

# Corporate governance

and statement on corporate governance

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

## STATEMENT ON CORPORATE GOVERNANCE

### Implementation of the German Corporate Governance Code

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

### Compliance

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

exists, and reports regularly on compliance to the Management Board. The Supervisory Board is informed at least once a year about the CMS and all measures of relevance.

### Working methods of the Management Board and the Supervisory Board

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

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

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

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

### Declaration of compliance with the German Corporate Governance Code

Management Board and Supervisory Board of Elmos Semiconductor AG declare in accordance with Section 161 AktG (Corporations Act):

#### I. Statements with respect to the future


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

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

#### II. Statements with respect to the past

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

Dortmund, September 2017

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

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

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

### Goals of the Supervisory Board with respect to its composition

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

### Implementation of equal participation and diversity

In accordance with applicable statutory provisions, the Supervisory Board and Management Board defined quotas as of June 30, 2017, for the representation of women on the Supervisory Board and Management Board as well as for the first and second senior executive levels. These quotas are as follows: 0% for the Supervisory Board and Management Board, 4% for the first senior executive level, and 5% for the second senior executive level. There are no women on either the Supervisory Board or Management Board at present. At the first senior executive level, the share of women is 4%; at the

second senior executive level, that number stands at 5%. Elmos thus fulfills all determined quotas for the share of women at Elmos and complies with statutory provisions. All data refer to the employees of Elmos Semiconductor AG in Germany as of December 31, 2017.

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

### SHAREHOLDERS AND GENERAL MEETING

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

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

### RISKS

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

### AUDIT OF FINANCIAL STATEMENTS

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

### SHARE-BASED PAYMENT PROGRAMS

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

### REMUNERATION REPORT

#### Total remuneration of the Management Board

The Supervisory Board decides on and routinely reviews the remuneration system and the essential contract terms and conditions for the Management Board members. Total Management Board remuneration comprises a fixed monthly salary, a management bonus, and share-based payments, as

well as fringe benefits and pension benefits. The Company does not provide an individualized disclosure of the remuneration out of respect for privacy protection. The Management Board and Supervisory Board agree that such a disclosure would not contribute to greater transparency in the form of additional information relevant to the capital market. By resolution of the Annual General Meeting of May 13, 2014, the Company is exempt from its legal obligation for individualized disclosure of Management Board remuneration for the period of five years.

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

### Total remuneration of the Supervisory Board

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

### MANAGERS' TRANSACTIONS

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

#### REMUNERATION OF THE MANAGEMENT BOARD FOR 2017

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

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

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

#### REMUNERATION OF THE SUPERVISORY BOARD FOR 2017

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

<sup>1</sup> Incl. fringe benefits, mainly expenses and disbursements

<sup>2</sup> According to the recommendation of the GCCG

## Sustainability

### and non-financial group report

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

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

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

Alongside these certifications, Elmos also collects consumption data for internal operational assessments. These analyze, for example, power consumption (and the associated CO<sub>2</sub> emissions) and water consumption as well as waste volumes. Elmos analyzes internal processes to further increase efficiency and to generate benefits for both the environment and the Company's economic base. Elmos has also joined the national campaign "Initiative Energieeffizienz-Netzwerke" (engl. "Initiative Energy Efficiency Networks") and thus actively supports the Federal Government's power efficiency targets, for example by constantly analyzing production processes to identify potential efficiency increases.

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

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

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

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

#### NUMBER OF EMPLOYEES

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

Our employment conditions and respect for employee rights meet demanding legal requirements. We place a particular focus on occupational safety in the production areas. In this sense, we also

fully comply with the legal requirements for operating production facilities in Germany and the U.S. Regular safety training workshops and inspections are a fixed component of prevention.

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

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

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

Our Code of Conduct for employees and the Supplier Code of Conduct for our suppliers set out how **human rights** are to be upheld. Our suppliers and business partners must comply with the rules set out in our Supplier Code of Conduct and must also require their sub-suppliers to comply. Examples of what is required by the Supplier Code of Conduct include upholding

international human rights, observing employee rights in line with national and international standards, and rejecting child labor, forced labor, and discrimination of all kinds. The current version of the code can be found online at [www.elmos.com](http://www.elmos.com).

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

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

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

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