

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 2017 (GCGC). This chapter also includes the statement on corporate governance in accordance with Sections 289f and 315d HGB and the remuneration report.

STATEMENT ON CORPORATE GOVERNANCE

Implementation of the German Corporate Governance Code

For the Supervisory Board and Management 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 Supervisory Board and Management Board again concerned themselves with the provisions of the GCGC in fiscal year 2019. They released the most recent joint declaration of compliance in accordance with Section 161 AktG in September 2019. Apart from the reported deviations, all recommendations of the GCGC have been complied with. All previously released declarations of compliance have been made available at www.elmos.com.

Compliance

One of the essential tasks of the Management Board as a whole is the control and monitoring of compliance within the Group. Elmos has a compliance management system (CMS) in place to ensure compliance with applicable laws and statutes as well as all internal rules and guidelines. The 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. As part of the efforts to continuously improve the CMS, annual key issues are defined and pursued with special focus.

The Elmos Code of Conduct, in which the rules and principles that are applicable at the Company are outlined, provides orientation for employees with regard to their action and conduct. Employees regularly receive training on compliance issues.

Working methods of the Management Board and the Supervisory Board

The 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 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. Pursuant 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

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 16, 2018, 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 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 interim financial information prior to the reports' publication for the purpose of expeditious reporting (GCGC No. 7.1.2 sentence 2).

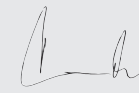
II. Statements with respect to the past

The recommendations of the GCGC in the version of February 7, 2017 and announced by the Federal Ministry of Justice in the official section of the Federal Gazette on April 24, 2017 have been complied with since the release of the declaration of compliance in September 2017 with the exceptions mentioned above under I.

Dortmund, September 2019



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

are elected by the staff. The next shareholder representative election is scheduled for 2020.

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. Likewise, diversity should be taken into account and conflicts of interest avoided. Of the shareholder representatives on the Supervisory Board, at least one member must be independent within the meaning of No. 5.4.2 GCGC. The 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 minimum 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. The targets must be met by June 30, 2022. These quotas are as follows: 0% or more for the Supervisory Board and Management Board, 4% or more for the first senior executive level, and 5% or more 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 6%. Elmos therefore 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, 2019.

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 aspects 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, cultural background, nationality, religious affiliation, worldview, disability, age, or sexual orientation.

SHAREHOLDERS AND ANNUAL 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 Annual General Meeting, are available on our website – also in English – and can also be requested from the Company. Shareholders who cannot attend the Annual General Meeting in person have the option to assign their voting rights to proxies nominated by Elmos.

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

RISKS

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

AUDIT

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 2019. 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 executives and Management Board members. The stock price is a central criterion for our shareholders when it comes to investing in the Company. The linking of certain remuneration components to the stock price is therefore an incentive for beneficiaries. More information on this topic can be found in the notes to the consolidated financial statements.

REMUNERATION REPORT

Total remuneration of the Management Board

The Supervisory Board decides on and routinely reviews the remuneration 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 16, 2018, the Company is currently exempt from its legal obligation for individualized disclosure of Management Board remuneration.

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 post-contract benefits have been promised to any Management Board member in case of the termination of employment according to contract. An exception to this is the conclusion of a consultancy agreement in 2019 with Dr. Anton Mindl following his departure from the Management

Board. Likewise, no member of the Management Board received 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. The payment of earned management bonus entitlements also continues as regularly scheduled after the term of the contract has ended.

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.

REMUNERATION OF THE MANAGEMENT BOARD FOR 2019

Fixed remuneration	
Fixed remuneration ¹	-> 1,144 thousand Euro (2018: 1,150 thousand Euro)
Pension commitments	-> 373 thousand Euro (2018: 373 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	-> 3,028 thousand Euro (2018: 1,782 thousand Euro)

FORMER MANAGEMENT BOARD MEMBERS AND/OR THEIR SURVIVING DEPENDENTS FOR 2019

Fixed remuneration/ pension benefits	-> 211 thousand Euro (2018: 209 thousand Euro)
Management bonus	-> 368 thousand Euro (2018: 0 thousand Euro)
Insurance premiums	-> 115 thousand Euro (2018: 116 thousand Euro)
Reimbursements from reinsurance policies	-> 225 thousand Euro (2018: 223 thousand Euro)
Financial statement disclosure of pension provisions	-> 1,464 thousand Euro (2018: 1,384 thousand Euro) -> Covered in full by the time value of pension plan reinsurance policies

REMUNERATION OF THE SUPERVISORY BOARD FOR 2019

Fixed remuneration	
Fixed remuneration ¹	-> 82 thousand Euro (2018: 83 thousand Euro)
Variable remuneration	
Management bonus	-> 225 thousand Euro (2018: 225 thousand Euro)
Further remuneration	
Compensation for individually performed services	-> 24 thousand Euro (2018: 21 thousand Euro)
Other remuneration rules	
(Vice) Chairman of the Supervisory Board	-> Twice/ (1½ times) the amount of the fixed and variable remuneration ²
Share-based payment	-> 25% of the fixed remuneration and 50% of the variable remuneration is invested in Elmos shares with a 3-year holding period

¹ Incl. fringe benefits, mainly expenses and disbursements

² According to the recommendation of the GGCG

MANAGERS' TRANSACTIONS

Persons who hold executive positions with an issuer of stock (for Elmos, the members of the 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, known as "managers' transactions," are announced immediately upon notification Europe-wide and released at www.elmos.com.

SUSTAINABILITY

AND NON-FINANCIAL GROUP REPORT (COMBINED NON-FINANCIAL REPORT OF ELMOS SEMICONDUCTOR AG AND THE GROUP)

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 Section 315c HGB.

