elmos

15.3%
EBIT margin

Sales
+9.5%
to
250 million €

~40%
of sales
generated in
Asia

The Fiscal Year 2017

~25 million Euro
consolidated net income

Dividend
increased to **0.40 €**

Contents

Five-year Overview Elmos Group (IFRS)

in million Euro unless otherwise indicated	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Sales	189.1	209.5	219.6	228.6	250.4
growth in %	5.0%	10.8%	4.8%	4.1%	9.5%
Gross profit	79.2	91.4	91.6	96.8	110.1
in % of sales	41.9%	43.6%	41.7%	42.3%	43.9%
Research & development expenses	34.4	36.1	37.1	36.0	33.8
in % of sales	18.2%	17.2%	16.9%	15.7%	13.5%
Operating income	10.3	19.4	18.1	22.0	37.1
in % of sales	5.5%	9.3%	8.2%	9.6%	14.8%
EBIT	12.7	22.6	24.5	23.1	38.4
in % of sales	6.7%	10.8%	11.2%	10.1%	15.3%
Earnings before taxes	12.5	23.1	24.1	23.1	35.5
in % of sales	6.6%	11.0%	11.0%	10.1%	14.2%
Consolidated net income attributable to owners of the parent	9.4	18.3	16.2	15.9	24.9
in % of sales	5.0%	8.7%	7.4%	6.9%	10.0%
Earnings per share (basic) in Euro	0.49	0.94	0.82	0.80	1.26
	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Total assets	270.9	295.4	306.9	312.9	336.9
Shareholders' equity	192.7	206.9	219.4	231.6	240.1
in % of total assets	71.1%	70.0%	71.5%	74.0%	71.3%
Financial liabilities	37.8	37.4	36.8	36.2	51.2
Liquid assets and securities	77.1	84.4	90.5	91.6	84.4
Net cash	39.3	47.0	53.7	55.4	33.2
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Cash flow from operating activities	21.4	40.0	50.3	33.5	37.9
Capital expenditures[1]	15.0	29.9	23.0[2]	23.2	37.2
in % of sales[1]	7.9%	14.3%	10.5%[2]	10.1%	14.9%
Cash flow from investing activities	–36.4	–32.0	–24.6	–34.9	–47.2
Adjusted free cash flow[3]	6.0	10.6	29.7[2]	9.1	–5.2
Dividend per share in Euro	0.25	0.33	0.33	0.35	0.40[4]
Employees on annual average	1,053	1,104	1,117	1,127	1,155

[1] Prior-year amounts adjusted according to new definition (capital expenditures for intangible assets and property, plant and equipment less capitalized development expenses)
[2] Adjusted for the repurchase of land and building from prematurely terminated lease agreements in the amount of approx. 14 million Euro
[3] Cash flow from operating activities less capital expenditures for/plus disposal of intangible assets and property, plant and equipment
[4] Proposal to the Annual General Meeting in May 2018

Due to calculation processes, tables and references may produce rounding differences from the mathematically exact values (monetary units, percentage statements, etc.).

Letter to the shareholders

Dear shareholders,

2017 was a challenging year. With an increase in sales of 9.5% to 250.4 million Euro, we have delivered the promised growth. This could not be taken for granted: Not just the higher volumes but also ramp-ups and increasingly complex products posed operational challenges. Therefore we keep investing large amounts of money particularly in the test area of our production. Despite these effects, we managed in 2017 to improve our quality of earnings considerably and to achieve an EBIT margin of 15.3%.

This altogether confirms my assessment that we invest wisely: in a profitably growing Elmos.

Our market

Elmos has been operating in the automotive market for over 30 years – we know its characteristics and challenges very well. An accelerating pace of innovation, e.g. in driver assistance systems, electromobility, and all comfort and safety features, is made possible only by the increased use of sensors, electronics, and software. We operate in a dynamic, but also sustainably growing market. Our expertise makes us well prepared for this.

Our products

The Elmos product portfolio satisfies the demands defined by major automotive trends. Our ICs drive and control e.g. interior and exterior LED lighting, climate control motors, actuators, pumps, and the precise airbag deployment. We develop new fields of application and work on innovative updates of existing products at the same time. Our ultrasonic sensors for parking assistance are a case in point. They have evolved from mere comfort features into integral parts of safety applications such as the emergency-brake assistant, and this trend is set to continue. Our innovative power is paying off: We are the world's number 1 in parking assistance, gesture control, interior ambient lighting, and air flap control applications. An ever expanding product portfolio will make an ever increasing customer base experience our competency. We will increasingly support this trend with the help of distributors. Avnet, for instance, the world's largest distributor of electronic components, has been distributing Elmos products since the end of 2017 in its global product line of automotive semiconductors.

Our structures

We have consistently advanced our wafer production over the past years with our fab lite strategy. By working together with wafer foundries, we create economic and technological advantages. Wafer manufacturing becomes more flexible and competitive in a sustainable way while product development can access a considerably expanded portfolio of processes. It is worth mentioning in this respect that we have extended the cooperation and research agreement with Fraunhofer-Institut (IMS) Duisburg once more. We will also keep intensifying our partnerships with external test service providers.

As you can see, dear shareholders, we operate in the right market, have the right products and innovations, the right structures and partners – and we have the right employees. Their commitment and know-how will continue to make us successful. I would therefore particularly like to take the opportunity and thank our employees who have a substantial share in this positive development.

The Company is set for growth and has the financial strength this requires. Yet we know: Growth cannot be taken for granted but takes hard and dedicated work.

We look forward to you, dear shareholders, remaining on our side as we keep pursuing this path.

Sincerely yours,

Dr. Anton Mindl | CEO

PS: You will notice that we have streamlined the entire Annual Report and present the facts to you without flourish or colorful images.

You can find descriptive information about Elmos products and employees in the company brochure "Innovation Matters" (please order by sending an email to invest@elmos.com), the video clip of the same name (https://youtu.be/11GLe-jdajA) and – along with lots of technical details – at www.elmos.com.

Management Board

Dr. Anton Mindl
CEO – Chief Executive Officer
Graduate physicist | Lüdenscheid, Germany

- Management Board member since 2005, appointed until 2020
- Strategy, Coordination of Board Responsibilities, Executives, Quality, Micromechanics

Dr. Arne Schneider
CFO – Chief Financial Officer
Graduate economist | Hamburg, Germany

- Management Board member since 2014, appointed until 2022
- Finance, Management Accounting, Investor Relations, Human Resources, Purchasing, Information Technology

Guido Meyer
COO – Chief Operating Officer
Graduate engineer (FH) | Schwerte, Germany

- Management Board member since 2017, appointed until 2019
- Production, Foundry, Assembly, Logistics, Product Engineering

Dr. Peter Geiselhart
CSO – Chief Sales Officer
Graduate physicist | Ettlingen, Germany

- Management Board member since 2012, appointed until 2018
- Sales, Development, Business Lines, Technology

Supervisory Board report

Dear Shareholders,

The Supervisory Board diligently attended to its duties and responsibilities imposed by law and the Articles of Incorporation in fiscal year 2017. The Supervisory Board advised the Management Board in running the Company and supervised management activity. Orally and in writing, the Supervisory Board was supplied in a regular and timely manner with comprehensive information on the Company's situation by the Management Board. It was directly involved in all decisions of substantial importance. The Management Board consulted the Supervisory Board on the Company's strategic orientation and analyzed any deviations from the business plan individually. The Management Board's reports on all business transactions of relevance to the Company were examined and discussed at length in the Supervisory Board meetings. Insofar as stipulated by law or the Articles of Incorporation, the Supervisory Board gave its opinion on the Management Board's reports and resolutions following diligent examination and exhaustive discussion. Outside the framework of Supervisory Board meetings, the chairman and other members of the Supervisory Board were also informed about material business transactions by the CEO.

There were four meetings altogether in fiscal year 2017: March 2, 2017; May 11, 2017; September 14, 2017; and December 15, 2017. In a meeting held on February 28, 2018, the Supervisory Board concerned itself primarily with the 2017 financial statements and consolidated financial statements; the auditor was present for a part of this session.

During the sessions, the Supervisory Board informed itself in detail about the current developments of the fiscal year ended December 31, 2017, the Company's situation, and recent business policy decisions on the basis of written and oral reports given by the Management Board. Based on these comprehensive explanations, the Supervisory Board adopted the required resolutions. If necessary, resolutions were jointly adopted by the Supervisory Board and Management Board. The Supervisory Board regularly discussed the current performance of the Company with respect to sales, earnings, and liquidity, as well as future prospects during its sessions. The situation of the subsidiaries, as well as the Group's strategic development beyond the year under review, was dealt with in detail. The budget for the next fiscal year and planned capital expenditures were discussed in depth. Discussions covered the present state of design wins of the past years, as well as new ones, combined with updated sales planning. The business lines' strategy was also a subject of discussion. In addition to that, the Supervisory Board concerned itself with current and potential cooperation or acquisition projects. For example, the Supervisory Board discussed the prolongation of the cooperation and research contract with the Fraunhofer Institute (IMS) in Duisburg. Moreover, the Supervisory Board defined the key audit matters for the annual audit. In particular, it performed its audit duties pursuant to the German Audit Reform Act (AReG) by monitoring the quality of the auditor during the annual audit, compliance with provisions for non-audit services, and the independence of the auditor. As in the previous fiscal years, the Supervisory Board informed itself about the early risk detection system and its focal issues. The Management Board also reported to the Supervisory Board on the internal control system, the financial accounting process, and the present state of the compliance program. The Supervisory Board adopted the resolutions necessary for the Company to acquire treasury shares. It also reviewed the Company's sustainability report. Moreover, it discussed the agenda of the upcoming Annual General Meeting to be held on May 16, 2018, in Dortmund, Germany.

With respect to all meetings of the Supervisory Board held in fiscal year 2017, members' attendance was beyond 90%. The Supervisory Board does not set up committees.

AUDIT OF SEPARATE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Consulting Warth & Klein Grant Thornton AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, the Supervisory Board concerned itself in its meeting of February 28, 2018, with the audit of the separate financial statements and consolidated financial statements for the fiscal year ended December 31, 2017. According to the resolution of the Annual General Meeting of May 11, 2017, and the ensuing commission given by the Supervisory Board to the auditor, the separate financial statements prepared in accordance with HGB provisions (Commercial Code) for the fiscal year ended December 31, 2017, and the management report of Elmos Semiconductor AG as included in the combined management report were audited by Warth & Klein Grant Thornton AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf. The auditor issued an unqualified audit opinion. The consolidated financial statements of Elmos Semiconductor AG were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU and completed with the statements required under Section 315e (1) HGB. The consolidated financial statements according to IFRS and the combined management report also received an unqualified audit opinion. The financial statement documents, the Annual Report, and the audit reports were submitted to all Supervisory Board members in due time. In the Supervisory Board meeting held on February 28, 2018, the statements and reports were also explained orally by the Management Board. The German Public Auditors also reported on the results of their audit in this session, including key audit matters. The Supervisory Board and the auditor communicated with each other at various points in time while the key audit matters were being defined and while the audit was being carried out. After its own examination of the financial statements of Elmos Semiconductor AG, the consolidated financial statements, and the combined management report, as well as the Management Board's proposal for the appropriation of retained earnings, the Supervisory Board approved the auditor's findings based on the audit and approved the financial statements of Elmos Semiconductor AG and the consolidated financial statements of the Elmos Group. The financial statements are thus adopted.

The Supervisory Board and Management Board will propose to the Annual General Meeting the resolution to pay a dividend of 0.40 Euro per share for fiscal year 2017 out of the retained earnings of 117.4 million Euro (according to HGB) and to carry forward the remaining amount to new accounts.

CORPORATE GOVERNANCE

The Management Board and Supervisory Board work closely together for the Company's benefit and are committed to the sustained increase of shareholder value. The Supervisory Board concerned itself intensively with the recommendations and suggestions of the German Corporate Governance Code (GCGC) in fiscal year 2017 once more. In September 2017, the Management Board and Supervisory Board jointly released an updated declaration pursuant to Section 161 AktG (Stock Corporation Act) on compliance with the recommendations of the GCGC in the version of February 7, 2017. This declaration of compliance and all previous ones have been made permanently available at www.elmos.com.

The Supervisory Board also dealt with the efficiency of its work and evaluated it. Conflicts of interest among members of the Management Board or Supervisory Board subject to disclosure to the Supervisory Board or rather the General Meeting of Shareholders did not arise.

Further information on corporate governance can be found in this Annual Report at hand (corporate governance report).

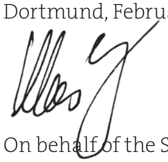
COMPOSITION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

On May 11, 2017, the Supervisory Board appointed its previous chairman, Prof. Dr. Günter Zimmer, to the position of honorary chairman for life. Upon his own request, Prof. Dr. Zimmer handed over the office of Supervisory Board chairman to Dr. Klaus Weyer, the previous vice chairman of the Supervisory Board. Since then, Prof. Dr. Zimmer has been vice chairman of the Supervisory Board. Both Dr. Zimmer and Dr. Weyer were appointed unanimously by the Supervisory Board. The resumes of the members of the Supervisory Board can be found online at www.elmos.com.

Guido Meyer has been the Chief Operating Officer since January 1, 2017. Apart from that, there were no changes to the Management Board or Supervisory Board in the reporting period.

The Supervisory Board thanks all employees and all members of the Management Board for their work and their contribution to the success achieved in fiscal year 2017.

Dortmund, February 28, 2018



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

Supervisory Board

From left: Dr. Gottfried H. Dutiné, Dr. Klaus Egger, Prof. Dr. Günter Zimmer, Dr. Klaus Weyer, Thomas Lehner, Sven-Olaf Schellenberg

Dr. Klaus Weyer
- Chairman
- Graduate physicist | Penzberg, Germany

Prof. Dr. Günter Zimmer
- Vice Chairman and Honorary Chairman
- Graduate physicist | Duisburg, Germany

Dr. Gottfried H. Dutiné
- Graduate engineer | Kleve, Germany

Dr. Klaus Egger
- Independent financial expert for the purpose of Section 100 (5) AktG
- Graduate engineer | Steyr-Gleink, Austria

Thomas Lehner
- Employee representative
- Graduate engineer | Dortmund, Germany

Sven-Olaf Schellenberg
- Employee representative
- Graduate physicist | Dortmund, Germany

Corporate governance

and statement on corporate governance

In the following chapter, the Management Board – also on behalf of the Supervisory Board – reports on corporate governance at Elmos pursuant to No. 3.10 of the German Corporate Governance Code (GCGC). This chapter also includes the statement on corporate governance in accordance with Sections 289f and 315d HGB (Commercial Code) and the remuneration report.

STATEMENT ON CORPORATE GOVERNANCE

Implementation of the German Corporate Governance Code

For the Management Board and Supervisory Board of Elmos, corporate governance means the implementation of responsible and sustainable business management with the appropriate transparency across all areas of the Group. The Management Board and Supervisory Board again concerned themselves in fiscal year 2017 with the provisions of the GCGC. In September 2017, they jointly released the declaration of compliance in accordance with Section 161 AktG (Stock Corporation Act) once again. Apart from the reported deviations, all recommendations of the GCGC are complied with. All previously released declarations of compliance have been made available at www.elmos.com.

Compliance

One of the essential tasks of the Management Board as a whole is the control and monitoring of compliance within the Group. Elmos has a compliance management system (CMS) in place to ensure compliance with applicable laws and statutes as well as all internal rules and guidelines. The Management Board has appointed a compliance officer who supervises and develops the CMS together with a team. At international locations and subsidiaries, the compliance officer relies on the support of local compliance officers in many cases. The compliance officer investigates potential breaches of compliance and cases of suspicion, carries out controls regardless of whether suspicion exists, and reports regularly on compliance to the Management Board. The Supervisory Board is informed at least once a year about the CMS and all measures of relevance.

Working methods of the Management Board and the Supervisory Board

Management Board and Supervisory Board share the commitment to the Group's responsible corporate governance. Their highest goal is to safeguard the Company's existence and to increase the shareholder value. The Management Board has four members. The individual members of the Management Board are responsible for their respective key areas; together, they assume responsibility for the entire management in accordance with the applicable law, the Articles of Incorporation, the Board's rules of procedure, and the resolutions of the General Meeting of shareholders.

The Management Board represents the Company to the outside world. The Board is responsible for the management of the Group, the definition and monitoring of the Group's strategic orientation and corporate targets, and the Group's financing. The Management Board usually meets in full session once a week. The Management Board gives regular, extensive, and timely reports to the Supervisory Board on developments and events of relevance to the Company. The Supervisory Board supervises the Management Board, appoints its members, and advises them with respect to the Company's management.

The Management Board and the Supervisory Board work closely together based on mutual trust. The Management Board involves the Supervisory Board in essential decisions. The rules of procedure of the two Boards define this cooperation, among other issues. A detailed summary of the Supervisory Board's work can be found in the Supervisory Board report. The chairman gives a report to the shareholders on the Supervisory Board's work over the past fiscal year at each Annual General Meeting.

The Supervisory Board has six members, elected for five years in accordance with the Articles of Incorporation. Pursuant

Declaration of compliance with the German Corporate Governance Code
Management Board and Supervisory Board of Elmos Semiconductor AG declare in accordance with Section 161 AktG (Corporations Act):

I. Statements with respect to the future
Elmos Semiconductor AG will comply with the recommendations of the "Government Commission German Corporate Governance Code" (in short: GCGC) in the latest version of February 7, 2017 (released in the official section of the Federal Gazette on April 24, 2017) as of now, with the following exceptions:

- The currently valid D&O liability insurance for the Supervisory Board does not provide for a personal deductible for its members (GCGC No. 3.8 sentence 5). Motivation and responsibility cannot be increased by a deductible.
- The Supervisory Board does not intend to compare the respective remuneration of members of the Management Board, senior executives, and other employees (GCGC No. 4.2.2 sentence 6). The Supervisory Board does not see a corresponding benefit of the increased effort.
- The employment contracts for the Management Board do not provide for severance payment caps in the case of premature termination of a contract (GCGC No. 4.2.3 sentences 12 and 13). The Supervisory Board considers a limitation of the remuneration to a severance payment which is lower than the agreed upon contract duration as not appropriate in the interests of the Management Board members' commitment to the Company.
- Management Board remuneration is not disclosed separately for each of its members (GCGC No. 4.2.5 sentence 5) as the remuneration of the Management Board is provided, pursuant to the resolution of the Annual General Meeting of May 13, 2014, in the total amount only and not individualized. Accordingly, the model tables provided in the appendix of the GCGC are not filled out either as this would amount to individualization of the Management Board remuneration (GCGC No. 4.2.5 sentence 6).
- In specifying concrete objectives for the composition of the Supervisory Board of Elmos Semiconductor AG, a regular limit of length of membership to be specified for Supervisory Board members is not provided for (GCGC No. 5.4.1 sentence 3). Elmos Semiconductor AG does not consider a regular limit of length of Supervisory Board membership expedient. A consideration of continuity or change in the composition of the Supervisory Board shall be made in the individual case, taking into account both the overall composition of the Supervisory Board and the individual situation and skills profile of each member of the Supervisory Board.
- Remuneration of the Supervisory Board members is disclosed with reference to its components but not individualized (GCGC No. 5.4.6 sentence 5). Compensation potentially paid by Elmos Semiconductor AG to Supervisory Board members for individually performed services, in particular con-sultation and mediation services, is also not disclosed individually (GCGC No. 5.4.6 sentence 6). In order to assure equal treatment in the disclosure of the remuneration of Management Board and Supervisory Board, the Supervisory Board's remuneration is not disclosed in a more extensive individualized form.
- The Supervisory Board does not discuss interim financial information prior to the reports' publication for the purpose of expeditious reporting (GCGC No. 7.1.2 sentence 2).

II. Statements with respect to the past
The recommendations of the GCGC in the version of May 5, 2015 and announced by the Federal Ministry of Justice in the official section of the Federal Gazette on June 12, 2015 have been complied with since the release of the declaration of compliance in September 2016 with the exceptions mentioned above under I.

Dortmund, September 2017

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

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

to the provisions of the German One-Third Participation Act (Drittelbeteiligungsgesetz), it consists of four shareholder representatives and two employee representatives. The representatives of the shareholders are elected by the General Meeting of shareholders; the employee representatives are elected by the staff. The next elections are scheduled for 2021.

Goals of the Supervisory Board with respect to its composition

The Supervisory Board has defined the goals and principles with respect to the Board's composition and drafted a competence profile. It includes international experience, technical and entrepreneurial expertise, strategic vision, knowledge of the Company, industry-specific know-how, and experience with accounting and internal control processes. Diversity and the avoidance of conflicting interests are additional goals. The Supervisory Board has also defined an age limit for its members at the time of election. Of the shareholder representatives on the Supervisory Board, at least one member shall be independent within the meaning of No. 5.4.2 GCGC. At the moment, all four shareholder representatives on the Supervisory Board are independent members. This is also true of the Supervisory Board members with material shareholdings, Dr. Weyer and Prof. Dr. Zimmer. The remaining goals are realized with the present composition of the Supervisory Board and will also be considered for future nominations.

Implementation of equal participation and diversity

In accordance with applicable statutory provisions, the Supervisory Board and Management Board defined quotas as of June 30, 2017, for the representation of women on the Supervisory Board and Management Board as well as for the first and second senior executive levels. These quotas are as follows: 0% for the Supervisory Board and Management Board, 4% for the first senior executive level, and 5% for the second senior executive level. There are no women on either the Supervisory Board or Management Board at present. At the first senior executive level, the share of women is 4%; at the second senior executive level, that number stands at 5%. Elmos thus fulfills all determined quotas for the share of women at Elmos and complies with statutory provisions. All data refer to the employees of Elmos Semiconductor AG in Germany as of December 31, 2017.

Elmos pursues a diversity concept based on non-discrimination to determine the composition of the Management Board and the Supervisory Board. The objective of this concept is to achieve appropriate diversity in terms of professional experience and backgrounds (particularly with respect to industries, regions, and company affiliation), educational backgrounds, and personal character traits. These targets were taken into account to determine the current composition of these bodies. As a matter of principle, a person's suitability for a task is the deciding factor for employment with the Company, irrespective of their gender, nationality, religious affiliation, or any other personal orientation.

SHAREHOLDERS AND GENERAL MEETING

Shareholders make use of their rights at the Annual General Meeting. They receive the agenda, information regarding participation, and, upon request, the Annual Report in good time. The relevant documents relating to the upcoming and past Annual General Meetings, as well as further information on participation in and voting at the General Meeting, are available on our website – also in English – and can also be requested from the Company. Shareholders who cannot attend the Annual General Meeting in person have the option to assign their voting rights to proxies nominated by Elmos.

Dates of importance to the shareholders are published annually in a financial calendar. All quarterly statements, interim reports, and Annual Reports can be found at www.elmos.com. The CEO and the CFO regularly provide information on the current development of the Company to analysts and investors within the framework of road shows, conferences, and other events. The investor relations team is also available for any questions the shareholders may have.

RISKS

Responsible risk management contributes to the success of sound corporate governance. The Management Board regularly provides the Supervisory Board with information about risks. Information about risk management and corporate risks can be found in the combined management report under "Opportunities and risks."

AUDIT OF FINANCIAL STATEMENTS

Before submitting the proposal for the appointment of the auditor, the Supervisory Board again obtained a declaration of independence from the auditor for fiscal year 2017. This declaration furnished no doubts about auditor independence. Compliant with No. 7.2.3 GCGC, the Supervisory Board arranged for the auditor to give account without delay of material findings and incidents to occur during the performance of the audit. The Supervisory Board also required that the auditor inform the Supervisory Board or make note in the audit report if the auditor detects deviations from the declaration of compliance as issued by the Management Board and the Supervisory Board. No inconsistencies of this kind were established.

SHARE-BASED PAYMENT PROGRAMS

Elmos has created share-based payment programs for employees, executives, and Management Board members. The stock price is a central criterion for our shareholders when it comes to investing in the Company. The link of certain remuneration components to the stock price is therefore the beneficiaries' incentive. More information on this topic can be found in note 23.

REMUNERATION REPORT

Total remuneration of the Management Board

The Supervisory Board decides on and routinely reviews the remuneration system and the essential contract terms and conditions for the Management Board members. Total Management Board remuneration comprises a fixed monthly salary, a management bonus, and share-based payments, as well as fringe benefits and pension benefits. The Company does not provide an individualized disclosure of the remuneration out of respect for privacy protection. The Management Board and Supervisory Board agree that such a disclosure would not contribute to greater transparency in the form of additional information relevant to the capital market. By resolution of the Annual General Meeting of May 13, 2014, the Company is exempt from its legal obligation for individualized disclosure of Management Board remuneration for the period of five years.

Apart from pension commitments, insurance benefits, and compensation agreements in case of a change of control or as a consequence of a non-competition clause, no additional benefits have been promised to any Management Board member in case of the termination of employment according to contract, nor did any member of the Management Board receive benefits or corresponding commitments from third parties with regard to his position on the Management Board in the past fiscal year. The terms of share-based payments already promised may exceed the respective Management Board member's employment period in the individual case.

Total remuneration of the Supervisory Board

The Supervisory Board's remuneration is defined by Section 9 of the Articles of Incorporation. The Supervisory Board members' remuneration is disclosed in summarized form, yet not individualized.

MANAGERS' TRANSACTIONS

Persons who hold executive positions with an issuer of stock (for Elmos, the members of Management Board and Supervisory Board) and persons associated with them are obligated by law to disclose transactions involving the Company's stock or debt instruments or financial instruments linked to the Company's stock or debt instruments pursuant to Art. 19 (1) MAR (Market Abuse Regulation). Reportable securities transactions, so-called "managers' transactions," are announced immediately upon notification Europe-wide and released at www.elmos.com.

