

Corporate Governance report

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 Semiconductor AG pursuant to No. 3.10 of the German Corporate Governance Code. This chapter also includes the statement on corporate governance in accordance with Section 289a HGB (Commercial Code) and the remuneration report.

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

For the Management Board and the Supervisory Board of Elmos Semiconductor AG, corporate governance means the implementation of responsible and sustainable business management with the necessary transparency across all areas of the Group. Management Board and Supervisory Board have again concerned themselves intensively in fiscal year 2015 with the provisions of the German Corporate Governance Code. In doing so, the amendments to the Code released in May 2015 by the Government Commission were considered. In September 2015, Supervisory Board and Management Board jointly released the declaration of compliance in accordance with Section 161 AktG once again. Apart from the reported deviations, all recommendations of the German Corporate Governance Code are complied with. All previously released declarations of compliance have been made permanently available on the Elmos website.

COMPLIANCE

One of the essential tasks of the Management Board is the control and monitoring of compliance in the Group.

Compliance stands for the observance of applicable law as well as of all rules and guidelines that exist within the Company. The compliance program at Elmos provides the organizational foundations for this. Its purpose is to strengthen the reputation of Elmos as a reliable business partner in a sustainable manner, prevent risks, and thus contribute to the Company's overall success.

The essential compliance principles applied by Elmos have been put down in a code of conduct. This code includes guidance on the interaction with business partners and colleagues, dealing with information and data, and avoiding conflicting interests, and it also addresses the issues of workplace safety and environmental protection. The Elmos Code of Conduct is binding for all employees of Elmos Semiconductor AG. Each new employee receives a copy with his employment contract and undergoes an introductory course addressing the most important

topics. The Code of Conduct is permanently available on the Company's website. Aside from our general Elmos Code of Conduct there is also a version for our business partners in which we inform them about the Elmos guidelines.

Elmos has a compliance team that routinely evaluates the compliance system, launches and implements new measures, and initiates random testing in individual areas. Among other efforts in the year under review, in-house guidelines for various business areas were revised and advanced. The Company's intranet gives employees the opportunity to access the most important compliance guidelines, e.g. the IT security guidelines, purchasing guidelines, or the Company's compliance organization chart. The Compliance Officer is the person to address in all matters of compliance in addition to the respective superior. The Compliance Officer is in charge of the investigation of compliance cases and gives quarterly reports to the Management Board on compliance cases, requests, and new measures in order to enable the Management Board to assess the effectiveness of the compliance system. The Supervisory Board is informed annually about the compliance system and all measures of relevance.

Employees and other persons with access to insider information find entry in an insider list and are informed about the applicable statutory provisions. They are regularly referred to trade restrictions due to their insider status.



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 (Stock Corporation 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 May 5, 2015 (released in the official section of the Federal Gazette on June 12, 2015) 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, other 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 Management Board’s variable remuneration components do not provide for a payment cap with respect to all existing contracts at present (GCGC No. 4.2.3 sentence 6). The part that includes individual performance targets provides for payment caps today already. New contracts shall include payment caps that apply for all variable remuneration components.
- > 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 10 and 11). 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, pursuant to the resolution of the Annual General Meeting of May 13, 2014, is disclosed 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 result in individualization of the Management Board remuneration (GCGC No. 4.2.5 sentence 6).
- > In defining the targets for the composition of the Supervisory Board of Elmos Semiconductor AG, a regular time limit for membership of the Supervisory Board is not taken into consideration (GCGC No. 5.4.1 sentence 2). Elmos Semiconductor AG does not regard a regular time limit for membership of the Supervisory Board as productive. The balance between continuity and renewal should be found in the individual case and take into account the composition of the Supervisory Board as a whole as well as the individual situation and skill profile of each of its members.
- > Remuneration of the Supervisory Board members is disclosed in the corporate governance report with reference to its components but not individualized (GCGC No. 5.4.6 sentence 5). Compensation paid by Elmos Semiconductor AG to Supervisory Board members for individually performed

services, in particular consultation 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 each half-year or quarterly financial report prior to the respective report’s 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 13, 2013 and announced by the Federal Ministry of Justice in the official section of the Federal Gazette on June 10, 2013 have been complied with since the release of the declaration of compliance in September 2014, subject to the exceptions listed in the declaration of compliance of September 2014 as mentioned under I.”

