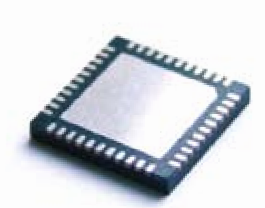
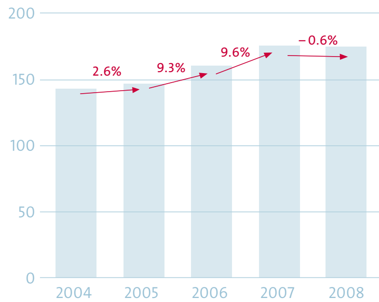
ANNUAL REPORT 2008

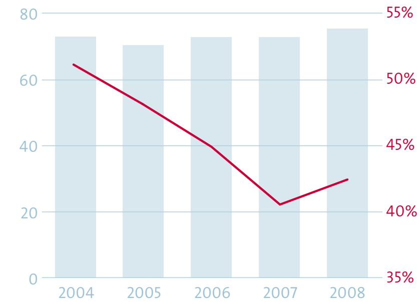
THE ESSENCE: OUR PRODUCTS



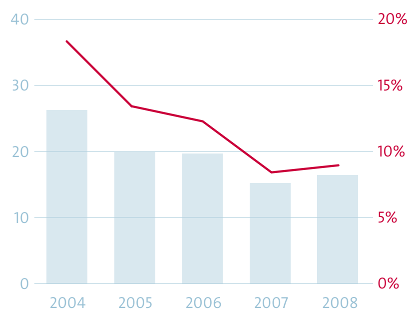
Sales in million Euro
and growth rate



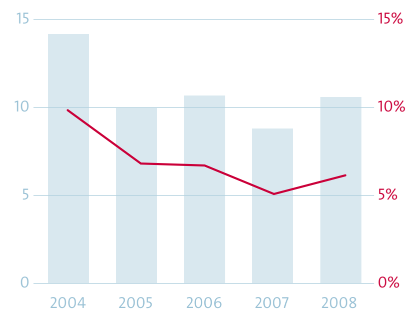
Gross profit in million Euro
and gross margin



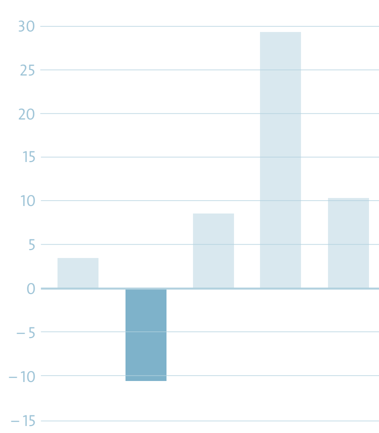
EBIT in million Euro
and EBIT margin



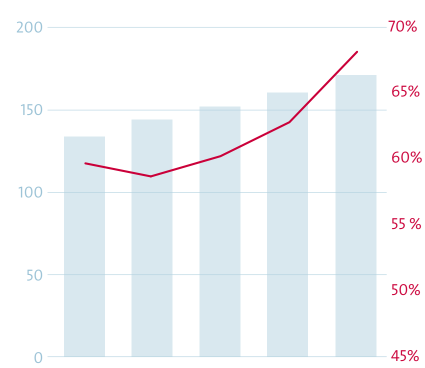
Net income in million Euro
and net income margin



Free cash flow*
in million Euro



Shareholders' equity in million Euro
and equity ratio



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

Five-year overview ELMOS Group (IFRS)

in million Euro unless otherwise indicated	2004	2005	2006	2007	2008
Sales	143.3	147.0	160.7	176.1	175.1
Sales growth	18.1%	2.6%	9.3%	9.6%	– 0.6%
Gross profit	73.2	70.6	73.0	73.1	75.6
Gross margin	51.1%	48.1%	45.5%	41.5%	43.2%
Research and development expenses	24.7	28.1	29.6	30.9	31.6
Research and development expenses in % of sales	17.2%	19.1%	18.4%	17.5%	18.1%
EBIT	26.4	20.0	19.8	15.2	16.5
EBIT in % of sales	18.4%	13.6%	12.3%	8.6%	9.4%
Income before income taxes	22.9	16.4	17.3	12.2	14.7
Income before income taxes in % of sales	16.0%	11.2%	10.8%	6.9%	8.4%
Net income	14.2	10.0	10.7	8.8	10.6
Net income margin	9.9%	6.8%	6.7%	5.0%	6.1%
Earnings per share in Euro	0.74	0.52	0.55	0.45	0.55
Total assets	217.3	237.0	245.3	249.3	250.1
Shareholders' equity	133.8	144.3	152.3	160.0	171.2
Equity ratio	61.6%	60.9%	62.1%	64.2%	68.5%
Financial liabilities	57.6	67.9	65.0	54.0	40.6
Cash, cash equivalents and marketable securities	18.9	16.8	16.6	42.9	42.5
Net debt / (Net cash)	38.7	51.2	48.4	11.1	– 1.8
Cash flow from operating activities	34.7	19.7	28.5	30.8	22.5
Capital expenditures	– 33.5	– 29.6	– 26.4	– 24.5	– 20.8
Capital expenditures in % of sales	23.4%	20.1%	16.4%	– 13.9%	11.9%
Cash flow from investing activities	– 31.2	– 30.4	– 19.9	– 1.4	– 12.2
Free cash flow*	3.5	– 10.7	8.6	29.4	10.3
"Clean" Free Cash Flow**	1.1	– 9.9	2.2	6.3	1.7
Dividend per share in Euro	0.21	0.00	0.00	0.00	0.00***
Employees on annual average	928	1,028	1,131	1,177	1,117

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

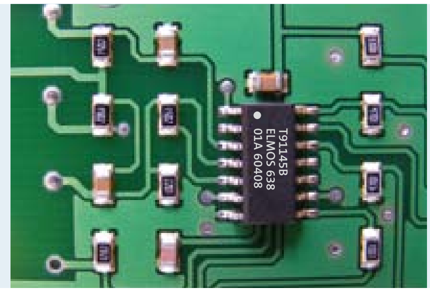
*** Cash flow from operating activities less capital expenditures*

**** Subject to shareholders' resolution at the Annual General Meeting in May 2009*

CONTENT

THE ESSENCE: OUR PRODUCTS

FOCUS ON STANDARD PRODUCT PORTFOLIO EXPANSION
Application specific standard products are an essential addition to our portfolio. We can provide the components directly, giving the customer a crucial competitive edge within the shortest amount of time. Our next steps will lead to a logical portfolio enhancement which allows for forceful marketing at the same time.

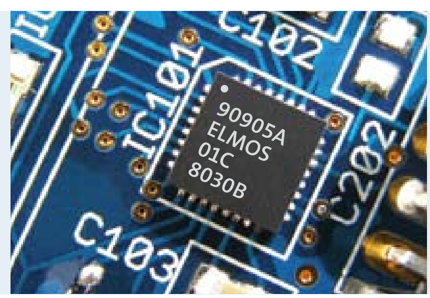


> 2

EXPANSION OF INDUSTRIAL AND CONSUMER GOODS ELECTRONICS
The market beyond our core business "automotive" will account for an ever increasing part of our sales. The first new projects and products have been launched already: And we managed to convince the customers of our quality and competence. Now we are pushing these projects with high commitment and attract new business.

> 4

ASIAN MARKETS OPENED AND DEVELOPED
Breaking into the Asian markets has been one of our goals. Now we are close to the start of production of an automotive comfort application for a South Korean customer. This is our first success story, and we are working on making further progress each day. The essential task is to stress our proven strengths such as high product quality and delivery reliability at growing sales figures.



> 6

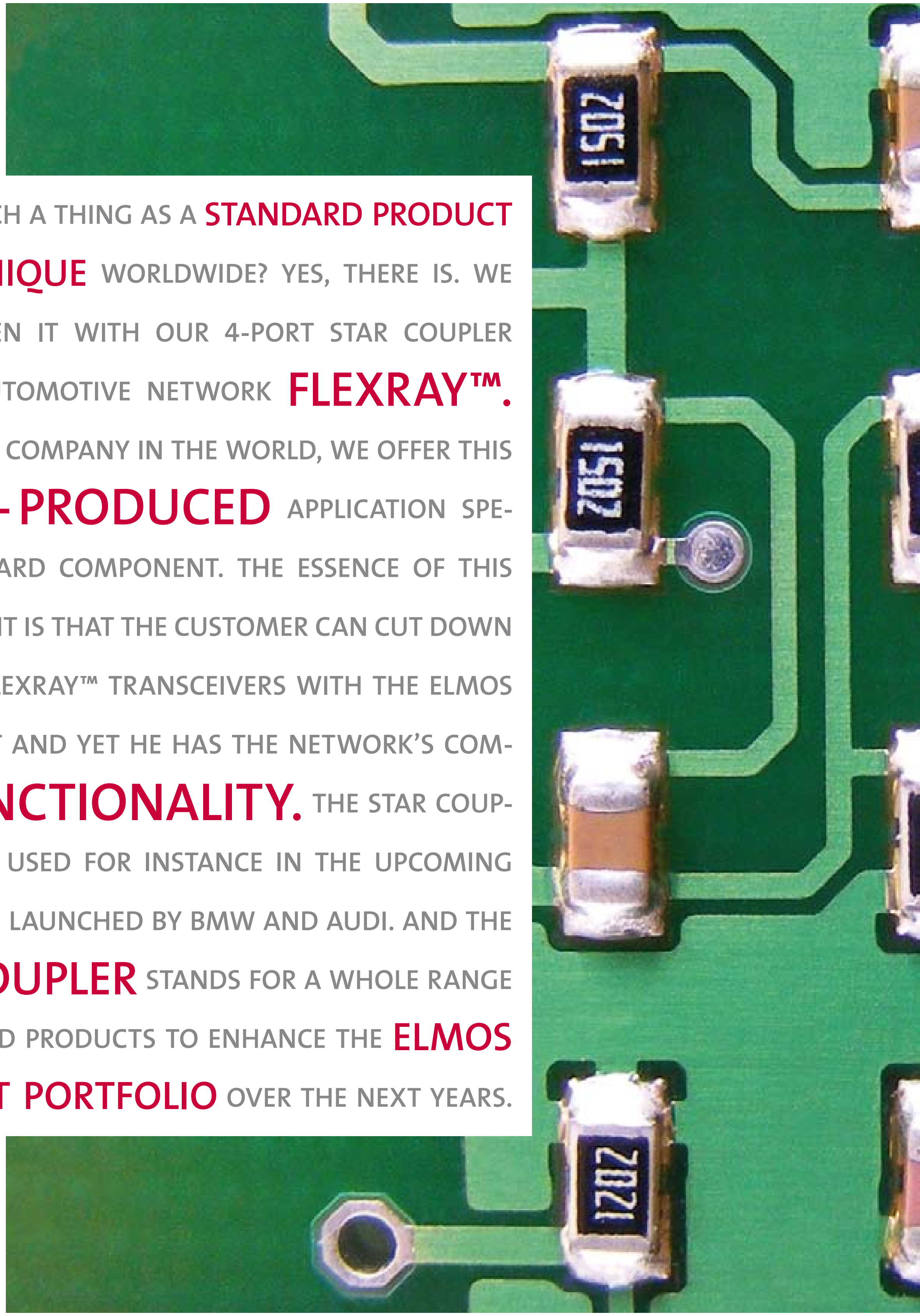
STRATEGIC COOPERATIONS FORGED
What is essential when we enter into new cooperations? Cooperations should provide both parties with the optimum measure of success. We have found the right partners for development and production as well as for the product portfolio. On the one hand we are becoming more flexible in capacity planning; on the other hand we are adding microcontrollers to our product portfolio.

> 8

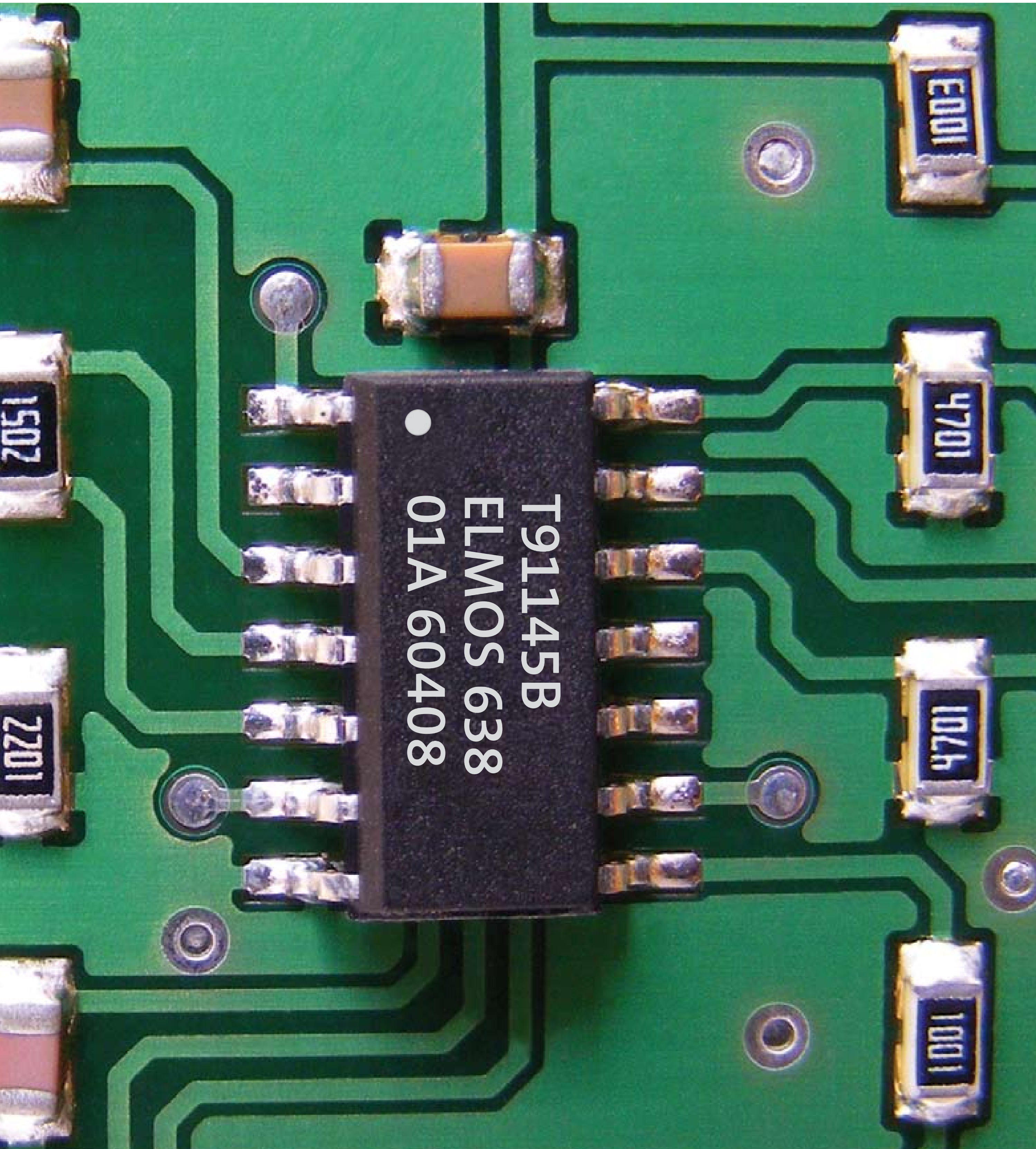
FURTHER MICROSYSTEMS – MILESTONES REACHED
We combine the competencies of sensorics, read-out electronics and special packages in one group. So-called microsystems evolve from these ingredients, providing more functions in smaller devices. Now we have brought a first standard microsystem to market. It is the ideal solution for pressure measurement in automotive and industrial applications.

> 10

FOCUS ON STANDARD PRODUCT PORTFOLIO EXPANSION



IS THERE SUCH A THING AS A STANDARD PRODUCT THAT IS UNIQUE WORLDWIDE? YES, THERE IS. WE HAVE PROVEN IT WITH OUR 4-PORT STAR COUPLER FOR THE AUTOMOTIVE NETWORK FLEXRAY™. AS THE FIRST COMPANY IN THE WORLD, WE OFFER THIS SERIES - PRODUCED APPLICATION SPECIFIC STANDARD COMPONENT. THE ESSENCE OF THIS ACHIEVEMENT IS THAT THE CUSTOMER CAN CUT DOWN ON THREE FLEXRAY™ TRANSCEIVERS WITH THE ELMOS COMPONENT AND YET HE HAS THE NETWORK'S COMPLETE FUNCTIONALITY. THE STAR COUPLER WILL BE USED FOR INSTANCE IN THE UPCOMING CAR MODELS LAUNCHED BY BMW AND AUDI. AND THE STAR COUPLER STANDS FOR A WHOLE RANGE OF STANDARD PRODUCTS TO ENHANCE THE ELMOS PRODUCT PORTFOLIO OVER THE NEXT YEARS.

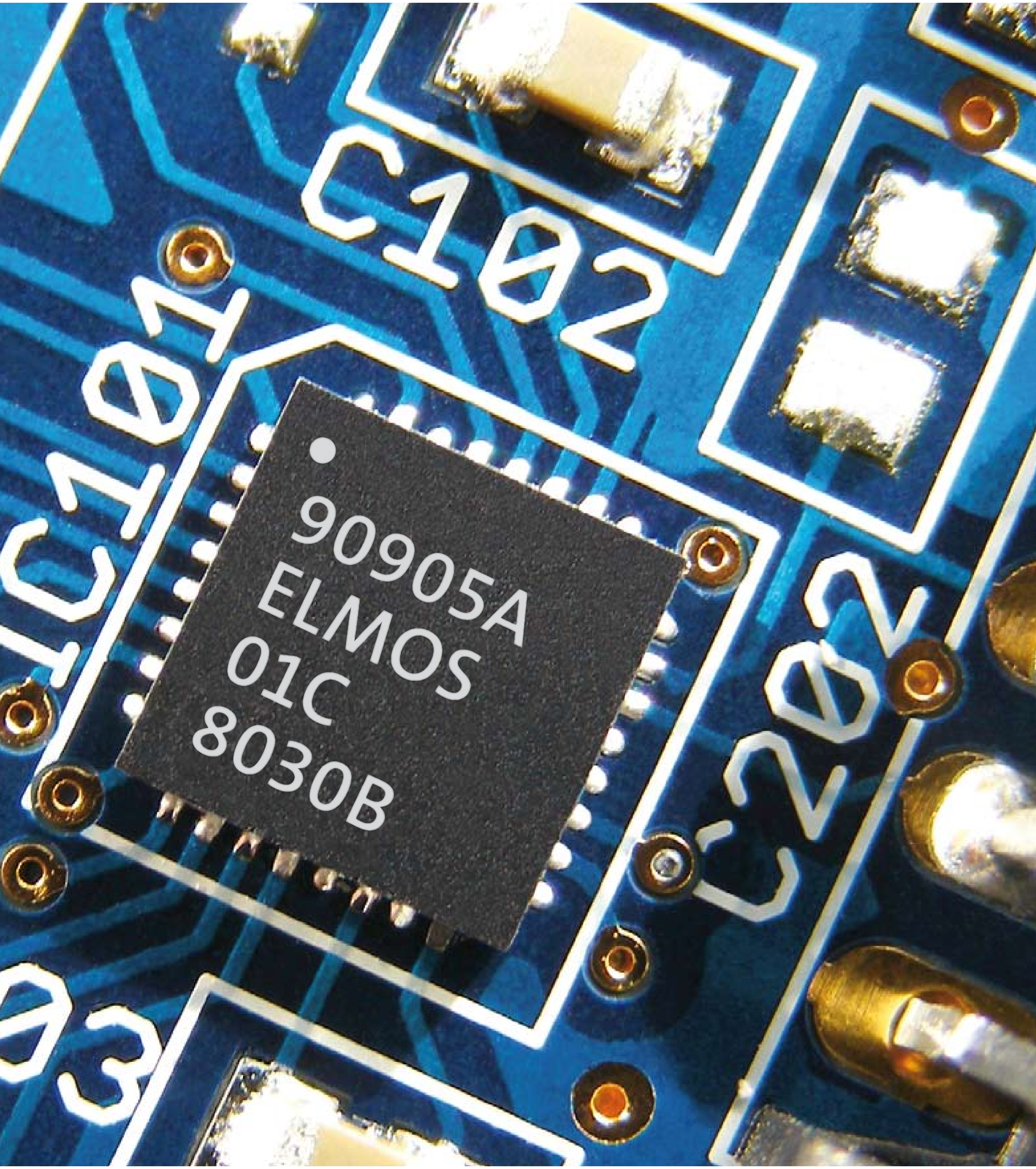

T91145B
ELMOS 638
01A 60408

SUCCESSFUL EXPANSION OF INDUSTRIAL AND CONSUMER GOODS ELECTRONICS

ELMOS IS REPRESENTED IN MANY **INDUSTRIAL AND CONSUMER** GOODS EVEN TODAY: THINK OF US THE NEXT TIME YOU SWITCH ON YOUR **ELECTRIC IRON,** START YOUR **WASHING MACHINE** OR STEP ON YOUR **BATHROOM SCALES.** IN THE FUTURE WE WILL ATTRACT NEW BUSINESS WITH INDUSTRIAL AND CONSUMER GOODS PROJECTS EVEN MORE INTENSIVELY. A POWERFUL **TEAM** SUPPORTS OUR CUSTOMERS FROM BEYOND OUR “AUTOMOTIVE” CORE BUSINESS. FIRST **NEW PROJECTS** HAVE BEEN LAUNCHED ALREADY. ONE EXAMPLE IS THE CHIP FOR A **MOTION DETECTOR** BASED ON PASSIVE INFRARED (PIR) TECHNOLOGY. WE ESTABLISH NEW **CUSTOMER RELATIONSHIPS** WORLDWIDE AND CONVINCE THE INDUSTRY WITH OUR **QUALITY** AND **EXPERTISE.**

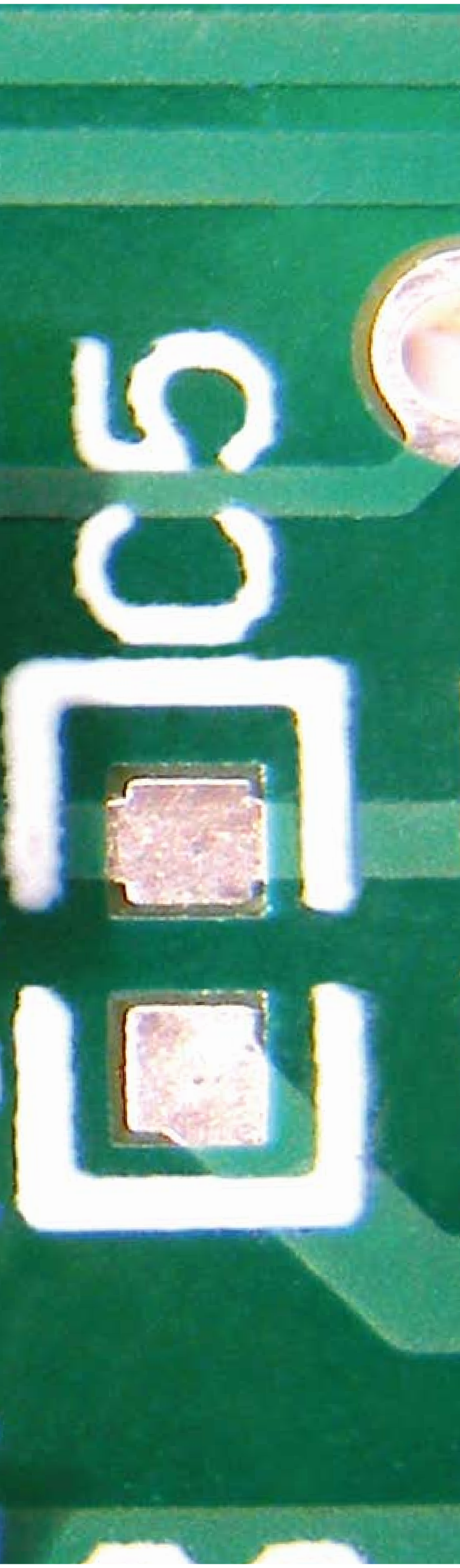
ASIAN MARKETS OPENED AND DEVELOPED

THE FIRST STEP IS ALWAYS THE HARDEST TO TAKE. WE DEDICATED GREAT COMMITMENT TO OUR BUSINESS IN ASIA AND MANAGED TO OPEN THIS MARKET. A FIRST PRODUCT FOR AN AUTOMOTIVE CUSTOMER IN SOUTH KOREA IS CLOSE TO VOLUME PRODUCTION. THE TARGET APPLICATION IS AN AUTOMATIC PARKING SYSTEM AND THUS A COMFORT APPLICATION THAT HAS DEVELOPED INTO A HIGH VOLUME MARKET. IT IS ESSENTIAL FOR US THAT WE NOW HAVE THE CHANCE TO DEMONSTRATE OUR KNOW-HOW AND OUR QUALITY LEVEL IN ASIA. IN THE FUTURE WE WANT TO DEVELOP OUR BUSINESS IN THE ASIAN MARKETS WITH REGARD TO AUTOMOTIVE PRODUCTS AS WELL AS INDUSTRIAL AND CONSUMER GOODS.