REMUNERATION OF THE MANAGEMENT BOARD FOR 2017

Fixed remuneration	
Fixed remuneration[1]	-> 1,097 thousand Euro (2016: 1,101 thousand Euro)
Pension commitments	-> 370 thousand Euro (2016: 408 thousand Euro) -> As payments to reinsurance policies in the amount of the plan contributions of a pension fund
Variable, performance-based remuneration	
Criteria	-> Consolidated earnings before taxes -> Personal, individual targets as agreed with the Supervisory Board
Management bonus	-> 924 thousand Euro (2016: 1,280 thousand Euro)

FORMER MANAGEMENT BOARD MEMBERS AND/OR THEIR SURVIVING DEPENDENTS FOR 2017

Fixed remuneration	-> 209 thousand Euro (2016: 120 thousand Euro)
Management bonus	-> 186 thousand Euro (2016: 0 Euro)
Insurance premiums	-> 115 thousand Euro (2016: 113 thousand Euro)
Reimbursements from reinsurance policies	-> 204 thousand Euro (2016: 116 thousand Euro)
Financial statement disclosure of pension provisions	-> 1,477 thousand Euro (2016: 1,520 thousand Euro) -> Covered in full by the time value of pension plan reinsurance policies

REMUNERATION OF THE SUPERVISORY BOARD FOR 2017

Fixed remuneration	
Fixed remuneration[1]	-> 82 thousand Euro (2016: 87 thousand Euro)
Variable remuneration	
Management bonus	-> 225 thousand Euro (2016: 218 thousand Euro)
Other remuneration rules	
(Vice) Chairman of the Supervisory Board	-> Twice (1½ times) the amount of the fixed and variable remuneration[2]
Share-based payment	-> 25% of the fixed remuneration and 50% of the variable remuneration is invested in Elmos shares with a 3-year holding period

[1] Incl. fringe benefits, mainly expenses and disbursements
[2] According to the recommendation of the GCGC

Sustainability

and non-financial group report

Sustainability is part of our corporate strategy. We perceive added value in a comprehensive way. We orient the success of our business activities not only toward financial key figures but also want to connect that success with social acceptance, a high level of ecological awareness, and correct ethical conduct. The following explains our sustainability topics as required by Section 289c HGB and by analogy with Section 315c HGB.

Elmos develops, produces and markets semiconductors and sensors, primarily for automotive use. You will find more information about the Company's business model in the chapter "The Group's business model" in this Annual Report.

Elmos pays heed to **environmental concerns** and has received certification in line with both the demanding environmental management standard ISO 14001 and the energy management standard ISO 50001. This certification is reviewed every year and is confirmed in repeat audits.

Alongside these certifications, Elmos also collects consumption data for internal operational assessments. These analyze, for example, power consumption (and the associated CO_2 emissions) and water consumption as well as waste volumes. Elmos analyzes internal processes to further increase efficiency and to generate benefits for both the environment and the Company's economic base. Elmos has also joined the national campaign "Initiative Energieeffizienz-Netzwerke" (engl. "Initiative Energy Efficiency Networks") and thus actively supports the Federal Government's power efficiency targets, for example by constantly analyzing production processes to identify potential efficiency increases.

Effective resource management is important for both the environment and the economy. One example of this is our gas-driven CHP (combined heat and power) plant which allows us to generate a substantial share of our power requirements ourselves while utilizing the heat produced for heating our buildings at our Dortmund headquarters.

Internal and external audits regularly review whether we are treating potentially harmful substances in a way that complies with the law. Moreover, we have issued statements on the following topics (available at www.elmos.com):

-> conflict minerals
-> the EU chemical regulation REACH (Registration, Evaluation, Authorization and Restriction of Chemicals)
-> the EU regulation RoHS (Restriction of Hazardous Substances)

Employee matters are a central topic for us. We would like to create a working environment where our employees are able to apply their skills and develop accordingly. We have a policy of advancing employees Company-wide regardless of gender. When selecting applicants, we pay attention to their suitability, motivation, and expertise and do not privilege or disadvantage anybody based on factors such as gender, cultural background, religion, or physical disability. In order to ensure the continuous professional development of the staff, Elmos offers its employees a wide range of training courses.

NUMBER OF EMPLOYEES

	12/31/2016	12/31/2017
Elmos NRW	859	905
Silicon Microstructures	71	78
Other subsidiaries	198	197
Total	**1,128**	**1,180**

Our employment conditions and respect for employee rights meet demanding legal requirements. We place a particular focus on occupational safety in the production areas. In this sense, we also fully comply with the legal requirements for operating production facilities in Germany and the U.S. Regular safety training workshops and inspections are a fixed component of prevention.

The principles of proper conduct toward and among employees as well as toward external persons and institutions, are defined in our Code of Conduct. The code addresses issues such as law-abiding behavior, conflicting interests, and dealing with information and the Company's assets. The Code of Conduct is binding for all employees. The current version of the code can be found online at www.elmos.com.

Alongside the rights and duties listed here, we also offer voluntary services to improve the health of our employees. In-house health promotion is an essential social standard implemented by Elmos. Along with general health programs, it includes special offers for employees doing shift work and talks with employees returning from sick leave. Among other benefits that go beyond the usual are the in-house cafeteria, our own parking garage, and our in-house gym at our headquarters in Dortmund. In addition, an in-house health team provides certain medical examinations and influenza vaccinations for employees. Moreover, the health team organizes the participation in local sporting events, such as company runs.

Where necessary, the Company negotiates measures, rights, and duties with the Elmos works council. In order to keep this positive collaboration going, members of Company management and the works council connect with each other in different groups. Regular works meetings at the Company's major locations provide management and employees with the opportunity to engage in exchange with each other.

Our Code of Conduct for employees and the Supplier Code of Conduct for our suppliers set out how **human rights** are to be upheld. Our suppliers and business partners must comply with the rules set out in our Supplier Code of Conduct and must also require their sub-suppliers to comply. Examples of what is required by the Supplier Code of Conduct include upholding international human rights, observing employee rights in line with national and international standards, and rejecting child labor, forced labor, and discrimination of all kinds. The current version of the code can be found online at www.elmos.com.

We actively strive to **combat corruption and bribery** at our Company. Elmos has an international compliance management system. This includes rules such as a prohibition against bribery and corruption, maximum limits for the value of gifts, commitment to correct accounting, non-disclosure obligations with respect to confidential information, and prohibitions against anti-competitive conduct. Especially trained compliance officers at headquarters and at important foreign locations monitor compliance with rules and laws. Moreover, they provide clear guidance to employees with compliance questions. Select employees must take part in a compliance training workshop that addresses different aspects of compliance and provides instruction.

We promote **social causes** through our diverse collaborations with external partners and through the Elmos Foundation. For this reason, engaging in dialogue at a local-government and regional level with authorities, organizations, institutions, and working groups is part of our corporate culture. Moreover, the charitable work of the Elmos Foundation, which was founded in 2016, supports projects for the promotion of education and science as well as local activities at the locations of the Elmos Group. Campaigns fighting worldwide poverty are sponsored as well. Please visit www.elmos-stiftung.de for more information.

Material risks that could occur in connection with the topics listed here are addressed in this report in the chapter "Opportunities and risks."

Sustainability reporting has been prepared according to external frameworks, in particular the German Sustainability Code (DNK). The sustainability topics that are important to the Company have been explained, which is why there is no need for a separate DNK statement of compliance.

Equality and equal pay report

Male and female employees are treated equally at our Company as a matter of principle. There are no known differences between their wages or salaries that could be attributed to gender alone. This is why there are no measures in place at the Company to end any kind of unequal treatment. Inquiries about equal pay are dealt with in accordance with legal provisions while taking into account the rights of the employees and the employer.

AVERAGE NUMBER OF EMPLOYEES PER YEAR | ELMOS SEMICONDUCTOR AG

	Women 2016	Women 2017	Men 2016	Men 2017
Full time	147	150	628	642
Part time	77	79	9	13
Total	**224**	**229**	**637**	**655**

Combined management report

In this combined management report, we analyze the course of business in the year under review and the situation of the Elmos Group and Elmos Semiconductor AG. The information about Elmos Semiconductor AG is included in the business report in a separate section providing disclosures according to HGB.

THE GROUP'S BUSINESS MODEL

The core competence of Elmos is the development, manufacturing, and distribution of mixed-signal semiconductors. Elmos considers itself a system solutions specialist. This means that we aim to improve the customer's entire electronic system. The use of Elmos semiconductors can reduce system complexity, resulting in advantages for the customer with respect to production, costs, or reliability, among other aspects. Semiconductors account for around 90% of the Group's sales, and Elmos predominantly supplies them to customers in the automotive industry.

Micro-electro-mechanical systems (MEMS) complete the product portfolio, accounting for roughly 10% of total sales. At Elmos, they come primarily in the form of high-precision pressure sensors embedded in silicon, developed, manufactured, and distributed by subsidiary Silicon Microstructures (SMI) in Milpitas, U.S.A. The pressure sensors are used by customers in fields such as medicine, industry, consumer goods, and the automotive sector.

Specialized high-quality product portfolio

Elmos has a leading position as semiconductor manufacturer in the market for automotive electronics and currently supplies several hundred customers, including all major automotive suppliers. Sales to automotive customers account for around 85% of the Group's sales. For industrial and consumer goods, as well as medical technology, Elmos supplies products for applications in household appliances, installation and facility technology, respirators, and machine control systems, among other things. These products accounted for around 15% of sales in 2017.

Our product range is divided into three business lines. The Smart Sensors business line comprises products such as sensor readout ICs and sensor components (e.g. ultrasonic readout ICs for parking assist systems). The Smart Control business line markets products such as LED controllers (e.g. for controlling ambient lighting in vehicle interiors and rear lights), motor control components (e.g. water pump controls and air flap control systems), and network ICs for many automotive standards. Sales from the third business line, Smart Solutions, are generated by products such as airbag ICs, the gesture recognition solution HALIOS®, and other specific solutions.

The business lines market customer specific semiconductors (ASICs = application specific integrated circuits) and application specific chips (ASSPs = application specific standard products). Customer specific semiconductors are developed and produced according to detailed specifications provided by the customer. Elmos defines the specifications for ASSPs. ASSP product developments are aligned with market demands. Elmos prioritizes different product ideas and takes into account volumes, information on the competition, and feasibility, among other factors. Only those projects are realized that meet the Company's targets for market expectations, margin potential, and strategic orientation. ASICs currently account for around 55% of Group sales (2016: around 60%). The other roughly 45% is generated with ASSPs (2016: around 40%). A majority of the products in development are ASSPs.

The business lines work closely with the research and development department. The focus of the research and development activities is on a competitive and timely design of the products.

Elmos achieves a very high quality level with its products, as well as in its business, manufacturing, and service processes. The Elmos quality management system is audited annually at the certified locations for compliance with the requirements of DIN ISO 9001 and ISO/TS 16949 in monitoring or repeat audits by our certifier. The preparations for the new automotive industry standard IATF 16949 have started. In addition to that, Elmos received the Group-wide certification for its functional safety processes according to ISO 26262 in 2015.

Organizational structure

The organization of Elmos is oriented toward the target markets, the customers' demands for innovation, quality, flexibility, and delivery reliability, as well as internal requirements. Elmos has its headquarters in Dortmund, Germany. Various branches, subsidiaries, and partner companies at a number of locations – mainly in Europe (including in Germany Berlin, Bruchsal, Frankfurt/Oder, and Dresden), the U.S. (Milpitas and Detroit), and Asia (Seoul, Singapore, Shanghai, and Tokyo) – provide sales and application support as well as product development.

Elmos maintains semiconductor manufacturing facilities in Germany – in Dortmund and Duisburg, the latter as part of its cooperation with the Fraunhofer Institute (IMS) – and in the U.S. (Milpitas). The cooperation and research contract with IMS was renewed once again with a duration of 18 months, starting in January 2018. Manufacturing facilities in Germany produce on 8-inch wafers. The production in the U.S. mainly uses 6-inch wafers. In-house capacity is enhanced by cooperation agreements with contract manufacturers (foundries). These foundries make additional capacity available, thus enabling Elmos to respond flexibly even to heavily fluctuating demand, both with respect to delivery capability and the capital expenditures required. They also expand the Elmos process portfolio. The percentage of the wafers purchased externally in 2017 was around 25% (2016: around 15%), which indicates a considerable increase, as planned.

CONTROL SYSTEM

Control parameters

The Elmos control system is based on four essential elements: sales, EBIT, capital expenditures, and free cash flow (adjusted).

Each indicator is considered and analyzed, both individually and in connection to the other ones. As a growth-oriented company, Elmos attaches great importance to the profitable growth of sales. As the result before interest and income tax, EBIT (earnings before interest and taxes) reflects the quality of earnings of the business segments. This is one central control parameter at Group level, as well as for both segments.

The specific demand for capital expenditures is derived from medium-term sales planning and the resulting demands on manufacturing and test capacity, as well as economic considerations. Extra-budgetary capital expenditures are made only after an additional check has been conducted. The adjusted free cash flow is defined as the cash flow from operating activities less capital expenditures for/plus disposal of intangible assets and property, plant and equipment.

Identical control parameters are applied for the two reporting segments (Semiconductor and MEMS).

Reporting of the control system

Depending on the indicator, the Management Board is informed at least on a monthly basis in detail about the performance of business operations in the form of standardized reports. This reporting system is enhanced by ad hoc analyses in writing or oral reports, if necessary. The actual data generated by the Group-wide reporting system is compared with the budget data each month. Deviations from the budget figures are analyzed and annotated, and adequate countermeasures are defined.

Business report

MACROECONOMIC AND INDUSTRY SPECIFIC FRAMEWORK

According to the German Association of the Automotive Industry (Verband der Automobilindustrie – VDA), the worldwide automotive sector developed positively in 2017. There was further growth in the Chinese market. In Western Europe, annual automobile sales increased for the fourth consecutive year. Passenger car sales in the Japanese market increased significantly in 2017 compared to the previous year. Only the U.S. experienced a slight decline in sales, but sales remained at a high level nonetheless.

According to preliminary figures from the market research firm Gartner, worldwide sales of semiconductors totaled 419.7 billion U.S. Dollars in 2017, an increase of 22% compared to 2016. That was due, in particular, to supply shortages in the memory market, which grew by 64% and accounted for 31% of total semiconductor sales in the reporting year. According to a study published by IHS Markit in January 2018, the automotive semiconductor market grew 7% in 2017, to 34.4 billion U.S. Dollars.

New car registrations[1]	Change 2016/17
Western Europe	+3%
Germany	+3%
China	+2%
U.S.A.	–2%
Japan	+6%
Semiconductor market	
General semiconductor market (worldwide)[2]	+22%
Automotive semiconductor market (worldwide)[3]	+7%

Sources: [1]VDA, [2]Gartner, [3]IHS Markit

TARGET ACHIEVEMENT IN 2017 COMPARED TO GUIDANCE

	Guidance 02/2017	Guidance 07/2017	ACTUAL 2017
Sales growth 2017 (vs. 2016)	Upper single-digit percentage range	Upper single-digit percentage range	9.5%
EBIT margin	Slight improvement on 2016 (2016: 10.1%)	>12%	15.3%
Capital expenitures[1] (in % of sales)	<12%	<15%	14.9%
Adjusted free cash flow[2]	Positive	Negative	–5.2 million Euro
Assumed exchange rate	*1.10 USD/EUR*	*1.10 USD/EUR*	*1.13 USD/EUR[3]*

[1] Capital expenditures for property, plant and equipment and intangible assets; from Q2/2017 onwards less capitalized development expenses
[2] Cash flow from operating activities less capital expenditures for/plus disposals of intangible assets and property, plant and equipment
[3] Average exchange rate in 2017

With sales growth of 9.5%, an EBIT margin of 15.3%, capital expenditures of 14.9% of sales, and adjusted free cash flow of –5.2 million Euro, in 2017 Elmos achieved the targets in its guidance from July 2017 and even exceeded the target with regard to its EBIT margin. Along with higher production efficiency, lower operating costs, and a rise in the other operating income, the higher EBIT margin was due, in particular, to gains from the disposal of assets and several one-off effects.

BUSINESS PERFORMANCE AND ECONOMIC SITUATION

Financial statements according to IFRS

The consolidated financial statements of Elmos Semiconductor AG for fiscal year 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU.

CONDENSED INCOME STATEMENT

in million Euro or %	FY 2016	FY 2017	Change
Sales	228.6	250.4	9.5%
Gross profit	96.8	110.1	13.7%
in % of sales	42.3%	43.9%	
Research and development expenses	36.0	33.8	–6.1%
in % of sales	15.7%	13.5%	
Distribution expenses	19.9	20.4	2.3%
in % of sales	8.7%	8.1%	
Administrative expenses	18.9	18.8	–0.3%
in % of sales	8.3%	7.5%	
Operating income before other operating expenses/income	22.0	37.1	68.5%
in % of sales	9.6%	14.8%	
Exchange rate gains/losses (–)	0.1	–1.5	n/a
Other operating result	1.0	2.9	>100%
EBIT	23.1	38.4	66.2%
in % of sales	10.1%	15.3%	
Finance income	3.1	1.1	–64.3%
Finance expense	–2.8	–2.9	2.5%
Earnings before taxes	23.1	35.5	53.3%
in % of sales	10.1%	14.2%	
Consolidated net income attributable to owners of the parent	15.9	24.9	57.1%
in % of sales	6.9%	10.0%	
Earnings per share (basic) in Euro	0.80	1.26	57.4%
Dividend per share in Euro	0.35	0.40[1]	14.3%

[1] Proposal to the Annual General Meeting on May 16, 2018

Sales performance

Over the course of 2017, sales increased to 250.4 million Euro. Demand for Elmos products was consistently high in 2017. As in the previous year, sales in the fourth quarter were particularly positive and amounted to 68.5 million Euro. High demand in 2017 related to products that are already in series production as well as ramp-ups.

Sales by region: The disproportionate development of sales to Asian customers continued in 2017. Growth in Europe was in line with overall sales. Lower sales in the United States were primarily due to changes in delivery addresses.

Share of sales | in %	FY 2016	FY 2017
EU countries	53.6%	52.7%
Asia/Pacific	35.2%	39.0%
U.S.A.	7.2%	2.6%
Other	4.0%	5.7%

Sales by customer and product: In 2017, the ten largest customers accounted for approximately 61% (2016: 65%) of sales, while the share of the ten best-selling products was approximately 42% (2016: 43%). A single customer generally purchases several products with different life cycles and often uses them in various models, brands, and markets. The large number of customer relationships results in a high level of diversity.

Order backlog: Orders received and the order situation typically reflect current business performance, mirroring sales performance for the year. The book-to-bill figure – the ratio of orders received for the next three months to sales over the past three months – can be a useful indicator in this regard. At the end of 2017, the book-to-bill ratio in the semiconductor segment was above one.

Order backlog is usually entered upon receiving the customer's order, but may vary between the time when the order is placed and delivery due a number of factors. There is no guarantee that order backlog will always be converted into sales.

New projects (design wins): In terms of design wins, Elmos again had a successful year in 2017. The results were very positive in terms of both the number of projects and with regard to volume. The design wins span a broad range of application areas. As in previous years, design wins for ASSPs significantly outnumbered those for ASICs. Design wins generally take three to five years before they go into series production and make a contribution to sales.

Profit situation

Gross profit: Gross profit rose disproportionately compared to sales. The gross margin therefore increased for the second consecutive year. That is due to successive improvements in production efficiency. Those increases were achieved despite operational challenges including higher volumes, more complex products, and numerous ramp-ups.

Earnings before interest and taxes (EBIT): EBIT also increased disproportionately compared to sales, to 38.4 million Euro, which corresponds to an EBIT margin of 15.3%. Along with positive business performance and higher production efficiency, that significant improvement was also a result of lower operating costs. Research and development expenses therefore decreased, both in absolute terms and in relation to sales. Estimates regarding the capitalization of development expenses were amended in the second quarter of 2017. Based on better information, development expenses according to IAS 38.57 are generally capitalized earlier. This had a positive effect equal to approximately 2% of sales in fiscal year 2017. This effect will be successively offset in the following years by the counteracting effect of the related depreciation. Overall, development expenses of 7.2 million Euro were capitalized in 2017 (2016: 1.4 million Euro). Distribution and administrative expenses also decreased in relation to sales in 2017. The ratio of operating expenses to sales has therefore fallen continually since 2012.

Other operating income was achieved in the amount of 2.9 million Euro in 2017, particularly due to gains from the disposal of assets and several one-off effects. Exchange rate losses of 1.5 million Euro were reported in fiscal year 2017 as a result of operational hedging and the development of the USD/EUR exchange rate.

Earnings before taxes, consolidated net income, and earnings per share: After deduction of taxes and non-controlling interests, Elmos generated consolidated net income attributable to owners of the parent of 24.9 million Euro in fiscal year 2017. Consolidated net income thus increased disproportionately compared to the rise in sales. The tax rate in the reporting year was 30.2%. Consolidated net income equates to basic earnings per share of 1.26 Euro in 2017.

Proposal for the appropriation of retained earnings: Net income of Elmos for 2017 according to HGB (for further details, see the financial statements according to HGB) amounted to 26.5 million Euro. Profit carried forward from 2016 amounts to 90.9 million Euro after dividend distribution. At the Annual General Meeting on May 16, 2018, Management Board and Supervisory Board will propose a 5 Euro cent increase in the dividend compared to the prior year, amounting to 0.40 Euro per share, from retained earnings of 117.4 million Euro. This equals a total distribution of 7.9 million Euro, based on 19,689,063 shares entitled to dividend as of December 31, 2017.

Sales and earnings in the segments

CONDENSED SEGMENT REPORTING

in million Euro or %	Segment	FY 2016	FY 2017	Change
Sales	Semiconductor	206.9	230.1	11.2%
	Micromechanics	21.7	20.4	–6.1%
EBIT (segment earnings)	Semiconductor	21.5	36.1	67.8%
	Micromechanics	1.6	2.4	44.9%
EBIT margin	Semiconductor	10.4%	15.7%	
	Micromechanics	7.5%	11.6%	

Segments: The positive development of sales and earnings was primarily driven by the Semiconductor segment. In particular, the 15.7% EBIT margin in the Semiconductor segment can be seen as positive. Among other things, it is the result of higher production efficiency, lower operating costs, and several one-off effects.

The Micromechanics segment comprises the activities of subsidiary SMI. Sales and earnings in the Micromechanics segment were affected by ongoing product replacement and the increasing consolidation of customers. This segment is also subject to greater volatility than the Semiconductor segment due to the smaller absolute size of its business.

Financial position

CONDENSED STATEMENT OF CASH FLOWS

in million Euro or %	FY 2016	FY 2017	Change
Consolidated net income	16.2	24.8	52.6%
Depreciation and amortization	29.1	24.2	–16.6%
Change in net working capital[1]	–4.0	–14.6	>100%
Other items	–7.8	3.5	n/a
Cash flow from operating activities	**33.5**	**37.9**	**13.2%**
Capital expenditures for intangible assets and property, plant and equipment	–24.5	–44.5	81.1%
(in % of sales)	–10.7%	–17.7%	
Capital expenditures for (–)/disposal of securities	–7.9	–4.1	–47.5%
Other items	–2.4	1.4	n/a
Cash flow from investing activities	**–34.9**	**–47.2**	**35.2%**
Cash flow from financing activities	**–6.1**	**–0.1**	**–97.8%**
Change in liquid assets	–7.4	–9.4	26.1%
Adjusted free cash flow[2]	**9.1**	**–5.2**	**n/a**

[1] Trade receivables, inventories, trade payables
[2] Cash flow from operating activities less capital expenditures for/plus disposal of intangible assets and property, plant and equipment

Cash flow from operating activities: In fiscal year 2017, cash flow from operating activities amounted to 37.9 million Euro and was positively influenced, in particular, by the increase in consolidated net income.

Cash flow from investing activities: Capital expenditures for intangible assets and property, plant and equipment with an effect on cash flow in the reporting period primarily related to the expansion of testing capacity. The majority of capital expenditures related to the Semiconductor segment. It also includes capitalized development expenses of 7.2 million Euro. Consolidated cash flow from investing activities in 2017 totaled –47.2 million Euro.

Adjusted free cash flow was slightly negative due to higher capital expenditures and increased inventories, among other things.

Cash flow from financing activities: Cash flow from financing activities was affected by various factors. They included dividend payments of 6.9 million Euro, a share buyback program involving the purchase of 450,000 shares at a total cost of 9.7 million Euro, and the planned repayment of loans totaling approximately 25 million Euro. Elmos also issued a promissory note loan with a total amount of 40 million Euro in in May 2017.

Liquid assets: Cash, cash equivalents, and fungible securities decreased compared to the reporting date of the previous year.

Financial situation: Elmos is financed by equity, bank loans, and promissory note loans. The promissory note loan is divided into three tranches with five-, seven-, and ten-year terms, each with a fixed interest rate. The seven- and ten-year tranches account for 70% of the volume. The effective interest rates of the loans are between 1.10% and 4.60%.

Principles and goals of financial management: The primary goals of capital management at the Elmos Group are to ensure an adequate credit rating, to guarantee liquidity and high financial flexibility at all times, and to safeguard a solid capital structure that will support the Company's business activities and their long-term continuation and protect the interests of its shareholders, employees, and other stakeholders. Elmos thus pursues a strategy of continuous and sustained increases in shareholder value.

The Management Board actively controls the capital structure of the Elmos Group and makes adjustments where necessary in consideration of the economic framework and the risks carried by the underlying assets. The Group monitors its capital based on net debt or net cash in absolute terms and using the equity ratio. Net cash includes cash and cash equivalents as well as securities less current and non-current financial liabilities. The equity ratio expresses equity as a proportion of total assets.

Other financial obligations and disclosures of off-statement-of-financial-position financial instruments: Along with the financial instruments listed above, the Company partially finances its capital expenditures through lease, rental, and service agreements. In each case there is a balanced relationship between advantages and risks, and the arrangements are customary in the market. The resulting repayment obligations are reported as "Other financial obligations." As of December 31, 2017, they amounted to 49.8 million Euro (December 31, 2016: 55.5 million Euro).

Assets and liabilities

CONDENSED STATEMENT OF FINANCIAL POSITION

in million Euro or %	12/31/2016	12/31/2017	Change
Intangible assets	19.6	23.4	19.4%
Property, plant and equipment	86.6	100.1	15.7%
Investments in associates	2.0	0.8	–60.0%
Other non-current assets	5.6	8.5	51.5%
Securities (short and long-term)	48.5	52.0	7.1%
Inventories	58.6	65.0	11.0%
Trade receivables	39.1	44.4	13.4%
Cash and cash equivalents	43.1	32.4	–24.9%
Other current assets	9.8	10.4	5.2%
Total assets	**312.9**	**336.9**	**7.7%**
Equity	231.6	240.1	3.7%
Financial liabilities (current and non-current)	36.2	51.2	41.3%
Other non-current liabilities	2.2	3.7	62.9%
Trade payables	24.9	22.8	–8.6%
Other current liabilities	18.0	19.2	6.8%
Total equity and liabilities	**312.9**	**336.9**	**7.7%**

In 2017, total assets increased to 336.9 million Euro. On the assets side of the statement of financial position, that was due in particular to the increase in capital expenditures for property, plant and equipment and the rise in inventories. On the liabilities side, the material changes relate to the increase in equity, primarily resulting from consolidated net income, and the issue of the promissory note loan.

