Elmos Semiconductor SE
Annual General Meeting on May 11, 2022

INFORMATION ON THE AGENDA ITEM 7 – REMUNERATION SYSTEM FOR THE MANAGEMENT BOARD

REMUNERATION SYSTEM FOR THE MANAGEMENT BOARD OF ELMOS SEMICONDUCTOR SE

1. Alignment and structure

The remuneration of the members of the Management Board of Elmos Semiconductor SE comprises a fixed remuneration (base salary, fringe benefits and pension benefits) and a variable remuneration (variable non-share-based remuneration components and variable share-based remuneration components).

The remuneration is aligned towards the Company's sustained positive development. Various key figures and targets – including sales and the EBIT margin, the fiscal year's operating and strategic targets, and the share price – serve as reference for the Management Board's multidimensional performance assessment. Thus the Company's development in its different aspects, some of which cannot be measured in financials, is reflected. The successful definition and implementation of the business strategy shows in the financial indicators applied as well as in the achievement of the targets for each fiscal year, breaking down individual aspects of the corporate strategy into sections and specifying them.

The share of the fixed remuneration is set relatively low. The share of the variable remuneration is set relatively high and predominantly has a long-term incentive effect. Investment commitments for the members of the Management Board and the share-based remuneration component also contribute to Management Board members having a vested interest in the Company's positive long-term performance just like all other shareholders.

2. Base salary

The base salary is disbursed in twelve equal monthly rates. The procedure for the adjustment of the base salary is described in chapter 11. The following amounts apply for 2021:

	Management Board member	CEO
Base salary p.a.	220,000 Euro	420,000 Euro

3. Variable non-share-based remuneration components

a. Earnings-related bonus

The earnings-related bonus refers to the EBIT reported for the Company in the consolidated financial statements. If material one-off effects apply, the Supervisory Board may decide to use an operating EBIT as reference for individual years. Such is determined e.g. for the year 2019 (adjustment of provisions, end of FHG cooperation, and sale of SMI).

The target amount of the earnings-related bonus at 100% target achievement results from the total of the targets of the current year and the two previous years, weighted at 55%, 30%, and 15% respectively. Thus earlier years are considered to a lesser extent in this evaluation. For each year, the target amount derives from total sales achieved multiplied by 17% and 0.35% for Management Board members and by 17% and 1% for the CEO.

The amount of the remuneration achieved is calculated on the basis of the total of the amounts for the current year and the two previous years; the percentages used already for target definition, i.e. 55% (current year), 30% (previous year), and 15% (year before previous year), are applied for weighting. Each year the 100% target amount is multiplied by the target achievement percentage.

For each of the three years, the following evaluation is made for the determination of the target achievement percentage: If an EBIT margin of 17% is achieved for the respective year under consideration, the target is deemed achieved to 100%. The cap is defined at 150% target achievement and is reached at an EBIT margin of 22%. An EBIT margin of 0% or less corresponds with 0% target achievement. Intermediate values of the EBIT margin ranging between 0% and 17% and between 17% and 22% are calculated by linear interpolation. Below an EBIT margin of 5%, that year's target achievement is reduced to 0% and thus to 0 Euro.

The year 2020, deeply affected by the coronavirus crisis, will not be considered for the calculation of the bonus for 2021 and 2022; the weight of that year is rather allocated to the respective current year. Thus the weights are adjusted for the year 2021 (2021: 85%; 2019: 15%) as for the year 2022 (2022: 70%; 2021: 30%). Apart from that, the operating EBIT margin is considered for the year 2019 without the already identified one-off effects.

Moreover, the earnings-related bonus must not exceed 200% of the respective year's base salary and is reduced to that amount if applicable.

Linking the bonus to three fiscal years provides a multi-year basis of assessment and promotes the sustained positive performance of earnings.

b. Target-related bonus

The amount of the target-related bonus corresponds to the respective year's base salary for 100%. Target achievement can range between 0% and 150% (cap). Targets may be assessed by the Supervisory Board in consideration of sub-targets and as a whole. The Supervisory Board may define common targets and sub-targets for all Management Board members consistently as well as individualized targets and sub-targets. The following targets are pursued while their respective weight may vary each year and for each Management Board member so that the following list serves as example only.