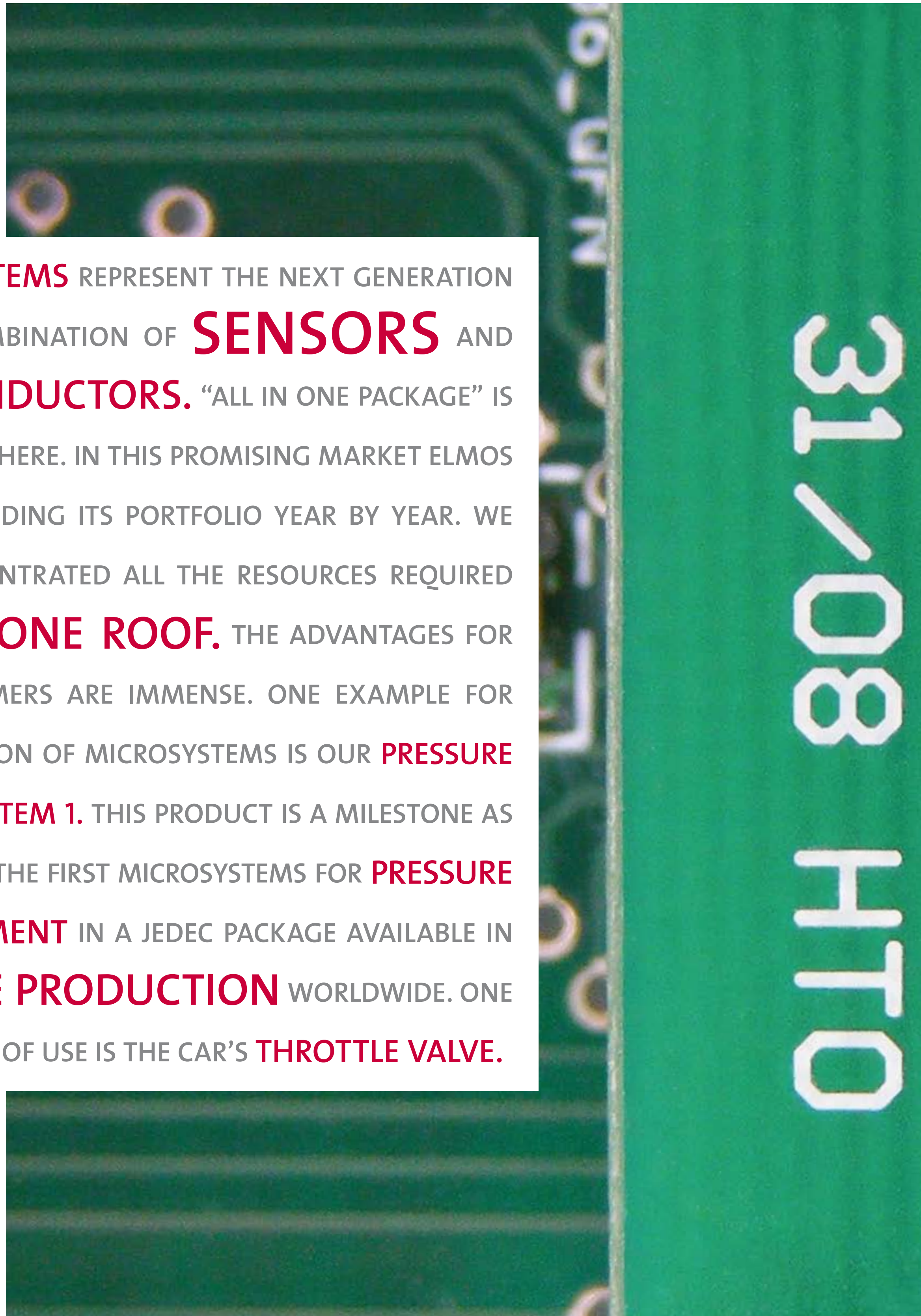
C102
IC101
90905A
ELMOS
01C
8030B
C202

STRATEGIC
COOPERATIONS FORGED

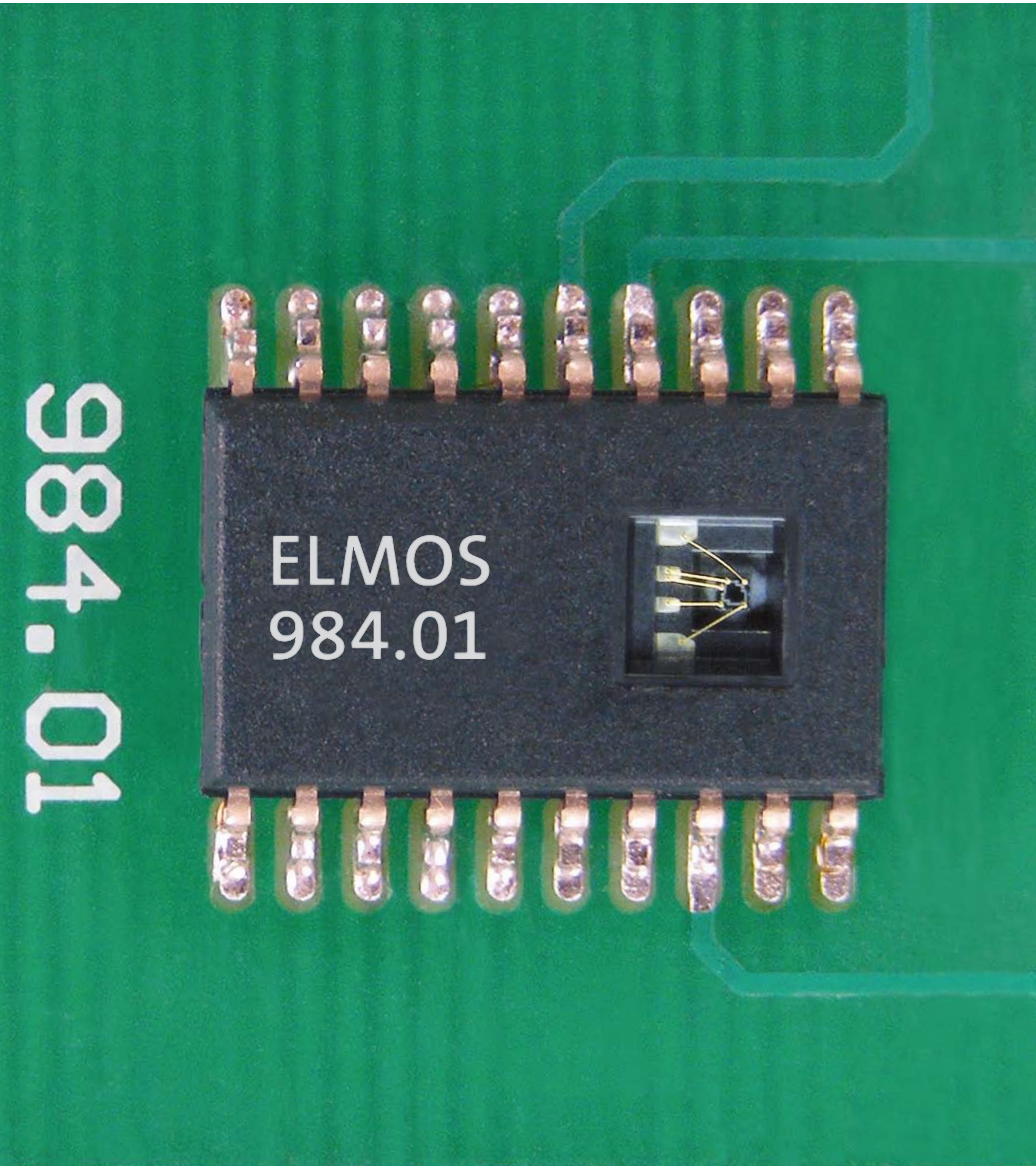


COOPERATIONS OPEN UP NEW HORIZONS FOR US IN DIFFERENT FIELDS OF BUSINESS. FOR THE NEXT TECHNOLOGY GENERATION WE ARE WORKING TOGETHER CLOSELY WITH THE SOUTH KOREAN COMPANY MAGNACHIP. IN THE FUTURE ELMOS PRODUCTS WILL BE MANUFACTURED THERE AS WELL. THE COOPERATION WITH NEC ELECTRONICS ON THE OTHER HAND ENHANCES OUR PRODUCT PORTFOLIO. THE COMBINATION OF NEC MICROCONTROLLERS WITH OUR HIGH-VOLTAGE SEMICONDUCTORS ENABLES US TO OFFER NEW PRODUCTS SUCH AS THE IO-LINK. THIS COMPONENT COMBINES NEC AND ELMOS KNOW-HOW IN ONE PACKAGE AND IS AN ESSENTIAL COMPONENT FOR NEW INDUSTRIAL AUTOMATION NETWORKS.

NEW MICROSYSTEMS – MILESTONES REACHED



MICROSYSTEMS REPRESENT THE NEXT GENERATION OF THE COMBINATION OF SENSORS AND SEMICONDUCTORS. “ALL IN ONE PACKAGE” IS THE SLOGAN HERE. IN THIS PROMISING MARKET ELMOS KEEPS EXPANDING ITS PORTFOLIO YEAR BY YEAR. WE HAVE CONCENTRATED ALL THE RESOURCES REQUIRED UNDER ONE ROOF. THE ADVANTAGES FOR OUR CUSTOMERS ARE IMMENSE. ONE EXAMPLE FOR THE EXPANSION OF MICROSYSTEMS IS OUR PRESSURE SENSOR SYSTEM 1. THIS PRODUCT IS A MILESTONE AS IT IS ONE OF THE FIRST MICROSYSTEMS FOR PRESSURE MEASUREMENT IN A JEDEC PACKAGE AVAILABLE IN VOLUME PRODUCTION WORLDWIDE. ONE OF ITS FIELDS OF USE IS THE CAR’S THROTTLE VALVE.


ELMOS
984.01
984.01

Management Board

CEO letter

Dear Shareholders

I look back on the past year with mixed feelings.

On the one hand we reached our financial targets and especially our growth targets in the first half-year 2008 and achieved better results than many of our direct competitors. On the other hand the past year's review is characterized by the worldwide turbulences triggered by the financial crisis, determining the second half-year as well as the situation at present. Particularly the downturn in the automobile industry – of a scale never before experienced – took all parties involved by surprise and presented us with new challenges.

Compared to the previous year, ELMOS was able to stabilize sales in 2008 (175.1 million Euro). Despite the unexpected setback, we made progress with regard to the quality of earnings in improving both EBIT margin and net income margin. The EBIT reached an amount of 16.5 million Euro or 9.4% of sales in 2008. The net income was increased to 10.6 million Euro or 6.1% of sales. At 10.3 million Euro, the free cash flow was clearly positive. The margin improvements can be traced back to numerous operating measures, e.g. an increased capacity utilization of our 8-inch manufacture in Duisburg as compared to the year before. Altogether we have reached the figures of our forecast communicated in October 2008, closing the year ahead of the industry and many of our competitors.

Yet we cannot dissociate ourselves from the overall market situation. In lockstep with the crisis of the financial markets, the car manufacturers' negative announcements appeared, and continue to appear, on the ticker almost by the minute, and the suppliers – our direct customers – have felt the full force of it immediately. This scenario has resulted in postponements and cancelations of orders. We have actively met this challenge and fought against it with a whole bundle of measures: Investments have been cut down to a minimum, the number of wafers-in has been modified according to the new conditions, and on the whole we have carried out considerable cost reductions affecting all cost items. Furthermore, we introduced short-time work in the beginning of 2009 for most employees at our main production site in Dortmund and for other locations as well. The ELMOS staff demonstrates its team spirit particularly in these difficult times: Even those employees who are not affected by short-time work show their solidarity with voluntary salary cuts.

The complete ELMOS team has proven its flexibility with this bundle of measures. And we agree on this: If the climate gets even rougher, we will hold our position even more forcefully.

The share price is also affected by the turbulences on the financial markets. The share lost about two thirds of its value in the course of the year.

Especially in times as hard as these one can easily lose sight of what is essential. But we focus on our strengths instead: our products. This is what helps our customers and what we earn money with. This is what we are good at. With five products we are giving you examples of our strength and with each of them we are also presenting our strategic cornerstones: the expansion of our standard product portfolio – particularly in our core business, automotive electronics –, more products for industrial and consumer goods markets, the development of the Asian markets, profitable cooperations with partners, and growth with microsystems. These focal points and their realization run like a thread through the past year and this annual report.

Apart from the crisis we have made good progress with the implementation of our strategy. The cooperations forged over the past year are one example. We have found a partner for microcontrollers in NEC Electronics. Together with our mixed-signal chips we can provide our customers with both competencies combined in one package. The first product to emerge from our agreement with NEC is an IO-Link component for use within a new industrial communication network. On the basis of another cooperation, with South Korean semiconductor manufacture MagnaChip, we will be able to put to use new technologies and more flexible capacities in a profitable way in the medium term.

One further example for the realization of our strategy: As one of the first manufacturers worldwide we offer a microsystem that is available as a standard product – according to the JEDEC package standard that is easy to handle for customers. The so-called Pressure Sensor System 1, in short PSS1, combines pressure sensor and read-out electronics in one special package.

One of our goals in 2008 was to break into new markets and attract new customers as well as to develop the market for consumer goods and industrial electronics as strategic pillars for the future. In this regard we have also seized our opportunities: We have defined new products, enhanced our know-how and won first projects. Standard products have been brought into focus increasingly as well. We have achieved first successes with solutions specially tailored to market demands; over the next years these so-called ASSPs will gain in importance for our sales. And not least, we have made progress in the Asian marketplace. We will soon deliver a series-produced important comfort application to a well-known car manufacturer in South Korea.

Today we find ourselves able to focus on our products and the implementation of our strategy – that is: the essence of things – because we prepared ourselves well in the past. One example: Even before the financial crisis appeared we provided a secure long-term basis for our financing; we have a sound balance sheet structure and good liquidity. Therefore we are looking strictly forward. We will continue to convince our customers even in difficult times with know-how, unique products and fresh ideas. Mr. Jürgen Höllisch has been giving us his support as new Management Board member for Sales and Development since October 2008. His knowledge and experience with semiconductors of many years have already resulted in positive stimuli and have shown effect.

What do I expect from fiscal year 2009? It will certainly be a challenging year for the auto industry and the economy as a whole. However, I am sure we will gain market share based on the combination of a strong financial foundation, extensive cost reductions, stringent cost control, elaborate know-how, and the highest quality level and we will emerge from this crisis even stronger.

I would be glad if you as shareholder accompanied us on our way into the future and continued to place your confidence in us.

Sincerely

Dr. Anton Mindl
CEO of ELMOS Semiconductor AG

Dr. Anton Mindl

Graduate physicist | born 1957

Chief Executive Officer

- Management Board member since 2005 | appointed until 2010
- **Essential fields of responsibility**

  Strategy | corporate governance | quality

  human resources | sensorics and micromechanics

Nicolaus Graf von Luckner

Graduate economist | born 1949

Chief Financial Officer

- Management Board member since 2006 | appointed until 2011
- **Essential fields of responsibility**

  Finances | controlling | investor relations | administration

  purchasing | information technology

Jürgen Höllisch

Engineer | born 1971

Management Board member for Sales and Development

- Management Board member since 2008 | appointed until 2013
- **Essential fields of responsibility**

  Sales | product lines | design

  projects | optoelectronics

Reinhard Senf

Graduate engineer | born 1951

Management Board member for Production

- Management Board member since 2001 | appointed until 2011
- **Essential fields of responsibility**

  Wafer manufacture | assembly | testing

  technology development

Supervisory Board

Prof. Dr. Günter Zimmer
Graduate physicist | Duisburg
Chairman of the Supervisory Board

Supervisory Board report

Dear shareholders

the Supervisory Board carefully attended to its duties and responsibilities as established by law and the articles of incorporation in fiscal year 2008. Its members advised the Management Board in running the company and supervised management activity. In oral and written reports, the Management Board supplied the Supervisory Board regularly and timely with comprehensive information. The Supervisory Board was directly involved in all decisions of substantial importance. The Management Board consulted the Supervisory Board on the company's strategic orientation and analyzed divergences of the course of business in detail. The Management Board's reports on all business transactions of relevance to the company were discussed at length and examined in the Supervisory Board meetings. If stipulated by law or articles of incorporation, the Supervisory Board gave its opinion on the Management Board's reports and resolutions following diligent examination and exhaustive discussion. Even outside the Supervisory Board meetings, the chairman and other members of the Supervisory Board were informed about essential business transactions by the chairman of the Management Board. Conflicting interests of Management Board and Supervisory Board members subject to mandatory disclosure to the Supervisory Board or the General Meeting did not develop.

In six meetings held on May 8, 2008, July 31, 2008, October 29, 2008, December 12, 2008, January 15, 2009 – in the shape of a conference call – and March 17, 2009, the Supervisory Board was informed in detail about the development of the fiscal year ended December 31, 2008, the company's situation, and current business policy decisions on the basis of the Management Board's oral and written reports. Based on this comprehensive body of information, the Supervisory Board passed the required resolutions in its meetings. The Supervisory Board concerned itself regularly with the current development of the company with regard to sales, earnings and liquidity. Situation and structure of the group companies and the group's strategic development were discussed in detail in the Supervisory Board meetings. Progress made at the Duisburg manufacturing site, cooperations, the next Annual General Meeting, marketing activities, and measures for the improvement of earnings were other topics of exhaustive debate. The Supervisory Board took account of the present economic situation particularly in the last two meetings of the year 2008. The measures proposed by the Management Board with regard to liquidity, cost reduction and customer supply were approved. The effects on ELMOS and resulting budget adjustments were the central issue of the additional meeting convened in January 2009. In addition, the risk management system, the compliance program, and the company's compliance with the recommendations of the German Corporate Governance Code were dealt with. Furthermore, the Supervisory Board concerned itself with the nomination of the auditor and monitored the auditor's independence. The Supervisory Board also dealt with the efficiency of its own work and assessed it. With the exception of the conference call in January 2009, all of the Supervisory Board's meetings were attended by all of its members.

Supervisory Board committees

In its meeting of March 3, 2009 the Supervisory Board's **audit committee** concerned itself intensively with the preliminary financial statements of ELMOS Semiconductor AG and the ELMOS Group. The auditor was also present at this meeting. In addition, the company's material risks identified by its risk management were addressed, and the measures decided by the Management Board were discussed. The audit committee met once in the year under report.

The **human resources committee** discusses employment contracts of Management Board members and other issues concerning the Management Board. Focal topics of past year's debates were the resignation of Dr. Frank Rottmann as member of the Management Board and the appointment of Mr. Jürgen Hollisch as Management Board member for Sales and Development. The human resources committee convened four times in the year under report.

The **nomination committee,** responsible for supplying the Supervisory Board with suitable candidates for its election proposals to the General Meeting in case of impending elections, met once in the year under report. The topic of discussion was finding a new candidate for membership on the Supervisory Board. This by-election is made necessary by the resignation of Dr. Peter Thoma for personal reasons as of the conclusion of the General Meeting 2009.

In its meeting of December 12, 2008 the Supervisory Board established a **strategy committee** for discussing the group's strategic development. This committee did not meet in the year under report.

The committee chairmen gave account of their committee work in the Supervisory Board meetings.

Audit and group audit

By consulting the certified accountants of Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Dortmund, the Supervisory Board concerned itself in its meeting of March 17, 2009 with the audit of the financial statements and consolidated financial statements for the fiscal year ended December 31, 2008. According to the shareholders' resolution of May 8, 2008 and the ensuing commission given by the Supervisory Board to the auditor, the financial statements prepared in accordance with HGB regulations (German Commercial Code) for the fiscal year ended December 31, 2008 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 17, 2009, the statements and reports were also explained by the Management Board. The undersigned certified accountants reported on the results of their examination. After its own examination of financial statements and management report, consolidated financial statements and group management report, and the Management Board's proposal for the appropriation of profits, the Supervisory Board approved the result of the auditor's examination and, in its meeting on March 17, 2009, approved of the financial statements and the consolidated financial statements. The financial statements are hereby established. Management Board and Supervisory Board propose to the Annual General Meeting to carry forward the complete retained earnings of 36.7 million Euro (HGB) to new accounts.

Corporate governance

Declaration of compliance
Page 25 ❯❯

To the company's benefit Management Board and Supervisory Board cooperate closely and both boards are committed to the sustained increase of the shareholder value. On December 12, 2008 the company issued an updated declaration in accordance with Section 161 AktG (German Corporations Act) on the company's compliance with the recommendations of the German Corporate Governance Code in its version of June 6, 2008 and made it permanently accessible to the shareholders on the company website. It can also be found in this annual report on page 25. The joint corporate governance report provided by Management Board and Supervisory Board can be found on page 21.

Corporate governance report
Page 21 ❯❯

Line-up of Supervisory Board and Management Board

Dr. Frank Rottmann resigned from his position as Management Board member for Sales and Development on April 30, 2008. On October 1, 2008 the Supervisory Board appointed Mr. Jürgen Höllisch as new Management Board member for Sales and Development. There were no further changes in the line-up of Management Board and Supervisory Board. The members of the Supervisory Board are introduced on page 20 of this annual report.

Supervisory Board members
Page 20 »

Report according to Section 314 AktG

The Supervisory Board also examined the report on relationships with affiliated companies according to Sections 312 | 313 AktG, provided by the Management Board of ELMOS Semiconductor AG. The Supervisory Board came to the conclusion that the report's factual data 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 that is materially different from the Management Board's evaluation. In addition, the auditor examined the report on relationships with affiliated companies according to Sections 312 | 313 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 either not inappropriately high or disadvantages were compensated, 3. no circumstances indicate an evaluation that is materially different from the Management Board's evaluation with respect to measures listed in the report."

The Supervisory Board approves the result of this audit. According to 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.

The Supervisory Board expresses its gratitude to the Management Board members and all employees for their performances and their high commitment.

Dortmund, March 17, 2009

For the Supervisory Board
Prof. Dr. Günter Zimmer
Chairman of the Supervisory Board

Supervisory Board members and committees

Supervisory Board

Prof. Dr. Günter Zimmer *Chairman* Graduate physicist | Duisburg	**Mandates**	▸ Member of Siltronic AG supervisory board *(until April 4, 2008)* ▸ Member of Dolphin Intégration S.A. board of directors
Dr. Burkhard Dreher *Vice chairman* Graduate economist | Dortmund	**Mandates**	▸ Member of Arcelor Mittal Eisenhüttenstadt GmbH supervisory board ▸ Member of Vattenfall Europe Mining AG supervisory board
Jörns Haberstroh Graduate in business management | Kerken	**Mandate**	▸ Vice chairman of Ehlebracht AG supervisory board
Dr. rer. nat. Peter Thoma Graduate physicist | Unterschleißheim	**Mandate**	▸ Member of Kromberg & Schubert GmbH & Co. KG advisory board
Jutta Weber Graduate educationist | Tarrytown, New York, U.S.A.		
Dr. Klaus Weyer Graduate physicist | Schwerte	**Mandates**	▸ Member of Paragon AG supervisory board ▸ Member of MST Dortmund project advisory board

Supervisory Board committees

Audit committee The audit committee concerns itself primarily with issues of accounting, risk management and the auditor's independence.	**Chairman** **Members**	▸ Dr. Burkhard Dreher ▸ Dr. Klaus Weyer, Prof. Dr. Günter Zimmer
Human resources committee The human resources committee deals with the Management Board members' employment contracts and other issues concerning the Management Board.	**Chairman** **Members**	▸ Prof. Dr. Günter Zimmer ▸ Dr. Burkhard Dreher, Dr. Klaus Weyer
Nomination committee The nomination committee discusses suitable candidates in case of by-elections to the Supervisory Board.	**Chairman** **Members**	▸ Dr. Klaus Weyer ▸ Dr. Peter Thoma, Prof. Dr. Günter Zimmer
Strategy committee ***(since December 12, 2008)*** The strategy committee discusses the group's strategic development.	**Members**	▸ Dr. Burkhard Dreher, Jörns Haberstroh, Dr. Klaus Weyer, Prof. Dr. Günter Zimmer

Corporate Governance



Corporate governance report

Management Board and Supervisory Board commit themselves to responsible corporate governance as well as sustainable added value. The confidence placed in us by investors and business partners is a stimulus to the constant development of corporate governance within the entire ELMOS Group.

In December 2008 Management Board and Supervisory Board issued the declaration of compliance according to Section 161 AktG (German Corporations Act). ELMOS discloses in this declaration that the company differs from the recommendations of the German Corporate Governance Code in its version of June 6, 2008 on six counts. These are retention of the board members' D&O insurance (GCGC No. 3.8), no severance payment caps in current management contracts (No. 4.2.3), the individualized disclosure of the Management Board and Supervisory Board members' remuneration (Nos. 4.2.4 und 5.4.7), remuneration of the members of Supervisory Board committees (No. 5.4.7), and no discussion of each half-year and quarterly report by the Supervisory Board prior to the publication of said reports (No. 7.1.2). The declaration of compliance is quoted in this annual report on page 25. It is also available on our company website, along with the declarations of compliance of the past years.

@ www.elmos.de/englisch/investor-relations/corporate-governance/delaration.html

Declaration of compliance
Page 25 »

Close collaboration of Management Board and Supervisory Board

Management Board and Supervisory Board work together closely and with mutual trust. The Management Board gives regular, extensive and up-to-date reports to the Supervisory Board on all developments and events of relevance to the company. These are among others the general business development, planning and risk situation as well as compliance measures introduced by the Management Board to safeguard compliance with rules and regulations within the company. The Supervisory Board advises and supervises the Management Board with respect to the company management. The rules of procedure of both boards concern themselves with the definition of this collaboration among other issues. The Supervisory Board is composed of six members. Each elected for five years according to the articles of incorporation, the members of the Supervisory Board reflect the variety of the activities of ELMOS with their different professional backgrounds.

Transparency for our shareholders

Dates of importance to the shareholders are listed annually in a financial calendar, published on the Internet as well as in the annual report. All quarterly and annual reports are available on the

@ www.elmos.de/englisch/investor-relations/financial-calendar.html

corporate website. Within the framework of our investor relations work, routine meetings of our CEO and CFO with analysts and investors are held. Our shareholders are regularly provided with information about the present development of the company.

General Meeting is broadcast on the Internet

The Annual General Meeting (AGM) serves as platform for the exercise of our shareholders' formal rights. The shareholders receive our annual report, the agenda and participation requirements ahead of the event. Shareholders who cannot attend the AGM in person have the opportunity to entrust their voting rights to proxies nominated by ELMOS. The AGM is also broadcast in its entirety on our Internet site per webcast. All documents relating to the Annual General Meeting, current and past, as well as other information on the participation in the AGM and the exercise of voting rights are available on our Internet site and can also be requested in hardcopy from the company. Subsequent to the General Meeting we announce shareholder presence and voting results on our website. The next Annual General Meeting will be held on May 6, 2009 in Dortmund.

@ www.elmos.de/englisch/investor-relations/annual-general-meeting.html

Anticipatory risk management

Efficient 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, assessing them, and initiating adequate countermeasures. All company divisions are involved in this system. Parameters for risk assessment are the probability of occurrence and the estimated amount of loss. This risk assessment is updated quarterly or at even shorter intervals if necessary. We give account of the current corporate risks in the group management report on page 54.

Risks and opportunities Page 54 ››

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. This declaration furnished no doubts about auditor independence. Compliant with No. 7.2.3 of the German Corporate Governance Code, the Supervisory Board arranged for the auditor to give account without delay of any findings and incidents of importance to the auditor's duties and responsibilities to occur during the performance of the audit. The Supervisory Board also determined that the auditor inform the Supervisory Board or make note in the auditor's report if the auditor establishes differences from the declaration of compliance as issued by the Management Board and the Supervisory Board. No inconsistencies of this kind were established.

Stock awards and stock option plan

Since 2007 ELMOS has awarded bonus stocks (stock awards) annually to employees of outstanding merits, executives and Management Board members in recognition of performances delivered in the past year. In addition, stock option plans from previous years benefiting Management Board members, executives and employees are still in effect. These plans are explained in detail in the notes to consolidated financial statements; for further information please refer to note 23.

Stock awards and stock option plan Page 95 ››

Remuneration report

Total remuneration of the Management Board

The Supervisory Board decides and routinely reviews the remuneration system and the essential contract regulations for the Management Board members in full session. Total Management Board remuneration comprises a fixed monthly salary, a management bonus, stock awards, fringe benefits, and pension benefits. The company does not provide an individualized disclosure of the remuneration with respect to privacy protection. Management Board and Supervisory Board agree that such a disclosure would not contribute to greater transparency in the form of additional information relevant to the capital market. 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.

In fiscal year 2008 the members of the Management Board received a total fixed remuneration of 1,244 thousand Euro (2007: 1,655 thousand Euro) and variable remuneration of 525 thousand Euro (2007: 185 thousand Euro). Management Board remuneration comprises fixed components and variable incentive components dependent on the ELMOS Group's earnings. In the year 2008, as in the year before, bonus stocks of ELMOS Semiconductor AG were issued to the members of the Management Board. The time value of the shares issued came to 41 thousand Euro at the time they were granted (2007: 65 thousand Euro). There are indirect pension commitments to members of the Management Board requiring no accruals because of the volume of these commitments and risk coverage provided by completely congruent pension plan reinsurance. In the year 2008 the contributions to these pension plans amounted to 366 thousand Euro (2007: 432 thousand Euro). They are included in the fixed components of the remuneration.

Remuneration of former Management Board members or their surviving dependants amounted to 255 thousand Euro in fiscal year 2008 (2007: 79 thousand Euro). In addition, premiums of 275 thousand Euro for insurance were paid for this group of beneficiaries (2007: 200 thousand Euro).

Pension provisions of 2,505 thousand Euro were accrued as of December 31, 2008 (2007: 2,536 thousand Euro). Apart from pension commitments, no additional payments have been promised to any Management Board member in case of termination of occupation. 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 fiscal year.

Total remuneration of the Supervisory Board

The Supervisory Board's remuneration is determined by Section 9 of the articles of incorporation. 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 members are not granted stocks of ELMOS Semiconductor AG.

Compliant with the recommendation of the German Corporate Governance Code with respect to Supervisory Board remuneration in consideration of chairmanship and vice chairmanship, the chairman receives twice the amount of the regular fixed payment and the vice chairman receives one and a half times of said amount. 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, yet not individualized. This also applies to payments made to Supervisory Board members for individually performed services, particularly consultation and mediation services.

The fixed remuneration paid to members of the Supervisory Board amounted to the total sum of 82 thousand Euro in fiscal year 2008 (2007: 92 thousand Euro). Expenses and disbursements are included in this amount. As no dividend was paid to the shareholders in 2008, the members of the Supervisory Board did not receive variable remuneration in fiscal year 2008. For consultations, inventor fees and other services the company paid 342 thousand Euro (2007: 377 thousand Euro) to members of the Supervisory Board.

@ www.elmos.de/englisch/investor-relations/corporate-governance/directors-dealings.html

Directors' dealings

Individuals who assume executive positions with the issuer of stocks as well as closely related persons are obligated by law to disclose the purchase and sale of stock of ELMOS Semiconductor AG according to Section 15a WpHG (Securities Trading Act). We publicize these so-called directors' dealings on our company website immediately upon notification. For detailed information about directors' dealings please refer to the notes to consolidated financial statements (note 38).

Directors' dealings
Page 107 ❯❯

Shareholdings and stock options

The disclosures of the company's stocks and options held by members of Management Board and Supervisory Board members are explained in detail in the notes to consolidated financial statements; please refer to note 35 for this information. The members of the Supervisory Board had combined direct or indirect holdings of 34% of the stocks issued by the company and the members of the Management Board had combined direct holdings of less than 1%.

Shareholdings
Page 107 ❯❯

Declaration of compliance

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

"ELMOS Semiconductor AG complies with the recommendations of the "Government Commission German Corporate Governance Code" (in short: GCGC) in its version of June 6, 2008 with the following exceptions:

- The currently effective D&O insurance for Supervisory Board and Management Board does not provide for a deductible for the board members (GCGC No. 3.8). Based on the unclear legal situation concerning the individual board member's personal liability, an adaptation of the insurance is currently not being realized.

- No severance payment caps for the purpose of No. 4.2.3 GCGC are provided in those management contracts currently in effect. The human resources committee will consider the implementation of the corresponding recommendations (GCGC No. 4.2.3) upon the conclusion of new management contracts.

- The Management Board members' remuneration is stated on the Internet site as well as in the annual report as divided into fixed components, success-dependent incentive components and components with a long-term incentive effect. However, these statements are made in summarized and not individualized form (GCGC No. 4.2.4). By shareholders' resolution passed at the Annual General Meeting of May 19, 2006, the company is exempt from the legal obligation to disclose the Management Board members' remuneration individually, as introduced by the Management Board Remuneration Disclosure Act of August 3, 2005, for a period of five years.

- The Supervisory Board members' remuneration also consists of fixed and incentive components. Supervisory Board remuneration is stated on the Internet site as well as in the annual report with reference to its components, yet not individualized. Remuneration paid by ELMOS Semiconductor AG to Supervisory Board members for individually performed services, in particular consultation and mediation services, is not individually stated in the corporate governance report (GCGC No. 5.4.7).

- Chairmanship of and membership in Supervisory Board committees are not subject to separate remuneration (GCGC No. 5.4.7).

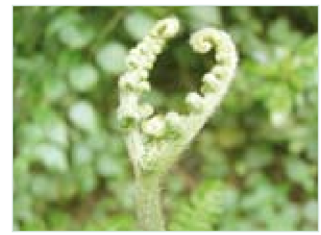
- For the sake of efficiency, the Supervisory Board does not discuss each single half-year and quarterly report prior to the respective report's publication (GCGC No. 7.1.2)."

