programs 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 of certain remuneration components to the stock price is therefore the beneficiaries' incentive. Stock option 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 share-based payments 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 financial year 2016, the members of the Management Board received a total fixed remuneration of 1,509 thousand Euro (2015: 1,515 thousand Euro) and variable remuneration of 1,280 thousand Euro (2015: 997 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.

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 2016, payments for these reinsurance policies amounted to 408 thousand Euro (2015: 454 thousand Euro), included in the fixed components of the remuneration.

Remuneration paid by the Company to former Management Board members or their surviving dependents amounted to 120 thousand Euro in financial year 2016 (2015: 224 thousand Euro). In addition to that, insurance premiums of 113 thousand Euro were paid for this group of beneficiaries (2015: 111 thousand Euro). Facing these amounts are reimbursements from reinsurance policies in the amount of 116 thousand Euro (2015: 119 thousand Euro). Pension provisions for former Management Board members or their surviving dependents came to 1,520 thousand Euro as of December 31, 2016 (2015: 1,543 thousand Euro). Total pension provisions for former Management Board members or their surviving dependents recognized for the Group are covered in full by the time value of pension plan reinsurance policies.

Apart from pension commitments, insurance benefits 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 according to contract. 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 financial year. The terms of share-based payments already promised may exceed the respective Management Board member's occupation period in the individual case.

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 potentially 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 financial year 2016 amounted to the total of 87 thousand Euro (2015: 84 thousand Euro). This amount includes expenses and disbursements. Payments of variable remuneration amounted to 218 thousand Euro (2015: 218 thousand Euro). The members of the Supervisory Board received no further compensation for individually performed services such as consulting services.

MANAGERS' TRANSACTIONS

Persons who hold executive positions with an issuer of stock (for Elmos, the members of Management Board and Supervisory Board) and persons closely associated to such a person are obligated by law to disclose transactions involving the Company's stock or debt instruments or financial instruments linked to the Company's stock or debt instruments pursuant to Art. 19 (1) MAR (Market Abuse Regulation). All such reportable securities transactions, so-called managers' transactions, are announced immediately upon notification Europe-wide and made public on the Company's website. Detailed information about managers' transactions is available on the internet at **www.elmos.com.**

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. 6.2 GCGC, the members of the Supervisory Board had combined direct or indirect holdings of 34.2% and the members of the Management Board had combined direct or indirect holdings of 1.8% of the stock issued by the Company or financial instruments linked to the Company's stock (as of December 31, 2016).

Ambient lighting: Elmos chips provide consistent interior light in the car – over the car's entire life

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 part of our entrepreneurial thinking. Acting responsibly today means securing the future. The following principles determine our environmental 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 is advised to pay attention to environmentally responsible conduct. The active promotion of a sense of responsibility among employees is a constant management task.

- Eco protection management: Elmos has implemented an eco protection 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 EN ISO 14001 and the energy management certificate DIN EN ISO 50001. The declarations on dealing with conflict minerals, the EU chemicals regulation REACH (Registration, Evaluation, Authorization and Restriction of Chemicals), and EU regulation RoHS (Restriction of Hazardous Substances) as well as other detailed information on our eco protection efforts can be found on our website **(www.elmos.com/english/about-us/responsibility).**

In 2016, the Elmos locations focused on optimizing energy efficiency. Of the utmost importance in this regard is the Dortmund main location with the production facilities. In the year under review, a previously necessary cooling unit could be taken out of service based on the smart utilization of cooling energy generated. Thus we keep continuing the trend of the past few years towards an optimization of the energy-intensive cooling units. This effort also took place against the backdrop of reaching the targets defined by the Federal Ministry for Economic Affairs and Energy (reduction of primary energy consumption by 20% until 2020). Elmos has also joined the national campaign "Initiative Energieeffizienz Netzwerke" (engl. "Initiative Energy Efficiency Networks") and thus actively supports the Federal Government's power efficiency targets.

EMPLOYEES

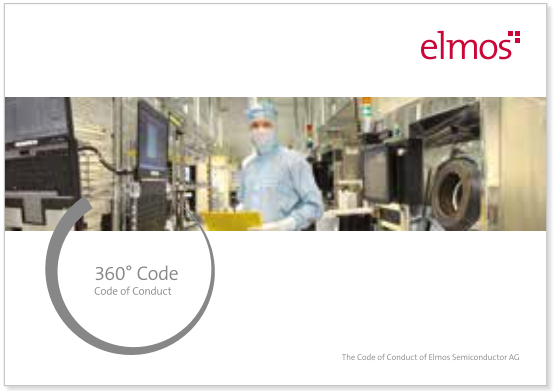
For Elmos as a technology company, the employees' know-how is a particularly crucial factor. Their motivation, expert knowledge and flexibility are the prerequisite to the Company's long-term success. Especially with regard to the development of new products and processes, the employees are the deciding 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 staff, Elmos offers its employees subject-specific training courses. Selected training courses for certain employee groups are conducted in the form of online training.

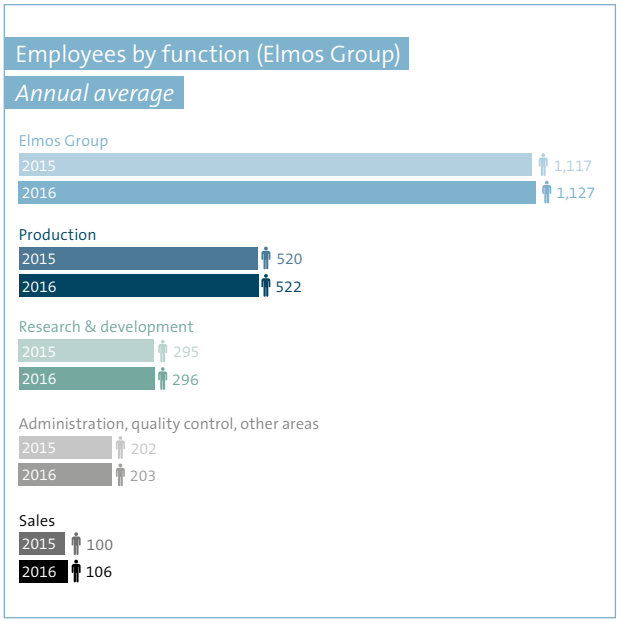
In-house health management is an essential social standard implemented by Elmos. It rests on four pillars: general health programs, executive coaching, special offers for employees doing shift work, and talks with employees returning from sick leave. The health team provides for certain medical examinations, screenings, and influenza vaccination during working hours. In 2016 Elmos offered another course 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 in 2016. Other sport events such as an in-house soccer cup were held as well.

Elmos Code of Conduct
for employees



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 North Rhine-Westphalia (NRW), Elmos is able to recruit from a large number of well-trained young engineers as there are a great number of universities and colleges in the vicinity. Elmos has maintained close cooperation with some of them ever since the Company's foundation. 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 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 and information technology of the Technical University of Dortmund for their excellent bachelor degrees for the fourth time at the end of 2016. 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 went slightly up from the end of the year 2015 by 1.7% to 1,128 in 2016 (December 31, 2015: 1,109). The number of employees at NRW locations reached 859 as of December 31, 2016 (December 31, 2015: 845). On annual average, the number of employees of the Elmos Group rose to 1,127 (2015: 1,117). The average age of the staff was 42 years in the year 2016 (2015: 41 years).

Elmos offers professional training in many technical and commercial professions with an emphasis on schooling microtechnologists. At the end of 2016, 51 trainees (2015: 53) were employed in Dortmund.

SOCIAL RESPONSIBILITY

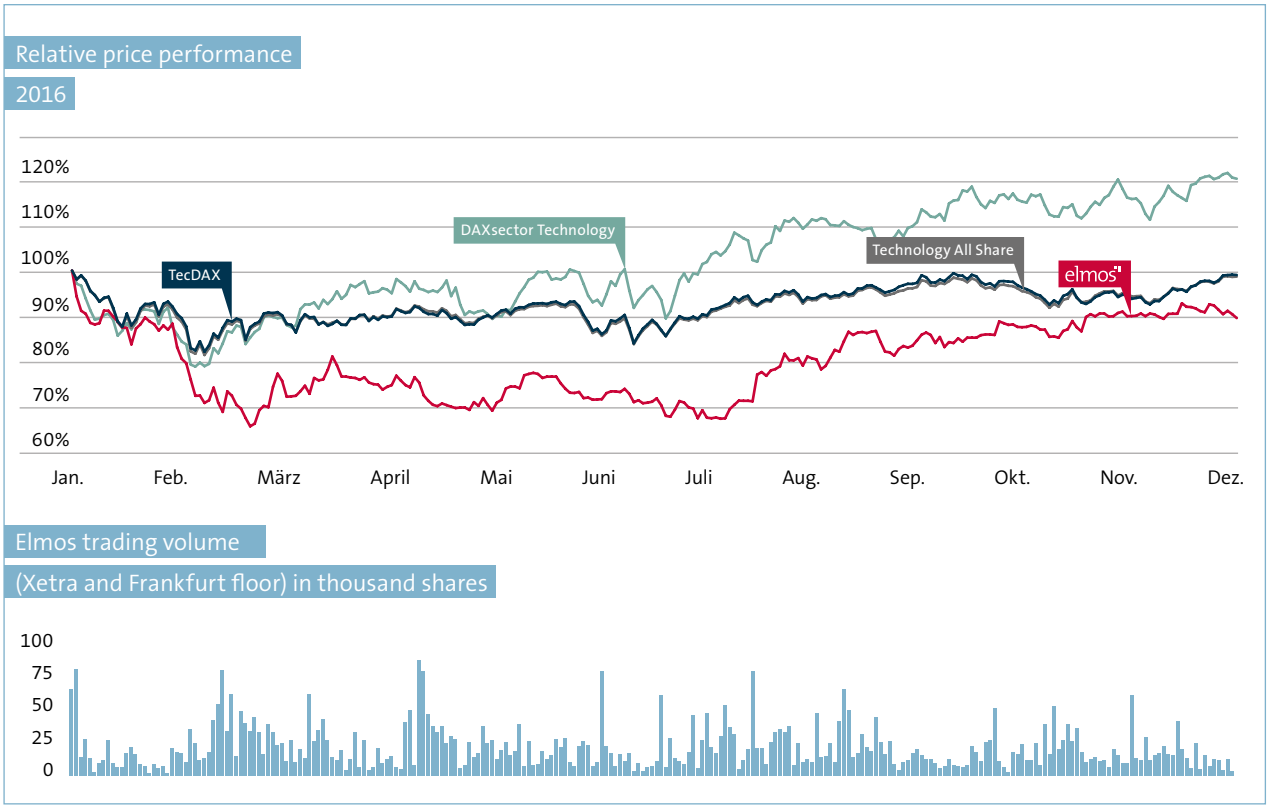
The Elmos Foundation was established in the past financial year. Donators are Dr. Klaus Weyer and Prof. Dr. Günter Zimmer. Both were founders of Elmos Semiconductor AG and are members of the stock corporation's Supervisory Board today. The foundation's endowment is scheduled to be invested in stock of Elmos Semiconductor AG for the most part. Dividend returns will be used for charitable purposes. The Foundation will also be supported by an annual contribution provided by the stock corporation. The Foundation's non-profit work will focus on three topics. Projects for the promotion of education and science as well as local activities at the locations of Elmos Semiconductor AG will receive support. Moreover, campaigns fighting worldwide poverty will also benefit from the Foundation. Please refer to the Foundation's website for further information **(www.elmos-stiftung.de).**

Elmos Stiftung

Grille shutter: Improved aerodynamics and a faster heat up of the engine are achieved by a smart radiator grille shutter featuring Elmos ICs.

The Elmos share

The Elmos share showed a mixed price performance over the year under review, similar to the performance of the general markets. Following a weak start to the year, the share managed to recover to some degree particularly in the second half of the year.



GENERAL DEVELOPMENT IN THE STOCK MARKETS

The international stock markets recovered in the course of the year following a weak start to the year 2016. The expansive monetary and low interest rate policies adopted by the central banks keep supporting the markets affected by political and economic uncertainty as well as the unsteady development of the oil price. The DAX showed a slight increase of 6.9% in the year under review. The broader-based indices reported similar performances in the course of the year. Prime All Share and CDAX gained 6.4% and 6.5% respectively. The industry indices of relevance to Elmos showed quite diverse performances. TecDAX registered a loss of –1.0% while Technology All Share lost –1.4% and DAXsector Automobile –5.6%. Contrary to that, DAXsector All Technology, DAXsector Technology and DAXsubsector Semiconductors showed highly positive performances at respective gains of 19.2%, 21.4% and 24.4%.

ELMOS COMPARED TO INDICES

Period ended December 31, 2016	Since 01/01/2015	Since 01/01/2016
Elmos (Xetra)	**–12.2%**	**–11.1%**
Industry indices		
TecDAX	32.1%	–1.0%
DAXsector Technology[1]	65.3%	21.4%
DAXsector All Technology[1]	37.6%	19.2%
Technology All Share[1]	29.3%	–1.4%
DAXsubsector Semiconductors[1]	69.8%	24.4%
DAXsector Automobile	1.1%	–5.6%
General market indices		
DAX	17.1%	6.9%
Prime All Share[1]	20.0%	6.4%
CDAX[1]	18.6%	6.5%

[1] Elmos is part of this index.

ELMOS STOCK PRICE PERFORMANCE

The Elmos share showed a mixed stock price performance over the year under review, similar to the performance of the general markets. After a high year-end price of 16.00 Euro, the share suffered a considerable markdown right on the very first day of trading 2016 (January 4, 2016) and closed at 15.04 Euro. This was also the 52-week high for 2016. The share reached its low price at 10.20 Euro on February 25, 2016. At the end of the year, the share closed at 14.23 Euro, indicating a performance of –11.1% compared to the prior-year-end price of 16.00 Euro. The average daily trading volume of the Elmos share remained close to constant at 21.9 thousand shares in the year under review (Xetra and Frankfurt floor; 2015: 22.9 thousand shares). The trading volume was stronger during the first six months

than in the second half of the year once again. Off-market trading (OTC market) continues to gain in importance for the Elmos share, too. Its trading volumes cannot be completely recorded and are therefore not included in the indicated amounts. All stock prices refer to Xetra closing prices.

The market capitalization of Elmos amounted to 286.1 million Euro at the end of the year, based on 20.1 million issued shares (December 31, 2015: 319.1 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.

BASIC STOCK INFORMATION

ISIN / WKN	DE0005677108 / 567710
Stock symbol / Reuters	ELG / ELGG
Industry	Chip manufacturer / Semiconductor
Type of shares (class)	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

ELMOS KEY STOCK DATA

	2012	2013	2014	2015	2016
Number of outstanding shares at year-end	19,615,705	19,674,585	19,859,749	19,941,864	20,103,513
Free float	43.2%	42.7%	49.1%	49.6%	50.1%
52-week high (Xetra)	9.54 Euro (February 9)	10.83 Euro (November 28)	16.25 Euro (December 22)	19.99 Euro (June 4)	15.04 Euro (January 4)
52-week low (Xetra)	5.86 Euro (August 8)	7.17 Euro (January 3)	10.65 Euro (January 2)	12.00 Euro (November 13)	10.20 Euro (February 25)
Year-end (Xetra)	7.15 Euro	10.70 Euro	16.20 Euro	16.00 Euro	14.23 Euro
Annual performance	–10.2%	49.7%	51.4%	–1.2%	–11.1%
Market capitalization at year-end	140.3 million Euro	210.5 million Euro	321.7 million Euro	319.1 million Euro	286.1 million Euro
Market value to book value[1] at year-end	0.7	1.1	1.6	1.5	1.2
Shares traded on daily average (Xetra and Frankfurt floor)	23.8 thousand	21.6 thousand	32.6 thousand	22.9 thousand	21.9 thousand
Earnings per share	0.42 Euro	0.49 Euro	0.94 Euro	0.82 Euro	0.80 Euro
Distribution total	4.8 million Euro	4.8 million Euro	6.5 million Euro	6.5 million Euro	7.0 million Euro[2]
Dividend per share	0.25 Euro	0.25 Euro	0.33 Euro	0.33 Euro	0.35 Euro[2]
Dividend yield	2.9%[3]	1.7%[3]	1.8%[3]	3.0%[3]	2.5%[4]

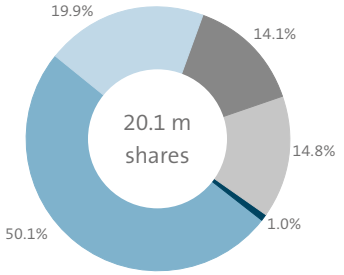
[1] Shareholders' equity
[2] Proposal to the Annual General Meeting in May 2017
[3] Based on the Xetra closing price on the day of the Annual General Meeting
[4] Based on the Xetra closing price of December 31, 2016

SHARE CAPITAL AND SHAREHOLDER STRUCTURE

The share capital of Elmos Semiconductor AG is divided into 20,103,513 no-par value shares with a proportionate amount of 1.00 Euro of the share capital allotted to each share.

The number of treasury shares was reduced to 192,880 shares by the end of the year 2016, equivalent to 1.0% of the share capital, by partially servicing stock options with treasury shares, among other reasons (December 31, 2015: 214,587 shares or 1.1%).

Shareholder structure
December 31, 2016



- Weyer Beteiligungsgesellschaft mbH and related parties
- ZOE-VVG GmbH and related parties
- Jumakos Beteiligungsgesellschaft mbH
- Treasury shares
- Free float *(thereof 3.01% Internationale Kapitalanlagegesellschaft mbH as of June 13, 2016 and 3.48% Teslin Capital Management B.V. as of January 24, 2017)*

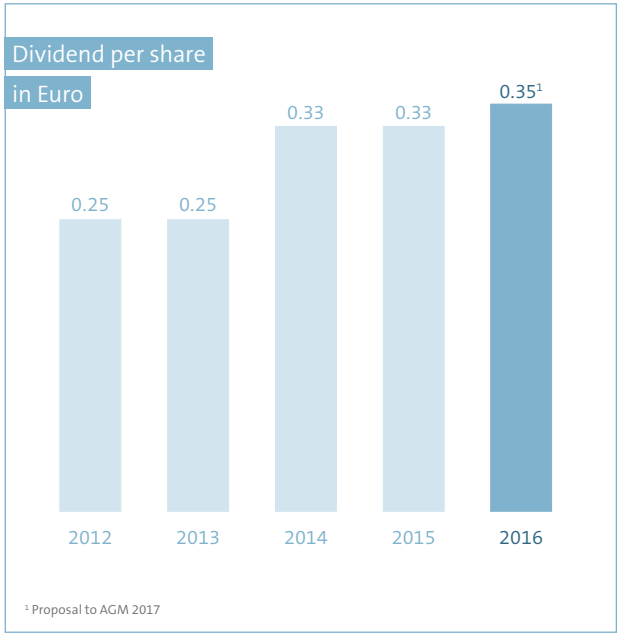
All voting rights announcements and disclosures of the total number of voting rights were made public Europe-wide according to statutory regulations and are also available at **www.elmos.com.**

INVESTOR RELATIONS

We seek to provide information comprehensively, timely and equally to all target groups worldwide. For this purpose, a large body of corporate information is available on the internet at **www.elmos.com.** In addition to that, Elmos communicates with the capital market participants within the framework of road shows, conferences, company visits on location as well as through conference calls after the announcement of quarterly results and annual financial statements. We maintain an email distribution list to inform interested investors who have registered on our website routinely about news of relevance.

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 2017 to pay a dividend of 0.35 Euro per share, slightly increased from the previous year, out of the 2016 retained earnings of 107.1 million Euro reported in the HGB financial statements of Elmos. The total dividend distribution would thus amount to roughly 7.0 million Euro based on 19,910,633 shares entitled to dividend as of December 31, 2016.



ANNUAL GENERAL MEETING

At the 17th Annual General Meeting held on May 11, 2016 in Dortmund, 13,431,800 Euro or 67.4% of the share capital were represented. All agenda items were adopted with a large majority of the votes. At the 2016 Annual General Meeting, much use was made once again of the option 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, 2017 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 was seven by the end of the year under review. The analysts belong to the following institutes:

-> Deutsche Bank
-> DZ Bank
-> Hauck & Aufhäuser
-> Montega
-> Natixis
-> Oddo Seydler
-> Warburg

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Product Catalog 2016/2017

Significant events 1st quarter

New product catalog

The current product portfolio of Elmos includes about 140 application specific semiconductors (ASSPs). All ASSPs can be found in the new product catalog 2016/2017. The 92 page catalog also provides a large number of application examples. The complete setup e.g. of an airbag or headlight system with Elmos components is vividly described here.

Successful professional training

Taking the lead with a sophisticated training strategy: This is how the Elmos approach to the topic could be summarized. Systematic professional training was the foundation for the fact that Elmos – following up on a large number of A's awarded by the Chambers of Industry and Commerce in various training professions – is now proud to have the state's best physics lab technician in NRW among its own.

