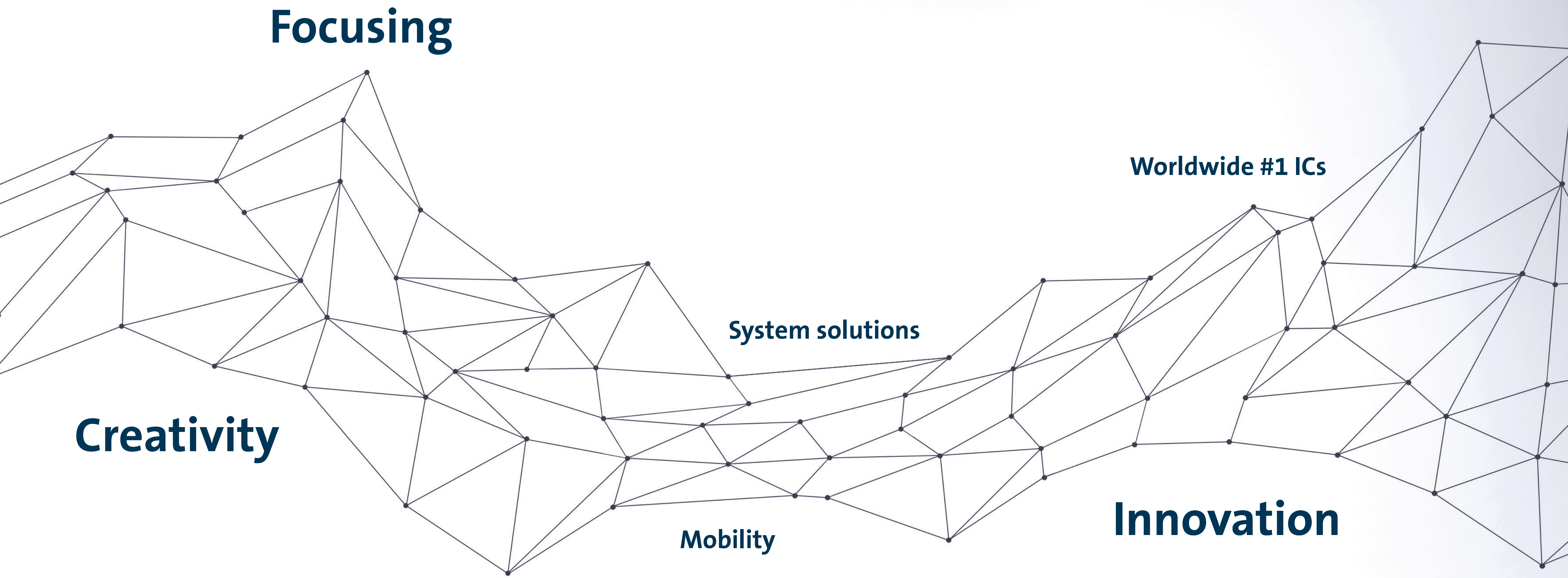


Ready for the future

Fiscal year 2019

CONTENTS

FIVE-YEAR OVERVIEW ELMOS GROUP (IFRS)

in million Euro unless otherwise indicated	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Sales	219.6	228.6	250.4	277.6	294.8
growth in %	4.8%	4.1%	9.5%	10.8%	6.2%
thereof continued operation	*196.6*	*206.9*	*230.1*	*253.9*	*273.4*
thereof discontinued operation	*23.0*	*21.7*	*20.4*	*23.7*	*21.4*
Gross profit	91.6	96.8	110.1	125.5	136.8
in % of sales	41.7%	42.3%	43.9%	45.2%	46.4%
Research & development expenses	37.1	36.0	33.8	36.0	44.6
in % of sales	16.9%	15.7%	13.5%	13.0%	15.1%
Operating income	18.1	22.0	37.1	49.3	45.8
in % of sales	8.2%	9.6%	14.8%	17.8%	15.5%
EBIT	24.5	23.1	38.4	51.0	97.3 | 45.3[1]
in % of sales	11.2%	10.1%	15.3%	18.4%	33.0% | 15.4%[1]
Earnings before taxes	24.1	23.1	35.5	49.5	96.0
in % of sales	11.0%	10.1%	14.2%	17.8%	32.6%
Consolidated net income attributable to owners of the parent	16.2	15.9	24.9	35.4	85.7
in % of sales	7.4%	6.9%	10.0%	12.8%	29.1%
Earnings per share (basic) in Euro	0.82	0.80	1.26	1.79	4.36
	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Total assets	306.9	312.9	336.9	369.1	439.5
Shareholders' equity	219.4	231.6	240.1	266.6	339.7
in % of total assets	71.5%	74.0%	71.3%	72.2%	77.3%
Financial liabilities	36.8	36.2	51.2	43.8	49.1
Liquid assets and securities	90.5	91.6	84.4	60.7	123.3
Net cash	53.7	55.4	33.2	16.9	74.3
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Cash flow from operating activities	50.3	33.5	37.9	48.4	45.6
Capital expenditures[2]	23.0[3]	23.2	37.2	41.4	43.6
in % of sales[2]	10.5%[3]	10.1%	14.9%	14.9%	14.8%
Cash flow from investing activities	–24.6	–34.9	–47.2	–34.3	37.2
Adjusted free cash flow[4]	29.7[3]	9.1	–5.2	–3.3	76.9
Dividend per share in Euro	0.33	0.35	0.40	0.52	0.52[5]
Employees on annual average	1,117	1,127	1,155	1,250	1,317

[1] Without consideration of the result from the sale of the subsidiary SMI and without deduction of the restructuring expenses for the termination of the cooperation with the Fraunhofer Institute IMS
[2] Capital expenditures for intangible assets and property, plant and equipment less capitalized development expenses
[3] Adjusted for the repurchase of land and building from prematurely terminated lease agreements in the amount of approx. 14 million Euro
[4] Cash flow from operating activities less capital expenditures for/plus disposal of intangible assets and property, plant and equipment (including payments from disposals of consolidated companies)
[5] Proposal to the Annual General Meeting in May 2020

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 global economy faced strong headwinds last year. Almost every day, we were confronted with new reports of trade restrictions, Brexit ramifications, or negative economic forecasts. The semiconductor industry felt the pinch in the form of a double-digit percentage decline in sales. Our core market, the automotive sector, was also unable to escape the market weakness, with China in particular suffering significant declines in new registrations. Against this economic backdrop, our main competitors were forced to contend with a decline in sales of -8% on average in 2019. By contrast, with sales growth of +7.7% in the continued operations of the core semiconductor business, Elmos is in a very good position.

So why is it that “things are going well at Elmos,” as one analyst put it in November 2019? The question is nothing new. In fact, we heard it often in 2018 as well. But the answer remains the same: We have built up a product portfolio that is in touch with today’s demand. This success is the result of frequent discussions with customers, the right decisions, and committed, innovative implementation that leads the way technologically.

All in all, 2019 again saw some important course settings that will help determine the strategic orientation of Elmos. At this point I would like to deal with three of these issues in a representative way:

Evolution of our products

The further development of our products is in our nature. In 2019, for example, we have again introduced numerous new ICs. As an example, I would like to present a new IC for the control of LED taillights. Our lead customer in this case is Audi. With our solution, we have further developed key features of the system architecture, enabling not only new functions with unprecedented application flexibility, but also significant cost savings in the system – even eliminating entire control units.

Sale of the subsidiary SMI

In autumn we sold our subsidiary SMI to TE Connectivity. At USD 95 million, we achieved a very good price and also took a big step forward in focusing on our core business. SMI has developed very well in recent years under our leadership however, the synergies have been noticeably reduced.

Second phase of our fab lite strategy

Thanks to our success in establishing our fab lite strategy for front-end processes in recent years, we are now able to externally procure roughly one-third of our wafers today. Going forward, we plan to adopt a similar strategy with regard to our test activities. In 2019, we intensified the process aimed at achieving this goal, allowing us to become more competitive in the medium term, less susceptible to market volatility and less capital-intensive.

Our cooperation with the Fraunhofer Institute IMS ends when our agreement expires on June 30, 2020. We offer the affected employees extensive support in their professional reorientation and a social plan agreed upon with the works council. Elmos had intended to continue the contract, but the future technological orientation of the IMS only offers common interests in some areas. Our ability to supply is not affected by this: With our highly efficient production in Dortmund paired with the established international manufacturing partnerships we have a future-proof production network.

Speaking of future-proof: We have also set the course for the future in the Executive Board. The Supervisory Board reappointed Guido Meyer as member of the Management Board for production until 2024. Furthermore, I will hand over the CEO responsibility to my colleague on the Management Board, Dr. Arne Schneider, at the beginning of 2021. Dr. Schneider has been with Elmos since 2011 and is currently CFO. I will remain closely associated with the company as a consultant after my then 15 years as CEO. I am convinced that the Supervisory Board has made the right decision with the appointment of Dr. Schneider. As of next year, all Management Board positions will then be filled from the company's own staff. This is good news for the company and its employees.

And last but not least, the planned conversion from a German stock corporation into a European Company (Societas Europaea, SE) contributes to a future-proof positioning of Elmos in international competition.

Although we will continuously expand our application and customer coverage in 2020, the currently difficult market environment and the already high 2019 sales level will only allow growth in the low single-digit percentage range for the current year. The EBIT margin will be between 11% and 16%. Because of the as yet unforeseeable impact of the coronavirus on the economy potential consequences are not included.

The subdued development in 2020 will not change our very good prospects. Integrated, networked electronics, smart software, and innovative solutions by Elmos that improve the complete system will play an increasingly important role in the mobility of tomorrow.

Finally, I would like to express my sincere thanks to those who have played and still play a major role in the success and future of Elmos: our employees. They work hard every day to make Elmos more innovative and our customers more competitive. This is – as every year – also our objective for 2020.

We are pleased that you, dear shareholders, continue to accompany us on the road to the future of mobility.

Yours,

Dr. Anton Mindl | Chairman of the Board

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 2024
- -> Designated Chief Executive Officer (starting 2021)
- -> Finance, Management Accounting, Investor Relations, Human Resources, Purchasing, IT

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. 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 2019. 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 regular meetings altogether in fiscal year 2019: February 27, May 15, September 4, and December 6. In a meeting held on March 10, 2020, the Supervisory Board concerned itself primarily with the 2019 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. At its meetings, the Supervisory Board also addressed the sale of the subsidiary Silicon Microstructures, Inc. (SMI) and the conversion of the Company into a Societas Europaea (SE), a public company registered in accordance with the corporate law of the European Union. Furthermore, the Supervisory Board discussed the status of the partnership with the Fraunhofer Institute for Microelectronic Circuits and Systems (IMS) in Duisburg, Germany, and its future specifics. As part of the long-term succession planning efforts for the Management Board, the Supervisory Board debated the appointment of Dr. Arne Schneider as Chief Executive Officer effective January 1, 2021, and the extension of the Management Board employment contract with Dr. Anton Mindl through to the end of 2020. The Supervisory Board's discussions additionally touched on the allocation of responsibilities within the three-member Management Board going forward and Dr. Arne Schneider's remaining responsibility for Finance. In addition, a consultancy agreement was concluded with Dr. Anton Mindl for the period after 2020.

Moreover, the Supervisory Board defined the key audit matters for the annual audit and discussed the financial reports. The Supervisory Board 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. Moreover, it discussed the agenda of the upcoming Annual General Meeting to be held on May 13, 2020, in Dortmund, Germany.

With respect to all meetings of the Supervisory Board held in fiscal year 2019, members' attendance was 100%. The Supervisory Board does not set up committees.

AUDIT OF SEPARATE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Consulting Warth & Klein Grant Thornton AG, Wirtschaftsprüfungs gesellschaft, Dusseldorf, Germany, the Supervisory Board concerned itself in its meeting of March 10, 2020, with the audit of the separate financial statements and consolidated financial statements for the fiscal year ended December 31, 2019. According to the resolution of the Annual General Meeting of May 15, 2019, 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, 2019, and the combined management report of Elmos Semiconductor AG as included in the combined management report were audited by Warth & Klein Grant Thornton AG, Wirtschaftsprüfungsgesellschaft, Dusseldorf, 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 March 10, 2020, 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 2019 out of the retained earnings of 202.0 million Euro (according to HGB) and to carry forward the remaining amount to new accounts.

The Supervisory Board also reviewed the Company's sustainability report during its meeting on March 10, 2020.

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 2019 once more. In September 2019, 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. Apart from that, there were no changes to the Management Board or Supervisory Board in the reporting period.

Dr. Anton Mindl will lead the Company in his capacity as Chief Executive Officer until the end of 2020. Dr. Arne Schneider, currently Chief Financial Officer, will succeed Dr. Anton Mindl and take over as Chief Executive Officer starting January 1, 2021. He will continue to be in charge of Finance. As part of the succession planning process, Dr. Arne Schneider was reappointed as a member of the Management Board until 2024. Following 15 years of successful service on behalf of Elmos, Dr. Anton Mindl will continue to work closely with the Company as an advisor and consultant. Furthermore, Chief Operating Officer Guido Meyer was reappointed until 2024.

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 2019.

Dortmund, March 10, 2020

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
-> Honorary Chairman for life
-> 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 German Corporate Governance Code 2017 (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 2019. They released the most recent joint declaration of compliance in accordance with Section 161 AktG in September 2019. 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 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. As part of the efforts to continuously improve the CMS, annual key issues are defined and pursued with special focus.

The Elmos Code of Conduct, in which the rules and principles that are applicable at the Company are outlined, provides orientation for employees with regard to their action and conduct. Employees regularly receive training on compliance issues.

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. 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 the shareholders are elected by the General Meeting of shareholders; the employee representatives are elected by the staff. The next shareholder representative election is scheduled for 2020.

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 2019

On behalf of the Supervisory Board
Dr. Klaus Weyer
Chairman of the Supervisory Board

On behalf of the Management Board
Dr. Anton Mindl
Chief Executive Officer

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. 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 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, 2019.

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 2019. 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 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 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 currently exempt from its legal obligation for individualized disclosure of Management Board remuneration.

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 post-contract benefits have been promised to any Management Board member in case of the termination of employment according to contract. An exception to this is the conclusion of a consultancy agreement in 2019 with Dr. Anton Mindl following his departure from the Management Board. Likewise, no member of the Management Board received 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. The payment of earned management bonus entitlements also continues as regularly scheduled after the term of the contract has ended.

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.

REMUNERATION OF THE MANAGEMENT BOARD FOR 2019

Fixed remuneration	
Fixed remuneration[1]	-> 1,144 thousand Euro (2018: 1,150 thousand Euro)
Pension commitments	-> 373 thousand Euro (2018: 373 thousand Euro) -> 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 -> Personal, individual targets as agreed with the Supervisory Board
Management bonus	-> 3,028 thousand Euro (2018: 1,782 thousand Euro)

FORMER MANAGEMENT BOARD MEMBERS AND/OR THEIR SURVIVING DEPENDENTS FOR 2019

Fixed remuneration/ pension benefits	-> 211 thousand Euro (2018: 209 thousand Euro)
Management bonus	-> 368 thousand Euro (2018: 0 thousand Euro)
Insurance premiums	-> 115 thousand Euro (2018: 116 thousand Euro)
Reimbursements from reinsurance policies	-> 225 thousand Euro (2018: 223 thousand Euro)
Financial statement disclosure of pension provisions	-> 1,464 thousand Euro (2018: 1,384 thousand Euro) -> Covered in full by the time value of pension plan reinsurance policies

REMUNERATION OF THE SUPERVISORY BOARD FOR 2019

Fixed remuneration	
Fixed remuneration[1]	-> 82 thousand Euro (2018: 83 thousand Euro)
Variable remuneration	
Management bonus	-> 225 thousand Euro (2018: 225 thousand Euro)
Further remuneration	
Compensation for individually performed services	-> 24 thousand Euro (2018: 21 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

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.

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, primarily for automotive use. You will find more information about the Company's business model in the chapter "Combined management report" 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.

The automotive semiconductors from Elmos make a substantial contribution to reducing CO_2 emissions. The world's automakers were able to cut their vehicles' CO_2 emissions by an average of 22g/km between 2014 and 2019. Analysts believe that more than 50% of this reduction was made possible by semiconductor solutions in electronics. Elmos is making a contribution to this development through a wide range of automotive components, such as power management solutions for powertrains, efficient LED lighting, high-efficiency motor control systems for HVAC and cooling, aerodynamics optimization, sensors for automatic lights, and efficient DC/DC converters. A comparison between Elmos' CO_2 emissions and the CO_2 savings made possible by Elmos' ICs shows that our products help save a significantly higher amount of CO_2.