Dortmund, December 2008

The Supervisory Board **The Management Board**

Our responsibility





The company ELMOS assumes responsibility every day: For instance by developing and manufacturing semiconductors to be used in an airbag. In a case of emergency, these chips must work faultlessly to save lives. We also accept responsibility for our employees, for our environment and for our shareholders' capital. We are aware of this responsibility daily and act accordingly. With each decision, we consider the different demands of the interest groups and weigh the advantages and disadvantages carefully. The foundation for this proceeding is provided by an open and respectful dialog between all parties involved.

Employees as the cornerstone of business success

ELMOS wants to offer more than just a place to work

Our employees are the most important part of the company. As one of the leading developers and manufacturers of automotive semiconductors worldwide, we rely on the skills of our employees. Their knowledge, motivation and flexibility are the basis of the company's success. Therefore we want to provide our employees with more than just a workplace. One component of this strategy is the in-house fitness center. It is fully equipped and offers manifold opportunities for weight and endurance training. For promoting the employees' health on the job, instruction courses are held regularly for sitting and working in a manner that is easy on the back. Annual flu immunization for all employees at the Dortmund location and an analysis of the cardiovascular function for staff in production belong to the elaborate program of health protection. This results in a positive working environment where employees can deliver their abilities to optimum results.

@ www.elmos.de/englisch/about-us/responsibility.html

We have defined the principles of interaction with employees in our "Code of Conduct". Herewith, we commit ourselves to a corporate culture that is based on mutual respect, irrespective of sex, religion, nationality, ethnic background, disabilities, and age. The Code is available for download on our website and it can also be requested in hardcopy free of charge.

Energy saving is a central issue

Integrated environmental and health protection management

We are just as active in the field of environmental protection. For more than ten years ELMOS has been actively taken measures that go beyond eco and health protection provided by law. In order to document these efforts to the public, an integrated eco and health protection management system was introduced and certified according to ISO 14001:2004 in the year 2003.

With regard to environmental protection, we have placed our focus increasingly on the issue of energy saving over the past years. It is quite obvious that environmental protection often coincides with economic considerations: motors for continuous operation as applied for example in ventilation technology are used exclusively in efficiency class ESS1 and insulation class F. These motors are more expensive than the standard designs, yet they consume much less energy. Thus the extra costs are amortized even after a short period of time and costs are saved in the long run.

@ www.elmos.de/englisch/about-us/responsibility.html

We publish all data and facts referring to our responsibility for the environment annually in an eco report that informs comprehensively about environmental protection, occupational safety and environmental impact at the Dortmund location. This eco report is also available for download on our website and can be requested in hardcopy free of charge.

Donations to charity

Support of youth development and professional training

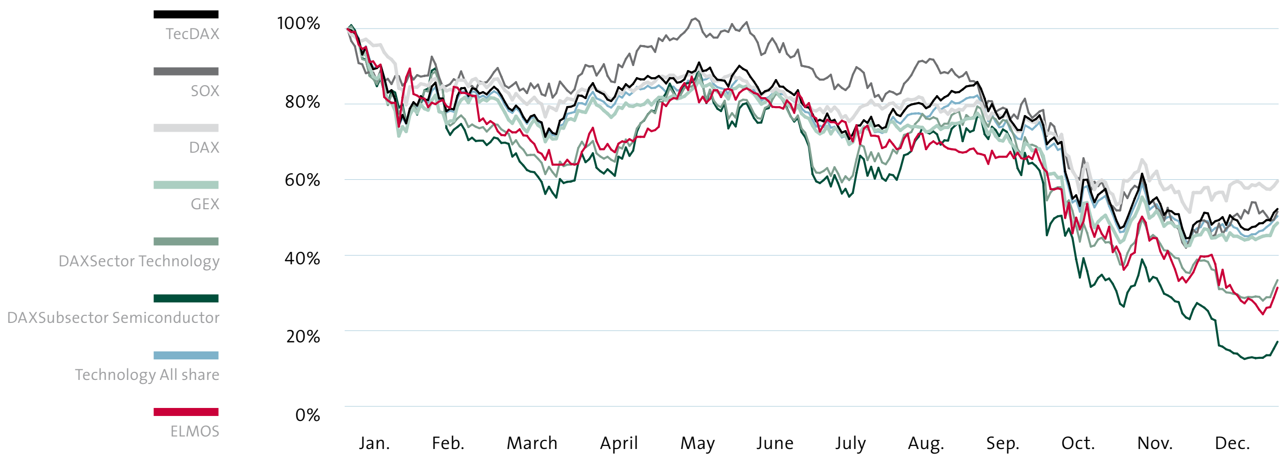
It is an important concern for us as a company to assume responsibility for society as well. The support of youth development and professional training belong to this responsibility for us, as does the support of charitable organizations. We want to make a contribution to society and to assume social responsibility even beyond our business interests in the sense of sustainability. In the past years we have made contributions to help ease acute emergencies, both domestic and abroad, by a multitude of different fundraising campaigns. Of course we also try to support local and regional institutions with our donations. Among other initiatives, we make donations to regional institutions such as Dortmunder Tafel e.V.

We also regard it our social obligation to offer young people the chance of qualified professional training. Roughly half our trainees are usually trained for the profession of microtechnologist, oriented towards work in clean room manufacture. Apart from microtechnologists we train for a large number of professions, accommodating the interests and talents of our future employees. We have also been supporting the local Max-Planck-Gymnasium (Max Planck High School) for several years in a cooperative framework. Thus we make a contribution to an education that provides students with important key qualifications for their later path of life.

Our share

General stock market development

Relative development 2008



The developments at the stock markets in 2008 reflected the global crisis of the financial markets and the economy. All indices and stocks showed losses, some of them substantial. The DAX dropped by 40%, the Philadelphia Semiconductor Index (SOX) lost 48%, the DAXSector Technology Index (formerly: Prime Technology) gave in 67%, and the DaxSubsector Semiconductor fell by 83%. The ELMOS stock, following a rather good performance with –3% in the semiconductor environment of 2007, could not escape the general market trend in 2008 and registered losses of a scale comparable to other semiconductor stocks. The stock reached its 52-week high of 7.30 Euro early in 2008 on January 3 and hit its 52-week low of 1.78 Euro on December 19. At the end of the year the stock recovered slightly, to be quoted at 2.30 Euro.

Closing price at year-end of 2.30 Euro

Development of the ELMOS stock

Period ended December 31, 2008	**Since 1/1/2007**	**Since 1/1/2008**
ELMOS (Xetra)	– 69.7%	– 68.7%
Industry indices		
TecDAX	– 32.1%	– 47.8%
DAXSector Technology*	– 71.6%	– 66.7%
Technology All Share*	– 38.1%	– 49.7%
Philadelphia Semiconductor Index (SOX)	– 54.9%	– 48.5%
DAXSubsector Semiconductor*	– 86.0%	– 83.0%
DAXSector Automobile	– 10.7%	– 35.5%
General market indices		
DAX	– 27.1%	– 40.4%
GEX*	– 36.8%	– 51.5%
Prime All Share*	– 31.1%	– 42.5%
CDAX*	– 30.9%	– 42.6%

** ELMOS is included in these indices*

The average daily trading volume of the ELMOS stock (Xetra and Frankfurt/Main) came to roughly 12.5 thousand shares, thus below the previous year's level (roughly 25.6 thousand shares daily). Roughly 90% of the shares continued to be traded on Xetra.

ELMOS key stock data

	2007	2008
Number of shares outstanding as of Dec. 31	19,414,205	19,414,205
52-week high (Xetra)	8.99 Euro | May 17	7.30 Euro | Jan. 3
52-week low (Xetra)	6.90 Euro | Aug. 13	1.78 Euro | Dec. 19
Closing price (Xetra)	7.35 Euro	2.30 Euro
Annual performance (dividend excluded)	– 3.0%	– 68.7%
Market capitalization as of Dec. 31	142.7m Euro	44.7m Euro
Market value to book value* as of Dec. 31	0.9	0.3
Shares traded on daily average	25.6 th.	12.5 th.
Earnings per share	0.45 Euro	0.55 Euro
Dividend per share	0.00 Euro	0.00 Euro**

** Shareholders' equity | ** Proposal to the AGM in May 2009*

Number of shares outstanding unchanged

The market capitalization of ELMOS at the end of the year came to 44.7 million Euro based on 19.4 million shares outstanding. The number of shares outstanding as of December 31 did not change in the years 2007 and 2008. In January and February 2008 ELMOS repurchased 50,000 shares and assigned them to employees and Management Board members in the course of the year in the context of the company's stock award plan.

Basic stock information

Key data	
ISIN	DE0005677108
SIC	567710
Stock exchange symbol	ELG
Reuters	ELGG.DE
Bloomberg	ELGG.GR
Sector	DAX Sector All Technology

The ELMOS share is a non-par value bearer share (unit share). It is traded on all German stock exchanges as well as on the Xetra system. As Prime Standard issuer, ELMOS meets the highest transparency requirements beyond the level of the General Standard and thus beyond the transparency standards as defined by European Union regulation.

Share details

Type of shares	Non-par value common bearer shares
Transparency level	Prime Standard
Market segment	Regulated market
IPO	October 11, 1999
Designated Sponsors	HSBC Trinkaus & Burkhardt, WestLB
Index inclusion	CDAX, DAXSector All Technology, DAXSector Technology, DAXSubsector All Semiconductor, DAXSubsector Semiconductor, GEX, Prime All Share, Technology All Share

Shareholder structure

EFH holds 52.9% of the shares

The share capital of ELMOS Semiconductor AG is divided into 19,414,205 non-par value shares with a proportionate amount of 1.00 Euro of the share capital allotted to the single share. 52.9% (or about 10.3 million) of these shares are held by ELMOS Finanzholding GmbH (EFH). 47.1% of the shares (roughly 9.1 million shares) are free float. Apart from EFH, no other shareholder holds more than 3% of the share capital of ELMOS at the end of the year under report.

Investor relations

In the year 2008 ELMOS continued to inform investors about the current situation and corporate strategy within the framework of road shows, conferences and company visits on location. We also informed analysts and investors, and upon request individual shareholders as well, by conducting conference calls subsequent to the announcement of results. 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.

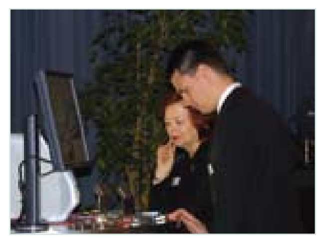
@ www.elmos.de/englisch/investor-relations.html

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, a financial calendar, the company’s articles of incorporation, information on the AGM, press releases, and directors' dealings. We are also happy to send you information such as annual reports or quarterly reports by mail.

Research coverage

BNP Exane Paribas	HSBC Trinkaus & Burkhardt
CAI Cheuvreux	Mirabaud Securities
Credit Suisse	Natixis Securities
DZ Bank	SES Research
fairesearch / Close Brothers Seydler	WestLB

Annual General Meeting



As in the previous years about 300 private and institutional investors participated in the 9th Annual General Meeting on May 8, 2008 at the Casinosaal Hohensyburg in Dortmund. With 11,905,350 Euro or 61.3% of the share capital present, each proposal to the separate items of the agenda was approved by a significant majority of votes. The agenda's only addition to the usual items was the authorization to purchase own shares.

Next AGM on May 6, 2009

Much use was made once again at the Annual General Meeting 2008 of the possibility to entrust one's voting rights to the proxy nominated by the company. Shareholders who could not be present in person were able to watch the broadcast of the past Annual General Meeting on the Internet, either live or later as a recording. The upcoming Annual General Meeting on May 6, 2009 will also be broadcast live on the Internet for the convenience of shareholders and potential investors. 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

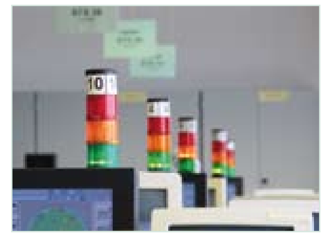
ELMOS Semiconductor AG

Investor Relations | Heinrich-Hertz-Straße 1 | D-44227 Dortmund | Germany

Phone +49 (0) 231-75 49-287 | Fax +49 (0) 231-75 49-548 | invest@elmos.de | www.elmos.de

Business and economic framework





Business activity

Roughly 90% of sales are achieved with electronics for the automobile

ELMOS develops, manufactures and markets highly integrated microelectronic circuits. The company was founded in 1984 in Dortmund where it maintains its headquarters and largest manufacturing site. The products – so-called semiconductors – find use primarily in two industries: roughly 90% of sales are generated with electronics for the automobile industry, the remaining ten percent are accounted for by products for industrial and consumer goods electronics.

ELMOS: the specialist for automotive electronics

The share of electronics in automobiles is constantly increasing: Comfort applications such as parking systems, air conditioning, or power door locks are taken for granted today as components of contemporary automobiles. Safety electronics in particular have made a quantum leap over the last few years, from the first much-debated airbag to today's equipment with ABS, ESP and many other functions. Over the next years lower gas consumption will be the focal point of attention regardless of the current fuel prices. Further reductions are possible only by the intelligent use of electronics.

ELMOS chips are used by virtually all auto brands

ELMOS develops and manufactures semiconductor chips and sensors, in other words the brainpower behind automotive electronics. Our chips control and measure these systems. Example drive application: Our solutions are distinguished by highly precise analog input amplifiers, power amplifiers and integrated microprocessors – everything up-to-date electronics require to make driving a car as eco-friendly and efficient as possible. Therefore ELMOS chips are used by virtually all auto brands worldwide.

One characteristic of semiconductors for the automotive market is the long production period. New automotive projects usually require development periods of two to three years before being series-produced for about five to eight years. Sometimes the duration of the production period changes considerably if car manufacturers put to use a similar technical platform in a family of new car models. Unlike many other semiconductor manufacturers, ELMOS is able to supply its customers with the same chip over the entire period because of special manufacturing options. Other features of our business are the very high quality requirements and the robust semiconductor technology.

Market share increased

Since its foundation ELMOS has achieved a leading market position as semiconductor manufacturer in the market for automotive electronics. According to the survey conducted by the market research institute Gartner Dataquest in March 2008, ELMOS is the worldwide number two in the segment for ASICs (application specific integrated circuits) for the automotive market, on the same level with Denso. The ranking is headed by STMicroelectronics; the immediate competitors AMI Semiconductor (taken over since by ON Semiconductor) and Melexis follow on ranks five and seven, respectively. ELMOS increased its market share from ten to eleven percent. When it comes to projects involving very high volumes, ELMOS also competes with major semiconductor manufacturers such as Infineon, STMicrolectronics, and Freescale.

Potential in the market for industrial and consumer goods

Apart from the automotive market ELMOS has been busy in the industrial and consumer goods markets, supplying semiconductors e.g. for applications in household appliances, photocameras, installation and facility technology, and machine control. This non-automotive sector amounted to roughly 10% of sales in the past year, on the level of the previous years. The share of sales is supposed to rise to 20 to 30% in the medium term.

Customer and application specific components

Production so far almost exclusively at own production sites

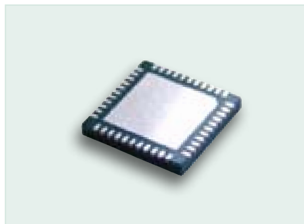
Regardless of the target market, ELMOS predominantly develops and manufactures products by customer order for a specific application, exclusively for the respective customer. Apart from these customer specific circuits (ASICs), comprising more than 90% of the products, ELMOS also provides a portfolio of application specific standard products (ASSPs). ELMOS manufactures ASICs and ASSPs so far almost exclusively at the company's own production sites (wafer fabs) in Dortmund and Duisburg. Depending on capacity requirements, we will also commission a service provider to manufacture automotive semiconductors for us in the next years (so-called foundry services).

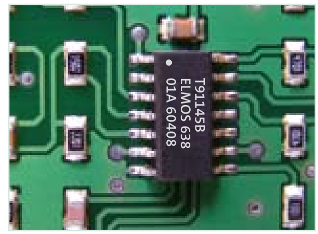
Extensive product portfolio

SMI and ELAP round off the product portfolio

The majority of sales is generated with semiconductors; this product portfolio is enhanced by micro-electro-mechanical systems (MEMS). These are for the most part silicon-based high-precision pressure sensors designed, manufactured and marketed by our subsidiary Silicon Microstructures (SMI)/ Milpitas, U.S.A. The manufacturing subsidiary ELMOS Advanced Packaging B.V. (ELMOS AP), based in Nijmegen in the Netherlands, supports the technology and product portfolio with the development and production of special packages for electronic semiconductor components and sensors. The development and marketing of application specific micro-mechatronic modules complete the range of products. These microsystems combine the capabilities of the ELMOS Group and consist of signal processing semiconductor components and micromechanical sensors in a functional package. This combination makes it possible for the customer to realize cost-effective system solutions.

Strategy





Solid liquidity position and balance sheet strengh

In the year 2008 we continued to work on the realization of the strategy we have embarked on. We are adhering to this approach even against the backdrop of the currently difficult economic situation. We are convinced that the investments in the implementation of our strategy will pay off even from an economic viewpoint. We are able to operate on the basis of a solid liquidity position and balance sheet strength. The strategic cornerstones and the progress made already are outlined in the following paragraphs.

From development supplier to product business

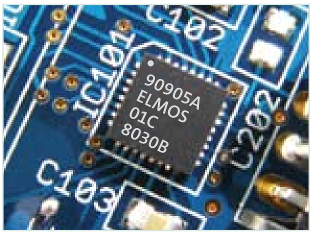
ASSPs in focus

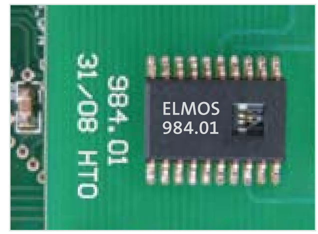
While ASICs were the norm a few years ago and customers made significant contributions to the products' development costs, today's focus is on ASSPs. In order to respond to this development and to act successfully in the market, we have developed ASSPs at an increasing rate over the past years. Their share of sales is still at a low level at present but it is rising constantly. The development and marketing of ASSPs demand a radical modification of the organizational structure and a modification of the approach adopted by the employees as well. The customers no longer specify what has to be developed; market trends must be recognized instead and turned into products. The organization is being adjusted to these changes. Product families, specialized according to the different applications "Sense", "Drive", "Connect" and "Supply" – yet standardized to serve different customers, have been defined and developments have been initiated. At present more than 50 ASSPs are available and more than 20 others are in development. Fields of use for these products are for instance efficiency improvement (e.g. multi-phase boosters for LED control), building technology (e.g. CO_2 sensors for climate management), or safety applications (e.g. crash airbag sensors). The entry in the ASSP markets provides a leverage effect with regard to both volumes and margins that cannot be achieved in the ASIC market.

Stronger entry into industrial and consumer goods markets

Efforts strengthened significantly

Historically speaking, our strength resides in the automotive market. However, we recognize considerable, as yet unaddressed opportunities for our products in the markets for industrial and consumer goods. In order to seize our opportunities, we have increased our efforts in this area significantly. We have contracted additional distributors to broaden our customer basis. In addition, we are targeting key customers in these markets with our own distribution team specialized in industrial and consumer goods markets. We were successful in winning a large number of new projects in the past year. We are registering great customer attention in the fields of network systems, lighting concepts and power supply. In the medium term the non-automotive markets are supposed to amount to 20% to 30% of sales of ELMOS.





Development of the Asian markets

So far we have assumed a strong position on the German market and the other European markets. We have gained a foothold in the U.S. market and established valuable contacts there. Over the past years we have forced the pace of developing the Asian markets, particularly in Japan and South Korea. In support of this effort we have strengthened our marketing activities with our own staff as well as with representatives and entered into a strategic partnership with Autonet, a major supplier to car manufacturers Hyundai and Kia. These activities resulted in a large number of design wins for us, leading to a bigger share of sales in the Asian markets in the future.

Own employees and representatives locally on the spot

Establishing strategic partnerships

Supported by strategic cooperations with partners, we can provide useful additions to our own capabilities in order to offer a broader product portfolio in the long term and thus increase our competitiveness. In the past year we concluded agreements for two partnerships. At the beginning of the year we signed a cooperation agreement with Korean foundry MagnaChip. Together we are developing a new technology generation; this partnership enables us on the other hand to purchase processed wafers so that we can cut down on our capital expenditure requirements and react more flexibly to heavily fluctuating unit numbers. These additional external production capacities in combination with its own manufacture make it possible for ELMOS to realize a so-called “fab light” concept. The agreement concluded with NEC Electronics in the fall includes joint development, mutual access to development and manufacturing services, and joint marketing of products for the automotive and industrial markets. Customers of both companies will benefit especially from the possible combination of the strengths of NEC Electronics in the realm of 8 to 32 bit microcontrollers with the robust and reliable, application specific analog/mixed-signal semiconductor chips made by ELMOS.

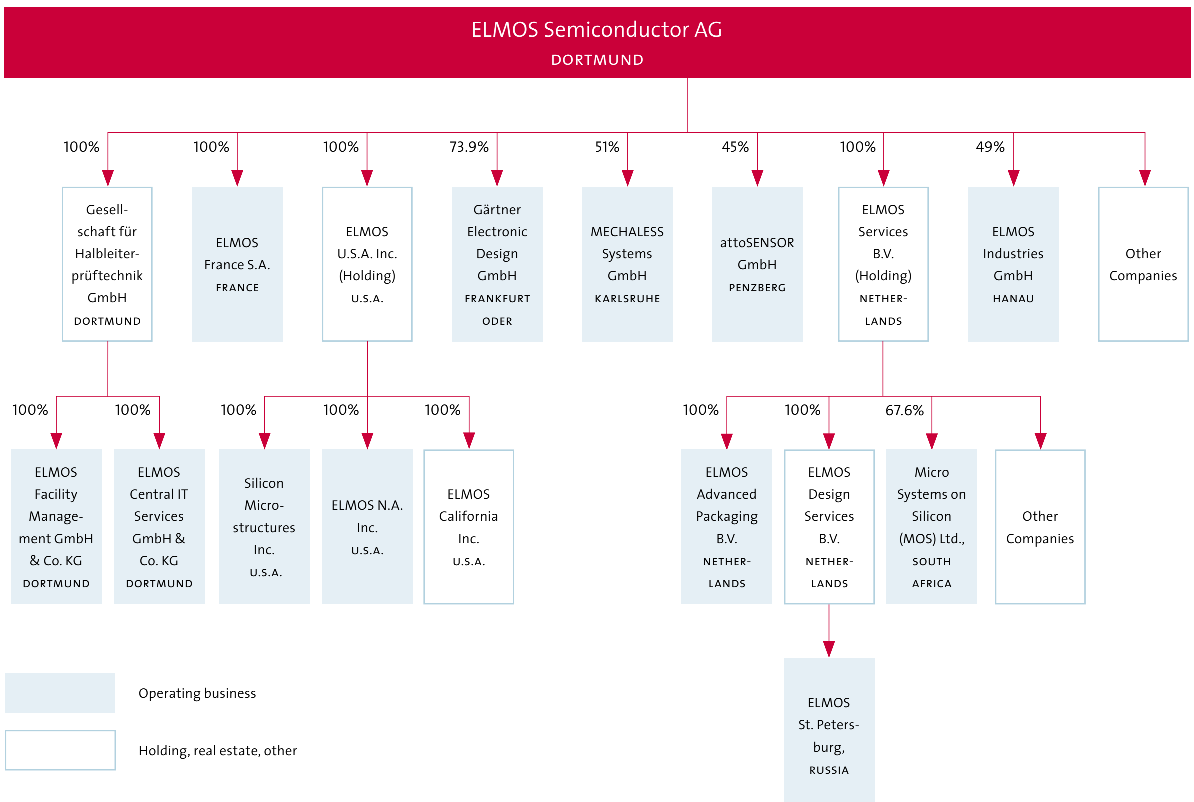
Cooperations with MagnaChip and NEC Electronics

Bigger share of microsystems

Microsystems, consisting of ASICs and MEMS in a customer specific package, will see rising demand in the next years. As one of only a few companies, ELMOS is able to develop and manufacture complete microsystems within its group of companies. The development of microsystem projects has been pushed over the past fiscal years to the effect that in 2009 a microsystem for a safety application will enter volume production. In addition, a first standard microsystem, namely a pressure sensor system suited for use in industrial, medical and automotive markets, was introduced to the market in 2008.

Rising demand for microsystems

Organizational structure



The corporate structure of ELMOS responds to demands defined by the customers, particularly in the automotive industry, as well as the customers' requirements for innovation, quality, flexibility, and delivery reliability. The resulting tight customer-supplier relationship is reflected by the ELMOS Group's structural layout. The organizational structure of the ELMOS Group is constantly being reviewed and adapted to the requirements.

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

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

In its segment reporting, ELMOS differentiates between the business units semiconductor and micromechanics. The segment micromechanics reflects the business operations of SMI. All other companies and activities are entered in the segment semiconductor.

Relationships with affiliated companies

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

General economic framework

The most important market for ELMOS is the market for semiconductor chips for the automobile industry, a niche market of the global semiconductor industry. It comprises a share of roughly 7% of the entire worldwide semiconductor market.

ELMOS is a specialized niche market player

The development of the automobile market was still satisfactory in the first half of the year 2008; however, first significant indications of the real economy catching the weakness from the financial market crisis showed in the fall. The car industry was among the very first industries to be affected; the downturn was surprisingly severe. Registration numbers were on the decline worldwide in 2008 particularly by the end of the year. The slump of the highly developed markets Western Europe and U.S.A. was disproportionately high.

In **Europe** registration numbers fell by 7.8% in 2008; this means the biggest loss in 15 years. In Western Europe the downturn came to 8.4% over the whole year; in the fourth quarter 2008 registration numbers took a dive by 19.3%. Among the biggest European markets to record drastic losses in 2008 were Spain (–28.1%), Italy (–13.4%), and Great Britain (–11.3%). Germany (–1.8%) and France (–0.7%) announced somewhat more moderate declines. 2008 sales figures of all major car manufacturers were down in Europe.

Drastic decline of registration numbers

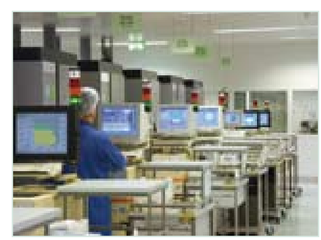
The U.S. market gave in 18% in the year 2008. Even though the German brands recorded losses in the U.S. as well (–6%), they continued to gain market shares as in the years before. The sales figures of the American car manufacturers fell by 20% to 30% in 2008.

Current forecasts of the development of car registration numbers in the year 2009 range between –8% and –25%. The wide spread of expectations signifies the large extent of uncertainty with regard to the present situation. It is currently unclear when the economic weakness at hand will be overcome. The market research institute Gartner anticipates the market for automotive semiconductors to decrease by 16% in 2009 (forecast dating from January 2009).

Usually the automotive semiconductor market grows even if car production stagnates. This is due to the constantly rising share of electronic systems in automobiles. However, the present market situation is characterized by the fact that the sales drop experienced by the suppliers is even much more significant than the car manufacturers' sales decline. The probable reason for this scenario is the emptying of warehouses within the supply chain. It can be assumed that the development of car manufacturers' production numbers and the suppliers' sales figures will at least come close in the near future.

Production





Number of chips produced has increased

While sales of the ELMOS Group were stabilized close to the prior-year level in 2008, the number of chips produced was further increased compared to the previous year. Over the past years we have established a second semiconductor manufacturing site in Duisburg, important for assuring supply as well as for making use of cost-cutting potential due to a bigger wafer diameter. Utilization of the production in Duisburg, started in the year 2007, was increased successively in the course of the first half-year 2008. Manufacturing efficiency was further increased over the quarters. The share of products manufactured on the 200mm production line (8-inch) in Duisburg more than doubled in the year under report, amounting to roughly a fifth of the entire ELMOS chip production.

Number of wafers-in has been reduced

At both chip production locations Dortmund and Duisburg, the number of wafers-in was reduced for economic reasons in the last quarter of 2008; as a consequence the utilization rate in the year under report fell considerably behind original planning. As a result, initially scheduled investments in capacity expansion were postponed or canceled altogether. The intended conversion of part of the manufacture in Dortmund from 150mm (6-inch) to 200mm (8-inch) wafers was put off for future years as the increase in capacity is not necessary at present.

At the production location Nijmegen in the Netherlands, subsidiary ELMOS Advanced Packaging focuses primarily on the business areas package development and manufacture of special packages for micromechanical systems (MEMS), wafer processing, and packaging (tape & reel). At the location of subsidiary SMI in Milpitas, California, MEMS pressure sensors are manufactured on 150mm wafers.

Cooperations with foundries

The group's own manufacturing sites are completed by cooperations with contract manufacturers, so-called foundries. In the future these foundries will make additional capacities available if necessary, thus enabling ELMOS to respond flexibly even to heavily fluctuating demand. The production opportunity at a foundry partner is intended to be seized especially for ASSPs as well as for products for industrial and consumer goods markets.

Research and development

The ever increasing application of electronic components in the automobile leads to the automotive industry's constantly rising demands on quality and reliability of semiconductors used for automotive electronics. In order to guarantee the automotive industry's high quality level, ELMOS makes use of innovations technically matured e.g. in the consumer goods market for introduction in the automobile, additionally quality-assured by own qualification procedures.

Next technology generations developed further

The 0.35µm process was further developed in the year under report. Another focal point was the joint development of automotive semiconductor technologies within the framework of the cooperation with South Korean MagnaChip. Furthermore, a central R&D issue has been the further development of technology modules for the 0.35µm process.