The Company's operational development (25%)

The Company's strategic development (50%)

The organizational development in the departments (15%)

The Company's development in terms of sustainability (ESG) (10%)

Depending on the nature of the individual targets and sub-targets, different methods for the assessment of performance achievement are applied. With respect to targets that can be easily quantified, the Supervisory Board considers operational figures and key financials for the most part. With respect to criteria that cannot be directly assessed in terms of quantity, the Supervisory Board defines milestones or deadlines to be adhered to for its evaluation. For individual targets or sub-targets, the Supervisory Board may use its discretionary power which, however, is limited to minor significance.

The targets defined for each year relate to individual components of the business strategy broken down to its sub-sectors. Thus the achievement of those targets usually has a positive effect on the Company's development beyond the respective fiscal year.

The Supervisory Board may provide for rules for repayment with respect to certain targets or sub-targets (claw backs). In doing so, individual targets are placed under the reservation of sustained achievement and reviewed in the following year. Negative deviation may result in repayment claims the Supervisory Board may offset against any variable remuneration to be granted in the future.

Other targets than the targets presented here may be defined as well, provided they appear equally beneficial to the Company's positive development. Reporting on the targets defined for each year and their achievement will be included in the remuneration report.

c. Investment commitment

i. General investment commitment

As of fiscal year 2021, Management Board members are obligated each year to hold 30% of the variable non-share-based remuneration components of the past three years, starting in 2021, in the Company's shares. At a tax load of e.g. 45%, Management Board members must have therefore invested more than 50% of the net payment from this remuneration component in the Company's shares. This applies for the duration of each Management Board member's term. The Management Board member's purchase of shares shall take place – subject to other obligations under capital market law and insofar as necessary for the fulfillment of the investment commitment – within six months as of the disbursement of the remuneration. Shares held already by the Management Board member for whatever reason are taken into consideration for the fulfillment of the investment commitment. The investment commitment is defined by number of shares. For calculating that number, the share price at the time of accrual of the corresponding variable remuneration is decisive.

From an economic perspective, the investment commitment essentially corresponds to a partial disbursement of the variable non-share-based remuneration components in shares with a three-year holding period. The remuneration eventually at the Management Board member's disposal with respect to its variable non-share-based components thus depends decisively on the share price as of disbursement as well as the share price performance.

ii. Alternative investment commitment

The Supervisory Board has the option, e.g. when granting additional stock awards, to conclude a higher investment commitment with all or individual Management Board members according to the principle presented in the following.

The Management Board members are obligated to invest a percentage of the due variable non-share-based remuneration component after taxes (net amount) to be determined by the Supervisory Board in the Company's shares in the fiscal years to be determined by the Supervisory Board. For the purpose of administrative simplification, the calculation of the net amount may be based on a tax rate of 45% plus solidarity surcharge of 5.5% if applicable. The Supervisory Board may determine different amounts of investment commitments for the members of the Management Board.

The share in the net amount is reduced by expenses incurred by the Management Board member for paying the tax debt on allocated shares of the share-based bonus insofar as the respective Management Board member does not sell shares allocated within the framework of share-based bonus for paying tax debt.

The respective Management Board member has to carry out and account for the respective investment in the Company's shares (or settlement of tax debt) within 12 months after receiving the respective net amount **(investment period)**. The acquisition of shares or tax payments prior to the beginning of the investment commitment may be taken into consideration by the Supervisory Board for the fulfillment of the investment commitment. Investments made during one fiscal year in excess of the net amount determined as of that date are credited against the net amount to be invested in later years.

The investment period is extended accordingly if the respective Management Board member is not permitted to acquire shares in the investment period due to self-exemption for the purpose of Art. 17 (4) of Regulation (EU) 596/2014 (Market Abuse Regulation – MAR) of more than 3 months or for other reasons beyond the existing prohibitions of trading.

If the Management Board member does not meet the investment commitment, the Company is entitled to grant no more shares within the framework of the share-based bonus after making a request to fulfill the investment commitment within a set period of three months. Tranches up for allocation in this period expire. If the respective Management Board member then fulfills the investment commitment, tranches up for allocation after the fulfillment of the investment commitment are to be granted. However, this does not apply for the first tranche that would have to be allocated after the fulfillment of the investment commitment.

