driven by ELMOS

2007

REPORT ON THE FIRST HALF-YEAR 2007

JANUARY 1 – JUNE 30, 2007

# Q2

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# Overview

## In focus

- 10.2 percent growth in the first half-year 2007 above market average
- Increase of gross profit, EBIT and net income in the first half-year 2007 (without one-off effects)
- Run-up and expansion of production capacity at Duisburg location on schedule
- Restructuring at subsidiaries SMI and ELAP according to plan
- Forecast confirmed (without one-off effects)

## Key figures

| 2nd Quarter 2007 | Results (in consideration of restructuring expenses) | | | Results (without consideration of restructuring expenses) | |
|---|---|---|---|---|---|
| in million Euro or percent, unless otherwise indicated | 4/1 – 6/30/2007 | 4/1 – 6/30/2006 | Change | 4/1 – 6/30/2007 | Change |
| **Sales** | 43.7 | 39.5 | 10.5% | 43.7 | 10.5% |
| Semiconductor | 40.7 | 36.9 | 10.5% | 40.7 | 10.5% |
| Micromechanics | 3.0 | 2.7 | 11.2% | 3.0 | 11.2% |
| **Gross profit** | 18.2 | 17.8 | 2.0% | 18.8 | 5.2% |
| in percent of sales | 41.7% | 45.1% | | 43.0% | |
| R&D expenses | 7.1 | 7.2 | – 1.7% | 7.1 | – 1.7% |
| in percent of sales | 16.3% | 18.3% | | 16.3% | |
| Operating income | 4.6 | 4.8 | – 3.3% | 5.2 | 8.7% |
| in percent of sales | 10.5% | 12.0% | | 11.8% | |
| **EBIT** | 3.8 | 4.4 | – 12.9% | 4.4 | 0.0% |
| in percent of sales | 8.8% | 11.2% | | 10.1% | |
| Net income for the period | 2.1 | 2.6 | – 17.9% | 2.5 | – 2.6% |
| in percent of sales | 4.7% | 6.5% | | 5.7% | |
| **Earnings per share in Euro** | 0.11 | 0.13 | – 17.9% | 0.13 | – 2.6% |
| Operating cash flow | 3.1 | 5.1 | – 38.2% | | |
| Capital expenditures | 6.1 | 6.6 | – 6.8% | | |
| in percent of sales | 14.0% | 16.6% | | | |

| in million Euro or percent, unless otherwise indicated | 6/30/2007 | 12/31/2006 | Change |
|---|---|---|---|
| Equity | 154.8 | 152.9 | 1.2% |
| in percent of total assets | 64.3% | 63.2% | |
| Employees (end of period) | 1,177 | 1,127 | 4.4% |

## Key figures

| 1st half-year 2007<br>in million Euro or percent, unless otherwise indicated | Results (in consideration of restructuring expenses) 1/1 – 6/30/2007 | 1/1 – 6/30/2006 | Change | Results (without consideration of restructuring expenses) 1/1 – 6/30/2007 | Change |
|---|---|---|---|---|---|
| **Sales** | 84.9 | 77.1 | 10.2% | 84.9 | 10.2% |
| Semiconductor | 79.1 | 71.9 | 10.1% | 79.1 | 10.1% |
| Micromechanics | 5.8 | 5.2 | 11.0% | 5.8 | 11.0% |
| **Gross profit** | 34.6 | 34.7 | – 0.5% | 37.2 | 7.0% |
| in percent of sales | 40.7% | 45.1% | | 43.8% | |
| R&D expenses | 14.8 | 14.6 | 1.0% | 14.6 | 0.0% |
| in percent of sales | 17.4% | 19.0% | | 17.2% | |
| Operating income | 6.1 | 8.4 | – 26.8% | 9.8 | 17.4% |
| in percent of sales | 7.2% | 10.8% | | 11.5% | |
| **EBIT** | 4.3 | 8.0 | – 46.3% | 8.8 | 10.0% |
| in percent of sales | 5.1% | 10.4% | | 10.4% | |
| Net income for the period | 2.1 | 4.4 | – 51.9% | 5.0 | 13.8% |
| in percent of sales | 2.5% | 5.7% | | 5.9% | |
| **Earnings per share in Euro** | 0.11 | 0.23 | – 51.9% | 0.26 | – 13.8% |
| | | | | | |
| Operating cash flow | 6.7 | 10.5 | – 36.3% | | |
| Capital expenditures | 13.8 | 14.0 | – 1.2% | | |
| in percent of sales | 16.3% | 18.2% | | | |

# Interim group management report

## Course of business

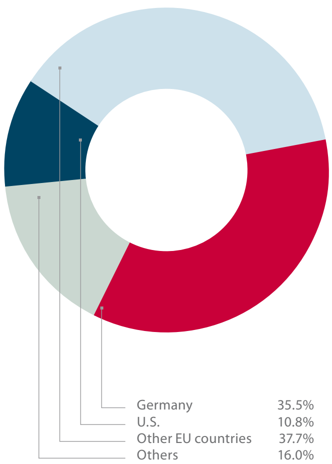
### Sales development and order situation

The first half-year 2007 took a positive course compared to the prior-year period. ELMOS was able to increase sales above average in the first half-year 2007, both in comparison to its direct competition and the market. Sales amounted to 84.9 million Euro, corresponding with a 10.2 percent growth. At 11.0 percent, the micromechanics segment has grown slightly faster than the semiconductor segment (10.1 percent). Expressed in U.S. dollar, the micromechanics segment has even climbed about roughly 20 percent, giving proof of the inherent strength of this segment.

