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INVITATION TO THE ANNUAL GENERAL MEETING 2008

ANNUAL REPORT 2007 ABSTRACT

THE KEY TO SUCCESS

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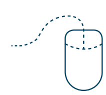


Internet reference to www.elmos.de

9TH ANNUAL GENERAL MEETING ON MAY 8, 2008

Agenda at a glance

1. Presentation of the established annual financial statements and approved annual consolidated financial statements as of December 31, 2007, the management report for ELMOS Semiconductor AG and the group management report, and the Supervisory Board's report for the fiscal year 2007

2. Resolution on the appropriation of retained earnings

3. Resolution on the formal discharge of the Management Board for the fiscal year 2007

4. Resolution on the formal discharge of the Supervisory Board for the fiscal year 2007

5. Election of the auditor for the fiscal year 2008

6. Resolution on the authorization to acquire own shares (10% of the share capital)

ELMOS Semiconductor Aktiengesellschaft
44227 Dortmund, Germany
ISIN DE0005677108
SIC: 567 710

The German version of this invitation to the annual general meeting is the only legally binding version. This English translation is for your convenience only.

Invitation to the 9th Annual General Meeting of ELMOS Semiconductor AG, 44227 Dortmund, Germany (ISIN DE0005677108 / SIN: 567 710)

Dear Shareholders

our 9th Annual General Meeting will be held on Thursday, May 8, 2008, at 10.00 a.m. at the Casino Hohensyburg, Hohensyburgstraße 200, 44265 Dortmund.

Agenda

1 Presentation of the established annual financial statements and approved annual consolidated financial statements as of December 31, 2007, the management report for ELMOS Semiconductor AG and the group management report, and the Supervisory Board's report for the fiscal year 2007

2 Resolution on the appropriation of retained earnings

Management Board and Supervisory Board propose that the entire retained earnings of 39,621,311.85 Euro as stated by ELMOS Semiconductor AG for the fiscal year 2007 be carried forward to new accounts.

3 Resolution on the formal discharge of the Management Board for the fiscal year 2007

Supervisory Board and Management Board propose that discharge be granted to the members of the Management Board.

4 Resolution on the formal discharge of the Supervisory Board for the fiscal year

Management Board and Supervisory Board propose that discharge be granted to the members of the Supervisory Board.

5 Election of the auditor for the fiscal year 2008

The Supervisory Board proposes that Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Dortmund, be elected auditor for the fiscal year 2008.

6 Resolution on the authorization to acquire own shares

By shareholders' resolution of May 10, 2007, the Management Board was authorized to acquire the company's own shares. This authorization is limited until November 9, 2008. The proposal provides for that resolution to be canceled and for the Management Board to be re-authorized to acquire the company's own shares.

Management Board and Supervisory Board propose that the following resolution be passed:

a) The authorization to acquire the company's own shares as based on the shareholders' resolution of May 10, 2007 and limited until November 9, 2008 is canceled for the remaining period beginning at the time the following new authorization comes into effect.

b) The company is authorized to acquire its own shares until November 7, 2009.

c) The authorization is limited to the acquisition of shares accounting for a total of up to 10 % of the present share capital. The authorization may be exercised all at once or in several installments, once or several times, and for one purpose or for several purposes within the framework of the above-mentioned limitation.

d) The acquisition is made on the stock market or by means of a public submission of a tender offer directed at all of the company's shareholders.

- If the acquisition of the shares is made on the stock market, the consideration paid by the company per share (not including additional purchase costs) may neither exceed nor undercut the opening price on the Xetra trade (or a functionally comparable successor system replacing the Xetra trade) of the Frankfurt/Main Stock Exchange by more than ten percent on the day of purchase.

- If the acquisition of the shares is made by a public submission of a tender offer directed at all of the company's shareholders, the purchase price bid or the limits of the purchase price range offered per share (not including additional purchase costs) may neither exceed nor undercut the average amount of the closing prices on the Xetra trade (or a functionally comparable successor system replacing the Xetra trade) of the Frankfurt/Main Stock Exchange of the last three trading days prior to the day of the tender offer's publication by more than ten percent. The volume of the tender offer may be limited. To the extent that the total subscription to the tender offer exceeds its volume, the acceptance shall occur in proportion to the shares offered. A privileged acceptance of small numbers of up to 100 shares per shareholder offered to the company for acquisition may be provided for..

e) The Management Board is authorized to use the company's own shares acquired on the grounds of the preceding authorization for the following purposes:

    aa) They may be assigned to executives and employees of ELMOS Semiconductor AG as well as to management members and employees of affiliated companies within the framework of the share option plans 1999 and 2004 in fulfillment of subscription rights. Insofar as own shares are to be assigned to members of the company's Management Board within this framework, the company's Supervisory Board is hereto authorized. The provisions of the share option plans 1999 and 2004 are applicable: The key provisions of the share option plans 1999 and 2004 as decided by shareholders' resolution are available for inspection at the commercial register in Dortmund as part of the notarial records of respective Annual General Meetings. They may also be inspected on the premises of ELMOS Semiconductor AG at its headquarters, Heinrich-Hertz-Str. 1, 44227 Dortmund, Germany, and on the Internet at http://www.elmos.de/englisch/investor-relations/corporate-governance/option-program.html. They will also be sent to the shareholders on request and they will be available at the Annual General Meeting.

    bb) They may be realized against contribution in kind, particularly in order to offer them to third parties with regard to business combinations or acquisitions of companies, operations, investments, or other assets.

    cc) They may be offered to executives and employees of ELMOS Semiconductor AG, management members and employees of affiliated companies, and freelancers for purchase, at charge or no charge, and assigned to them.

    dd) They may be offered and assigned to members of the Management Board of ELMOS Semiconductor AG by the Supervisory Board as a share-based remuneration component in due consideration of the rule of remuneration adequacy (Section 87 (1) AktG). The particulars of the share-based remuneration of members of the Management Board are determined by the Supervisory Board.

    ee) They may be retired without further shareholders' resolution on the retirement or its execution. They may also be retired in a simplified procedure without a capital decrease by adjusting the remaining shares' proportionate mathematical amount of the company's share capital. The retirement may be limited to a part of the acquired shares. If the retirement is effected in the simplified procedure, the Supervisory Board is authorized to adjust the number of non-par value shares stated in the Articles of Incorporation according to Section 179 (1) sentence 2 AktG.

f) The shareholders' subscription rights to these shares are precluded insofar as these shares are used according to the authorizations granted in lit. e) aa), bb), cc), and dd).

Management report for the Annual General Meeting on May 8, 2008

Management report on agenda item 6 (authorization to acquire own shares) in accordance with Section 71 (1) no. 8 AktG (Corporations Act) read in conjunction with Section 186 (3) sentence 4, (4) sentence 2 AktG
In the previous Annual General Meetings the company passed resolutions authorizing share repurchase and the subsequent disposal of purchased own shares, the last of which is limited until November 9, 2008. Because of the authorization's expiration in the current fiscal year, the resolution proposal at hand is intended to replace the authorization currently in effect, which was decided by shareholders' resolution at the Annual General Meeting on May 10, 2007.

In addition to an acquisition on the stock market, the company is meant to be given the opportunity to purchase its own shares by the public submission of a tender offer (tender procedure). With this alternative, each of the company's shareholders with the intent to sell can decide how many shares he or she wants to offer and, if a price range is determined, at what price. If the volume of shares offered at the determined price exceeds the number of shares requested by the company, the acceptance must occur in proportion to the shares offered. The resolution is intended to provide for a privileged acceptance of small offers or small contingents of offers of up to 100 shares. This option helps avoid fractions, occurring in determining the quota to be acquired, and small remaining parcels, thereby simplifying the technical processing.

The ELMOS share option plans 1999 and 2004 for members of the Management Board, other executives and employees of ELMOS Semiconductor AG as well as for management members and employees of affiliated companies are each safeguarded by conditional capital. The resolution as proposed under agenda item 6 is intended to make it possible for the company to service the share option plans 1999 and 2004 by the prior acquisition of its own shares as well. By this proceeding, a dilution of existing shareholders by an otherwise necessary capital increase is avoided in particular. The decision on how the options are fulfilled in the individual case are made by the company boards, respectively; they will let themselves be governed only by the interests of shareholders and company and will report on their decisions at each following Annual General Meeting.

By the authorization granted, the company is meant to be able to have own shares to dispose of against contributions in kind, especially as consideration with regard to business combinations or acquisitions of companies, operations, or investments in companies. Domestic and international competition and a globalized economy increasingly require this kind of acquisition financing. The proposed authorization is intended to provide the company with the necessary range of options to seize any opportunities for the acquisition of companies or investments swiftly and in a flexible manner. This concern is met by the proposed preclusion of subscription rights. There are no specific plans for making use of this authorization. In determining the valuation proportions, the Management Board will make sure that the shareholders' interests are duly considered. In calculating the value of shares disposed of as consideration, the Management Board will generally orient itself towards the market price of the share of ELMOS Semiconductor AG. The Management Board will report to the Annual General Meeting on each use of this authorization.

Moreover, the company is intended to be able to offer and assign shares to executives and employees of the company, management members and employees of affiliated companies, freelancers, and members of the company's Management Board. By the issue of shares to the company's employees, an additional kind of share-based payment is meant to commit employees to the company and to attract qualified new employees to the company. The objectives motivation and employee commitment to the company are in the company's interest. The preclusion of the shareholders' subscription rights with regard to the disposal of purchased own shares is a prerequisite to this. Members of the company's Management Board shall also be given the opportunity to be offered and assigned shares as share-based remuneration by the Supervisory Board. The option to promise or assign the company's own shares to the Management Board members as a remuneration component commits the members of the Management Board to the company and its economic success and is therefore in the company's interest as well. Members of the Management Board who receive shares as remuneration on these grounds have an additional interest to work towards the company's increase in value as expressed by its share price. On the other hand, they bear the price risk. The decision on this is the sole responsibility of the Supervisory Board as the proper decision-making body, and the Supervisory Board also decides on the particulars of the share-based remuneration of Management Board members in compliance with the statutory provisions for adequacy (Section 87 (1) AktG). Thereby is it assured that the shareholders' subscription rights are precluded not excessively and only in the company's interest.