4. Share-based bonus

a. System of share-based remuneration

The Management Board members‘ share-based remuneration consists of the commitment to be allocated shares of the Company under certain conditions (stock awards). The commitment is oriented towards the sustained achievement of a significantly increased business valuation and thus refers to the moving average price of the Company’s share over longer time periods. A high business valuation usually coincides with positive growth prospects and thus options for the personal development of many employees, an increase in staff numbers, and positive effects for other stakeholders. Share-based remuneration supports also the achievement of such non-financial targets.

In relation to an opening price for reference, thresholds with threshold prices are defined at whose achievement a predetermined number of shares is allocated. The opening price is set by the Supervisory Board, taking into consideration the past performance of the share price and the share price as of granting the stock awards as well as the defined threshold prices. Dividend payments during the term of the payment plan are adjusted for the calculation of threshold prices.

Two moving average prices are defined over a short-term and a medium-term number of trading days. Insofar as the moving average short-term price reaches or exceeds certain threshold prices, 50% of the shares attributed to the respective threshold are allocated (“1st tranche”). Insofar as the moving average medium-term price reaches or exceeds certain threshold prices, the other 50% of shares attributed to the respective threshold are allocated (“2nd tranche”).

Thresholds must be reached within certain predefined timeframes. If the agreed term of a Management Board member, in consideration of any contract renewals or follow-up agreements, expires prior to that, that Management Board member may not claim further allocations of shares. An exception to this are thresholds reached within the last two years prior to the expiration of the contract with the 1st tranche; with respect to those, the 2nd tranche may be reached within one year after expiration of the contract.

Upon allocation of the shares, the Management Board member is obligated to hold the awarded shares for a defined holding period. However, the Management Board member may sell as many of the shares as necessary for covering the tax debt created by the allocation of shares.

If a takeover bid for the purpose of Section 10 (5) WpÜG (Securities Acquisition and Takeover Act) is announced within the term of the stock award with subsequent change of control, the bid price is considered for the calculation of the threshold price. The number of shares allocated thus increases to three times for the lower half and to two times for the upper half of the thresholds. This also applies for thresholds reached already either in full or in part; allocations must be adjusted accordingly. As of the change of control, the number of shares to be attributed to the respective thresholds are to be awarded. All other tranches not allocated thus far expire.

b. 2020 stock award

The 2020 stock award is shown here as a specific arrangement under the system described above. The also concluded 2021 stock award is presented in the 2021 remuneration report.

The Supervisory Board may decide on analog stock awards – with adjusted values e.g. regarding opening price, number of price thresholds, relevant threshold prices, relevant average prices, number of shares, terms, or holding periods – or deviating rules for the specific arrangement in the future which, however, must comply with the system presented above and serve the same goals.

For the 2020 stock award, the opening price as reference is 21.50 Euro. Six thresholds have been defined for the 2020 stock award:

Threshold	Threshold price	Number of shares Management Board member	Number of shares CEO
1	Opening price – (total dividends) + Euro 6.00	3,000	10,000
2	Opening price – (total dividends) + Euro 13.00 (=6+7)	3,000	10,000
3	Opening price – (total dividends) + Euro 21.00 (=6+7+8)	4,000	12,500
4	Opening price – (total dividends) + Euro 30.00 (=6+7+8+9)	4,000	12,500
5	Opening price – (total dividends) + Euro 40.00 (=6+7…+10)	5,000	15,000
6	Opening price – (total dividends) + Euro 51.00 (=6+7…+11)	5,000	15,000

Thresholds must be reached between 01/01/2021 and 12/31/2030. The moving average short-term and medium-term prices are determined over 60 or rather 500 trading days. The holding period is four years. Dividend payments made between 01/01/2021 and 12/31/2030 are subtracted from the threshold prices. If it comes to a special dividend based on the sale of SMI, it will not be adjusted.

5. Fringe benefits

Fringe benefits are individually agreed on by the Supervisory Board and each Management Board member within the framework of the remuneration system. Fringe benefits may include the use of a company car for private use, insurance benefits, the payment of travel costs and accommodation in case of long commutes from the family residence, and other components. Compensation may be paid if no company car is requested. The Supervisory Board will determine appropriate maximum amounts for fringe benefits fluctuating in the amount.