The substantial sales contribution is still being generated by production at the Dortmund location while the new Duisburg location has been contributing to the sales revenues increasingly. Currently about 60 wafers a day are introduced to manufacturing. This number conforms to the targeted introduction of roughly 100 wafers a day by the end of the year 2007. Due to the high qualification requirements in the automobile industry, customer releases for products are time-consuming. Yet ELMOS makes good progress and receives positive customer feedback. First improvements of the gross margin brought about by the Duisburg production are expected for the last quarter of 2007.

The volume of orders received has shown a good development in the first half-year 2007. Based on this course, we confirm our forecasted growth.

Sales according to regions 6 months 2007




By half-year comparison, the breakdown of regional sales shows essentially a sales shift from the U.S. towards “other European Union countries” and “other countries”. This change with regard to the U.S. is due primarily to changes of delivery addresses and to a much smaller extent to the currently weak U.S. dollar.

| Region | 1/1 – 6/30/2007 thousand Euro | in percent of sales | 1/1 – 6/30/2006 thousand Euro | in percent of sales | Change |
|---|---|---|---|---|---|
| Germany | 30,150 | 35.5% | 27,601 | 35.8% | 9.2% |
| Other EU countries | 32,015 | 37.7% | 30,243 | 39.2% | 5.9% |
| U.S. | 9,178 | 10.8% | 12,489 | 16.2% | – 26.5% |
| Others | 13,571 | 16.0% | 6,747 | 8.8% | 101.2% |
| **Group sales** | 84,915 | 100.0% | 77,079 | 100.0% | 10.2% |

### Profit situation, finances and asset situation

The profit situation is characterized by provisions and revaluations concerning the subsidiaries Silicon Microstructures Inc. (SMI) in Milpitas, U.S.A., and ELMOS Advanced Packaging (ELAP) in Nijmegen, Netherlands. As has been reported, the expenses to be recognized in the income statement amount to altogether 5.6 million Euro for the whole year 2007. Of these non-recurring expenses, 4.5 million Euro are charged to expenses of the first half-year 2007. The remaining amount will lead to increased expenses over the rest of the year.

In order to provide as transparent an overview of the profit situation as possible, the individual items are each stated in consideration and without consideration of the non-recurring restructuring expenses for the first half-year 2007.

At 43.8 percent in the first half-year 2007, the gross margin is slightly below the prior-year period's level (45.1 percent) and still shows the burden of the relocation of production to the new Duisburg location. In consideration of restructuring expenses for the subsidiaries, the gross margin comes to 40.7 percent.

Compared to the first half-year 2006, the gross profit rose by 7.0 percent from 34.7 million Euro to 37.2 million Euro without restructuring expenses. Considering restructuring expenses for the first half-year, the gross profit came to 34.6 million Euro.

The gross margin in the semiconductor segment was 44.9 percent in the first half-year 2007, thus below the prior-year period's level (46.5 percent). Reasons are the continuing high preproduction costs of the new Duisburg location on the one hand, higher cost of materials on the other hand. Due to the restructuring measures and the continued efforts towards the production start-up of microsystem projects, the micromechanics segment records a negative gross profit of 1.0 million Euro in consideration of the one-off effects.

Research and development expenses remained on the level of the prior-year period in absolute figures (14.6 million Euro). Because of increased sales revenues, R&D expenses are declining if expressed in percent of sales.

As a result of the reduced operating expenses in relation to sales, the operating income was raised from 8.4 million Euro to 9.8 million Euro in the first half-year 2007, one-off effects not considered. The margin was improved accordingly from 10.8 percent to 11.5 percent. Considering one-off effects, the operating income amounts to 6.1 million Euro or 7.2 percent of sales.

As the increase of indirect expenses was disproportionately low compared to sales, the same EBIT margin could be achieved as in the first half-year 2006 (without one-off effects). The EBIT (earnings before interest and taxes) climbed from 8.0 million Euro in the prior-year period to 8.8 million Euro. In consideration of one-off effects, the EBIT fell to an amount of 4.3 million Euro in the first half-year 2007.

The net income amounted to 5.0 million Euro or 5.9 percent of sales. This means a 13.8 percent increase over the prior-year period (4.4 million Euro). After one-off effects, the net income is 2.1 million Euro for the period under report.

The cash flow from operating activities of 6.7 million Euro in the first half-year 2007 was not enough to provide the cash required for capital expenditures (cash flow from investing activities), coming to 9.7 million Euro. The essential reason for that is the increased cash demand of the net working capital in connection with filling the Duisburg plant. As in the previous year, the management pursues its focus on discipline in capital expenditures.

## Economic environment and significant events

### Economic environment

The strong export figures of the German automobile industry more than compensated for the weak domestic demand. New production records for German cars were established. Overall, the European car industry was slightly declining in the first half-year.

The U.S. American automotive market is characterized by further market share losses of the big three American automotive manufacturers, with the Japanese and Korean producers benefiting from this development and gaining market share.

The market situation with regard to wafer prices eased up somewhat towards the end of the first half-year 2007. The prices for raw materials and energy remain on a high level.

The weakness of the U.S. dollar reduces our revenues in this currency on the one hand; on the other hand, U.S.-dollar-based prices have positive effects on capital expenditures and the assembly.

### Significant events

In early February ELMOS presented the **first development order for the new production** in Duisburg implying the new 0.35µm high-voltage CMOS process. The new high-volume product will be started and manufactured directly on the Duisburg eight-inch production line. Serial production is scheduled to begin at the end of 2008. The customer is a German supplier to the automobile industry. The development of the 0.35µm high-voltage CMOS process is right on schedule.

Over the first half-year 2007, ELMOS has carried out the **relocation of standardized chip packaging to Asia**. ELMOS subsidiary ELMOS Advanced Packaging in the Netherlands, which used to package a large part of the standard chips for the ELMOS Group, now directs its development and manufacture entirely to special packages.

