Our Company

Our Vision

For ams, "Sensing is Life". Our passion is in creating sensor solutions that make devices and technology smarter, safer, more environmentally friendly and easier to use. We are shaping the world with sensor solutions, leading the way in forging continuous connections between people and technology, and envisioning a seamless experience between the two.

Our Company and Strategy

ams' sensor solutions and sensor ICs are at the heart of the products and technologies that define our world today – from smartphones and mobile devices to smart homes and buildings, industrial automation, medical technology and driver-assisting vehicles. Leading manufacturers around the globe rely on our sensing expertise for advanced system designs. Our solutions excel in applications requiring extreme precision, dynamic range, high sensitivity, and low power consumption in small form factors.

Our bold corporate strategy is fully focused on making ams the global leader in sensor solutions in four fast growing areas: Optical, Imaging, Environmental and Audio sensing. These areas represent the four pillars of ams, and we are taking decisive and strategic steps to build true leadership in these high-value markets.

We actively manage a highly advanced technology and product portfolio around these four sensing areas driving market differentiation as the key factor for sustained leadership. Executing our strategy makes ams a highly respected leader in the global semiconductor industry – which benefits our customers, shareholders, suppliers, and employees.

In each of our four focus areas we offer our customers industry-leading performance and innovation through complete sensor solutions, so OEMs can rely on one trusted vendor for their technology needs.

We are driving integration of sensor technologies into monolithically integrated or multi-sensor solutions. These solutions may include sensing and related hardware, state-of-the-art sensing algorithms, sensor fusion software and application software. By offering solutions tailored to customers' unique and evolving needs, we help the industry move forward while creating strategic and market advantages for our customers. We empower OEMs to deliver differentiated products and devices that change and improve lives, and enable exciting new end-user experiences.

To accelerate our growth path towards global leadership in optical, imaging, environmental and audio sensing, we use technology acquisitions as a strategic tool complementing our continued strong internal R&D investment. After our transformational 2016 acquisition of Heptagon, the global leader in micro-optics and high-performance optical packaging, we completed the acquisition

of Princeton Optronics, a leader in high power Vertical Cavity Surface-Emitting Lasers (VCSELs), last year. Adding Princeton's outstanding and highly differentiated VCSEL technology for illumination enables broad coverage of the optical value chain and expands our optical solutions offering, particularly for 3D sensing. Beyond consumer devices, the VCSEL technology offers strong competitive advantages in emerging applications in autonomous driving and industrial sensing.

In early 2018, we significantly expanded our 3D software and solutions competence via the acquisition of KeyLemon, a leader in 3D face recognition software. We will leverage KeyLemon's robust and secure 3D face recognition IP to offer OEMs a faster time-to-market for high quality 3D face recognition in smartphones and other exciting applications.

Our Talent

We are one ams – about 11,000 individuals around the globe driving our company's success in the marketplace and looking for what is next.

Our workforce is the greatest asset for the company and the most important factor in our success. We are able to attract and retain the best and brightest talent in the industry, embracing a wide range of highly innovative, creative, and unconventional thinkers.

ams grew very strongly over the course of last year adding more than 8,000 employees predominantly through the expansion of ams' Singapore manufacturing operations. Besides the significant increase in production staff we welcomed a range of highly qualified industry and functional professionals strengthening and deepening ams' skill base across all business areas. The success of our focused strategy offers excellent opportunities for personal growth which is recognized inside and outside of ams.

Our culture is built around the core values of our company and designed for pushing boundaries. We empower our workforce while holding them accountable. Demanding integrity in everything we do, we want our staff to be loyal, trustworthy, authentic and true role models.

One ams also means that diversity is valued across our company and our locations on three continents. At the same time, we recognize that every staff member's effort and commitment contribute to our ongoing success in a highly competitive environment.

Our Company

Manufacturing

ams implements a flexible manufacturing concept which combines internal production capacity and external manufacturing partnerships for its products and technologies. This strategy is built around driving high differentiation also on the manufacturing side thus creating an additional sustainable competitive advantage. ams' consistent approach to manufacturing calls for use of external production partners wherever there is no compelling differentiation within the production process, including high value IP, which would warrant in-house manufacturing.

ams runs production sites in Austria, mainly for front-end wafer production, in the Philippines for testing and related production steps, and in Singapore for optical manufacturing and packaging. The addition of Singapore as a manufacturing location followed the acquisition of Heptagon in 2016 which was based in Singapore.

Last year ams successfully completed a unprecedented expansion of its internal production capacity in Austria and Singapore resulting in a record level of capital expenditures for the company. These investments were required to support the substantial new product ramps in the second half of the year. The expansion added a very large manufacturing site in the Ang Mo Kio district of Singapore in the first half of 2017 offering 30,000 m^2 of cleanroom space for high volume optical system and component manufacturing and packaging. In the second half of the year, ams opened a third newly-built manufacturing location in the Tampines district of Singapore where large scale production of optical filters has started in the meantime. At the same location, ams is currently commissioning a high volume manufacturing line for advanced VCSEL lasers for optical and 3D sensing with mass production planned in 2019.

ams will continue to pursue an aggressive dual manufacturing strategy leveraging a combination of external and internal supply chains across all areas of production including front-end wafer manufacturing, filter production, optical packaging, and VCSEL manufacturing. To this end ams expects to see further significant capacity investments over the course of this year to support customer needs for 2018 and beyond.

Corporate Responsibility

ams conducts its business guided by high standards regarding ethical professional practices and environmental responsibility. All our business functions worldwide adhere to our company code of conduct as the basis for their activities. The code of conduct consists of a public set of principles and procedures binding all ams employees which safeguards responsible, accountable, and consistent corporate activity. We actively monitor the code of conduct implementation and provide secure feedback channels across global operations.

