driven by ELMOS

ANNUAL REPORT 2006

GROWING STRONG


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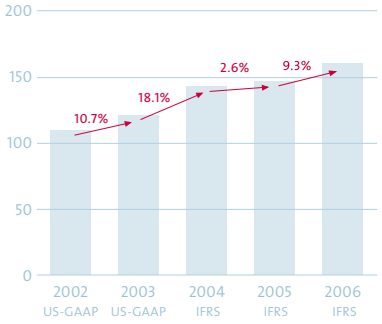
Table of contents

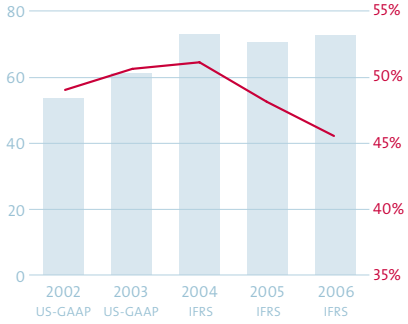
Financial calendar 2007

Press conference ELMOS Dortmund	14. March 2007
Analysts' conference DVFA, Frankfurt/Main	14. March 2007
Interim report January to March 2007	8. May 2007
Annual General Meeting Casino Hohensyburg, Dortmund	10. May 2007
Interim report January to June 2007	1. August 2007
Interim report January to September 2007	31. October 2007

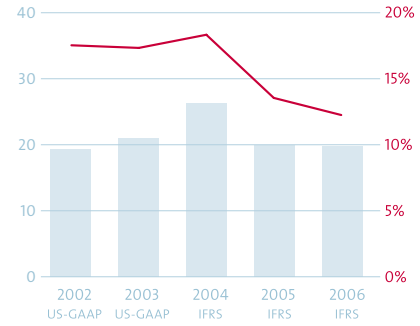
Sales in million Euro
and growth rate



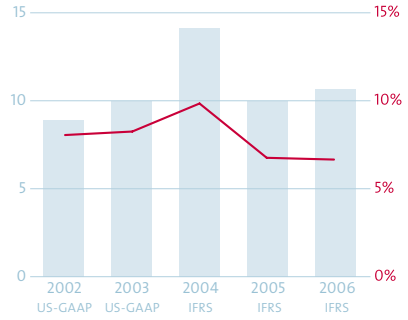
Gross profit in million Euro
and gross profit margin



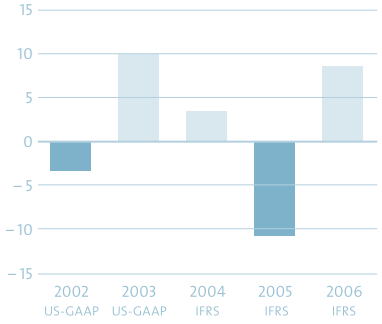
EBIT in million Euro
and EBIT margin



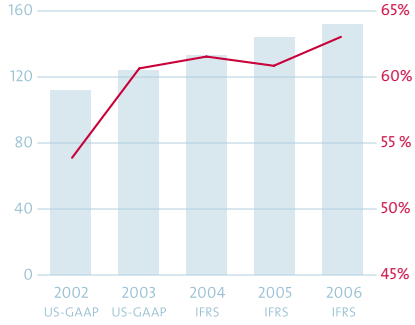
Net income in million Euro
and net income margin



Free Cash Flow
in million Euro



Shareholders' equity
and equity ratio



Five-year overview ELMOS Group

in million Euro unless otherwise indicated	2002 US-GAAP	2003 US-GAAP	2004 IFRS	2005 IFRS	2006 IFRS
Sales	109.7	121.4	143.3	147.0	160.7
Growth rate	2.5%	10.7%	18.1%	2.6%	9.3%
Gross profit	53.8	61.4	73.2	70.6	73.0
Gross margin	49.0%	50.6%	51.1%	48.1%	45.5%
Research and development expenses	17.5	20.4	24.7	28.1	29.6
Research and development expenses in % of sales	16.0%	16.8%	17.2%	19.1%	18.4%
EBIT	19.3	21.1	26.4	20.0	19.8
EBIT in % of sales	17.6%	17.4%	18.4%	13.6%	12.3%
Income before income taxes	15.7	17.3	22.9	16.4	17.3
Income before income taxes in % of sales	14.3%	14.2%	16.0%	11.2%	10.8%
Net income	8.9	10.0	14.2	10.0	10.7
Net income margin	8.1%	8.3%	9.9%	6.8%	6.7%
Earnings per share in Euro	0.46	0.52	0.74	0.52	0.55
Total assets	208.5	205.3	217.3	237.0	241.9
Shareholders' equity	112.4	124.7	133.8	144.3	152.9
Equity ratio	53.9%	60.7%	61.6%	60.9%	63.2%
Financial liabilities	62.2	60.6	57.6	67.9	65.0
Cash, cash equivalents and marketable securities	11.1	25.9	18.9	16.8	16.6
Net debt	51.2	34.7	38.7	51.2	48.4
Cash flow from operating activities	26.0	6.5	34.7	19.7	28.5
Capital expenditures	– 34.1	– 25.3	– 33.5	– 29.6	– 26.4
Capital expenditures in % of sales	31.1%	20.9%	23.4%	20.1%	16.4%
Cash flow from investing activities	– 29.3	3.4	– 31.2	– 30.4	– 19.9
Free cash flow*	– 3.3	10.0	3.5	– 10.7	8.6
Dividend per share in Euro	0.00	0.13	0.21	0.00	0.00**
Employees on annual average	830	874	928	1,028	1,102

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

**** Subject to shareholders' resolution at the Annual General Meeting in May 2007

3 phases of growth

Wafers are the basic material of our products. On these discs we produce our semiconductor circuits in several hundred individual steps. A larger wafer diameter means: more circuits, more products.

4-inch diameter wafers were our starting point. For today's production we use 6-inch and 8-inch wafers. The 6-inch wafers are the foundation, the 8-inch wafers are the future building stones of our growth.

We are growing stronger.

Core competence and driving force of our growth

Customer specific semiconductors for automotive use

GROWING STRONGER

by

- Use of 8-inch wafers
- Distribution of application standards
- Start of microsystem projects
- Penetration of new markets
- Strategic cooperations

Our products are the center of our growth. They help you every day and make your everyday life safer. In the car they measure and control the air condition, vehicle stability, and the airbags. In the household they increase environmental compatibility. For example when they see to an efficient use of water in your washing machine.

Our growth is proof of work well done.

Dear Shareholders

In the past year 2006 we made considerable progress in our operating activities and our strategic orientation. And we managed to do so despite a difficult starting position. In order to reach the targets defined in the last year, ELMOS made changes, substantial in part, on many company levels with regard to processes, organizational structures, and the strategic orientation. Thus we created the basis for continuing profitable growth.

Customer specific semiconductor solutions, so-called ASICs, for use in automotive applications remain our core business. However, we have begun to support this intact pillar of growth by the development of other business fields. These benefit from our core expertise and will contribute to its expansion. We are convinced these additional business fields are going to make deciding contributions to growth and income in the medium term. The overall focus of our efforts is directed to continued profitable growth. That is why our annual report's title takes up this slogan: Growing stronger.

MANAGEMENT BOARD

Our financial targets for the past year were ambitious considering the starting position. The challenge was to regain our full strength after the disappointing year 2005 with a sales increase of only 2.6 percent. At that time we had lost contracts for different reasons, and high-volume projects had run out. Against this background it is good news that we achieved our goal of about ten percent growth in 2006.

The earnings before interest and taxes (EBIT) of 19.8 million Euro were burdened by considerable preparatory efforts for microsystem projects and the startup of the 8-inch production line. Nevertheless we reached our last pronounced EBIT target, 12 percent of sales. This was possible because the core operating activities' profitability compensated for a major portion of the charges brought on by preparatory efforts. The net income 2006 comes to 10.7 million Euro or 6.7 percent of sales, within the range of our forecast. The free cash flow of 8.6 million Euro had a very positive development and made us reach our target on that score as well.

Let me now point out some important aspects which characterize our achievements as well as our objectives for 2007:

- The new 8-inch production site in Duisburg turned out its first products to be delivered to customers in mid-2006. By the end of the year 2006 we introduced up to 50 wafers a day to the production line. We will keep expanding the production in 2007 with great commitment. On the customer side we will make the greatest efforts to achieve a faster inflow of our products manufactured on 8-inch wafers into current production runs.

- Parallel to the startup of the new Duisburg production site, we put the new testing area in Dortmund into operation right on schedule. We have provided the capacity we need to make our growth possible.

- With the formation of the subsidiary ELMOS Industries, we laid the foundations for growth in the markets for industrial and consumer electronics. The sales contribution of these markets of presently about ten percent of total sales is intended to be increased to 20 to 30 percent in the medium term.

- We gave the green light to six application specific standard product families (ASSPs). By increased direct marketing of such product lines and support provided by ELMOS Industries, we can expand partnerships with present customers on other business fields. The start of production for the first projects will be in 2007.

- Our microsystem projects produce a great deal of customer interest throughout. In 2007 we will show that our pioneering work on this field brings the customers great advantages with their applications. The successful launch of additional projects is another important issue for 2007.

- The extended cooperation with Freescale Semiconductor for system-in-package solutions opens up new vistas. The multi-chip products resulting from this cooperation combine the high-capacity 16-bit microcontroller lineups (MCU) made by Freescale with the application specific high-voltage CMOS chips made by ELMOS. This helps us in the development and production of intelligent solutions for automotive comfort and body electronics. In 2007 the first products will be presented.

- We have recently found a competent South Korean partner to support our marketing activities in the Far East. Together we are going to push our products in this market.

- In mid-2006 we started relocating the assembly of standard packages from our subsidiary in the Netherlands to external service providers in Asia to make use of cost advantages. In 2006 more than 40 percent of the revenue generated by ELMOS Advanced Packaging was attributable already to higher-value special packages. With the relocation of standard package assembly completed in the year 2007, our subsidiary will focus solely on the development and production of special packages.

- First pilot designs have been realized in highly integrated logic processes with foundry partners to secure our access to cutting-edge technologies without high expenditures for our own production facilities.

- We have been successful with our effective initiative for the quality improvement of our products and receive positive feedback from our customers.

As you can see we used the past year actively to advance crucial aspects of our strategy, achieve improvements in our operating activities, and set the course for growth. We will continue these efforts in 2007 with all our energy.

There has also been a welcome addition to our management team. Nicolaus Graf von Luckner has been responsible for Finances since July 1, 2006. After the death of longtime CEO Knut Hinrichs, the Management Board's financial department is run by an economist once again. New CFO Graf von Luckner has more than 27 years of experience in the automobile industry. His professional competence is a valuable asset to the company.

Dr. Klaus Weyer left the Management Board as of December 31, 2006. However, the company's co-founder and pioneer in the field of automotive electronics will stay on board as member of the ELMOS Supervisory Board. On behalf of all members of the Management Board, I express my deep gratitude to Dr. Klaus Weyer for his outstanding achievements.

I would also like to mention that the year 2006 was characterized by circumstances which brought about additional challenges for us. Because of the weakness of the American car manufacturers, our U.S. business fell short of our expectations by roughly ten percent. Prices for energy and raw materials rose significantly, and for our basic material, the silicon wafers, in particular. These high expenses are going to hold up through the year 2007.

The market conditions established by our automotive customers have changed faster than ever before. Our customers now demand much more support for the integration of our chips into their applications. This means additional expenses on the one hand but it is also a chance for market distinction. Above all this is the case when we use patented technologies in our products, e.g. the new concept for actuating brushless DC motors, named VirtuHall®.

In summarizing the above-mentioned aspects I want you to know that we will seize the year 2007 to keep realizing our strategy with greatest determination. The strategic targets will be flanked by focal operating issues supporting our competitiveness. For example, programs for incentive wages in the production, development, and sales divisions will lead to further improvements of process efficiency. We are expecting additional cost savings from the introduction of an advanced balanced scorecard to production. And the relocation of the standard package assembly to the Far East will also make positive contributions to the profitability.

Against the setting of the efforts described, the market environment, and the considerable preparatory efforts, we are expecting a solid sales increase of about ten percent in 2007 and a gross margin on last year's level of roughly 45 percent.

You see ELMOS makes great efforts not only to keep growing in 2007 but to lay the foundations for continued growth and profitability in the next years. What has been achieved so far makes us confident that we will realize further improvements. Last but not least, it is the feedback from our customers that shows me we are on the right track. They have paid respect to our achievements in numerous one-on-one conversations, and their ambitious project definitions stimulate us to keep delivering top performances.

Let me express at this point my personal and the entire Management Board's special gratitude to the three most important cornerstones of our business: to our customers, because without them we would not be here, to our employees, because we as a company are supported by them and their performances, and not the least portion of our gratitude is due to you, the shareholders, for your faith in our company.

Ahead of us is a year of advancement and further growth.

Sincerely

Dr. Anton Mindl
CEO of ELMOS Semiconductor AG

Management Board members

From left: Nicolaus Graf von Luckner, Reinhard Senf, Dr. Klaus Weyer, Dr. Frank Rottmann, Dr. Anton Mindl

Dr. rer. nat. Anton Mindl *Graduate physicist | Lüdenscheid | Born 1957*

Chief Executive Officer

Dr. Anton Mindl joined ELMOS Semiconductor AG in October 2005 and became CEO in January 2006. He had been division CEO at SiemensVDO since 2003 where he initially ran the division Cockpit Modules and Systems before he took over Infotainment Solutions. From 1998 to 2003 Dr. Mindl was managing director for Development and Sales at Kostal. He spent the first eleven years of his professional career with Bosch and Bosch/Blaupunkt in various functions. The graduate physicist completed his studies at the Technical University Munich in 1982 and earned his doctorate in the year 1987.

Dr. rer. nat. Anton Mindl did not hold any mandates as of December 31, 2006.
He has been appointed to the Management Board until 2010.

Nicolaus Graf von Luckner *Graduate economist | Oberursel | Born 1949*

Nicolaus Graf von Luckner studied economics in Kiel. He has more than 27 years of experience in the automobile industry. After a first term at the then-independent VDO eight years as managing director of a medium-sized company were to follow. Graf von Luckner then continued his career at VDO and SiemensVDO. Before he joined ELMOS he had been division CFO of Infotainment Solutions at SiemensVDO. Graf von Luckner has been CFO of ELMOS since July 2006.

Nicolaus Graf von Luckner did not hold any mandates as of December 31, 2006.
He has been appointed to the Management Board until 2011.

Reinhard Senf *Graduate engineer | Iserlohn | Born 1951*

Reinhard Senf was awarded his engineering diploma for physics and the technology of electronic components from the Technical University Ilmenau in 1974. Between 1974 and 1991 he was production engineer and later managing director at VEB Funkwerk/Mikroelektronik in Erfurt. He has been with ELMOS since 1992, initially as assistant manager, from 1993 to 1999 as division manager of Quality Assurance, and then as division manager of Backend. In 2001 he became member of the Management Board for Production.

Reinhard Senf did not hold any mandates as of December 31, 2006.
He has been appointed to the Management Board until 2011.

Dr. rer. nat. Klaus G. Weyer *Graduate physicist | Schwerte | Born 1948*

Dr. Klaus Weyer is one of the founders of ELMOS. He studied physics in Cologne and received his doctorate from the Ludwig-Maximilian University in Munich. He then became a management consultant to small and medium-sized businesses in the field of microelectronics. From 1984 to 1999 he was managing director and from 1999 till the end of December 2006 Management Board member for Technology of ELMOS Semiconductor AG. From March to December 2005 he also served as CEO. Since January 2007 Dr. Weyer has been a member of the company's Supervisory Board.

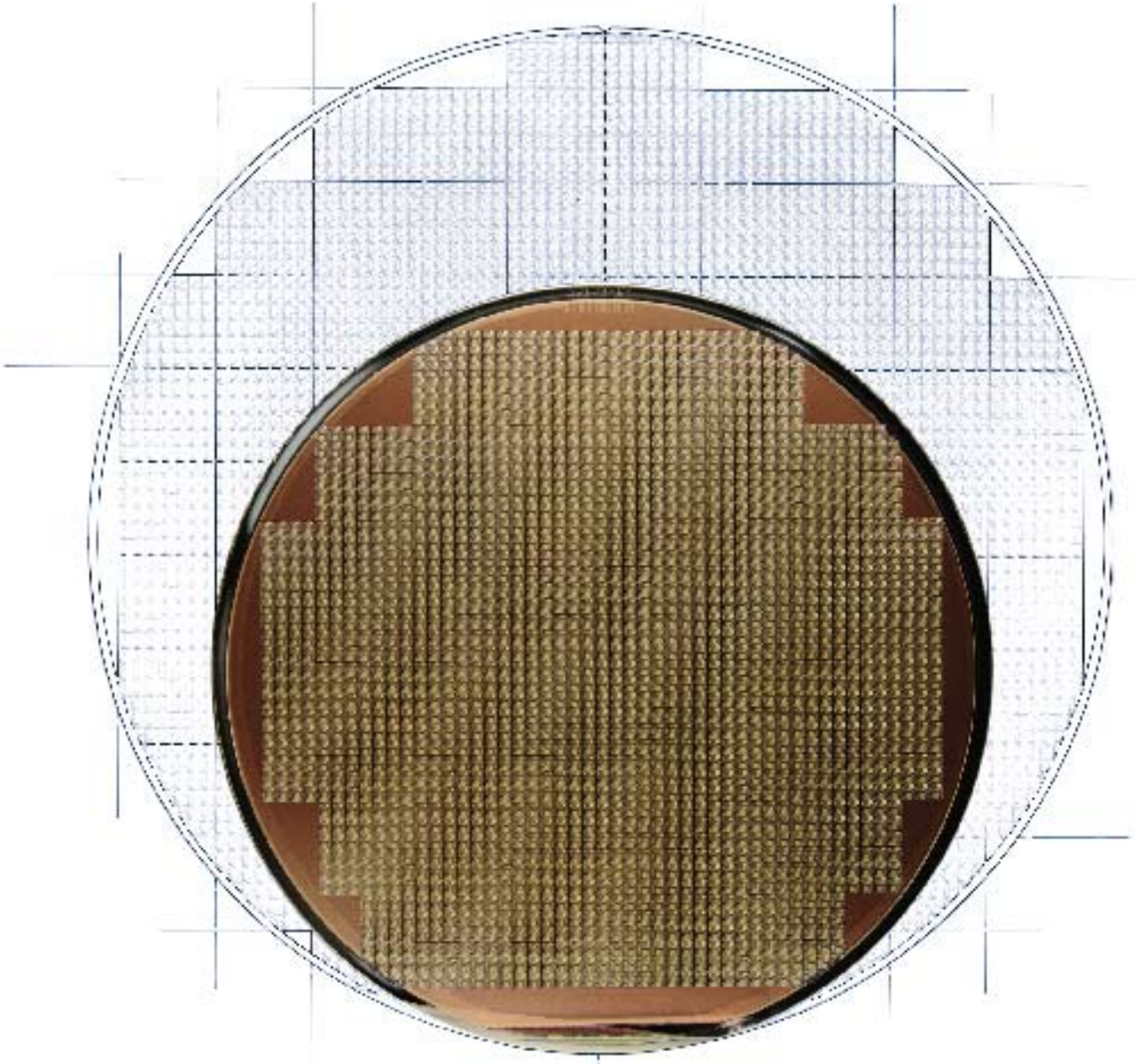
Dr. rer. nat. Klaus G. Weyer held the following mandates as of December 31, 2006:

- Member of Paragon AG Supervisory Board
- Project advisor MST Dortmund

Dr.-Ing. Frank Rottmann *Graduate engineer | Dortmund | Born 1958*

Dr. Frank Rottmann has been with ELMOS since 1992, holding various functions. He started his company career in Sales, which he headed from 1997 to 2003. He became managing director for Sales and Development of MECHALESS Systems GmbH, a subsidiary of ELMOS Semiconductor AG, in October 2003. Since October 2005 he has been Management Board member for Development and Sales. Dr. Rottmann completed his studies of electrical engineering at the University of Dortmund in 1984 before earning his doctorate there in the field of high-frequency technology/integrated optics.

Dr.-Ing. Frank Rottmann did not hold any mandates as of December 31, 2006.
He has been appointed to the Management Board until 2010.



GROWING STRONGER

due to

8-inch wafers

What are wafers?

Wafers are the basic material of our products. They are discs of a metallic polish, made of mono-crystal silicon and not even one millimeter thick. On these discs we produce our semiconductor circuits in several hundred individual steps.

Why are we growing stronger due to 8-inch wafers?

At our new production site in Duisburg we exclusively use wafers of a diameter of 8 inches, or 200 millimeters. In comparison to the Dortmund headquarters, where 6-inch wafers are used, about twice as many chips fit on one wafer.

This means for us:
more capacity for high-volume products.

Our profile

Our ideas spark our customers' solutions

Our success formula for growth is based on three pillars: own CMOS technology, own chip design, and own production. With our unique application know-how we combine these advantages within one group, the ELMOS Group. Our divisions Chip Design, Production, Quality Assurance, and Sales always keep in touch with each other. A systematic approach which means for our customers that their way to a solution is made much shorter.

We work hand in hand with our customers and offer them extensive support and first-rate products. The most important thing for us is to produce a chip which just works better. This is our daily challenge. Our growth is proof of our successful work.

For more than 20 years we have grown every year. Since our IPO in 1999 we have increased our sales continuously. Even in difficult times we showed our flexibility and competence and presented a positive result. Ever since the company's foundation, the fundamental idea has been: We want sustainable, profitable growth.

The secret in the semiconductor industry is more functionality on less space. We have realized this and put it into practice every day with ever smaller structure sizes and optimized chip design. That is why we are growing.

Our products inspire our customers

Our products are the key element of our growth. They help you every day and make your everyday life safer. In the car they measure and control the air condition or the vehicle's stability, among other things. Our solutions for powertrain applications are distinguished by highly precise analog input amplifiers, power amplifiers, and integrated microprocessors – everything today's electronics requires to make driving a car as eco-friendly and efficient as possible. This is better for our customers and better for our environment.

Another example for growth: Our solution for the ignition of an airbag has stood out for more than ten years with its high quality. We are now developing and producing this indispensable safety application for one of the largest airbag system manufacturers in its fourth generation. The volumes have kept rising all along.

Apart from automotive applications, we want to sell chips for industrial products and consumer goods at an increasing rate. Our chips already control the water level inside the washing machine, the electric iron's automatic cut-off, or the exact measuring of bathroom scales. Even in the automatic lid of a garbage can and the contact-free dimmer switch in the bedroom, our chips show top performances.

And we always offer the one product to our customers which is the right solution for their requirements: a customized chip, a standard product, or a complete microsystem as a symbiosis of sensor, read-out-electronics and special package. Our solution is meant to inspire our customers.

Our production relies on advanced technologies

More than 120 million chips a year

We manufacture more than 120 million chips a year. And we rely on advanced technologies for the entire production process. More than 150 products are in production at the same time at our headquarters in Dortmund.

Our production takes place on over 5,000 square meters' floor space at various locations. Production space is optimized for our requirements. By a tight integration of all divisions, especially Research and Development, Chip Design, and Production, our products are distinguished with intelligent functions and the highest quality.

Our products deliver top performances and contribute to the company's growth on account of our production.

Our quality level provides faultless products

Complete inspection

Our policy for all our products is: We find sources of error at an early stage. Defects are eliminated before they can even show. In addition we put 100 percent of our chips to the "acid test". Ten million testing steps a week guarantee a complete inspection and a high quality level.

Our zero defect strategy is the basis of our growth. Our chips contribute to your unclouded, eco-friendly driving pleasure with your car and a smooth, intuitive operation of your household appliances. For our customers, our quality stands for a perfect interaction between our chips and their systems. The result is growth for us and our customers.

Our locations are close to the customer

The proverbial closeness to the customer is a secret of growth. Customer support and advice from the first idea to the finished chip require constant exchange. Therefore ELMOS has sales locations on four continents and guarantees a quick response in direct closeness to the customer.

We claim to always provide the right contact person for all questions our customers might come up with. This claim is valid for the entire product portfolio, from read-out electronics to sensorics and the package technology for system solutions based on semiconductors.

In addition to our headquarters in Dortmund there are sales offices in Stuttgart, Munich and Paris. I.e. very close to the major European car manufacturers. Our American customers are supported from the heart of the U.S. automobile industry, Detroit, and from California's Silicon Valley. Our Asian offices are located in Tokyo and Seoul.

Apart from the sales offices there are four production locations on two continents where semiconductor chips, sensors and packages are manufactured. By the physical separation of production we bring together specialists from different countries and thereby stimulate the exchange of know-how. The competencies of the design and production locations in Dortmund and Duisburg, the Netherlands and the U.S. are combined to result in an international product – a microsystem which is going to be a new, solid pillar of our growth.

Our share

General development on the stock markets

Share's closing price 7.58 Euro

The overall positive mood of the stock market in the past year was taken up by semiconductor and technology shares only in part. The Philadelphia Semiconductor Index lost over two percent while the price of the ELMOS share lost almost 16 percent in the year 2006. It reached its 52-week high on February 9, 2006 at 10.60 Euro. From the 52-week low, reached on July 18, 2006 with 6.67 Euro, the share price recovered until the end of August to settle between 7.50 Euro and 8.60 Euro until early December 2006. The market did not reward the obvious improvements of the essential key figures. The share had a closing price of 7.58 Euro as of December 29, 2006.

Relative share price development 2006

At -15.8 percent, the annual performance of the ELMOS share in 2006 is much weaker than the performances of the TecDax (25.5 percent) and the Philadelphia Semiconductor Index, SOX (-2.4 percent).

Development of the ELMOS share

Period until December 31, 2006	Since 1/1/2005	Since 1/1/2006
ELMOS (Xetra)	– 35.8%	– 15.8%
Industry indices		
TecDax	43.9%	25.5%
Philadelphia Semiconductor Index (SOX)	8.0%	– 2.4%
DJ Euro Stoxx Technology	26.0%	3.4%
Prime Technology	26.6%	31.9%
Prime Automobile	64.8%	25.7%
General market indices		
Dax	55.0%	22.0%
GEX	76.5%	27.9%

At about 37 thousand shares, the average daily trading volume of the ELMOS share (XETRA and Frankfurt/Main) was much lower than the prior-year average (about 81 thousand shares daily). The average daily trading volume of the first three quarters declined steadily before it increased again in the fourth quarter. Roughly 90 percent of the shares were traded on Xetra.

ELMOS key share data

	2005	2006
Number of shares outstanding	19,412,424	19,413,805
52-week high (Xetra)	15.20 Euro | 4/11	10.60 Euro | 2/9
52-week low (Xetra)	8.83 Euro | 12/15	6.67 Euro | 7/18
Closing price (Xetra)	9.00 Euro	7.58 Euro
Annual performance (excluding dividend)	– 23.7%	– 15.8%
Market capitalization as of December 31	174.7 mil. Euro	147.2 mil. Euro
Market value to book value* as of December 31	1.2	1.0
Shares traded on daily average	84.0 thousand	37.2 thousand
Thereof Xetra in percent	82%	94%
Earnings per share	0.52 Euro	0.55 Euro
Dividend per share	0.00 Euro	0.00 Euro**

**Shareholders' equity | **Proposal to the Annual General Meeting in May 2007*

Key data	
ISIN	DE0005677108
WKN	567710
Stock exchange symbol	ELG
Reuters	ELGG.DE
Bloomberg	ELGG.GR
Prime industry	Technology
Industry group	Semiconductor

The market capitalization of ELMOS came to 147.2 million Euro at the end of the year, based on 19.4 million shares outstanding. The number of shares outstanding changed only insignificantly in 2006 by the exercise of share options. In the current financial year 2007 additional new shares may result from the share option program.