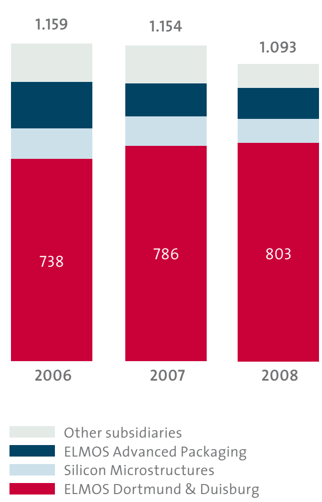
Apart from the development of new processes, by far the larger portion of the expenditure for research and development is accounted for by the development of new products. The majority of the product development costs must be pre-financed by ELMOS, to be amortized only through later volume production. Of course this especially goes for the development of application specific standard products, destined to amount to a bigger share of ELMOS sales. Research and development expenses rose slightly from 30.9 million Euro in 2007 to 31.6 million Euro in the year under report. These figures correspond with a ratio of 17.5% and 18.1% of sales, respectively.

Employees

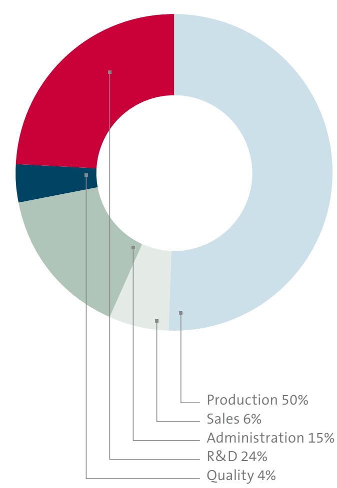
As a technology company, ELMOS benefits especially from the employees' know-how. Their motivation, expert knowledge and flexibility are the prerequisite to the company's long-term success. Particularly with regard to the development of new products and processes, the employees represent the deciding criterion for growth and innovation. At the locations in Dortmund and Duisburg, in Germany's most-populated federal state North Rhine-Westphalia, ELMOS is able to recruit from a great number of well-trained young engineers as there are more than 50 universities and colleges in the vicinity. ELMOS has maintained a close cooperation with these institutions ever since its foundation and holds a singular position as the sole semiconductor manufacturer in the region. ELMOS offers professional training for a variety of commercial and technical professions, with an emphasis on the training of microtechnologists. By the end of 2008, 46 employees in Dortmund were in training (2007: 56).

ELMOS offers training for various professions

Employee development
ELMOS Group (year-end)



Employees by functions
ELMOS Group (annual average)



Staff reductions at U.S. locations and in the Netherlands

While the total number of staff employed at the North Rhine-Westphalian locations Dortmund and Duisburg rose to 803 as of December 31, 2008 (December 31, 2007: 786), the number of employees within the ELMOS Group fell to 1,093 as of balance sheet date (December 31, 2007: 1,154). This 5% decline is accounted for to a large extent by the staff reductions carried out at the two U.S. locations and in the Netherlands. The number of ELMOS Group employees on annual average went down as well, to 1,117 (2007: 1,177). The average age of the employees was 37 years in 2008 (2007: 37 years), employee turnover came to roughly 5%.

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

Staff participation

Introduced in 2007, stock awards were granted again in 2008 to employees of outstanding merits, executives and Management Board members in recognition of their performances delivered in the past year. Granting these awards is intended to represent the close relationship between ELMOS and its top achievers and to be regarded as an incentive to inspire commitment and motivation. The stock award plan 2008 comprised 50,000 shares which had been previously repurchased at the stock market within the authorization to repurchase own stock.

Quality, safety and environmental protection

Within the framework of continuous improvement processes, ELMOS forcefully implements its first-time-right and zero defect strategy. Each possible kind of waste is eliminated consistently as soon as indications show. ELMOS thus achieves an outstanding quality level with its products as well as with its business and manufacturing processes. Due to anticipatory quality planning and monitoring of customer requirements even during the development stage, quality is achieved not by subsequent selection but rather from the beginning with full competitiveness and a minimum of rejects.

First-time-right and zero defect strategy

Regular examinations of the tools and processes put to use, close attention to the series products from acquisition and development stage up to manufacture and delivery, constant analyses, and cutting-edge statistical procedures facilitate this high quality level. By means of a sophisticated traceability system, ELMOS is able to detect the reasons for slightest quality fluctuations early on and to minimize their effects in an effective and sustained manner in order to provide more efficient customer support. In-house laboratories scrutinize not only possible defect mechanisms of the semiconductor manufacture most effectively but sensor and packaging specific features as well, thus closing the loop system for the continuous control of the ELMOS manufacturing processes.

The ELMOS quality management system is audited annually in accordance with the requirements of 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. The essential locations of the ELMOS Group were audited and certified according to this standard in 2008.

Quality and environmental management system audited annually

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

More information on safety and eco protection can be found in the chapter "Our responsibility" starting on page 26.

Our responsibility
Page 26 «

Profit, financial and economic situation

Financial statements according to IFRS

The consolidated financial statements of ELMOS Semiconductor AG for fiscal year 2008 have been prepared in accordance with the International Financial Reporting Standards (IFRS).

ELMOS Group key figures according to IFRS

in million Euro or %, unless otherwise indicated	2007	2008	Change
Sales	176.1	175.1	– 0.6%
Gross profit	73.1	75.6	3.4%
in %	41.5%	43.2%	
Research and development expenses	30.9	31.6	2.4%
in %	17.5%	18.1%	
Distribution costs	11.6	12.1	4.1%
in %	6.6%	6.9%	
Administrative expenses	16.1	16.5	2.2%
in %	9.2%	9.4%	
Operating income before other operating expenses	14.5	15.4	6.3%
in %	8.2%	8.8%	
EBIT	15.2	16.5	8.4%
in %	8.6%	9.4%	
Income before taxes	12.2	14.7	19.9%
in %	6.9%	8.4%	
Group net income after minority interest	8.8	10.6	20.5%
in %	5.0%	6.1%	
Earnings per share (basic) in Euro	0.45	0.55	20.5%
Dividend per share in Euro	0.00	0.00*	

** Proposal to the AGM in May 2009*

Sales development

Our anticipation of a difficult market environment in 2008 has unfortunately proven correct. The worldwide economic crisis, particularly in the automobile sector, caught up with ELMOS at the end of the third quarter 2008. The volume of orders received dropped significantly at that time. The reason for this decline were postponements or cancelations of orders on the part of the automotive suppliers due to the considerably decreased sale of new vehicles. The reduced sales volumes affected all product groups in the automotive segment. Despite the significant deterioration of the general economic framework, ELMOS developed ahead of many competitors and, owing to a sound first half-year, achieved sales of 175.1 million Euro in the year under report, about the level of the previous year (176.1 million Euro). Thus the forecast announced in October 2008, namely that sales would be expected to amount to the level of 2007, was achieved.

Sales of 175.1 million Euro achieved

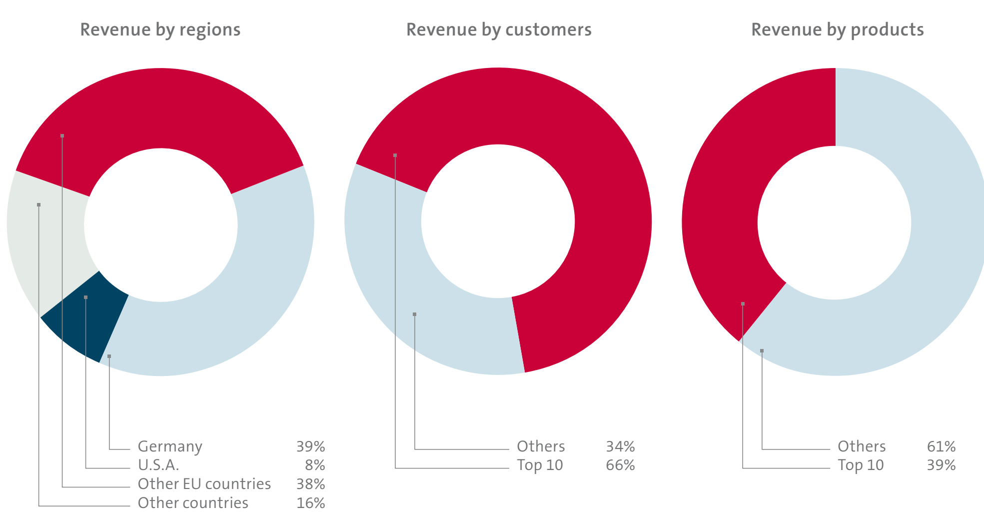
Sales by regions

Considering the regional sales breakdown, a decline of U.S. sales to 8.2% of group sales becomes apparent (2007: 10.9%) This is because the global economic crisis started earlier in the U.S. than in other parts of the world. The German sales portion climbed from 36.1% to 38.5%. The sales share of "other EU countries" (37.6% in 2008 versus 36.7% in 2007) and "other countries" (15.6% in 2008 versus 16.3% in 2007) did not change materially. Changes are for the most part due to changes of individual customers' shipping addresses or exchange rate effects and not tantamount to a changed customer structure.

Sales by customers and products

ELMOS supplies more than 100 customers. These are predominantly suppliers to the automobile industry and to a lesser extent industrial customers and manufacturers of consumer products. As in previous years, three of our customers contributed a volume of more than 10% of group sales each in 2008. Sales generated with our top customers are usually accounted for by a great many different products at different stages of their respective life cycles. Unchanged from the previous year (2007: 66%), our top ten customers amounted to roughly 66% or two thirds of our sales in 2008. Our ten best selling products together came to roughly 39% of sales in 2008 (2007: 42%).

Top ten customers account for 66% of sales



Order backlog

In the fourth quarter 2008 ELMOS still achieved a relatively high sales level compared to other companies with similar target market and comparable structure. This phenomenon is due to the fact that the orders that were attended to were based on binding purchase commitments. To determine the book-to-bill ratio, we compare the backlog of orders for the next months with the sales of the past months. By the end of December 2008 the book-to-bill for the semiconductor segment was clearly below 1 because of order postponements and cancelations.

Order backlog is usually recorded upon receiving the customer's order. The item 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. As soon as production starts, an order usually cannot be canceled anymore. Furthermore, customers typically invest a lot of time and expense in the development of a project themselves and therefore usually follow their orders through. However, there is no guarantee that order backlog will turn into future sales.

New projects (design wins)

Tendency torwards ASSPs has aggravated

The tough competition for ASIC projects continued through the year 2008. This situation was aggravated as the number of projects to be commissioned was declining. The trend for ASSPs where customers usually do not have to pay development costs in advance has gained even more momentum. However, we were able to record a number of successes in winning new projects in 2008. Among them are follow-up orders for new chip generations to be used in parking systems, airbag ICs, seat occupancy detection, power window electronics and other applications. In addition, we received several orders for FlexRay™ ICs from leading system suppliers. In developing ASSPs we generally pressed ahead with our projects and launched new designs. The interest of our customers in these standard products continues to be high.

Profit situation

Gross profit

Improvements in the Duisburg manufacture

The gross profit was increased in 2008 by 3.4% from 73.1 million Euro in 2007 to 75.6 million Euro in 2008 despite lower 2008 sales figures. The gross margin was raised from 41.5% to 43.2% in the year under report. This improvement of the quality of earnings can be traced back to the progress made at the production location Duisburg and the structural changes at our subsidiaries in the U.S.

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

Research and development expenses climbed 2.4% to 31.6 million Euro in the year under report (2007: 30.9 million Euro). Their share of sales made up 18.1% compared to 17.5% the year before.

In addition to the great importance of product development and product innovation for ELMOS as a technology company, the rather high R&D expenses reflect our intensive activities towards the development of standard products (ASSPs) and the next technology generation.

Operating income increased by 6.3%

Marketing and distribution costs rose slightly to 12.1 million Euro in the year under report (2007: 11.6 million Euro). They came to 6.9% of sales (2007: 6.6%). A substantial share of expenses is attributable to the intensified ASSP marketing effort, the increased project acquisition in the industrial and consumer goods sector, and the successful market penetration in Asia. General administrative expenses were also slightly increased by 2.2% to 16.5 million Euro (2007: 16.1 million Euro) or 9.4% of sales (2007: 9.2%). The gross margin increase by 1.7 percentage points overcompensated the light increase in functional expenses so that the operating income margin before other operating expenses/(income) was improved from 8.2% in 2007 to 8.8% in the year under report. In absolute terms, the operating income rose 6.3% to 15.4 million Euro.

EBIT margin increased

The EBIT (earnings before interest and taxes) climbed 1.3 million Euro to 16.5 million Euro in 2008, so that the EBIT margin was increased from 8.6% to 9.4%. This greater rise compared to the operating income margin increase is accounted for essentially by exchange rate gains in 2008 (versus exchange rate losses in the previous year). Material factors of impact on other operating income and expenses were expenses for cushioning risks potentially emerging in 2009 and income from the restructuring of a lease agreement. This contract, previously recorded as a finance lease agreement, was converted to an operating lease structure ahead of schedule in order to benefit from favorable interest rate conditions. The universal increase in gross margin, operating income margin and EBIT margin proves the forecast made in October 2008 correct, anticipating an increase in the quality of earnings from the previous year.

Earnings before taxes, group net income and earnings per share

Group net income climbed by 20.5% to 10.6 million Euro

Finance income/expenses came to –1.8 million Euro in 2008 after –3.0 million Euro in 2007. The background is provided by grown interest income due to a higher average amount of cash on hand and a reduced average level of debt as in the year before. The income before taxes was improved considerably by 19.9% from 12.2 million Euro to 14.7 million Euro, resulting in a margin increase from 6.9% to 8.4%. The higher pre-tax income led to a higher tax load of 4.3 million Euro (2007: 3.6 million Euro). The tax rate of 29.1% was virtually identical to the prior-year rate (2007: 29.4%). After consideration of minority interest, the group net income of 10.6 million Euro is 20.5% higher than the previous year (2007: 8.8 million Euro). This corresponds with a net income margin of 6.1% in the year under report in comparison to 5.0% the year before. Earnings per share went up from 0.45 Euro to 0.55 Euro.

Proposal for the appropriation of retained earnings

The net loss of ELMOS Semiconductor AG* according to HGB came to 2.9 million Euro in 2008. The retained earnings carried forward from the year 2007 amount to 39.6 million Euro. Management Board and Supervisory Board propose to the Annual General Meeting to decide on May 6, 2009 per shareholders' resolution that the retained earnings of 36.7 million Euro be carried forward to new accounts entirely.

In the past years the company has defined as prerequisite to the payment of a dividend that the developments of earnings and cash flow must be positive and sustainable. Even though the year 2008 provides a positive position with regard to both quantities, sustainability cannot be assumed in view of the economic situation. Management Board and Supervisory Board therefore consider it the right course of action to leave the liquid funds within the company.

Sales and profits by segments

	Segment	2007	2008	Change
Sales in million Euro				
	Semiconductor	163.6	163.6	0.0%
	Micromechanics	12.5	11.5	– 7.8%
Gross profit in million Euro				
	Semiconductor	73.2	73.4	0.4%
	Micromechanics	0.0	2.2	na
Gross margin in %				
	Semiconductor	44.7%	44.9%	
	Micromechanics	– 0.4%	18.7%	
Segment earnings in million Euro				
	Semiconductor	20.7	19.2	– 7.4%
	Micromechanics	– 5.6	– 2.7	– 51.4%
Segment earnings margin in %				
	Semiconductor	12.7%	11.7%	
	Micromechanics	– 44.3%	– 23.4%	

Semiconductor

Semiconductor segment of paramount importance

The ELMOS Group's semiconductor core business is operated through the various companies in Germany, France, the Netherlands, and the U.S. Sales of the semiconductor segment of 163.6 million Euro stayed exactly on the prior-year level. Thus the semiconductor segment underscores its paramount importance to ELMOS and represents over 90% of the ELMOS Group's sales, comparable to the years before. The gross profit improved 0.4% from 73.2 million Euro to 73.4 million Euro, resulting in a gross margin of 44.9% (2007: 44.7%). The segment income fell from 20.7 million Euro in 2007 to 19.2 million Euro in 2008. The margin was 11.7% compared to 12.7% in the previous year. This development is accounted for by sales falling short of initial expectations.

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

Micromechanics

The segment micromechanics comprises the activities of the subsidiary company SMI. SMI generates its third-party sales almost exclusively in U.S. dollars. As the U.S. dollar was weaker than the year before, sales of the segment micromechanics fell in Euro by 7.8% to 11.5 million Euro (2007: 12.5 million Euro). Expressed in dollar, sales would have been at a level comparable to 2007. The initially anticipated growth could not be achieved because of the weaker economic situation. The gross profit improved considerably to 2.2 million Euro (2007: 0.0 million Euro), among other factors a result of a decrease in restructuring expenses from 2007. Thus the gross margin rose from – 0.4% in 2007 to 18.7%. The segment income was still negative (– 2.7 million Euro), yet it was improved significantly from the year before (2007: – 5.6 million Euro).

Micromechanics:
Segment result improved

Financial position

ELMOS Group key figures according to IFRS

in million Euro unless otherwise indicated	2007	2008	Change
Group net income after minority interest	8.8	10.6	20.5%
Depreciation/appreciation	19.6	19.3	– 1.6%
Changes in net working capital*	– 1.3	– 1.2	– 5.9%
Other items	3.7	– 6.1	na
Cash flow from operating activities	**30.8**	**22.5**	**– 26.8%**
Capital expenditures	– 24.5	– 20.8	– 15.0%
in % of sales	13.9%	11.9%	
Other items	23.1	8.6	– 62.6%
Cash flow from investing activities	**– 1.4**	**– 12.2**	**na**
Cash flow from financing activities	**– 3.9**	**– 11.0**	**na**
Changes in cash and cash equivalents	25.5	– 0.6	Na
Free cash flow**	**29.4**	**10.3**	**– 64.8%**
“Clean” free cash flow***	**6.3**	**1.7**	**– 72.8%**

* *Net working capital in the narrow sense (trade receivables plus inventories less trade payables)*
** *Cash flow from operating activities less cash flow from investing activities*
*** *Cash flow from operating activities less capital expenditures*

Cash flow from operating activities

The cash flow from operating activities of 22.5 million Euro in 2008 was 8.2 million Euro below the prior-year amount (2007: 30.8 million Euro). This decline is essentially due to the increase of the item other assets and income tax assets. The increase of the net working capital in the narrow sense (trade receivables plus inventories less trade payables) roughly corresponded with the prior-year level (2008: – 1.2 million Euro vs. 2007: – 1.3 million Euro).

Free cash flow
of 10.3 million Euro

Cash flow from investing activities

A positive free cash flow and thereby the reduction of capital expenditures is management's paramount goal. Among the measures for coping with the cyclically determined difficult economic situation is e.g. the further reduction of capital expenditures beyond the originally projected scale. However, these measures launched in the fall 2008 will for the most part only take effect from 2009 on because of the typical lead time of capital expenditures in semiconductor manufacturing.

Capital expenditures reduced

Capital expenditures were cut down to 20.8 million Euro in 2008 (2007: 24.5 million Euro). This means a share of sales of 11.9% in comparison with 13.9% in the previous year. Capital expenditures were made primarily for the equipment of the clean room at the Duisburg location and for machines and equipment for frontend and backend in Dortmund. At 20.6 million Euro, the semiconductor segment accounted for the largest share of the investment; 0.3 million Euro were spent in the micromechanics segment.

The conversion of a lease agreement which had previously been stated as a finance lease agreement to an operating lease structure resulted in a positive effect of 10.2 million Euro for the cash flow from investing activities. The resulting cash requirement from investing activities amounts to altogether 12.2 million Euro for the year 2008 (2007: 1.4 million Euro). The targeted positive free cash flow, as such formulated in October 2008 once more, was clearly reached at an amount of 10.3 million Euro. Even without consideration of the cash flow from the sale of assets and other factors of influence on the cash flow from investing activities, 1.7 million Euro could still be generated (2007: 6.3 million Euro).

Cash flow from financing activities

By the lease agreement's conversion from finance lease agreement to an operating lease structure, the corresponding predominantly non-current financial liabilities (10.9 million Euro) were adjusted. The cash flow from financing activities came to – 11.0 million Euro.

Cash and cash equivalents of 42.5 million Euro

Cash and cash equivalents before exchange rate effects were altogether reduced by 0.6 million Euro. Thus cash and cash equivalents of 42.5 million Euro as of December 31, 2008 were roughly on the prior-year level (December 31, 2007: 42.9 million Euro). The 17.0% share of cash and cash equivalents in total assets remained at the prior-year level (December 31, 2007: 17.2%).

Economic situation

ELMOS Group key figures according to IFRS

in million Euro unless otherwise indicated	12/31/2007	12/31/2008	Change
Intangible assets	42.1	40.2	– 4.5%
Property, plant and equipment	87.0	80.7	– 7.2%
Other non-current assets	8.2	7.1	– 12.7%
Inventories	33.6	37.4	11.2%
Trade receivables	28.4	29.7	4.7%
Cash and cash equivalents	42.9	42.5	– 0.9%
Other current assets	7.2	12.5	73.5%
Total assets	**249.3**	**250.1**	**0.3%**
Equity	160.0	171.2	7.0%
Non-current liabilities	59.8	47.5	– 20.6%
Trade payables	14.6	18.4	26.1%
Other current liabilities	14.9	12.9	– 13.4%
Total equity and liabilities	**249.3**	**250.1**	**0.3%**

At 250.1 million Euro as of December 31, 2008, total assets were kept essentially constant (December 31, 2007: 249.3 million Euro).

Total assets unchanged

With regard to assets there were slight movements from property, plant and equipment (– 6.3 million Euro) to the item of current assets (+10.0 million Euro). The disposal stated in property, plant and equipment (buildings and building improvements) results from the conversion of a lease agreement described above. The addition to current assets is essentially accounted for by an increase of other assets and income tax assets as well as slight gains in inventories and trade receivables.

With regard to equity and liabilities, the addition to equity (+11.2 million Euro) by group net income is balanced by a reduction of non-current liabilities (– 12.3 million Euro), particularly due to the decrease in non-current finance debt by 11.2 million Euro which in turn is accounted for by the conversion of a contract from finance lease to an operating lease structure for the most part.

Net working capital

The net working capital increased from 47.4 million Euro as of December 31, 2007 to 48.7 million Euro as of the fiscal year's balance sheet date. Inventories gained 11.2% to reach 37.4 million Euro as of December 31, 2008; the inventory turnover rate came to 2.7x (2007: 3.1x). Trade receivables climbed 4.7% to 29.7 million Euro; the receivables turnover was 5.9x (2007: 6.2x). Trade payables increased by 26.1% to 18.4 million Euro; the payables turnover was improved to 5.4x (2007: 7.1x).

The increase in inventories and trade receivables could not completely be compensated for by growing trade payables. The essential reason is that the weakness of demand did only materialize at the end of the third quarter 2008. Initiated countermeasures such as the reduction of the number of wafers-in could not take full effect by the end of the year. The focus of management remains on the improvement of working capital, especially in the year 2009.

ELMOS Group key figures

	Calculation	Unit	2007	2008
Net working capital	Trade receivables + inventories - trade payables	million Euro	47.4	48.7
of sales		%	26.9%	27.8%
Inventory turnover	Cost of sales/inventories	x	3.1x	2.7x
Receivables turnover	Sales/trade receivables	x	6.2x	5.9x
Payables turnover	Cost of sales/trade payables	x	7.1x	5.4x
Cash cycle	Inventory days + debtor days - creditor days	days	126	132
Net debt/(Net cash)	Financial liabilities (current and non-current) – cash and cash equivalents – marketable securities	million Euro	11.1	−1.8
Gearing	Net debt/equity	%	6.9%	−1.1%
Equity ratio	Equity/total assets	%	64.2%	68.5%

Other balance sheet structure key figures

Net debt turned into a net cash position in 2008. As of December 31, 2008 ELMOS had net cash of 1.8 million Euro as compared to a net debt of 11.1 million Euro as of the prior-year balance sheet date. The decrease in financial liabilities at roughly constant cash and cash equivalents resulted in this development. However, it must be taken into consideration that other financial obligations were increased among other reasons because of the conversion of a lease agreement from finance lease to an operating lease structure. Other financial obligations and contingent liabilities went up to 139.2 million Euro as of December 31, 2008 (December 31, 2007: 126.6 Mio. Euro).

Equity ratio increase to 68.5%

Rising equity at constant total assets led to a significant improvement of the equity ratio from 64.2% as of December 31, 2007 to 68.5% as of the fiscal year's balance sheet date.

The refinancing from current to non-current financial liabilities in the year 2007 with terms up until the year 2013 has proven all the more valuable against the backdrop of the currently weak general economy. It underlines the company's independence not only with regard to fluctuating interest rates but it also provides a solid foundation for coping with the presently difficult market situation and emerging stronger from it.

Report according to Section 315 (4) HGB

and explanatory report according to Section 120 (3) sentence 2 AktG

Composition of the subscribed capital

The share capital stated in the balance sheet as of December 31, 2008 at 19,414,205.00 Euro consisting of 19,414,205 non-par value common bearer shares is paid in entirely. Each share grants one vote in the Annual General Meeting.

Limitations with regard to voting rights or the transfer of shares

Limitations with regard to voting rights or the transfer of shares do not apply for the company.

Direct or indirect shares in equity

As of December 31, 2008 the distribution of ownership is as follows:

Company	Registered office/country	Euro	%
EFH ELMOS Finanzholding GmbH	Dortmund/Germany	1,485,789	7.7
Makos GmbH	Dortmund/Germany	3,236,584	16.7
Dr. Weyer GmbH	Schwerte/Germany	3,236,584	16.7
ZOE-BTG GmbH	Duisburg/Germany	2,306,833	11.9
Free float		9,148,415	47.1
		19,414,205	100.0

The three companies Makos GmbH, Dr. Weyer GmbH and ZOE-BTG GmbH are wholly-owned subsidiaries of EFH ELMOS Finanzholding GmbH. Thus direct and indirect property of shares of ELMOS Semiconductor AG held by EFH ELMOS Finanzholding GmbH comes to 52.9% altogether.

Owners of privileged shares

No privileged shares have been issued.

Form of voting right control in case of employee shareholdings

This issue does not apply for the company.

Legal stipulations and provisions of the articles of incorporation for the appointment and dismissal of management board members and amendments to the articles

We refer to the respective legal stipulations for the appointment and dismissal of management board members (Sections 84, 85 AktG) and for amendments to the articles of incorporation (Sections 133, 179 AktG). Our articles of incorporation do not provide amendatory provisions.

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 885,795.00 Euro **(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. It is realized only insofar as subscription rights are granted within the framework of the company's stock 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 as of the beginning of the fiscal year in which they come into being by the exercise of subscription rights.

The share capital is conditionally increased by a maximum amount 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 wholly-owned investment company until May 9, 2012, according to the shareholders' resolution of May 10, 2007, make use of their warrants or privileges, or as the owners of convertible bonds,

AUTHORIZED CAPITAL I

- 9,650,000 Euro
  until May 18, 2011

CONDITIONAL CAPITAL

- I: 885,795 Euro
  Stock option plan 1999
- II: 5,000,000 Euro
  Option/Convertible bonds
  (until May 9, 2012)
- III: 930,000 Euro
  Stock option plan 2004

REPURCHASE OF OWN SHARES

- up to 10% of the share capital
  until November 7, 2009

issued by the company or the company's direct or indirect, domestic or international wholly-owned investment company until May 9, 2012, who are committed to conversion realize this commitment to conversion. The new shares are entitled to dividend as of the beginning of the fiscal 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 ("stock option plan 2004"). It is realized only insofar as options are issued within the framework of the company's stock 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 as of the beginning of the fiscal year in which they come into being by the exercise of options.

The company is authorized to purchase own shares until November 7, 2009. The authorization is limited to the purchase of shares representing a maximum of altogether ten percent of the current 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.

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

There are no material agreements on the condition of a change of control as a result of a takeover bid.

Compensation agreements

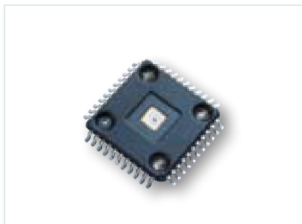
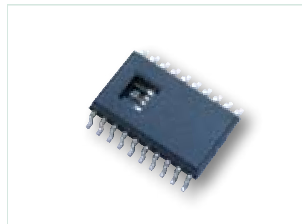
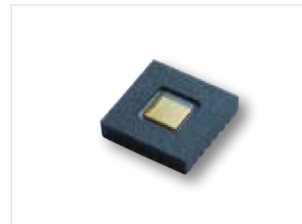
There are no compensation agreements, either.

Remuneration report

Total remuneration of the Management Board and Supervisory Board members consists of a number of remuneration components. The details are explained in our remuneration report as part of this annual report's corporate governance report. The remuneration report, audited by the auditor, is part of the group management report.

Remuneration report
Page 23 «

Risks and opportunities

Risk management system

ELMOS operates an integrated risk management system for the consistent use of business opportunities without disregarding the risks involved. Risks and opportunities are analyzed constantly. ELMOS Semiconductor AG unites the measures for risk assessment within the company in a comprehensive, universal risk management system. It complies with the legal stipulations for an anticipatory risk detection system as well as with the standards defined by the German Corporate Governance Code. You can find more information on risk management under note 30 to the consolidated financial statements.

Risk management
Page 102 ❯❯

Risks

Dependence on the automobile industry

The core business of ELMOS is linked directly to the automobile industry's demand for semiconductors. Roughly 90% of sales continue to be made with chips 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 lasting trend towards more electronics in automobiles. The heavy decline in car production and sales figures registered since the fall 2008 represents a risk for ELMOS as semiconductor supplier, too. ELMOS counteracts this development by means of targeted cost cutting measures; however, a lasting slump in demand on the part of the automobile industry would probably have significant effects on the financial position and results from operations.