Management Board member for Production appointed

Early in the year, the Supervisory Board set the course and appointed Guido Meyer as new member of the Management Board responsible for Production effective January 1, 2017. As early as 1995, the engineer joined Elmos and developed test machines for semiconductors, among other achievements. He moved up to become head of testing for seven years. In the period from 2012 to 2016 he was responsible for wafer manufacturing as division manager. His predecessor, Reinhard Senf, retired at the end of 2016.

Annual General Meeting 2016

2nd quarter

For precise temperature measurement

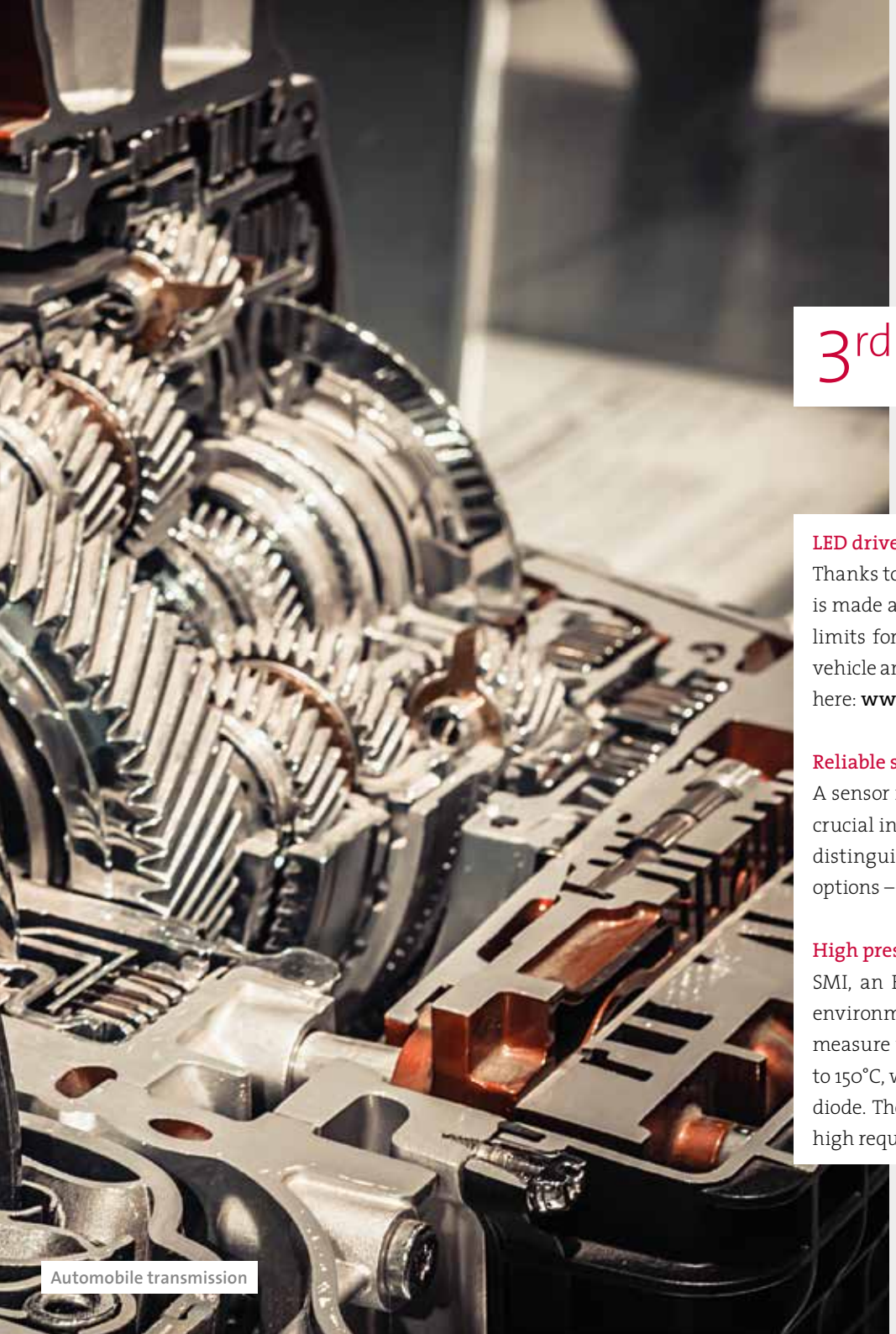
Newly introduced Elmos readout semiconductors help take precise temperature measurements. Due to their precision they can be used for critical applications such as measuring the body temperature inside the ear. But these semiconductors are also suitable for remote temperature monitoring, e.g. of buildings, owing to a measurement range from –20 up to +90°C even in the coldest winter or hottest of summers.

Shareholders voted

Elmos CEO Dr. Mindl gave shareholders an insight into strategy and products at the Annual General Meeting. Gesture control in cars, electronically controlled engine cooling and automotive LED lighting were among the presented innovations. All items on the agenda were adopted with a large majority of the votes.

Semiconductors by mouse click

Elmos semiconductors can now be ordered directly online, both fast and reliably. Samples as well as corresponding demo boards are available. Elmos distributor MEV Elektronik Service services the online platform. Later in the year Avnet Silica joined the offering as an additional web store for Elmos ICs. In addition to simple ordering, the focus is on technical support and advice provided by a large number of engineers.



Automobile transmission

3rd quarter

LED driver on video

Thanks to LEDs, a car's interior is illuminated in a "feel-good" ambient light and the view ahead is made almost as bright as daylight by LEDs even on dark country roads. There are hardly any limits for automotive LEDs today. A video clip shows the full application range of LEDs in a vehicle and their control by Elmos semiconductors. You can find that video and many others right here: **www.youtube.com/user/ELMOS1984**

Reliable sensor data

A sensor is always just as good as the chip processing and analyzing its data. It is right at that crucial interface where the new Elmos sensor signal readout ICs find use. The semiconductor is distinguished by its broad adjustment range, simple calibration, and elaborate configuration options – checking all the boxes that are important to any customer's development team.

High pressure, high accuracy, long life

SMI, an Elmos subsidiary, presented with the SM98 a pressure sensor for extremely rough environments, e.g. for oil pressure measuring inside a car's direct shift gearbox. The sensor can measure up to 20bar but also withstands overpressure of up to 150bar and temperatures of up to 150°C, which it can also measure directly by means of the integrated temperature measuring diode. The sensor has been given the AccuStable™ quality label and even exceeds this label's high requirements with a typical performance of better than 0.3% full scale over its life cycle.

A new generation in gesture recognition

4th quarter

Good conversations at electronica

The industry fair electronica boasts with superlatives: 73,000 visitors from 88 countries and close to 3,000 exhibitors. At the Elmos stand in the middle of the Munich exhibition halls, our colleagues had full appointment books and held precisely coordinated conversations leading to a large number of specific customer requests by the end of the trade show.

Auto network safety

The reliability of the network has top priority in contemporary cars. Only if the exchange of data can be relied on, the driver will have confidence in the correct function of the airbag or drive train. A new Elmos semiconductor has been developed especially for use in the PSI5 network for safety relevant applications. With regard to the safety requirements of the target applications, the semiconductor meets the highest standards worldwide – for safe driving under any circumstances.

A new generation in gesture recognition

Making the successful model even better, was the approach to designing the next generation in gesture recognition. The result is a component that saves up to 40% of the cost of materials in the system and up to 50% constructed space compared to previous solutions. Elmos established proximity and gesture sensorics for cars and has been global market leader since 2012 in this field.

Home automation: Elmos semiconductors for home automation make a perfect interaction of the various components possible – from the switch to the sensor.

Combined management report

In this combined management report we analyze the course of business in the year under review 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, including 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.

Over
9 million €
adjusted
free cash flow

4.1%
sales growth

EBIT margin at
10.1%

More than
35%
of sales are
generated in Asia

Increased
dividend to
0.35 €

Consolidated
net income about
16 million €

Ultrasonic parking assist: For increasing the driver's ease during the parking process, Elmos semiconductors measure the distance to cars, pylons or humans and thus make parking easy and safe.

Basic information on the Group

THE GROUP'S BUSINESS MODEL

Elmos Semiconductor AG was founded in the year 1984 in Dortmund where the Company maintains 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, accounting for roughly 10% of total sales. At Elmos they come primarily in the form of high-precision pressure sensors embedded in silicon, developed, manufactured and distributed by subsidiary Silicon Microstructures (SMI) in Milpitas/ U.S.A.

Extensive product portfolio

Elmos products are supplied predominantly to customers in the automotive industry (about 85% of sales). The remaining share of total sales is generated with customers operating in the industrial and consumer goods industry as well as in medical technology.

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. airbag igniter ICs and LED voltage supply systems). The components analyze data and convert them into digital data and analog quantities, among other things.

Megatrends that represent growth drivers for Elmos are e.g. advanced driver assistance systems up to autonomous driving. Such systems are closely connected to many add-on systems for active and passive safety. In addition to that, the trend for less emissions up to electromobility, has great potential. Efficiency improvements, e.g. with LEDs for the interior and exterior, and the networking of all those systems with each other are important megatrends for Elmos as well.

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, ON Semiconductor, and STMicroelectronics.

For industrial and consumer goods as well as medical technology, Elmos supplies products e.g. for applications in household appliances, installation and facility technology, respirators, and machine control systems. The increased use of electronics opens potential for Elmos in these sectors as well. However, the general conditions and life cycles are different here compared to the automotive market.

Locations of major Group companies

Europe

- **Dortmund | NRW:** Elmos Semiconductor AG | Development, Production, Sales | Cooperation with Fraunhofer Gesellschaft
- **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
- **Nijmegen, Netherlands:** Elmos Services B.V. | Development, Services
- **St. Petersburg, Russia:** 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

Organizational structure

The organization of Elmos is oriented toward the target markets, the customers' demands 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 manufacturing site for semiconductors is in Dortmund, the main MEMS production site is located in Milpitas/U.S.A.

In December 2016 Elmos increased its shareholdings in MAZ from 80% to 100%. The reason for this transaction is the long-term commitment of MAZ, with its know-how in digital design and industrial applications, to Elmos.

GOALS AND STRATEGIES

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

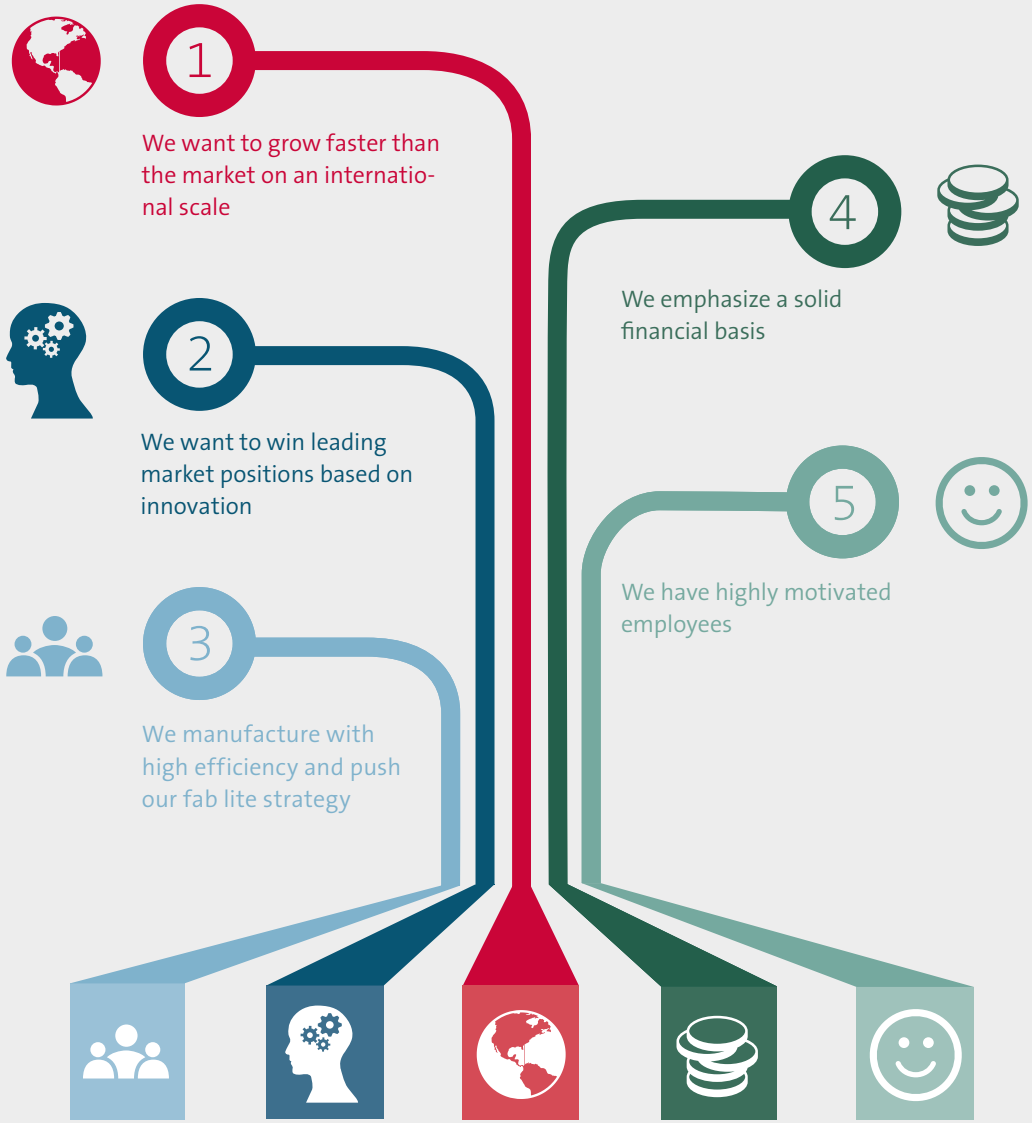
Elmos benefits from the global megatrends such as driver assistance up to autonomous driving, active and passive safety, less emissions up to electromobility, efficiency improvements, and network communication. These megatrends influence the ongoing electrification of vehicles, everyday objects and

Goals and strategies

industrial plants. The share of semiconductors in these areas has been growing continuously for years. 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 increasingly so in the U.S.A. Thus we are creating 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 innovations – be it specially tailored customer solutions or application specific standard components –, Elmos wants to be successful also by close cooperation with the customers. Roughly 40% of sales are currently achieved with application specific components (ASSPs) already (2015: about 35%). A majority of the products in development target the growth field of ASSPs. We will keep convincing customers in application fields with specialized and in part IP protected solutions.



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. We benefit in in-house manufacturing from our specialized mixed-signal portfolio and our know-how. Apart from our own manufacture, we cooperate for a part of our value chain with foundries, depending on requirements and volumes, and thus push our fab lite strategy. With this network we can act more flexibly, expand our portfolio of manufacturing processes and avoid costly investments in our in-house manufacture for potentially short-lived volume peaks. We will continue and expand the cooperation with partners over the next years.

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 parameters

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 as an essential lever for determining capacity utilization are especially important, particularly due to the high fixed cost burden of a semiconductor manufacture. 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 (earnings before interest and taxes) reflects the quality of earnings of the business segments. This is one central control parameter 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.

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 has been 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 the cash flow from operating activities less capital expenditures for/plus disposal of intangible assets and property, plant and equipment. We revised the definition of this control parameter in 2016 and adjusted the prior-year amounts accordingly so that comparability with the previous years is still provided. The previous definition additionally considered payments for and disposal of investments (previous definition: 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 parameters are applied for the two reporting segments (Semiconductor and MEMS).

PERFORMANCE OF MATERIAL CONTROL PARAMETERS

in million Euro unless otherwise indicated	2015	2016	Change
Sales	219.6	228.6	4.1%
EBIT	24.5	23.1	–5.7%
EBIT margin (in percent)	11.2%	10.1%	
Capital expenditures	24.7[1]	24.5	–0.8%
in percent of sales	11.3%[1]	10.7%	
Free cash flow (adjusted)[2]	29.7[1,3]	9.1	–69.4%

[1] Adjusted for the repurchase of land and building from prematurely terminated leases in the amount of approx. 14 million Euro
[2] Cash flow from operating activities less capital expenditures for/plus disposal of intangible assets and property, plant and equipment
[3] Amount adjusted according to new definition

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, 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 current financial year. On this basis, the expected cash flow development for the financial year is updated as well. Thus financial risks can be identified at an early stage and measures can be taken if necessary. In addition to that, the analysis of foreign

currency sales and cost is one of the tools for the potential launch of currency hedging measures.

RESEARCH AND DEVELOPMENT

The development activity of Elmos centers on the market-oriented expansion of the product portfolio along the three product lines Sensors, Motor Control, and Embedded Solutions. The majority of the product development cost Elmos incurs is pre-financed by the Company and must be amortized through the current series production business. This applies in particular to the development of application specific standard products (ASSPs), representing the mainstay of development for a few years now and accounting for an ever increasing share in total sales of Elmos.

Product developments are strictly aligned with market demands. Elmos prioritizes different product ideas and takes into account volumes, information on the competition, and feasibility, among other factors. Only those projects are realized that meet the Company's targets for market expectations, margin potential, and strategic orientation. The outcome of these product developments is a number of new semiconductors and sensors. A selection of the new products is presented in the chapter "Significant events 2016".

In 2016 research and development expenses amounted to 36.0 million Euro or 15.7% of sales (2015: 37.1 million Euro or 16.9% of sales).

PRODUCTION

Elmos operates semiconductor manufacturing sites in Germany using various CMOS technologies. The Dortmund manufacturing site uses 8-inch wafers. 8-inch wafers are also utilized within the framework of the cooperation with the Fraunhofer Gesellschaft.

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

In-house capacity is enhanced 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. They also expand the Elmos process portfolio. The percentage share of acquired wafers came to about 15% in 2016, a slight increase over the previous year (2015: about 12%). The share of wafers acquired from third parties will probably continue to 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-defect 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, competitive quality with a minimum number of rejects is produced. The final test also contributes to the excellent 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

Seal of quality

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. In addition to that, Elmos received the Group-wide certification for its functional safety processes according to ISO 26262 in 2015. This audit confirmed the most extensive functional safety implementation worldwide in semiconductor development and manufacturing processes.

AEC-Q100 qualified

Standardized qualification of automotive products according to AEC-Q100

e designed for safety.

Functional safety according to ISO 26262

TÜVRheinland® CERT ISO/TS 16949

Quality management system of the automotive industry according to ISO 16949

TÜV CERT

ISO 14001
Certificate: 01 104 021415

Environmental management system according to ISO 14001

RoHS compliant

Avoidance of hazardous substances according to RoHS

Climate flaps: Elmos semiconductors control the climate flap motors and thus help achieve an optimal ventilation of the car interior.

Business report

In 2016, sales increased by 4.1% to 228.6 million Euro, the gross profit came to 96.8 million Euro, and the EBIT was 23.1 million Euro. This equals an EBIT margin of 10.1%. Capital expenditures for intangible assets and property, plant and equipment amounted to 10.7% of sales. Furthermore, a positive adjusted free cash flow of 9.1 million Euro was generated.

MACROECONOMIC AND INDUSTRY SPECIFIC FRAMEWORK

Automotive industry

China and Europe booked high increases in new car registrations in the year 2016. China reached a new record while Western Europe achieved the highest level since 2007. The number of new registrations in the United States hardly changed. In Japan, less new vehicles were registered once more compared to the previous year. New registrations altogether gained 6% globally, according to the German Association of the Automotive Industry (VDA).

New car registrations in **Western Europe** climbed by 6% to 14.0 million passenger cars in 2016. The major markets showed positive performances: the respective growth rates are 16% for Italy, 11% for Spain, 5% for both France and Germany, and 2% for Great Britain. Apart from the Netherlands and Switzerland, all 18 Western European countries recorded growth, the VDA reports.

The passenger car market in **China** gained almost 18% to 23.7 million units, according to the VDA. This record volume is partly due to the fact that throughout the year 2016 a reduced sales tax was applicable to automobiles with small engines. This tax rate was increased again upon the turn of the year 2016/2017. Therefore there was a positive anticipation effect in new car registrations at the end of the year 2016.

The **U.S. market** for light vehicles (passenger cars and light trucks) hardly grew at 0.4% in 2016. In absolute terms, however, the market reported a new record of 17.5 million vehicles. At close to 10.6 million units, the segment of light trucks gained slightly more than 7% compared to the previous year. The passenger car segment took a loss of about 9%, though.

Car sales in **Japan** continue to be weak. Sales of slightly more than 4.1 million vehicles in the year 2016 were almost 2% below the prior-year number.