We have been a member of the United Nations Global Compact, the world's largest corporate strategic policy initiative for sustainability and responsible business, since 2009. The United Nations Global Compact has more than 9,500 members in 160 countries that are committed to aligning their operations and strategies with universally accepted principles in the areas of human rights, labor standards, environment and anti-corruption.

From our leadership position in the industry we continue to drive our commitment of protecting the environment and the sustainability of resources while being successful as a business. We strive to reduce our carbon emissions footprint globally and pursue the company-wide deployment of advanced technologies designed to lower the consumption of electricity and natural gas. To support this approach, ams' internal production sites in Austria and the Philippines are certified according to the Environmental Management System DIN EN ISO 14001.

We publish information on our emissions footprint on a yearly basis within the framework of the Carbon Disclosure Project and have built a track record of quality disclosure over a number of years. Initiated and driven by some of the world's largest institutional investors, the Carbon Disclosure Project is the leading international initiative for corporate disclosure of environmental information.

Our Business

ams is a worldwide leader in sensor solutions offering high-performance sensing technologies with a clear strategic focus on our four core competency areas: optical, imaging, environmental and audio sensing. As a key supplier to many of the world's leading companies, we power innovative sensing applications in the consumer, communications, automotive, industrial, and medical end markets.

Optical sensing

ams is the pre-eminent global player in optical sensing, holding a leadership position across key optical sensing applications. As our most relevant area of focus, optical sensing provides the major share of our total business and is the key growth driver for ams.

Within optical sensing, 3D sensing is emerging as the most important new growth market and we anticipate it remain so for years to come. Face recognition and authentication, object recognition, augmented reality and autonomous driving are among the prime uses of 3D sensing today. The ability to acquire 3D depth information offers a wealth of new sensing data compared with today's technical limits, driving profound change in the world of sensing through three-dimensional interpretation of captured objects or scenes. We expect the technology to create new large-scale measurement and sensing applications in all end markets over time, from consumer and automotive to industrial and medical.

With our outstanding portfolio of differentiated optical technologies and extensive system know-how, ams is quickly building a leadership position in the highly complex area of 3D sensing. Our unmatched coverage of the optical sensing value chain encompasses optical systems built around industry-leading micro-optical packaging, wafer-level optics (WLO) and diffractive optical elements (DOE), high performance optical sensors, and illumination sources through our strategic acquisition of Princeton Optronics in 2017. Princeton Optronics is a best-in-class provider of high power Vertical Cavity Surface Emitting Lasers (VCSEL) which are increasingly differentiating core elements of 3D sensing solutions that determine the performance of the total system. The Princeton Optronics proprietary technology offers unique capabilities to create compact high-power illumination systems that will help drive innovation in consumer and non-consumer 3D sensing together with our VCSEL driver circuits. ams is therefore able to pursue a broad multi-generation roadmap for 3D sensing and tailor solutions that meet evolving customer needs.

Our 3D sensing strategy also recognizes the importance of combining hardware and software to offer a differentiated full solution capability as reflected by our recent acquisition of KeyLemon, a leading developer of biometric software for face recognition. We view secure face recognition as a key application in the consumer, automotive and industrial end markets. This important step enables us to create complete face recognition solutions for a wide range of customers and end uses.

One amin

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8,000

customers

ams helped introduce the first high-volume application of 3D sensing technology, supplying a global smartphone platform which ramped last year in the consumer market. At the same time, significant applications in the automotive market already are emerging. Earlier this year, we achieved our first very large design-win for a 3D LIDAR system for autonomous driving demonstrating this industry trend. We anticipate high-volume uses of 3D sensing technology driving a multi-stage adoption cycle in consumer and non-consumer end markets over the coming years. Given our technology portfolio and system expertise in 3D sensing we expect to play a leading role in the growth of this exciting market.

ams also holds a leading position in advanced light sensing for display management and small scale proximity sensing in consumer and mobile devices. Our innovative high-value TrueColor ambient light sensors create a more engaging, richer display experience and offer better color management while market adoption continues to expand. At the same time, our other existing light sensor lines already support tens of millions of consumer devices for improved display management.

In the highly innovative field of spectral sensing, ams is helping define next-generation technologies in optical sensing. Sophisticated spectral analysis - based on proprietary technology - creates a technology platform to develop strongly differentiated new sensor applications including highly accurate matching of colors in consumer online shopping and, in the near future, food identification for mobile devices. Driven by our advances in spectral sensing, biosensing is another growth area benefitting from the trend to monitor personal health and bring diagnostics closer to the home. For example, we now can measure blood pressure as an important health indicator at a level of accuracy comparable to a doctor's office. Together with heart rate, vein elasticity, vagal tone, and pulse transit time measurement, ams' optical sensing enables a snapshot of personal health and a timeline of data for preventive care that was not available before. We expect this technology to be embedded unobtrusively in daily life applications such as smart toilets and car steering wheels in the coming years.

Imaging

ams is a leader in high-performance image sensing for medical and industrial markets, built around our market-leading portfolio in medical imaging and global shutter image sensor technology. In medical imaging for computer tomography, digital X-ray, and mammography we provide advanced sensor solutions offering the highest diagnostic resolution and efficiency while minimizing patient radiation exposure. In 2017, we expanded our medical imaging customer base and recently won a first program at another large medical imaging OEM. Our innovative miniaturized NanEye image sensors

power high-quality image acquisition for disposable medical endoscopy, enabling a new level of diagnostics.

We also lead the market through innovation with our industrial image sensing solutions focused on high-performance global shutter technology. We support a range of growth applications in high-quality machine vision, inspection, traffic control and high-end imaging including the trend towards always-on vision. Our latest developments around curved sensors offer significantly improved performance in advanced industrial image sensing where we recently won an important industry award.

In addition to creating a new generation of high-resolution IR image sensors to expand our 3D sensing portfolio, ams also is driving a strategic convergence opportunity for combined image and spectral sensing. Based on our exclusive ability to cover both sensing technologies we are developing highly innovative sensing solutions for mobile applications that enable high-quality image capture and spectral analysis in one ams device.