Basic information on the share

Share details

Type of shares	Non-par value common bearer shares
Market segment	Prime Standard, Regular Market
IPO	October 11, 1999
Designated sponsors	HSBC Trinkaus & Burkhardt, WestLB
Index inclusion	CDax, GEX, Prime All Share, Tech All Share

The ELMOS share is a non-par bearer share (unit share). It is traded on all German stock markets as well as on the Xetra system. ELMOS is represented in the Prime Standard of the Deutsche Börse. Prime Standard companies must meet high international transparency requirements beyond the level of the General Standard, which establishes the statutory minimum requirements of the official market or Regulated Market. ELMOS has also been part of the German Entrepreneurial Index (GEX) since its introduction in 2005. The GEX represents companies which, apart from being included in the Prime Standard, fulfill the criteria of owner-domination (companies run by their founders or owners) and post-IPO age (a maximum ten years after the IPO).

Shareholder structure

The share capital of ELMOS Semiconductor AG is divided into 19,413,805 non-par value shares with a proportionate amount of 1.00 Euro of the share capital allotted to each single share. 52.9 percent (or about 10.3 million) of these shares are held by ELMOS Finanzholding GmbH (EFH), representing the solid ELMOS shareholder basis. EFH is owned by Dr. Klaus Weyer, Prof. Dr. Günter Zimmer, and the family of Knut Hinrichs, the former CEO.

47.1 percent (or about 9.1 million) of the shares are free float. In relation to the attributable free float (approximately a fifth of the entire free float), German shareholders own about 30 percent of the free float shares, Swiss investors hold over 27 percent, the remaining continental Europe is represented by roughly 32 percent of the free float shares, and investors in the U.S. hold 11 percent of the attributable free float.

Apart from EFH, no shareholder held more than 5 percent of the ELMOS share capital at the end of the year under report; the ten largest shareholders together (not counting EFH) own roughly 77 percent of the attributable free float (or about 7 percent of the share capital).

Investor relations

Research coverage

CAI Cheuvreux
Credit Suisse First Boston
Dawnay, Day Lockhart
DZ Bank
Fairesearch
HSBC Trinkaus & Burkhardt
IXIS Securities
Kepler Equities
SES Research | MM Warburg
Viscardi Securities
WestLB

The ELMOS management and the Investor Relations team continued to hold a large number of one-on-one conversations with investors in the year 2006. These took place within the framework of road shows, company visits at the Dortmund location, and on the occasion of technology and automobile conferences ELMOS chose to present itself at. Close to 20 conferences and road shows were realized throughout Europe (Germany, Austria, Switzerland, France, Spain, Great Britain, the Benelux countries, and Scandinavia) and in the U.S. where ELMOS representatives had interesting discussions with analysts and investors. We also informed analysts and investors, and upon request individual shareholders as well, by conducting phone conferences after the publication of results. Furthermore, we explained our strategy and the business development at our analysts' conference held in Dortmund on December 6, 2006 in detail.

We will continue these activities in the following year on a large scale. Thus we enable our shareholders and other interested capital market participants to assess our business situation and, in particular, consider our prospects realistically. In doing this, it is our objective to inform comprehensively and quickly and to be accessible at any time – for private and institutional investors,

analysts, and other interested parties alike. At the beginning of 2007 the majority of the analysts covering ELMOS assess that the share has positive prospects.

Comprehensive information

Aiming for both comprehensive and timely information provided equally to all target groups, we have compiled a lot of corporate information on our website. Interested investors may inform themselves in detail about the company and its products and technologies at www.elmos.de on the Internet. Apart from information about corporate governance, the section "Investor Relations" also offers financial reports (annual and quarterly reports), a financial calendar listing all important events and publication dates, the Articles of Incorporation, information on the Annual General Meeting, press releases, and directors' dealings. The Investor Relations team also welcomes you to ask for information sent to you by mail, such as annual or quarterly reports.

Annual General Meeting

As in the previous years about 300 private and institutional investors participated in the 7th Annual General Meeting on May 19, 2006. The event was held at the Casino Hohensyburg in Dortmund for the first time. 12,770,335 Euro or 65.8 percent of the share capital were represented. The proposals to the separate items of the agenda were each approved by a significant majority of the Annual General Meeting. Apart from the usual items, the Annual General Meeting authorized the Management Board to repurchase own shares. By shareholders' resolution the cancellation of an existing authorized capital, the creation of a new authorized capital with corresponding amendments to the Articles of Incorporation, and a modification of conditional capital from 2004 were decided. Another amendment to the Articles in response to the Act on Corporate Integrity and Modernization of the Right of Rescission (UMAG) was resolved, too, as was the non-disclosure of the Management Board members' individual remuneration as required by Sections 285 and 314 HGB (German Commercial Code).

AGM on the Internet

Much use was made again in the Annual General Meeting 2006 of the possibility to entrust one's voting rights to a proxy nominated by the company. Shareholders who could not be present in person were able to watch the live broadcast of the Annual General Meeting 2006 on the Internet. The Annual General Meeting on May 10, 2007 will also be broadcast live on the Internet for the shareholders' convenience. In addition shareholders can exercise their voting rights either directly, by use of a proxy of their choice, or by use of the company-nominated proxy according to their instructions.

Contact **ELMOS Semiconductor AG**
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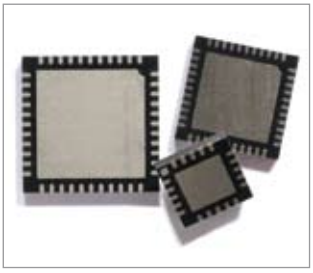
2006 at a glance

1st Quarter

Dr. Anton Mindl takes over CEO position

In January 2006 Dr. Anton Mindl becomes CEO of ELMOS Semiconductor AG. With his 20-year experience in the automobile industry, he has given an important stimulus to the operating activities and towards the company's future even after a short period of time. He had last been with an important customer of ours, SiemensVDO, where he was responsible for Infotainment Solutions as the division's CEO.

Application standard chips come into focus



Standard chips in a QFN package

We have been consistently expanding our application standard chip portfolio. Its scope goes from semiconductors for sensor interfaces and hall sensorics to ripple detection ICs and fan activation. Providing our customers with uncomplicated access to our products has always had our greatest attention. In a special brochure, for example, we present twelve standard chips, each described with package specifications, operating voltage range, working temperature, and other electric features.

Financial statements presented

The Management Board presents the financial statements for the financial year 2005 at the press conference and the analysts' conference. Apart from the results, Dr. Anton Mindl discusses the deciding issues for 2006 in particular. Among those are the preparations for the successful production start at the new location Duisburg and for the launch of microsystem projects. On the whole, the Management Board announces clearly positive prospects after the disappointing year 2005.

2nd Quarter

Supervisory Board appoints CFO

The Supervisory Board appoints Nicolaus Graf von Luckner Chief Financial Officer. He will assume this position as of July 1, 2006. After the death of longtime CEO Knut Hinrichs, the Management Board's financial department is now run by an economist again. Graf von Luckner has more than 27 years of experience in the automobile industry and had held an executive position at SiemensVDO, among other industry jobs.

Successful Annual General Meeting

7th Annual General Meeting

About 300 shareholders participate in our 7th Annual General Meeting. All agenda items are passed by a large majority of the shareholders. The Management Board members also comment on the current product and business strategy. They especially dwell on individual conversations with customers and their positive reactions to the product portfolio.

Eco report published

Environmental protection and workplace safety are constituents of our company management. The annually published eco report informs extensively on all activities in those fields. The relative natural gas consumption for example has fallen below the limit of 1,000 MWh/sqm of produced wafer face for the first time. Thereby relative consumption has been halved in the years 2002 to 2005.

3rd Quarter

First products from Duisburg

The first products manufactured at the new production location in Duisburg are delivered to customers in July 2006. The consistently high yields are pleasing. The production start's focus is on high-volume products which were the first to be relocated from Dortmund to Duisburg. The Duisburg site produces on 8-inch wafers. This makes it possible to produce roughly twice the amount of chips per wafer compared to the main location in Dortmund, where 6-inch wafers are used. The capacity is thus drastically increased.

New testing area in operation

Shortly after the new production line in Duisburg yielded the first products, the new testing area situated at our Dortmund headquarters is put into operation. Currently ten million testing steps are completed at our testing area each week. Semiconductor chips are checked for faultless operation under extreme temperatures from -40°C up to +175°C, among other test procedures. With the start of both production facilities we have responded to crucial preconditions for future growth.

New 8-inch production site in Duisburg

Forward-looking cooperation

In the future we will cooperate closely with the American semiconductor manufacturer Freescale with regard to selected components. First multi-chip products originating from this strategic alliance will be offered to customers already in 2007. The combination of both companies' core competencies are the focus of mutual attention. Therefore the products will combine the high-capacity 16-bit microcontroller lineups (MCU) made by Freescale with our high-voltage CMOS standard products.

4th Quarter

Subsidiary sets record

Our subsidiary Silicon Microstructures Inc. (SMI) in Milpitas, U.S.A., sets a production record. 40,000 pressure sensors a day are manufactured at the recently modernized production site. The pressure sensor made by SMI is used for a wide range of applications. It goes from automotive high-pressure systems to low-pressure applications for the medical sector. SMI has also been certified in accordance with the standard ISO/TS 16949. The certificate confirms the compliance with guidelines set up for suppliers to the automobile industry with regard to standardized production processes.

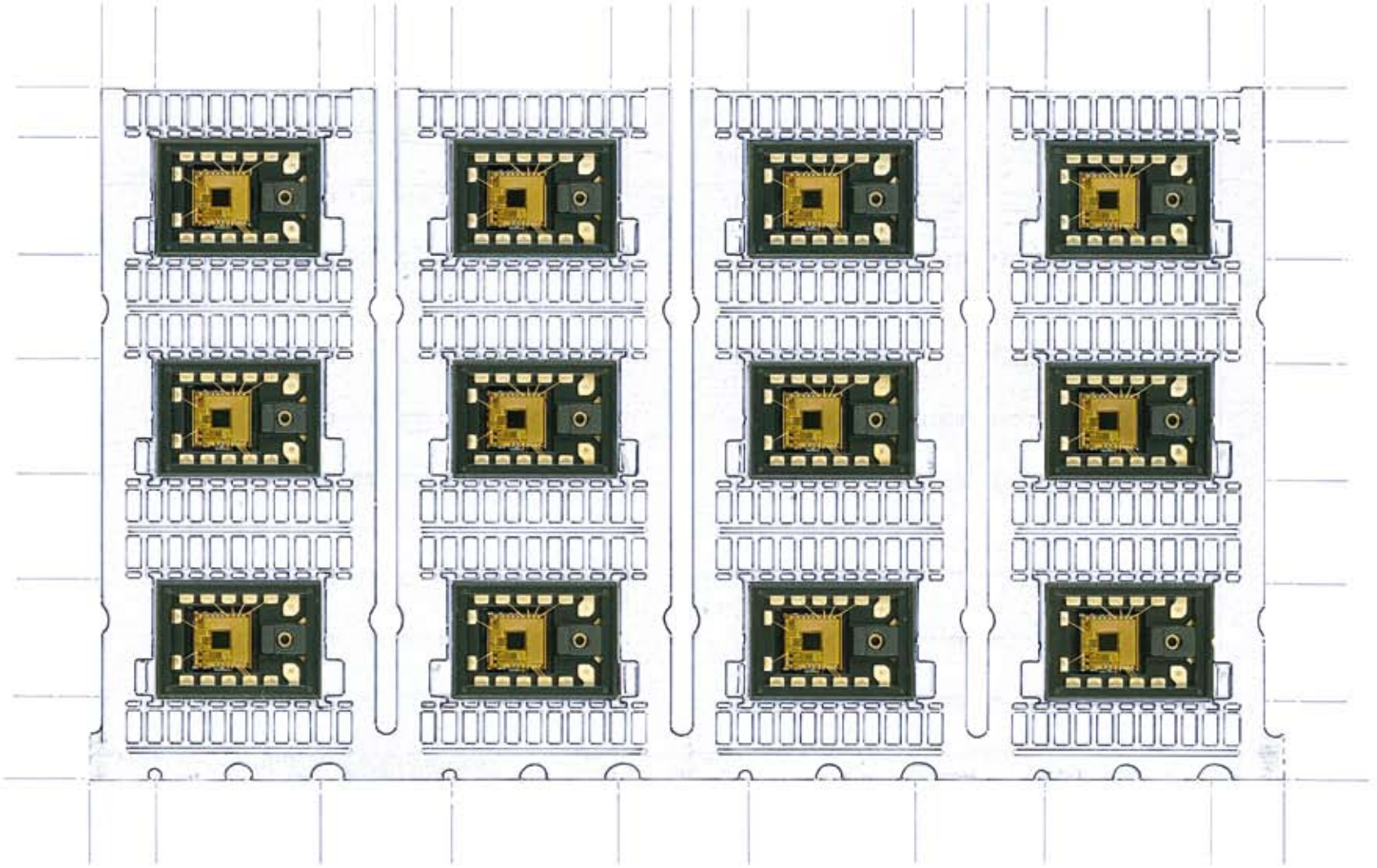
Innovations of the trade fair season

The autumn shows the mark of the biggest industry fairs. We present our portfolio at the Convergence in Detroit, U.S.A., and the electronica in Munich, among other trade shows. Special interest isas generated by the new procedure for the sensor-less actuation of electric motors. Due to its significant advantages it is used increasingly in automotive and industrial applications. Standard products and customer specific semiconductor solutions are being planned. The development has begun and is being continued in a concentrated effort.

ELMOS at the electronica in Munich

Focus on special packages

Our location in the Netherlands, ELMOS Advanced Packaging, will concentrate on special packages for semiconductor components in the future. Following our acquisition of the Dutch package specialist in the year 2001, the first goal was to establish automotive standards there and then to raise production volumes. Customer releases for the production site were obtained from more than 50 customers. Semiconductor components which require cost-effective standard packages have been assembled increasingly in the Asia-Pacific region.



GROWING STRONGER

due to

application standards

What are application standards?
Application standards are products which fulfill a function in a specific application.
These chips are dependent on the application but not on an individual customer.
One example is our standardized chip for the measuring of pressure. One spot for its use is the Otto engine's intake system.

Why are we growing stronger due to application standards?
With application standards we can offer a greater product variety to our present customers and address new customers at the same time. The basis is our portfolio of standardized circuit blocks. In combination with our production know-how, we can provide a high volume of high-grade semiconductors in a short period of time.

For the customer this means
a fast realization of his ideas.

Corporate governance report

One of the most important aspects of our corporate culture is responsible and transparent company management. This applies to all divisions and to the whole Group. Management Board and Supervisory Board report on corporate governance at ELMOS together.

ELMOS discloses with its declaration of compliance that the company differs from the recommendations of the German Corporate Governance Code on four counts. These are retention of the board members' D&O insurance (GCGC No. 3.8), remuneration of the members of Supervisory Board committees (No. 5.4.7), and the individualized disclosure of the Management Board and Supervisory Board members' remuneration (Nos. 4.2.4 und 5.4.7). The declaration of compliance is quoted in the annual report right after this corporate governance report.

Close collaboration of Management Board and Supervisory Board

The Supervisory Board advises and supervises the Management Board with respect to running the company. It takes part in all decisions of essential importance to the Group and it appoints and releases the Management Board members. The Management Board gives regular, extensive and up-to-date reports to the Supervisory Board on all events and developments of relevance to the ELMOS Group's business development and situation. In the past year under report, Management Board and Supervisory Board again collaborated closely and with mutual trust. Both boards' rules of procedure concern themselves, among other issues, with the definition of this collaboration.

The Supervisory Board is composed of six members. Herbert Sporea resigned from his Supervisory Board position by the end of December 2006. Dr. Klaus Weyer, CEO until December 2006, was appointed member of the Supervisory Board by the District Court (Amtsgericht) Dortmund in January 2007 effective until the conclusion of the Annual General Meeting. There is a proposal to the AGM in May 2007 provides for the appointment of Dr. Klaus Weyer as Supervisory Board member for the remaining original term of Herbert Sporea, i.e. until the conclusion of the AGM in the year 2010. Elected for five years, the members of the Supervisory Board reflect the variety of the activities of ELMOS with their different professional backgrounds. Detailed information on the Supervisory Board members can be gathered from the "company boards" overview.

The Management Board is the executive body of ELMOS. Dr. Anton Mindl became Dr. Klaus Weyer's successor as the company's CEO in January 2006. In July 2006 Nicolaus Graf von Luckner was appointed to the Management Board where he assumed the responsibility for Finances. As has been mentioned already, Dr. Klaus Weyer resigned from the Management Board in December 2006.

Transparency towards our shareholders

Greatest possible transparency

Dates of importance to the shareholders are made public annually in a financial calendar. All quarterly and annual reports as well as information on the Annual General Meeting are published on the company's Internet website and through other channels of distribution. We conduct routine meetings with analysts and institutional investors. The amount of information offered on our Internet website is expanded constantly in order to inform our shareholders even more comprehensively.

Section 15a WpHG (Securities Trading Act) stipulates that members of the Management Board and the Supervisory Board as well as closely related persons disclose the purchase and sale of company shares. We publicize the so-called directors' dealings on our website and in the corporate governance report. In compliance with a new legal situation, we will publish these data Europe-wide and have them included in the register of companies in the future.

The Annual General Meeting (AGM) is the most important platform for the exercise of our shareholders' formal rights. The shareholders receive our annual report and the agenda ahead of the event. We have changed the application and identification procedure over to the "record date" as stipulated by the Act on Corporate Integrity and Modernization of the Right of Rescission (UMAG). The AGM is broadcast in its entirety on our Internet website per webcast in order to allow those to follow the event who cannot participate in person in the AGM due to time constraints. Shareholders who cannot attend the AGM in person have the opportunity to entrust their voting rights to a proxy nominated by ELMOS. All documents relating to the Annual General Meeting as well as other information on the participation in the AGM and the exercise of voting rights are available on our Internet website and can be requested there. The next Annual General Meeting will be held on May 10, 2007 in Dortmund.

Anticipatory risk management

Regular assessment of risks

Conscious corporate risk management is also a component of sound corporate governance. Risk management of this grade does its part in detecting risks at an early stage, in assessing them, and in initiating adequate countermeasures. All company divisions periodically provide assessments of identified risks with reference to their specific activities. The risks are assessed and countermeasures are taken. Parameters for risk assessment are the probability of occurrence and the possible amount of loss. This risk assessment is updated quarterly or even at shorter intervals if necessary. We give account of the current company risks in the group management report.

Audit conducted by Ernst & Young

Before submitting the proposal for the appointment of the auditor, the Supervisory Board obtained a declaration by the auditor on relationships between the auditor, its boards, and its audit manager with the company or its boards' members. There were no doubts about auditor independence. Compliant with No. 7.2.3 of the German Corporate Governance Code, the Supervisory Board arranged for the auditor to give account without delay of any findings and incidents of importance to the auditor's duties and responsibilities occurring during the perfor-

mance of the audit. The Supervisory Board also determined that the auditor inform the Supervisory Board or make note in the auditor's report if the auditor establishes differences from the declaration of compliance as issued by the Management Board and the Supervisory Board. Incorrectness of this kind has not been established.

Code of conduct

Detailed information on corporate responsibility

ELMOS has described its ambitious social, ecological and economic claims in a "Code of Conduct". The code informs in detail about responsibility for the company, the employees, the environment, and society. This code is directed at all executives and employees within the ELMOS Group. With this code, ELMOS wants to promote irreproachable conduct and adequate handling of conflicting interests.

Remuneration report

Total remuneration of the Management Board

The Management Board members' total remuneration is based upon the Group's economic and financial situation. The determination of the adequate remuneration is the responsibility of the human resources committee. Total remuneration comprises different components. There are fixed components such as a fixed monthly salary, fringe benefits, and pension benefits, and there are incentive components dependent on the company's success such as variable compensation.

The fixed monthly salary is a basic compensation unrelated to performance. In addition, Management Board members received fringe benefits in the shape of benefits in kind, such as overnight expenses and use of company cars, and pension benefits. The variable components are structured in order to provide a clear incentive for reaching the predefined targets. They are derived from a percentage of the Group's income before income taxes.

We do not provide an individualized disclosure of the remuneration with respect to privacy protection. Management Board and Supervisory Board agree that such a disclosure does not contribute to greater transparency in the form of additional information relevant to the capital market. For this reason the Annual General Meeting of May 19, 2006 decided by shareholders' resolution to exempt the company from the legal obligation for individualized disclosure of Management Board remuneration as introduced by the Management Board Remuneration Disclosure Act of August 3, 2005 for the period of five years.

Total remuneration of the members of the Management Board in the financial year 2006 in thousand Euro:

	Fixed remuneration Thousand Euro	Variable remuneration Thousand Euro	Share options Number
Management Board	1,522	565	0

ELMOS has accrued pension provisions of 3,066 thousand Euro for pension benefits (direct commitment) for members of the Management Board (2005: 2,871 thousand Euro). In addition, there are indirect pension commitments to members of the Management Board which require no accruals because of the volume of these commitments and risk coverage provided by completely congruent pension plan reinsurance. In 2006 the contributions to these pension plans amounted to 341 thousand Euro (2005: 177 thousand Euro). Remuneration for former Management Board members or their surviving dependants comes to 79 thousand Euro in the financial year 2006. A premium of 53 thousand Euro for pension plan reinsurance has also been paid. Pension provisions of 1,494 thousand Euro have therefore been accrued.

Additional payments for the termination of their occupation have not been promised to any Management Board member. Nor did any member of the Management Board receive payments or corresponding promises from third parties with regard to his position on the Management Board in the past financial year. In the year 2006 no share options were issued to Management Board members.

Total remuneration of the Supervisory Board

The Supervisory Board's remuneration is determined by Section 9 of the Statutes. Apart from the reimbursement of their expenses, the Supervisory Board members receive fixed and incentive payments. The incentive remuneration is linked to the dividend and thus oriented towards the company's long-term success. The Supervisory Board does not participate in the share option program.

Compliant with the recommendation of the German Corporate Governance Code with respect to the remuneration in consideration of chairmanship and vice-chairmanship, the chairman receives twice the amount, the vice-chairman receives one and a half times the amount of the regular fixed payment. Chairmanship and vice-chairmanship of the Supervisory Board committees are not subject to separate compensation.

The Supervisory Board members' remuneration is disclosed in summarized form, not individualized. This also applies to payments made to Supervisory Board members for individually performed services, particularly consultations and negotiations.

The fixed remuneration paid to members of the Supervisory Board amounted to the total sum of 126 thousand Euro in the financial year 2006. Expenses and disbursements are included. For other services, especially consultations, the company paid 281 thousand Euro to members of the Supervisory Board altogether.

Because no dividend was paid to the shareholders in 2006, the members of the Supervisory Board received no variable remuneration in the financial year 2006.

Directors' dealings

Listed are all transactions in the year 2006 involving shares of ELMOS Semiconductor AG (ISIN DE0005677108).

Date / Place	Name	Function	Transaction	Number	Price/ Exercise price	Total volume
March 30, 2006/ Frankfurt/Main	Dr. Anton Mindl	CEO of ELMOS Semiconductor AG	Purchase of ELMOS shares	1,000	9.55 Euro	9,555 Euro
May 23, 2006/ Frankfurt/Main	Dr. Anton Mindl	CEO of ELMOS Semiconductor AG	Purchase of ELMOS shares	1,000	7.97 Euro	7,970 Euro
May 24, 2006/ Xetra	Dr. Anton Mindl	CEO of ELMOS Semiconductor AG	Purchase of ELMOS shares	1,000	7.95 Euro	7,950 Euro
June 6, 2006/ Frankfurt/Main	Felix Christian Mindl	Underage son of Dr. Anton Mindl, CEO of ELMOS Semiconductor AG	Purchase of ELMOS shares	100	7.84 Euro	784 Euro

Shares held by Board members

The following members of Management Board and Supervisory Board held ELMOS shares and share options as of December 31, 2006:

Management Board	Shares	Options
Dr. Klaus Weyer	10,000	25,000
Dr. Anton Mindl	7,250	0
Reinhard Senf	1,948	40,000
Dr. Frank Rottmann	0	9,200
Nicolaus Graf von Luckner	1,000	0

Supervisory Board	Shares	Options
Prof. Dr. Günter Zimmer	0	0
Dr. Burkhard Dreher	1,900	0
Jörns Haberstroh	3,956	0
Herbert Sporea	4,165	0
Dr. Peter Thoma	9,200	40,000
Jutta Weber	200	0

Dortmund, March 2007

For the Supervisory Board
Prof. Dr. Günter Zimmer

For the Management Board
Dr. Anton Mindl

Declaration of compliance

Management Board and Supervisory Board of the ELMOS Semiconductor AG declare in accordance with § 161 AktG:

"ELMOS Semiconductor AG fulfills the recommendations of the "Government Commission Deutscher Corporate Governance Kodex" (in short: DCGK) in its form of June 12, 2006, with the following exceptions:

- The currently valid D&O insurance of the Supervisory Board and the Management Board members does not provide for a deductible (DCGK No. 3.8). Based on the undefined legal position concerning personal liability of the individual Board members, an adaptation is currently not being realized.

- Even though the Management Board members' remuneration is stated in the Internet as well as the annual report with reference to fixed components, success-dependent components, and components with a long-term incentive effect (stock options), these statements are summarized and not individualized (DCGK No. 4.2.4). By resolution of the Annual General Meeting of May 19, 2006 the Company has been exempt for a period of five years from the statutory obligation to publish the compensation of the members of the Executive Board in an individualized manner introduced by the Act on Disclosure of Executive Compensation of August 3, 2005.

- The Supervisory Board members' remuneration consists of fixed components and success-dependent components, too. Supervisory Board remuneration is stated in the Internet as well as the annual report with reference to its components, but not individualized. Remuneration paid by ELMOS Semiconductor AG to Supervisory Board members for individually performed services, in particular consultations and negotiations, is not individually stated in the notes to the consolidated financial statements (DCGK No. 5.4.7).

- Supervisory Board committee chairs and membership are not subject to special compensation (DCGK No. 5.4.7)."

Dortmund, December 2006

Management Board Supervisory Board

Our responsibility

Responsibility for our environment

It is our goal to bring ecology and economy in line. Ideally we reduce with one measure environmental impacts, improve workplace safety, and generate cost saving effects. The entire range of production processes is continuously analyzed with regard to advancements and saving potential. We do our part to make sure that employees and neighbors will keep enjoying a healthy environment.

ELMOS realizes an eco-management system in compliance with the strict legal requirements established by DIN EN ISO 14001. This is certified annually by independent experts. The eco-management system's foundation is the ELMOS environmental policy. It defines the binding basics of the ecologically sound conduct for executives and employees. Our eco-management system helps us guarantee legal security. The Management Board members have the overall responsibility for environmental protection. Essential functions in environmental protection and workplace safety are set up directly under the Management Board as staff functions. Collective action of all executives and employees according to the basic principles established by the environmental policy brings the eco-management system to life. Each employee contributes to the reduction of environmental impacts. The necessary basics are provided by the demand-oriented instruction and training of the employees in subjects relevant to environment and safety.

Our waste management's top priority is waste prevention. Inevitable waste is recycled whenever this is ecologically sound and technically feasible. Waste of the greatest eco-relevance is waste which requires special monitoring. Advanced maintenance intervals and improved waste separation have reduced the amount of material with noxious contamination (e.g. tissues) per square meter wafer face by more than a half over the last six years.

One example for our commitment is the following improvement: In photolithography, an important step in the production of our chips, a hazardous substance used to be poured into a machine by hand. On his own initiative, a service engineer constructed a dispenser carriage which can be attached to the machine with safety quick-release fasteners. Now employees do not have to handle the hazardous substance anymore. Waste is also avoided, and running expenses are reduced.

Eco-commitment commended

We have been commended for our commitment by Kempen Capital Management and SNS Asset Management in the Netherlands. This rewards our efforts for eco-friendliness and social concerns. Parallel to this commendation, we have been nominated as candidate for the Kempen/SNS Smaller Europe Social Responsibility Index.