At the end of the first quarter of 2007, ELMOS installed a new management at its U.S. subsidiary **Silicon Microstructures Inc. (SMI)** in Milpitas, California, to seize the market opportunities for microsystems more effectively and reliably in the future. In taking stock, the new management assessed the need for **restructuring measures and result adjustments for 2007**. These assessments also concern the subsidiary **ELMOS Advanced Packaging B.V. (ELAP)** at the Dutch location Nijmegen, as SMI products scheduled for packaging in the Netherlands will be started much later now. ELAP responded to the changed situation with a staff reduction by 50 employees. The ELMOS Management Board estimates the expenses for restructuring measures and result adjustments in the ELMOS Group at 5.6 million Euro. Of these extraordinary expenses, 4.5 million Euro are charged to expenses in the first half-year 2007; the remaining amount will lead to increased expenses over the rest of the year. These one-off effects result in a reduction of the forecast for the profit margins by roughly three percentage points each; as far as sales are concerned, an unchanged forecast anticipates a growth by roughly ten percent in 2007.

In May 2007 ELMOS announced the conclusion of a **cooperation agreement with a large Japanese electronics company**, covering the development and delivery of semiconductors for optical, three-dimensional input components. These will find use e.g. in remote controls, MP3 players, phones, and for computers peripheral devices. The start of serial production is expected for the end of the fourth quarter of 2007. The product's technological basis is the optical measuring principle HALIOS®.

In the first half-year 2007 ELMOS has won **important follow-up projects for automotive customer specific semiconductors**, so-called ASICs. Those projects focus on the core competence in the field of efficient motor control for air-condition systems and on various airbag ICs. The orders come, among others, from long-time customers in the automobile industry.

In early August 2007 ELMOS announced that it had entered into **contracts with Asian distributors** for an increased expansion on the Asian market. The partners are going to distribute the complete ELMOS portfolio of application and customer specific components (ASSPs and ASICs).

## Other information

### Staff development

Staff development ELMOS Group


The ELMOS Group had 1,177 employees as of June 30, 2007. This means a staff increase by 50 employees or 4.4 percent compared to December 31, 2006, disproportionately low in contrast to the increase in sales. The deciding factors are staff increases at the Duisburg location, at ELMOS Industries, and in the sales department. The staff reduction at ELMOS Advanced Packaging will show only in the second half of the year.

### ELMOS share and investor relations activities

The performance of the ELMOS share was positive in the first half-year 2007. It gained 10.6 percent to close at 8.38 Euro on June 29, 2007. The ELMOS share reached its 26-week high at 8.99 Euro on May 17, 2007, its 26-week low at 7.47 Euro on January 2, 2007 (all prices Xetra). At roughly 30 thousand shares, the average daily trading volume of the first half-year 2007 was below the average level for the total year 2006 (37 thousand shares). Market capitalization came to 162.7 million Euro as of June 30, 2007. Compared to the Philadelphia Semiconductor Index (SOX, 7.1 percent), specialized in semiconductor quotations, the ELMOS share showed a good performance over the first half-year. However, the excellent performance of the general German stock indices (DAX and TecDax) was not reproduced by the ELMOS share: The Dax climbed 21.4 percent and the TecDAX gained 24.6 percent in the relevant period.

The ELMOS management announced the annual results in mid-March within the framework of the press conference in Dortmund and the analysts' conference in Frankfurt/Main. The company was then presented on various road shows in Germany, England, and Switzerland.

The Annual General Meeting of May 10, 2007 was another occasion for the members of Management Board and Supervisory Board to respond to the shareholders' questions. As in the years before, some 300 shareholders and guests participated in the General Meeting. The proposals to the agenda items were each approved with large majorities. In order to create a basis for future growth, the entire retained earnings were carried forward to new accounts. It is intended for the medium term to pay a dividend to the shareholders once again if the company's performance continues its positive development.

## Related party disclosures

Information on material transactions with related parties can be found in the notes to the interim consolidated financial statements.

## Company boards

### SUPERVISORY BOARD

**Prof. Dr. Günter Zimmer,** ***chairman***
Graduate physicist | Duisburg

**Dr. Burkhard Dreher,** ***deputy chairman***
Graduate economist | Dortmund

**Jörns Haberstroh**
Business management graduate | Kerken

**Dr. Peter Thoma**
Graduate physicist | Unterschleißheim

**Jutta Weber**
Graduate educationist | Tarrytown, New York, U.S.A.

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

### MANAGEMENT BOARD

**Dr. rer. nat. Anton Mindl,** ***chairman***
Graduate physicist | Lüdenscheid

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

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

**Reinhard Senf**
Graduate engineer | Iserlohn

# Outlook

### Opportunities and risks

Customer specific semiconductors remain our core competence and the driving force behind our current growth. Furthermore, we work on the opening of new markets with great commitment, i.e. new technological as well as geographical markets. From a technological point of view, the combination of sensors and read-out electronics in an application specific package – a so-called microsystem – is particularly interesting, and products for use in consumer goods and industrial applications are intended to make larger contributions to sales in the future. Our endeavors in Asia made considerable progress in the first half-year 2007. We are in close contact with business partners and will keep increasing our commitment to Asia. With regard to application specific components (ASSPs), development and distribution efforts will be continued with a keen focus.

By restructuring our subsidiaries SMI and ELAP, both locations will be better prepared for the realization of the ELMOS group strategy and therefore be more competitive as well.

The statements on business risks in the Annual Report 2006 are still valid and relate a fair view of the risks the company is exposed to. Based on the information now available, according to our assessment there are no further material individual risks in the present time or the near future. We do not see any substantial risks. Please see the Annual Report 2006 for more detailed information.

### Forecast

For 2007, ELMOS still expects a sales increase of roughly ten percent in accordance with the forecast dating from December 2006. From today's point of view, the reported effects from restructuring will be compensated for by other projects so that they will have no impact on the planned growth of sales.