Automotive market subject to considerable fluctuations

The automotive market used to be subject to considerable fluctuations as a result of mergers of system manufacturers, restrictive environmental laws and other factors in the past. The customer structure shows a certain dependence on a few major suppliers to the automobile industry. However, it has to be taken into account that one customer usually purchases several products with different life cycles. Owing to the fact that ASICs are customer specific products, there is a particular mutual dependence between supplier and customer. However, it may happen with very high order volumes involved that two suppliers are commissioned to develop one and the same ASIC at the same time. By the increased commitment of ELMOS to application specific standard products (ASSPs), customer dependence is reduced as such products can be marketed to several customers.

Competition

A large number of competitors on the market for automotive semiconductors offer 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. However, the probability of their commitment to such a niche market is relatively low, as is the corresponding risk for ELMOS. However, ELMOS competes increasingly with large manufacturers for high-volume contracts and experiences corresponding pricing pressure. Furthermore, if parallel developments are commissioned, ELMOS bears the risk that the customer's decision will favor a competitor.

Dependence on individual employees

Very specific engineering 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

Today one-off development costs incurred for customer specific product development are not paid anymore in their entirety by the customers. The portion of development costs not covered in advance must be amortized through the later quantities in serial production. There is a risk that not amortized expenses for product developments not resulting in a supplier relationship will remain with the company. Particularly with high-volume orders a greater number of suppliers are in competition for, the customer is usually unwilling to pay development costs in advance and expects the supplier to pre-finance these expenses. This usually holds true for product developments initiated by ELMOS, e.g. all ASSPs, as there are no binding customer orders in advance covering these projects.

Constant advancement and improvement of the products

The market for ELMOS products is characterized by the products' constant advancement and improvement. Accordingly, the success of ELMOS is closely related to the company's continued 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.

Because ELMOS is able to develop and manufacture products for all kinds of electronic devices used in the automobile, products made by ELMOS are present in a great number of electronic car components so that the risk of order cancelation relating to an individual electronic component is widely spread.

ELMOS needs to advance its technology

The future success of ELMOS is also dependent 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 all of its competitors, 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 ceases 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 will likely be the result.

Purchasing

The raw materials needed by ELMOS for its manufacture are available from different suppliers worldwide and for the most part not controlled by monopolists. With regard to assembly, a certain dependence on individual Far Eastern partners is typical of the trade. ELMOS has spread this risk by cooperating with several partners.

Product liability

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

Chips are tested several times

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 manufacturing. Although the company applies elaborate test procedures before delivering its products, product defects might still show on the occasion of installation or the end consumer's use of the product.

If such product defects materialize, expensive and time-consuming product modifications might ensue, 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 financial resources to the subsidiary companies results in an increased obligation to detect and, if necessary, to minimize possible risks by means of adequate controlling instruments and continuous target/actual analyses at the earliest possible stage. The implemented monitoring and risk management system is constantly expanded and improved for this purpose. Yet these risks could have negative effects on the company's financial position and results from operations.

Interruption of business

According to ELMOS assessment, the single material 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 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.

Further manufacturing line established in Duisburg

This risk is already reduced by the operation of a second manufacturing 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. However, interruption of business at one of the production locations could have negative effects on the company's financial position and results from operations.

The usual insurable risks such as fire, interruption during fire-fighting operations, water, storm, theft, third party liability, especially product liability including U.S. coverage, 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.

Opportunities

Implementation of strategy is advanced

Apart from our core business, customer specific semiconductors for the automobile industry, opportunities are provided for the company by the further implementation of our strategy. These opportunities lie in the increased development, production and marketing of application specific semiconductors (ASSPs) and in higher future share of sales realized in the segments industrial and consumer goods, implying a diminishing dependence on the automobile industry in the process as well. We are also planning to expand our business on the Asian markets in the future and to cooperate with partners who either enable us to expand our product portfolio or provide opportunities for external production. Furthermore, the share of microsystem projects, the combination of sensors and read-out electronics in an application specific package, is scheduled to increase.

Subsequent events

Subsequent material events have not occurred.

Outlook

Economic framework

The general economic framework is characterized by great uncertainty and consumer restraint, especially with regard to purchasing new cars. The expectations of market participants and market research institutes for the development of the automobile market in 2009 show an extremely wide margin. This indicates the extent of uncertainty in the market. Forecasts range from an 8% decline to a 25% decline in worldwide registration numbers. Even more severe sales losses are anticipated in part for the suppliers to the auto industry in the first months of 2009. This outlook is based on a reduction of inventories in the supply chain.

Current scenario represents an exceptional situation

The current scenario represents an exceptional situation without precedent in the history of the automobile industry. However, a constant increase of the share of electronics in vehicles remains the expectation for the long term. At that, the lasting growth trend of automotive electronics continues to play a bigger part than the normal change of production numbers in the automobile industry.

Outlook of the ELMOS Group

Over the past years ELMOS has invested in the development of new products and markets. We are convinced that this investment will pay off in the long term. In 2009 ELMOS will press ahead with the realization of its strategic cornerstones:

- Increased definition, development and marketing of ASSPs
- Increase in activities in the industrial and consumer goods markets
- Expansion of the commitment in the Asian markets
- Intensified collaboration with cooperation partners for the optimization of the product portfolio and the reduction of capital expenditures
- Increase of the sales share of microsystems

Low visibility for 2009

Because of the currently difficult market situation and the insufficient visibility ELMOS is not yet able to deliver a quantified forecast. The first half-year 2009 will show a significant slump in sales due to the heavy decline in orders received especially in the last quarter of 2008. No statement can be made about the further course of the year 2009 on account of the low visibility at present.

Managing the balancing act between the development of new products and technology generations and gaining new market shares on the one hand and the preservation of a strong financial basis on the other hand will be the challenge in 2009. The principal task for 2009 is to maintain the company's solid position in order to cope with the current difficult market situation. Financial burdens not covered by corresponding positive amounts against the backdrop of the presently weak market situation are reduced as far as possible.

Cost cutting measures initiated

Beginning in the fall 2008 ELMOS has initiated numerous cost cutting measures in order to compensate for the loss of sales compared to initial scheduling and thus the missing coverage of fixed costs. Among these measures are:

- Reduction of wafer implementation into the production process in adjustment to lower demand
- Reduction and postponement of capital expenditures
- Review of all cost items with regard to absolute necessity
- Introduction of short-time work in Dortmund and at other locations (since January 2009)
- Postponement of conversion of manufacture at Dortmund location from 6-inch to 8-inch wafers
- Review of all business units for operating improvement potential

In these times of crisis the ELMOS management busies itself constantly with alternative scenarios so that immediate action is possible if additional measures are called for. The same applies for the case of indications for an economic recovery. We are convinced that we are well prepared with the initiated measures, cost cuttings and the arrangement of suitable options for action. The combination of cost control and targeted implementation of strategic steps will enable us to emerge from the crisis stronger than before.

Dortmund, March 2009

The Management Board

Dr. Anton Mindl **Nicolaus Graf von Luckner** **Reinhard Senf** **Jürgen Höllisch**

Consolidated financial statements

Consolidated balance sheet according to IFRS

Assets	Notes	12/31/2008 Euro	12/31/2007 Euro
Non-current assets			
Intangible assets	13	40,200,036	42,108,968
Property, plant and equipment	14	80,698,137	86,984,152
Investments accounted for at equity	15	1	1
Securities and investments	15	517,693	73,932
Deferred tax assets	16	6,619,684	8,105,939
Total non-current assets		**128,035,551**	**137,272,992**
Current assets			
Inventories	17	37,379,627	33,613,927
Trade receivables	18	29,735,847	28,406,265
Cash and cash equivalents	19	42,463,401	42,855,617
Other assets and income tax assets	20	10,347,411	6,550,185
		119,926,286	**111,425,994**
Non-current assets classified as held for sale	21	2,104,679	625,877
Total current assets		**122,030,965**	**112,051,871**
Total assets		**250,066,516**	**249,324,863**

Equity and liabilities	Notes	12/31/2008 Euro	12/31/2007 Euro
Equity			
Equity attributable to equity holders of the parent			
Share capital	22	19,414,205	19,414,205
Additional paid-in capital	22	88,736,563	88,736,563
Surplus reserve		102,224	102,224
Accumulated other comprehensive income	22	– 5,445,033	– 6,407,297
Retained earnings		68,410,785	57,809,788
		171,218,744	**159,655,483**
Minority interest		– 13,825	309,704
Total equity		**171,204,919**	**159,965,187**
Liabilities			
Non-current liabilities			
Provisions	24	911,450	1,111,214
Financial liabilities	25	40,433,714	51,622,281
Other liabilities	26	2,244,242	2,533,246
Deferred tax liabilities	16	3,935,323	4,575,409
Total non-current liabilities		**47,524,729**	**59,842,150**
Current liabilities			
Provisions	24	6,744,564	6,110,536
Income tax liabilities	26	3,862,368	1,879,590
Financial liabilities	25	186,032	2,343,009
Trade payables	27	18,403,799	14,589,724
Other liabilities	26	2,140,105	4,594,667
Total current liabilities		**31,336,868**	**29,517,526**
Total liabilities		**78,861,597**	**89,359,676**
Total equity and liabilities		**250,066,516**	**249,324,863**

Consolidated income statement according to IFRS

	Notes	2008 Euro	2007 Euro
Sales	5	175,138,962	176,133,528
Cost of sales	6	99,555,659	103,024,409
Gross profit		**75,583,303**	**73,109,119**
Research and development expenses	6	31,631,625	30,892,815
Distribution expenses	6	12,081,991	11,610,720
Administrative expenses	6	16,484,504	16,136,701
Operating income before other operating expenses/(income)		**15,385,183**	**14,468,883**
Finance income	8	– 1,583,504	– 822,450
Finance expenses	8	3,392,522	3,793,824
Foreign exchange income	9	– 242,648	0
Foreign exchange losses	9	0	381,093
Equity in losses/(income) of unconsolidated subsidiaries		0	– 48,999
Other operating income	10	– 5,050,994	– 9,312,235
Other operating expenses	10	4,197,824	8,240,100
Income before taxes		**14,671,983**	**12,237,550**
Income tax expenses			
Current taxes	11	3,359,523	2,994,630
Deferred taxes	11	911,127	609,012
		4,270,650	**3,603,642**
Net income		**10,401,333**	**8,633,908**
Thereof:			
Minority interest		– 199,665	– 163,809
Attributable to equity holders of the parent		**10.600.998**	**8,797,717**
Earnings per share			
Basic earnings per share	12	0.55	0.45
Fully diluted earnings per share	12	0.55	0.45

Consolidated cash flow statement

	Notes	2008 Euro	2007 Euro
Cash flow from operating activities			
Net income after minority interest		10,600,998	8,797,717
Depreciation		19,281,299	19,599,904
Finance income		1,809,019	2,971,374
Non-cash-effective income		– 1,748,841	– 4,147,108
Current tax expense		3,359,523	2,994,630
Minority interest		– 199,665	– 163,809
Equity in losses of unconsolidated subsidiaries		0	– 48,999
Changes in pension liabilities		– 199,764	– 31,423
Changes in net working capital			
Trade receivables		– 1,501,075	– 631,863
Inventories		– 3,765,700	– 2,471,692
Prepaid expenses and other assets		– 4,701,138	5,700,957
Trade payables		4,056,685	1,817,694
Other provisions and other liabilities		– 1,396,120	840,051
Income tax payments		– 1,245,423	– 1,472,368
Interest paid		– 3,392,522	– 3,793,824
Interest received		1,583,504	822,450
Cash flow from operating activities		**22,540,780**	**30,783,691**
Cash flow from investing activities			
Capital expenditures for intangible assets		– 5,319,314	– 7,272,751
Capital expenditures for property, plant and equipment		– 15,507,052	– 17,214,995
Disposal/Capital expenditures for non-current assets classified as held for sale		– 1,540,760	12,717,781
Disposal of fixed assets		10,168,947	10,309,057
Disposal of investments		5,500	68,523
Cash flow from investing activities		**– 12,192,679**	**– 1,392,384**
Cash flow from financing activities			
Payment from capital increase		0	3,148
Proceeds from non-current liabilities		0	42,853,306
Repayment of non-current liabilities		– 9,859,178	– 14,794,111
Repayment of current liabilities to banks		– 1,114,833	– 31,954,157
Cash flow from financing activities		**– 10,974,011**	**– 3,891,814**
Decrease/Increase in cash and cash equivalents		**– 625,910**	**25,499,493**
Changes in cash and cash equivalents due to exchange rates and basis of consolidation		233,694	722,038
Cash and cash equivalents at beginning of fiscal year		42,855,617	16,634,086
Cash and cash equivalents at end of fiscal year	**19**	**42,463,401**	**42,855,617**

Consolidated statement of changes in equity according to IFRS

	Shares Number	Share capital Euro	Paid-in capital Euro
As of January 1, 2007	**19,413,805**	**19,413,805**	**88,733,815**
Exercise of stock options	400	400	2,748
Foreign currency adjustments			
Changes of the basis of consolidation			
Net income 2007			
As of December 31, 2007	**19,414,205**	**19,414,205**	**88,736,563**
Foreign currency adjustments			
Changes of the basis of consolidation			
Net income 2008			
As of December 31, 2008	**19,414,205**	**19,414,205**	**88,736,563**

Surplus reserve Euro	Accumulated other comprehensive income Euro	Retained earnings Euro	Total Euro	Minority interest total Euro	Group total Euro
102,224	**– 5,587,888**	**49,091,408**	**151,753,364**	**505,088**	**152,258,452**
			3,148		3,148
	– 819,409		– 819,409		– 819,409
		– 79,337	– 79,337	– 31,575	– 110,912
		8,797,717	8,797,717	– 163,809	8,633,908
102,224	**– 6,407,297**	**57,809,788**	**159,655,483**	**309,704**	**159,965,187**
	962,263		962,263		962,263
				– 123,864	– 123,864
		10,600,998	10,600,998	– 199,665	10,401,333
102,224	**– 5,445,033**	**68,410,785**	**171,218,744**	**– 13,825**	**171,204,919**

Development of the group's non-current assets as of December 31, 2008

	ACQUISITION AND PRODUCTION COSTS					
	1/1/2008 Euro	Foreign currency adjustments Euro	Additions Euro	Transfers Euro	Disposals Euro	12/31/2008 Euro
Non-current assets						
Intangible assets						
Goodwill	6,884,803	248,124	0	0	0	7,132,927
Development projects	14,785,272	0	390,912	580,478	0	15,756,662
Software and licenses	36,583,141	125,015	1,621,462	1,028,836	114,478	39,243,976
Advance payments incurred and projects under development	7,183,038	0	3,306,940	– 2,058,576	18,020	8,413,382
	65,436,254	**373,139**	**5,319,314**	**– 449,262**	**132,498**	**70,546,947**
Property, plant and equipment						
Land and buildings	3,315,753	0	0	0	1,817,080	1,498,673
Buildings and building improvements	53,175,994	101,512	383,690	899,036	27,003,618	27,556,614
Technical equipment and machinery	142,952,596	402,346	3,133,206	8,310,346	6,027,442	148,771,051
Advance payments and construction in process	8,562,831	2,860	12,052,113	– 9,209,382	22,088	11,386,334
	208,007,173	**506,718**	**15,569,009**	**0**	**34,870,228**	**189,212,672**
Investments accounted for at-equity	**67,637**	**0**	**0**	**0**	**0**	**67,637**
Securities and investments	**73,932**	**0**	**0**	**449,262**	**5,500**	**517,693**
	273,584,996	**879,857**	**20,888,323**	**0**	**35,008,226**	**260,344,950**

ACCUMULATED DEPRECIATION					BOOK VALUE	
1/1/2008 Euro	Foreign currency adjustments Euro	Additions Euro	Disposals Euro	12/31/2008 Euro	12/31/2008 Euro	12/31/2007 Euro
0	0	0	0	0	7,132,927	6,884,803
6,534,645	0	2,314,100	0	8,848,745	6,907,917	8,250,627
16,792,641	36,179	4,779,842	110,496	21,498,166	17,745,810	19,790,500
0	0	0	0	0	8,413,382	7,183,038
23,327,287	**36,179**	**7,093,942**	**110,496**	**30,346,912**	**40,200,036**	**42,108,968**
612,702	0	0	612,702	0	1,498,673	2,703,051
27,094,904	7,141	2,260,130	19,522,594	9,839,580	17,717,034	26,081,090
93,315,415	216,219	9,927,227	4,783,906	98,674,955	50,096,096	49,637,180
0	0	0	0	0	11,386,334	8,562,831
121,023,021	**223,360**	**12,187,357**	**24,919,202**	**108,514,535**	**80,698,137**	**86,984,152**
67,636	**0**	**0**	**0**	**67,636**	**1**	**1**
0	**0**	**0**	**0**	**0**	**517,693**	**73,932**
144,417,944	**259,539**	**19,281,299**	**25,029,698**	**138,929,083**	**121,415,867**	**129,167,053**

Development of the group's non-current assets as of December 31, 2007

	ACQUISITION AND PRODUCTION COSTS					
	1/1/2007 Euro	Foreign currency adjustments Euro	Additions Euro	Transfers Euro	Disposals Euro	12/31/2007 Euro
Non-current assets						
Intangible assets						
Goodwill	7,435,643	– 550,840	0	0	0	6,884,803
Development projects	12,186,540	0	1,859,737	738,995	0	14,785,272
Software and licenses	34,237,989	– 120,791	946,450[1]	1,545,746	26,253	36,583,141
Advance payments incurred and projects under development	3,635,053	0	4,484,584	– 936,599	0	7,183,038
	57,495,225	**– 671,631**	**7,290,771**	**1,348,142**	**26,253**	**65,436,254**
Property, plant and equipment						
Land and buildings	3,837,235	0	0	0	521,482	3,315,753
Buildings and building improvements	64,080,468	– 219,606	2,710,435	1,503,189	14,898,492	53,175,994
Technical equipment and machinery	141,810,186	– 1,058,753	2,029,395[2]	5,048,024	4,876,257	142,952,595
Advance payments and construction in process	4,252,184	0	12,479,910	– 7,899,355	269,908	8,562,831
	213,980,073	**– 1,278,359**	**17,219,740**	**– 1,348,142**	**20,566,139**	**208,007,173**
Investments accounted for at-equity	**116,637**	**0**	**0**	**0**	**49,000[4]**	**67,637**
Securities and investments	**126,154**	**0**	**0**	**0**	**52,222**	**73,932**
	271,718,089	**– 1,949,990**	**24,510,511**	**0**	**20,693,614**	**273,584,996**

[1] thereof changes of the basis of consolidation of 18,020 Euro

[2] thereof changes of the basis of consolidation of 4,745 Euro

[3] thereof changes of the basis of consolidation of 876 Euro

[4] transfer at-equity to full consolidation

ACCUMULATED DEPRECIATION							BOOK VALUE	
1/1/2007 Euro	**Foreign currency adjustments Euro**	**Additions Euro**	**Appreciation Euro**	**Transfers Euro**	**Disposals Euro**	**12/31/2007 Euro**	**12/31/2007 Euro**	**12/31/2006 Euro**
0	0	0	0	0	0	0	6,884,803	7,435,643
4,447,582	0	2,087,063	0	0	0	6,534,645	8,250,627	7,738,958
13,292,936	– 38,148	3,564,104	0	0	26,251	16,792,641	19,790,500	20,945,053
0	0	0	0	0	0	0	7,183,038	3,635,053
17,740,519	**– 38,148**	**5,651,167**	**0**	**0**	**26,251**	**23,327,287**	**42,108,968**	**39,754,707**
612,702	0	0	0	0	0	612,702	2,703,051	3,224,533
30,335,370	0	2,925,105	0	0	6,165,571	27,094,904	26,081,090	33,745,098
86,742,501	– 360,081	11,024,507[3]	0	0	4,091,512	93,315,415	49,637,180	55,067,685
0	0	0	0	0	0	0	8,562,831	4,252,184
117,690,573	**– 360,081**	**13,949,612**	**0**	**0**	**10,257,083**	**121,023,021**	**86,984,152**	**96,289,500**
116,635	**0**	**0**	**0**	**0**	**48,999[4]**	**67,636**	**1**	**2**
0	**0**	**0**	**0**	**0**	**0**	**0**	**73,932**	**126,154**
135,547,727	**– 398,229**	**19,600,779**	**0**	**0**	**10,332,333**	**144,417,944**	**129,167,053**	**136,170,363**

Notes to consolidated financial statements

General notes

ELMOS Semiconductor Aktiengesellschaft ("the company" or "ELMOS") has its registered office in Dortmund (Germany) and is entered in the register of companies kept at the District Court (Amtsgericht) Dortmund, section B, under no. 13698. The articles of incorporation are in effect in the version of March 26, 1999, last amended on December 14, 2007.

The company's business is the development, manufacture and distribution of microelectronic components and system parts (application specific integrated circuits, or in short: ASICs) and 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 maintains 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 office 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 values stated in thousand Euro have been rounded up or down to thousand Euro according to financial rounding.

The consolidated financial statements of ELMOS have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU) and completed with the statements required by German commercial law as stipulated by Section 315 a (1) HGB. All of the IFRS released by the International Accounting Standards Board (IASB) in effect at the time of the preparation of the consolidated financial statements and applied by ELMOS have been adopted by the European Commission for application in the EU. The consolidated financial statements of ELMOS therefore also comply with the IFRS released by the IASB. In the following the term IFRS is therefore used consistently.

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 2009.

Estimates and assumptions

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

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 the cash value of these cash flows. The goodwill's book value was 7,132,927 Euro as of December 31, 2008 (2007: 6,884,803 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 loss 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 is necessary. More details can be found under note 16.

Pensions and other benefits after the termination of employment

The expenditure for performance-oriented 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 911,450 Euro as of December 31, 2008 (2007: 1,111,214 Euro). More details can be found under note 24.

Development expenses

Development expenses are capitalized in accordance with the accounting policies and valuation methods as described under note 3. 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 estimation, the book value of the capitalized development expenses was 7,610,278 Euro as of December 31, 2008 (2007: 9,118,381 Euro). More details can be found under note 13.

Accounting policies and valuation methods

The accounting policies and valuation methods applied generally correspond with 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 fiscal year. The application of these new or revised IFRS Standards and Interpretations had no effect on the group's financial position and results from operations. However, they lead to additional statements in part.

- IFRIC 11: IFRS 2 – Group and Treasury Share Transactions
- Amendments to IAS 39: Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments: Disclosures

IFRIC 11: IFRS 2 – Group and Treasury Share Transactions

The group has applied IFRIC Interpretation 11 as far as it relates to consolidated financial statements. According to this Interpretation, agreements granting employees rights to a company's equity instruments shall be accounted for as equity-settled share-based payment transactions if the company receives the instruments from a third party or if the shareholders supply the required equity instruments. The group has adjusted its accounting and valuation methods accordingly. Because of the insignificant volume of share-based payments within the group, no material effects on the company's financial position and results from operations resulted from the first-time application of this new regulation.

Amendments to IAS 39: Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments: Disclosures

The amendments to IAS 39 and IFRS 7 were released in October 2008 and came into effect retroactively as of July 1, 2008. The amendments came in response to the financial market crisis and make it possible for the companies in certain cases to reclassify non-derivative financial assets from the valuation category “held for trading” and the valuation category “available for sale” in favor of other valuation categories. The amendments to IFRS 7 provide for additional notes to consolidated financial statements in case of reclassifications between valuation categories. However, reclassifications have not been made by the group.

IASB and IFRIC have released the following Standards and Interpretations, already adopted by EU law within the framework of the comitology procedure but not subject to mandatory application in fiscal year 2008. The group does not apply these Standards and Interpretations ahead of schedule.

IFRS 8: Operating Segments

IFRS 8 was released in November 2006 and is subject to mandatory application for fiscal years beginning on or after January 1, 2009 for the first time. IFRS 8 requires the disclosure of information about a company’s operating segments and replaces the obligation according to IAS 14 to determine primary and secondary segment reporting formats for a company. IFRS 8 follows the so-called management approach according to which segment reporting only conforms to the financial information the company executives use for the internal management of the company. Decisive are the internal reporting and organizational structure as well as such financial values considered for the decision making on the allocation of resources and the evaluation of the performance. The group decided not to apply IFRS 8 ahead of time and keeps applying IAS 14: Segment Reporting. The new Standard will influence the mode of the presentation of financial information on the group’s business segments yet will not affect the inclusion and valuation of assets and liabilities in the consolidated financial statements. The definition of the segments in accordance with IFRS 8 will correspond to the definition in accordance with IAS 14.

IAS 23: Borrowing Costs

Revised Standard IAS 23 was released in March 2007 and is subject to mandatory application for fiscal years beginning on or after January 1, 2009. In abolishing the previous optional model, the Standard requires borrowing costs that can be attributed to a qualified asset to be capitalized. An asset is defined as a qualified asset if a considerable period of time is necessary to put the asset in its intended condition for use or sale. The Standard provides for the revision’s prospective application. No changes arise for borrowing costs previously incurred that have immediately been charged to expense. Due to the insignificant borrowing of outside capital that is attributable to a qualified asset, no material effects from the first-time application on the financial position and results from operations are to be expected for the first fiscal year of application.

IAS 1: Presentation of Financial Statements

Revised Standard IAS 1 was released in September 2007 and is subject to mandatory application for fiscal years beginning on or after January 1, 2009. The Standard revision includes material changes to the presentation and disclosure of financial information in the financial statements. In the consolidated statement of changes in equity, only such business events involving shareholders may be recorded that concern them in their capacity as shareholders. Other changes in equity must be stated in the presentation of results, either in the shape of one overall account or in the shape of two accounts, income statement and presentation of results for the period. Furthermore, the Standard provides for companies to include the balance sheet of the earliest period of comparison in its financial statements if the company applies an accounting method retrospectively or if it adjusts or reclassifies items in its financial statements retrospectively. The new Standard will have an effect on the mode of the publication of the group’s financial information, yet it will not affect the inclusion and valuation of assets and liabilities in the consolidated financial statements. The group has not yet decided if the result by accounting period will be presented in one or two tables.

Amendments to IFRS 1 and IAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendments to IFRS 1 and IAS 27 were released in May 2008 and are subject to mandatory application for fiscal years beginning on or after January 1, 2009. The amendments to IFRS 1 enable a company to determine the acquisition costs of investments in subsidiaries, jointly controlled entities or associated companies in its IFRS balance sheet of first-time adoption in application of amounts determined according to previously applied accounting regulations or in application of attributable fair values as surrogate for acquisition costs (deemed cost). The amendments to IAS 27 solely concern the separate financial statements of a parent company and stipulate in particular that all dividends of subsidiaries, jointly controlled entities and associates be recognized in the separate financial statements as affecting the net income. The transitional regulations generally provide for a prospective application. The new requirements exclusively affect the parent's separate financial statements and have no effect on the consolidated financial statements.

Amendments to IFRS 2: Vesting conditions and Cancellations

The amendment to IFRS 2 was released in January 2008 and is subject to mandatory application for fiscal years beginning on or after January 1, 2009. On the one hand the revision clarifies the term vesting conditions and on the other hand it regulates accounting treatment of a cancelation of share-based payment plans by the employees. Transitional regulations provide for retrospective application of this new regulation. The group only maintains stock option plans that contain vesting conditions according to the clarified definition; accordingly no effects on the accounting treatment of share-based payments are anticipated.

Amendments to IAS 32 and IAS 1: Puttable Instruments and Obligations Arising on Liquidation

The amendments to IAS 32 and IAS 1 were released in February 2008 and are subject to mandatory application for fiscal years beginning on or after January 1, 2009. They introduce an exempting provision according to which puttable financial instruments are to be classified as equity if certain criteria are fulfilled. Disclosures regarding these financial instruments are called for as well. The amendments to the Standards will not affect the group's financial position and results from operations or the notes to consolidated financial statements as the group has not issued such instruments.

Improvements to IFRS 2008

The amendments from improvement project 2008 were released in May 2008 and are subject to mandatory application – with the exception of IFRS 5 (as of July 1, 2009) – for fiscal years beginning on or after January 1, 2009. In the context of improvement project 2008, a large number of material changes affecting accounting and valuation as well as merely editorial changes were issued. Latter changes concern for example the revision of individual definitions and phrasings in order to safeguard consistency with other IFRS. The group has not yet applied the following amendments and assumes that these amendments will have no material effect on the consolidated financial statements.

- IFRS 5: Non-current Assets Held for Sale and Discontinued Operations – It was clarified that all assets and liabilities of a subsidiary whose planned sale will result in a loss of control over the subsidiary must be recognized as "available for sale" even if the company will keep a non-controlling interest in the former subsidiary after the sale.
- IAS 1: Presentation of Financial Statements – It was clarified that financial instruments classified as "held for trading" not necessarily have to be recognized in the balance sheet as current assets or current liabilities. The classification as "current" follows only the criteria as defined in IAS 1.
- IAS 10: Events After the Reporting Period – It was clarified that dividends decided after the balance sheet date yet prior to the approval of the publication of the financial statements do not represent obligations as of balance sheet date and are therefore not recognized as liabilities in the financial statements.
- IAS 16: Property, Plant and Equipment – Revenue from property, plant and equipment held for leasing purposes and usually sold after the lease term in the context of ordinary operations are to be disclosed under sales.
- IAS 19: Employee Benefits – Apart from the revision of several definitions it is clarified that changes of benefit plans resulting in a reduction of benefits for job services to be rendered in future periods must be accounted as plan curtailments. Changes to plans resulting in a reduction of benefits for job services already rendered must be accounted as past service cost.
- IAS 20: Accounting for Government Grants and Disclosure of Government Assistance – Loans at nil or low interest rates commit to the calculation of the interest benefit. The difference between received amount and discounted amount must be recognized as government grant or subsidy.

