„

# **FISCAL YEAR 2018:** CONVINCING AS OUR PRODUCTS!

278 MIO. EURO SALES +++ 11% GROWTH +++ 18% EBIT MARGIN +++ EARNINGS PER SHARE PLUS 42%

30% DIVIDEND INCREASE +++ 1,300 EMPLOYEES +++ MORE THAN 400 MIO. ICS DELIVERED +++ 50% ASSPS

# CONTENTS

# FIVE-YEAR OVERVIEW ELMOS GROUP (IFRS)

| in million Euro unless otherwise indicated | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| Sales | 209.5 | 219.6 | 228.6 | 250.4 | 277.6 |
| growth in % | 10.8% | 4.8% | 4.1% | 9.5% | 10.8% |
| Gross profit | 91.4 | 91.6 | 96.8 | 110.1 | 125.5 |
| in % of sales | 43.6% | 41.7% | 42.3% | 43.9% | 45.2% |
| Research & development expenses | 36.1 | 37.1 | 36.0 | 33.8 | 36.0 |
| in % of sales | 17.2% | 16.9% | 15.7% | 13.5% | 13.0% |
| Operating income | 19.4 | 18.1 | 22.0 | 37.1 | 49.3 |
| in % of sales | 9.3% | 8.2% | 9.6% | 14.8% | 17.8% |
| EBIT | 22.6 | 24.5 | 23.1 | 38.4 | 51.0 |
| in % of sales | 10.8% | 11.2% | 10.1% | 15.3% | 18.4% |
| Earnings before taxes | 23.1 | 24.1 | 23.1 | 35.5 | 49.5 |
| in % of sales | 11.0% | 11.0% | 10.1% | 14.2% | 17.8% |
| Consolidated net income attributable to owners of the parent | 18.3 | 16.2 | 15.9 | 24.9 | 35.4 |
| in % of sales | 8.7% | 7.4% | 6.9% | 10.0% | 12.8% |
| Earnings per share (basic) in Euro | 0.94 | 0.82 | 0.80 | 1.26 | 1.79 |
| | 12/31/2014 | 12/31/2015 | 12/31/2016 | 12/31/2017 | 12/31/2018 |
| Total assets | 295.4 | 306.9 | 312.9 | 336.9 | 369.1 |
| Shareholders' equity | 206.9 | 219.4 | 231.6 | 240.1 | 266.6 |
| in % of total assets | 70.0% | 71.5% | 74.0% | 71.3% | 72.2% |
| Financial liabilities | 37.4 | 36.8 | 36.2 | 51.2 | 43.8 |
| Liquid assets and securities | 84.4 | 90.5 | 91.6 | 84.4 | 60.7 |
| Net cash | 47.0 | 53.7 | 55.4 | 33.2 | 16.9 |
| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
| Cash flow from operating activities | 40.0 | 50.3 | 33.5 | 37.9 | 48.4 |
| Capital expenditures[1] | 29.9 | 23.0[2] | 23.2 | 37.2 | 41.4 |
| in % of sales[1] | 14.3% | 10.5%[2] | 10.1% | 14.9% | 14.9% |
| Cash flow from investing activities | −32.0 | −24.6 | −34.9 | −47.2 | −34.3 |
| Adjusted free cash flow[3] | 10.6 | 29.7[2] | 9.1 | −5.2 | −3.3 |
| Dividend per share in Euro | 0.33 | 0.33 | 0.35 | 0.40 | 0.52[4] |
| Employees on annual average | 1,104 | 1,117 | 1,127 | 1,155 | 1,250 |

[1] Prior-year amounts adjusted according to new definition (capital expenditures for intangible assets and property, plant and equipment less capitalized development expenses)
[2] Adjusted for the repurchase of land and building from prematurely terminated lease agreements 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] Proposal to the Annual General Meeting in May 2019

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

# LETTER TO THE SHAREHOLDERS

Dear shareholders,

The automotive environment in 2018 was characterized by the fact that major players throughout the entire supply chain, namely carmakers, suppliers, but direct competitors as well, were forced to adjust their business forecasts. The reasons for this were manifold: new emission regulations as a consequence of the diesel scandal, the issue of customs tariffs in times of global trade conflicts, economic and political uncertainty in almost all of the world's regions. All these were significant factors the whole auto industry had to deal with – and will be facing again in 2019.

Against these negative trends, Elmos affirmed its growth guidance during the fiscal year and raised the EBIT target. That is why we were asked the question quite often how Elmos has managed to assert itself against these adverse circumstances.

We give an essential part of the answer with the title of the report at hand. The fiscal year: convincing – as our products.

We gave evidence in 2018 that we have pursued the right strategy over the past few years and built up a product portfolio that is in touch with today's demand, thanks to our application know-how and close cooperation with our customers. Our products are geared towards the global mobility trends: We have semiconductors, which will play a pivotal role in autonomous driving and electromobility while also enabling greater comfort and safety on the road. Yet we have also led the way in identifying trends that were less high-profile at first, such as LED lighting and new operating concepts. To rise to the occasion, we have developed products that are supporting our growth today and will continue supporting our growth tomorrow. The evolution of the car to a smart device of the highest complexity, accompanied by an extremely fast-growing demand for electronics and software, will even accelerate for the years to come. It is our goal to turn products into global number 1 successes. LED rear light drivers provide the most vivid recent example: Starting from the strong position we earned in ambient interior lighting, we have succeeded in defining ICs that are soon to be the global leaders in the rear light driver segment. Our application know-how is a deciding factor in our success. Complete knowledge of the system is crucial to the ability to optimize it. Herein lies our strength.

We plan to build on this strength. With this aim in mind, we opened a new product development location in Düsseldorf in January 2019 and have significantly increased the number of employees involved in the IC development process in general.

To make sure that our production capacities are also prepared for demand, we have further expanded our fab lite strategy. In 2018, roughly one in three wafers came from a foundry partner. Furthermore, we enhanced our own testing capacities and set the course for greater cooperation with partners in testing as well. All told, it is clear that Elmos has evolved into a company with a flexible and competitive resource structure in recent years.

The whole management team is convinced that we are on the right track to convince with our products in 2019 and beyond. This conviction reflects in our guidance for the current fiscal year, too: Subject to largely unchanged economic conditions, we expect further growth at a consistently attractive quality of earnings. Expressed in numbers, Elmos anticipates growth in sales between 6% and 10% over the previous year. The EBIT margin is expected to range between 13% and 17%.

Last but not least, I would like to sincerely thank the people who played a major role in this development and continue to be crucial to our success: our employees, who work every day to make the company better and our customers more competitive.

We look forward to continuing down this path with you in the future.

Sincerely yours,

**Dr. Anton Mindl** | CEO

*You will find descriptive information on Elmos products and employees in our company brochure "Innovation Matters," on our new website (www.elmos.com), and on our YouTube channel (youtube.com/user/ELMOS1984).*

# MANAGEMENT BOARD

**DR. ANTON MINDL**
CEO – Chief Executive Officer
Graduate physicist | Lüdenscheid, Germany

-> Management Board member since 2005, appointed until 2020
-> Strategy, Coordination of Board Responsibilities, Executive Personnel, Quality, Micromechanics

**DR. ARNE SCHNEIDER**
CFO – Chief Financial Officer
Graduate economist | Hamburg, Germany

-> Management Board member since 2014, appointed until 2022
-> Finance, Management Accounting, Investor Relations, Human Resources, Purchasing, Information Technology

**GUIDO MEYER**
COO – Chief Operating Officer
Graduate engineer (FH) | Schwerte, Germany

-> Management Board member since 2017, appointed until 2024
-> Production, Foundry, Assembly, Logistics, Product Engineering

**DR. PETER GEISELHART**
CSO – Chief Sales Officer
Graduate physicist | Ettlingen, Germany

-> Management Board member since 2012, appointed until 2018
-> Sales, Development, Business Lines, Technology

**DR. JAN DIENSTUHL**
CSO – Chief Sales Officer
Graduate electrical engineer | Hagen, Germany

-> Management Board member since 2019, appointed until 2021
-> Sales, Development, Business Lines, Technology

# SUPERVISORY BOARD REPORT

Dear Shareholders,

The Supervisory Board diligently attended to its duties and responsibilities imposed by law and the Articles of Incorporation in fiscal year 2018. The Supervisory Board advised the Management Board in running the Company and supervised management activity. Orally and in writing, the Supervisory Board was supplied in a regular and timely manner with comprehensive information on the Company's situation by the Management Board. It was directly involved in all decisions of substantial importance. The Management Board consulted the Supervisory Board on the Company's strategic orientation. 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 fiscal year 2018: February 28, May 16, September 12, and December 7. In a meeting held on February 27, 2019, the Supervisory Board concerned itself primarily with the 2018 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, 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 adopted the required resolutions. If necessary, resolutions were jointly adopted by the 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. The situation of the subsidiaries, as well as the Group's strategic development beyond the year under review, was dealt with in detail. The budget for the next fiscal 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. The strategy of the business lines and the segments was also a subject of discussion. The Supervisory Board also dealt with the succession planning for Dr. Peter Geiselhart, Chief Sales Officer. In February 2018, it appointed Dr. Jan Dienstuhl to the position effective January 1, 2019. Moreover, the Supervisory Board defined the key audit matters for the annual audit. In particular, it performed its audit duties pursuant to the German Audit Reform Act (AReG) by monitoring the quality of the auditor during the annual audit, compliance with provisions for non-audit services, and the independence of the auditor. As in the previous fiscal years, the Supervisory Board informed itself about the early risk detection 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. The Supervisory Board adopted the resolutions necessary for the Company to acquire treasury shares. It also reviewed the Company's sustainability report. Moreover, it discussed the agenda of the upcoming Annual General Meeting to be held on May 15, 2019, in Dortmund, Germany.

With respect to all meetings of the Supervisory Board held in fiscal year 2018, members' attendance was beyond 90%. The Supervisory Board does not set up committees.

## AUDIT OF SEPARATE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Consulting Warth & Klein Grant Thornton AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany, the Supervisory Board concerned itself in its meeting of February 27, 2019, with the audit of the separate financial statements and consolidated financial statements for the fiscal year ended December 31, 2018. According to the resolution of the Annual General Meeting of May 16, 2018, and the ensuing commission given by the Supervisory Board to the auditor, the separate financial statements prepared in accordance with HGB provisions (Commercial Code) for the fiscal year ended December 31, 2018, and the management report of Elmos Semiconductor AG as included in the combined management report were audited by Warth & Klein Grant Thornton AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany. 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 315e (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 February 27, 2019, the statements and reports were also explained orally by the Management Board. The German Public Auditors also reported on the results of their audit in this session, including key audit matters. The Supervisory Board and the auditor communicated with each other at various points in time while the key audit matters were being defined and while the audit was being carried out. 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 retained earnings, 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.

The Supervisory Board and Management Board will propose to the Annual General Meeting the resolution to pay a dividend of 0.52 Euro per share for fiscal year 2018 out of the retained earnings of 127.2 million Euro (according to HGB) and to carry forward the remaining amount to new accounts.

## CORPORATE GOVERNANCE

The Supervisory Board and Management Board work closely together for the Company's benefit and are committed to the sustained increase of shareholder value. The Supervisory Board concerned itself with the recommendations and suggestions of the German Corporate Governance Code (GCGC) in fiscal year 2018 once more. In September 2018, the Supervisory Board and Management Board jointly released an updated declaration pursuant to Section 161 AktG (Stock Corporation Act) on compliance with the recommendations of the GCGC in the version of February 7, 2017. This declaration of compliance and all previous ones have been made permanently available at www.elmos.com.

The Supervisory Board also dealt with the efficiency of its work and evaluated it. Conflicts of interest among members of the Management Board or Supervisory Board subject to disclosure to the Supervisory Board or rather the Annual General Meeting did not arise.

Further information on corporate governance can be found in this Annual Report at hand (corporate governance report).

## COMPOSITION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Dr. Jan Dienstuhl has been Chief Sales Officer since January 1, 2019. The Supervisory Board would like to thank the former member of the Management Board Dr. Peter Geiselhart for the many years of positive collaboration in a spirit of trust, the strategic decisions, and the successful achievements, including the structuring of the business lines, the development of the ASSP portfolio, and the furthering of our customer relationships. Apart from that, there were no changes to the Management Board or Supervisory Board in the reporting period.

The Supervisory Board thanks all employees and all members of the Management Board for their work and their contribution to the success achieved in fiscal year 2018.

Dortmund, February 27, 2019

On behalf of the Supervisory Board

**Dr. Klaus Weyer** | Chairman of the Supervisory Board

# SUPERVISORY BOARD

From left: Dr. Gottfried H. Dutiné, Dr. Klaus Egger, Prof. Dr. Günter Zimmer, Dr. Klaus Weyer, Thomas Lehner, Sven-Olaf Schellenberg

**DR. KLAUS WEYER**

-> Chairman

-> Graduate physicist | Penzberg, Germany

**PROF. DR. GÜNTER ZIMMER**

-> Vice Chairman and Honorary Chairman

-> Graduate physicist | Duisburg, Germany

**DR. GOTTFRIED H. DUTINÉ**

-> Graduate engineer | Kleve, Germany

**DR. KLAUS EGGER**

-> Financial expert for the purpose of Section 100 (5) AktG

-> Graduate engineer | Steyr-Gleink, Austria

**THOMAS LEHNER**

-> Employee representative

-> Graduate engineer | Dortmund, Germany

**SVEN-OLAF SCHELLENBERG**

-> Employee representative

-> Graduate physicist | Dortmund, Germany

# CORPORATE GOVERNANCE

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 GCGC. This chapter also includes the statement on corporate governance in accordance with Sections 289f and 315d HGB and the remuneration report.

## STATEMENT ON CORPORATE GOVERNANCE

### Implementation of the German Corporate Governance Code

For the Supervisory Board and Management Board of Elmos, corporate governance means the implementation of responsible and sustainable business management with the appropriate transparency across all areas of the Group. The Supervisory Board and Management Board again concerned themselves with the provisions of the GCGC in fiscal year 2018. In September 2018, they jointly released the declaration of compliance in accordance with Section 161 AktG once again. Apart from the reported deviations, all recommendations of the GCGC have been complied with. All previously released declarations of compliance have been made available at www.elmos.com.

### Compliance

One of the essential tasks of the Management Board as a whole is the control and monitoring of compliance within the Group. Elmos has a compliance management system (CMS) in place to ensure compliance with applicable laws and statutes as well as all internal rules and guidelines. The Management Board has appointed a compliance officer who supervises and develops the CMS together with a team. At international locations and subsidiaries, the compliance officer relies on the support of local compliance officers. The compliance officer investigates potential breaches of compliance and cases of suspicion, carries out controls regardless of whether suspicion exists, and reports regularly on compliance to the Management Board. The Supervisory Board is informed at least once a year about the CMS and all measures of relevance.

Elmos rolled out a tax compliance management system (tax CMS) in 2018. The purpose of this new CMS subset is the complete and timely compliance with all tax-related obligations.

### Working methods of the Management Board and the Supervisory Board

The 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; 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 once a week. The Management Board gives regular, extensive, and timely reports to the Supervisory Board on 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.

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

The Supervisory Board has six members, elected for five years in accordance with the Articles of Incorporation. Pursuant to the provisions of the German One-Third Participation Act (Drittelbeteiligungsgesetz), it consists of four shareholder representatives and two employee representatives. The representatives of

**Declaration of compliance with the German Corporate Governance Code**
Management Board and Supervisory Board of Elmos Semiconductor AG declare in accordance with Section 161 AktG (Corporations Act):

**I. Statements with respect to the future**
Elmos Semiconductor AG will comply with the recommendations of the "Government Commission German Corporate Governance Code" (in short: GCGC) in the latest version of February 7, 2017 (released in the official section of the Federal Gazette on April 24, 2017) 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 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 12 and 13). 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 16, 2018, 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 3). 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 potentially 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 interim financial information 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 February 7, 2017 and announced by the Federal Ministry of Justice in the official section of the Federal Gazette on April 24, 2017 have been complied with since the release of the declaration of compliance in September 2017 with the exceptions mentioned above under I.

Dortmund, September 2018

| | |
|---|---|
| On behalf of the Supervisory Board | On behalf of the Management Board |
| **Dr. Klaus Weyer** | **Dr. Anton Mindl** |
| Chairman of the Supervisory Board | Chief Executive Officer |

the shareholders are elected by the General Meeting of shareholders; the employee representatives are elected by the staff. The next elections are scheduled for 2021.

### 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 and drafted a competence profile. It includes international experience, technical and entrepreneurial expertise, strategic vision, knowledge of the Company, industry-specific know-how, and experience with accounting and internal control processes. Likewise, diversity should be taken into account and conflicts of interest avoided. The Supervisory Board has also defined an age limit for its members at the time of election. Of the shareholder representatives on the Supervisory Board, at least one member must be independent within the meaning of No. 5.4.2 GCGC. The remaining goals are realized with the present composition of the Supervisory Board and will also be considered for future nominations.

### Implementation of equal participation and diversity

In accordance with applicable statutory provisions, the Supervisory Board and Management Board defined minimum quotas as of June 30, 2017, for the representation of women on the Supervisory Board and Management Board as well as for the first and second senior executive levels. The targets must be met by June 30, 2022. These quotas are as follows: 0% or more for the Supervisory Board and Management Board, 4% or more for the first senior executive level, and 5% or more for the second senior executive level. There are no women on either the Supervisory Board or Management Board at present. At the first senior executive level, the share of women is 4%; at the second senior executive level, that number stands at 6%. Elmos therefore fulfills all determined quotas for the share of women at Elmos and complies with statutory provisions. All data refer to the employees of Elmos Semiconductor AG in Germany as of December 31, 2018.

Elmos pursues a diversity concept based on non-discrimination to determine the composition of the Management Board and the Supervisory Board. The objective of this concept is to achieve appropriate diversity in terms of professional experience and backgrounds (particularly with respect to industries, regions, and company affiliation), educational backgrounds, and personal character traits. These aspects were taken into account to determine the current composition of these bodies. As a matter of principle, a person's suitability for a task is the deciding factor for employment with the Company, irrespective of their gender, cultural background, nationality, religious affiliation, worldview, disability, age, or sexual orientation.

## SHAREHOLDERS AND ANNUAL GENERAL MEETING

Shareholders make use of their rights at the Annual General Meeting. They receive the agenda, information regarding participation, and, upon request, the Annual Report in good time. The relevant documents relating to the upcoming and past Annual General Meetings, as well as further information on participation in and voting at the Annual 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.

Dates of importance to the shareholders are published annually in a financial calendar. All quarterly statements, interim reports, and Annual Reports can be found at www.elmos.com. 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.

## RISKS

Responsible risk management contributes to the success of sound corporate governance. The Management Board regularly provides the Supervisory Board with information about risks. Information about risk management and corporate risks can be found in the combined management report under "Opportunities and risks."

## AUDIT

Before submitting the proposal for the appointment of the auditor, the Supervisory Board again obtained a declaration of independence from the auditor for fiscal year 2018. This declaration furnished no doubts about auditor independence. Compliant with No. 7.2.3 GCGC, the Supervisory Board arranged for the auditor to give account without delay of material findings and incidents to occur during the performance of the audit. The Supervisory Board also required 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 created share-based payment programs for employees, executives, and Management Board members. The stock price is a central criterion for our shareholders when it comes to investing in the Company. The linking of certain remuneration components to the stock price is therefore an incentive for beneficiaries. More information on this topic can be found in the notes to the consolidated financial statements.

## REMUNERATION REPORT

### Total remuneration of the Management Board

The Supervisory Board decides on 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 out of respect for privacy protection. The 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 16, 2018, the Company is exempt from its legal obligation for individualized disclosure of Management Board remuneration for the period of five years.

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 employment 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 fiscal year. The terms of share-based payments already promised may exceed the respective Management Board member's employment 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' remuneration is disclosed in summarized form, yet not individualized.

## MANAGERS' TRANSACTIONS

Persons who hold executive positions with an issuer of stock (for Elmos, the members of the Management Board and Supervisory Board) and persons associated with them 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). Reportable securities transactions, known as "managers' transactions," are announced immediately upon notification Europe-wide and released at www.elmos.com.