All data and facts concerning our responsibility for the environment are made public annually in an eco report which informs comprehensively on environmental protection, workplace safety, and environmental impacts at the Dortmund location. This eco report is available for download on our company website and can also be requested as print copy free of charge.

Responsibility for our employees

Our employees are our most valuable resource and a great source of power for reaching our corporate goals. For this reason we are aware of the social responsibility we as employer have for our employees, and we assume our responsibility with the utmost attention. The employee turnover rate has been very low for years, reflecting the continuity and the sense of togetherness experienced in our company. As a technology company, ELMOS benefits especially from the employees' know-how. Their motivation, expert knowledge and flexibility are the prerequisite to our company's long-term success. The open and cooperative style of our corporate culture can be found everywhere in our company. The open-door policy is therefore an important principle of our corporate culture.

Professional perspectives

One focal point of our sustainable strategy is the creation of professional perspectives for employees. That is why we actively support their creativity and give them the opportunity to expand their personal potential and to deliver outstanding performances. As a responsible employer we regard it our job and our duty to help employees in an emergency. We try to achieve this goal with financial support, among other measures, by means of a relief fund which was founded exclusively for this reason, dedicated to its initiator and longtime CEO Knut Hinrichs.

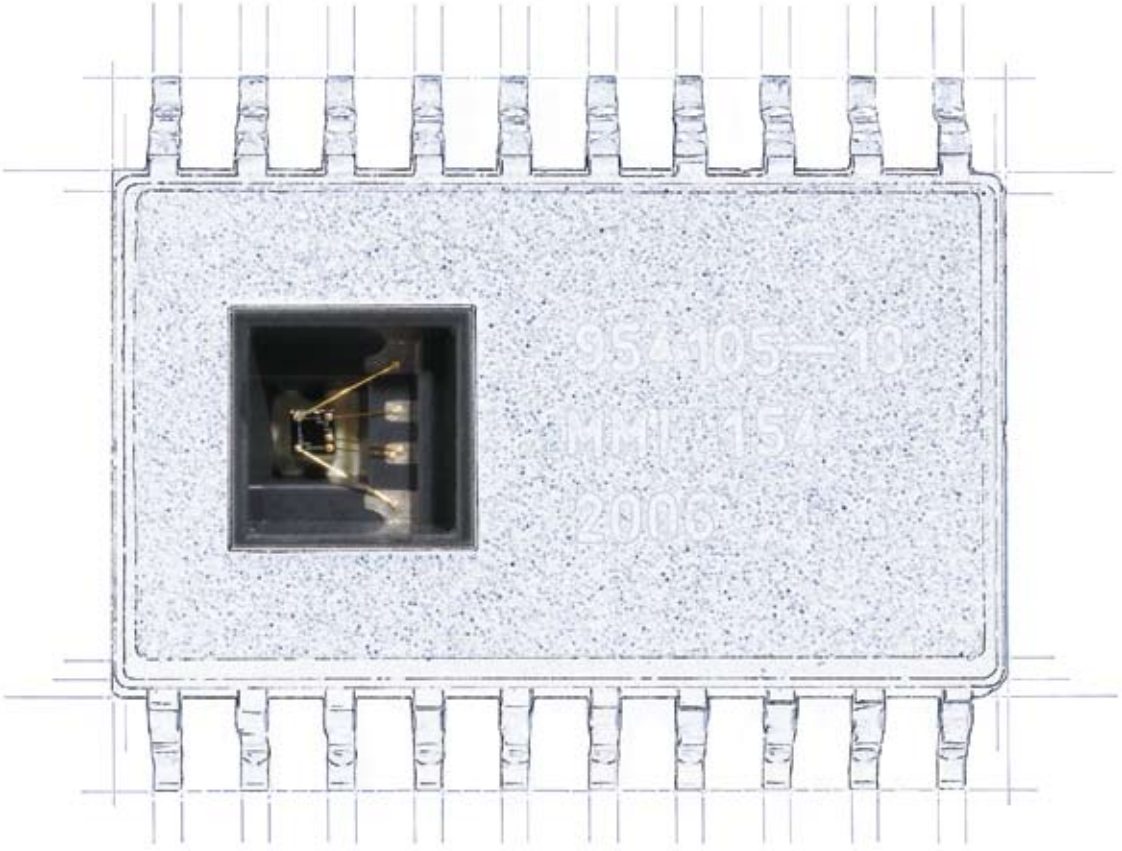
Responsibility for society

It is an important concern for us as a company to assume responsibility for society as well. Youth sponsorship and professional training belong to social responsibility for us, as does the support of charitable institutions. In the sense of sustainability, we want to make a contribution to society and to assume social responsibility even beyond our business interests.

Qualified training

We also regard it our social obligation to offer young people the chance of qualified professional training. The trainees of today are our experts of tomorrow. Roughly half of each new class of trainees is usually trained for the profession of microtechnologist, which came into being at the end of the nineties and was decisively co-defined by ELMOS. We also cooperate with the educational institute RAG Bildung, which has provided retraining for future microtechnologists since 2001. Apart from microtechnologists we train for a large number of professions, accommodating the interests and talents of our future employees.

In the past years we have tried to make contributions to help ease acute emergencies, both domestic and abroad, by a large number of different fundraising campaigns. Of course we also try to support local institutions with our donations. We collected donations for the children's cancer ward of a local hospital and for the Dortmunder Tafel e.V., among other initiatives, and we also co-finance a highly regarded cultural program in Dortmund.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GROWING STRONGER

due to

microsystems

What are microsystems?
Microsystems are the combination of sensors and read-out electronics in a special package. The result is a complete system for measuring pressure, acceleration, or tilt. An automotive application is for example a microsystem for the precise control of an airbag.

Why are we growing stronger due to microsystems?
A microsystem is more than just the sum of its parts. It is the first choice if pressure, acceleration or tilt must be measured in smallest spaces, both cost-optimized and reliable. They also meet customer requirements for a small number of interfaces.

For our customers this means
highly efficient solutions for their products.

Business and economic framework

Business activity

ELMOS develops, produces and sells highly integrated, mostly application specific microelectronic circuits, primarily for automotive use. Roughly 90 percent of the revenue originated from this market segment in 2006 once again. Within the past two decades, ELMOS has achieved a leading market position as semiconductor manufacturer on the European market for automotive electronics. According to the market research institute Gartner Dataquest, for the last years ELMOS has been the worldwide No. 3 in the segment ASICs (Application Specific Integrated Circuits) for the automotive market with a 12 percent share of the market in March 2006, ranking behind STMicroelectronics and NEC. The immediate competitors AMI Semiconductor and Melexis follow on ranks four and five.

ELMOS chips are used by almost all European car manufacturers. Ever-increasing demands on the reduction of fuel consumption and the environmental compatibility of an automobile, and especially on its passengers' 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 three to four years of development time till they enter serial production for roughly five 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.

ELMOS has served niche markets with its own know-how for more than 20 years. It is the company's strategy to excel with consistently optimized production technology in response to market demands and with customer specific product development. Therefore ELMOS usually develops products by the customer's order for a specific application and then manufactures these products for the customer exclusively. ELMOS directs its efforts at running a profitable business and growing ahead of the market with customized integrated circuits as the customers' competent partner.

Apart from customer specific circuits, comprising approximately 90 percent of all products, ELMOS also offers a portfolio of application specific standard products (ASSPs) as well as micromechanical sensors produced by the U.S. subsidiary company Silicon Microstructures Inc. (SMI), based in Milpitas, California. SMI develops, produces and sells micromechanical components (MEMS) and ranks among the technology leaders for high-precision silicon pressure sensors. In addition to pressure sensors, SMI also develops sensors for acceleration and rotary motion which are of special interest to the automobile industry. With its own production site in California, SMI has solid serial production facilities and capabilities. The producing subsidiary

Own production sites

ELMOS Advanced Packaging B.V. (ELMOS AP), based in Nijmegen in the Netherlands, completes the technology and product portfolio. ELMOS AP develops and manufactures packages for electronic semiconductor components and sensors. Apart from standard packages compliant with JEDEC regulations, customer and application specific special packages – partly standing out from the competition by patented know-how – are part of the product portfolio. The Nijmegen plant provides state-of-the-art technology. In 2006 ELMOS AP still covered roughly 40 percent of all assembly services for ELMOS. Besides assembly within the group, the company also manufactures special packages for third-party customers. In the future ELMOS AP will focus solely on the development and production of special packages. The assembly of standard packages will be transferred to longtime partners in Southeast Asia.

ELMOS produces all ASICs at its own production site for semiconductor components (wafer fab) in Dortmund and on the production line in Duisburg put into operation in the year under report. 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.

The division ELMOS Microsystems, newly created in 2005, supports the portfolio with the development and sale of application specific, micro-mechatronic modules. These modules combine the capabilities of the three developing and producing companies within 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.

Apart from the automotive market, ELMOS is also busy in the markets for industrial and consumer goods, supplying customer specific circuits for use in household appliances, cameras, installation and building technology, and machine control, among other fields of application. These non-automotive markets will be attended to intensively in the future by ELMOS Industries, founded in the year under report. They contributed roughly ten percent of sales in the past year, unchanged from the previous years.

Strategy

Focus on customer specific automotive applications

ELMOS started the year under report with a clear strategy and has made significant progress with its realization. The center of attention was the focus on customer specific automotive applications. With these ELMOS has gathered experience in the field of automotive semiconductors over decades. The startup of the second production site in Duisburg was a crucial step in this regard, both for supply guarantee and the use of cost reduction potential due to the larger wafer diameter. First customer releases were given in the third quarter, others followed near the end of the year.

Another focus was on the expansion of the development and sale of application standards (ASSPs). For this purpose, ELMOS created the division Applications & Systems (AS) to produce and sell application standards systematically. Application standards particularly involve procedures protected by patent law, such as HALIOS® and VirtuHall®, bringing about a competitive edge for

ELMOS. Such a family of application standards allows for the user's fast and simple realization of intelligent solutions, e.g. for sensor or driver applications.

Microsystems raise great market interest

Microsystems, consisting of ASICs and MEMS in a customer specific package, currently generate great interest in the market. With the ability to develop and produce those systems within the group consolidation, ELMOS clearly distinguishes itself from its competition and offers its customers a unique advantage.

Progress has also been made with the integration of third-party silicon into the company's own system solutions. First projects on the basis of non-company-produced components have been brought to prototype maturity. These purchased components are produced according to ELMOS construction plans either by strategic partner companies or large semiconductor foundries using technologies not provided by ELMOS. Thanks to the technical capabilities of ELMOS AP, own and purchased components are integrated into functional packages as multi-chip modules.

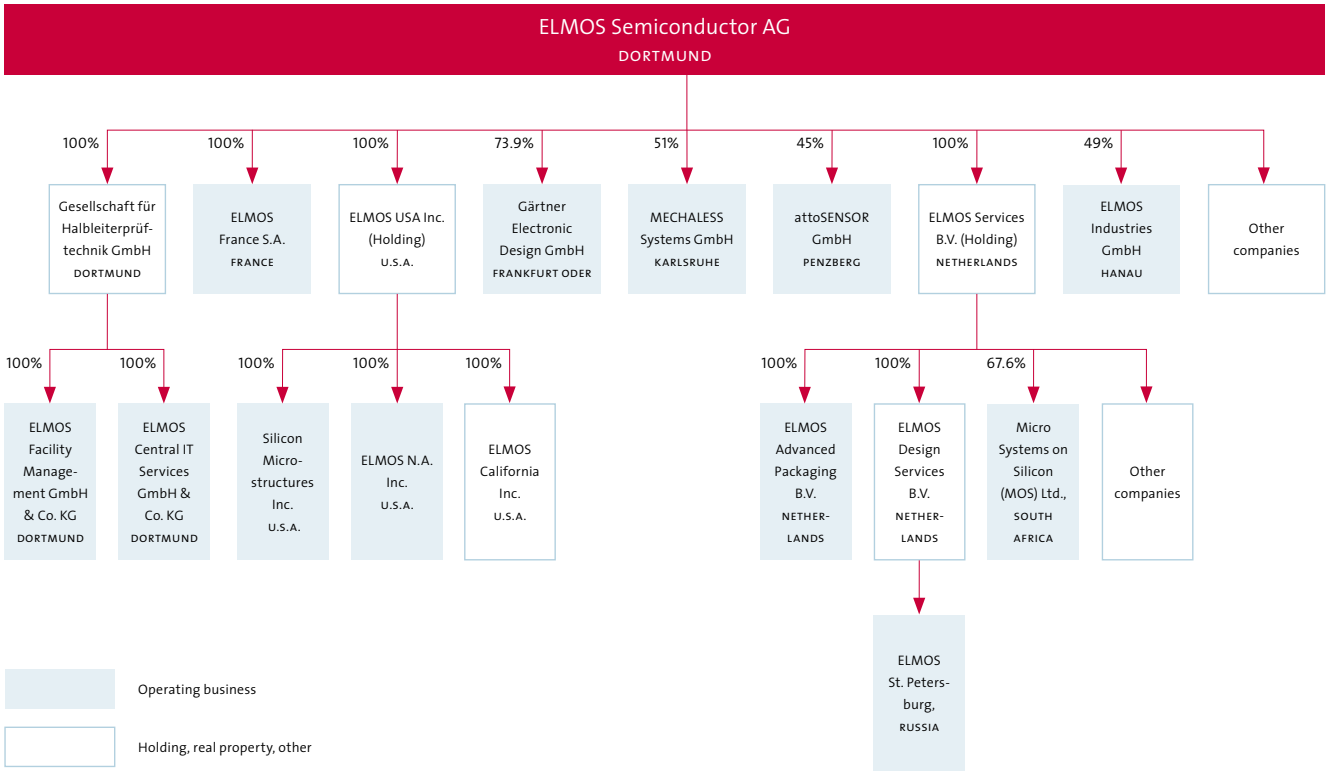
Finally, the planned targeting of new markets apart from the automobile market was realized by the foundation of ELMOS Industries. This subsidiary took up business in the fourth quarter of the year under report. For non-automotive markets, i.e. industrial and consumer markets, ELMOS aims at a sales contribution of 20 to 30 percent of total sales revenues in the medium term.

Organizational structure

Orientation towards the automobile industry

The ELMOS business model 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 diversified 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. This network comprises, among others, the Munich and Stuttgart branches, the subsidiary companies ELMOS France, ELMOS North America, MECHALESS, and GED, and cooperation partners attoSensor, DMOS, and MAZ. ELMOS France attends the French and southern European markets and provides application support and customer service on the spot. For ELMOS, France is currently 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. In addition to the representation in Tokyo, a second Asian sales base was established in Seoul, South Korea, in the year under report.

Organizational structure overview



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

Relationships with affiliated companies

With indirect and direct shareholdings of altogether 52.9 percent, ELMOS Finanzholding GmbH (EFH) is the major single shareholder of ELMOS Semiconductor AG. Therefore the Management Board has prepared a report on the relationships with affiliated companies according to Section 312 AktG (German Corporations Act), concluding with the following statement in compliance with Section 312 (3) AktG:

"We declare that, under the circumstances known to us at the time legal transactions were executed and measures were taken, our company received appropriate consideration for each legal transaction. Disadvantages as defined by Section 312 AktG did not result for us from our relationships with affiliated companies."

General framework

Automotive semiconductor market

The market of relevance to 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 seven percent 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. It is expected that the portion of total higher-value car costs accounted for by electronics is going to rise from about 25 percent today to roughly 35 percent in 2010. The market for electronics and microelectronics for automotive use has grown, and will continue to grow in the long term, many times faster than the number of produced automobiles. A continuation of this trend can be expected at least for the next ten years.

Long-lasting customer relationships

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 characterized by long-lasting customer-supplier relationships and the extremely high demands on quality as well as especially tough ambient conditions requiring robust semiconductor technologies.

The global market for automotive semiconductors amounted to 19.1 billion USD in the year 2006. Experts forecast the automotive semiconductor market's growth of seven to eight percent per annum for the next years. The market research institute Semicast Estimates expects the market to grow to 36.5 billion USD by 2015.

Focus on the market for ASICs

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, the so-called ASICs.

The large semiconductor producers, giving top priority to the best possible utilization of their vast production capacity, do not focus upon these ASICs 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. With regard to typical medium-volume ASIC 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.

Economic environment

The trend of the year 2005 continued through the year 2006. 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. They pass the pressure down to their suppliers in negotiations for new projects.

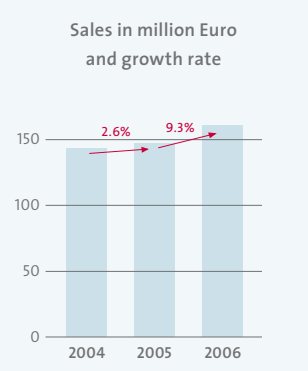
Because product development periods in the automobile industry become shorter and shorter, deadline pressure increases as well. A delayed placing of an order after lengthy negotiations often enforces this situation additionally. On the other hand, even the slightest exceeding of a project deadline may have the result that the order cannot be transferred to production.

Changes have occurred to the worse concerning the acceptance of development costs as well. In the past, the customer usually paid about half of the development costs. Owing to increased competition, the customer's willingness to accept development costs at all is rapidly on the decline today. Therefore the risk increases that the customer will abandon a project, e.g. if his end customer cancels the order.

Especially where very large projects are concerned, the customer demands the allocation of development costs through serial production. Furthermore, parallel developments by two competing suppliers occur more often, replacing single-sourcing which used to be the rule in the ASIC business. This new situation and the high pricing pressure today make a customer's change of suppliers possible even during a car's serial production in projects like these.

Course of business in the year 2006

2006 was altogether a satisfactory year for ELMOS. After the distinct slump in the third quarter of 2005, a growth of sales and an improvement of the essential key figures have since been achieved quarter by quarter. In the year under report, total sales revenues of more than 160 million Euro were generated, corresponding with a growth rate between nine and ten percent starting from 147 million Euro prior-year sales. This is all the more remarkable as the American automobile market showed a significant weakness and our U.S. sales expectations fell short by more than ten percent.



The negative influences of the previous year such as pricing pressure, changed product mix, and postponements and cancellations of projects continued to affect the year under report. And the significantly increased prices for raw materials – above all silicon wafers but also precious metals – and higher energy costs had to be absorbed. Finally, the expenses for the startup of the second production line in Duisburg as well as preparatory efforts for microsystems and ASSPs burdened the gross margin, which remained at a mark of 45 percent in the course of the year.

Production

Increased product complexity

In 2006 15 percent more chips were produced than the year before. And the demands on the products and their complexity as measured by the number of reticles or layers to be structured have grown substantially.

The ASICs and ASSPs delivered to customers in 2006 originated predominantly from the 6-inch (150 mm) production line at the Dortmund headquarters. The first selected automotive ASICs produced on the 8-inch (200 mm) production line at the Duisburg location were ready for delivery in the second half-year.

The Dortmund line was further expanded in the year under report as scheduled in order to be prepared for the next technology generations and the rising capacity demand of production.

Machine capacity came to roughly 480 wafer starts a day by the end of the year 2006; at 430 wafer starts a day, the average utilization exceeded the prior-year level (about 400 wafer starts). Altogether more than 177,000 wafers were manufactured in 2006 (2005: about 131,000 wafers).

Fourth construction stage completed

The capacity of the present Dortmund production line can still be expanded by the recruitment of additional staff and further investments in machines and an expansion of production space. In the year 2006 the fourth construction stage was completed, providing new clean room space for production in the second half-year 2006. This building structure has been used for an expansion of our testing area and can also provide space for the frontend expansion at a later time, if necessary.

The second step to safeguarding future capacity is the cooperation with the Fraunhofer Institute for Microelectronic Circuits and Systems (IMS) in Duisburg. In 2006 ELMOS completed the transfer of first process technologies and the qualification of the existing 8-inch wafer line and also achieved the customer release for the first products. As planned, the first production batches could be started in Duisburg and delivered by mid-2006.

The cautious capacity expansion in Dortmund, the new production site in Duisburg, and the future use of foundry capacities provide the necessary production capacity for the medium-term future of ELMOS.

Relocation of standard package assembly

In the business domain assembly (ELMOS AP), the relocation of standard products to assembly partners in the Asian region was initiated in the financial year 2006. This provided internal capacity for higher-value special products and gave access to the cost advantages from the Euro-dollar exchange rate. The relocation of standard packages is expected to be completed in the course of the year 2007.

Research and development

The automobile industry's high demands on quality and reliability lead to a decelerated introduction of new technology generations to semiconductors used in automotive electronics. However, industrial and consumer goods markets employ new technologies as innovation drivers. ELMOS makes use of this phenomenon insofar as e.g. innovations technically matured in consumer goods markets are later used in automotive applications. This results in the higher quality of new products for automotive use as well.

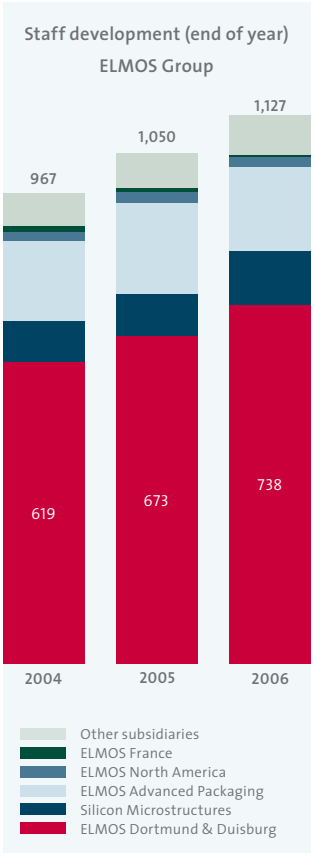
Main emphasis of research and development activity in the year under report was placed on the completion of the 0.8µm process transfer to the Duisburg location. The first customer releases were given on schedule in the summer. Later in the year the series startup of transferred products began. Work on the development of new process technologies with smaller structure sizes (0.35µm technology) and FLASH option made for another portion of the research and development expenditure. These activities were also carried out in Duisburg, directly on the 8-inch line, in order to achieve the greatest cost advantage with the highly integrated technologies and the large (8-inch) wafers. By the use of the company's own process technologies, ELMOS thus pursues its strategy for the provision of innovative solutions which are superior to the competition.

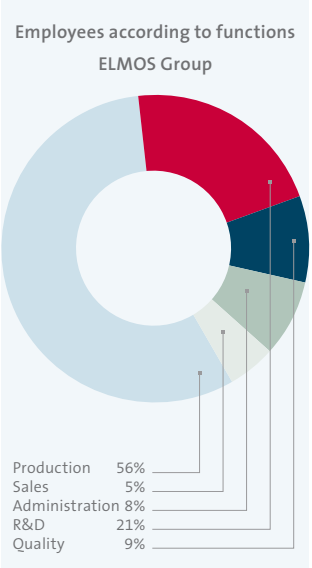
Apart from the development of new processes, by far the larger portion of the expenditure for research and development is accounted for by the development of new products. In the year 2006 the trend of recent years towards the customer's refusal to assume research and development costs for an ASIC intensified. This means that a majority of the product development costs must be pre-financed by the ASIC supplier – ELMOS – and amortizes only through serial unit production. Of course this especially goes for the development of ASSP families. As a result, research and development expenses rose by 1.5 million Euro from the previous year to reach 29.6 million Euro, corresponding with a ratio of roughly 18.4 percent of total 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 Dortmund location, 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 closely cooperated with these institutions ever since its foundation and holds a singular position as the sole semiconductor manufacturer in the region.

ELMOS continued to create new jobs in 2006. In the financial year 2006, the ELMOS Group had altogether 1,102 employees on the annual average, as compared to 1,028 employees in 2005. The new openings were provided primarily by Production due to the expansion of the Duisburg location. However, Development and Sales also received new additions in key positions. By the end of the year 1,127 people were in the employment of the different group companies (2005: 1,050





employees), 738 of which at the Dortmund and Duisburg locations (2005: 673). The average age of employees in the ELMOS Group is 36 years (2005: 36 years).

Roughly ten percent of all Dortmund employees are trainees. ELMOS offers training for a variety of commercial and technical professions, with an emphasis on training microtechnologists. By the end of 2006, 70 employees in Dortmund were in training (2004: 59).

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.

Employee participation/share option plans

Employees participate financially in the company's success through share option plans at present. These programs provide for the issue of share options to employees below Management Board level and to Management Board members at identical conditions. As additional prerequisite to the Management Board members' share options, a limit ("cap") to the performance has been in effect since the 2004 tranche. Share options for Management Board members are also variable remuneration components with a long-term incentive effect.

As of December 31, 2006 altogether 715,201 share options originating from the share option plans of the years 2000 through 2004 were outstanding (12/31/2005: 843,359). In 2006 options from the tranche decided in 2002 and issued in 2003 were exercised. 1,381 new shares were the result. For in-depth information about the option plans' different tranches please refer to item 24 in the notes to the IFRS statements.

The Supervisory Board did not decide on a new share option plan in the past two years. Against the backdrop of higher share option costs compared to former US-GAAP accounting, resulting from accounting based on fair value as stipulated by IFRS 2, Management Board and Supervisory Board decided that other measures might be taken to offer an incentive to employees and Management Board members.

Quality, safety, and environmental protection

Consistent realization of the zero defect strategy

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 serial 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-90s, 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 Advanced Packaging, GED, and, for the first time, SMI and the Duisburg production site were audited and certified in accordance with the new norm in 2006.

Workplace safety and environmental protection are considered equal in importance next to the other company objectives, product quality and profitability. The key principles governing the ELMOS environmental policy are compliance with the law, minimization of environmental damages, the employees' sense of responsibility, eco management, and continuous improvement and communication.

Effective prevention

The 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 divergences. The workplace safety and environmental protection divisions 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.

In addition to the publication of the eco report for 2005, which informs comprehensively about environmentally relevant activity, the resulting environmental effects, and the organization of workplace safety, ELMOS has described its ambitious social, ecological and economic claims in a "Code of Conduct" in 2005. The code gives detailed account of the responsibility for the company, the employees, the environment, and society. This code of conduct addresses all executives and employees within the ELMOS Group. With its help we want to promote irreproachable conduct in a way which is comprehensible to everyone, and create more transparency. This is rewarded by the capital market insofar as ELMOS has been commended by Kempen Capital Management and SNS Asset Management as a company which attaches special value to eco-friendliness and social concerns. Parallel to the award, ELMOS has been nominated as a candidate for the Kempen/SNS Smaller Europe Social responsibility Index.

Profit, financial and economic situation

Financial statements according to IFRS

Revenue plus 9.3 percent

The consolidated financial statements of ELMOS Semiconductor AG for the financial year 2006 have been prepared in accordance with the International Reporting Standards (IFRS).

ELMOS Group key figures according to IFRS

in million Euro or percent, unless otherwise indicated	2005	2006	Change
Revenue	147.0	160.7	9.3%
Gross profit	70.6	73.0	3.4%
in percent	48.1%	45.5%	
Research and development expenses	28.1	29.6	5.2%
in percent	19.1%	18.4%	
Distribution costs	9.4	9.7	2.9%
in percent	6.4%	6.0%	
Administrative expenses	13.0	14.2	9.6%
in percent	8.8%	8.8%	
Operating income before other operating expenses	20.1	19.6	– 2.8%
in percent	13.7%	12.2%	
EBIT	20.0	19.8	– 0.9%
in percent	13.6%	12.3%	
Income before taxes	16.4	17.3	5.7%
in percent	11.2%	10.8%	
Group net income after minority interest	10.0	10.7	6.6%
in percent	6.8%	6.7%	
Earnings per share (basic) in Euro	0.52	0.55	6.6%
Dividend per share in Euro	0.00	0.00*	n.a.

**Proposal to Annual General Meeting in May 2007*

Sales development

Even though the year 2006 was characterized by difficult market conditions, the company's development was satisfactory. The targeted sales growth of ten percent could just be achieved, yet not exceeded, because sales revenues had increased from quarter to quarter. The weakness of the U.S. automobile market was a substantial factor as it made our U.S. sales expectations fall short by roughly ten percent. The Euro-dollar exchange rate also had a negative effect. As expected, the margins were kept under pressure because of the high charges due to the startup of the Duisburg production site, the preparations for the launch of microsystem projects, and the disadvantageous product mix. Furthermore, the significantly increased costs for raw materials and energy had to be absorbed.

