



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 pursuant to No. 3.10 of the German Corporate Governance Code. This chapter also includes the statement on corporate governance in accordance with Sections 289a, 315a HGB (Commercial Code) and the remuneration report.

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 Corporations Act):

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

For the Management Board and the Supervisory Board of Elmos, 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 in financial year 2016 with the provisions of the German Corporate Governance Code. In September 2016, Supervisory Board and Management Board 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 German Corporate Governance Code are complied with. All previously released declarations of compliance have been made permanently available on the Elmos website on the internet.

COMPLIANCE

One of the essential tasks of the Management Board as a whole 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. Elmos has a compliance management system. 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 Management Board has appointed a compliance officer who supervises and develops the compliance program together with his team. At international locations and subsidiaries,

"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, 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 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 the Supervisory Board members is not provided for (GCGC No. 5.4.1 sentence 2). 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 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 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 2015 with the exceptions mentioned above under I."

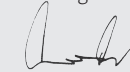
Dortmund, September 2016

On behalf of the
Supervisory Board



Prof. Dr. Günter Zimmer
Chairman of the Supervisory Board

On behalf of the
Management Board



Dr. Anton Mindl
Chief Executive Officer

the compliance officer can rely on the support of local compliance officers in many cases. Potential breaches of compliance and cases of suspicion are evaluated by the compliance officer. The compliance officer reports regularly on compliance to the Management Board. The Supervisory Board is informed at least once a year about the compliance system and all measures of relevance.

Elmos commits all its employees to compliance with a code of conduct, summarizing all guiding principles applied by the Company. Employees are trained regularly on the subject of the code of conduct. In addition to that, a compliance site is available to all employees on the intranet, providing the most important information such as the persons to address in compliance matters and relevant documents, e.g. purchasing guidelines or IT security guidance. There is also a code of conduct directed at suppliers and business partners. The codes are available for download on the internet.

Employees and other persons with potential access to insider information find entry in an insider register and are informed about the applicable statutory provisions. They are regularly referred to statutory and internal trade restrictions.

WORKING METHODS OF MANAGEMENT BOARD AND 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 (overview on page 15); 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.

Management Board and Supervisory Board work closely together 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 16. The chairman gives a report to the shareholders on the

Supervisory Board's work over the past financial year at each Annual General Meeting.

The Supervisory Board of Elmos 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 2016 so that the acting Supervisory Board is elected until the 2021 Annual General Meeting. The Supervisory Board does not set up committees.

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. 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 additional goals. The Supervisory Board has also defined an age limit for its 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 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. While considering all above-mentioned goals, the election proposals made by the Supervisory Board for the election of Supervisory Board members will primarily remain oriented toward the Company's benefit.

The composition of the Supervisory Board is listed on page 19 of this Annual Report.

IMPLEMENTATION OF EQUAL PARTICIPATION

In accordance with applicable statutory provisions, as of September 30, 2015 Supervisory Board and Management Board defined quotas according to the status quo for the representation of women on Supervisory Board and Management Board as well as for the first and second senior executive levels. These quotas are as follows: 0% for Supervisory Board and Management Board, 4% for the first and 5% for the second senior executive level. Pursuant to statutory provisions, these quotas will be newly determined as of June 30, 2017. In selecting suitable candidates, Supervisory Board and Management Board 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. Both on the Supervisory Board and the Management Board of Elmos Semiconductor AG, there are no women at present. At the first senior executive level, the share of women is 4%, at the second senior executive level, it comes to 5%. Elmos thus fulfills all determined quotas for the women's

share at Elmos and complies with statutory provisions. All data refer to the employees of Elmos Semiconductor AG in Germany as of December 31, 2016.

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 in good time.

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 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. 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, 2017 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 our website. 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.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Responsible risk management contributes to the success of sound corporate governance. Risk management does its part in detecting risks at an early stage, assessing them, and initiating adequate countermeasures. The Management Board reports regularly to the Supervisory Board on risk management and the internal control system. The principles of the control and risk management system as well as current corporate risks can be found in the combined management report under "Opportunities and risks" starting on page 60.

AUDIT OF FINANCIAL STATEMENTS

Before submitting the proposal for the appointment of the auditor, the Supervisory Board 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 financial year 2016 once more. 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

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 issued stock option plans, a share matching plan, and other individual share-based payment programs 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 of certain remuneration components to the stock price is therefore the beneficiaries' incentive. Stock option 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 share-based payments 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 financial year 2016, the members of the Management Board received a total fixed remuneration of 1,509 thousand Euro (2015: 1,515 thousand Euro) and variable remuneration of 1,280 thousand Euro (2015: 997 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.