Without consideration of the reported extraordinary expenses, the margin forecast for 2007 remains unchanged as well. Accordingly, the gross margin is supposed to come to roughly 45 percent. The earnings before interest and taxes (EBIT) is expected to turn out at roughly twelve percent of sales. The targeted net income margin is about seven percent of sales. However, due to the extraordinary expenses the margins will each be burdened by approximately three percentage points.

The outlook is based on a stable economic situation, particularly with respect to the automotive market. In addition, we currently assume there will be no further burdens by exchange rate fluctuations regarding the U.S. dollar.

# Interim consolidated financial statements

## Condensed consolidated balance sheet

| Assets | 6/30/2007 Euro | 12/31/2006 Euro |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | 40,397,152 | 39,023,949 |
| Property, plant and equipment | 96,746,889 | 95,556,490 |
| Investments accounted for at equity | 1 | 2 |
| Securities and investments | 126,154 | 126,154 |
| Deferred tax assets | 4,365,521 | 4,725,700 |
| ***Total non-current assets*** | 141,635,717 | 139,432,295 |
| | | |
| **Current assets** | | |
| Inventories | 34,243,745 | 31,142,235 |
| Trade receivables | 28,473,541 | 27,774,401 |
| Securities | 0 | 0 |
| Cash and cash equivalents | 11,065,759 | 16,634,086 |
| Other assets | 15,034,524 | 13,586,114 |
| | 88,817,569 | 89,136,836 |
| | | |
| Non-current assets classified as held for sale | 10,039,371 | 13,343,658 |
| ***Total current assets*** | 98,856,940 | 102,480,494 |
| | | |
| **Total assets** | 240,492,657 | 241,912,789 |

| Equity and liabilities | 6/30/2007 Euro | 12/31/2006 Euro |
|---|---|---|
| **Equity** | | |
| **Equity attributable to equity holders of the parent** | | |
| Share capital | 19,414,205 | 19,413,805 |
| Additional paid-in capital | 88,736,563 | 88,733,815 |
| Surplus reserve | 102,224 | 102,224 |
| Accumulated other comprehensive income | – 4,941,191 | – 4,991,418 |
| Retained earnings | 51,031,653 | 49,091,408 |
| | 154,343,454 | 152,349,834 |
| | | |
| **Minority interest** | 408,058 | 505,088 |
| ***Total equity*** | 154,751,512 | 152,854,922 |
| | | |
| **Liabilities** | | |
| **Non-current liabilities** | | |
| Provisions | 1,046,867 | 1,142,637 |
| Financial liabilities | 27,070,656 | 28,284,983 |
| Other liabilities | 147,749 | 354,307 |
| ***Total non-current liabilities*** | 28,265,272 | 29,781,927 |
| | | |
| **Current liabilities** | | |
| Provisions | 4,848,266 | 5,122,981 |
| Income tax liabilities | 324,514 | 280,169 |
| Financial liabilities | 35,642,206 | 36,712,756 |
| Trade payables | 14,084,747 | 12,731,544 |
| Other liabilities | 2,576,140 | 4,428,490 |
| ***Total current liabilities*** | 57,475,873 | 59,275,940 |
| **Total liabilities** | 85,741,145 | 89,057,867 |
| | | |
| **Total equity and liabilities** | 240,492,657 | 241,912,789 |

## Condensed consolidated income statement

| 1st half-year 2007 | 1/1 – 6/30/2007 Euro | in percent of sales | 1/1 – 6/30/2006 Euro | in percent of sales | Change |
|---|---|---|---|---|---|
| **Sales** | 84,914,915 | 100.0% | 77,079,176 | 100.0% | 10.2% |
| Cost of sales | 50,355,473 | 59.3% | 42,349,907 | 54.9% | 18.9% |
| **Gross profit** | 34,559,442 | 40.7% | 34,729,269 | 45.1% | – 0.5% |
| | | | | | |
| Research and development expenses | 14,785,132 | 17.4% | 14,637,428 | 19.0% | 1.0% |
| Distribution expenses | 5,449,647 | 6.4% | 4,775,057 | 6.2% | 14.1% |
| Administrative expenses | 8,213,920 | 9.7% | 6,963,996 | 9.0% | 17.9% |
| **Operating income before other operating expenses/(income)** | 6,110,743 | 7.2% | 8,352,788 | 10.8% | – 26.8% |
| | | | | | |
| Finance income | – 280,102 | – 0.3% | – 218,095 | **– 0.3%** | 28.4% |
| Finance expenses | 1,712,280 | 2.0% | 1,735,056 | 2.3% | – 1.3% |
| Foreign exchange losses/(income) | 133,575 | 0.2% | 176,593 | 0.2% | – 24.4% |
| Equity in losses of unconsolidated subsidiaries | – 48,999 | – 0.1% | 0 | 0.0% | na |
| Other operating income | – 846,960 | – 1.0% | – 2,270,784 | – 2.9% | – 62.7% |
| Other operating expenses | 2,568,602 | 3.0% | 2,429,214 | 3.2% | 5.7% |
| **Earnings before taxes** | 2,872,347 | 3.4% | 6,500,805 | 8.4% | – 55.8% |
| | | | | | |
| **Income tax expenses** | | | | | |
| Current taxes | 96,737 | 0.1% | 1,249,232 | 1.6% | – 92.3% |
| Deferred taxes | 821,482 | 1.0% | 912,037 | 1.2% | – 9.9% |
| | 918,219 | 1.1% | 2,161,269 | 2.8% | – 57.5% |
| | | | | | |
| **Net income** | 1,954,128 | 2.3% | 4,339,536 | 5.6% | – 55.0% |
| | | | | | |
| Thereof: | | | | | |
| Minority interest | – 148,030 | – 0.2% | – 31,750 | 0.0% | na |
| **Attributabe to equity holders of the parent** | 2,102,158 | 2.5% | 4,371,286 | 5.7% | – 51.9% |
| | | | | | |
| **Basic earnings per share** | 0.11 | | 0.23 | | – 51.9% |
| **Fully diluted earnings per share** | 0.11 | | 0.22 | | – 51.9% |

