



## X-FAB Silicon Foundries SE

Transportstraat 1, 3980 Tessenderlo, Belgium

### Offering of up to 50,000,390 Ordinary Shares (and up to 5,000,039 additional Ordinary Shares if the Over-allotment Option is exercised in full)

#### Listing of all Shares on Euronext Paris

This prospectus (the “Prospectus”) relates to the offering (the “Offering”) (i) by X-FAB Silicon Foundries SE (the “Company”), a European company with limited liability organized under the laws of Belgium, of such number of newly issued ordinary shares, with no nominal value, of the Company as is necessary to raise gross proceeds of approximately €250 million (the “Primary Tranche”) (representing a maximum of 31,250,000 shares based on the low end of the Price Range) and (ii) by Sarawak Technology Holdings Sdn. Bhd. (“Sarawak TH”), a holding company owned by the Malaysian state of Sarawak and TDK-Micronas GmbH (“TDK-Micronas”), a semiconductor company (together, the “Selling Shareholders”), of up to 18,750,390 existing shares (the “Secondary Tranche”). The Shares being offered by the Company and the Selling Shareholders in the Offering, are herein referred to as the “Offer Shares.” All ordinary shares of the Company, whether newly issued or existing, are hereinafter referred to as the “Shares.”

The Offering consists of (i) an initial public offering to retail investors in France (the “Retail Offering”) and institutional investors in France (the “French Institutional Offering”, together with the Retail Offering, the “French Offering”); (ii) a private placement in the United States to persons who are reasonably believed to be “qualified institutional buyers” or “QIBs” (as defined in Rule 144A (“Rule 144A”) under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”)), in reliance on Rule 144A; and (iii) private placements to institutional investors in the rest of the world. The Offering outside the United States will be made in compliance with Regulation S (“Regulation S”) under the U.S. Securities Act. Sarawak TH is expected to grant BNP Paribas, as stabilization manager (the “Stabilization Manager”), on behalf of itself and the Underwriters (as defined herein), an option to purchase additional Shares in an aggregate amount equal to up to 10 per cent. of the number of Offer Shares sold in the Offering at the Offer Price (as defined below) to cover over-allotments or short positions, if any, in connection with the Offering (the “Over-allotment Option”). The Over-allotment Option will be exercisable for a period of 30 days following the Listing Date (as defined below). As used herein, the term “Offer Shares” shall include any over-allotted Shares (unless the context requires otherwise). Within one week of the end of the Stabilization Period (as defined below), information in relation to stabilization activities, if any, will be made public.

**An investment in the Offer Shares involves substantial risks and uncertainties. Prospective investors should read the entire Prospectus, and, in particular, should see “Risk Factors” beginning on page 17 for a discussion of certain factors that should be considered in connection with an investment in the Shares. All of these factors should be considered before investing in the Offer Shares. Prospective investors must be able to bear the economic risk of an investment in the Shares and should be able to sustain a partial or total loss of their investment.**

**PRICE RANGE: €8.00 TO €10.50 PER OFFER SHARE**

The price per Offer Share (the “Offer Price”) will be determined during the Offering Period (as defined herein) through a book-building process in which only institutional investors may participate. Among the factors to be considered in determining the Offer Price, in addition to prevailing market conditions, will be the Company’s historical performance, estimates of its business potential and earnings prospects, an assessment of the Company’s management and consideration of the above factors in relation to the market valuation of companies in related businesses. The Offer Price may differ significantly from ordinary share prices prevailing in over-the-counter transactions and price quotations that have historically been available. See “*The Offering — Offer Price*” for further information. The Offer Price, the number of Offer Shares sold in the Offering and the allocation of Offer Shares to retail investors is expected to be made public by means of a Company press release on or about April 5, 2017 and in any event no later than the first business day after the end of the Offering Period. The Offer Price will be a single price in euros, exclusive of any tax on stock exchange transactions, and of costs, if any, charged by financial intermediaries for the submission of applications. The Offer Price is expected to be between €8.00 and €10.50 per Offer Share (the “Price Range”). The Offer Price may be set within the Price Range or below the lower end of the Price Range but will not exceed the higher end of the Price Range.