Elmos 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"). Activities include analyzing production processes to identify potential efficiency increases. This initiative was assigned to the German government's new National Action Plan on Energy Efficiency (NAPE 2.0) in late 2019 and will be continued beyond 2020. The German government and the business sector will continue their discussions on the further development of the initiative with the aim of signing a new agreement, prospectively in summer 2020.

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. In addition, substandard components from Elmos are sent to a recycling company that extracts and processes the materials contained in the parts to the greatest extent possible.

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

	12/31/2019	12/31/2018
Elmos North Rhine-Westphalia	1,046	1,002
Silicon Microstructures	0	76
Other subsidiaries	211	205
Total	**1,257**	**1,283**

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. 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, who receive regular training on the topic. 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, our in-house gym with an extensive course program, and massage offerings 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 with the Elmos works council. Management and the works council engage in a lively exchange of ideas in several committees in order to keep this positive collaboration going. 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 a Group-wide compliance management system. This includes rules such as a prohibition against bribery and corruption, commitment to correct accounting, non-disclosure obligations with respect to confidential information, and prohibitions against anti-competitive conduct. The compliance officer monitors compliance with rules and laws and provides clear guidance to employees with compliance questions. Select employees must take part in special 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 and campaigns fighting worldwide poverty. Last year, for example, the Elmos Foundation supported

Highlights in 2019

-> **Saving over 130 metric tons of CO_2 per year:** The proactive replacement of old water, coolant, and humidifier pumps with responsive, high-efficiency pumps in 2019 made a significant contribution to conserving energy. In 2019, we also optimized processes for compressed air systems, for example. All told, these measures and further optimizations will allow us to save over 130 metric tons of CO_2 from electricity a year.

-> **First-time ISO 45001 certification for occupational health and safety:** The standard provides Elmos with guidance on preventively reducing risks in the workplace so as to enhance the health and well-being of its employees on a lasting basis. An occupational health and safety management system helps prevent accidents, reduce the severity of injuries, and avoid work-related ill health. To this end, suitable methods and tools have been implemented at all levels throughout Elmos and are in use. Elmos passed the audit without objections.

-> **New energy-saving products:** Elmos products perform essential control and measurement functions, especially in cars. New products with a positive influence on a vehicle's overall need for energy were introduced once again in 2019, such as a control component for economical BLDC motors or efficient LED rear lighting. By doing so, Elmos is helping automakers and suppliers reduce CO_2 emissions.

-> **Support for cyclists:** To increase the number of employees who bike to work, Elmos offers staff members a bicycle leasing program that also covers e-bikes, which make it easier to switch from driving to cycling. The model has proven so popular that we repeatedly increased the funding available for bike leases in 2019 and expanded the program to other locations in addition to the Dortmund headquarters. So far, some 120 employees have actively taken advantage of the opportunity to lease a company bicycle. Accordingly, we have increased the number of covered and theft-proof bike parking spaces in Dortmund.

RuhrTalente. The project provides children and young people from the eighth grade onward with practical offerings, regular advice, assistance, and individual measures designed to foster their talent, no matter what kind of school they attend. By providing scholarships to students receiving support from RuhrTalente in Dortmund, the Elmos Foundation intends to honor outstanding performance. Another project receiving funding supports the rebuilding of a school and several residential buildings in Nepal, as the region's populace has been unable to do so on its own since the devastating earthquake in 2015. The sustainable, long-term approach to providing help by involving local tradespeople will improve the situation for the people who live there. 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 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		
	2019	2018	2017	2019	2018	2017
Full time	180	169	150	756	700	642
Part time	88	85	79	20	18	13
Total	**268**	**254**	**229**	**776**	**718**	**655**

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. Further 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, primarily for customers from the automotive industry. As a system solutions specialist, our goal is 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.

In addition, Elmos used to develop, produce, and sell high-precision micro-electro-mechanical systems (MEMS) through its subsidiary Silicon Microstructures Inc. (SMI) in Milpitas, U.S.A., which was sold to Measurement Specialties Inc., a subsidiary of TE Connectivity Ltd, and deconsolidated on September 30, 2019. The SMI 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, and machine control systems, among other things. These products accounted for around 15% of sales in 2019.

Our product range is divided into three business lines. The structure of the business lines is oriented toward the products of the target applications:

-> Sensors business line: ranging, optical, sensor ICs

-> Smart Control business line: motor control, lighting

-> Smart Solutions business line: safety/power/custom ICs

The business lines market customer-specific semiconductors (ASICs = application-specific integrated circuits) and application-specific standard chips (ASSPs = application-specific standard products). ASICs 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 45% of Group sales (2018: around 50%). The other roughly 55% is generated with ASSPs (2018: around 50%). A majority of the products in development are ASSPs.

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 in 2018. The repeat audits in 2019 confirmed the high level of the quality management system. 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 Germany (Berlin, Bruchsal, Dresden, Dusseldorf, and Frankfurt/Oder), the U.S. (Detroit), and Asia (including Seoul, Singapore, Shanghai, Shenzhen, 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). The cooperation contract with IMS ends in June 30, 2020. Furthermore, Elmos manufactured MEMS at its subsidiary SMI until its disposal effective September 30, 2019. In-house frontend 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 share of the wafers purchased externally in 2019 was around one third, as in 2018. Cooperation with partners in testing – in addition to cooperation with wafer processing partners as part of the fab lite strategy – was also intensified in 2019 and will undergo further expansion in the years ahead. Similar to the approach taken to wafer processing, the goal is to achieve a high level of capacity utilization of the Group's own in-house manufacturing facilities and to cover any additional needs by working with partners

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.

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 (including payments from the disposal of consolidated companies).

Identical control parameters are applied for the two reporting segments (Semiconductor and MEMS). SMI, which accounted for the entire Micromechanics segment, is included in Elmos' 2019 presentation of sales and results for the first nine months only, as SMI was sold and deconsolidated effective September 30, 2019. Accordingly, the Micromechanics segment will no longer be reported in the future.

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), global automotive markets saw weak development in 2019. Whereas the number of new car registrations changed only slightly year on year in Europe and the U.S., new car registrations fell dramatically in China.

New car registrations[1]	Change 2018/19
Worldwide	-5%
Europe	+1%
Germany	+5%
China	-10%
U.S.	-1%
Semiconductor market	
General semiconductor market (worldwide)[2]	-12%
Automotive semiconductor market (worldwide)[3]	0%

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

According to preliminary figures from the market research institute Gartner, global semiconductor sales fell by 12% in 2019 to 418 billion U.S. dollars. In particular, the memory market saw a sharp decline (-32%). According to a forecast published by the German Electrical and Electronic Manufacturers' Association (ZVEI) in December 2019, sales volume in the automotive semiconductor market was on par with the previous year in 2019.

GUIDANCE VS. ACTUAL PERFORMANCE

Elmos released the forecast for the past fiscal year in February 2019. Elmos changed the forecast accordingly after the sale of the subsidiary SMI closed on September 30, 2019. The adjustment of sales growth reflects the elimination of sales from SMI in the fourth quarter of 2019. Organic growth (adjusted for the contributions from SMI in the yearly comparison) remained unchanged. Adjusted free cash flow was increased to "significantly positive" due to the cash inflow from the transaction in 2019.

With sales growth of 6.2% in 2019, an EBIT margin of 15.4%, capital expenditures of 14.8% of sales, and an adjusted free cash flow of 76.9 million Euro, Elmos fully achieved the targets in its guidance.

	Guidance 02/2019	Guidance 09/2019	ACTUAL 2019	
Sales growth in 2019 (vs. 2018)	6% to 10%	4% to 8%	6.2%	✔
EBIT margin	13% to 17%	13% to 17%	15.4%[3]	✔
Capital expenditures[1] (in % of sales)	<15%	<15%	14.8%	✔
Adjusted free cash flow[2]	Positive	Significantly positive	76.9 million Euro	✔
Average exchange rate	*1.15 USD/EUR*	*1.15 USD/EUR*	*1.12 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 disposal of intangible assets and property, plant, and equipment (including payments from the disposal of consolidated companies)
[3] Without consideration of the result from the sale of the subsidiary SMI and without deduction of the restructuring expenses for the termination of the cooperation with the Fraunhofer Institute IMS

BUSINESS PERFORMANCE AND ECONOMIC SITUATION

Financial statements according to IFRS

The consolidated financial statements of Elmos Semiconductor AG for fiscal year 2019 were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU.

Sales performance

Despite a challenging market environment, sales rose by 6.2% to 294.8 million Euro over the course of 2019. Total sales include sales from both continued and discontinued operations.

Due to the closing of the SMI transaction at the end of the third quarter, the fourth quarter no longer contained sales from the deconsolidated subsidiary. Growth in the continued semiconductor segment stood at 7.7%. 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 2019	FY 2018	Change
Sales	294.8	277.6	6.2%
Gross profit	136.8	125.5	9.0%
in % of sales	46.4%	45.2%	
Research and development expenses	44.6	36.0	23.7%
in % of sales	15.1%	13.0%	
Distribution expenses	20.8	19.7	5.1%
in % of sales	7.0%	7.1%	
Administrative expenses	25.7	20.3	26.2%
in % of sales	8.7%	7.3%	
Operating income before other operating expenses/income	45.8	49.3	-7.2%
in % of sales	15.5%	17.8%	
Foreign exchange losses (–)/gains	-0.8	0.2	n/a
Other operating income	52.3	1.5	>100%
EBIT (reported)	97.3	51.0	90.6%
EBIT (operational)[1]	45.3	51.0	-11.2%
in % of sales	15.4%	18.4%	
Finance income	0.6	0.8	-34.5%
Finance expenses	-1.8	-1.6	16.1%
Earnings before taxes	96.0	49.5	93.8%
in % of sales	32.6%	17.8%	
Consolidated net income attributable to owners of the parent	85.7	35.4	>100%
in % of sales	29.1%	12.8%	
Earnings per share (basic) in Euro	4.36	1.79	>100%
Dividend per share in Euro	0.52[2]	0.52	

[1] Without consideration of the result from the sale of the subsidiary SMI and without deduction of the restructuring expenses for the termination of the cooperation with the Fraunhofer Institute IMS
[2] Proposal to the Annual General Meeting on May 13, 2020

Sales by region: The insignificant changes in the regional distribution of sales were due to changes in delivery addresses and the economic development of individual markets.

Share of sales | in %	FY 2019	FY 2018
E.U. countries	46.7%	45.8%
Asia/Pacific	39.7%	40.9%
U.S.	3.6%	4.3%
Other	10.0%	9.0%

Sales by customer and product: In 2019, the ten largest customers accounted for approximately 57% of sales (2018: 58%); the share of sales accounted for by the ten best-selling products stood at approximately 39% (2018: 41%). A single customer generally purchases several products in different phases of their 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 2019, the book-to-bill ratio in the Semiconductor segment was less than 1. It is important to note that the Semiconductor segment posted record sales in the fourth quarter of 2019. 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 2019 with regard to design wins. Both total project volume and the absolute number of design wins once again stood at a very good level that was comparable with the one seen in the previous year. As in previous years, design wins for ASSPs significantly outnumbered those for ASICs. Design wins generally take two to five years before they go into regular production and make a contribution to sales.

Profit situation

Gross profit: Gross profit rose disproportionately compared to sales. Accordingly, the gross margin increased for the fourth 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): Operating EBIT stood at 45.3 million Euro in the reporting period (2018: 51.0 million Euro), corresponding to an EBIT margin of 15.4% (2018: 18.4%). It is important to note that fiscal year 2019 was characterized by higher research and development expenses, particularly in relation to the opening of a new product development location in Dusseldorf, and by a temporary rise in administrative expenses within the scope of the sale of SMI. The sale of SMI for a net debt-free company value of 95.0 million USD led to other operating income of 63.1 million Euro. The necessary restructuring expenses in connection with the discontinuation of the partnership with Fraunhofer Institute for Microelectronic Circuits and Systems (IMS) in Duisburg resulted in other operating expenses in the amount of 11.1 million Euro. In consideration of these two effects, EBIT (reported) stood at 97.3 million Euro.

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 85.7 million Euro in fiscal year 2019. Consolidated net income was equivalent to basic earnings per share of 4.36 Euro in 2019.

Proposal for the appropriation of retained earnings: Elmos' net income according to HGB amounted to 89.2 million Euro in 2019 (for further details, see the financial statements according to HGB). Profit carried forward from 2018 amounts to 112.8 million Euro after dividend distribution. At the Annual General Meeting on May 13, 2020, the Management Board and the Supervisory Board will propose a dividend of 0.52 Euro per share, from the retained earnings of 202.0 million Euro for 2019. The total dividend payout will therefore amount to 10.2 million Euro based on 19,634,514 shares entitled to dividends as of December 31, 2019.

Sales and earnings in the segments

CONDENSED SEGMENT REPORTING

Segments: The positive sales and earnings development was driven by both segments. The Micromechanics segment consists solely of SMI. SMI has no longer been included in the basis of consolidation since September 30, 2019, when the subsidiary was sold. Since then, SMI's assets and liabilities have no longer been included in the consolidated statement of financial position.

in million Euro or %	Semiconductor (continued segment)			Micromechanics (discontinued segment)		
	FY 2019	FY 2018	Change	FY 2019	FY 2018	Change
Sales	273,4	253,9	7,7%	21,4	23,7	-9,6%
Gross profit	125,6	113,9	10,2%	11,2	11,5	-2,8%
in % of sales	45,9%	44,9%		52,2%	48,5%	
Research and development expenses	40,7	31,4	29,4%	3,9	4,6	-15,2%
in % of sales	14,9%	12,4%		18,2%	19,4%	
Distribution expenses	19,7	18,8	4,6%	1,1	0,9	17,0%
in % of sales	7,2%	7,4%		5,0%	3,9%	
Administrative expenses	23,9	18,0	32,4%	1,8	2,3	-22,4%
in % of sales	8,7%	7,1%		8,4%	9,8%	
Operating income before other operating expenses/income	41,4	45,7	-9,4%	4,4	3,7	20,3%
in % of sales	15,1%	18,0%		20,6%	15,5%	
Foreign exchange losses (-)/gains	-0,8	0,2	n/a	0,0	0,0	n/a
Result from disposal of discontinued business operations	0,0	0,0	n/a	63,1	0,0	n/a
Other operating income	-10,8	1,5	n/a	0,0	0,0	n/a
EBIT	**29,8**	**47,3**	**-37,1%**	**67,5**	**3,7**	**>100%**
in % of sales	10,9%	18,6%		>100%	15,6%	
Consolidated net income	18,6	31,7	-41,4%	67,2	3,7	>100%
in % of sales	6,8%	12,5%		>100%	15,5%	

In a challenging market environment, the continued Semiconductor segment grew by 7.7% to 273.4 million Euro in 2019. EBIT of 29.8 million Euro was negatively impacted by the restructuring expenses for the discontinuation of the contract with IMS.

Financial position

CONDENSED STATEMENT OF CASH FLOWS

in million Euro or %	FY 2019	FY 2018	Change
Consolidated net income	85.8	35.4	>100%
Depreciation and amortization	33.7	25.6	31.4%
Result from disposals of consolidated companies	-63.1	0	n/a
Change in net working capital[1]	-20.7	-21.3	-2.8%
Other items	9.9	8.7	14.1%
Cash flow from operating activities	**45,6**	**48,4**	**-5,8%**
Capital expenditures for intangible assets and property, plant, and equipment	-49.7	-52.0	-4.5%
Disposal of/capital expenditures for securities (-)	5.2	17.8	-71.0%
Payments from the disposal of a companies	82.1	0.0	n/a
Other items	-0.4	-0.1	>100%
Cash flow from investing activities	**37.2**	**-34.3**	**n/a**
Cash flow from financing activities	**-18.3**	**-20.3**	**-9.9%**
Change in liquid assets	64.5	-6.2	n/a
Adjusted free cash flow[2]	**76.9**	**-3.3**	**n/a**

[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 (including payments from the disposal of consolidated companies)

Cash flow from operating activities: Cash flow from operating activities stood at 45.6 million Euro in fiscal year 2019 and was essentially on par with the previous year (48.4 million Euro).

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 expansion of own testing capacity and testing capacity provided by partners. At 37.2 million Euro, cash flow from investing activities was noticeably positive due to income from the sale of SMI.

Cash flow from financing activities: Cash flow from financing activities was affected by various factors, such as the dividend payment of 10.2 million Euros in 2019. As part of the 2018/19 share buyback program, 128,136 shares were bought back at a total purchase price of 2.6 million Euro in the reporting period. The buyback ended as scheduled on December 31, 2019.

At 76.9 million Euro, **adjusted free cash flow** was significantly positive, primarily due to cash inflow from the sale of SMI.