NET WORKING CAPITAL AND OTHER KEY FINANCIAL FIGURES

	Calculation	Unit	2016	2017
Net working capital	Trade receivables + inventories – trade payables	Million Euro	72.8	86.6
(in % of sales)		%	31.8	34.6
Turnover rate				
-> for inventories	Cost of sales/inventories	x	2.2	2.2
-> for receivables	Sales/trade receivables	x	5.8	5.6
-> for liabilities	Cost of sales/trade payables	x	5.3	6.2
Capital commitment period/ cash conversion cycle	Inventory days + receivable days – liability days	Days	156	175
Return on invested capital	EBIT/invested capital	%	12.9	18.3
Net cash position	Cash and cash equivalents + securities – financial liabilities	Million Euro	55.4	33.2
Equity ratio	Equity/total assets	%	74.0	71.3

Net working capital: The change in net working capital is, in particular, due to the increase in trade receivables and the rise in inventories. The increase in working capital due to the growth in inventories reflects the measures taken to meet the growing demands of the market in terms of delivery times and volumes.

DETERMINATION OF ROIC

in million Euro or %	2016	2017
❶ EBIT	**23.1**	**38.4**
	12/31/2016	**12/31/2017**
Intangible assets	19.6	23.4
Property, plant and equipment	86.6	100.1
Inventories	58.6	65.0
Trade receivables	39.1	44.4
Less		
Trade payables	24.9	22.8
❷ Invested capital	**178.9**	**210.1**
RoIC (❶/❷)	**12.9%**	**18.3%**

Return indicator: Elmos applies return on invested capital (RoIC) used for business operations as a return indicator. The relationship between profitability and invested capital used for operation purposes is thereby established. RoIC therefore serves as an indicator of added value. In 2017, RoIC was 18.3%, a year-on-year increase of more than five percentage points. That growth was primarily due to the disproportionate rise in EBIT.

OVERALL STATEMENT ON THE ECONOMIC SITUATION

Thanks to the positive development of sales and earnings in 2017, Elmos was able to further expand its financial strength in 2017. Capital expenditures related, in particular, to the sustainable development of test operations in consideration of expected growth. Elmos has further enhanced and optimized the product portfolio of the three business lines. It also invested in new products and their development. Thus existing customer relationships were intensified and new customers were attracted. The Company's solid financial basis and strengthened competitive position represent a strong foundation for its future development.

ELMOS SEMICONDUCTOR AG (SEPARATE FINANCIAL STATEMENTS ACCORDING TO HGB)

Elmos Semiconductor AG is the parent company of the Elmos Group. The Management Board of Elmos Semiconductor AG is responsible for managing the Company and the Group. Elmos Semiconductor AG is also influenced by its directly and indirectly held subsidiaries and investments. Apart from responsibility for business operations, the Group's parent is also responsible for the Group's strategic orientation, and thus determines corporate strategy within the framework of higher-level group functions, represented by the members of the Management Board.

Unlike the consolidated financial statements, Elmos Semiconductor AG does not prepare its separate financial statements according to International Financial Reporting Standards (IFRS) but instead pursuant to the provisions of the German Commercial Code (HGB). The complete financial statements are released separately. The financial statements have received the auditor's unqualified audit opinion. They are released in the Federal Gazette, filed with the register of companies, can be requested as a special print publication, and are available on the Company's website, www.elmos.com.

Business performance 2017

The business performance and economic situation of Elmos Semiconductor AG essentially determine the business performance and success of the Group. We give a detailed account of that in the chapters "The Group's business model" and "Business report."

Business outlook 2018 and material opportunities and risks

Due to the Company's ties with the Group companies and its relevance for the Group, the expectations for Elmos Semiconductor AG reflect the outlook for the Group. The expected performance of Elmos Semiconductor AG in fiscal year 2018 also largely depends on the performance of the Group and its situation with regard to opportunities and risks. This is the subject of the report on "Opportunities and risks" and the Group's "Outlook." The statements on the Group's expected performance and its risk position made therein therefore also apply to the expected performance and risk position of Elmos Semiconductor AG. The description of the internal control and risk management system regarding the financial accounting process for Elmos Semiconductor AG pursuant to Section 289 (4) HGB follows in the chapter "Opportunities and risks."

As the Group's parent, Elmos Semiconductor AG also receives income from its investments. Income from investments is composed of transfers of profit or loss from domestic subsidiaries and distributions from foreign subsidiaries. Accordingly, the business performance expected for the Group in 2018 should also influence the business result of Elmos Semiconductor AG. Overall, we expect that Elmos Semiconductor AG's retained earnings in 2018 will make it possible for our shareholders to participate adequately in the development of the Group's earnings.

Performance of sales and earnings

CONDENSED INCOME STATEMENT (HGB)

in million Euro or %	FY 2016	FY 2017	Change
Sales	**205.3**	**229.8**	**12.0%**
Material costs	82.2	98.7	20.1%
Personnel expenses	60.3	63.8	5.8%
Amortization of intangible assets and depreciation of property, plant and equipment	23.2	19.7	–15.2%
Other operating expenses	39.1	38.5	–1.5%
Operating income	**12.7**	**23.5**	**85.5%**
Income from investments and financial result	28.9	10.9	–62.2%
Earnings before taxes	**41.6**	**34.4**	**–17.2%**
Net income	**36.7**	**26.5**	**–27.8%**

In the past fiscal year, sales increased by 12.0% to 229.8 million Euro. As in the previous year, the majority of the increase in sales is accounted for by the Asia/Pacific region. Despite the increase in material costs, operating income grew by more than 85% in 2017. Among other things, that was due to the disproportionately low rise in personnel expenses, a year-on-year fall in depreciation due to the amendment of estimates regarding the useful life of certain technical equipment and machinery, and lower other operating expenses. The decrease in income from investments and the financial result was due to a positive one-off effect from a distribution by a subsidiary in 2016. That effect also explains the decrease in earnings before taxes and net income.

Financial position

CONDENSED STATEMENT OF CASH FLOWS (HGB)

in million Euro or %	FY 2016	FY 2017	Change
Net income	**36.7**	**26.5**	**–27.8%**
Depreciation and amortization	23.2	19.7	–15.2%
Increase (+)/decrease (–) in provisions, other non-cash expenses, income (–)/expenses (+) from disposals of investments, and write-downs on financial investments	–8.2	3.7	n/a
Decrease (+)/increase (–) in inventories, trade receivables, and other assets	–3.0	–17.0	>100,0%
Decrease (–)/increase (+) in trade payables and other liabilities	–9.0	–5.9	–34.8%
Cash flow from operating activities	**39.6**	**27.0**	**–31.9%**
Cash flow from investing activities	**–42.4**	**–30.5**	**28.1%**
Cash flow from financing activities	**–5.1**	**0.7**	**n/a**
Change in cash and cash equivalents	–7.9	–2.8	–63.9%
Cash and cash equivalents at beginning of period	51.0	43.1	–15.5%
Cash and cash equivalents at end of period	**43.1**	**40.2**	**–6.6%**

Cash flow from operating activities decreased compared to 2016. Along with lower net income, this was primarily due to the increase in inventories and trade receivables at the end of the year. The change in cash flow from investing activities was, in particular, the result of an increase in property, plant and equipment due to higher capital expenditures. Cash flow from financing activities was positive in 2017. Cash outflows for dividend payments and share buybacks were offset by an increase in financial liabilities due to the issue of the promissory note loan.

Cash and cash equivalents decreased slightly at the end of fiscal year 2017, compared to the previous year.

Assets and liabilities

CONDENSED STATEMENT OF FINANCIAL POSITION (HGB)

in million Euro or %	2016	2017	Change
Fixed assets	157.4	167.2	6.2%
Inventories	50.9	56.5	11.0%
Receivables and other assets	41.7	54.1	29.6%
Marketable securities	5.7	11.8	>100%
Cash in hand, cash in banks	37.4	28.4	–24.1%
Other assets	2.1	1.1	–46.4%
Total assets	**295.2**	**319.1**	**8.1%**
Equity	218.1	230.5	5.7%
Provisions	13.9	16.3	17.7%
Liabilities	63.2	72.3	14.4%
Total liabilities	**295.2**	**319.1**	**8.1%**

Total assets increased by 8.1% compared to December 31, 2016, and totaled 319.1 million Euro as of December 31, 2017. On the assets side of the statement of financial position, that was due to increases in fixed assets, inventories, receivables, and other assets, among other things. Marketable securities as part of working capital also had a positive impact on the assets side. On the liabilities side, the increase is due, in particular, to equity and liabilities.

Retained earnings and proposal for the appropriation of retained earnings

The legal basis for a distribution is represented by the retained earnings of Elmos Semiconductor AG determined in accordance with financial accounting provisions under commercial law. The financial statements report retained earnings of 117.4 million Euro. At the Annual General Meeting on May 16, 2018, the Management Board and Supervisory Board will propose that the retained earnings for fiscal year 2017 are used for the distribution of a dividend of 0.40 Euro per no-par share entitled to dividend, and that the remaining amount is carried forward to new accounts.

Subsequent events

Apart from the fact that the guidance was fulfilled and that expectations regarding the EBIT margin were exceeded – as published in the ad hoc statement released on February 5, 2018 and commented in the Group's management report – there have been no reportable events or transactions of special significance after the end of fiscal year 2017.

Opportunities and risks

OPPORTUNITIES

Opportunities are identified and analyzed within the Group. The management of opportunities is aimed at increasing the shareholder value systematically and continuously. A quantification of opportunities is not possible, as they are usually affected by external general conditions and influencing factors, as well as complex interrelations, which can be controlled by Elmos only to a limited extent.

Macroeconomic and industry specific opportunities

Macroeconomic opportunities open up for Elmos in growth markets, for example. Most notable among these is the Asian market. At the same time, we assert our position with automotive semiconductors in certain applications in the established markets.

Industry specific opportunities become available to us as a consequence of the following megatrends in the automotive sector: driver assistance systems up to autonomous driving, electromobility, and higher demands in terms of safety, connectivity, and comfort. To our industrial customers, we also want to offer solutions that will help them assume market-leading positions.

Product specific opportunities

Product specific opportunities open up for Elmos due to innovation leadership. Our three business lines seek to continuously increase our appeal for customers with innovative or advanced high-quality products. Alongside our ASIC business, the increased development and sale of ASSPs also provide further opportunities. Furthermore, we seize these opportunities by consistently investing in research and development. If we should make better progress with development than currently expected, this might have the effect that more new and advanced products will be brought to market. Elmos also sees opportunity in the expansion of the product portfolio. This can take place by deliberate enhancement through acquisitions of third-party entities or technologies, and thus open up new markets as well.

Elmos markets its products and services according to the respective application, region, and industry. Within the regions, we focus our sales capacities on the markets that show the largest business and sales potential. We invest in the development of our sales division and application support close to the customer in order to distribute our solutions effectively and to intensify our customer relationships.

Other opportunities

We are working tirelessly on the optimization of our processes in development, production, technology, quality, administration, and logistics, and we invest throughout the Group in measures to increase efficiency.

MANAGEMENT'S OVERALL ASSESSMENT OF OPPORTUNITIES

The Elmos management is confident that the Group's profitability presents a solid foundation for our future business performance and provides the necessary resources in order to pursue and seize the opportunities that become available to the Group.

If we make better progress with these measures and methods than expected at present, this might have a positive effect on our financial, profit, and economic position and make us exceed our forecast and our medium-term prospects. Particularly the macroeconomic, industry specific and product strategic opportunities have the potential to make a positive contribution to the financial, profit, and economic position.

RISKS

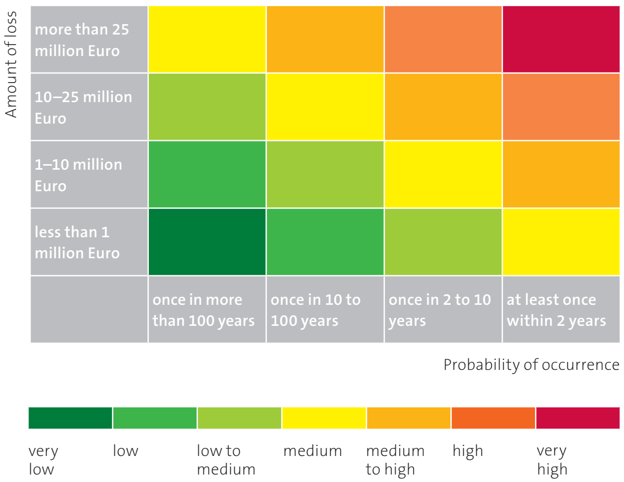
The following explanations also include information in accordance with Sections 289 (4) and 315 (4) HGB (Commercial Code), as well as the explanatory report on the key features of the accounting-related internal control and risk management system.

Elmos pools the measures implemented for early risk detection within the Company. This system focuses on safeguarding the Company's continued existence and increasing the shareholder value. It complies with the legal stipulations for an anticipatory risk detection system in accordance with Section 91 (2) AktG (Stock Corporation Act) and the principles defined by the German Corporate Governance Code. The Management Board bears the overall responsibility for this.

Risks are routinely identified and their effects on the Company's targets are analyzed. The Group deliberately assumes certain risks in areas of its competence if adequate yields can be expected at the same time. Beyond that, major risks are avoided if possible. The Group analyzes and assesses any known risks taken. Adequate countermeasures are developed insofar as possible.

Binding standards and rules have been defined for risk identification. The observance of these principles is monitored regularly. In a well-established process of review sessions, the divisions report on the current state of material risks through risk inventory with defined gradual thresholds. Ad hoc risks and damages that occur are communicated immediately and outside the usual reporting channels in case of urgency.

Individual risks are aggregated in risk groups. Risk assessment is reported for these risk groups as an overall assessment of the individual risks. Depending on estimated probability of occurrence and probable amount of loss in consideration of our business, our profit and financial position, and assets and liabilities, we classify risks according to the



matrix and assess them as “very low,” “low,” “low to medium,” “medium,” “medium to high,” “high,” and “very high.” Measures for risk reduction are listed for each identified risk, and they are regularly discussed with the responsible executives in consideration of early warning indicators.

Internal control system and risk management system with respect to financial accounting

The internal control system consists of a number of structures and processes for monitoring and controlling central business processes with the aim of identifying risks, as well as containing known risks. It contains the principles, processes, and measures introduced by management, and it is oriented toward the organizational implementation of the management’s decisions.

With respect to the financial accounting process of the consolidated companies and the Group, structures and processes have been implemented to promote the truth and fairness of the consolidated financial statements. The principles, the organizational structure, workflow management, and the processes of the internal control and risk management system with respect to financial accounting are regulated throughout the Group by respective guidelines, operating procedures, and responsibilities that are adapted to internal and external developments whenever necessary. Key features of the internal control and risk management system with respect to financial accounting are (i) the identification of material areas of risk and monitored domains of relevance to financial accounting in the Group, (ii) examinations for monitoring the financial accounting process and its results, (iii) preventive control measures in finance and accounting, and those areas where material information for the preparation of the consolidated financial statements is generated, including defined authorization processes in relevant areas, (iv) measures for the proper EDP-supported processing of items and data relating to the Group’s financial accounting, and (v) the regulation of responsibilities with the involvement of external specialists. The Management Board assumes overall responsibility for the internal control and risk management system with respect to financial accounting within the Group.

Further information on the basics of the risk management system can be found in the notes to the consolidated financial statements.

Economic, political, social, and regulatory risks *(risk assessment: medium)*

The use of our products depends on the current general economic, financial, and political conditions. Events such as a global economic crisis, political changes, fluctuations in national currencies, a recession in Europe or other important international markets, a significant slowdown of growth in Asia (particularly in China), or an increase in sovereign debt could have a negative effect on the ability and willingness of our customers to use our products. Such events could weaken the demand for automobiles and thus for our semiconductors as well.

Social and political instability, for instance caused by acts of terror, war, or international conflicts, or by pandemics, natural disasters, or long-lasting strikes, could have negative effects beyond the respective national economy affected and therefore on our business too.

Industry/market risks *(risk assessment: medium to high)*

Dependence on the automotive industry

The core business of Elmos is linked directly to the demand of the automotive industry or, rather, its suppliers for semiconductors. A collapse in car production and sales figures also represents a risk for Elmos as semiconductor supplier. The demand for semiconductors and sensors made by Elmos is also affected by the delivery capability of other suppliers, as systems and cars can be manufactured only if all suppliers are capable of delivery.

The customer structure of Elmos indicates a certain degree of dependence on a few major suppliers to the automotive industry. However, it has to be taken into account that one customer usually purchases several products with different life cycles, often to be used for different car models, brands, and markets. Thanks to the increased commitment of Elmos to ASSPs over the past years, this kind of customer dependence has been reduced as such products can be marketed to several customers. On the other hand, the risk of replaceability increases, as competitors will offer comparable products in many cases.

Competition risk

A large number of competitors in the semiconductor market for automotive applications offer products similar to the ones Elmos supplies, based on a similar technological foundation. Elmos also competes with large manufacturers for high-volume contracts and is thus exposed to corresponding pricing pressure.

Personnel risk *(risk assessment: low to medium)*

Dependence on individual employees

The Company's highly development-intensive business activity leads to clearly pronounced and very specific engineering expertise but not necessarily to patents. The consequence for Elmos, as for any other technology company, is a high dependence on individual employees.

Shortage of qualified employees

An important aspect for success in the market is the quality and availability of employees. There is the risk that qualified employees might leave the Company and no adequate replacements can be found in good time. There is also the risk that the Company might not be able to recruit qualified employees if new demand arises. This could affect the Company's development in a negative way.

Research and development risks *(risk assessment: medium to high)*

The market for Elmos products is characterized by the constant advancement and improvement of products. Therefore, the success of Elmos is highly dependent on the ability to assess market trends and technological development correctly in order to develop innovative and complex products or successors of existing products efficiently, to introduce them to the market on time, and to see to it that these products are chosen by customers. There is also the risk that products or entire application fields relevant to the sales of Elmos are replaced by new technologies, either completely or in part, so that Elmos cannot offer any competitive products in such fields anymore.

The customer participates in the development expenses incurred by Elmos in the case of customer specific products. There is the risk that unamortized expenses for product developments that do not result in a supplier relationship will remain with the Company.

For product developments initiated by Elmos (i.e., all ASSPs), there are no binding customer orders, so Elmos bears the development costs. If there is not enough customer acceptance, development and production costs might not be amortized by product sales. However, Elmos works together with lead customers, if possible, in the development of ASSP components as well in order to increase the chances of success in the market.

The future success of Elmos also depends on the ability to develop or apply new development and production technologies. Elmos develops analog and digital semiconductor structures and functions for its self-developed modular high-voltage CMOS process technology. It also develops products by applying processes provided by foundries. Despite thorough research, Elmos might infringe patent rights held by third parties with its own product developments, which could have a significant effect on the respective product and its marketing potential.

If Elmos ceases to be capable of developing, manufacturing, and selling new products and product upgrades in the future, significant effects on the financial, profit, and economic positions will likely be the result.

Financial risks *(risk assessment: medium)*

Investments

The allocation of financial resources to the subsidiary companies and investments results in an increased obligation to detect and, if necessary, to minimize potential risks at the earliest possible stages by means of adequate controlling instruments and target/actual analyses. In addition to that, the subsidiaries and investments are subject to routine reviews.

Other financial risks are listed in the notes to the consolidated financial statements.

Business and operational risks *(risk assessment: medium to high)*

Purchasing risk

The raw materials Elmos needs for manufacturing are available worldwide in part from different suppliers, yet controlled by monopolies in some cases. 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 in different regions wherever possible. The same applies to cooperation with foundries. There is a tendency among the machine suppliers toward an oligopoly, limiting the negotiating power of Elmos. Raw materials might not be available in the required volume, for example as a result of bottlenecks on the part of the manufacturer. Disproportional price increases, for example for raw wafers, might also occur. We observed such a price increase for wafers in 2017, among other materials.

Product liability

The products manufactured by Elmos are integrated as components into complex electronic systems. Defects or malfunctions of the semiconductors made by Elmos or of the electronic systems into which they are integrated can be directly or indirectly damaging to the property, health, or lives of third parties. In most cases, Elmos cannot completely exclude its liability to customers or third parties in its sales contracts.

Elmos consistently follows a zero-defect strategy and constantly invests in the detection and prevention of sources of error and defects. In order to minimize potential sources of error with respect to safety-relevant components for vehicles, Elmos has implemented and audited a development process in accordance with ISO 26262 (functional safety). In addition, the semiconductor chips are tested extensively in production, usually in view of automotive applications, with regard to quality and functionality. Even though the Company applies elaborate test procedures before commencing delivery of its products, product defects might still become apparent only upon the installation or the end consumer's use of the product. If such product defects materialize, expensive and time-consuming product modifications might ensue, and further liability claims might arise. A recall, for which Elmos would have to assume liability, could also have material effects.

Legal risks

At present, there are no legal disputes whose outcome might entail a high risk to the financial, profit, and economic position. However, it cannot be ruled out that it might come to such litigation in the future. Legal disputes might arise for example from business operations or in matters of property rights or trademarks. Depending on risk assessment, adequate provisions are made for legal risks in the statement of financial position as a preventive measure; recognition and measurement find entry in the consolidated financial statements in accordance with IAS 37. As the outcomes of lawsuits cannot be predicted, expenses may be incurred that have a material effect on our business and exceed the respective provisions made.

IT risk

For Elmos, as for other globally operating companies, the reliability and safety of information technology (IT) are of great importance. This applies increasingly to the utilization of IT systems in support of operational processes, as well as to the support of internal and external communication. Despite all technical precautions, any serious failure of these systems can lead to data loss, the disturbance of production, or the interference with operational processes with considerable impact on the Company's situation in terms of financial, profit, and economic positions.

Business interruption

In addition to the operational risks already described and explained, the risk of the destruction of production facilities by fire or other disasters is a material operational risk. Even though the risk of business interruption through such events is adequately covered by insurance, a significant threat of losing key customers remains. This risk cannot be insured against.

Business interruption could also occur as a result of power outage. The production facilities are prepared for short-term power failures as far as possible. The risk of an interruption to operations is reduced by the fact that production is physically separated into internal and external facilities.

The usual insurable risks – such as fire, water, storm, theft, third-party liability, and costs of a possible recall – are adequately covered by insurance. However, it cannot be ruled out that the costs of a potential recall might exceed the maximum amount covered. Further typically insurable risks capable of significantly damaging the development of the Group or jeopardizing its continued existence are not apparent at present.

MANAGEMENT'S OVERALL ASSESSMENT OF RISKS

Elmos consolidates and aggregates all risks reported by the various Company divisions and functions. Risks are analyzed; however, individual risks might cause considerable damage in extreme cases. Such a scenario is neither foreseeable, nor can it be ruled out. Apart from that, it must be noted that the occurrence of an individual risk might have material negative effects on the Company's financial, profit, and economic position, even without escalating to extremes.

The aforementioned risks are assessed by management for potential amounts of loss and probability of occurrence according to the respective risk category, as noted. It must be stated that some categories contain risks that pose potential threats to the Company's continued existence; however, those risks usually carry a relatively low probability of occurrence. As a consequence, no individual risks are currently assessed as belonging to the categories for both the highest amount of loss and the highest probability of occurrence (i.e., no risk assessment as "very high").

Outlook

ECONOMIC AND INDUSTRY SPECIFIC FRAMEWORK CONDITIONS

Positive tendencies can be observed with regard to the economic and industry specific framework that determines the business of Elmos. The International Monetary Fund (IMF) expects even stronger global economic growth in 2018. Driven by the current upturn in Europe and Asia and the tax reform in the U.S., the global growth rate in 2018 will be 3.9%, according to the IMF. Meanwhile, the German Association of the Automotive Industry (VDA) expects the growth of the worldwide automotive market to increase by just 1%. The Center of Automotive Research (CAR) is more optimistic and expects growth of 2.2%.

According to Gartner, the worldwide semiconductor market will grow by 7.5% in 2018. As in 2017, that growth will be driven by memory chips in particular. The market research company IC Insights predicts average annual growth of 5.4% in the worldwide automotive semiconductor market in the period from 2016 to 2021. IC Insights also expects the general MEMS market to achieve an average annual growth rate of 5.5% in the period from 2016 to 2020.

PREDICTED MARKET DEVELOPMENT

Gross domestic product[1]	Forecast 2018
Worldwide	+3.9%
Europe	+2.2%
Germany	+2.3%
China	+6.6%
U.S.A.	+2.7%
New car registrations	
Worldwide	+1.0%[2] | +2.2%[3]
Europe	–1.0%[2] | +0.3%[3]
China	+2.0%[2] | +4.5%[3]
U.S.A.	–2.0%[2] | –1.0%[3]
Automotive semiconductor market[4]	**ø 2016-2021**
Worldwide	+5.4%
MEMS sensor market[4]	**ø 2016-2020**
Worldwide	+5.5%

Sources: [1]IMF, [2]VDA, [3]Center of Automotive Management, [4]IC Insights

OPERATIONAL TARGETS 2018

Targets for sales and earnings

The outlook for Elmos for fiscal year 2018 is based on the aforementioned expectations and assumptions pertaining to general business developments and specific industry developments.

Based on internal and external assessments of the market, Elmos expects year-on-year growth in sales of 8% to 12% (2017: 250.4 million Euro) for 2018. The Company will continue to press ahead with measures for further growth in the current fiscal year, such as expanding product development. For 2018, Elmos expects an EBIT margin of between 13% and 17% (2017: 15.3%). The segments Semiconductor and Micromechanics are expected to make positive contributions to the operating income. However, due to its relatively small share in sales and earnings, the performance of Micromechanics may be more volatile.

The guidance is based on an exchange rate of 1.20 USD/EUR.