Elmos develops, produces and markets semiconductors, primarily for automotive use. You will find more information about the Company's business model in the chapter "Combined management report" 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.

The automotive semiconductors from Elmos make a substantial contribution to reducing CO₂ emissions. The world's automakers were able to cut their vehicles' CO₂ emissions by an average of 22g/km between 2014 and 2019. Analysts believe that more than 50% of this reduction was made possible by semiconductor solutions in electronics. Elmos is making a contribution to this development through a wide range of automotive components, such as power management solutions for powertrains, efficient LED lighting, high-efficiency motor control systems for HVAC and cooling, aerodynamics optimization, sensors for automatic lights, and efficient DC/DC converters. A comparison between Elmos' CO₂ emissions and the CO₂ savings made possible by Elmos' ICs shows that our products help save a significantly higher amount of CO₂.

Elmos collects consumption data for internal operational assessments. These analyze, for example, power consumption (and the associated CO₂ 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"). Activities include analyzing production processes to identify potential efficiency increases. This initiative was assigned to the German government's new National Action Plan on Energy Efficiency (NAPE 2.0) in late 2019 and will be continued beyond 2020. The German government and the business sector will continue their discussions on the further development of

the initiative with the aim of signing a new agreement, prospectively in summer 2020.

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. In addition, substandard components from Elmos are sent to a recycling company that extracts and processes the materials contained in the parts to the greatest extent possible.

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

-> conflict minerals

-> the EU chemical regulation REACH (Registration, Evaluation, Authorization and Restriction of Chemicals)

-> the EU regulation RoHS (Restriction of Hazardous Substances)

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

NUMBER OF EMPLOYEES

	12/31/2019	12/31/2018
Elmos North Rhine-Westphalia	1,046	1,002
Silicon Microstructures	0	76
Other subsidiaries	211	205
Total	1,257	1,283

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. 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, conflicts of interest, and dealing with information and Company assets. The Code of Conduct is binding for all employees, who receive regular training on the topic. The current version of the code can be found online at www.elmos.com.

Alongside the rights and duties listed here, we also offer voluntary services to improve the health of our employees. In-house health promotion is an essential social standard implemented by Elmos. Along with general health programs, it includes special offers for employees doing shift work. Among other benefits that go beyond the usual are the in-house cafeteria, our own parking garage, our in-house gym with an extensive course program, and massage offerings at our headquarters in Dortmund, Germany. 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 with the Elmos works council. Management and the works council engage in a lively exchange of ideas in several committees in order to keep this positive collaboration going. 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

Highlights in 2019

-> **Saving over 130 metric tons of CO₂ per year:** The proactive replacement of old water, coolant, and humidifier pumps with responsive, high-efficiency pumps in 2019 made a significant contribution to conserving energy. In 2019, we also optimized processes for compressed air systems, for example. All told, these measures and further optimizations will allow us to save over 130 metric tons of CO₂ from electricity a year.

-> **First-time ISO 45001 certification for occupational health and safety:** The standard provides Elmos with guidance on preventively reducing risks in the workplace so as to enhance the health and well-being of its employees on a lasting basis. An occupational health and safety management system helps prevent accidents, reduce the severity of injuries, and avoid work-related ill health. To this end, suitable methods and tools have been implemented at all levels throughout Elmos and are in use. Elmos passed the audit without objections.

-> **New energy-saving products:** Elmos products perform essential control and measurement functions, especially in cars. New products with a positive influence on a vehicle's overall need for energy were introduced once again in 2019, such as a control component for economical BLDC motors or efficient LED rear lighting. By doing so, Elmos is helping automakers and suppliers reduce CO₂ emissions.

-> **Support for cyclists:** To increase the number of employees who bike to work, Elmos offers staff members a bicycle leasing program that also covers e-bikes, which make it easier to switch from driving to cycling. The model has proven so popular that we repeatedly increased the funding available for bike leases in 2019 and expanded the program to other locations in addition to the Dortmund headquarters. So far, some 120 employees have actively taken advantage of the opportunity to lease a company bicycle. Accordingly, we have increased the number of covered and theft-proof bike parking spaces in Dortmund.

of all kinds. The current version of the code can be found online at www.elmos.com.

We actively strive to **combat corruption and bribery** at our Company. Elmos has a Group-wide compliance management system. This includes rules such as a prohibition against bribery and corruption, commitment to correct accounting, non-disclosure obligations with respect to confidential information, and prohibitions against anti-competitive conduct. The compliance officer monitors compliance with rules and laws and provides clear guidance to employees with compliance questions. Select employees must take part in special compliance training that addresses different aspects of compliance and provides instruction for the areas in which they work.

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 and campaigns fighting worldwide poverty. Last year, for example, the Elmos Foundation supported RuhrTalente. The project provides children and young people from the eighth grade onward with practical offerings, regular advice, assistance, and individual measures designed to foster their talent, no matter what kind of school they attend. By providing scholarships to students receiving support from RuhrTalente in Dortmund, the Elmos Foundation intends to honor outstanding performance. Another project receiving funding supports the rebuilding of a school and several residential buildings in Nepal, as the region's populace has been unable to do so on its own since the devastating earthquake in 2015. The sustainable, long-term approach to providing help by involving local tradespeople will improve the situation for the people who live there. Visit www.elmos-stiftung.de for more information and to read our brochure about our foundation and its projects entitled "Zeichen setzen! Unsere Stiftung – Unsere Projekte" (in German only).

Material risks that could occur in connection with the topics listed here are addressed 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.