- IAS 23: Borrowing Costs – The definition of borrowing costs was revised insofar as the guidelines in IAS 39 referring to the effective interest rate have been adopted. The group will adjust its accounting and valuation method accordingly, with no effect on the financial position and results from operations.
- IAS 27: Consolidated and Separate Financial Statements – It was clarified that the accounting treatment of a subsidiary in accordance with IAS 39 at the attributable fair value in the parent's separate financial statements must be adhered to even if the subsidiary is classified as "held for sale".
- IAS 28: Investments in Associates – As the goodwill contained in the carrying value of an investment in an associated company is not stated separately, it is not reviewed separately for impairment. Instead the whole carrying value of the investment as one asset is subjected to the impairment test and impaired if necessary. It is now clarified that even a write-up of an investment in an associate that had been impaired in previous reporting periods must be recognized as an increase of this investment altogether and not be allocated to the goodwill therein contained. Another amendment concerns mandatory reporting about such investments in associates balanced at fair values in accordance with IAS 39. In the future only the requirements of IAS 28 are applied for these investments, according to which the nature and extent of any significant restrictions on the associate's ability to transfer funds to the company in the shape of cash or repayments must be disclosed.
- IAS 29: Financial Reporting in Hyperinflationary Economies – It is clarified that in financial statements prepared on the basis of historic acquisition and production costs, assets and liabilities that are to be valuated or can be valuated at attributable fair values do not have to be limited to property, plant and equipment and financial investments.
- IAS 31: Interests in Joint Ventures: The amendment concerns mandatory reporting of such interests in joint ventures that are accounted at attributable fair values in accordance with IAS 39. In the future only the requirements of IAS 31 are applied for these interests, according to which the obligations of the partner company and the joint venture as well as a summary of the financial information about assets, liabilities, income and expenses must be disclosed.
- IAS 34: Interim Financial Reporting – It is clarified that the basic and fully diluted earnings per share must be stated in the interim report only if the company is subject to the regulations of IAS 33: Earnings Per Share.
- IAS 36: Impairment of Assets – Mandatory reporting has been harmonized with regard to the determination of value in use and the determination of attributable fair value less costs to sell, calculated on the basis of the discounted cash flow model.
- IAS 38: Intangible Assets – Expense for goods and services used for advertising and promotional activities (including mail order catalogs) are to be recognized as expenses if the company has been given the right of access to these goods or services. Furthermore, the application of the "units of production" depreciation method is admitted with no restrictions for intangible assets. This change does not affect the group as such measures for sales promotion are not carried out.
- IAS 39: Financial Instruments: Recognition and Measurement – After their first-time recognition, derivatives can be designated in the future as valuated at attributable fair values affecting net income due to changed circumstances or removed from that category because this does not signify a reallocation for the purpose of IAS 39. Furthermore, the reference to a "segment" in connection with the statement if an instrument fulfills the criteria of a hedging instrument was deleted. It is clarified in addition that the newly calculated effective interest rate is to be applied to the valuation of a debt instrument after the termination of accounting as fair value hedge.
- IAS 40: Investment Property – Property under construction built or developed for use as financial investment are to be allocated in the future not to property, plant and equipment but rather to property held as financial assets and to be valuated at acquisition or production costs or the attributable fair value. If the company applies the fair value model and the fair value cannot be determined reliably, the property under construction is valuated at acquisition and production costs until the attributable fair value can be determined or the construction is completed.

IFRIC 13: Customer Loyalty Programmes

IFRIC Interpretation 13 was released in June 2007 and is applicable for fiscal years beginning on or after July 1, 2008. According to this Interpretation, loyalty award credits granted to customers shall be accounted for as sales separate from the transaction within whose framework they have been granted. Therefore a part of the fair value of the consideration received is attributed to the loyalty award credits and deferred as a liability. The realization of sales occurs in the period in which the customer loyalty award credits are executed or expired. As the group currently has no customer loyalty programs, no effects on the consolidated financial statements are expected to arise from this Interpretation.

IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 was released in July 2007 and is applicable for the fiscal years beginning after December 31, 2008. This Interpretation provides guidelines for the determination of the limit on the amount of the surplus from a defined benefit plan that can be capitalized as an asset according to IAS 19: Employee Benefits. As all of the group's pension benefit plans are currently underfunded, no effects from this Interpretation on the group's financial position and results from operations are expected.

IASB and IFRIC have released the following Standards and Interpretations that were not subject to mandatory application in fiscal year 2008. These Standards and Interpretations have so far not been adopted by the EU and are not applied by the group.

IFRS 1: First-time Adoption of International Financial Reporting Standards

Amended Standard IFRS 1 was released in November 2008 and is subject of mandatory application for fiscal years beginning on or after January 1, 2009. The revision of the Standard consisted solely of editorial changes and a new structure of the Standard. No changes of the accounting and valuation regulations result from this revision for first-time adoption of IFRS. The regulations of IFRS 1 are directed at first-time users of IFRS and therefore have no effect on the group.

IFRS 3: Business Combinations

Amended Standard IFRS 3 was released in January 2008 and is subject to mandatory application for fiscal years beginning on or after July 1, 2009. The Standard was extensively revised in the context of a convergence project of IASB and FASB. The essential changes concern especially the introduction of an optional model for the valuation of minority interest to choose between recognition with the proportionate identifiable net asset (so-called purchased goodwill method) and the so-called full goodwill method, according to which the entire portion of goodwill of the acquired company including the portion allotted to minority interest is to be recognized. Also noteworthy is the revaluation of existing investments as affecting net income upon first-time attainment of control (successive business acquisition), the mandatory recognition of a consideration linked to the occurrence of future events as of the date of acquisition, and the treatment of transaction costs as affecting net income. Transitional regulations provide for prospective application of this new regulation. As there are no changes for assets and liabilities resulting from business combinations prior to first-time adoption of the new Standard, effects on the group can only come from future business combinations.

IAS 27: Consolidated and Separate Financial Statements

Amended Standard IAS 27 was released in January 2008 and is subject to mandatory application for fiscal years beginning on or after July 1, 2009. Changes primarily address the accounting treatment of interest without controlling influence (minority interest), sharing the group's losses to the full amount in the future, and of transactions that lead to a loss of control at a subsidiary and whose effects must be treated as affecting net income, whereas effects of disposals of interests that do not lead to a loss of control must be recognized in equity not affecting net income. Transitional regulations provide for prospective application. This revision carries no changes for assets and liabilities resulting from such transactions prior to the first-time application of the new Standard. Therefore effects on the group can only come from future transactions.

Amendments to IAS 39: Financial Instruments: Eligible Hedged Items
The amendments to IAS 39 were released in July 2008 and are subject to mandatory retrospective application for fiscal years beginning on or after July 1, 2009. The revision substantiates how the principles contained in IAS 39 for the description of hedges are applicable for the designation of a unilateral risk in an underlying transaction as well as for the designation of an inflation risk in an underlying transaction. It is clarified that it is admissible only to designate a part of the changes of the fair value or the cash flow fluctuations of a financial instrument as underlying transaction. The group assumes that the revision will not affect the group's financial position and results from operations as the group has not made such transactions.

IFRIC 12: Service Concession Arrangements
IFRIC Interpretation 12 was released in November 2006 and is generally subject to application for fiscal years beginning on or after January 1, 2008. This Interpretation has not been adopted by EU law yet. The Interpretation regulates the accounting treatment of obligations and rights assumed in the context of service concession arrangements in the financial statements of the concession operator. As no group company is a holder of concessions, this Interpretation has no effect on the group.

IFRIC 15: Agreements for the Construction of Real Estate
IFRIC Interpretation 15 was released in July 2008 and is subject to mandatory application for fiscal years beginning on or after January 1, 2009. This Interpretation provides guidelines with regard to the time and scope of the realization of revenue from projects for the construction of property. IFRIC 15 will have no effect on the consolidated financial statements as the group does not engage in such business activity.

IFRIC 16: Hedges of a Net Investment in a Foreign Operation
IFRIC Interpretation 16 was released in July 2008 and is subject to mandatory application for fiscal years beginning on or after October 1, 2008. IFRIC 16 communicates guidelines for the identification of foreign currency risks that can be hedged in the context of hedging a net investment, for the determination which group companies can hold the hedging instruments for hedging the net investment, and for the determination of foreign currency gains or losses to be reclassified upon the sale of the net investment of the hedged foreign operation from equity to the income statement. This Interpretation provides for prospective application. The group is currently appraising which accounting and valuation method to use for the reclassification upon the sale of the net investment.

IFRIC 17 Distributions of Non-cash Assets to Owners
IFRIC Interpretation 17 was released in November 2008 and is subject to mandatory application for fiscal years beginning on or after July 1, 2009. This Interpretation defines guidelines for accounting treatment and valuation of obligations providing for a payment of dividends in kind to shareholders. The Interpretation gives an opinion especially with regard to the time, valuation and disclosure of these obligations. Thus such an obligation is to be recognized and valuated at fair value at the time the company can no more abdicate from this obligation. The recognition of the obligation and possible changes of the fair value of the asset involved are to be stated in equity. An effect on the net income to the amount of the difference between fair value and the asset's carrying value does only occur at the time of transfer of this asset to the shareholders. This Interpretation provides for prospective application. IFRIC 17 will have no effect on the consolidated financial statements as no payment of a dividend in kind is to be expected within the group.

IFRIC 18 Transfers of Assets from Customers
IFRIC Interpretation 18 was released in January 2009 and is subject to mandatory application for fiscal years beginning on or after July 1, 2009. This Interpretation provides guidelines for the accounting treatment of agreements based on which a company receives property, plant and equipment or cash from a customer for the company to use for e.g. connecting the customer with a distribution network or/and to provide the customer with permanent access to the supply with goods or services. The Interpretation particularly gives an opinion on the recognition criteria of customer contributions and the time and scope of realization of revenue from such business transactions. This Interpretation provides for prospective application. IFRIC 18 will have no effect on the consolidated financial statements as the group does not conduct such business transactions.

2 Principles of consolidation

Basis of consolidation and consolidation methods

Besides ELMOS Semiconductor AG, the consolidated financial statements prepared for fiscal year 2008 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 set 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.

The group's investment in an associated company is assessed according to the equity method. An associated company is a company in which the group holds a significant influence.

SIC 12 "Consolidation – Special Purpose Entities" 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 requires 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 generally 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 registered, 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 not affecting net income.

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 from these transactions are usually offset by the profits and losses from the hedged assets and liabilities. No forward exchange contracts were in effect as of December 31, 2008 or December 31, 2007.

Cash flow statement

The cash flow statement shows how cash and cash equivalents have changed over the course of the fiscal year by 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. Finance expenses and finance income recognized in the consolidated income statement essentially correspond with the amounts paid.

3 Accounting and valuation principles

Sales

The company generates sales by selling ASICs, ASSPs and micromechanical sensor elements as well as from their development. Sales are stated less value-added taxes and after the deduction of discounts given.

Sales are realized either at the time products are shipped to the customer or at the time the risk of loss transfer to the customer. Within the framework of consignment warehousing agreements, sales are realized either at the time of acceptance by the customer or at the time the consignment warehouse is stocked up, depending on the time of the risk of loss transfer. Sales from development activities are realized after predefined so-called milestones are reached, depending on the degree of the project's completion.

Goodwill

By the application of IFRS 3, IAS 36 (updated 2004), and IAS 38 (updated 2004) beginning with fiscal year 2004 goodwill from company acquisitions is no longer amortized on schedule but reviewed for its carrying value at least once a year. 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 generally performed as follows:

All goodwill is allocated to the respective CGUs. Each subsidiary usually represents 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 0.5%, the future cash flows' cash value or value in use is then calculated. The applied interest rate has been established with the aid of the capital asset pricing model (CAPM) and comes to 6.29% for SMI and 8.51% for ELMOS France (before growth rate deduction). This interest rate corresponds with the weighted average cost of capital. This so-called WACC is based on a risk-free interest rate (4.15%) plus the average market risk premium (5.0%), multiplied by a company-specific equity beta based on a so-called raw beta of 0.93. 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 if 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 that are linked to customer orders are capitalized.

Expenses are amortized as of the start of production on a straight-line basis over the estimated useful life of 7 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 20 years.

Acquired intangible assets are set at acquisition costs and amortized under the straight-line method over their estimated useful lives of 3 to 8 years.

The depreciation is included 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	8 to 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 application of IAS 17, leased property attributable to the company as its economic proprietor is capitalized and depreciated over its estimated useful life (so-called finance lease). Accordingly, liabilities originating from the lease contract are recognized as liabilities and reduced by the amortization 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 terms.

Financial instruments

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

Financial instruments are recognized according to IAS 39.14 as of the time the company becomes the financial instrument's contracting party. With respect to regular purchase and sales transactions, the recognition occurs as of settlement date.

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 terms 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 recorded under non-current assets unless they mature within 12 months of the balance sheet date. Financial assets held for trading are recorded under current assets. Available-for-sale financial assets are considered current if they are meant to be realized within 12 months of the balance sheet date.

Upon its first-time recognition, a financial asset is set at the fair value corresponding with the time value attributable to the consideration received; 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 transaction expense incurred 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 recognized in the financial result. Held-for-maturity financial assets are valuated at their unchanged acquisition costs in application of the effective interest method.

Upon their first-time recognition, financial instruments are either classified as assets, 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 are 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. If the latter applies, the instrument is classified as equity.

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

With respect to financial liabilities, the company has so far made no use of the option to designate them as financial liabilities at fair value through profit or loss upon their first-time balance recognition.

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 recognized 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 set at nominal value in consideration of appropriate allowances.

According to IFRS 7.21/IAS 1.108, the allowance for bad debt includes estimates and assessments of individual receivables to a considerable degree, based on the respective customer's creditworthiness, current economic developments, and the analysis of historic bad debt loss on portfolio basis. Insofar as the allowance is deduced from historic loss rates on portfolio basis, a decline of the order backlog leads to a corresponding reduction of such allowances and vice versa.

Cash and cash equivalents

For the purpose of preparing the financial account, 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 the 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. A non-current 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 if a reliable estimate of the amount of the obligation can be made.

Recurring net pension expenses 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 note 24.

The company's accounting policies provide for:

- the reflection in the planned benefit obligation of all benefit improvements the company is committed to from the current valuation date,
- the amortization of the cumulative actuarial gains and losses in excess of 10% of the planned benefit obligation over the expected future benefits of active employees included in the plan (so-called corridor method).

Provisions for warranty are set up from the time of sale, based on the ratio of warranty costs to historic sales. In addition, for individual cases appropriate provisions are made after risk assessment with respect to the sales-oriented as well as the legal consequences.

Income taxes

The tax load made up of income taxes is based on the amount of annual income and considers deferred taxes. Deferred taxes are determined in application of 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 assets and liabilities considers the tax effects resulting from the way the company expects to realize its assets' carrying values or repay its debts as of balance sheet date.

Deferred tax assets and liabilities are recognized regardless of the point in time at which the temporary accounting differences are expected to reverse. Deferred tax assets and liabilities are not discounted and are included in the balance sheet as non-current assets or liabilities.

A deferred tax asset is recorded 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 balances 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.

In the opposite case, the deferred tax asset's accountable amount is reduced to the extent it appears 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 in 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 appears assured 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 respective countries' current legal situation.

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

Notes to segments

4 Segment reporting

The company's primary reporting format is based on business segments and its secondary reporting format is based on geographic segments. The operating activities are organized and controlled independently with regard to product categories; each segment represents a strategic business unit, supplying different products and serving different markets. Sales generated between the segments are based on cost-plus pricing or transfer prices – less commissions paid – that correspond 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, South Africa, and the U.S.A.

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

The following tables provide information on sales and earnings and specific information on assets and liabilities of the group's business segments for the fiscal years ended December 31, 2008 and December 31, 2007.

Fiscal year ended December 31, 2008	Semiconductor thousand Euro	Micromechanics thousand Euro	Consolidation thousand Euro	Total thousand Euro
Sales				
Sales with third-party customers	163,593	11,546	0	175,139
Sales with other segments	402	3,838	– 4,240	0
Segment sales total	**163,995**	**15,384**	**– 4,240**	**175,139**
Earnings				
Segment earnings	19,178	– 2,697	0	16,481
Finance income				– 1,809
Income before taxes				**14,672**
Income taxes				– 4,271
Net income including minority interest				**10,401**
Assets and liabilities				
Segment assets	183,546	16,809	0	200,355
Investments	518	0	0	518
Non-attributable assets	–	–	–	49,194
Total assets				**250,067**
Segment liabilities	28,619	1,645	0	30,264
Non-attributable liabilities	–	–	–	48,418
Total liabilities				**78,862**
Other segment information				
Capital expenditures for intangible assets and property, plant and equipment	20,569	257		20,826
Depreciation	16,750	1,463		18,213
Other material non-cash expense	3,269	80		3,349

Fiscal year ended December 31, 2007	Semiconductor thousand Euro	Micromechanics thousand Euro	Consolidation thousand Euro	Total thousand Euro
Sales				
Sales with third-party customers	163,611	12,523	0	176,134
Sales with other segments	261	1,303	– 1,564	0
Segment sales total	**163,872**	**13,826**	**– 1,564**	**176,134**
Earnings				
Segment earnings	20,711	– 5,551	0	15,160
Finance income				– 2,971
Equity in losses of unconsolidated subsidiaries	49	0	0	49
Income before taxes				**12,238**
Income taxes				– 3,604
Net income including minority interest				**8,634**
Assets and liabilities				
Segment assets	181,424	16,788	0	198,212
Investments	74	0	0	74
Non-attributable assets	–	–	–	51,039
Total assets				**249,325**
Segment liabilities	24,821	2,131	0	26,952
Non-attributable liabilities	–	–	–	62,408
Total liabilities				**89,360**
Other segment information				
Capital expenditures for intangible assets and property, plant and equipment	23,781	707		24,488
Depreciation	17,903	1,697		19,600
Other material non-cash expense	2,176	0		2,176

Secondary reporting format

The following tables contain information on sales, expenses, and certain assets relating to the group’s geographic segments for the fiscal years ended December 31, 2008 and December 31, 2007.

Compared to 2007, the regional sales breakdown essentially shows a shift of sales portions from the U.S. to Germany. Changes are for the most part due to individual customers’ changed shipping addresses or increased sales generated with previous customers in the above-mentioned countries and not tantamount to a changed customer structure.

Fiscal year ended December 31, 2008	Germany th. Euro	Other EU countries th. Euro	U.S.A. th. Euro	Others th. Euro	Consolidation th. Euro	Total th. Euro
Sales						
Sales with third parties	67,502	65,828	14,402	27,407		175,139
Sales with other segments	261	141	3,838	0	– 4,240	0
Total sales	**67,763**	**65,969**	**18,240**	**27,407**	**– 4,240**	**175,139**
Assets						
Segment assets	170,852	12,169	17,326	8		200,355
Investments	499	0	19	0		518
Non-attributable assets						49,194
Total assets						**250,067**
Others segment information						
Capital expenditures for property, plant and equipment	19.991	545	290	0		20,826

Fiscal year ended December 31, 2007	Germany th. Euro	Other EU countries th. Euro	U.S.A. th. Euro	Others th. Euro	Consolidation th. Euro	Total th. Euro
Sales						
Sales with third parties	63,695	64,619	19,176	28,644		176,134
Sales with other segments	1,303		261		– 1,564	0
Total sales	**64,998**	**64,619**	**19,437**	**28,644**	**– 1,564**	**176,134**
Assets						
Segment assets	168,538	12,170	17,489	15		198,212
Investments	55	0	19	0		74
Non-attributable assets						51,039
Total assets						**249,325**
Others segment information						
Capital expenditures for property, plant and equipment	23,362	372	754	0		24,488

Notes to the income statement

5 Sales

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

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

	2008 Euro	2007 Euro
Semiconductor	163,592,614	163,610,067
Micromechanics	11,546,348	12,523,461
Group	**175,138,962**	**176,133,528**

Sales dropped by 0.6% to reach 175,139 thousand Euro. The contribution of the micromechanics segment to the downturn was disproportionately high, falling 7.8% to 11.5 million Euro in 2008.

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

Cost of sales

The cost of sales contains costs of performances towards generating sales. In addition to direct material costs, direct labor costs and special direct costs, the cost of sales includes manufacturing and material overhead as well as depreciation. The cost of sales also contains changes in work in process and finished goods inventories. It has developed as follows:

	2008 Euro	2007 Euro
Material expense	33,503,538	39,664,957
Personnel expense	29,628,246	30,215,962
Other overhead	39,648,535	38,607,182
Inventory increase	– 3,224,660	– 5,463,691
	99,555,659	**103,024,409**

The cost of sales dropped from 103.0 million Euro in 2007 by 3.4%, out of proportion to sales, to 99.6 million Euro in the year under report. This development is accounted for by progress made at the production location in Duisburg and the structural changes at our subsidiaries in the U.S.A.; this affected material expense in particular.

Research and development expenses

Significant expenses regularly incur with regard to research and development projects carried out in anticipation of future sales. Research expenses are charged to expense according to the amount of work invested. 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 fiscal year 2008 R&D expenses of 31,631,625 Euro (previous year: 30,892,815 Euro) were charged to expense.

Distribution costs

Distribution costs essentially include 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 as well as for legal consultations and administrative consultation.

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

In the context of the presentation of the income statement according to 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

Material expense amounts to 42,131,713 Euro in fiscal year 2008, decreased from the previous year (2007: 43,262,055 Euro). It is composed of expenses for raw materials, supplies and purchased goods as well as purchased services.

Personnel expense

Personnel expense dropped 5.3% from 62,898,042 Euro in fiscal year 2007 to 59,548,422 Euro in fiscal year 2008. Over the same reporting period the number of employees – based on an average employment ratio – went down from 1,177 in fiscal year 2007 to 1,117 in fiscal year 2008. The decrease in personnel expense is due primarily to this reduced number of employees. Further information on the workforce can be found under note 40.

Depreciation

The itemization of depreciation can be drawn from the development of the group's non-current assets.

Depreciation according to schedule came to 18,213,357 Euro in fiscal year 2008 (2007: 19,214,438 Euro).

Due to the application of the cost of sales method, 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 3,392,522 Euro in 2008 as opposed to 3,793,824 Euro in 2007. They essentially include interest expenses for bank loans as well as for non-current liabilities.

Under the item finance income essentially interest income was disclosed in fiscal year 2008. Finance income added up to 1,583,504 Euro (previous year: 822,450 Euro). Finance expenses and finance income as stated in the consolidated income statement essentially correspond with the amounts paid.

The total amounts of interest income and interest expenses for financial assets and financial liabilities valuated at their fair values not affecting net income are as follows:

	2008 Euro	2007 Euro
Interest income	– 1,581,849	– 822,450
Interest expenses	3,232,167	3,790,291
Interest result	**1,650,318**	**2,967,841**

9 Foreign exchange losses and foreign exchange income

Income from exchange rate differences included in the income statement comes to 242,648 Euro in fiscal year 2008 (previous year: losses of 381,093 Euro).

Exchange rate differences not affecting the net income amount to 5,445,033 Euro in fiscal year 2008 (previous year: 6,407,297 Euro), deferred taxes considered. Further information on exchange rate differences not affecting the net income can be found under note 22.

10 Other operating expenses and other operating income

Other operating income of 5,050,994 Euro (2007: 9,312,235 Euro) includes investment grants of 97 thousand Euro and income from the disposal of leased objects. Within the framework of the lease agreement "Epigone" from the year 2001, previously presented as finance lease, the previously capitalized lease asset of 8,685 thousand Euro and the corresponding lease liability of 10,862 thousand Euro were deleted as a result of the conversion of the lease agreement to an operating lease agreement. Considering a tenant loan of 467 thousand Euro and expenses of 79 thousand Euro incurred in connection with the agreement's conversion, the difference between lease liabilities and the lease objects' remaining book value was fully included in the income statement under other operating income (2,565 thousand Euro). Please refer to note 14 for more information on the conversion of the lease agreement.

Other operating expenses of 4,197,824 Euro (2007: 8,240,100 Euro) include 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.

	2008 Euro	2007 Euro
Current income taxes		
Germany	1,590,552	309,395
Other countries	1,768,971	2,685,235
	3,359,523	**2,994,630**
thereof taxes incurred in the previous years	1,355,108	226,000
Deferred taxes		
Germany	– 672,226	826,722
Other countries	1,583,353	– 217,710
	911,127	**609,012**
	4,270,650	**3,603,642**

Deferred taxes have been calculated according to the so-called liability method in compliance with IAS 12. For Germany the combined income tax rate of 31.58% (previous year: 31.58%) has been applied. The company's combined income tax rate includes the trade tax collection rate of 450% (previous year: 450%), the corporation tax rate of 15.0% (previous year: 15.0%), and the solidarity tax contribution of 5.5% (previous year: 5.5%).

Deferred taxes are calculated for the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax statement of the individual financial statements. The deferral of taxes shows tax assets and tax liabilities that result from the approximation of book value differences over time. Material components of the company's deferred tax assets and deferred tax liabilities are described under note 16.

The differences between the anticipated tax rate in application of the statutory tax rate on the net income and the company's effective income taxes are as follows:

	2008 %	2007 %
Statutory tax rate	31.55	39.90
Expenses disallowable against tax	1.65	1.31
Previous years' taxes	9.24	1.85
Foreign tax rate differential	– 3.30	– 11.67
Domestic tax rate changes	0	– 9.97
Non-capitalization of deferred tax assets	0	7.28
Tax-free income	– 9.51	0
Others	– 0.52	0.75
Effective tax rate	**29.11**	**29.45**

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 respective fiscal year. The diluted earnings per common share are calculated on the basis of the average number of common shares outstanding plus all stock 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

	2008	2007
Average number of common shares outstanding	19,386,725	19,406,855
Share options with dilutive potential	0	1,633
Average number of common shares outstanding including dilutive effect	**19,386,725**	**19,408,488**

Calculation of earnings per share

	2008 Euro	2007 Euro
Net income after minority interest	10,600,998	8,797,717
Basic earnings per share	0.55	0.45
Diluted earnings per share	0.55	0.45

Notes to the balance sheet

13 Intangible assets

Goodwill

The company's goodwill has developed as follows:

	12/31/2008 Euro	12/31/2007 Euro
SMI		
Acquisition costs	7,567,365	7,567,365
Foreign currency adjustment	– 2,805,224	– 3,044,227
Carrying value	**4,762,141**	**4,523,138**
ELMOS NA		
Acquisition costs	554,617	554,617
Foreign currency adjustment	– 4,579	– 13,700
Carrying value	**550,038**	**540,917**
ELMOS France	**1,614,578**	**1,614,578**
ELMOS Services B.V.	**206,170**	**206,170**
	7,132,927	**6,884,803**

According to IFRS 3, goodwill is no longer amortized on schedule but reviewed for impairment. Valuation is conducted on the basis of cash generating units, corresponding to the legal entities the respective goodwill is attributed to. The impairment reviews carried out in 2008 did not result in allowances to be made.

Other intangible assets

Other intangible assets are composed as follows:

	12/31/2008 Euro	12/31/2007 Euro
Development projects	6,907,917	8,250,627
Software and licenses	17,745,810	19,790,500
Advance payments and projects under development	8,413,382	7,183,038
	33,067,109	**35,224,165**

Development projects

In 2008 expenses of 805,996 Euro in connection with product developments were capitalized (previous year: 3,211,607 Euro). Depreciation for capitalized developments amounted to 2,314,100 Euro in 2008 (previous year: 2,087,063 Euro). The book value of capitalized developments (including projects under development) is 7,610,278 Euro as of December 31, 2008 (previous year: 9,118,381 Euro).

Software and licenses

In 2008 expenses of 2,597,952 Euro for process technology were capitalized (2007: 2,581,761 Euro). Depreciation came to 420,713 Euro in 2008 (2006: 420,713 Euro). As of December 31, 2008 the capitalized carrying amounts for process technology capitalized as property, plant and equipment added up to 13,658,089 Euro; they amounted to 11,480,850 Euro as of December 31, 2007.

Additions to depreciation of software and licenses include 1,068 thousand Euro of extraordinary impairment loss. Impairment loss was disclosed in the income statement under cost of sales (459 thousand Euro), development expenses (403 thousand Euro), distribution costs (64 thousand Euro), and administrative expenses (142 thousand Euro). The assets are attributed to the segment semiconductor.

Others

Costs linked to research and development projects for new products as well as significant product upgrades are charged to expense to the extent they incur, included under research and development expenses. Research and development expenses of 6,168,035 Euro were reimbursed by customers in 2008 (3,532,515 Euro in 2007).

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.

	12/31/2008 Euro	12/31/2007 Euro
Property	1,498,673	2,703,051
Buildings and building improvements	17,717,034	26,081,090
Technical equipment and machinery	50,096,096	49,637,180
Advance payments and construction in process	11,386,334	8,562,831
	80,698,137	**86,984,152**

Depreciation expenses came to 12,187,357 Euro in fiscal year 2008 (previous year: 13,949,612 Euro).

In fiscal year 2008 as in the year before, no borrowing costs were capitalized.

Lease agreements

On December 11, 2007 the company sold various pieces of installed equipment to Exedra for a total purchase price of 5,124,648 Euro. Parallel to this sale, the company leased these building improvements for a term of 5 years. Within the framework of this lease agreement with Exedra, the company is committed to total annual lease payments of 1,064,946 Euro until 2012.