Liquid assets: Cash, cash equivalents, and fungible securities increased year on year due primarily to the sale of SMI.

Financial situation: Elmos is financed by equity, bank loans, and promissory note loans (currently not utilized). 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, 2019, they amounted to 28.7 million Euro (December 31, 2018: 42.4 million Euro). The marked year-on-year decline was attributable to the first-time application of IFRS 16.

Assets and liabilities

CONDENSED STATEMENT OF FINANCIAL POSITION

in million Euro or %	12/31/2019	12/31/2018	Change
Intangible assets	32.9	30.5	7.9%
Property, plant, and equipment	137.8	129.2	6.7%
Other non-current assets	4.8	6.6	-27.8%
Securities (short- and long-term)	28.3	33.6	-15.6%
Inventories	78.8	77.9	1.2%
Trade receivables	50.9	49.3	3.2%
Cash and cash equivalents	95.0	27.1	>100%
Other current assets	11.1	15.0	-26.1%
Total assets	**439.5**	**369.1**	**19.1%**
Equity	339.7	266.6	27.4%
Financial liabilities (current and non-current)	49.1	43.8	12.1%
Other non-current liabilities	7.3	5.9	24.5%
Trade payables	10.2	25.9	-60.8%
Other current liabilities	33.3	26.9	23.9%
Total equity and liabilities	**439.5**	**369.1**	**19.1%**

In 2019, total assets increased to 439.5 million Euro. The rise on the assets side of the statement of financial position was due in particular to the increase in cash and cash equivalents following the sale of SMI. The liabilities side was mainly influenced by the resulting increase in equity.

DETERMINATION OF ROIC

in million Euro or %	2019	2018
❶ EBIT	97.3 | 45.3[1]	51.0
	12/31/2019	12/31/2018
Intangible assets	32.9	30.5
Property, plant, and equipment	137.8	129.2
Inventories	78.8	77.9
Trade receivables	50.9	49.3
less		
Trade payables	10.2	25.9
❷ Invested capital	**290.2**	**260.9**
RoIC (❶/❷)	33.5% | 15.6%[1]	19.6%

[1] based on operating EBIT

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. Operating RoIC stood at 15.6% in 2019, down from 19.6% in 2018 on account of a slight decline in EBIT and an increase in invested capital.

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 2019. Capital expenditures related, in particular, to the sustainable development of own test capacity and test capacity provided by partners. 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 sale of SMI enables the Company to focus more intensively on expanding the core business. 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 2019

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 2020 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 2020 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 2020 should also influence the business result of Elmos Semiconductor AG. Overall, we expect that Elmos Semiconductor AG's retained earnings in 2020 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 2019	FY 2018	Change
Sales	**272.5**	**252.8**	**7.8%**
Increase in inventories, other own work capitalized, and other operating income	95.0	22.2	>100%
Material costs	121.2	112.7	7.6%
Personnel expenses	78.5	69.1	13.5%
Amortization of intangible assets and depreciation of fixed assets and property, plant, and equipment	27.9	21.1	32.4%
Other operating expenses	56.0	41.9	33.7%
Operating income	**83.8**	**30.2**	**>100%**
Income from investments and financial result	14.0	0.2	>100%
Earnings before taxes	**97.9**	**30.4**	**>100%**
Net income	**89.2**	**20.1**	**>100%**

In the past fiscal year, sales increased by 7.8% to 272.5 million Euro. Operating income rose significantly to 83.8 million Euro in 2019 and included income from the sale of SMI.

Financial position

CONDENSED STATEMENT OF CASH FLOWS (HGB)

in million Euro or %	FY 2019	FY 2018	Change
Net income	**89.2**	**20.1**	**>100%**
Depreciation and amortization	27.9	21.1	32.4%
Income from the disposal of fixed assets	-70.2	0	n/a
Increase(+) in current provisions and write-downs on financial investments	9.3	3.0	>100%
Increase (+)/decrease (-) in inventories, trade receivables, and other assets	-8.1	-20.8	-61.2%
Decrease (-)/increase (+) in trade payables and other liabilities	-19.1	**20.5**	n/a
Cash flow from operating activities	**29.1**	**43.9**	**-33.7%**
Cash flow from investing activities	**52.7**	**-31.4**	**n/a**
Cash flow from financing activities	**-14.2**	**-20.1**	**-29.3%**
Change in cash and cash equivalents	67.5	-7.6	n/a
Cash and cash equivalents at beginning of period	20.8	28.4	-26.9%
Cash and cash equivalents at end of period	**88.3**	**20.8**	**>100%**

Cash flow from operating activities decreased compared to 2018 due, in particular, to the decline in trade payables. The change in cash flow from investing activities was primarily attributable to income from the sale of SMI.

Due to the sale of the subsidiary SMI, cash and cash equivalents as of the end of fiscal year 2019 increased substantially compared to the previous year.

Assets and liabilities

CONDENSED STATEMENT OF FINANCIAL POSITION (HGB)

in million Euro or %	12/31/2019	12/31/2018	Change
Fixed assets	166.9	176.3	-5.4%
Inventories	78.0	68.0	14.8%
Receivables and other assets	61.0	62.1	-1.8%
Marketable securities	11.0	12.1	-8.9%
Cash in hand, cash in banks	88.3	20.8	>100%
Other assets	1.5	2.4	-36.6%
Total assets	**406.7**	**341.6**	**19.1%**
Equity	316.2	240.9	31.2%
Provisions	27.6	18.4	50.2%
Liabilities	63.0	82.4	-23.6%
Total equity and liabilities	**406.7**	**341.6**	**19.1%**

Total assets increased by 19.1% compared to December 31, 2018, and totaled 406.7 million Euro as of December 31, 2019. On the assets side, the rise was attributable in particular to the increase in cash and cash equivalents due to the sale of SMI. On the liabilities side, the rise was also due to the resulting increase in equity.

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 202.0 million Euro. At the Annual General Meeting on May 13, 2020, the Management Board and Supervisory Board will propose that the retained earnings for fiscal year 2019 will 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 events or transactions of special significance after the end of fiscal year 2019 that had not already been included in the income statement or in the statement of financial position.

Elmos announced on January 27, 2020, that the partnership between Elmos Semiconductor AG and Fraunhofer Institute for Microelectronic Circuits and Systems (IMS) in Duisburg would end once the agreed-upon term of the contract expires on June 30, 2020. The termination of this contract is expected to lead to restructuring expenses in the amount of 11.1 million Euro at Elmos. Said restructuring expenses were reported in fiscal year 2019. The necessary communication on the matter took place with the works council prior to the reporting date. Apart from the restructuring expenses, the scheduled end of the partnership will not have a material impact on the quality of operating earnings going forward.

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, where we also seize opportunities for growth.

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.

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-specific 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). 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.

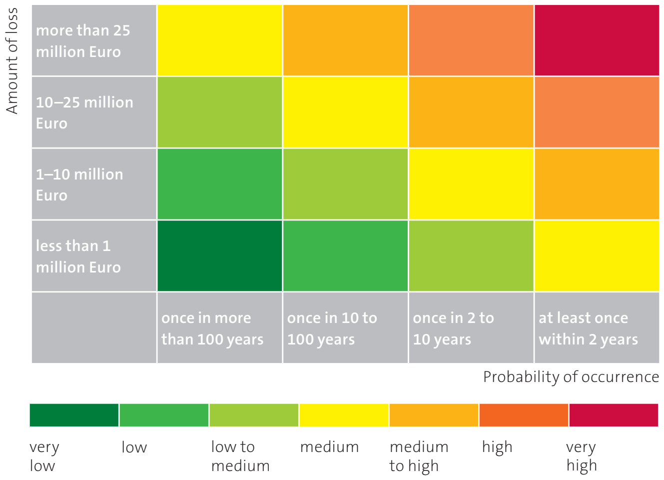
Binding standards and rules have been defined for risk identification. In a standardized process of review sessions, the divisions report on the current state of material risks with defined gradual thresholds. Ad hoc risks and damages that occur are communicated immediately and outside the usual reporting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

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 and extensive trade restrictions, 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, or an increase in sovereign debt could have a negative effect on the ability and willingness of our customers to use our products. Regarding the Brexit, Elmos currently does not expect a foreseeable significant negative impact on the company.

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 risks

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 risks *(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 risks

The raw materials Elmos needs for manufacturing are available worldwide in part from different suppliers, yet controlled by monopolies in some cases. 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 countries wherever possible. Despite the efforts to spread risk by using various different partners, there is a risk of a long-term interruption to operations – for example, due to a strike or due to the closure of facilities by a manufacturing partner. Such events could negatively impact the ability to supply Elmos products or render them unusable due to a lack of further processing. Elmos is not able to rule out or influence an interruption or stop in production at a partner's manufacturing facilities.

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. In particular, the price of wafers is subject to volatility, in some cases significant, on the global market.

Warranty claims and 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 has taken out product liability insurance as a way of limiting this risk.

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 risks

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 has proactively increased its protection against cyberattacks in recent years and is continuously working on further improvements. Furthermore, processing procedures and technical systems that involve personal data have been adapted to the strict requirements of the General Data Protection Regulation (GDPR), which was introduced in 2018. Despite all technical precautions, as well as reviews and audits conducted by external providers, 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. Insurance for further risks, such as cyberattacks, as well as fidelity bonds have been taken out. 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. Such cases can neither be predicted nor ruled out. Irrespective of this, it should be noted that the occurrence of an individual risk, even if it does not develop into an extreme case, can have a strong negative impact on the profit, financial position as well as assets and liabilities of the company.

The aforementioned risks are assessed by management based on the 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

The International Monetary Fund (IMF) expects (as of January 2020) global growth of 3.3% in 2020 (2019: 2.9%). All told, the IMF lists a number of risks, including the renewed escalation of trade disputes and geopolitical tensions between countries such as the United States and Iran. In December 2019, the VDA expected the global automotive market to contract by 1% for the current year compared with 2019. Due to the effects of the coronavirus, the VDA predicts as of the end of February 2020 a 3% decline in new car registrations worldwide, with a forecasted decline of 7% for China.

According to ZVEI (as of December 2019), the global semiconductor market will grow by 4% in 2020. Verified Market Research (as of January 2020) expects average annual growth of 5% in the global automotive semiconductor market in the period from 2018 to 2025.

PREDICTED MARKET DEVELOPMENT

Gross domestic product[1]	Forecast 2020
Worldwide	+3.3%
Europe	+1.3%
Germany	+1.1%
China	+6.0%
U.S.	+2.0%
New car registrations	
Worldwide	-1%[2] /-3%[3]
Europe	-2%[2]/-3%[3]
China	-2%[2]/-7%[3]
U.S.	-3%[2]/-3%[3]
Semiconductor market	
General semiconductor market[4]	+4%
Automotive semiconductor market (ø 2018-2025)[5]	+5%

Sources: [1] IWF (as of January 2020), [2] VDA (as of December 2019), [3] VDA (as of the end of February 2020), [4] ZVEI (as of December 2019), [5] Verified Market Research (as of January 2020)

OPERATIONAL TARGETS 2020

Targets for sales and earnings

The outlook for Elmos for fiscal year 2020 is based on the aforementioned expectations and assumptions pertaining to general business developments and specific industry developments.

Based on the current subdued economic situation, particularly in the automotive sector, Elmos expects sales to grow in the low single-digit percentage range in 2020 compared to the sales of 273.4 million Euro generated in 2019 from the continued activities of the semiconductor segment. The EBIT margin is expected to be between 11% and 16%. Because of the as yet unforeseeable impact of the coronavirus on the economy potential consequences are not included.

The guidance is based on an exchange rate of 1.10 USD/EUR.

Targets for capital expenditures and liquidity

The current semiconductor testing alliance with external partners will be continued and intensified in 2020. Capital expenditures for property, plant and equipment and intangible assets, less capitalized development expenses, are slated to amount to less than 15% of sales (2019: 14.8%). Elmos expects to achieve a positive adjusted free cash flow in 2020 (2019: 76.9 million Euro).

FORECAST 2020

Sales growth in 2020 (vs. 273.4 million Euro in 2019)[1]	low single-digit percentage range
EBIT margin	11% to 16%
Capital expenditures (in % of sales)[2]	<15%
Adjusted free cash flow[3]	Positive
Assumed exchange rate	*1.10 USD/EUR*

[1] Previous-year sales adjusted for sales generated by SMI
[2] Capital expenditures for intangible assets and property, plant and equipment, less capitalized development expenses
[3] Cash flow from operating activities less capital expenditures for/plus disposals of intangible assets and property, plant and equipment (including payments from the disposal of consolidated companies)

Dividend targets

Free liquidity is planned to be utilized in part for the payment of a dividend. Due to the business and earnings development, the Supervisory Board and Management Board will propose to the Annual General Meeting in May 2020 the payment of a stable dividend, compared to the previous year, in the amount of 0.52 Euro (previous year: 0.52 Euro) per share.

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, 2019 (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 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 and the subsequent effects

Various agreements – particularly certain loan agreements, supply agreements, license agreements, patent cross license agreements, investment agreements, and cooperation agreements, software agreements, and development agreements, as well as agreements or notices on public funding – contain change-of-control clauses. In particular, such clauses entitle the contracting partner the option to terminate the contractual agreement ahead of schedule and/ or to assert claims for damages in the event of material changes in the ownership structure of Elmos. Such clauses are common in the market.

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 to six months from the occurrence of a change of control with three to 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 regarding shareholding periods, share-price-based remuneration, 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

STATEMENT OF FINANCIAL POSITION

Assets | thousand Euro	Notes	12/31/2019	12/31/2018
Intangible assets	14	32,864	30,455
Property, plant and equipment[1]	15	137,803	129,169
Investments in associates	16	0	0
Securities	16	17,324	21,446
Investments	16	1	20
Other financial assets	21	4,704	4,283
Deferred tax assets	17	56	2,312
Non-current assets		**192,751**	**187,685**
Inventories	18	78,759	77,862
Trade receivables	19	50,928	49,344
Securities	16	11,003	12,108
Other financial assets	21	3,418	4,247
Other receivables	21	7,242	10,591
Income tax assets		403	123
Cash and cash equivalents	20	95,018	27,137
Current assets		**246,771**	**181,411**
Total assets		**439,522**	**369,097**

[1] Due to first-time adoption of IFRS 16, rights of use are disclosed under property, plant and equipment and thus under the same item the underlying assets owned by the Group are disclosed under.

Equity and liabilities | thousand Euro	Notes	12/31/2019	12/31/2018
Share capital	22	20,104	20,104
Treasury shares	22	-469	-355
Additional paid-in capital	22	82,490	84,567
Surplus reserve		102	102
Other equity components	22	123	68
Retained earnings		236,732	161,615
Equity attributable to owners of the parent		**339,081**	**266,101**
Non-controlling interests		582	529
Equity		**339,663**	**266,630**
Financial liabilities[2]	25	44,680	42,449
Deferred tax liabilities	17	7,284	5,852
Non-current liabilities		**51,964**	**48,301**
Provisions	24	22,233	13,766
Income tax liabilities	26	6,157	8,391
Financial liabilities[2]	25	4,390	1,340
Trade payables	27	10,159	25,908
Other liabilities	26	4,956	4,761
Current liabilities		**47,895**	**54,166**
Liabilities		**99,859**	**102,467**
Total equity and liabilities		**439,522**	**369,097**

[2] Due to first-time adoption of IFRS 16, the Group has disclosed lease liabilities under financial liabilities.