Audio and environmental sensing

As the market leader in MEMS microphone interfaces, ams focuses on high-quality audio sensing for mobile devices. The success of home assistants is driving growth for ams as their speech control applications require a high number of microphones per device. Our active noise cancellation (ANC) solutions deliver excellent sound quality regardless of ambient noise levels for audio accessories such as earphones, headsets and headphones. Powering wired and wireless designs with the smallest form factors, we hold the leading position in this quickly growing market.

ams is a technology leader in environmental sensing where we address pressure, temperature, relative humidity, and a range of gas sensing modalities with best-in-class solutions. Our latest pressure sensors detect vertical position at an extremely high resolution of one inch or better, opening new applications such as indoor or drone navigation. We are also engaged in the development of miniature particle sensors to identify levels of harmful microscopic airborne particles.

By leveraging our portfolio, we are pursuing a second strategic convergence play that combines audio and environmental sensing in smallest size multi-sensor solutions. Consumer OEMs are keen to reduce design complexity and, in particular, case openings while adding sensing functionalities to their devices. ams is uniquely positioned to address those needs with differentiated solutions such as combined microphone audio and pressure sensing.

Other business lines

Beyond our sensing focus areas, we remain active in select existing sensing product lines adding distinct opportunistic business based on available IP. These lines include a leading position in contactless position sensing for industrial and automotive markets, highly accurate industrial flow meter solutions, and ultra-low power wireless sensing which integrates our sensing and wireless IP into industrial IoT solutions. Our successful position sensor lines enable high-performance industrial measurement and sensing as well as a broad range of automotive sensing, from powertrain data acquisition to chassis control and in-cabin applications. Using our power management know-how for a large-scale customer opportunity we will also supply an advanced power management component into a high-volume consumer charging application.

Our Global Network

Europe

Austria
Headquarters

Belgium

Finland

France

Germany
4 locations

Italy
3 locations

Netherlands

Portugal

Switzerland
3 locations

Spain

United Kingdom
3 locations

Asia

China
4 locations

India

Japan

Korea

Philippines

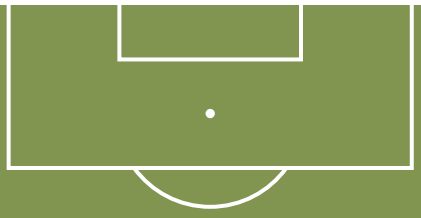
Singapore
4 locations

Taiwan

North America

USA
5 locations

Investor Relations and Corporate Governance



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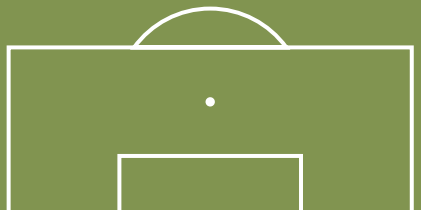
9.8

soccer fields

of clean room space



Investor Relations

The ams share continues to offer attractive potential for value appreciation as ams' successful sensor solutions strategy drives growth potential for the company.

The ams share recorded an outstanding performance in 2017 with strong share price appreciation starting in the first quarter and continuing through the first half and into the second half. Following the third quarter results this positive trend accelerated further leading to new all-time high share price levels in the fourth quarter. As one of the best performing shares across European equity markets in 2017, the ams share ended the year around 204% higher compared to the beginning of the year, more than tripling its value over a 12 month period. This share price performance clearly reflected the growing visibility regarding ams' mid-term growth, including an increase in published growth expectation, and the strength of ams' strategic model.

ams sees investor interest in the Asia/Pacific region growing quickly while its business presence and growth potential in the region continues to increase. In order to better address the extensive additional investor base in Asia/Pacific, ams is preparing for a secondary listing at the Hong Kong stock exchange (HKEx) within the coming 9-12 months.

ams currently follows a dividend policy stipulating a dividend increase in case of a positive development of ams' business while any dividend shall at least equal the dividend amount of the previous year. This approach combines the potential for dividend growth with higher stability of dividends. Based on this, the Management Board will propose a dividend of EUR 0.33 for the fiscal year 2017 reflecting the positive development of ams' business (EUR 0.30 for fiscal year 2016).

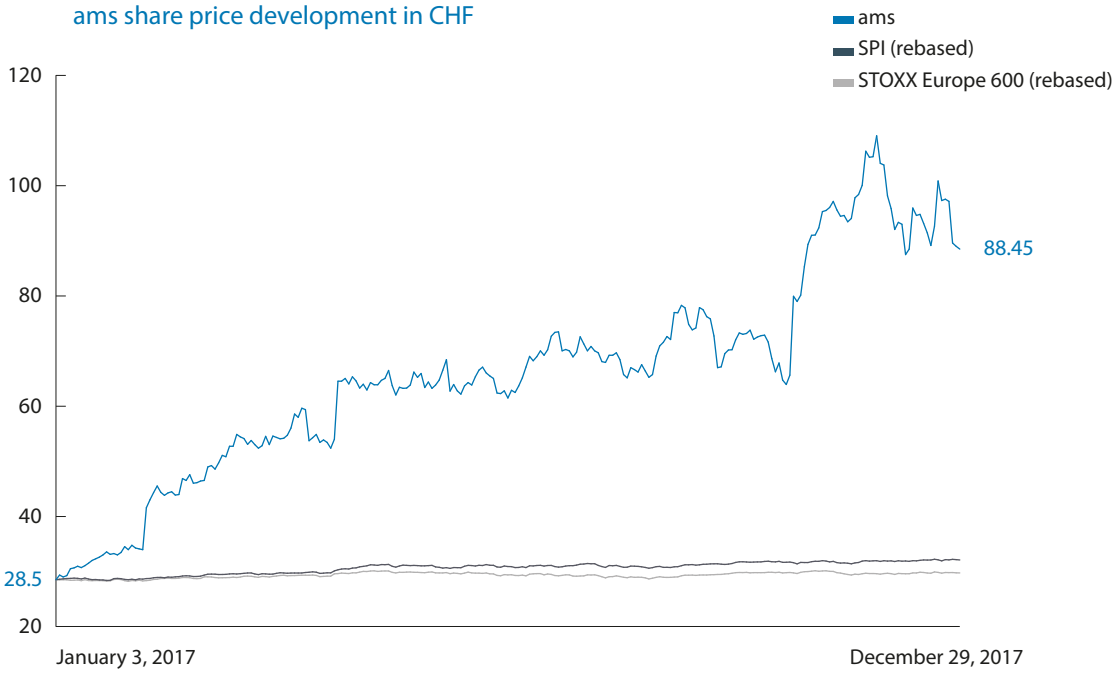
ams also operates a share buyback scheme under which the company bought back around 2.7 million shares last year, equivalent to around 3.2% of total issued shares at year end 2017. ams plans to use a major portion of these shares as partial consideration for the earn-out provision from the acquisition of Heptagon while treasury shares may also be used to cover employee long-term incentive plans.