On December 11, 2007 the company also entered into a supplementary agreement to an existing finance lease agreement with Exedra, to the effect that the original agreement is restructured into an operating lease agreement in compliance with the accounting standards according to IAS/IFRS and extended to a building erected on the lessor's property to the amount of 4,816,107 Euro. The leased assets to be subsumed under the existing contract were previously classified as finance lease and were disclosed accordingly under property, plant and equipment. By the adjustment of the contract modalities, the contract was converted to operating lease in the year under report; thus the corresponding lease liabilities (December 28, 2007: 16,175,178 Euro) as well as the leased assets are no longer included in the balance sheet. The profit resulting from this transaction was immediately recognized to the amount of 4,756 thousand Euro (disclosure under other operating income) and disclosed as so-called deferred income under other liabilities to the amount of 2,530 thousand Euro. Depreciation occurs over the remaining term of 12.5 years until 2020. Within the framework of the newly negotiated lease contract, the company is committed to total lease payments of 30,871,320 Euro until 2020.

Furthermore, on December 30, 2008 the company entered into a supplementary agreement to an existing finance lease agreement with Epigone, to the effect that the original agreement is restructured into an operating lease agreement in compliance with the accounting standards according to IAS/IFRS. The leased assets to be subsumed under the existing contract were previously classified as finance lease and were disclosed accordingly under property, plant and equipment. By the adjustment of the contract modalities, the contract was converted to operating lease in the year under report; thus the corresponding lease liabilities (December 30, 2008: 10,861,964 Euro) as well as the leased assets are no longer included in the balance sheet. The profit resulting from this transaction was immediately recognized to the amount of 2,565 thousand Euro (disclosure under other operating income). Within the context of the newly negotiated lease contract, the company is committed to total lease payments of 15,187,126 Euro until 2021. In 2008 lease expenses of 1,170 thousand Euro were entered for the existing finance lease agreement.

The carrying value of the leased assets is composed as follows:

	12/31/2008 Euro	12/31/2007 Euro
Leased assets	0	27,677,758
Accumulated depreciation	0	– 17,401,032
	0	**10,276,726**

Depreciation is carried out over the term of contract or the longer period of use according to IAS 17.28. It is included in the depreciation expense and amounts to 0 Euro in the year 2008 (previous year: 2,856,171 Euro). Extraordinary depreciation was not carried out.

Finance lease liabilities are disclosed by the company as current or non-current liabilities. The development is as follows:

	12/31/2008 Euro	12/31/2007 Euro
Current portion (maturity within twelve months)	0	1,035,478
Non-current portion (maturity > one year)	0	10,861,624
	0	**11,897,102**

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

	12/31/2008 Euro	12/31/2007 Euro
Within twelve months	0	1,548,857
Between one year and five years	0	5,328,878
Later than five years	0	8,229,533
	0	**15,107,268**
Future interest share of finance lease agreements	0	3,210,165
Discounted value of finance lease liabilities	**0**	**11,897,102**

15 Investments valuated at-equity, securities and interests

The company has investments in the following companies:

	12/31/2008 Euro	12/31/2007 Euro
attoSensor	1	1
GfH	0	0
Epigone	15,324	20,824
Advanced Appliances Chips	34,000	34,000
ELMOS U.S.A. Inc.	19,107	19,107
DMOS	449,262	0
	517,694	**73,933**

attoSensor GmbH, Penzberg

As of December 31, 2008 ELMOS holds 45% of the shares. The company has a share capital of 40,000 Euro. attoSENSOR GmbH, Penzberg, is balanced according to the equity method. The investment valuation corresponds with a memo value of 1 Euro after an impairment review carried out in 2006.

Gesellschaft für Halbleiterprüftechnik mbH, Dortmund (GfH)

As of December 31, 2008 ELMOS continues to hold 100% of the shares. The investment book value has been depreciated in the past years down to a memo value.

Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz

As of December 31, 2008 ELMOS holds 45% of the shares. 55% of the shares of Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz were sold in the fiscal year within the framework of the conversion of the finance lease agreement to operating lease.

Advanced Appliances Chips GmbH, Riedstadt

As of December 31, 2008 ELMOS continues to hold 33.33% of the shares. The company has a share capital of 102,000 Euro.

ELMOS U.S.A. Inc., Farmington Hills, U.S.A.

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

DMOS Dresden MOS Design GmbH, Dresden

As of December 31, 2008 ELMOS continues to hold 20% of the shares of DMOS. As of December 31, 2007 DMOS was included in the consolidated financial statements by way of full consolidation as ELMOS owned a purchase option for the acquisition of a majority interest and was therefore entitled to potential voting rights. By the end of 2008 ELMOS waived the exercise of the option irrevocably for the next five years by notarial declaration. Due to the loss of potential voting rights, DMOS was excluded from the basis of consolidation as of December 31, 2008. Inclusion in the consolidated financial statements according to the equity method is not necessary for lack of a significant influence.

Summarized financial information

Associated companies	Total assets th. Euro	Total liabilities th. Euro	Sales th. Euro	Period net income th. Euro
attoSensor[1]	386	325	589	1
GfH[2]	120	2	5	5
Epigone[1]	12,102	12,076	514	– 2
Advanced Appliances Chips[1]	446	207	398	65
ELMOS U.S.A. Inc.[3]	–	–	–	–
DMOS[1]	7,261	6,906	2,986	– 116

[1] Presented figures are based on preliminary unaudited financial statements as of December 31, 2008.
[2] Presented figures are based on financial statements as of December 31, 2007.
[3] No financial statements of these companies are available at present.

16 Deferred taxes

	12/31/2008 Euro	12/31/2007 Euro
Deferred tax assets		
Property, plant and equipment	0	– 108,316
Goodwill	4,588,559	5,455,379
Loss carry-forward	2,031,125	2,736,621
Others/Exchange rate differences	0	22,255
	6,619,684	**8,105,939**
Deferred tax liabilities		
Intangible assets	– 5,969,163	– 5,246,286
Property, plant and equipment	– 3,312,166	– 5,933,848
Finance lease	0	3,690,076
Pension provisions	0	295,066
Loss carry-forward	5,334,454	1,879,010
Others/Exchange rate differences	– 11,552	740,573
	– 3,935,323	**– 4,575,409**

Within the individual items, offsets were applied in accordance with IAS 12.74 a) and b), i.e. deferred tax assets and deferred tax liabilities were offset against each other insofar as they belonged to the same taxable entity and that taxable entity was entitled to offset current tax assets against current tax liabilities.

The capitalization of deferred tax assets on loss carry-forward was made on the basis of the involved companies' medium-term business planning. Loss carry-forward on the taxable entity in the U.S. (so-called tax consolidation) of 2,150 thousand Euro has been capitalized, utilized in the context of restructuring in 2008. This restructuring included among other measures the sale of a non-capitalized, self-created customer base from ELMOS NA to ELMOS. The aforementioned loss carry-forward is non-forfeitable. No deferred tax assets were accrued for other loss carry-forward and temporary differences of 210 thousand Euro based on the U.S. companies' available business planning.

17 Inventories

The inventories are composed as follows:

	12/31/2008 Euro	12/31/2007 Euro
Raw materials	7,606,275	8,126,138
Work in process	20,432,687	18,762,550
Finished goods	9,340,665	6,725,239
	37,379,627	**33,613,927**

The impairment of inventories assessed as expense comes to 928 thousand Euro (previous year: 1,408 thousand Euro). This expense is disclosed under the position cost of sales. The impairment expense includes an acceptance risk for components in production to the amount of 713 thousand Euro. This impairment is attributable to the segment semiconductor.

18 Trade receivables

Trade receivables are composed as follows:

	12/31/2008 Euro	12/31/2007 Euro
Trade receivables	30,583,781	28,944,222
Allowances	– 847,934	– 537,957
	29,735,847	**28,406,265**

The company conducts ongoing credit evaluations of its customers and generally demands no collateral. The company has carried out allowances for potential credit loss. Credit loss incurred corresponded with the Management Board's estimates and expectations and remain within customary limits.

The following table presents the changes in adjustments made on current and non-current receivables:

	2008 Euro	2007 Euro
Allowances as of January 1	537,957	231,663
Appropriation in reporting period (allowance expense)	551,359	395,396
Consumption	– 235,651	– 55,368
Reversals (write-up of originally written-off receivables)	– 76,322	– 28,527
Currency translation effects	70,591	– 5,207
Allowances as of December 31	**847,934**	**537,957**

The impairment of trade receivables is included for the most part in adjustment accounts. The decision whether to recognize a contingency risk through an adjustment account or a direct write-down of the receivable depends on the assessment of the probability of debt loss. If receivables are considered unrecoverable, the corresponding depreciated asset is adjusted.

The following table provides information on the credit risk carried by the financial assets and performances.

Euro	Carrying value	Neither depreciated nor overdue as of balance sheet date	Not depreciated and overdue in the following time bands as of balance sheet date: Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
Trade receivables	12/31/2008	19,248,686	5,811,034	2,717,965	1,585,946	165,066	193,000	210,791
Other financial assets	12/31/2008	2,330,256	67,788	67,788	67,788	203,364	412,153	450,732
Trade receivables	12/31/2007	21,374,473	6,403,248	86,691	287,855	109,884	296,987	8,998
Other financial assets	12/31/2007	1,392,280	888	884	881	2,571	5,146	31,347

19 Cash and cash equivalents

The company recognizes all highly liquid investments purchased with a maturity of three months or less as of date of purchase as cash equivalents.

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

20 Other assets and income tax assets

Other assets and income tax assets come to 10,347,411 Euro as of balance sheet date (PY: 6,550,185 Euro) and essentially include tax relief claims, current loans and various current receivables.

21 Non-current assets classified as held for sale

Assets held for sale are made up of auxiliary IT equipment and various technical equipment and machinery. The sale of these assets is expected for 2009. The assets are scheduled for sale to various leasing companies in the framework of sale and leaseback transactions. The sale modalities are still up for negotiation.

The item was increased because of additions particularly to technical equipment and machinery from 626 thousand Euro to 2,105 thousand Euro in 2008.

There was also a transfer of the entry of a plant from assets classified as held for sale to property, plant and equipment in the current fiscal year. The company had initially intended to sell the asset accounted at the total book value of 61,958 Euro. The company changed its intention in fiscal year 2008 as the company's own utilization of this asset appeared more beneficial. The consequences of this decision on the profit situation are limited to the depreciation to be considered from that point in time.

All aforementioned assets belong to the segment semiconductor.

22 Equity

Share capital

The share capital recognized at 19,414,205 Euro (2007: 19,414,205 Euro) in the balance sheet as of December 31, 2008, consisting of 19,414,205 (2007: 19,414,205) non-par value common bearer shares, is paid in entirely.

The development of shares in circulation is as follows:

Shares as of January 1, 2008	19,414,205
Issuance of shares due to stock option exercise	0
Shares as of December 31, 2008	**19,414,205**

The distribution of ownership as of December 31, 2008 is as follows:

	Euro	%
EFH ELMOS Finanzholding GmbH	1,485,789	7.65
Makos GmbH	3,236,584	16.67
Dr. Weyer GmbH	3,236,584	16.67
ZOE-BTG GmbH	2,306,833	11.88
Free float	9,148,415	47.12
	19,414,205	**100.00**

As of December 31, 2008 EFH ELMOS Finanzholding directly and indirectly holds 52.9% of the shares of ELMOS Semiconductor AG, Dortmund. EFH ELMOS Finanzholding is therefore regarded as controlling company.

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 885,795 Euro, consisting of 885,795 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 stock options 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 930,000 Euro, consisting of 930,000 non-par bearer shares, at a proportional amount of the share capital of 1.00 Euro to each share **(conditional capital III).** The conditional capital increase is realized only by the issuance of up to 930,000 new non-par bearer shares entitled to dividend as of the beginning of the fiscal year of the shares' issuance and only for the purpose of exercising stock options granted within the framework of stock option plan 2004 of ELMOS Semiconductor AG in the period from October 1, 2004 to April 26, 2009.

There are stock options according to Section 192 (2) no. 3 AktG originating from a stock option plan for Management Board members, executives and employees for the purchase of 409,916 shares. Each option entitles to the purchase of one non-par share representing a proportional amount of the share capital of 1.00 Euro.

Additional paid-in capital

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

	12/31/2008 Euro	12/31/2007 Euro
Premiums	84,784,588	84,784,588
Stock options	3,951,975	3,951,975
	88,736,563	**88,736,563**

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

Other comprehensive income

Exchange rate translation effects relating to international subsidiaries are directly included in equity.

Accumulated other comprehensive income comprises the following items:

	12/31/2008 Euro	12/31/2007 Euro
Foreign currency adjustments	– 5,883,695	– 6,882,829
Deferred taxes (on foreign currency adjustments)	438,662	475,532
Accumulated other comprehensive income	**– 5,445,033**	**– 6,407,297**

23 Share-based payments

Stock option plan

There are active stock option plans for Management Board members, executives and employees from previous years. These plans aimed at assuring the company's success by enabling its employees to acquire the company's shares. Within the framework of these plans, the company is authorized to grant 1,000,000 new non-par shares (conditional capital I), of which so far 114,205 stock options have been exercised, or rather 930,000 new non-par shares (conditional capital III).

In total, there were five tranches of stock option plans. The first three tranches expired in the years 2006 to 2008. The exercise price corresponds for the fourth tranche with 120% and for the fifth tranche with 110% of the average amount of the share's closing prices of the last ten trading days prior to the Management Board's resolution on the issuance and the regulation of particulars of the respective tranche. Options can only be exercised if the closing price of the company's share equals or exceeds the exercise price. Options are redeemed against payment of the exercise price.

The options from the active tranches can be exercised after uninterrupted company employment of two years subsequent to the option grant and expire after five years. In 2008 no options were exercised (in 2007: 400 options from the third tranche). As of December 31, 2008 altogether 409,916 options are outstanding. They are divided between the tranches as follows:

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 12/31/2007 (number)	Exercised 2008 (number)	Expired 2008 (number)	Options outstanding as of 12/31/2008 (number)
3	2002	2003	7.87	2	3	162,286	0	162,286	0
4	2003	2004	11.59	2	3	270,822	0	6,150	264,672
5	2004	2005	13.98	2	3	149,272	0	4,028	145,244
						582,380	**0**	**172,464**	**409,916**

The valuation of share options was conducted in compliance with the regulations of IFRS 2 for "equity-settled share-based payment transactions" as of balance sheet date, December 31, 2008, according to the Black-Scholes method. The stock options' average attributable value was 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 calculation of attributable value

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

In fiscal year 2008 the company incurred no expenses for the stock option plans (2007: 0 Euro).

Stock awards

In the year 2007 a bonus stock plan (stock awards) was implemented for the first time. The stock awards were granted to selected employees, executives and members of the Management Board in recognition of their performances given in the past year. Granting these awards is intended to represent the connection between ELMOS and its top achievers and to be regarded as an incentive to inspire commitment and motivation. In 2008 a stock award plan was launched again.

The stock award plan 2008 comprised 50,000 shares (2007: 29,000 shares) which had been previously repurchased at the stock exchange within the authorization to repurchase own stock. The shares were purchased between January 30 and February 25, 2008 for an average purchase price of 5.95 Euro per share plus commission (2007: August 16 to 23, for an average purchase price of 7.23 Euro per share plus commission) and issued to employees, executives and members of the Management Board in their entirety until December 31, 2008. Corresponding personnel expense of 170,442 Euro (2007: 212,332 Euro) was split between the divisions production (2008: 66,218 Euro; 2007: 70,507 Euro), development (2008: 30,834 Euro; 2007: 32,020 Euro), distribution (2008: 15,382 Euro; 2007: 43,959 Euro), and administration (2008: 58,008 Euro; 2007: 65,846 Euro). A holding period of two years applies to the stock awards; this does not apply for a sale of shares in the number required to settle the tax incurred for the non-cash benefit. ELMOS intends to provide similar stock award plans for the next years.

24 Provisions

Non-current provisions/pension provisions

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

	12/31/2008 Euro	12/31/2007 Euro
Cash value of obligations	2,957,903	2,916,788
Fair value of pension plan reinsurance	– 2,274,224	– 2,036,152
Unrecognized actuarial income/losses	227,771	230,578
Liabilities recognized in the balance sheet	**911,450**	**1,111,214**

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 period of occupation.

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

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

The calculation of the partial values is carried out in accordance with IAS 19. The interest rate is 5.85% per annum in this fiscal year. 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:

	12/31/2008 Euro	12/31/2007 Euro
Service costs	37,518	49,666
Interest	158,735	160,597
Net pension plan expense	**196,253**	**210.263**

Changes in the present values of the defined benefit liabilities are as follows:

	2008 Euro	2007 Euro
Pension obligations as of Jan. 1	2,916,788	3,229,159
Pension plan expense	196,253	210,263
Pension benefits	– 79,261	– 79,261
Actuarial income	– 75,877	– 443,373
Pension obligations as of Dec. 31	**2,957,903**	**2,916,788**

	2008 Euro	2007 Euro
Fair value of pension plan reinsurance	2,274,224	2,036,152

Actuarial income recognized in the reporting period came to 79 thousand Euro in 2008 (2007: income of 50 thousand Euro).

Income from pension plan reinsurance amounts to 280,806 Euro (previous year: 110,137 Euro) including payments made in the event of death. Premiums of 319,006 Euro were paid (2007: 318,042 Euro).

There are also indirect pension commitments to Management Board members of ELMOS Semiconductor AG which require no pension provisions according to IAS 19.104D because of the volume of these commitments and risk coverage by completely congruent pension plan reinsurance. In 2008 the contributions to these pension plans amounted to 442,053 Euro (previous year: 431,743 Euro).

The employer's social security contributions made for employees amounted to 3,951,202 Euro in 2008 (previous year: 3,868,617 Euro). The contributions to employees' direct insurance came to 12,000 Euro in 2008.

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

	2008 Euro	2007 Euro	2006 Euro	2005 Euro	2004 Euro
Pension obligations	2,957,903	2,916,788	3,229,159	3,006,721	2,649,311
Fair value of pension plan reinsurance	– 2,274,224	– 2,036,152	– 1,923,742	– 1,749,405	– 1,110,719
Underfunding (–)	– 683,679	– 880,636	– 1,305,417	– 1,257,316	– 1,538,592
Adjustments to plan liabilities based on experience	– 9,784	– 12,878	124,078	173,540	41,738
Adjustments to plan assets based on experience	0	0	0	0	0

Current provisions

	1/1/2008 Euro	Consumption Euro	Release Euro	Additions Euro	12/31/2008 Euro
Vacation provisions	1,122,293	1,113,940	8,353	333,423	333,423
Bonus provisions	674,491	621,934	6,500	738,109	784,166
Trade association	313,800	285,425	28,375	326,042	326,042
Warranties	1,762,700	625,456	0	1,462,710	2,599,954
Licenses	553,693	227,991	25,560	456,775	756,917
Other provisions	1,683,559	1,170,092	48,806	1,479,401	1,944,062
	6,110,536	**4,044,838**	**117,594**	**4,796,460**	**6,744,564**

The warranty provision was calculated on the general basis of sales as well as in consideration of special incidents of the past fiscal year.

The provision for licenses includes payment obligations to in-house and external inventors. This provision is calculated on the basis of existing payment agreements.

Other provisions essentially include various personnel-related provisions for e.g. bonus payment obligations, awards and partial retirement.

The majority of current provisions will be accrued in the next fiscal year.

25 Financial liabilities

Non-current financial liabilities

Non-current financial liabilities as of December 31, 2008 are made up as follows:

	12/31/2008 Euro	12/31/2007 Euro
Non-current financial liabilities from loans and bonded loans	40,619,746	40,953,354
Finance lease	0	11,897,102
Total	**40,619,746**	**52,850,456**
Less current portion with remaining terms of up to 12 months	186,032	1,228,175
	40,433,714	**51,622,281**

Current financial liabilities

As of December 31, 2008 the company had various current credit limits adding up to 24,612,000 Euro at its disposal. As of December 31, 2008 the company did not take advantage of these credit facilities. Current financial liabilities are made up entirely by the portion of non-current financial liabilities with remaining terms of up to twelve months.

	12/31/2008 Euro	12/31/2007 Euro
Current liabilities to banks	186,032	1,307,531
Current portion of lease liabilities	0	1,035,478
	186,032	**2,343,009**

The following table lists all contractually framed payments for redemptions, repayments and interest with respect to recorded financial liabilities as of December 31, 2008 and December 31, 2007, respectively. These are disclosed with the undiscounted payment flows including interest payment for the next fiscal years. Also included are all payment flows from derivative financial instruments at positive and negative attributable fair values.

December 31, 2008	2009 th. Euro	2010 th. Euro	2011-2013 th. Euro	from 2014 th. Euro
Liabilities to banks	1,847,576	1,847,576	34,407,538	0
Other finance debt	563,000	563,000	11,063,444	0
Trade payables	18,403,799	0	0	0
Other financial liabilities	563,083	0	0	0

December 31, 2007	2008 th. Euro	2009 th. Euro	2010-2012 th. Euro	from 2013 th. Euro
Liabilities to banks	2,987,834	1,819,000	5,286,000	31,232,617
Other finance debt	563,000	563,000	11,626,444	0
Finance lease liabilities	1,548,857	1,332,219	3,996,658	8,229,534
Trade payables	14,589,724	0	0	0
Other financial liabilities	2,680,791	0	0	0

The presentation of the liquidity analysis is based on the following assumptions: With respect to financial instruments at variable interest rates, the presentation of future interest payments is carried out on the basis of the current fixing. Foreign currency amounts have been translated at the current balance sheet date's exchange rate; the resulting amount has been used for the determination of future payments.

26 Other current and non-current liabilities

Other liabilities include as of balance sheet date:

	31/12/2008 Euro	31/12/2007 Euro
Income tax liabilities	3,862,368	1,879,590
Other current liabilities	2,140,105	4,594,667
Other non-current liabilities	2,244,242	2,533,246
	8,246,715	**9,007,503**

Income tax liabilities essentially include income tax liabilities of the parent and international subsidiaries, originating in part from previous years. Other current liabilities include, among others wage income tax liabilities and social security contributions to be made.

Furthermore, in connection with the lease agreement concluded with Exedra in 2007, the difference between the dissolved finance lease liability and the determined fair value of the leased assets is disclosed under other non-current liabilities. The amount is treated as a deferred item proportionally over the term of the lease agreement.

27 Trade payables

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

28 Derivative financial instruments

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

To hedge against interest rate fluctuations from current revolving liabilities at variable interest rates, the company entered into an interest rate swap agreement over a base amount of 20,000,000 Euro. The agreement had a term of 5 years and expired in 2008.

The interest swap has not been stated in the consolidated financial statements as a hedging instrument according to IAS 39. The fair value changes of the interest swap transaction, immaterial in 2007 and 2008, were immediately recognized and disclosed under liabilities affecting the net income.

Derivative transactions for hedging are generally assessed on the basis of current price offers. If a price cannot be determined, the assessment is made in accordance with suitable valuation procedures. The attributable fair value of derivative financial instruments corresponds to the amount ELMOS would have to pay or would be paid upon the financial instrument's termination as of balance sheet date. It is calculated in application of the exchange rates, interest rates, and securities of the contracting parties as of balance sheet date.

29 Other information on financial instruments

Carrying values, basis of valuation and fair values according to valuation categories

With respect to the classification of financial instruments, the company follows IAS 39, as the spreading of risks within these valuation categories is similar.

The carrying value of financial instruments such as trade receivables and trade payables essentially corresponds with the fair value due to short-term maturities.

The carrying value of liabilities to banks essentially corresponds with the fair value, based on market prices for the same or comparable issues, and the interest rates presently offered to the company.

The following tables disclose carrying values and fair values of each category of financial assets and financial liabilities.

			Valuation according to IAS 39						Valuation according to IAS 39				
Euro	**Cat.**	**Carrying value 12/31/2008**	Continued acquisition costs	Acquisition costs	Not affecting/ Affecting the net income at fair value	**Valuation according to IAS 17**	**Fair value 12/31/2008**	**Carrying value 12/31/2007**	Continued acquisition costs	Acquisition costs	Not affecting/ Affecting the net income at fair value	**Valuation according to IAS 17**	**Fair value 12/31/2007**
Financial assets													
Other investments	AfS	517,693		517,693			517,693	73,932		73,932			73,932
Trade receivables	LaR	29,735,847	29,735,847				29,735,847	28,406,265	28,406,265				28,406,265
Cash and cash equivalents	LaR	42,463,401	42,463,401				42,463,401	42,855,617	42,855,617				42,855,617
Other financial assets													
Other receivables and assets	LaR	2,289,257	2,289,257				2,289,257	905,511	905,511				905,511
Other loans receivable	LaR	1,310,612	1,310,612				1,310,612	528,489	528,489				528,489
Total financial assets		**76,316,810**	**75,799,117**	**517,693**			**76,316,810**	**72,769,814**	**72,695,882**	**73,932**			**72,769,814**
Financial liabilities													
Trade payables	OL	18,403,799	18,403,799				18,403,799	14,589,724	14,589,724				14,589,724
Liabilities to banks	OL	30,619,746	30,619,746				29,909,428	32,068,188	32,068,188				32,044,501
Other finance debt	OL	10,000,000	10,000,000				9,858,787	10,000,000	10,000,000				9,917,510
Finance lease liabilities	N/A	0	0			0	0	11,897,102	11,897,102			11,897,102	10,327,958
Other financial liabilities													
Derivatives without hedging relationship	HfT	0			0		0	0			0		0
Other remaining financial liabilities	OL	565,083	565,083				565,083	2,680,791	2,680,791				2,680,791
Total financial liabilities		**59,588,628**	**59,588,628**				**58,737,097**	**71,235,805**	**71,235,805**			**11,897,102**	**69,560,484**
Aggregated according to valuation categories													
Finance lease (N/A)								11,897,102				11,897,102	10,327,958
Loans and receivables (LaR)		75,799,117	75,799,117				75,799,117	72,695,882	72,695,882				72,695,882
Available for sale (AfS)		517,693		517,693			517,693	73,932		73,932			73,932
Held for trading (HfT)													
Held to maturity (HtM)													
Other liabilities (OL)		59,588,628	59,588,628				58,737,097	59,338,703	59,338,703				59,232,526

Notes to the income statement

The following table shows the net income and net loss from financial instruments recognized in the income statement.

	2008 Euro	2007 Euro
Loans and receivables	392,184	871,373
Held for trading	0	18,449
Other liabilities	198,884	– 141,860

ELMOS recognizes valuation adjustments of trade receivables classifiable as “loans and receivables” under other operating expenses. Losses from foreign currency translations of financial assets classifiable as “loans and receivables” result from trade receivables for the most part. Net gains and losses contain value adjustments, loss of receivables and interest and dividend income or expenses.

Expenses or income attributable to the category “other liabilities” result from exchange rate differences of trade payables.

Interests on financial instruments are disclosed under interest income (please refer to note 8).

30 Financial risk management and financial derivatives

Basic principles of risk management

ELMOS Semiconductor AG includes the various risk controlling measures within the company in an integrated and consistent risk management system. The system provides for the regular identification and assessment of new and known risks by the respective employees in charge and establishes a closed loop reporting system. In addition, the business units of the ELMOS Group deliver reports on the development of finances and operations on a monthly basis. By these measures, Management Board and Supervisory Board are informed about the risk situation regularly and in good time and are thus enabled to decide on appropriate measures for risk minimization and risk prevention.

The risk management system fulfills the requirements of Section 91 (2) AktG and has been audited by the auditing firm for its compliance with the provisions of commercial law and corporate law (HGB, AktG) and found capable of recognizing developments that could jeopardize the company’s continued existence at an early stage. The focus is directed on risks of the highest priority rating. The risk management system will be expanded continuously and advanced in response to changing basic conditions in the future.

With respect to its assets, liabilities, planned transactions and firm commitments, ELMOS is particularly exposed to credit risks, liquidity risks and risks from changes in exchange rates and interest rates. The financial risk management aims at limiting these market risks due to operating and finance-oriented activities. It is the strategy of ELMOS to hedge interest and exchange rate risks by applying suitable instruments such as corresponding derivative products. ELMOS 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 use these hedging instruments for the purpose of speculation.

The basics of the corporate finance policy are determined annually by the Management Board and monitored by the Supervisory Board. The implementation of the finance policy and the operation of the risk management are the responsibility of the Management Board.

Credit risk

Liquid assets essentially include cash and cash equivalents. With respect to the investment of liquid assets, the group is exposed to losses due to credit risk if banks do not fulfill their obligations. ELMOS manages the resulting risk position by a diversification of the contracting parties. Liquid assets are invested only with reputable parties of high credit ratings. Trade receivables primarily originate from sales activities concerning microelectronic components and system parts as well as function-related technologic units. The customers are for the most part automotive suppliers, to a lesser extent companies of the industrial sector and the consumer goods industry. The accounts receivable are monitored continuously and for the most part centralized. Contingency risks are met with specific allowances for bad debt and blanket allowances. The arrangement of the specific terms of payment also reflects the historic development of the respective customer-supplier relationship. With respect to new customers, creditworthiness information is gathered as well. The business transactions with key customers are subject to special contingency risk supervision. The maximum contingency risk is reflected by the carrying amounts of the financial assets disclosed in the balance sheet. Especially against the backdrop of the current global financial market and economic crisis, monitoring and reminding of outstanding debts has become even more discerning.