## Earnings before interest and taxes (EBIT)

| | 1/1 – 6/30/2007 Euro | in percent of sales | 1/1 – 6/30/2006 Euro | in percent of sales | Change |
|---|---|---|---|---|---|
| **Operating income before other operating expenses/(income)** | 6,110,743 | 7.2% | 8,352,788 | 10.8% | – 26.8% |
| Foreign exchange losses/(income) | 133,575 | 0.2% | 176,593 | 0.2% | – 24.4% |
| Other operating expenses/(income) | 1,721,642 | 2.0% | 158,429 | 0.2% | 986.7% |
| Equity in losses of unconsolidated subsidiaries | – 48,999 | – 0.1% | 0 | 0.0% | na |
| **EBIT** | 4,304,524 | 5.1% | 8,017,766 | 10.4% | – 46.3% |

| 2nd quarter 2007 | 4/1 – 6/30/2007 Euro | in percent of sales | 4/1 – 6/30/2006 Euro | in percent of sales | Change |
|---|---|---|---|---|---|
| **Sales** | 43,667,871 | 100.0% | 39,517,252 | 100.0% | 10.5% |
| Cost of sales | 25,477,212 | 58.3% | 21,689,257 | 54.9% | 17.5% |
| **Gross profit** | 18,190,659 | 41.7% | 17,827,995 | 45.1% | 2.0% |
| | | | | | |
| Research and development expenses | 7,113,646 | 16.3% | 7,237,571 | 18.3% | – 1.7% |
| Distribution expenses | 2,798,981 | 6.4% | 2,444,439 | 6.2% | 14.5% |
| Administrative expenses | 3,674,701 | 8.4% | 3,385,419 | 8.6% | 8.5% |
| **Operating income before other operating expenses/(income)** | 4,603,331 | 10.5% | 4,760,566 | 12.0% | – 3.3% |
| | | | | | |
| Finance income | – 131,224 | – 0.3% | – 118,985 | **– 0.3%** | 10.3% |
| Finance expenses | 869,523 | 2.0% | 848,150 | 2.1% | 2.5% |
| Foreign exchange losses/(income) | 101,936 | 0.2% | 127,729 | 0.3% | – 20.2% |
| Equity in losses of unconsolidated subsidiaries | 0 | 0.0% | 0 | 0.0% | na |
| Other operating income | – 470,087 | – 1.1% | – 321,093 | – 0.8% | 46.4% |
| Other operating expenses | 1,125,002 | 2.6% | 537,028 | 1.4% | 109.5% |
| **Earnings before taxes** | 3,108,181 | 7.1% | 3,687,737 | 9.3% | – 15.7% |
| | | | | | |
| **Income tax expenses** | | | | | |
| Current taxes | 136,218 | 0.3% | 601,059 | 1.5% | – 77.3% |
| Deferred taxes | 904,785 | 2.1% | 524,126 | 1.3% | 72.6% |
| | 1,041,003 | 2.4% | 1,125,185 | 2.8% | – 7.5% |
| | | | | | |
| **Net income** | 2,067,178 | 4.7% | 2,562,552 | 6.5% | – 19.3% |
| | | | | | |
| Thereof: | | | | | |
| Minority interest | – 33,399 | – 0.1% | 4,565 | 0.0% | na |
| **Attributabe to equity holders of the parent** | 2,100,577 | 4.8% | 2,557,987 | 6.5% | – 17.9% |
| | | | | | |
| **Basic earnings per share** | 0.11 | | 0.13 | | – 17.9% |
| **Fully diluted earnings per share** | 0.11 | | 0.13 | | – 17.9% |

## Earnings before interest and taxes (EBIT)

| | 4/1 – 6/30/2007 Euro | in percent of sales | 4/1 – 6/30/2006 Euro | in percent of sales | Change |
|---|---|---|---|---|---|
| **Operating income before other operating expenses/(income)** | 4,603,331 | 10.5% | 4,760,566 | 12.0% | – 3.3% |
| Foreign exchange losses/(income) | 101,936 | 0.2% | 127,729 | 0.3% | – 20.2% |
| Other operating expenses/(income) | 654,913 | 1.5% | 215,934 | 0.5% | 203.3% |
| Equity in losses of unconsolidated subsidiaries | 0 | 0.0% | 0 | 0.0% | na |
| **EBIT** | 3,846,480 | 8.8% | 4,416,903 | 11.2% | – 12.9% |

# Condensed consolidated statement of changes in equity

| | Shares<br>Number | Share capital<br>Euro | Paid-in capital<br>Euro |
|---|---|---|---|
| **As of January 1, 2006** | 19,412,424 | 19,412,424 | 88,270,716 |
| Share option expense | | | 251,193 |
| Exercise of share options | 1,081 | 1,081 | 7,426 |
| Changes in unrealized gains/losses on marketable securities after taxes | | | |
| Foreign currency adjustments | | | |
| Net income first half-year 2006 | | | |
| **As of June 30, 2006** | 19,413,505 | 19,413,505 | 88,529,335 |
| | | | |
| **As of January 1, 2007** | 19,413,805 | 19,413,805 | 88,733,815 |
| Share option expense | | | |
| Exercise of share options | 400 | 400 | 2,748 |
| Changes in unrealized gains on marketable securities after taxes | | | |
| Foreign currency adjustments | | | |
| Changes of the basis of consolidation | | | |
| Net income first half-year 2007 | | | |
| **As of June 30, 2007** | 19,414,205 | 19,414,205 | 88,736,563 |