At the Annual General Meeting in June 2017, all agenda items subject to a vote were approved with an overwhelming majority.

ams broadened its investor relations activities again in 2017, based on its quarterly reports and regular presentations to research analysts, press, and institutional investors. ams conducted extensive road show activities and attended international investor conferences across Europe, North America and Asia. Given strongly increasing interest from U.S. and Asian investors these regions were a focus of activities in 2017 which helped improve the visibility of the ams share on a global scale. As part of these efforts, ams held an analyst and investor day for the first time last year. The very successful event in Singapore was attended by a large number of analysts and investors from Asia/Pacific, Europe and the U.S. and received excellent feedback.

Financial reports, press releases, presentations, and additional information on the ams share are available in the "Investor" section of the company website www.ams.com.

ams share price development in CHF



Share details

ISIN	AT0000A18XM4
Securities code	24924656
Ticker symbol	AMS (SIX Swiss Exchange)
Reuters / Bloomberg	AMS.S / AMS SW

Executive Bodies

Management Board

Alexander Everke (CEO)
Michael Wachsler-Markowitsch (CFO)
Dr. Thomas Stockmeier (COO)
Mark Hamersma (CBO, since January 1, 2018)

Supervisory Board

Guido Klestil (Honorary Chairman)

Hans Jörg Kaltenbrunner (Chairman)
Prof. Dr. Siegfried Selberherr (Deputy Chairman)
Michael Grimm
Klaus Iffland
Jacob Jacobsson
Loh Kin-Wah
Johann Eitner (employee representative)
Andreas Pein (employee representative)
Vida Uhde-Djefroudi (employee representative, until February 7, 2017)
Günter Kneffel (employee representative, from February 7, 2017 until October 13, 2017)
Bianca Stotz (employee representative, since October 13, 2017)

One amun

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50

nationalities

One amun

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17.1

million working hours

2017

Group Management Report 2017

1. Overview of the Economic Environment and the Past Financial Year

The global semiconductor sector showed a positive development in 2017 and benefitted from a benign macroeconomic environment in key regions. Total sales of the global semiconductor industry grew meaningfully in 2017, increasing by 21.6% to USD 412.2 billion, while market volume had increased by 1.1% in 2016 to USD 338.9 billion. The relevant market segment for ams, analog semiconductors, grew 10.9% to USD 53.1 billion in 2017 (previous year: USD 47.8 billion)[1].

A strong focus on innovation is behind ams' leading position in advanced sensor solutions, together with more than 35 years of relevant experience in analog semiconductors and sensors. ams continued to broaden its worldwide network last year and expanded its presence in the relevant markets in Europe, Asia/Pacific and North America while more than 8,000 customers worldwide trust ams' sensing solution expertise.

ams successfully implemented its clear strategy around leadership in the fast-growing markets for optical, imaging, environmental and audio sensing last year. 2017 was an outstanding year of growth for ams as the company recorded significant new business, particularly in optical sensors, resulting from previous strategic investments into differentiating technologies.

ams' business segment "Consumer" comprises the products and sensor solutions for the market Consumer & Communications. This business segment, which is a major supplier of advanced sensor and analog solutions for smartphones and consumer devices was the key driver of last year's growth, more specifically new optical sensing solutions in 3D sensing and advanced light sensing for display management. ams' optical sensing product lines therefore had the largest share of group revenues again in 2017.

Both solutions mentioned above started to ramp in very high volumes into a newly launched global smartphone platform in the second half of the year and achieved significant shipment rates in the fourth quarter. To help enable innovative features for this platform ams successfully implemented a highly complex ramp-up involving mass production of multiple new optical sensing technologies. ams is quickly building a leadership position in the very attractive new growth market of 3D sensing based on the company's highly differentiated optical technologies and extensive system know-how across different 3D technologies.

As a further strategic step to expand its optical sensor solutions offering, ams acquired Princeton Optronics, Inc., a leading provider of Vertical Cavity Surface-Emitting Lasers (VCSELs), in the first half of last year. Princeton Optronics develops and supplies high performance VCSELs offering specific differentiation in mobile, consumer, automotive, and industrial applications. Princeton Optronics' technology enables benchmark power efficiency, accurate control of beam divergence and high power output for high beam count laser arrays in industry-leading form factors. VCSELs are becoming a core component of 3D sensing systems with very significant market growth expected for the coming years. Adding the illumination source therefore enables ams to offer a complete value chain in optical sensing and opens up strong new growth opportunities going forward.

1) Source: WSTS, February 2018

ams offers a broad and aggressive multi-generation 3D sensing roadmap to OEMs and is able to create solutions including best-in-class VCSEL lasers, integrated optical systems built around wafer-level optics (WLO) and diffractive optical elements (DOE), and high performance optical sensors, tailored to customer needs. Leveraging this industry-leading 3D portfolio ams started to see very good market traction for its 3D sensing products and solutions last year.