Targets for capital expenditures and liquidity

The expansion of the test operations that was launched in the previous year will continue in 2018. Due to the focus on the fab lite strategy over the past few years, a significant expansion of in-house frontend capacity is not on the agenda for the time being. As in the previous year, capital expenditures for property plant and equipment and intangible assets less capitalized development expenses will amount to less than 15% of sales (2017: 14.9%). Capital expenditures concern both segments. Due to consistently high capital expenditures for the growth of the Company, we expect Elmos to have negative adjusted free cash flow in 2018 (2017: –5.2 million Euro).

GUIDANCE 2018

Sales growth 2018 (vs. 2017)	8% to 12%
EBIT margin	13% to 17%
Capital expenditures (in % of sales)[1]	<15%
Adjusted free cash flow[2]	Negative
Assumed exchange rate	*1.20 USD/EUR*

[1] Capital expenditures for property, plant and equipment and intangible assets less capitalized development expenses
[2] Cash flow from operating activities less capital expenditures for/plus disposal of intangible assets and property, plant and equipment

Dividend targets

Free liquidity is planned to be utilized in part for the payment of a dividend. Supervisory Board and Management Board will propose to the Annual General Meeting in May 2018 the payment of a slightly increased dividend, compared to the previous year, in the amount of 0.40 Euro (previous year: 0.35 Euro) per share.

Underlying assumptions of our guidance

Elmos regards the medium and long-term growth prospects for automotive electronics as positive. The following trends are leading to the increased use of electronics: advances in driver assistance systems, powertrain electrification, and increasing demands on safety and comfort applications.

A positive development for Elmos requires the success of our current and future customers as well as our ability to sell our products to them. The international competition among suppliers to the auto industry is intense. Resulting effects such as shifts in the market or portfolio changes at our customers can hardly be predicted.

Our guidance considers events with a potential material effect on the business performance of the Elmos Group known to the Company at the time of the preparation of this report. The outlook is based, among other factors, on the assumptions for the economic development as described as well as the remarks included in the report on opportunities and risks. Expectations can be affected by market turbulence and similar factors.

Legal information

DISCLOSURES PURSUANT TO TAKEOVER LAW

The information required by takeover law as stipulated under Sections 289a, 315a HGB (Commercial Code) as of December 31, 2017 (also representing the explanatory report in accordance with Section 176 (1) sentence 1 AktG (Stock Corporation Act)) is reported below. The composition of subscribed capital and shareholdings in excess of 10% of the voting rights can be found under note 22.

Limitations with regard to voting rights or the transfer of shares

Statutory limitations with regard to voting rights granted by shares can result in particular from the regulations of the Stock Corporation Act (AktG) or the Securities Trading Act (WpHG). For example, shareholders may be barred from voting under certain conditions pursuant to Section 136 AktG. Furthermore, according to Section 71b AktG, Elmos Semiconductor AG does not have any rights linked to treasury shares, particularly no voting rights. Moreover, due to breaches of disclosure requirements under capital market law in accordance with Section 28 WpHG, rights linked to shares (e.g. voting rights) may be excluded at least for a certain period of time.

Share-based components of the compensation of the Supervisory Board, Management Board, and employees provide, in part, for limitations on disposal, such as holding periods, for a small number of shares.

Shares with special rights conferring powers of control

Shares with special rights conferring powers of control have not been issued.

Form of voting rights control in case of employee shareholdings

Like other shareholders, employees who hold shares in Elmos Semiconductor AG exercise their control rights directly, in accordance with legal stipulations and the Articles of Incorporation.

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

We refer to the respective legal stipulations for the appointment and dismissal of management board members (Sections 84, 85 AktG) and for amendments to the articles of incorporation (Sections 133, 179 AktG). The Company's Articles of Incorporation do not provide for supplementary provisions.

The management board's authorization to issue shares

The Management Board is authorized to increase the Company's share capital up to and including May 10, 2021, subject to the Supervisory Board's consent, by up to 9,900,000 Euro, once or more than once, through the issue of new no-par value bearer shares against contributions in cash or in kind (authorized capital 2016). If the capital is increased against contributions in cash, subscription rights shall be granted to the shareholders. The shares may be taken over by banks under the obligation to offer them to the shareholders for subscription. However, the Management Board is authorized to exclude the shareholders' subscription rights, subject to the Supervisory Board's approval. The total of the shares issued according to this authorization against contributions in cash or in kind under exclusion of the shareholders' subscription rights must not exceed a proportionate amount of the share capital of 3,988,372.00 Euro. The Management Board is further authorized to determine all other rights attached to the shares, as well as the particulars of the issue, subject to the Supervisory Board's consent.

The share capital is conditionally increased by up to 503,549 Euro (conditional capital 2010/I). The conditional capital increase serves the redemption of stock options issued to employees, executives, and Management Board members of the Company, as well as to employees and executives of affiliated companies, up to and including May 3, 2015, on the basis of the authorization given by the Annual General Meeting (AGM) of May 4, 2010 (stock option plan 2010). The conditional capital increase is realized only insofar as options are issued within the scope of the Company's stock option plan 2010 in observance of the resolution of the AGM of May 4, 2010, and as these options are exercised by their owners within the exercise period insofar as no cash compensation is granted or treasury shares are utilized for payment. The new shares are entitled to dividends from the beginning of the fiscal year in which they come into being by the exercise of options.

The share capital is conditionally increased by up to 1,200,000 Euro (conditional capital 2015/I). The conditional capital increase serves the redemption of stock options issued to employees, executives, and Management Board members of the Company, as well as to employees and executives of affiliated companies, up to and including May 7, 2020, on the basis of the authorization given by the Annual General Meeting (AGM) of May 8, 2015 (stock option plan 2015). The conditional capital increase is realized only insofar as options are issued within the scope of the Company's stock option plan 2015 in observance of the resolution of the AGM of May 8, 2015, and as these options are exercised by their owners within the exercise period insofar as no cash compensation is granted or treasury shares are utilized for payment. The new shares are entitled to dividend from the beginning of the fiscal year in which they come into being by the exercise of options. Deviating from this, the Management Board or, insofar as members of the Management Board are concerned, the Supervisory Board may determine that the new shares are entitled to dividend from the beginning of the fiscal year for which at the time of exercising stock options, no resolution by the AGM on the appropriation of retained earnings has been adopted yet.

The management board's authorization to issue convertible bonds and option bonds

The share capital is conditionally increased by up to 7,800,000 Euro (conditional capital 2015/II). The conditional capital increase is carried out only to the extent that the holders or creditors of convertible bonds or subscription warrants from option bonds issued by Elmos or one of the Company's group companies within the meaning of Section 18 AktG until May 7, 2020, on the basis of the Management Board's authorization by the AGM of May 8, 2015 under agenda item 7, make use of their conversion or option privileges or fulfill their conversion obligations, or shares are supplied under tender rights and insofar as no other forms of performance are utilized for servicing. The new shares are issued at the conversion or option prices to be determined respectively in the terms and conditions of the convertible bonds or option bonds in accordance with the aforementioned authorization resolution. The new shares are entitled to dividend from the beginning of the fiscal year in which they come into being by the exercise of conversion or option privileges or the fulfillment of conversion obligations. Deviating from this, the Management Board may determine that the new shares are entitled to dividend from the beginning of the fiscal year for which, at the time of exercising conversion or option privileges or fulfilling conversion obligations, no resolution by the AGM on the appropriation of retained earnings has been adopted yet, subject to the Supervisory Board's consent. The Management Board is authorized to determine the further particulars of the implementation of the conditional capital increase, subject to the Supervisory Board's consent.

The management board's authorization to buyback shares

The Management Board is authorized by the Annual General Meeting's resolution of May 8, 2015, to purchase the Company's shares up to and including May 7, 2020, subject to the Supervisory Board's consent. This authorization is limited to the purchase of shares in the total volume of up to 10% of the current share capital. The authorization may be exercised entirely or in several parts, once or more than once, and for one or more than one purpose within the scope of the aforementioned limitation. The purchase may be made at the stock exchange or through a public purchase bid tendered to all shareholders of the Company, or through purchasing from individual shareholders based on individual agreements, yet not from Weyer Beteiligungsgesellschaft mbH, ZOE-VVG GmbH, Jumakos Beteiligungsgesellschaft mbH, or other reportable entities or persons in accordance with Article 19 (1) MAR. The authorization contains differentiating requirements for the separate purchase types, particularly with respect to the admissible purchase price.

Within the scope of this authorization, the Company bought back 450,000 shares via the stock exchange for around 9.7 million Euro (excluding ancillary purchase costs) from March 2, 2017, to June 23, 2017. The shares that the Company bought back can be used for all of the purposes in the authorization granted at the Annual General Meeting of May 8, 2015 for the purchase and use of treasury shares. More information can be found under note 22.

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

Some loan agreements, supply agreements, license agreements, patent cross license agreements, investment agreements, and cooperation agreements, as well as agreements or notices on public funding contain, change-of-control clauses. Such clauses may entitle the contracting party to exercise special termination rights in case of material changes in the ownership structure of Elmos, grant the contracting party other special rights that might be disadvantageous to the Company, or make the continuation of the agreement subject to the contracting party's consent. Such clauses are in line with standard market practice.

Compensation agreements in case of a takeover bid

In case of a change of control, the members of the Management Board are entitled to terminate their respective employment contracts within three months from the occurrence of a change of control with six-month notice to the end of the month, and to resign from their duties as of the termination of their employment contracts. In case this right of termination is exercised, each Management Board member is entitled to compensation in the amount of the remuneration for two to three years, limited by the amount of the remuneration to be paid for the remaining term of the respective employment contract. Applicable is the remuneration amount paid during the last fiscal year prior to the occurrence of the change of control. The Company is also committed to compensation payments for the post-termination effects of non-competition clauses, and it may make extraordinary special payments. In some cases, provisions were made to govern the exercise of options, retirement provisions, and alternative employment options within the Company in case of a change of control.

REMUNERATION REPORT

The remuneration report in accordance with Sections 289a and 315a HGB contained in the corporate governance report of this Annual Report is part of the combined management report.

STATEMENT ON CORPORATE GOVERNANCE

The statement on corporate governance in accordance with Sections 289f and 315d HGB contained in the corporate governance report of this Annual Report is part of the combined management report.

Consolidated financial statements

Consolidated statement of financial position

Assets | in thousand Euro	Notes	12/31/2017	12/31/2016
Intangible assets	13	23,366	19,572
Property, plant and equipment	14	100,142	86,568
Investments in associates	15	787	1,967
Securities	15	40,122	42,856
Investments	15	20	20
Other financial assets	20	6,354	3,699
Deferred tax assets	16	2,111	1,882
Non-current assets		**172,902**	**156,564**
Inventories	17	65,052	58,602
Trade receivables	18	44,391	39,137
Securities	15	11,868	5,678
Other financial assets	20	2,019	1,463
Other receivables	20	7,881	7,705
Income tax assets		450	235
Cash and cash equivalents	19	32,367	43,110
Non-current assets held for sale	21	0	436
Current assets		**164,028**	**156,366**
Total assets		**336,930**	**312,930**

Equity and liabilities | in thousand Euro	Notes	12/31/2017	12/31/2016
Share capital	22	20,104	20,104
Treasury shares	22	–414	–193
Additional paid-in capital	22	85,093	92,444
Surplus reserve		102	102
Other equity components	22	–1,529	204
Retained earnings		136,177	118,142
Equity attributable to owners of the parent		**239,532**	**230,803**
Non-controlling interests		588	778
Equity		**240,120**	**231,581**
Provisions for pensions	24	412	477
Financial liabilities	25	40,765	11,202
Deferred tax liabilities	16	3,246	1,769
Non-current liabilities		**44,424**	**13,448**
Provisions	24	12,875	12,035
Income tax liabilities	26	4,088	2,295
Financial liabilities	25	10,398	25,000
Trade payables	27	22,803	24,944
Other liabilities	26	2,223	3,627
Current liabilities		**52,386**	**67,900**
Liabilities		**96,810**	**81,349**
Total equity and liabilities		**336,930**	**312,930**

Consolidated income statement

in thousand Euro	Notes	FY 2017	FY 2016
Sales	5	**250,434**	**228,633**
Cost of sales	6	–140,377	–131,847
Gross profit		**110,057**	**96,787**
Research and development expenses	6	–33,779	–35,969
Distribution expenses	6	–20,389	–19,930
Administrative expenses	6	–18,837	–18,899
Operating income before other operating expenses (–)/income		**37,052**	**21,989**
Foreign exchange losses (–)/gains	9	–1,483	109
Other operating income	10	4,290	2,814
Other operating expenses	10	–1,427	–1,786
Earnings before interest and taxes (EBIT)		**38,432**	**23,125**
Share in net income of associates	15	–1,180	–244
Finance income	8	1,089	3,050
Finance costs	8	–2,874	–2,803
Earnings before taxes		**35,466**	**23,129**
Income tax		**–10,714**	**–6,907**
thereof current income tax	11	–9,692	–7,034
thereof deferred tax	11	–1,022	127
Consolidated net income		**24,752**	**16,222**
thereof attributable to owners of the parent		24,941	15,875
thereof attributable to non-controlling interests		–189	348
Earnings per share		**Euro**	**Euro**
Basic earnings per share	12	1.26	0.80
Fully diluted earnings per share	12	1.25	0.80

Consolidated statement of comprehensive income

in thousand Euro	Notes	FY 2017	FY 2016
Consolidated net income		**24,752**	**16,222**
Items to be reclassified to the income statement in later periods including respective tax effects			
Foreign currency adjustments without deferred tax effect		–950	258
Foreign currency adjustments with deferred tax effect		–1,357	470
corresponding deferred tax	22	334	–119
Value differences in hedges	22	546	573
corresponding deferred tax	22	–179	–188
Changes in market value of available-for-sale financial assets	22	–195	462
corresponding deferred tax	22	64	–151
Items not to be reclassified to the income statement in later periods including respective tax effects			
Actuarial gains/losses (–) from pension plans	22	6	–68
corresponding deferred tax	22	–2	18
Other comprehensive income after taxes		**–1,734**	**1,255**
Total comprehensive income after taxes		**23,018**	**17,477**
thereof attributable to owners of the parent		23,208	17,111
thereof attributable to non-controlling interests		–190	367

Consolidated statement of cash flows

in thousand Euro	Notes	FY 2017	FY 2016
Consolidated net income		24,752	16,222
Depreciation and amortization	7	24,240	29,067
Gains (–)/Losses from disposal of assets		–204	60
Gains from disposal of non-current assets held for sale		–664	0
Financial result	8	2,965	64
Other non-cash expense		1,022	279
Current income tax	11	9,612	7,034
Expenses for stock options/stock awards/share matching		217	145
Changes in pension provisions	24	–58	–87
Changes in net working capital:			
Trade receivables	18	–5,254	–6,326
Inventories	17	–6,450	–1,434
Other assets	20	42	–496
Trade payables	27	–2,847	3,760
Other provisions and other liabilities		–607	–2,477
Income tax payments		–8,034	–11,777
Interest paid	8	–1,907	–1,959
Interest received	8	1,089	1,412
Cash flow from operating activities		**37,914**	**33,487**
Capital expenditures for intangible assets	13	–8,666	–3,797
Capital expenditures for property, plant and equipment	14	–35,785	–20,750
Payments for investments in associates	15	0	–2,210
Payments from disposal of non-current assets held for sale		1,100	0
Disposal of non-current assets		272	166
Payments for (–) securities/Disposal of securities	15	–4,147	–7,899
Payments from/Payments for (–) other non-current financial assets	20	57	–386
Cash flow from investing activities		**–47,169**	**–34,876**

in thousand Euro	Notes	FY 2017	FY 2016
Borrowing/Repayment (–) of non-current liabilities	25	39,563	–437
Repayment of current liabilities to banks	25	–25,000	–185
Share-based payment/Issue of treasury shares		1,931	317
Purchase of treasury shares		–9,672	0
Capital increase from conditional capital		0	1,226
Dividend distribution		–6,912	–6,510
Distribution/Other payments to non-controlling shareholders		0	–449
Other changes		–45	–17
Cash flow from financing activities		**–135**	**–6,055**
Decrease in cash and cash equivalents		**–9,389**	**–7,444**
Effects of exchange rate changes on cash and cash equivalents		–1,355	554
Cash and cash equivalents at beginning of reporting period	19	43,110	50,000
Cash and cash equivalents at end of reporting period	**19**	**32,367**	**43,110**

Consolidated statement of changes in equity

in thousand Euro	Notes	Shares thousand	Share capital	Treasury shares	Additional paid-in capital	Surplus reserve	Other equity components: Provision for available-for-sale financial assets	Other equity components: Hedges	Other equity components: Foreign currency translation	Other equity components: Unrealized actuarial gains/losses	Retained earnings	Total	Non-controlling interests Total	Group Total
		Equity attributable to owners of the parent												
01/01/2016		**19,942**	**19,942**	**–215**	**90,956**	**102**	**–452**	**–752**	**988**	**–816**	**108,778**	**218,531**	**860**	**219,391**
Consolidated net income											15,875	15,875	348	16,222
Other comprehensive income for the period	22						310	385	590	–50		1,236	19	1,255
Total comprehensive income							310	385	590	–50	15,875	17,111	367	17,477
Share-based payment/Issue of treasury shares	22			22	295							316		316
Capital increase from conditional capital	22	162	162		1,064							1,226		1,226
Transaction costs	22				–16							–16		–16
Dividend distribution											–6,510	–6,510		–6,510
Distribution to non-controlling shareholders												0	–449	–449
Expenses for stock options/stock awards/share matching					145							145		145
12/31/2016		**20,104**	**20,104**	**–193**	**92,444**	**102**	**–142**	**–367**	**1,578**	**–866**	**118,142**	**230,803**	**778**	**231,581**
Consolidated net income											24,941	24,941	–189	24,752
Other comprehensive income for the period	22						–131	367	–1,973	4		–1,733	–1	–1,734
Total comprehensive income							–131	367	–1,973	4	24,941	23,208	–190	23,018
Share-based payment/Issue of treasury shares	22			228	1,703							1,931		1,931
Transaction costs	22				–50							–50		–50
Buyback of Company's shares	22			–450	–9,222							–9,672		–9,672
Dividend distribution											–6,912	–6,912		–6,912
Expenses for stock options/stock awards/share matching	22				217							217		217
Other changes											5	5		5
12/31/2017		**20,104**	**20,104**	**–414**	**85,093**	**102**	**–273**	**0**	**–394**	**–862**	**136,177**	**239,532**	**588**	**240,120**

Notes to the consolidated financial statements

GENERAL INFORMATION

Elmos Semiconductor AG (“the Group,” “the Company,” or “Elmos”) has its registered office in Dortmund (Germany) and is entered in the register of companies kept at the local court (Amtsgericht) in Dortmund, section B, under no. 13698. The Articles of Incorporation are in effect in the version of March 26, 1999, last amended by a resolution of the Annual General Meeting (AGM) of May 11, 2016, and edited by resolution of the Supervisory Board of December 16, 2016.

The Company’s business is the development, manufacture, and distribution of microelectronic components and system parts (application-specific integrated circuits, or ASICs, and application-specific standard products, or ASSPs) and technological devices with similar functions. The Company may conduct all transactions suitable for directly or indirectly serving the purpose of the Company. The Company is authorized to establish branches, acquire or lease businesses of the same or a similar kind or invest in them, and conduct all business transactions that are beneficial to the 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 and locations in Europe, Asia, South Africa, and the U.S. and cooperates with other German and international companies in the development and manufacture of semiconductor chips.

The Company is a listed stock corporation, and its shares are traded on the Prime Standard in Frankfurt/Main, Germany. The address of the Company’s registered office is Heinrich-Hertz-Straße 1, 44227 Dortmund, Germany.

ACCOUNTING POLICIES

1 – Principles of financial accounting

General information

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

The consolidated financial statements of Elmos have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU) and the supplementary applicable regulations of German commercial law as stipulated by Section 315e (1) of the German Commercial Code (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 were endorsed by the European Commission for adoption in the EU.

The consolidated statement of financial position, the consolidated income statement and the consolidated statement of comprehensive income have been prepared according to IAS 1 – *Presentation of Financial Statements*. Individual items have been summarized for improved clarity; those items are explained in the notes.

The consolidated financial statements were released for publication by the Management Board on February 28, 2018.

Estimates and assumptions

The most important forward-looking assumptions, as well as other material sources of estimate uncertainty identified as of the end of the reporting period on the basis of which there is a considerable risk that a material adjustment of the book values of assets and liabilities will become necessary within the next fiscal year, are explained in the following. Beyond the scope of the areas described below, assumptions and estimates are also necessary for valuation allowances for bad debt, as well as for contingent liabilities and other provisions. In accordance with IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*, changes in estimates are recognized in profit or loss as of the date on which new information becomes available.

Impairment of goodwill

The Group reviews goodwill for impairment at least once a year. This requires an estimate of the values in use of the cash-generating units (CGUs) to which goodwill is allocated. For an assessment of the value in use, the Company’s management has to estimate the respective CGU’s probable future cash flows and choose an adequate discount rate in order to determine the net present value of these cash flows.

With respect to the assumptions on the basis of which the value in use is determined, uncertainties of estimates especially relate to gross margins and discount rates. Gross margins have been estimated on the basis of historical values of past years in consideration of expected changes in demand and increases in efficiency. Discount rates reflect current market assessments and have been estimated on the basis of customary weighted average cost of capital (WACC). More details can be found under notes 3 and 13.

Deferred tax assets

Deferred tax assets are recognized for all unutilized tax loss carry-forwards to the extent it appears probable that taxable income will be available so that loss carry-forwards can, in fact, be utilized. For the determination of the amount of deferred tax assets, a material discretionary decision made by the Company’s management is required, based on the expected time of occurrence and the amount of taxable future income as well as future tax planning strategies. More details can be found under note 16.

Pension commitments

Expenses for defined benefit pension plans are determined according to actuarial calculations. The actuarial evaluation is made on the basis of assumptions with regard to discount rates, expected returns on pension plan assets, future raises of wages and salaries, mortality, and increased future retirement pensions. Due to the long-term orientation of those plans, such estimates are subject to material uncertainty. More details can be found under note 24.

Development expenses

Development expenses are capitalized in accordance with the accounting policies and valuation methods described under note 3 at the best possible estimates. There was a change in the estimates with respect to capitalized development expenses in fiscal year 2017. Based on better information, the time of capitalization of development expenses in accordance with IAS 38.57 tends to be reached sooner (QB1 status; formerly: PPAP status). Compared to the previously applied system, an estimated 5,500 thousand Euro were additionally capitalized altogether in 2017. Effects on the amounts of future periods are similar to fiscal year 2017, according to current assessments. More details can be found under note 13.

Property, plant and equipment

Items of property, plant and equipment are capitalized on the basis of the best possible estimate according to the accounting and valuation method presented under note 3. There was a change in the estimates regarding the anticipated useful lives of certain technical plants and machinery – accounting for approximately 50% of property, plant and equipment at the Group – in fiscal year 2017. Useful lives have been extended due to a Group-wide comparison of estimated and actual useful lives of those assets. Depreciation expense was thus reduced altogether by approximately 4,800 thousand Euro in 2017 compared to the previous year. Elmos is expecting effects of a similar scope for future periods at a constant capex level. More details can be found under note 14.

New and amended standards and interpretations

The accounting policies applied generally correspond to those applied in the previous year. Exceptions were the following standards subject to first-time mandatory application for fiscal year 2017.

Standard/Amendments	First-time mandatory application in the EU	Effect on Elmos
Amendments to IAS 7 – *Statement of Cash Flows:* Disclosure Initiative	01/01/2017	Additional disclosures in the notes
Amendments to IAS 12 – *Income Taxes:* Recognition of Deferred Tax Assets for Unrealized Losses	01/01/2017	Immaterial
Amendments to IFRS 12 – *Disclosure of Interests in Other Entities:* Clarifications	01/01/2017	None

Standards and interpretations voluntarily applicable in advance (EU endorsed)

The IASB has released the following standards that have already been incorporated into EU law within the framework of the comitology procedure but were not yet subject to mandatory application in fiscal year 2017. The Group does not apply these standards in advance.

Standard/Amendments	First-time mandatory application in the EU	Effect on Elmos
IFRS 9 – *Financial Instruments*	01/01/2018	See annotation below
IFRS 15 – *Revenue from Contracts with Customers*	01/01/2018	See annotation below
IFRS 16 – Leases	01/01/2019	See annotation below
Amendments to IFRS 4 – *Insurance Contracts:* Applying IFRS 9 – *Financial Instruments* with IFRS 4 – *Insurance Contracts*	01/01/2018	None
Amendments to IFRS 15 – *Revenue from Contracts with Customers:* Clarifications	01/01/2018	See annotation below
Amendment to IFRS 1 – *First-time Adoption of International Financial Reporting Standards:* Deletion of Exemptions	01/01/2018	None
Amendment to IAS 28 – *Investments in Associates and Joint Ventures:* Clarifications	01/01/2018	None

IFRS 9 – *Financial Instruments: Classification and Measurement*

IFRS 9 – *Financial Instruments* contains requirements for recognition, measurement, and derecognition, as well as for the accounting treatment of hedges. The IASB released the final version of the standard within the framework of the completion of the various stages of its elaborate project on financial instruments on July 24, 2014. As a result, the accounting treatment of financial instruments previously governed by IAS 39 – *Financial Instruments* can now be superseded entirely by accounting treatment according to IFRS 9. This new release of IFRS 9 supersedes all previous versions. The key requirements of the finalized IFRS 9 can be summarized as follows:

- The requirements of IFRS 9 with respect to scope, recognition, and derecognition are largely unchanged compared to the predecessor standard IAS 39.
- However, compared to IAS 39, the provisions under IFRS 9 do provide for a new classification model for financial assets.
- Subsequent measurement of financial assets is now aligned with three categories, providing different principles of valuation and different recognition of changes in value. The categorization depends on the contractual cash flows of the instrument as well as on the business model according to which the instrument is held. IFRS 9 defines three relevant categories for the classification of financial assets: measured at amortized cost, measured at fair value with value changes recognized in profit or loss, and measured at fair value with value changes recognized in other comprehensive income. These categories are thus mandatory as a general rule. However, a few options are available to reporting entities beyond that. The standard eliminates the categories defined under IAS 39: held to maturity, loans and receivables, and available for sale.
- Existing provisions for financial liabilities have, for the most part, been adopted by IFRS 9, though. The only material new provision concerns financial liabilities under the fair value option. For those liabilities, fluctuations in fair value due to changes in their own contingency risk have to be recognized in other comprehensive income.
- IFRS 9 provides for three levels that determine the amount of losses and collected interest to be recognized. Upon addition, expected losses in the amount of the cash value of an expected 12-month credit loss have to be recognized (level 1). If there is a significant increase in contingency loss, provision for risk has to be increased up to the amount of the losses expected for the entire remaining term (level 2). Upon objective indication of impairment, the collection of interest has to be made on the basis of the net book value (book value less provision for risk) (level 3).
- Apart from extensive transitional provisions, IFRS 9 is also linked to comprehensive disclosure provisions both in the transition period and in ongoing application. New requirements compared to IFRS 7 – *Financial Instruments: Disclosures* primarily result from new impairment regulation.