The employment contracts of the members of the Management Board also include provisions for illness, death, vacations, reimbursement of expenses, noncompetition clauses and inventions as well as official and private use of IT equipment.

6. Pension benefits

Management Board members are supported in setting up private retirement provision with the payment of a fixed amount, at present 25,000.00 Euro per year of service, thus also compensated for the discontinuation of payments into the statutory pension insurance scheme.

For Management Board members initially appointed prior to 2016, a monthly pension in the amount of 4,000.00 Euro has been agreed on, covered by reinsurance policies and payable also in case of occupational disability. In addition to that, the loss of statutory pension payments is compensated. Retirement pension requires service for the Company up to the age of 63 and is reduced pro rata temporis in case of premature resignation. It is not reduced in case of resignation within the context of a change of control. Any surplus of the reinsurance policies may increase the retirement pension.

7. Terms of Management Board employment contracts and compensation for resignation

The Company concludes Management Board employment contracts with fixed terms binding for both parties. Terms of three years are usually agreed on for initial appointments. For follow-up appointments, terms between three and six years are agreed on unless special circumstances apply.

Each Management Board member is entitled to terminate his or her employment contract in case of a change of control within three to six months as of the change of control with a notice period of three to six months as of the end of the month and to resign from his or her position as of the date of termination of the employment contract. In case of exercise of this right of termination, each Management Board member is entitled to severance pay in the amount of twice the annual remuneration, yet no more than the renumeration payable over the remaining term under the respective employment contract. The deciding amount is the remuneration paid during the last fiscal year prior to the occurrence of the change of control. Moreover, the Company makes compensation payments for post-contract noncompetition clauses and may make extraordinary one-off payments. The Supervisory Board may agree upon provisions on stock holding periods, share-based payments and retirement benefits with the Management Board members for the case of a change of control.

8. Maximum remuneration

The Supervisory Board determines a maximum remuneration in consideration of base salary, earnings-related bonus, target-related bonus, the fair value of share-based payments as well as fringe benefits with respect to the given fiscal year.

Maximum remuneration refers to the fiscal year in which respective remuneration has been earned; the accrual of funds is irrelevant to the achievable maximum amount of remuneration. Usually earnings and target-related bonus payments e.g. are only made in the following year yet will be allocated to the year for which they have been earned for the purpose of maximum remuneration. Gains or losses of the Company's shares owned by a Management Board member are not regarded for maximum remuneration even if investment commitments or holding periods apply. Share-based bonus payments are regarded at the average annual fair value determined as of grant date – the accrual is limited by the maximum number of shares regardless of maximum remuneration.

The maximum remuneration of the Management Board as a whole, probably consisting of three or four members, is determined at 6.0 million Euro. At present this remuneration amount cannot be realized. Within the probable four-year validity period of the remuneration system presented here, however, no possible turn of events, particularly a significant increase in the Company's sales performance and profitability, is meant to be ruled out from the outset.

Compensation for serving on supervisory boards of consolidated companies does not apply at present, yet would in any case be taken into account of the existing remuneration to the full amount. Such compensation is therefore also included in the provisions governing maximum remuneration.

The share-based bonus is valuated according to the principles defined under IFRS 2 – *Share-based Payment*. For fair value assessment in accordance with IFRS 2, Elmos Semiconductor SE commissions an independent expert who will apply methods of financial mathematics for determining a value for the stock awards. In particular, the possible share price performance, the number of shares to be allocated under different scenarios and the probability of the occurrence of each scenario are regarded for that calculation. Fair value is to be allocated to the respective fiscal years through profit or loss. For the purpose of maximum remuneration, the simplified method of regarding average annual fair value over the term of the respective stock award is put to use.

9. Deviations from regular remuneration

a. First term of office

The Supervisory Board aims for a three-year term of employment for the Management Board members' first term of office and – unless comparable positions have already been filled at other companies – an adjusted remuneration; i.e. for base salary and variable non-share-based remuneration components, 60-80 % of the remuneration level of a Management Board member in his or her second or later term of office is aimed for.