REMUNERATION OF THE MANAGEMENT BOARD FOR 2018

| | |
|---|---|
| **Fixed remuneration** | |
| Fixed remuneration[1] | -> 1,150 thousand Euro (2017: 1,097 thousand Euro) |
| Pension commitments | -> 373 thousand Euro (2017: 370 thousand Euro)<br>-> As payments to reinsurance policies in the amount of the plan contributions of a pension fund |
| **Variable, performance-based remuneration** | |
| Criteria | -> Consolidated earnings before taxes<br>-> Personal, individual targets as agreed with the Supervisory Board |
| Management bonus | -> 1,782 thousand Euro (2017: 924 thousand Euro) |

FORMER MANAGEMENT BOARD MEMBERS AND/OR THEIR SURVIVING DEPENDENTS FOR 2018

| | |
|---|---|
| Fixed remuneration | -> 209 thousand Euro (2017: 209 thousand Euro) |
| Management bonus | -> 0 thousand Euro (2017: 186 thousand Euro) |
| Insurance premiums | -> 116 thousand Euro (2017: 115 thousand Euro) |
| Reimbursements from reinsurance policies | -> 223 thousand Euro (2017: 204 thousand Euro) |
| Financial statement disclosure of pension provisions | -> 1,384 thousand Euro (2017: 1,477 thousand Euro)<br>-> Covered in full by the time value of pension plan reinsurance policies |

REMUNERATION OF THE SUPERVISORY BOARD FOR 2018

| | |
|---|---|
| **Fixed remuneration** | |
| Fixed remuneration[1] | -> 83 thousand Euro (2017: 82 thousand Euro) |
| **Variable remuneration** | |
| Management bonus | -> 225 thousand Euro (2017: 225 thousand Euro) |
| **Further remuneration** | |
| Compensation for individually performed services | -> 21 thousand Euro (2017: 0 thousand Euro) |
| **Other remuneration rules** | |
| (Vice) Chairman of the Supervisory Board | -> Twice/ (1½ times) the amount of the fixed and variable remuneration[2] |
| Share-based payment | -> 25% of the fixed remuneration and 50% of the variable remuneration is invested in Elmos shares with a 3-year holding period |

[1] Incl. fringe benefits, mainly expenses and disbursements
[2] According to the recommendation of the GCGC

# SUSTAINABILITY

## AND NON-FINANCIAL GROUP REPORT (COMBINED NON-FINANCIAL REPORT OF ELMOS SEMICONDUCTOR AG AND THE GROUP)

Sustainability is part of our corporate strategy. We perceive added value in a comprehensive way. We orient the success of our business activities not only toward financial key figures, but also want to connect that success with social acceptance, a high level of ecological awareness, and correct ethical conduct. The following explains our sustainability topics as required by Section 289c HGB and Section 315c HGB.

Elmos develops, produces and markets semiconductors and sensors, primarily for automotive use. You will find more information about the Company's business model in the chapter "The Group's business model" in this Annual Report.

Elmos pays heed to **environmental concerns** and has received certification in line with both the demanding environmental management standard ISO 14001 and the energy management standard ISO 50001. This certification is reviewed every year and is confirmed in repeat audits.

Alongside these certifications, Elmos also collects consumption data for internal operational assessments. These analyze, for example, power consumption (and the associated $CO_2$ emissions) and water consumption, as well as waste volumes. Elmos analyzes internal processes to further increase efficiency and to generate benefits for both the environment and the Company's economic base. Elmos has also joined the national campaign "Initiative Energieeffizienz-Netzwerke" (engl. "Initiative Energy Efficiency Networks"). As a result, it actively supports the Federal Government's power efficiency targets, for example by constantly analyzing production processes to identify potential efficiency increases.

Effective resource management is important for both the environment and the economy. One example of this is our gas-driven CHP (combined heat and power) plant, which allows us to generate a substantial share of our power requirements ourselves while utilizing the heat produced for heating our buildings at our Dortmund headquarters.

Internal and external audits regularly review whether we are treating potentially harmful substances in a way that complies with the law. Moreover, we have issued statements on the following topics (available at www.elmos.com):

-> conflict minerals
-> the EU chemical regulation REACH (Registration, Evaluation, Authorization and Restriction of Chemicals)
-> the EU regulation RoHS (Restriction of Hazardous Substances)

**Employee matters** are a central topic for us. We would like to create a working environment where our employees are able to apply their skills and develop accordingly. We have a policy of advancing employees Company-wide regardless of gender. When selecting applicants, we pay attention to their suitability, motivation, and expertise and do not privilege or disadvantage anybody based on factors such as gender, cultural background, nationality, religion, worldview, disability, age, or sexual orientation. In order to ensure the continuous professional development of its staff, Elmos offers employees a wide range of training courses.

NUMBER OF EMPLOYEES

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Elmos North Rhine-Westphalia | 1,002 | 905 |
| Silicon Microstructures | 76 | 78 |
| Other subsidiaries | 205 | 197 |
| **Total** | **1,283** | **1,180** |

Our employment conditions and respect for employee rights meet demanding legal requirements. We place a particular focus on occupational safety in the production areas. In this sense, we also fully comply with the legal requirements for operating production facilities in Germany and the U.S. Regular safety training workshops and inspections are a fixed component of prevention.

The principles of proper conduct toward and among employees, as well as toward external persons and institutions, are defined in our Code of Conduct. The code addresses issues such as law-abiding behavior, conflicts of interest, and dealing with information and Company assets. The Code of Conduct is binding for all employees. The current version of the code can be found online at www.elmos.com.

Alongside the rights and duties listed here, we also offer voluntary services to improve the health of our employees. In-house health promotion is an essential social standard implemented by Elmos. Along with general health programs, it includes special offers for employees doing shift work. Among other benefits that go beyond the usual are the in-house cafeteria, our own parking garage, and our in-house gym at our headquarters in Dortmund, Germany. In addition, an in-house health team provides certain medical examinations and influenza vaccinations for employees. Moreover, the health team organizes the participation in local sporting events, such as company runs.

Where necessary, the Company negotiates measures, rights, and duties with the Elmos works council. In order to keep this positive collaboration going, members of Company management and the works council connect with each other in different groups. Regular works meetings at the Company's major locations provide management and employees with the opportunity to engage in exchange with each other.

Our Code of Conduct for employees and the Supplier Code of Conduct for our suppliers set out how **human rights** are to be upheld. Our suppliers and business partners must comply with the rules set out in our Supplier Code of Conduct and must also require their sub-suppliers to comply. Examples of what is required by the Supplier Code of Conduct include upholding international human rights, observing employee rights in line with national and international standards, and rejecting child labor, forced labor, and discrimination of all kinds. The current version of the code can be found online at www.elmos.com.

We actively strive to **combat corruption and bribery** at our Company. Elmos has an Group-wide compliance management system. This includes rules such as a prohibition against bribery and corruption, maximum limits for the value of gifts, commitment to correct accounting, non-disclosure obligations with respect to confidential information, and prohibitions against anti-competitive conduct. Especially trained compliance officers at headquarters and at important foreign locations monitor compliance with rules and laws. Moreover, they provide clear guidance to employees with compliance questions. Select employees must take part in compliance training that addresses different aspects of compliance and provides instruction for the areas in which they work.

We promote **social causes** through our diverse collaborations with external partners and through the Elmos Foundation. For this reason, engaging in dialogue at a local-government and regional level with authorities, organizations, institutions, and working groups is part of our corporate culture. Moreover, the charitable work of the Elmos Foundation, which was founded in 2016, supports projects for the promotion of education and science as well as local activities at the locations of the Elmos Group. Campaigns fighting worldwide poverty are sponsored as well. Visit www.elmos-stiftung.de for more information and to read our brochure about our foundation and its projects entitled "Zeichen setzen! Unsere Stiftung – Unsere Projekte" (in German only).

Material risks that could occur in connection with the topics listed here are addressed in this report in the chapter "Opportunities and risks."

Sustainability reporting has been prepared according to external frameworks, in particular the German Sustainability Code (DNK). The sustainability topics that are important to the Company have been explained, which is why there is no need for a separate DNK statement of compliance.

# EQUALITY AND EQUAL PAY REPORT

Male and female employees are treated equally at our Company as a matter of principle. There are no known differences between their wages or salaries that could be attributed to gender alone. This is why there are no measures in place at the Company to end any kind of unequal treatment. Inquiries about equal pay are dealt with in accordance with legal provisions while taking into account the rights of the employees and the employer.

AVERAGE NUMBER OF EMPLOYEES PER YEAR | ELMOS SEMICONDUCTOR AG

| | Women | | | Men | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Full time | 169 | 150 | 147 | 700 | 642 | 628 |
| Part time | 85 | 79 | 77 | 18 | 13 | 9 |
| **Total** | **254** | **229** | **224** | **718** | **655** | **637** |

# COMBINED MANAGEMENT REPORT

In this combined management report, we analyze the course of business and the situation of the Elmos Group and Elmos Semiconductor AG in the year under review. The information about Elmos Semiconductor AG is included in the business report in a separate section providing HGB disclosures.

## THE GROUP'S BUSINESS MODEL

The core competence of Elmos is the development, manufacturing, and distribution of mixed-signal semiconductors. As a system solutions specialist, our goal is to aim to improve the customer's 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. Semiconductors account for around 90% of the Group's sales, and Elmos predominantly supplies them to customers in the automotive industry.

Micro-electro-mechanical systems (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 the subsidiary Silicon Microstructures (SMI) in Milpitas, U.S.A. The pressure sensors are used by customers in fields such as medicine, industry, consumer goods, and the automotive sector.

### Specialized high-quality product portfolio

Elmos has a leading position as semiconductor manufacturer in the market for automotive electronics and currently supplies several hundred customers, including all major automotive suppliers. Sales to automotive customers account for around 85% of the Group's sales. For industrial and consumer goods, as well as medical technology, Elmos supplies products for applications in household appliances, installation and facility technology, respirators, and machine control systems, among other things. These products accounted for around 15% of sales in 2018.

Our product range is divided into three business lines. The business lines market customer specific semiconductors (ASICs = application specific integrated circuits) and application specific chips (ASSPs = application specific standard products). Customer specific semiconductors are developed and produced according to customer specifications. Elmos defines the specifications for ASSPs. ASSP product developments are 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. ASICs currently account for around 50% of Group sales (2017: around 55%). The other roughly 50% is generated with ASSPs (2017: around 45%). A majority of the products in development are ASSPs.

The structure of the business lines is oriented toward the product segments of the target applications, which include ultrasonic parking assistance systems, the HALIOS® gesture recognition solution, LED ambient lighting, fan and blower control systems, and airbags.

The business lines work closely with the research and development department. The focus of the research and development activities is on a competitive and timely design of the products.

Elmos achieves a very high quality level with its products, as well as in its business, manufacturing, and support processes. The Elmos quality management system was audited and certified at selected locations in accordance with the most recent version of the new automotive industry standard IATF 16949 for the first time in 2018. What is more, Elmos has been certified in accordance with ISO 26262 (functional safety) throughout the Group since 2015.

### Organizational structure

The organization of Elmos is oriented toward the target markets, customer needs, and internal requirements. Elmos has its headquarters in Dortmund, Germany. Various branches, subsidiaries, and partner companies at a number of locations – mainly in Europe (including Berlin, Bruchsal, Dresden, Frankfurt/Oder, and since 01/01/2019 Dusseldorf, all in Germany), the U.S. (Milpitas and Detroit), and Asia (Seoul, Singapore, Shanghai, Shenzen, and Tokyo) – provide sales and application support as well as product development.

Elmos maintains semiconductor manufacturing facilities in Germany – in Dortmund and Duisburg, the latter as part of its cooperation with the Fraunhofer Institute (IMS) – and in the U.S. (Milpitas). The cooperation and research contract with IMS ends in June 2019. In-house capacity is enhanced by cooperation agreements with contract manufacturers (foundries). These foundries make additional capacity available, thus enabling Elmos to respond flexibly to heavily fluctuating demand, both with respect to delivery capability and the capital expenditures required. They also expand the Elmos process portfolio. The percentage of the wafers purchased externally in 2018 was around 33% (2017: around 25%). Accompanied by the full utilization of own capacities, the percentage of wafers purchased externally has therefore increased by around 30%.

## CONTROL SYSTEM

### Control parameters

The Elmos control system is based on four essential elements: sales, EBIT, capital expenditures, and free cash flow (adjusted).

Each indicator is considered and analyzed, both individually and in connection to the other ones. As a growth-oriented and innovative company, Elmos attaches great importance to the profitable growth of sales. As the result before interest and income tax, EBIT (earnings before interest and taxes) reflects the quality of earnings of the business segments. This is a central control parameter at Group level, as well as for both segments.

The demand for capital expenditures is derived from medium-term sales planning and the resulting demands on manufacturing and test capacity, as well as economic considerations. Extra-budgetary capital expenditures are made only after an additional check has been conducted. The adjusted free cash flow is defined as the cash flow from operating activities less capital expenditures for/plus disposal of intangible assets and property, plant and equipment.

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

## Reporting of the control system

The Management Board is informed in detail at least once per month 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 is compared with the budget data each month. Deviations from the budget figures are analyzed and annotated, and adequate countermeasures are defined.

# BUSINESS REPORT

## MACROECONOMIC AND INDUSTRY-SPECIFIC FRAMEWORK

According to the German Association of the Automotive Industry (Verband der Automobilindustrie – VDA), the development of automotive markets varied worldwide in 2018. The U.S. recorded a slight rise year on year, whereas new car registrations remained unchanged in Europe. In China, the number of new car registrations fell, in particular due to the trade conflict with the U.S. However, the market volume in China remains high.

| New car registrations[1] | Change 2017/18 |
|---|---|
| Western Europe | +/–0% |
| Germany | +/–0% |
| China | –4% |
| U.S.A. | +1% |
| **Semiconductor market** | |
| General semiconductor market (worldwide)[2] | +13% |
| Automotive semiconductor market (worldwide)[3] | +9% |

Source: [1] VDA, [2] Gartner, [3] ZVEI

According to preliminary figures from the market research institute Gartner, global semiconductor sales grew by 13% in 2018 to 477 billion U.S. dollars. The growth was primarily driven by the memory market (+27%). According to a forecast published by the German Electrical and Electronic Manufacturers' Association (ZVEI) in December 2018, the automotive semiconductor market, including the automotive memory market, looks to have grown by 9% in 2018.

## GUIDANCE VS. ACTUAL PERFORMANCE

| | Guidance 02/2018 | Guidance 10/2018 | ACTUAL 2018 |
|---|---|---|---|
| Sales growth 2018 (vs. 2017) | 8% to 12% | 8% to 12% | 10.8% |
| EBIT margin | 13% to 17% | 17% to 19% | 18.4% |
| Capital expenditures[1] (in % of sales) | <15% | <15% | 14.9% |
| Adjusted free cash flow[2] | Negative | Negative | –3.3 million Euro |
| *Assumed average exchange rate* | *1.20 USD/EUR* | *1.20 USD/EUR* | *1.18 USD/EUR[3]* |

[1] Capital expenditures for intangible assets and property, plant and equipment, less capitalized development expenses
[2] Cash flow from operating activities, less capital expenditures for/plus disposals of intangible assets and property, plant and equipment
[3] Average exchange rate in 2018

Elmos released the forecast for the past fiscal year in February 2018 and raised it with regard to the EBIT margin in October 2018. With sales growth of 10.8% in 2018, an EBIT margin of 18.4%, capital expenditures of 14.9% of sales, and adjusted free cash flow of –3.3 million Euro, Elmos fully achieved the targets in its guidance from October 2018.

## BUSINESS PERFORMANCE AND ECONOMIC SITUATION

### Financial statements according to IFRS

The consolidated financial statements of Elmos Semiconductor AG for fiscal year 2018 were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU.

### Sales performance

Over the course of 2018, sales increased to 277.6 million Euro. Demand increased consistently from quarter to quarter and reached a record of 75.6 million Euro in the fourth quarter of 2018. The rise in sales was attributable both to ramp-ups and to products already in regular production.

### CONDENSED INCOME STATEMENT

| in million Euro or % | FY 2018 | FY 2017 | Change |
|---|---|---|---|
| Sales | 277.6 | 250.4 | 10.8% |
| Gross profit | 125.5 | 110.1 | 14.0% |
| in % of sales | 45.2% | 43.9% | |
| Research and development expenses | 36.0 | 33.8 | 6.7% |
| in % of sales | 13.0% | 13.5% | |
| Distribution expenses | 19.7 | 20.4 | –3.2% |
| in % of sales | 7.1% | 8.1% | |
| Administrative expenses | 20.3 | 18.8 | 8.0% |
| in % of sales | 7.3% | 7.5% | |
| Operating income before other operating expenses/income | 49.3 | 37.1 | 33.1% |
| in % of sales | 17.8% | 14.8% | |
| Exchange rate gains/losses (–) | 0.2 | –1.5 | n/a |
| Other operating income | 1.5 | 2.9 | –46.2% |
| EBIT | 51.0 | 38.4 | 32.8% |
| in % of sales | 18.4% | 15.3% | |
| Finance income | 0.8 | 1.1 | –22.8% |
| Finance expenses | –1.6 | –2.9 | –45.5% |
| Earnings before taxes | 49.5 | 35.5 | 39.6% |
| in % of sales | 17.8% | 14.2% | |
| Consolidated net income attributable to owners of the parent | 35.4 | 24.9 | 42.1% |
| in % of sales | 12.8% | 10.0% | |
| Earnings per share (basic) in Euro | 1.79 | 1.26 | 42.0% |
| Dividend per share in Euro | 0.52[1] | 0.40 | 30.0% |

[1] Proposal to the Annual General Meeting on May 15, 2019

**Sales by region:** The disproportionate development of sales to Asian customers continued in 2018. The growth in Asia was generated with local customers as well as with international customers that operate one or more production sites in Asia or have relocated production activities to the region. The changes in other regions are primarily attributable to changes in delivery addresses.

| Share of sales \| in % | FY 2018 | FY 2017 |
|---|---|---|
| EU countries | 45.8% | 52.7% |
| Asia/Pacific | 40.9% | 39.0% |
| U.S.A. | 4.3% | 2.6% |
| Other | 9.0% | 5.7% |

**Sales by customer and product:** In 2018, the ten largest customers accounted for approximately 58% of sales (2017: 61%); the share of sales accounted for by the ten best-selling products stood at approximately 41% (2017: 42%). A single customer generally purchases several products with different life cycles and often uses them in various models, brands, and markets. The large number of customer relationships results in a high level of diversity.

**Order backlog:** Orders received and the order situation typically reflect current business performance, mirroring sales performance for the year. The book-to-bill figure – the ratio of orders received for the next three months to sales over the past three months – can be a useful indicator in this regard. At the end of 2018, the book-to-bill ratio in the semiconductor segment was around one.

Order backlog is usually entered upon receiving the customer's order, but may vary between the time when the order is placed and delivery due to a number of factors. There is no guarantee that order backlog will always be converted into sales.

**New projects (design wins):** All business lines were successful in 2018 with regard to design wins. Total project volume and the absolute number of design wins once again stood at a very good level. As in previous years, design wins for ASSPs significantly outnumbered those for ASICs. Design wins generally take three to five years before they go into regular production and make a contribution to sales.

## Profit situation

**Gross profit:** Gross profit again rose disproportionately compared to sales. The gross margin therefore increased for the third consecutive year. The increase was mainly driven by a product mix focusing on innovations and the successive improvement of production efficiency that the Company succeeded in achieving despite operational challenges such as higher volume, more sophisticated products, and numerous ramp-ups.

**Earnings before interest and taxes (EBIT):** EBIT increased disproportionately compared to sales and rose to 51.0 million Euro, which corresponds to an EBIT margin of 18.4%. This significant year-on-year improvement was the result of positive business performance and lower operating costs in relation to sales. The effect from the capitalization of development expenses helped to counteract the continued increase in R&D resources. Overall, development expenses of around 10.7 million Euro were capitalized in 2018 (2017: 7.2 million Euro). By contrast, depreciation of capitalized development expenses stood at 1.5 million Euro (2017: 1.4 million Euro). Distribution and administrative expenses decreased in relation to sales in 2018. The ratio of operating expenses to sales has fallen continually since 2012.

**Earnings before taxes, consolidated net income, and earnings per share:** After deduction of taxes and non-controlling interests, Elmos generated consolidated net income attributable to owners of the parent of 35.4 million Euro in fiscal year 2018. Consolidated net income therefore increased disproportionately compared to the rise in sales. The tax rate in the reporting year stood at 28.5%. Consolidated net income was equivalent to basic earnings per share of 1.79 Euro in 2018.

**Proposal for the appropriation of retained earnings:** Elmos' net income according to HGB amounted to 20.1 million Euro in 2018 (for further details, see the financial statements according to HGB). Profit carried forward from 2017 amounts to 107.1 million Euro after dividend distribution. At the Annual General Meeting on May 15, 2019, the Management Board and the Supervisory Board will propose a dividend of 0.52 Euro per share, from retained earnings of 127.2 million Euro. The total dividend payout will therefore amount to 10.3 million Euro based on 19,748,531 shares entitled to dividends as of December 31, 2018.

## Sales and earnings in the segments

CONDENSED SEGMENT REPORTING

| in million Euro or % | Segment | FY 2018 | FY 2017 | Change |
|---|---|---|---|---|
| **Sales** | Semiconductor | 253.9 | 230.1 | 10.3% |
| | Micromechanics | 23.7 | 20.4 | 16.4% |
| **EBIT (segment earnings)** | Semiconductor | 47.4 | 36.1 | 31.3% |
| | Micromechanics | 3.7 | 2.4 | 55.0% |
| **EBIT margin** | Semiconductor | 18.7% | 15.7% | |
| | Micromechanics | 15.5% | 11.6% | |

**Segments:** The positive sales and earnings development was driven by both segments. The Micromechanics segment comprises the activities of the subsidiary SMI. This segment is subject to greater volatility than the Semiconductor segment due to the smaller absolute size of its business.