Dortmund, September 2015

On behalf of
the Supervisory Board


Prof. Dr. Günter Zimmer
Chairman of the Supervisory Board

On behalf of
the Management Board


Dr. Anton Mindl
CEO

WORKING METHODS OF MANAGEMENT BOARD AND SUPERVISORY BOARD

Management Board and Supervisory Board share the commitment to 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 (overview on page 21); 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 all 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. Upon the nomination of candidates for the Management Board, the Supervisory Board examines the eligibility of women and men equally. Finding the right person for the position according to his or her qualification for the benefit of the Company remains the top priority.

Management Board and Supervisory Board work together closely based on mutual trust. The Management Board always 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 starting on page 22. 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 of Elmos Semiconductor AG has six members, elected for five years in accordance with the Articles of Incorporation. Pursuant to the provisions of the German One-Third Participation Act (Drittelbeteiligungsgesetz), the Supervisory Board 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 most recent elections were held in 2011 so that the acting Supervisory Board is elected until the 2016 Annual General Meeting. The Supervisory Board does not set up committees.

GOALS OF THE SUPERVISORY BOARD WITH RESPECT TO ITS COMPOSITION

In its meetings held on September 2, 2015 and March 2, 2016, the Supervisory Board has renewed the goals and principles established with respect to the Board's composition. Among them are 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 other goals. The Supervisory Board has also defined an age limit for the Board's members at the time of election. Of the four shareholder representatives on the Supervisory Board, at least one member shall be independent within the meaning of No. 5.4.2 of the German Corporate Governance Code. The target with respect to the adequate participation of women has been redefined within the framework of the implementation of the "Act on the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector" (see below).

The goals and principles are fully realized with the present composition of the Supervisory Board of Elmos Semiconductor AG and will also be considered for future nominations. The election proposals made by the Supervisory Board for the election of Supervisory Board members will primarily remain oriented toward the Company's benefit while considering all above-mentioned goals.

The composition of the Supervisory Board is listed on page 24 of this Annual Report.

IMPLEMENTATION OF EQUAL PARTICIPATION

In accordance with the "Act on the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector", Elmos has defined quotas

for the respective underrepresented sex for Management Board and Supervisory Board by the Supervisory Board and for the first and second senior executive levels by the Management Board.

Both on the Supervisory Board and the Management Board of Elmos Semiconductor AG, there are no women at present. At the next senior executive level, the share of women is 4%, at the second-next senior executive level, it comes to 5%. All data refer to the employees of Elmos Semiconductor AG in Germany.

Due to the short time span for the implementation of targets until June 30, 2017 and also due to the decidedly technical orientation with a typically low participation of women, maintaining the status quo was determined as the target for all groups of people. In selecting suitable

candidates, Supervisory Board and Management Board will assess the suitability of female and male applicants equally. However, for the individual choice the candidate's suitability for the job will remain the deciding criterion for the benefit of the Company. Elmos thus keeps within the framework of statutory provisions.

Due to the decidedly technical orientation of the Company, most executives at Elmos have completed studies of corresponding subjects. Women have been and still are noticeably underrepresented in such study paths.

Based on the average age, the Elmos share of women in executive positions reflects the level of the corresponding graduating class. If women are increasingly schooled in technical professions, the share of women among the staff will probably rise as a whole and thus correspondingly in executive positions as well.

SHAREHOLDERS AND GENERAL MEETING

Shareholders make use of their rights at the Annual General Meeting. Prior to the meeting, they receive the agenda, information regarding participation, and upon request the Annual Report.

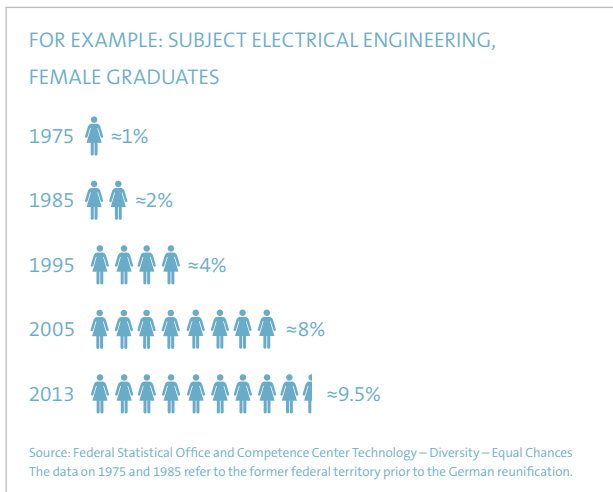
All the relevant documents relating to the upcoming and past Annual General Meetings as well as further information on participation in and voting at the General Meeting are available on our website – also in English – and can be requested in print from the Company.