The final IFRS 9 standard is subject to mandatory application for fiscal years beginning on or after January 1, 2018; early adoption is permitted, yet was not made use of by Elmos in 2017. In past fiscal years, Elmos analyzed potential effects of the application of IFRS 9 on all Group companies. The following amendments to the new standard have the effects on recognition, measurement, and reporting of financial instruments at Elmos as detailed below:

- Recognition and measurement: The classification of a financial instrument will no longer depend on its intended utilization (IAS 39) but on the business model and the contractual cash flows. Basically this has the consequence that Elmos will classify all financial and debt instruments into the categories provided under IFRS 9. With respect to first-time recognition and subsequent measurement of the instruments for the statement of financial position, Elmos expects no material effects through profit or loss.
- Impairment: IFRS 9 provides for a three-step model (expected loss model). The incorporation of the underlying asset depends on risk assessment. Due do immaterial contingency risk at Elmos, the Group does not expect material effects on financial accounting from this amendment.
- Accounting treatment of hedging relationships: Elmos has analyzed the changes brought about by IFRS 9 to the accounting treatment of the Group's existing hedging relationships. The transactions agreed on in the past (interest rate swaps) expired in fiscal year 2017. Whether further hedging relationships will be entered into by Elmos in the future cannot be assessed with certainty from today's viewpoint. Accordingly, the effects of the amendments with respect to the accounting treatment of hedging relationships on the Group are currently to be regarded as immaterial.
- IFRS 9 is linked to extensive disclosure provisions, particularly regarding the accounting treatment of hedges, credit risk, and expected credit default. Therefore, Elmos expects additional disclosures in the notes to be provided as a consequence of the new standard's implementation.

IFRS 15 – *Revenue from Contracts with Customers*

In May 2014, the IASB released the new standard IFRS 15 – *Revenue from Contracts with Customers*. The new standard for the recognition of sales aims at harmonizing the large number of provisions previously contained in various standards and interpretations. At the same time, consistent basic principles are determined, applicable for all industries and all kinds of sales transactions. The questions to what amount and at what time, or over what time period, sales have to be recognized are to be answered with the help of a five-step model. Apart from that, the standard includes a number of other provisions on questions of detail as well as an extension of the disclosures required in the notes. Due to the amendment to IFRS 15 released in September 2015, the initial date of mandatory first-time application has been postponed from January 1, 2017, to fiscal years beginning on or after January 1, 2018. In April 2016, a number of clarifications regarding IFRS 15 were released, addressing the identification of separate contractual obligations, the distinction between principal and agent, and recognition of license agreements in particular. These clarifications were endorsed by the EU in October 2017. Generally adoption has to take place retrospectively; however, various options for simplification are granted.

The effects of IFRS 15 on Elmos have been analyzed within the framework of a Group-wide project. In a first step, all different types of contracts were assessed in detail with respect to the recognition of sales. The results of this impact analysis were discussed within the Elmos Group, and changes to existing IT systems and processes were evaluated. In a second step, identified requirements for change with respect to existing master agreements were determined and implemented. Finally, all Group companies involved received training concerning the new standard. Generally speaking, Elmos has come to the following conclusions:

-> ASSPs: With respect to the development and manufacture of ASSPs, the Group does not expect material effects to result from IFRS 15. No identifiable performance relationships arise in the development or production stages that will be subject to different recognition regarding the recognition of sales under IFRS 15 than before.
-> ASICs: With respect to the development and manufacture of ASICs, changes in the recognition of sales will result from IFRS 15. With customer agreements for ASICs, there is usually a binding customer order providing for the development and manufacture of microelectronic components and system parts. Customers' payments to Elmos are possible before entering the production stage. Consequences for the recognition of sales may arise, as development expenses, still being compensated implicitly during the production stage, are recognized earlier through sales according to IFRS 15. However, after reviewing the customer agreements currently at hand, Elmos does not expect material effects on the distribution of consolidated sales with respect to the time of recognition.
-> Additional disclosures in the notes are expected.

The Group has not made use of the option for an early adoption of IFRS 15 prior to fiscal year 2018. Based on a current assessment, first-time adoption will involve opting for the modified retrospective approach.

IFRS 16 – *Leases*

In January 2016, the IASB released the new standard IFRS 16 – *Leases*. IFRS 16 supersedes all previous regulation of leases, including IAS 17 – *Leases,* IFRIC 4 – *Determining Whether an Arrangement Contains a Lease,* SIC 15 – *Operating Leases,* and SIC 27 – *Evaluating the Substance of Transactions in the Legal Form of a Lease.*

IFRS 16 defines principles for the recognition, measurement, disclosure, and notes relating to leases, with the purpose of assuring that lessee and lessor make relevant information available with respect to the effects of leases. At the same time, the previous accounting model according to IAS 17, with a distinction between operating and finance leases, is abandoned in favor of a uniform accounting model for leases committed to the concept of control. The new standard provides for a single accounting model for the lessee. This model has the lessee enter all assets and liabilities from leases in the statement of financial position, provided the lease term exceeds twelve months or the asset is not immaterial (right to choose). The lessor will maintain the distinction between finance and operating leases for the purpose of accounting. IFRS 16 – *Leases* is subject to mandatory first-time application for fiscal years beginning on or after January 1, 2019. The lessee has to either apply IFRS 16 completely and retrospectively include previous reporting periods or recognize the cumulative effect of adjustment as of first-time application as an entry in equity as of the beginning of the fiscal year of first-time application.

In 2016 and 2017, the Group launched a Group-wide project for the implementation of IFRS 16. All existing leases were analyzed with respect to the effects of the new standard. The accounting treatment of assets and liabilities will increase total assets. In consideration of plausible future scenarios for leases to come, total assets will gain no more than 10%. In the consolidated income statement, depreciation and amortization and interest, rather than lease expense, will be reported in the future. This will result in improvements to the financial key figures, such as earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation, and amortization (EBITDA). In the statement of cash flows, repayments will be reported in the cash flow from financing activities, and interest payments will be included in cash flow from operating activities. The actual effects of the application of IFRS 16 on the consolidated financial statements upon first-time adoption will depend on future economic developments, e.g., the Group's interest rate as of January 1, 2019, the composition of the lease portfolio at that point in time, the Group's assessment of the potential exercise of options for term extensions, and the extent to which the Group will make use of exemptions. The Group intends at present to adopt IFRS 16 for fiscal years beginning on or after January 1, 2019. Early adoption is not intended from today's viewpoint. First-time adoption will most probably involve opting for the modified retrospective approach. For this reason, the cumulative effect of the application of IFRS 16 is recognized as an adjustment of the opening amounts of surplus reserve in the statement of financial position as of January 1, 2019, without an adjustment of comparative information supplied. The volume of required disclosures in the notes will increase significantly.

Standards and interpretations not yet applicable in the EU (no EU endorsement yet)

The IASB has released the following standards and interpretations that were not subject to mandatory application in fiscal year 2017. These standards and interpretations have so far not been endorsed by the EU and are therefore not adopted by the Group.

Standard/Amendments/Interpretations	First-time mandatory application according to the IASB	Effect on Elmos
Amendments to IAS 19 – *Employee Benefits:* Plan Amendment, Curtailment or Settlement	01/01/2019	Immaterial
Amendments to IAS 28 – *Investments in Associates and Joint Ventures:* Long-term Interests in Associates and Joint Ventures	01/01/2019	Immaterial
Amendments to IAS 40 – *Investment Property:* Transfers of Investment Property	01/01/2018	None
Amendments to IFRS 2 – *Share-based Payment:* Classification and Measurement of Share-based Payment Transactions	01/01/2018	Immaterial
Amendments to IFRS 9 – *Financial Instruments:* Prepayment Features with Negative Compensation	01/01/2019	None
IFRS 14 – *Regulatory Deferral Accounts*	No EU endorsement	
IFRS 17 – *Insurance Contracts*	01/01/2021	None
IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*	01/01/2018	Immaterial
IFRIC 23 – *Uncertainty over Income Tax Treatments*	01/01/2019	Immaterial
Improvements to IFRS 2015-2017	01/01/2019	Immaterial

2 – Principles of consolidation

Basis of consolidation and consolidation methods

In addition to Elmos Semiconductor AG, the consolidated financial statements prepared for fiscal year 2017 include all entities in which Elmos holds a direct or indirect majority of voting rights, or based on other rights in cases of control over the entity as defined by IFRS 10 – *Consolidated Financial Statements*. Capital consolidation is based on the purchase method: The investments' acquisition values are offset against the proportionate balance of assets and liabilities acquired at their respective time values. As of the acquisition date, identifiable assets and liabilities are fully accounted for at their respective fair values. The balance of a remaining asset difference is stated as goodwill.

The separate financial statements of the entities included in the Elmos consolidated financial statements are stated in correspondence to the reporting date of the consolidated financial statements. All material receivables and liabilities, as well as transactions between the consolidated entities, have been eliminated in the consolidated financial statements. A list of the subsidiaries included in the consolidated financial statements can be found under note 33.

Foreign currency translation and foreign currency transactions

The functional currency of Elmos Semiconductor AG and its European subsidiaries is the Euro. The consolidated financial statements have been prepared in Euro. Assets and liabilities denominated in foreign currencies are generally translated at the closing exchange rate as of the reporting date.

With regard to subsidiaries whose functional currency is the national currency of the respective country in which the subsidiary keeps its registered office, assets and liabilities stated in foreign currency in the statements of financial position of the economically independent international subsidiaries are translated into Euro at the closing exchange rates as of the respective reporting dates. Income and expense items are translated at average exchange rates over the underlying period. Differences resulting from the valuation of equity at historical rates and closing rates as of the end of the reporting period are recognized outside profit or loss as changes in equity under "Other equity components."

The Company occasionally enters into forward exchange contracts and currency option transactions to hedge foreign currency transactions for periods consistent with committed exposures. These hedging activities reduce the impact of foreign exchange rate fluctuations on the Company's profit position. The Company is not involved in speculative transactions. For the realized and unrealized foreign exchange gains and losses from currency hedges during fiscal year 2017, please refer to note 30.

Statement of cash flows

The cash flow statement shows how cash and cash equivalents have changed in the course of the fiscal year by inflows and outflows of funds. The effects of acquisitions and divestitures, as well as other changes to the basis of consolidation, have been considered. In accordance with IAS 7, the statement distinguishes between cash flows from operating activities, investing activities, and financing activities. Finance expenses and finance income recognized in the consolidated income statement essentially correspond to the amounts paid.

3 – Accounting and valuation principles

Sales

The Company generates sales by selling ASICs, ASSPs, and micromechanical sensor elements, as well as by their development. Sales are stated net of sales tax after deduction of any discounts given.

Sales are recognized either at the time products are shipped to the customer or at the time the risk of loss passes to the customer. Within the framework of consignment warehousing agreements, sales are recognized either at the time of acceptance by the customer or at the time the consignment warehouse is stocked up, depending on the time of the passing of risk. Sales from development activities are recognized upon reaching predefined milestones, depending on the degree of the project's completion.

Goodwill

Goodwill from business acquisitions is not amortized but reviewed for impairment at least once a year. In addition to that, an impairment test is made if special events or market developments indicate that the fair value of a reporting unit might have fallen below its book value. As of the acquisition date, the acquired goodwill is allocated to the CGU expected to benefit from the business combination's synergy effects.

Impairment is identified by determining the recoverable amount of the CGU to which the goodwill is allocated. If the recoverable amount of the CGU is below its book value, the impairment of goodwill needs to be recognized. The recoverable amount is the higher of the two amounts of fair value less cost to sell and value in use.

All goodwill is allocated to the respective CGUs. For that purpose, each subsidiary usually represents one CGU.

The determination of the CGU's recoverable amount is based on the value in use. For each CGU, future cash flows are determined on the basis of detailed long-term planning that involves a period of five years. Based on an assumed perpetuity growth rate of 0.5%, as applied in the previous year, the net present value of these future cash flows is then calculated by way of discounting.

Other intangible assets

In accordance with IAS 38, intangible assets originating from development are capitalized only if, among other criteria, it is a) sufficiently probable that the Company will receive the asset's future economic benefit and b) if the asset's cost can be valuated reliably. These criteria apply to capitalized development projects in connection with the development of ASICs. Such projects are capitalized even if they are not yet linked to customer orders (ASSPs). Their recoverability is reviewed annually by the Company. Depreciation begins after the development stage is completed or at the start of pilot series production.

Development expenses are capitalized after technological feasibility or realizability is provided (QB1 status). Cost is amortized as of the start of production (QB3 status) on a straight-line basis over the estimated useful life of three to seven years. Expenses for the in-house development of design and process technology are capitalized if all conditions in accordance with IAS 38 are met. Expenses are amortized under the straight-line method over the shortest respective period of the estimated useful life of the technology, the patent protection term, or the term of the contract, yet over a maximum period of 20 years. Acquired intangible assets are recognized at cost and amortized over their estimated useful lives of 3 to 20 years under the straight-line method.

Amortization is entered in the consolidated income statement (see note 7). There were no other intangible assets with indefinite useful lives in fiscal year 2017 or fiscal year 2016.

Property, plant and equipment

Items of property, plant and equipment are basically capitalized at acquisition or production cost. Property, plant and equipment are depreciated over their estimated useful lives using the straight-line method as follows:

- Buildings: 25 to 50 years
- Building improvements: 8 to 10 years
- Technical equipment and machinery/Factory and office equipment: 5 to 15 years (previous year: 5 to 12 years)

If the book value exceeds the expected recoverable amount, impairment loss is recognized for that value in accordance with IAS 36.

Upon the sale or disposal of property, plant and equipment, corresponding acquisition cost and corresponding accumulated depreciation are eliminated from corresponding accounts. Gains or losses from the disposal of property, plant and equipment are reported as other operating income or expenses. Costs for maintenance and repair are recorded in the consolidated income statement as expense.

In application of IAS 17, leased property attributable to the Company as its economic proprietor is capitalized and depreciated over its estimated useful life (finance lease). Accordingly, liabilities originating from the lease contract are recognized as liabilities and reduced by the discharge portion of lease payments.

Other lease agreements the Company has entered into are considered operating leases. Lease payments made are recognized in the consolidated income statement using the straight-line method over the contract terms.

Investments in associates

Investments in associated companies are measured according to the equity method. Associates are entities on which the Group can exert significant influence but cannot control. Significant influence is generally assumed where Elmos has a direct or indirect voting share of between 20% and 50%. According to the equity method, investments in associates are recognized at cost as of the acquisition date plus changes to the Group's interest in the associate's net assets following the acquisition. The Group's share in profits and losses of associates is reported under "share in net income of associates" in the income statement as of the date of acquisition. Aggregated changes after acquisition are set off against the investment's book value. If the Group's share in losses of an associate corresponds to or exceeds the Group's investment in that associate, the Group does not recognize any further loss. Potential impairment loss is considered in accordance with IAS 28.40 et seq.

Investments

Investments represent interests in entities over which Elmos has neither control nor significant influence. Investments for which there is a quoted market price are classified as "available for sale" and measured at that price. Investments for which there is no active market are classified as "available for sale" and measured at amortized cost. Insofar as there is no active market for those entities, it is assumed that the book value equals the market value.

Financial instruments

According to IAS 39, a financial instrument is a contract that leads to the origination of a financial asset for one entity and to the origination of a financial liability or an equity instrument for another entity at the same time.

Financial instruments are recognized according to IAS 39.14 as of the time at which the Company becomes the financial instrument's contracting party. Regular purchase and sale transactions are entered as of settlement date. Financial instruments are classified in accordance with IAS 39 into the following categories:

-> Financial assets held for trading,
-> Financial assets held to maturity,
-> Loans and receivables granted by the Company,
-> Available-for-sale financial assets,
-> Financial liabilities measured at amortized cost, and
-> Financial liabilities measured at fair value through profit or loss.

The financial instruments accounted for include, among others, liquid assets, securities, trade receivables, trade payables, forward exchange contracts, and other outside financing.

Financial assets

Financial assets with determined or determinable payments and fixed terms that the Company is willing and able to hold to final maturity are classified as held-to-maturity financial assets, with the exception of loans and receivables granted 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 granted by the Company are classified as available-for-sale financial assets.

Held-to-maturity financial assets are accounted for under non-current assets unless they mature within twelve months of the reporting date. Financial assets held for trading are regarded as current assets. Available-for-sale financial assets are regarded as non-current or current assets depending on their remaining term to maturity. If they are intended to be sold within twelve months of the reporting date, they are categorized as current assets.

Upon their first-time recognition, financial assets are measured at fair value corresponding to the time value attributable to the consideration received. With respect to financial assets classified at fair value outside profit or loss, transaction costs directly attributable to the asset's acquisition are also taken into account. Subsequent measurement of financial assets depends on their respective classification:

Available-for-sale financial assets and financial assets held for trading are subsequently measured at fair value without deduction of any transaction costs incurred and under disclosure of their listed market prices as of the reporting date.

Loans and receivables granted by the Company are subsequently measured at amortized cost.

Gains and losses from the measurement of available-for-sale financial assets at fair value are recognized directly under other equity components until the financial asset is sold, collected, or otherwise disposed of, or until the financial asset's impairment is determined so that the accumulated gains or losses previously recognized in equity are included in income/loss for the period at that point in time.

Changes in fair value of financial assets held for trading are recognized in the financial result insofar as there is a direct connection to the Company's financing or its financial investments. Held-to-maturity financial assets are measured at amortized cost using the effective interest method.

Financial liabilities

Financial liabilities generally constitute a claim for return in cash or in the shape of another financial asset. In particular, this category includes trade payables, financial liabilities, and other liabilities.

After their first-time recognition, financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading. Derivatives are classified as held for trading unless they are designated as hedging instruments and are effective as such. Gains or losses from financial liabilities held for trading or from liabilities for which the fair value option has been exercised are recognized in profit or loss.

Upon their first-time recognition, financial instruments are classified either as assets, liabilities, or equity, depending on the contractual agreement's economic matter.

Interest, dividends, and gains and losses in connection with financial instruments classified as financial liabilities are recognized as expenses or income in the consolidated income statement for the period in which they incur. Dividend payments to owners of financial instruments classified as equity are deducted directly from equity.

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

Derivative financial instruments

Elmos utilizes derivative financial instruments such as currency option transactions and forward exchange transactions in order to hedge against currency risk. According to IAS 39, such derivative financial instruments are to be assigned to the category "at fair value through profit or loss" and to be accounted for at fair value, regardless of the purpose or intention for which they have been concluded. Changes in fair value of derivative financial instruments are recognized in profit or loss.

Inventories

Inventories are measured at acquisition or production cost or at the lower net recoverable value as of the reporting date. In addition to directly attributable cost, production cost also includes manufacturing cost and overhead as well as depreciation. Overhead costs are recognized as fixed amounts on the basis of the production facilities' usual utilization. Costs of unused production capacity (idle capacity costs) are disclosed in the consolidated income statement under cost of sales. Inventory allowances are made insofar as acquisition or production cost exceeds the expected recoverable net sales proceeds.

Trade receivables

Trade receivables, as well as other receivables, are generally recognized at face value in consideration of adequate allowances. To a considerable degree, the valuation allowance for bad debt comprises estimates and assessments of individual receivables based on the respective customer's creditworthiness, current economic developments, and the analysis of historical bad debt loss on portfolio basis.

Cash and cash equivalents (liquid assets)

Liquid assets comprise cash on hand, checks, and cash in banks.

Non-current assets held for sale

An asset is to be classified as held for sale if the corresponding book value is realized primarily by a sale transaction and not by the asset's continued use.

Provisions

Provisions are made for legal or factual obligations with historical origins if it is probable that the sufficiently reliable fulfillment of the obligation will lead to an outflow of the Group's resources and if a reliable estimate of the amount of the obligation can be made.

Recurring net pension expenses according to IAS 19 are made up of different components, reflecting different aspects of the Company's financial agreements as well as the expense for the benefits received by the employees. These components are determined by using the actuarial cost method on the basis of actuarial assumptions as stated under note 24.

Accounting principles provide that:

- all benefit improvements to which the Company is committed as of the current valuation date are reflected in the planned benefit obligation, and
- actuarial gains and losses are directly recognized outside profit or loss in other comprehensive income.

Adequate provisions for warranty are made in individual cases upon risk assessment with respect to sales-oriented and legal consequences.

Income taxes

Current tax assets and tax liabilities for the current period and previous periods are measured at the amounts expected for tax refunds to be collected from the tax authorities or tax payments to be made to the tax authorities. The calculation of these amounts is based on the tax rates and tax laws in effect as of the reporting date in those countries where the Group has operations and generates taxable income.

Deferred taxes are determined under the liability method. Deferred income taxes reflect the net tax expense/income of temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their respective tax values. The calculation of deferred tax assets and liabilities is carried out on the basis of the tax rates expected to be applicable for the period in which an asset is realized or a debt is paid. The measurement of deferred tax assets and liabilities considers the tax effects resulting from the way an entity expects to realize its assets' carrying amounts or pay its debts as of the reporting date.

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

A deferred tax asset is recognized for all deductible temporary differences to the extent it is probable that taxable income will be available against which the temporary difference can be offset. As of each reporting date, the Company assesses deferred tax assets not accounted for anew. The Company recognizes a deferred tax asset previously unaccounted for to the extent it has become probable that future taxable income will allow the deferred tax asset's realization. In the opposite case, the deferred tax asset's book value is reduced to the extent it appears no longer probable that there will be sufficient taxable income in order to make use of the benefit of the deferred tax asset – either in its entirety or in part.

Current taxes and deferred taxes are charged or credited directly to equity if the tax relates to items credited or charged directly to equity in the same period or in another period.

No deferred tax liabilities incur to the extent that non-distributed profits of foreign investments are to remain invested in that entity for an incalculable period of time. Deferred tax liabilities are recognized for all taxable temporary differences insofar as the deferred tax liability does not result from goodwill which does not allow for amortization for tax purposes.

No deferred tax liabilities incur upon the first-time recognition of goodwill from business combinations. Deferred tax assets also include tax relief claims resulting from the expected utilization of loss carry-forwards and tax credits in the following years insofar as their realization appears assured with sufficient reliability.

Deferred tax is determined on the basis of the tax rates in effect at or expected for the time of realization according to the respective countries' current legal situation.

Sales tax

Income, expenses, and assets are recognized net of sales tax, with the exception of the following cases:

- If the sales tax incurred upon the acquisition of assets or the claiming of services cannot be reclaimed from the tax authorities by way of refund, the sales tax is recognized as part of the asset's production cost or as part of the expenses.
- Receivables and liabilities are recognized including sales tax.

The sales tax amount to be refunded by or paid to the tax authorities is recognized in the statement of financial position under receivables or liabilities respectively.

Government grants

Subsidies or government grants are recognized if it is sufficiently assured that the grants are given and that the Company fulfills the corresponding conditions. Grants linked to expenses are recognized on schedule as income over the period that is required to offset them against the corresponding expenses for which they are meant to compensate. Grants for an asset are recognized in the statement of financial position as reduction of acquisition cost. More details can be found under note 31.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction, or manufacture of an asset for which a considerable period of time is required to achieve the intended state for use or sale are capitalized as part of the respective asset's acquisition or production cost with respect to all qualified assets the construction or manufacture of which started on or after January 1, 2009. All other borrowing costs are stated as expense for the period in which they incur. Borrowing costs are the interest expense and other costs an entity incurs in connection with borrowing outside capital.

NOTES TO THE SEGMENTS

4 – Segment reporting

The segments correspond to the Elmos Group's internal organizational and reporting structure. The definition of segments considers the Group's different products and services. The accounting principles applied for the separate segments correspond to those applied by the Group.

The Company divides its activities into two segments:

-> The Semiconductor business is conducted through the various subsidiaries and branches in Germany, the Netherlands, South Africa, Asia, and the U.S. Sales in this segment are generated primarily with automotive electronics. Elmos is also active in the sector of industrial and consumer goods, supplying semiconductors for applications in household appliances, installation and building technology, and machine control systems, for example.

-> Sales in the Micromechanics segment are generated by the U.S. subsidiary SMI. The product portfolio contains micro-electro-mechanical systems (MEMS), which, for the most part, are silicon-based high-precision pressure sensors.

Business operations are organized and managed separately from each other with respect to the type of products, with each segment representing one strategic business unit that provides different products and supplies different markets. Inter-segment sales are based on cost-plus pricing or on settlement prices that correspond to prices paid in transactions with third parties.