Revenue according to regions

The regional revenue distribution changed only insignificantly in the year under report 2006. The German sales portion slightly increased over the previous year (35.2 percent) to 37.4 percent; the share of the other EU countries decreased marginally to 37.3 percent (2005: 42.9 percent). The U.S. share of the total revenue also went down and comes to 13.4 percent (2005: 16.6 percent). The declining revenue in the U.S.A. of the second half-year 2006 shows the weakness of this regional market in particular. A majority of changes is a consequence of the shift from the other EU countries and the U.S.A. towards the other countries. Above all, Canada, China, Mexico, Switzerland, and Taiwan are the countries with an increase in revenue. The changes are in part accounted for only by changes of individual customers' shipping addresses and do not necessarily mean a changed customer structure.

Revenue according to customers

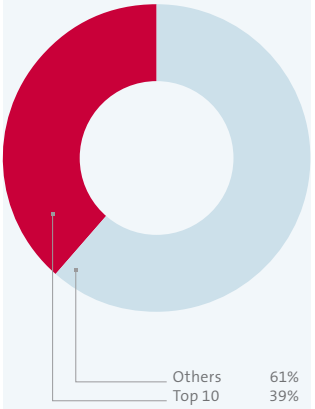
ELMOS supplies about 130 customers altogether. These are predominantly suppliers to the automobile industry and to a lesser extent industrial customers and manufacturers of consumer products. As in previous years, French supplier to the automotive industry Valeo, Swedish Autoliv, and the Swiss Saia group were our biggest customers in 2006, each with a contribution of more than ten percent of the revenue. Revenue generated with our top customers is usually accounted for many products at different stages of their respective life cycles. The top ten customers amounted to roughly 68 percent, or two thirds, of our revenue in 2006 (2005: 67 percent).

Order backlog

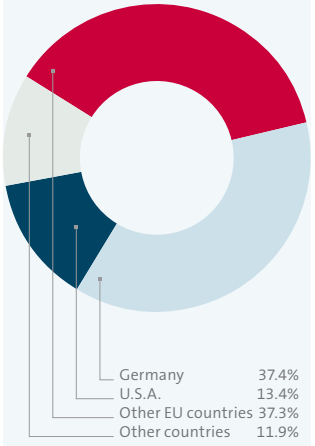
To determine the book-to-bill ratio, we compare the backlog of orders for the next months with the revenue of the past months. By the end of December 2006, the book-to-bill for the semiconductor segment was 0.99.

Order backlog is usually recorded upon receiving the customer's order. The orders received which are considered for the calculation of the book-to-bill comprise products to be supplied within the next three months. The order backlog is influenced by different factors, such as demand, order behavior, production lead time, etc. It may vary between the time of placing the order and delivery. This is due to changes in customer demand or market conditions. A soon as production starts, an order usually cannot be canceled anymore. And customers typically invest a lot of

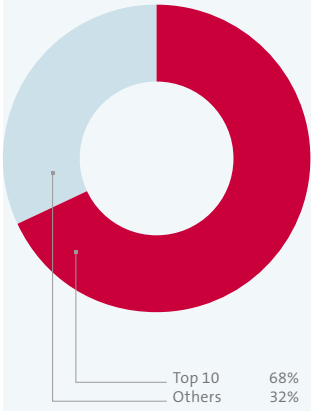
Revenue according to products



Revenue according to regions



Revenue according to customers



time and expense in the development of a project themselves and therefore usually follow their orders through. However, there is no guaranty that order backlog will turn into revenue.

New projects (design wins)

The tough competition for ASIC orders continued in the year 2006. However, our position for winning new ASIC projects remains very strong because of our competence in the development and production of ASICs gained over many years. The strategic orientation towards an increased sale of ASSPs already had a positive effect on the acquisitions of the year 2006. Even though the individual volume of an ASSP project is usually considerably lower if compared to ASIC orders, the large number of ASSP design wins signifies great interest on the market. The microsystems offered by ELMOS generally enjoy a lot of market attention.

Profit situation

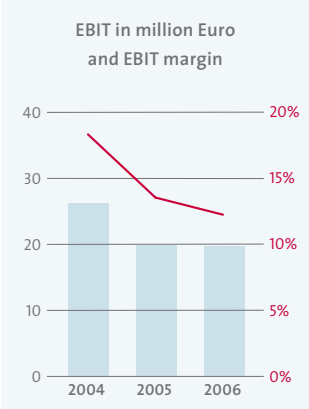
Gross profit

Increased cost of sales

The gross profit increased by 3.4 percent to reach 73.0 million Euro, thus turning out disproportionately low compared to the revenue. This is attributable above all to the determining factors raw material and energy costs as well as startup expenses for the Duisburg production and the preparations for microsystems and ASSPs, which altogether made the cost of sales rise 14.8 percent to reach 87.6 million Euro. The resulting gross margin came to 45.5 percent compared to 48.1 percent in 2005.

Operating income before other operating expenses/(income)

Because of the decreased gross result, the operating income declined by 2.8 percent to reach 19.6 million Euro, resulting in a margin of 12.2 percent (2005: 13.7 percent). The expenditure for research and development and the distribution expenses fell from together 34.4 percent to 33.3 percent of the revenue. Research and development expenses are affected by the great number of projects currently in development, including microsystems and ASSPs, as well as the development efforts for the next process generation. The R&D expenditure amounted to 29.6 million Euro or 18.4 percent of the revenue (2005: 19.1 percent). Distribution costs climbed to 9.7 million Euro or 6.0 percent of sales, and their amount is due to the new activities with regard to microsystems and ASSPs. General administrative expenses rose to 14.2 million Euro yet remained unchanged in relation to the revenue, at 8.8 percent.



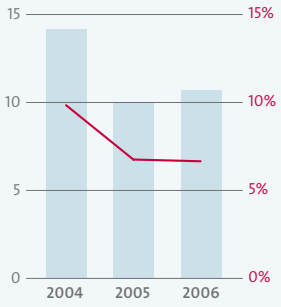
EBIT

The earnings before interest and taxes (EBIT) decreased by 0.9 percent to 19.8 million Euro (2005: 20.0 million Euro), resulting in an EBIT margin of 12.3 percent of the revenue (2005: 13.6 percent). The EBIT differs from the operating income in the additional consideration of foreign exchange loss/(income), equity in losses of unconsolidated companies, and other operating expenses/(income).

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

At 2.5 million Euro in 2006, finance income/expenses were clearly below the previous year's level (2005: 3.6 million Euro). This is due primarily to favorable refinancing interest rates for non-current liabilities. Pre-tax income reached 17.3 million Euro or 10.8 percent of the revenue (2005: 16.4 million Euro or 11.2 percent). The income taxes of 6.6 million Euro rose from 2005 by 0.6 million Euro at a tax rate of 38.4 percent (2005: 37.0 percent). The higher tax rate results essentially from a change in Dutch tax law owing to which deferred taxes affect the net income. The group net income after minority interest comes to 10.7 million Euro in 2006 and is 6.6 percent higher than the previous year's amount of 10.0 million Euro. With 6.7 percent, the net income margin almost reached the prior-year level (2005: 6.8 percent). Earnings per share are 0.55 Euro as opposed to 0.52 Euro in 2005.

Net income in million Euro and net income margin



Proposal for the appropriation of retained earnings

ELMOS Semiconductor AG* generated retained earnings of 2.4 million Euro according to HGB (German Commercial Code). The retained earnings carried forward from 2005 according to HGB come to 42.5 million Euro. The Management Board and the Supervisory Board propose to the Annual General Meeting on May 10, 2007 to carry forward the entire retained earnings to new accounts. Despite the significant improvements over the previous year, Management Board and Supervisory Board see the necessity to keep the achieved liquidity within the company with respect to its long-term development and therefore propose not to pay a dividend, so that the necessary investments can be financed from company resources in the year 2007 and additional outside capital must not be taken up.

Revenue and profitability according to segments

	Segment	2005	2006	Change
Revenue in million Euro				
	Semiconductor	138.1	150.0	8.6%
	Micromechanics	8.9	10.7	20.4%
Gross profit in million Euro				
	Semiconductor	68.0	70.4	3.5%
	Micromechanics	2.6	2.7	2.4%
Gross margin in percent				
	Semiconductor	49.3%	46.9%	
	Micromechanics	29.4%	25.0%	
Operating income in million Euro				
	Semiconductor	19.3	20.3	5.2%
	Micromechanics	0.8	– 0.8	– 195.6%
Operating income in percent				
	Semiconductor	14.0%	13.6%	
	Micromechanics	9.0%	– 7.1%	

**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 register of companies and may also be ordered as a special print publication.*

Semiconductor

Semiconductor revenue plus 8.6 percent

The semiconductor core business of the ELMOS Group is operated through the various companies in Germany, France, the Netherlands, and the U.S. The third-party revenue of the semiconductor segment gained 8.6 percent to achieve 150.0 million Euro. The semiconductor segment remains to be of paramount importance to ELMOS and represents over 90 percent of the ELMOS Group's revenue, comparable to the year before. The gross profit improved slightly over the previous year, yet the margin remained under pressure. The operating income margin of the semiconductor segment dropped marginally from 14.0 percent in 2005 to 13.6 percent in 2006 but is still significantly above the margin of the micromechanics segment, which turned out even negative in the year under report because of extraordinary charges.

Micromechanics

The segment micromechanics comprises the activities of the subsidiary company SMI. SMI generates its revenue in U.S. dollars almost exclusively. SMI sales revenues increased by 20.4 percent to 10.7 million Euro in 2006. However, gross profit and gross margin could not follow the sales increase because numerous product starts burdened production, and considerable expenses for the preparation of microsystem projects and for upgrading production towards automotive qualification were necessary. For the same reasons SMI reports a negative operating income.

Financial position

ELMOS Group key figures according to IFRS

in million Euro unless otherwise indicated	2005	2006	Change
Group net income	10.0	10.7	6.6%
Depreciation/appreciation	15.5	16.3	5.1%
Changes in net working capital	– 4.3	0.0	n.a.
Other items	– 1.6	1.5	n.a.
Cash flow from operating activities	**19.7**	**28.5**	**45.0%**
Capital expenditures for property, plant and equipment	– 29.6	– 26.4	– 11.0%
in percent of sales	20.1%	16.4%	
Other items	– 0.8	6.4	n.a.
Cash flow from investing activities	**– 30.4**	**– 19.9**	**– 34.5%**
Cash flow from financing activities	**6.7**	**– 4.1**	**n.a.**
Changes in cash and cash equivalents	– 4.0	4.5	n.a.
Free cash flow*	**– 10.7**	**8.6**	**n.a.**

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

Cash flow from operating activities

Clearly increased cash flow

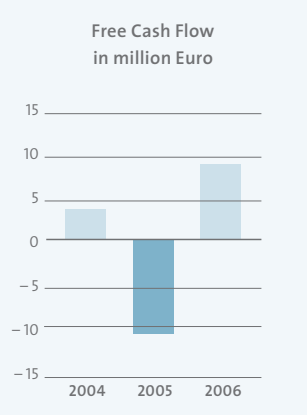
Compared to the previous year, the cash flow from operating activities rose clearly by almost nine million Euro. Essential reasons were the improvements achieved in the net working capital and significantly reduced tax payments. Furthermore, the deferred taxes' portion of the total tax load soared by 128 percent.

Cash flow from investing activities

ELMOS kept reducing its capital expenditures in 2006 and invested 26.4 million Euro in property, plant and equipment altogether. This amount falls below the prior-year amount (29.6 million Euro) and corresponds with roughly 16 percent of the revenue (2005: 20.1 percent). Investments were accounted for primarily by frontend and backend in Dortmund for machines and equipment as well as by the equipment of the clean room at the Duisburg location. The semiconductor segment accounted for the largest share of the capital expenditures, 2.6 million Euro were spent in the micromechanics segment. The assembly, included in the semiconductor segment, spent about 0.9 million Euro for machines for the production of special packages.

Cash flow from financing activities

The cash flow from operating activities more than covered the necessary investments in 2006. The remaining liquidity was used primarily for the repayment of non-current liabilities. Cash and cash equivalents rose from 11.4 million Euro to 16.6 million Euro in the year under report. The portion of cash and cash equivalents of the total assets comes to 6.9 percent (2005: 4.8 percent).



Assets

ELMOS Group key figures according to IFRS

in million Euro unless otherwise indicated	12/31/2005	12/31/2006	Change
Intangible assets	34.8	39.0	12.0%
Property, plant and equipment	102.0	95.6	– 6.3%
Other non-current assets	9.7	4.8	– 50.2%
Inventories	27.7	31.1	12.4%
Trade receivables	29.1	27.8	– 4.4%
Other current assets	33.7	43.6	29.3%
Total assets	**237.0**	**241.9**	**2.1%**
Equity	144.3	152.9	5.9%
Non-current liabilities	35.5	29.8	– 16.0%
Trade payables	10.6	12.7	20.4%
Other current liabilities	46.7	46.5	– 0.3%
Total equity and liabilities	**237.0**	**241.9**	**2.1%**

The total assets of the ELMOS Group increased from 237.0 million Euro in the year 2005 by 2.1 percent to 241.9 million Euro in 2006. Main factors were the decrease of deferred tax liabilities, the repayment of non-current liabilities, and the increase of assets held for sale. The latter is accounted for primarily by the expansion of the production building in Dortmund which is scheduled for sale in 2007 within the framework of a sale & leaseback transaction.

Net working capital

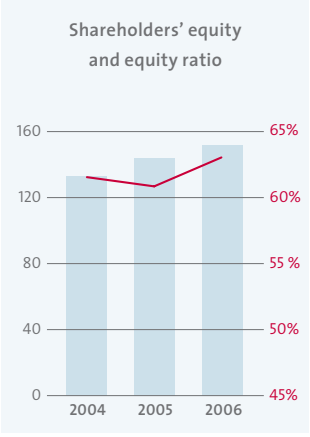
Inventories increased from 27.7 million Euro at the beginning of the year under report to 31.1 million Euro as of December 31, 2006 on account of the revenue development. Compared with 2005, the inventories' share of the total assets rose from 11.7 to 12.9 percent. Owing to improved accounts receivable management, at rising sales numbers the trade receivables decreased by 4.4 percent from 29.1 million Euro to 27.8 million Euro. Trade payables rose by 20.4 percent from 10.6 million Euro in 2005 to 12.7 million Euro in 2006.

Liabilities

The net debt fell to 48.4 million Euro as of balance sheet date, a decrease of 5.5 percent compared with December 31, 2005. This is due essentially to the reduction of non-current liabilities.

ELMOS Group key figures

	Calculation	Unit	2005	2006
Net working capital	Trade receivables + inventories - trade payables	million Euro	46.2	46.2
of the revenue		percent	31.4%	28.7%
Inventory turnover	Cost of sales/inventories	x	2.8x	2.8x
Receivables turnover	Revenue/trade receivables	x	5.1x	5.8x
Payables turnover	Cost of sales/trade payables	x	7.2x	6.9x
Cash cycle	Inventory days + debtor days - creditor days	days	154	140
Net debt	Financial liabilities (current and non-current) – cash and cash equivalents – marketable securities	million Euro	51.2	48.4
Gearing	Net debt/equity	percent	35.5%	31.6%
Equity ratio	Equity/total assets	percent	60.9%	63.2%



The equity rose from 144.3 million Euro to 152.9 million Euro. Because of the disproportionately low increase of total assets, the equity ratio also rose, to reach 63.2 percent (December 31, 2005: 60.9 percent).

Report according to Section 315 (4) HGB in the version of the German Takeover Directive Implementation Act (ÜbernRUmsG)

1. **Composition of the subscribed capital**
   The share capital stated in the financial statements as of December 31, 2006 at 19,413,805.00 Euro consisting of 19,413,805 non-par value common bearer shares is paid in entirely.

2. **Limitations with regard to voting rights or the transfer of shares**
   This issue does not apply for the company.

3. **Direct or indirect shares in equity**
   The distribution of ownership as of December 31, 2006 is as follows:

	Euro	%
EFH ELMOS Finanzholding GmbH	1,485,789.00	7.6
Hinrichs GmbH	3,236,584.00	16.7
Dr. Weyer GmbH	3,236,584.00	16.7
ZOE-BTG GmbH	2,306,833.00	11.9
Free float	9,148,015.00	47.1
	19,413,805.00	**100.0**

4. **Owners of privileged shares**
   This issue does not apply for the company.

5. **Form of voting right control in case of employee shareholdings**
   This issue does not apply for the company.

6. **Legal stipulations and provisions of the articles for the appointment and dismissal of management board members and amendments to the articles**
   We refer to the corresponding 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). Our Articles of Incorporation do not provide amendatory provisions.

7. **The management board's authorization to issue and repurchase own shares**
   The Management Board is authorized to increase the share capital until May 18, 2011 with the Supervisory Board's approval by up to 9,650,000.00 Euro through the singular or repeated issuance of up to 9,650,000 new non-par value bearer shares against contributions in cash or contributions in kind and to decide on the rights represented by the new shares and the conditions of their issuance with the Supervisory Board's approval in accordance with Section 204 AktG (authorized capital I).

   The share capital is conditionally increased by 886,195.00 Euro. The conditional capital increase exclusively serves the granting of pre-emptive rights to Management Board members and other executives and employees of the company as well as to executives and em-

ployees of affiliated companies. It is realized only insofar as subscription rights are granted within the framework of the company's share option plan in observance of the shareholders' resolution of September 22, 1999 and as these rights are exercised by their owners. The new shares are entitled to dividend from the beginning of the financial year in which they come into being by the exercise of subscription rights.

The share capital is conditionally increased by a maximum of 5,000,000.00 Euro (conditional capital II). The conditional capital increase is realized only insofar as the owners of subscription warrants or conversion privileges originating from option bonds or convertible bonds issued by the company or the company's direct or indirect, domestic or international, 100% investment company until April 25, 2007, according to the shareholders' resolution of April 26, 2002, make use of their warrants or privileges, or as the owners of convertible bonds issued by the company or the company's direct or indirect, domestic or international, 100% investment company until April 25, 2007 who are committed to conversion realize this commitment to conversion. The new shares are entitled to dividend from the beginning of the financial year in which they come into being by the exercise of options or conversion privileges, or the realization of conversion commitments.

The share capital is conditionally increased by 930,000.00 Euro (conditional capital III). The conditional capital increase exclusively serves the granting of pre-emptive rights to Management Board members and other executives and employees of the company as well as to executives and employees of affiliated companies ("share option plan 2004"). It is realized only insofar as options are issued within the framework of the company's share option plan 2004 in observance of the shareholders' resolution of April 27, 2004 and effectively exercised by their owners. The new shares are entitled to dividend from the beginning of the financial year in which they come into being by the exercise of options.

The company is authorized to purchase own shares until November 18, 2007. The authorization is limited to the purchase of shares representing a maximum of altogether 10 percent of the present share capital. The authorization can be exercised entirely or in several parts, once or several times, and for one or several purposes within the framework of the aforementioned limitation.

8. **Material agreements on the condition of a change of control as a result of a takeover bid**
   This issue does not apply for the company.

9. **Compensation agreements**
   This issue does not apply for the company.

Remuneration report

The total remuneration of the Management Board and Supervisory Board members consists of a number of remuneration components. The details are contained in our remuneration report, which can be found in the section "corporate governance report" in this annual report. The remuneration report, examined by the auditor, is part of the management report.

Risk report

Risk management system

Customer dependence reduced

ELMOS Semiconductor AG gradually applied its comprehensive risk management system, compliant with Section 91 (2) AktG and implemented in 2002, to the group companies, refined it, and made it more user-friendly in the year under report. The ELMOS risk management system and its realization were duly examined of compliance with the regulations of the Commercial Code (HGB) and the Corporations Act (AktG) at the end of the year by our certified accountants and found qualified for the detection of developments jeopardizing the company's continued existence at an early stage. It provides for the constant recording and assessment of new and known risks by the responsible employees and establishes a closed-loop reporting system. The company divisions within the ELMOS Group report on a monthly basis on the development of finances and operations. By these devices, Management Board and Supervisory Board are informed regularly and timely of the risk situation and are thus enabled to take appropriate action for risk minimization, prevention, or defense. This risk management system will be continuously expanded and advanced in response to changing general conditions.

ELMOS pursues the strategy of covering interest and currency risks by suitable instruments such as corresponding derivative products. ELMOS occasionally enters into forward exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with committed exposures. These hedging activities minimize the impact of foreign exchange rate movements on the company's results from operations. ELMOS does not engage in speculation.

Dependence on the automobile industry

The ELMOS core business is linked directly to the automobile industry's demand for ASICs. Roughly 90 percent of the revenue is made with semiconductors for automotive electronics. On the one hand, this demand depends on the number of cars produced, on the other hand, it is governed by the continuing trend towards more electronics in automobiles. Owing to the increase of electronic car applications, quantities of ASICs sold even rise if the number of cars produced stagnates or declines.

The automotive market used to be subjected to considerable fluctuations as a result of mergers of system manufacturers, restrictive environmental laws, and other factors in the past. The ELMOS customer structure certainly shows a certain dependence on a few major suppliers to the automobile industry. However, it has to be taken into account that revenue generated with a single customer does usually not result from a single product, i.e. there are overlapping life cycles involved as well. Due to the importance and specialization of ASICs made by ELMOS for the automotive supplier's product, the relationship with the customer is in fact characterized by mutual dependence. Therefore large sales volumes achieved with a few major customers can indicate long-term customer relationships with a corresponding revenue potential. It happens only with very large order volumes that two suppliers are commissioned to develop one and the same ASIC at the same time, because the suppliers to the automobile industry operate under considerable cost-effecting pressure themselves. The simultaneous development of one ASIC

by two suppliers leads to significant additional costs, both during development and later during production, due to the lower quantities realized by each ASIC supplier. By the increased orientation of ELMOS towards application specific standard products (ASSPs), this kind of customer dependence is reduced because such products can be sold to a large number of customers.

Competition

ELMOS always operates from a protected position, on the automotive market as well as on the consumer and industrial markets, either due to specific technologies or special application know-how. A large number of competitors on the market for automotive semiconductors offers products similar to the ones ELMOS supplies, based on a similar technological foundation. Moreover, it cannot be ruled out that large semiconductor manufacturers not yet engaged in the automotive semiconductor market, or just to a limited extent, might try to penetrate this market segment in the future. This particularly happens in phases during which the classic semiconductor business in the segments memory chips and telecommunication suffers setbacks. However, as considerations with respect to profitability often force these large manufacturers to focus on high-volume projects, their commitment to the niche market for customer specific circuits has been relatively low. This makes the corresponding risk for ELMOS appear comparatively small. However, ELMOS has won an increasing number of high-volume contracts recently. Therefore ELMOS will compete with the large manufacturers increasingly in the future and experience the corresponding pricing pressure. Since 2005 in particular, ELMOS has felt the negative effect of competition insofar as some projects could not be transferred to production because customers were able to fall back on a competitor due to parallel developments.

Dependence on individual employees

Highly specific know-how

The company's highly development – intensive business activity leads to a clearly pronounced and very specific engineering know-how – yet not necessarily to patents. The consequence for ELMOS, as for any technology company, is an increased dependence on individual employees.

Development of new products and technologies

The customer specific development of products requires the supplier to take into consideration that today's customer does usually not pay for the entire one-off development costs upon placing the order anymore. The portion of development costs not covered in advance is amortized through the later quantities in serial production. The risk remains that not amortized expenses for product developments not resulting in a supplier relationship will remain with the company. Particularly with high-volume orders which a greater number of suppliers competes for, the customer is usually unwilling to pay development costs but expects the supplier to pre-finance these expenses. This holds true particularly for product developments initiated by ELMOS as in some cases there is no binding customer order in advance.

With regard to the development of products not completed by ELMOS on schedule, delivery may occur a year later or, in the worst case, not at all if the customer uses an alternative solution instead, be it a competitor's product or a conventional solution.

The market for the products supplied by ELMOS is characterized by the products' constant advancement and improvement. Accordingly, the success of ELMOS is closely related to the company's ability to develop new complex products economically, to introduce them to the market on time, and to accomplish that these products are chosen by leading suppliers to the automobile industry.

The future success of ELMOS also depends on the ability to come up with new development and production technologies. ELMOS develops analog and digital semiconductor structures and functions for its self-developed modular high-voltage CMOS process technology. Like its competition, ELMOS is forced to continuously improve its technology and to develop new process technologies for the advancing minimization of structures in the submicron area. If ELMOS ceased to be able to develop, produce and sell new products and product upgrades in the future, significant effects on the financial position and results from operations would likely be the result.

Because ELMOS is able to develop and manufacture ASICs for all kinds of electronic automotive applications, products made by ELMOS are a presence in almost any electronic car component, so that the risks of order cancellation relating to an individual electronic component are widely spread. A slump in the car industry for several years in a row, causing car manufacturers not to develop any new electronic products, could have a lasting effect on the company's development, though. However, such a slump is not to be expected under the present circumstances, particularly because the automobile industry rather tends to upgrade technical features in bad times.

Procurement

Shortage of silicon wafers

The raw materials ELMOS needs for production are available from different suppliers worldwide and not subjected to monopolies. However, in the year under report a shortage of silicon wafers occurred because of a significant increase in worldwide demand due to the booming solar power industry. With regard to the assembly, a certain dependence on individual Far Eastern partners is typical of the trade. However, ELMOS has penetrated its added value chain vertically in this respect with its subsidiary ELMOS AP.

Product liability

ASICs made by ELMOS are integrated as components into complex electronic systems. Defects or malfunctions of the ASICs produced by ELMOS, or of the electronic systems they are integrated into, can be directly or indirectly damaging to the property, health and lives of third parties. ELMOS cannot reduce or exclude its liability in its sales contracts with regard to customers or third parties.

ELMOS consistently follows a zero defect strategy and constantly invests in the detection and avoidance of sources of error and defects. The individual semiconductor chips are usually tested several times at different temperatures with regard to quality and functionality during the production process. Although the company puts to use quality control systems certified in accordance with TS 16949 as well as comprehensive testing procedures before delivering its products, product defects might still show after installation and the end consumer's use of the product.

If such product defects materialize, expensive and time-consuming product modifications might ensue, leading to disrupted customer relationships and a loss of market shares. A quality problem of whole batches might additionally result in customers' claims for compensation in the million Euro range. This risk is adequately covered by insurance. Yet all this could still affect the company's financial position and results from operations in a negative way.

Investments

The high allocation of resources to the subsidiary companies results in an increased obligation to detect and, if necessary, minimize possible financial risks by means of adequate controlling instruments and continuous economic analyses at the earliest possible stage. The implemented monitoring and risk management system is expanded and improved continuously for this purpose.

Interruption of business

According to ELMOS assessment, the single business risk capable of significantly damaging the development of the group and jeopardizing its continued existence, apart from the business risks already described and explained, is the risk of the destruction of production facilities by fire or other disasters. Even though the risk of the interruption of business by such an occurrence is adequately covered by insurance, a significant threat of losing key customers in such a case remains. This risk cannot be insured against.

However, ELMOS has already reduced this risk by its operation of another production line (eight-inch line) at the Duisburg location since 2006. At a later point in time yet another production line can be constructed in a separate building at the Dortmund location. Thus ELMOS has several self-contained production lines at its disposal which can be operated independently of each other.

The usual insurable risks such as fire, interruption during fire-fighting operations, water, storm, theft, third party liability, especially product liability, also in the U.S., and costs of a possible recall action are adequately covered by insurance. Further risks capable of significantly damaging the development of the group or jeopardizing its continued existence are not discernable at present.