Own shares acquired on the grounds of the proposed resolution on the company's authorization are meant to be subjected to retirement decided by the company even without a new shareholders' resolution. According to Section 237 (3) no. 3 AktG, the Annual General Meeting can decide the retirement of non-par value shares without the necessity of a decrease of the share capital. The proposed authorization provides for this option besides retirement with a capital decrease. By a retirement of own shares without a capital decrease, the remaining non-par value shares' mathematical proportion of the share capital automatically rises. Therefore the Supervisory Board is intended to be authorized to adjust the number of unit shares as reduced by the retirement in the Articles of Incorporation.

Participation in the Annual General Meeting

The company's share capital comes to 19,414,205.00 Euro as of the notification of the convening of the Annual General Meeting in the Electronic Federal Gazette and consists of 19,414,205 common bearer shares with one vote accounted for by each unit share. As the company holds 50,000 own shares, the total number of company shares is 19,414,205 and the number of share voting rights is 19,364,205 as of the notification of the convening of the Annual General Meeting in the Electronic Federal Gazette.

According to Section 11 of our company's Articles of Incorporation, shareholders are entitled to the participation in the Annual General Meeting and to the exercise of voting rights if they register their participation with the company at the following address and submit special proof of their shareholdings, issued by their depositary bank, to the company at the following address:

ELMOS Semiconductor AG
c/o Deutsche Bank AG
- General Meetings -
60272 Frankfurt am Main, Germany

The proof of shareholdings must refer to the beginning of April 17, 2008 and must be received by the company together with the registration before midnight of April 30, 2008 at the above address. Registration and proof of shareholdings must be in writing and composed in German or English.

Upon the company's receipt of the registrations and the proof of shareholdings, tickets of admission to the Annual General Meeting will be sent to the shareholders. In order to assure the timely receipt of admission tickets, we kindly ask our shareholders to request a ticket of admission to the Annual General Meeting from their depositary bank in good time. In this case, the required registration and the proof of relevant shareholdings are provided by the depositary bank.

PROXY VOTING

Shareholders who do not want to participate in the Annual General Meeting in person may have their voting rights exercised by an authorized representative, e.g. a credit institution or a shareholders' association.

As usual, shareholders may also have themselves represented in the elections by proxies nominated by the company. These representatives must be provided with proxy and voting instructions. The company-nominated proxies are obligated to vote according to these instructions.

Shareholders who want to make use of this delegation procedure require a ticket of admission to the Annual General Meeting. Detailed information on the participation in the Annual General Meeting, proxy voting, and voting instructions are sent to the shareholders together with the ticket of admission. Corresponding information is also available on the Internet at www.elmos.de.

INTERNET BROADCAST OF THE ANNUAL GENERAL MEETING

All shareholders of ELMOS Semiconductor AG and the interested public may follow the entire length of the Annual General Meeting live on the Internet (www.elmos.de) on May 8, 2008, starting at 10.00 a.m. Unrestricted online access to the live broadcast will be made available under Investor Relations/ Annual General Meeting.

SHAREHOLDERS' MOTIONS AND ELECTION PROPOSALS

Countermotions and election proposals with regard to a specific item on the agenda are to be submitted to the address given below exclusively:

Hauptversammlungsstelle
ELMOS Semiconductor AG
Heinrich-Hertz-Straße 1
44227 Dortmund, Germany
Fax: +49 (0)231/7549-548

Otherwise addressed countermotions and election proposals will not be considered. Shareholders' countermotions and election proposals received at the above-mentioned address before midnight of April 23, 2008 will be made available to the other shareholders on the Internet at www.elmos.de without delay upon proof of the applicant's shareholder capacity. The countermotion or proposal is to be submitted in German. If the countermotion or proposal is meant to be published in English as well, an English version is to be enclosed. Possible statements made by the administration will also be published at the same Internet address subsequent to April 23, 2008.

Dortmund, March 2008

The Management Board

Information

ADMISSION

The doors to the Annual General Meeting will open on May 10, 2007 at 9.00 a.m.

PARKING SPACE

Parking space will be available to our visitors at the Casino Hohensyburg for the duration of our Annual General Meeting. Please present your parking ticket upon registration so that we can exchange it for a parking voucher for free parking.

Bus transfer from/to Dortmund bus station

BUS TRANSFER FROM/TO DORTMUND

There will be a free bus transfer provided by the company Horn-Reisen from the Dortmund bus station – opposite the main station – to our Annual General Meeting at the Casino Hohensyburg and back, leaving at 9.00 a.m. This bus returns from the Casino Hohensyburg to the Dortmund bus station at 1.00 p.m.

Public transport

The casino bus connects the Casino Hohensyburg with the Dortmund bus station at hourly intervals beginning at 2.03 p.m.

Directions

Casino Hohensyburg
Hohensyburgstraße 200
44265 Dortmund | Germany

On A1 from Köln (Cologne), take the exit Hagen-Nord. From there follow the signs to the Casino Hohensyburg.

On A44 or A2, head towards Dortmund-Zentrum (city center) first. From the city, you will get to the Casino Hohensyburg via B54 South.

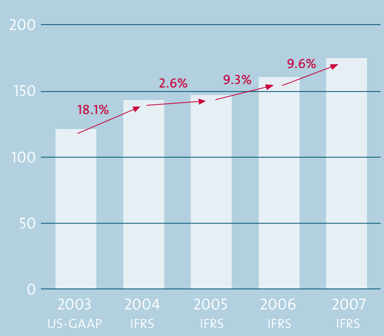
On A45, take the exit Dortmund-Süd in the direction of Hohensyburg. From there follow the signs to the Casino Hohensyburg.

ANNUAL REPORT 2007 ABSTRACT

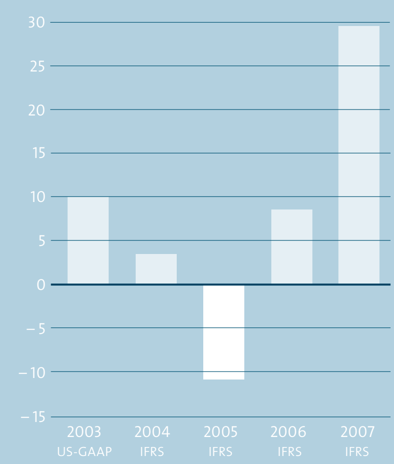
Five-year overview ELMOS Group

in million Euro unless otherwise indicated	2003 US-GAAP	2004 IFRS	2005 IFRS	2006 IFRS	2007 IFRS	2007*** IFRS
Sales	121.4	143.3	147.0	160.7	176.1	176.1
Sales growth	10.7%	18.1%	2.6%	9.3%	9.6%	9.6%
Gross profit	61.4	73.2	70.6	73.0	73.1	76.9
Gross margin	50.6%	51.1%	48.1%	45.5%	41.5%	43.6%
Research and development expenses	20.4	24.7	28.1	29.6	30.9	30.7
Research and development expenses in % of sales	16.8%	17.2%	19.1%	18.4%	17.5%	17.5%
EBIT	21.1	26.4	20.0	19.8	15.2	20.9
EBIT in % of sales	17.4%	18.4%	13.6%	12.3%	8.6%	11.8%
Income before income taxes	17.3	22.9	16.4	17.3	12.2	17.9
Income before income taxes in % of sales	14.2%	16.0%	11.2%	10.8%	6.9%	10.2%
Net income	10.0	14.2	10.0	10.7	8.8	12.5
Net income margin	8.3%	9.9%	6.8%	6.7%	5.0%	7.1%
Earnings per share in Euro	0.52	0.74	0.52	0.55	0.45	0.64
Total assets	205.3	217.3	237.0	245.2	249.3	
Shareholders' equity	124.7	133.8	144.3	152.3	160.0	
Equity ratio	60.7%	61.6%	60.9%	62.1%	64.2%	
Financial liabilities	60.6	57.6	67.9	65.0	54.0	
Cash, cash equivalents and marketable securities	25.9	18.9	16.8	16.6	42.9	
Net debt	34.7	38.7	51.2	48.4	11.1	
Cash flow from operating activities	6.5	34.7	19.7	28.5	30.8	
Capital expenditures	– 25.3	– 33.5	– 29.6	– 26.4	– 24.5	
Capital expenditures in % of sales	20.9%	23.4%	20.1%	16.4%	13.9%	
Cash flow from investing activities	3.4	– 31.2	– 30.4	– 19.9	– 1.4	
Free cash flow*	10.0	3.5	– 10.7	8.6	29.4	
Dividend per share in Euro	0.13	0.21	0.00	0.00	0.00**	
Employees on annual average	874	928	1,028	1,131	1,177	

Sales in million Euro
and growth rate



Free cash flow*
in million Euro



** Cash flow from operating activities less cash flow from investing activities*

*** Subject to shareholders' resolution at the Annual General Meeting in May 2008*

**** Adjusted by one-time effects (resulting from the restructuring of two subsidiaries)*

Management Board

CEO letter

Dear Shareholders

ELMOS can look back on an altogether positive year 2007. We have reached the essential economic goals, won new customers, and strengthened existing customer relationships. We have advanced the realization of our strategic orientation with important decisions and the results of operations. It is particularly satisfying that we achieved our growth target of roughly 10%.