| Surplus reserve Euro | Accumulated other comprehensive income Euro | Retained earnings Euro | Total Euro | Minority interest total Euro | Group total Euro |
|---|---|---|---|---|---|
| 102,224 | – 2,943,060 | 38,912,998 | 143,755,302 | 528,190 | 144,283,492 |
| | | | 251,193 | | 251,193 |
| | | | 8,507 | | 8,507 |
| | – 1,211,241 | | – 1,211,241 | | – 1,211,241 |
| | – 946,499 | | – 946,499 | | – 946,499 |
| | | 4,371,286 | 4,371,286 | – 31,750 | 4,339,536 |
| 102,224 | – 5,100,800 | 43,284,284 | 146,228,548 | 496,440 | 146,724,988 |
| | | | | | |
| 102,224 | – 4,991,418 | 49,091,408 | 152,349,834 | 505,088 | 152,854,922 |
| | | | | | |
| | | | 3,148 | | 3,148 |
| | 50,227 | | 50,227 | | 50,227 |
| | | – 161,913 | – 161,913 | 51,000 | – 110,913 |
| | | 2,102,158 | 2,102,158 | – 148,030 | 1,954,128 |
| 102,224 | – 4,941,191 | 51,031,653 | 154,343,454 | 408,058 | 154,751,512 |

## Condensed consolidated cash flow statement

| | 1/1 – 6/30/2007 Euro | 1/1 – 6/30/2006 Euro | 4/1 – 6/30/2007 Euro | 4/1 – 6/30/2006 Euro |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Net income after minority interest | 2,102,158 | 4,371,286 | 2,100,577 | 2,557,987 |
| Depreciation | 10,014,016 | 8,087,758 | 4,837,413 | 4,042,997 |
| Deferred taxes | 821,482 | 912,037 | 904,786 | 524,127 |
| Current tax expense | 96,737 | 1,249,232 | 136,218 | 601,059 |
| Minority interest | – 148,030 | – 31,750 | – 33,398 | 4,565 |
| Equity in losses of unconsolidated subsidiaries | – 48,999 | 0 | 0 | 0 |
| Changes in pension liabilities | – 95,771 | – 47,519 | – 36,484 | – 27,062 |
| Share option expense | 0 | 251,193 | 0 | 125,597 |
| Changes in net working capital | | | | |
| Trade receivables | – 699,140 | 688,087 | – 1,498,231 | 57,998 |
| Inventories | – 3,101,510 | – 1,917,855 | – 1,384,074 | – 1,061,756 |
| Prepaid expenses and other assets | – 888,570 | – 3,544,227 | 608,691 | – 2,649,005 |
| Trade payables | 1,353,204 | 2,388,859 | 578,545 | 2,077,831 |
| Other provisions and other liabilities | – 2,127,065 | – 1,860,506 | – 3,870,299 | – 2,084,616 |
| Income tax payments | – 612,235 | – 84,517 | 784,380 | 895,255 |
| **Cash flow from operating activities** | 6,666,277 | 10,462,078 | 3,128,123 | 5,064,975 |
| | | | | |
| **Cash flow from investing activities** | | | | |
| Capital expenditures for intangible assets | – 3,668,714 | – 5,230,788 | – 1,150,049 | – 2,527,603 |
| Capital expenditures for property, plant and equipment | – 10,170,364 | – 8,778,144 | – 4,959,284 | – 4,027,071 |
| Capital expenditures for non-current assets classified as held for sale | 3,304,287 | – 4,966,685 | 2,822,896 | – 806,527 |
| Disposal of fixed assets | 909,465 | 6,297,428 | 489,117 | – 170,178 |
| Purchase/Disposal of marketable securities | 0 | 3,629,862 | 0 | 0 |
| Purchase/Disposal of investments | – 61,912 | 0 | 0 | 0 |
| **Cash flow from investing activities** | – 9,687,238 | – 9,048,327 | – 2,797,321 | – 7,531,379 |
| | | | | |
| **Cash flow from financing activities** | | | | |
| Payment from capital increase | 3,148 | 8,507 | 3,148 | 8,507 |
| Repayment of long-term liabilities | – 2,041,354 | – 1,724,713 | – 1,089,798 | – 779,389 |
| Proceeds/Repayment of current liabilities | – 450,081 | – 3,191,915 | 451,660 | 1,397,069 |
| **Cash flow from financing activities** | – 2,488,287 | – 4,908,121 | – 634,991 | 626,188 |
| | | | | |
| **Decrease/Increase in cash and cash equivalents** | – 5,509,248 | – 3,494,370 | – 304,189 | – 1,840,216 |
| Effect of exchange rate changes in cash and cash equivalents | – 59,079 | 583,123 | – 57,765 | – 350,535 |
| Cash and cash equivalents at beginning of period under report | 16,634,086 | 11,418,640 | 11,427,711 | 10,698,144 |
| **Cash and cash equivalents at end of period under report** | 11,065,759 | 8,507,393 | 11,065,759 | 8,507,393 |

# Condensed notes to interim consolidated financial statements

The condensed consolidated financial statements for the first half-year 2007 have been approved for publication by Management Board resolution in August 2007.

## 1 General notes

**Basic principles of preparation**

The condensed consolidated financial statements for the period from January 1 to June 30, 2007 have been prepared in accordance with IAS 34, "Interim Financial Reporting". These interim financial statements do therefore not include all the information and statements prescribed for consolidated financial statements and should thus be consulted in connection with the consolidated financial statements for the fiscal year ended December 31, 2006.

**Essential accounting policies and valuation methods**

For the preparation of the condensed consolidated financial statements, the same accounting policies and valuation methods have been adopted as were applied to the preparation of the consolidated financial statements for the fiscal year ended December 31, 2006, with the exception of the new IFRS Standards and Interpretations listed below. No effect on the group's profit situation, finances and asset situation has resulted from the application of these Standards and Interpretations.