Subsequent events

Herbert Sporea resigned from his Supervisory Board mandate effective as of the end of December 2006. Dr. Klaus Weyer, management board member until December 2006, was appointed member of the Supervisory Board by the District Court (Amtsgericht) Dortmund in January 2007 until the conclusion of the Annual General Meeting. There is a proposal to the Annual General Meeting in May 2007 for appointing Dr. Klaus Weyer member of the Supervisory Board for the remaining original term of Herbert Sporea, i.e. until the conclusion of the Annual General Meeting in the year 2010. Other subsequent events of particular significance have not occurred.

Outlook

Group orientation

ELMOS will keep focusing on customer specific applications for the automobile industry as a niche supplier. In order to reach the targets defined in the year under report, ELMOS has made changes, substantial in part, on many company levels with regard to processes, organizational structures, and the strategic orientation. Thus we created the basis for continuing profitable growth. The ELMOS technology, the ELMOS design, and the production at ELMOS production sites are solid pillars of this strategy. The successful automotive ASIC business is completed by the opening of new business fields. We are convinced these fields will make deciding growth and result contributions in the medium term. On the whole, the focus of our efforts is on continued profitable growth. This outlook report is based on a diligent analysis of the significant factors.

The following aspects will characterize the course of business in 2007:

- The expansion of the new 8-inch production in Duisburg is pushed forward intensively so that it contributes significant quantities delivered at an increasing rate. On the customer side, we will make a concentrated effort to be able to supply our current-series products manufactured on 8-inch wafers more quickly.

- With the foundation of the subsidiary ELMOS Industries, we have laid the foundations for growth in the markets for industrial and consumer electronics. The revenue share of these markets, currently at roughly ten percent of the total revenue, is expected to come to 20 to 30 percent in the medium term.

- We started six application specific standard product families (ASSPs) in 2006. By enforced direct marketing of such product families and support provided by ELMOS Industries, the partnership with existing customers can be expanded on new business fields. In 2007 first projects will turn into series production.

- Our microsystem projects produce a great deal of customer interest throughout. In 2007 we will show with new products that our pioneering work on this field brings the customers great advantages with their applications.

Cooperation extended

- The extended cooperation with Freescale Semiconductor for system-in-package solutions opens up new vistas. The multi-chip products resulting from this cooperation combine the high-capacity 16-bit microcontroller lineups (MCU) made by Freescale with the application specific high-voltage CMOS chips made by ELMOS. This helps us in the development and production of intelligent solutions for automotive comfort and body electronics. In 2007 the first products will be presented.

- In mid-2006 the relocation of the standard product assembly from our subsidiary in the Netherlands to external service providers in Asia was begun to make use of cost advantages. In the past year more than 40 percent of the revenue generated by ELMOS AP originated from higher-value special packages already. With the completion of the relocation of standard package assembly in the second quarter of 2007, our subsidiary will focus solely on the development and production of special packages.

- First pilot designs have been realized in highly integrated logic processes with foundry partners in order to secure our access to cutting-edge technologies without high expenditures for our own production facilities. This project will be continued in 2007 with great commitment.

The strategic targets will be flanked by operating focal issues in support of our competitiveness. For example, the programs for incentive wages in the production, development, and sales divisions will lead to further improvements of process efficiency. We are expecting additional cost savings from the introduction of an advanced balanced scorecard to production. And the relocation of the standard package assembly to the Far East will also make positive contributions to the profitability in the medium term.

Market situation

Market growth of 7 to 8 percent for automotive semiconductor chips predicted

Expectations of the German Central Association of the Electronics Industry (ZVEI) for the year 2007 are cautiously positive for the whole semiconductor market. A prerequisite for appreciable growth would be a positive trend reversal to occur by the end of the first quarter at the latest. For the automobile industry the forecasts show no major changes in worldwide demand. However, the new EU regulations with respect to CO_2 exhaust have fueled the discussion about the luxury cars' right to exist; luxury cars as innovation platforms have given essential impulses to automotive electronics in the past. On the other hand, hybrid concepts are taken notice of increasingly. Thus the share of electronics per automobile will keep rising steadily in any case, and the market for automotive semiconductors will keep growing. An average growth rate of about seven to eight percent until 2015 is predicted for automotive semiconductor chips.

The market conditions have changed faster than ever before. Our customers now demand much more support for the integration of our chips into their applications. This means additional expenses on the one hand, but it is also a chance for market distinction. Above all this is the case

when we use patented technologies in our products, e.g. the new concept for actuating brushless DC motors, named VirtuHall®.

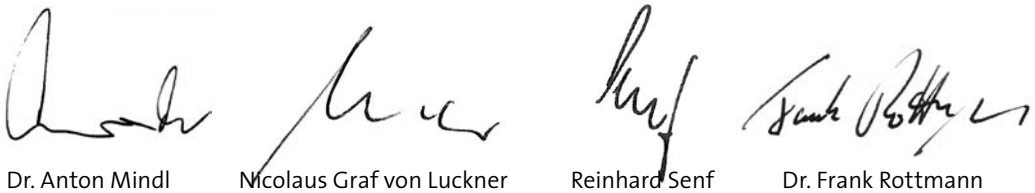
The U.S. market environment will remain difficult. We are also not counting on relief in 2007 with regard to the high costs for raw materials and energy.

Expected financial situation

Forecast confirmed

We confirm our forecast of December 2006. Accordingly we expect a sales increase of about ten percent. The gross margin will come to roughly 45 percent. We expect the EBIT to be at around twelve percent of sales. The net income margin's target is approximately seven percent of sales. The free cash flow is expected to show a pleasant development and therefore a positive result.

Dortmund, March 2007
The Management Board



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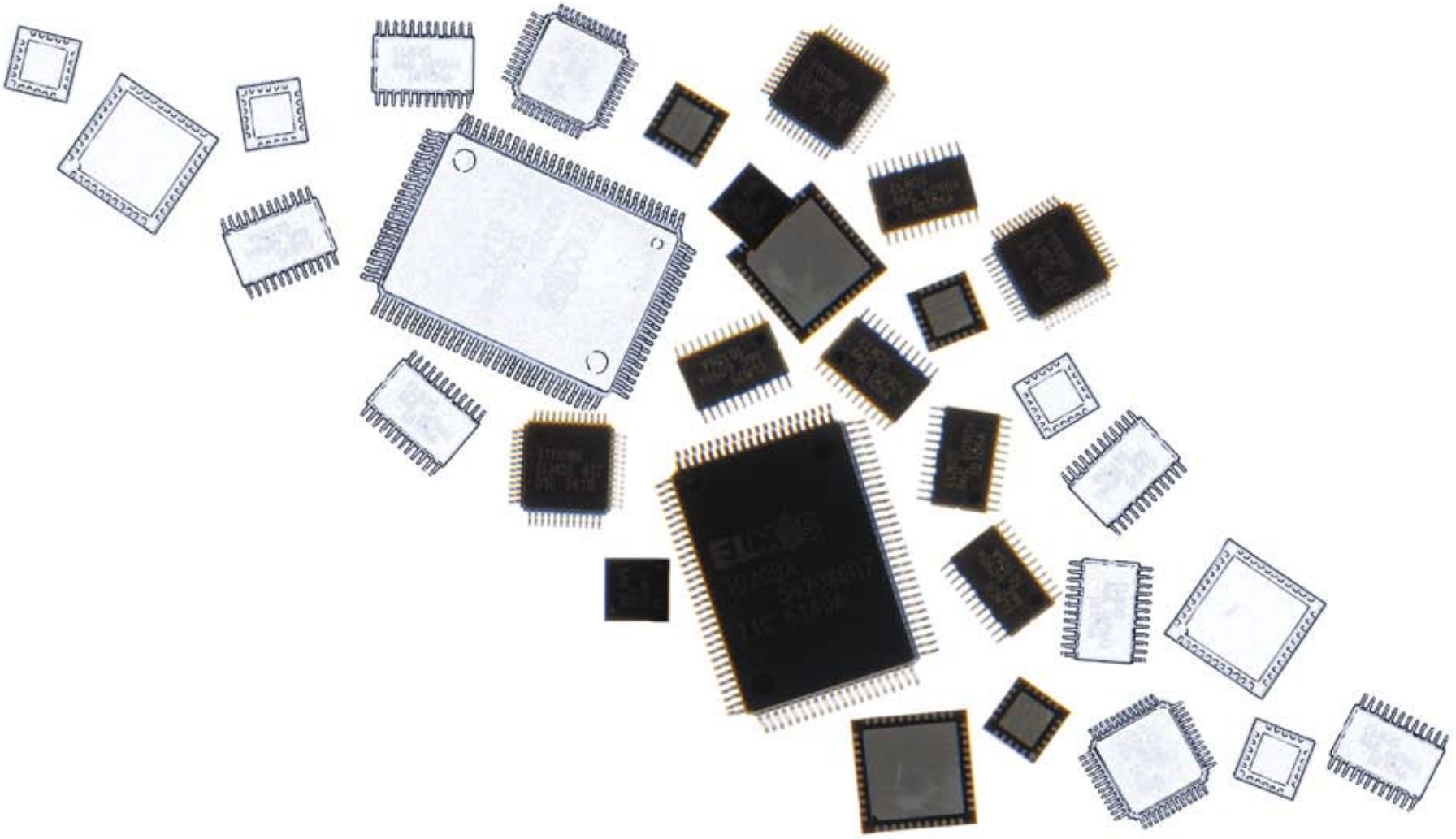


GROWING STRONGER

in

other markets

What are other markets for us?
Our main market is the market for automotive semiconductors. When we talk about other markets, we mean additional fields of use for semiconductor chips. Our technologies provide the ideal foundation for products used in the industrial sector and for consumer goods.

Why are we growing stronger in other markets?
Eco-friendly and energy-saving solutions are in demand today more than ever. The reasons are rising prices for energy and raw materials. Our chips for use in industrial sector and consumer goods offer high performances at extremely low energy consumption. In the actuation of DC motors for example, we convince our customers with a patented, cost-saving procedure.

For our customers in other markets this means
competitive edge by innovations.

Financial statements

Consolidated balance sheet according to IFRS

Assets	Notes	12/31/2006 Euro	12/31/2005 Euro
Non-current assets			
Intangible assets	13	39,023,949	34,844,237
Property, plant and equipment	14	95,556,490	101,959,587
Investments accounted for at equity	15	2	1
Securities and investments	15	126,154	645,795
Deferred tax assets	16	4,725,700	9,101,839
Total non-current assets		**139,432,295**	**146,551,459**
Current assets			
Inventories	17	31,142,235	27,704,590
Trade receivables	18	27,774,401	29,064,040
Securities	19	0	5,350,375
Cash and cash equivalents	20	16,634,086	11,418,640
Other assets	21	13,586,114	10,937,674
		89,136,836	**84,475,319**
Non-current assets classified as held for sale	22	13,343,658	5,997,193
Total current assets		**102,480,494**	**90,472,512**
Total assets		**241,912,789**	**237,023,971**

Equity and liabilities	Notes	12/31/2006 Euro	12/31/2005 Euro
Equity			
Equity attributable to equity holders of the parent			
Share capital	23	19,413,805	19,412,424
Additional paid-in capital	23	88,733,815	88,270,716
Surplus reserve		102,224	102,224
Accumulated other comprehensive income	23	– 4,991,418	– 2,943,060
Retained earnings		49,091,408	38,912,998
		152,349,834	**143,755,302**
Minority interest		505,088	528,190
Total equity		**152,854,922**	**144,283,492**
Liabilities			
Non-current liabilities			
Provisions	25	1,142,637	1,121,704
Financial liabilities	26	28,284,983	32,864,259
Other liabilities	27	354,307	1,488,110
Total non-current liabilities		**29,781,927**	**35,474,073**
Current liabilities			
Provisions	25	5,122,981	4,392,625
Income tax liabilities	27	280,169	1,245,929
Financial liabilities	26	36,712,756	35,060,684
Trade payables	28	12,731,544	10,574,161
Other liabilities	27	4,428,490	5,993,007
Total current liabilities		**59,275,940**	**57,266,406**
Total liabilities		**89,057,867**	**92,740,479**
Total equity and liabilities		**241,912,789**	**237,023,971**

Consolidated income statement according to IFRS

	Notes	2006 Euro	2005 Euro
Sales	5	160,673,887	146,963,437
Cost of sales	6	87,629,925	76,336,529
Gross profit		**73,043,962**	**70,626,908**
Research and development expenses	6	29,583,236	28,124,440
Distribution expenses	6	9,679,254	9,409,620
Administrative expenses	6	14,216,140	12,970,297
Operating income before other operating expenses/(income)		**19,565,332**	**20,122,551**
Finance income	8	– 452,319	– 3,973,355
Finance expenses	8	2,954,883	7,588,365
Foreign exchange losses/(income)	9	288,115	– 193,744
Equity in losses of unconsolidated subsidiaries		48,999	67,636
Other operating income	10	– 4,176,926	– 2,051,664
Other operating expenses	10	3,581,829	2,294,635
Income before taxes		**17,320,751**	**16,390,678**
Income tax expenses			
Current taxes	11	1,185,589	3,663,913
Deferred taxes	11	5,458,781	2,394,482
		6,644,370	**6,058,395**
Net income		**10,676,381**	**10,332,283**
Thereof:			
Minority interest		– 18,291	296,456
Attributable to equity holders of the parent		**10,694,672**	**10,035,827**
Earnings per share			
Basic earnings per share	12	0.55	0.52
Fully diluted earnings per share	12	0.55	0.52

Consolidated cash flow statement according to IFRS

	Notes	2006 Euro	2005 Euro
Cash flow from operating activities			
Net income after minority interest		10,694,672	10,035,827
Depreciation		16,287,270	15,499,930
Deferred taxes		5,458,781	2,394,482
Current tax expense		1,185,589	3,663,913
Minority interest		– 18,291	296,456
Equity in losses of unconsolidated subsidiaries		48,999	67,636
Changes in pension liabilities		20,933	– 416,888
Share option expense		453,611	1,289,725
Changes in net working capital			
Trade receivables		1,296,722	– 1,286,139
Inventories		– 3,437,645	– 2,556,856
Prepaid expenses and other assets		– 1,907,421	– 5,059,327
Trade payables		2,157,383	– 465,063
Other provisions and other liabilities		– 834,160	2,775,504
Income tax payments		– 2,886,707	– 6,565,582
Cash flow from operating activities		**28,519,736**	**19,673,618**
Cash flow from investing activities			
Capital expenditures for intangible assets		– 9,578,886	– 7,006,925
Capital expenditures for property, plant and equipment		– 16,772,554	– 22,604,502
Capital expenditures for non-current assets classified as held for sale		– 7,346,464	– 4,631,966
Disposal of fixed assets		10,198,918	4,070,876
Purchase/Disposal of marketable securities		3,629,862	42
Purchase/Disposal of investments		– 45,723	– 244,296
Cash flow from investing activities		**– 19,914,847**	**– 30,416,771**
Cash flow from financing activities			
Dividends paid/received		0	– 4,053,000
Payment from capital increase		10,868	884,777
Dividends paid by consolidated subsidiary to minority shareholders		0	– 270,000
Proceeds from non-current liabilities		325,000	0
Repayment of non-current liabilities		– 5,674,655	– 3,852,822
Proceeds/Repayment of current liabilities		1,266,460	14,029,988
Cash flow from financing activities		**– 4,072,327**	**6,738,943**
Decrease/Increase in cash and cash equivalents		**4,532,562**	**– 4,004,210**
Effect of exchange rate changes in cash and cash equivalents		682,884	136,255
Cash and cash equivalents at beginning of financial year		11,418,640	15,286,595
Cash and cash equivalents at end of financial year	**20**	**16,634,086**	**11,418,640**

Consolidated statement of changes in equity according to IFRS

	Shares Number	Share capital Euro	Paid-in capital Euro
As of January 1, 2005	**19,300,000**	**19,300,000**	**86,208,638**
Dividends paid			
Share option expense			1,289,725
Exercise of share options	112,424	112,424	772,353
Changes in unrealized gains on marketable securities after taxes			
Foreign currency adjustments			
Acquisition of minority interest in ELMOS France			
Net income 2005			
As of December 31, 2005	**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**

Surplus reserve Euro	Accumulated other comprehensive income Euro	Retained earnings Euro	Total Euro	Minority interest total Euro	Group total Euro
102,224	**– 5,307,063**	**32,930,171**	**133,233,970**	**592,427**	**133,826,397**
		– 4,053,000	– 4,053,000	– 270,000	– 4,323,000
			1,289,725		1,289,725
			884,777		884,777
	1,211,241		1,211,241		1,211,241
	1,152,762		1,152,762		1,152,762
				– 90,693	– 90,693
		10,035,827	10,035,827	296,456	10,332,283
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
	– 837,117		– 837,117		– 837,117
		– 516,262	– 516,262	– 4,811	– 521,073
		10,694,672	10,694,672	– 18,291	10,676,381
102,224	**– 4,991,418**	**49,091,408**	**152,349,834**	**505,088**	**152,854,922**

Development of the group's non-current assets as of December 31, 2006

	ACQUISITION AND PRODUCTION COSTS						
	1/1/2006 Euro	Foreign currency adjustments Euro	Correction opening values Euro	Additions* Euro	Transfers Euro	Disposals Euro	12/31/2006 Euro
Non-current assets							
Intangible assets							
Goodwill	8,033,733	– 598,090	0	0	0	0	7,435,643
Development projects	8,556,162	0	0	1,368,679	2,261,699	0	12,186,540
Software and licenses	27,175,111	– 131,153	0	1,660,340	4,896,524	93,591	33,507,231
Advance payments incurred and projects under development	4,155,055	0	0	6,549,867	– 6,997,868	72,001	3,635,053
	47,920,061	**– 729,243**	**0**	**9,578,886**	**160,355**	**165,592**	**56,764,467**
Property, plant and equipment							
Land and buildings	6,027,539	– 187,549	0	0	0	2,002,755	3,837,235
Buildings and building improvements	69,140,182	– 759,104	0	2,226,724	162,144	6,689,478	64,080,468
Technical equipment and machinery	127,672,747	– 824,771	155,275	6,405,443	8,244,252	575,770	141,077,176
Advance payments and construction in process	8,472,312	1	0	8,193,032	– 8,566,751	3,846,410	4,252,184
	211,312,780	**– 1,771,423**	**155,275**	**16,825,199**	**– 160,355**	**13,114,413**	**213,247,063**
Investments accounted for at-equity	**67,637**	**0**	**0**	**49,000**	**0**	**0**	**116,637**
Securities and investments	**645,795**	**0**	**0**	**0**	**0**	**519,641**	**126,154**
	259,946,273	**– 2,500,666**	**155,275**	**26,453,085**	**0**	**13,799,646**	**270,254,321**

**Changes of the basis of consolidation 52,645 Euro*

***Changes of the basis of consolidation 47,910 Euro*

				ACCUMULATED DEPRECIATION				BOOK VALUE	
1/1/2006 Euro	Foreign currency adjustments Euro	Correction opening values Euro	Additions** Euro	Appreciation Euro	Transfers Euro	Disposals Euro	12/31/2006 Euro	12/31/2006 Euro	12/31/2005 Euro
0	0	0	0	0	0	0	0	7,435,643	8,033,733
2,709,938	0	0	1,737,644	0	0	0	4,447,582	7,738,958	5,846,224
10,365,886	– 32,215	0	2,978,827	0	74,023	93,585	13,292,936	20,214,295	16,809,225
0	0	0	0	0	0	0	0	3,635,053	4,155,055
13,075,825	**– 32,215**	**0**	**4,716,471**	**0**	**74,023**	**93,585**	**17,740,519**	**39,023,949**	**34,844,237**
612,702	0	0	0	0	0	0	612,702	3,224,533	5,414,837
27,637,455	– 51,800	0	3,354,909	0	0	605,194	30,335,370	33,745,098	41,502,727
81,103,036	– 323,279	155,275	8,263,800	0	– 74,023	2,382,308	86,742,501	54,334,675	46,569,711
0	0	0	0	0	0	0	0	4,252,184	8,472,312
109,353,193	**– 375,079**	**155,275**	**11,618,709**	**0**	**– 74,023**	**2,987,502**	**117,690,573**	**95,556,490**	**101,959,587**
67,636	**0**	**0**	**48,999**	**0**	**0**	**0**	**116,635**	**2**	**1**
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**126,154**	**645,795**
122,496,654	**– 407,294**	**155,275**	**16,384,179**	**0**	**0**	**3,081,087**	**135,547,727**	**134,706,595**	**137,449,620**

Development of the Group's non-current assets as of December 31, 2005

	ACQUISITION AND PRODUCTION COSTS					
	1/1/2005 Euro	Foreign currency adjustments Euro	Additions Euro	Transfers Euro	Disposals Euro	12/31/2005 Euro
Non-current assets						
Intangible assets						
Goodwill	5,642,918	776,237	1,614,578	0	0	8,033,733
Development projects	6,594,140	0	1,582,932	732,535	353,445	8,556,162
Software and licenses	23,382,269	170,219	695,843	2,943,238	16,458	27,175,111
Advance payments incurred and projects under development	5,161,697	0	3,113,572	– 3,675,773	444,441	4,155,055
	40,781,024	**946,456**	**7,006,925**	**0**	**814,344**	**47,920,061**
Property, plant and equipment						
Land and buildings	7,202,876	242,945	0	0	1,418,282	6,027,539
Buildings and building improvements	63,040,386	982,895	1,326,680	3,820,908	30,687	69,140,182
Technical equipment and machinery	107,992,133	599,262	6,012,317	16,402,740	3,333,705	127,672,747
Advance payments and construction in process	14,253,989	0	15,265,505	– 20,223,648	823,534	8,472,312
	192,489,384	**1,825,102**	**22,604,502**	**0**	**5,606,208**	**211,312,780**
Investments accounted for at-equity	**57,234**	**0**	**10,403**	**0**	**0**	**67,637**
Securities and investments	**502,594**	**0**	**143,201**	**0**	**0**	**645,795**
	233,830,236	**2,771,558**	**29,765,031**	**0**	**6,420,552**	**259,946,273**

					ACCUMULATED DEPRECIATION		BOOK VALUE	
	1/1/2005 Euro	Foreign currency adjustments Euro	Additions Euro	Transfers Euro	Disposals Euro	12/31/2005 Euro	12/31/2005 Euro	12/31/2004 Euro
	0	0	0	0	0	0	8,033,733	5,642,918
	1,529,498	0	1,289,322	0	108,882	2,709,938	5,846,224	5,064,642
	7,751,077	29,865	2,601,216	0	16,272	10,365,886	16,809,225	15,631,192
	0	0	0	0	0	0	4,155,055	5,161,697
	9,280,575	**29,865**	**3,890,538**	**0**	**125,154**	**13,075,825**	**34,844,237**	**31,500,449**
	612,702	0	0	0	0	612,702	5,414,837	6,590,174
	23,703,326	41,896	3,898,165	0	5,932	27,637,455	41,502,727	39,337,060
	74,044,715	200,925	7,711,226	0	853,830	81,103,036	46,569,711	33,947,418
	0	0	0	0	0	0	8,472,312	14,253,989
	98,360,744	**242,821**	**11,609,391**	**0**	**859,762**	**109,353,193**	**101,959,587**	**94,128,641**
	0	**0**	**67,636**	**0**	**0**	**67,636**	**1**	**57,234**
	0	**0**	**0**	**0**	**0**	**0**	**645,795**	**502,594**
	107,641,319	**272,686**	**15,567,565**	**0**	**984,916**	**122,496,654**	**137,449,620**	**126,188,918**

Notes to consolidated financial statements

General notes

ELMOS Semiconductor Aktiengesellschaft ("the company" or "ELMOS") has its headquarters in Dortmund (Germany) and is entered in the register of companies kept at the District Court (Amtsgericht) Dortmund, section B, under no. 13698. The Articles of Incorporation are in effect in the version of March 26, 1999, last amended on December 15, 2006.

The company's business is the development, production, and distribution of microelectronic components and system parts (Application Specific Integrated Circuits, or in short: ASICs) 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 which are beneficial to the Articles of Association. The company is authorized to conduct business in Germany as well as abroad.

In addition to its domestic branches, the company has sales companies in France and the U.S. and cooperates with other German and international companies in the development and production of ASIC chips.

The company is listed on the stock exchange. Its shares are traded in the Prime Standard in Frankfurt.

The address of the company's registered headquarters is:

44227 Dortmund, Heinrich-Hertz-Straße 1.

Accounting policies and valuation methods

1 Accounting standards

General notes

The consolidated financial statements have been prepared in Euro.

The consolidated financial statements as of December 31, 2006 for the financial year 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as determined by the International Accounting Standards Board (IASB). All mandatory International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) applicable for the financial year 2006 as well as the interpretations offered by the International Financial Reporting Interpretations Committee (IFRIC, formerly: Standing Interpretations Committee (SIC)) have been considered.

The consolidated balance sheet and the consolidated income statement have been prepared according to IAS 1, "Presentation of Financial Statements". Individual items have been summarized for the sake of clarity; those items are explained in the notes.

The financial statements will presumably be released for publication by the Management Board in March 2007.

Discretionary decisions

In applying accounting policies and valuation methods, the company management made the following discretionary decisions of material impact on the stated values. Decisions which contain estimates are not considered.

Obligations from operating leases – group as lessor

The group has entered into lease contracts for the commercial leasing of its real property held as financial investment. It has been declared that all material chances and risks of an owner connected with the real property leased within the framework of an operating lease remain with the group.

Estimates and expectations

The most important future-related expectations as well as other material sources of estimate uncertainty identified as of balance sheet date which lead to a considerable risk that a material adjustment of the book values of assets and liabilities will become necessary within the next financial year are explained as follows.

Impairment of goodwill

The group reviews the goodwill for impairment at least once a year. This requires an estimate of the use values of the cash-generating units the goodwill is allocated to. For an appreciation of the use value, the company management needs to estimate the cash-generating unit's anticipated future cash flows and also choose an adequate discount rate in order to determine these cash flows' cash value. The goodwill's book value was 7,435,643 Euro as of December 31, 2006 (2005: 8,033,733 Euro). More details can be found under note 13.

Deferred tax assets

Deferred tax assets are stated for all unused tax loss carry-forward to the extent it appears probable that taxable income will be available so that the carry-forward can in fact be used. For the determination of the amount of deferred tax assets, a material discretionary decision made by the company management on the basis of the expected time of occurrence and the amount of the taxable future income as well as future tax planning strategies are necessary. More details can be found under note 16.

Pensions and other benefits after the termination of employment

The expenditure for incentive plans and other medical benefits after the termination of employment is determined according to actuarial calculations. The actuarial valuation is made on the basis of assumptions with regard to discount rates, expected return on the pension plans' assets, future raises of wages and salaries, mortality, and future retirement pension raises. Due to the long-term orientation of these plans, those estimates are subject to material uncertainty. Provisions for pensions and other benefits amounted to 1,142,637 Euro as of December 31, 2006 (2005: 1,121,704 Euro). More details can be found under note 25.

Development expenses

Development expenses are capitalized in accordance with the accounting policies and valuation methods as described under note 2.4. For the purpose of determining the values to be capitalized, the company management must make assumptions about the amount of the expected future cash flows from assets, the applicable discount rates, and the inflow period of expected future cash flows generated by the assets. According to best possible estimate, the book value of the capitalized development expenses was 7,993,837 Euro as of December 31, 2006 (2005: 7,039,118 Euro).

Accounting policies and valuation methods

The accounting policies and valuation methods applied generally correspond to the policies and methods applied in the previous year, with the following exceptions:

The group has applied the following new or revised IFRS standards and interpretations in this financial year. The application of these new and revised IFRS standards and interpretations had no effect on the consolidated financial statements. However, they lead to additional statements in part.

- IAS 19 change – benefits to employees
- IAS 21 change – effect of exchange rate fluctuations
- IAS 39 change – financial instruments: estimate and valuation
- IFRIC 4 determination if an agreement contains a lease contract
- IFRIC 5 claims to shares in funds for waste disposal, recycling and ecological recovery
- IFRIC 6 liabilities resulting from the participation in a specific market – used electric and electronic equipment

The following IFRS standards were passed in 2006 and must be applied starting with the financial year 2007 or later.