In the past year we increased our sales by 9.6% to 176.1 million Euro. This is even more remarkable as the year under report was characterized by the restructuring of two subsidiaries, beginning in the first quarter, and difficult market conditions, especially in Germany and in the U.S. As reported, restructuring taking place at our subsidiary SMI in California and the location in the Netherlands resulted in extraordinary expenses of altogether 5.7 million Euro. With regard to the market conditions it must be said that the automotive sector in Western Europe, Germany in particular, and in the U.S. was weak. Reasons are manifold: The oil price reached new record highs in 2007, and the U.S. subprime mortgage crisis turning into an international loan crisis had its impact on consumer behaviour. Furthermore, the weak dollar rate reduced sales generated in the U.S. dollar area. Still some German car manufacturers were able to record significant growth in their export business.

Many of the market participants operating in our segment were forced to adjust their sales and profit forecasts – some of them significantly – by the end of the year because of the market conditions. ELMOS in contrast did reach the targeted sales and confirmed the profit forecast which had been adjusted after extraordinary measures at the beginning of the year. This gives proof of our customers' great confidence in our products and acceptance of our product mix, assuring solid growth even in difficult times.

Not considering special items from restructuring, the earnings before interest and taxes (EBIT) came to 20.9 million Euro or 11.8% of sales. This means a 5.3% increase. The net income gained 16.4% to reach 12.5 million Euro, corresponding to a level of 7.1% of sales. Without consideration of special items we have thus reached our goals to a large extent, supported in particular by a strong performance in the core business, the semiconductor segment.

Considering special items, the EBIT amounted to 15.2 million Euro or 8.6% of sales. The net income came to 8.8 million Euro or 5.0% of sales.

It is also good news that we were able to increase the free cash flow considerably to 29.4 million Euro. This is the result of the cash flow from operating activities, increased to 30.8 million Euro, significant cash accruals from sales and other dispositions, and modest capital expenditures despite the continued expansion of manufacturing capacity. In this context it is also worth mentioning that we refinanced the majority of our current loans in 2007 before the first signs of the impending loan crisis in the U.S. were the subject of debate. We have thus structurally strengthened the company's financial situation considerably.

Even though the cash flow development is positive, the decreased earnings, due to the extraordinary expenses from restructuring, lead us to propose to the Annual General Meeting to carry forward the retained earnings to new accounts again this year. We adhere to our statement of the last years that the company should pay a dividend only if the positive development of both earnings and cash flow is sustainable.

We cannot be satisfied with the development of our share price in the year under report. Even though we performed better than the semiconductor index SOX and ahead of the competition, the ELMOS share still lost 3% in value in 2007, closing the year at 7.35 Euro.

As in the years before, we continued to advance significant strategic and operative issues in 2007 successfully, reached important milestones, and brought projects to their positive conclusions. I would like to highlight the following items:

- The expansion of our strong position in the automotive ASIC market remains the sound growth pillar of our business. It made us win follow-up orders for ASICs without having to pass through the customary award procedures. Because we had convinced our customers with our cost-effective solutions, the outstanding quality and delivery reliability, and our development competence, they never questioned their decision for ELMOS. Our products have improved the competitive position of our customers.

- As the first company worldwide, we managed to develop a FlexRay™ star coupler up to series-production readiness. This makes us assume a globally leading position in this trendsetting market for bus systems. In 2007 this semiconductor received the customer release from BMW. This is an indication of our development department's efficiency and competence for finding solutions. FlexRay™ bus systems are going to replace CAN bus systems in many applications in the medium term. The bus system CAN is currently the most often installed automotive network. ELMOS has previously been underrepresented in the market for CAN systems so that we are opening a large future field of growth with our FlexRay™ activities.

- The relocation of the standard package assembly to the Far East was completed in the middle of last year. This has several advantages: Our assembly manufacture in the Netherlands can now focus entirely on the development and manufacture of special packages. And with this step we cut down on our capital expenditures in the medium and long term and increase the purchases in the U.S. dollar area. We have adjusted the structure of our location in the Netherlands accordingly.

- We have expanded our distributor basis in Europe and Asia considerably. On the whole, the ELMOS Group entered into agreements with ten new distributors. The cooperation facilitates the design wins and the logistic handling of new orders for electronics for automotive and industrial applications, consumer goods, and medical technology.

- Application specific standard products (ASSPs) have evolved into a major force within the group over the past year. A case in point is the extensive portfolio of products emphasizing our core competencies in the areas “sense”, “drive”, “connect”, and “supply”. We focus on our know-how for our ASSPs and convince our customers with our own patented solutions. Our development engineers are working on essential innovations: In the product group “sense” we will be offering new sensor elements, sensor read-out chips and microsystems for various physical measurement quantities in the near future. Our investment in the ELMOS-owned VirtuHall® process for the efficient drive of EC motors finds expression in an IC product family for the unit “drive” with derivatives. For the product group “connect”, further standardized bus ICs will soon be available in addition to the FlexRay™ transceivers already mentioned, finding use increasingly in the automobile as well as in industrial applications. For the application group “supply”, circuit concepts with highly efficient DC/DC converters are currently being realized, making it possible in LED lighting for cars and buildings to reduce our customers’ cooling effort up to 50%, depending on the specific application.

- At the U.S. location Milpitas, California, we have been working together with a new management at our subsidiary Silicon Microstructures Inc. (SMI) since the beginning of 2007. Apart from a sales increase and profit improvement on the strength of the existing products, the development of new sensor products and microsystems is being pushed intensively. The main emphasis is on the expansion of the core competencies in the field of “pressure sensorics”. The development of microsystems takes place across the locations between our subsidiaries in Milpitas and Nijmegen and our Dortmund headquarters.

- Our new production location for 8-inch wafers in Duisburg increased its capacity continuously in 2007. After a progress over three quarters as scheduled we had to suspend the continued increase of wafer introduction in the second half of the last quarter. We decided on this measure in consideration of the quality and stability of products and processes. The resulting delay in capacity expansion in Duisburg will not lead to a postponement of the planned partial conversion from 6 to 8-inch wafers in Dortmund. This is being assured by respective special measures.

- In early 2008 we concluded a cooperation agreement with a partner in Asia for contract manufacturing. Together with the Korean company MagnaChip we will develop a new technology generation and subsequently purchase processed wafers for automotive products and other applications from MagnaChip. MagnaChip will meet the required high automotive quality standards reliably. This deal will enable us to reduce our capital expenditure requirements and our development expenses for future technology generations significantly in the medium term and to react to fluctuating numbers of units more swiftly. It will also reduce our dependence on the U.S. dollar rate in the medium term and respond to the capacity requirements of our company's growth.

- In 2007 we were generally rather successful on the Asian market. A case in point, we won the contract of a major Japanese electronics group. The touchless switches realized for this contract on the basis of the HALIOS® process will be fitted in the first applications from the consumer goods sector in 2008. We will purchase our chips from a foundry (contract manufacturer) in Taiwan. We have also established close ties with the automotive suppliers and car manufacturers in South Korea which will result in specific contracts before long.

You will find on the basis of these examples that many issues were addressed and realized in 2007 once the strategy and orientation had been determined. After careful planning and conception work we placed our emphasis on "ACT". The goal remains: We will strengthen the competitiveness of ELMOS in order to safeguard sustainable growth. In doing so, we direct our special attention to performance improvement.

We also seek to expand our leadership among the specialized semiconductor manufacturers in all respects: product portfolio, quality, and efficiency in providing solutions. We want to achieve this goal on our own steam and – if and when the opportunity arises – by acquisitions.

That we are successful in our core business automotive is indicated for instance by the statistics of the market research institute Gartner Dataquest. In the latest survey we managed to make the leap from the third to the second position of the largest automotive ASIC manufacturers worldwide. With our company size and our application know-how, we are the ideal partner for the key technology microelectronics in the automotive and the industrial sectors, as well as for medium-sized enterprises in general.

In closing I would like to express my special gratitude to all our partners, starting with our customers. We appreciate the trust our customers place in us very much. We will spend each day's work with the highest commitment to merit this trust, exceed the expectations, and offer the best solution of the highest quality to them.

We owe the results achieved to our employees in the entire ELMOS Group. The commitment and know-how, the will to succeed, and the level of identification with the company were outstanding.

My gratitude also goes to our shareholders who have remained faithful to us despite the less than pleasant share price development. I am sure that our consistent orientation towards profitable growth at significantly reduced capital expenditures is going to increase the shareholder value in the long run.

In 2008 we want to achieve improvements all along the line. We are anticipating a growth above market average for the current year. Sales are expected to increase between 7% and 9%. The EBIT margin is anticipated to turn out between 12% and 14%. Capital expenditures are planned to amount to less than in the previous year. In addition, a positive free cash flow is planned once more.

The targets we have set for ourselves are ambitious yet achievable. For this purpose all employees and all members of the Management Board will give their very best, according to our motto. The key to success: ACT.

Sincerely

Dr. Anton Mindl
CEO

GROUP MANAGEMENT REPORT

Business and economic framework

Business activity

ELMOS is worldwide number 2 for ASICS in automobiles

ELMOS develops, manufactures and sells highly integrated, mostly application specific microelectronic circuits, primarily for automotive use. Roughly 90 percent of sales originated from this market segment in 2007 once again. Since its formation ELMOS has achieved a leading market position as semiconductor manufacturer on the European market for automotive electronics. According to the March 2007 survey conducted by the market research institute Gartner Dataquest, ELMOS has become the worldwide number two (number three in the previous year) in the segment ASICs (Application Specific Integrated Circuits) for the automotive market following STMicroelectronics. The immediate competitors AMI Semiconductor and Melexis follow on ranks four and five.

ELMOS chips are used by almost all European car manufacturers as well as numerous American and Asian manufacturers. Ever-increasing demands on the reduction of fuel consumption and the environmental compatibility of an automobile, as well as on passenger safety and comfort, lead to more and more electronics inside the vehicle. Semiconductor components made by ELMOS are ideally suited to the compact, reliable and economical construction of those systems.