- IFRIC 8 — Scope of IFRS 2
- IFRIC 9 — Reassessment of Embedded Derivatives
- IFRIC 10 — Interim Financial Reporting and Impairment

**Assumptions and estimates**

The company provides pension provisions for partial retirement obligations according to IAS 19. Differing from the assumptions which formed the basis for accounting in 2006, an actuarial interest rate of 5.25% was applied for 2007 (2006: 4.25%).

**Exceptional business transactions**

Over the past years ELMOS has invested in the U.S. subsidiary Silicon Microstructures Inc. (SMI) in order to significantly strengthen its market position with regard to technology, production capacity, and customer relationships. The strategic approach remains unchanged: ELMOS participates in the growth market for MEMS and will continue offering sensors and ASICs in one special package (so-called microsystems) from one source. However, the performance of the subsidiary SMI has not met the expectations, both concerning sales development and project advances. Within the context of a special audit at SMI initiated by ELMOS, the need for correction was determined, reflected by the current results as part of the restructuring measures which have been undertaken.

The subsidiary ELMOS Advanced Packaging (ELAP) at the location Nijmegen in the Netherlands is also affected by the restructuring of SMI. The company packages the new products made by SMI, among other things, and the projects yielding these products will be started considerably later than previously expected. The response to the new situation is a staff reduction by 50 employees. The expenses concerning the Nijmegen location are included in the total restructuring expenses of 5.6 million Euro.

With these measures seen through, both SMI and ELAP will be better prepared for the realization of the ELMOS group strategy. Both locations will thus turn out more competitive as well.

**Basis of consolidation**

In the first half-year 2007, ELMOS Industries GmbH, Hanau, has been included in the group of consolidated companies for the first time. For considerations of materiality, adjusted prior-year figures have not been disclosed.

## 2 Segment reporting

The company divides its business activity in two segments. The semiconductor business is operated through the various national subsidiaries and branches in Germany, the Netherlands, France, South Africa, and the United States of America. Sales in the micromechanics segment are generated by the subsidiary SMI in the U.S. The following charts provide information on sales and results, assets and liabilities, as well as other specific segment information of the group's business segments for the period from January 1 to June 30, 2007 or 2006, respectively.

| January 1 to June 30, 2007 | Semiconductor thousand Euro | Micromechanics thousand Euro | Elimination thousand Euro | Total thousand Euro |
|---|---|---|---|---|
| Sales with third-party customers | 79,148 | 5,767 | 0 | 84,915 |
| Sales with other segments | 137 | 463 | – 600 | 0 |
| Segment sales | 79,285 | 6,230 | – 600 | 84,915 |
| Gross profit | 35,533 | – 973 | | 34,559 |
| Result | | | | |
| Operating income | 9,947 | – 3,836 | | 6,111 |
| Financial result | | | | – 1,566 |
| Equity in losses of unconsolidated subsidiaries | 49 | | | 49 |
| Other operating income | | | | 847 |
| Other operating expenses | | | | – 2,569 |
| Earnings before taxes | | | | **2,872** |
| Income tax expenses | | | | 918 |
| Net income including minority interest | | | | 1,954 |
| Assets and liabilities | | | | |
| Total assets | 220,129 | 20,364 | | 240,493 |
| Liabilities | 82,056 | 3,685 | | 85,741 |
| Other segment information | | | | |
| Capital expenditures | 13,464 | 375 | | 13,839 |
| Depreciation | 8,899 | 1,115 | | 10,014 |

| January 1 to June 30, 2006 | Semiconductor thousand Euro | Micromechanics thousand Euro | Elimination thousand Euro | Total thousand Euro |
|---|---|---|---|---|
| Sales with third-party customers | 71,882 | 5,197 | 0 | 77,079 |
| Sales with other segments | 149 | 772 | – 921 | 0 |
| Segment sales | 72,031 | 5,969 | – 921 | 77,079 |
| Gross profit | 33,455 | 1,274 | | 34,729 |
| Result | | | | |
| Operating income | 8,615 | – 262 | | 8,353 |
| Financial result | | | | – 1,694 |
| Equity in losses of unconsolidated subsidiaries | | | | 0 |
| Other operating income | | | | 2,271 |
| Other operating expenses | | | | – 2,429 |
| Earnings before taxes | | | | 6,501 |
| Income tax expenses | | | | 2,161 |
| Net income including minority interest | | | | **4,340** |
| Assets and liabilities | | | | |
| Total assets | 216,392 | 19,802 | | 236,194 |
| Liabilities | 86,892 | 2,577 | | 89,469 |
| Other segment information | | | | |
| Capital expenditures | 13,062 | 947 | | 14,009 |
| Depreciation | 7,651 | 437 | | 8,088 |

# 3 Notes to essential items

### Selected non-current assets

| Development of selected non-current assets from January 1 to June 30, 2007 | Net book value 1/1/2007 thousand Euro | Additions thousand Euro | Disposals/Other movements thousand Euro | Depreciation thousand Euro | Net book value 6/30/2007 thousand Euro |
|---|---|---|---|---|---|
| Intangible assets | 39,024 | 3,669 | – 379 | 2,675 | 40,397 |
| Property, plant and equipment | 95,557 | 10,170 | 1,641 | 7,339 | 96,747 |
| Securities and investments | 126 | 0 | 0 | 0 | 126 |
| | 134,707 | 13,839 | 1,262 | 10,014 | 137,270 |

### Goodwill

Goodwill has developed as follows.

| | 6/30/2007 Euro | 12/31/2006 Euro |
|---|---|---|
| SMI | | |
| Acquisition costs | 7,567,365 | 7,567,365 |
| Foreign currency adjustment | – 2,633,994 | – 2,513,636 |
| Book value | 4,933,371 | 5,053,729 |
| ELMOS NA | | |
| Acquisition costs | 554,617 | 554,617 |
| Foreign currency adjustment | 1,956 | 6,549 |
| Book value | 556,573 | 561,166 |
| ELMOS France | 1,614,578 | 1,614,578 |
| ELMOS Services B.V. | 206,170 | 206,170 |
| | 7,310,692 | 7,435,643 |

ELMOS Semiconductor AG identified a situation of structural distress at its subsidiary SMI at the end of the first quarter of 2007. On the basis of a special audit it then initiated, conducted by the auditing firm KPMG, adjustments have been made regarding both non-current assets and current assets, restructuring measures have been defined, and provisions for these expenses have been made. A new management was installed.