- IFRS 7 financial instruments: statements
- IAS 1 change – presentation of the financial statements
- IAS 32 statements and presentation
- IFRIC 8 scope of IFRS 2 application
- IFRIC 11 group-internal transactions and transactions with own shares according to IFRS 2
- IFRIC 12 license agreements for the provision of services

The group has decided not to apply these standards ahead of time. From today's viewpoint this will have no material effect.

2 Principles of consolidation

Basis of consolidation and consolidation methods

Besides ELMOS Semiconductor AG, the consolidated financial statements prepared for the financial year 2006 include all companies – if not immaterial – whose voting rights ELMOS has the direct or indirect majority of, or in cases of control over the company as defined by IAS 27, "Consolidated Financial Statements and Accounting for Investments in Subsidiaries", based on other rights. The 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, recognizable assets and liabilities are stated completely at their respective time values. The balance of a remaining asset difference is stated as goodwill.

The financial statements of the companies included in the consolidated financial statements of ELMOS are stated in correspondence with the balance sheet date of the consolidated financial statements.

All material payables and liabilities as well as transactions between the consolidated companies have been eliminated in the consolidated financial statements.

Investments of more than 20 percent but not in excess of 50 percent were recognized, if material, applying the equity method.

In January 1998, the Standing Interpretations Committee published Interpretation No. 12, "Consolidation – Special Purpose Entities" (SIC 12). SIC 12 clarifies the application of IAS 27 with regard to those companies to be consolidated whose equity provider does not exercise control according to the control concept. It provides for the consolidation of companies whose expected losses and gains are taken over for the most part by the reporting group based on the terms of partnership or other contractual terms, or based on financial interests.

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

Foreign currency translation and transactions

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

Foreign currency assets and liabilities are essentially translated at the closing rate as of balance sheet date.

With regard to subsidiaries whose functional currency is the national currency of the country in which the subsidiary is based, assets and liabilities balanced in foreign currency in the balance sheets of the international, economically independent subsidiaries are translated into Euro at the closing rate as of respective balance sheet dates. Income and expenses are translated at average exchange rates over the underlying period. Resulting exchange differences from the valuation of equity at historic rate and balance sheet date are recognized under changes in equity.

The company enters from time to time into forward exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with committed exposures. These hedging activities minimize the impact of foreign exchange rate movements on the company's results from operations. The company does not engage in speculation. The forward exchange contracts do not pose a risk to the company's results from operations as the profits and losses gained from these transactions are usually offset by the profits and losses from the hedged assets and liabilities. There were no forward exchange contracts in effect as of December 31, 2006 and December 31, 2005.

Cash flow statement

The cash flow statement shows how cash and cash equivalents have changed over the course of the year under report owing to additions and disposals. The effects of acquisitions and disinvestments as well as other changes of the basis of consolidation are eliminated in this statement. In accordance with IAS 7, the statement distinguishes between cash flows from operating activities, investing activities, and financing activities. The finance expenses and the finance income recognized in the consolidated income statement essentially correspond with the amounts paid.

3 Accounting and valuation principles

Revenue

The company generates revenue from the sale of ASICs, ASSPs, and micromechanical sensor elements, as well as from their development. Revenue is stated less income taxes and after the deduction of discounts given.

Revenue is realized at the time products are shipped to the customer or when the risk of loss transfers to the customer.

Goodwill

By the application of IFRS 3, IAS 36 (updated 2004), and IAS 38 (updated 2004), beginning with the financial year 2004, goodwill from company acquisitions is no longer amortized on schedule but reviewed for its carrying value at least annually. As of acquisition date, the acquired goodwill is allocated to the cash-generating unit (CGU) expected to benefit from the business combination's synergy effects. The 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.

An impairment review must also be performed if significant events or market developments indicate that the reporting unit's carrying value might have fallen below its book value.

The impairment review is performed in essence as follows. All goodwill is allocated to the respective CGUs. Each subsidiary is usually one CGU.

For each CGU, future cash flows are determined on the basis of long-term planning which involves a period of five years. Based on a growth rate of 1.0 percent, the future cash flows' cash value or value in use is then calculated. The applied interest rate has been established with support of the Capital Asset Pricing Model (CAPM) and comes to 6.35 percent for ELMOS Semiconductor AG. This interest rate corresponds with the weighted average cost of capital. The so-called WACC is based on a nationally specific risk-free interest rate (4.35 percent) plus the average market risk premium (5.0 percent), multiplied by a company-specific equity beta (ß) of 0.6 to 0.7. All stated amounts are derived from market data.

Other intangible assets

According to IAS 38, intangible assets originating from development are capitalized only, among other criteria, if it is a) sufficiently probable that the company is going to derive the asset's future economic benefit, and b) the asset's costs can be valuated reliably. These criteria apply to the capitalized development projects for the development of ASICs. Depreciation is begun with after the development stage is completed, or at the start of the pilot series production.

The capitalization of development expenses occurs after technological feasibility or realizability is provided and the engineering stage (so-called QB II status) is reached. Only projects on sales order are capitalized.

Expenses are amortized from production start on a straight-line basis over the estimated useful life of seven years.

Expenses for patent applications and the acquisition of design and process technology are capitalized. Expenses are amortized under the straight-line method over the shortest respective period of the estimated useful life of the technology, the patent protection term, or the term of the contract, yet over a maximum of 18 years.

Acquired intangible assets are stated at acquisition costs and amortized under the straight-line method over their estimated useful lives of three to eight years.

The depreciation is recognized in the consolidated income statement.

Property, plant and equipment

Property, plant and equipment are basically capitalized at acquisition or production costs.

Property, plant and equipment are written off on schedule over their estimated useful lives using the straight-line method as follows.

Buildings	25 to 50 years
Building improvements	10 years
Factory and office equipment	5 to 12 years

If the book value exceeds the probable recoverable amount, impairment is recognized for this asset in accordance with IAS 36 (revised 2004).

On sale or disposal of property, plant and equipment, corresponding acquisition costs as well as corresponding accumulated depreciation are eliminated from the accounts. Gains or losses from the disposal of property, plant and equipment are stated as other operating income or expenses.

Costs for maintenance and repair are recorded in the consolidated income statement as expenses.

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

Other lease agreements the company has entered into are considered operating leases. Repayments made are recognized in the consolidated income statement applying the straight-line method over the contract term.

Financial instruments

Balanced financial instruments include cash and cash equivalents, marketable securities, trade receivables, trade payables, other outside financing, and finance lease.

Financial assets are classified as follows: financial assets held to final maturity, financial assets held for trading, and financial assets held as available-for-sale. Financial assets with determined or determinable payments and fixed maturity which the company is willing and able to hold until final maturity are classified as held-to-maturity financial assets, with the exception of loans and receivables extended by the company. Financial assets acquired primarily to gain profits from short-term price fluctuations are classified as financial assets held for trading. All other financial assets except for loans and receivables extended by the company are classified as available-for-sale financial assets.

Held-to-maturity financial assets are stated under non-current assets unless they mature within twelve months of the balance sheet date. Financial assets held for trading are stated under current assets. Available-for-sale financial assets are considered current if they are meant to be realized within twelve months of the balance sheet date.

Upon its first-time recognition, a financial asset is stated at the acquisition costs corresponding with the consideration's attributable time value; transaction costs are included. Available-for-sale financial assets and financial assets held for trading are subsequently stated at their attributable time values without deduction of any incurred transaction expense and under disclosure of their listed market prices as of balance sheet date.

Gains and losses from the valuation of available-for-sale financial assets at attributable time values are recognized directly in other comprehensive income until the financial asset is sold, collected, or otherwise disposed of, or until the financial asset's impairment is determined, so that the cumulative gains and losses previously recognized in equity are included in the period net income at that time.

Changes of the attributable time values of financial assets held for trading are stated in the financial result. Held-for-maturity financial assets are valuated with their unchanged acquisition costs in applying the effective interest method.

Upon their first-time recognition, financial instruments are classified as liabilities or equity according to the contractual agreement's economic matter.

Interest, dividends, and gains and losses in connection with financial instruments classified as financial liabilities are recognized as income or expenses in the income statement for the period in which they have incurred. Dividend payments to holders of financial instruments classified as equity are deducted directly from equity. If rights and obligations relating to the kind of the financial instrument's realization depend on the occurrence or non-occurrence of future contingencies or the outcome of uncertain circumstances beyond the issuer's as well as the holder's control, the financial instrument is classified as a liability unless it is highly improbable at the time of the issuance that the issuer is obligated to fulfill cash and cash equivalents or other financial assets. In that case the instrument would be classified as equity.

Inventories

Inventories are valuated at acquisition or production costs or the lower recoverable net amount as of balance sheet date. In addition to directly attributable costs, production costs also include manufacturing costs and overhead costs as well as amortization. Overhead costs are considered as fixed amounts on the basis of the production facilities' usual utilization. Costs of unused production capacity (waste costs) are disclosed in the income statement under cost of sales. Inventory allowances are made insofar as acquisition or production costs exceed the expected recoverable net amounts.

Trade receivables

Trade receivables as well as other receivables are basically valuated at nominal value in consideration of appropriate allowances.

Cash and cash equivalents

For the purpose of financial calculation, cash and cash equivalents include cash on hand, checks, cash in banks, and available-for-sale securities.

Non-current available-for-sale assets and discontinued operations

According to IFRS 5, an operation is classified as discontinued at the time that operation meets the criteria for a classification as available-for-sale. Such an operation represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with the intent of resale.

An asset is to be classified as available-for-sale if the attached book value is realized primarily by a sale transaction rather than by continued use.

Provisions

Provisions are made for legal or factual obligations with historic origins if it is probable that the fulfillment of the obligation will lead to a disposal of group resources and a reliable estimate of the amount of the obligation can be made.

Recurring net pension benefits in accordance with IAS 19 are made up of different components, reflecting different aspects of the company's financial agreements as well as the expenses for the benefits received by the employees. These components are determined by applying the actuarial cost method on the basis of actuarial assumptions as stated under item 25.

The company's accounting policies provide for:

- the reflection of all benefit improvements the company is committed to from the current valuation date in the planned benefit obligation,
- the amortization of the cumulative actuarial gains and losses in excess of ten percent of the planned benefit obligation over the expected future benefits of active employees included in the plan.

Provisions for warranty are set up from the time of sale, based on the ratio of warranty costs to historic revenues.

Income taxes

The tax load of the income taxes is based on the amount of annual income and considers deferred taxes. Deferred taxes are determined in applying the liability method. Deferred income taxes reflect the net tax expense/income of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes in the balance sheet and their tax values. The calculation of deferred tax assets and liabilities is carried out on the basis of the tax rates expected as applicable for the period in which an asset is realized or a debt is repaid. The valuation of deferred tax liabilities and assets considers the tax effects resulting from the way the company expects to realize its assets' carrying values or repay its debts as of the balance sheet date.

Deferred tax assets and liabilities are stated 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 are disclosed in the balance sheet as non-current assets or liabilities.

A deferred tax asset is balanced 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 balance sheet date, the company assesses unbalanced deferred tax assets anew. The company enters a previously unbalanced deferred tax asset to the extent it has become probable that future taxable income will allow the deferred tax asset's realization.

On the opposite, the deferred tax asset's accountable amount is reduced to the extent it is no longer probable that there will be sufficient taxable income to make use of the deferred tax asset 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 or another period.

No deferred tax liabilities incur to the extent that non-distributed profits of foreign investments are to remain invested in that company. Deferred tax liabilities are disclosed for all taxable temporary differences insofar as the deferred tax liability does not result from goodwill which does not allow for depreciation for tax purposes.

Deferred tax assets also include tax relief claims resulting from the expected use of loss carried forward in the following years and whose realization is ensured with sufficient reliability.

The deferred taxes are determined on the basis of the tax rates in effect at or expected for the time of realization according to the concerned countries' current legal situation.

In compliance with IAS 1.70, deferred taxes are disclosed as non-current.

Notes to the income statement

4 Segment reporting

The company's primary reporting format is based on business segments, its secondary reporting format is based on geographic segments. The operating activities are organized and controlled independently with regard to the kinds of products, and each segment is a strategic business unit, supplying different products and serving different markets. Revenues generated between the segments are realized at transfer prices – less commissions paid –, corresponding with prices paid in transactions with third parties.

Primary reporting format

The company divides its business activity in two segments:

The semiconductor business is conducted through the various national subsidiaries and branches in Germany, the Netherlands, France, and the U.S.A.

Revenues in the micromechanics segment are generated by the U.S. subsidiary SMI.

The following charts provide information on income and results and specific information on assets and liabilities of the group's business segments for the financial years ended December 31, 2006 and 2005.

Financial year ended 12/31/2006	Semiconductor thousand Euro	Micromechanics thousand Euro	Elimination thousand Euro	Total thousand Euro
Sales with third-party customers	150,009	10,665	0	160,674
Sales with other segments	352	1,690	– 2,042	0
Segmental sales	**150,361**	**12,355**	**– 2,042**	**160,674**
Result				
Operating income	**20,327**	**– 762**		**19,565**
Financial result				– 2,791
Equity in losses of unconsolidated subsidiaries	– 49			– 49
Other operating income				4,177
Other operating expenses				– 3,582
Income before taxes				**17,321**
Income tax expenses				6,644
Net income including minority interest				**10,676**
Assets and liabilities				
Segmental assets	221,648	20,139		241,787
Investment expenditure	126	0		126
Total assets	**221,774**	**20,139**		**241,913**
Segmental liabilities	**86,215**	**2,843**		**89,058**
Other segment information				
Capital expenditures for intangible assets and property, plant and equipment	23,730	2,621		26,351
Depreciation	15,496	791		16,287
Other material non-cash expense (-) and income	– 6,185	269		– 5,916

Financial year ended 12/31/2005	Semiconductor thousand Euro	Micromechanics thousand Euro	Elimination thousand Euro	Total thousand Euro
Sales with third-party customers	138,104	8,859	0	146,963
Sales with other segments	119	1,638	– 1,757	0
Segmental sales	**138,223**	**10,497**	**– 1,757**	**146,963**
Result				
Operating income	**19,326**	**797**		**20,123**
Financial result				– 3,421
Equity in losses of unconsolidated subsidiaries	– 68	0		– 68
Other operating income				2,052
Other operating expenses				– 2,295
Income before taxes				**16,391**
Income tax expenses				– 6,058
Net income including minority interest				**10,332**
Assets and liabilities				
Segmental assets	211,506	24,872		236,378
Investment expenditure	646	0		646
Total assets	**212,152**	**24,872**		**237,024**
Segmental liabilities	**89,356**	**3,384**		**92,740**
Other segment information				
Capital expenditures for intangible assets and property, plant and equipment	28,430	1,181		29,611
Depreciation	14,547	953		15,500
Other material non-cash expense (-) and income	– 2,877	– 686		– 3,563

Secondary reporting format

The following charts contain information on sales, expenses and certain assets relating to the group's geographic segments for the financial years ended December 31, 2006 and 2005.

Financial year ended 12/31/2006	Germany thousand Euro	EU countries thousand Euro	U.S.A. thousand Euro	Others thousand Euro	Elimination thousand Euro	Total thousand Euro
Sales with third-party customers	60,019	59,933	21,545	19,177	0	160,674
Sales with other segments	1,688	2	352	0	– 2,042	0
Segmental sales	**61,707**	**59,935**	**21,897**	**19,177**	**– 2,042**	**160,674**
Assets and liabilities						
Segmental assets	191,570	26,933	23,267	17		241,787
Investment expenditure	107	0	19	0		126
Total assets	**191,677**	**26,933**	**23,286**	**17**		**241,913**
Segmental liabilities	**82,334**	**3,663**	**3,053**	**8**		**89,058**
Other segment information						
Capital expenditures for property, plant and equipment	22,698	956	2,697	0		26,351
Depreciation	13,655	1,736	892	4		16,287

Financial year ended 12/31/2005	Germany thousand Euro	EU countries thousand Euro	U.S.A. thousand Euro	Others thousand Euro	Elimination thousand Euro	Total thousand Euro
Sales with third-party customers	51,716	63,055	24,438	7,754	0	146,963
Sales with other segments	119	0	1,638	0	– 1,757	0
Segmental sales	**51,835**	**63,055**	**26,076**	**7,754**	**– 1,757**	**146,963**
Assets and liabilities						
Segmental assets	165,057	39,874	31,447	0		236,378
Investment expenditure	107	0	19	520		646
Total assets	**165,164**	**39,874**	**31,466**	**520**		**237,024**
Segmental liabilities	**83,659**	**5,402**	**3,679**	**0**		**92,740**
Other segment information						
Capital expenditures for property, plant and equipment	26,311	2,051	1,249	0		29,611
Depreciation	12,196	2,232	1,072	0		15,500

5 Sales revenues

The company generates sales revenues with the sale of ASICs, ASSPs, and micromechanical sensor elements, as well as with their development.

Sales revenues of the group and its segments are made up as follows:

	2006 Euro	2005 Euro
Semiconductor	150,009,437	138,104,306
Micromechanics	10,664,450	8,859,131
Group	**160,673,887**	**146,963,437**

The total sales revenues exceeded the 160 million Euro mark for the first time in 2006, 9.3 percent above the prior-year sales. The micromechanics segment made a major contribution to the sales increase and rose 20 percent to reach 10.7 million Euro in 2006.

6 Information on the income statement according to the cost of sales method

Cost of sales

The cost of sales contains costs of performances made for generating sales revenues. In addition to attributable direct material costs, direct labor costs, and special direct costs, it includes manufacturing and material overhead as well as amortization. The cost of sales also contains changes in work in process and finished goods inventories. The cost of sales has developed as follows:

	2006 Euro	2005 Euro
Material expense	31,474,574	22,727,634
Personnel expense	29,595,550	28,833,110
Other overhead	31,137,729	27,242,520
Inventories decrease (increase)	– 4,577,928	– 2,466,735
	87,629,925	**76,336,529**

The radical change of the product mix continues to put a strain on the cost of sales. The much larger number of more complex products compared to the previous year, the startup of the new production site in Duisburg, and the preparatory efforts for microsystem projects and ASSPs raised the cost of sales. Furthermore, the costs for raw materials and energy increased considerably.

Research and development expenses

Significant expenses regularly incur with regard to research and development projects carried out in anticipation of future sales revenues. Research expenses are charged to expense according to the amount of work. Development expenses are capitalized depending on the project and then amortized on schedule or – insofar as capitalization requirements are not met – charged to expense. In the financial year 2006, R&D expenses of 29,583,236 Euro (2005: 28,124,440 Euro) were charged to expense.

Distribution costs

Distribution costs essentially contain personnel expense and depreciation.

Administrative expenses

Administrative expenses include personnel expense for the administrative staff and proportionate personnel expense for the Management Board members. Other essential items are expenses for depreciation. Expenses also incur on the administrative level for legal and tax consultation as well as auditing.

7 Further information on the income statement according to the cost of sales method

Within the context of the income statement in the form of the cost of sales method, expenses are allocated with regard to functional areas. Cost of sales, distribution costs, administrative expenses, and research and development expenses contain the following cost types as indicated below.

Material expense

The material expense amounts to 40,699,442 Euro in the financial year 2006, increased in comparison with the previous year (2005: 38,830,018 Euro). It is composed of expenses for raw materials, supplies and purchased goods as well as purchased services.

Personnel expense

Personnel expense increased by 8.1 percent from 52,466,931 Euro in the financial year 2005 to 56,711,212 Euro in the financial year 2006. During the same reporting period, the number of employees rose from 1,028 in the financial year 2005 to 1,102 in the financial year 2006, each figure based on the average employment ratio. The increase in personnel expense is due primarily to the increased number of employees. Further information on the workforce can be found under item 40, “number of employees”.

Depreciation

The itemization of depreciation can be drawn from the development of the group's non-current assets. Owing to the cost of sales method applied, depreciation for property, plant and equipment and other intangible assets are allocated in the income statement to the items cost of sales, research and development expenses, distribution costs, and administrative expenses.

8 Finance expenses and finance income

Finance expenses came to 2,954,883 Euro in 2006 as opposed to 7,588,365 Euro in 2005. They essentially include interest expenses for bank loans as well as non-current liabilities.

Under the item "finance income", essentially interest income was disclosed in the year under report. Finance income added up to 452,319 Euro (2005: 3,973,355 Euro).

Finance expenses and income as stated in the consolidated income statement essentially correspond with the amounts paid.

9 Foreign exchange losses and foreign exchange income

Losses from exchange rate differences recorded in the income statement come to 288,115 Euro in the financial year 2006 (2005: 193,744 Euro income).

Exchange rate differences not affecting the net income amount to 4,991,418 Euro in the financial year 2006 (2005: 4,154,301 Euro), deffered taxes considered. Further information on exchange rate differences not affecting the net income can be found under item 23, "equity".

10 Other operating expenses and operating income

The other operating income (2006: 4,176,926 Euro, 2005: 2,051,664 Euro) includes material income from the disposal of marketable securities of 1,416 thousand Euro and from investment grants of 363 thousand Euro.

Other operating expenses (2006: 3,581,829 Euro, 2005: 2,294,635 Euro) contain, among other values, expenses for performances pursuant to a warranty (including additions to provisions) and allowances for receivables.

11 Income taxes

Taxes on the income paid or owed as well as tax deferrals of ordinary operations are disclosed as income taxes.

	2006 Euro	2005 Euro
Current income taxes		
Germany	627,597	2,493,839
Other countries	557,992	1,170,074
	1,185,589	**3,663,913**
thereof adjustments to effective income taxes incurred in the previous year	23,140	69,243
Deferred taxes		
Germany	2,257,994	592,686
Other countries	3,200,787	1,801,796
	5,458,781	**2,394,482**
	6,644,370	**6,058,395**

Deferred taxes have been calculated with the so-called liability method in accordance with IAS 12. For Germany, the combined income tax rate of 39.9 percent (2005: 39.9 percent) has been applied. The company's combined income tax rate considers the trade tax collection rate of 450 percent (2005: 450 percent), the corporation tax rate of 25.0 percent (2005: 25.0 percent), and the solidarity tax contribution of 5.5 percent (2005: 5.5 percent).

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the statements under commercial law on the one hand and the amounts used for income tax statements on the other hand. Material components of the company's deferred tax assets and deferred tax liabilities are described under item 16, "deferred tax assets".

The differences between the statutory tax rate and the company's effective income taxes are as follows:

	2006 percent	2005 percent
German statutory tax rate	39.90	39.90
Expenses disallowable against tax	0.58	0.83
Dividends on interest in corporations	0.00	– 5.56
Foreign tax rate differential	– 7.70	0.03
Foreign tax rate changes	6.34	1.28
Others	– 0.80	0.48
Effective tax rate	**38.32**	**36.96**

The effect of the tax rate reduction in the Netherlands from 2007 amounts to 1,100 thousand Euro.

12 Earnings per share

The basic earnings per common share are calculated on the basis of the average number of common shares outstanding in the particular financial year. The diluted earnings per common share are calculated on the basis of the average number of outstanding common shares plus all share options with dilutive potential according to the so-called treasury stock method.

Basic earnings per common share and diluted earnings per common share have been determined as follows:

Number of shares

	2006	2005
Average number of common shares outstanding	19,413,310	19,343,663
Share options with dilutive potential	14,056	68,014
Average number of common shares outstanding including dilutive effect	**19,427,366**	**19,411,677**

Calculation of earnings per share

	2006	2005
Net income after minority interest	10,694,672	10,035,827
Basic earnings per share	0.55	0.52
Diluted earnings per share	0.55	0.52

Notes to the balance sheet

13 Intangible assets

Goodwill

The company's goodwill has developed as follows:

	12/31/2006 Euro	12/31/2005 Euro
SMI		
Acquisition costs	7,567,365	7,567,365
Foreign currency adjustment	– 2,513,636	– 1,937,532
Carrying value	**5,053,729**	**5,629,833**
ELMOS NA		
Acquisition costs	554,617	554,617
Foreign currency adjustment	6,549	28,535
Carrying value	**561,166**	**583,152**
ELMOS France	**1,614,578**	**1,614,578**
ELMOS Services B.V.	**206,170**	**206,170**
	7,435,643	**8,033,733**

According to IFRS 3, goodwill is no longer amortized on schedule but reviewed for impairment. The valuation is conducted on the basis of a CGU. The impairment reviews carried out in 2006 did not result in allowances to be made.

Other intangible assets

The other intangible assets are composed as follows:

	12/31/2006 Euro	12/31/2005 Euro
Development projects	7,738,958	5,846,224
Software and licenses	20,214,295	16,809,225
Advance payments and projects under development	3,635,053	4,155,055
	31,588,306	**26,810,504**

Development projects

In 2006 expenses of 2,692,363 Euro in connection to product developments were capitalized (2005: 2,359,434 Euro). Depreciation for capitalized developments amounted to 1,737,644 Euro in 2006 (2005: 1,289,322 Euro). The capitalized developments' carrying value (including projects under development) is 7,993,887 Euro as of December 31, 2006 (2005: 7,039,118 Euro).

Software and licenses

In 2006 expenses of 2,119,337 Euro for process technology were capitalized. Depreciation came to 420,713 Euro in 2006. As of December 31, 2006, the capitalized carrying amounts for process technology purchased as property, plant and equipment added up to 9,319,802 Euro; they amounted to 7,621,177 Euro as of December 31, 2005.

Others

Costs connected to research and development projects for new products as well as significant product upgrades are charged to expense to the extent they incur and are included under research and development expenses. Research and development expenses of 3,190 thousand Euro were reimbursed by customers in 2006 (3,124 thousand Euro in 2005).

14 Property, plant and equipment

Property, plant and equipment

The development of property, plant and equipment is presented in the development of the group's non-current assets.

	12/31/2006 Euro	12/31/2005 Euro
Land and buildings	3,224,533	5,414,837
Buildings and building improvements	33,745,098	41,502,727
Technical equipment and machinery	54,334,675	46,569,711
Advance payments and construction in process	4,252,184	8,472,312
	95,556,490	**101,959,587**

Depreciation expenses came to 11,618,709 Euro in the financial year 2006 (2005: 11,609,391 Euro).

In the financial year 2006 and in the year before, no borrowing costs were capitalized.

Lease agreements

On December 22, 1997 the company sold one of its commercial buildings (including land and building improvements) for a total purchase price of 23,008,135 Euro. Concurrent with the sale, the company leased the property back for a period of nine years, regarding building improvements, and 22.5 years, regarding building and land. Under the lease terms, the company is committed to combined annual lease payments of 1,942,772 Euro (1,121,180 Euro for building improvements and 821,592 Euro for building and land) through 2006 and 1,917,207 Euro (for building and land) through 2020. The transaction was recorded as a financing transaction rather than a sale, so that building and building improvements continue to be recognized in the consolidated financial statements at hand. The finance expense is entered as finance lease under non-current liabilities.

On July 7, 2000, the company sold a building extension (including building improvements) for a total purchase price of 6,287,853 Euro. Concurrent with the sale, the company leased the property back for a period of 7.5 years, regarding building improvements, and 22.5 years, regarding the building. Under the lease terms, the company is committed to combined annual lease payments of 1,074,788 Euro through 2007 (for building and building improvements) and 60,872 Euro (for the building) through 2022. The transaction was recorded as a financing transaction rather than a sale, so that the building and building improvements continue to be recognized in the consolidated financial statements at hand. The finance expense is entered as finance lease under non-current liabilities.

On November 8, 2001, the company sold another commercial building and the adjacent multi-story parking garage (including land and building improvements) for a total purchase price of 11,643,000 Euro. Concurrent with the sale, the company leased the land, building and garage back for a period of 20 years. Under the lease terms, the company is committed to annual degressively falling lease payments through 2021, starting with the amount of 1,016,125 Euro. In the fourth quarter of the financial year 2003, the story-addition to the administration building was completed. The total expenditure amounted to 3,419,000 Euro. Leasing installments to be paid come to 279,000 Euro per annum through 2021. This transaction was also recorded as a financing transaction rather than a sale, so that the building and building improvements continue to be recognized in the consolidated financial statements at hand.