CONSOLIDATED INCOME STATEMENT

thousand Euro	Notes	FY 2019	FY 2018[1]
Sales	6	**294,835**	**277,588**
thereof from discontinued operations	6	-21,448	-23,718
Sales from continuing operations	6	**273,387**	**253,870**
CONTINUING OPERATIONS			
Sales from continuing operations	6	**273,387**	**253,870**
Cost of sales	7	-147,798	-139,929
Gross profit		**125,589**	**113,941**
Research and development expenses	7	-40,693	-31,448
Distribution expenses	7	-19,681	-18,822
Administrative expenses	7	-23,860	-18,017
Operating income before other operating expenses (-)/income		**41,356**	**45,654**
Foreign exchange losses (-)/gains	10	-788	176
Other operating income	11	2,398	3,054
Other operating expenses	11	-2,088	-1,552
Earnings before interest and taxes (EBIT) before restructuring expenses		**40,878**	**47,332**
Restructuring expenses	11	-11,126	0
Earnings before interest and taxes (EBIT) from continuing operations		**29,753**	**47,332**
Share in net income of associates	16	0	-787
Finance income	9	551	841
Finance costs	9	-1,574	-1,568
Earnings before taxes		**28,730**	**45,818**
Income tax[2]		**-10,145**	**-14,093**
thereof current income tax	12	-8,924	-11,625
thereof deferred tax	12	-1,221	-2,468
Consolidated earnings after taxes from continuing operations		**18,586**	**31,726**
DISCONTINUED OPERATIONS			
Consolidated earnings after taxes from discontinued operations	5	**67,174**	3,675
Consolidated net income from continuing & discontinued operations		**85,760**	**35,400**
thereof attributable to owners of the parent		85,707	35,447
thereof attributable to non-controlling interests		53	-47
Earnings per share[3]		**Euro**	**Euro**
Basic/Fully diluted earnings per share	13	4.36	1.79

[1] Previous year adjusted due to IFRS 5 adoption (differentiation between continuing and discontinued operations)
[2] Includes taxes on profits from the sale of the disposal from the basis of consolidation
[3] After consideration of restructuring expenses, basic / fully diluted earnings per share (from continuing operations) amount to 0.94 Euro (2018: 1.61 Euro or rather 1.60 Euro).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

thousand Euro	Notes	FY 2019	FY 2018
Consolidated net income from continuing & discontinued operations		**85,760**	**35,400**
Items to be reclassified to the income statement in later periods including respective tax effects			
Foreign currency adjustments without deferred tax effect		722	633
Foreign currency adjustments with deferred tax effect		386	632
deferred tax on this item	22	-127	-174
Changes in market value of financial assets measured at market value	22	410	-236
deferred tax on this item	22	-134	77
Items not to be reclassified to the income statement in later periods including respective tax effects			
Actuarial losses (-)/gains from pension plans	22	-164	939
deferred tax on this item	22	54	-274
Other comprehensive income after taxes		**1,147**	**1,597**
Total comprehensive income after taxes		**86,907**	**36,997**
thereof attributable to owners of the parent		86,854	37,044
thereof attributable to non-controlling interests		53	-47

ADDITIONAL INFORMATION FOR DETERMINING THE OPERATING EBIT

thousand Euro	Notes	FY 2019	GJ 2018
Earnings before interest and taxes (EBIT) from continuing & discontinued operations		**97,260**	**51,036**
Restructuring expenses	11	11,126	0
Earnings from sale of discontinued operations	5	-63,063	0
Earnings before interest and taxes (EBIT) (from operations)		**45,323**	**51,036**

CONSOLIDATED STATEMENT OF CASH FLOWS

thousand Euro	Notes	FY 2019	FY 2018
Consolidated net income from continuing & discontinued operations		85,760	35,400
Depreciation and amortization	8	33,668	25,615
Losses/Gains (-) from disposal of non-current assets		137	-21
Earnings from the sale of discontinued operations	5	-63,063	0
Financial result		1,266	1,513
Other non-cash income (-)/expense		-2,050	1,439
Current income tax	12	8,924	12,011
Expense for stock awards/share matching		83	164
Changes in pension provisions		0	48
Changes in net working capital:			
Trade receivables	19	-3,323	-4,953
Inventories	18	-10,066	-12,810
Other assets	21	3,821	-2,346
Trade payables	27	-7,359	-3,581
Other provisions and other liabilities		10,053	3,409
Income tax payments		-11,602	-7,381
Interest paid	9	-1,191	-891
Interest received	9	508	773
Cash flow from operating activities		**45,566**	**48,389**
Capital expenditures for intangible assets	14	-8,668	-12,864
Capital expenditures for property, plant and equipment	15	-41,011	-39,173
Payments from disposal of non-current assets held for sale		34	351
Disposal of investments	16	19	0
Payments from disposal from basis of consolidation	5	82,118	0
Disposal of/Payments for (-) securities	16	5,170	17,812
Payments for other non-current financial assets	21	-484	-443
Cash flow from investing activities		**37,178**	**-34,317**

CONSOLIDATED STATEMENT OF CASH FLOWS

thousand Euro	Notes	FY 2019	FY 2018
Repayment of non-current financial liabilities	25	0	-363
Repayment of current financial liabilities	25	-328	-10,000
Share-based payment/Issue of treasury shares		-1,388	-1,364
Share buyback		-2,582	-784
Dividend distribution	36	-10,218	-7,906
Repayment of liabilities from installment purchase		-614	-74
Repayment of lease liabilities		-3,382	0
Other changes		232	200
Cash flow from financing activities		**-18,280**	**-20,291**
Increase/Decrease (-) in cash and cash equivalents		**64,464**	**-6,219**
Effect of exchange rate changes on cash and cash equivalents		3,417	988
Cash and cash equivalents at beginning of reporting period	20	27,137	32,367
Cash and cash equivalents at end of reporting period	**20**	**95,018**	**27,137**

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	Currency translation	Unrealized actuarial gains/losses (-)				
01/01/2018		**20,104**	**20,104**	**-414**	**85,093**	**102**	**-273**	**-394**	**-862**	**136,177**	**239,532**	**588**	**240,120**
Consolidated net income from continuing & discontinued operations										35,447	35,447	-47	35,400
Other comprehensive income for the period	22						-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	22			104	200					-1,623	-1,319		-1,319
Share buyback	22			-45	-784						-829		-829
Dividend distribution										-7,906	-7,906		-7,906
Expense for stock awards/share matching					164						164		164
Other changes					-106					-479	-585	-13	-598
12/31/2018		**20,104**	**20,104**	**-355**	**84,567**	**102**	**-432**	**697**	**-197**	**161,615**	**266,101**	**529**	**266,630**
Consolidated net income from continuing & discontinued operations										85,707	85,707	53	85,760
Other comprehensive income for the period	22						276	981	-110		1,147		1,147
Total comprehensive income							276	981	-110	85,707	86,854	53	86,907
Share-based payment/Issue of treasury shares	22			14	297					-1,699	-1,388		-1,388
Share buyback	22			-128	-2,454						-2,582		-2,582
Dividend distribution										-10,218	-10,218		-10,218
Expense for stock awards	22				83						83		83
Other changes					-3			-1,092		1,327	232		232
12/31/2019		**20,104**	**20,104**	**-469**	**82,490**	**102**	**-156**	**586**	**-307**	**236,732**	**339,081**	**582**	**339,663**

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 Association are in effect in the version of March 26, 1999, last amended by resolution of the General Meeting of Shareholders 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 purpose of the business. The Company is authorized to conduct business in Germany as well as abroad. In addition to its domestic branches, the Company has sales companies and business 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 at the Frankfurt Stock Exchange.

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

ACCOUNTING POLICIES

1 – Principles of financial accounting

General information

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

The consolidated financial statements of Elmos have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU) and the supplementary applicable regulations of German commercial law as stipulated by Section 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 March 10, 2020.

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 value in use is determined, uncertainties of estimates especially relate to gross margins and discount rates. Gross margins have been estimated on the basis of historical values of the past years in consideration of expected changes in demand and increases in efficiency. Discount rates reflect current market assessments and have been estimated on the basis of customary weighted average cost of capital. More detailed information can be found under notes 3 and 14.

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 17.

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 24.

Development expenses

Development expenses are capitalized in accordance with the accounting policies and valuation methods described under note 3 at the best possible estimates. More detailed information can be found under note 14.

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 15.

Leases

In addition to establishing an adequate capitalization interest rate, the valuation of rights of use as well as liabilities under leases requires assumptions with respect to other parameters or rather the probability and dates of entry or exercise. The Group cannot readily determine the interest rate the lease is based on in the individual case. Therefore the Group also applies its incremental borrowing rate for measuring lease liabilities. That is the interest the Group would have to pay if it borrowed the funds over a comparable term at comparable security it would require in a similar economic environment for an asset with a value that is similar to the right of use. Some leases include purchase options/renewal options that can be exercised by the Group prior to expiry of the uncancelabe term. The Group evaluates as of the provision date if the exercise of such options is likely. Depending on this assessment, the lease's underlying useful life is determined. More detailed information on leases can be found under notes 3 and 15.

Changes to prior-year amounts/Discontinued operations

Due to the sale of Silicon Microstructures Inc., Milpitas (U.S.A.) and the corresponding deconsolidation of the Micromechanics segment, the provisions of IFRS 5 for so-called discontinued operations were applied. Accordingly, all income and expenses including the profit from the entity's sale attributable to the discontinued business segment are offset and the balance is entered under "Consolidated earnings after taxes from discontinued operations" in the consolidated income statement. Prior-year amounts entered in the consolidated income statement have been adjusted accordingly in order to present the discontinued business separately from continuing operations.

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 2019.

Standard/Amendments to standards/ Interpretations	First-time mandatory application in the EU	Effects on Elmos
Amendments to IAS 19 – *Employee Benefits:* Plan Amendment, Curtailment or Settlement	01/01/2019	Immaterial
Amendments to IAS 28 – *Investments in Associates and Joint Ventures:* Long-term Interests in Associates and Joint Ventures	01/01/2019	Immaterial
Amendments to IFRS 9 – *Financial instruments:* Prepayment Features with Negative Compensation	01/01/2019	None
IFRS 16 – Leases	01/01/2019	See annotations below
Improvements to IFRS 2015 -2017	01/01/2019	Immaterial
IFRIC 23 – *Uncertainty over Income Tax Treatments*	01/01/2019	Immaterial

IFRS 16 – *Leases*

In January 2016, the IASB released the new standard IFRS 16 – Leases. The new standard includes revised provisions for the definition of a lease as well as for the scope and financial accounting for both lessor and lessee. It supersedes the previous standard for leases, IAS 17. For the transition to the implementation of IFRS 16, the Group opted for making use of the simplified approach for maintaining the assessment which transactions qualify as leases. The Group applied IFRS 16 only to contracts previously identified as leases. Contracts not identified as leases in accordance with IAS 17 and IFRIC 4 were not reviewed for fulfillment of the criteria of IFRS 16 for leases. Accordingly the definition of a lease according to IFRS 16 was applied only to contracts concluded or amended on or after January 1, 2019. As lessee, the Elmos Group leases various assets such as real property, production facilities, and passenger cars. So far the Group has categorized leases as operating leases based on the assessment if essentially the lessor has all the rights and opportunities linked to ownership of the underlying asset.

Elmos has analyzed all existing leases with respect to the effects of the new standard. The transition to the implementation of IFRS 16 resulted in a reactivation of items of property, plant and equipment in the amount of 17,247 thousand Euro as of January 1, 2019. The additional lease liabilities were accounted for in the same amount. Accordingly, the adjustment did not have an equity effect.

Based on operating leases as of December 31, 2018, the reconciliation to the opening item of lease liabilities in the statement of financial position as of January 1, 2019 reads as follows:

thousand Euro	
Operating lease liabilities as of December 31, 2018 as reported in the consolidated financial statements according to IAS 17	18,379
Simplified approach for short-term leases	-205
Gross lease liabilities as of January 1, 2019	**18,174**
Discounting after activation according to IFRS 16	-2,104
Net lease liabilities as of January 1, 2019	**16,070**
Reasonably assured purchase option	5,033
Non-lease components	-4,359
Passenger car lease	503
Additional lease liabilities from first-time adoption of IFRS 16 as of January 1, 2019	**17,247**
Lease liabilities from finance lease as of January 1, 2019	0
Total lease liabilities as of January 1, 2019	**17,247**

For measuring lease liabilities from operating leases, the Group has discounted lease payments with the respective underlying interest rate or, if it could not be identified, the incremental borrowing rate. Interest rates applied range between 1.07% and 6.91%.

First-time adoption of IFRS 16 complied with the transitional provisions of IFRS 16 according to the modified retrospective approach. Accordingly, comparative figures of fiscal year 2018 were not adjusted but presented as before in accordance with IAS 17 and the corresponding interpretations. Moreover, disclosures required under IFRS 16.51ff were not generally applied to comparative information. Lease payments are entered in the consolidated statement of cash flows in the amount of the interest component, in the cash flow of operating activities, and in the amount of the principal component, in the cash flow from financing activities. As of January 1, 2019 (date of first-time adoption of IFRS 16 - Leases), the Elmos Group measures all contracts representing a lease agreement or including a lease at the present value of minimum lease payments upon their first-time recognition as financial liabilities. In the same amount, a corresponding right of use of the underlying asset is recognized under property, plant and equipment upon first-time recognition if the term exceeds 12 months or if the asset is not a low-value asset (right to choose). Lease expenses are no longer charged directly to expenses in the consolidated income statement in their full amount; each lease payment is rather divided into its interest and principal components. While the interest component is directly entered into the financial result, straight-line depreciation of the right of use is recognized in the consolidated income statement rather than the principal component.

Amendments to standards voluntarily applicable in advance and revised conceptual framework (EU endorsed)

The IASB has released the following amendments to standards as well as a revised conceptual framework 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 2019 yet. The Group does not apply these amendments to standards or the revised conceptual framework in advance.

Amendments to standards/Revised conceptual framework	First-time mandatory application in the EU	Effects on Elmos
Amendments to IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors:* Definition of Material	01/01/2020	Immaterial
Amendments to IFRS 9 – *Financial Instruments,* IAS 39 – *Financial Instruments:* Recognition and Measurement and IFRS 7 – *Financial Instruments: Disclosures:* Interest Rate Benchmark Reform	01/01/2020	Immaterial
References to the revised conceptual framework	01/01/2020	Immaterial

Standards and amendments to standards not yet applicable in the EU (not EU endorsed)

The IASB has released the following standards and amendments to standards that were not subject to mandatory application in fiscal year 2019. These standards and amendments to standards have so far not been endorsed by the EU and are therefore not adopted by the Group.

Standards/Amendments to standards	First-time mandatory application according to IASB	Effects on Elmos
Amendments to IAS 1 – *Presentation of Financial Statements:* Classification of Liabilities as Current or Non-current	01/01/2022	Immaterial
Amendments to IFRS 3 – *Business Combinations:* Definition of a Business	01/01/2020	Immaterial
IFRS 17 – *Insurance Contracts*	01/01/2021	None

2 – Principles of consolidation

Basis of consolidation and consolidation methods

In addition to Elmos Semiconductor AG, the consolidated financial statements prepared for fiscal year 2019 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 33.

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 or losses from currency hedges during fiscal year 2019, please refer to note 30.

Statement of cash flows

The cash flow statement shows how cash and cash equivalents have changed in the course of the fiscal year by inflows and outflows of funds. The effects of acquisitions and divestitures as well as other changes 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 primarily by selling ASICs and ASSPs 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 which Elmos is probably entitled to claim. 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 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 measured reliably. These criteria apply to capitalized development projects in connection with the development of ASICs. Projects are also capitalized 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 for no longer than 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 8). There were no other intangible assets with indefinite useful lives in fiscal year 2019 or in fiscal year 2018.

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 items 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.

Leases

The Group assesses at contract inception whether a contract originates or contains a lease. This is the case if the contract gives the right to control the use of an identified asset for a certain period of time against payment. The Group recognizes the right of use of the underlying asset and liabilities for lease payments.

Rights of use: The Group recognizes rights of use as of their provision date, i.e. the date on which the underlying asset is available for use. Rights of use are measured at acquisition cost less all accumulated depreciation and all accumulated impairment loss. Expenses for rights of use comprise recognized lease liabilities, initial direct costs incurred, and lease payments made at or prior to provision less any lease incentives. Subsequently the right of use is subject to straight-line deprecation from the provision date until the expiry of the lease term unless ownership of the underlying asset is transferred to the Group as of the completion of the lease term or the expenses for the right of use make allowance for the fact that the Group will exercise a purchase option. In that case the right of use is depreciated over the useful life of the underlying asset identified according to the provisions for property, plant and equipment. In addition to that, the right of use is continuously adjusted for impairment if necessary and adjusted for certain revaluations of the lease liabilities. The Group reports rights of use that do not meet the definition of investment property under property, plant and equipment in the consolidated statement of financial position.

Lease liabilities: As of the provision date, the Group recognizes lease liabilities at the present value of the lease payments to be made over the term of the lease, discounted with the interest rate underlying the lease or, if that interest cannot be readily determined, with the Group's incremental borrowing rate. Lease payments comprise fixed payments and also include the exercise price of a purchase option if it is reasonably assured that the Group will actually exercise the option, lease payments for a renewal option if the Group is reasonably certain it will exercise the option, and penalty payments for premature termination of the lease unless the Group is reasonably certain it will not terminate prematurely. Any lease liability is measured at amortized book value under the effective interest method. It is remeasured if the future lease payments change due to changes in index or interest rates, if the Group adjusts its estimate for probable payments within the context of a residual value guarantee, if the Group changes its assessment on the exercise of a purchase, renewal or termination option, or if a de-facto fixed lease payment changes. In the consolidated statement of financial position, lease liabilities are reported under non-current or current financial liabilities.