Shareholders who cannot attend the General Meeting in person have the option to assign their voting rights to proxies nominated by Elmos. The proxy can be contacted throughout the entire length of the General Meeting. Furthermore, the Annual General Meeting is webcast in its entirety on our website. After the General Meeting, shareholder presence and voting results will be announced on the Internet. The next Annual General Meeting will be held on May 11, 2016 in Dortmund.

Dates of importance to the shareholders are compiled annually in a financial calendar which is published on the Internet and in the Annual Report. All quarterly and annual financial reports are available on the website. The CEO and the CFO regularly provide information on the current position of the Company to analysts and investors within the framework of roadshows and conferences. The investor relations team of Elmos Semiconductor AG is also available for any questions the shareholders may have.

ANTICIPATORY RISK MANAGEMENT

Efficient risk management contributes to the success of sound corporate governance. Risk management of this grade does its part in detecting risks at an early stage, assessing them, and initiating adequate countermeasures. All company divisions are involved in the risk management system implemented at Elmos. Parameters for risk assessment are the probability of occurrence and the estimated amount of loss. This risk assessment is regularly updated, even at short notice if necessary. We give account of the principles of the risk



management system as well as of current corporate risks in the joint management report under “Opportunities and risks”, starting on page 62.

AUDIT OF FINANCIAL STATEMENTS

Before submitting the proposal for the appointment of the auditor, the Supervisory Board once again obtained a declaration from the auditor on relationships between the auditor, its boards, and its audit manager with the Company or the Company’s Board members for fiscal year 2015. This declaration furnished no doubts about auditor independence. Compliant with No. 7.2.3 of the German Corporate Governance Code, the Supervisory Board arranged for the auditor to give account without delay of any material findings and incidents to occur during the performance of the audit. The Supervisory Board also determined that the auditor inform the Supervisory Board or make note in the audit report if the auditor establishes differences from the declaration of compliance as issued by the Management Board and the Supervisory Board. No inconsistencies of this kind were established.

STOCK OPTION PLANS

Elmos has issued stock option plans for employees, executives and Management Board members. The stock price is a central criterion for our shareholders to determine the return on an investment in the Company. The link to the stock price is therefore the beneficiaries’ incentive within the scope of the stock option plan.

The plans are explained in detail in the notes to the consolidated financial statements; therefore please refer to note 23 for further information.

REMUNERATION REPORT

Total remuneration of the Management Board

The Supervisory Board decides 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 stock-based payment as well as fringe benefits and pension benefits. The Company does not provide an individualized disclosure of the remuneration with respect to privacy protection. Management Board and Supervisory Board agree that such a disclosure would not contribute to greater transparency in the form of additional information relevant to the capital market. 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.

Management Board remuneration comprises fixed components and variable incentive components. In fiscal year 2015, the members of the Management Board received a total fixed remuneration of 1,515 thousand Euro (2014: 1,512 thousand Euro) and variable remuneration of 997 thousand Euro (2014: 775 thousand Euro). The variable incentive components are linked to the Group’s current

earnings before taxes on the one hand and to personal, individualized targets, agreed on annually with the Supervisory Board, on the other hand.

Within the framework of a share matching plan, no stock claims were issued to the members of the Management Board in fiscal year 2015 (2014: 3,488 stock claims, time value: 86 thousand Euro). There are indirect pension commitments of a pension fund to members of the Management Board of Elmos. The pension fund has taken out corresponding reinsurance policies for the completely congruent coverage of its plan contributions. In 2015 payments for these reinsurance policies amounted to 454 thousand Euro (2014: 451 thousand Euro), included in the fixed components of the remuneration.

Remuneration of former Management Board members or their surviving dependents amounted to 224 thousand Euro in fiscal year 2015 (2014: 167 thousand Euro). In addition, insurance premiums of 111 thousand Euro were paid for this group of beneficiaries (2014: 111 thousand Euro). Facing these amounts are reimbursements from reinsurance policies in the amount of 119 thousand Euro (2014: 123 thousand Euro). Pension provisions for former Management Board members or their surviving dependents came to 1,543 thousand Euro as of December 31, 2015 (2014: 1,610 thousand Euro). After setting off pension provisions against the time value of pension plan reinsurance, 67 thousand Euro (2014: 192 thousand Euro) remain as part of the pension provisions altogether recognized for the Group.