The leased assets' carrying amount is composed as follows:

	12/31/2006 Euro	12/31/2005 Euro
Leased assets	48,013,030	48,363,030
Cumulative depreciation	– 25,991,428	– 23,949,619
	22,021,602	**24,413,411**

The depreciation is carried out over the contract period or the longer period of use according to IAS 17.28. It is included in the depreciation expense and amounts to 2,041,809 Euro in the year 2006 (2005: 2,630,550). Extraordinary depreciation was not carried out.

Lease finance liabilities are disclosed by the company as current or non-current liabilities, respectively. Their development is as follows:

	12/31/2006 Euro	12/31/2005 Euro
Current portion (maturity within twelve months)	3,432,057	3,213,414
Non-current portion (maturity > one year)	27,528,059	32,188,714
	30,960,116	**35,402,128**

The following chart contains a reconciliation of the amount of future minimum lease payments at their discounted value as of the balance sheet date:

	12/31/2006 Euro	12/31/2005 Euro
Within twelve months	4,756,033	5,476,968
Between one year and five years	13,417,288	14,866,075
Later than five years	21,068,127	33,487,355
	39,241,448	**53,830,398**
Future interest share of finance lease agreements	8,281,332	18,428,270
Discounted value of finance lease liabilities	**30,960,116**	**35,402,128**

15 Investments valuated at-equity, securities and interests

The company has interests in the following companies.

	12/31/2006 Euro	12/31/2005 Euro
attoSensor	1	1
ELMOS Industries	1	0
MOS Limited	0	519,642
Exedra	26,434	26,434
Epigone	20,824	20,824
IndustrieAlpine	25,788	25,788
Advanced Appliances Chips	34,000	34,000
ELMOS USA Inc.	19,107	19,107
	126,156	**645,796**

attoSensor GmbH

As of December 31, 2004 the company held 30 percent of the shares. On January 26, 2005 the company acquired another 15 percent or stated value of 10,200 Euro of the share capital for a purchase price of 10,403 Euro. The company's capital stock has been increased to 40,000 Euro. As of December 31, 2006 ELMOS holds 45 percent of the shares.

ELMOS Industries GmbH

As of December 31, 2006 the company holds 49 percent of the shares. ELMOS Industries generated a net loss of 161,912.02 Euro for the past financial year. Therefore the investment valuation has been depreciated to a memo value of 1.00 Euro. A proportionate, not yet recognized loss of 30,336.89 Euro remains.

Micro Systems on Silicon (MOS) Limited, Pretoria, South Africa

The company holds an interest of 67.6 percent in MOS. MOS was included in the basis of consolidation in 2006 for the first time. A revaluation of the retained earnings was carried out within the context of the transition to full consolidation according to IFRS 3, amounting to 516 thousand Euro.

Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz und Exedra Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz

None of the two subsidiaries has been included in the basis of consolidation because ELMOS does not hold the majority of voting rights.

Both companies are entities founded exclusively for the realization of two sale and leaseback transactions in that they lease administration buildings and land (including parking garage) sold by ELMOS to the company. The corresponding assets and financing liabilities are itemized in the consolidated balance sheet.

IndustrieAlpineBauträger GmbH, Munich

This company has not been included in the basis of consolidation due to materiality considerations. The substantial portion of the company's total assets with regard to its operating business has already been recognized by ELMOS Semiconductor AG in the consolidated financial statements.

Advanced Appliances Chips GmbH, Riedstadt

Advanced Appliances Chips GmbH, Riedstadt (33.3 percent interest) has not been balanced at-equity because of its secondary significance.

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

This company is a holding for the U.S. subsidiaries. It conducts no independent business operations.

Summarized financial information:

Associated companies	Total assets tEuro	Total liabilities tEuro	Sales revenues tEuro	Period net income tEuro
attoSensor*	211	158	579	4
ELMOS Industries*	90	152	0	– 162
Exedra*	13,856	13,854	1,945	18
Epigone*	13,040	13,011	515	– 3
IndustrieAlpine**	—	—	—	—
Advanced Appliances Chips*	326	135	1,178	148
ELMOS USA Inc.**	—	—	—	—

* *Presented figures are based on preliminary unaudited financial statements as of December 31, 2006.*
** *No financial statements of the companies are available at present.*

16 Deferred tax assets

	12/31/2006 Euro	12/31/2005 Euro
Deferred tax assets		
Goodwill	6,234,495	8,141,809
Finance lease	3,051,795	2,955,242
Allowances for financial instruments	0	836,211
Provisions for pensions	303,602	281,226
Loss carry-forward	1,785,878	2,379,384
Others/Exchange rate differences	670,322	10,789
	12,046,092	**14,604,661**
Deferred tax liabilities		
Property, plant and equipment	2,007,019	1,925,011
Intangible assets	5,313,373	3,577,811
	7,320,392	**5,502,822**
Net deferred tax assets	**4,725,700**	**9,101,839**

The sum of temporary differences in connection with investments in subsidiaries and associates, for which no deferred tax liabilities were recognized, is 486,000 Euro.

The capitalization of deferred tax assets on loss carry-forward was carried out on the basis of medium-term business planning of the companies concerned.

17 Inventories

The inventories are composed as follows.

	12/31/2006 Euro	12/31/2005 Euro
Raw materials	9,477,183	7,020,874
Work in process	17,735,397	15,311,787
Finished goods	3,929,655	5,371,929
	31,142,235	**27,704,590**

The devaluation of inventories recognized as expense comes to 0 Euro (2005: 136,692 Euro). The expense is stated under cost of sales.

18 Trade receivables

The trade receivables are composed as follows:

	12/31/2006 Euro	12/31/2005 Euro
Trade receivables	28,006,064	29,401,902
Allowances	– 231,663	– 337,862
	27,774,401	**29,064,040**

The company conducts ongoing credit evaluations of its customers and generally requires no collateral. The company has carried out allowances for potential credit losses. Such credit losses corresponded with the Management Board's estimates and expectations and remained within customary limits.

19 Securities

The securities are composed as follows:

	12/31/2006 Euro	12/31/2005 Euro
Equity securities	0	5,350,375

The following is a breakdown of the marketable securities:

	Acquisition costs Euro	Fair value Euro
Equity securities – December 31, 2005	19,060,318	5,350,375
Equity securities – December 31, 2006	**0**	**0**

The appreciation stated in 2006 came to 1,720,513 Euro and did not affect the net income.

The equity securities were sold in March 2006 for a price of 5,046,137 Euro. In consideration of the appreciation of 1,720,513 Euro stated in the previous year in other equity as not affecting the net income, the resulting book profit amounted to 1,416,275 in 2006 and was recorded in the income statement.

20 Cash and cash equivalents

The company recognizes all highly liquid investments purchased with an original maturity of three months or less as cash equivalents.

For the purpose of the consolidated financial statements, cash and cash equivalents include cash on hand and cash in banks.

21 Other assets

Other assets come to 13,586,114 Euro as of balance sheet date (2005: 10,937,674 Euro) and essentially include tax relief claims, current loans, and various current receivables.

22 Non-current assets classified as held for sale

Assets held for sale are made up of the production section under construction since 2005 and newly established in 2006 at the Dortmund location, another parceled lot in Munich, and technical facilities and machines. These assets are attributable to the semiconductor segment.

The production section will be sold in 2007 within the legal framework of a sale and leaseback transaction. The plan for sale was made in 2006, initial conversations with leasing companies have been held. The company has entered into definite sales negotiations on the sale of the Munich property. A sale of both assets is expected for 2007.

The disclosure as "assets classified as held for sale" has no effect on the income statement in 2006.

23 Equity

Share capital

The share capital recognized at 19,413,805.00 Euro (2005: 19,412,424.00 Euro) in the balance sheet as of December 31, 2006, consisting of 19,413,805 (2005: 19,412,424) non-par value common bearer shares, is paid in entirely.

The distribution of ownership as of December 31, 2006 is as follows:

	Euro	percent
EFH ELMOS Finanzholding GmbH	1,485,789	7.6
Hinrichs GmbH	3,236,584	16.7
Dr. Weyer GmbH	3,236,584	16.7
ZOE-BTG GmbH	2,306,833	11.9
Free float	9,148,015	47.1
	19,413,805	**100.0**

In the year 2006 employees exercised their share options for the purchase of shares, resulting in the issuance of 1,381 non-par value bearer shares at a proportional amount of the share capital of 1.00 Euro per share.

Authorized capital and conditional capital

The Management Board is authorized to increase the share capital by a maximum amount of 9,650,000 Euro through one issuance or several issuances of up to 9,650,000 new bearer shares against contributions in cash or kind until May 18, 2011 with the Supervisory Board's approval (authorized capital I).

The share capital is conditionally increased by 886,195 Euro, consisting of 886,195 non-par bearer shares, at a proportional amount of the share capital of 1.00 Euro to each share (conditional capital I). The conditional capital increase exclusively serves the granting of pre-emptive rights to Management Board members and other executives and employees of the company as well as to executives and employees of affiliated companies.

The share capital is conditionally increased by a maximum amount of 5,000,000 Euro, consisting of up to 5,000,000 non-par bearer shares (conditional capital II).

The share capital is conditionally increased by a maximum nominal amount of 930,000 Euro (conditional capital III). The conditional capital increase is realized only by the issue of up to 930,000 new non-par bearer shares entitled to dividend from the beginning of the financial year of the shares' issue and only for the purpose of exercising pre-emptive rights granted within the context of the share option plan 2004 of ELMOS Semiconductor AG in the period between October 1, 2004 through April 26, 2009.

Additional paid-in capital

The composition of the additional paid-in capital can be drawn from the following breakdown:

	12/31/2006 Euro	12/31/2005 Euro
Premiums	84,781,840	84,772,353
Share options	3,951,975	3,498,363
	88,733,815	**88,270,716**

The additional paid-in capital includes premiums from capital increases and the issuance of shares of ELMOS Semiconductor AG. In addition, the expense for the issuance of share options to employees is offset under this item.

Other comprehensive income

According to IAS 39, available-for-sale financial assets must be recognized at fair value. Income or losses from an available-for-sale financial asset are credited or charged directly to equity. Exchange rate translation effects relating to international subsidiaries are also reported in this item.

Accumulated other comprehensive income comprises the following items:

	12/31/2006 Euro	12/31/2005 Euro
Foreign currency adjustments	– 6,555,997	– 3,940,912
Deferred taxes (on foreign currency adjustments)	1,564,579	– 213,389
Unrealized gains on marketable securities	0	1,720,513
Deferred taxes (on unrealized gains on marketable securities)	0	– 509,272
Accumulated other comprehensive income	**– 4,991,418**	**– 2,943,060**

24 Share-based payments

The company has a share option program for Management Board members and other executives and employees. The program aims at assuring the company's success by enabling its employees to acquire the company's shares. Within the framework of this program, the company is authorized to issue 1,000,000 new common shares (conditional capital I), of which 113,805 share options have already been exercised, or rather 930,000 new common shares (conditional capital III).

The following tranches of share options are in existence.

No.	Year of resolution	Year of issue	Exercise price in Euro	Blocking period ex issue (years)	Exercise period after blocking period (years)	Options outstanding as of 12/31/2005 (number)	Exercised in 2006 (number)	Forfeited in 2006 (number)	Options outstanding as of 12/31/2006 (number)
1	1999	2000	34.89	3	3	99,447	0	99,447	0
2	2000	2001	35.14	3	3	126,450	0	2,350	124,100
3	2002	2003	7.87	2	3	166,967	1,381	750	164,836
4	2003	2004	11.59	2	3	289,822	0	15,200	274,622
5	2004	2005	13.98	2	3	160,673	0	9,030	151,643
						843,359	**1,381**	**126,777**	**715,201**

The exercise price corresponds with respectively 120 percent, for the first four tranches, or 110 percent, for the fifth tranche, of the average amount of the closing prices of the last ten trading days prior to the Management Board's resolution on the issue and the regulation of particulars of each tranche. Options may be exercised only if the closing price of the company's shares equals or exceeds the exercise price. Pre-emptive rights can be redeemed against payment of the exercise price.

The beneficiary may exercise his or her options after uninterrupted company employment of three or two years, respectively, subsequent to the option grant. Options expire after six or five years, respectively.

In 2005 options from the third tranche, 112,424 on the whole, were exercised for the first time. In 2006 further 1,381 options from the same tranche were exercised.

The valuation of share options was conducted according to the regulations of IFRS 2 for "equity-settled share-based payment transactions" as of the balance sheet date, December 31, 2006, with the aid of the Black-Scholes method:

The share options' average attributable value came to 14.23 Euro for the first two tranches, 4.40 Euro for the third tranche, 5.07 Euro for the fourth tranche, and 6.06 Euro for the fifth tranche. The attributable value at grant date was determined in applying the Black-Scholes method for option price calculation on the basis of the following assumptions.

Assumptions for the determination of attributable value

	Tranche 1+2	Tranche 3	Tranche 4	Tranche 5
Dividend yield	1.4%	2.0%	2.0%	1.5%
Expected volatility	61.7	59.1	59.1	85.0
Risk-free interest rate at grant date	6.0%	5.5%	5.5%	2.76%
Expected life in years	5	5	5	5

In the year under report, expenses of 453,611 Euro (2005: 1,289,725 Euro) incurred for the company's share option program.

25 Provisions

Current provisions

	1/1/2006 Euro	Consumption Euro	Release Euro	Appropriation Euro	12/31/2006 Euro
Vacation bonus	1,197,150	1,197,150	0	1,157,339	1,157,339
Royalty payments	611,478	573,546	11,933	746,513	772,512
Trade association	218,900	218,495	405	267,200	267,200
Warranties	1,108,800	810,949	0	1,262,123	1,559,974
Licenses	472,910	470,107	0	459,764	462,567
Other provisions	783,387	543,695	47,444	711,141	903,389
	4,392,625	**3,813,942**	**59,782**	**4,604,080**	**5,122,981**

Non-current provisions

The development of the net liability recognized in the balance sheet is as follows:

	12/31/2006 Euro	12/31/2005 Euro
Cash value of liability	3,229,159	3,006,721
Pension plan reinsurance assets	– 1,923,742	– 1,749,405
Unrecognized actuarial income/losses	– 162,780	– 135,612
Liability recognized in the balance sheet	**1,142,637**	**1,121,704**

The company provides pension plans for members of the Management Board of ELMOS Semiconductor AG and members of the subsidiaries' management boards. According to the pension plans, the benefits depend on the remuneration paid during the professional occupation.

The company has entered into pension plan reinsurances whose claims have been assigned to the beneficiaries.

During the term of the pensions, these are adjusted by 1.5 percent per annum. The expected pay increase is determined at 0.0 percent.

The calculation of the present values is carried out in accordance with IAS 19. The interest rate is 4.25 percent per annum in the year under report. For actuarial assumptions regarding the mortality and disability risks, the Heubeck mortality tables 2005 G have been applied.

Pension plan expenses are made up as follows:

	12/31/2006 Euro	12/31/2005 Euro
Service costs	84,068	150,876
Interest	123,263	130,368
Actuarial gains and losses	3,263	0
Net pension plan expenses	**210,594**	**281,244**

The development of the defined benefit liabilities' cash value is as follows:

	2006 Euro	2005 Euro
Pension liabilities as of Jan. 1	3,006,721	2,607,573
Pension plan expenses	210,594	281,244
Pension benefits	– 79,262	– 59,446
Actuarial gains and losses	27,168	177,350
Past service costs	63,938	0
Pension liabilities as of Dec. 31	**3,229,159**	**3,006,721**

	2006 Euro	2005 Euro
Asset value pension plan reinsurance	1,923,742	1,749,405

Income from pension plan reinsurance amounts to 174,337 Euro (2005: 638,686 Euro), including payments made in the event of death. Contributions of 290,681 Euro are paid (2005: 233,611 Euro). There are also indirect pension commitments to Management Board members of ELMOS Semiconductor AG which require no pension provisions according to IAS 19.1004D because of the volume of these commitments and risk coverage by completely congruent pension plan reinsurance. In 2006, the contributions to these pension plans amounted to 341,048 Euro (2005: 176,995 Euro).

The employer's social security contributions made for employees amounted to 3,339,327 Euro in 2006 (2005: 3,336,841 Euro). The contributions to employees' direct insurance came to 12,000 Euro in 2006.

The amounts of the current reporting period and the two preceding reporting periods are as follows:

	2006 Euro	2005 Euro	2004 Euro
Pension liabilities	3,229,159	3,006,721	2,649,311
Asset value pension plan reinsurance	– 1,923,742	– 1,749,405	– 1,110,719
Overfunding/Underfunding (–)	– 1,305,417	– 1,257,316	– 1,538,592
Adjustments to plan liabilities based on experience	124,078	173,540	41,738
Adjustments to plan assets based on experience	0	0	0

Because of the first-time adoption of IFRS in the year 2004, an according statement for the reporting periods 2002 and 2003 as provided for by IAS 19.120A (p) has not been made.

26 Financial liabilities

Non-current financial liabilities

The non-current financial liabilities as of December 31, 2006 are made up as follows.

		12/31/2006 Euro	12/31/2005 Euro
Sparkasse Frankfurt, loan			
Annual interest rate	4.99%		
Effective interest rate	5.63%		
Payment	monthly		
Interest	8,779 Euro		
Maturity	January 2011	293,089	0
Nissan Bank, loan			
Annual interest rate	0%		
Payment	monthly		
Interest	0 Euro		
Maturity	October 2006	0	7,339
BMW Bank GmbH, loan			
Annual interest rate	5.12%		
Effective interest rate	6.49%		
Payment	monthly		
Interest	1,370 Euro		
Maturity	October 2007	34,844	46,747
Sparkasse Frankfurt,loan			
Annual interest rate	5.65%		
Effective interest rate	5.80%		
Payment	monthly		
Interest	37,171 Euro		
Maturity	December 2008	640,700	688,386
Finance lease		30,960,116	35,402,128
Total		**31,928,749**	**36,144,600**
Less current portion with remaining terms of up to one year		3,643,766	3,280,341
		28,284,983	**32,864,259**

Current financial liabilities

As of December 31, 2006 the company had various current credit limits adding up to 48,789,824 Euro at its disposal. As of December 31, 2006 the company took advantage of these credit facilities to an amount of 33,068,990 Euro at an average interest rate of 4.55 percent.

In addition, the portion of non-current financial liabilities with remaining terms of up to one year is disclosed under current financial liabilities.

	12/31/2006 Euro	12/31/2005 Euro
Current liabilities due to banks	33,280,699	31,847,270
Current portion of lease liabilities	3,432,057	3,213,414
	36,712,756	**35,060,684**

27 Other current and non-current liabilities

The other liabilities contain as of balance sheet date:

	12/31/2006 Euro	12/31/2005 Euro
Tax liabilities	280,169	1,245,929
Other current liabilities	4,428,490	5,993,007
Other non-current liabilities	354,307	1,488,110
	5,062,966	**8,727,046**

Other current liabilities are, among other items, liabilities from income taxes on salaries and overdue social security contributions.

28 Trade payables

Trade payables primarily concern the purchase of materials used for operating activities. Trade payables mature in full within one year.

29 Market value of financial instruments

The carrying value of financial instruments such as receivables and payables approximates the fair value because of these financial instruments' current maturities.

The carrying value of liabilities due to banks approximates the fair value, based on the fair value determined for the same or comparable loan particulars and the current interest rates offered to the company.

The company observes the performances of liabilities at fixed and variable interest rates and of current and non-current liabilities. Within this context, business and other finance risks are reviewed.

To hedge against interest rate fluctuations from current revolving liabilities at variable interest rates, the company has concluded an interest rate swap agreement over a base amount of 20,000,000 Euro. The agreement has a term of five years and expires in 2008. The interest swap has not been stated as a hedging instrument according to IAS 39 in the consolidated financial statements. The fair value changes of the interest swap transaction, immaterial in 2005 and 2006, are immediately recorded under liabilities as affecting the net income.

The fair value of the interest swap, determined on the basis of official price offers, comes to 76 Euro as of December 31, 2006 (December 31, 2005: -39,739 Euro).

ELMOS pursues the strategy of covering interest and currency risks by suitable instruments such as corresponding derivative products. ELMOS occasionally enters into forward exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with committed exposures. These hedging activities minimize the impact of foreign exchange rate movements on the company's results from operations. ELMOS does not engage in speculation.

Other information

30 Subsidies

ELMOS receives subsidies utilized for financing research and development projects as well as the acquisition of real estate and property, plant and equipment. Subsidies are classified as other liabilities until utilized. Subsidies used for research and development projects are stated as other income (362,586 Euro in 2006 and 290,744 Euro in 2005). Subsidies for capital expenditures for property, plant and equipment of 582,800 Euro were recognized as reduction of acquisition costs in the current year.

31 Other financial liabilities

The company has entered into non-cancelable rental and lease agreements for a plant and an administration building, an employee center, a parking garage, and another office building, whose terms extend until 2014, 2020, 2021, 2022, and 2030. The company has also entered into lease agreements for technical facilities and machines as well as furniture and office equipment, whose terms extend until 2008 and, in individual cases, until 2011. Furthermore, there are lease agreements for the car pool, office machines, and technical facilities and machines to a customary extent.

The company entered into an agreement in 2005 for the provision of research and development services as well as the use of a production line with a contract term until 2015.

On December 16, 2005 ELMOS entered into a real property agreement for a service building with a cafeteria and recreation rooms with LABRUM Grundstücks- und Vermietungsgesellschaft mbH & Co. Objekt Eins KG, Düsseldorf, over a term of nine years. The annual lease amounts to 518 thousand Euro. The lease is raised by 1.0 percent per annum each calendar year, on December 16, 2006 for the first time. Over the lease term, the agreement is not cancelable. After the completion of the term of lease, ELMOS can demand the extension of the lease contract for another five years.

SMI entered into a real property agreement on January 26, 2006 for a developed plot including the factory erected on this plot with McCarthy Manager LLC, Washington/U.S.A. The contract provides a term of 15 years. The monthly lease is 60,000 USD, with the provision of an annual adjustment according to the U.S. Consumer Price Index. Over the lease term, the agreement is not cancelable. After the completion of the term of lease, SMI can demand the extension of the lease contract for another ten years.

The total expenditure for rental and lease agreements amounted to 14,200,331 Euro in 2006 and 12,084,571 Euro in 2005. Future lease payments owed from non-cancelable contracts with initial terms or remaining terms of more than one year as of December 31, 2006 are as follows:

	Rent and lease payments not including finance leases Euro
2007	18,854,001
2008	12,190,083
2009	8,706,955
2010	7,073,045
2011	9,573,910
Later years	20,228,932
	76,626,926

32 Acquisitions

ELMOS Industries GmbH, Hanau

This company was founded in August 2006 with a partner. Elmos holds an interest of 49,000.00 Euro or 49.0 percent of the share capital. The investment is recognized according to the equity method.

33 Group companies

According to IAS 27, the parent company and the subsidiaries under the parent's legal and effective control must be included in the parent's consolidated financial statements.

In the consolidated financial statements at hand, the following companies have been included accordingly:

	Capital share (direct and indirect) in percent
Parent company	
ELMOS Semiconductor AG, Dortmund	
Subsidiaries	
ELMOS Advanced Packaging B.V., Nijmegen/Netherlands	100.0
ELMOS California Inc., Milpitas/U.S.A.	100.0
ELMOS Central IT Services GmbH & Co. KG, Dortmund	100.0
ELMOS Design Services B.V., Nijmegen/Netherlands	100.0
ELMOS Facility Management GmbH & Co. KG, Dortmund	100.0
ELMOS France S.A.S., Nanterre/France	100.0
ELMOS N.A. Inc., Farmington Hills/U.S.A.	100.0
ELMOS Quality Services B.V., Nijmegen/Netherlands	100.0
ELMOS Semiconductor Süd GmbH, Munich	100.0
ELMOS Services B.V., Nijmegen/Netherlands	100.0
European Semiconductor Assembly (eurasem) B.V., Nijmegen/Netherlands	100.0
GED Gärtner Electronic Design GmbH, Frankfurt/Oder	73.9
Mechaless GmbH, Karlsruhe	51.0
Micro Systems on Silicon (MOS) Limited, Pretoria/South Africa	67.6
Silicon Microstructures Inc., Milpitas/U.S.A.	100.0

Companies not included in the consolidated financial statements

Subsidiaries	Capital share in percent
IndustrieAlpineBauträger GmbH, Munich	51.0
ELMOS USA Inc., Farmington Hills/U.S.A.	100.0
Gesellschaft für Halbleiterprüftechnik mbH, Dortmund	100.0
Exedra Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	94.0
Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	100.0

The above-mentioned companies have not been included in the basis of consolidation due to materiality considerations. Their effect – even if accumulated – is only of immaterial significance for financial position and results from operations. The material items of assets and liabilities of IndustrieAlpineBauträger GmbH have already been recorded by ELMOS Semiconductor AG in the consolidated financial statements.

Both above-mentioned subsidiaries have not been included in the basis of consolidation because ELMOS does not hold the majority of voting rights.

Both companies are entities founded exclusively for the realization of two sale and leaseback transactions in that they lease administration buildings and land (including parking garage) sold by ELMOS to the company.

Owing to the legal qualification as finance lease, the assets transferred in accordance with civil law are still stated in the consolidated balance sheet of ELMOS. At the same time, the discounted values of the payable lease installments are stated as liabilities.

In balancing buildings and land therefore no material differences occur from balancing within the framework of a possible inclusion of Epigone and Exedra in the basis of consolidation.

Companies included in the consolidated financial statements under the equity method

attoSensor GmbH, Penzberg (45 percent interest as of 12/31/2006), is balanced using the equity method of accounting.

In 2006 the company recorded losses from this investment, valuated at-equity in accordance with IAS 28, of 0.00 Euro (2005: 67,636 Euro). The valuation of the investment has been adjusted to a memo value of 1.00 Euro.

Advanced Appliances Chips GmbH, Riedstadt (33 percent interest), has not been balanced according to the equity method because of immateriality.

ELMOS Industries GmbH, Hanau (49 percent interest as of 12/31/2006), is balanced under the equity method. ELMOS Industries generated a net loss of 161,912.02 Euro for the past financial year. Therefore the investment valuation has been depreciated to a memo value of 1.00 Euro. A proportionate, not yet recognized loss of 30,336.89 Euro remains.