The following tables provide information on expenses, income, and earnings, as well as specific information on assets and liabilities of the Group's business segments for the fiscal years ended December 31, 2017, and December 31, 2016.

in thousand Euro	Semiconductor		Micromechanics		Consolidation		Group	
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016
Third-party sales	230,065	206,936	20,369	21,697	0	0	250,434	228,633
Inter-segment sales	463	265	2,324	1,959	–2,787[1]	–2,224[1]	0	0
Total sales	**230,528**	**207,201**	**22,693**	**23,656**	**–2,787**	**–2,224**	**250,434**	**228,633**
Depreciation	23,167	27,817	1,073	1,250	0	0	24,240	29,067
Other material non-cash expenses	–217	–205	–161	–479	0	0	–378	–684
Other material non-cash income	204	1,280	0	0	0	0	204	1,280
Segment income	36,061	21,489	2,371	1,636	0	0	38,432	23,125
Share in net income of associates	–1,180	–244	0	0	0	0	–1,180	–244
Finance income							1,089	3,050
Finance costs							–2,874	–2,803
Earnings before taxes							**35,466**	**23,129**
Income tax	–11,252	–6,613	538	–294	0	0	–10,714	–6,907
Consolidated net income including non-controlling interests							**24,752**	**16,222**
Segment assets	282,211	244,704	18,984	21,012	34,928[2]	45,227[2]	336,123	310,943
Investments in associates	787	1,967	0	0	0	0	787	1,967
Investments	20	20	0	0	0	0	20	20
Total assets							**336,930**	**312,930**
Segment liabilities (total liabilities)	**36,057**	**38,174**	**2,256**	**2,909**	**58,497[3]**	**40,266[3]**	**96,810**	**81,349**
Other segment information								
Additions to intangible assets and property, plant and equipment	43,600	23,222	1,557	699	0	0	45,157	23,921

[1] Sales from inter-segment transactions are eliminated for consolidation purposes.
[2] Non-attributable assets as of December 31, 2017, and December 31, 2016, respectively, include cash and cash equivalents (12/31/2017: 32,367 thousand Euro; 12/31/2016: 43,110 thousand Euro), income tax assets (12/31/2017: 450 thousand Euro; 12/31/2016: 235 thousand Euro), and deferred taxes (12/31/2017: 2,111 thousand Euro; 12/31/2016: 1,882 thousand Euro), as these assets are managed at Group level.
[3] Non-attributable liabilities as of December 31, 2017, and December 31, 2016, respectively, include current financial liabilities (12/31/2017: 10,398 thousand Euro; 12/31/2016: 25,000 thousand Euro), non-current financial liabilities (12/31/2017: 40,765 thousand Euro; 12/31/2016: 11,202 thousand Euro), current tax liabilities (12/31/2017: 4,088 thousand Euro; 12/31/2016: 2,295 thousand Euro), and deferred tax (12/31/2017: 3,246 thousand Euro; 12/31/2016: 1,769 thousand Euro), as these liabilities are managed at Group level.

Other non-cash expenses in fiscal year 2017 comprise, among other items, expenses from stock option and share matching plans and stock awards (217 thousand Euro; previous year: 145 thousand Euro). Other non-cash income in fiscal year 2017 includes profits from the disposal of non-current assets (2016: income in the amount of 1,280 thousand Euro from derecognition of a put option connected to the increase of an investment).

Finance income in the amount of 1,089 thousand Euro (previous year: 3,050 thousand Euro) contains interest income of 1,086 thousand Euro (previous year: 1,450 thousand Euro) relating entirely to the Semiconductor segment. Of the finance costs of 2,874 thousand Euro (previous year: 2,803 thousand Euro), 2,665 thousand Euro primarily represent interest expense (2016: 2,522 thousand Euro) relating almost entirely to the Semiconductor segment (please also refer to note 8).

Geographic information

The geographic segment "EU countries" basically includes all member states of the EU as of the respective reporting date. Those European countries that are currently not members of the EU are included in the segment "Other countries." Third-party sales are broken down according to the customers' delivery locations.

Geographic information

Third-party sales | in thousand Euro	FY 2017	FY 2016
Germany	80,812	74,670
Other EU countries	51,121	47,868
U.S.A.	6,472	16,484
Asia/Pacific	97,794	80,461
Other countries	14,235	9,151
Sales	**250,434**	**228,633**

Geographic breakdown of non-current assets | in thousand Euro	12/31/2017	12/31/2016
Germany	158,154	144,861
Other EU countries	1,159	980
U.S.A.	4,988	5,054
Other countries	136	87
Non-current assets	**164,437**	**150,983**

Sales generated with the top two customers, who account for more than 10% of sales each, amount to 35.3 million Euro and 30.3 million Euro respectively and result from sales in the Semiconductor segment (2016: top three customers with sales of 35.0 million Euro, 26.7 million Euro, and 24.9 million Euro respectively, attributable to the Semiconductor segment and sales in the Micromechanics segment).

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

5 – Sales

The Company generates sales from selling semiconductors and micromechanical sensor elements as well as from their development.

in thousand Euro	FY 2017	FY 2016	Change
Semiconductor	230,065	206,936	23,129
Micromechanics	20,369	21,697	–1,328
Sales	**250,434**	**228,633**	**21,801**

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

Cost of sales

The cost of sales contains the costs of the steps taken to generate sales. In addition to direct material costs, direct labor costs, and special direct costs, the cost of sales also includes manufacturing and material overhead, as well as lease expenses and depreciation. Furthermore, the cost of sales contains changes in work in process and finished goods inventories and shows the following development:

in thousand Euro	FY 2017	FY 2016
Material costs	–73,527	–57,743
Personnel expense	–36,369	–34,576
Other overhead	–36,450	–41,243
Changes in inventories	5,969	1,715
Cost of sales	**–140,377**	**–131,847**

Due to the higher demand compared to the previous year and the resulting increased production output, an increase in material costs by the amount of 15,784 thousand Euro was recorded. Other overhead was reduced compared to fiscal year 2016. The item "changes in inventories" was up from the previous year, attributable to preparations for the customers' expected higher volume of orders as well as the planned inventory build-up.

Research and development expenses

Substantial expenses regularly incur with regard to research and development projects carried out in anticipation of future sales. Research expenses are recognized in profit/loss according to the amount of work invested. Development expenses are capitalized depending on the project and then amortized or – insofar as capitalization requirements are not met – recognized in profit/loss. In fiscal year 2017, R&D expenses of 33,779 thousand Euro (2016: 35,969 thousand Euro) were charged to expenses.

Distribution expenses

Distribution expenses in the amount of 20,389 thousand Euro (2016: 19,930 thousand Euro) essentially include expenses for staff, travel, commission, and depreciation.

Administrative expenses

Administrative expenses of 18,837 thousand Euro (2016: 18,899 thousand Euro) include personnel expense for the administrative staff and proportionate personnel expense for the Management Board members. Other material items are expenses for amortization and insurance, as well as legal and consulting fees.

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

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

Material costs

Material costs amounted to 78,517 thousand Euro in the year under review and are up 24.7% from the previous year in line with production (2016: 62,987 thousand Euro). They include expenses for raw materials, supplies, consumables, and for services claimed.

Personnel expense

Personnel expense climbed 5.9% compared to the previous year. The number of employees – based on an average employment ratio – went up from 1,127 in fiscal year 2016 to 1,155 in fiscal year 2017 (+2.5%). Further staff information can be found under note 39.

in thousand Euro	FY 2017	FY 2016
Wages and salaries	–73,263	–69,349
Social security expense	–13,315	–12,404
Pension plan expense	–224	–247
Personnel expense	**–86,802**	**–82,000**

Depreciation and amortization

The breakdown of depreciation and amortization can be gathered from the development of the Group's non-current assets (please refer to notes 13 and 14).

Depreciation and amortization came to 24,240 thousand Euro in the year under review (2016: 29,067 thousand Euro), equivalent to a 16.6% decrease. Due to the application of the cost of sales method, depreciation of property, plant and equipment and amortization of other intangible assets are allocated to the items cost of sales, research and development expenses, distribution expenses, and administrative expenses in the consolidated income statement.

8 – Finance income and finance expenses

in thousand Euro	FY 2017	FY 2016
Interest income	1,086	1,450
Income from derecognition of put option	0	1,280
Other finance income	3	320
Finance income	**1,089**	**3,050**
Interest expense	–2,665	–2,522
Other finance expenses	–209	–281
Finance expenses	**–2,874**	**–2,803**

Finance expenses and finance income reported in the consolidated income statement essentially correspond to the amounts paid, with the exception of income from derecognition of the put option reported in fiscal year 2016.

The total amounts of interest income and interest expense for financial assets and financial liabilities measured at fair value outside profit or loss are as follows:

in thousand Euro	FY 2017	FY 2016
Interest income	1,086	1,450
Interest expense	–2,637	–2,519
Interest result	**–1,551**	**–1,069**

9 – Foreign exchange losses/gains

Foreign exchange losses/gains from exchange rate changes recognized in profit or loss amounted to –1,483 thousand Euro in fiscal year 2017 (2016: 109 thousand Euro).

Exchange rate changes attributable to the owners of the parent and recognized outside profit or loss amounted to –394 thousand Euro in fiscal year 2017 (2016: 1,578 thousand Euro), considering corresponding deferred tax. Further information on changes in foreign currency exchange rates recognized outside profit or loss can be found under note 22.

10 – Other operating income and expenses

Other operating income in the amount of 4,290 thousand Euro (2016: 2,814 thousand Euro) include, among other items, income from the reversal of provisions in the amount of 1,689 thousand Euro (2016: 1,043 thousand Euro), rental income in the amount of 74 thousand Euro (2016: 383 thousand Euro), income from passenger car use in the amount of 584 thousand Euro (2016: 545 thousand Euro), income from the sale of assets in the amount of 1,340 thousand Euro (2016: 86 thousand Euro), other prior-period income in the amount of 106 thousand Euro (2016: 274 thousand Euro), and various individual items.

Other operating expenses in the amount of 1,427 thousand Euro (2016: 1,786 thousand Euro) include, among other items, real estate charges in the amount of 336 thousand Euro (2016: 360 thousand Euro), allocations to valuation allowances/bad debt loss in the amount of 49 thousand Euro (2016: 368 thousand Euro), other prior-period expenses in the amount of 190 thousand Euro (2016: 395 thousand Euro), accounting loss from the disposal of non-current assets in the amount of 480 thousand Euro (2016: 140 thousand Euro), and various individual items.

11 – Income tax

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

in thousand Euro	FY 2017	FY 2016
Current income tax	**–9,692**	**–7,034**
Germany	–8,938	–4,778
Outside Germany	–754	–2,256
thereof taxes from previous years	*–675*	*–389*
Deferred tax	**–1,022**	**127**
Germany	–1,320	285
Outside Germany	298	–158
thereof taxes from previous years	*0*	*78*
Income tax	**–10,714**	**–6,907**

Deferred tax has been calculated under the liability method pursuant to IAS 12. For Germany, the combined income tax rate of 32.805% (2016: 32.805%) has been applied. The Company's combined income tax rate includes the trade tax collection rate of 485% (2016: 485%), the corporate tax rate of 15.0% (2016: 15.0%), and the solidarity surcharge of 5.5% (2016: 5.5%). With respect to the international subsidiaries, respective country-specific tax rates have been applied for the calculation of deferred tax.

Deferred taxes are determined for the temporary differences between the book values of assets and liabilities in the consolidated financial statements and the tax statements in the separate financial statements. The deferral of taxes shows tax assets and tax liabilities that result from the approximation of book value differences over time. Deferred taxes also include tax refund claims resulting from the expected utilization of existing tax loss carry-forwards and tax credits over the next years insofar as their realization is assured with sufficient reliability. Material components of the Company's deferred tax assets and deferred tax liabilities are described under note 16.

The differences between the anticipated tax amount in application of the statutory tax rate on the consolidated net income and the Company's income tax effectively to be paid are as follows:

in %	FY 2017	FY 2016
Statutory tax rate	32.81	32.81
Foreign tax rate differential	–1.48	–3.88
Expenses disallowable against tax	0.22	0.50
Trade tax additions/cuts	0.55	0.85
Taxes from previous years	1.90	1.34
Tax rate changes	–1.64	0.00
Tax-free income	–1.32	–1.48
Tax credits	–1.56	0.00
Others	0.73	–0.28
Effective tax rate	**30.21**	**29.86**

12 – Earnings per share

Basic earnings per ordinary share are calculated on the basis of the weighted average number of ordinary shares outstanding in the respective fiscal year. Diluted earnings per ordinary share are calculated on the basis of the weighted average number of ordinary shares outstanding plus all stock options with dilutive potential according to the so-called treasury stock method.

Reconciliation of shares | in number of shares	FY 2017	FY 2016
Weighted average number of ordinary shares outstanding	19,745,003	19,782,525
Stock options with dilutive potential (calculation according to IAS 33.45 et seq.)	141,106	174,235
Weighted average number of ordinary shares outstanding, including dilutive effect	19,886,109	19,956,760
Calculation of earnings per share | in Euro		
Consolidated net income attributable to owners of the parent	24,941,247	15,874,636
Basic earnings per share	1.26	0.80
Fully diluted earnings per share	1.25	0.80

The weighted average number of shares in 2017 and 2016 includes the weighted average effect of changes from transactions with treasury shares and the weighted average effect of the exercise of stock options from the 2010, 2011, and 2012 tranches in the course of the years 2017 and 2016.

All outstanding stock options originating from the 2011 and 2012 tranches have been included in the calculation of diluted earnings per share for 2017, and all outstanding stock options originating from the 2010, 2011, and 2012 tranches have been included in the calculation of diluted earnings per share for 2016. Further information on stock option plans can be found under note 23.

In the period between the reporting date and the preparation of the consolidated financial statements, Elmos carried out no share buyback transactions.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

13 – Intangible assets

in thousand Euro	Goodwill	Development projects	Software and licenses and similar rights and assets		Payments on account and projects under development		Total
Acquisition and production cost			In-house effort	Purchase	In-house effort	Purchase	
12/31/2015	**3,671**	**24,511**	**7,562**	**40,019**	**308**	**667**	**76,739**
Foreign currency adjustments	9	0	0	52	0	0	61
Additions	0	1,264	0	684	97	1,885	3,930
Transfers	0	179	0	1	–179	–1	0
Disposals	0	–34	0	0	0	0	–34
12/31/2016	**3,680**	**25,920**	**7,562**	**40,756**	**226**	**2,551**	**80,695**
Foreign currency adjustments	–29	0	0	–172	0	0	–201
Additions	0	713	0	1,700	6,514	176	9,103
Transfers	0	25	0	2,630	–154	–2,501	0
Disposals	0	–7,278	0	–2,358	–226	–10	–9,872
12/31/2017	**3,651**	**19,380**	**7,562**	**42,556**	**6,360**	**216**	**79,725**
Depreciation and amortization							
12/31/2015	**0**	**20,930**	**5,063**	**29,925**	**0**	**0**	**55,917**
Foreign currency adjustments	0	0	0	47	0	0	47
Additions	0	1,928	803	2,462	0	0	5,193
Disposals	0	–34	0	0	0	0	–34
12/31/2016	**0**	**22,824**	**5,866**	**32,434**	**0**	**0**	**61,123**
Foreign currency adjustments	0	0	0	–158	0	0	–158
Additions	0	1,419	731	2,857	0	0	5,007
Disposals	0	–7,277	0	–2,337	0	0	–9,614
12/31/2017	**0**	**16,966**	**6,597**	**32,796**	**0**	**0**	**56,358**
Book value 12/31/2016	3,680	3,096	1.696	8,322	226	2,551	19,572
Book value 12/31/2017	**3,651**	**2,414**	**965**	**9,760**	**6,360**	**216**	**23,366**

in thousand Euro	12/31/2017	12/31/2016
Elmos N.A.	**580**	**609**
Acquisition cost	555	555
Foreign currency adjustments	25	54
Elmos Semiconductor AG (formerly Elmos France S.A.S.)	**1,615**	**1,615**
Elmos Services B.V.	**206**	**206**
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg	**1,250**	**1,250**
Goodwill	**3,651**	**3,680**

In accordance with IFRS 3 B63(a), read in conjunction with IAS 38 and IAS 36, goodwill is not amortized but reviewed for impairment at least once every year. Measurement is made on the basis of CGUs, corresponding here with the legal entities to which the respective goodwill is attributed. The subsidiary Elmos France S.A.S., Levallois Perret/France, left the Elmos Group's basis of consolidation effective March 30, 2012. Elmos Semiconductor AG, Dortmund, is the legal successor with respect to the assets and liabilities accounted for by the subsidiary. The goodwill attributed to the former subsidiary is reported at the level of Elmos Semiconductor AG as of the date of the transaction.

For the purpose of the impairment tests to be conducted annually in accordance with IAS 36, the Group determines the recoverable amount on the basis of value in use. Forecasts are based on free cash flows, which, in turn, are based on detailed planning adopted by the management, considering the Company's own empirical data as well as external general economic data. The forecasts are based both on historical values and the general market performance expected for the future. Determining the value in use implies estimation uncertainty with respect to individual sales and cost planning as approved by management. Material parameters are established in the context of bottom-up planning by the subsidiaries and business divisions. Methodically, the detailed planning phase comprises a five-year planning period from 2018 to 2022. For the value added from 2023, it is enhanced by the perpetual annuity which is based on an annual growth rate of 0.5% (as applied in the previous year as well).

Further basic assumptions for the calculation of value in use

Gross margins – Gross margins are generally determined on the basis of the average values generated in the previous fiscal years before the beginning of the planning period. These margins are increased in the individual case by expected efficiency increases in the course of the detailed planning period. For the individual CGUs, gross margins with different bandwidths are taken as a basis. The budgeted annual performance of the gross margins was established individually for each CGU, ranging from decreasing gross margins to double-digit percentage growth rates in the detailed planning period.

Development of prices for raw materials – Raw material price developments of the past are regarded as indicative of future price developments. Forecast data are used only if they are accessible to the public.

Assumptions on market shares – These assumptions are relevant insofar as the Company's management assesses – as it does in establishing assumptions on growth rates – how the positions of the individual entities might change in relation to their competitors during the budgeting period. Management anticipates steady market shares in probably growing markets.

Discount rates – The respective pre-tax interest rates applied were determined under the capital asset pricing model (CAPM) and come to 15.8% for Elmos N.A. (2016: 14.9%), 12.4% for Elmos Semiconductor AG (2016:12.4%), 11.1% for Elmos Services B.V. (2016: 10.5%), and 11.5% for MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg (2016: 11.0%), before deduction of respective growth rates. These interest rates correspond to the WACC, which is based on a risk-free interest rate (1.3% for Elmos Semiconductor AG, Elmos Services B.V., and MAZ, or 3.0% for Elmos N.A. in 2017; and 0.6% for Elmos Semiconductor AG, Elmos Services B.V., and MAZ, or 2.5% for Elmos N.A. in 2016) plus an average market risk premium (6.3% in 2017 and 2016), multiplied by an entity specific equity beta based on a levered beta of 1.12 (2016: 1.17). All values stated are derived from market data.

Impairment tests conducted in 2017 and in the previous year did not result in impairment. It was established that the recoverable amounts of the respective units exceeded the respective book values.

Elmos has conducted sensitivity analyses, examining the effects of the simultaneous reduction of the budgeted EBIT in all planning periods beginning in 2018 by 10% compared to the adopted corporate budgets, a WACC increased by another 1.0 percentage point, and a reduction of the growth rate for perpetual annuity to 0.0% with respect to the recoverability of goodwill in the business divisions. The sensitivity analyses have shown that, from today's viewpoint, there would be no need for impairment of the goodwill of any of the entities, even under these changed assumptions.

Other intangible assets

Development projects

In 2017, expenses linked to product developments were capitalized as development projects and projects under development in the amount of 7,227 thousand Euro (2016: 1,361 thousand Euro). The resulting ratio of capitalized development expenses to total research and development expenses incurred within the Group comes to approximately 17.6% (2016: 3.6%). Depreciation of capitalized developments amounted to 1,419 thousand Euro in 2017 (2016: 1,928 thousand Euro). The book value of capitalized development efforts (including projects under development) was 8,774 thousand Euro as of December 31, 2017 (2016: 3,194 thousand Euro).

Amounts reported under "development projects" exclusively relate to the Company's in-house developments.

Software and licenses and similar rights and assets

In 2017, as in the year before, no expenses for process technology were capitalized. Amortization came to 1,512 thousand Euro in 2017 (2016: 1,512 thousand Euro). As of December 31, 2017, the book values for process technology capitalized as non-current assets added up to 2,723 thousand Euro (December 31, 2016: 4,235 thousand Euro).

Other information

Costs linked to research and development projects are charged to expenses to the extent to which they incur and included in research and development expenses, provided they do not meet the criteria for capitalization under IAS 38.57. Research and development expenses of 2,946 thousand Euro were reimbursed by customers in 2017 (2016: 3,491 thousand Euro) and reported under consolidated sales.

14 – Property, plant and equipment

in thousand Euro	Land	Buildings and building improvements	Technical equipment and machinery/Factory and office equipment	Payments on account and construction in process	Total
Acquisition and production cost					
12/31/2015	**5,370**	**45,297**	**206,887**	**3,150**	**260,704**
Foreign currency adjustments	0	103	374	34	511
Additions	0	474	16,211	3,305	19,990
Transfers	–436	285	2,634	–2,919	–436
Disposals	0	–2,140	–19,345	–25	–21,510
12/31/2016	**4,934**	**44,019**	**206,761**	**3,545**	**259,260**
Foreign currency adjustments	0	–362	–1,403	–69	–1,834
Additions	0	323	30,140	5,591	36,054
Transfers	0	75	2,628	–2,703	0
Disposals	0	–230	–31,075	–9	–31,314
12/31/2017	**4,934**	**43,825**	**207,051**	**6,355**	**262,166**
Depreciation and amortization					
12/31/2015	**0**	**19,131**	**150,582**	**0**	**169,713**
Foreign currency adjustments	0	76	315	0	391
Additions	0	2,347	21,525	0	23,872
Transfers	0	0	0	0	0
Disposals	0	–2,131	–19,153	0	–21,284
12/31/2016	**0**	**19,423**	**153,269**	**0**	**172,692**
Foreign currency adjustments	0	–265	–1,082	0	–1,347
Additions	0	2,298	16,935	0	19,233
Transfers	0	0	0	0	0
Disposals	0	–205	–28,349	0	–28,554
12/31/2017	**0**	**21,252**	**140,772**	**0**	**162,024**
Book value 12/31/2016	4,934	24,596	53,492	3,545	86,568
Book value 12/31/2017	**4,934**	**22,574**	**66,279**	**6,355**	**100,142**

Additions to “Technical equipment and machinery/Factory and office equipment” include purchase transactions for fiscal year 2017 (2016) in the amount of 1,205 thousand Euro (December 31, 2016: 936 thousand Euro) for which the corresponding cash outflows will take (took) place only in 2018 (2017). No borrowing costs were capitalized in fiscal year 2017 or the previous year.

Leases

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 was restructured into an operating lease agreement in compliance with the accounting principles according to IAS/IFRS. Further details are presented under note 32.

The Group did not generate material income from subletting in fiscal year 2017 (2016). Future minimum payments under non-cancelable subletting agreements are immaterial as well.

15 – Securities and investments

a) Investments in associates

As of the acquisition date (January 1, 2016), 45.7% of the shares in Omniradar B.V., Eindhoven, were acquired for a purchase price of 2,210 thousand Euro. The company is involved in sensor technology and has a share capital of 37 thousand Euro. Omniradar B.V. is accounted for in the consolidated financial statements of Elmos according to the equity method. For 2017 (2016), an at-equity result in the amount of –656 thousand Euro (–244 thousand Euro) and a write-down to the fair value in the amount of –524 thousand Euro (0 thousand Euro) were entered in the consolidated income statement, so that a book value of 787 thousand Euro (1,967 thousand Euro) was accounted for as of December 31, 2017 (December 31, 2016).

b) Securities

In fiscal years 2010 through 2017, the Company purchased securities (bonds and promissory notes) from different banks. Insofar as the securities’ remaining terms to maturity are more than one year, they have been allocated to non-current assets (40,122 thousand Euro; 2016: 42,856 thousand Euro). Securities that mature within twelve months have been allocated to current assets (11,868 thousand Euro; 2016: 5,678 thousand Euro).

c) Investments

Investments in subsidiaries considered of minor significance from the Group’s perspective are accounted for in accordance with IAS 39. The Company holds shares in the following other entities:

in thousand Euro	12/31/2017	12/31/2016
Epigone	1	1
Elmos USA Inc.	19	19
Investments	**20**	**20**

Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz

Elmos held 6% of the shares as of December 31, 2017, unchanged from the previous year.

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

This entity is a holding company for the U.S. subsidiaries of the Elmos Group. Elmos continues to hold 100% of the shares as of December 31, 2017. The entity does not conduct business operations of its own.

Summarized financial information

Entity | in thousand	Currency	Total assets	Liabilities	Earnings	Net income for the period
Omniradar B.V.[1]	EUR	724	1,855	347	–1,428
Epigone[1]	EUR	8,391	8,391	649	14
Elmos USA Inc.[2]	USD	–	–	–	–

[1] Presented figures are based on preliminary unaudited financial statements as of December 31, 2017.
[2] No financial statements of this entity are available at present.

16 – Deferred tax

in thousand Euro	12/31/2017	12/31/2016
Deferred tax assets	**2,111**	**1,882**
Property, plant and equipment	34	664
Securities	133	69
Cash and cash equivalents	162	0
Provisions for pensions	485	492
Other provisions	273	242
Other liabilities	33	179
Loss carry-forwards	82	115
Tax credits	2,180	2,062
Others	34	72
Subtotal	3,416	3,895
Balance	–1,305	–2,013
Deferred tax liabilities	**–3,246**	**–1,769**
Intangible assets	–2,895	–1,327
Property, plant and equipment	–1,012	–2,015
Trade receivables	–127	–100
Other financial assets	–108	–194
Other liabilities	–78	0
Others	–331	–146
Subtotal	–4,551	–3,782
Balance	1,305	2,013
Net deferred tax	**–1,135**	**113**

The balances stated above were determined in accordance with IAS 12.74 a) and b), i.e., deferred tax assets and deferred tax liabilities were netted against each other insofar as assets and liabilities related to the same tax authority and the taxable entity was entitled to offset current tax assets against tax liabilities.

Deferred tax assets also include tax effects from changes in equity outside profit or loss. The decrease in the net amount of deferred tax coming to 1,248 thousand Euro essentially comprises deferred tax in the consolidated income statement of 1,022 thousand Euro (expense), other changes outside profit or loss in the amount of 240 thousand Euro (increase in equity), and foreign currency adjustments in the amount of 245 thousand Euro (expense). Other changes outside profit or loss essentially result from deferred tax effects within other comprehensive income as reported in the consolidated statement of comprehensive income and annotated under note 22.

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

As of December 31, 2017, there was no loss carry-forward for domestic entities, just like in the previous year. For foreign entities, deferred tax assets were recognized in the amount of 82 thousand Euro (2016: 115 thousand Euro) on taxable loss carry-forwards and in the amount of 2,180 thousand Euro (2016: 2,062 thousand Euro) on tax credits.