New automotive projects usually require two to three years development time till they enter serial production for a period of roughly five to eight years. Sometimes the production period is extended considerably if car manufacturers put to use a similar technical platform in a family of new car models. By the time a new project is won, prices are usually determined for the entire project life cycle dependent on the scheduled volume.

Industrial and consumer goods sector gets into the focus increasingly

Apart from the automotive market ELMOS has been busy in the industrial and consumer goods markets and supplies customer specific circuits e.g. for applications in household appliances, photocameras, installation and facility technology, and machine control. This non-automotive sector amounted to roughly 10% of sales in the past year, on the level of the previous years.

ELMOS has served niche markets with its own know-how for more than 20 years. It is the company's strategy to excel with customer specific product development and consistently optimized production technology in response to market demands. At present ELMOS predominantly develops products by the customer's order for a specific application and then manufactures these products for the customer exclusively.

Apart from customer specific circuits, comprising approximately 90% of all products, ELMOS also offers a portfolio of application specific standard products (ASSPs) as well as micromechanical sensors. ELMOS has been manufacturing ASICs and ASSPs almost exclusively at the company's own production plants (wafer fabs) in Dortmund and Duisburg. ELMOS distinguishes itself from most of its competitors by automotive-suited high-voltage CMOS technology as well as

the system-compatible integration of analog and digital functions with on-chip driver performance.

We develop, manufacture and sell micromechanical components (MEMS) at our subsidiary company Silicon Microstructures Inc. (SMI), ranking among the technology leaders for high-precision silicon pressure sensors. With its own production site in California, SMI has solid serial production facilities and capabilities. The producing subsidiary ELMOS Advanced Packaging B.V. (ELMOS AP), based in Nijmegen in the Netherlands, supports the technology and product portfolio. ELMOS AP develops and manufactures special packages for electronic semiconductor components and sensors. The Nijmegen plant provides state-of-the-art technology. In 2007 ELMOS AP was reorganized to focus solely on customer and application specific special packages which stand out in part from the competition by patented know-how. Besides assembly for group companies, ELMOS AP also manufactures special packages for third-party customers.

The range of products is completed by the development and sale of application specific, micro-mechatronic modules realized by ELMOS Microsystems. These modules combine the capabilities of the ELMOS Group and consist of signal processing semiconductor components, micromechanical sensors, and functional packages. They make it possible for the customer to realize cost-effective system solutions.

Microsystems consist of semiconductor and
sensor in a special package

Strategy

As its core elements, the strategy of ELMOS comprises the expansion of the strong position in the automotive ASIC business, the enforced distribution of ASSPs for the completion of the existing product and customer portfolio, the forging of cooperation agreements for a reduction of capital expenditures and the completion of the existing technology and product portfolio, the establishment of the microsystem business as one of the company's pillars of growth, and the increased attention to the consumer goods and industrial markets. As far as regions are concerned, we aim at participating in the growth in Asia to a larger extent. In the year under report we achieved considerable progress in the realization of our strategy.

Automotive ASIC business

Great customer confidence

The expansion of our strong position in the automotive ASIC business is underscored by winning important follow-up orders for customer specific semiconductors to be used in automobiles in the year 2007. The main focus was on the core competencies in the fields of efficient motor drives for air-conditioning systems as well as various airbag ICs. Among the principals are customers in the automotive industry of many years. These follow-up orders furnish proof of the customers' confidence in specifically developed semiconductor solutions. The volume of these contracts provides solid foundations for the company's medium-term growth.

We continue to attach great importance to close customer relationships and their intensification. In the year under report we conducted an in-house customer event once more, at which numerous representatives of the automobile industry presented current topics in automotive electronics. Under the motto "Megatrends and Niches: Standardization, Modularization and Differentiation by Electronics", renowned speakers from Audi, BMW, Daimler, Ford, Hyundai-Kia, Opel, VW, and Tyco Electronics AMP gave their presentations.

ASSPs

In the year 2007 we pushed ahead with the development and sale of application standards (ASSPs) strongly. These particularly involve patented processes such as HALIOS® (High Ambient Light Independent Optical System) and VirtuHall®, providing a competitive edge for both ELMOS and our customers. Such a family of application standards enables the user to come to a fast and simple realization of intelligent solutions, e.g. for sensor and drive applications.

Core competencies "sense", "drive", "connect", and "supply"

In developing the ASSPs we focus on our core competencies in the areas "sense", "drive", "connect", and "supply". Within the sector "sense" we develop new sensor elements, sensor read-out ICs, and microsystems for various physical measurands. ELMOS' own VirtuHall® concept for the efficient drive of EC motors is featured by an entire IC family for the sector "drive", with various derivatives. A large number of standardized bus ICs are available for the product group "connect", for use in the automobile as well as in industrial applications increasingly. For the application group "supply", new circuit concepts are realized in order to supply our customers with highly efficient DC/DC converters, e.g. for LED lighting in vehicles or buildings. The products are suited for automotive use as well as for industrial and consumer goods applications.

Other measures realized in the year 2007 to underline the increased significance of ASSPs for ELMOS are the expansion of the distributor basis, the relaunch of our website which now allows a targeted search for ASICs and ASSPs in the "products" area, and the updated and considerably enlarged standard product catalog, presenting 64 products on more than 130 pages.

Cooperations

In order to continue offering a competitive product portfolio in the long term and to generate a positive free cash flow at the same time, it is the strategy of ELMOS to enter into cooperations with partners and thus complete our own capabilities adequately. This also enables ELMOS to reduce its capital expenditures or development expenses.

ELMOS simultaneously pursues the approach of so-called two-chip solutions, making it possible to assemble chips made by two different manufacturers in one package, as well as the approach of external production, usually having large semiconductor foundries produce chips with technologies not provided by ELMOS according to our construction designs. A case in point, we realized operational chips for a consumer goods product in 2007 together with a foundry in Taiwan. We also signed a cooperation agreement with a partner in the beginning of 2008. Together with the Korean company MagnaChip we will develop a new technology and we will also purchase completely processed wafers from this partner. This move enables us to cut down on our expenditure requirements and react more flexibly to heavily fluctuating volumes.

In 2007 we also further intensified our partnerships with our packaging service providers in Southeast Asia, proven and tested over many years. In the middle of 2007 the relocation of standard chip packaging from ELMOS Advanced Packaging to Asia was completed.

Microsystems

ELMOS is one of the few companies able to develop and manufacture complete microsystems, consisting of ASICs and MEMS in a customer specific package. With this capability ELMOS clearly distinguishes itself from the competitors and offers a unique edge.

In 2007 the Management Board installed a new management team at SMI to be able to make better and more reliable use of the market opportunities for microsystems in the future. Requirements for restructuring and profit adjustments for 2007 were recognized as well. This also affected the location in the Netherlands. Due to delayed SMI product starts, the organizational structure in the Netherlands had to be adjusted.

Relocation of standard chip packages completed

New markets

Following the formation of ELMOS Industries at the end of 2006, in 2007 we established the foundations to allow for a growth of the non-automotive markets, i.e. industrial and consumer goods markets, scheduled to amount to a share of 20% to 30% of total sales in the medium term.

In the year under report, a number of ASIC projects in the fields of heating control, industry bus applications, industry control, etc. have been realized, partly already series-produced and delivered to the customers. Other ASIC and ASSP projects are currently being negotiated with several customers, justifying expectations for a significant sales increase in this segment over the next years.

By winning a contract from a major Japanese electronics group in the year under report, a significant success was achieved in the Asian non-automotive market. The product is a new chip based on our patented HALIOS® method, which among other things facilitates the contactless three-dimensional detection of objects or motion. The touchless switches realized according to this method are scheduled to be implemented in first applications from the consumer goods area, e.g. in remote controls, MP3 players, telephones, and computer peripherals in 2008.

Order won from a major Japanese electronics group

Organizational structure

Close customer-supplier relationship

The ELMOS business structure responds to the automobile industry's demands as well as the customers' requirements for innovation, quality, flexibility, and delivery reliability. The resulting tight customer-supplier relationship is reflected by the ELMOS Group's structural layout.