DEVELOPMENT OF NEW CAR REGISTRATIONS[1]

	Change 2015/16
Worldwide	+6%
Western Europe	+6%
Germany	+5%
China	+18%
U.S.A.	0%
Japan	–2%

DEVELOPMENT OF SEMICONDUCTOR MARKET

	Change 2015/16
General semiconductor market (worldwide)[2]	+1.5%
Automotive semiconductor market (worldwide)[3]	+7.4%

[1] Source: VDA
[2] Source: Gartner
[3] Source: Strategy Analytics

General semiconductor market

The **global** semiconductor market grew by 1.5% to 339.7 billion U.S. dollars in the past year, the market research institute Gartner announced. According to Gartner, the start to the year 2016 was slow due to the reduction of inventories. In the second half of the year 2016, the market turned completely: Inventories had to be restocked. In addition to that, the market for memory chips increased again. The fastest growth worldwide in 2016 was accounted for by sensorics/actuators. Over the next few years, this relatively small segment will continue to show the largest growth rates, the German Electrical and Electronic Manufacturers' Association (ZVEI) reported.

Automotive semiconductor market

The global market for automotive semiconductors was subject to high dynamics in the year 2016. According to data provided by the market researchers of Strategy Analytics, the market for automotive semiconductors gained 7.4% to 33.4 billion U.S. dollars in 2016. The average share of semiconductors (not including sensors) per vehicle equaled 313 U.S. dollars worldwide. This means an increase of 3.4%.

TARGET ACHIEVEMENT: PRESENTATION OF THE BUSINESS PERFORMANCE 2016 COMPARED TO THE FORECAST

TARGET ACHIEVEMENT 2016

	Forecast 2016	**Actuals 2016**	
Sales growth 2016 (vs. 2015)	Sales growth of 2-6%	**4.1%**	✓
EBIT margin (in % of sales)	Roughly 10%	**10.1%**	✓
Capital expenditures (in % of sales)	Less than 12% of sales	**10.7%**	✓
Adjusted free cash flow[1]	Positive	**9.1 Mio. Euro**	✓
Exchange rate	*1.10 USD/EUR*	***1.11 USD/EUR[2]***	

[1] Cash flow from operating activities less capital expenditures for/plus disposal of intangible assets and property, plant and equipment
[2] Average exchange rate in 2016

With a sales growth of 4.1% in 2016, an EBIT margin of 10.1%, capital expenditures amounting to 10.7% of sales, and an adjusted free cash flow of 9.1 million Euro, Elmos achieved all the targets defined in its February 2016 forecast to the full extent in 2016.

BUSINESS PERFORMANCE AND ECONOMIC SITUATION

Financial statements according to IFRS

The consolidated financial statements of Elmos Semiconductor AG for financial year 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU.

CONDENSED INCOME STATEMENT

in million Euro unless otherwise indicated	2015	2016	Change
Sales	219.6	228.6	4.1%
Gross profit	91.6	96.8	5.7%
in %	41.7%	42.3%	
Research and development expenses	37.1	36.0	–3.0%
in %	16.9%	15.7%	
Distribution expenses	19.0	19.9	4.7%
in %	8.7%	8.7%	
Administrative expenses	17.4	18.9	8.5%
in %	7.9%	8.3%	
Operating income before other operating expenses/income	18.1	22.0	21.6%
in %	8.2%	9.6%	
EBIT	24.5	23.1	–5.7%
in %	11.2%	10.1%	
Earnings before taxes	24.1	23.1	–4.1%
in %	11.0%	10.1%	
Consolidated net income attributable to owners of the parent	16.2	15.9	–1.9%
in %	7.4%	6.9%	
Earnings per share (basic) in Euro	0.82	0.80	–2.5%
Dividend per share in Euro	0.33	0.35[1]	6.1%

[1] Proposal to the Annual General Meeting in May 2017

Sales performance

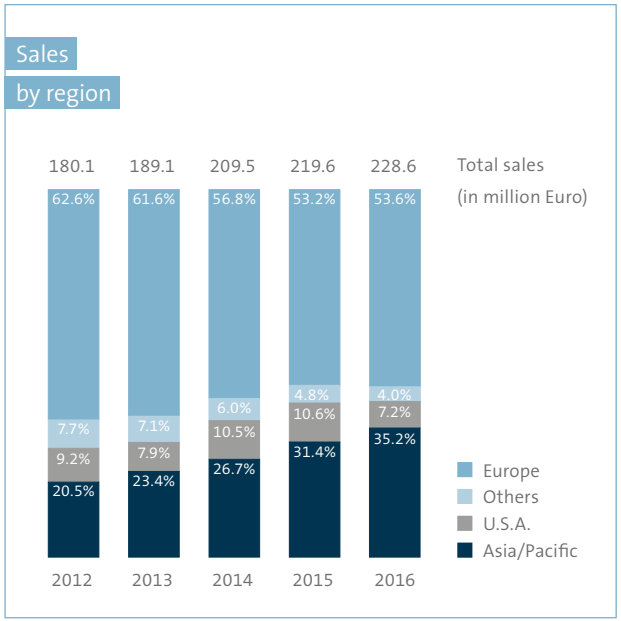
In financial year 2016, Elmos generated sales of 228.6 million Euro, equivalent to a 4.1% gain over the prior-year amount of 219.6 million Euro. Sales grew faster over the course of the year, culminating in a very strong final quarter, determined by expected one-off effects in addition to sound customer demand. Overall, the development and number of ramp-ups was positive.

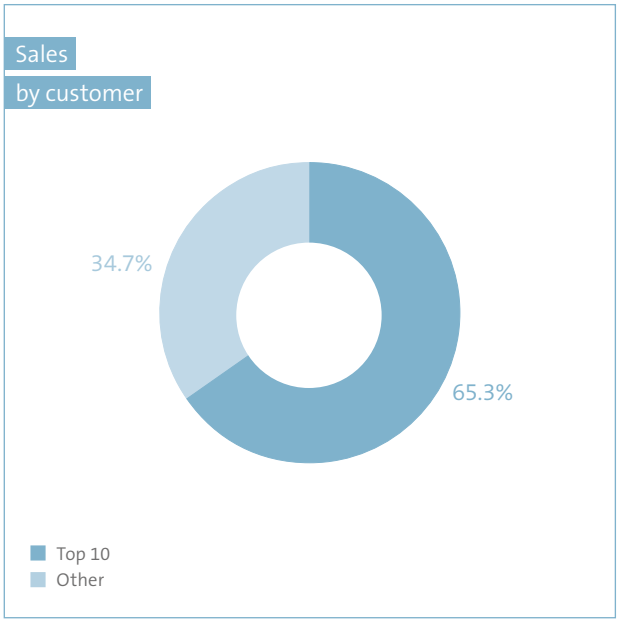
Sales by region

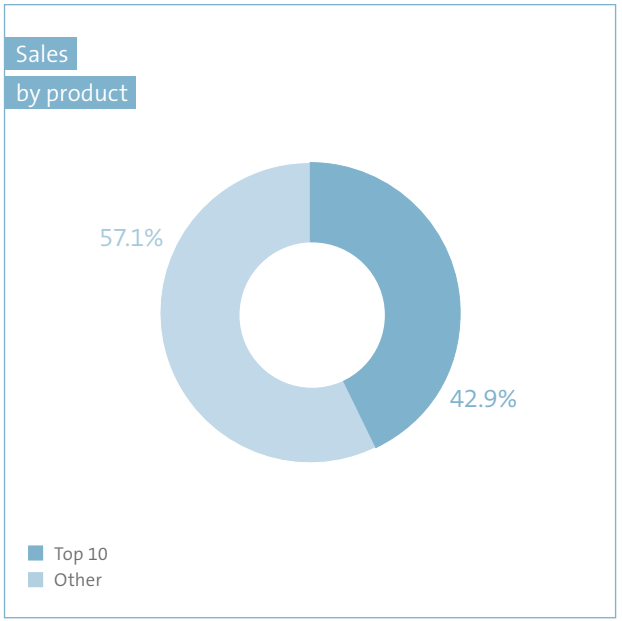
The Asia/Pacific region is still gaining in importance for Elmos and showed disproportionate growth once again in the year under review, with a 16.9% increase. Thus sales in this region came to 80.5 million Euro or 35.2% of total sales (2015: 68.9 million Euro or rather 31.4%). Sales generated in the EU countries were up, too (+4.8%), amounting to 122.5 million Euro. This was accounted for in part by shifts of delivery addresses from the U.S. to Europe and thus essentially explains the sales decline regarding U.S. based customers (23.4 million Euro in 2015 vs. 16.5 million Euro in 2016).

Sales by customer and by product

Elmos supplies a large number of customers. Apart from suppliers to the auto industry, they are industrial customers and manufacturers of medical technology and consumer goods. In 2016, three 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. The top ten customers accounted for about 65% of sales in 2016 (2015: 64%), the combined share of the ten bestselling products came to roughly 43% (2015: 41%).

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 2016, the book-to-bill ratio of the Semiconductor segment 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. However, the year 2016 was a very successful one for design wins, with respect to both the number and the volume of acquired new projects, and took up speed by the end of the year. The number of partners won as new customers in 2016 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). 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. Design wins usually take three to five years until they are launched in series production and contribute to sales.

Profit situation

Gross profit

The cost of sales was 131.8 million Euro in the year under review (2015: 128.0 million Euro), an increase slightly lower than sales growth. The gross margin improved accordingly from 41.7% in 2015 to 42.3% in the year under review. This equals an increase of the gross profit from 91.6 million Euro in 2015 to 96.8 million Euro in 2016. This increase is due in part to a successive improvement of production efficiency particularly in the second half of the year 2016.

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

Research and development expenses went down in financial year 2016 by 3.0% to 36.0 million Euro (2015: 37.1 million Euro). In relation to sales, R&D expenses thus came to 15.7% in 2016 as compared to 16.9% in the previous year.

Distribution expenses were kept constant relative to sales at 8.7% in the year under review and amounted to 19.9 million Euro (2015: 8.7% and 19.0 million Euro). General administrative expenses went up from 17.4 million Euro in 2015 to 18.9 million Euro in 2016. In relation to sales, this equals in 2016 a ratio of 8.3% compared to 7.9% in the year before. On the whole, operating expenses in relation to sales kept improving from 33.5% in 2015 to 32.7% in the year under review. Thus the level of operating expenses in relation to sales has been continuously going down since 2012.

These positive effects reflect in the operating income before other operating expenses/income, showing a disproportionately high improvement compared to sales by 21.6% to 22.0 million Euro (2015: 18.1 million Euro). The operating income margin thus went up from 8.2% in the previous year to 9.6% in 2016.

Earnings before interest and taxes (EBIT) amounted to 23.1 million Euro or 10.1% of sales in the reporting period (2015: 24.5 million Euro or 11.2%). It has to be taken into account here that the prior-year EBIT was supported by foreign exchange rate gains as well as positive one-off effects in other operating income. In 2015 foreign exchange rate gains in the amount of 2.3 million Euro were realized, based in part on U.S. dollar hedges (2016: 0.1 million Euro), and other operating income came to 4.2 million Euro in 2015 (2016: 1.0 million Euro), influenced in particular by 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 income in the amount of 0.2 million Euro was generated in 2016 despite lower interest income due to the market interest rate drop (2015: net finance expense of 0.4 million Euro). This is primarily accounted for by income in the amount of 1.3 million Euro resulting from derecognition of a put option. From the proportionate income from associates, losses in the amount of 0.2 million Euro were entered for the reporting period (2015: 0.0 million Euro). After taxes and non-controlling interests, Elmos generated consolidated net income attributable to owners of the parent in the amount of 15.9 million Euro in financial year 2016 (2015: 16.2 million Euro). The tax rate came to 29.9% of sales in the year under review, down slightly from the prior-year rate of 31.0%. The consolidated net income equals basic earnings per share (EPS) of 0.80 Euro in 2016 (2015: 0.82 Euro).

Proposal for the appropriation of retained earnings

The net income of Elmos according to HGB[1] (Commercial Code) is 36.7 million Euro in 2016. The profit carried forward from the year 2015 comes to 70.4 million Euro after dividend distribution. As condition for the payment of a dividend, the Company determined in the past years that the performance of earnings and the development of cash flows must both be sustainably positive. Management Board and Supervisory Board propose to the Annual General Meeting on May 11, 2017 to distribute a dividend of 0.35 Euro per share, i.e. 2 Euro cents higher than the prior-year dividend, out of the retained earnings in the amount of 107.1 million Euro. This equals a total dividend distribution of 7.0 million Euro, based on 19,910,633 shares entitled to dividend as of December 31, 2016.

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

Sales and earnings in the segments

CONDENSED SEGMENT REPORTING

in million Euro unless otherwise indicated	Segment	2015	2016	Change
Sales				
	Semiconductor	196.6	206.9	5.2%
	Micromechanics	23.0	21.7	–5.6%
EBIT (Segment earnings)				
	Semiconductor	21.5	21.5	0.0%
	Micromechanics	3.0	1.6	–46.2%
EBIT margin				
	Semiconductor	10.9%	10.4%	
	Micromechanics	13.2%	7.5%	

Semiconductor

Sales of the Semiconductor segment gained 5.2% to 206.9 million Euro in the year under review (2015: 196.6 million Euro). The positive sales performance is essentially due to business growth in Asia. On the whole, semiconductor sales are generated primarily with automotive customers. Sales with customers in the industrial and consumer goods industries are secondary.

The EBIT of the Semiconductor segment remained constant at 21.5 million Euro (2015: 21.5 million Euro). Considering the increase in sales, the EBIT margin thus went down slightly (10.4 % in 2016 as compared to 10.9% in 2015).

Micromechanics

The Micromechanics segment comprises the activities of subsidiary SMI. Customers in the Micromechanics segment belong for the most part to the automotive, industrial, consumer goods, and medical sectors. Sales of the Micromechanics segment dropped by 5.6% to 21.7 million Euro, due among other factors to a revision of the product portfolio with an initial negative effect on sales (2015: 23.0 million Euro).

The EBIT of 1.6 million was below the prior-year amount of 3.0 million Euro. This equals an EBIT margin of 7.5% for 2016 (2015: 13.2%). Primary reasons for this are reduced sales and stronger pricing pressure due to increasing consolidation among customers.

Financial position

CONDENSED STATEMENT OF CASH FLOWS

in million Euro unless otherwise indicated	2015	2016	Change
Consolidated net income	16.7	16.2	–2.6%
Depreciation and amortization	28.8	29.1	1.0%
Change in net working capital[1]	–2.1	–4.0	92.3%
Other items	7.0	–7.8	n/a
Cash flow from operating activities	**50.3**	**33.5**	**–33.5%**
Capital expenditures for intangible assets and property, plant and equipment	–24.7[2]	–24.5	–0.8%
in % of sales	–11.3%[2]	–10.7%	
Repurchase of land and building from prematurely terminated leases	–14.0	0.0	n/a
in % of sales	–6.4%	n/a	
Payments for (–) /Disposal of securities	10.3	–7.9	n/a
Other items	3.8	–2.4	n/a
Cash flow from investing activities	**–24.6**	**–34.9**	**41.6%**
Cash flow from financing activities	**–9.3**	**–6.1**	**–34.8%**
Change in liquid assets	16.4	–7.4	n/a
Adjusted free cash flow[3]	**29.7[2,4]**	**9.1**	**–69.4%**

[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 leases in the amount of approx. 14 million Euro
[3] Cash flow from operating activities less capital expenditures for/plus disposal of intangible assets and property, plant and equipment
[4] Amount adjusted according to new definition

Cash flow from operating activities

The cash flow from operating activities came to 33.5 million Euro in financial year 2016, thus falling short of the prior-year amount of 50.3 million Euro. This can be explained particularly by the increase in trade receivables by 6.3 million Euro due to the strong sales of the final quarter (2015: decrease by 2.2 million Euro) and tax payments in the amount of 11.8 million Euro (2015: 3.5 million Euro). The operating cash flow was positively affected primarily by the decrease of trade payables by 3.8 million Euro (2015: decrease in the amount of 0.3 million Euro).

Cash flow from investing activities

Cash-effective capital expenditures for intangibles and property, plant and equipment amounted to 24.5 million Euro or 10.7% of sales (2015: 24.7 million Euro or 11.3% of sales, adjusted for the one-off effect of approx. 14 million Euro from the repurchase of land and building from prematurely terminated leases). Capital expenditures were used primarily for the expansion of test capacity, purchasing of spare parts, and the acquisition of technology licenses. The largest portion of the reporting period's capital expenditures in the amount of 23.8 million Euro (2015: 23.6 million Euro) was accounted for by the Semiconductor segment; the amount of 0.7 million Euro was invested in the Micromechanics segment (2015: 1.1 million Euro).

The cash flow from investing activities amounted to –34.9 million Euro in 2016 after –24.6 million Euro in 2015 (including the repurchase of land and building from prematurely terminated leases in the approximate amount of 14 million Euro). Here, it has to be taken into account that the net amount of 7.9 million Euro was invested in securities in the year under review (2015: sale of securities in the net amount of 10.3 million Euro), reported in the cash flow from investing activities. Apart from that, 2.2 million Euro were paid for an investment in a company in the year under review (2015: 0.0 million Euro).

The adjusted free cash flow thus amounted to 9.1 million Euro in 2016 as compared to 29.7 million Euro in the previous year (prior-year amount adjusted according to the new definition and adjusted for the one-off effect in the amount of approx. 14 million Euro).

Cash flow from financing activities

The cash flow from financing activities came to –6.1 million Euro in financial year 2016 (2015: –9.3 million Euro), determined for the most part by the dividend payment in the amount of 6.5 million Euro (2015: 6.5 million Euro).

Liquid assets

In addition to cash and cash equivalents totaling 43.1 million Euro, the Company holds long-term and short-term securities in the amount of 48.5 million Euro (December 31, 2015: 50.0 million Euro and 40.5 million Euro respectively). At 91.6 million Euro as of December 31, 2016, cash and cash equivalents plus marketable securities thus show a constant development compared to the prior-year closing date (December 31, 2015: 90.5 million Euro).

Financial situation

In addition to financing through equity, Elmos also draws on traditional credit facilities, maturing essentially in financial years 2017 and 2018. Effective interest rates of these loans range between 1.75% and 4.90%. As the remaining terms to maturity were less than a year for a part of these loans, they were reclassified as of December 31, 2016 from previously long-term to short-term loans.

As of December 31, 2016, non-current financial liabilities accordingly came to 11.2 million Euro and current financial liabilities amounted to 25.0 million Euro (December 31, 2015: 36.6 million Euro and 0.2 million Euro respectively). In addition to that, as of December 31, 2016 the Company had various short-term lines of credit at its disposal in the unchanged total amount of 16.5 million Euro. As of December 31, 2016, the Company provided these credit facilities in the amount of 0.7 million Euro as security once again.

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 underlying 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" and came to 55.5 million Euro as of December 31, 2016 (December 31, 2015: 53.3 million Euro).

Total assets went up to 312.9 million Euro in 2016 (December 31, 2015: 306.9 million Euro), essentially because of the positive business performance. This is reflected on the asset side of the statement of financial position in an increase in trade receivables (+6.3 million Euro) particularly due to the strong final quarter. Moreover, investments in associates grew by 2.0 million Euro. The evident changes in equity and liabilities are the increase in equity (+12.2 million Euro), primarily due to consolidated net income, and higher trade payables (+3.1 million Euro).

Assets and liabilities

CONDENSED STATEMENT OF FINANCIAL POSITION

in million Euro unless otherwise indicated	12/31/2015	12/31/2016	Change
Intangible assets	20.8	19.6	–6.0%
Property, plant and equipment	91.0	86.6	–4.9%
Investments in associates	0.0	2.0	n/a
Other non-current assets	5.7	5.6	–2.0%
Securities (short-term and long-term)	40.5	48.5	19.8%
Inventories	57.2	58.6	2.5%
Trade receivables	32.8	39.1	19.3%
Cash and cash equivalents	50.0	43.1	–13.8%
Other current assets	8.9	9.8	11.2%
Total assets	**306.9**	**312.9**	**2.0%**
Equity	219.4	231.6	5.6%
Financial liabilities (current and non-current)	36.8	36.2	–1.7%
Other non-current liabilities	4.6	2.2	–51.6%
Trade payables	21.8	24.9	14.4%
Other current liabilities	24.2	18.0	–25.9%
Total equity and liabilities	**306.9**	**312.9**	**2.0%**

Net working capital and other key financial figures

SELECTED KEY FINANCIAL FIGURES

	Calculation	Unit	2015	2016
Net working capital	Trade receivables + inventories – trade payables	million Euro	68.2	72.8
in % of sales		%	31.0	31.8
Inventory turnover	Cost of sales/inventories	x	2.2	2.2
Receivables turnover	Sales/trade receivables	x	6.7	5.8
Payables turnover	Cost of sales/trade payables	x	5.9	5.3
Cash conversion cycle	Inventory days + debtor days – creditor days	days	155	156
Return on invested capital (RoIC)	EBIT/(intangible assets + property, plant and equipment + net working capital)	%	13.6	12.9
Net cash	Cash and cash equivalents + securities – financial liabilities	million Euro	53.7	55.4
Equity ratio	Equity/total assets	%	71.5	74.0

DETERMINATION OF ROIC

in million Euro unless otherwise indicated	2015	2016
❶ Earnings before interest and taxes (EBIT)	**24.5**	**23.1**
	12/31/2015	12/31/2016
Intangible assets	20.8	19.6
Property, plant and equipment	91.0	86.6
Inventories	57.2	58.6
Trade receivables	32.8	39.1
Less		
Trade payables	–21.8	–24.9
❷ Invested capital	**180.0**	**178.9**
RoIC (❶/❷)	**13.6%**	**12.9%**

Net working capital

Net working capital increased slightly year over year to 72.8 million Euro as of December 31, 2016 (December 31, 2015: 68.2 million Euro). This increase is accounted for by higher trade receivables (+6.3 million Euro) as well as an increase in inventories by 1.4 million Euro, facing only an increase in trade payables by the amount of 3.1 million Euro. Inventory turnover remained constant at 2.2x in the year under review due to a similar development of cost of sales and inventories (2015: 2.2x). Owing to higher trade receivables at the end of the year, the receivables turnover was reduced from 6.7x in 2015 to 5.8x in 2016. The same applies for the payables turnover, going down as well because of higher trade payables as of December 31, 2016 and coming to 5.3x as compared to 5.9x for the previous year. The cash conversion cycle remained virtually constant at 156 days (2015: 155 days).