17 – Inventories

in thousand Euro	12/31/2017	12/31/2016
Raw materials	5,734	5,022
Work in process	49,611	41,449
Finished goods	9,707	12,126
Payments on account	0	5
Inventories	**65,052**	**58,602**

Impairment of inventories recognized as expense amounts to 614 thousand Euro (2016: 340 thousand Euro). This expense is disclosed under the item cost of sales. It comprises inventories whose future sale is improbable. These assets are attributable to the Micromechanics segment.

18 – Trade receivables

in thousand Euro	12/31/2017	12/31/2016
Trade receivables	44,490	39,109
Valuation allowances/Foreign currency valuation	–99	28
Trade receivables	**44,391**	**39,137**

The Elmos Group constantly assesses its customers' creditworthiness and usually requests no collateral. Potential bad debt is adjusted in value based on the Management Board's estimates and assumptions. In fiscal year 2017, the Elmos Group did not have to make such valuation allowances for potential bad debt.

The following table presents the changes in valuation allowances/foreign currency valuation made for current and non-current receivables:

in thousand Euro	2017	2016
Valuation allowance/Foreign currency valuation as of 01/01	**–28**	**23**
Additions in the reporting period (valuation allowance expense)	0	0
Consumption	0	0
Reversals (appreciation in value of initially written-off receivables)	0	0
Foreign currency valuation	126	–51
Valuation allowance/Foreign currency valuation as of 12/31	**99**	**–28**

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

The following table provides information on the credit risk carried by financial assets:

in thousand Euro		Trade receivables		Other financial assets	
		12/31/2017	12/31/2016	12/31/2017	12/31/2016
Neither impaired nor overdue as of the reporting date		37,033	34,973	8,373	5,162
Not impaired as of the reporting date and overdue in the following time bands	< 30 days	6,229	2,948	0	0
	30 - 60 days	837	365	0	0
	61 - 90 days	112	398	0	0
	91 - 180 days	85	138	0	0
	181 - 360 days	48	118	0	0
	> 360 days	61	73	0	0

19 – Cash and cash equivalents

The Company treats all highly liquid capital investments with a maturity of three months or less as of the date of acquisition as cash equivalents. For the purpose of the preparation of consolidated financial statements, cash and cash equivalents include cash on hand and cash in banks.

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

in thousand Euro	12/31/2017	12/31/2016
Loans receivable from third parties	0	560
Receivables from joint ventures	2,231	1,891
Tenant loans	1,371	1,233
Receivables from sale of assets	2,737	0
Other loans receivable	15	15
Other non-current financial assets	**6,354**	**3,699**
Loans receivable from third parties	0	120
Receivables from sale of assets	774	0
Other financial assets	1,245	1,343
Other current financial assets	**2,019**	**1,463**
Other tax assets	5,924	4,665
Accrued income	1,476	2,501
Other current receivables	481	539
Other receivables	**7,881**	**7,705**

21 – Non-current assets held for sale

The land reported in the previous year under non-current assets held for sale was sold as scheduled in fiscal year 2017. The asset was attributed entirely to the Semiconductor segment. The selling price was 1,100 thousand Euro. The corresponding accounting profit was entered under other operating income.

22 – Equity

Share capital: The share capital of 20,104 thousand Euro entered in the statement of financial position as of December 31, 2017 (December 31, 2016: 20,104 thousand Euro), and consisting of 20,103,513 (December 31, 2016: 20,103,513) no-par value bearer shares is fully paid up. All shares grant equal rights and correspond to one vote at the AGM.

Treasury shares: As of December 31, 2017, the Company held 414,450 (December 31, 2016: 192,880) of the Company's no-par shares, adding up to a theoretical share in the share capital of 414 thousand Euro (December 31, 2016: 193 thousand Euro). The number of treasury shares was increased in fiscal year 2017 by share buyback and decreased at the same time by the issue of shares within the framework of share-based remuneration and stock option plans. Treasury shares held by the Company on the day of the AGM are entitled neither to vote nor to a dividend.

Additional paid-in capital

in thousand Euro	12/31/2017	12/31/2016
Premiums	78,826	86,394
Stock options/stock awards/share matching	6,267	6,050
Additional paid-in capital	**85,093**	**92,444**

Additional paid-in capital essentially includes premiums from capital increases and the issue of shares of Elmos Semiconductor AG. In 2017, this item was decreased by 9,222 thousand Euro due to the buyback of 450,000 shares in the period from March 7, 2017, to June 23, 2017, at an average share price of 21.492 Euro. Due to the exercise of stock options from stock option plans, additional paid-in capital was increased in 2017 by 1,408 thousand Euro altogether. Additional paid-in capital was also increased by 295 thousand Euro due to share-based payments and the issue of treasury shares linked to them. Premiums were reduced by 50 thousand Euro due to transaction costs.

The share made up of stock options, stock awards, and share matching increased by the amount of the 2017 expense from the issue of stock awards (201 thousand Euro) and share matching (16 thousand Euro; see note 23).

Other equity components

in thousand Euro	12/31/2017	12/31/2016
Foreign currency adjustments	–332	1,975
corresponding deferred tax	–62	–397
Hedges	0	–546
corresponding deferred tax	0	179
Changes in market value of available-for-sale financial assets	–406	–211
corresponding deferred tax	133	69
Actuarial gains/losses	–1,337	–1,343
corresponding deferred tax	475	477
Other equity components	**–1,529**	**204**

Reserves for foreign currency differences include differences from the currency translation of the financial statements of foreign subsidiaries. They also facilitate the recognition of translation differences relating to a net investment in a foreign business operation.

Hedging reserves represent the recognition of the market value of hedges outside profit or loss as of the reporting date. Changes in hedging reserves in 2016 solely resulted from changes in the market value of hedges. All hedges expired in 2017; as a result, market values did not have to be recognized.

Reserves for available-for-sale financial assets are made in order to recognize changes in the fair value of selected financial instruments (see notes 29 and 30).

Reserves for actuarial gains/losses are made in order to reflect the gains or losses resulting from changes in actuarial assumptions for the determination of the cash value of the defined benefit obligation and/or the fair value of the plan assets.

The development of changes in equity outside profit or loss that are attributable to the owners of the parent is shown in the following table for the years 2016 and 2017:

in thousand Euro	2017	2016
Balance as of 01/01	**204**	**–1,032**
Exchange rate changes	–2,307	709
corresponding deferred tax	334	–119
Changes in hedges	546	573
corresponding deferred tax	–179	–188
Changes in available-for-sale financial assets	–195	462
corresponding deferred tax	64	–151
Changes in actuarial gains/losses	6	–68
corresponding deferred tax	–2	18
Balance as of 12/31	**–1,529**	**204**

"Recycling" of equity components outside profit or loss

In fiscal year 2017, the Company neither sold nor devalued bonds before maturity, meaning that no amounts previously recognized outside profit or loss had to be reclassified to the consolidated income statement in this context (previous year: expense of 188 thousand Euro through profit/loss). Any other transactions that would have required the "recycling" of equity components outside profit or loss did not apply in the year under review, either.

Interests in share capital in excess of 10% of the voting rights

	12/31/2017		12/31/2016	
	in thousand Euro	in %	in thousand Euro	in %
Weyer Beteiligungsgesellschaft mbH, Schwerte	3,627	18.0	3,627	18.0
Jumakos Beteiligungsgesellschaft mbH, Dortmund	2,981	14.8	2,984	14.8
ZOE-VVG GmbH, Duisburg	2,307	11.5	2,307	11.5
Treasury shares	414	2.1	193	1.0
Shareholders <10% interest	10,775	53.6	10,994	54.7
Share capital	**20,104**	**100.0**	**20,104**	**100.0**

Authorizations of the Management Board

Authorized capital	2016: 9,900,000 Euro		Until 05/10/2021
Conditional capital	2010/I: 503,549 Euro	Stock option plan 2010	Until 05/03/2015
	2015/I: 1,200,000 Euro	Stock option plan 2015	Until 05/07/2020
	2015/II: 7,800,000 Euro	Subscription warrants or convertible bonds	Until 05/07/2020
Buyback of the Company's shares	Up to 10% of the share capital		Until 05/07/2020

There are stock options in accordance with Section 192 (2) no. 3 of the German Stock Corporation Act (AktG) from stock option plans for Management Board members, executives and employees on the purchase of 219,851 shares. Each stock option entitles to the acquisition of one no-par value share with a theoretical share in the share capital of 1.00 Euro each.

Dividend

In accordance with AktG, the dividend eligible for distribution is determined on the basis of the retained earnings Elmos Semiconductor AG reports in its annual financial statements (separate financial statements) prepared in accordance with the provisions of the HGB. In fiscal year 2017 (2016), Elmos Semiconductor AG distributed a dividend of 0.35 Euro (0.33 Euro) per share out of the retained earnings of fiscal year 2016 (2015).

23 – Share-based payment plans

Stock option plans

	2010 tranche	2011 tranche	2012 tranche	Total
Year of resolution	2010	2011	2012	
Year of issue	2010	2011	2012	
Exercise price in Euro	7.49	8.027	7.42	
Average share price of exercised options in Euro (2016)	13.35	13.30	13.20	
Average share price of exercised options in Euro (2017)	21.46	21.98	21.76	
Blocking period ex issue (years)	4	4	4	
Exercise period after blocking period (years)	3	3	3	
Options outstanding as of 01/01/2016 (number)	**70,867**	**177,902**	**372,629**	**621,398**
Exercised 2016 (number)	38,747	40,383	84,969	164,099
Forfeited 2016 (number)	50	1,250	14,283	15,583
Options outstanding as of 12/31/2016 (number)	**32,070**	**136,269**	**273,377**	**441,716**
Exercised 2017 (number)	22,305	77,633	111,842	211,780
Forfeited 2017 (number)	9,765	25	295	10,085
Options outstanding/exercisable as of 12/31/2017 (number)	**0**	**58,611**	**161,240**	**219,851**

The 2010, 2011, and 2012 tranches were issued in the years 2010, 2011, and 2012, respectively, based on the authorization given by the AGM of May 4, 2010, on the implementation of a stock option plan for the Company's employees, executives, and Management Board members, as well as for employees and executives of affiliated companies, with an exercise price of 120% of the average amount of the closing prices of the share of Elmos Semiconductor AG on the Xetra trading platform over the last ten trading days prior to the resolution.

Options can be exercised only if the closing price of the Company's stock equals or exceeds the exercise price. Options can be exercised against payment of the issue price. The pecuniary benefit the beneficiaries can achieve by exercising their options is limited to four times the exercise price. The blocking period is four years for all three tranches as of the respective issue date. The other particulars of the granting and exercise of stock options can be derived from the specifications provided by the resolutions passed by the AGM of May 4, 2010, for all tranches. The Company is authorized to offer compensation in cash instead of supplying shares to the beneficiaries.

In 2014, 105,044 stock options were exercised from the 2010 tranche. In 2015, 50,357 stock options were exercised from the 2010 tranche and 48,523 stock options from the 2011 tranche. In 2016, 38,747 stock options were exercised from the 2010 tranche, 40,383 stock options from the 2011 tranche, and 84,969 stock options from the 2012 tranche. In 2017, 22,305 stock options were exercised from the 2010 tranche, 77,633 stock options from the 2011 tranche, and 111,842 stock options from the 2012 tranche.

The stock options' average fair value was 2.24 Euro for the 2010 tranche, 1.75 Euro for the 2011 tranche, and 1.42 Euro for the 2012 tranche. The fair value at grant date was determined under the Black-Scholes method for option pricing based on the following assumptions:

	2010 tranche	2011 tranche	2012 tranche
Dividend yield	0.0%	3.0%	3.0%
Expected volatility	62.50%	52.25%	47.50%
Risk-free interest rate as of grant date	1.67%	1.69%	0.31%
Expected term	4 Years	4 Years	4 Years

In fiscal year 2017, the Company incurred no expenses for its stock option plans (2016: 84 thousand Euro for stock option plan 2012).

24 – Provisions

Provisions for pensions

in thousand Euro	12/31/2017	12/31/2016
Cash value of pension commitments	3,268	3,246
Fair value of pension plan reinsurance	–2,856	–2,769
Net liabilities recognized in the statement of financial position	**412**	**477**

The Company has pension plans for (former) members of the Management Board of Elmos Semiconductor AG, and in part, for members of the management of subsidiaries. Benefits depend on individual contractual agreements. The Company has taken out pension plan reinsurance policies, the claims of which have been assigned to the beneficiaries.

As in the previous year, the actuarial report is based on a pension adjustment of 1.5% per annum. The expected pay increases are determined at 0.0%, unchanged from the previous year. Evaluation is carried out in accordance with IAS 19. The interest rate was 1.65% per annum as of December 31, 2017 (December 31, 2016: 1.75% p. a.). For actuarial assumptions with respect to mortality and disability risk, the Heubeck mortality tables 2005 G have been applied.

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

in thousand Euro	FY 2017	FY 2016
Service cost	0	0
Interest	56	61
Pension expense (net)	**56**	**61**

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

in thousand Euro	2017	2016
Cash value of pension commitments as of 01/01	**3,246**	**3,175**
Pension expense (net)	56	61
Benefits paid to pensioners	–79	–79
Actuarial losses due to changes in financial assumptions	45	89
Cash value of pension commitments as of 12/31	**3,268**	**3,246**
Fair value of reinsurance policies as of 01/01	**2,769**	**2,679**
Income from plan assets	47	51
Employer's contributions	93	93
Benefits from reinsurance policies	–105	–75
Actuarial gains due to changes in financial assumptions	51	21
Fair value of reinsurance policies as of 12/31	**2,856**	**2,769**

Defined benefit pension plans are primarily exposed to risks due to changes of actuarial assumptions, e.g., the actuarial interest rate. A lower discount factor results in higher pension commitments.

Income from pension plan reinsurance amounts to 87 thousand Euro (2016: 90 thousand Euro) including payments made in the event of death. Premiums of 93 thousand Euro were paid (2016: 93 thousand Euro). For 2018, contribution payments in the amount of 93 thousand Euro are expected as well.

There are also indirect pension commitments to (former) Management Board members of Elmos Semiconductor AG through a pension fund. For completely congruent coverage of their obligations, the pension fund has taken out corresponding reinsurance policies for the exact agreed contribution amount. In 2017, contributions to these pension plans amounted to 394 thousand Euro (2016: 431 thousand Euro).

The employer's social security contributions made for employees amounted to 4,857 thousand Euro in 2017 (2016: 4,624 thousand Euro). The contributions to employees' direct insurance came to 259 thousand Euro in 2017 (2016: 144 thousand Euro).

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

in thousand Euro	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
Pension commitment	3,268	3,246	3,175	3,215	4,140
Fair value of pension plan reinsurance	–2,856	–2,769	–2,679	–2,616	–3,648
Underfunding (–)	–412	–477	–496	–599	–492
Adjustments to plan liabilities based on experience	0	–3	1	153	–24
Adjustments to plan assets based on experience	0	0	0	0	0

One of the material valuation parameters is the discount rate applied. It is congruent to term and currency in accordance with IAS 19.83 and must be chosen in consideration of the interest rates of high-quality corporate bonds. A change of 1 percentage point to the assumption of the actuarial interest rate would have had the following effect in the year under review (previous year):

in thousand Euro	Increase by 1 percentage point		Decrease by 1 percentage point	
	FY 2017	FY 2016	FY 2017	FY 2016
Effect on defined benefit obligations	–406	–419	510	526

It has to be taken into consideration that sensitivities reflect effects on the defined benefit obligation only for the respective specific amount of changes to the assumptions (here, for example, 1.0%). If the amount of a change to the assumption is different, this does not necessarily result in a linear effect on the obligation.

Based on the sensitivity analyses carried out, there would be no significant effect on pension expense, as in the previous year. For materiality considerations, sensitivity analyses are not carried out for other parameters.

Expected maturities for pension payments of the next five years:

in thousand Euro	2017	2018	2019	2020	2021	2022
FY 2017	n/a	142	143	144	144	144
FY 2016	80	142	143	144	144	n/a

The average terms of the material pension benefit commitments are 11.2 years and 15.9 years (2016: 11.6 years and 16.8 years).

Current provisions

in thousand Euro	01/01/2017	Consumption	Reversal	Addition	12/31/2017
Vacation bonus	1,534	784	750	1,367	1,367
Bonus provisions	1,172	1,110	62	1,087	1,087
Employer's liability insurance association	378	350	25	528	531
Warranty	2,870	12	760	616	2,714
Licenses	231	208	23	355	356
Other provisions for employee benefits	3,941	3,067	333	2,973	3,514
Other provisions	1,909	1,022	285	2,704	3,306
Current provisions	**12,035**	**6,553**	**2,238**	**9,630**	**12,875**

The warranty provision is made only on the basis of known individual risks according to risk assessment made as of the reporting date. This concerns individual warranty claims for which there is uncertainty regarding their utilization as of the reporting date. Provisions for licenses include payment commitments to in-house and external inventors. This provision is calculated on the basis of existing payment agreements. Other provisions for employee benefits essentially include bonus payment commitments, settlement payments, overtime, and awards. Other provisions comprise different identifiable individual risks and contingent obligations. Provisions classified as current will probably be utilized in the course of the next fiscal year.

25 – Financial liabilities

Non-current financial liabilities

in thousand Euro	12/31/2017	12/31/2016
Bank loans	765	11,202
Promissory note loans	40,000	0
Non-current financial liabilities	40,765	11,202

The increase in non-current financial liabilities is accounted for by the issue of a promissory note loan in the total amount of 40 million Euro. The promissory note is divided into three tranches with terms of five, seven, and ten years at fixed interest respectively.

Current financial liabilities

As of December 31, 2017, the Company had various short-term lines of credit at its disposal in the total amount of 25,010 thousand Euro (2016: 16,510 thousand Euro). As of December 31, 2017, the Company provided these credit facilities as security in the amount of 626 thousand Euro (2016: 712 thousand Euro). Current financial liabilities (December 31, 2017: 10,398 thousand Euro; December 31, 2016: 25,000 thousand Euro) represent the current portion of loans as well as other current liabilities to banks.

Loans

The effective interest rates of the loans range between 1.10% and 4.60% (previous year: 1.75% to 4.9%).

Cash flows from financial liabilities

The following table lists all contractually defined payouts as of December 31, 2017, and December 31, 2016 (indicated as positive values in the following table), for redemption, repayment, and interest on financial liabilities accounted for. Payments are stated at undiscounted cash flows including interest payments for the next fiscal years. Also included are all cash flows from derivative financial instruments at positive and negative fair value.

12/31/2017 | in thousand Euro	2018	2019	2020-2022	from 2023
Liabilities to banks	11,323	976	13,856	29,597
Trade payables	22,803	0	0	0
Other financial liabilities	380	0	0	0

12/31/2016 | in thousand Euro	2017	2018	2019-2021	from 2022
Liabilities to banks	26,452	10,678	331	0
Trade payables	24,944	0	0	0
Other financial liabilities	966	0	0	0
Hedged derivatives	547	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 statement of future interest payments is based on current fixing as of the reporting date. Foreign currency amounts have been translated at the current reporting date's exchange rate; the resulting amount has been used for the determination of future payments.

Reconciliation of financial liabilities connected to cash flow from financing activities

in thousand Euro	12/31/2016	Cash changes	Non-cash changes		12/31/2017
			Reclassification	Interest	
Non-current financial liabilities	11,202	39,563	–10,000	0	40,765
Current financial liabilities	25,000	–25,000	10,000	398	10,398
	36,202	**14,563**	**0**	**398**	**51,163**

26 – Other liabilities and income tax liabilities

As in the year before, other liabilities were solely current liabilities as of the reporting include and amounted to 2,223 thousand Euro (December 31, 2016: 3,627 thousand Euro). Other current liabilities include wage income tax liabilities, social security contributions yet to be made, payments received on account of orders, and other financial liabilities, among other items. The decrease from the previous year is based in part on the settlement recognition of payment obligations in the amount of 720 thousand Euro in connection with the increase of the investment in MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin, in 2016. The decrease is also due to the fact that hedged derivatives expired in fiscal year 2017.

Income tax liabilities amount to 4,088 thousand Euro (December 31, 2016: 2,295 thousand Euro) and include liabilities of Elmos as well as several domestic and international subsidiaries.

27 – Trade payables

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

28 – Derivative financial instruments

The Company monitors the development in value of liabilities at fixed and variable interest rates and of current and non-current liabilities. In this context, business and other finance risks are reviewed.

In fiscal year 2017, Elmos concluded several currency-related hedges. These are forward exchange rate contracts for the currency U.S. Dollar (USD); corresponding income or expenses have been stated under the item “foreign exchange gains/losses” (see note 29). The market value of forward exchange rate contracts is measured in application of the exchange rates as of the reporting date based on market assessments of the banks involved.

Moreover, the Company entered into structured term deposit transactions in 2017, providing for repayment of the investment amount in a foreign currency (essentially U.S. Dollar) if a predefined Euro/foreign currency reference exchange rate is exceeded as of the date of maturity of the transaction (see note 29 for further information).

29 – Additional information on financial instruments

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

With respect to the classification of financial instruments, the Company follows the measurement categories defined by IAS 39 as the spreading of risks within these measurement categories is similar.

The book values of financial instruments such as trade receivables and trade payables essentially correspond to the fair value due to the short-term maturities of these financial instruments. The book values of short-term and long-term securities classified as “available for sale” correspond to the market value. Measurement was made on the basis of market values as of the reporting date provided by the banks involved. Securities classified as “loans and receivables” were measured at amortized cost. The market value of forward exchange contracts/currency option transactions (see note 30) was determined on the basis of the currency exchange rates as of the reporting date provided by the banks involved. The market value of liabilities to banks was established on the basis of market prices determined for the same or similar issues and of the interest rates currently offered to the Company.

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

			Valuation according to IAS 39						Valuation according to IAS 39				
in thousand Euro	Cat.	Book value 12/31/2017	Amortized cost	Acquisition cost	At market value through profit or loss	At market value outside profit or loss	Fair value 12/31/2017	Book value 12/31/2016	Amortized cost	Acquisition cost	At market value through profit or loss	At market value outside profit or loss	Fair Value 31.12.2016
Investments	AfS	20	20	0	0	0	20	20	20	0	0	0	20
Securities (long-term)	LaR	5,000	5,000	0	0	0	5,000	5,000	5,000	0	0	0	5,000
Securities (long-term)	AfS	35,122	0	0	0	35,122	35,122	37,856	0	0	0	37,856	37,856
Securities (short-term)	AfS	11,868	0	0	0	11,868	11,868	5,678	0	0	0	5,678	5,678
Trade receivables	LaR	44,391	44,391	0	0	0	44,391	39,137	39,137	0	0	0	39,137
Cash and cash equivalents	LaR	32,367	32,367	0	0	0	32,367	43,110	43,110	0	0	0	43,110
Other financial assets													
Other receivables and assets	LaR	2,011	2,011	0	0	0	2,011	1,455	1,455	0	0	0	1,455
Other loans	LaR	6,354	6,354	0	0	0	6,354	3,699	3,699	0	0	0	3,699
Call options	HfT	8	0	0	8	0	8	8	0	0	8	0	8
Financial assets		**137,141**	**90,143**	**0**	**8**	**46,990**	**137,141**	**135,963**	**92,421**	**0**	**8**	**43,534**	**135,963**
Trade payables	OL-AC	22,803	22,803	0	0	0	22,803	24,944	24,944	0	0	0	24,944
Liabilities to banks	OL-AC	51,163	51,163	0	0	0	51,490	36,202	36,202	0	0	0	36,804
Other financial liabilities													
Miscellaneous financial liabilities	OL-AC	380	380	0	0	0	380	966	966	0	0	0	966
Forward exchange contracts/Currency option transactions	HfT	62	0	0	62	0	62	0	0	0	0	0	0
Embedded derivatives	HfT	38	0	0	38	0	38	10	0	0	10	0	10
Hedged derivatives	OL-FV	0	0	0	0	0	0	547	0	0	0	547	547
Financial liabilities		**74,446**	**74,346**	**0**	**100**	**0**	**74,773**	**62,669**	**62,112**	**0**	**10**	**547**	**63,271**
Aggregated by measurement category													
Loans and receivables	LaR	90,123	90,123	0	0	0	90,123	92,401	92,401	0	0	0	92,401
Available for sale	AfS	47,010	20	0	0	46,990	47,010	43,554	20	0	0	43,534	43,554
Financial assets held for trading	HfT	8	0	0	8	0	8	8	0	0	8	0	8
Financial liabilities held for trading	HfT	100	0	0	100	0	100	10	0	0	10	0	10
Financial liabilities (at amortized cost)	OL-AC	74,346	74,346	0	0	0	74,673	62,112	62,112	0	0	0	62,714
Financial liabilities (at fair value)	OL-FV	0	0	0	0	0	0	547	0	0	0	547	547

Hierarchy of fair values

Level 1: quoted (unadjusted) prices in active markets for similar assets or liabilities

in thousand Euro		01/01	Addition	Disposal	Transfer	Market valuation	12/31
Long-term securities[1]	2017	37,856	10,333	–1,080	–11,598	–389	35,122
	2016	29,944	18,078	–4,848	–6,115	797	37,856
Short-term securities[1]	2017	5,678	514	–6,115	11,598	193	11,868
	2016	9,584	0	–9,997	6,115	–24	5,678

[1] Bonds available for sale

Level 2: methods where all input parameters with a material effect on the determined fair value are observable either directly or indirectly

in thousand Euro		01/01	Addition	Disposal	Market valuation	12/31
Hedged derivatives	2017	–547	0	547	0	0
	2016	–1,120	0	0	573	–547
Forward exchange contracts/ Currency option transactions	2017	0	–62	0	0	–62
	2016	346	0	–346	0	0
Embedded derivatives	2017	–10	0	0	–28	–38
	2016	3	1	0	–14	–10

Level 3: methods using input parameters that have a material effect on the determined fair value and are not based on observable market data

in thousand Euro		01/01	Addition	Derecognition	12/31
Call options	2017	8	0	0	8
	2016	3	5	0	8

Information on the consolidated income statement

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

Gains (+)/Losses (–) | in thousand Euro	FY 2017	FY 2016
LaR (Loans and Receivables)	–1,522	182
AfS (Available for Sale)	0	288
OL-AC (Other Liabilities-Acquisition Cost)	769	–132
HfT (Held for Trading)	–646	1,259

Elmos recognizes valuation allowances for trade receivables classifiable as "loans and receivables" under other operating expenses. Gains from foreign currency translation of financial assets classifiable as "loans and receivables" primarily result from trade receivables. Net gains and losses essentially comprise valuation allowances, currency translation effects, and debt loss. Expenses or income classifiable as "OL-AC" result from exchange rate differences of trade payables. Net gains in the amount of 34 thousand Euro and net losses in the amount of 535 thousand Euro (2016: net gains of 109 thousand Euro and net losses of 104 thousand Euro) linked to currency-related hedges are reported under the category "HfT." Interest relating to financial instruments is stated in interest income (see note 8).