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)" and measured at that value. Investments for which there is no active market are also classified as "at fair value through other comprehensive income (no recycling)" and measured at amortized cost. Insofar it is assumed that the book value equals the market value.

Financial instruments

According to IFRS 9, a financial instrument is a contract that originates a financial asset for one entity and 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 as well as the characteristics of the contractual cash flows of the financial asset or liability.

-> Hold and sell
-> Hold
-> Handel
-> 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 asset 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 reported 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 24.

The accounting principles provide that:

-> All benefit improvements the Company is committed to as of the current valuation date are reflected in the planned benefit obligation, and

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

Adequate provisions for warranty and product liability claims are made in individual cases upon risk assessment with respect to sales-oriented as well as legal consequences. Provisions for restructuring measures are entered when the Group has adopted a detailed and formal restructuring plan and restructuring measures have either begun or have been publicly announced.

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 in which the Group operates 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 is 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 reasonably 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 31.

Borrowing costs

Borrowing costs directly attributable to an asset's acquisition, construction or manufacture and for which a considerable period of time is required to 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.

Discontinued operations

A part of the Group's business whose activities and cash flows can be separated from the rest of the Group for the purpose of business operations and accounting is disclosed as a discontinued operation if it has either been sold or categorized as held for sale and:

- -> represents a separate material line of business or a geographic business segment
- -> is part of an individual coordinated plan for the sale of a material line of business or geographic business segment, or
- -> represents a subsidiary that was acquired solely with the intent to sell.

If a business segment is categorized as a discontinued operation, the consolidated income statement for the year of comparison is adjusted as if the operation had been discontinued as of the beginning of the year of comparison. Discontinued operations are not included in the income from continuing operations and they are disclosed in the consolidated income statement in a separate item as "Consolidated earnings after taxes from discontinued operations."

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. Until September 30, 2019, the Company divided 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. 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 were generated by U.S. subsidiary SMI. The product portfolio contains micro-electro-mechanical systems (MEMS) which are for the most part silicon-based high-precision pressure sensors.

Effective September 30, 2019, subsidiary SMI left the Elmos Group's basis of consolidation due to a sale of the shares in this entity. The figures attributed to the Micromechanics segment for fiscal year 2019 thus comprise only the period from January 1 to September 30, 2019.

Up to that point in time, business operations were 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 were 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, 2019 and December 31, 2018.

thousand Euro	Semiconductor		Micromechanics		Consolidation		Group	
	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
Third-party sales	273,387	253,870	21,448	23,718	0	0	294,835	277,588
Inter-segment sales	418	321	1,010	1,136	-1,428[1]	-1,457[1]	0	0
Sales	**273,805**	**254,191**	**22,458**	**24,854**	**-1,428**	**-1,457**	**294,835**	**277,588**
Depreciation	33,668	24,676	1,268	939	0	0	34,936	25,615
Other material non-cash expenses	-11,809	-547	0	0	0	0	-11,809	-547
Other material non-cash income	0	463	0	0	0	0	0	463
Income from sale of discontinued operations	0	0	63,063	0	0	0	63,063	0
Segment income (EBIT), total	29,753	47,332[2]	67,507	3,704[2]	0	0	97,260	51,036
Share in net income of associates	0	-787	0	0	0	0	0	-787
Finance income							551	841
Finance cost							-1,817	-1,567
Earnings before taxes							**95,993**	**49,523**
Income tax	-10,145	-14,093	-89	-30	0	0	-10,233	-14,123
Consolidated net income including non-controlling interests							**85,760**	**35,400**
Segment assets	344,045	321,210	0	18,295	95,477[3]	29,572[3]	439,521	369,077
Investments in associates	0	0	0	0	0	0	0	0
Investments	1	20	0	0	0	0	1	20
Total assets							**439,522**	**369,097**
Segment liabilities (total liabilities)	**37,348**	**41,837**	**0**	**2,598**	**62,511[4]**	**58,032[4]**	**99,859**	**102,467**
Other segment information								
Additions to intangible assets and property, plant and equipment	56,533	61,034	6,173	827	0	0	62,706	61,861

[1] Sales from inter-segment transactions are eliminated for consolidation purposes.
[2] Prior-year figures have been adjusted.
[3] Non-attributable assets as of December 31, 2019 and December 31, 2018 respectively include cash and cash equivalents (12/31/2019: 95,018 thousand Euro; 12/31/2018: 27,137 thousand Euro), income tax assets (12/31/2019: 403 thousand Euro; 12/31/2018: 123 thousand Euro), and deferred taxes (12/31/2019: 56 thousand Euro; 12/31/2018: 2,312 thousand Euro) as these assets are managed at Group level.
[4] Non-attributable liabilities as of December 31, 2019 and December 31, 2018 respectively include current financial liabilities (12/31/2019: 4,390 thousand Euro; 12/31/2018: 1,340 thousand Euro), non-current financial liabilities (12/31/2019: 44,680 thousand Euro; 12/31/2018: 42,449 thousand Euro), current tax liabilities (12/31/2019: 6,157 thousand Euro; 12/31/2018: 8,391 thousand Euro), and deferred tax (12/31/2019: 7,284 thousand Euro; 12/31/2018: 5,852 thousand Euro) as these liabilities are managed at Group level.

Other non-cash expenses in fiscal year 2019 comprise, among other items, expenses from share matching plans and stock awards (83 thousand Euro; previous year: 164 thousand Euro), impairment of goodwill in the amount of 600 thousand Euro (previous year: 0 thousand Euro), and restructuring expenses in the amount of 11,126 thousand Euro (previous year: 0 thousand Euro) in connection with the termination of the cooperation agreement between Elmos Semiconductor AG and the Fraunhofer Institute for Microelectronic Circuits and Systems (IMS) in Duisburg upon expiry of the agreed term as of June 30, 2020.

Finance income in the amount of 551 thousand Euro (previous year: 841 thousand Euro) contains interest income of 508 thousand Euro (previous year: 775 thousand Euro) relating entirely to the Semiconductor segment. Finance costs of 1,817 thousand Euro (2018: 1,567 thousand Euro) are at 1,814 thousand Euro essentially interest expense (2018: 1,371 thousand Euro), relating to the Semiconductor segment in the amount of 1,570 thousand Euro and to the Micromechanics segment in the amount of 244 thousand Euro (please also refer to notes 5 and 9).

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 2019	FY 2018
Germany	71,772	73,813
Other EU countries	66,057	53,391
U.S.A.	10,513	11,849
Asia/Pacific	117,138	113,464
Other countries	29,355	25,071
Reclassification to discontinued operations	-21,448	-23,718
Sales	**273,387[1]**	**253,870[2]**

[1] Thereof Austria with sales of 27,979 thousand Euro (10.2% of sales of continuing operations) and Hong Kong with sales of 28,647 thousand Euro (10.5% of sales of continuing operations)
[2] Thereof Hong Kong with sales of 26,786 thousand Euro (10.6% of sales of continued operations)

Geographic breakdown of non-current assets | thousand Euro	12/31/2019	12/31/2018
Germany	186,506	174,645
Other EU countries	1,280	1,388
U.S.A.	3	4,880
Other countries	202	177
Non-current assets	**187,991**	**181,090**

Sales generated with the top two customers accounting for more than 10% of sales each amount to 33.9 million Euro and 30.0 million Euro respectively and result from sales in the Semiconductor segment (2018: top two customers with sales of 35.0 million Euro and 29.7 million Euro respectively, attributable to the Semiconductor segment).

5 – Discontinued operations

By agreement of September 20, 2019, the Elmos Group sold Silicon Microstructures Inc., Milpitas, CA (U.S.A.) and thus the Micromechanics business segment. The closing of the agreement, i.e. the legal transfer of the shares and thus the loss of control, took place on September 30, 2019. As of that date, the Micromechanics segment was deconsolidated. Following the implementation of this transaction, Elmos will focus on the continued development of its semiconductor core business with the business lines "Sensors," „Smart Control," and „Smart Solutions" with an unchanged emphasis on increasing the market share with innovative, differentiated solutions primarily for the automotive segment.

Consolidated earnings after taxes from discontinued operations

In the consolidated income statement, earnings generated in the discontinued business segment Micromechanics up to the sale are recognized separately from the income and expenses from continuing operations and disclosed separately under the item "Consolidated earnings after taxes from discontinued operations." As the Micromechanics segment was not classified as discontinued operations in the previous year and its earnings were therefore not disclosed separately in the consolidated income statement, prior-year figures have been adjusted in the consolidated financial statements at hand in order to present discontinued operations separately from continuing operations. While the prior-year period of comparison encompasses the full fiscal year, the following income statement for the past fiscal year is presented only up to and including the entity's disposal as of September 30, 2019.

"Consolidated earnings after taxes from discontinued operations" included in the consolidated income statement comprise the following items:

thousand Euro	01/01-09/30/2019	01/01-12/31/2018
Sales	21,448	23,718
Cost of sales	-10,259	-12,208
Gross profit	**11,189**	**11,510**
Research and development expenses	-3,897	-4,597
Distribution expenses	-1,078	-921
Administrative expenses	-1,806	-2,327
Operating income before income taxes	**4,409**	**3,665**
Other operating income	35	38
Financial result	-244	1
Earnings from operations before taxes	**4,200**	**3,705**
Income tax	-89	-30
Earnings from operations after taxes	**4,111**	**3,675**
Earnings from sale of discontinued operations	63,063	0
Consolidated net income from discontinued operations	**67,174**	**3,675**

"Consolidated net income from discontinued operations" in the amount of 67,174 thousand Euro (PY 3,675 thousand Euro) is fully attributable to the owners of the parent. Of "Consolidated net income from continuing operations" in the amount of 18,586 thousand Euro, the amount of 18,533 thousand Euro is attributable to the owners of the parent.

Cash flows from discontinued operations

thousand Euro	
Cash selling price	82,461
Transferred liquid assets	-343
Net cash inflow	**82,118**

The consolidated statement of cash flows presents the cash flows of the Group as a whole including discontinued operations. A separate presentation of the cash flows of the discontinued Micromechanics business segment follows in the next table:

thousand Euro	01/01-09/30/2019	01/01-12/31/2018
Cash flow from operating activities	2,893	6,306
Cash flow from investing activities	-1,412	-741
Cash flow from financing activities	-1,809	-5,988
Total cash flow of the discontinued business segment	**-328**	**-423**

Effects of the sale on the Group's statement of financial position items

Deconsolidation resulted in the following disposal of net assets as of September 30, 2019 (based on SMI separate financial statements):

thousand Euro	09/30/2019
Non-current assets	9,581
Deferred tax assets	2,455
Inventories	11,738
Trade receivables	3,565
Cash and cash equivalents	343
Other assets	302
Provisions	-1,624
Trade payables and other liabilities	-1,965
Financial liabilities	-4,497
Liabilities from loans	-3,343
Net assets and liabilities	**16,555**

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

6 – Sales

The Company generates sales by selling semiconductors and micromechanical sensor elements as well as from their development (please also refer to the geographic segment breakdown under note 4).

thousand Euro	FY 2019	FY 2018	Change
Semiconductor (continuing operations)	273,387	253,870	19,517
Micromechanics (discontinued operations)	21,448	23,718	-2,270
Sales	**294,835**	**277,588**	**17,247**

The decrease in sales in the Micromechanics segment is accountable for by the fact that only sales of SMI over the first three quarters of 2019 are included in the consolidated income statement for fiscal year 2019 due to the sale of the entity.

7 – Notes to the income statement according to the cost of sales method

Cost of sales (continuing operations)

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 depreciation. Moreover, cost of sales includes changes in work in process and finished goods inventories and can be broken down as follows:

thousand Euro	FY 2019	FY 2018
Material costs	-84,315	-79,083
Personnel expense	-39,383	-36,311
Other overhead	-32,544	-31,644
Changes in inventories	8,444	7,109
Cost of sales	**-147,798**	**-139,929**

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 5,232 thousand Euro was recorded. Increasing the staff in production is reflected in personnel expense, up 3,072 thousand Euro from the previous year. Other overhead has increased immaterially compared to fiscal year 2018. The item “Changes in inventories” is also slightly up in comparison with the previous year.

Research and development expenses (continuing operations)

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 2019 R&D expenses of 40,693 thousand Euro (2018: 31,448 thousand Euro) were charged to expenses.

Distribution expenses (continuing operations)

Distribution expenses in the amount of 19,681 thousand Euro (2018: 18,822 thousand Euro) essentially include expenses for personnel, travel, commission, and depreciation.

Administrative expenses (continuing operations)

Administrative expenses of 23,860 thousand Euro (2018: 18,017 thousand Euro) include personnel expense for the administrative staff as well as proportionate personnel expense for the Management Board members. Other material items are expenses for depreciation and insurance as well as legal and consulting fees.

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

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

Material costs (continuing operations)

Material costs amounted to 90,625 thousand Euro in the year under review and are up by 6,399 thousand Euro from the previous year in line with production (2018: 84,227 thousand Euro). They include expenses for raw materials, supplies, consumables, and for services claimed.

Personnel expense (continuing operations)

Personnel expense climbed by 10,302 thousand Euro compared to the previous year. The number of employees – based on an average employment ratio – went up from 1,173 in fiscal year 2018 to 1,257 in fiscal year 2019 (+7.2%). Further staff information can be found under note 39.

thousand Euro	FY 2019	FY 2018
Wages and salaries	-81,134	-72,307
Social security expense	-13,437	-11,970
Pension plan expense	-191	-183
Personnel expense	**-94,762**	**-84,460**

Depreciation and amortization (continuing operations)

The breakdown of depreciation and amortization can be gathered from the development of the Group's non-current assets (please refer to notes 14 and 15).

Depreciation and amortization and write-downs due to impairment amounted to 33,668 thousand Euro in the year under review (2018: 24,676 thousand Euro), equivalent to an increase by 8,992 thousand Euro. Due to the application of the cost of sales method, depreciation of property, plant and equipment and amortization of intangible assets are allocated to the items cost of sales, research and development expenses, distribution expenses, and administrative expenses in the consolidated income statement.

9 – Finance income and finance cost (continuing operations)

thousand Euro	FY 2019	FY 2018
Interest income	508	775
Other finance income	43	66
Finance income	**551**	**841**
Interest expense for lease liabilities	-252	0
Other interest expense	-1,318	-1,372
Other finance costs	-4	-196
Finance cost	**-1,574**	**-1,568**

Finance income and finance costs 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 2019	FY 2018
Interest income	508	775
Interest expense	-1,335	-1,392
Interest result	**-827**	**-617**

10 – Foreign exchange losses/gains (continuing operations)

Foreign exchange losses/gains from exchange rate changes recognized through profit/loss amount to -788 thousand Euro in fiscal year 2019 (2018: 176 thousand Euro).

Exchange rate changes cumulatively attributable to the owners of the parent and recognized outside profit or loss amount to 586 thousand Euro in fiscal year 2019 (2018: 697 thousand Euro), considering corresponding deferred tax. Further information on changes in foreign currency exchange rates recognized outside profit or loss can be found under note 22.

11 – Other operating income and expenses/restructuring expenses (continuing operations)

Other operating income in the amount of 2,398 thousand Euro (2018: 3,045 thousand Euro) includes, among other items, income from the reversal of provisions in the amount of 835 thousand Euro (2018: 1,161 thousand Euro), income from passenger car use in the amount of 745 thousand Euro (2018: 629 thousand Euro), income from the sale of assets in the amount of 420 thousand Euro (2018: 89 thousand Euro), other prior-period income in the amount of 305 thousand Euro (2018: 380 thousand Euro), and various individual items.

Other operating expenses/restructuring expenses of 13,214 thousand Euro (2018: 1,552 thousand Euro) essentially include at 11,126 thousand Euro (2018: 0 thousand Euro) restructuring expenses in connection with the termination of the cooperation agreement between Elmos Semiconductor AG and the Fraunhofer Institute for Microelectronic Circuits and Systems (IMS) in Duisburg upon expiry of the term as of June 30, 2020. In addition to valuation adjustments with respect to property, plant and equipment and inventories, restructuring expenses also include personnel provisions and contractually agreed compensation payments.

Apart from restructuring expenses, other operating expenses comprise, among other items, goodwill impairment in the amount of 600 thousand Euro (2018: 0 thousand Euro), real estate charges in the amount of 335 thousand Euro (2018: 368 thousand Euro), other prior-period expenses in the amount of 361 thousand Euro (2018: 128 thousand Euro), accounting loss from the disposal of non-current assets in the amount of 550 thousand Euro (2018: 67 thousand Euro), and various individual items.