Apart from pension commitments 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 occupation. 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.

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 receive fixed and incentive payments in addition to the reimbursement of their expenses. The incentive remuneration is linked to the dividend and thus oriented toward the Company's long-term and sustained success. 25% of the fixed remuneration and 50% of the variable remuneration are paid in shares of the Company. A holding period of three calendar years as of the shares' respective grant date applies to shares received as remuneration. The Supervisory Board members are not granted Elmos stock options for their positions on the Board.

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

The fixed remuneration paid to members of the Supervisory Board in fiscal year 2015 amounted to the total of 84 thousand Euro (2014: 82 thousand Euro). This amount includes expenses and disbursements. Payments of variable remuneration amounted to 218 thousand Euro (2014: 158 thousand Euro). The Company paid 0 thousand Euro (2014: 22 thousand Euro) to members of the Supervisory Board for consulting and other services rendered.

DIRECTORS' DEALINGS

Persons who hold executive positions with an issuer of stock and persons closely related to such a person are obligated by law to disclose the purchase and sale of such stock in accordance with Section 15a WpHG (Securities Trading Act). All such directors' dealings are

announced immediately upon notification Europe-wide and made public on the Company's website. For detailed information about directors' dealings, please refer to the notes to the consolidated financial statements (note 38) in this Annual Report.

HOLDINGS OF STOCK AND STOCK OPTIONS

The disclosures of the Company's stock and stock options held by members of Management Board and Supervisory Board are explained in detail in the notes to the consolidated financial statements; please refer to note 35 for this information. In accordance with No. 6.3 GCGC, the members of the Supervisory Board had combined direct or indirect holdings of approx. 34.5% and the members of the Management Board had combined direct or indirect holdings of 1.2% of the stock issued by the Company (as of December 31, 2015).

Sustainability

Sustainability is part of our corporate strategy. We perceive added value in a comprehensive way and orient the success of our business activities not only toward financial key figures but we also want to connect that success to social acceptance.

ENVIRONMENT

Environmental protection is one of our guiding corporate principles. Acting responsibly today means securing the future. The following principles determine our conduct:

- > Legal compliance: Laws and provisions on environmental protection and other standards the Company has committed to are strictly complied with.
- > Minimization of environmental hazards: Environmental issues concern many processes and patterns of behavior in the Company. In this regard, we aim for an economical and efficient use of resources, the application of economically sound state-of-the-art technologies, and precaution against accidents and the interruption of business operations.
- > Sense of responsibility among the staff: Each employee pays attention to environmentally responsible conduct. The active promotion of a sense of responsibility by employee training is a constant management task.
- > Eco management: Elmos has implemented an eco management system based on a structure of clearly defined responsibilities and tasks.

-> Continuous improvement: The goal of the eco protection management system is a systematic and continuous improvement of our Company's environmental protection performance.

Elmos is certified in accordance with the high eco protection standards of DIN 14001 and the energy management certificate ISO 50001. One example of the accord between cost savings and environmental protection is the combined heat and power plant at the Dortmund location. Elmos generates a considerable amount of the required electric power by itself with its own power plant, in operation since 2012.

In 2015 the cooling units in production were optimized, among other measures, and conventional pumps were replaced by high-efficiency pumps. One reason for this was to reach the targets defined by the Federal Ministry for Economic Affairs and Energy (reduction of primary energy consumption by 20% until 2020). Power consumption of numerous plants has been improved as well.

In 2015 Elmos released statements on its policies with respect to conflict minerals, the EU chemicals regulation REACH (**R**egistration, **E**valuation, **A**uthorization and **R**estriction of **C**hemicals) and EU regulation RoHS (**R**estriction of **H**azardous **S**ubstances). These statements as well as other details of our environmental activities can be found on our website (www.elmos.com/english/about-us/responsibility).

EMPLOYEES

For Elmos as a technology company, the employees' know-how is a particularly crucial factor. Their motivation, expert knowledge and flexibility are the prerequisite to the Company's long-term success. Especially with regard to the development of new products and processes, the employees are the deciding criterion for innovation and growth.