Return figure

Elmos applies return on invested capital (RoIC) used for business operations as return indicator. This key ratio is defined as earnings before interest and taxes (EBIT) divided by invested capital which equals the total of intangible assets, property, plant and equipment, and net working capital. Thus a connection is made between profitability and the invested capital used for business operations. The RoIC therefore also serves as an indicator of added value.

The invested capital of 178.9 million Euro in 2016 was slightly below the prior-year amount of 180.0 million Euro. This is attributable to the decrease in property, plant and equipment and intangible assets – in 2016, depreciation/amortization exceeded new capital expenditures – and the increase in net working capital. Because of a slightly lower EBIT, however, at 12.9% the 2016 RoIC was slightly below the 13.6% of 2015.

Other key financial figures/ratios

Net cash went up year over year to 55.4 million Euro as of December 31, 2016 (December 31, 2015: 53.7 million Euro). The equity ratio also reached a slightly higher value of 74.0% as of December 31, 2016 compared to the previous year (December 31, 2015: 71.5%).

OVERALL STATEMENT ON THE ECONOMIC SITUATION

Based on its positive sales and earnings performance, Elmos managed to further extend its financial strength in 2016. The adjusted free cash flow was positive once again, making it possible despite sizable capital expenditures and the dividend payment to further strengthen the net cash position and thus consolidating the financial position. The equity ratio was also increased compared to the previous year once more.

Elmos has further expanded and optimized the product portfolio of the three business lines (Sensors, Motor Control, and Embedded Solutions). The Company continued to invest in new products and their development as well. Existing customer relationships were intensified and new customers were won.

The solid financial basis and the strengthened competitive position provide a sound 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 as a special print publication and are available on the Company's website, **www.elmos.com.**

Business performance 2016

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 that in the chapters "Basic information on the Group" and "Business report".

Business outlook 2017 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 financial year 2017 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 2017 can be assumed to influence the business result of Elmos Semiconductor AG as well. On the whole, we expect for 2017 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.

Performance of sales and earnings

CONDENSED INCOME STATEMENT

in million Euro unless otherwise indicated	2015	2016	Change
Sales	**192.4**	**205.3**	**6.7%**
Materials costs	74.1	82.2	10.9%
Personnel expenses	57.6	60.3	4.6%
Amortization of intangible assets and depreciation of property, plant and equipment	22.0	23.2	5.3%
Other operating expenses	44.5	39.1	–12.3%
Operating income[1]	**13.3**	**12.7**	**–4.8%**
Income from investments and financial result	0.0	28.9	>100%
Earnings before taxes	**13.3**	**41.6**	**>100%**
Net income	**7.7**	**36.7**	**>100%**

[1] Prior-year amount adjusted for changes in the classification requirements of the income statement under the Accounting Directive Implementation Act (BilRUG)

In the past financial year, sales went up by 6.7% from 192.4 million Euro to 205.3 million Euro. Thus sales in excess of 200 million Euro were achieved for the first time by the stock corporation (AG). A majority of the increase in sales is accounted for by the region Asia/Pacific.

The increase in materials costs was disproportionately high compared to sales in 2016, amounting to 82.2 million Euro (2015: 74.1 million Euro). Contrary to that, the increase in personnel expenses was disproportionately low relative to sales, gaining 4.6% to reach 60.3 million Euro (2015: 57.6 million Euro). Amortization of intangible assets and depreciation of property, plant and equipment grew by 5.3% to 23.2 million Euro. This increase is accounted for particularly by investments in new machines and spare parts. Other operating expenses of 39.1 million Euro in 2016 were lower than the previous year once again (2015: 44.5 million Euro). This is due in part to the reduction of lease expenses because of the repurchase of the administration building. The corresponding effect is fully recognized in 2016 for the first time.

The operating income of 12.7 million Euro or a margin of 6.2% in the year under review was below the prior-year amount of 13.3 million Euro or 6.9%. The essential reason for this is the decrease in other operating income (–6.4 million Euro) that could not be compensated by the decrease in other operating expenses (–5.5 million Euro).

Income from investments and financial result reached 28.9 million Euro in 2016 (2015: 0.0 million Euro). The reason for this high income is the distribution of a subsidiary.

Due to the positive effect of the distribution described above, earnings before taxes climbed from 13.3 million Euro in the previous year to 41.6 million Euro in 2016. The margin of earnings before taxes performed accordingly, coming to 20.3% in 2016 as compared to 6.9% in 2015. This effect and the lower tax rate are reflected in the increased net income of 36.7 million Euro for the year under review (2015: 7.7 million Euro).

Financial position

CONDENSED STATEMENT OF CASH FLOWS

in million Euro unless otherwise indicated	2015	2016	Change
Net income	**7.7**	**36.7**	**>100 %**
Depreciation and amortization	22.0	23.2	5.3%
Increase (+)/Decrease (–) in provisions, other non-cash expenses, income (–)/ expenses (+) from disposal of investments and write-down on financial investments	6.9	–8.2	n/a
Decrease (+)/Increase (–) in inventories, trade receivables and other assets	49.6	–3.1	n/a
Decrease (–)/Increase (+) in trade payables and other liabilities	–28.9	–9.0	–68.8%
Cash flow from operating activities	**57.3**	**39.6**	**–30.9%**
Cash flow from investing activities	**–37.5**	**–42.4**	**13.1%**
Cash flow from financing activities	**–5.4**	**–5.1**	**–6.1%**
Change in cash and cash equivalents	14.4	–7.9	n/a
Cash and cash equivalents at beginning of period	36.6	51.0	39.3%
Cash and cash equivalents at end of period	**51.0**	**43.1**	**–15.5%**

The cash flow from operating activities turned out lower compared to 2015 and amounted to 39.6 million Euro (2015: 57.3 million Euro). This is accountable for primarily by a slight increase in inventories, trade receivables, and other assets as compared to a significant decrease in the previous year (–3.1 million Euro in 2016 vs. +49.6 million Euro in 2015) that could not be compensated by the improved net income (36.7 million Euro in 2016 vs. 7.7 million Euro in 2015).

The cash flow from investing activities amounted to –42.4 million Euro in 2016 (2015: –37.5 million Euro). This change is accounted for by payments for securities in particular.

The cash flow from financing activities in the amount of –5.1 million Euro for the year 2016 (2015: –5.4 million Euro) essentially reflects the payment of a dividend (–6.5 million Euro), counteracting the capital increases from the current stock option plans (+1.5 million Euro).

In addition to liquid assets in the amount of 37.4 million Euro, the Company holds 48.0 million Euro in long-term and short-term securities (December 31, 2015: 41.6 million Euro and 40.0 million Euro respectively). Cash and cash equivalents plus marketable securities thus increased slightly from 81.5 million Euro in the previous year to 85.4 million Euro as of December 31, 2016.

Assets and liabilities

CONDENSED STATEMENT OF FINANCIAL POSITION

in million Euro unless otherwise indicated	2015	2016	Change
Fixed assets	145.7	157.4	8.0%
Inventories	48.9	50.9	4.2%
Receivables and other assets	35.3	41.7	18.3%
Marketable securities	9.6	5.7	–40.7%
Cash in hand, cash in banks	41.6	37.4	–10.0%
Other assets	1.0	2.1	>100%
Total assets	**282.0**	**295.2**	**4.7%**
Equity	186.1	218.1	17.2%
Provisions	23.2	13.9	–40.2%
Liabilities	72.7	63.2	–13.1%
Total equity and liabilities	**282.0**	**295.2**	**4.7%**

Total assets went up by 4.7% compared to December 31, 2015, coming to 295.2 million Euro as of December 31, 2016 (December 31, 2015: 282.0 million Euro). This is accounted for on the assets side of the statement essentially by an increase in securities classified as fixed assets or current assets (+8.0 million Euro) and the increase in trade receivables (+5.4 million Euro) due to the strong final quarter of the year under review. As for equity and liabilities, the increase is evident particularly in equity based on higher retained earnings due to the distribution of a subsidiary, among other factors (+30.1 million Euro). This increase is partly compensated for by reduced provisions (–9.3 million Euro) and lower payables to affiliated companies (–13.4 million Euro).

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 107.1 million Euro. Management Board and Supervisory Board propose to the Annual General Meeting of May 11, 2017 to use the retained earnings of financial year 2016 for the distribution of a dividend of 0.35 Euro per no-par share entitled to dividend and to carry forward the remaining amount to new accounts.

Subsequent events

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

Airbag igniter: Elmos ICs ignite airbags in various places in the car reliably for many years.

Opportunities and risks

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. 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.

OPPORTUNITIES

Opportunities are identified and analyzed in the Group. We constantly monitor our markets and are in continuous dialogue with customers in order to identify trends and developments early on.

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 can be controlled by Elmos only to a limited extent.

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, active and passive safety, less emissions up to electromobility, efficiency improvements, as well as network communication. 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. Our three fields of business (Sensors, Motor Control, and Embedded Solutions), the so-called business lines, seek to continuously increase our appeal for customers with innovative or advanced high-quality products.

In addition to our business of customer specific semiconductors for the automotive industry, the ongoing implementation of our strategy provides opportunities to the Company. These can be found 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 advanced 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 opportunity in the expansion of its product portfolio. This can take place by the deliberate 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 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 presented 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. 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 strategic opportunities have the 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

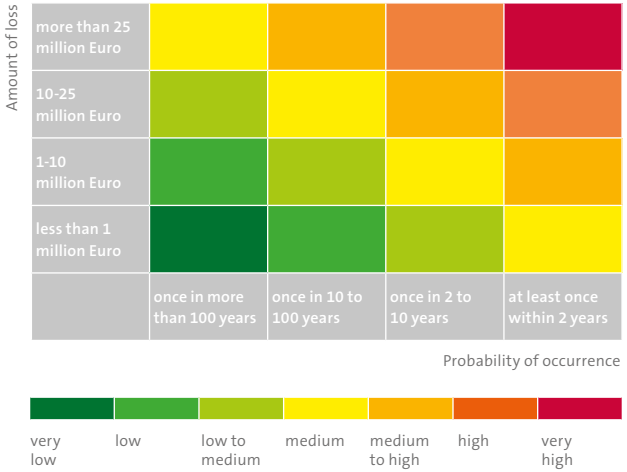
The following explanations also include information in accordance with Sections 289 (5) and 315 (2) no. 5 HGB (Commercial Code) as well as the explanatory report on the key features of the accounting-related internal control and risk management system.

Elmos comprises the measures implemented for early risk detection in the Company in a risk management system. This system focuses on safeguarding the Company's continued existence and increasing the shareholder value. 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. 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 management of risks. The next levels of seniority ensure the control of risks. The Management Board assumes overall responsibility for the internal control and risk management system in the Group. In a well-established process of review sessions, 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 and our profit and financial position and assets and liabilities, 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", and "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 that 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 occured damages are communicated immediately and outside the usual reporting channels in case of urgency. The continuous development of instruments and methods for risk identification and risk management is an ongoing process which is regularly reviewed for necessary enhancement and sources of error and adjusted if necessary. The risk management system fulfills the requirements of Section 91 (2) AktG (Stock Corporation Act) and has been reviewed 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 monitoring and controlling central business processes with the aim of identifying risks as well as containing known risks. This contributes to reflecting relevant processes in the consolidated financial statements. It contains the principles, processes and measures introduced by management and oriented toward the organizational implementation of the management's decisions for safeguarding the efficiency and economy of business activities, the reliability and the truth and fairness of internal and external accounting, and compliance with the applicable legal stipulations. The elements of the internal control system 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 respective 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 the 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 proved 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 recession in Europe or other important international markets, a significant slowdown of growth in Asia (particularly in China) or 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 beyond the respective national economy affected 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 demand of the automotive industry or rather its suppliers for semiconductors. The majority of sales was generated with chips for automotive electronics in the past financial year 2016. On the one hand this demand depends on the number of cars produced, on the other hand it is determined 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 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 competitors will offer comparable products in many cases.

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 a high dependence on individual employees.

Shortage of qualified employees
An important aspect for 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 based on cooperation with institutions of education and scholarships for college students, among other efforts.

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 highly dependent on the ability to assess 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 in part so that Elmos cannot offer any competitive products in such fields anymore.

In customer specific development of products, development and production of microelectronic components and system parts are usually agreed on in a binding customer order. The customer bears part of the development expenses incurred by Elmos based on predefined milestones. There is the risk that not amortized expenses for product developments that do not result in a supplier relationship will remain with the Company.

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. Despite thorough research Elmos might infringe patent rights held by third parties with its own product developments. That might have a significant effect on the respective product and its marketing potential.

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 the use of 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 at the earliest possible stages by means of adequate controlling instruments and continuous target/actual analyses. 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 based on economic considerations if applicable. Elmos also pursues the goal for the medium term to achieve a so-called 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 in different regions wherever possible. The same applies for cooperation with foundries. 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-defect strategy and constantly invests in the detection and prevention of sources of error and defects. In order to minimize potential sources of error with respect to safety-relevant components for vehicles, Elmos has implemented and audited a development process in accordance with ISO 26262 (functional safety). In addition, the semiconductor chips are tested extensively in production, usually in view of automotive applications, with regard to quality and functionality. Even though the Company applies elaborate test procedures before commencing delivery of its products, product defects might still show only on the occasion of installation or the end consumer's use of the product. If such product defects materialize, expensive and time-consuming product modifications might ensue and further liability claims might be raised. A recall for which Elmos would have to assume liability could also have material adverse effects.

Legal risk

At present there are no legal disputes whose outcome might entail a high risk for 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 for example 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.

IT risk

For Elmos as for other globally operating companies, the reliability and safety of the information technology (IT) applied are of great importance. This applies increasingly to the utilization of IT systems in support of operational processes as well as to the support of internal and external communication. Despite all technical precaution, 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 apparent 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 noted. 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").

Wipers: For the reliable operation of windshield wipers even at high speeds, Elmos chips protect the motor by means of extensive diagnostic functions.

Outlook

Elmos expects a 2017 sales increase in the higher single digit percentage range compared to the previous year. For 2017, we anticipate a slightly better EBIT margin compared to the previous year (2016: 10.1%). The capex ratio is scheduled to be less than 12% of sales. Furthermore, Elmos will generate a positive adjusted free cash flow once again.

ECONOMIC AND INDUSTRY SPECIFIC FRAMEWORK

The International Monetary Fund (IMF) anticipates slightly improved **global economic growth** in 2017 compared to 2016. In the previous year, worldwide economic growth came to 3.1%, according to IMF data released in mid-January 2017. The forecast assumes global economic growth of 3.4% for the current year.

The IMF considers the **U.S.A.** and **China** the drivers of global economic growth. For the United States, the IMF predicts growth of 2.3% for 2017 after 1.6% in 2016. China's economy is supposed to achieve a 6.5% increase in 2017 (2016: 6.7%).

For **Europe,** at 1.6% in 2017 the IMF sees a barely changed growth rate compared to 2016 when the gross domestic product gained 1.7%. With expected growth of 1.5% in 2017, **Germany** is just below European average. In 2016 the German economy gained 1.7% according to the IMF.

Both the IMF and the German Institute for Economic Research (DIW) are cautioning against growing protectionism. The IMF sees negative effects on the world's poorer nations to result from the policy of the new U.S. administration. The DIW also fears adverse economic effects of political decisions by federal governments in the United States, Great Britain, and China, among other countries.

The German Association of the Automotive Industry (VDA) expects the growth of the **global automotive market** to slow down in 2017. While the worldwide market gained 6% in 2016, the VDA expects 3% growth to 85 million vehicles in 2017 over 2016. The VDA anticipates the Chinese market to grow by 5% but sees merely a solid performance in the U.S. market and in Western Europe for the current year. For Germany, the Center of Automotive Management at the University of Duisburg anticipates a slight decrease of new car registrations in 2017.

According to market researcher Gartner, the **global semiconductor market** is supposed to grow by 7.2% in 2017. Contrary to that, the German Electrical and Electronic Manufacturers' Association (ZVEI) expects merely a 3.3% increase. This spread reflects the degree of uncertainty concerning the 2017 performance of the worldwide semiconductor market.

The ZVEI anticipates annual average growth of about 4.5% for the **global automotive semiconductor market** in the period from 2016 to 2020. Innovations in car manufacturing today are usually no longer based on automotive engineering but to 80% driven by microelectronics and software, according to the ZVEI.

The market researchers at IC Insights expect the general market for **MEMS sensors** to present an average annual growth rate of 5.5% in the period from 2016 to 2020.

PREDICTED MARKET DEVELOPMENT

Performance of gross domestic product[1]	**2017 forecast**
Worldwide	+3.4%
Europe	+1.6%
Germany	+1.5%
China	+6.5%
U.S.A.	+2.3%
Development of new car registrations	
Worldwide[2]	+3%
Europe[2]	Stable to the previous year
China[2]	+5.4%
Germany[3]	Slight decline to the previous year
U.S.A.[2]	Stable to the previous year
Performance of the automotive semiconductor market[4]	**ø 2016-2020**
Worldwide	+4.5%
Performance of the MEMS sensor market[5]	**ø 2016-2020**
Worldwide	+5.5%

[1] Source: IWF
[2] Source: VDA
[3] Source: Center of Automotive Management
[4] Source: ZVEI
[5] Source: IC Insights

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 2017:

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

- Based on the three product lines (Sensors, Motor Control, and Embedded Solutions), Elmos will present innovative solutions to the market. The goal is to take the leading position in the market wherever 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 sites and our processes and implement improvements. We will also continuously extend our fab lite strategy together with partners and utilize their processes and technologies as required for the expansion of our product portfolio.

- 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 an adequate 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 use different approaches to recruit new young professionals. This is an important component to remain capable of applying our know-how in all areas and enhancing it in the future.

OPERATIONAL TARGETS 2017

Targets for sales and earnings

Based on currently available information, the Management Board presents the following outlook for the full year 2017.

A solid development is expected for the automotive market in Western Europe and the U.S.A. China's market will continue its growth. Elmos regards the medium and long-term growth prospects for automotive electronics as positive, based for instance on the increased use of electronics in advanced driver assistance systems and within the framework of powertrain electrification.

According to the IMF, the worldwide economic performance in 2017 is expected to turn out slightly positive in the United States and slightly weaker in Europe and China, compared to the respective prior-year growth rates. There is uncertainty regarding the effects of political developments in Europe and the U.S.A. as well as in other parts of the world. The monetary policies of the central banks may also have a material effect on the markets. These prospects affect our sales forecast for 2017.

Based on internal and external assessments of the market, Elmos expects growth in sales over the previous year in the higher single digit percentage range for 2017. The Company will use the year 2017 in order to keep preparing for future growth. We anticipate a slightly better EBIT margin for 2017 compared to the previous year (2016: 10.1%).

The segments Semiconductor and Micromechanics are expected to make positive contributions to the operating income. However, due to its relatively small share in sales and earnings, the performance of Micromechanics may be more volatile.

Targets for capital expenditures

Due to the focus on 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. Therefore we will keep observing the maximum total amount of capital expenditures for intangible assets and property, plant and equipment as decreased to 12% of sales in 2016 also in 2017. In the years before 2016, the targeted and achieved capex ratio was below 15% respectively. Capital expenditures concern both segments.

FORECAST 2017

Sales growth 2017 (vs. 2016)	growth in the higher single digit percentage range
EBIT margin (in % of sales)	slightly better than in 2016 (2016: 10.1%)
Capital expenditures (in % of sales)	< 12%
Adjusted free cash flow	positive

Targets for liquidity and finance

We expect Elmos to generate a positive adjusted free cash flow in 2017 once again.