30 – Risks associated with financing

Basic principles

The basic principles of risk management within the Elmos Group are annotated comprehensively in the group management report ("Opportunities and risks").

With respect to its assets, liabilities, planned transactions, and firm commitments, Elmos is particularly exposed to credit risks, liquidity risks, and risks from changes in exchange rates and interest rates as well as other price risks. Financial risk management aims at detecting and assessing these market risks early on in a continuous process and in close cooperation with the Group's operating business units, and at limiting them, if necessary, through adequate measures. Interest and exchange rate risks, for instance, are controlled and contained by utilizing suitable derivatives. In doing so, Elmos enters into forward exchange contracts and currency option transactions for hedging foreign currency transactions for periods consistent with committed exposures. These derivative transactions for currency hedging minimize the impact of exchange rate fluctuations on the profit position. Elmos exclusively uses these hedging instruments for non-speculative, risk containing purposes in connection with the hedged items.

Credit and default risk

Liquid assets essentially comprise cash and cash equivalents. With respect to the investment of liquid assets, the Group is potentially exposed to losses due to credit risk if banks or issuers do not fulfill their obligations. Elmos controls the resulting risk position through the diversification of products and contracting parties. Investments of liquid assets take into consideration high flexibility and diversification with respect to banks and issuers, among other factors. A substantial part of the portfolio is placed with banks with high credit ratings under deposit protection (e.g., overnight deposits and fixed deposits, structured time deposits). In addition to that, liquid assets are invested in listed bonds (corporate bonds, structured bonds with credit rating components, and others) and, to a lesser extent, in promissory notes ("Schuldscheinanlagen"). The emphasis of issuer's ratings continues to be placed on investment-grade ratings.

Trade receivables primarily originate from sales generated with microelectronic components, sensors, system parts, and development services. Customers are, for the most part, automotive suppliers and, to a lesser extent, companies in the industrial sector, consumer goods industry, medical technology industry, and other sectors. Accounts receivable are continuously monitored in the individual segments; default risks are met with specific allowances for bad debt. The terms of payment reflect the historical development of the respective customer-supplier relationship; observation of the terms is monitored continuously. With respect to new customers, creditworthiness information is gathered in advance, and credit limits are determined if necessary. Business transactions with major customers are subject to special default risk supervision. Altogether, Elmos pursues a stringent credit policy. The maximum default exposure is reflected by the book values of the financial assets reported in the statement of financial position. Against the backdrop of continued global uncertainties, outstanding receivables are monitored and reminded with scrutiny as part of a continuous operational process.

Liquidity and financing risk

The liquidity risk of Elmos addresses the contingency that the Company might not be able to fulfill its financial obligations upon maturity, e.g., the payment of finance debt, the payment of trade payables, and the payment obligations arising from lease agreements. A liquidity reserve in the form of cash and cash equivalents, investments of high fungibility and convertibility into cash, and sufficiently available free lines of credit is provided so that this risk will not materialize and the liquidity and financial flexibility of Elmos will be assured at all times. In addition, the Group's liquidity is constantly monitored within the framework of short-term and long-term liquidity planning. Apart from their respective internal financing power, liquidity of the domestic and international subsidiaries is provided through the Group's lines of credit and loans as well as by banks. The cash flows from financial liabilities are presented under note 25.

Financial market risk

Due to its international business activity, Elmos is exposed to market price risks as a result of changes in exchange rates (essentially concerning the U.S. Dollar), interest rates, and prices for raw materials (e.g., gold). There are also market price risks within the scope of guaranteeing electric power and natural gas supplies for the medium term. These market price risks could have a negative effect on the Group's financial, profit, and economic situation.

a) Exchange rate risk

Exchange rate risks result from operating activities (sales, purchasing) and investments. Due to increased purchasing of services in U.S. Dollar, especially assembly and foundry services from Asia, the Group's currency exposure has expanded. Generally, Elmos still aims for natural hedging, i.e., a balance of U.S. Dollar cash inflow and outflow, and takes measures throughout the Group for containing the exposure. If management considers it necessary, the excess volume not covered by natural hedging is controlled actively by entering into derivative financial instruments for currency hedging, among other measures. Foreign currency risks that do not affect the Group's cash flows are generally not hedged.

Elmos was exposed to currency risks as of the reporting date. In fiscal year 2017, Elmos realized foreign exchange gains in the amount of 34 thousand Euro (2016: 109 thousand Euro) and incurred foreign exchange losses in the amount of 535 thousand Euro (2016: 104 thousand Euro) from U.S. Dollar currency hedges, reported in the consolidated financial statement under "Foreign exchange losses/gains." In addition to that, from the measurement of U.S. Dollar hedges still open by the reporting date, Elmos recorded income of 0 thousand Euro (2016: 0 thousand Euro) and expenses of 62 thousand Euro (2016: 0 thousand Euro). Furthermore, foreign exchange gains in the amount of 1 thousand Euro (2016: 1 thousand Euro) and foreign exchange losses in the amount of 55 thousand Euro (2016: 13 thousand Euro) resulted in 2017 from structured term deposits where the repayment of the investment amount in foreign currency (essentially U.S. Dollar) is called for insofar as a previously fixed reference exchange rate between the Euro and the foreign currency is exceeded as of the due date of the transaction. These investments also resulted in interest advantages.

Had the Euro been revalued (devalued) against the U.S. Dollar by 10% with respect to the monetary financial instruments as of December 31, 2017, earnings (before taxes) would have been 754 thousand Euro lower (785 thousand Euro higher) (2016: 562 thousand Euro lower (687 thousand Euro higher)). The Group's equity effect would have come to the same amount via the result effect in consideration of income tax incurred.

b) Interest rate risk

Elmos' risk of interest rate changes as of the reporting date resulted from the securities classified as available for sale. Had the market interest rate level been higher (lower) by 100 basis points, equity would have been lower by 711 thousand Euro (increase in equity by 765 thousand Euro) (2016: decrease (increase) in equity by 682 (766) thousand Euro). Deferred tax on these amounts would also have to be considered.

Elmos is exposed to interest rate risks primarily in the Euro area. Within the context of financing decisions, the Management Board regularly determines the target mix of fixed and variable-interest liabilities, and the financing structure is derived and implemented on that basis.

For long-term financing projects, fixed interest rates are usually agreed on for securing the basis of calculation. Interest derivatives are also utilized if necessary. Further information about securing long-term financing can be found under note 25.

c) Other price risks

Since fiscal year 2014, Elmos has secured the supply of electricity and natural gas for the medium term by concluding a fixed price in advance. A 10% higher (lower) electricity rate would result in an increase (decrease) in earnings by 0 thousand Euro (13 thousand Euro) for fiscal year 2017 (2016: increase (decrease) in earnings by 0 thousand Euro (40 thousand Euro)). A 10% higher (lower) gas price would result in an increase (decrease) in earnings by 84 thousand Euro (96 thousand Euro) for the fiscal year (2016: increase (decrease) in earnings by 188 thousand Euro (188 thousand Euro)). The Group's equity effect with respect to electricity and natural gas would have been the same amount via the result effect in consideration of income tax incurred.

Capital management

It is the primary objective of the Elmos Group's capital management to assure an adequate credit rating, liquidity at any time, and at high financial flexibility, as well as a solid capital structure. The Management Board actively controls the capital structure of the Elmos Group and makes adjustments if necessary in consideration of the economic framework as well as the risks carried by the underlying assets. For maintaining or adjusting the capital structure, dividends may be paid to the shareholders, for instance, or new stock may be issued. As of December 31, 2017, and December 31, 2016, no changes had been made to the objectives, guidelines, or procedures.

The Group monitors its capital based generally on net debt or net cash in absolute terms as well as the equity ratio. Net cash includes cash and cash equivalents, as well as securities less current and non-current financial liabilities. The equity ratio puts equity in proportion to total assets.

	FY 2017	FY 2016
Net cash	33.2 million Euro	55.4 million Euro
Equity ratio	71.3%	74.0%

OTHER INFORMATION

31 – Government grants

The Company receives subsidies or government grants used for financing research and development projects as well as subsidies in accordance with the German Combined Heat and Power Act (KWKG). Government grants used for research and development projects were offset against research and development expenses and recognized in that item (449 thousand Euro in 2017; 649 thousand Euro in 2016). Subsidies under KWKG were allocated to the individual functional areas depending on causation and offset accordingly (0 thousand Euro in 2017; 460 thousand Euro in 2016). Government grants for capital expenditures for property, plant and equipment were collected neither in the year under review nor the previous year.

32 – Other financial liabilities and contingencies

The Company has entered into non-cancelable rental and lease agreements for the administration building and a parking garage (terms until 2021). The Company has also entered into leases for technical equipment and machinery, as well as for factory and office equipment, the terms of which extend until 2021 in part. Furthermore, there are lease agreements for the company fleet and for technical equipment and machinery to a customary extent.

Within the framework of lease agreements with Epigone, Elmos is committed to lease payments of 3,133 thousand Euro (including contributions to administrative expenses and sales tax) plus payments of 1,694 thousand Euro for tenant loans until 2021 (see note 14).

SMI concluded a property lease agreement on January 26, 2006, for land and a plant erected thereon. The contract provides for a term of 15 years. The monthly lease is 60 thousand U.S. Dollars with the provision of an annual adjustment linked to the U.S. consumer price index, plus a supplementary lease of currently 18 thousand U.S. Dollars. The agreement is not cancelable over the lease term. After completion of the term, SMI may demand the extension of the lease by another ten years, and the lessor may demand an extension by another five years.

In 2005, Elmos entered into an agreement for the provision of research and development services as well as for the use of a production line with a contract term until 2015; the period for using the CMOS line has since been extended to mid-2019.

Total expenditure for rental and lease agreements amounted to 8,057 thousand Euro in 2017 and 8,017 thousand Euro in 2016. The total of fixed future payments under rental agreements and leases as of the reporting date of December 31, 2017 (December 31, 2016), came to 6,140 thousand Euro for the period of up to one year (2016: 7.477 thousand Euro), 12,722 thousand Euro for the period from one year to five years (2016: 18,890 thousand Euro), and 220 thousand Euro for the period of more than five years (2016: 439 thousand Euro).

Future minimum payments owed under non-cancelable rental agreements, leases, maintenance agreements, insurance premiums, and various obligations to accept with initial or remaining terms of more than one year as of December 31, 2017, and December 31, 2016, are as follows:

in thousand Euro	2017	2018	2019	2020	2021	2022	Later years	Total
12/31/2017	n/a	30,844	9,561	6,200	2,794	219	220	**49,838**
12/31/2016	28,783	11,237	7,256	5,119	2,631	n/a[1]	439	**55,465**

[1] Included in later years

There is a purchase commitment in the amount of 9,809 thousand Euro from investment orders placed (2016: 3,268 thousand Euro).

33 – Group companies

The parent company, as well as the subsidiaries controlled in accordance with IFRS 10, has been included in these consolidated financial statements. Shares in the capital of the subsidiaries are unchanged from the previous year.

Capital share

in thousand or %	Currency	Interest	Equity	Earnings	Relationship
Parent: Elmos Semiconductor AG, Dortmund					
Domestic					
DMOS Dresden MOS Design GmbH, Dresden	EUR	74.8%	1,780	171[1]	Subsidiary
Epigone Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	EUR	6.0%	–35	14[1]	Investment
GED Electronic Design GmbH, Frankfurt/Oder	EUR	100.0%	898	0[1, 4]	Subsidiary
Mechaless Systems GmbH, Bruchsal	EUR	100.0%	380	135[1]	Subsidiary
MAZ Mikroelektronik-Anwendungszentrum GmbH im Land Brandenburg, Berlin	EUR	100.0%	1,794	334[1]	Subsidiary
International					
Elmos Services B.V., Nijmegen (NL)	EUR	100.0%	10,088	7,516[1]	Subsidiary
Elmos Semiconductor B.V., Nijmegen (NL)	EUR	100.0%	8,491	–652[1, 2]	Subsidiary
European Semiconductor Assembly (eurasem) B.V., Nijmegen (NL)	EUR	100.0%	202	46[1, 2]	Subsidiary
Micro Systems on Silicon (MOS) Limited, Pretoria (South Africa)	ZAR	51.0%	2,034	670[1, 2]	Subsidiary
Elmos USA Inc., Farmington Hills (U.S.A.)	USD	100.0%	–	–[3]	Subsidiary
Elmos N.A. Inc., Farmington Hills (U.S.A.)	USD	100.0%	1,147	65[1, 2]	Subsidiary
Silicon Microstructures Inc., Milpitas (U.S.A.)	USD	100.0%	7,532	2,658[1, 2]	Subsidiary
Elmos Korea Co. Ltd., Seoul (Korea)	KRW	100.0%	463,449	109,956[1]	Subsidiary
Elmos Semiconductor Singapore Pte. Ltd., Singapore	SGD	100.0%	640	526[1]	Subsidiary
Elmos Japan K.K., Tokyo (Japan)	JPY	100.0%	39,029	5,141[1]	Subsidiary
Elmos Semiconductor Technology (Shanghai) Co. Ltd., Shanghai (China)	CNY	100.0%	2,681	609[1, 2]	Subsidiary
Omniradar B.V., Eindhoven (NL)	EUR	45.7%	–1,130	–1,428[1]	Associate

[1] Presented figures are based on preliminary unaudited financial statements as of December 31, 2017.
[2] Indirect investment of Elmos Semiconductor AG, Dortmund.
[3] Financial statements of this entity are not available yet.
[4] Profit and loss transfer agreement

Additional summarized financial information as of 12/31

in thousand Euro or %		Interest	Assets		Liabilities		Sales	Allocated dividend
			Current	Non-current	Current	Non-current		
For non-controlling interests in subsidiaries (IFRS 12 B10)								
DMOS, Dresden	**2017**	25.2%	1,057	2,147	1,334	11	5,144	0
	2016	25.2%	821	2,080	1,187	19	4,878	0
MOS, South Africa	**2017**	49.0%	305	2	212	0	459	0
	2016	49.0%	818	3	725	0	550	449
For associates (IFRS 12 B12)								
Omniradar, Netherlands	**2017**	45.71%	724	94	1,855	0	347	0
	2016	45.71%	1,838	81	618	997	1,031	0

34 – Information on Management Board and Supervisory Board

in thousand Euro		Short-term payments		Share-based payments	
		Fixed remuneration	Variable remuneration	Stock options[1]	Share matching plan[1]
Management Board	**FY 2017**	1,467	924	0	0
	FY 2016	1,509	1,280	0	0
Supervisory Board	**FY 2017**	82	225	0	0
	FY 2016	87	218	0	0

[1] Fair value

There are indirect pension commitments to Management Board members for benefits after termination of employment for which no pension provisions must be made because of completely congruent coverage by reinsurance policies. In 2017, contributions to these pension plans amounted to 370 thousand Euro (2016: 408 thousand Euro), included in the fixed remuneration component. By a majority in excess of the required three-quarters, the AGM of May 13, 2014, decided not to provide the disclosures stipulated under Section 285 no. 9a sentences 5-8 HGB for the next five years.

Remuneration paid to former Management Board members or their surviving dependents amounted to 395 thousand Euro in the fiscal year, with fixed components thereof in the amount of 209 thousand Euro and variable components in the amount of 186 thousand Euro (2016: 120 thousand Euro; fixed remuneration thereof: 120 thousand Euro). Moreover, insurance premiums in the amount of 115 thousand Euro were paid (2016: 113 thousand Euro). These amounts are balanced by reimbursements from reinsurance policies in the amount of 204 thousand Euro (2016: 116 thousand Euro). The amount of pension provisions for acting and former members of the Management Board or their surviving dependents was 1,477 thousand Euro as of December 31, 2017 (December 31, 2016: 1,520 thousand Euro).

As of December 31, 2017, the following members of Management Board and Supervisory Board were members of statutory supervisory boards or comparable domestic or foreign supervisory bodies:

-> Prof. Dr. Günter Zimmer: Member of the Board of Directors of Dolphin Intégration S.A.
-> Dr. Klaus Egger: Member of the Supervisory Board of AVL List GmbH
-> Dr. Gottfried Dutiné: Member of the Advisory Board of Endiio GmbH

35 – Information on group auditor fees

Fees of group auditor Warth & Klein Grant Thornton AG

in thousand Euro	FY 2017	FY 2016
Audit services	220	227[1]
Other certification services	0	0[1]
Tax advice	74	75
Other services	0	16[1]
Group auditor fees	**294**	**318**

[1] Prior-year amount has been adjusted: reclassification of 38 thousand Euro from "other certification services" to "audit services" (reason: fees for interim reporting) and of 9 thousand Euro from "other services" to "audit services" (reason: fees for support of DPR exam).

In 2017, audit services included fees for the statutory audit of the separate and consolidated financial statements as well as the review of the six-month consolidated financial statements of Elmos. Tax advice essentially includes consultation in connection with the preparation of tax returns, the tax assessment of individual circumstances, and the support of the company audit.

36 – Appropriation of retained earnings and dividend proposal

Management Board and Supervisory Board will propose to the AGM in May 2018 the payment of a dividend of 0.40 Euro per share for fiscal year 2017 out of the 2017 retained earnings of Elmos Semiconductor AG in the amount of 117.4 million Euro. The total dividend payout would thus amount to 7.9 million Euro based on 19,689,063 shares entitled to dividends as of December 31, 2017.

37 – Managers' transactions according to Article 19 (1) Market Abuse Regulation

Notifications of managers' transactions according to Article 19 (1) of the Market Abuse Regulation for the period from January 1 to December 31, 2017, are available at www.elmos.com.

38 – Related party disclosures

Pursuant to IAS 24 – *Related Party Disclosures,* individuals or companies in control of or controlled by the Elmos Group must be disclosed unless they are already included in the consolidated financial statements of the Elmos Group as a consolidated entity. Control is assumed in this regard if a shareholder holds more than half of the voting rights in Elmos Semiconductor AG or if the shareholder is in a position, by virtue of the Articles of Incorporation or contractual agreement, to control the financial and business policies of the Elmos Group's management. Mandatory disclosure pursuant to IAS 24 also includes transactions with associated companies and with individuals who have significant influence over the Elmos Group's financial and business policies, including close relatives or interconnected companies. Significant influence on the Elmos Group's financial and business policies may be based on an interest in Elmos Semiconductor AG of 20% or more, a position on the Management Board or Supervisory Board of Elmos Semiconductor AG, or another key function in management.

In 2017, Elmos Semiconductor AG received no material services from associates (2016: 1,008 thousand Euro).

Apart from the remuneration of the Management Board and the Supervisory Board, representing the key management personnel of the Elmos Group, disclosed under note 34 ("Information on Management Board and Supervisory Board"), there are no material relationships with related individuals.

Beyond that, companies of the Elmos Group did not engage in any material reportable transactions with members of the Management Board or the Supervisory Board of Elmos Semiconductor AG, other key executives in management, or with entities at which these individuals hold positions on managing or supervisory bodies. This also applies for close relatives of said group of people.

39 – Number of employees

Average number of employees	FY 2017	FY 2016
Production	536	522
Sales	103	106
Administration	162	161
Quality Control	42	42
Research & Development	312	296
Total	**1,155**	**1,127**

40 – Significant events after the end of the fiscal year

Apart from the fact that the guidance was fulfilled and that expectations regarding the EBIT margin were exceeded – as published in the ad hoc statement released on February 5, 2018 and commented in the Group's management report – there have been no reportable events or transactions of special significance after the end of fiscal year 2017.

41 – Declaration of compliance in accordance with Section 161 AktG

In September 2017, the Management Board and Supervisory Board of Elmos Semiconductor AG released the declaration pursuant to Section 161 AktG and made it permanently available at www.elmos.com.

Dortmund, February 28, 2018

Dr. Anton Mindl Dr. Arne Schneider Guido Meyer Dr. Peter Geiselhart

Independent auditor's report

to Elmos Semiconductor AG

Report on the audit of the consolidated financial statements and of the combined management report

Audit Opinions

We have audited the consolidated financial statements of Elmos Semiconductor AG, Dortmund, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January 2017 to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Elmos Semiconductor AG which is combined with the management report of Elmos Semiconductor AG (hereinafter: combined management report) for the financial year from 1 January 2017 to 31 December 2017. In accordance with the German legal requirements we have not audited the content of the statement on corporate governance pursuant to Section 289f HGB and Section 315d HGB (Handelsgesetzbuch: German Commercial Code).

In our opinion, on the basis of the knowledge obtained in the audit,

-> the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e para. 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January 2017 to 31 December 2017, and

-> the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the above listed statement on corporate governance pursuant to Section 289f HGB and Section 315d HGB.

Pursuant to Section 322 para. 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

In the following we present the key audit matter in our view. Our presentation of this key audit matter has been structured as follows:

1. Financial statement risk
2. Audit approach
3. Reference to related disclosures

Provisions for Warranties and Product Liability

1. Financial Statement Risk

In the consolidated financial statements provisions for warranties respectively product liability are recognized with an amount of TEUR 2.714. Products manufactured by Elmos are integrated as components into complex electronic systems. Defects or malfunctions of the semiconductors made by Elmos or of the electronic systems into which they are integrated can be directly or indirectly damaging to the property, health, or lives of third parties. In most cases, Elmos cannot completely exclude its liability to customers or third parties in its sales contracts. This results in legal risks, especially with regard to product liability.

Even though Elmos applies elaborate test procedures before commencing delivery of its products, product defects might still become apparent only upon the installation or the end consumer's use of the product. If such product defects materialize, expensive and time-consuming product modifications might ensue, and further liability claims might arise. A recall, for which Elmos would have to assume liability, could also have material effects. Due to the dependence on the automotive industry and the related batch production, a recall might result in significant amounts of damage. In general, there is a risk that emerging risks remain unidentified or are identified too late. In addition, it might also damage the company's image, leading to disrupted customer relationships and a negative impact on the economic development. This risk is covered by corresponding provisions for the abovementioned warranties and product liability in the group financial statements under current provisions. The result of the measurement of the related current provisions is highly dependent on the estimation of the amount of damage and the likelihood of occurrence made by the company's Management Board and, is therefore, associated with a high degree of estimation uncertainty. Due to these high estimation uncertainties and due to the significant impact on the current provisions, this matter was of particular importance in our audit.

2. Audit Approach

As part of our audit, among other things, we evaluated the process established by Elmos to ensure that legal disputes are identified, their outcomes of the proceedings are estimated, and the legal disputes are accounted for. We have evaluated the assumptions relevant for the measurement of the provisions and their derivation. We had detailed discussions with the Company's legal department and the department for quality control in order to receive explanations on current developments and the reasons for the corresponding estimations. The development of material legal disputes, including Management's estimates as to their potential outcomes, was provided to us by the Company in written form. In addition, we obtained external legal confirmations as of the balance sheet date in order to assess the Management's estimates regarding the risks of product-related legal disputes. Concerning these product-related legal disputes, based on the foundation of claims made to Elmos we followed the estimations made by the Management.

3. Reference to related Disclosures

The disclosures relating to the measurement of provisions for warranties respectively product liability are contained in section 3 and 24 of the notes to the consolidated financial statements. Further information on the product warranties can be found in section “Opportunities and risks – Business and operational risks” in the combined management report.

Other information

The Management is responsible for the other information. The other information includes:

-> the nonfinancial consolidated report according to Section 315b HGB
-> the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code including the statement on corporate governance pursuant to Section 289f HGB and Section 315d HGB
-> the Responsibility Statement pursuant to Section 297 para. 2 sentence 4 HGB regarding the consolidated financial statements and the Responsibility Statement pursuant to Section 315 para. 1 sentence 5 HGB regarding the combined management report
-> the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor’s report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

-> is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
-> otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e para. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management is responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

-> Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

-> Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

-> Evaluate the appropriateness of accounting policies used by the Management and the reasonableness of estimates made by the Management and related disclosures.

-> Conclude on the appropriateness of the Management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

-> Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e para. 1 HGB.

-> Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

-> Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with (German) law, and the view of the Company’s position it provides.

-> Perform audit procedures on the prospective information presented by the Management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 11 May 2017. We were engaged by the supervisory board on 6 July 2017. We have been the group auditor of Elmos Semiconductor AG without interruption since the financial year 2013.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the supervisory board pursuant to Article 11 of the EU Audit Regulation (long form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Ulrich Diersch.

Düsseldorf, 28 February 2018

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Dr. Thomas Senger
German Public Auditor

Ulrich Diersch
German Public Auditor

Responsibility statement

We assure that, to the best of our knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and that the group management report, combined with the management report of Elmos Semiconductor AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Dortmund, February 28, 2018

Dr. Anton Mindl   Dr. Arne Schneider   Guido Meyer   Dr. Peter Geiselhart

Financial calendar 2018

Financial Results 2017[1]	March 14, 2018
Quarterly Results Q1/2018[1]	May 8, 2018
Annual General Meeting in Dortmund, Germany	May 16, 2018
Quarterly Results Q2/2018[1]	August 2, 2018
Quarterly Results Q3/2018[1]	November 7, 2018

[1] The German Securities Trading Act ("Wertpapierhandelsgesetz") and the Market Abuse Regulation (EU) obliges issuers to announce immediately any information which may have a substantial price impact, irrespective of the communicated schedules. Therefore we cannot exclude that we have to announce key figures of quarterly and fiscal year results ahead of the dates mentioned above. As we can never rule out changes of dates, we recommend checking them on the website (www.elmos.com).

Contact

Thalea Willms | Investor Relations

Phone + 49 (0) 231-75 49-273

Fax + 49 (0) 231-75 49-111

invest@elmos.com

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Elmos Semiconductor AG, Dortmund, Germany

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.com | www.elmos.com