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 2016, payments for these reinsurance policies amounted to 408 thousand Euro (2015: 454 thousand Euro), included in the fixed components of the remuneration.

Remuneration paid by the Company to former Management Board members or their surviving dependents amounted to 120 thousand Euro in financial year 2016 (2015: 224 thousand Euro). In addition to that, insurance premiums of 113 thousand Euro were paid for this group of beneficiaries (2015: 111 thousand Euro). Facing these amounts are reimbursements from reinsurance policies in the amount of 116 thousand Euro (2015: 119 thousand Euro). Pension provisions for former Management Board members or their surviving dependents came to 1,520 thousand Euro as of December 31, 2016 (2015: 1,543 thousand Euro). Total pension provisions for former Management Board members or their surviving dependents recognized for the Group are covered in full by the time value of pension plan reinsurance policies.

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 occupation 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 financial year. The terms of share-based payments already promised may exceed the respective Management Board member's occupation 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 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 potentially 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 financial year 2016 amounted to the total of 87 thousand Euro (2015: 84 thousand Euro). This amount includes expenses and disbursements. Payments of variable remuneration amounted to 218 thousand Euro (2015: 218 thousand Euro). The members of the Supervisory Board received no further compensation for individually performed services such as consulting services.

MANAGERS' TRANSACTIONS

Persons who hold executive positions with an issuer of stock (for Elmos, the members of Management Board and Supervisory Board) and persons closely associated to such a person 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). All such reportable securities transactions, so-called managers' transactions, are announced immediately upon notification Europe-wide and made public on the Company's website. Detailed information about managers' transactions is available on the internet at www.elmos.com.

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. 6.2 GCGC, the members of the Supervisory Board had combined direct or indirect holdings of 34.2% and the members of the Management Board had combined direct or indirect holdings of 1.8% of the stock issued by the Company or financial instruments linked to the Company's stock (as of December 31, 2016).

The image shows the interior of a car, focusing on the driver's side. The dashboard features a digital instrument cluster with two circular gauges and a central display showing a car icon. The steering wheel is black with silver accents. The center console has a large touchscreen display and a gear shifter. Ambient lighting is visible as a warm orange glow along the dashboard, door panels, and center console. The overall design is modern and sleek.

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.

Ambient lighting: Elmos chips provide consistent interior light in the car – over the car's entire life

ENVIRONMENT

Environmental protection is part of our entrepreneurial thinking. Acting responsibly today means securing the future. The following principles determine our environmental 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 is advised to pay attention to environmentally responsible conduct. The active promotion of a sense of responsibility among employees is a constant management task.

- > Eco protection management: Elmos has implemented an eco protection 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 EN ISO 14001 and the energy management certificate DIN EN ISO 50001. The declarations on dealing with conflict minerals, the EU chemicals regulation REACH (Registration, Evaluation, Authorization and Restriction of Chemicals), and EU regulation RoHS (Restriction of Hazardous Substances) as well as other detailed information on our eco protection efforts can be found on our website (www.elmos.com/english/about-us/responsibility).

In 2016, the Elmos locations focused on optimizing energy efficiency. Of the utmost importance in this regard is the Dortmund main location with the production facilities. In the year under review, a previously necessary cooling unit could be taken out of service based on the smart utilization of cooling energy generated. Thus we keep continuing the trend of the past few years towards an optimization of the energy-intensive cooling units. This effort also took place against the backdrop of reaching the targets defined by the Federal Ministry for Economic Affairs and Energy (reduction of primary energy consumption by 20% until 2020). 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.



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 staff, Elmos offers its employees subject-specific training courses. Selected training courses for certain employee groups are conducted in the form of online training.