## Financial position

CONDENSED STATEMENT OF CASH FLOWS

| in million Euro or % | FY 2018 | FY 2017 | Change |
|---|---|---|---|
| Consolidated net income | 35.4 | 24.8 | 43.0% |
| Depreciation and amortization | 25.6 | 24.2 | 5.7% |
| Change in net working capital[1] | –21.3 | –14.6 | 46.7% |
| Other items | 8.7 | 3.5 | >100% |
| **Cash flow from operating activities** | **48.4** | **37.9** | **27.6%** |
| Capital expenditures for intangible assets and property plant, and equipment | –52.0 | –44.5 | 17.1% |
| in % of sales | –18.7% | –17.7% | |
| Disposal of/capital expenditures for securities (–) | 17.8 | –4.1 | n/a |
| Other items | –0.1 | 1.4 | n/a |
| **Cash flow from investing activities** | **–34.3** | **–47.2** | **–27.2%** |
| **Cash flow from financing activities** | **–20.3** | **–0.1** | **>100%** |
| Change in liquid assets | –6.2 | –9.4 | –33.8% |
| **Adjusted free cash flow[2]** | **–3.3** | **–5.2** | **–36.2%** |

[1] Trade receivables, inventories, trade payables
[2] Cash flow from operating activities less capital expenditures for/plus disposal of intangible assets and property, plant and equipment

**Cash flow from operating activities:** Cash flow from operating activities stood at 48.4 million Euro in fiscal year 2018. One of the main reasons for the positive development was the increase in consolidated net income.

**Cash flow from investing activities:** In the reporting period, capital expenditures for intangible assets and for property, plant and equipment with an effect on cash flow primarily related to the continued expansion of testing capacity. The majority of capital expenditures related to the Semiconductor segment. Included in this position are capitalized development expenses of 10.7 million Euro.

**Cash flow from financing activities:** Cash flow from financing activities was affected by various factors, such as the dividend payment of 7.9 million Euros. A share buyback program was agreed upon in December 2018. A total of up to 1,005,176 treasury shares , or roughly 5.0% of Elmos Semiconductor AG's current share capital, are to be bought back. The purchase price per share may not exceed 21.00 Euro, excluding ancillary purchase costs. The buyback is scheduled to end by December 31, 2019, at the latest. In 2018, 44,662 shares were bought back at a total purchase price of 0.83 million Euro.

As expected, **adjusted free cash flow** was negative due to higher capital expenditures and increased inventories, among other factors.

**Liquid assets:** Cash, cash equivalents, and fungible securities decreased year on year. The decline in securities was mainly attributable to the scheduled expiration of securities. The resulting assets were primarily used to meet the Group's capital expenditure needs.

**Financial situation:** Elmos is financed by equity, bank loans, and promissory note loans. Detailed information on the individual elements of the financial situation can be found in the notes.

**Principles and goals of financial management:** The primary objective of the Elmos Group's capital management is to assure an adequate credit rating, liquidity at any time with a high degree of financial flexibility, and a solid capital structure so as to support the Company's business activities and their long-term continuation while protecting the interests of shareholders, employees, and other stakeholders. Elmos pursues a strategy of continuous and sustained increases in shareholder value.

The Management Board actively manages the capital structure of the Elmos Group and makes adjustments where necessary 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, 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.

**Other financial obligations and disclosures of off-statement-of-financial-position financial instruments:** Along with the aforementioned financial instruments, the Company partially finances its capital expenditures through lease, rental, and service agreements. In each case, there is a balanced relationship between advantages and risks, and the arrangements are customary in the market. The resulting repayment obligations are reported as "Other financial obligations." As of December 31, 2018, they amounted to 42.4 million Euro (December 31, 2017: 49.8 million Euro).

## Assets and liabilities

### CONDENSED STATEMENT OF FINANCIAL POSITION

| in million Euro or % | 12/31/2018 | 12/31/2017 | Change |
|---|---|---|---|
| Intangible assets | 30.5 | 23.4 | 30.3% |
| Property, plant and equipment | 129.2 | 100.1 | 29.0% |
| Investments in associates | 0.0 | 0.8 | n/a |
| Other non-current assets | 6.6 | 8.5 | –22.0% |
| Securities (short- and long-term) | 33.6 | 52.0 | –35.5% |
| Inventories | 77.9 | 65.0 | 19.7% |
| Trade receivables | 49.3 | 44.4 | 11.2% |
| Cash and cash equivalents | 27.1 | 32.4 | –16.2% |
| Other current assets | 15.0 | 10.4 | 44.6% |
| **Total assets** | **369.1** | **336.9** | **9.5%** |
| Equity | 266.6 | 240.1 | 11.0% |
| Financial liabilities (current and non-current) | 43.8 | 51.2 | –14.4% |
| Other non-current liabilities | 5.9 | 3.7 | 60.0% |
| Trade payables | 25.9 | 22.8 | 13.6% |
| Other current liabilities | 26.9 | 19.2 | 40.3% |
| **Total equity and liabilities** | **369.1** | **336.9** | **9.5%** |

In 2018, total assets increased to 369.1 million Euro. As in the previous year, the rise on the assets side of the statement of financial position was due in particular to the increase in capital expenditures for property, plant and equipment and the increase in inventories. The liabilities side was mainly influenced by the increase in equity, primarily resulting from consolidated net income.

**Net working capital:** The change in net working capital was due in particular to the increase in inventories, which reflects the measures taken to meet the continued high demands of the market in terms of delivery times and volumes.

### NET WORKING CAPITAL AND OTHER KEY FINANCIAL FIGURES

| | Calculation | Unit | 2018 | 2017 |
|---|---|---|---|---|
| Net working capital | Trade receivables + inventories – trade payables | Million Euro | 101.3 | 86.6 |
| in % of sales | | % | 36.5 | 34.6 |
| Turnover rate | | | | |
| -> for inventories | Cost of sales/inventories | x | 2.0 | 2.2 |
| -> for receivables | Sales/trade receivables | x | 5.6 | 5.6 |
| -> for liabilities | Cost of sales/trade payables | x | 5.9 | 6.2 |
| Capital commitment period/ cash conversion cycle | Inventory days + receivable days – liability days | Days | 190 | 175 |
| Return on invested capital | EBIT/invested capital | % | 19.6 | 18.3 |
| Net cash position | Cash and cash equivalents + securities – financial liabilities | Million Euro | 16.9 | 33.2 |
| Equity ratio | Equity/total assets | % | 72.2 | 71.3 |

### DETERMINATION OF ROIC

| in million Euro or % | 2018 | 2017 |
|---|---|---|
| ❶ EBIT | **51.0** | **38.4** |
| | **12/31/2018** | **12/31/2017** |
| Intangible assets | 30.5 | 23.4 |
| Property, plant and equipment | 129.2 | 100.1 |
| Inventories | 77.9 | 65.0 |
| Trade receivables | 49.3 | 44.4 |
| less | | |
| Trade payables | 25.9 | 22.8 |
| **❷ Invested capital** | **260.9** | **210.1** |
| **RoIC (❶/❷)** | **19.6%** | **18.3%** |

**Return indicator:** Elmos applies return on invested capital (RoIC) used for business operations as a return indicator. The relationship between profitability and invested capital used for operation purposes is thereby established. RoIC therefore also serves as an indicator of added value. RoIC stood at 19.6% in 2018 (2017: 18.3%). This increase was attributable to the disproportionate rise in EBIT despite the increase in property, plant and equipment.

## OVERALL STATEMENT ON THE ECONOMIC SITUATION

Thanks to the positive development of sales and earnings, Elmos was able to further expand its financial strength in 2018. Capital expenditures related, in particular, to the sustainable development of test operations in consideration of expected growth. Elmos further enhanced and optimized the business lines' product portfolio. It also invested in new products and their development, thereby intensifying existing customer relationships and attracting new customers. The Company's solid financial basis and strengthened competitive position represent a strong foundation for its future development.

## ELMOS SEMICONDUCTOR AG (SEPARATE FINANCIAL STATEMENTS ACCORDING TO 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 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 therefore determines the corporate strategy within the framework of higher-level group functions, represented by the members of the Management Board.

Unlike with the consolidated financial statements, Elmos Semiconductor AG does not prepare its separate financial statements according to International Financial Reporting Standards (IFRS) but instead 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, can be requested as a special print publication, and are available on the Company's website, www.elmos.com.

### Business performance 2018

The business performance and economic situation of Elmos Semiconductor AG essentially determine the business performance of the Group. We give a detailed account of that in the chapters "The Group's business model" and "Business report."

### Business outlook for 2019 and material opportunities and risks

Due to the Company's ties with the Group companies and its relevance for the Group, the expectations for Elmos Semiconductor AG are reflected in the outlook for the Group. The expected performance of Elmos Semiconductor AG in fiscal year 2019 also largely depends on the performance of the Group and its situation with regard to opportunities and risks. This is the subject of the report on "Opportunities and risks" and the Group's "Outlook." The statements on the Group's expected performance and its risk position made therein therefore also apply to the expected performance and risk position of Elmos Semiconductor AG. The description of the internal control and risk management system regarding the financial accounting process for Elmos Semiconductor AG pursuant to Section 289 (4) HGB follows in the chapter "Opportunities and risks."

As the Group's parent, Elmos Semiconductor AG also receives income from its investments. Income from investments is composed of transfers of profit or loss from domestic subsidiaries and distributions from individual subsidiaries. Accordingly, the business performance expected for the Group in 2019 should also influence the business result of Elmos Semiconductor AG. Overall, we expect that Elmos Semiconductor AG's retained earnings in 2019 will make it possible for our shareholders to participate adequately in the development of the Group's earnings.

### Performance of sales and earnings

CONDENSED INCOME STATEMENT (HGB)

| in million Euro or % | FY 2018 | FY 2017 | Change |
|---|---|---|---|
| **Sales** | **252.8** | **229.8** | **10.0%** |
| Material costs | 112.7 | 98.7 | 14.1% |
| Personnel expenses | 69.1 | 63.8 | 8.4% |
| Amortization of intangible assets and depreciation of property, plant and equipment | 21.1 | 19.7 | 7.3% |
| Other operating expenses | 41.9 | 38.5 | 8.9% |
| **Operating income** | **30.2** | **23.5** | **28.7%** |
| Income from investments and financial result | 0.2 | 10.9 | –98.6% |
| **Earnings before taxes** | **30.4** | **34.4** | **–11.7%** |
| **Net income** | **20.1** | **26.5** | **–24.3%** |

In the past fiscal year, sales increased by 10.0% to 252.8 million Euro. As in the previous years, the majority of the increase in sales is accounted for by the Asia/Pacific region. Operating income rose by 28.7% in 2018. The decrease in income from investments and the financial result was due to a larger distribution by a subsidiary in 2017.

### Financial position

CONDENSED STATEMENT OF CASH FLOWS (HGB)

| in million Euro or % | FY 2018 | FY 2017 | Change |
|---|---|---|---|
| **Net income** | **20.1** | **26.5** | **–24.3%** |
| Depreciation and amortization | 21.1 | 19.7 | 7.3% |
| Increase (+)/decrease (–) in provisions, other non-cash expenses/income (–), expenses (+) from disposals of investments, and write-downs on financial investments | 3.0 | 3.7 | –19.8% |
| Increase (–)/decrease (+) in inventories, trade receivables, and other assets | –20.8 | –17.0 | 22.1% |
| Increase (+)/decrease (–) in trade payables and other liabilities | 20.5 | –5.9 | n/a |
| **Cash flow from operating activities** | **43.9** | **27.0** | **62.8%** |
| **Cash flow from investing activities** | **–31.4** | **–37.0[1]** | **–15.1%** |
| **Cash flow from financing activities** | **–20.1** | **0.7** | **n/a** |
| Change in cash and cash equivalents | –7.6 | –9.3[1] | –18.0% |
| Cash and cash equivalents at beginning of period | 28.4 | 37.7[1] | –24.7% |
| **Cash and cash equivalents at end of period** | **20.8** | **28.4[1]** | **–26.9%** |

[1] Prior-year amount adjusted due to reclassification of securities

Cash flow from operating activities increased compared to 2017. The increase was due in particular to the rise in trade payables and payables to affiliated companies at the end of the year. The change in cash flow from financing activities was primarily attributable to financial liabilities, which saw positive development in 2017 following the issue of a promissory note loan. In 2018, the Company paid back bank loans.

Cash and cash equivalents decreased slightly at the end of fiscal year 2018, compared to the previous year.

### Assets and liabilities

CONDENSED STATEMENT OF FINANCIAL POSITION (HGB)

| in million Euro or % | 12/31/2018 | 12/31/2017 | Change |
|---|---|---|---|
| Fixed assets | 176.3 | 167.2 | 5.5% |
| Inventories | 68.0 | 56.5 | 20.3% |
| Receivables and other assets | 62.1 | 54.1 | 14.7% |
| Marketable securities | 12.1 | 11.8 | 2.0% |
| Cash in hand, cash in banks | 20.7 | 28.4 | –26.9% |
| Other assets | 2.4 | 1.1 | >100% |
| **Total assets** | **341.6** | **319.1** | **7.1%** |
| Equity | 240.9 | 230.5 | 4.5% |
| Provisions | 18.4 | 16.3 | 12.7% |
| Liabilities | 82.3 | 72.3 | 14.0% |
| **Total equity and liabilities** | **341.6** | **319.1** | **7.1%** |

Total assets increased by 7.1% compared to December 31, 2017, and totaled 341.6 million Euro as of December 31, 2018. On the assets side of the statement of financial position, the rise was due to increases in fixed assets, inventories, receivables, and other assets. On the liabilities side, the rise was due in particular to the increase in equity and liabilities.

### Retained earnings and proposal for the appropriation of retained earnings

The legal basis for a distribution is represented by the retained earnings of Elmos Semiconductor AG determined in accordance with financial accounting provisions under commercial law. The financial statements report retained earnings of 127.2 million Euro. At the Annual General Meeting on May 15, 2019, the Management Board and Supervisory Board will propose that the retained earnings for fiscal year 2018 be used for the distribution of a dividend of 0.52 Euro per no-par share entitled to dividend, and that the remaining amount be carried forward to new accounts.

# SUBSEQUENT EVENTS

There were no reportable events or transactions of special significance after the end of fiscal year 2018.

# OPPORTUNITIES AND RISKS

## OPPORTUNITIES

Opportunities are identified and analyzed within the Group. The management of the Company is aimed at increasing the shareholder value systematically and continuously. A quantification of opportunities is not universally possible, as they are usually determined by external general conditions and influencing factors, as well as complex interrelations, which can be controlled by Elmos only to a limited extent or not at all.

### Macroeconomic and industry-specific opportunities

Macroeconomic opportunities open up for Elmos in growth markets, for example. Most notable among these is the Asian market. At the same time, we assert our position with automotive semiconductors in certain applications in the established markets.

Industry-specific opportunities become available to us as a consequence of the following megatrends in the automotive sector in particular: driver assistance systems up to autonomous driving, electromobility, and higher demands in terms of safety, connectivity, and comfort. To our non-automotive customers, we also want to offer solutions that will help them assume market-leading positions.

### Product-specific opportunities

Product-specific opportunities open up for Elmos due to innovation. Our business lines seek to continuously increase our appeal for customers with innovative or advanced high-quality products. Alongside our ASIC business, the increased development and sale of ASSPs also provide further opportunities. Furthermore, we seize these opportunities by consistently investing in research and development, and through the ability to use our foundry partners' processes. New and more advanced products could be brought to market if our development progress exceeds current expectations. Elmos also sees opportunity in the expansion of the product portfolio. This can take place by deliberate enhancement through acquisitions of third-party entities or technologies.

Elmos markets its products based on 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 are working tirelessly on the optimization of our processes in areas such as development, production, technology, quality, administration, and logistics, and we invest throughout the Group in measures to increase efficiency.

## MANAGEMENT'S OVERALL ASSESSMENT OF OPPORTUNITIES

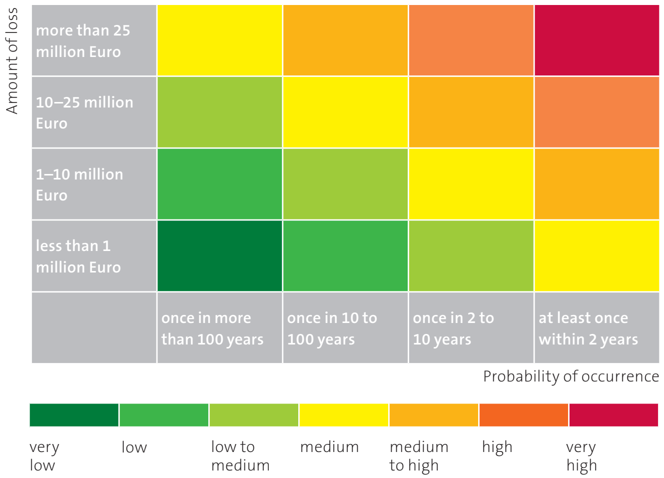
The Elmos management is confident that the Group's profitability presents a solid foundation for our future business performance and provides the necessary resources in order to pursue and seize the opportunities that become available to the Group.

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 product-strategic opportunities have the potential to make a positive contribution to the financial, profit, and economic position.

## RISKS

The following explanations also include information in accordance with Sections 289 (4) and 315 (4) HGB (Commercial Code), as well as the explanatory report on the key features of the accounting-related internal control and risk management system.

Elmos pools the measures implemented for early risk detection within the Company. This system focuses on safeguarding the Company's continued existence. It complies with the legal stipulations for an anticipatory risk detection system in accordance with Section 91 (2) AktG (Stock Corporation Act) and the principles defined by the German Corporate Governance Code. The Management Board bears the overall responsibility for this.




Risks 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. The Group analyzes and assesses any known risks taken. Adequate countermeasures are developed insofar as possible.

Binding standards and rules have been defined for risk identification. In a standardized process of review sessions, the divisions report on the current state of material risks with defined gradual thresholds. Ad hoc risks and damages that occur are communicated immediately and outside the usual reporting channels in case of urgency.

Individual risks are aggregated in risk groups. Risk assessment is reported for these risk groups as an overall assessment of the individual risks. Depending on their estimated probability of occurrence and probable amount of loss in consideration of our business, our profit and financial position, and assets and liabilities, we classify risks according to the matrix and assess them as "very low," "low," "low to medium," "medium," "medium to high," "high," and "very high." 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.

## Internal control system and risk management system with respect to financial accounting

The internal control system consists of a number of structures and processes for monitoring and controlling central business processes. The objective is to identify risks and therefore to ensure that business develops seamlessly. It contains the principles, processes, and measures introduced by management, and it is oriented toward the organizational implementation of the management's decisions.

With respect to the financial accounting process of the consolidated companies and the Group, structures and processes have been implemented to promote the truth and fairness of the consolidated financial statements. 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, operating procedures, and responsibilities 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; (iv) measures and access guidelines for the proper EDP-supported processing of items and data relating to the Group's financial accounting; and (v) the regulation of responsibilities concerning the involvement of external specialists. The Management Board assumes overall responsibility for the internal control and risk management system with respect to financial accounting within the Group.

Further information on the basics of the risk management system can be found in the notes to the consolidated financial statements.

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

The use of our products depends in part on the general economic, financial, and political conditions. Events such as a global economic crisis, political changes, increases in customs duties, fluctuations in national currencies, changing registration requirements for new vehicles, 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. The exact conditions of a potential Brexit may have an impact on Elmos. At the present time, we do not expect Brexit to have a material negative direct effect on the Company. However, Brexit could have an indirect impact on Elmos that cannot currently be forecast, such as a weakening of overall economic activity, effects on our customers' delivery capability, and much more. 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. A collapse in car production and sales figures also represents a risk for Elmos as a 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. Thanks to the increased commitment of Elmos to ASSPs over the past years, this kind of customer dependence has been 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 clearly pronounced and very specific engineering expertise but not necessarily to patents. The consequence for Elmos, as for any other technology company, is a 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.

## Research and development risks *(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 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.

The customer participates in the development expenses incurred by Elmos in the case of customer-specific products. There is the risk that unamortized expenses for product developments that do not result in a supplier relationship will remain with the Company.

For product developments initiated by Elmos (i.e., all ASSPs), there are no binding customer orders, so Elmos bears the development costs. If there is not enough customer acceptance, development and production costs might not be amortized by product sales. However, Elmos works together with lead customers, 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. It also develops products by applying processes provided by foundries. Despite thorough research, Elmos might infringe patent rights held by third parties with its own product developments, which could 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 positions will likely be the result.

## Financial risks *(risk assessment: medium)*

*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 target/actual analyses. In addition to that, the subsidiaries and investments are subject to routine reviews.

Other financial risks are listed in the notes to the consolidated financial statements.

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

*Purchasing risk*

The raw materials Elmos needs for manufacturing are available worldwide in part from different suppliers, yet controlled by monopolies 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 to cooperation with foundries. There is a tendency among the machine suppliers toward an oligopoly, limiting the negotiating power of Elmos. Raw materials might not be available in the required volume, for example as a result of bottlenecks on the part of the manufacturer. Disproportional price increases, for example for raw wafers, might also occur. We have been observing a price increase of this nature for several years.

*Product liability*

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 become apparent only upon the 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 arise. A recall, for which Elmos would have to assume liability, could also have material effects.

*Legal risks*

At present, there are no legal disputes whose outcome might entail a high risk to the financial, profit, and economic position. However, it cannot be ruled out that it might come to such litigation in the future. Legal disputes might arise, for example, from business operations or in matters of property rights or trademarks, or in connection with holding structures within the Elmos Group. 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 outcomes of lawsuits cannot be predicted, expenses may be incurred that have a material effect on our business and exceed the respective provisions made.

*IT risk*

For Elmos, as for other globally operating companies, the reliability and security of information technology (IT) 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. Elmos proactively increased its protection against cyberattacks in 2018 and is continuously working on further improvements. Furthermore, processing procedures and technical systems that involve personal data were adapted to the strict requirements of the General Data Protection Regulation (GDPR), which was introduced in 2018. Despite all technical precautions, any serious failure of these systems can lead to data loss, the disturbance of production, interference with operational processes, legal disputes, or fines with a considerable impact on the Company's situation in terms of financial, profit, and economic positions.