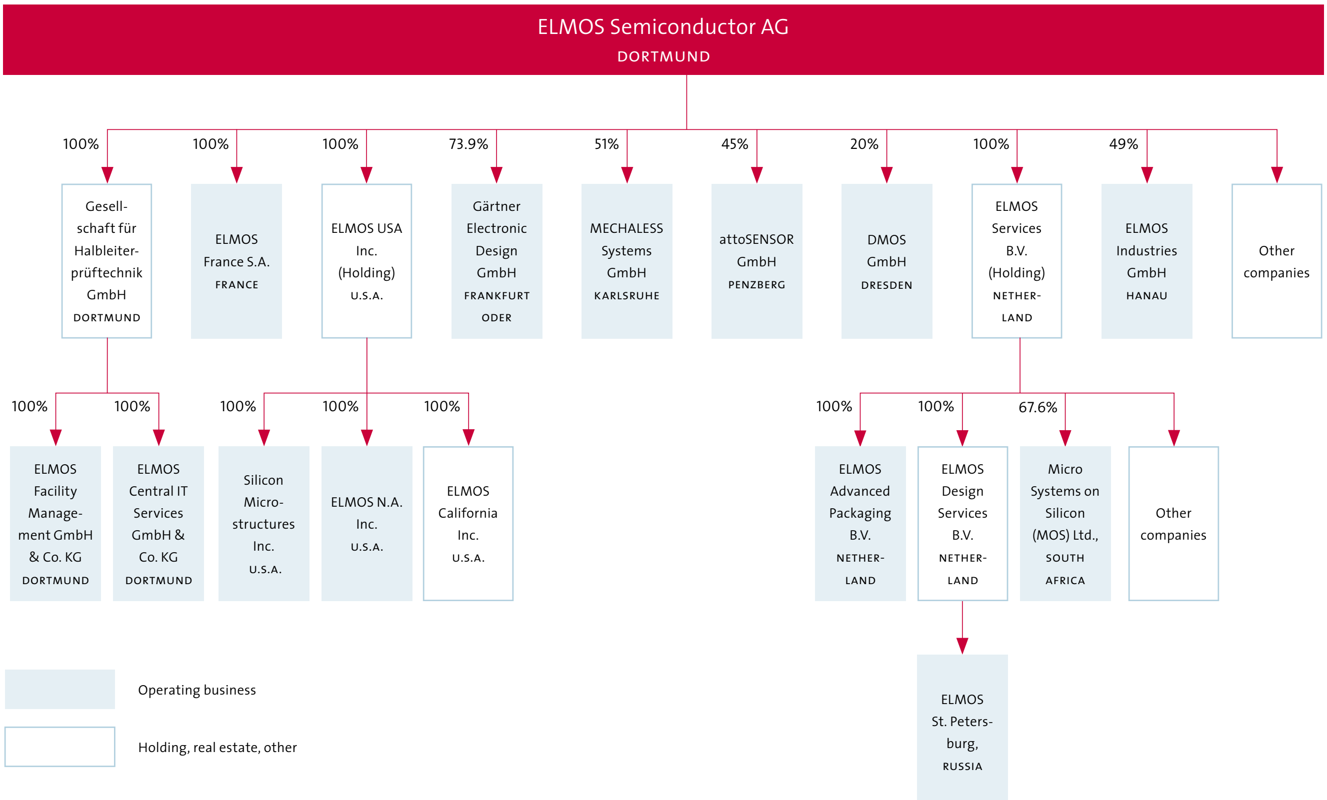
Several branches, subsidiaries and partner companies at various locations in Germany, Europe, and worldwide provide distribution and application support to the customer on the spot. Apart from the producing locations in Dortmund, Duisburg, Nijmegen/Netherlands, and Milpitas/California/U.S.A., this network comprises, among others, the Munich and Stuttgart branches, the subsidiary companies ELMOS France, ELMOS North America, MECHALESS, DMOS, GED, and attoSENSOR. ELMOS France attends to the French and Southern European markets and provides application support and customer service on the spot. For ELMOS, France is the most important regional market apart from Germany. ELMOS North America serves the North American market from its headquarters in Farmington Hills near Detroit, U.S.A., center of the American automobile industry. ELMOS is represented in Asia with offices in Japan and South Korea.

In the course of the increased sale of ASSPs and non-automotive products, ELMOS also sells its products over various distributors. In the year 2007 marketing was reorganized with a recruitment of additional distributors. The ELMOS Group now collaborates with a large number of partners in Europe and Asia. The cooperation facilitates design wins and the logistic realization of new contracts for electronics used in automotive applications, industrial and consumer goods applications, and medical technology. The distributors are distinguished by a broad customer portfolio, great understanding of applications, and high reliability.

In its segment reporting, ELMOS makes a distinction between the segments semiconductor and micromechanics. The segment micromechanics reflects the business operations of SMI. All other companies and activities are recorded in the segment semiconductor.

Relationships with affiliated companies

With indirect and direct shareholdings of altogether 52.9%, ELMOS Finanzholding GmbH (EFH) is the major single shareholder of ELMOS Semiconductor AG.



General framework of the automotive semiconductor market

The most important market for ELMOS is the market for semiconductor chips for the automobile industry. This market is a niche market of the global semiconductor industry. It comprises a share of roughly 7% of the entire worldwide semiconductor market. Due to the effect of the relatively steady car production and the increasing proportion of electronics used in vehicles, the automotive semiconductor market shows a significantly higher stability than the global semiconductor market, which is characterized primarily by the developments regarding memory and communication chips. The automotive semiconductor market's special distinguishing features are the product life cycles, atypically long for the semiconductor industry, and the resulting long delivery periods of more than ten years in some cases. The market is also set apart by long-lasting customer-supplier relationships and the extremely high demands on quality as well as robust semiconductor technologies.

In 2007 the basis of our core business – the automotive sector – was weak in Western Europe, particularly in Germany, as well as in the U.S. This is attributable to the oil price, the loan crisis set off in the U.S. and its effects on consumer behavior, and the weak U.S. dollar, among other factors. However, some German car manufacturers were considerably successful in their export trade.

According to a survey made by the German Central Association of the Electronics Industry (ZVEI), the total car production is expected to grow annually by 4% in the period between 2006 and 2011. North America and Germany, with average annual production growth rates between 1% and 2%, are the regions with the weakest performances. For Eastern Europe and Asia significant production increase rates are anticipated, partly in the two-digit figures.

Value portion of electronics in the automobile: roughly 22%

While the share of electronic systems came to just 3% of the entire production costs of a medium-sized vehicle in the year 1985, that share now comes to about 22% of the production value. At the same time, the semiconductors' value amounts to roughly 12%. It is expected due to the increasing integration of electronic systems and new technologies that the increase of the semiconductor portion is going to be disproportionately high. Accordingly, the value portion of all electronic controls in the vehicle is anticipated to grow to around 30% of production costs until the mid-2020s while the share of semiconductor elements is expected to rise to more than 20% over the same period. Several market research institutes predict annual growth rates of 7% to 8% for the automotive semiconductor market in the next years.

Driving factors: environmental protection and safety

The driving forces behind this growth are the new gasoline engines with high-pressure direct injection in addition to the continued increase in numbers of diesel automobiles with complex control systems. It is bolstered by ever stricter legal provisions for exhaust regulation, supporting the demand for increasingly complex electronic systems. Systems in support of passenger protection are also growing fast, for instance vehicle stabilizing systems.

ASICs are specific to a certain customer

The market primarily addressed by ELMOS is in itself just a part of the automotive semiconductor market, namely the market for predominantly customer specific semiconductors (ASICs) and application specific semiconductors (ASSPs). The large semiconductor producers, giving top priority to the best possible utilization of their vast production capacity, do not focus upon these components because of the comparably small number of annual units. Another distinguishing feature of the ASIC business is very close supplier relationships between the customer and one individual ASIC manufacturer, among other factors a result of the customer's wish for protection of his own know-how. ASSPs are distinguished by ASICs insofar as they can be used by various customers; however, ASSPs are suited for a specific application just like ASICs. With regard to typical medium-volume ASIC and ASSP projects, ELMOS competes with companies of similar size, such as AMI Semiconductor, Melexis, austria micro systems, and Micronas. When it comes to very large unit numbers, ELMOS also competes with major producers such as Infineon, STMicroelectronics, and Freescale.

The trend of the last years continued through the year 2007. The consolidation process on the automotive market has continued unabatedly, the number of suppliers has declined. Average project volumes rise, and so does the pressure on prices. Pricing pressure is handed on by the car manufacturers in the form of cost-cutting plans to the so-called "tier1" manufacturers, the suppliers on top of the supply chain, who pass the pressure down to their suppliers in negotiations for new projects.

Production



In 2007 about 150 million chips were produced altogether. The trend begun in the past years – rising demands on the products and their complexity in consideration of the number of layers to be structured – has continued at the same time.

150 million chips produced

The ASICs and ASSPs delivered to customers in 2007 originated predominantly from the 6-inch (150mm) production line at the Dortmund headquarters. The 8-inch (200mm) production line at the Duisburg location was ramped up. The Duisburg manufacture has not been used to full capacity by the end of the year 2007. In order to safeguard the quality and stability of products and processes, we did not further increase wafer entry in the second half of the last quarter of 2007. This second semiconductor production site is important for assuring the supply and also for its cost-cutting potential as a result of the larger wafer diameter.

It is satisfying that in the course of the year 2007 sufficient customer releases could be won for utilizing the capacity available at the Duisburg location. The products manufactured in Duisburg made an essential contribution to customer supply in the year under report. In 2008 the expansion in Duisburg will be continued. In particular targeted investments will be made for the elimination of machine bottleneck and for the creation of reserve capacity for volume stabilization.

Expansion of Duisburg location is continued

The production share of 8-inch wafers from Duisburg is planned to be further increased so that the capacity required for the expansion and conversion of manufacture at the Dortmund headquarters will be available on schedule. In mid-2008 the gradual conversion of the Dortmund production line from 6-inch to 8-inch wafers is set to begin. This is another important step towards the expansion of manufacturing capacity and the improvement of productivity. Production space for the successive conversion of a part of the Dortmund wafer manufacture to 200mm wafer diameter is provided for.

In 2007 machine capacity came to roughly 580 wafer starts a day on annual average (corresponding to 6-inch wafers). This indicates a significant increase over the level at the end of the year 2006 (December 31, 2006: 480 wafer starts a day), caused by the expansion of the Duisburg production line. At 550 wafer starts a day, the average utilization also exceeded the prior-year level considerably (2006: about 430 wafer starts a day).

Strong increase in daily wafer starts

Apart from the company's own wafer fabs, the necessary capacity will also be provided in the future by contract manufacturers (foundries). It has been announced after the end of the year under report that we will cooperate with the Korean enterprise MagnaChip. This cooperation enables ELMOS to react more flexibly to even heavier fluctuations in demand. In the year under report a consumer goods project was already started with a Taiwanese foundry and prototypes were manufactured. The opportunity offered by production at a foundry partner will be seized especially for ASSPs and for products in the industrial and consumer goods sector.

The standard assembly business was completely relocated to long-standing partners in Southeast Asia by the middle of 2007 as scheduled. The Dutch subsidiary ELMOS Advanced Packaging now focuses particularly on the business areas package development and manufacture of special packages for micromechanical systems (MEMS), wafer processing, and packaging (tape & reel).