Dividend targets

Free liquidity is planned 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 2017 the payment of a slightly increased dividend, compared to the previous year, in the amount of 0.35 Euro (previous year: 0.33 Euro) per share.

Underlying assumptions of our forecasts

Under the condition of an essentially unchanged general economic framework, it is expected that Elmos will generate continued growth in 2017. Electrification will continue even in a stagnant market. A positive development for Elmos requires the success of our current and future customers as well as our ability to sell our products to them. The international competition among suppliers to the auto industry is subject to ever increasing intensification. Resulting effects such as shifts in the market 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.

LED rear light: Elmos semiconductors guarantee constant light intensity of high-end LEDs as well as a patented management of power loss.

Legal information

The following chapter provides information based on statutory provisions about various aspects related to stock corporation law, conditional capital, authorizations of the Management Board to buy back shares and other relevant information.

DISCLOSURES PURSUANT TO TAKEOVER LAW

The following information required by takeover law as stipulated under Sections 289 (4), 315 (4) HGB (Commercial Code) is disclosed as of December 31, 2016 (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, 2016 the subscribed capital (share capital) of Elmos amounted to 20,103,513 Euro, comprised of 20,103,513 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, 2016 the Company held 192,880 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 are neither entitled to vote nor entitled to dividend.

Limitations with regard to voting rights or the transfer of shares

Statutory limitations with regard to voting rights granted by shares can result in particular from the regulations of the Stock Corporation Act (AktG) or the Securities Trading Act (WpHG). Shareholders for example may be barred from voting under certain conditions pursuant to Section 136 AktG. Furthermore, according to Section 71b AktG Elmos Semiconductor AG does not have any rights linked to treasury shares, particularly no voting rights. Moreover, due to breaches of disclosure requirements under capital market law in accordance with Section 28 WpHG, rights linked to shares, e.g. voting rights, may be excluded at least for a certain period of time.

Share-based components of the compensation of Supervisory Board, Management Board and employees provide in part for limitations on disposal such as holding periods for a small number of shares.

Shareholdings in excess of 10% of the voting rights

The following shareholdings are on record as of December 31, 2016:

SHAREHOLDERS OF THE COMPANY

Entity's registered office/country	Euro/Shares	%
Weyer Beteiligungsgesellschaft mbH Schwerte/Germany	3,626,584	18.0
Jumakos Beteiligungsgesellschaft mbH Dortmund/Germany	2,983,600	14.8
ZOE-VVG GmbH Duisburg/Germany	2,306,833	11.5
Treasury shares	192,880	1.0
Shareholders <10% interest	10,993,616	54.7
	20,103,513	**100.0**

More information on the shareholder structure can be found in this Annual Report in the chapter "The Elmos share" starting on page 30.

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 10, 2021, subject to the Supervisory Board's consent, by up to 9,900,000 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 2016).** 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 3,988,372.00 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 503,549 Euro **(conditional capital 2010/I).** The conditional capital increase serves the redemption of stock options issued to employees, executives and Management Board members of the Company as well as to employees and executives of affiliated companies up to and including May 3, 2015 on the basis of the authorization given by the Annual General Meeting (AGM) of May 4, 2010 (stock option plan 2010). The conditional capital increase is realized only insofar as options are issued within the scope of the Company's stock option plan 2010 in observance of the resolution of the AGM of May 4, 2010 and as these options are exercised by their owners within the exercise period insofar as no cash compensation is granted or treasury shares are utilized for payment. The new shares are entitled to dividend from the beginning of the financial 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 Annual General Meeting (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 financial 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 financial year for which at the time of exercising stock options no resolution by the AGM on the appropriation of retained earnings has been adopted yet.

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 and insofar as no 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 financial 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 financial year for which at the time of exercising conversion or option privileges or fulfilling conversion obligations no resolution by the AGM on the appropriation of retained earnings has been adopted yet, 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.

The management board's authorization to buy back shares

The Management Board is authorized by the Annual General Meeting'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 or Art. 19 (1) MAR. 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
2016: 9,900,000 Euro up to and including May 10, 2021	2010/I: 503,549 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

Some supply agreements, license agreements, patent cross license agreements, investment agreements, cooperation agreements as well as agreements or notices on public funding contain change of control clauses. Such clauses may entitle the contracting party to exercise special termination rights in case of material changes in the ownership structure of Elmos, grant the contracting party other special rights that might be disadvantageous to the Company, or make the continuation of the agreement subject to the contracting party's consent. Such clauses are in line with standard market practice.

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 financial 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 and it may make extraordinary special payments. In some cases provisions were made to 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 20 of this Annual Report. The remuneration report, audited by the auditor, is part of the combined management report.

STATEMENT ON CORPORATE GOVERNANCE

The statement on corporate governance pursuant to Sections 289a, 315 (5) HGB is part of the combined management report and can be found in the chapter "Corporate governance" on page 21.

Consolidated financial statements

Consolidated statement of financial position

Assets	Notes	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Non-current assets			
Intangible assets	13	19,572	20,822
Property, plant and equipment	14	86,568	90,991
Investments in associates	15	1,967	0
Securities	15	42,856	30,944
Investments	15	20	20
Other financial assets	20	3,699	3,627
Deferred tax assets	16	1,882	2,068
Total non-current assets		**156,564**	**148,472**
Current assets			
Inventories	17	58,602	57,168
Trade receivables	18	39,137	32,811
Securities	15	5,678	9,584
Other financial assets	20	1,463	1,796
Other receivables	20	7,705	6,875
Income tax assets	20	235	86
Cash and cash equivalents	19	43,110	50,000
		155,930	**158,320**
Non-current assets available for sale	21	436	93
Total current assets		**156,366**	**158,413**
Total assets		**312,930**	**306,886**

Equity and liabilities	Notes	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Equity			
Equity attributable to owners of the parent			
Share capital	22	20,104	19,942
Treasury shares	22	–193	–215
Additional paid-in capital	22	92,444	90,956
Surplus reserve		102	102
Other equity components	22	204	–1,032
Retained earnings		118,142	108,778
		230,803	**218,531**
Non-controlling interests		778	860
Total equity		**231,581**	**219,391**
Liabilities			
Non-current liabilities			
Provisions for pensions	24	477	496
Financial liabilities	25	11,202	36,639
Other liabilities	26	0	2,458
Deferred tax liabilities	16	1,769	1,684
Total non-current liabilities		**13,448**	**41,277**
Current liabilities			
Provisions	24	12,035	14,705
Income tax liabilities	26	2,295	6,889
Financial liabilities	25	25,000	185
Trade payables	27	24,944	21,810
Other liabilities	26	3,627	2,629
Total current liabilities		**67,900**	**46,217**
Total liabilities		**81,349**	**87,495**
Total equity and liabilities		**312,930**	**306,886**

Consolidated income statement

for the period from January 1 to December 31	Notes	2016 thousand Euro	2015 thousand Euro
Sales	**5**	**228,633**	**219,626**
Cost of sales	6	–131,847	–128,021
Gross profit		**96,787**	**91,605**
Research and development expenses	6	–35,969	–37,075
Distribution expenses	6	–19,930	–19,030
Administrative expenses	6	–18,899	–17,414
Operating income before other operating expenses (–)/income		**21,989**	**18,085**
Foreign exchange gains/losses (–)	9	109	2,293
Other operating income	10	2,814	5,973
Other operating expenses	10	–1,786	–1,820
Earnings before interest and taxes (EBIT)		**23,125**	**24,532**
Share in net income of associates	8	–244	0
Finance income	8	3,050	2,279
Finance costs	8	–2,803	–2,682
Earnings before taxes		**23,129**	**24,129**
Income tax			
Current income tax	11	–7,034	–8,306
Deferred tax	11	127	837
		–6,907	**–7,469**
Consolidated net income		**16,222**	**16,660**
Consolidated net income attributable to			
Owners of the parent		**15,875**	**16,180**
Non-controlling interests		348	480
		16,222	16,660
Earnings per share		**Euro**	**Euro**
Basic earnings per share	12	0.80	0.82
Fully diluted earnings per share	12	0.80	0.81

Consolidated statement of comprehensive income

for the period from January 1 to December 31	Notes	2016 thousand Euro	2015 thousand Euro
Consolidated net income		**16,222**	**16,660**
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		258	313
Foreign currency adjustments with deferred tax effect		470	1,563
Deferred tax (on foreign currency adjustments with deferred tax effect)	22	–119	–397
Value differences in hedges	22	573	463
Deferred tax (on value differences in hedges)	22	–188	–152
Changes in market value of available-for-sale financial assets	22	462	–806
Deferred tax (on changes in market value of available-for-sale financial assets)	22	–151	264
Items not to be reclassified to the income statement in later periods including respective tax effects			
Actuarial losses (–)/gains from pension plans	22	–68	35
Deferred tax on actuarial losses (–)/gains from pension plans	22	18	–6
Other comprehensive income after taxes		**1,255**	**1,277**
Total comprehensive income after taxes		**17,477**	**17,937**
Total comprehensive income attributable to			
Owners of the parent		17,111	17,513
Non-controlling interests		367	424
		17,477	**17,937**

Consolidated statement of cash flows

for the period from January 1 to December 31	Notes	2016 thousand Euro	2015 thousand Euro
Cash flow from operating activities			
Consolidated net income		16,222	16,660
Depreciation and amortization	7	29,067	28,775
Losses/Gains (–) from disposal of assets		60	–464
Financial result	8	64	403
Other non-cash expense/income (–)		279	–1,748
Current income tax	11	7,034	8,306
Expenses for stock options/stock awards/share matching		145	253
Changes in pension provisions	24	–87	–68
Changes in net working capital:			
Trade receivables	18	–6,326	2,211
Inventories	17	–1,434	–3,951
Other assets	20	–496	3,047
Trade payables	27	3,760	–340
Other provisions and other liabilities		–2,477	921
Income tax payments		–11,777	–3,506
Interest paid	8	–1,959	–2,223
Interest received	8	1,412	2,050
Cash flow from operating activities		**33,487**	**50,327**

Consolidated statement of cash flows

for the period from January 1 to December 31	Notes	2016 thousand Euro	2015 thousand Euro
Cash flow from investing activities			
Capital expenditures for intangible assets	13	–3,797	–4,858
Capital expenditures for property, plant and equipment	14	–20,750	–33,848[1]
Payments for investments in associates	15	–2,210	0
Disposal of non-current assets		166	4,128
Payments for (–) securities/Disposal of securities	15	–7,899	10,297
Payments for other non-current financial assets	20	–386	–343
Cash flow from investing activities		**–34,876**	**–24,624**
Cash flow from financing activities			
Repayment (–) of non-current liabilities		–437	–437
Repayment (–) of current liabilities to banks		–185	–148
Share-based payment/Issue of treasury shares		317	587
Capital increase from conditional capital	22	1,226	627
Dividend distribution		–6,510	–6,475
Distribution/Other payments to non-controlling shareholders		–449	–3,408
Other changes		–17	–29
Cash flow from financing activities		**–6,055**	**–9,283**
Decrease (–)/Increase in cash and cash equivalents		**–7,444**	**16,420**
Effects of exchange rate changes on cash and cash equivalents		554	1,060
Cash and cash equivalents at beginning of reporting period	19	50,000	32,520
Cash and cash equivalents at end of reporting period	19	**43,110**	**50,000**

[1]Included are payments for the repurchase of land and building from prematurely terminated leases 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, 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/stock awards/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**
January 1, 2016		**19,942**	**19,942**	**–215**	**90,956**	**102**	**–452**	**–752**	**988**	**–816**	**108,778**	**218,531**	**860**	**219,391**
Consolidated net income											15,875	15,875	348	16,222
Other comprehensive income for the period	22						310	385	590	–50		1,236	19	1,255
Total comprehensive income							310	385	590	–50	15,875	17,111	367	17,477
Share-based payment/Issue of treasury shares	22			22	295							316		316
Capital increase from conditional capital	22	162	162		1,064							1,226		1,226
Transaction costs	22				–16							–16		–16
Dividend distribution											–6,510	–6,510		–6,510
Distribution to non-controlling shareholders												0	–449	–449
Expenses for stock options/stock awards/share matching					145							145		145
December 31, 2016		**20,104**	**20,104**	**–193**	**92,444**	**102**	**–142**	**–367**	**1,578**	**–866**	**118,142**	**230,803**	**778**	**231,581**

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 11, 2016 and edited by resolution of the Supervisory Board of December 16, 2016.

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/Germany.

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 International Financial Reporting Standards (IFRS) as applicable in the European Union (EU) and the supplementary applicable regulations of German commercial law as stipulated by Section 315a (1) HGB (Commercial Code). All of the IFRS released by the International Accounting Standards Board (IASB) in effect at the time of the preparation of the consolidated financial statements and applied by Elmos were endorsed by the European Commission for adoption in the EU.

The consolidated 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 on March 2, 2017.

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 financial 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 those applied in the previous year. Exceptions were the following standards subject to first-time mandatory application for financial year 2016.

Standard/Amendments	First-time mandatory application in the EU	Effect on Elmos
Amendments to IAS 1 – *Disclosure Initiative*	January 1, 2016	immaterial
Amendments to IAS 16 – *Property, Plant and Equipment* and IAS 38 – *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization*	January 1, 2016	none
Amendments to IAS 16 – *Property, plant and Equipment* and IAS 41 – *Agriculture: Bearer Plants*	January 1, 2016	none
Amendments to IAS 19 – *Employee Benefits: Employee Contributions*	February 1, 2015	none
Amendments to IAS 27 – *Separate Financial Statements: Equity Method in Separate Financial Statements*	January 1, 2016	none
Amendments to IFRS 10, IFRS 12 and IAS 28: *Applying the Consolidation Exception*	January 1, 2016	none
Amendments to IFRS 11 – *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*	January 1, 2016	none
Improvements to IFRS 2010-2012	February 1, 2015	immaterial

Standards and interpretations voluntarily applicable in advance (EU endorsed)

The IASB has released the following standards that have already been incorporated into EU law within the framework of the comitology procedure but were not subject to mandatory application in financial year 2016 yet. The Group does not apply these standards in advance.

Standard	First-time mandatory application in the EU	Effect on Elmos
IFRS 9 – *Financial Instruments: Classification and Measurement*	January 1, 2018	See annotation below
IFRS 15 – *Revenue from Contracts with Customers*	January 1, 2018	See annotation below

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, though. 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 financial years beginning on or after January 1, 2018; early adoption is permitted but not intended.

In financial year 2016, Elmos analyzed potential effects of the application of IFRS 9 on all Group companies. The following amendments to the new standard have the effects on recognition, measurement and reporting of financial instruments at Elmos as detailed below:

- Recognition and measurement: The classification of a financial instrument will no longer depend on its intended utilization (IAS 39) but on the business model and the contractual cash flows. Basically this has the consequence that Elmos will classify all financial and debt instruments into the categories provided under IFRS 9. With respect to first-time recognition and subsequent measurement of the instruments, Elmos expects no material effects through profit or loss.

- Impairment: IFRS 9 provides for a 3-step model (expected loss model). The incorporation of the underlying asset depends on risk assessment. Due to immaterial contingency risk at Elmos, the Group does not expect material effects on financial accounting from this amendment.

- Accounting treatment of hedging relationships: Elmos has analyzed the changes brought about by IFRS 9 to the accounting treatment of hedging relationships with respect to the Group's existing hedging relationships. The transactions agreed on at present (please refer to note 28 for interest rate swaps) will expire in financial year 2017. Whether further hedging relationships will be entered into by Elmos beyond that, cannot be assessed with certainty from today's viewpoint. Accordingly, the effects of the amendments with respect to the accounting treatment of hedging relationships on the Group are currently regarded as immaterial.

- IFRS 9 is linked to extensive disclosure provisions. Therefore Elmos is expecting extended notes to be provided as a consequence of the new standard's implementation.

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 sales 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 sales have to be recognized are to be answered with the help of a 5-step 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 financial years beginning on or after January 1, 2018. In April 2016, a number of clarifications regarding IFRS 15 were released, addressing the identification of separate contractual obligations, the distinction between principal and agent, and recognition of license agreements in particular. These clarifications have not yet been endorsed by the EU. Generally adoption has to take place retrospectively; however, various options for simplification are granted; early adoption continues to be permitted.

The effects of IFRS 15 on Elmos are currently being analyzed within the framework of a Group-wide project. In a first step, all different types of contracts are assessed in detail with respect to the recognition of sales. The results of this impact analysis have been discussed in the Elmos Group and changes to existing IT systems and processes have been evaluated. In a second step, identified requirements for change with respect to existing master agreements will be determined and implemented. Finally, all Group companies involved will receive training concerning the new standard. Generally speaking, Elmos has come to the following conclusions:

- ASSPs: With respect to the development and manufacture of application specific standard products, the Group does not expect material effects to result from IFRS 15. No identifiable performance relationships arise in the development or production stages that will be subject to different recognition of sales under IFRS 15 than before.

-> ASICs: With respect to the development and manufacture of application specific integrated circuits, changes in the recognition of sales may result from IFRS 15. With customer agreements for ASICs, there is usually a binding customer order providing for the development and manufacture of microelectronic components and system parts. The customer participates in the development expenses incurred by Elmos through predefined milestones. The Group examines in the individual case whether there are consequences for the recognition of sales – as development expenses, still being compensated implicitly during the production stage, are recognized earlier through sales according to IFRS 15. However, after reviewing the customer agreements currently at hand, Elmos does not expect material effects on the distribution of consolidated sales with respect to the time of recognition.

-> Extended disclosures in the notes are expected.

The Group currently assumes it will not make use of the option for an early adoption of IFRS 15 prior to financial year 2018. First-time adoption will most probably involve opting for the modified retrospective approach.

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 financial year 2016 yet. These standards and interpretations have so far not been endorsed by the EU and are therefore not adopted by the Group.

Standard/Amendments/Interpretations	First-time mandatory application in the EU	Effect on Elmos
Amendments to IAS 7 – *Statement of Cash Flows*	as yet unknown	immaterial
Amendments to IAS 12 – *Income Taxes*	as yet unknown	immaterial
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*	postponed indefinitely	immaterial
Amendments to IAS 40 – *Investment Property*	as yet unknown	none
Amendments to IFRS 2 – *Share-based Payment*	as yet unknown	immaterial
Amendments to IFRS 4 – *Insurance Contracts*	as yet unknown	none
IFRS 14 – *Regulatory Deferral Accounts*	no EU endorsement	none
IFRS 16 – *Leases*	as yet unknown	see annotation below
IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*	as yet unknown	immaterial
Improvements to IFRS 2014-2016	as yet unknown	none

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 concept of control. The new standard provides for a single accounting model for the lessee. This model has the lessee enter 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 financial years beginning on or after January 1, 2019; early adoption is generally permitted if IFRS 15 – *Revenue from Contracts with Customers* is also already 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 financial year of first-time application. EU endorsement of this standard is still pending.

In 2016, the Group launched a Group-wide project for the implementation of IFRS 16. All existing leases were analyzed with respect to the effects of the new standard. The accounting treatment of assets and liabilities will increase total assets. In consideration of plausible future scenarios for leases to come, total assets will gain no more than 10%. In the consolidated income statement, no lease expense will be reported in the future but depreciation and amortization and interest instead. This will result in improvements to the financial key figures such as EBIT and EBITDA. In the statement of cash flows, repayments will be reported in the cash flow from financing activities and interest payments will be included in cash flow from operating activities. The Group intends at present to adopt IFRS 16 for financial years beginning on or after January 1, 2019. Early adoption is not intended from today's viewpoint. First-time adoption will most probably involve opting for the modified retrospective approach. The volume of required disclosures in the notes will increase significantly.

2 – Principles of consolidation

Basis of consolidation and consolidation methods

In addition to Elmos Semiconductor AG, the consolidated financial statements prepared for financial year 2016 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 foreign currency transactions

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

Assets and liabilities denominated in foreign currencies are generally translated at the closing exchange rate as of the reporting date.

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

The Company occasionally enters into forward exchange contracts and currency 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 foreign exchange gains and losses from currency hedges during financial year 2016, 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 financial year by inflows and outflows of funds. The effects of acquisitions and divestitures as well as other changes to 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 with the exception of the reported amount from derecognition of the put option.

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 recognized 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 recognized 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 recognized 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 cash-generating unit (CGU) expected to benefit from the business combination's synergy effects.

Impairment is identified by determining the recoverable amount of the CGU the goodwill is allocated to. If the recoverable amount of the CGU is below its book value, the impairment of goodwill needs to be recognized. The recoverable amount is the higher of the two amounts of *fair value less cost to sell* and *value in use*.

All goodwill is allocated to the respective CGUs. 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%, as applied in the previous year, 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 linked 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).