12 – Income tax (continuing operations)

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

thousand Euro	FY 2019	FY 2018
Current income tax	**-8,924**	**-11,625**
Germany	-8,992	-10,714
Outside Germany	68	-911
thereof taxes from previous years	*967*	*155*
Deferred tax	**-1,221**	**-2,468**
Germany	-1,210	-2,571
Outside Germany	-11	103
thereof taxes from previous years	*0*	*0*
Income tax	**-10,145**	**-14,093**

The tax expense from continuing operations does not include the tax expense from discontinued operations in the amount of 89 thousand Euro (2018: 30 thousand Euro). The tax expense for the capital gain from the sale of discontinued operations amounts to 1,075 thousand Euro.

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% (2018: 32.805%) has been applied. The Company's combined income tax rate includes the trade tax collection rate of 485% (2018: 485%), the corporate tax rate of 15.0% (2018: 15.0%), and the solidarity surcharge of 5.5% (2018: 5.5%). With respect to the international subsidiaries, respective country-specific tax rates have been applied for the calculation of deferred tax.

Deferred taxes are determined for the temporary differences between the book values of assets and liabilities in the consolidated financial statements and the tax statements in the separate financial statements. The deferral of taxes shows tax assets and tax liabilities that result from the approximation of book value differences over time. Material components of the Company's deferred tax assets and tax liabilities are described under note 17.

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 2019	FY 2018
Statutory tax rate	32.81	32.81
Foreign tax rate differential	1.35	-1.29
Expenses disallowable against tax	0.26	0.17
Trade tax additions/cuts	0.43	0.27
Taxes from previous years	-2.32	-0.34
Tax rate changes	-0.04	-0.02
Tax-free income	-4.17	-1.53
Profit from sale of discontinued operations	6.44	0.00
Others	0.55	0.69
Effective tax rate	**35.31**	**30.76**

13 – 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 of shares	FY 2019	FY 2018
Weighted average number of ordinary shares outstanding	19,658,967	19,760,853
Stock options with dilutive potential (calculation according to IAS 33.45 et seq.)	0	77,336
Weighted average number of ordinary shares outstanding, including dilutive effect	19,658,967	19,838,189
Calculation of earnings per share | Euro		
Consolidated net income attributable to owners of the parent	85,706,864	35,447,175
Basic earnings per share	4.36	1.79
Fully diluted earnings per share	4.36	1.79
Consolidated net income from continuing operations attributable to owners of the parent	18,532,539	31,772,510
Basic earnings per share	0.94	1.61
Fully diluted earnings per share	0.94	1.60
Consolidated net income from discontinued operations attributable to owners of the parent	67,174,325	3,674,666
Basic earnings per share	3.42	0.19
Fully diluted earnings per share	3.42	0.19

The weighted average number of shares in 2019 and 2018 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 2011 and 2012 tranches in the course of the year 2018 as well as the exercise of stock options from the 2012 tranche in the course of the year 2019.

All outstanding stock options originating from the 2012 tranche have been included in the calculation of diluted earnings per share for 2018. There was no dilutive effect in 2019 anymore as all stock option plans had expired by 2019. Further information on stock option plans can be found under note 23.

In the period between the reporting date and the preparation of the consolidated financial statements, Elmos did not carry out any additional share buyback transactions.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

14 – 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	Pur-chase	In-house effort	Pur-chase	In-house effort	Pur-chase	
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**
Foreign currency adjustments	10	0	0	0	73	0	0	83
Additions	0	2,096	590	0	1,385[1]	2,938	1,662	8,671
Transfers	0	8,149	1,267	0	240	-9,474	-146	36
Disposals	0	-659	0	0	-11	0	0	-670
Changes to basis of consolidation	0	0	0	0	-1,471	0	0	-1,471
12/31/2019	**3,671**	**31,416**	**1,928**	**7,562**	**44,476**	**6,731**	**2,974**	**98,758**
Depreciation and amortization								
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**
Foreign currency adjustments	0	0	0	0	69	0	0	69
Additions	600	2,493	211	325	2,479	137	0	6,245
Disposals	0	-659	0	0	-11	0	0	-670
Changes to basis of consolidation	0	0	0	0	-1,404	0	0	-1,404
12/31/2019	**600**	**19,651**	**215**	**7,562**	**37,132**	**734**	**0**	**65,894**
Book value 12/31/2018	3,661	4,013	67	325	8,261	12,670	1,458	30,455
Book value 12/31/2019	**3,071**	**11,765**	**1,713**	**0**	**7,344**	**5,997**	**2,974**	**32,864**

[1] Balance of additions and investment grants in the amount of 10 thousand Euro

thousand Euro	12/31/2019	12/31/2018
Elmos N.A.	**0**	**590**
Acquisition cost	555	555
Foreign currency adjustments	45	35
Valuation allowance	-600	0
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	**3,071**	**3,661**

In accordance with IFRS 3 B63(a) in conjunction with IAS 38 and IAS 36, goodwill is not amortized on schedule but reviewed for impairment at least once every year. Measurement is based on the 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 2020 to 2024. For the value added from 2025, it is enhanced by the perpetual annuity which is based on an annual growth rate of 0.5% (as applied in the previous year).

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, considering decreasing as well as increasing gross margins 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 13.5% for Elmos Semiconductor AG (2018:12.9%), 10.1% for Elmos Services B.V. (2018: 11.0%), and 11.7% for MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg (2018: 11.1%) before deduction of respective growth rates. These interest rates correspond to the weighted average cost of capital. This so-called WACC is based on a risk-free interest rate (0.0% for Elmos Semiconductor AG, Elmos Services B.V., and MAZ in 2019 and 1.25% for Elmos Semiconductor AG, Elmos Services B.V., and MAZ or rather 3.25% for Elmos N.A. in 2018) plus an average market risk premium

(7.0% in 2019 and 6.25% in 2018) multiplied by an entity specific equity beta based on a so-called levered beta of 1.34 (2018: 1.16). All values stated are derived from market data.

Impairment tests were conducted in 2019 and in the previous year. They established for Elmos Semiconductor AG, Elmos Services B.V. and MAZ that the recoverable amounts of the respective units exceeded the corresponding book values. In consideration of the remaining proprietary business of Elmos N.A., the allocated goodwill was written off in full.

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 2020 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 (still existing) goodwill of any of the entities even under these changed assumptions.

Other intangible assets

Development projects

In 2019, expenses linked to product developments were capitalized as development projects and projects under development in the amount of 7,271 thousand Euro (2018: 10,682 thousand Euro). The resulting ratio of capitalized development expenses to total research and development expenses incurred in the Group comes to approx. 14.0% (2018: 22.9%). Depreciation of capitalized developments amounted to 2,841 thousand Euro in 2019 (2018: 1,452 thousand Euro), thereof extraordinary write-down in the amount of 636 thousand Euro (2018: 597 thousand Euro). The book value of capitalized development efforts (including projects under development) is 22,434 thousand Euro as of December 31, 2019 (2018: 18,004 thousand Euro).

Software and licenses and similar rights and assets

In 2019 as in the year before, no expenses for process technology were capitalized. Amortization came to 346 thousand Euro in 2019 (2018: 1,394 thousand Euro). As of December 31, 2019, the book values for process technology capitalized as non-current assets added up to 983 thousand Euro (December 31, 2018: 1,329 thousand Euro).

Other information

Costs linked to research and development projects are charged to expenses to the extent in which they incur and are included in research and development expenses, provided they do not meet the criteria for capitalization under IAS 38.57. Research and development expenses of 3,669 thousand Euro were reimbursed by customers in 2019 (2018: 1,722 thousand Euro) and reported under consolidated sales.

15 – PROPERTY, PLANT AND EQUIPMENT

thousand Euro	Land	Buildings and building improvements	Buildings and building improvements – right of use	Technical equipment and machinery/ Factory and office equipment	Technical equipment and machinery/ Factory and office equipment – right of use	Payments on account and construction in process	Total
Acquisition and production cost							
12/31/2017	**4,934**	**43,825**	**0**	**207,051**	**0**	**6,355**	**262,166**
Foreign currency adjustments	0	124	0	553	0	24	701
Additions	0	807	0	36,366	0	12,392	49,565
Transfers	0	398	0	5,417	0	-5,878	-63
Disposals	0	-377	0	-11,604	0	-180	-12,161
12/31/2018	**4,934**	**44,777**	**0**	**237,783**	**0**	**12,713**	**300,208**
01/01/2019	**4,934**	**44,777**	**0**	**237,783**	**0**	**12,713**	**300,208**
Recognition of rights of use from first-time application of IFRS 16	0	0	9,376	0	7,871	0	17,247
Adjusted as of 01/01/2019	**4,934**	**44,777**	**9,376**	**237,783**	**7,871**	**12,713**	**317,454**
Foreign currency adjustments	0	155	0	659	-1	18	831
Additions	0	324[1]	48	30,124[2]	513	5,777[3]	36,786
Transfers	0	4,606	0	7,608	0	-12,250	-36
Disposals	0	0	-2,670	-16,263	-372	0	-19,305
Changes to basis of consolidation	0	-5,292	-4,869	-18,884	0	-1,329	-30,374
12/31/2019	**4,934**	**44,570**	**1,885**	**241,027**	**8,011**	**4,929**	**305,356**
Depreciation and amortization							
12/31/2017	**0**	**21,252**	**0**	**140,772**	**0**	**0**	**162,024**
Foreign currency adjustments	0	105	0	406	0	0	511
Additions	0	1,801	0	18,535	0	0	20,336
Transfers	0	0	0	0	0	0	0
Disposals	0	-353	0	-11,480	0	0	-11,833
12/31/2018	**0**	**22,805**	**0**	**148,233**	**0**	**0**	**171,038**
01/01/2019	**0**	**22,805**	**0**	**148,233**	**0**	**0**	**171,038**
Foreign currency adjustments	0	132	16	491	0	0	639
Additions	0	1,837	622	25,271	959	0	28,689
Transfers	0	0	0	0	0	0	0
Disposals	0	0	0	-14,565	-21	0	-14,586
Changes to basis of consolidation	0	-2,614	-67	-15,547	0	0	-18,228
12/31/2019	**0**	**22,160**	**571**	**143,884**	**938**	**0**	**167,552**
Book value 12/31/2018	4,934	21,972	0	89,550	0	12,713	129,169
Book value 12/31/2019	**4,934**	**22,410**	**1,314**	**97,143**	**7,073**	**4,929**	**137,803**

[1] Balance of additions and investment grants in the amount of 453 thousand Euro
[2] Balance of additions and investment grants in the amount of 1,476 thousand Euro
[3] Balance of additions and investment grants in the amount of 137 thousand Euro

Additions to "Technical equipment and machinery/Factory and office equipment" include purchase transactions for fiscal year 2019 (2018) in the amount of 1,156 thousand Euro (December 31, 2018: 8,459 thousand Euro) where corresponding cash outflows will take (took) place only in 2020 (2019). No borrowing costs were capitalized in fiscal year 2019 or the previous year.

Depreciation of technical equipment and machinery/factory and office equipment includes extraordinary write-down in the total amount of 1,612 thousand Euro (2018: 207 thousand Euro).

Leases

The Group did not generate material income from subletting in fiscal year 2019 (2018). Future minimum payments under non-cancelable subletting agreements are immaterial as well.

16 – 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 2019 (2018), an at-equity loss in the amount of 0 thousand Euro (-132 thousand Euro) and a write-down to the fair value in the amount of 0 thousand Euro (-655 thousand Euro) were entered in the consolidated income statement so that a book value of 0 thousand Euro (0 thousand Euro) is accounted for as of December 31, 2019 (December 31, 2018).

b) Securities

The Company has 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 (17,324 thousand Euro; 2018: 21,446 thousand Euro). Securities that mature within twelve months have been allocated to current assets (11,003 thousand Euro; 2018: 12,108 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	12/31/2019	12/31/2018
Epigone	1	1
Elmos USA Inc.	0	19
Investments	**1**	**20**

Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz

Elmos holds 6% of the shares as of December 31, 2019, unchanged from the previous year.

Elmos USA Inc., Farmington Hills/U.S.A.

In the course of the sale of the indirect investment in Silicon Microstructures Inc., Milpitas (U.S.A.), the shares in Elmos USA were disposed of in fiscal year 2019 as well.

Summarized financial information

Entity | thousand	Currency	Total assets	Liabilities	Earnings	Net income for the period
Omniradar B.V.[1]	EUR	–	–	–	–
Epigone[2]	EUR	7,672	7,672	748	12

[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, 2019.

17 – Deferred tax

thousand Euro	12/31/2019	12/31/2018
Deferred tax assets	**56**	**2,312**
Intangible assets	0	105
Property, plant and equipment	0	62
Securities	76	211
Cash and cash equivalents	420	0
Provisions for pensions	255	210
Other provisions	268	296
Financial liabilities	2,021	0
Other liabilities	0	60
Loss carry-forward	0	61
Tax credits	0	2,359
Others	229	59
Subtotal	3,269	3,423
Balance	-3,213	-1,111
Deferred tax liabilities	**-7,284**	**-5,852**
Intangible assets	-7,090	-5,629
Property, plant and equipment	-2,841	-747
Trade receivables	-209	-146
Other financial assets	0	-16
Other liabilities	0	-25
Others	-357	-400
Subtotal	-10,497	-6,963
Balance	3,213	1,111
Net deferred tax	**-7,228**	**-3,540**

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 net deferred tax in the amount of 3,688 thousand Euro essentially comprises deferred tax in the consolidated income statement of 1,221 thousand Euro (expense), other changes outside profit or loss in the amount of 208 thousand Euro (decrease in equity), and changes to the basis of consolidation in the amount of 2,455 thousand Euro (disposal of deferred tax assets). Other changes outside profit or loss essentially result from deferred tax effects within other comprehensive income as reported in the consolidated statement of comprehensive income and annotated under note 22.

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

As of December 31, 2019 there is no loss carry-forward for domestic entities just like the previous year. Following the deconsolidation of SMI, no deferred tax assets for foreign entities were recognized on taxable loss carry-forward (2018: 61 thousand Euro) or on tax credits (2018: 2,359 thousand Euro) anymore either.

18 – Inventories

thousand Euro	12/31/2019	12/31/2018
Raw materials	9,993	8,692
Work in process	39,896	54,124
Finished goods	27,144	12,868
Payments on account	1,725	2,178
Inventories	**78,759**	**77,862**

The impairment of inventories recognized as expense (cost of sales) amounts to 1,830 thousand Euro (2018: 1,057 thousand Euro). This regards inventories for which a future sale is deemed unlikely. These assets were attributable to the Semiconductor segment in 2019 and to the Micromechanics segment in 2018.

19 – Trade receivables

thousand Euro	12/31/2019	12/31/2018
Trade receivables	51,017	49,395
Valuation allowance/Foreign currency valuation	-89	-51
Trade receivables	**50,928**	**49,344**

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	2019	2018
Valuation allowance/Foreign currency valuation as of 01/01	**51**	**99**
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	38	-48
Valuation allowance/foreign currency valuation as of 12/31	**89**	**51**

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 irrecoverable, 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 2019 and 2018 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 only to a limited extent in the past fiscal years (0 thousand Euro in 2019 and 383 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	
		12/31/2019	12/31/2018	12/31/2019	12/31/2018
Neither impaired nor overdue as of the reporting date		43,645	38,163	8,122	8,530
Not impaired as of the reporting date and overdue within the following time bands	< 30 days	6,274	10,082	0	0
	30 - 60 days	667	493	0	0
	61 - 90 days	130	122	0	0
	91 - 180 days	124	271	0	0
	181 - 360 days	29	54	0	0
	> 360 days	-12	16	0	0

20 – 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.

21 – Other non-current and current financial assets and other receivables

thousand Euro	12/31/2019	12/31/2018
Difference from asset allocation	159	221
Receivables from joint ventures (Epigone)	3,021	2,608
Tenant loans	1,508	1,438
Other loans receivable	15	15
Other non-current financial assets	**4,704**	**4,283**
Receivables from sale of assets	2,737	2,737
Other financial assets	681	1,510
Other current financial assets	**3,418**	**4,247**
Other tax assets	5,378	7,435
Accrued income	1,497	2,668
Other current receivables	367	488
Other receivables	**7,242**	**10,591**

22 – Equity

Share capital: The share capital of 20,104 thousand Euro entered in the statement of financial position as of December 31, 2019 (December 31, 2018: 20,104 thousand Euro) and consisting of 20,103,513 (December 31, 2018: 20,103,513) no-par value bearer shares with a theoretical share of 1 Euro in the share capital is fully paid up. Each share grants equal rights and corresponds to one vote in the General Meeting of Shareholders.

Treasury shares: As of December 31, 2019 the Company holds 468,999 (December 31, 2018: 354,982) of the Company's no-par shares, adding up to a theoretical share in the share capital of 469 thousand Euro (December 31, 2018: 355 thousand Euro). The number of treasury shares was increased in fiscal years 2019 and 2018 by share buyback transactions 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 of Shareholders are neither entitled to vote nor entitled to dividend.