*Business interruption*

In addition to the operational risks already described and explained, the risk of the destruction of production facilities by fire or other disasters is a material operational risk. Even though the risk of business interruption through such events is adequately covered by insurance, a significant threat of losing key customers remains. 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 an interruption to operations is reduced by the fact that production is physically separated into internal and external facilities.

The usual insurable risks – such as fire, water, storm, theft, third-party liability, and costs of a possible recall – are adequately covered by insurance. In 2018, we took out insurance for further risks, such as cyberattacks, as well as fidelity bonds. However, it cannot be ruled out that the costs of a potential recall or other events 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. Risks are analyzed; however, individual risks might cause considerable damage in extreme cases. This can neither be predicted nor 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 aforementioned 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").

# OUTLOOK

## ECONOMIC AND INDUSTRY-SPECIFIC FRAMEWORK CONDITIONS

Weaker tendencies than in the previous year can be observed with regard to the economic and industry-specific conditions that determine the course of business at Elmos. The International Monetary Fund (IMF) expects global growth of 3.5% in 2019 (2018: 3.7%). The experts have cited trade conflicts and financial market volatility in industrialized nations as the main reasons for the lower growth forecast. For 2019, the German Association of the Automotive Industry (VDA) expects only a slight increase of 1% year on year.

According to World Semiconductor Trade Statistics (WSTS), the global semiconductor market will grow by 2.6% in 2019. Growth will therefore be substantially lower than in the past two years. IC Insights expects average annual growth of 5.4% in the global automotive semiconductor market in the period from 2016 to 2021. The MEMS pressure sensor market is set to grow by an average of 3.8% a year between 2016 and 2023, according to a study by the market research firm Yole Développement.

PREDICTED MARKET DEVELOPMENT

| Gross domestic product[1] | Forecast 2019 |
|---|---|
| Worldwide | +3.5% |
| Europe | +1.6% |
| Germany | +1.3% |
| China | +6.2% |
| U.S.A. | +2.5% |
| **New car registrations[2]** | |
| Worldwide | +1.0% |
| Europe | +1.0% |
| China | +2.0% |
| U.S.A. | ± 0% |
| **Automotive semiconductor market[3]** | **ø 2016-2021** |
| Worldwide | +5.4% |
| **MEMS sensor market[4]** | **ø 2016-2023** |
| Worldwide | +3.8% |

Source: [1] IWF, [2] VDA, [3] IC Insights, [4] Yole

## OPERATIONAL TARGETS 2019

### Targets for sales and earnings

The outlook for Elmos for fiscal year 2019 is based on the aforementioned expectations and assumptions pertaining to general business developments and specific industry developments.

Based on internal and external assessments of the market, Elmos expects year-on-year growth in sales of 6% to 10% in 2019 (2018: 277.6 million Euro). The EBIT margin should amount to between 13% and 17% (2018: 18.4%). The Company plans a significant expansion of the product development and has already initiated several measures therefore. Both segments are expected to make positive contributions to operating income. However, due to its relatively small share of sales and earnings, the performance of Micromechanics may be more volatile.

The guidance is based on an exchange rate of 1.15 USD/EUR.

### Targets for capital expenditures and liquidity

The expansion of the test operations will continue in 2019. Work will also commence to expand the fab lite strategy to backend capacities and to increasingly conduct testing with external partners in the medium to long term. A significant expansion of in-house frontend capacity is not on the agenda for the time being. Capital expenditures for property, plant and equipment and intangible assets less capitalized development expenses are slated to amount to less than <15% of sales (2018: 14.9%). Capital expenditures primarily concern the Semiconductor segment. Elmos expects to have positive adjusted free cash flow in 2019 (2018: –3.3 million Euro).

GUIDANCE 2019

| | |
|---|---|
| Sales growth in 2019 (vs. 2018) | 6% to 10% |
| EBIT margin | 13% to 17% |
| Capital expenditures (in % of sales)[1] | <15% |
| Adjusted free cash flow[2] | Positive |
| *Assumed exchange rate* | *1,15 USD/EUR* |

[1] Capital expenditures for intangible assets and property, plant and equipment less capitalized development expenses
[2] Cash flow from operating activities less capital expenditures for/plus disposals of intangible assets and property, plant and equipment

### Dividend targets

Free liquidity is planned to be utilized in part for the payment of a dividend. Due to the continued positive business and earnings performance, the Supervisory Board and Management Board will propose to the Annual General Meeting in May 2019 the payment of an increased dividend, compared to the previous year, in the amount of 0.52 Euro (previous year: 0.40 Euro).

### Underlying assumptions of our guidance

Elmos regards the medium- and long-term growth prospects for automotive electronics as positive. A wide range of trends – such as advances in driver assistance systems up to autonomous driving, powertrain electrification, and increasing demands on safety and comfort applications – is fueling the increased use of electronics.

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 intense. Resulting effects, such as shifts in the market or portfolio changes at our customers, are difficult to predict. Our guidance considers events with a potential material effect on the business performance of the Elmos Group known to the Company 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, geopolitical and economic uncertainty, and similar factors.

# LEGAL INFORMATION

## DISCLOSURES PURSUANT TO TAKEOVER LAW

The information required by takeover law as stipulated under Sections 289a and 315a HGB (Commercial Code) as of December 31, 2018 (also representing the explanatory report in accordance with Section 176 [1] sentence 1 AktG [Stock Corporation Act]), is reported below. The composition of subscribed capital and shareholdings in excess of 10% of the voting rights can be found in the notes to the consolidated financial statements.

### 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). For example, shareholders 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 or any 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 the Supervisory Board, Management Board, and employees provide, in part, for limitations on disposal, such as holding periods, for a small number of shares. Furthermore, preventive, time-limited trading restrictions for the Supervisory Board, the Management Board, and individual employees are in place.

### 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 the case of employee shareholdings

Like other shareholders, employees who hold shares in Elmos Semiconductor AG exercise their control rights 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 219,851 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 dividends from the beginning of the fiscal year in which they come into being by the exercise of options.

The share capital is conditionally increased by up to 1,200,000 Euro (conditional capital 2015/I). The conditional capital increase serves the redemption of stock options issued to employees, executives, and Management Board members of the Company, as well as to employees and executives of affiliated companies, up to and including May 7, 2020, on the basis of the authorization given by the 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 dividends from the beginning of the fiscal year in which they come into being by the exercise of options. Deviating from this, the Management Board or, insofar as members of the Management Board are concerned, the Supervisory Board may determine that the new shares are entitled to dividend from the beginning of the fiscal year for which, 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 aforementioned authorization resolution. The new shares are entitled to dividend from the beginning of the fiscal year in which they come into being by the exercise of conversion or option privileges or the fulfillment of conversion obligations. Deviating from this, the Management Board may determine that the new shares are entitled to dividend from the beginning of the fiscal year for which, 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 16, 2018, to purchase the Company's shares up to and including May 15, 2023, 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, though not from Weyer Beteiligungsgesellschaft mbH, ZOE-VVG GmbH, Jumakos Beteiligungsgesellschaft mbH, or other reportable entities or persons in accordance with Article 19 (1) MAR. The authorization contains differentiating requirements for the separate purchase types, particularly with respect to the admissible purchase price.

Within the scope of this authorization, the Management Board and Supervisory Board decided on December 7, 2018, to buy back up to 1,005,176 shares in the Company through the stock exchange by December 31, 2019. However, the individual price of each share may not exceed 21.00 euro (excluding ancillary purchase costs). The shares that the Company bought back can be used for all of the purposes in the authorization granted at the Annual General Meeting of May 16, 2018, for the purchase and use of treasury shares. Further information on this topic can be found in the notes to the consolidated financial statements.

### Material agreements on the condition of a change of control as a result of a takeover bid

Some loan agreements, supply agreements, license agreements, patent cross license agreements, investment agreements, and 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 months' notice to the end of the month, and to resign from their duties as of the termination of their employment contracts. In the event that this right of termination is exercised, each Management Board member is entitled to compensation in the amount of the remuneration for two to three years, limited by the amount of the remuneration to be paid for the remaining term of the respective employment contract. Applicable is the remuneration amount paid during the last fiscal year prior to the occurrence of the change of control. The Company is also committed to compensation payments for the post-termination effects of non-competition clauses, and it may make extraordinary special payments. In some cases, provisions were also made to govern the exercise of options, retirement provisions, and alternative employment options within the Company in the event of a change of control.

## REMUNERATION REPORT

The remuneration report in accordance with Sections 289a and 315a HGB contained in the corporate governance report of this Annual Report is part of the combined management report.

## STATEMENT ON CORPORATE GOVERNANCE

The statement on corporate governance in accordance with Sections 289f and 315d HGB contained in the corporate governance report of this Annual Report is part of the combined management report.

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| Assets \| thousand Euro | Notes | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| Intangible assets | 13 | 30,455 | 23,366 |
| Property, plant and equipment | 14 | 129,169 | 100,142 |
| Investments in associates | 15 | 0 | 787 |
| Securities | 15 | 21,446 | 40,122 |
| Investments | 15 | 20 | 20 |
| Other financial assets | 20 | 4,283 | 6,354 |
| Deferred tax assets | 16 | 2,312 | 2,111 |
| **Non-current assets** | | **187,685** | **172,902** |
| | | | |
| Inventories | 17 | 77,862 | 65,052 |
| Trade receivables | 18 | 49,344 | 44,391 |
| Securities | 15 | 12,108 | 11,868 |
| Other financial assets | 20 | 4,247 | 2,019 |
| Other receivables | 20 | 10,591 | 7,881 |
| Income tax assets | | 123 | 450 |
| Cash and cash equivalents | 19 | 27,137 | 32,367 |
| **Current assets** | | **181,411** | **164,028** |
| | | | |
| Total assets | | 369,097 | 336,930 |

| Equity and liabilities \| thousand Euro | Notes | 12/31/2018 | 12/31/2017 |
|---|---|---|---|
| Share capital | 21 | 20,104 | 20,104 |
| Treasury shares | 21 | –355 | –414 |
| Addition paid-in capital | 21 | 84,567 | 85,093 |
| Surplus reserve | | 102 | 102 |
| Other equity components | 21 | 68 | –1,529 |
| Retained earnings | | 161,615 | 136,177 |
| **Equity attributable to owners of the parent** | | **266,101** | **239,532** |
| Non-controlling interests | | 529 | 588 |
| **Equity** | | **266,630** | **240,120** |
| | | | |
| Provisions for pensions | 23 | 0 | 412 |
| Financial liabilities | 24 | 42,449 | 40,765 |
| Deferred tax liabilities | 16 | 5,852 | 3,246 |
| **Non-current liabilities** | | **48,301** | **44,424** |
| Provisions | 23 | 13,766 | 12,875 |
| Income tax liabilities | 25 | 8,391 | 4,088 |
| Financial liabilities | 24 | 1,340 | 10,398 |
| Trade payables | 26 | 25,908 | 22,803 |
| Other liabilities | 25 | 4,761 | 2,223 |
| **Current liabilities** | | **54,166** | **52,386** |
| **Liabilities** | | **102,467** | **96,810** |
| | | | |
| Total equity and liabilities | | 369,097 | 336,930 |

## CONSOLIDATED INCOME STATEMENT

| thousand Euro | Notes | FY 2018 | FY 2017 |
|---|---|---|---|
| **Sales** | 5 | **277,588** | **250,434** |
| Cost of sales | 6 | –152,136 | –140,377 |
| **Gross profit** | | **125,452** | **110,057** |
| Research and development expenses | 6 | –36,045 | –33,779 |
| Distribution expenses | 6 | –19,743 | –20,389 |
| Administrative expenses | 6 | –20,344 | –18,837 |
| **Operating income before other operating expenses (–)/income** | | **49,319** | **37,052** |
| Foreign exchange gains/losses (–) | 9 | 176 | –1,483 |
| Other operating income | 10 | 3,167 | 4,290 |
| Other operating expenses | 10 | –1,627 | –1,427 |
| **Earnings before interest and taxes (EBIT)** | | **51,036** | **38,432** |
| Share in net income of associates | 15 | –787 | –1,180 |
| Finance income | 8 | 841 | 1,089 |
| Finance costs | 8 | –1,567 | –2,874 |
| **Earnings before taxes** | | **49,523** | **35,466** |
| **Income tax** | | **–14,123** | **–10,714** |
| thereof current income tax | 11 | –12,011 | –9,692 |
| thereof deferred tax | 11 | –2,112 | –1,022 |
| **Consolidated net income** | | **35,400** | **24,752** |
| thereof attributable to owners of the parent | | 35,447 | 24,941 |
| thereof attributable to non-controlling interests | | –47 | –189 |
| | | | |
| **Earnings per share** | | **Euro** | **Euro** |
| Basic earnings per share | 12 | 1.79 | 1.26 |
| Fully diluted earnings per share | 12 | 1.79 | 1.25 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| thousand Euro | Notes | FY 2018 | FY 2017 |
|---|---|---|---|
| **Consolidated net income** | | **35,400** | **24,752** |
| **Items to be reclassified to the income statement in later periods including respective tax effects** | | | |
| Foreign currency adjustments without deferred tax effect | | 633 | –950 |
| Foreign currency adjustments with deferred tax effect | | 632 | –1,357 |
| deferred tax on this item | 21 | –174 | 334 |
| Differences in value of hedges | 21 | 0 | 546 |
| deferred tax on this item | 21 | 0 | –179 |
| Changes in market value of financial assets measured at market value | 21 | –236 | –195 |
| deferred tax on this item | 21 | 77 | 64 |
| **Items not to be reclassified to the income statement in later periods including respective tax effects** | | | |
| Actuarial gains from pension plans | 21 | 939 | 6 |
| deferred tax on this item | 21 | –274 | –2 |
| **Other comprehensive income after taxes** | | **1,597** | **–1,734** |
| **Total comprehensive income after taxes** | | **36,997** | **23,018** |
| thereof attributable to owners of the parent | | 37,044 | 23,208 |
| thereof attributable to non-controlling interests | | –47 | –190 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| thousand Euro | Notes | FY 2018 | FY 2017 |
|---|---|---|---|
| Consolidated net income | | 35,400 | 24,752 |
| Depreciation and amortization | 7 | 25,615 | 24,240 |
| Gains from disposal of assets | | –21 | –204 |
| Gains from disposal of non-currents assets held for sale | | 0 | –664 |
| Financial result | 8 | 1,513 | 2,965 |
| Other non-cash expense | | 1,439 | 1,022 |
| Current income tax | 11 | 12,011 | 9,612 |
| Expense for stock options/stock awards/share matching | | 164 | 217 |
| Changes in pension provisions | 23 | 48 | –58 |
| Changes in net working capital: | | | |
| Trade receivables | 18 | –4,953 | –5,254 |
| Inventories | 17 | –12,810 | –6,450 |
| Other assets | 20 | –2,346 | 42 |
| Trade payables | 26 | –3,581 | –2,847 |
| Other provisions and other liabilities | | 3,409 | –607 |
| Income tax payments | | –7,381 | –8,034 |
| Interest paid | 8 | –891 | –1,907 |
| Interest received | 8 | 773 | 1,089 |
| **Cash flow from operating activities** | | **48,389** | **37,914** |
| | | | |
| Capital expenditures for intangible assets | 13 | –12,864 | –8,666 |
| Capital expenditures for property, plant and equipment | 14 | –39,173 | –35,785 |
| Payments from disposal of non-current assets held for sale | | 0 | 1,100 |
| Disposal of non-current assets | | 351 | 272 |
| Disposal of/Payments for (–) securities | 15 | 17,812 | –4,147 |
| Payments for (–)/Payments from other non-current financial assets | 20 | –443 | 57 |
| **Cash flow from investing activities** | | **–34,317** | **–47,169** |

| thousand Euro | Notes | FY 2018 | FY 2017 |
|---|---|---|---|
| Repayment (–)/Borrowing of non-current financial liabilities | 24 | –437 | 39,563 |
| Repayment of current financial liabilities | 24 | –10,000 | –25,000 |
| Share-based payment/Issue of treasury shares | | –1,364 | 1,931 |
| Share buyback | | –784 | –9,672 |
| Dividend distribution | | –7,906 | –6,912 |
| Other changes | | 200 | –45 |
| **Cash flow from financing activities** | | **–20,291** | **–135** |
| | | | |
| **Decrease in cash and cash equivalents** | | **–6,219** | **–9,389** |
| Effect of exchange rate changes on cash and cash equivalents | | 988 | –1,355 |
| Cash and cash equivalents at beginning of reporting period | 19 | 32,367 | 43,110 |
| **Cash and cash equivalents at end of reporting period** | **19** | **27,137** | **32,367** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to owners of the parent | | | | | | | | | | | | Non-controlling interests | Group |
| thousand Euro | Notes | Shares thousand | Share capital | Treasury shares | Additional paid-in capital | Surplus reserve | Other equity components | | | | Retained earnings | Total | Total | Total |
| | | | | | | | Reserve for financial assets measured at market value | Hedges | Foreign currency translation | Unrealized actuarial gains | | | | |
| **01/01/2017** | | **20,104** | **20,104** | **−193** | **92,444** | **102** | **−142** | **−367** | **1,578** | **−866** | **118,142** | **230,803** | **778** | **231,581** |
| Consolidated net income | | | | | | | | | | | 24,941 | 24,941 | −189 | 24,752 |
| Other comprehensive income for the period | 21 | | | | | | −131 | 367 | −1,973 | 4 | | −1,733 | −1 | −1,734 |
| Total comprehensive income | | | | | | | −131 | 367 | −1,973 | 4 | 24,941 | 23,208 | −190 | 23,018 |
| Share-based payment/Issue of treasury shares | 21 | | | 228 | 1,703 | | | | | | | 1,931 | | 1,931 |
| Share buyback | | | | −450 | −9,222 | | | | | | | −9,672 | | −9,672 |
| Dividend distribution | | | | | | | | | | | −6,912 | −6,912 | | −6,912 |
| Expense for stock options/stock awards/share matching | | | | | 217 | | | | | | | 217 | | 217 |
| Other changes | | | | | −50 | | | | | | 5 | −45 | | −45 |
| **12/31/2017** | | **20,104** | **20,104** | **−414** | **85,093** | **102** | **−273** | **0** | **−394** | **−862** | **136,177** | **239,532** | **588** | **240,120** |
| Consolidated net income | | | | | | | | | | | 35,447 | 35,447 | −47 | 35,400 |
| Other comprehensive income for the period | 21 | | | | | | −159 | | 1,091 | 665 | | 1,597 | | 1,597 |
| Total comprehensive income | | | | | | | −159 | | 1,091 | 665 | 35,447 | 37,044 | −47 | 36,997 |
| Share-based payment/Issue of treasury shares | 21 | | | 104 | 200 | | | | | | −1,623 | −1,319 | | −1,319 |
| Share buyback | 21 | | | −45 | −784 | | | | | | | −829 | | −829 |
| Dividend distribution | | | | | | | | | | | −7,906 | −7,906 | | −7,906 |
| Expense for stock options/stock awards/share matching | 21 | | | | 164 | | | | | | | 164 | | 164 |
| Other changes | | | | | −106 | | | | | | −479 | −585 | −13 | −598 |
| **12/31/2018** | | **20,104** | **20,104** | **−355** | **84,567** | **102** | **−432** | **0** | **697** | **−197** | **161,615** | **266,101** | **529** | **266,630** |

# 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 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 16, 2018.

The Company's business is the development, manufacture and distribution of microelectronic components and system parts (application specific integrated circuits or, in short: ASICs, and application specific standard products 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 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: Heinrich-Hertz-Straße 1, 44227 Dortmund, Germany.

## 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 315e (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 were released for publication by the Management Board on February 27, 2019.

#### Estimates and assumptions

The most important forward-looking assumptions as well as other material sources of estimate uncertainty identified as of the end of the reporting period on the basis of which there is a considerable risk that a material adjustment of the book values of assets and liabilities will become necessary within the next fiscal year are explained in the following. Beyond the scope of the areas described below, assumptions and estimates are also necessary for valuation allowances for bad debt as well as for contingent liabilities and other provisions. In accordance with IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors,* changes in estimates are recognized in profit or loss as of the date on which new information becomes available.

##### 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 detailed information 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 detailed information 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 detailed information can be found under note 23.

### 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 detailed information can be found under note 13.

### Property, plant and equipment

Items of property, plant and equipment are capitalized on the basis of the best possible estimate according to the accounting and valuation method presented under note 3. More detailed information can be found under note 14.