There were no other intangible assets with indefinite useful lives in financial year 2016 nor in financial year 2015.

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 that value 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 reported 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 respective contract term.

Investments in associates

Investments in associated companies are measured according to the equity method. Associates are entities on which the Group can exert significant influence but cannot control. Significant influence is generally assumed where Elmos has a direct or indirect voting share of between 20% and 50%. According to the equity method, investments in associates are recognized at cost as of the acquisition date plus changes to the Group's interest in the associate's net assets following the acquisition. The

Group's share in profits and losses of associates is reported under "share in net income of associates" in the income statement as of the date of acquisition. Aggregated changes after acquisition are set off against the investment's book value. If the Group's share in losses of an associate corresponds to or exceeds the Group's investment in that associate, the Group does not recognize any further loss.

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.

Loans and receivables granted by the Company are subsequently measured at amortized cost.

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 and gains and losses in connection with financial instruments classified as financial liabilities are recognized as expenses or income in the consolidated income statement for the period in which they incur. Dividend payments to owners of financial instruments classified as equity are deducted directly from equity.

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

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, specific derivatives are assigned to specific 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 currency 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 as well as 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.

No deferred tax liabilities incur upon the first-time recognition of goodwill from business combinations.

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 for the period in which they incur. Borrowing costs are interest expense and other costs an entity incurs in connection with borrowing outside capital.

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 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 U.S. subsidiary SMI. 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 financial years ended December 31, 2016 and December 31, 2015.

Financial year ended December 31, 2016	Semiconductor thousand Euro	Micromechanics thousand Euro	Consolidation thousand Euro	Group thousand Euro
Sales				
Third-party sales	206,936	21,697	0	228,633
Inter-segment sales	265	1,959	–2,224[1]	0
Total sales	**207,201**	**23,656**	**–2,224**	**228,633**
Earnings				
Depreciation	27,817	1,250	0	29,067
Other material non-cash expenses	–205	–479	0	–684
Other material non-cash income	1,280	0	0	1,280
Segment income	21,489	1,636	0	23,125
Share in net income of associates	–244	0	0	–244
Finance income				3,050
Finance costs				–2,803
Earnings before taxes				**23,129**
Income tax	–6,613	–294	0	–6,907
Consolidated net income including non-controlling interests				**16,222**
Assets and liabilities				
Segment assets	244,704	21,012	45,227[2]	310,943
Investments in associates	1,967	0	0	1,967
Investments	20	0	0	20
Total assets				312,930
Segment liabilities/Total liabilities	38,174	2,909	40,266[3]	81,349
Other segment information				
Additions to intangible assets and property, plant and equipment	23,222	699	0	23,921

[1] Sales from inter-segment transactions are eliminated for consolidation purposes.
[2] Non-attributable assets as of December 31, 2016 include cash and cash equivalents (43,110 thousand Euro), income tax assets (235 thousand Euro) and deferred taxes (1,882 thousand Euro) as these assets are managed at group level.
[3] Non-attributable liabilities as of December 31, 2016 include current financial liabilities (25,000 thousand Euro), non-current financial liabilities (11,202 thousand Euro), current tax liabilities (2,295 thousand Euro) and deferred tax (1,769 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, stock awards, and losses from the disposal of non-current assets. Other non-cash income includes profits from derecognition of a put option connected to the increase of an investment (please also refer to note 26).

Finance income in the amount of 3,050 thousand Euro contains interest income of 1,450 thousand Euro relating entirely to the Semiconductor segment. Finance costs of 2,803 thousand Euro essentially represent interest expense (2,522 thousand Euro) relating also entirely to the Semiconductor segment (please also refer to note 8).

Financial 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 costs				–2,682
Earnings before taxes				**24,129**
Income tax	–6,830	–639	0	–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 costs 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).

Geographic information

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

Geographic information

Third-party sales	2016 thousand Euro	2015 thousand Euro
Germany	74,670	71,166
Other EU countries	47,868	45,732
U.S.A.	16,484	23,378
Asia/Pacific	80,461	68,853
Other countries	9,151	10,496
Consolidated sales	**228,633**	**219,626**

Geographic breakdown of non-current assets	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Germany	144,861	136,387
Other EU countries	980	804
U.S.A.	5,054	5,499
Other countries	87	87
Non-current assets	**150,983**	**142,777**

Sales generated with the top three customers who account for more than 10% of sales each amount to 35.0 million Euro, 26.7 million Euro and 24.9 million Euro respectively and result from sales in the Semiconductor segment as well as the Micromechanics segment (2015: top two customers with sales of 36.2 million Euro and 25.9 million Euro respectively, entirely attributable to the Semiconductor segment).

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:

	2016 thousand Euro	2015 thousand Euro
Semiconductor	206,936	196,649
Micromechanics	21,697	22,977
Group	**228,633**	**219,626**

Sales increased by 4.1% to 228,633 thousand Euro. While sales in the Semiconductor segment gained 5.2% from 196,649 thousand Euro to 206,936 thousand Euro, sales in the Micromechanics segment went down by 5.6% from 22,977 thousand Euro to 21,697 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 materials 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:

	2016 thousand Euro	2015 thousand Euro
Materials costs	–57,743	–51,882
Personnel expense	–34,576	–33,709
Other overhead	–41,243	–44,286
Changes in inventories	1,715	1,856
	–131,847	**–128,021**

The cost of sales was up 3.0% from 128,021 thousand Euro in 2015 to 131,847 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 materials costs by the amount of 5,861 thousand Euro was recorded. Other overhead (41,243 thousand Euro) went down compared to financial year 2015. The item "changes in inventories" remains basically unchanged from the previous year and has no material effect on the cost of sales in the financial year.

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 financial year 2016, R&D expenses of 35,969 thousand Euro (2015: 37,075 thousand Euro) were charged to expenses.

Distribution expenses

Distribution expenses in the amount of 19,930 thousand Euro (2015: 19,030 thousand Euro) essentially include expenses for staff, leases, travel, commission, and depreciation.

Administrative expenses

Administrative expenses of 18,899 thousand Euro (2015: 17,414 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:

Materials costs

Materials costs amounted to 62,987 thousand Euro in the year under review and are up 8.6% from the previous year (2015: 57,988 thousand Euro). They include expenses for raw materials, supplies, consumables, and for services claimed.

Personnel expense

Personnel expense climbed 3.4% from 79,266 thousand Euro in financial year 2015 to 82,000 thousand Euro in financial year 2016. Over the same reporting period, the number of employees – based on an average employment ratio – went up from 1,117 in financial year 2015 to 1,127 (+0.9%) in financial year 2016. Further staff information can be found under note 40.

Total personnel expense in financial years 2016 and 2015 can be broken down as follows:

	2016 thousand Euro	2015 thousand Euro
Wages and salaries	69,349	66,631
Social security expense	12,404	12,385
Pension scheme expense	247	250
	82,000	**79,266**

Depreciation and amortization

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

Depreciation and amortization came to 29,067 thousand Euro in the year under review (2015: 28,775 thousand Euro), equivalent to an increase of 1.0%.

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

8 – Finance income and finance expenses

Finance income and finance expenses can be broken down as follows for financial years 2016 and 2015:

	2016 thousand Euro	2015 thousand Euro
Interest income	1,450	2,030
Income from derecognition of put option (cf. notes 26 and 29)	1,280	0
Other finance income	320	249
Finance income	**3,050**	**2,279**

	2016 thousand Euro	2015 thousand Euro
Interest expense	–2,522	–2,224
Other finance expenses	–281	–458
Finance expenses	**–2,803**	**–2,682**

Finance expenses and finance income reported in the consolidated income statement essentially correspond to the amounts paid, with the exception of the reported income from derecognition of the put option.

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

	2016 thousand Euro	2015 thousand Euro
Interest income	1,450	2,030
Interest expense	–2,519	–2,204
Interest result	**–1,069**	**–174**

9 – Foreign exchange gains/losses

Gains/Losses from exchange rate changes recognized in profit or loss amount to 109 thousand Euro in financial year 2016 (2015: 2,293 thousand Euro).

Exchange rate changes attributable to the owners of the parent and recognized outside profit or loss amount to 1,578 thousand Euro in financial year 2016 (2015: 988 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 2,814 thousand Euro (2015: 5,973 thousand Euro) include, among other items, income from the reversal of provisions in the amount of 1,043 thousand Euro (2015: 1,053 thousand Euro), insurance settlements in the amount of 35 thousand Euro (2015: 411 thousand Euro), rental income in the amount of 383 thousand Euro (2015: 418 thousand Euro), income from passenger car use in the amount of 545 thousand Euro (2015: offset against functional costs), income from the sale of non-current assets in the amount of 86 thousand Euro (2015: 464 thousand Euro), other prior-period income in the amount of 274 thousand Euro (2015: 1,716 thousand Euro), and various individual items.

Other operating expenses in the amount of 1,786 thousand Euro (2015: 1,820 thousand Euro) include, among other items, real-estate charges in the amount of 360 thousand Euro (2015: 338 thousand Euro), derecognition relating to the receivable from the sale of the investment in TetraSun in the

amount of 316 thousand Euro (2015: 0 thousand Euro), other prior-period expenses in the amount of 395 thousand Euro (2015: 265 thousand Euro), derecognition of spare parts in the amount of 93 thousand Euro (2015: 0 thousand Euro), accounting loss from the disposal of non-current assets in the amount of 140 thousand Euro (2015: 30 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.

	2016 thousand Euro	2015 thousand Euro
Current income tax		
Germany	–4,778	–5,705
Outside Germany	–2,256	–2,601
	–7,034	**–8,306**
thereof taxes from previous years	–389	–400
Deferred tax		
Germany	285	1,065
Outside Germany	–158	–228
	127	**837**
thereof taxes from previous years	78	229
Total	**–6,907**	**–7,469**

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% (2015: 32.805%) has been applied. The Company's combined income tax rate includes the trade tax collection rate of 485% (2015: 485%), the corporate tax rate of 15.0% (2015: 15.0%), and the solidarity surcharge of 5.5% (2015: 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. Deferred taxes also include tax refund claims resulting from the expected utilization of existing tax loss carry-forward and tax credits over the next years insofar as their realization is assured with sufficient reliability. 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:

	2016 %	2015 %
Statutory tax rate	32.81	32.81
Foreign tax rate differential	–3.88	–3.23
Expenses disallowable against tax	0.50	0.62
Trade tax additions/cuts	0.85	1.13
Taxes from previous years	1.34	0.71
Tax-free income	–1.48	–2.13
Others	–0.28	1.05
Effective tax rate	**29.86**	**30.96**

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 financial 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

	2016	2015
Weighted average number of ordinary shares outstanding	19,782,525	19,653,847
Stock options with dilutive potential[1]	174,235	334,364
Weighted average number of ordinary shares outstanding, including dilutive effect	**19,956,760**	**19,988,210**

[1] Calculation according to IAS 33.45 ff.

Calculation of earnings per share

In Euro	2016	2015
Consolidated net income attributable to owners of the parent	15,874,636	16,179,631
Basic earnings per share	0.80	0.82
Fully diluted earnings per share	0.80	0.81

The weighted average number of shares in 2016 and 2015 includes the weighted average effect of changes from transactions with treasury shares, the weighted average effect of the exercise of stock options from the 2010, 2011 and 2012 tranches in the course of the year 2016, and the weighted average effect of the exercise of stock options from the 2009, 2010 and 2011 tranches in the course of the year 2015.

All outstanding stock options originating from the 2010, 2011 and 2012 tranches have been included in the calculation of diluted earnings per share for 2016 and 2015. 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 share buyback transactions.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

13 – Intangible assets

thousand Euro	Goodwill	Development projects	Software and licenses and similar rights and assets		Payments on account and projects under development		Total
Acquisition and production cost			In-house effort	Purchase	In-house effort	Purchase	
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**
Foreign currency adjustments	9	0	0	52	0	0	61
Additions	0	1,264	0	684	97	1,885	3,930
Transfers	0	179	0	1	–179	–1	0
Disposals	0	–34	0	0	0	0	–34
December 31, 2016	**3,680**	**25,920**	**7,562**	**40,756**	**226**	**2,551**	**80,695**
Depreciation and amortization							
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**
Foreign currency adjustments	0	0	0	47	0	0	47
Additions	0	1,928	803	2,462	0	0	5,193
Disposals	0	–34	0	0	0	0	–34
December 31, 2016	**0**	**22,824**	**5,866**	**32,434**	**0**	**0**	**61,123**
Book value December 31, 2016	**3,680**	**3,096**	**1,696**	**8,322**	**226**	**2,551**	**19,572**
Book value December 31, 2015	3,671	3,581	2,499	10,095	308	667	20,822

Goodwill

Goodwill shows the following development:

	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Elmos N.A.		
Acquisition cost	555	555
Foreign currency adjustments	54	45
Book value	**609**	**600**
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**
	3,680	**3,671**

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. 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 which in turn are based on detailed planning adopted by the management, considering 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 2017 to 2021. For the value added from 2022, it is enhanced by the perpetual annuity which is based on an annual growth rate of 0.5% (as applied in the previous year as well).

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 financial 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 double digit percentage growth rates in the detailed planning period.

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

Assumptions on market shares – These assumptions are relevant insofar as the Company's management assesses – as it does 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 respective pre-tax interest rates applied were determined under the capital asset pricing model (CAPM) and come to 14.9% for Elmos N.A. (2015: 15.7%), 12.4% for Elmos Semiconductor AG (2015:14.7%), 10.5% for Elmos Services B.V. (2015: 11.8%), and 11.0% for MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg (2015: 12.2%) before deduction of respective growth rates. These interest rates correspond to the weighted average cost of capital. This so-called WACC is based on a risk-free interest rate (0.6% for Elmos Semiconductor AG, Elmos Services B.V.,

and MAZ or rather 2.5% for Elmos N.A. in 2016, and 1.5% for Elmos Semiconductor AG, Elmos Services B.V., and MAZ or rather 3.3% for Elmos N.A. in 2015) plus an average market risk premium (6.3% in 2016 and 2015), multiplied by an entity specific equity beta based on a so-called levered beta of 1.17 (2015: 1.18). All values stated are derived from market data.

In 2016 and 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 earnings before interest and taxes (EBIT) in all planning periods beginning in 2017 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 2016, expenses linked to product developments were capitalized as development projects and projects under development in the amount of 1,361 thousand Euro (2015: 1,750 thousand Euro). Depreciation of capitalized developments amounted to 1,928 thousand Euro in 2016 (2015: 1,859 thousand Euro). The book value of capitalized development efforts (including projects under development) is 3,194 thousand Euro as of December 31, 2016 (2015: 3,762 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 2016 as in the year before, no expenses for process technology were capitalized. Amortization came to 1,512 thousand Euro in 2016 (2015: 1,513 thousand Euro). As of December 31, 2016, the book values for process technology capitalized as non-current assets added up to 4,235 thousand Euro (December 31, 2015: 5,747 thousand Euro).

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 3,491 thousand Euro were reimbursed by customers in 2016 (2015: 5,273 thousand Euro) and reported under consolidated sales.

14 – Property, plant and equipment

thousand Euro	Land	Buildings and building improvements	Technical equipment and machinery/ Factory and office equipment	Payments on account and construction in process	Total
Acquisition and production cost					
December 31, 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**
Foreign currency adjustments	0	103	374	34	511
Additions	0	474	16,211	3,305	19,990
Transfers	–436	285	2,634	–2,919	–436
Disposals	0	–2,140	–19,345	–25	–21,510
December 31, 2016	**4,934**	**44,019**	**206,761**	**3,545**	**259,260**
Depreciation and amortization					
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**
Foreign currency adjustments	0	76	315	0	391
Additions	0	2,347	21,525	0	23,872
Transfers	0	0	0	0	0
Disposals	0	–2,131	–19,153	0	–21,284
December 31, 2016	**0**	**19,423**	**153,269**	**0**	**172,692**
Book value as of December 31, 2016	**4,934**	**24,596**	**53,492**	**3,545**	**86,568**
Book value as of December 31, 2015	5,370	26,166	56,305	3,150	90,991

Additions to "Technical equipment and machinery/Factory and office equipment" include purchase transactions for financial year 2016 (2015) in the amount of 936 thousand Euro (December 31, 2015: Euro 1,696 thousand Euro) where the corresponding cash outflows will take (took) place only in 2017 (2016).

No borrowing costs were capitalized in financial year 2016 or the previous year.

Leases

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 financial 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. Further details are presented under note 32.

The Group did not generate material income from subletting in financial year 2016 (2015). Future minimum payments from non-cancelable subletting agreements are immaterial as well.

15 – Securities and investments

a) Investments in associates

As of acquisition date January 1, 2016, 45.7% of the shares in Omniradar B.V., Eindhoven, were acquired for a purchase price of 2,210 thousand Euro. The Company is involved in sensor technology and has a share capital of 37 thousand Euro. Omniradar B.V. is accounted for in the consolidated financial statements of Elmos according to the equity method. For 2016, an at-equity result in the amount of –244 thousand Euro was entered in the consolidated income statement so that a book value of 1,967 thousand Euro is accounted for as of December 31, 2016.

b) Securities

In financial years 2010 through 2016, the Company purchased securities (bonds and borrowers' notes) from different banks. Insofar as the securities' remaining terms to maturity are more than one year, they have been allocated to non-current assets (42,856 thousand Euro; 2015: 30,944 thousand Euro). Securities that mature within twelve months have been allocated to current assets (5,678 thousand Euro; 2015: 9,584 thousand Euro).

c) 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:

	12/31/2016 thousand Euro	12/31/2015 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, 2016, 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, 2016. The entity does not conduct business operations on its own.

Summarized financial information

Entity	Currency	Total assets thousand	Total liabilities thousand	Earnings thousand	Net income for the period thousand
Omniradar B.V.[1]	EUR	1,919	1,615	1,031	–533
Epigone[1]	EUR	8,810	8,810	642	16
Elmos USA Inc.[2]	USD	–	–	–	–

[1] Presented figures are based on preliminary unaudited financial statements as of December 31, 2016.
[2] No financial statements of this entity are available at present.

16 – Deferred tax

	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Deferred tax assets		
Intangible assets	0	25
Property, plant and equipment	664	553
Securities	69	221
Provisions for pensions	492	478
Other provisions	242	478
Other liabilities	179	367
Loss carry-forward	115	584
Tax credits	2,062	1,507
Others	72	137
Subtotal	3,895	4,350
Balance	–2,013	–2,282
	1,882	**2,068**
Deferred tax liabilities		
Intangible assets	–1,327	–1,822
Property, plant and equipment	–2,015	–1,706
Securities	0	–49
Other financial liabilities	–194	–165
Others	–246	–224
Subtotal	–3,782	–3,966
Balance	2,013	2,282
	–1,769	**–1,684**
Net deferred tax	**113**	**384**

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 decrease in the net amount of deferred tax coming to 271 thousand Euro comprises deferred tax in the consolidated income statement of 127 thousand Euro (income), other changes outside profit or loss in the amount of 433 thousand Euro (decrease in equity), and foreign currency adjustments in the amount of 43 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 annotated 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, 2016 there was no loss carry-forward for domestic entities just like the previous year.

For foreign entities, deferred tax assets were recognized in the amount of 115 thousand Euro (2015: 584 thousand Euro) on taxable loss carry-forward and in the amount of 2,062 thousand Euro (2015: 1,507 thousand Euro) on tax credits.

17 – Inventories

Inventories can be broken down as follows:

	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Raw materials	5,022	5,494
Work in process	41,449	41,190
Finished goods	12,126	10,472
Payments on account	5	12
	58,602	**57,168**

Impairment of inventories recognized as expense amounts to 340 thousand Euro (2015: 523 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:

	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Trade receivables	39,109	32,834
Valuation allowances/Foreign currency valuation	28	–23
	39,137	**32,811**

The Elmos Group constantly assesses its customers' creditworthiness and usually requests no collateral. Potential bad debt is adjusted in value based on the Management Board's estimates and assumptions. In financial year 2016, the Elmos Group did not have to make such valuation allowances for potential bad debt.

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

	2016 thousand Euro	2015 thousand Euro
Valuation allowance/Foreign currency valuation as of January 1	23	129
Additions in the reporting period (valuation allowance expense)	0	0
Consumption	0	–185
Reversals (appreciation in value of initially written-off receivables)	0	0
Foreign currency valuation	–51	79
Valuation allowances/Foreign currency valuation as of December 31	**–28**	**23**

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:

		Neither impaired nor overdue as of the reporting date	Not impaired as of the reporting date and overdue in the following time bands					
thousand Euro	Book value		Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
Trade receivables	12/31/2016	34,973	2,948	365	398	138	118	73
Other financial assets	12/31/2016	5,162	0	0	0	0	0	0
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

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:

	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Loans receivable from third parties	560	680
Receivables from joint ventures	1,891	1,585
Tenant loans	1,233	1,048
Receivable – sale of TetraSun investment	0	313
Other loans receivable	15	0
	3,699	**3,627**

b) Other current financial assets

Other current financial assets can be broken down as follows:

	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Loan receivable from third parties	120	120
Forward exchange contracts/Currency option transactions	0	453
Other financial assets	1,343	1,223
	1,463	**1,796**

c) Other receivables

Other receivables can be broken down as follows:

	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Other tax assets	4,665	4,403
Accrued income	2,501	1,546
Other current receivables	539	926
	7,705	**6,875**

d) Income tax assets

Income tax assets amount to 235 thousand Euro (December 31, 2015: 86 thousand Euro).