In other optical sensing, ams strengthened its worldwide market leader position in light sensors supplying a broad range of smartphone and consumer OEMs with mobile device color, ambient light and proximity sensing. At the same time, ams continued the development of its spectral sensing technologies which enable advanced consumer color matching, future food identification and new personal health applications and are seeing growing market interest.

In audio sensing, ams' MEMS microphone interfaces recorded strong growth last year helped by the success of consumer devices such as home assistants, underscoring ams' market leadership. ams is also the leading provider of active noise cancellation (ANC) for the growing market of consumer device accessories where the company expanded its business last year amid increasing adoption of ANC. Driving sensor convergence based on its strong IP position, ams plans to combine microphone audio and environmental sensing such as pressure sensing into new small form factor consumer solutions.

ams's business segment "Non-Consumer", which comprises of products and sensor solutions targeting the end markets industrial, medical and automotive, showed very solid growth in 2017. ams' solution focus and strong technology base continued to drive market success in ams' diversified non-consumer end markets as ams helps realize new applications for an expanding global customer base.

ams' industrial business performed very well last year, providing a wide range of sensing solutions for industrial and factory automation, building control and other industrial sensing. In industrial imaging and machine vision, ams recorded good growth driven by continued innovation enabling broader deployment of imaging technology, smaller form factors and higher optical performance. As a leading player in industrial end markets ams grew its portfolio of differentiated sensing technologies and solutions which enable next generation systems at major OEMs.

ams' medical business recorded another year of growth in 2017 based on the company's market leadership in Medical Imaging for computed tomography (CT), digital X-ray, and mammography. ams ramped a new Asian OEM last year broadening its market reach in high resolution medical imaging and has recently gained a first design-win at another leading medical imaging OEM. Smallest scale endoscopy imaging systems are seeing good growth in new applications, leveraging ams' image sensing innovation and optical manufacturing expertise.

Robust growth in ams' automotive business continued in 2017 given attractive demand for ams' high performance sensing solutions. Focused on applications in safety, driver assistance, autonomous driving, position, and chassis control, ams' portfolio is fully aligned with the accelerating structural growth of automotive sensing. ams sees 3D sensing as a highly relevant technology for new large scale automotive applications such as autonomous driving and driver recognition with

strong longer-term growth potential for ams. ams has therefore started to engage with automotive industry participants on 3D sensing as market interest continues to increase.

ams' business segment Foundry which manufactures analog and mixed-signal ICs for customers in specialty processes recorded an attractive performance in 2017 and contributed to the company's results. Positioned as a full service provider offering a broad spectrum of services from design support to final test, ams' business retained a leading position in the analog specialty process foundry market.

In its operations, ams successfully completed an unprecedented expansion of manufacturing capacity at its locations in Singapore last year. Two new large-scale production facilities for consumer optical sensing solutions were commissioned, equipped, staffed and brought up to high volume production which including hiring around 8,000 employees in Singapore over the course of last year. ams' in-house front-end manufacturing capacity in Austria was again fully utilized in 2017.

Based on strong market traction and increasing revenue opportunities, ams also decided to accelerate the addition of new internal production capacity for VCSEL laser products last year. ams has started to implement this production capacity investment in Singapore towards the end of the year with mass production planned in 2019.

2. Business Results

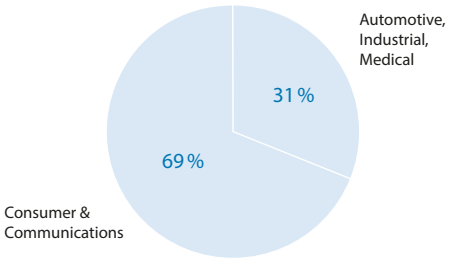
2.1 Development of Revenues

Consolidated group revenues for the financial year 2017 increased by 93% to EUR 1,063.8 million compared to EUR 549.9 million in 2016. This development was primarily due to the exceptional growth in demand in the target market Consumer & Communications (C&C) (161%) in conjunction with solid overall demand for ams' solutions in the Automotive, Industry and Medical markets (AIM). The revenue increase in the company's Consumer & Communications business resulted in particular from the entry in the new market of 3D sensing and high-quality light sensors, as well as the business development of important smartphone manufactures, who use ams-solutions. At the same time, ams' Automotive, Industry and Medical businesses were able to participate attractively in the worldwide development of demand.

The revenue distribution by markets is shown below:

in millions of EUR	2017	% of revenues	2016	% of revenues	Change in %
C&C	730.2	69%	279.4	51%	+161%
AIM	333.6	31%	270.4	49%	+23%
	1,063.8		**549.9**		

Revenue breakdown by markets



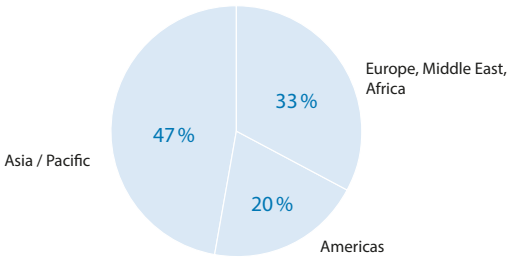
The distribution of revenues by region does not reflect the demand situation in ams' target markets but the geographic billing location of the company's customers. Business in the Americas region showed a significant increase in 2017 compared to the previous year, particularly due to higher revenues from a major customer in that region.

The expansion of the company's sales and distribution network continued last year enabling the addition of new customers and a higher market presence in all regions. Against this backdrop, ams expects all regions to continue to contribute to the overall growth of the company.