The principles of proper conduct towards and among employees are defined in our code of conduct. The code addresses issues such as values, law-abiding behavior, conflicting interests, dealing with information, data and the Company's assets, etc. The code of conduct is binding for all employees and represents a part of our corporate culture.

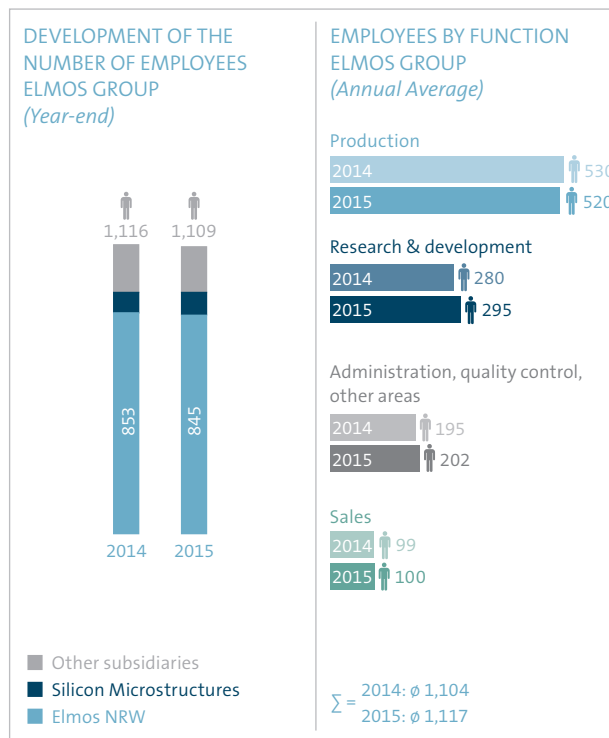
In order to ensure the continuous professional development of the employees, Elmos offers specific topical training courses. Over the past year, selected training courses for certain employee groups were also conducted in the form of efficient online training.

In-house health management is an essential social standard implemented by Elmos Semiconductor AG. Elmos wants to provide more than just a workplace and the Company is aware of its social responsibility for its employees. Health management at Elmos rests on four pillars: general health programs, executive coaching, special offers for employees doing shift work, and talks with employees returning from sick leave. The health team

provides for certain medical examinations, screenings, and influenza vaccination during working hours. In 2015 Elmos also offered courses for nicotine withdrawal. Moreover, the health team organizes the participation in running events and training. Elmos employees once again took part successfully in several business run events and in a dragon boat race on Dortmund's Lake Phoenix in 2015. Another Elmos soccer cup was held as well.

Among other benefits that go beyond the usual are the in-house cafeteria, our own parking garage, and our in-house gym, providing massages and various training programs.

At its locations in Germany's most-populated federal state North Rhine-Westphalia (NRW), Elmos is able to recruit from a large number of well-trained young engineers as there are more than 50 universities and colleges in the vicinity. Elmos has maintained close cooperation with some of them ever since the Company's foundation and holds a unique position as the region's only semiconductor manufacturer. Elmos is also active in recruitment events in the region, such as "einstieg" for high school students or "konaktiva" for college students, and on the Internet of course (job search engines, Xing, our own website) in order to find suitable applicants for openings. We cooperate with high schools and local institutions of education and hold informative events for college students.



Furthermore, Elmos awarded graduates of electrical engineering of the Technical University of Dortmund for their excellent degrees for the third time at the end of 2015. This way Elmos seeks to increase its popularity among college students and to present itself early on as an attractive employer.

The total number of employees in the Group has gone slightly down by 0.6% to 1,109 in 2015 (December 31, 2014: 1,116). This also applies for the number of employees at NRW locations, reaching the number of 845 as of December 31, 2015 (December 31, 2014: 853). On annual average, the number of employees of the Elmos Group rose to 1,117 (2014: 1,104). The average age of the staff was unchanged at 41 years in 2015 (2014: 41 years).

Elmos offers professional training in many technical and commercial professions with an emphasis on schooling microtechnologists. At the end of 2015, 53 trainees (2014: 42) were employed in Dortmund.

SOCIAL RESPONSIBILITY

Elmos honors its social commitment with donations, sponsoring, and other ways of support. Elmos particularly wants to promote projects that raise the interest in technical professions among young people. Apart from that, Elmos also wants to emphasize its local social commitment. Some of the donations went to a shelter for street kids in Dortmund and the "Kinderwünsche" (children's wishes) campaign devoted primarily to children in need.