Share-based remuneration components as well as fringe benefits are subject to individual negotiation within the framework of the remuneration system.

b. Deviations from the remuneration system

The Supervisory Board may, after due consideration and in compliance with the Stock Corporation Act – decide on special payments or other remuneration components in the individual case (e.g. retention bonus or signing bonus, one-off payments for exceptional reasons, additional stock awards) if such is possible within the framework of maximum remuneration and insofar as cumulative benefits per fiscal year do not exceed the amount of 500,000.00 Euro for Management Board members and 1 million Euro for the CEO in the individual case. Reporting in the remuneration report is required.

The Supervisory Board acts in the interest of the Company's long-term success. In case of significant need for restructuring – as a consequence of a macroeconomic recession, disruptions in the automotive market, or in case of a crisis suffered by the Company for other reasons – it may deviate from the remuneration system and particularly determine increased base salaries and increased target-related bonus payments within the framework of maximum remuneration in order to compensate for a low earnings-related remuneration to be expected in such cases. In cases of significant need for restructuring, shorter than usual terms of employment may be agreed upon with Management Board members and special securing agreements for claims to remuneration may be provided for. Such cases also allow for lower base salaries and lower variable remuneration, reflecting the Company's lower profitability.

10. Analysis of relative components

For the percentage assessment of the separate remuneration components, Elmos Semiconductor SE considers the base salary and the variable remuneration components. 100% assumed target achievement is anticipated for the target-related variable remuneration component, the earnings-related variable remuneration component is included in the analysis under the assumption of sales of 300 million Euro and an EBIT margin of 17%, and share-based remuneration is considered at the average annual fair value of the stock awards over the terms of the respective award.

Fringe benefits usually accounting for less than 15% of total remuneration are not considered for the percentage analysis presented below. Based on these assumptions, Management Board remuneration is broken down as follows:

	Management Board member / CEO
Base salary (+/- 10 percentage points)	30%
Non-share-based bonus (+/- 15 percentage points)	50%
Share-based bonus (+/- 15 percentage points)	20%

The percentage distribution of remuneration components is presented based on bandwidths reflecting different specific arrangements within the remuneration system. The actually achieved remuneration and its actual distribution are described in the remuneration report.

The multi-year assessment basis of the earnings-related bonus, the investment commitment with respect to target-related and earnings-related remuneration, and the alignment of the share-based remuneration towards a sustained increase in shareholder value assure that the share of variable remuneration with a long-term horizon will prevail.

11. Process for the determination, implementation and amendment of the remuneration system

a. Determination, amendment and review of the remuneration system

The Supervisory Board routinely concerns itself with the remuneration of the members of the Management Board. In determining the remuneration, it orients itself towards the principles described in chapter 1.

The Supervisory Board determines the remuneration of the Management Board members and the CEO after due consideration. External compensation advisers are not consulted, nor are benchmark studies commissioned to be specially prepared for Elmos Semiconductor SE. Employee remuneration is not specially analyzed for the sole purpose of determining Management Board remuneration. The Supervisory Board uses remuneration studies and comparative values of other companies instead and takes the level of employee remuneration and typical change over time into consideration.

Special measures with respect to conflicts of interest regarding Management Board remuneration are not indicated.

The Supervisory Board is planning a review and a possible amendment of the remuneration system no later than in the course of the year prior to the Annual General Meeting or rather within the context of preparing the Annual General Meeting to be held in the year 2025.

The Supervisory Board decides on the determination and any amendments of the remuneration system in full session.

b. Implementation of the remuneration system

The Supervisory Board implements the remuneration system by preparing employment contracts negotiated with the individual members of the Management Board. Within this context the Supervisory Board also determines the base salary and any adjustments if applicable. The Supervisory Board defines the targets for all members of the Management Board in consultation with the CEO.

The remuneration system provides for a review of the base salary no later than after four years for the year 2025. The Supervisory Board will consider in particular the situation of the Company, its prospects for the future, and the contributions made by the members of the Management Board. The Supervisory Board discusses and decides on additional components of share-based remuneration beyond the existing 2020 and 2021 stock awards at its own discretion. There is no fixed schedule for such deliberations.

The Supervisory Board decides on the Management Board employment contracts and any adjustments in full session.

c. Deviations from the remuneration system

The Supervisory Board reserves the right of deviation from the remuneration system in the cases described in chapter 9.

The Supervisory Board decides on any deviations from the remuneration system in full session.