Additional paid-in capital

thousand Euro	12/31/2019	12/31/2018
Premiums	75,976	78,136
Stock awards/Share matching	6,514	6,431
Additional paid-in capital	**82,490**	**84,567**

Additional paid-in capital essentially includes premiums from capital increases and the issue of shares of Elmos Semiconductor AG. In 2019 this item was decreased by 2,454 thousand Euro due to the buyback of 128,136 shares in the period from January 2, 2019 to August 1, 2019 at an average share price of 20.15 Euro. Additional paid-in capital was also increased by 297 thousand Euro due to share-based payments and the issue of treasury shares linked to them. Additional paid-in capital was reduced in 2019 by 3 thousand Euro due to transaction costs.

The share attributable to stock awards and share matching went up in 2019 by the amount of the expense from the issue of stock awards (83 thousand Euro).

Other equity components

thousand Euro	12/31/2019	12/31/2018
Foreign currency adjustments	586	933
deferred tax on this item	0	-236
Financial assets measured at market value	-232	-642
deferred tax on this item	76	211
Actuarial gains/losses	-562	-399
deferred tax on this item	255	201
Other equity components	**123**	**68**

Foreign currency adjustments include differences from the currency translation of the financial statements of foreign subsidiaries. They also facilitate (as of December 31, 2018) the recognition of translation differences relating to a net investment in a foreign business operation.

Financial assets measured at fair value cover changes in the fair value of selected financial instruments (please refer to notes 29 and 30).

Actuarial gains/losses reflect the gains or losses resulting from changes in actuarial assumptions for the determination of the present 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 2018 and 2019:

thousand Euro	2019	2018
Balance as of 01/01	68	-1,529
Exchange rate differences	15	1,265
deferred tax on this item	-127	-174
Changes in financial assets measured at market value	410	-236
deferred tax on this item	-134	77
Changes in actuarial gains/losses	-164	939
Deferred tax on this item	54	-274
Balance as of 12/31	**123**	**68**

"Recycling" of equity components outside profit or loss

In fiscal years 2019 and 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 2019 (previous year: 13 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

	12/31/2019		12/31/2018	
	thousand Euro	%	thousand Euro	%
Weyer Beteiligungsgesellschaft mbH, Schwerte	3,627	18.0	3,627	18.0
Jumakos Beteiligungsgesellschaft mbH, Dortmund	2,981	14.8	2,981	14.8
ZOE-VVG GmbH, Duisburg	2,307	11.5	2,307	11.5
Treasury shares	469	2.3	355	1.8
Shareholders <10% interest	10,721	53.3	10,835	53.9
Share capital	**20,104**	**100.0**	**20,104**	**100.0**

Considering respectively 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 December 31, 2019 (December 31, 2018: 20.0% and 14.1% respectively).

Capital 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	Bonds with warrants or convertible bonds	until 05/07/2020
Share buyback	up to 10% of the share capital			until 05/15/2023

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 2019 (2018), Elmos Semiconductor AG distributed a dividend of 0.52 Euro (0.40 Euro) per share out of the retained earnings of fiscal year 2018 (2017).

23 – Share-based payment plans

Stock option plans

	2011 tranche	2012 tranche	Total
Year of resolution	2011	2012	
Year of issue	2011	2012	
Exercise price in Euro	8.027	7.42	
ø share price of exercise options in Euro (2018)	25.66	25.76	
ø share price of exercised options in Euro (2019)	n/a	24.06	
Blocking period ex issue (years)	4	4	
Exercise period after blocking period (years)	3	3	
Options outstanding as of 01/01/2018 (number)	**58,611**	**161,240**	**219,851**
Exercised 2018 (number)	44,153	46,054	90,207
Forfeited 2018 (number)	14,458	755	15,213
Options outstanding as of 12/31/2018 (number)	**0**	**114,431**	**114,431**
Exercised 2019 (number)	0	102,074	102,074
Forfeited 2019 (number)	0	12,357	12,357
Options outstanding/exercisable as of 12/31/2019 (number)	**0**	**0**	**0**

The 2011 and 2012 tranches, based on the authorization given by the General Meeting of Shareholders of May 4, 2010 for 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 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 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 General Meeting 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 years 2018 and 2019.

In the year 2015, 48,523 stock options from the 2011 tranche were exercised. In 2016, 40,383 stock options were exercised from the 2011 tranche and 84,969 stock options from the 2012 tranche. In 2017, 77,633 stock options were exercised 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. In 2019, 102,074 stock options from the 2012 tranche were exercised. As of the reporting date December 31, 2019, all stock option plans of Elmos Semiconductor AG have run out.

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:

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

In fiscal years 2019 and 2018 the Company incurred no expenses for its stock option plans.

24 – Provisions

Provisions for pensions (difference as of December 31, 2019 and December 31, 2018 from asset allocation, disclosed under other non-current financial assets; please refer to note 21)

thousand Euro	12/31/2019	12/31/2018
Present value of pension commitments	1,636	1,507
Fair value of pension plan reinsurance	-1,795	–1,728
Net liabilities recognized in the statement of financial position	**-159**	**-221**

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 0.85% per annum as of December 31, 2019 (December 31, 2018: 1.80% p. a.). For actuarial assumptions with respect to mortality and disability risk, the Heubeck mortality tables 2018 G have been applied.

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

thousand Euro	FY 2019	FY 2018
Service cost	0	0
Interest	26	26
Pension expense (net)	**26**	**26**

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

thousand Euro	2019	2018
Present value of pension commitments as of 01/01	**1,507**	**3,268**
Pension expense (net)	26	26
Benefits paid to pensioners	-79	-99
Actuarial losses/gains (-) from changes in financial assumptions	182	-41
Benefits based on compensations	0	-1,281
Profits based on compensations	0	-366
Present value of pension commitments as of 12/31	**1,636**	**1,507**
Fair value of reinsurance policies as of 01/01	**1,728**	**2,856**
Income from plan assets	29	27
Employer's contributions	93	191
Benefits from reinsurance policies	-75	-84
Benefits based on compensations	0	-1,281
Actuarial gains from changes in financial assumptions	19	20
Fair value of reinsurance policies as of 12/31	**1,795**	**1,728**

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 was transferred to a pension fund so that no pension provision has to be recognized in the consolidated financial statements of Elmos anymore. The present value of the defined benefit obligation was reduced by this adjustment in the amount of 1,666 thousand Euro. At the same time, the fair 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 62 thousand Euro (2018: 64 thousand Euro) including payments made in the event of death. Premiums of 93 thousand Euro were paid (2018: 191 thousand Euro). For 2020 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 2019, contributions to these pension plans amounted to 397 thousand Euro (2018: 397 thousand Euro).

The employer's social security contributions made for employees amounted to 5,835 thousand Euro in 2019 (2018: 5,245 thousand Euro). The contributions to employees' direct insurance came to 296 thousand Euro in 2019 (2018: 280 thousand Euro).

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

thousand Euro	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Pensions commitment	1,636	1,507	3,268	3,246	3,175
Fair value of pension reinsurance	-1,795	-1,728	-2,856	-2,769	-2,679
Overfunding/Underfunding (-)	159	221	-412	-477	-496
Adjustments to plan liabilities based on experience	-8	-2	0	-3	1
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 2019	FY 2018	FY 2019	FY 2018
Effect on defined benefit obligation	-181	–160	226	197

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	2019	2020	2021	2022	2023	2024
FY 2019	n/a	79	79	79	79	79
FY 2018	79	79	79	79	79	n/a

The average term of material pension benefit commitments is 10.7 years (2018: 10.6 years).

Current provisions

thousand Euro	01/01/2019	Consumption	Reversal	Changes to basis of consolidation	Addition	12/31/2019
Vacation bonus	1,318	-1,168	-150	-343	1,439	1,095
Bonus provisions	2,155	-2,155	0	0	2,541	2,541
Employer's liability insurance association	388	-388	0	0	397	397
Warranty and product liability	3,515	0	-1,765	0	1,900	3,650
Licenses	418	-361	-57	0	456	456
Other provisions for employee benefits	4,506	-4,376	-130	-1,196	4,672	3,476
Provisions for restructuring	0	0	0	0	8,459	8,459
Other provisions	1,465	-399	-245	-84	1,422	2,159
Current provisions	**13,766**	**-8,848**	**-2,348**	**-1,624**	**21,286**	**22,233**

The warranty and product liability provision is generally 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. Provisions for restructuring essentially include expenses for personnel in connection with the termination of the cooperation agreement between Elmos Semiconductor AG and the Fraunhofer Institute for Microelectronic Circuits and Systems (IMS) in Duisburg upon expiry of the agreed term as of June 30, 2020. 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.

25 – Financial liabilities

Non-current financial liabilities

thousand Euro	12/31/2019	12/31/2018
Bonded loans	40,000	40,000
Lease obligations	4,680	2,449
Non-current financial liabilities	**44,680**	**42,449**

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, 2019 the Company had various short-term lines of credit at its disposal in the total amount of 29,500 thousand Euro (2018: 30,010 thousand Euro). As of December 31, 2019 the Company provided these credit facilities as security in the amount of 670 thousand Euro (2018: 655 thousand Euro). Current financial liabilities (December 31, 2019: 4,390 thousand Euro; December 31, 2018: 1,340 thousand Euro) essentially reflect the current portion of lease obligations at 3,992 thousand Euro (2018: 614 thousand Euro).

Loans

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

Cash flows from financial liabilities

The following table lists all contractually defined payouts as of December 31, 2019 and December 31, 2018 (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.

12/31/2019 | thousand Euro	2020	2021-2024	from 2025
Liabilities to banks	646	28,103	14,704
Trade payables	10,159	0	0
Other financial liabilities	519	0	0
Lease obligations[1]	4,313	4,891	0

Future finance expenses from lease obligations amount to 516 thousand Euro (2018: 145 thousand Euro).

12/31/2018 | thousand Euro	2019	2020-2023	from 2024
Liabilities to banks	976	14,370	29,083
Trade payables	25,908	0	0
Other financial liabilities	390	0	0
Lease obligations[1]	645	2,493	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	01/01/2018	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**

thousand Euro	01/01/2019	Cash changes	Non-cash changes		12/31/2019
			Reclassification	Lease obligations	
Non-current financial liabilities	42,449	0	-1,012	3,243	44,680
Current financial liabilities	1,340	-1,340	1,012	3,378	4,390
	43,789	**-1,340**	**0**	**6,621**	**49,070**

26 – 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 4,956 thousand Euro (December 31, 2018: 4,761 thousand Euro). Other current liabilities include, among other items, wage income tax liabilities, social security contributions yet to be made, payments received on account of orders, and other financial liabilities.

Income tax liabilities amount to 6,157 thousand Euro (December 31, 2018: 8,391 thousand Euro) and include liabilities of Elmos as well as several domestic and international subsidiaries.

27 – Trade payables

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

28 – Derivative financial instruments

The Company monitors the development in the 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 2019 Elmos concluded several currency hedges. Those are forward exchange rate contracts for the currency USD; corresponding income or expenses have been stated under the item “Foreign exchange losses (-)/gains” (cf. note 29). The market value of forward exchange rate contracts is measured in application of the exchange rates as of the reporting date based on market assessments of the banks involved.

The Company entered into structured term deposit transactions in 2019 providing for repayment of the investment amount in a foreign currency (USD) if a predefined EUR/USD reference exchange rate (or margin) is undercut or exceeded as of the due date of the transaction. Moreover, the Company entered into structured term deposit transactions in a foreign currency (USD) providing for repayment of the investment amount in EUR if a predefined USD/EUR reference exchange rate is undercut or exceeded as of the due date of the transaction (cf. note 29 for further information).

29 – Additional information on financial instruments

Book values, measurement, and fair value according to measurement categories

With respect to the classification of financial instruments, the Company follows the measurement categories defined by IFRS 9 as the spreading of risks within these measurement categories is similar.

The book value of financial instruments such as trade receivables and trade payables essentially corresponds to the fair value due to the short-term maturities of these financial instruments. 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 30) 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 made available to the Company.

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

			Valuation according to IFRS 9						Valuation according to IFRS 9				
thousand Euro	Business model	Book value 12/31/2019	Amortized cost	At market value through profit or loss	At market value outside profit or loss		Fair value 12/31/2019	Book value 12/31/2018	Amortized cost	At market value through profit or loss	At market value outside profit or loss		Fair value 12/31/2018
					No recycling	Recycling					No recycling	Recycling	
Investments	Hold and sale	1	0	0	1	0	1	20	0	0	20	0	20
Securities (long-term)	Hold	0	0	0	0	0	0	3,000	3,000	0	0	0	3,000
Securities (long-term)	Hold and sale	17,324	0	0	0	17,324	17,324	18,446	0	0	0	18,446	18,446
Securities (short-term)	Hold	3,000	3,000	0	0	0	3,000	2,000	2,000	0	0	0	2,000
Securities (short-term)	Hold and sale	8,003	0	0	0	8,003	8,003	10,108	0	0	0	10,108	10,108
Trade receivables	Hold	50,928	50,928	0	0	0	50,928	49,344	49,344	0	0	0	49,344
Cash and cash equivalents	Hold	95,018	95,018	0	0	0	95,018	27,137	27,137	0	0	0	27,137
Other financial assets													
Other receivables and assets (current)	Hold	3,298	3,298	0	0	0	3,298	4,065	4,065	0	0	0	4,065
Other loans and assets (non-current)	Hold	4,704	4,704	0	0	0	4,704	4,283	4,283	0	0	0	4,283
Forward exchange contracts/Currency option transactions	Trade	109	0	109	0	0	109	171	0	171	0	0	171
Call options	Trade	11	0	11	0	0	11	11	0	11	0	0	11
Financial assets		**182,396**	**156,948**	**120**	**1**	**25,327**	**182,396**	**118,585**	**89,829**	**182**	**20**	**28,554**	**118,585**
Trade payables	Financial liabilities AC	10,159	10,159	0	0	0	10,159	25,908	25,908	0	0	0	25,908
Liabilities to banks	Financial liabilities AC	40,398	40,398	0	0	0	41,809	40,726	40,726	0	0	0	41,181
Other financial liabilities													
Miscellaneous financial liabilities	Financial liabilities AC	519	519	0	0	0	519	390	390	0	0	0	390
Lease obligations	Financial liabilities AC	8,672	8,672	0	0	0	8,672	3,063	3,063	0	0	0	3,063
Embedded derivatives	Financial liabilities FVTPL	0	0	0	0	0	0	16	0	16	0	0	16
Financial liabilities		**59,748**	**59,748**	**0**	**0**	**0**	**61,159**	**70,103**	**70,087**	**16**	**0**	**0**	**70,558**
Aggregated by business model													
Hold and sale		25,328	0	0	1	25,327	25,328	28,574	0	0	20	28,554	28,574
Hold		156,948	156,948	0	0	0	156,948	89,829	89,829	0	0	0	89,829
Trade		120	0	120	0	0	120	182	0	182	0	0	182
Financial liabilities at amortized cost		59,748	59,748	0	0	0	61,159	70,087	70,087	0	0	0	70,542
Financial liabilities at fair value through profit or loss		0	0	0	0	0	0	16	0	16	0	0	16

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]	2019	18,446	10,403	-3,514	-8,057	45	17,324
	2018	35,122	0	-6,088	-10,527	-61	18,446
Short-term securities[1]	2019	10,108	0	-10,527	8,057	365	8,003
	2018	11,868	0	-12,112	10,527	-175	10,108

[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
Forward exchange contracts/ Currency option transactions	2019	171	109	-171	0	109
	2018	-62	171	62	0	171
Embedded derivatives	2019	-16	0	0	16	0
	2018	-38	0	0	22	-16

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	2019	20	0	-19	1
	2018	20	0	0	20

thousand Euro		01/01	Addition	Write-off	12/31
Call options	2019	11	3	-3	11
	2018	8	3	0	11

Information on the consolidated income statement

The following table shows net gains or losses from financial instruments as recognized in the consolidated income statement.

Gains (+)/Losses (-) | thousand Euro	FY 2019	FY 2018
Hold	-1,130	656
Trade	1,016	497
Financial liabilities at amortized cost	66	-386
Financial liabilities at fair value through profit or loss	16	22

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 1,094 thousand Euro and foreign exchange losses in the amount of 78 thousand Euro (2018: foreign exchange gains of 618 thousand Euro and foreign exchange losses of 121 thousand Euro) linked to currency hedges are reported under the "trade" business model. Interest relating to financial instruments is stated in interest income (cf. note 9).