### 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 fiscal year 2018.

| Standard/Amendments | First-time mandatory application in the EU | Effect on Elmos |
|---|---|---|
| IFRS 9 – *Financial Instruments* | 01/01/2018 | See annotation below |
| IFRS 15 – *Revenue from Contracts with Customers* | 01/01/2018 | See annotation below |
| Amendments to IFRS 4 – *Insurance Contracts:* Applying IFRS 9 – *Financial Instruments* with IFRS 4 – *Insurance Contracts* | 01/01/2018 | None |
| Amendments to IFRS 15 – *Revenue from Contracts with Customers:* Clarifications | 01/01/2018 | See annotation below |
| Amendments to IFRS 1 – *First-time Adoption of International Financial Reporting Standards:* Deletion of Exemptions | 01/01/2018 | None |
| Amendments to IFRS 2 – *Share-based Payment:* Classification and Measurement of Share-based Payment Transactions | 01/01/2018 | None |
| Amendments to IAS 28 – *Investments in Associates and Joint Ventures:* Clarifications | 01/01/2018 | None |
| Amendments to IAS 40 – *Investment Property:* Transfers of Investment Property | 01/01/2018 | None |
| IFRIC 22 – *Foreign Currency Transactions and Advance Consideration* | 01/01/2018 | Immaterial |

### IFRS 9 – *Financial Instruments: Classification and Measurement*

IFRS 9 – *Financial Instruments* contains requirements for the recognition, measurement and derecognition of financial instruments 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 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, recognition and derecognition remain 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. Categorization depends on the contractual cash flows of the instrument as well as on the business model according to which the instrument is held. IFRS 9 defines three relevant categories for the classification of financial assets: measured at amortized cost, measured at fair value with value changes recognized in profit or loss, and measured at fair value with value changes recognized in other comprehensive income. These categories are thus mandatory as a general rule. However, a few options are available to reporting entities beyond that. The standard eliminates the categories defined under IAS 39: held to maturity, loans and receivables, and available for sale.
-> 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. Losses expected upon addition have to be recognized in the amount of the cash value of an expected 12-month credit loss (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).
-> IFRS 9 also includes new regulation on applying hedge accounting for an improved presentation of an entity's risk management efforts particularly with respect to controlling non-financial risk.
-> 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 primarily result from new impairment regulation.

With the exception of hedge accounting, the standard provides for retrospective adoption; a statement of comparative information is not required, though. The new hedge accounting regulation generally provides for prospective adoption subject to a few exceptions.

The following amendments to the new standard have effects on recognition, measurement and reporting of financial instruments at Elmos as detailed below:

-> Recognition and measurement: As of 2018, the classification of a financial instrument no longer depended on its intended utilization (IAS 39) but on the business model and the contractual cash flows. Basically this had the consequence that Elmos has classified all financial and debt instruments into the categories provided under IFRS 9. Adoption resulted altogether in the following effects on classification and measurement of financial assets and liabilities for Elmos:

| | IAS 39 | | | IFRS 9 | | |
|---|---|---|---|---|---|---|
| thousand Euro | Cat. | Measurement | Book value 31/12/2017 | Business model | Category | Book value 01/01/2018 |
| **Financial assets** | | | | | | |
| Investments | AfS | Amortized cost | 20 | Hold and sale | Fair value through other comprehensive income (no recycling) | 20 |
| Securities | LaR | Amortized cost | 5,000 | Hold | Amortized cost | 5,000 |
| Securities | AfS | Fair value through other comprehensive income | 46,990 | Hold and sale | Fair value through other comprehensive income (recycling) | 46,990 |
| Trade receivables | LaR | Amortized cost | 44,391 | Hold | Amortized cost | 44,391 |
| Cash and cash equivalents | LaR | Amortized cost | 32,367 | Hold | Amortized cost | 32,367 |
| Other receivables and assets | LaR | Amortized cost | 2,011 | Hold | Amortized cost | 2,011 |
| Other loans | LaR | Amortized cost | 6,354 | Hold | Amortized cost | 6,354 |
| Call options | HfT | Fair value through profit or loss | 8 | Trade | Fair value through profit or loss | 8 |
| **Financial liabilities** | | | | | | |
| Trade payables | OL-AK | Amortized cost | 22,803 | Financial liabilities at amortized cost | Amortized cost | 22,803 |
| Liabilities to banks | OL-AK | Amortized cost | 51,163 | Financial liabilities at amortized cost | Amortized cost | 51,163 |
| Other miscellaneous financial liabilities | OL-AK | Amortized cost | 380 | Financial liabilities at amortized cost | Amortized cost | 380 |
| Currency transactions/ Currency option transactions and embedded derivatives | HfT | Fair value through profit or loss | 100 | Financial liabilities at fair value through profit or loss | Fair value through profit or loss | 100 |

-> Impairment: IFRS 9 provides for a 3-step model (expected loss model). The incorporation of the underlying asset depends on risk assessment. Due do immaterial contingency risk at Elmos, additional provision for risks due to first-time adoption of the expected credit loss model was not necessary.

-> Accounting treatment of hedging relationships: The transactions agreed on in the past (interest rate swaps) expired in fiscal year 2017. The new regulation on the accounting treatment of hedges did therefore not to be observed as there were no hedges at Group level. The option provided by IFRS 9.7.2.21 was made no use of.

### 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 was postponed from January 1, 2017 to fiscal 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 were endorsed by the EU in October 2017.

Elmos Semiconductor AG has made use of the option of simplified first-time adoption and in doing so limits retrospective application of IFRS 15 to contracts not completely performed as of the date of first-time adoption. Accordingly contracts not completely performed as of January 1, 2018 are treated in accounting as if IFRS 15 had been applied from the beginning. The cumulative effect of this conversion is generally recognized in equity outside profit or loss. For Elmos Semiconductor AG, the new standard has not had any material effects.

### 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 fiscal year 2018 yet. The Group does not apply these standards in advance.

| Standard/Amendments | First-time mandatory application in the EU | Effect on Elmos |
|---|---|---|
| Amendments to IAS 28 – *Investments in Associates and Joint Venture:* Long-term Interests in Associates and Joint Ventures | 01/01/2019 | Immaterial |
| IFRS 16 – *Leases* | 01/01/2019 | See annotation below |
| Amendments to IFRS 9 – *Financial Instruments:* Prepayment Features with Negative Compensation | 01/01/2019 | None |
| IFRIC 23 – *Uncertainty over Income Tax Treatment* | 01/01/2019 | Immaterial |

### IFRS 16 – *Leases*

In January 2016, the IASB released the new standard IFRS 16 – *Leases.* IFRS 16 supersedes all previous regulation of leases including IAS 17 – *Leases,* IFRIC 4 – *Determining Whether an Arrangement Contains a Lease,* SIC 15 – *Operating Leases,* and SIC 27 – *Evaluating the Substance of Transactions in the Legal Form of a Lease.*

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 or the asset is not immaterial (right to choose). The lessor will maintain the distinction between finance and operating leases for the purpose of accounting. IFRS 16 – *Leases* is subject to mandatory first-time application for fiscal years beginning on or after January 1, 2019. The lessee has to either apply IFRS 16 completely and retrospectively including previous reporting periods or recognize the cumulative effect of adjustment as of first-time application as an entry in equity as of the beginning of the fiscal year of first-time adoption.

In fiscal years 2016 through 2018, 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. Elmos assumes that existing options for the repurchase of leased assets will be exercised at the end of the lease term. Elmos recognizes an increase in property, plant and equipment as well as in financial liabilities in the amount of approx. 17 million Euro as of January 1, 2019 in the statement of financial position. This equals the present value of the lease liabilities reported under note 31 for 2019 and later years. In the consolidated income statement, no lease expense will be reported from now on but depreciation and amortization and interest instead. This results 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. First-time adoption of IFRS 16 will be based on the modified retrospective approach. The volume of required disclosures in the notes will increase significantly.

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

The IASB has released the following standards and interpretations that were not subject to mandatory application in fiscal year 2018. 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 according to IASB | Effect on Elmos |
|---|---|---|
| Amendments to IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors:* Amendments to the Definition of “Material” | 01/01/2020 | Immaterial |
| Amendments to IAS 19 – *Employee Benefits:* Plan Amendment, Curtailment or Settlement | 01/01/2019 | Immaterial |
| Amendments to IFRS 3 – *Business Combinations:* Definition of a Business | 01/01/2020 | Immaterial |
| IFRS 17 – *Insurance Contracts* | 01/01/2021 | None |
| *Improvements to IFRS 2015-2017* | 01/01/2019 | Immaterial |
| *Revised Conceptual Framework* | 01/01/2020 | Immaterial |

## 2 – Principles of consolidation

### Basis of consolidation and consolidation methods

In addition to Elmos Semiconductor AG, the consolidated financial statements prepared for fiscal year 2018 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 consolidated financial statements of Elmos 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 32.

### Foreign currency translation and foreign currency transactions

The functional currency of Elmos 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 measurement 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 profit position. The Company is not involved in speculative transactions. For the total realized and unrealized foreign exchange gains and losses from currency hedges during fiscal year 2018, please refer to note 29.

### Statement of cash flows

The cash flow statement shows how cash and cash equivalents have changed in the course of the fiscal year by inflows and outflows of funds. The effects of acquisitions and divestitures as well as other changes 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.

## 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 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, i.e. at the time the customer is able to determine the use of the transferred merchandise or services and to essentially reap the benefits of use. 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. Thus sales from all product shipments are recognized with respect to certain points in time. The same applies to sales from development activities which are recognized upon reaching contractually predefined milestones. Sales equal the transaction price to which Elmos is probably entitled. Variable consideration is included in the transaction price if it is highly probable that there will be no significant reduction of sales as soon as the uncertainty with respect to the variable consideration ceases to exist.

There is no significant financing component as a customary term of payment of 30 to 60 days is agreed on.

### 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 begins 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 (so-called QB1 status). Cost is amortized as of the start of production (so-called QB3 status) 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 fiscal year 2018 nor in fiscal year 2017.

### Property, plant and equipment

Items of property, plant and equipment are generally 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 15 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 respective 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 entered in the consolidated income statement as expense.

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

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

### Investments in associates

Investments in associated companies are valuated 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. Potential impairment loss is considered in accordance with IAS 28.40 et seq.

### 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 "at fair value through other comprehensive income (no recycling)" (previous year: "available for sale") and measured at that value. Investments for which there is no active market are classified as "at fair value through other comprehensive income (no recycling)" (previous year: "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 IFRS 9, 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.
Considering their nature, financial instruments are classified into the following categories:

-> Financial assets and liabilities measured at (amortized) cost
-> Financial assets and liabilities measured at fair value

Regular purchase and sale transactions are entered as of settlement date.

With the exception of trade receivables, Elmos measures a financial asset or a financial liability at fair value upon first-time valuation. Subsequent measurement corresponds to the business model to which the financial asset or liability is attributed to as well as the characteristics of the contractual cash flows of the financial asset or liability.

-> Hold and sell
-> Hold
-> Trade
-> Financial liabilities at amortized cost
-> Financial liabilities at fair value through profit or loss

The financial instruments accounted for at Elmos include, among others, liquid assets, securities, trade receivables, trade payables, forward exchange contracts, and other outside financing.

### *Financial assets and liabilities*

Elmos classifies financial assets for subsequent measurement either as measured at amortized cost, outside profit or loss at fair value through other comprehensive income, or at fair value through profit or loss. This classification is made on the basis of the business model applied by Elmos for controlling the financial assets and on the characteristics of the respective financial asset's contractual cash flows.

If the financial asset is held within the framework of a business model aimed at holding financial assets for the purpose of collecting contractual cash flows and if the terms of the contract provide, at predetermined points in time, for cash flows that represent solely principal payments and interest payments on the outstanding principal amount, the financial asset is measured at amortized cost.

Elmos measures a financial assets outside profit or loss at fair value through other comprehensive income if both of the following conditions are met: The business model aims at collecting contractual cash flows as well as selling financial assets and the terms of the contract provide, at predetermined points in time, for cash flows that represent solely principal payments and interest payments on the outstanding principal amount.

All other financial assets neither measured at amortized cost nor outside of profit or loss at fair value through other comprehensive income are measured at fair value through profit or loss.

Elmos measures financial liabilities, with the exception of derivative financial instruments, at amortized cost in applying the effective interest method.

The Group 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 (fair value option).

### Derivative financial instruments

Elmos utilizes derivative financial instruments such as currency option transactions and forward exchange transactions in order to hedge against currency risk. Such derivative financial instruments are accounted for at fair value. Changes in fair value of derivative financial instruments are recognized through profit or loss in the consolidated income statement.

### Inventories

Inventories are measured at acquisition or production cost or at the lower recoverable net 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.

### 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 23.

-> 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 taxes

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 rather 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 paid. 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 pay 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 reported 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, with the exception of 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, the sales tax is recognized as part of the asset's production cost or as part of the expenses.
- -> Receivables and liabilities are recognized inclusive of 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 recognized if it is sufficiently assured that the grants are given and that the Company fulfills the corresponding conditions. Grants linked to expenses are recognized on schedule as income over the period that is required to offset them against the corresponding expenses they are meant to compensate. Grants for an asset are recognized in the statement of financial position as reduction of acquisition cost. More detailed information can be found under note 30.

## 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 be put 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 and valuation policies 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, 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 high-precision pressure sensors embedded in silicon.

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 as well as specific information on assets and liabilities of the Group's business segments for the fiscal years ended December 31, 2018 and December 31, 2017.

| thousand Euro | Semiconductor | | Micromechanics | | Consolidation | | Group | |
|---|---|---|---|---|---|---|---|---|
| | FY 2018 | FY 2017 | FY 2018 | FY 2017 | FY 2018 | FY 2017 | FY 2018 | FY 2017 |
| Third-party sales | 253,870 | 230,065 | 23,718 | 20,369 | 0 | 0 | 277,588 | 250,434 |
| Inter-segment sales | 321 | 463 | 1,136 | 2,324 | –1,457[1] | –2,787[1] | 0 | 0 |
| **Sales** | **254,191** | **230,528** | **24,854** | **22,693** | **–1,457** | **–2,787** | **277,588** | **250,434** |
| Depreciation | 24,676 | 23,167 | 939 | 1,073 | 0 | 0 | 25,615 | 24,240 |
| Other material non-cash expenses | –547 | –217 | 0 | –161 | 0 | 0 | –547 | –378 |
| Other material non-cash income | 463 | 204 | 0 | 0 | 0 | 0 | 463 | 204 |
| Segment income (EBIT) | 47,360 | 36,061 | 3,676 | 2,371 | 0 | 0 | 51,036 | 38,432 |
| Share in net income of associates | –787 | –1,180 | 0 | 0 | 0 | 0 | –787 | –1,180 |
| Finance income | | | | | | | 841 | 1,089 |
| Finance costs | | | | | | | –1,567 | –2,874 |
| **Earnings before taxes** | | | | | | | **49,523** | **35,466** |
| Income tax | –14,093 | –11,252 | –30 | 538 | 0 | 0 | –14,123 | –10,714 |
| **Consolidated net income including non-controlling interests** | | | | | | | **35,400** | **24,752** |
| Segment assets | 321,210 | 282,211 | 18,295 | 18,984 | 29,572[2] | 34,928[2] | 369,077 | 336,123 |
| Investments in associates | 0 | 787 | 0 | 0 | 0 | 0 | 0 | 787 |
| Investments | 20 | 20 | 0 | 0 | 0 | 0 | 20 | 20 |
| **Total assets** | | | | | | | **369,097** | **336,930** |
| **Segment liabilities (total liabilities)** | **41,837** | **36,057** | **2,598** | **2,256** | **58,032[3]** | **58,497[3]** | **102,467** | **96,810** |
| **Other segment information** | | | | | | | | |
| Additions to intangible assets and property, plant and equipment | 61,034 | 43,600 | 827 | 1,557 | 0 | 0 | 61,861 | 45,157 |

[1] Sales from inter-segment transactions are eliminated for consolidation purposes.

[2] Non-attributable assets as of December 31, 2018 and December 31, 2017 respectively include cash and cash equivalents (12/31/2018: 27,137 thousand Euro; 12/31/2017: 32,367 thousand Euro), income tax assets (12/31/2018: 123 thousand Euro; 12/31/2017: 450 thousand Euro) and deferred taxes (12/31/2018: 2,312 thousand Euro; 12/31/2017: 2,111 thousand Euro) as these assets are managed at Group level.

[3] Non-attributable liabilities as of December 31, 2018 and December 31, 2017 respectively include current financial liabilities (12/31/2018: 1,340 thousand Euro; 12/31/2017: 10,398 thousand Euro), non-current financial liabilities (12/31/2018: 42,449 thousand Euro; 12/31/2017: 40,765 thousand Euro), current tax liabilities (12/31/2018: 8,391 thousand Euro; 12/31/2017: 4,088 thousand Euro) and deferred tax (12/31/2018: 5,852 thousand Euro; 12/31/2017: 3,246 thousand Euro) as these liabilities are managed at Group level.

Other non-cash expenses in fiscal year 2018 comprise, among other items, expenses from stock option and share matching plans and stock awards (164 thousand Euro; previous year: 217 thousand Euro) and bad debt losses in the amount of 383 thousand Euro (previous year: 49 thousand Euro). Other non-cash income in fiscal year 2018 includes profits from outsourcing a pension commitment (2017: profits of 204 thousand Euro from the disposal of non-current assets).

Finance income in the amount of 841 thousand Euro (previous year: 1,089 thousand Euro) contains interest income of 775 thousand Euro (previous year: 1,086 thousand Euro) relating entirely to the Semiconductor segment. Finance costs of 1,567 thousand Euro (2017: 2,874 thousand Euro) are at 1,371 thousand Euro essentially interest expense (2017: 2,665 thousand Euro) relating almost 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 locations.

| Third-party sales \| thousand Euro | FY 2018 | FY 2017 |
|---|---|---|
| Germany | 73,813 | 80,812 |
| Other EU countries | 53,391 | 51,121 |
| U.S.A. | 11,849 | 6,472 |
| Asia/Pacific | 113,464[1] | 97,794 |
| Other countries | 25,071 | 14,235 |
| **Sales** | **277,588** | **250,434** |

[1] Thereof Hong Kong with sales of 28,137 thousand Euro (10.1% of total sales)

| Geographic breakdown of non-current assets \| thousand Euro | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Germany | 174,645 | 158,154 |
| Other EU countries | 1,388 | 1,159 |
| U.S.A. | 4,880 | 4,988 |
| Other countries | 177 | 136 |
| **Non-current assets** | **181,090** | **164,437** |

Sales generated with the top two customers accounting for more than 10% of sales each amount to 35.0 million Euro and 29.7 million Euro respectively and result from sales in the Semiconductor segment (2017: top two customers with sales of 35.3 million Euro and 30.3 million Euro respectively, 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 their development.

| thousand Euro | FY 2018 | FY 2017 | Change |
|---|---|---|---|
| Semiconductor | 253,870 | 230,065 | 23,805 |
| Micromechanics | 23,718 | 20,369 | 3,349 |
| **Sales** | **277,588** | **250,434** | **27,154** |

### 6 – Notes to the income statement according to the cost of sales method

#### Cost of sales

The cost of sales contains costs of performances rendered toward the generation of sales. In addition to direct material costs, direct labor costs and special direct costs, the cost of sales also includes manufacturing and material overhead as well as lease expenses and depreciation. Furthermore, cost of sales contains changes in work in process and finished goods inventories, showing the following development:

| thousand Euro | FY 2018 | FY 2017 |
|---|---|---|
| Material costs | –85,120 | –73,527 |
| Personnel expense | –40,290 | –36,369 |
| Other overhead | –34,349 | –36,450 |
| Changes in inventories | 7,622 | 5,969 |
| **Cost of sales** | **–152,136** | **–140,377** |

Due to the higher demand compared to the previous year and the resulting increased production output, an increase in material costs by the amount of 11,593 thousand Euro was recorded. Increasing the staff in production is reflected in personnel expense, up 3,921 thousand Euro from the previous year. Other overhead could be reduced compared to fiscal year 2017. The item "Changes in inventories" is up from the previous year, attributable to preparations for the customers' expected higher order volume as well as the scheduled inventory build-up.

#### 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/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/loss. In fiscal year 2018 R&D expenses of 36,045 thousand Euro (2017: 33,779 thousand Euro) were charged to expenses.

#### Distribution expenses

Distribution expenses in the amount of 19,743 thousand Euro (2017: 20,389 thousand Euro) essentially include expenses for personnel, travel, commission, and depreciation.

#### Administrative expenses

Administrative expenses of 20,344 thousand Euro (2017: 18,837 thousand Euro) include personnel expense for the administrative staff and proportionate personnel expense for the Management Board members. Other material items are expenses for amortization and insurance as well as legal and consulting fees.

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

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

#### Material costs

Material costs amounted to 91,288 thousand Euro in the year under review and are up 16.3% from the previous year in line with production (2017: 78,517 thousand Euro). They include expenses for raw materials, supplies, consumables, and for services claimed.

#### Personnel expense

Personnel expense climbed 7.7% compared to the previous year. The number of employees – based on an average employment ratio – went up from 1,155 in fiscal year 2017 to 1,250 in fiscal year 2018 (8.2%). Further staff information can be found under note 38.

| thousand Euro | FY 2018 | FY 2017 |
|---|---|---|
| Wages and salaries | –80,023 | –73,503[1] |
| Social security expense | –13,301 | –13,075[1] |
| Pension plan expense | –183 | –224 |
| **Personnel expense** | **–93,507** | **–86,802** |

[1] Prior-year amount adjusted due to reclassification

#### Depreciation and amortization

The breakdown 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 and write-downs due to impairment amounted to 25,615 thousand Euro in the year under review (2017: 24,240 thousand Euro), equivalent to a 5.7% increase. 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

| thousand Euro | FY 2018 | FY 2017 |
|---|---|---|
| Interest income | 775 | 1,086 |
| Other finance income | 66 | 3 |
| **Finance income** | **841** | **1,089** |
| Interest expense | –1,371 | –2,665 |
| Other finance expenses | –196 | –209 |
| **Finance expenses** | **–1,567** | **–2,874** |

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

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:

| thousand Euro | FY 2018 | FY 2017 |
|---|---|---|
| Interest income | 775 | 1,086 |
| Interest expense | –1,392 | –2,637 |
| **Interest result** | **–617** | **–1,551** |

### 9 – Foreign exchange gains/losses

Foreign exchange gains/losses from exchange rate changes recognized through profit or loss amount to 176 thousand Euro in fiscal year 2018 (2017: –1,483 thousand Euro).