21 – Non-current assets held for sale

Non-current assets held for sale in the amount of 436 thousand Euro as of December 31, 2016 (December 31, 2015: 93 thousand Euro) entirely comprise land intended to be sold probably in the first half-year 2017. This asset is attributable solely to the Semiconductor segment.

22 – Equity

Share capital

The share capital of 20,104 thousand Euro entered in the statement of financial position as of December 31, 2016 (December 31, 2015: 19,942 thousand Euro) and consisting of 20,103,513 (December 31, 2015: 19,941,864) no-par value bearer shares is fully paid up. It was increased from the previous year by 162 thousand Euro due to exercised stock options.

Treasury shares

As of December 31, 2016, the Company holds 192,880 (December 31, 2015: 214,587) of the Company's no-par shares, adding up to a theoretical share in the share capital of 193 thousand Euro (December 31, 2015: 215 thousand Euro).

Additional paid-in capital

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

	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Premiums	86,394	85,052
Stock options/stock awards/share matching	6,050	5,905
	92,444	**90,956**

Additional paid-in capital essentially includes premiums from capital increases and the issue of shares of Elmos Semiconductor AG. In 2016, this item was increased by altogether 1,064 thousand Euro due to the exercise of stock options from stock option plans. Additional paid-in capital was also increased by 295 thousand Euro due to share-based payments and the issue of treasury shares. Treasury shares were thus reduced by 21,707 shares in 2016. Premiums were reduced by 16 thousand Euro due to transaction costs.

The share made up of stock options, stock awards and share matching increased by the amount of the 2016 expense from the issue of stock options (83 thousand Euro), stock awards (29 thousand Euro) and share matching (33 thousand Euro, cf. note 23).

Other equity components

Other equity components can be broken down as follows:

	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Foreign currency adjustments	1,975	1,265
Deferred tax (on foreign currency adjustments)	–397	–277
Hedges	–546	–1,119
Deferred tax (on hedges)	179	367
Changes in market value of available-for-sale financial assets	–211	–673
Deferred tax (on changes in market value of available-for-sale financial assets)	69	221
Actuarial gains/losses	–1,343	–1,275
Deferred tax (on actuarial gains/losses)	477	459
Other equity components	**204**	**–1,032**

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 2015 and 2016 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 2015 and 2016:

	thousand Euro
Balance as of 01/01/2015	**–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**
Exchange rate changes	709
Changes in deferred tax on exchange rate differences	–119
Changes in hedges	573
Changes in deferred tax on hedges	–188
Changes in available-for-sale financial assets	461
Changes in deferred tax on available-for-sale financial assets	–151
Changes in actuarial gains/losses	–68
Changes in deferred tax on actuarial gains/losses	18
Balance as of 12/31/2016	**204**

"Recycling" of equity components outside profit or loss

In financial years 2016 and 2015, the Company sold or rather devalued bonds. For these bonds, adjustments in equity have been made outside profit or loss up to the respective date of sale 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 rather devaluations on the consolidated income statement and the consolidated statement of comprehensive income in financial year 2016:

	Before "recycling" (thousand Euro)	"Recycling" (thousand Euro)	After "recycling" (thousand Euro)
Consolidated net income with respect to the sold bonds in the consolidated income statement for financial year 2016 (2015)	69 (–119)	–188 (–273)	–119 (–392)
Other comprehensive income with respect to the sold bonds in the consolidated statement of comprehensive income for financial year 2016 (2015)	0 (0)	188 (273)	188 (273)
Total comprehensive income with respect to the sold bonds in financial year 2016 (2015)	69 (–119)	0 (0)	69 (–119)

Altogether 188 (273) thousand Euro were reclassified from "other comprehensive income" to the consolidated income statement in 2016 (2015) through profit or loss.

Ownership

Ownership of the Company based on the share capital is as follows as of December 31, 2016 (December 31, 2015):

	thousand Euro	%
Weyer Beteiligungsgesellschaft mbH, Schwerte	3,627 (3,627)	18.0 (18.2)
Jumakos Beteiligungsgesellschaft mbH, Dortmund	2,984 (2,984)	14.8 (15.0)
ZOE-VVG GmbH, Duisburg	2,307 (2,307)	11.5 (11.6)
Treasury shares	193 (215)	1.0 (1.1)
Shareholders <10% interest	10,994 (10,810)	54.7 (54.2)
	20,104 (19,942)	**100.0 (100.0)**

Authorized and conditional capital (authorizations of the Management Board)

Authorized capital	Conditional capital	Repurchase of the Company's shares
2016: 9,900,000 Euro up to and including May 10, 2021	2010/I: 503,549 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 subscription warrants or convertible bonds up to and including May 7, 2020	up to 10% of the share capital up to and including May 7, 2020

There are stock options in accordance with Section 192 (2) no. 3 AktG from stock option plans for Management Board members, executives and employees on the purchase of 441,716 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 (AktG), 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 financial year 2016 (2015), Elmos Semiconductor AG distributed a dividend of 0.33 Euro (0.33 Euro) per share out of the retained earnings of financial year 2015 (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 the respective circle of people to acquire the Company's shares. Within the framework of these plans, the Company is authorized to grant initially 1,250,000 new no-par shares (conditional capital 2010/I, meanwhile decreased to 503,549 shares by reduction resolved by the Annual General Meeting of shareholders and the exercise of stock options). Furthermore, the Company is authorized to grant 1,200,000 new no-par shares (conditional capital 2015/I); so far no stock options have been issued from this conditional capital.

As of December 31, 2016 (December 31, 2015), altogether 441,716 (621,398) stock options are outstanding. These are attributable to the various tranches as follows:

	2010 tranche	2011 tranche	2012 tranche	Total
Year of resolution	2010	2011	2012	
Year of issue	2010	2011	2012	
Exercise price in Euro	7.49	8.027	7.42	
Average share price of exercised options in Euro (2015)	18.12	14.19	n/a	
Average share price of exercised options in Euro (2016)	13.35	13.30	13.20	
Blocking period ex issue (years)	4	4	4	
Exercise period after blocking period (years)	3	3	3	
Options outstanding as of 01/01/2015 (number)	**123,744**	**233,505**	**384,844**	**742,093**
Exercised 2015 (number)	50,357	48,523	0	98,880
Forfeited 2015 (number)	2,520	7,080	12,215	21,815
Options outstanding as of 12/31/2015 (number)	**70,867**	**177,902**	**372,629**	**621,398**
Exercised 2016 (number)	38,747	40,383	84,969	164,099
Forfeited 2016 (number)	50	1,250	14,283	15,583
Options outstanding as of 12/31/2016 (number)	**32,070**	**136,269**	**273,377**	**441,716**
Options exercisable as of 12/31/2016 (number)	32,070	136,269	273,377	441,716

The 2010, 2011 and 2012 tranches, based on the authorization given by the Annual General Meeting (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 Aktiengesellschaft 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 issue price. The pecuniary benefit the beneficiaries can achieve by exercising their options is limited to four times the exercise price. The blocking period is four years for all three tranches as of 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 4, 2010 for all tranches. The Company is authorized to offer compensation in cash instead of supplying shares to the beneficiaries.

In the year 2014, 105,044 stock options were exercised from the 2010 tranche. In the year 2015, 50,357 stock options were exercised from the 2010 tranche and 48,523 stock options from the 2011 tranche. In 2016, 38,747 stock options were exercised from the 2010 tranche, 40,383 stock options from the 2011 tranche and 84,969 stock options from the 2012 tranche.

The stock options' average fair value was 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

	2010 tranche	2011 tranche	2012 tranche
Dividend yield	0.0%	3.0%	3.0%
Expected volatility	62.50%	52.25%	47.50%
Risk-free interest rate as of grant date	1.67%	1.69%	0.31%
Expected term	4 Years	4 Years	4 Years

In financial year 2016 the Company incurred expenses of 84 thousand Euro for its stock option plan 2012 (2015: 190 thousand Euro for stock option plans 2011 and 2012).

24 – Provisions

Provisions for pensions

The development of net liabilities accounted for is as follows:

	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Cash value of obligations	3,246	3,175
Time value of pension plan reinsurance	–2,769	–2,679
Liabilities recognized in the statement of financial position	**477**	**496**

The Company has pension plans for (former) members of the Management Board of Elmos Semiconductor AG and members of the management of subsidiaries to some extent. Benefits depend on individual contractual agreements or rather 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.

As in the previous year, the actuarial report is based on a pension adjustment of 1.5% per annum. The expected pay increases are determined at 0.0%, unchanged from the previous year. Evaluation is carried out in accordance with IAS 19. The interest rate was 1.75% per annum as of December 31, 2016 (December 31, 2015: 1.95% 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:

	2016 thousand Euro	2015 thousand Euro
Service cost	0	0
Interest	61	61
Pension expense (net)	**61**	**61**

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

	2016 thousand Euro	2015 thousand Euro
Pension commitments as of 01/01	3,175	3,215
Pension expense (net)	61	61
Benefits paid to pensioners	–79	–79
Actuarial losses (–)/gains due to changes in financial assumptions	89	–22
Pension commitments as of 12/31	**3,246**	**3,175**

Fair value of reinsurance policies

	2016 thousand Euro	2015 thousand Euro
Fair value of reinsurance policies as of 1/1	2,679	2,616
Income from plan assets	51	50
Employer's contributions	93	90
Benefits from reinsurance policies	–75	–79
Actuarial gains/losses (–)	21	2
Fair value of reinsurance policies as of 12/31	**2,769**	**2,679**

Defined benefit pension plans are primarily exposed to risks due to changes of actuarial assumptions, e.g. the actuarial interest rate. A lower discount factor results in higher pension commitments.

Income from pension plan reinsurance amounts to 90 thousand Euro (2015: 63 thousand Euro) including payments made in the event of death. Premiums of 93 thousand Euro were paid (2015: 90 thousand Euro). Contribution payments in the amount of 93 thousand Euro are expected for 2017 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 2016, contributions to these pension plans amounted to 431 thousand Euro (2015: 478 thousand Euro).

The employer's social security contributions made for employees amounted to 4,624 thousand Euro in 2016 (2015: 4,510 thousand Euro). The contributions to employees' direct insurance came to 144 thousand Euro in 2016 (2015: 132 thousand Euro[1]).

[1] Prior-year amount has been adjusted

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

	2016 thousand Euro	2015 thousand Euro	2014 thousand Euro	2013 thousand Euro	2012 thousand Euro
Pension commitment	3,246	3,175	3,215	4,140	3,963
Fair value of pension plan reinsurance	–2,769	–2,679	–2,616	–3,648	–3,207
Underfunding (–)	–477	–496	–599	–492	–756
Adjustments to plan liabilities based on experience	–3	1	153	–24	–114
Adjustments to plan assets based on experience	0	0	0	0	0

One of the material 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 to the assumption of the actuarial interest rate would have had the following effect in the year under review (previous year):

	Increase by 1% point	Decrease by 1% point
Effect on defined benefit obligations (thousand Euro)	–419 (–420)	526 (529)

It has to be taken into consideration that sensitivities reflect effects on the defined benefit obligation only for the respective specific amount of changes to the assumptions (here for example 1.0%). If the amount of a change to the assumption is different, this does not necessarily result in a linear effect on the obligation.

Based on the sensitivity analyses carried out, there would be no significant 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
2017	80
2018	142
2019	143
2020	144
2021	144

In the previous year, the following maturities were reported for pension payments of the next five years:

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

The average terms of the material pension benefit commitments are 11.6 years and 16.8 years (2015: 12.0 years and 17.6 years).

Current provisions

	01/01/2016 thousand Euro	Consumption thousand Euro	Reversal thousand Euro	Addition thousand Euro	12/31/2016 thousand Euro
Vacation bonus	1,093	996	8	1,445	1,534
Bonus provisions	1,110	1,109	1	1,172	1,172
Employer's liability insurance association	479	363	116	378	378
Warranty	4,963	49	2,600	556	2,870
Licenses	270	184	86	231	231
Other provisions for employee benefits	3,377	2,718	420	3,702	3,941
Other provisions	3,412	2,044	621	1,162	1,909
	14,705	**7,464**	**3,852**	**8,646**	**12,035**

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. Provisions for licenses include 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, and awards. Other provisions comprise different identifiable individual risks and contingent obligations.

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

25 – Financial liabilities

Non-current financial liabilities

Non-current financial liabilities can be broken down as follows as of December 31, 2016:

	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Loans	**11,202**	**36,639**

The decrease in non-current financial liabilities is accounted for by the reclassification to current liabilities due to respective remaining terms.

Current financial liabilities

As of December 31, 2016, the Company had various short-term lines of credit at its disposal in the total amount of 16,510 thousand Euro (December 31, 2015: 16,510 thousand Euro). As of December 31, 2016, the Company provided these credit facilities as security in the amount of 712 thousand Euro (2015: 686 thousand Euro). Current financial liabilities (December 31, 2016: 25,000 thousand Euro; December 31, 2015: 185 thousand Euro) represent the current portion of loans as well as other current liabilities to banks.

Loans

The effective interest rates of the loans range between 1.75% and 4.90% as in the previous year.

Cash flows from financial liabilities

The following table lists all contractually defined payouts as of December 31, 2016 and December 31, 2015 (indicated as positive values in the following table) for redemption, repayment and interest on financial liabilities accounted for. Payments are stated at undiscounted cash flows including interest payments for the next financial years. Also included are all cash flows from derivative financial instruments at positive and negative fair value.

December 31, 2016	2017 thousand Euro	2018 thousand Euro	2019-2021 thousand Euro	from 2022 thousand Euro
Liabilities to banks	26,452	10,678	331	0
Trade payables	24,944	0	0	0
Other financial liabilities	966	0	0	0
Hedged derivatives	548	0	0	0

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

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:

	12/31/2016 thousand Euro	12/31/2015 thousand Euro
Other current liabilities	3,627	2,629
Other non-current liabilities	0	2,458
	3,627	**5,087**

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, other financial liabilities, and hedged derivatives. The increase from the previous year is essentially based on the recognition as liabilities of payment obligations in the amount of 720 thousand Euro not yet due in connection with the increase of the investment in MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin/Germany.

Other non-current liabilities went down over the financial year from 2,458 thousand Euro to 0 thousand Euro. As of December 31, 2015, this item comprised a put option for non-controlling shareholders in the amount of 2,000 thousand Euro recognized outside profit or loss. In view of an increase of the investment in subsidiary MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin/Germany, from 80% to 100% of the shares, the put option recognized under other non-current liabilities has been canceled and thus derecognized. The outstanding payment obligation to the formerly non-controlling shareholder connected to this transaction is recognized under other current liabilities as of December 31, 2016. In addition to that, other non-current liabilities do not include a non-current portion of hedged derivatives for the first time as of December 31, 2016 (December 31, 2015: 459 thousand Euro). This is due to the fact that the loan agreements (forward loans) signed in 2010 will expire in financial year 2017 (please also refer to notes 28 and 29).

Income tax liabilities amount to 2,295 thousand Euro (December 31, 2015: 6,889 thousand Euro) and include liabilities of Elmos as well as some domestic and international subsidiaries.

27 – Trade payables

Trade payables primarily concern the purchasing of materials and the claiming of services for maintaining business operations. Trade payables are due in full within one year.

28 – Derivative financial instruments

The Company monitors the development in value 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 financial 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 will probably balance each other completely over the respective terms. Due to the correspondence of the material parameters and terms and conditions of hedged item and hedge, the hedge is generally suited to provide effective protection 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, 2016 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 changes in fair value. Changes in 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.

Furthermore, the Company 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.

Measurement of the interest rate swaps follows corresponding evaluation procedures or is based on evaluations provided by the banks involved. The market value of the 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 USD; corresponding income or expenses have been stated under the item "foreign exchange 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 2016, providing for repayment of the investment amount in a foreign currency (essentially USD) if a predefined EUR/foreign currency reference exchange rate is exceeded as of 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 fair 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 as of the reporting date provided by the involved banks. 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 fair values as of December 31, 2016 as in the previous year was based on a discounted cash flow (DCF) model in consideration of current interest yield curves as of the reporting date.

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

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.

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 12/31/2016	Amortized cost	Acquisition cost	At market value through profit or loss	At market value outside profit or loss	Fair value 12/31/2016	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
Financial assets													
Investments	AfS	20	20	0	0	0	20	20	20	0	0	0	20
Securities (long-term)	LaR	5,000	5,000	0	0	0	5,000	1,000	1,000	0	0	0	1,000
Securities (long-term)	AfS	37,856	0	0	0	37,856	37,856	29,944	0	0	0	29,944	29,944
Securities (short-term)	LaR	0	0	0	0	0	0	0	0	0	0	0	0
Securities (short-term)	AfS	5,678	0	0	0	5,678	5,678	9,584	0	0	0	9,584	9,584
Trade receivables	LaR	39,137	39,137	0	0	0	39,137	32,811	32,811	0	0	0	32,811
Cash and cash equivalents	LaR	43,110	43,110	0	0	0	43,110	50,000	50,000	0	0	0	50,000
Other financial assets													
Other receivables and assets	LaR	1,455	1,455	0	0	0	1,455	1,646	1,646	0	0	0	1,646
Other loans	LaR	3,699	3,699	0	0	0	3,699	3,314	3,314	0	0	0	3,314
Forward exchange contracts/Currency option transactions	HfT	0	0	0	0	0	0	453	0	0	453	0	453
Call options	HfT	8	0	0	8	0	8	3	0	0	3	0	3
Embedded derivatives	HfT	0	0	0	0	0	0	7	0	0	7	0	7
Total financial assets		**135,963**	**92,421**	**0**	**8**	**43,534**	**135,963**	**128,782**	**88,791**	**0**	**463**	**39,528**	**128,782**
Financial liabilities													
Trade payables	OL-AC	24,944	24,944	0	0	0	24,944	21,810	21,810	0	0	0	21,810
Liabilities to banks	OL-AC	36,202	36,202	0	0	0	36,804	36,824	36,824	0	0	0	37,852
Other financial liabilities													
Miscellaneous financial liabilities	OL-AC	966	966	0	0	0	966	301	301	0	0	0	301
Forward exchange contracts/Currency option transactions	HfT	0	0	0	0	0	0	107	0	0	107	0	107
Embedded derivatives	HfT	10	0	0	10	0	10	4	0	0	4	0	4
Put options	HfT	0	0	0	0	0	0	2,000	0	0	2,000	0	2,000
Hedged derivatives (short-term)	OL-FV	547	0	0	0	547	547	661	0	0	0	661	661
Hedged derivatives (long-term)	OL-FV	0	0	0	0	0	0	459	0	0	0	459	459
Total financial liabilities		**62,669**	**62,112**	**0**	**10**	**547**	**63,271**	**62,166**	**58,935**	**0**	**2,111**	**1,120**	**63,194**
Aggregated by measurement category													
Loans and receivables	LaR	92,401	92,401	0	0	0	92,401	88,771	88,771	0	0	0	88,771
Available for sale	AfS	43,554	20	0	0	43,534	43,554	39,548	20	0	0	39,528	39,548
Financial assets held for trading	HfT	8	0	0	8	0	8	463	0	0	463	0	463
Financial liabilities held for trading	HfT	10	0	0	10	0	10	2,111	0	0	2,111	0	2,111
Financial liabilities accounted for at amortized cost	OL-AC	62,112	62,112	0	0	0	62,714	58,935	58,935	0	0	0	59,963
Financial liabilities accounted for at fair value	OL-FV	547	0	0	0	547	547	1,120	0	0	0	1,120	1,120

Hierarchy of fair values

The Group applies the following hierarchy for the determination and reporting of the fair values of financial instruments according to the respective valuation method:

-> **Level 1:** quoted (unadjusted) prices in active markets for similar assets or liabilities
-> **Level 2:** methods where all input parameters with a material effect on the determined fair value are observable either directly or indirectly
-> **Level 3:** methods using input parameters that have a material effect on the determined fair value and are not based on observable market data

As of December 31, 2016 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, 2015	**47,858**	**0**	**0**
Addition of securities (long-term)	3,971	0	0
Disposal of securities (long-term)	–4,787	0	0
Transfer of securities (long-term)	–9,996	0	0
Market valuation of securities (long-term)	–876	0	0
Addition of securities (short-term)	255	0	0
Disposal of securities (short-term)	–6,652	0	0
Transfer of securities (short-term)	9,996	0	0
Market valuation of securities (short-term)	–241	0	0
December 31, 2015	**39,528**	**0**	**0**
Addition of securities (long-term)	18,078	0	0
Disposal of securities (long-term)	–4,848	0	0
Transfer of securities (long-term)	–6,115	0	0
Market valuation of securities (long-term)	797	0	0
Addition of securities (short-term)	0	0	0
Disposal of securities (short-term)	–9,997	0	0
Transfer of securities (short-term)	6,115	0	0
Market valuation of securities (short-term)	–24	0	0
December 31, 2016	**43,534**	**0**	**0**
Hedged derivatives			
January 1, 2015	**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**
Correction of measurement of hedged derivatives outside profit or loss (short-term and long-term)	0	573	0
December 31, 2016	**0**	**–547**	**0**

	Level 1 thousand Euro	Level 2 thousand Euro	Level 3 thousand Euro
Forward exchange contracts/Currency option transactions			
January 1, 2015	**0**	**2,190**	**0**
Addition of forward exchange contracts/ currency option transactions	0	346	0
Disposal of forward exchange contracts/ currency option transactions	0	–2,190	0
December 31, 2015	**0**	**346**	**0**
Addition of forward exchange contracts/ currency option transactions	0	0	0
Disposal of forward exchange contracts/ currency option transactions	0	–346	0
December 31, 2016	**0**	**0**	**0**
Call options			
January 1, 2015	**0**	**0**	**0**
Addition of call option	0	0	3
December 31, 2015	**0**	**0**	**3**
Addition of call options	0	0	5
December 31, 2016	**0**	**0**	**8**
Put options			
January 1, 2015	**0**	**0**	**–2,000**
December 31, 2015	**0**	**0**	**–2,000**
Addition of put option	0	0	0
Derecognition of put option	**0**	**0**	**2,000**
December 31, 2016	**0**	**0**	**0**
Embedded derivatives			
January 1, 2015	**0**	**23**	**0**
Addition of embedded derivatives	0	3	0
Market valuation of embedded derivatives	0	–23	0
December 31, 2015	**0**	**3**	**0**
Addition of embedded derivatives	0	1	0
Market valuation of embedded derivatives	0	–14	0
December 31, 2016	**0**	**–10**	**0**

The securities reported under *hierarchy level 1* are bonds classified by Elmos as available for sale.