Research and development

Highest possible quality level

The ever increasing application of electronic components in the automobile leads to the automotive industry's constantly rising demands on quality and reliability of semiconductors used for automotive electronics. In order to give the proper response to this trend, ELMOS draws on its experience made in the industrial and consumer goods markets for new innovative technologies as innovation drivers. ELMOS benefits from this phenomenon insofar as e.g. innovations technically matured in consumer goods markets are later used in automotive applications, quality assured by own qualification procedures above the established standards. This results in the highest possible quality level for new products for automotive use as well.

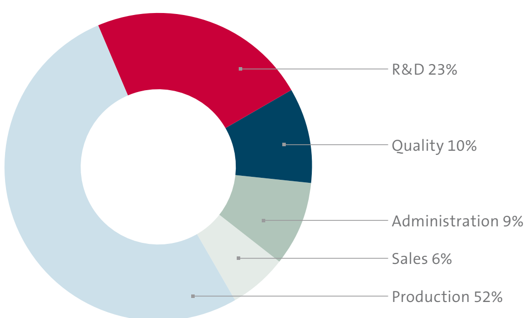
In the year under report main emphasis of research and development activity was placed on the development of the 0.35µm process and the launch of the prototyping stage of this process. The fine tuning and the process integration with regard to the products series-manufactured at the Duisburg location was also pushed ahead forcefully in 2007. Manufacturing on 200mm wafers gives ELMOS the opportunity to offer innovative and cost-efficient solutions with the aid of in-house process technologies.

Apart from the development of new processes by far the larger portion of the expenditure for research and development is accounted for by the development of new products. It has become market practice that a majority of the product development costs must be pre-financed by the ASIC supplier to be amortized only through serial unit production. Of course this especially goes for the development of ASSP families, destined to amount to a bigger share of the sales of ELMOS than previously. As a result, research and development expenses rose by 1.3 million Euro from the previous year to reach 30.9 million Euro, corresponding with a ratio of roughly 17.5% of sales.

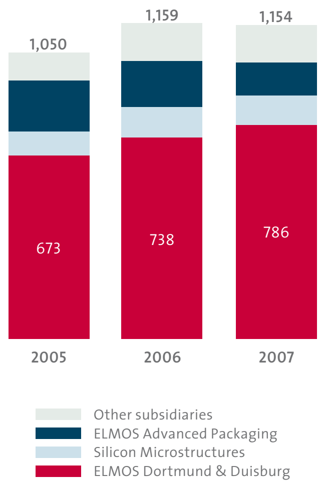
Employees

As a technology company, ELMOS profits especially from the employees' know-how. Their motivation, expert knowledge and flexibility are the prerequisite to the company's long-term success. Particularly with regard to the development of new products and processes, the employees represent the deciding criterion for growth and innovation. At the locations in Dortmund and Duisburg, in Germany's most-populated federal state North Rhine-Westphalia, ELMOS is able to recruit from a great number of well-trained young engineers, as there are more than 50 universities and colleges in the vicinity. ELMOS has maintained a close cooperation with these institutions ever since its foundation and holds a singular position as the sole semi-conductor manufacturer in the region.

Employees according to function
ELMOS Group



Staff development (end of year)
ELMOS Group



ELMOS continued to create new jobs in 2007 at its locations in North Rhine-Westphalia. By the end of the year 2007 there were 786 employees in Dortmund and Duisburg (December 31, 2006: 738). The number of employees within the ELMOS Group also rose in 2007, to 1,177 on the annual average (annual average 2006: 1,131). As of balance sheet date, the number of 1,154 ELMOS Group staffers about remained on the prior-year level (December 31, 2006: 1,159). New openings were provided primarily in the quality department, contrasted by staff reduction at the Nijmegen location due to restructuring. The average age of the employees was 37 years in 2007 (2006: 36 years), employee turnover came to roughly 2%.

ELMOS offers professional training for a variety of commercial and technical professions, with an emphasis on the training of microtechnologists. By the end of 2007, 56 employees in Dortmund were in training (2006: 70). Many of the large number of trainees recruited in 2004 on the occasion of the company's 20-year anniversary completed their training successfully in 2007.

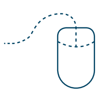
In Dortmund, Management Board and employees work together in a trusting partnership, supported by an employee representative committee with its own statutes. The employees' interests among each other and towards the management are discussed and observed in numerous subcommittees. There are subcommittees for social issues, human relations, employee promotion, and economic issues.

Staff participation

In the year 2007 a stock award plan for granting bonus shares was initiated for the first time. The stock awards were granted to selected employees, executives, and Management Board members in recognition of their performances delivered in the prior year. Granting these awards is intended to represent the connection between ELMOS and its top achievers and to be regarded as an incentive to inspire commitment and motivation.

The stock award plan 2007 comprised 29,000 shares which had been previously repurchased at the stock exchange within the authorization to repurchase own stock. A holding period of two years is in effect for the stock awards; this does not apply to a sale of shares in the number required to settle the interest incurred for the non-cash benefit. ELMOS intends to provide a similar stock award plan for the years to come.

Quality, safety, and environmental protection



Within the context of continuous improvement processes, ELMOS consistently implements its zero defect strategy and thus achieves an outstanding automotive-suited quality level. Regular examinations of the tools put to use, close attention to the series products from the development stage up to manufacture, constant analyses, and statistical procedures facilitate this high quality level. In-house laboratories scrutinize not only possible defect mechanisms of the semiconductor production but sensor and packaging specific features as well.

Since the mid-1990s ELMOS has had a quality management system in use which is audited annually in accordance with DIN ISO 9001 and the standards QS 9000 and VDA 6.1. These standards have been subsumed under ISO/TS 16949:2002 with worldwide validity. ELMOS Dortmund, ELMOS AP, SMI, ELMOS North America, GED, DMOS, and the manufacture in Duisburg were audited and certified in accordance with this standard in 2007.

The company's environmental protection management was certified in accordance with DIN EN ISO 14001 by TÜV Rheinland at the Dortmund location in the year 2003 and has been confirmed by supervision audits in the following years without qualification. The workplace safety and environmental protection departments are set up directly below Management Board level. ISO 14001 systematically and permanently anchors environmental protection in the company management. In managing environmental protection, ELMOS emphasizes effective prevention and the efficient utilization of natural resources in particular.

Profit, financial and economic situation | Extract

Sales development

The year 2007 was characterized by difficult market conditions. Uncertainty due to the loan crisis triggered in the U.S., the weak U.S. dollar and the high oil price each played a part. Despite these challenging conditions and the restructuring carried out at two subsidiaries, ELMOS performed well with a 9.6% sales increase to 176.1 million Euro. The targets were essentially reached.

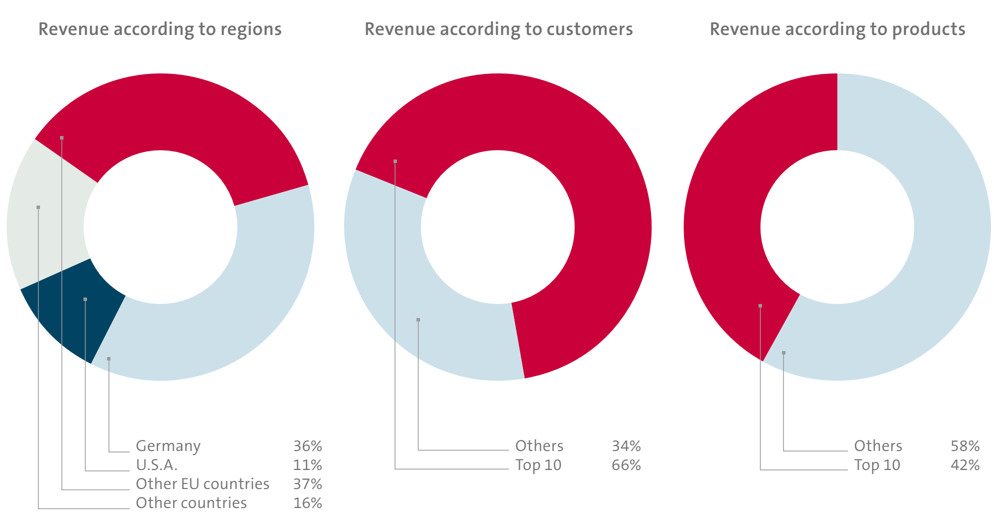
Sales according to regions

Regional sales breakdown essentially unchanged

The regional sales breakdown remained virtually unchanged from the previous year. The German sales portion came to 36.1% (2006: 37.4%); the share of the other EU countries reached a similar level at 36.7% (2006: 37.3%). While the U.S. share of total sales went down slightly, both in relative and absolute figures, coming to 10.9% (2006: 13.4%), the other countries gained and contributed 16.3% (2006: 11.9%) to the group's sales. Particularly Canada, China, Mexico, Switzerland, and Taiwan are the countries with an increase in sales. The changes are for the most part due to changes of individual customers' shipping addresses and increased sales generated with previous customers, not tantamount to a changed customer structure.

Sales according to customers

ELMOS supplies more than 100 customers. These are predominantly suppliers to the automobile industry and to a lesser extent industrial customers and manufacturers of consumer products. As in previous years, French supplier to the auto industry Valeo, Swedish Autoliv, and the Swiss Saia group were our biggest customers in 2007, each with a contribution of more than 10% of sales. The sales generated with our top customers are usually accounted for by a great many different products at different stages of their respective life cycles. Our top ten customers amounted to roughly 66% or two thirds of our sales in 2007, hardly changed from the previous year (2006: 68%).



Profit situation

The results of the year under report are characterized – as announced in April 2007 – by the restructuring expenses of 5.7 million Euro.