30 – Financial risk

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 risk, liquidity risk, risks from changes in exchange rates and interest rates, and 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 uses such hedging instruments only 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 take 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 (e.g. corporate bonds and structured bonds with credit rating components) 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 key accounts 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 25.

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 against 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) as well as 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 is still aiming 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, e.g. by entering into derivative financial instruments for currency hedging.

Elmos was exposed to currency risks as of the reporting date. In fiscal year 2019, Elmos realized foreign exchange gains in the amount of 985 thousand Euro (2018: 310 thousand Euro) and incurred foreign exchange losses in the amount of 78 thousand Euro (2018: 96 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 as of the reporting date, Elmos recorded income of 109 thousand Euro (2018: 171 thousand Euro) and expenses of 0 thousand Euro (2018: 0 thousand Euro). Furthermore, foreign exchange gains in the amount of 752 thousand Euro (2018: 137 thousand Euro) and foreign exchange losses in the amount of 78 thousand Euro (2018: 25 thousand Euro) resulted in 2019 from structured term deposits where the repayment of the investment amount in USD/EUR is called for insofar as a previously fixed reference exchange rate (or margin) for 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, 2019 with respect to the monetary financial instruments, earnings (before taxes) would have been 4,144 thousand Euro lower (5,009 thousand Euro higher) (2018: 598 thousand Euro lower (358 thousand Euro higher)). The Group's equity effect would have come to the same amount due to the result effect in consideration of income tax incurred.

b) Interest rate risk

The risk of interest rate changes Elmos is exposed to as of the reporting date results from the securities classified under "hold and sale." If the market interest rate was higher (lower) by 100 basis points, equity would be down by 472 thousand Euro (increase in equity by 490 thousand Euro) (2018: decrease (increase) in equity by 235 (252) thousand Euro). Deferred tax on these amounts would have to be considered as well.

Elmos faces 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 25.

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 78 thousand Euro (91 thousand Euro) for fiscal year 2019 (2018: increase (decrease) in earnings by 0 thousand Euro (0 thousand Euro)). A 10% higher (lower) gas price would result in an increase (decrease) in earnings by 61 thousand Euro (92 thousand Euro) for the fiscal year (2018: increase (decrease) in earnings by 0 thousand Euro (199 thousand Euro)). The Group's equity effect with respect to electricity and natural gas would be the same amount due to 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, 2019 and December 31, 2018, no changes were made to the objectives, guidelines, or procedures.

The Group monitors its capital generally based 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 2019	FY 2018
Net cash	74.3 million Euro	16.9 million Euro
Equity ratio	77.3%	72.2%

OTHER INFORMATION

31 – 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 (1,805 thousand Euro in 2019; 276 thousand Euro in 2018). For information about investment grants for property, plant and equipment, please refer to notes 14 and 15 (no investment grants for property, plant and equipment were collected in the previous year).

32 – Other financial liabilities and contingencies

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, 2019 and December 31, 2018 are as follows:

thousand Euro	2019	2020	2021	2022	2023	2024	Later years	Total
12/31/2019	n/a	22,644	2,856	2,328	444	444	0	**28,716**
12/31/2018	24,082	7,951	4,335	1,864	1,883	n/a[1]	2,298	**42,413**

[1] Included in later years

Total expenditure for rental and lease agreements amounted to 1,944 thousand Euro in 2019 and 6,886 thousand Euro in 2018.

Material expenses for short-term leases and expenses for leased low-value assets did not have to be recognized for fiscal year 2019. The total cash outflow for leases comes to 3,382 thousand Euro for principal payments and 253 thousand Euro for interest payments.

A purchase commitment in the amount of 1,678 thousand Euro (2018: 7,189 thousand Euro) results from investment orders placed.

For an affiliated company sold in fiscal year 2019, there is still a guarantee in place (probably) for a transitional period, in the amount of 6,767 thousand USD. From today's vantage, Elmos does not assume the guarantee will be claimed.

33 – Consolidated 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%	2,251	222[1]	Subsidiary
Epigone Grundstücksverwaltungsgesell-schaft mbH & Co. Vermietungs KG, Mainz	EUR	6.0%	-11	12[1]	Investment
GED Electronic Design GmbH, Frankfurt/Oder	EUR	100.0%	898	0[1,4]	Subsidiary
Mechaless Systems GmbH, Bruchsal	EUR	100.0%	381	44[1]	Subsidiary
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin	EUR	100.0%	2,896	1,395[1]	Subsidiary
International					
Elmos Services B.V., Nijmegen (NL)	EUR	100.0%	11,848	10,655[1]	Subsidiary
Elmos Semiconductor B.V., Nijmegen (NL)	EUR	100.0%	-1,098	-20[1,2]	Subsidiary
European Semiconductor Assembly (eurasem) B.V., Nijmegen (NL)	EUR	100.0%	309	45[1,2]	Subsidiary
Micro Systems on Silicon (MOS) Limited, Pretoria (South Africa)	ZAR	51.0%	–	–[2,3]	Subsidiary
Elmos N.A. Inc., Farmington Hills, MI (U.S.A.)	USD	100.0%	1,511	79[1]	Subsidiary
Elmos Korea Co. Ltd., Seoul (Korea)	KRW	100.0%	116,480	35,822[1]	Subsidiary
Elmos Semiconductor Singapore Pte. Ltd., Singapore	SGD	100.0%	708	31[1]	Subsidiary
Elmos Japan K.K., Tokyo (Japan)	JPY	100.0%	45,429	3,188[1]	Subsidiary
Elmos Semiconductor Technology (Shanghai) Co. Ltd., Shanghai (China)	CNY	100.0%	3,839	622[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, 2019.
[2] Indirect investment of Elmos Semiconductor AG, Dortmund
[3] Financial statements of this entity are not available yet.
[4] Profit and loss transfer agreement

Elmos Semiconductor AG closed the sale of Silicon Microstructures Inc., Milpitas (U.S.A.), or rather of the shares in Elmos USA Inc., Farmington Hills (U.S.A.), to Measurement Specialties Inc., a subsidiary of TE Connectivity Ltd., as of September 30, 2019. Thus both entities have left the basis of consolidation as of that date.

The interest in Elmos N.A. Inc., Farmington Hills (U.S.A.), so far classified as an indirect investment in the consolidated financial statements of Elmos Semiconductor AG, has now been classified as a direct investment for the first time due to the purchase of shares by Elmos Semiconductor AG.

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	2019	25.2%	1,302	2,537	1,165	366	6,107	0
	2018	25.2%	1,703	2,079	1,678	7	5,952	0
MOS, South Africa	2019[1]	49.0%	–	–	–	–	–	–
	2018[1]	49.0%	–	–	–	–	–	–
For associates (IFRS 12 B12)								
Omniradar, Netherlands	2019[1]	45.7%	–	–	–	–	–	–
	2018[1]	45.7%	–	–	–	–	–	–

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

34 – 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 2019	1,518	3,028	0	0
	FY 2018	1,523	1,782	0	0
Supervisory Board	FY 2019	82	225	0	0
	FY 2018	83	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 2019, contributions to these pension plans amounted to 373 thousand Euro (2018: 373 thousand Euro), included in the fixed remuneration component. The General Meeting of Shareholders 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 579 thousand Euro in the fiscal year, thereof fixed components in the amount of 211 thousand Euro and variable components in the amount of 368 thousand Euro (2018: 209 thousand Euro, fixed remuneration thereof 209 thousand Euro and variable components 0 thousand Euro). Moreover, insurance premiums in the amount of 115 thousand Euro were paid (2018: 116 thousand Euro) for this group of beneficiaries. These amounts are balanced by reimbursements from reinsurance policies in the amount of 225 thousand Euro (2018: 223 thousand Euro). The amount of pension provisions for acting and former members of the Management Board or their surviving dependents was 1,464 thousand Euro as of December 31, 2019 (December 31, 2018: 1,384 thousand Euro).

As of December 31, 2019, the following members of Management Board and Supervisory Board were members of statutory supervisory boards or comparable domestic or foreign supervisory bodies.

-> Dr. Klaus Egger: Member of the Supervisory Board of AVL List GmbH
-> Dr. Gottfried Dutiné: Member of the Advisory Committee of Endiio GmbH, Member of the Board of Directors of Stokke A.S.

35 – Information on group auditor fees

Fees of group auditor Warth & Klein Grant Thornton AG

thousand Euro	FY 2019	FY 2018
Audit services	299	244
Other certification services	0	0
Tax counseling	35	70
Other services	72	0
Group auditor fees	**406**	**314**

Audit services rendered in 2019 essentially included fees for the statutory audit of separate financial statements and consolidated financial statements and the review of the 6-month consolidated financial statements of Elmos as well as an IFRS audit of a subsidiary commissioned by Elmos Semiconductor AG. Tax counseling essentially include consulting in connection with the preparation of tax returns and tax assessment of individual circumstances. Other services rendered in the year under review principally include the analysis of financial information of business operations whose divestiture was being considered.

36 – Appropriation of retained earnings and dividend proposal

Management Board and Supervisory Board propose to the General Meeting of Shareholders in May 2020 the payment of a dividend of 0.52 Euro per share for fiscal year 2019 out of the 2019 retained earnings of Elmos Semiconductor AG in the amount of 202.2 million Euro. The total dividend payout would thus amount to 10.2 million Euro based on 19,634,514 shares entitled to dividend as of December 31, 2019.

37 – 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, 2019 are available at www.elmos.com.

38 – 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 Association 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 in this respect 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 2019 and 2018, 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 34 ("Information on Management Board and Supervisory Board"), one Supervisory Board member received compensation in the amount of 24 thousand Euro (2018: 21 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.

39 – Number of employees

Ø Employees (continuing and discontinued operations)[1]	FY 2019	FY 2018
Production	643	603
Distribution	108	98
Administration	167	170
Quality Control	45	45
Research and Development	354	335
Total	**1,317**	**1,250**

[1] SMI employees have been included up to and including September 30, 2019.

40 – 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 2019 that have not already been accounted for in the income statement or rather the statement of financial position.

On January 27, 2020, Elmos announced that the cooperation agreement between Elmos Semiconductor AG and the Fraunhofer Institute for Microelectronic Circuits and Systems (IMS) in Duisburg will end upon the expiry of the agreed term as of June 30, 2020. The termination of this agreement leads to restructuring expenses for Elmos in the probable amount of roughly 11.1 million Euro, recognized for fiscal year 2019. The required communication with the works council took place prior to the day of the announcement. Apart from restructuring expenses, the phase-out of the cooperation will have no material effect on the quality of earnings from operations.

41 – Declaration of compliance pursuant to Section 161 AktG

In September 2019, 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, March 10, 2020

Dr. Anton Mindl   Dr. Arne Schneider   Guido Meyer   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, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Elmos Semiconductor AG for the financial year from 1 January 2019 to 31 December 2019. In accordance with the German legal requirements we have not audited the content of the subsection "Statement on corporate governance" included in the section "Legal information" of the combined management report including the subsection "Statement on corporate governance" included in section "Information for our shareholders" of the annual report 2019 listed under „Corporate governance", to which the combined management report refers.

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 2019, and of its financial performance for the financial year from 1 January 2019 to 31 December 2019, 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 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 2019 to 31 December 2019. 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

Recognition and Measurement of the Provisions for Warranties and Product Liability

1. Financial Statement Risk

In the consolidated financial statements under the line item "provisions", among others, provisions for warranties and product liability are recognized with an amount of KEUR 3,650. These relate to (probable) obligations from product sales and are determined for specific already known individual measures as well as for estimated future measures under consideration of the development of past damages. The assumptions concerning the recognition and measurement of the provisions for warranties and product liability are highly dependent on the estimation of the likelihood of occurrence and the amount of damage made by the company's executive directors and, is therefore, associated with a high degree of estimation uncertainty. Due to these high estimation uncertainties, this matter was of particular importance in our audit.

2. Audit Approach

As part of our audit, we evaluated the process established by Elmos for recording and determining provisions for warranties and product liability. On the basis of this, we assessed the recognition requirements based on discussions with the executive directors, the company's responsible employees, and the description of circumstances and the contracts presented to us. In addition, we obtained legal confirmations in order to evaluate the executive directors' risk assessment. We evaluated the appropriateness of the recognized amounts based on, among others, the description of circumstances, contracts and the calculation basis presented to us, as well as by comparing the amounts to historical values. We have assessed the assumptions made by the company's executive directors relevant for the measurement of the provisions and their derivation. In addition, we assessed the information relevant for the measurement of the provisions with regard to data-consistency and evaluated whether these were taken into account properly in the calculation of the provisions. We have re-performed the calculation.

3. Reference to related Disclosures

The disclosures relating to the measurement of provisions for warranties and product liability are contained in section 3 and 24 of the notes to the consolidated financial statements.

Other Information

The executive directors or, respectively, the supervisory board are responsible for the other information. The other information comprises:

- -> the section "Information for our shareholders" included in the annual report 2019, including the statement on corporate governance listed under "Corporate governance“,
- -> the affirmation of the legal representatives pursuant to section 297 paragraph 2 clause 4 and section 315 paragraph 1 clause 5 HGB included in the annual report 2019, and
- -> the remaining parts of the annual report 2019, with the exception of the audited consolidated financial statements and the parts of the combined management report their content were audited by us 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 parts of the combined management report their content were audited by us or with 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 directors' 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 15 May 2019. We were engaged by the supervisory board on 14 June 2019. We have been the group auditor of Elmos Semiconductor AG 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 (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Ulf Kellerhoff.

Dusseldorf, 10 March 2020

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Thomas Senger
Wirtschaftsprüfer
[German Public Auditor]

Ulf Kellerhoff
Wirtschaftsprüfer
[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, March 10, 2020

Dr. Anton Mindl | Dr. Arne Schneider | Guido Meyer | Dr. Jan Dienstuhl

FINANCIAL CALENDAR 2020

Final results 2019[1]	03/19/2020
Quarterly results Q1/2020[1]	05/06/2020
Annual General Meeting in Dortmund	05/13/2020
Quarterly results Q2/2020[1]	08/05/2020
Quarterly results Q3/2020[1]	11/04/2020

[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).

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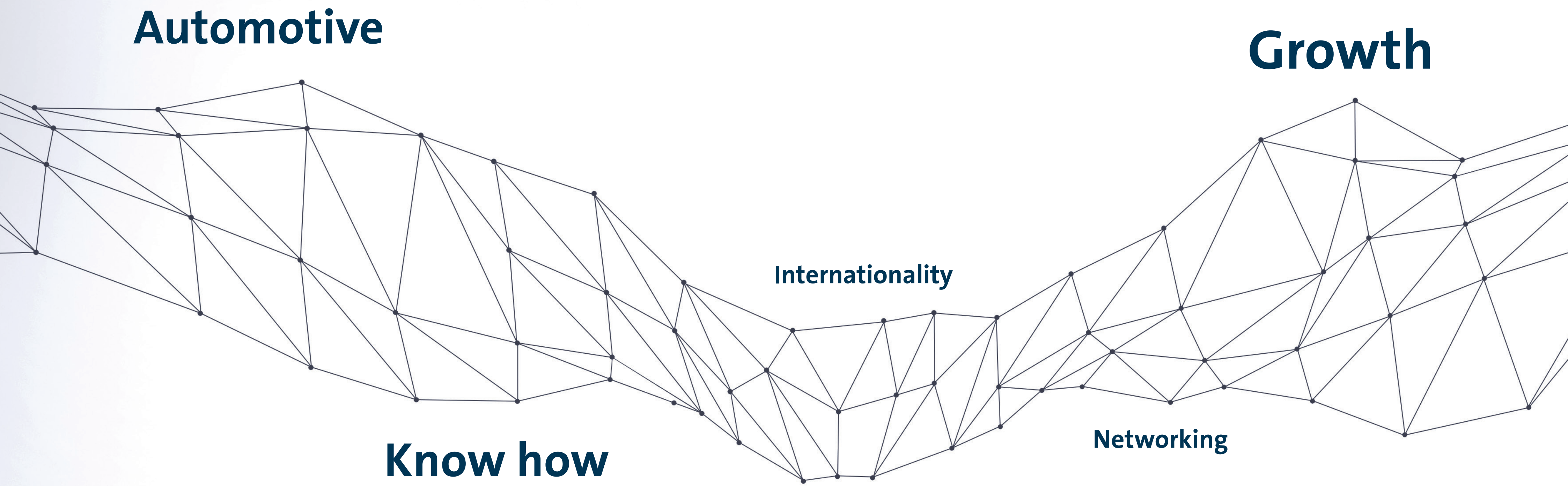
Forward-looking statements

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

This English translation is provided for convenience only. The German text shall be the sole legally binding version.



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