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 the 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 the fair value are discussed under note 30 in the context of the explanation of exchange rate risk. There is no effect on these financial assets as of December 31, 2016 as there are no exposures as of the reporting date.

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. It came to derecognition in financial year 2016 with respect to a put option (2,000 thousand Euro) as the underlying interest in MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg was acquired by Elmos. Please refer to note 26 for the changes in accounting for the call and put options reported under hierarchy level 3. Plausible alternative assumptions would result in no material changes to the reported fair values of both call options and put options.

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 (–)	2016 thousand Euro	2015 thousand Euro
LaR (loans and receivables)	182	80
AfS (available for sale)	288	–311
OL-AC (other liabilities-acquisition cost)	–132	–135
OL-FV (other liabilities-fair value)	0	0
HfT (held for trading)	1,259	2,431

In financial year 2016, Elmos realized foreign exchange gains in the amount of 109 thousand Euro and incurred foreign exchange losses in the amount of 104 thousand Euro from currency-related hedges (2015: foreign exchange gains of 2,328 thousand Euro and foreign exchange losses of 223 thousand Euro), reported in the consolidated income statement under the item "foreign exchange gains/losses". There were no forward contracts that reached beyond the reporting date December 31, 2016 so that no changes have been reported in the consolidated income statement under the item "foreign exchange gains/losses" (2015: positive market value of 453 thousand Euro and negative market value of 107 thousand Euro).

In the category "held for trading", for financial year 2016 essentially the income from derecognition of the put option is reported (please also refer to note 26).

Moreover, the Company concluded structured term deposit transactions in 2016. The effects on the financial position as of December 31, 2016 are limited to the collected interest income and foreign exchange gains generated in the amount of 1 thousand Euro as well as foreign exchange losses incurred in the amount of 13 thousand Euro (2015: collected interest income and foreign exchange gains in the amount of 0 thousand Euro and foreign exchange losses in the amount of 0 thousand Euro).

In the category "available for sale", securities were subject to appreciation in value through profit or loss as the market value of these financial assets had increased from the previous year and objective indications of impairment within the meaning of IAS 39.59 (f) no longer apply. The corresponding income of 311 thousand Euro was reported in the consolidated income statement under the item "finance income". In the meantime, the corresponding securities were sold entirely without a material gain or loss on disposal.

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 reviewed 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. Interest and exchange rate risks for instance 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 profitability. Elmos exclusively uses these hedging instruments for non-speculative, risk containing purposes in connection with the hedged items.

The basic principles of financial 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.

Credit and contingency risk

Liquid assets essentially comprise 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 borrowers' 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, upon 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 USD, especially assembly and foundry services from Southeast Asia typically billed in USD in the global market, the Group's currency exposure has expanded. Generally Elmos still aims for natural hedging, i.e. a balance of USD cash inflow and outflow, and takes measures throughout the Group for containing the exposure. If management considers it necessary, the excess volume not covered by natural hedging is controlled actively, among other measures by concluding derivative financial instruments for currency hedging. 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 financial year 2016, Elmos realized foreign exchange gains in the amount of 109 thousand Euro (2015: 2,328 thousand Euro) and incurred foreign exchange losses in the amount of 104 thousand Euro (2015: 223 thousand Euro) from U.S. dollar currency hedges. In addition to that, from the measurement of USD hedges still open by the reporting date, Elmos recorded income of 0 thousand Euro (2015: 453 thousand Euro) and expenses of 0 thousand Euro (2015: 107 thousand Euro) in the consolidated income statement. Furthermore, foreign exchange gains in the amount of 1 thousand Euro (2015: 0 thousand Euro) and foreign exchange losses in the amount of 13 thousand Euro (2015: 0 thousand Euro) resulted in 2016 from structured term deposits where the repayment of the investment amount in foreign currency (essentially USD) 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 also resulted in interest advantages.

Had the euro been revalued (devalued) against the U.S. dollar by 10% as of December 31, 2016 with respect to the monetary financial instruments, income (before taxes) would have been 562 thousand Euro lower (687 thousand Euro higher) (2015: 1,138 thousand Euro lower (1,361 thousand Euro higher)). The Group's equity effect would have come to 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 financial 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 109 thousand Euro (decrease in equity by 82 thousand Euro) due to group accounting outside profit or loss (2015: increase (decrease) in equity by 295 (304) 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 682 thousand Euro (increase in equity by 766 thousand Euro) (2015: decrease (increase) in equity by 738 (759) thousand Euro) and expenses of 0 thousand Euro (income of 0 thousand Euro) (2015: 23 (24) thousand Euro). Deferred tax on these amounts would also have to be considered.

For the forward loans described under note 28, there is no risk from loan commitments as of December 31, 2016 – 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 financial 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 0 thousand Euro (40 thousand Euro) for financial year 2016 (2015: increase (decrease) in earnings by 175 thousand Euro (175 thousand Euro)). A 10% higher (lower) gas price would result in an increase (decrease) in earnings by 188 thousand Euro (188 thousand Euro) for financial year 2016 (2015: increase (decrease) in earnings by 238 thousand Euro (237 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, dividends may be paid to the shareholders for instance or new stock may be issued. As of December 31, 2016 and December 31, 2015, no changes were made to the objectives, guidelines, or procedures.

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

	2016	2015
Net cash	55.4 million Euro	53.7 million Euro
Equity ratio	74.0%	71.5%

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 (KWKG). Government grants used for research and development projects were offset against research and development expenses and recognized in that item (649 thousand Euro in 2016, 653 thousand Euro in 2015). Subsidies under KWKG were allocated to the individual functional areas depending on causation and offset accordingly (460 thousand Euro in 2016, 399 thousand Euro in 2015). Government grants for capital expenditures for property, plant and equipment were collected in the amount of 0 thousand Euro in 2016 (46 thousand Euro in 2015).

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 leases for technical equipment and machinery as well as factory and office equipment, the terms of which extend until 2021 in part. Furthermore, there are lease agreements for the car pool, office machines, and technical equipment and machinery to a customary extent.

Within the framework of the lease agreements with Epigone, Elmos is committed to lease payments of 4,040 thousand Euro (including contributions to administrative expenses and sales tax) plus payments of 2,033 thousand Euro for tenant loans until 2021 (cf. note 14).

SMI entered into a property lease agreement on January 26, 2006 for land and a plant erected thereon. 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 the end of 2017.

Total expenditure for rental and lease agreements amounted to 8,017 thousand Euro in 2016 and 8,404 thousand Euro in 2015.

The total of fixed future payments under rental agreements and leases as of the reporting date December 31, 2016 (December 31, 2015) come to 7,477 thousand Euro for the period of up to one year (2015: 8.081 thousand Euro), 18,890 thousand Euro for the period from one year to five years (2015: 16,853 thousand Euro), and 439 thousand Euro for the period of more than five years (2015: 2,043 thousand Euro).

Future minimum payments owed from non-cancelable rental agreements, leases, maintenance agreements, insurance premiums and various obligations to accept with initial or remaining terms of more than one year as of December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016 thousand Euro	December 31, 2015 thousand Euro
2016	n/a	25,615
2017	28,783	10,898
2018	11,237	7,556
2019	7,256	4,164
2020	5,119	3,060
2021	2,631	n/a[1]
Later years	439	2,043
	55,465	**53,336**

[1] Included in later years

There is a purchase commitment in the amount of 3,268 thousand Euro from investment orders placed (2015: 4,283 thousand Euro).

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 (direct and indirect) in %
Parent	
Elmos Semiconductor AG, Dortmund	
Subsidiaries	
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/Germany	100.0
DMOS Dresden MOS Design GmbH, Dresden/Germany	74.8
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin/Germany	100.0
Mechaless Systems GmbH, Bruchsal/Germany	100.0
Micro Systems on Silicon (MOS) Limited, Pretoria/South Africa	51.0
Silicon Microstructures Inc., Milpitas/U.S.A.	100.0

Subsidiary Elmos Design Services B.V. Nijmegen/Netherlands left the Elmos Group's basis of consolidation in the fourth quarter of 2016 by way of liquidation.

With economic effect as of December 31, 2016, Elmos acquired 20% of the shares in MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin/Germany. Upon this increase of its investment, Elmos holds 100% of the shares in this subsidiary (please also refer to note 26).

The capital shares in the other subsidiaries are unchanged from the previous year.

Information on share ownership

	Currency	Shares %	Equity thousand	Net income thousand
Domestic				
DMOS Dresden MOS Design GmbH, Dresden	Euro	74.8	1,610	59[1]
Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	Euro	6.0	–48	16[1]
GED Electronic Design GmbH, Frankfurt/Oder	Euro	100.0	1,198	0[1, 4]
Mechaless Systems GmbH, Bruchsal	Euro	100.0	446	107[1]
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin	Euro	100.0	1,710	613[1]
International				
Elmos Services B.V., Nijmegen (NL)	Euro	100.0	13,748	9,131[1]
Elmos Semiconductor B.V., Nijmegen (NL)	Euro	100.0	11,066	864[1, 2]
European Semiconductor Assembly (eurasem) B.V., Nijmegen (NL)	Euro	100.0	156	50[1, 2]
Micro Systems on Silicon (MOS) Limited, Pretoria (South Africa)	ZAR	51.0	1,364	1,083[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	1,082	65[1, 2]
Silicon Microstructures Inc., Milpitas (U.S.A.)	USD	100.0	4,874	629[1, 2]
Elmos Korea Co. Ltd., Seoul (Korea)	KRW	100.0	653,493	126,549[1]
Elmos Semiconductor Singapore Pte. Ltd., Singapore	SGD	100.0	812	72[1]
Elmos Japan K.K., Tokyo (Japan)	JPY	100.0	38,888	3,413[1]
Elmos Semiconductor Technology (Shanghai) Co., Ltd., Shanghai (China)	CNY	100.0	4,410	736[1, 2]
Omniradar B.V., Eindhoven (NL)	Euro	45.7	304	–533[1]

[1] Presented figures are based on preliminary unaudited financial statements as of December 31, 2016.
[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, 2016 (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/Germany	25.2%	821	2,080	1,187	19	4,878	0
Micro Systems on Silicon (MOS) Limited, Pretoria/South Africa	49.0%	818	3	725	0	550	449

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/ Germany	25.2%	1,250	2,001	1,562	37	4,333	0
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin/ Germany	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 associates as of December 31, 2016 (IFRS 12 B12):

Entity	Interest	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Sales	Allocated dividend
	%	thousand Euro	thousand Euro	thousand Euro	thousand Euro	thousand Euro	thousand Euro
Omniradar B.V., Eindhoven/NL	45.71%	1,838	81	618	997	1,031	0

There are no comparative figures for 2015 as the entity only became an associate in 2016.

34 – Information on Management Board and Supervisory Board

Remuneration of Management Board and Supervisory Board for 2016

	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	1,509	1,280	0	0
Supervisory Board	87	218	0	0

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

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 2016, contributions to these pension plans amounted to 408 thousand Euro (2015: 454 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 financial year 2016 nor in the previous year.

Remuneration paid to former Management Board members or their surviving dependents amounted to 120 thousand Euro in financial year 2016 (2015: 224 thousand Euro). Moreover, insurance premiums in the amount of 113 thousand Euro were paid (2015: 111 thousand Euro). These amounts are balanced by reimbursements from reinsurance policies in the amount of 116 thousand Euro (2015: 119 thousand Euro).

The amount of pension provisions for acting and former members of the Management Board or their surviving dependents was 1,520 thousand Euro as of December 31, 2016 (2015: 1,543 thousand Euro).

Members of the Supervisory Board received no further compensation for services rendered individually, particularly consulting services.

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 2016

As of December 31, 2016, 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 General 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. Klaus Egger: Member of the Supervisory Board of AVL List GmbH
- Dr. Gottfried Dutiné: Member of the Advisory Board of Endiio GmbH

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

As of December 31, 2016, the following members of Management Board and Supervisory Board held Elmos shares, stock options and share matching claims (any closely related persons not included):

Management Board	Shares	Stock options	Share matching stock (claims)
Dr. Anton Mindl	31,359	38,333	436
Dr. Arne Schneider	15,746	6,050	218
Reinhard Senf (until December 31, 2016)	29,636	28,889	436
Guido Meyer (since January 1, 2017)	2,664	6,325	174
Dr. Peter Geiselhart	14,618	17,778	436

Supervisory Board	Shares	Stock options
Prof. Dr. Günter Zimmer	44,878	0
Dr. Klaus Weyer	217,789	0
Dr. Klaus Egger	18,000	0
Thomas Lehner	6,712	3,750
Sven-Olaf Schellenberg	4,200	750
Dr. Gottfried Dutiné	0	0

36 – Information on group auditor fees

The companies of the Elmos Group were charged fees for the following services rendered by appointed group auditor Warth & Klein Grant Thornton AG in financial years 2016 and 2015:

	2016 thousand Euro	2015 thousand Euro
Audit services	180	165
Other certification services	38	39
Tax counselling	75	116
Other services	25	8
	318	**327**

The increase in "audit services" is attributable to the fact that the Dutch subsidiaries have been audited by appointed group auditor Warth & Klein Grant Thornton AG within the framework of auditing consolidated financial statements beginning in financial year 2016. In previous years those audit services had been rendered on location by a Dutch service provider.

The position "other certification services" includes fees for the review of the interim consolidated financial statements as of June 30, 2016 (or rather as of June 30, 2015 for 2015).

"Other services" include consulting fees with respect to the routine examination conducted by the Financial Reporting Enforcement Panel (FREP) for the year under review 2014. The examination was concluded at the beginning of financial year 2016 without any findings.

37 – Appropriation of retained earnings and dividend proposal

Management Board and Supervisory Board propose to the Annual General Meeting in May 2017 the payment of a dividend of 0.35 Euro per share for financial year 2016 out of the 2016 retained earnings of Elmos Semiconductor AG in the amount of 107.1 million Euro. The total dividend payout would thus amount to 7.0 million Euro based on 19,910,633 shares entitled to dividend as of December 31, 2016.

38 – Directors' dealings according to Section 15a WpHG and managers' transactions according to Art. 19 (1) Market Abuse Regulation

The announcement of directors' dealings according to Section 15a WpHG (Securities Trading Act) for the period from January 1 up to and including July 2, 2016 and the notifications of managers' transactions according to Art. 19 (1) Market Abuse Regulation for the period from July 3 to December 31, 2016 are available at www.elmos.com.

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 entity. Control is assumed in this regard if a shareholder holds more than half of the voting rights in Elmos Semiconductor AG or if the

shareholder is in a position, by virtue of the Articles of Incorporation or contractual agreement, to control the financial and business policies of the Elmos Group's management.

Mandatory disclosure 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.

In 2016, Elmos Semiconductor AG received services from associates in the amount of 1,008 thousand Euro (2015: 0 thousand Euro). As of December 31, 2016, 133 thousand Euro thereof are still recognized as trade payables.

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 entities 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 financial year 2016, the average number of employees in the Group was 1,127 (2015: 1,117).

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

Group	2016 number	2015 number
Production	522	520
Sales	106	100
Administration	161	162
Quality Control	42	40
Research & Development	296	295
Total	**1,127**	**1,117**

41 – Significant events after the end of the financial year

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

42 – Declaration of compliance in accordance with Section 161 AktG

In September 2016, 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 (www.elmos.com) on the internet.

Dortmund, March 2, 2017

Dr. Anton Mindl Dr. Arne Schneider Guido Meyer Dr. Peter Geiselhart

Auditor's report

We have issued the following audit opinion on the consolidated financial statements and the combined management report, the audited version of which includes the complete remuneration report identical to the one presented 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 financial year ended December 31, 2016. The preparation of the consolidated financial statements and the combined management report in accordance with IFRS as applicable in the EU and the additional requirements of German commercial law pursuant to Section 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 combined 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 combined 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 combined 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 combined 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 financial year ended December 31, 2016 comply with the IFRS as applicable in the EU and the additional requirements of German commercial law pursuant to Section 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 combined 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, 2017

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Dr. Thomas Senger
Certified Accountant

Ulrich Diersch
Certified Accountant

Responsibility statement

We assure that 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, combined with the management report of 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, 2017

Dr. Anton Mindl Dr. Arne Schneider Guido Meyer Dr. Peter Geiselhart

Glossary

Ambient lighting Using LED light strips creates new concepts for the interior the driver can influence individually 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.

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

BLDC motor A BLDC motor's magnetic rotor is not mechanically connected to the electrical supply. The necessary rotating field must be provided externally by electronics energizing the stator coils and creating the electric field. The motor is operated in a closed loop.

BUS A communication standard 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, 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 commissioned by a customer. Such a contract covers product development (in case of an ASIC) or the integration 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.

Driver assistance systems Advanced driver assistance systems (ADAS) are electronic auxiliary 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).

Electronic circuit A combination of different electrical components, each assuming a specific function within an electrical system.

FlexRay™ The high-speed bus system FlexRay™ is a standard for time-critical applications e.g. in automotive 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 prevention of unjustifiable risks.

HALIOS® HALIOS® (**h**igh **a**mbient **l**ight **i**ndependent **o**ptical **s**ystem) technology is distinguished by its infrared-based 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.

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

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 describes the setup of the central control device for the field effect in a particular category of semiconductor transistors.

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

OLED An **o**rganic **l**ight **e**mitting **d**iode is a luminous thin-layer component made of organic semiconductor materials distinguished by LED in that its electric current density and luminance are lower and no monocrystalline materials are required.

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. when a person walks by the sensor.

Pressure sensor The pressure sensor can detect low, medium 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 is a key ratio used in finance to describe 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 then converts it 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.

TPMS A **t**ire **p**ressure **m**onitoring **s**ystem 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.

Informative material

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

- Annual Report
- Quarterly Statements and Half-Year Reports
- Code of Conduct
- Product Catalog

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

This Annual Report is also available in German. Both versions were **printed in a carbon-neutral process.**

Of course you can visit our YouTube, Twitter and Slideshare profiles through our website **(www.elmos.com)** as well:

- YouTube: www.youtube.com/user/ELMOS1984
- Twitter: www.twitter.com/elmos_ag
- SlideShare: de.slideshare.net/ELMOS_AG

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Financial calendar 2017

Results 2016[1]	March 15, 2017
Quarterly results Q1/2017[1]	May 4, 2017
Annual General Meeting in Dortmund	May 11, 2017
Quarterly results Q2/2017[1]	August 2, 2017
Quarterly results Q3/2017[1]	November 8, 2017

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

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Forward-looking statements

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

This English translation is for convenience purposes only.

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