Exchange rate changes cumulatively attributable to the owners of the parent and recognized outside profit or loss amount to 697 thousand Euro in fiscal year 2018 (2017: –394 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 21.

### 10 – Other operating income and expenses

Other operating income in the amount of 3,167 thousand Euro (2017: 4,290 thousand Euro) includes, among other items, income from the reversal of provisions in the amount of 1,161 thousand Euro (2017: 1,689 thousand Euro), income from passenger car use in the amount of 629 thousand Euro (2017: 584 thousand Euro), income from the sale of assets in the amount of 89 thousand Euro (2017: 1,340 thousand Euro), income connected to the transfer of pension commitments in the amount of 463 thousand Euro (2017: 0 thousand Euro), other prior-period income in the amount of 380 thousand Euro (2017: 106 thousand Euro), and various individual items.

Other operating expenses in the amount of 1,627 thousand Euro (2017: 1,427 thousand Euro) include, among other items, real estate charges in the amount of 368 thousand Euro (2017: 336 thousand Euro), allocations to valuation allowances/bad debt loss in the amount of 383 thousand Euro (2017: 49 thousand Euro), other prior-period expenses in the amount of 128 thousand Euro (2017: 190 thousand Euro), accounting loss from the disposal of non-current assets in the amount of 67 thousand Euro (2017: 480 thousand Euro), expenses connected to the transfer of pension commitments in the amount of 98 thousand Euro (2017: 0 thousand Euro), expenses connected to the deconsolidation of a subsidiary in the amount of 410 thousand Euro (2017: 0 thousand Euro), and various individual items.

### 11 – Income tax

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

| thousand Euro | FY 2018 | FY 2017 |
|---|---|---|
| **Current income tax** | **–12,011** | **–9,692** |
| Germany | –10,714 | –8,938 |
| Outside Germany | –1,297 | –754 |
| *thereof taxes from previous years* | *247* | *–675* |
| **Deferred tax** | **–2,112** | **–1,022** |
| Germany | –2,571 | –1,320 |
| Outside Germany | 458 | 298 |
| *thereof taxes from previous years* | *0* | *0* |
| **Income tax** | **–14,123** | **–10,714** |

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% (2017: 32.805%) has been applied. The Company's combined income tax rate includes the trade tax collection rate of 485% (2017: 485%), the corporate tax rate of 15.0% (2017: 15.0%), and the solidarity surcharge of 5.5% (2017: 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 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 income tax effectively to be paid are as follows:

| in % | FY 2018 | FY 2017 |
|---|---|---|
| Statutory tax rate | 32.81 | 32.81 |
| Foreign tax rate differential | –1.96 | –1.48 |
| Expenses disallowable against tax | 0.16 | 0.22 |
| Trade tax additions/cuts | 0.25 | 0.55 |
| Taxes from previous years | –0.50 | 1.90 |
| Tax rate changes | –0.02 | –1.64 |
| Tax-free income | –1.41 | –1.32 |
| Tax credit | –0.72 | –1.56 |
| Others | –0.09 | 0.73 |
| **Effective tax rate** | **28.52** | **30.21** |

## 12 – Earnings per share

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

| **Reconciliation of shares** \| number | FY 2018 | FY 2017 |
|---|---|---|
| Weighted average number of ordinary shares outstanding | 19,760,853 | 19,745,003 |
| Stock options with dilutive potential (calculation according to IAS 33.45 et seq.) | 77,336 | 141,106 |
| Weighted average number of ordinary shares outstanding, including dilutive effect | 19,838,189 | 19,886,109 |
| **Calculation of earnings per share** \| Euro | | |
| Consolidated net income attributable to owners of the parent | 35,447,175 | 24,941,247 |
| Basic earnings per share | 1.79 | 1.26 |
| Fully diluted earnings per share | 1.79 | 1.25 |

The weighted average number of shares in 2018 and 2017 respectively includes the weighted average effect of changes from transactions with treasury shares and the weighted average effect of the exercise of stock options from the 2010, 2011 and 2012 tranches in the course of the year 2017 and the exercise of stock options from the 2011 and 2012 tranches in the course of the year 2018.

All outstanding stock options originating from the 2012 tranche have been included in the calculation of diluted earnings per share for 2018 and all outstanding stock options originating from the 2011 and 2012 tranches have been included in the calculation of diluted earnings per share for 2017. Further information on stock option plans can be found under note 22.

In the period between the reporting date and the preparation of the consolidated financial statements, Elmos carried out additional share buyback transactions. Based on these transactions, however, the number of ordinary shares outstanding has changed only immaterially.

## 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 | In-house effort | Purchase | |
| **12/31/2016** | **3,680** | **25,920** | **0** | **7,562** | **40,756** | **226** | **2,551** | **80,695** |
| Foreign currency adjustments | –29 | 0 | 0 | 0 | –172 | 0 | 0 | –201 |
| Additions | 0 | 713 | 0 | 0 | 1,700 | 6,514 | 176 | 9,103 |
| Transfers | 0 | 25 | 0 | 0 | 2,630 | –154 | –2,501 | 0 |
| Disposals | 0 | –7,278 | 0 | 0 | –2,358 | –226 | –10 | –9,872 |
| **12/31/2017** | **3,651** | **19,380** | 0 | **7,562** | **42,556** | **6,360** | **216** | **79,725** |
| Foreign currency adjustments | 10 | 0 | 0 | 0 | 59 | 0 | 0 | 69 |
| Additions | 0 | 1,289 | 71 | 0 | 1,573 | 8,068 | 1,295 | 12,296 |
| Transfers | 0 | 1,161 | 0 | 0 | 116 | –1,161 | –53 | 63 |
| Disposals | 0 | 0 | 0 | 0 | –44 | 0 | 0 | –44 |
| **12/31/2018** | **3,661** | **21,830** | **71** | **7,562** | **44,260** | **13,267** | **1,458** | **92,109** |
| **Depreciation and amortization** | | | | | | | | |
| **12/31/2016** | **0** | **22,824** | **0** | **5,866** | **32,434** | **0** | **0** | **61,123** |
| Foreign currency adjustments | 0 | 0 | 0 | 0 | –158 | 0 | 0 | –158 |
| Additions | 0 | 1,419 | 0 | 731 | 2,857 | 0 | 0 | 5,007 |
| Disposals | 0 | –7,277 | 0 | 0 | –2,337 | 0 | 0 | –9,614 |
| **12/31/2017** | **0** | **16,966** | **0** | **6,597** | **32,796** | **0** | **0** | **56,358** |
| Foreign currency adjustments | 0 | 0 | 0 | 0 | 59 | 0 | 0 | 59 |
| Additions | 0 | 851 | 4 | 640 | 3,188 | 597 | 0 | 5,280 |
| Disposals | 0 | 0 | 0 | 0 | –44 | 0 | 0 | –44 |
| **12/31/2018** | **0** | **17,817** | **4** | **7,237** | **35,999** | **597** | **0** | **61,654** |
| Book value 12/31/2017 | 3,651 | 2,414 | 0 | 965 | 9,760 | 6,360 | 216 | 23,366 |
| **Book value 12/31/2018** | **3,661** | **4,013** | **67** | **325** | **8,261** | **12,670** | **1,458** | **30,455** |

| thousand Euro | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Elmos N.A.** | **590** | **580** |
| Acquisition cost | 555 | 555 |
| Foreign currency adjustments | 35 | 25 |
| **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** |
| **Goodwill** | **3,661** | **3,651** |

In accordance with IFRS 3 B63(a) in conjunction with IAS 38 and IAS 36, goodwill is not amortized but reviewed for impairment at least once a every year. Measurement is made on the basis of cash generating units 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 2019 to 2023. For the value added from 2024, 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 fiscal years before the beginning of the planning period. These margins are increased in the individual case by 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 12.7% for Elmos N.A. (2017: 15.8%), 12.9% for Elmos Semiconductor AG (2017:12.4%), 11.0% for Elmos Services B.V. (2017: 11.1%), and 11.1% for MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg (2017: 11.5%), 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 (1.25% for Elmos Semiconductor AG, Elmos Services B.V., and MAZ or rather 3.25% for Elmos N.A. in 2018, and 1.25% for Elmos Semiconductor AG, Elmos Services B.V., and MAZ or rather 3.0% for Elmos N.A. in 2017) plus an average market risk premium (6.25% in 2018 and 2017), multiplied by an entity specific equity beta based on a so-called levered beta of 1.16 (2017: 1.12). All values stated are derived from market data.

Impairment tests conducted in 2018 and in the previous year 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 2019 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. These 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 2018, expenses linked to product developments were capitalized as development projects and projects under development in the amount of 10,682 thousand Euro (2017: 7,227 thousand Euro). The resulting ratio of capitalized development expenses to total research and development expenses incurred in the Group comes to approx. 22.9% (2017: 17.6%). Depreciation of capitalized developments amounted to 1,452 thousand Euro in 2018 (2017: 1,419 thousand Euro), thereof extraordinary write-down in the amount of 597 thousand Euro (2017: 0 thousand Euro). The book value of capitalized development efforts (including projects under development) is 18,004 thousand Euro as of December 31, 2018 (2017: 8,774 thousand Euro).

*Software and licenses and similar rights and assets*

In 2018 as in the year before, no expenses for process technology were capitalized. Amortization came to 1,394 thousand Euro in 2018 (2017: 1,512 thousand Euro). As of December 31, 2018, the book values for process technology capitalized as non-current assets added up to 1,329 thousand Euro (December 31, 2017: 2,723 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 1,722 thousand Euro were reimbursed by customers in 2018 (2017: 2,946 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** | | | | | |
| **12/31/2016** | **4,934** | **44,019** | **206,761** | **3,545** | **259,260** |
| Foreign currency adjustments | 0 | –362 | –1,403 | –69 | –1,834 |
| Additions | 0 | 323 | 30,140 | 5,591 | 36,054 |
| Transfers | 0 | 75 | 2,628 | –2,703 | 0 |
| Disposals | 0 | –230 | –31,075 | –9 | –31,314 |
| **12/31/2017** | **4,934** | **43,825** | **207,051** | **6,355** | **262,166** |
| Foreign currency adjustments | 0 | 124 | 553 | 24 | 701 |
| Additions | 0 | 807 | 36,366 | 12,392 | 49,565 |
| Transfers | 0 | 398 | 5,417 | –5,878 | –63 |
| Disposals | 0 | –377 | –11,604 | –180 | –12,161 |
| **12/31/2018** | **4,934** | **44,777** | **237,783** | **12,713** | **300,208** |
| **Depreciation and amortization** | | | | | |
| **12/31/2016** | **0** | **19,423** | **153,269** | **0** | **172,692** |
| Foreign currency adjustments | 0 | –265 | –1,082 | 0 | –1,347 |
| Additions | 0 | 2,298 | 16,935 | 0 | 19,233 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | –205 | –28,349 | 0 | –28,554 |
| **12/31/2017** | **0** | **21,252** | **140,772** | **0** | **162,024** |
| Foreign currency adjustments | 0 | 105 | 406 | 0 | 511 |
| Additions | 0 | 1,801 | 18,535 | 0 | 20,336 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | –353 | –11,480 | 0 | –11,833 |
| **12/31/2018** | **0** | **22,805** | **148,233** | **0** | **171,038** |
| Book value 12/31/2017 | 4,934 | 22,574 | 66,279 | 6,355 | 100,142 |
| **Book value 12/31/2018** | **4,934** | **21,972** | **89,550** | **12,713** | **129,169** |

Additions to "Technical equipment and machinery/Factory and office equipment" include purchase transactions for fiscal year 2018 (2017) in the amount of 8,459 thousand Euro (December 31, 2017: 1,205 thousand Euro) where the corresponding cash outflows will take (took) place only in 2019 (2018). No borrowing costs were capitalized in fiscal year 2018 or the previous year.

Depreciation of technical equipment and machinery/factory and office equipment includes extraordinary write-down in the total amount of 207 thousand Euro (2017: 2 thousand Euro).

## 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 net book value of assets accounted for as a consequence of finance lease transactions as of December 31, 2018 amounts to 2,991 thousand Euro. Further details are presented under note 31.

The Group did not generate material income from subletting in fiscal year 2018 (2017). Future minimum payments under 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. Since mid-2018, the company has been subject to insolvency proceedings. For 2018 (2017), an at-equity loss in the amount of –132 thousand Euro (–656 thousand Euro) and a write-down to the fair value in the amount of –655 thousand Euro (–524 thousand Euro) were entered in the consolidated income statement so that a book value of 0 thousand Euro (787 thousand Euro) is accounted for as of December 31, 2018 (December 31, 2017).

### b) Securities

In fiscal years 2010 through 2018, the Company purchased securities (bonds and borrowers' notes) from different banks. Insofar as the securities' remaining terms to maturity exceed one year, they have been allocated to non-current assets (21,446 thousand Euro; 2017: 40,122 thousand Euro). Securities that mature within twelve months have been allocated to current assets (12,108 thousand Euro; 2017: 11,868 thousand Euro).

### c) Investments

Investments in subsidiaries considered of minor significance from the Group's perspective are accounted for in accordance with IFRS 9. The Company holds shares in the following other entities:

| thousand Euro | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Epigone | 1 | 1 |
| Elmos USA Inc. | 19 | 19 |
| **Investments** | **20** | **20** |

#### Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz, Germany

Elmos holds 6% of the shares as of December 31, 2018, 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, 2018. The entity does not conduct business operations of its own.

#### Summarized financial information

| Entity \| thousand | Currency | Total assets | Liabilities | Earnings | Net income for the period |
|---|---|---|---|---|---|
| Omniradar B.V.[1] | EUR | – | – | – | – |
| Epigone[2] | EUR | 7,972 | 7,972 | 652 | 15 |
| Elmos USA Inc.[1] | USD | – | – | – | – |

[1] No financial statements of this entity are available at present.
[2] Presented figures are based on preliminary unaudited financial statements as of December 31, 2018.

## 16 – Deferred tax

| thousand Euro | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Deferred tax assets** | **2,312** | **2,111** |
| Intangible assets | 105 | 0 |
| Property, plant and equipment | 62 | 34 |
| Securities | 211 | 133 |
| Cash and cash equivalents | 0 | 162 |
| Provisions for pensions | 210 | 485 |
| Other provisions | 296 | 273 |
| Other liabilities | 60 | 33 |
| Loss carry-forward | 61 | 82 |
| Tax credits | 2,359 | 2,180 |
| Others | 59 | 34 |
| Subtotal | 3,423 | 3,416 |
| Balance | –1,111 | –1,305 |
| **Deferred tax liabilities** | **–5,852** | **–3,246** |
| Intangible assets | –5,629 | –2,895 |
| Property, plant and equipment | –747 | –1,012 |
| Trade receivables | –146 | –127 |
| Other financial assets | –16 | –108 |
| Other liabilities | –25 | –78 |
| Others | –400 | –331 |
| Subtotal | –6,963 | –4,551 |
| Balance | 1,111 | 1,305 |
| **Net deferred tax** | **–3,540** | **–1,135** |

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 liabilities also include tax effects from changes in equity outside profit or loss. The decrease in the net amount of deferred tax coming to 2,405 thousand Euro essentially comprises deferred tax in the consolidated income statement of 2,112 thousand Euro (expense), other changes outside profit or loss in the amount of 356 thousand Euro (decrease in equity), and foreign currency adjustments in the amount of 96 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 21.

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, 2018 there is no loss carry-forward for domestic entities just like the previous year. For foreign entities, deferred tax assets were recognized in the amount of 61 thousand Euro (2017: 82 thousand Euro) on taxable loss carry-forward and in the amount of 2,359 thousand Euro (2017: 2,180 thousand Euro) on tax credits.

### 17 – Inventories

| thousand Euro | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Raw materials | 8,692 | 5,734 |
| Work in process | 54,124 | 49,611 |
| Finished goods | 12,868 | 9,707 |
| Payments on account | 2,178 | 0 |
| **Inventories** | **77,862** | **65,052** |

### 18 – Trade receivables

| thousand Euro | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Trade receivables | 49,395 | 44,490 |
| Valuation allowance/Foreign currency valuation | –51 | –99 |
| **Trade receivables** | **49,344** | **44,391** |

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

| thousand Euro | 2018 | 2017 |
|---|---|---|
| **Valuation allowance/Foreign currency valuation as of 01/01** | **99** | **–28** |
| Additions in the reporting period (valuation allowance expense) | 0 | 0 |
| Consumption | 0 | 0 |
| Reversals (appreciation in value of initially written-off receivables) | 0 | 0 |
| Foreign currency valuation | –48 | 126 |
| **Valuation allowance/Foreign currency valuation as of 12/31** | **51** | **99** |

There were no effects from the conversion from IAS 39 to IFRS 9 as of January 1, 2018 so that a retrospective adjustment to the opening financial position statement value entered for surplus reserve did not have to be made.

The impairment of trade receivables is entered for the most part in allowance accounts. The decision whether to recognize a default 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 Elmos Group did not have to make material valuation allowances for the purpose of IFRS 9 due to significant increases of debt loss or objective indications of impairment in fiscal years 2018 and 2017 in consideration of historical factors and continuous creditworthiness assessment. If receivables are graded as irrecoverable, the corresponding impaired asset is written off. Write-offs of receivables were carried out on to a limited extent in the past fiscal years (383 thousand Euro in 2018 and 49 thousand Euro in the previous year).

The following table provides information on the credit risk carried by financial assets:

| thousand Euro | | Trade receivables | | Other financial assets | |
|---|---|---|---|---|---|
| | | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| Neither impaired nor overdue as of the reporting date | | 38,163 | 37,033 | 8,530 | 8,373 |
| Not impaired as of the reporting date and overdue in the following time bands | < 30 days | 10,082 | 6,229 | 0 | 0 |
| | 30 - 60 days | 493 | 837 | 0 | 0 |
| | 61 - 90 days | 122 | 112 | 0 | 0 |
| | 91 - 180 days | 271 | 85 | 0 | 0 |
| | 181 - 360 days | 54 | 48 | 0 | 0 |
| | > 360 days | 16 | 61 | 0 | 0 |

### 19 – Cash and cash equivalents

The Company treats all highly liquid capital 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 and other receivables

| thousand Euro | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Debit difference pensions | 221 | 0 |
| Receivables from investments (Epigone) | 2,608 | 2,231 |
| Tenant loans | 1,438 | 1,371 |
| Receivables from sale of assets | 0 | 2,737 |
| Other loans receivable | 15 | 15 |
| **Other non-current financial assets** | **4,283** | **6,354** |
| Receivables from sale of assets | 2,737 | 774 |
| Other financial assets | 1,510 | 1,245 |
| **Other current financial assets** | **4,247** | **2,019** |
| Other tax assets | 7,435 | 5,924 |
| Accrued income | 2,668 | 1,476 |
| Other current receivables | 488 | 481 |
| **Other receivables** | **10,591** | **7,881** |

## 21 – Equity

**Share capital:** The share capital of 20,104 thousand Euro entered in the statement of financial position as of December 31, 2018 (December 31, 2017: 20,104 thousand Euro) and consisting of 20,103,513 (December 31, 2017: 20,103,513) no-par value bearer shares with a theoretical share of 1 Euro in the share capital is fully paid up. All shares grant equal rights and correspond to one vote in the General Meeting of shareholders.

**Treasury shares:** As of December 31, 2018 the Company holds 354,982 (December 31, 2017: 414,450) of the Company's no-par shares, adding up to a theoretical share in the share capital of 355 thousand Euro (December 31, 2017: 414 thousand Euro). The number of treasury shares was increased in fiscal year 2018 by share buyback and decreased at the same time by the issue of shares within the framework of share-based remuneration. Treasury shares held by the Company on the day of the Annual General Meeting are neither entitled to vote nor entitled to dividend.

### Additional paid-in capital

| thousand Euro | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Premiums | 78,136 | 78,826 |
| Stock options/Stock awards/Share matching | 6,431 | 6,267 |
| **Additional paid-in capital** | **84,567** | **85,093** |

Additional paid-in capital essentially includes premiums from capital increases and the issue of shares of Elmos Semiconductor AG. In 2018 this item was decreased by 784 thousand Euro due to the buyback of 44,662 shares in the period from December 17, 2018 to December 28, 2018 at an average share price of 18.55 Euro. Additional paid-in capital was also increased by 200 thousand Euro due to share-based payments and the issue of treasury shares linked to them. Additional paid-in capital was reduced by 103 thousand Euro due to one subsidiary's deconsolidation and due to transaction costs in the amount of 3 thousand Euro.

The share made up of stock options, stock awards and share matching increased by the amount of the 2018 expense from the issue of stock awards (160 thousand Euro) and share matching (4 thousand Euro).

### Other equity components

| thousand Euro | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Foreign currency adjustments | 933 | –332 |
| deferred tax on this item | –236 | –62 |
| Financial assets measured at market value | –642 | –406 |
| deferred tax on this item | 211 | 133 |
| Actuarial gains/losses | –399 | –1,337 |
| deferred tax on this item | 201 | 475 |
| **Other equity components** | **68** | **–1,529** |

The **foreign currency adjustments** 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.

The **financial assets measured at market value** cover changes in the fair value of selected financial instruments (please refer to notes 28 and 29).