The revenue breakdown by region (based on billing location) is shown below:

in millions of EUR	2017	% of revenues	2016	% of revenues	Change in %
EMEA	352.7	33%	203.0	37%	+74%
Americas	212.3	20%	29.5	5%	+620%
Asia / Pacific	498.8	47%	317.5	58%	+57%
	1,063.8		**549.9**		

Revenue breakdown by region



2.2 Orders Received and Order Backlog

Given a remarkable positive business development across all key markets, orders received increased significantly over the course of the year growing from EUR 569.9 million in the previous year 2016 to EUR 1,588.9 million in 2017.

ams' year-end order backlog increased by 298% to a positive level of EUR 541.9 million on December 31, 2017 (EUR 136.1 million at year-end 2016) creating an excellent starting point for 2018.

Revenues and orders developed as follows:

in millions of EUR	2017	2016	Change in %
Revenues	1,063.8	549.9	+93%
Orders received	1,588.9	569.9	+179%
Total order backlog	541,9	136.1	+298%

2.3 Earnings

Gross profit increased to EUR 409.8 million in 2017 compared to EUR 288.1 million in the previous year.

The company's full year gross margin excluding acquisition-related amortization decreased to 43% (2016: 55%), gross margin including acquisition-related amortization also decreased to 39% compared to 52% in the previous year. The major ramp-up of the new production capacities in Singapore in the first half of 2017 led to some unutilized production capacities, which had a slightly negative effect here given lower revenue-related economics of scale. Selling prices for the company's products showed a stable overall level during the year.

Research and development costs, as well as marketing and sales expenses showed an increase in 2017 compared to the previous year. This development resulted from significant product development efforts and an optimization of sales activities as personnel costs showed a further increase.

Administrative costs were also higher compared to the year before due to an increase in personnel costs.

Despite the revenue increase, the operating result (EBIT) (including acquisition-related amortization and share-based compensations costs) decreased due to an increase in fixed costs in conjunction with the expansion of production capacities for the year 2017, by EUR 17.4 million to EUR 75.9 million. In contrast to the lower EBIT, EBITDA (earnings before interest and taxes plus depreciation and amortization) increased by EUR 68.8 million to EUR 224.4 million.

Net result for 2017 decreased to EUR 88.8 million compared to EUR 102.9 million in 2016. The return on equity reached 11% compared to 15% for 2016 while the return on revenues decreased by 11 percentage points to 8% (2016: 19%).

in millions of EUR	2017	2016	Change in %
Gross profit on revenues	409.8	288.1	+42%
Gross margin (excluding acquisition-related amortization and share based compensation)	43%	55%	
Gross margin (including acquisition-related amortization and share based compensation)	39%	52%	
EBITDA	224.4	155.6	+44%
Operating result (EBIT)	75.9	93.3	-19%
EBIT margin (including acquisition-related amortization and share based compensation)	7%	17%	
Financial result	-2.2	4.0	-155%
Result before tax	73.7	97.2	-24%
Net result	88.8	102.9	-14%
Return on equity	11%	15%	
Return on revenues	8%	19%	

2.4 Assets and Financial Position

The balance sheet structure shows a high ratio of fixed to total assets which is common to the semiconductor industry, at the same time intangible assets reflect the acquisitions concluded in 2017. The share of intangibles and property, plant and equipment in the total assets increased from 65% in 2016 to 67% in the reporting period 2017.

The investments in fixed assets affecting cash (capital expenditures) of EUR 581.9 million were significantly higher than the current depreciation and amortization of EUR 148.4 million and amounted to 55% of full year revenues (2016: 17%). The ratio of equity to fixed assets reached 38% in 2017 compared to 70% in the previous year, thus reflecting the investments in fixed assets, acquisitions and strategic investments.

In the past financial year ams completed strategic transactions to acquire 100% of Heptagon group, as well as Princeton Optronics Inc.

The fixed assets include a deferred tax asset of EUR 26.1 million (previous year: EUR 35.4 million). Under the current tax legislation, this tax asset can be carried forward indefinitely but is expected to be used to offset profit taxes within the next five years.

Inventories amounted to EUR 253.9 million at the end of 2017 (2016: EUR 92.9 million). This increase was particularly driven by the expansion of internal manufacturing capacity at a high level of capacity utilization and a comparable level of inventory turnover.

Trade receivables at balance sheet date increased to EUR 284.8 million due to the impact of fourth quarter revenues (2016: EUR 97.2 million). The average period of outstanding receivables showed a slight increase compared to the previous year.

Financial liabilities increased by EUR 786.1 million to EUR 1,258.2 million from EUR 472.1 million in 2016 as a result of drawing long-term credit lines – exploiting the historically low interest rate levels – for acquisitions and strategic investments. For the same reason, net debt increased to EUR 865.9 million in 2017 compared to a net debt position of EUR 256.2 million in 2016. Group equity increased by 24% to EUR 828.6 million due to a capital increase in conjunction with the Heptagon acquisition as well as the positive development of the net result.

Regarding financial instruments we refer to the information in the notes.

in millions of EUR	2017	2016		2017	2016
Assets			**Equity and liabilities**		
Inventories	253.9	92.9	Financial liabilities	1,258.2	472.1
Trade receivables	284.8	97.2	Trade liabilities	308.4	68.2
Other current assets	469.4	249.3	Other liabilities	781.5	158.3
Fixed assets	2,227.1	948.3	Provisions	84.6	56.8
Deferred tax asset	26.1	35.4	Shareholders' equity	828.6	667.6
Total assets	**3,261.3**	**1,423.0**	**Total equity and liabilities**	**3,261.3**	**1,423.0**

Given the higher level of gross debt the company's debt-to-equity ratio increased to 152% compared to 71% in the previous year. At the same time, the equity ratio decreased to 25% (2016: 47%).

	2017	2016
Equity ratio	25%	47%
Debt to equity ratio	152%	71%
Equity to fixed assets ratio	38%	70%

These figures are directly derived from the group financial statements.