Information on share property

	Currency	Interest procent	Equity thsd. Euro/n.c.	Result thsd. Euro/n.c.	
Domestic					
Advanced Appliances Chips GmbH, Riedstadt	Euro	33.33	191	148	*1*
attoSENSOR GmbH, Penzberg	Euro	45.00	54	4	
ELMOS Central IT Services GmbH & Co. KG, Dortmund	Euro	100.00	173	510	*2*
ELMOS Facility Management GmbH & Co. KG, Dortmund	Euro	100.00	92	186	*2*
ELMOS Semiconductor Süd GmbH, Unterschleißheim	Euro	100.00	174	8	*2*
Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	Euro	100.00	29	– 3	*1*
Exedra Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	Euro	94.00	2	18	*1*
GED Gärtner Elektronic Design GmbH, Frankfurt/Oder	Euro	73.90	718	204	
Gesellschaft für Halbleiterprüftechnik mbH, Dortmund	Euro	100.00	113	4	
IndustrieAlpine Bauträger GmbH, Munich	Euro	51.00	—	—	*3*
Mechaless Systems GmbH, Karlsruhe	Euro	51.00	730	– 136	
ELMOS Industries GmbH, Hanau	Euro	49.00	– 62	– 162	
International					
Elmos Services B.V., Nijmegen (NL)	Euro	100.00	52,145	2,772	
Elmos Advanced Packaging B.V., Nijmegen (NL)	Euro	100.00	958	72	*2*
ELMOS Design Services B.V., Nijmegen (NL)	Euro	100.00	– 1,691	– 650	*2*
ELMOS Quality Services B.V., Nijmegen (NL)	Euro	100.00	11,980	– 2,891	*2*
European Semiconductor Assembly (Eurasem) B.V., Nijmegen (NL)	Euro	100.00	31,547	0	*2*
Micro Systems on Silicon (MOS) Limited, Pretoria (South Africa)	ZAR	67.60	9	– 89	*2*
EL-MOS France S.A., Nanterre (F)	Euro	100.00	2,537	1,165	
Elmos USA Inc., Michigan (U.S.A.)	USD	100.00	—	—	*3*
ELMOS California Inc., Milpitas (U.S.A.)	USD	100.00	– 272	– 506	*2*
ELMOS N.A. Inc., Farmington Hills (U.S.A.)	USD	100.00	– 3,917	183	*2*
Silicon Microstructures Inc., Milpitas (U.S.A.)	USD	100.00	4,503	122	*2*

1 Presented figures are based on preliminary unaudited financial statements as of December 31, 2006.

2 This is indirect share property of ELMOS Semiconductor AG, Dortmund.

3 The financial statements of this company are not available yet.

34 Information on Management Board and Supervisory Board

Remuneration of Management Board and Supervisory Board for 2006

	Fixed remuneration thousand Euro	Variable remuneration thousand Euro	Share options number
Management Board	1,522	565	0
Supervisory Board	126	0	0

In the financial year 2006, the remuneration paid to former Management Board members or their surviving dependants comes to 132 thousand Euro (2005: 112 thousand Euro). Pension provisions of 1,494 thousand Euro were made for these payments. For other services rendered, particularly consultations, the company paid 281 thousand Euro to members of the Supervisory Board (2005: 475 thousand Euro).

It was decided by shareholders' resolution of May 19, 2006 with the required three-quarter majority to go without the disclosure provided for by Section 285 (I) No. 9a Sentences 5-9 Commercial Code (HGB) for the next five years.

35 Shares and share options held by Management Board and Supervsiory Board

The following members of the Management Board and the Supervisory Board held ELMOS shares and share options as of December 31, 2006:

	Shares	Options
Management Board		
Dr. Klaus Weyer	10,000	25,000
Dr. Anton Mindl	7,250	0
Reinhard Senf	1,948	40,000
Dr. Frank Rottmann	0	9,200
Nicolaus Graf von Luckner	1,000	0

	Shares	Options
Supervisory Board		
Prof. Dr. Günter Zimmer	0	0
Dr. Burkhard Dreher	1,900	0
Jörns Haberstroh	3,956	0
Herbert Sporea	4,165	0
Dr. Peter Thoma	9,200	40,000
Jutta Weber	200	0

36 Information on auditor's fees

In the financial year 2006, the companies within the ELMOS Group enlisted the following services rendered by Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, the appointed group auditor:

	2006 thousand Euro
Audit	113
Other confirmation and consultation services	32
Tax consultation	186
Other services	1
	332

37 Appropriation of retained earnings

The Management Board proposes (in accordance with the Supervisory Board) to carry forward the retained earnings of ELMOS Semiconductor AG of 44,937,751.06 Euro to new accounts.

38 Information according to Section 160 Corporations Act (AktG)

Listed are all directors' dealings of the year 2006 involving shares of ELMOS Semiconductor AG (ISIN DE0005677108). The issuer is ELMOS Semiconductor AG, Heinrich-Hertz-Str. 1, 44227 Dortmund, Germany.

Date Place	Name	Function	Transaction	Number	Price/ Exercise price (Euro)	Total volume (Euro)
3/30/2006 Frankfurt/Main	Dr. Anton Mindl	CEO of ELMOS Semiconductor AG	Purchase of ELMOS shares	1,000	9.55	9,550
5/23/2006 Frankfurt/Main	Dr. Anton Mindl	CEO of ELMOS Semiconductor AG	Purchase of ELMOS shares	1,000	7.97	7,970
5/24/2006 Xetra	Dr. Anton Mindl	CEO of ELMOS Semiconductor AG	Purchase of ELMOS shares	1,000	7.95	7,950
6/6/2006 Frankfurt/Main	Felix Christian Mindl	Underage son of Dr. Anton Mindl, CEO of ELMOS Semiconductor AG	Purchase of ELMOS shares	100	7.84	784

39 Related party disclosures

According to IAS 24, "Related Party Disclosures", people or companies in control of or controlled by the ELMOS Group must be disclosed if they have not been included in the consolidated financial statements of the ELMOS Group as a consolidated company. Control is assumed if a shareholder holds more than half of the voting rights of ELMOS Semiconductor AG or if he is in a position, by the Articles of Incorporation or by contractual agreement, to control the financial and operating policies of the ELMOS Group's management.

Mandatory disclosure according to IAS 24 also includes transactions with associates and transactions with people who have significant influence on the ELMOS Group's financial and operating policies, including close relatives or interconnected companies. Significant influence on the ELMOS Group's financial and operating policies may be based on an interest in the ELMOS Group of 20 percent or more, membership on the Management Board or Supervisory Board of ELMOS Semiconductor AG, or another key function in management.

In the financial year 2006, the ELMOS Group is concerned by the mandatory disclosures of IAS 24 only with regard to business connections to associates, members of the Management Board and Supervisory Board of ELMOS Semiconductor AG, and other key executives in management.

The ELMOS Group has connections to closely related companies and people within the context of usual business activity. These supply and performance relationships are transacted at market prices. In 2006, the ELMOS Group provided supplies of 739 thousand Euro (2005: 283 thousand Euro) to unconsolidated associates (AAC). The ELMOS Group received performances by attoSensor of 200 thousand Euro in 2006 (2005: 200 thousand Euro) and by DMOS of 2,745 thousand Euro in 2006 (2005: 2,644 thousand Euro). Apart from the remuneration of Management Board and Supervisory Board disclosed under item 34, "information on Management Board and Supervisory Board", there are no material relationships with closely related persons.

Furthermore, companies of the ELMOS Group did not engage in any transactions subjected to reporting with members of the Management Board or Supervisory Board of ELMOS Semiconductor AG, other key executives in management, or with companies whose managing or supervising bodies these persons are represented in. This also applies for close relatives of said group of people.

40 Number of employees

In the financial year 2006, the average number of employees within the group was 1,102 (2005: 1,028).

The average number of employees is divided as follows:

	2006 Number	2005 Number
Group		
Salaried employees	626	652
Industrial employees	476	376
Total	**1,102**	**1,028**

41 Subsequent events

Herbert Sporea resigned from his Supervisory Board mandate effective as of the end of December 2006. Dr. Klaus Weyer, management board member until December 2006, was appointed member of the Supervisory Board by the District Court (Amtsgericht) Dortmund in January 2007 until the conclusion of the Annual General MeetingThere is a proposal to the Annual General Meeting in May 2007 for appointing Dr. Klaus Weyer member of the Supervisory Board for the remaining original term of Herbert Sporea, i.e. until the conclusion of the Annual General Meeting in the year 2010. Other subsequent events of particular significance have not occurred.

42 Declaration of compliance according to Section 161 AktG

In December 2006, ELMOS Semiconductor AG issued the declaration of compliance required by Section 161 AktG and made it accessible to the shareholders on its Internet website. The declaration is also quoted in the annual report at hand in the section “corporate governance” and can be requested from the company as a print publication.

Dortmund, March 2007

Dr. Anton Mindl — Nicolaus Graf von Luckner

Reinhard Senf — Dr. Frank Rottmann

Auditor's certificate

We have issued the following auditor's certificate to the consolidated financial statements and the group management report:

"We have audited the consolidated financial statements prepared by ELMOS Semiconductor AG, Dortmund, consisting of consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and notes to the consolidated financial statements for the financial year ended December 31, 2006. The preparation of consolidated financial statements and group management report according to IFRS as applicable in the European Union and the additional provisions of commercial law as applicable according to Section 315 a (1) HGB are the responsibility of the company's legal representatives. It is our responsibility to issue an assessment of the consolidated financial statements and the group status report on the basis of our audit.

In compliance with Section 317 HGB, we have conducted our audit in accordance with the German accounting principles established by the Institut der Wirtschaftsprüfer (IDW). These principles require the audit to be planned and performed in such a way that inaccuracies and violations which materially effect the disclosure of financial position and results from operations as presented by the group management report and the consolidated financial statements with regard to applicable accounting provisions are identified with sufficient reliability. In establishing the audit procedures, knowledge of the business activity, the group's economic and legal framework, and an anticipation of possible mistakes are taken into consideration. Within the context of the audit, the effectiveness of the internal accounting control systems as well as proof for the disclosures made in the consolidated financial statements and the group management report are predominantly examined on the basis of random sampling. The audit contains assessments of the financial statements of the companies included in the consolidated financial statements, the definition of the basis of consolidation, the accounting and consolidation principles applied, and the legal representatives' material estimates as well as an evaluation of the overall presentation of the consolidated financial statements and the group management report. It is our opinion that our audit provides a sufficiently reliable basis for our assessment.

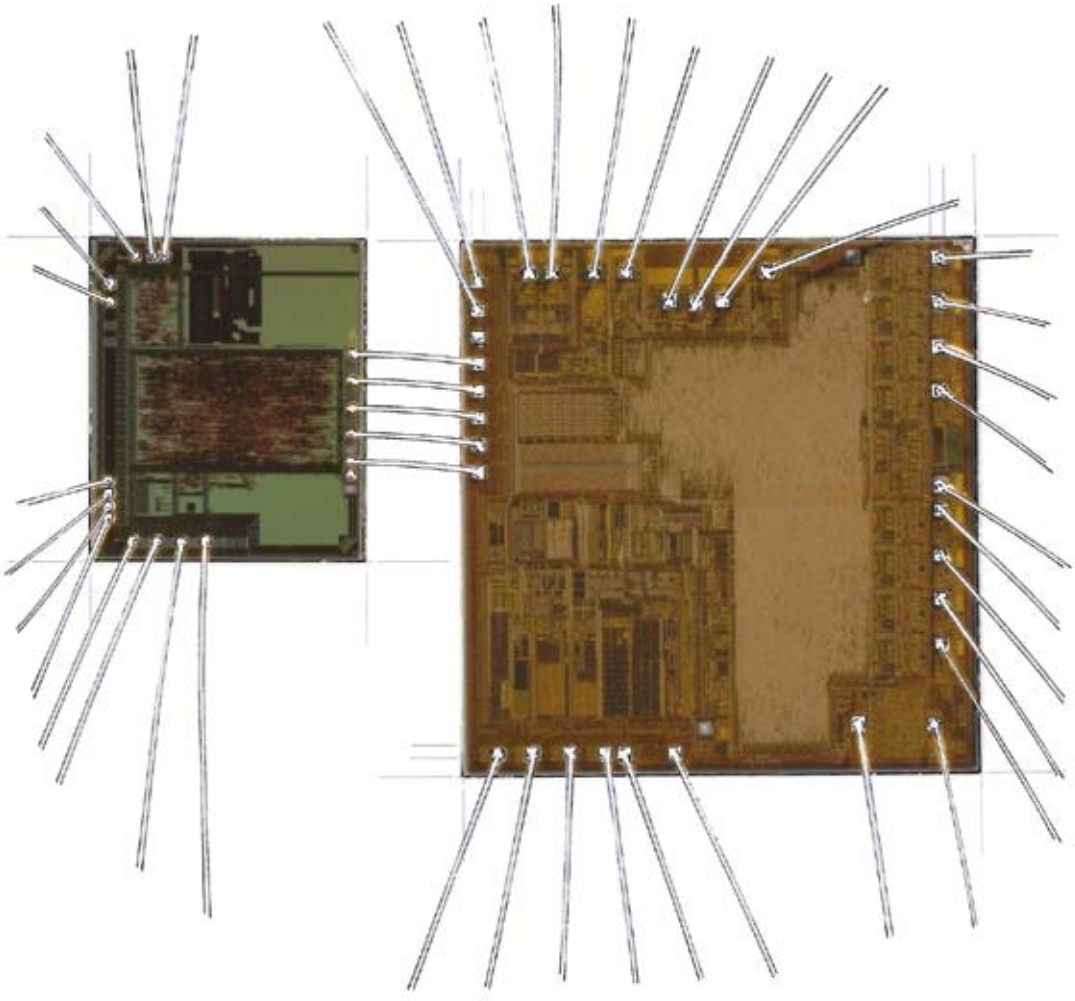
Our audit has not resulted in any objections.

According to our assessment based on the conclusions from our audit, the consolidated financial statements are compliant with the IFRS as applicable in the European Union and the additional provisions of commercial law as applicable according to Section 315 a (1) HGB, and they communicate – with regard to these provisions – a presentation of the group's financial position and results from operations which corresponds with the actual conditions. The group management report is consistent with the consolidated financial statements, communicates an overall correct impression of the situation of the group, and describes the chances and risks of the future development coherently."

Dortmund, March 9, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Muzzu	Sultana
Wirtschaftsprüfer	Wirtschaftsprüfer



GROWING STRONGER

due to

cooperations

What do cooperations mean for us?
A cooperation is a close collaboration with a precisely defined subject. This comprises teamwork in research and development, in packaging and testing of semiconductor components, and with regard to special products which combine the know-how of different companies.

Why are we growing stronger due to cooperations?
Targeted collaboration makes us flexible as a company, saves costs, and yields creative products. We combine e.g. two semiconductors, one microprocessor made by the American semiconductor manufacturer Freescale Semiconductor, and one high-voltage suitable component from our own production.

For our customers this means,
one complete product with the know-how of two companies.

Supervisory Board report

Dear shareholders

The Supervisory Board fulfilled its obligations as established by law and the Articles of Incorporation in the financial year 2006. During the past financial year we concerned ourselves intensively with the company's situation, advised the Management Board in running the company, and supervised management activity. The Management Board informed us regularly, timely, and comprehensively about all relevant issues of business planning and strategic development, essential aspects relating to the course of business, important business transactions, and current profitability including risk situation and risk management.

We were involved in all decisions of essential importance. The Management Board also coordinated the strategic orientation with us. Divergences of the course of business from the plans and objectives were explained to us in detail. We discussed all business transactions of relevance to the company in the Supervisory Board meetings in detail, based on the Management

Board's reports. Even outside the Supervisory Board meetings, the chairman of the Supervisory Board was informed about essential business transactions by the Management Board, and in particular by its chairman. The chairman of the Supervisory Board was in regular contact with him, and they discussed the company's strategy, business development, and risk management.

In five meetings, held on May 19, 2006, July 26, 2006, October 25, 2006, December 15, 2006, and March 13, 2007, as well as on the basis of the Management Board's oral and written reports, the Supervisory Board was informed in detail about the development of the financial year ended December 31, 2006, the corporate situation, and current business policy decisions, discussed these issues with the Management Board, and supervised its activities. Based on in-depth information, the Supervisory Board's required resolutions were passed in its meetings. We also concerned ourselves with the efficiency of the Supervisory Board's work and assessed it during these meetings. With the exception of the meeting held on May 19, 2006, each meeting was attended by all of the Supervisory Board's members.

In Supervisory Board discussions, the main emphasis was regularly placed on the ELMOS Group's development of sales volume, revenue, profit, and liquidity. A focal subject of the Supervisory Board's first meetings was also the decision on and the appointment of a new Chief Financial Officer. In the following meetings, the situation of various group companies and sales activities were debated on in detail. A substantial issue was the supervision of start and stages of the cooperation with the IMS Duisburg with respect to wafer manufacture and technology development. Another focus of the meetings taking place during the second half-year was on the various cooperation projects with international partner companies. Furthermore, the ELMOS risk management system and the company's compliance with the recommendations of the "Government Commission German Corporate Governance Code" were addressed by the Supervisory Board. Annual planning including capital budgeting for 2007 and the ELMOS Group's long-term business development were discussed with the Management Board in particular.

Supervisory Board committees

In its meeting on March 2, 2007, the Supervisory Board's audit committee concerned itself intensively with the preliminary financial statements of ELMOS Semiconductor AG and ELMOS Group. The auditor was also present at this meeting. The human resources committee met several times in the year under report and debated primarily on the appointment of the CFO position on the Management Board and the resignation of Management Board member Dr. Klaus Weyer. The resolutions required with regard to the employment contracts of these Management Board members were prepared and passed.

The committee chairmen gave detailed reports on their committee work in the Supervisory Board meetings.

Corporate governance and declaration of compliance

Management Board and Supervisory Board cooperate closely to the company's benefit, and both boards are committed to the sustained increase of the shareholder value. On December 15, 2006 the company issued an updated declaration in accordance with Section 161 AktG on the compliance with the recommendations of the German Corporate Governance Code in its version of June 12, 2006 and made it permanently accessible to the shareholders on the company website. It can also be found in the "corporate governance" section in this annual report. This declaration announces that ELMOS differs from those recommendations only on four counts: retention of the board members' D&O insurance, the individualized disclosure of the Management Board and Supervisory Board members' remuneration, and the separate compensation for committee functions.

Audit and group audit

By consulting the certified accountants of Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Dortmund, the Supervisory Board concerned itself in its March 13, 2007 meeting with the audit of the financial statements and consolidated financial statements as of December 31, 2006. According to the shareholders' resolution of May 19, 2006 and the ensuing commission given by the Supervisory Board to the auditor, the financial statements prepared in accordance with HGB regulations for the financial year ended December 31, 2006 and the management report of ELMOS Semiconductor AG were audited by Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Dortmund, as auditor. The auditor issued an unqualified auditor's certificate. The consolidated financial statements of ELMOS Semiconductor AG were prepared in accordance with the International Financial Reporting Standards (IFRS) and completed with the statements required by Section 315 a (1) HGB. The consolidated financial statements according to IFRS and the group management report also received an unqualified auditor's certificate.

The financial statement documents, the annual report, and the auditor's reports were handed over to all Supervisory Board members in due time. In the Supervisory Board's financial meeting on March 13, 2007, the financial statements and reports were explained by the Management Board. Furthermore, the undersigned certified accountants also reported on the auditor's reports and the essential results of their examination and were also available for additional information. After its own examination of financial statements and management report as well as consolidated financial statements and group management report, the Supervisory Board approved the result of the auditor's examination and, in its meeting on March 13, 2007, approved of the financial statements and the consolidated financial statements.

The financial statements are hereby established. The Supervisory Board and the Management Board propose to the Annual General Meeting to carry forward the complete retained earnings of 44,937,751.06 Euro (according to HGB) to new accounts.

Report according to Section 312 AktG

The Supervisory Board also examined the Management Board's report on relationships with affiliated companies according to Section 312 AktG (German Corporations Act). The Supervisory Board came to the conclusion that factual data in the report is correct, the company's performances resulting from the legal transactions specified in the report were not inappropriately high, and, with respect to the measures listed in the report, no circumstances indicate an evaluation essentially different from the Management Board's evaluation. In addition, the auditor examined the report on relationships with affiliated companies according to Section 312 AktG prepared by the Management Board of ELMOS Semiconductor AG and issued the following unqualified auditor's certificate:

"After our due audit and assessment, we confirm that 1. the report's factual data is correct, 2. the company's performances resulting from the legal transactions listed in the report were not inappropriately high."

The Supervisory Board approves the result of this audit. After the concluding result of the Supervisory Board's examination, no objections are to be raised against the Management Board's declaration at the end of its report on relationships with affiliated companies.

Line-up of Supervisory Board and Management Board

There were some changes in the line-up of Management Board and Supervisory Board during the financial year 2006.

As of July 1, 2006 the Supervisory Board appointed Nicolaus Graf von Luckner new Chief Financial Officer for a term of five years.

Dr. Klaus Weyer resigned from the Management Board as planned effective December 31, 2006. Dr. Weyer has been connected to ELMOS as one of the founders from day one and has had a deciding impact on the company for more than 20 years. We express our gratitude to Dr. Weyer for his groundbreaking work in the service of company and employees.

Supervisory Board member Herbert Sporea resigned from his mandate as of December 31, 2006. Mr. Sporea had been a member of the company's Supervisory Board since April 2000. During this period he gave support to the company especially with respect to opening up new markets. We thank Mr. Sporea for his advice and commitment.

By ruling of the District Court (Amtsgericht) Dortmund, the Supervisory Board was completed in that Dr. Klaus Weyer was appointed member of the company's Supervisory Board effective January 1, 2007 until the conclusion of the Annual General Meeting, which appoints a new Supervisory Board member. Dr. Klaus Weyer will run for this position to be appointed at the Annual General Meeting on May 10, 2007.

We thank the Management Board and all employees for their performance, their high commitment, and the success they have achieved.

Dortmund, March 2007

For the Supervisory Board
Prof. Dr. Günter Zimmer, chairman of the Supervisory Board

Supervisory Board members

Supervisory Board

Prof. Dr. Günter Zimmer *chairman*

Graduate physicist | Duisburg

Mandates:
- Member of Siltronic AG supervisory board
- Member of active photonics AG supervisory board
- Member of Dolphin Intégration S.A. board of directors

Dr. Burkhard Dreher *vice-chairman*

Graduate economist | Dortmund

Mandates:
- Member of EKO Stahl GmbH supervisory board
- Member of GfV AG supervisory board
- Member of Vattenfall Europe Mining AG supervisory board

Jörns Haberstroh

Graduate in business management | Kerken

Mandates:
- Vice-chairman of Ehlebracht AG supervisory board
- Member of 3M-Quante AG supervisory board
- Member of QSC AG advisory board
- Member of MECHALESS Systems GmbH advisory board

Herbert Sporea *until 12/31/2006*

Businessman | Altwittenbek

Mandates:
- Member of MECHALESS Systems GmbH advisory board
- Member of 4 g-systems GmbH advisory board

Dr. Klaus Weyer *since 1/1/2007 (court-appointed)*

Graduate physicist | Schwerte

Mandates:
- Member of Paragon AG supervisory board
- Member of MST Dortmund project advisor

Dr. rer. nat. Peter Thoma

Graduate physicist | Unterschleißheim

Mandates:
- Member of Behr GmbH & Co. KG technology advisory board
- Member of Kromberg & Schubert GmbH & Co. KG advisory board

Jutta Weber

Graduate educationist | Tarrytown, New York, U.S.A.

Supervisory Board committees

Audit committee

Chairman: Dr. Burkhard Dreher

Members: Prof. Dr. Günter Zimmer
Herbert Sporea *until 12/31/2006*

Human resources committee

Chairman: Prof. Dr. Günter Zimmer

Member: Dr. Burkhard Dreher

Glossary

ASSEMBLY
The processing of a wafer towards a packaged chip.

ASIC
An Application Specific Integrated Sensor is a circuit developed individually for a specific application. As opposed to standard components which are not configured in a customer specific way, for example voltage regulators, memory, processors.

ASSP
An Application Specific Standard Product is an application specific integrated circuit, initially developed individually for a specific application and now sold to several customers as an application standard.

BACKEND-MANUFACTURE
The backend manufacture is part of the semiconductor production process to be carried out after the wafer has left the clean room. The inspection of the chips on the wafer, burn-in, taping, and functional testing of the assembled components are part of this process.

BIT
Information unit which can either assume the quantity “0” or “1”.

BURN-IN
A method for artificial aging of electronic circuits and components used to detect so-called early failure. For burn-in, chips are exposed to high temperatures over a certain period of time.

BUS
A communication system which allows the exchange of electronic or optical information.

BYTE
The byte is a information unit quantity. One byte contains eight bits.

CAN
The CAN-BUS (Controller Area Network) is an incident-controlled communication system with a transmission rate of up to 1Mbit/s. It is currently the most often used automotive network.

CHIP
An electronic circuit which contains electric functions realized in semiconductor material.

CLEAN ROOM
A sealed-off part of a building where humidity, temperature and dust particle contamination are monitored and controlled precisely.

CMOS
Complementary Metal Oxide Semiconductor is the basic technology for the production of microchips with a high integration rate and low energy consumption.

DC/DC (DIRECT CURRENT TO DIRECT CURRENT)
A component, device or fitting for the transformation of electric currents and voltage from an input level into an output level.

ELECTRONIC CIRCUIT
A combination of different electrical components each taking over a specific function in an electrical system.

FLASH
FLASH memory is freely addressable. FLASH memory does not lose its data if the electricity is turned off.

FLEXRAY
FlexRay is the future network standard for applications with high requirements. It supports active and passive safety systems as well as synchronous and asynchronous data transmission with speeds of up to 10Mbit/s.

FOUNDRY
A semiconductor manufacture whose primary business objective is the production and sale of processed silicon wafers.

FRONTEND MANUFACTURE
The production of electronic circuits on silicon wafers by means of physical and chemical processing methods under clean room conditions.

GYRO SENSOR
Gyro or gyroscope sensors are mechanically or micromechanically constructed sensors able to detect rotary and rolling motions, for example of vehicles and airplanes, by analyzing the Coriolis force.

HALIOS®
HALIOS® (High Ambient Light Independent Optical System) is characterized by the recording of three-dimensional motion. Optical outside influences such as strong incidence of light do not affect its performance. The electronic compensation of external light influence is the technically deciding function.

INTEGRATED CIRCUIT, IC
An electronic circuit consisting of different miniaturized electronic components (e.g. resistors, capacitors, transistors, etc.) integrated into semiconductor material.

JEDEC
Joint Electron Devices Engineering Council is the standardization panel for electronic package shapes.

LAYOUT
Describes the information from circuit development required for the manufacture of integrated circuits by use of simple geometric shapes.

LED
A Light Emitting Diode is a semiconductor diode giving off light due to an electric current.

LIN

The LIN-BUS (Local Interconnect Network) is a vehicle communication network. It particularly connects comfort applications at a bandwidth of up to 20Kbit/s.

MEMS

Micro-Electro-Mechanical systems are particularly sensors based on semiconductor technologies. They can detect pressure or tilt for example.

MICROMETER

One µm is one millionth of a meter.

MICROPROCESSOR/MICROCONTROLLER

An integrated, complex electronic unit which controls and operates an electronic system. Microprocessors are the central brains of an electronic system such as a computer.

MIXED-SIGNAL

A combination of analog and digital signals simultaneously generated, controlled, or modified on one and the same chip.

MOS

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

MOST-PROTOCOL

The MOST protocol is a network standard for products which require a high data bandwidth. By MOST infotainment and telematics applications are connected in particular.

OEM

An Original Equipment Manufacturer is a manufacturer selling (partial) systems to a reseller. In the automobile industry OEMs are the car manufacturers.

PPM

Parts Per Million

SENSOR

An electronic unit which measures or detects a real physical quantity, e.g. motion, heat or light, and subsequently converts it into an analog or digital electric signal.

SILICON, SI

The most common semiconductor material, used for the production of roughly 95 percent of all chips.

SOI

Silicon-on-Insulator is a special basic material for semiconductor production, showing a perfect vertical insulation achieved by the use of non-conducting intermediate layers.

SYSTEM ON CHIP

Progress in semiconductor manufacturing technology and design methodology makes it possible today to produce ASICs with several millions of transistors. The idea behind System on Chip is to integrate as many complex functions into a chip as possible.

TPMS

A Tire Pressure Monitoring System monitors the air pressure inside car tires and alerts the driver if the pressure is too low.

TRANSISTOR

A transistor, or transfer resistor, is the basic component of semiconductor circuit technology for the amplification or control of electronic signals.

WAFER

The basic material in chip production. A wafer is a 0.3 to 1 mm thick, polished disc sawn out of a single silicon crystal. Typical diameters are 150 (6 inches), 200 (8 inches), and 300 mm (12 inches).

INFORMATIVE MATERIAL

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

- Annual report
- Quarterly reports
- Code of conduct
- Eco report
- Our technology brochure
- Our manufacturing process brochure
- Our competencies brochure
- Our company (image brochure/company profile)
- Newsletter (quarterly)

All listed documents can also be found on our Internet website at www.elmos.de

If you want to subscribe to our ad hoc announcements and press releases, please send an e-mail to invest@elmos.de

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