Gross profit

Without consideration of the special items due to restructuring, the gross profit's increase was disproportionately low compared to sales, by 5.2% to reach 76.9 million Euro (2006: 73.0 million Euro). This corresponds to a gross margin of 43.6% of sales (2006: 45.5%). It was affected primarily by rising expenditures for the ramp-up the new production site in Duisburg, leading to an increase in production costs from 87.6 million Euro in 2006 by 13.3% to 99.3 million Euro in 2007.

In consideration of the special items, the gross profit came to 73.1 million Euro and the gross margin was 41.5% accordingly. These amounts show that the majority of the restructuring expenses (3.8 million Euro) is included in production costs.

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

ASSP development intensified

We have further intensified our commitment to the development of standard products (ASSPs), especially towards the end of the fiscal year. We have also accelerated the development of the next technology generation. For this reason among others, the research and development expenses increased to 30.7 million Euro, yet remained clearly below the sales growth with a 3.9% increase. However, with a portion of 17.5% of sales (2006: 18.4%) they keep underscoring the great importance of product development and product innovation for ELMOS as a technology company. The increase of marketing and distribution costs to 11.6 million Euro was disproportionately high compared to sales. This is attributable to the intensified ASSP effort in general, the increased acquisition in the industrial and consumer goods sector, and the successful market penetration in Asia. General administrative expenses rose to 15.2 million Euro, roughly in proportion to sales (all figures excluding special items).

Without special items, the operating income of 19.3 million Euro virtually repeated the prior-year result (2006: 19.6 million Euro). As has been explained, the gross margin was two percentage points below the result of 2006. The functional expenses, which decreased slightly in relative terms to altogether 32.7% of sales (2006: 33.3%), had as a result that the operating income margin at 11.0% of sales (2006: 12.2%) was not reduced as much as the gross margin.

The other operating expenses were essentially affected (4.8 million Euro) by the restructuring of an existing lease agreement based on the expiry of the first fixed interest period. This contract, previously recorded as a finance lease agreement, was converted to an operating lease structure as of the end of the year 2007. The resulting effect had already been included with regard to its cause and approximate amount in planning for the fiscal year 2007.

The EBIT differs from the operating income in its additional consideration of foreign exchange loss/(income), equity in losses of unconsolidated companies, and other operating expenses/(income). The EBIT increased to 20.9 million Euro (2006: 19.8 million Euro), coming to 11.8% of sales (2006: 12.3%).

With regard to the functional expenses, the special items from restructuring affected research and development (0.2 million Euro) and general administration (0.9 million Euro). The position "other expenses" was additionally charged by 0.8 million Euro.

Burdened by one-time effects

Restructuring expenses burdened the key figures, as forecast, by roughly three percentage points. In consideration of the special items, the operating income came to 14.5 million Euro or 8.2% of sales and the EBIT was 15.2 million Euro or 8.6% of sales.

Income before taxes, group net income, and earnings per share

Finance income/expenses climbed to 3.0 million Euro in 2007 (2006: 2.5 million Euro). This increase is due primarily to higher interest rates in 2007 than in the previous year. Pre-tax income reached 17.9 million Euro or 10.2% of sales, a 3.3% increase (2006: 17.3 million Euro or 10.8%). In consideration of special items, the income before taxes came to 12.2 million Euro or 6.9% of sales.

Income taxes came to 5.6 million Euro without consideration of special items, thus 15.6% below the prior-year value (2006: 6.6 million Euro). The tax rate would have come to 31.3% accordingly. Due to the restructuring expenses, the tax load was down by 45.8% from the year before, amounting to 3.6 million Euro and resulting in the actual tax rate of 29.4%. In any case the tax rates are below the previous year's rate (2006: 38.4%). 2006 was impacted by a change in Dutch tax law owing to which deferred taxes affected the net income. The 2007 figure includes a positive effect from the reduction of tax rates in Germany within the framework of the corporate tax reform to the amount of 1.2 million Euro.

The group net income after minority interest amounted to 12.5 million Euro without special items, indicating an increase of 16.4% over the previous year (2006: 10.7 million Euro). At 7.1%, the net income margin is thus above the 2006 value (6.7%). Accordingly the earnings per share were raised significantly to 0.64 Euro (2006: 0.55 Euro).

In consideration of the restructuring expenses, the group net income after minority interest decreased to 8.8 million Euro, the earnings per share came to 0.45 Euro.

Proposal for the appropriation of retained earnings

The net loss of ELMOS Semiconductor AG* for the year 2007 according to HGB came to 5.3 million Euro. The retained earnings carried forward from the year 2006 amount to 44.9 million Euro. Management Board and Supervisory Board propose to the Annual General Meeting to decide on May 8, 2008 per shareholders' resolution that the retained earnings of 39.6 million Euro be carried forward to new accounts entirely. Despite the improvement in liquidity compared to the previous year, Management Board and Supervisory Board propose not to pay a dividend against the background of burdened results due to special items from restructuring. The company affirms its intention to pay a dividend if the positive developments of earnings and cash flow are sustainable.

** The financial statements of ELMOS Semiconductor AG have received an unqualified auditor's certificate. It is published in the Federal Gazette ("Bundesanzeiger"), deposited with the business register and may also be ordered as a special print publication.*

Financial position

Cash flow from operating activities

Cash flow from operating activities increased

After an already significantly improved cash flow from operating activities in 2006 of 28.5 million Euro, this value could be raised again in 2007 by 2.3 million Euro or 7.9% to 30.8 million Euro. This was made possible despite the lower net income which was affected by the restructuring expenses. The essential reasons are that the restructuring expenses were not cash-effective in their entirety, the taxes paid were not as high as in the previous year, other receivables were on the decline, and a loan extended by ELMOS was repaid. These positive effects even more than compensated for the strongly adversarial effect of the non-cash-effective expenses/income (difference of 9.6 million Euro). While this position made a positive contribution to the operating cash flow in 2006 (5.5 million Euro), a net amount of 4.1 million Euro was non-cash-effective in the year under report and subtracted accordingly. This non-cash-effective profit essentially results from the restructuring of a lease agreement for an asset, converted from a finance lease agreement to an operating lease structure.

Cash flow from investing activities

Capital expenditures reduced

Following the reduction of capital expenditures in 2006, they were reduced in 2007 once again and amounted to 24.5 million Euro – despite the continued expansion of manufacturing capacity. Expressed in percent of sales, they fell from 16.4% in 2006 to 13.9% in the year under report. Capital expenditures were accounted for primarily by the equipment of the clean room at the Duisburg location and by machines and equipment for frontend and backend in Dortmund. With 23.8 million Euro, the semiconductor segment accounted for the largest share of the capital expenditures; 0.7 million Euro were spent in the micromechanics segment.

The assets held for sale were sold as scheduled in 2007 within the framework of sale and lease-back transactions. In addition, a lease agreement stated previously as a finance lease agreement was converted to an operating lease structure. These effects had a positive impact on the cash flow from investing activities of 23.1 million Euro. The resulting cash requirement from investing activities came to 1.4 million Euro.

Free cash flow raised considerably

As a result of the increased cash flow from operating activities and the lower cash requirement from investing activities, the free cash flow was raised significantly to 29.4 million Euro in 2007 (2006: 8.6 million Euro). Even without consideration of the cash flow from the sale of assets and other factors of influence on the cash flow from financing activities, still a considerable amount of 6.3 million Euro free cash was generated (2006: 2.2 million Euro).

Cash flow from financing activities

By the lease agreement's conversion from finance lease agreement to an operating lease structure, the corresponding, predominantly non-current financial liabilities (16.3 million Euro) are adjusted. Furthermore, the refinancing from current to non-current liabilities had the result on the cash flow from financing activities that the financial liabilities showed a net reduction by altogether 3.9 million Euro. The refinancing supports the company's independence with regard to fluctuating interest rates.

Essentially a consequence of the high free cash flow, cash and cash equivalents were increased from 16.6 million Euro at the end of 2006 to 42.9 million Euro as of December 31, 2007. The share of cash and cash equivalents in total assets thus climbed to 17.2% (December 31, 2006: 6.8%).

Economic situation

Total assets increased

The presentation of deferred taxes was converted to the gross method in 2007 for the first time (and retroactively for 2006), resulting in a balance sheet extension. The total assets of the ELMOS Group increased from 245.3 million Euro in the year 2006 by 1.6% to 249.3 million Euro in 2007.

Apart from the significant increase of the cash position, the essential changes to the balance sheet with regard to assets are the decline of the item buildings and building improvements (disposal of an asset previously recognized as finance lease), the reduction of the position of assets held for sale (expansion of a production building in Dortmund), and decreasing other assets. With regard to equity and liabilities, the only transactions of material significance are the refinancing from current to non-current liabilities mentioned above, the conversion of a contract from finance lease agreement to an operating lease structure, and the change in deferred tax liabilities.

Net working capital

Accounts receivable management further improved

Inventories increased by 7.9% to 33.6 million Euro as of December 31, 2007, disproportionately low compared to sales. Compared to 2006, the inventories' share of the total assets rose slightly from 12.7% to 13.5%. Owing to continuously improved accounts receivable management, the trade receivables increased by 2.3%, below the sales increase, to 28.4 million Euro (December 31, 2006: 27.8 million Euro). Thereby the turnover ratio of trade receivables could be improved from 5.8x to 6.2x sales. Trade payables rose by 14.6% to 14.6 million Euro at the end of the year under report. The improvement of the essential key figures is represented in the slight increase of the net working capital to 47.4 million Euro (December 31, 2006: 46.2 million Euro).

Shareholders' equity and liabilities

Decrease in net debt

The net debt fell to 11.1 million Euro as of balance sheet date 2007, a decrease by 77.0%. The financial liabilities were reduced by annual comparison (54.0 million Euro as of December 31, 2007 as opposed to 65.0 million Euro as of December 31, 2006); even more important, cash and cash equivalents increased significantly to 42.9 million Euro. Assets converted to lease or sold had their share in the improvement of the cash position; however, they also resulted in the increase of other financial obligations.