The **actuarial gains/losses** 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 2017 and 2018:

| thousand Euro | 2018 | 2017 |
|---|---|---|
| Balance as of 01/01 | –1,529 | 204 |
| Exchange rate changes | 1,265 | –2,307 |
| deferred tax on this item | –174 | 334 |
| Changes in hedges | 0 | 546 |
| deferred tax on this item | 0 | –179 |
| Changes in financial assets measured at market value | –236 | –195 |
| deferred tax on this item | 77 | 64 |
| Changes in actuarial gains/losses | 939 | 6 |
| deferred tax on this item | –274 | –2 |
| **Balance as of 12/31** | **68** | **–1,529** |

### "Recycling" of equity components outside profit or loss

In fiscal year 2018 the Company sold bonds prior to maturity. For these bonds, adjustments were made outside profit or loss in equity up to the date of sale. Pursuant to IAS 1.92, such amounts recognized outside profit or loss have to be disclosed as reclassification adjustments (recycling) as of the date of realization. In this context, amounts of 13 thousand Euro previously recognized in other comprehensive income had to be reclassified through profit or loss to the consolidated income statement in fiscal year 2018 (previous year: 0 thousand Euro). There were no other transactions in the reporting year that would have required the recycling of equity components outside profit or loss.

### Interests in the share capital

| | 12/31/2018 | | 12/31/2017 | |
|---|---|---|---|---|
| | thousand Euro | % | thousand Euro | % |
| Weyer Beteiligungsgesellschaft mbH, Schwerte, Germany | 3,627 | 18.0 | 3,627 | 18.0 |
| Jumakos Beteiligungsgesellschaft mbH, Dortmund, Germany | 2,981 | 14.8 | 2,981 | 14.8 |
| ZOE-VVG GmbH, Duisburg, Germany | 2,307 | 11.5 | 2,307 | 11.5 |
| Treasury stock | 355 | 1.8 | 414 | 2.1 |
| Shareholders <10% interest | 10,835 | 53.9 | 10,775 | 53.6 |
| **Share capital** | **20,104** | **100.0** | **20,104** | **100.0** |

Considering related parties, the interest attributed to "Weyer Beteiligungsgesellschaft mbH and related parties" comes to 20.0% and the interest attributed to "ZOE-VVG GmbH and related parties" comes to 14.1% as of 12/31/2018 (12/31/2017: 19.9% and 14.1% respectively).

### Authorizations of the Management Board

| | | | |
|---|---|---|---|
| **Authorized capital** | 2016: | 9,900,000 Euro | Until 05/10/2021 |
| **Conditional capital** | 2010/I: | 219,851 Euro Stock option plan 2010 | Until 05/03/2015 |
| | 2015/I: | 1,200,000 Euro Stock option plan 2015 | Until 05/07/2020 |
| | 2015/II: | 7,800,000 Euro Subscription warrants or convertible bonds | Until 05/07/2020 |
| **Share buyback** | | Up to 10% of the share capital | Until 05/15/2023 |

There are stock options in accordance with Section 192 (2) no. 3 AktG (Stock Corporation Act) from stock option plans for Management Board members, executives and employees on the purchase of 114,431 shares. Each stock option entitles to the acquisition of one no-par value share with a theoretical share in the share capital of 1 Euro each.

### Dividend

According to the German Stock Corporation Act, the dividend eligible for distribution is determined on the basis of the retained earnings Elmos Semiconductor AG reports in its annual financial statements (separate financial statements) prepared in accordance with the provisions of the German Commercial Code (HGB). In fiscal year 2018 (2017), Elmos Semiconductor AG distributed a dividend of 0.40 Euro (0.35 Euro) per share out of the retained earnings of fiscal year 2017 (2016).

## 22 – Share-based payment plans

### Stock option plans

| | 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 | |
| ø Share price of exercised options in Euro (2017) | 21.46 | 21.98 | 21.76 | |
| ø Share price of exercised options in Euro (2018) | n/a | 25.66 | 25.76 | |
| Blocking period ex issue (years) | 4 | 4 | 4 | |
| Exercise period after blocking period (years) | 3 | 3 | 3 | |
| **Options outstanding as of 01/01/2017 (number)** | **32,070** | **136,269** | **273,377** | **441,716** |
| Exercised 2017 (number) | 22,305 | 77,633 | 111,842 | 211,780 |
| Forfeited 2017 (number) | 9,765 | 25 | 295 | 10,085 |
| **Options outstanding as of 12/31/2017 (number)** | **0** | **58,611** | **161,240** | **219,851** |
| Exercised 2018 (number) | 0 | 44,153 | 46,054 | 90,207 |
| Forfeited 2018 (number) | 0 | 14,458 | 755 | 15,213 |
| **Options outstanding/exercisable as of 12/31/2018 (number)** | **0** | **0** | **114,431** | **114,431** |

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 AG on the Xetra trading platform over the last ten trading days prior to the resolution.

Options can be exercised only if the closing price of the Company's stock equals or exceeds the exercise price. Options can be exercised against payment of the 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. The Company has made use of this option for the stock options exercised in the year 2018.

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. In 2017, 22,305 stock options were exercised from the 2010 tranche, 77,633 stock options from the 2011 tranche and 111,842 stock options from the 2012 tranche. In 2018, 44,153 stock options were exercised from the 2011 tranche and 46,054 stock options from the 2012 tranche.

The average fair value of the stock options was 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:

| | 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 fiscal years 2018 and 2017 the Company incurred no expenses for its stock option plans.

### 23 – Provisions

**Provisions for pensions (debit difference as of December 31, 2018 from offsetting assets, disclosed under other non-current financial assets; please refer to note 20)**

| thousand Euro | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Cash value of pension commitments | 1,507 | 3,268 |
| Time value of pension plan reinsurance | –1,728 | –2,856 |
| **Net liabilities recognized in the statement of financial position** | **–221** | **412** |

The Company has pension plans for (former) members of the Management Board of Elmos Semiconductor AG and in part for members of the management of subsidiaries. Benefits depend on individual contractual agreements. 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 1.8% per annum as of December 31, 2018 (December 31, 2017: 1.65% p. a.). For actuarial assumptions with respect to mortality and disability risk, the Heubeck mortality tables 2018 G have been applied (previous year: Heubeck mortality tables 2005 G).

Pension plan expenses are allocated to personnel expenses of the different business units and can be broken down as follows:

| thousand Euro | FY 2018 | FY 2017 |
|---|---|---|
| Service cost | 0 | 0 |
| Interest | 26 | 56 |
| **Pension expense (net)** | **26** | **56** |

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

| thousand Euro | 2018 | 2017 |
|---|---|---|
| **Cash value of pension commitments as of 01/01** | **3,268** | **3,246** |
| Pension expense (net) | 26 | 56 |
| Benefits paid to pensioners | –99 | –79 |
| Actuarial gains (–)/losses due to changes in financial assumptions | –41 | 45 |
| Benefits based on compensations | –1,281 | 0 |
| Profits based on compensations | –366 | 0 |
| **Cash value of pension commitments as of 12/31** | **1,507** | **3,268** |
| **Time value of reinsurance policies as of 01/01** | **2,856** | **2,769** |
| Income from plan assets | 27 | 47 |
| Employer's contributions | 191 | 93 |
| Benefits from reinsurance policies | –84 | –105 |
| Benefits based on compensations | –1,281 | 0 |
| Actuarial gains due to changes in financial assumptions | 20 | 51 |
| **Time value of reinsurance policies as of 12/31** | **1,728** | **2,856** |

The pension plan of a former managing director of a subsidiary of Elmos Semiconductor AG was adjusted in fiscal year 2018. The existing pension claim against Elmos Semiconductor AG was transferred to a pension fund so that no pension provision has to be disclosed in the consolidated financial statements of Elmos Semiconductor AG anymore. The cash value of the defined benefit obligation was reduced by this adjustment in the amount of 1,666 thousand Euro. At the same time, the time value of the reinsurance policy had to be adjusted in the amount of 1,191 thousand Euro.

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 64 thousand Euro (2017: 87 thousand Euro) including payments made in the event of death. Premiums of 191 thousand Euro were paid (2017: 93 thousand Euro). For 2019 contribution payments in the amount of 93 thousand Euro are expected.

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 2018, contributions to these pension plans amounted to 397 thousand Euro (2017: 394 thousand Euro).

The employer's social security contributions made for employees amounted to 5,245 thousand Euro in 2018 (2017: 4,857 thousand Euro). The contributions to employees' direct insurance came to 280 thousand Euro in 2018 (2017: 259 thousand Euro).

**Respective amounts of the current and the four preceding reporting periods:**

| thousand Euro | FY 2018 | FY 2017 | FY 2016 | FY 2015 | FY 2014 |
|---|---|---|---|---|---|
| Pension commitment | 1,507 | 3,268 | 3,246 | 3,175 | 3,215 |
| Time value of pension reinsurance | –1,728 | –2,856 | –2,769 | –2,679 | –2,616 |
| Overfunding/Underfunding (–) | 221 | –412 | –477 | –496 | –599 |
| Adjustments to plan liabilities based on experience | –2 | 0 | –3 | 1 | 153 |
| 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 the term and the 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):

| thousand Euro | Increase by 1% point | | Decrease by 1% point | |
|---|---|---|---|---|
| | FY 2018 | FY 2017 | FY 2018 | FY 2017 |
| Effect on defined benefit obligation | –160 | –406 | 197 | 510 |

It has to be taken into consideration that sensitivities reflect changes to 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 as in the previous year. For materiality considerations, sensitivity analyses are not carried out for other parameters.

Expected maturities for pension payments of the next five years:

| thousand Euro | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| FY 2018 | n/a | 79 | 79 | 79 | 79 | 79 |
| FY 2017 | 142 | 143 | 144 | 144 | 144 | n/a |

The average term of the material pension benefit commitments is 10.6 years (2017: terms of 11.2 years and 15.9 years).

### Current provisions

| thousand Euro | 01/01/2018 | Consumption | Reversal | Addition | 12/31/2018 |
|---|---|---|---|---|---|
| Vacation bonus | 1,367 | 1,271 | 97 | 1,318 | 1,318 |
| Bonus provisions | 1,869[1] | 1,869 | 0 | 2,155 | 2,155 |
| Employer’s liability insurance association | 531 | 390 | 141 | 388 | 388 |
| Warranty | 2,714 | 35 | 764 | 1,600 | 3,515 |
| Licenses | 356 | 325 | 30 | 418 | 418 |
| Other provisions for employee benefits | 4,165[1] | 2,630 | 452 | 3,424 | 4,506 |
| Other provisions | 1,873[1] | 1,195 | 222 | 1,009 | 1,465 |
| **Current provisions** | **12,875** | **7,716** | **1,706** | **10,313** | **13,766** |

[1] Prior-year amount adjusted due to reclassification

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. Provisions classified as current will probably be utilized in the course of the next fiscal year.

## 24 – Financial liabilities

### Non-current financial liabilities

| thousand Euro | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Bank loans | 0 | 765 |
| Bonded loans | 40,000 | 40,000 |
| Lease obligations | 2,449 | 0 |
| Non-current financial liabilities | 42,449 | 40,765 |

The bonded loan issued in 2017 is divided into three tranches with terms of five, seven and ten years at fixed interest respectively.

### Current financial liabilities

As of December 31, 2018 the Company had various short-term lines of credit at its disposal in the total amount of 30,010 thousand Euro (2017: 25,010 thousand Euro). As of December 31, 2018 the Company provided these credit facilities as security in the amount of 655 thousand Euro (2017: 626 thousand Euro). Current financial liabilities (December 31, 2018: 1,340 thousand Euro; December 31, 2017: 10,398 thousand Euro) reflect a loan relationship as well as the current portion of lease obligations. A loan reported as a current liability to banks in the previous year was repaid on schedule in fiscal year 2018 in the amount of 10,000 thousand Euro.

### Loans

The effective interest rates of the loans range between 1.10% and 2.11% (previous year: 1.10% to 4.60%).

### Cash flows from financial liabilities

The following table lists all contractually defined payouts as of December 31, 2018 and December 31, 2017 (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 fiscal years. Also included are all cash flows from derivative financial instruments measured at positive and negative fair value.

| 12/31/2018 \| thousand Euro | 2019 | 2020 | 2021-2023 | from 2024 |
|---|---|---|---|---|
| Liabilities to banks | 976 | 646 | 13,724 | 29,083 |
| Trade payables | 25,908 | 0 | 0 | 0 |
| Other financial liabilities | 390 | 0 | 0 | 0 |
| Lease obligations[1] | 645 | 645 | 1.848 | 0 |

Future finance expenses from lease obligations amount to 75 thousand Euro.

| 12/31/2017 \| thousand Euro | 2018 | 2019 | 2020-2022 | from 2023 |
|---|---|---|---|---|
| Liabilities to banks | 11,323 | 976 | 13,856 | 29,597 |
| Trade payables | 22,803 | 0 | 0 | 0 |
| Other financial liabilities | 380 | 0 | 0 | 0 |
| Lease obligations[1] | 0 | 0 | 0 | 0 |

[1] Relates to items of property, plant and equipment not freely disposable

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 exchange rate of the current reporting date; the resulting amount has been used for the determination of future payments.

### Reconciliation of financial liabilities linked to the cash flow from financing activities

| thousand Euro | 12/31/2017 | Cash changes | Non-cash changes | | 12/31/2018 |
|---|---|---|---|---|---|
| | | | Reclassification | Lease obligations | |
| Non-current financial liabilities | 40,765 | –437 | –328 | 2,449 | 42,449 |
| Current financial liabilities | 10,398 | –10,000 | 328 | 614 | 1,340 |
| | 51,163 | –10,437 | 0 | 3,063 | 43,789 |

### 25 – Other liabilities and income tax liabilities

Other liabilities are solely current liabilities as of the reporting date, as in the year before, and amount to 4,761 thousand Euro (December 31, 2017: 2,223 thousand Euro). Other current liabilities include wage income tax liabilities, social security contributions yet to be made, payments received on account of orders and other financial liabilities, among other items. The increase from the previous year is based primarily on the increase in payments received on account of orders considering the respective reporting date from 937 thousand Euro as of December 31, 2017 to 3,128 thousand Euro as of December 31, 2018. Income tax liabilities amount to 8,391 thousand Euro (December 31, 2017: 4,088 thousand Euro) and include liabilities of Elmos as well as several domestic and international subsidiaries.

### 26 – 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.

### 27 – 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 fiscal year 2018 Elmos 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 28). 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 entered into structured term deposit transactions in 2018, providing for repayment of the investment amount in a foreign currency (essentially USD) if a predefined EUR/foreign currency reference exchange rate (or margin) is undercut or exceeded as of the due date of the transaction (cf. note 28 for further information).

### 28 – 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 IFRS 9 as the spreading of risks within these measurement categories is similar.

Due to the short-term maturities of these financial instruments, the book value of such financial instruments as trade receivables and trade payables essentially corresponds to the fair value. The book values of short-term and long-term securities attributed to the "hold and sale" business model correspond to the fair value. Measurement was made on the basis of market values as of the reporting date provided by the banks involved. Securities reported under "hold" were measured at amortized cost. The market value of forward exchange contracts/currency option transactions (cf. note 29) was determined on the basis of the currency exchange rates as of the reporting date provided by the banks involved. The market value of liabilities to banks was established on the basis of market prices determined for the same or similar issues and of the interest rates currently offered to the Company.

### Book values and fair values of each category of financial assets and liabilities

| thousand Euro | Business model | Book value 12/31/2018 | Valuation according to IFRS 9: Amortized cost | At market value through profit or loss | At market value outside profit or loss: No recycling | Recycling | Fair value 12/31/2018 | Book value 12/31/2017 | Valuation according to IFRS 9: Amortized cost | At market value through profit or loss | At market value outside profit or loss: No recycling | Recycling | Fair value 12/31/2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Investments | Hold and sale | 20 | 0 | 0 | 20 | 0 | 20 | 20 | 0 | 0 | 20 | 0 | 20 |
| Securities (long-term) | Hold | 3,000 | 3,000 | 0 | 0 | 0 | 3,000 | 5,000 | 5,000 | 0 | 0 | 0 | 5,000 |
| Securities (long-term) | Hold and sale | 18,446 | 0 | 0 | 0 | 18,446 | 18,446 | 35,122 | 0 | 0 | 0 | 35,122 | 35,122 |
| Securities (short-term) | Hold | 2,000 | 2,000 | 0 | 0 | 0 | 2,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Securities (short-term) | Hold and sale | 10,108 | 0 | 0 | 0 | 10,108 | 10,108 | 11,868 | 0 | 0 | 0 | 11,868 | 11,868 |
| Trade receivables | Hold | 49,344 | 49,344 | 0 | 0 | 0 | 49,344 | 44,391 | 44,391 | 0 | 0 | 0 | 44,391 |
| Cash and cash equivalents | Hold | 27,137 | 27,137 | 0 | 0 | 0 | 27,137 | 32,367 | 32,367 | 0 | 0 | 0 | 32,367 |
| Other financial assets | | | | | | | | | | | | | |
| Other receivables and assets (current) | Hold | 4,065 | 4,065 | 0 | 0 | 0 | 4,065 | 2,011 | 2,011 | 0 | 0 | 0 | 2,011 |
| Other loans and assets (non-current) | Hold | 4,283 | 4,283 | 0 | 0 | 0 | 4,283 | 6,354 | 6,354 | 0 | 0 | 0 | 6,354 |
| Forward exchange contracts/Currency option transactions | Trade | 171 | 0 | 171 | 0 | 0 | 171 | 0 | 0 | 0 | 0 | 0 | 0 |
| Call options | Trade | 11 | 0 | 11 | 0 | 0 | 11 | 8 | 0 | 8 | 0 | 0 | 8 |
| **Financial assets** | | **118,585** | **89,829** | **182** | **20** | **28,554** | **118,585** | **137,141** | **90,123** | **8** | **20** | **46,990** | **137,141** |
| | | | | | | | | | | | | | |
| Trade payables | Financial liabilities AC | 25,908 | 25,908 | 0 | 0 | 0 | 25,908 | 22,803 | 22,803 | 0 | 0 | 0 | 22,803 |
| Liabilities to banks | Financial liabilities AC | 40,726 | 40,726 | 0 | 0 | 0 | 41,181 | 51,163 | 51,163 | 0 | 0 | 0 | 51,490 |
| Other financial liabilities | | | | | | | | | | | | | |
| Miscellaneous financial liabilities | Financial liabilities AC | 390 | 390 | 0 | 0 | 0 | 390 | 380 | 380 | 0 | 0 | 0 | 380 |
| Lease obligations | Financial liabilities AC | 3,063 | 3,063 | 0 | 0 | 0 | 3,063 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forward exchange contracts/Currency option transactions | Financial liabilities FVTPL | 0 | 0 | 0 | 0 | 0 | 0 | 62 | 0 | 62 | 0 | 0 | 62 |
| Embedded derivatives | Financial liabilities FVTPL | 16 | 0 | 16 | 0 | 0 | 16 | 38 | 0 | 38 | 0 | 0 | 38 |
| **Financial liabilities** | | **70,103** | **70,087** | **16** | **0** | **0** | **70,558** | **74,446** | **74,346** | **100** | **0** | **0** | **74,773** |
| | | | | | | | | | | | | | |
| **Aggregated by business model** | | | | | | | | | | | | | |
| Hold and sale | | 28,574 | 0 | 0 | 20 | 28,554 | 28,574 | 47,010 | 0 | 0 | 20 | 46,990 | 47,010 |
| Hold | | 89,829 | 89,829 | 0 | 0 | 0 | 89,829 | 90,123 | 90,123 | 0 | 0 | 0 | 90,123 |
| Trade | | 182 | 0 | 182 | 0 | 0 | 182 | 8 | 0 | 8 | 0 | 0 | 8 |
| Financial liabilities at amortized cost | | 70,087 | 70,087 | 0 | 0 | 0 | 70,542 | 74,346 | 74,346 | 0 | 0 | 0 | 74,673 |
| Financial liabilities at fair value through profit or loss | | 16 | 0 | 16 | 0 | 0 | 16 | 100 | 0 | 100 | 0 | 0 | 100 |

### Hierarchy of fair values

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

| thousand Euro | | 01/01 | Addition | Disposal | Transfer | Market valuation | 12/31 |
|---|---|---|---|---|---|---|---|
| Long-term securities[1] | 2018 | 35,122 | 0 | –6,088 | –10,527 | –61 | 18,446 |
| | 2017 | 37,856 | 10,333 | –1,080 | –11,598 | –389 | 35,122 |
| Short-term securities[1] | 2018 | 11,868 | 0 | –12,112 | 10,527 | –175 | 10,108 |
| | 2017 | 5,678 | 514 | –6,115 | 11,598 | 193 | 11,868 |

[1] Hold and sale

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

| thousand Euro | | 01/01 | Addition | Disposal | Market valuation | 12/31 |
|---|---|---|---|---|---|---|
| Hedged derivatives | 2018 | 0 | 0 | 0 | 0 | 0 |
| | 2017 | –547 | 0 | 547 | 0 | 0 |
| Forward exchange contracts/ Currency option transactions | 2018 | –62 | 171 | 62 | 0 | 171 |
| | 2017 | 0 | –62 | 0 | 0 | –62 |
| Embedded derivatives | 2018 | –38 | 0 | 0 | 22 | –16 |
| | 2017 | –10 | 0 | 0 | –28 | –38 |

**Level 3: methods using input parameters with a material effect on the determined fair value that are not based on observable market data**

| thousand Euro | | 01/01 | Addition | Disposal | 12/31 |
|---|---|---|---|---|---|
| Investments | 2018 | 20 | 0 | 0 | 20 |
| | 2017 | 20 | 0 | 0 | 20 |

| thousand Euro | | 01/01 | Addition | Disposal | 12/31 |
|---|---|---|---|---|---|
| Call options | 2018 | 8 | 3 | 0 | 11 |
| | 2017 | 8 | 0 | 0 | 8 |

### 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 (–) \| thousand Euro | FY 2018 | FY 2017 |
|---|---|---|
| Hold | 656 | –1,522 |
| Financial liabilities at amortized cost | –386 | 769 |
| Financial liabilities at fair value through profit or loss | 22 | –28 |
| Trade | 497 | –618 |

Elmos recognizes valuation allowances/debt loss for trade receivables attributable to the “hold” category under “other operating expenses.” Gains from foreign currency translation of financial assets attributable to the “hold” business model primarily result from trade receivables as well as cash and cash equivalents. Net gains and losses essentially comprise valuation allowances, currency translation effects and debt loss. Expenses or income attributable to the “financial liabilities at amortized cost” business model result from exchange rate differences of trade payables. Foreign exchange gains in the amount of 618 thousand Euro and foreign exchange losses in the amount of 121 thousand Euro (2017: foreign exchange gains of 35 thousand Euro and foreign exchange losses of 652 thousand Euro) linked to currency-related hedges are reported under the business model “trade.” Interest relating to financial instruments is stated in interest income (cf. note 8).