In the course of the second quarter of 2007, the necessary measures for the company's operational stabilization with regard to distribution, administration, development, technology, production, logistics, and quality have been determined in detail. Their implementation was started immediately.

A goodwill review for SMI did not result in the need for impairment.

### Inventories

| | 6/30/2007 thousand Euro | 12/31/2006 thousand Euro |
|---|---|---|
| Raw materials | 9,482 | 9,477 |
| Work in process | 20,027 | 17,735 |
| Finished goods | 4,735 | 3,930 |
| | 34,244 | 31,142 |

### Non-current assets classified as held for sale

Four plants worth 533 thousand Euro, classified as held for sale up to December 31, 2006, have been transferred to non-current assets. The subdivided property in Munich was sold in the first half-year 2007. The production section newly established at the Dortmund location in the year 2006 is scheduled for sale in 2007 within the framework of a sale and leaseback transaction.

### Equity

As of June 30, 2007 the share capital of ELMOS Semiconductor AG consists of 19,414,205 shares. Since January 1, 2007, 400 share options originating from the third tranche have been exercised. The number of shares held by ELMOS Finanzholding GmbH (EFH) and its subsidiaries is unchanged and amounts to 52.9 percent. The free float comes to 47.1 percent.

Altogether 587,070 share options are outstanding as of June 30, 2007. The options are accounted for by the different tranches as follows:

| No. | Year of resolution | Year of issue | Exercise price in Euro | Blocking period in years from issue | Exercise period after end of blocking period (years) | Options outstanding as of 12/31/2006 | Options outstanding as of 6/30/2007 |
|---|---|---|---|---|---|---|---|
| 2 | 2000 | 2001 | 35.14 | 3 | 3 | 124,100 | 0 |
| 3 | 2002 | 2003 | 7.87 | 2 | 3 | 164,836 | 164,336 |
| 4 | 2003 | 2004 | 11.59 | 2 | 3 | 274,622 | 272,372 |
| 5 | 2004 | 2005 | 13.98 | 2 | 3 | 151,643 | 150,362 |
| | | | | | | 715,201 | 587,070 |

## 4 Related party disclosures

As has been stated in the consolidated financial statements for the fiscal year ended December 31, 2006, the ELMOS Group has business relationships with related companies and individuals within the context of usual business activity. These supply and performance relationships are transacted at market prices.

In the first half-year 2007 the company entered into a consultancy contract with a member of the Supervisory Board expiring December 31, 2009.

**Statements according to Section 160 AktG (Corporations Act)**
In the period under report, from January 1 to June 30, 2007, no directors' dealings were made.

## 5 Subsequent events

After the end of the first half-year, current financial obligations have been transferred to non-current financial obligations within the context of refinancing. The volume of this refinancing package amounts to EUR 40 million and has respective maturities until 2012 and 2013.

As the Bundesrat (upper house of parliament) approved the Corporate Income Tax Reform Act 2008 ("Unternehmenssteuerreformgesetz") on July 6, 2007, changed tax regulations will come into effect in Germany as of January 1, 2008. This will result in a revaluation of the ELMOS Group's domestic deferred taxes in the second half-year 2007, not yet taken into consideration for the interim financial statements at hand.

# Responsibility statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Dortmund, August 2007

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

# Review report

To ELMOS Semiconductor AG

We have reviewed the condensed interim consolidated financial statements – comprising condensed balance sheet, condensed income statement, condensed cash flow statement, condensed statement of changes in equity, and selected explanatory notes – and the interim group management report of ELMOS Semiconductor AG for the period from January 1 to June 30, 2007 which are part of the half-year financial report according to Section 37 w WpHG (German Securities Trading Act). The preparation of the condensed interim consolidated financial statements, in accordance with the IFRS applicable to interim financial reporting as adopted by the European Union, and of the interim group management report, in accordance with the regulations of the WpHG applicable to interim group management reports, is the responsibility of the company's management. It is our responsibility to issue a review report on the condensed interim consolidated financial statements and the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements as defined by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and conduct the review so that we can preclude with a certain level of assurance that the condensed interim consolidated financial statements have not been prepared, in material aspects, in accordance with the IFRS applicable to interim financial reporting as adopted by the European Union, and that the interim group management report has not been prepared, in material aspects, in accordance with the regulations of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. As we have not performed a financial statement audit, in accordance with our engagement, we cannot issue an auditor's certificate.

No matters have come to our attention on the basis of our review that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the European Union, and that the interim group management report has not been prepared, in all material respects, in accordance with the regulations of the WpHG applicable to interim group management reports.

Dortmund, August 14, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

| | |
|---|---|
| Muzzu | Sultana |
| Wirtschaftsprüfer | Wirtschaftsprüfer |

# Financial calendar

| | |
|---|---|
| August 15, 2007 | Interim report on the first half-year 2007 |
| October 31, 2007 | Report on the third quarter of 2007 |
| November 14, 2007 | Analysts' conference at the German Equity Forum |

# Contact

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This interim report was published on August 15, 2007 in German and English. Both versions are available for download at www.elmos.de on the Internet.

We are happy to send you additional informative material free of charge on your request.

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