2.5 Cash Flow

The operating cash flow decreased to EUR -3.6 million in 2017 compared to EUR 82.3 million in the previous year. This decrease was primarily due to the lower operating result and higher inventory. The cash flow from investing activities was EUR -514.8 million (2016: EUR -71.0 million) including EUR -581.9 million of expenditures for intangible assets, property, plant and equipment (2016: EUR 97.7 million) and EUR 35.8 million for company acquisitions (2016: EUR 48.3 million). Free cash flow amounted to EUR -518.4 million (2016: EUR 11.3 million). The company's available liquidity increased by EUR 108.8 million to EUR 288.4 million at the end of 2017. The cash flow from financing activities amounted to EUR 687.7 million in 2016 compared to EUR 58.5 million in the previous year.

in millions of EUR	2017	2016	Change in %
Operating cash flow	-3.6	82.3	-104%
Cash flow from investing activities	-514.8	-71.0	-625%
Free cash flow	-518.4	11.3	-4,687%
Cash flow from financing activities	687.7	58.5	+1,076%
Effects of changes in foreign exchange rates on cash and cash equivalents	-23.3	6.2	-476%
Cash and cash equivalents	288.4	179.6	+61%

3. Research and Development

ams' technological leadership in the design and manufacture of high performance sensor solutions and analog ICs is based on more than 35 years of intensive research and development activities. In order to secure and strengthen its leading position, the company makes significant investments in research and development on a continuous basis. Research and development expenses amounted to EUR 214.0m last year (20% of revenues) compared to EUR 138.6m in the year before (25% of revenues). Research and development activities mainly comprised sensor solutions, sensors and sensor interfaces for the company's core markets regarding product development as well as the development of specialty variants of CMOS and SiGe processes. The average number of employees in research and development was 1,106 in 2017 (2016: 677).

ams' R&D activities again allowed the filing of a large number of international patents and the publication of numerous papers in international specialist journals and at trade conferences last year.

4. Purchasing and Manufacturing

In purchasing, ams was able to reduce the cost of raw materials and assembly services slightly last year which had a positive effect on the gross profit margin. Given continuously rising personnel costs the cost pressures in manufacturing nevertheless remain high.

Due to the enormous expansions of the production locations in Singapore free production capacity have been raised in the first half of 2017. After the successful ramp-up of the production facilities all capacities of the group were utilized at the second half of 2017. Internal production capacity of the Austrian production location was fully utilized throughout the year 2017. Any unabsorbed fixed costs have been recorded in the income statement.

Gross margin excluding acquisition-related amortization decreased slightly to 43% compared to 55% in 2016, gross margin including acquisition-related amortization decreased as well to 39% from 52% in the previous year. This slightly negative development was mainly due to product mix effects and costs regarding the production ramp-up for the new productions facilities in Singapore.

Given the positive demand environment for its products ams expects another year of very high capacity utilization for 2018.

5. Employees

On average, ams had 7,016 employees in 2017 (2016: 2,175) of which 1,277 worked at the company headquarters in Premstätten (2016: 1,111). The increase of 4,841 employees comprises the addition of 429 employees in research and development, 4,278 employees in production and 134 employees in General and Administration. At 31.12.2017 the ams group employed 11,168 employees.

ams recognizes its responsibility as an important employer in the region. The company again offered a wide range of internal and external training and development opportunities for all employees last year and provided training positions for apprentices.

ams attempts to retain its employees with the help of a long-term remuneration model. A profit sharing program for all ams employees augments the existing employee stock option and incentive programs by way of an attractive direct component. The profit sharing program expresses ams' belief that the company's employees are its most important success factor and honors every employee's contribution to ams' success.

Owing to the earnings in 2017, the total amount for distribution which depends on the operating profit before taxes in relation to full year revenues (EBT margin) decreased and totals EUR 1.6m for 2017 (2016: EUR 1.7m).

Moreover, active internal and employee communications as well as regular employee events which form a company tradition serve to ensure the employees' identification with the company.

6. Environment

Acting responsibly towards the environment is a basic principle for ams in all business operations. ams is dedicated to meeting the highest environmental standards as well as using resources and the environment conservatively. ams has therefore been certified to ISO 14001:2004 for a number of years.

Sustainability as well as efforts to preserve environmental resources and reduce energy costs and carbon dioxide emissions are major concerns for ams which have been supported by a range of activities for many years. Based on a thorough analysis of ams' carbon dioxide emission sources in 2009, measures to achieve further reductions in carbon dioxide emissions are being defined each subsequent year.

ams also submits information on its carbon dioxide emissions to the Carbon Disclosure Project, a global transparency initiative which has created the world's largest freely available database of corporate carbon dioxide emissions.

7. Subsidiaries and Branch Facilities

ams currently has subsidiaries in Switzerland, Italy, Germany, France, Belgium, the United Kingdom, Spain, Portugal, Sweden, the U.S., the Cayman Islands, the Philippines, China, Japan, Korea, Slovenia, India and Singapore. The subsidiaries in the USA, Switzerland, Italy, Spain, the United Kingdom, Slovenia, Germany, Japan and India carry out development, marketing and sales activities, while the subsidiaries in France and China are active in marketing and sales and technical support. The subsidiary in the Philippines is responsible for production activities in testing, while the subsidiary in Korea is responsible for sales and assembly in the region. The subsidiary in Singapore conducts production, marketing, sales and research and development activities. Branch facilities exist in Hong Kong, Singapore and Taiwan.

Principal shareholdings: The investment in New Scale Technologies, Inc., Victor, New York (USA), remained unchanged at 34.5%. New Scale Technologies develops piezo-based miniature motor technologies and licenses products and technologies to industrial partners.

8. Risk Management

Operating on a global basis, the ams group is exposed to a variety of risks that are inextricably linked to business activities. In order to identify, evaluate and counteract these risks in a timely manner, ams has developed and implemented tight internal risk management systems. This risk management system was implemented and benchmarked against best practices in conjunction with the company's auditors. The risk management process in place requires the business units to constantly monitor and evaluate risks. Regular risk reports are prepared for the management board and supervisory board. This ensures that major risks are identified and counteraction can be taken at an early stage.