Liquidity risk

The liquidity risk of ELMOS addresses the contingency that the company might not be able to fulfill its financial obligations anymore, e.g. the payment of finance debt, the payment of trade payables, and the payment obligations from lease agreements. A liquidity reserve of cash and credit limits is provided so that this risk will not materialize and the liquidity and financial flexibility of ELMOS are assured at any time. In addition, the group's liquidity is constantly monitored. Further information about available credit limits can be found under note 25.

Financial market risks

Because of its international business activity, ELMOS is exposed to market price risks as a result of changes of exchange rates and interest rates. These market price risks may have a negative effect on the group's financial position and results from operations.

a) Foreign exchange rate risk

Because of the international orientation, the operating business as well as the reported financial results and the cash flows are exposed to risks due to exchange rate fluctuations. These occur principally between the U.S. dollar and the Euro.

The exchange rate risks borne by ELMOS result from operating activities, investments, and funding measures. The individual group companies conduct business for the most part in their respective functional currencies. Therefore the exchange rate risk of ELMOS from operating activities is regarded as low. Insofar as operating activities are conducted in foreign currencies by the separate group companies, the effect is usually balanced within the group. Furthermore, services are paid in U.S. dollar, such as assembly services from Southeast Asia or the acquisition of producer's goods, typically offered on the global semiconductor market in U.S. dollar. There are also group-internal commitments such as foreign-currency loans granted to group companies for funding purposes.

Apart from so-called natural hedging, i.e. when specific incoming U.S. dollar payments face corresponding outgoing payments within a short period of time, hedging activities take place in certain cases. Foreign currency risks not affecting the group's cash flows (i.e. risks resulting from the translation of foreign subsidiaries' assets and liabilities into the currency of the group's financial reporting) are generally not hedged. Due to insignificant scale, ELMOS was not exposed to material foreign currency risks as of balance sheet date.

Had the Euro been revalued (devalued) against the U.S. dollar by 10% as of December 31, 2008, the result from operations would have been 758,920 Euro higher (927,560 Euro lower) (December 31, 2007: 579,778 Euro higher (708,548 Euro lower)). The group's equity effect would be the same amount via the result effect in consideration of income taxes incurred.

b) Risk of changes in interest rates

The risk of changes in interest rates borne by ELMOS as of balance sheet date primarily results from interest on cash and cash equivalents and to a significantly lesser extent to interest on current finance debt such as variable-interest loans. ELMOS is exposed to interest risks primarily in the Euro area. The Management Board determines the target mix between fixed and variable-interest liabilities in regular intervals. The funding structure is realized on that basis. Interest derivatives are put to use if necessary.

Had the market interest level been higher (lower) by 10 basis points as of December 31, 2008, the income before taxes would have been 42,463 Euro higher (lower) (December 31, 2007: 16,634 Euro). The hypothetical result effect stems from the potential effects from original variable-interest cash and cash equivalents and liabilities. The group's equity effect would have been the same amount via the result effect in consideration of income taxes incurred.

c) Other price risks

In the company's opinion there is no other material price risk as of December 31, 2008 (2007).

Capital assessment

It is the primary objective of the group's capital assessment to assure that a high credit rating and a sound equity ratio are maintained in support of the company's business operations and for maximizing the shareholder value.

The group controls its capital structure and makes adjustments in consideration of the economic framework. For the maintenance or adjustment of the capital structure, the group may e.g. pay dividends to the shareholders or issue new shares. As of December 31, 2008 and as of December 31, 2007 no changes were made to the objectives, guidelines, or procedures.

The group monitors its capital based on the debt ratio which corresponds to the net debt to equity ratio (gearing) as well as the absolute amount of net debt and the equity ratio. Net debt includes current and non-current financial liabilities less cash and cash equivalents as well as securities, without consideration of discontinued operations. The equity includes the equity attributable to shareholders of the parent less unrealized gains. The equity ratio puts the equity in proportion to total assets.

	2008	2007
Net debt/(Net cash)	–1.8m Euro	11.1m Euro
Debt ratio	–1.1%	6.9%
Equity ratio	68.5%	64.2%

Other information

31 Subsidies

The company receives subsidies utilized for funding 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 (0 Euro as of December 31, 2008; 643,942 Euro as of December 31, 2007). Subsidies used for research and development projects were offset against research and development expenses (97,201 Euro in 2008, 298,157 Euro in 2007). Subsidies for capital expenditures for property, plant and equipment of 493,133 Euro were recognized as reduction of acquisition costs in the current year.

32 Other financial obligations and contingent 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, 2019, 2020, and 2021. The company has also entered into lease agreements for technical equipment and machinery as well as furniture and office equipment, whose terms extend until 2013 in some cases. Furthermore, there are lease agreements for the car pool, office machines and technical equipment and machinery to a customary extent.

On December 16, 2005 ELMOS entered into a real estate 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 9 years. The annual lease amounts to 518 thousand Euro. The lease is raised by 1.0% per annum each calendar year, for the first time on December 16, 2006. The agreement is not cancelable over the lease term. After the completion of the term of lease, ELMOS is entitled to demand the extension of the lease contract for another 5 years.

Within the framework of the rental agreement with Exedra, ELMOS is committed to total lease payments of 30,871,320 Euro until 2020 (see note 14).

Within the framework of the newly negotiated rental agreement with Epigone, ELMOS is committed to total lease payments of 15,187,126 Euro until 2021 (see note 14).

SMI entered into a real estate lease agreement on January 26, 2006 for property including the factory erected on this property with McCarthy Manager LLC, Washington/U.S.A. The contract provides for 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. The agreement is not cancelable over the lease term. After the completion of the term of lease, SMI is entitled to demand the extension of the lease contract for another 10 years.

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

The total expenditure for rental and lease agreements amounted to 14,978,224 Euro in 2008 and 14,957,802 Euro in 2007. As of December 31, 2008 future minimum payments owed from non-cancelable agreements with initial terms or remaining terms of more than one year are as follows:

	Lease payments, insurance premiums Euro
2009	26,546,315
2010	22,382,454
2011	16,751,877
2012	14,060,007
2013	11,316,723
Later years	48,144,181
	139,201,557

The carrying value of financial assets pledged as security by a subsidiary for a bank loan comes to 389 thousand Euro. The security comes in the shape of first-ranking land charge on a building object. As of balance sheet date ELMOS has not furnished securities according to IFRS 7.14.

33 Group companies

According to IAS 27 the consolidated financial statements shall include the parent company and the subsidiaries under the parent's legal and effective control.

The following companies have therefore been included in the consolidated financial statements:

	Capital share (indirect and direct) in %
Parent company	
ELMOS Semiconductor AG, Dortmund	
Subsidiary companies	
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., Levallois Perret/France	100.0
ELMOS Industries GmbH, Hanau	49.0
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
IndustrieAlpine Bauträger GmbH, Munich	51.0
Mechaless Systems GmbH, Karlsruhe	51.0
Micro Systems on Silicon (MOS) Limited, Pretoria/South Africa	67.6
Silicon Microstructures Inc., Milpitas/U.S.A.	100.0

As of December 31, 2008 the company held 49% of the shares of ELMOS Industries. As the company does not have the majority of voting rights, the inclusion is due to the fact that ELMOS exerts economic control over the operating activities of the holding and its other shareholder.

Information on share property

	Currency	Interest %	Equity in th. Euro/ national currency	Result in th. Euro
Germany				
Advanced Appliances Chips GmbH, Riedstadt	Euro	33.33	239	65[1]
attoSENSOR GmbH, Penzberg	Euro	45.00	61	1[1]
ELMOS Central IT Services GmbH & Co. KG, Dortmund	Euro	100.00	173	227[2]
ELMOS Facility Management GmbH & Co. KG, Dortmund	Euro	100.00	92	602[2]
ELMOS Semiconductor Süd GmbH, Munich	Euro	100.00	176	4[2]
Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	Euro	45.00	25	– 2[1]
GED Gärtner Electronic Design GmbH, Frankfurt/Oder	Euro	73.90	1,261	259
Gesellschaft für Halbleiterprüftechnik mbH, Dortmund	Euro	100.00	118	5[3]
IndustrieAlpine Bauträger GmbH, Munich	Euro	51.00	– 998	– 132
Mechaless Systems GmbH, Karlsruhe	Euro	51.00	– 503	– 235
ELMOS Industries GmbH, Hanau	Euro	49.00	– 1,028	– 272
DMOS Dresden MOS Design GmbH, Dresden	Euro	20.00	355	– 116
Other countries				
ELMOS Services B.V., Nijmegen (NL)	Euro	100.00	80,389	9,852
ELMOS Advanced Packaging B.V., Nijmegen (NL)	Euro	100.00	– 7,168	– 5,992[2]
ELMOS Design Services B.V., Nijmegen (NL)	Euro	100.00	1,358	2,688[2]
ELMOS Quality Services B.V., Nijmegen (NL)	Euro	100.00	434	337[2]
European Semiconductor Assembly (Eurasem) B.V., Nijmegen (NL)	Euro	100.00	9,545	0[2]
Micro Systems on Silicon (MOS) Limited, Pretoria (South Africa)	ZAR	67.60	– 2,086	– 1,123[2]
ELMOS France S.A.S., Levallois Perret (F)	Euro	100.00	2,497	1,194
ELMOS U.S.A. Inc., Farmington Hills (U.S.A.)	USD	100.00	–	–[4]
ELMOS California Inc., Milpitas (U.S.A.)	USD	100.00	– 345	– 49[2]
ELMOS N.A. Inc., Farmington Hills (U.S.A.)	USD	100.00	519	3,524[2]
Silicon Microstructures Inc., Milpitas (U.S.A.)	USD	100.00	– 1,241	2,648[2]

[1] *Presented figures are based on preliminary, unaudited financial statements as of December 31, 2008.*
[2] *Indirect share property of ELMOS Semiconductor AG, Dortmund.*
[3] *Presented figures are based on the financial statements as of December 31, 2007.*
[4] *The company's financial statements are not yet available.*

34 Information on Management Board and Supervisory Board

Remuneration of Management Board and Supervisory Board in 2008

	Fixed remuneration th. Euro	Variable remuneration th. Euro	Stock awards Th. Euro
Management Board	1,244	525	41
Supervisory Board	82	0	0

There are indirect pension commitments to Management Board members of ELMOS Semiconductor AG which require no pension provisions because of risk coverage by completely congruent pension plan reinsurance. In 2008 the contributions to these pension plans amounted to 366 thousand Euro (previous year: 432 thousand Euro), included in the fixed remuneration components.

The remuneration paid to former Management Board members or their dependants amounted to 255 thousand Euro in fiscal year 2008 (previous year: 79 thousand Euro). In addition, insurance premiums of 275 thousand Euro were paid to these persons (previous year: 200 thousand Euro).

The amount of pension provisions is 2,505 thousand Euro as of December 31, 2008 (previous year: 2,536 thousand Euro).

For other services, particularly consultation services, the company paid compensations of 342 thousand Euro to members of the Supervisory Board (previous year: 377 thousand Euro).

The Annual General Meeting of May 19, 2006 decided with the required three-quarter majority not to provide the disclosures stipulated by Section 285 (1) no. 9a sentences 5-9 HGB for the next five years.

35 Shares and share options held by Management Board and Supervisory Board members

As of December 31, 2008 the following members of Management Board and Supervisory Board held ELMOS shares and share options:

Management Board	Shares	Options
Dr. Anton Mindl	103,725	0
Reinhard Senf	16,923	25,000
Nicolaus Graf von Luckner	10,614	0
Jürgen Höllisch	0	0

Supervisory Board	Shares	Options
Prof. Dr. Günter Zimmer	0	0
Dr. Burkhard Dreher	5,000	0
Jörns Haberstroh	3,956	0
Dr. Peter Thoma	9,200	25,000
Jutta Weber	200	0
Dr. Klaus Weyer	87,500	25,000

36 Information on auditor fees

The companies within the ELMOS Group received the following services rendered by the appointed group auditor, Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, in fiscal year 2008:

	2008 th. Euro
Audit	124
Other certifications and assessments	115
Tax counseling	164
	403

Other certifications and assessments include among others fees for the review of the consolidated interim financial statements as of June 30, 2008.

37 Appropriation of retained earnings

The Management Board proposes (in agreement with the Supervisory Board) to carry forward the retained earnings of ELMOS Semiconductor AG of 36,713,349.40 Euro to new accounts.

38 Information according to Section 160 AktG

Listed are all directors' dealings of the year 2008 with respect to 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	Total volume in Euro
5/15/2008 Frankfurt/Main	Dr. Burkhard Dreher	Supervisory Board member of ELMOS Semiconductor AG	Purchase of ELMOS shares	3,100	6.40	19,840
10/17/2008 off-market	Dr. Klaus Weyer	Supervisory Board member of ELMOS Semiconductor AG	Purchase of ELMOS shares	109,500	3.15	344,925
10/17/2008 off-market	Prof. Dr. Günter Zimmer	Chairman of Supervisory Board of ELMOS Semiconductor AG	Purchase of ELMOS shares	109,500	3.15	344,925
10/20/2008 off-market	Dr. Anton Mindl	CEO of ELMOS Semiconductor AG	Purchase of ELMOS shares	50,000	3.15	157,500
10/20/2008 off-market	Dr. Klaus Weyer	Supervisory Board member of ELMOS Semiconductor AG	Purchase of ELMOS shares	50,000	3.1465	157,325
10/20/2008 off-market	Prof. Dr. Günter Zimmer	Chairman of Supervisory Board of ELMOS Semiconductor AG	Purchase of ELMOS shares	50,000	3.1465	157,325
10/23/2008 Frankfurt/Main	Nicolaus Graf von Luckner	Management Board member of ELMOS Semiconductor AG	Purchase of ELMOS shares	1,000	3.15	3,150
10/30/2008 Frankfurt/Main	Reinhard Senf	Management Board member of ELMOS Semiconductor AG	Purchase of ELMOS shares	10,000	3.05	30,500
10/30/2008 off-market	Prof. Dr. Günter Zimmer	Chairman of Supervisory Board of ELMOS Semiconductor AG	Sale of ELMOS shares	159,500	Not specified	Not specified
10/30/2008 off-market	ZOE Beteiligungs GmbH	Legal entity closely related to the chairman of the Supervisory Board	Purchase of ELMOS shares	159,500	Not specified	Not specified
11/13/2008 off-market	Dr. Anton Mindl	CEO of ELMOS Semiconductor AG	Assignment (stock awards)	4,500	2.93	13,185
11/13/2008 off-market	Reinhard Senf	Management Board member of ELMOS Semiconductor AG	Assignment (stock awards)	3,000	2.93	8,790
11/13/2008 off-market	Nicolaus Graf von Luckner	Management Board member of ELMOS Semiconductor AG	Assignment (stock awards)	6,639	2.93	19,452
11/21/2008 off-market	Dr. Anton Mindl	CEO of ELMOS Semiconductor AG	Purchase of ELMOS shares	30,000	2.45	73,500
11/21/2008 off-market	Dr. Klaus Weyer	Supervisory Board member of ELMOS Semiconductor AG	Purchase of ELMOS shares	50,000	2.45	122,500
11/21/2008 off-market	ZOE Beteiligungs GmbH	Legal entity closely related to the chairman of the Supervisory Board	Purchase of ELMOS shares	178,355	2.45	436,970
12/11/2008 off-market	Dr. Klaus Weyer	Supervisory Board member of ELMOS Semiconductor AG	Purchase of ELMOS shares	28,000	2.10	58,800
12/11/2008 XETRA	Dr. Anton Mindl	CEO of ELMOS Semiconductor AG	Purchase of ELMOS shares	4,000	2.02	8,080
12/12/2008 XETRA	Dr. Anton Mindl	CEO of ELMOS Semiconductor AG	Purchase of ELMOS shares	3,000	2.00	6,000
12/18/2008 off-market	Dr. Klaus Weyer	Supervisory Board member of ELMOS Semiconductor AG	Sale of ELMOS shares	160,000	2.00	320,000
12/18/2008 off-market	Elisabeth Weyer	Spouse of a Supervisory Board member of ELMOS Semiconductor AG	Purchase of ELMOS shares	160,000	2.00	320,000
12/23/2008 off-market	ZOE Beteiligungs GmbH	Legal entity closely related to the chairman of the Supervisory Board	Sale of ELMOS shares	160,000	Not specified	Not specified
12/23/2008	Elke Zimmer	Natural person closely related to chairman of Supervisory Board	Purchase of ELMOS shares	160,000	Not specified	Not specified

39 Related party disclosures

According to IAS 24: Related Party Disclosures, individuals 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 associated companies and individuals 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% or more, a position on the Management Board or Supervisory Board of ELMOS Semiconductor AG, or another key function in management.

In fiscal year 2008 the ELMOS Group is concerned by the mandatory disclosures of IAS 24 only with regard to business connections to associated companies, 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 2008 the ELMOS Group provided supplies of 194 thousand Euro (previous year: 430 thousand Euro) to unconsolidated associates (AAC). The ELMOS Group received performances from attoSensor of 100 thousand Euro in 2008 (previous year: 356 thousand Euro) and performances from DMOS of 3,845 thousand Euro (in the previous year DMOS was included in the basis of consolidation). Two fixed-interest loans amounting to a sum of 800 thousand Euro were extended to DMOS in 2008, to be used for advance lease payment for an office building. The loan can be canceled by both parties in observance of a 6-moth period of cancelation. As of the end of the year the principal including interest comes to 837 thousand Euro. The repayment of the loan is made annually with a 20% redemption including interest. Apart from the remuneration of Management Board and Supervisory Board disclosed under note 34, there are no material relationships with closely related persons.

Furthermore, companies of the ELMOS Group did not engage in any transactions subject to mandatory 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 individuals are represented in. This also applies for close relatives of said group of people.

40 Number of employees

The average number of group employees was 1,117 in fiscal year 2008 (2007: 1,177).

The average number of employees is split up as follows:

Group	2008 Number
Production	563
Distribution	73
Administration	169
Quality assurance	41
Research & development	271
Total	**1,117**

41 Subsequent events

No events of particular importance have occurred after the end of the fiscal year.

42 Declaration of compliance according to Section 161 AktG

In December 2008 ELMOS Semiconductor AG issued the declaration of compliance for 2008 required by Section 161 AktG and made it accessible to the shareholders on its Internet site. The declaration can also be requested from the company as a print publication. And the declaration is quoted in the annual report at hand in the section "corporate governance".

Responsibility statement by the Management Board

We assure to the best of our knowledge that the consolidated financial statements provide, in accordance with applicable accounting standards, a presentation of the group's financial position and results from operations which corresponds with the actual conditions and that the group management report presents the course of business including the business result and the situation of the group in a way that corresponds with the actual conditions and describes the essential opportunities and risks of the probable future development.

Dr. Anton Mindl **Nicolaus Graf von Luckner** **Reinhard Senf** **Jürgen Höllisch**

Auditor's certificate

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, as well as the group management report for the fiscal year ended December 31, 2008. The preparation of consolidated financial statements and group management report according to IFRS as applicable in the European Union and in compliance with 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 management 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 presentation 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 EU 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 that 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 opportunities and risks of the future development coherently.

Dortmund, March 3, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Englisch	**Krebs**
Wirtschaftsprüfer	*Wirtschaftsprüfer*

The year 2008

FEBRUARY | 2/05/08

Product: Sensor readout chip presented

Right at the beginning of the year, ELMOS presented a unique sensor readout chip for the optical detection of approach and movement in a distance of up to 3 meters – the E909.05. This standard component is distinguished by its independence of ambient light interference, is operated on the basis of the company's own HALIOS® principle and requires no mechanical parts.

APRIL | 4/30/08

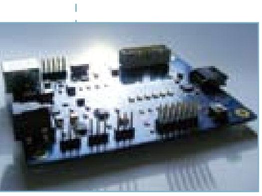
Publicity and share: President of German Bundestag visits ELMOS

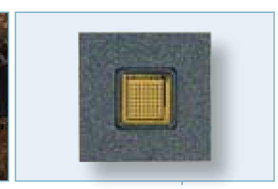
Founders, Supervisory Board members, and the Management Board of ELMOS welcomed the President of the German Bundestag, Prof. Dr. Norbert Lammert. On the occasion of his visit, Prof. Dr. Lammert was presented with the company history of the largest employer at the Technology Park Dortmund as well as with its products and the strategy for continued growth. Prof. Dr. Lammert emphasized the outstanding importance of microelectronics for Germany and called ELMOS an extraordinary success story with bright prospects.

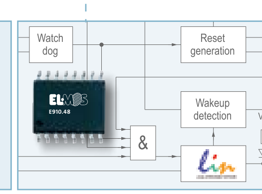
JUNE | 6/17/08

Product: Network chip fulfills high automotive requirements

With the E910.48, ELMOS presents a transceiver chip for the LIN network in vehicles. The chip fulfils the high requirements the German car manufacturers have agreed on and is available as a volume product. Special measures were taken with regard to electromagnetic compatibility and electrostatic discharge (ESD). Thus a system level ESD stability is achieved that is globally regarded as excellent.







MARCH | 3/04/08

Cooperation: Partnership with MagnaChip Semiconductor

ELMOS and Korean MagnaChip have signed a cooperation agreement. This contract covers the joint development of new manufacturing technologies and the use of MagnaChip manufacturing services by ELMOS. The combination of the experience of ELMOS in the automotive industry and the manufacturing know-how of MagnaChip results in synergy effects beneficial to both partners.

MAY | 5/08/08

Publicity and share: 9th Annual General Meeting

Some 300 shareholders participated in the General Meeting of ELMOS. All items on the agenda were approved by significant majorities of the shareholders' votes. The company's CEO, Dr. Anton Mindl, addressed current products and essential strategic elements in his speech. He placed the emphasis on the entry in the Asian markets and the expansion of the standard product portfolio.

MAY | 5/27/08

Product: Sun angle sensor with planar layout

The sun angle sensor with planar layout (E910.86) represents a global innovation. The new ELMOS sensor requires no optics and is assembled in a package of only 4x4mm, yet it is capable of precisely determining the angle of incident light. The best-known application for the chip is the control of air-conditioning systems. Sensors can be placed e.g. on the dashboard right behind the windshield in order to determine energy and angle of incident sunlight. Thus the a/c is controlled in an optimized way and gas is saved.

JULY | 7/29/08

Product: 100 million semiconductors delivered to Autoliv

ELMOS has delivered 100 million semiconductors to Swedish customer Autoliv, a global leader for automotive safety applications. The customer specific chips are used in airbags and other safety applications. ELMOS has been working together successfully with Autoliv for roughly 14 years now. The safety systems find use in many car models of European, American and Asian auto manufacturers. Autoliv particularly appreciates the high quality awareness of ELMOS.

OCTOBER | 10/02/08

Product: Pressure sensor system PSS 1 on the market

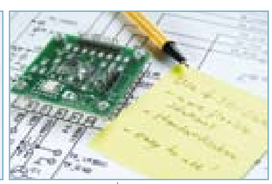
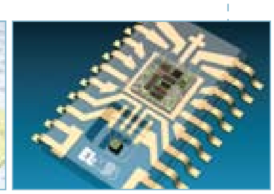
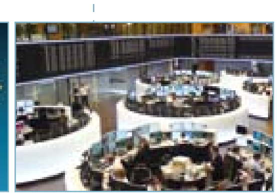
With the new pressure sensor system 1, ELMOS offers a highly universal and cost-efficient solution for many industrial and automotive applications. The system consists of a MEMS sensor cell and a signal processor, integrated into a special SOIC 20 package compliant with the JEDEC standard. It is supplied as a completely calibrated component and therefore a product “ready-to-use” for the customer. The solution is very small and offers an extremely fast response time of only 100µs.

OCTOBER | 10/14/08

Publicity and share: Economy burdens sales expectations

ELMOS cannot escape from the financial and automobile crisis. Therefore we had to revise our forecast for 2008 in October. The background is provided by the weak auto economy. The reduced sale of new cars leads immediately to reduced order volumes and canceled orders for ELMOS. However, this does not change the medium-term expectations for a positive development; the share of car electronics will continue to rise particularly due to increased environmental and safety requirements.




AUGUST | 8/04/08

Personnel: New Management Board member for Sales and Development

The ELMOS Supervisory Board appointed Mr. Jürgen Höllisch new Management Board member for Sales and Development as of October 1, 2008. He had previously been employed with semiconductor manufacturer Maxim Integrated Products in various functions for 15 years. In the past four years his major responsibility was business development for automotive electronics in Europe and the U.S. Even during his first few months with ELMOS, the new Management Board member provided important stimuli and initiated decisions for the company’s future.

SEPTEMBER | 9/16/08

Cooperation: Strategic partnership with NEC Electronics

NEC Electronics and ELMOS have concentrated business activities in a global partnership. The agreement includes joint development, mutual utilization of development and manufacturing services as well as joint marketing of products for the automotive and industrial markets. The customers benefit from the possible combination of the strengths of NEC Electronics regarding microcontrollers with the analog/mixed-signal chips made by ELMOS. One of the first products to emerge from this cooperation, an IO-Link network standard component, was introduced by the end of 2008.

OCTOBER/NOVEMBER
10/16/08 and 11/04/08

Products: Fall 2008 trade shows

This year’s new products are the center of attention of two major electronics trade shows. At the Convergence in Detroit/U.S.A. and at the electronica in Munich, a sensorless EC motor drive method and LED drive concepts were presented, as were mechanicless circuit breakers according to the HALIOS® principle and sensor systems, among other products. The customers’ response to these products demonstrated by ELMOS employees was very positive throughout. The company’s innovative strength in particular was emphasized as outstanding by many visitors.

Glossary

ABS
The **a**nti-lock **b**raking **s**ystem in cars (ABS) is activated automatically during heavy braking, especially on a wet or dirty road surface. The safety system is meant to prevent the wheels from locking by controlling the braking pressure in short intervals.

ASIC
An **A**pplication **S**pecific **I**ntegrated **C**ircuit (ASIC) is a circuit developed individually for a specific application and a specific customer, as opposed to standard components that are not configured in a customer specific way, for example voltage regulators, memory, and processors.

ASSEMBLY
The term describes the processing of wafers towards a chip in a protective package.

ASSP
An **A**pplication **S**pecific **S**tandard **P**roduct (ASSP) is an integrated circuit developed individually for a specific application. It can be marketed to several customers as an application standard.

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

BUS
A communication system that allows the exchange of electronic or optical information. Among the standards used in automobiles are the following: LIN, CAN, MOST, and FlexRay™.

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 maintained precisely.

CMOS
Complementary **M**etal **O**xide **S**emiconductor (CMOS) is the basic technology for the production of microchips with a high integration rate and low energy consumption.

DISTRIBUTORS
Distributors are business partners responsible for pushing the marketing and distribution primarily of standard products.

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

ESP
ESP is the acronym for the trademarked **E**lectronic **S**tability **P**rogram. This technology prevents cars from skidding during turns by applying the brakes to individual wheels asymmetrically, made possible particularly by sensors and read-out electronics.

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.

HALIOS®
HALIOS® (**H**igh **A**mbient **L**ight **I**ndependent **O**ptical **S**ystem) is characterized by the detection 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 **E**lectron **D**evices **E**ngineering **C**ouncil is the standardization panel for determining the shapes of electronic packages.

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

MEMS
Micro-**E**lectro-**M**echanical **S**ystems (MEMS) are particularly sensors based on semiconductor technologies. They can detect pressure, acceleration or tilt for example.

MICROPROCESSOR/MICROCONTROLLER
An integrated, complex electronic unit that controls and operates an electronic system. Microprocessors are the central brains of an electronic system such as a computer, usually featuring high processing power.

MICROSYSTEM
A microsystem is the combination of sensorics and read-out electronics in a special package. Due to the high level of integration, a microsystem requires very little constructed space, among other advantages.

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

MOS
Metal-**O**xide-**S**emiconductor (MOS) describes the setup of the central control device for the field effect in a particular category of semiconductor transistors.

OEM
An **O**riginal **E**quipment **M**anufacturer (OEM) is a manufacturer that markets (partial) systems to a reseller. In the automotive industry, OEMs are the car manufacturers.

PPM
Parts **p**er **m**illion (one in a million).

PRESSURE SENSOR
The pressure sensor can detect low or high pressure, depending on the application, and transmit the data to read-out electronics. Pressure sensors find use for instance in medical applications (e.g. respirators, blood pressure meters) or automotive applications (e.g. tire pressure).

SEMICONDUCTOR
A solid material (e.g. silicon or germanium) whose electrical characteristics can be changed towards positive and/or negative currents by deliberate doping (mostly with boron or phosphor).

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

VIRTUHALL®
The VirtuHall® principle enables the sensorless detection of the rotor position of brushless DC motors. What is special with this process is that it works according to the same principle from standstill to high motor revolutions and is therefore not exposed to disturbances during transitions.

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

- 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)
- Standard product catalog
- Product flyers for the application groups Sense, Drive, Connect, and Supply

All listed documents can also be found on our Internet site 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.**

This annual report is also available in German.

FINANCIAL CALENDAR 2009

Financial results 2008	March 18, 2009
Annual press conference	March 18, 2009
Analysts' conference	March 18, 2009
Quarterly results Q1/2009	April 29, 2009
AGM in Dortmund	May 6, 2009
Quarterly results Q2/2009	August 12, 2009
Quarterly results Q3/2009	November 4, 2009

CONTACT | IMPRINT

Publisher

ELMOS Semiconductor AG
Heinrich-Hertz-Straße 1
44227 Dortmund | Germany
www.elmos.de

Contact

Janina Rosenbaum | Investor Relations
Phone +49 (0) 231 - 75 49 - 287
Fax +49 (0) 231 - 75 49 - 548
invest@elmos.de

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