The shareholders' equity rose from 152.3 million Euro to 160.0 million Euro. The equity ratio increased as well, to 64.2% (December 31, 2006: 62.1%).

Outlook

Economic framework

Market research institutes expect annual growth rates of 7% to 8% for the automotive semiconductor market in the medium term. The continued trend towards a growing share of automotive electronics keeps playing a more important part than a change in the automobile industry's production numbers. The portion of electronics in the automobile is anticipated to rise steadily.

In the year 2008 uncertainty with respect to the development of the situation of the real estate market in the U.S.A. and the international capital markets plays its part, overshadowing the economic outlook. In addition to that, the performance of the oil price has an impact on the economic development. We expect the market environment to remain difficult.

Outlook of the ELMOS Group

ELMOS seeks to expand its position as leading company of the automotive semiconductor industry in 2008 while developing new markets at an increasing rate. ELMOS benefits from the basis created in 2007 and will focus particularly on the following issues in 2008:

- Optimization of the Duisburg location
- Start of the partial conversion of manufacture in Dortmund from 6-inch to 8-inch
- Improved use of market opportunities for microsystems
- Increased sale of ASSPs
- Intensified collaboration with the cooperation partners for the optimization of the product portfolio and the reduction of capital expenditures
- Increased activity in new markets (industrial and consumer goods, Asia)

Contrary to the market trend, ELMOS could confirm and realize its forecast for the year under report in 2007 and communicate solid prospects for 2008 as well. Among other factors, this is the consequence of the improvements realized within the context of the quality initiative over the past years and the resulting confidence our customers have placed in ELMOS.

For the year 2008 we confirm our forecast dating from November 2007. Accordingly, we anticipate a sales increase between 7% and 9%. The EBIT margin is expected to increase to 12% to 14% of sales. Capital expenditures are supposed to drop compared to 2007; a positive free cash flow is expected. This forecast is based on an exchange rate of 1.40 U.S. dollars for the Euro. We also expect the volume of orders received to be realized according to the forecasts made by our customers.

Dortmund, March 2008

The Management Board

Dr. Anton Mindl | **Nicolaus Graf von Luckner** | **Reinhard Senf** | **Dr. Frank Rottmann**

FINANCIAL STATEMENTS

Financial statements

Consolidated balance sheet according to IFRS

Assets	12/31/2007 Euro	12/31/2006 Euro
Non-current assets		
Intangible assets	42,108,968	39,754,707
Property, plant and equipment	86,984,152	96,289,500
Investments accounted for at equity	1	2
Securities and investments	73,932	126,154
Deferred tax assets	8,105,939	8,155,999
Total non-current assets	**137,272,992**	**144,326,362**
Current assets		
Inventories	33,613,927	31,142,235
Trade receivables	28,406,265	27,774,401
Cash and cash equivalents	42,855,617	16,634,086
Other assets and income tax assets	6,550,185	12,122,346
	111,425,994	**87,673,068**
Non-current assets classified as held for sale	625,877	13,343,658
Total current assets	**112,051,871**	**101,016,726**
Total assets	**249,324,863**	**245,343,088**

Equity and liabilities	12/31/2007 Euro	12/31/2006 Euro
Equity		
Equity attributable to equity holders of the parent		
Share capital	19,414,205	19,413,805
Additional paid-in capital	88,736,563	88,733,815
Surplus reserve	102,224	102,224
Accumulated other comprehensive income	– 6,407,297	– 5,587,888
Retained earnings	57,809,788	49,091,408
	159,655,483	**151,753,364**
Minority interest	309,704	505,088
Total equity	**159,965,187**	**152,258,452**
Liabilities		
Non-current liabilities		
Provisions	1,111,214	1,142,637
Financial liabilities	51,622,281	28,284,983
Other liabilities	2,533,246	354,307
Deferred tax liabilities	4,575,409	4,026,769
Total non-current liabilities	**59,842,150**	**33,808,696**
Current liabilities		
Provisions	6,110,536	5,122,981
Income tax liabilities	1,879,590	280,169
Financial liabilities	2,343,009	36,712,756
Trade payables	14,589,724	12,731,544
Other liabilities	4,594,667	4,428,490
Total current liabilities	**29,517,526**	**59,275,940**
Total liabilities	**89,359,676**	**93,084,636**
Total equity and liabilities	**249,324,863**	**245,343,088**

Consolidated income statement according to IFRS

	2007 Euro	2006 Euro
Sales	176,133,528	160,673,887
Cost of sales	103,024,409	87,629,925
Gross profit	**73,109,119**	**73,043,962**
Research and development expenses	30,892,815	29,583,236
Distribution expenses	11,610,720	9,679,254
Administrative expenses	16,136,701	14,216,140
Operating income before other operating expenses/(income)	**14,468,883**	**19,565,332**
Finance income	– 822,450	– 452,319
Finance expenses	3,793,824	2,954,883
Foreign exchange losses/(income)	381,093	288,115
Equity in losses/(income) of unconsolidated subsidiaries	– 48,999	48,999
Other operating income	– 9,312,235	– 5,834,782
Other operating expenses	8,240,100	5,239,685
Income before taxes	**12,237,550**	**17,320,751**
Income tax expenses		
Current taxes	2,994,630	1,185,589
Deferred taxes	609,012	5,458,781
	3,603,642	**6,644,370**
Net income	**8,633,908**	**10,676,381**
Thereof:		
Minority interest	– 163,809	– 18,291
Attributable to equity holders of the parent	**8,797,717**	**10,694,672**
Earnings per share		
Basic earnings per share	0.45	0.55
Fully diluted earnings per share	0.45	0.55

Consolidated cash flow statement

	2007 Euro	2006 Euro
Cash flow from operating activities		
Net income after minority interest	8,797,717	10,694,672
Depreciation	19,599,904	16,287,270
Non-cash-effective income/(expense)	– 4,147,108	5,458,781
Current tax expense	2,994,630	1,185,589
Minority interest	– 163,809	– 18,291
Equity in losses of unconsolidated subsidiaries	– 48,999	48,999
Changes in pension liabilities	– 31,423	20,933
Share option expense	0	453,611
Changes in net working capital		
Trade receivables	– 631,863	1,296,722
Inventories	– 2,471,692	– 3,437,645
Prepaid expenses and other assets	5,700,957	– 1,907,421
Trade payables	1,817,694	2,157,383
Other provisions and other liabilities	840,051	– 834,160
Income tax payments	– 1,472,368	– 2,886,707
Cash flow from operating activities	**30,783,691**	**28,519,736**
Cash flow from investing activities		
Capital expenditures for intangible assets	– 7,272,751	– 9,578,886
Capital expenditures for property, plant and equipment	– 17,214,995	– 16,772,554
Disposal/Capital expenditures for non-current assets classified as held for sale	12,717,781	– 7,346,464
Disposal of fixed assets	10,309,057	10,198,918
Disposal of marketable securities	0	3,629,862
Disposal/Purchase of investments	68,523	– 45,723
Cash flow from investing activities	**– 1,392,384**	**– 19,914,847**
Cash flow from financing activities		
Payment from capital increase	3,148	10,868
Proceeds from non-current liabilities	42,853,306	325,000
Repayment of non-current liabilities	– 14,794,111	– 5,674,655
Repayment/Proceeds of/from liabilities to banks	– 31,954,157	1,266,460
Cash flow from financing activities	**– 3,891,814**	**– 4,072,327**
Decrease/Increase in cash and cash equivalents	**25,499,493**	**4,532,562**
Effect of exchange rate changes in cash and cash equivalents	722,038	682,884
Cash and cash equivalents at beginning of fiscal year	16,634,086	11,418,640
Cash and cash equivalents at end of fiscal year	**42,855,617**	**16,634,086**

Consolidated statement of changes in equity according to IFRS

	Shares Number	Share capital Euro	Paid-in capital Euro
As of January 1, 2006	**19,412,424**	**19,412,424**	**88,270,716**
Share option expense			453,611
Exercise of share options	1,381	1,381	9,487
Changes in unrealized gains on marketable securities after taxes			
Foreign currency adjustments			
Changes of the basis of consolidation			
Net income 2006			
As of December 31, 2006	**19,413,805**	**19,413,805**	**88,733,815**
Exercise of share options	400	400	2,748
Foreign currency adjustments			
Changes of the basis of consolidation			
Net income 2007			
As of December 31, 2007	**19,414,205**	**19,414,205**	**88,736,563**

Surplus reserve Euro	Accumulated other comprehensive income Euro	Retained earnings Euro	Total Euro	Minority interest total Euro	Group total Euro
102,224	**– 2,943,060**	**38,912,998**	**143,755,302**	**528,190**	**144,283,492**
			453,611		453,611
			10,868		10,868
	– 1,211,241		– 1,211,241		– 1,211,241
	– 1,433,587		– 1,433,587		– 1,433,587
		– 516,262	– 516,262	– 4,811	– 521,073
		10,694,672	10,694,672	– 18,291	10,676,381
102,224	**– 5,587,888**	**49,091,408**	**151,753,364**	**505,088**	**152,258,452**
			3,148		3,148
	– 819,409		– 819,409		– 819,409
		– 79,337	– 79,337	– 31,575	– 110,912
		8,797,717	8,797,717	– 163,809	8,633,908
102,224	**– 6,407,297**	**57,809,788**	**159,655,483**	**309,704**	**159,965,187**

Financial calendar

March 13, 2008	**Press Conference** ELMOS Dortmund
March 13, 2008	**Analysts' Conference** Frankfurt am Main
April 30, 2008	**Interim report** January to March 2008
May 8, 2008	**Annual General Meeting** Casino Hohensyburg, Dortmund
August 13, 2008	**Interim report** January to June 2008
November 5, 2008	**Interim report** January to September 2008

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