The internal audit function complements the risk management process. In close alignment with the supervisory board's audit committee it aims to analyze internal processes and if necessary propose improvements.

Business Interruption Risk

The company's state-of-the-art 200mm wafer manufacturing facility went into operation in 2002. Although 15 years old the facility is regarded as comparatively new by semiconductor industry standards. In addition, the continuous maintenance and renewal process ensures uninterrupted operation of the production facility. Therefore the risk of breakdowns or prolonged downtime is relatively low. In addition, this risk is being minimized further by preventive maintenance activities. The business interruption risk is additionally insured for the replacement price and against loss of earnings for 18 months. ams' insurer, FM Global, has awarded the company – as one of a select number of semiconductor manufacturers – the HPR (highly protected risk) status.

Financial Risks

Risk management is handled centrally by the treasury department in accordance with guidelines issued by the management board. These detailed internal guidelines regulate responsibility and action parameters for the areas affected. The treasury department evaluates and hedges financial risks in close cooperation with the business units.

Receivables and Credit Risk

ams operates a strict credit policy. The creditworthiness of existing customers is constantly checked and new customers undergo a credit evaluation. Under ams' treasury and risk management policy, investments in liquid securities and transactions involving derivative financial instruments are only carried out with financial institutions that have high credit ratings. As of the balance sheet date there were no significant concentrations of credit risk.

Interest Rate Risk

Interest rate risk – the possible fluctuation in value of financial instruments due to changes in market interest rates – arises in relation to medium and long-term receivables and payables (especially borrowings). ams' treasury policy ensures that part of the interest rate risk is reduced by fixed-interest borrowings. On the liability side, 52% of all amounts owed to financial institutions are at fixed rates. Of the remaining borrowings on a floating rate basis (48%), 51% will be repaid over the next two years. The remaining floating rate borrowings undergo continual checks with regard to the interest rate risk. On the asset side, the interest rate risks are primarily attached to time deposits and securities in current assets that are tied to the market interest rate.

Foreign Exchange Risk

Financial transactions in the semiconductor industry are predominantly carried out in US dollars. To hedge the currency risk, all transaction and conversion risks are constantly monitored. Within the group, cash flow streams in the same currency are offset (netting). Currency fluctuations during foreign currency transactions mainly concern the US dollar. From the company's point of view, due to the extreme volatility in the currency markets, it is not possible to engage in economically feasible, efficient, and low risk currency hedges.

Product Liability and Quality Risk

The products manufactured by ams are integrated into complex electronic systems. Faults or functional defects in the products produced by ams may have a direct or indirect effect on the property, health or life of third parties. The company is not in a position to reduce or exclude its liability towards consumers or third parties in sales agreements. Every product that leaves the company undergoes several qualified checks regarding quality and function. In spite of quality control systems certified to ISO/TS 16949, ISO/TS 13485, ISO 9001 und ISO 14001, product defects may occur and possibly only show up after installation and use of the finished products. Although this risk has been appropriately insured, quality problems could negatively impact ams' assets, financial and earnings position.

Patent Infringement Risk

ams manufactures complex ICs using various process technologies, line widths and production facilities. Like industry competitors, the company constantly has to develop these technologies further. Should ams infringe any existing patents while consistently monitoring processes, production methods, and design blocks protected under patent law as well as related comprehensive licensing, this may negatively impact the assets, financial and earnings position of the company as well as the ams share price.

9. Events after the Balance Sheet Date

On February 22, 2018, the company acquired 100% of the shares of KeyLemon SA and thus gained control of the acquired company. The acquisition has been made by cash consideration. The contingent consideration has been determined as the present value based on the expected value for the amount to be paid based on possible scenarios.

To ensure Heptagon's business achieved the expected success in 2017, ams had to provide financing for significantly higher levels of capital expenditures and committed significantly more resources than projected. To adequately reflect this situation, ams has submitted a proposal on a revised earn-out structure to all former Heptagon shareholders. The revised earn-out structure replaces the previous combination of cash payment and ams shares portion with a mainly increase of the share consideration, thereby the cash payment decreases.

The key element of the revised structure is a total distribution of up to 3.9 million ams shares at the average closing price of CHF 99.15 resulting from the 15 trading days before yesterday's proposal date (20 February 2018). The implementation of the proposal is contingent on a threshold of 60% of preferred Heptagon shares (approximately 56% of total Heptagon shares) represented by former Heptagon shareholders having offered their acceptance. Therefore an estimate of the financial impact is not possible at this time.

10. Outlook

Supported by more positive expectations for the development of the world economy, global industrial production and private consumption in the current year, ams expects its business to show meaningful growth in 2018 based on the market launch of new advanced sensor solutions, high run rates for existing products and the production ramp-up of a range of design-wins across end markets.

For the sensor and analog segments of the worldwide semiconductor industry, market researchers assume market volume to expand further in 2018 and currently expect year-on-year growth in the middle to higher single-digit percentage range (WSTS, February 2018). In contrast and in line with published expectations, ams is confident at this time to achieve a revenue growth rate well above the expected market growth rate for the current year. ams anticipates gross profit margin for 2018 to remain attractive, reflecting the business structure of the company. ams also expects the operating and net result for the current year to develop positively despite further increases in absolute research and development as well as sales and marketing expenses.

However, should global semiconductor demand and the macroeconomic environment develop unfavorably in 2018 and/or the USD show notable weakness, ams would experience an evident impact on the development of its business and earnings.

ams' market-leading expertise in sensor solutions and its clear strategy of focusing on key sensing markets is driving an expanding range of significant growth opportunities for the company. These include new and upcoming sensing applications in smartphones and other mobile devices as well as the rapidly growing use of advanced sensor technologies in automotive, industrial, and medical applications.

Implementing its growth strategy, ams pursues a continued leadership position in its target markets, the expansion of business with key accounts and a higher penetration of its global customer base as important mid-term priorities.