## 29 – Risks associated with financing

### Basic principles

The basic principles of risk management within the Elmos Group are annotated comprehensively in the group management report (“Opportunities and risks”).

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. 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 for hedging foreign currency transactions for periods consistent with committed exposures. These derivative transactions for currency hedging minimize the impact of exchange rate fluctuations on the profit position. Elmos exclusively uses such hedging instruments for non-speculative, risk containing purposes in connection with the hedged items.

### Credit and default 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. Investments of liquid assets tale into consideration 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 others) and to a lesser extent 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; default risks are met with specific allowances for bad debt. Credit loss expected during the respective term did not have to be considered for trade receivables. 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 default risk supervision. Elmos pursues a stringent credit policy altogether. The maximum default exposure 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 upon maturity, e.g. the payment of finance debt, the payment of trade payables, and the payment obligations arising from lease agreements. A liquidity reserve in the form of cash and cash equivalents, investments of high fungibility and convertibility into cash, and sufficiently available free 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 24.

### Financial market risk

Due to its international business activity, Elmos is exposed to market price risks as a result of changes in exchange rates (essentially concerning the U.S. dollar), 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 economic, financial and profit situation.

#### a) Exchange rate risk

Exchange rate risks result from operating (sales, purchasing) and investing activities. Due to increased purchasing of services in USD, especially assembly and foundry services from Asia, 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 exposure. If management considers it necessary, the excess volume not covered by natural hedging is controlled actively, among other measures by entering into derivative financial instruments for currency hedging.

Elmos was exposed to currency risks as of the reporting date. In fiscal year 2018, Elmos realized foreign exchange gains in the amount of 310 thousand Euro (2017: 34 thousand Euro) and incurred foreign exchange losses in the amount of 96 thousand Euro (2017: 535 thousand Euro) from U.S. dollar currency hedges, reported in the consolidated financial statement under "Foreign exchange gains/losses." In addition to that, from the measurement of USD hedges still open by the reporting date, Elmos recorded income of 171 thousand Euro (2017: 0 thousand Euro) and expenses of 0 thousand Euro (2017: 62 thousand Euro). Furthermore, foreign exchange gains in the amount of 137 thousand Euro (2017: 1 thousand Euro) and foreign exchange losses in the amount of 25 thousand Euro (2017: 55 thousand Euro) resulted in 2018 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 (or margin) between EUR and the foreign currency is undercut or 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, 2018 with respect to the monetary financial instruments, earnings (before taxes) would have been 598 thousand Euro lower (358 thousand Euro higher) (2017: 754 thousand Euro lower (785 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 securities classified under "hold and sale." Had the market interest rate level been higher (lower) by 100 basis points, equity would have been lower by 235 thousand Euro (increase in equity by 252 thousand Euro) (2017: decrease (increase) in equity by 711 (765) thousand Euro). Deferred tax on these amounts would also have to be considered.

Elmos is exposed to interest rate risk primarily in the euro area. Within the context of financing decisions, the Management Board 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 24.

### c) Other price risks

Elmos has secured its supply with electricity and natural gas for the medium term by concluding fixed prices in advance. A 10% higher (lower) electricity rate would result in an increase (decrease) in earnings by 0 thousand Euro (0 thousand Euro) for fiscal year 2018 (2017: increase (decrease) in earnings by 0 thousand Euro (13 thousand Euro)). A 10% higher (lower) gas price would result in an increase (decrease) in earnings by 0 thousand Euro (199 thousand Euro) for the fiscal year (2017: increase (decrease) in earnings by 84 thousand Euro (96 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 an adequate credit rating, liquidity at any time and at high financial flexibility, and a solid capital structure. The Management Board actively controls the capital structure of the Elmos Group and makes adjustments if necessary in consideration of the economic framework as well as the risks carried by the underlying assets. Control measures aim at safeguarding operating liquidity and sufficient robustness to withstand economic fluctuations without losing any measure of the capacity to act strategically. 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, 2018 and December 31, 2017, 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.

| | FY 2018 | FY 2017 |
|---|---|---|
| Net cash | 16.9 million Euro | 33.2 million Euro |
| Equity ratio | 72.2% | 71.3% |

## OTHER INFORMATION

### 30 – Government grants

The Company receives government grants used for financing research and development projects. Government grants used for research and development projects were offset against research and development expenses and recognized under that item (276 thousand Euro in 2018; 449 thousand Euro in 2017). Government grants for capital expenditures for property, plant and equipment were collected neither in the year under review nor the previous year.

### 31 – Other financial liabilities and contingencies

The Company has entered into non-cancelable rental and lease agreements for the administration building and a parking garage (terms 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 and technical equipment and machinery to a customary extent.

Within the framework of lease agreements with Epigone, Elmos is committed to lease payments of 2,267 thousand Euro (including contributions to administrative expenses and sales tax) plus payments of 1,317 thousand Euro for tenant loans until 2021 (cf. note 14).

SMI concluded 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 lessor has exercised an option for the extension of the lease term for another five years in fiscal year 2018 with binding effect. The monthly lease is 60 thousand U.S. dollars with the provision of an annual adjustment linked to the U.S. consumer price index. The agreement is not cancelable over the lease term which now extends until January 2026.

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 CMOS line has meanwhile been extended to mid-2019.

Total expenditure for rental and lease agreements amounted to 6,886 thousand Euro in 2018 and 8,057 thousand Euro in 2017. Total fixed future payments under rental agreements and leases as of the reporting date December 31, 2018 (December 31, 2017) come to 5,357 thousand Euro for the period of up to one year (2017: 6.140 thousand Euro), 10,724 thousand Euro for the period from one year to five years (2017: 12,722 thousand Euro), and 2,298 thousand Euro for the period of more than five years (2017: 220 thousand Euro).

Future minimum payments owed under 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, 2018 and December 31, 2017 are as follows:

| thousand Euro | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Later years | Total |
|---|---|---|---|---|---|---|---|---|
| 12/31/2018 | n/a | 24,082 | 7,951 | 4,335 | 1,864 | 1,883 | 2,298 | **42,413** |
| 12/31/2017 | 30,844 | 9,561 | 6,200 | 2,794 | 219 | n/a[1] | 220 | **49,838** |

[1] Included in later years

A purchase commitment of 7,189 thousand Euro (2017: 9,809 thousand Euro) results from investment orders placed.

## 32 – 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. Shares in the capital of the subsidiaries are unchanged from the previous year.

### Capital share

| thousand or % | Currency | Interest | Equity | Earnings | Relationship |
|---|---|---|---|---|---|
| **Parent:** Elmos Semiconductor AG, Dortmund, Germany | | | | | |
| **Domestic** | | | | | |
| DMOS Dresden MOS Design GmbH, Dresden | EUR | 74.8% | 2,029 | 249[1] | Subsidiary |
| Epigone Grundstücksverwaltungsgesell-schaft mbH & Co. Vermietungs KG, Mainz | EUR | 6.0% | –21 | 15[1] | Investment |
| GED Electronic Design GmbH, Frankfurt/Oder | EUR | 100.0% | 898 | 0[1,4] | Subsidiary |
| Mechaless Systems GmbH, Bruchsal | EUR | 100.0% | 337 | 157[1] | Subsidiary |
| MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin | EUR | 100.0% | 2,701 | 1,307[1] | Subsidiary |
| **International** | | | | | |
| Elmos Services B.V., Nijmegen (NL) | EUR | 100.0% | 13,193 | 5,965[1] | Subsidiary |
| Elmos Semiconductor B.V., Nijmegen (NL) | EUR | 100.0% | 4,537 | –615[1,2] | Subsidiary |
| European Semiconductor Assembly (eurasem) B.V., Nijmegen (NL) | EUR | 100.0% | 263 | 44[1,2] | Subsidiary |
| Micro Systems on Silicon (MOS) Limited, Pretoria (South Africa) | ZAR | 51.0% | – | –[3] | Subsidiary |
| Elmos USA Inc., Farmington Hills (U.S.A.) | USD | 100.0% | – | –[3] | Investment |
| Elmos N.A. Inc., Farmington Hills (U.S.A.) | USD | 100.0% | 1,433 | 287[1,2] | Subsidiary |
| Silicon Microstructures Inc., Milpitas (U.S.A.) | USD | 100.0% | 11,308 | 3,776[1,2] | Subsidiary |
| Elmos Korea Co. Ltd., Seoul (Korea) | KRW | 100.0% | 580,657 | 117,208[1] | Subsidiary |
| Elmos Semiconductor Singapore Pte. Ltd., Singapore | SGD | 100.0% | 677 | 37[1] | Subsidiary |
| Elmos Japan K.K., Tokyo (Japan) | JPY | 100.0% | 42,241 | 3,213[1] | Subsidiary |
| Elmos Semiconductor Technology (Shanghai) Co. Ltd., Shanghai (China) | CNY | 100.0% | 3,217 | 535[1,2] | Subsidiary |
| Omniradar B.V., Eindhoven (NL) | EUR | 45.7% | – | –[3] | Associated company |

[1] Presented figures are based on preliminary unaudited financial statements as of December 31, 2018.
[2] Indirect investment of Elmos Semiconductor AG, Dortmund.
[3] Financial statements of this entity are not available yet.
[4] Profit and loss transfer

In the second quarter of 2018, Micro Systems on Silicon (MOS) Limited, Pretoria (South Africa) was deconsolidated due to immateriality.

### Additional summarized financial information as of 12/31

| thousand Euro or % | | Interest | Assets | | Liabilities | | Sales | Allocated dividend |
|---|---|---|---|---|---|---|---|---|
| | | | Current | Non-current | Current | Non-current | | |
| **For non-controlling interests in subsidiaries (IFRS 12 B10)** | | | | | | | | |
| DMOS, Dresden | 2018 | 25.2% | 1,703 | 2,079 | 1,678 | 7 | 5,952 | 0 |
| | 2017 | 25.2% | 1,057 | 2,147 | 1,334 | 11 | 5,144 | 0 |
| MOS, South Africa | 2018[1] | 49.0% | – | – | – | – | – | – |
| | 2017 | 49.0% | 305 | 2 | 212 | 0 | 459 | 0 |
| **For associates (IFRS 12 B12)** | | | | | | | | |
| Omniradar, Netherlands | 2018[1] | 45.7% | – | – | – | – | – | – |
| | 2017 | 45.7% | 724 | 94 | 1,855 | 0 | 347 | 0 |

[1] Financial statements of this entity are not available yet.

## 33 – Information on Management Board and Supervisory Board

| thousand Euro | | Short-term payments | | Share-based payments | |
|---|---|---|---|---|---|
| | | Fixed remuneration | Variable remuneration | Stock options[1] | Share matching plan[1] |
| Management Board | FY 2018 | 1,523 | 1,782 | 0 | 0 |
| | FY 2017 | 1,467 | 924 | 0 | 0 |
| Supervisory Board | FY 2018 | 83 | 225 | 0 | 0 |
| | FY 2017 | 82 | 225 | 0 | 0 |

[1] Fair value

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 2018, contributions to these pension plans amounted to 373 thousand Euro (2017: 370 thousand Euro), included in the fixed remuneration component. The Annual General Meeting of May 16, 2018 decided with a majority in excess of the required three quarters of the votes not to provide the disclosures stipulated under Section 285 no. 9a sentences 5-8 HGB (Commercial Code) for the next five years.

Remuneration paid to former Management Board members or their surviving dependents amounted to 209 thousand Euro in the fiscal year, fixed components thereof in the amount of 209 thousand Euro and variable components in the amount of 0 thousand Euro (2017: 395 thousand Euro, fixed remuneration thereof 209 thousand Euro and variable components in the amount of 186 thousand Euro). Moreover, insurance premiums in the amount of 116 thousand Euro were paid (2017: 115 thousand Euro). These amounts are balanced by reimbursements from reinsurance policies in the amount of 223 thousand Euro (2017: 204 thousand Euro). The amount of pension provisions for acting and former members of the Management Board or their surviving dependents was 1,384 thousand Euro as of December 31, 2018 (December 31, 2017: 1,477 thousand Euro).

As of December 31, 2018, the following members of Management Board and Supervisory Board were members of statutory supervisory boards or comparable domestic or foreign supervisory bodies.

-> 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; Member of the Board of Directors of Stokke A.S.

### 34 – Information on group auditor fees

Fees of group auditor, Warth & Klein Grant Thornton AG

| thousand Euro | FY 2018 | FY 2017 |
|---|---|---|
| Audit services | 244 | 220 |
| Other certification services | 0 | 0 |
| Tax counseling | 70 | 74 |
| Other services | 0 | 0 |
| **Group auditor fees** | **314** | **294** |

Audit services rendered in 2018 essentially included fees for the statutory audit of separate financial statements and consolidated financial statements as well as for the review of the 6-month consolidated financial statements of Elmos. Tax counseling essentially include consulting in connection with the preparation of tax returns and tax assessment of individual circumstances.

### 35 – Appropriation of retained earnings and dividend proposal

Management Board and Supervisory Board propose to the Annual General Meeting in May 2019 the payment of a dividend of 0.52 Euro per share for fiscal year 2018 out of the 2018 retained earnings of Elmos Semiconductor AG in the amount of 127.2 million Euro. The total dividend payout would thus amount to 10.3 million Euro based on 19,748,531 shares entitled to dividend as of December 31, 2018.

### 36 – Managers' transactions according to Art. 19 (1) Market Abuse Regulation

Notifications of managers' transactions according to Art. 19 (1) Market Abuse Regulation for the period from January 1 to December 31, 2018 are available at www.elmos.com.

### 37 – 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 both 2018 and 2017, Elmos Semiconductor AG received no material services from associates.

Apart from the remuneration of Management Board and Supervisory Board – representing the key management personnel of the Elmos Group – disclosed under note 33 ("Information on Management Board and Supervisory Board"), one Supervisory Board member received compensation in the amount of 21 thousand Euro (2017: 0 thousand Euro) for consulting services rendered personally.

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 such individuals are represented in. This also applies for close relatives of said group of people.

### 38 – Number of employees

| ∅ Employees | FY 2018 | FY 2017 |
|---|---|---|
| Production | 603 | 536 |
| Sales | 98 | 103 |
| Administration | 170 | 162 |
| Quality Control | 45 | 42 |
| Research & Development | 335 | 312 |
| **Total** | **1,250** | **1,155** |

### 39 – Significant events after the end of the fiscal year

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

### 40 – Declaration of compliance pursuant to Section 161 AktG

In September 2018, Management Board and Supervisory Board of Elmos released the declaration pursuant to Section 161 AktG (Stock Corporation Act) and made it permanently available at www.elmos.com.

Dortmund, February 27, 2019

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

# INDEPENDENT AUDITOR'S REPORT

TO ELMOS SEMICONDUCTOR AG, DORTMUND

**REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT**

### Audit Opinions

We have audited the consolidated financial statements of Elmos Semiconductor AG, Dortmund, Dortmund, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January 2018 to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Elmos Semiconductor AG, Dortmund which is combined with the management report of Elmos Semiconductor AG, Dortmund (hereinafter: combined management report) for the financial year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements we have not audited the content of the statement on corporate governance pursuant to section 289f HGB and section 315d HGB (Handelsgesetzbuch: German Commercial Code).

In our opinion, on the basis of the knowledge obtained in the audit,

-> the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January 2018 to 31 December 2018, and

-> the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the above listed statement on corporate governance pursuant to section 289f HGB and section 315d HGB.

Pursuant to section 322 paragraph 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

### Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

### Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

In the following we present the key audit matter in our view. Our presentation of this key audit matter has been structured as follows:

1. Financial statement risk
2. Audit approach
3. Reference to related disclosures

### Provisions for Warranties and Product Liability

1. Financial Statement Risk

In the consolidated financial statements provisions for Warranties respectively product liability are recognized with an amount of TEUR 3.515. 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. This results in legal risks, especially with regard to product liability.

Even though Elmos applies elaborate test procedures before commencing delivery of its products, product defects might still become apparent only upon the 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 arise. A recall, for which Elmos would have to assume liability, could also have material effects. Due to the dependence on the automotive industry and the related batch production, a recall might result in significant amounts of damage. In general, there is a risk that emerging risks remain unidentified or are identified too late. In addition, it might also damage the company's image, leading to disrupted customer relationships and a negative impact on the economic development. This risk is covered by corresponding provisions for the abovementioned warranties and product liability in the group financial statements under current provisions. The result of the measurement of the related current provisions is highly dependent on the estimation of the amount of damage and the likelihood of occurrence made by the company's executive directors and, is therefore, associated with a high degree of estimation uncertainty. Due to these high estimation uncertainties and due to the significant impact on the current provisions, this matter was of particular importance in our audit.

2. Audit Approach

As part of our audit, among other things, we evaluated the process established by Elmos to ensure that legal disputes are identified, their outcomes of the proceedings are estimated, and the legal disputes are accounted for. We have evaluated the assumptions relevant for the measurement of the provisions and their derivation. We had detailed discussions with the Company's legal department and the department for quality control in order to receive explanations on current developments and the reasons for the corresponding estimations. The development of material legal disputes, including the executive directors' estimates as to their potential outcomes, was provided to us by the Company in written form. In addition, we obtained external legal confirmations as of the balance sheet date in order to assess the executive directors estimates regarding the risks of productrelated legal disputes. Concerning these productrelated legal disputes, based on the foundation of claims made to Elmos we followed the estimations made by the executive directors.

3. Reference to related Disclosures

The disclosures relating to the measurement of provisions for warranties respectively product liability are contained in section 3 and 23 of the notes to the consolidated financial statements. Further information on the product warranties can be found in section “Opportunities and risks – Business and operational risks” in the combined management report.

## Other Information

The executive directors are responsible for the other information. The other information comprises:

-> the nonfinancial consolidated report according to section 315b HGB

-> the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code including the statement on corporate governance pursuant to section 289f HGB and section 315d HGB

-> the confirmation pursuant to section 297 paragraph 2 sentence 4 HGB regarding the consolidated financial statements and the confirmation pursuant to section 315 paragraph 1 sentence 5 HGB regarding the combined management report and

-> the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor’s report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

-> is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or

-> otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

### Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

-> Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

-> Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

-> Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

-> Conclude on the appropriateness of the executive director’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

-> Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e paragraph 1 HGB.

-> Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

-> Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group’s position it provides.

-> Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter.

### OTHER LEGAL AND REGULATORY REQUIREMENTS

#### Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 16 May 2018. We were engaged by the supervisory board on 2 July 2018. We have been the group auditor of Elmos Semiconductor AG, Dortmund without interruption since the financial year 2013.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the supervisory board pursuant to Article 11 of the EU Audit Regulation (longform audit report).

### GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Ulrich Diersch.

Düsseldorf, 27 February 2019

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

**Prof. Dr. Thomas Senger**
German Public Auditor

**Ulrich Diersch**
German Public Auditor

# 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, February 27, 2019

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

# FINANCIAL CALENDAR 2019

| | |
|---|---|
| Financial results 2018[1] | 03/14/2019 |
| Quarterly results Q1 / 2019[1] | 05/08/2019 |
| Annual General Meeting in Dortmund | 05/15/2019 |
| Quarterly results Q2 / 2019[1] | 08/01/2019 |
| Quarterly results Q3 / 2019[1] | 11/06/2019 |

[1] The German Securities Trading Act ("Wertpapierhandelsgesetz") and the Market Abuse Regulation (EU) oblige issuers to announce immediately any information which may have a substantial price impact, irrespective of the communicated schedules. Therefore we may 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 dates and news on the website (www.elmos.com).

# CONTACT


Thalea Blunk | Investor Relations

Phone: + 49 (0) 231-75 49-273

Fax: + 49 (0) 231-75 49-111

invest@elmos.com


# IMPRINT


Publisher, Editors, Design and Photography

Elmos Semiconductor AG

Dortmund, Germany


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.

**Elmos Semiconductor AG**
Heinrich-Hertz-Straße 1
44227 Dortmund | Germany
Phone: + 49 (0) 231-75 49-0
Fax: + 49 (0) 231-75 49-149
info@elmos.com | www.elmos.com