In-house health management is an essential social standard implemented by Elmos. It rests on four pillars: general health programs, executive coaching, special offers for employees doing shift work, and talks with

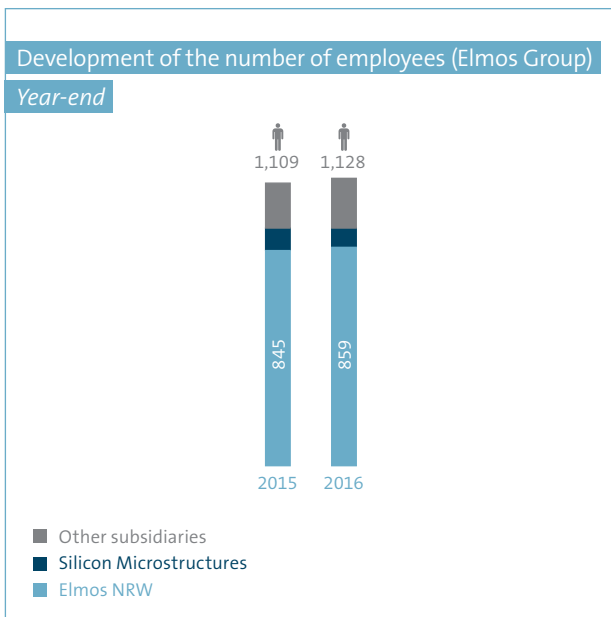
Elmos Code of Conduct for employees



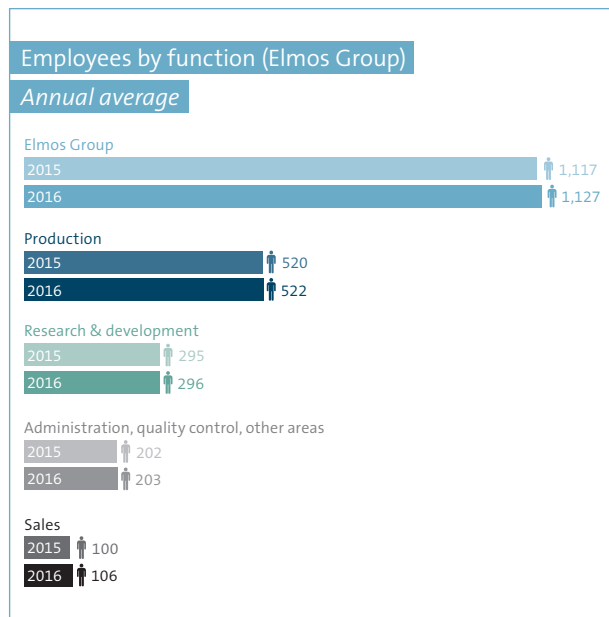
employees returning from sick leave. The health team provides for certain medical examinations, screenings, and influenza vaccination during working hours. In 2016 Elmos offered another course for nicotine withdrawal. Moreover, the health team organizes the participation in running events and training. Elmos employees once again took part successfully in several business run events in 2016. Other sport events such as an in-house soccer cup were 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 North Rhine-Westphalia (NRW), Elmos is able to recruit from a large number of well-trained young engineers as there are a great number of universities and colleges in the vicinity. Elmos has maintained close cooperation with some of them ever since the Company's foundation. Elmos is also active in recruitment events in the region, such as "Einstieg" for high school students or "konaktiv" for college students, and on the internet of course 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 and information technology of the Technical University of Dortmund for their excellent bachelor degrees for the fourth time at the end of 2016. 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 went slightly up from the end of the year 2015 by 1.7% to 1,128 in 2016 (December 31, 2015: 1,109). The number of employees at NRW locations reached 859 as of December 31, 2016 (December 31, 2015: 845). On annual average, the number of employees of the Elmos Group rose to 1,127 (2015: 1,117). The average age of the staff was 42 years in the year 2016 (2015: 41 years).



Elmos offers professional training in many technical and commercial professions with an emphasis on schooling microtechnologists. At the end of 2016, 51 trainees (2015: 53) were employed in Dortmund.

SOCIAL RESPONSIBILITY

The Elmos Foundation was established in the past financial year. Donators are Dr. Klaus Weyer and Prof. Dr. Günter Zimmer. Both were founders of Elmos Semiconductor AG and are members of the stock corporation's Supervisory Board today. The foundation's endowment is scheduled to be invested in stock of Elmos Semiconductor AG for the most part. Dividend returns will be used for charitable purposes. The Foundation will also be supported by an annual contribution provided by the stock corporation. The Foundation's non-profit work will focus on three topics. Projects for the promotion of education and science as well as local activities at the locations of Elmos Semiconductor AG will receive support. Moreover, campaigns fighting worldwide poverty will also benefit from the Foundation. Please refer to the Foundation's website for further information (www.elmos-stiftung.de).