The offering period (the “Offering Period”) will begin on March 23, 2017 and is expected to end no later than 17.00 (CET) on April 4, 2017, subject to early closing, provided that the Offering Period will in any event be open for at least six business days from the availability of this Prospectus. The institutional bookbuilding period will begin one day earlier, on March 22, 2017. Any early closing of the Offering Period will be announced by means of a Company press release, and the dates for each of pricing and allocation, publication of the Offer Price and results of the Offering, conditional trading and closing of the Offering will in such case be adjusted accordingly.

No tax on stock exchange transactions is due on the subscription of newly issued Shares (see “*Taxation — Capital Gains and Losses on Shares — Tax on Stock Exchange Transactions.*”)

Prior to the Offering, there has been no public market for the Shares. An application has been made to list the Shares on Euronext Paris SA (“Euronext Paris”) under the symbol “XFAB.” Trading of the Shares on Euronext Paris is expected to commence, on an “if-and-when-issued and/or delivered” basis, on or about April 6, 2017 (the “Listing Date”).

Delivery of the Offer Shares is expected to take place in book-entry form against payment therefor in immediately available funds on or about April 7, 2017 (the “Closing Date”) to investors’ securities accounts via Euroclear Belgium, the Belgian central securities depository. See “*The Offering.*”

This document constitutes an offer and listing prospectus for purposes of Article 3 of Directive 2003/71/EC of the European Parliament and of the Council of the European Union as amended, including by Directive 2010/73/EU (the “Prospectus Directive”). The English version of this Prospectus was approved by the Belgian Financial Services and Market Authority (the “FSMA”) on March 21, 2017 and notified to the French Financial Markets Authority (*Autorité des Marchés Financiers*, the “AMF”) for passporting in accordance with Article 18 of the Prospectus Directive and Article 212-41 of the AMF General Regulation (“*Règlement Général*”).

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any of the Offer Shares in any jurisdiction or to any person to whom it would be unlawful to do so.

The Shares have not been and will not be registered under the U.S. Securities Act or the applicable securities laws of any state or other jurisdiction of the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Prospective purchasers are hereby notified that sellers of the Shares may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. For a description of certain restrictions on transfer of the Shares, see “*Transfer Restrictions.*”

#### Joint Global Coordinators

**BNP Paribas**

**HSBC**

#### Joint Bookrunners

**BNP Paribas**

**HSBC**

**Credit Suisse**

#### Co-Lead Managers

**Oddo & Cie**

**Commerzbank**

Prospectus dated March 21, 2017

## **IMPORTANT INFORMATION**

### **Responsibility Statement**

In accordance with Article 61, §1 and §2 of the Belgian Law of June 16, 2006 on the public offering of securities and the admission of securities to trading on a regulated market, as amended (the “Belgian Prospectus Law”), the Company, represented by its board of directors (the “Board of Directors”), assumes responsibility for the completeness and accuracy of all of the contents of this Prospectus. Certain sections of this Prospectus relating to (i) the description on page 138 of the Selling Shareholders and their shareholding in the Company; and (ii) the description on page 185 of the Over-allotment Option granted by Sarawak TH have been drafted on the basis of the information provided by the Selling Shareholders. The Selling Shareholders also assume responsibility for these (and only these) sections of the Prospectus.

Having taken all reasonable care to ensure that such is the case, each of the Company (for the entirety of this Prospectus) and the Selling Shareholders (only with respect to the sections for which they assume responsibility) attests that the information contained in this Prospectus is, to the best of its knowledge and belief, accurate and complete in all material respects and in accordance with the facts and contains no omission likely to affect its import.

None of BNP Paribas, HSBC France, Credit Suisse Securities (Europe) Limited, Oddo & Cie SCA and Commerzbank AG (the “Underwriters”) makes any representation or warranty, express or implied, as to, or assume any responsibility for, the accuracy or completeness or verification of the information in this Prospectus, and nothing in this Prospectus is, or shall be relied upon as, a promise or representation by the Underwriters, whether as to the past or the future. Accordingly, the Underwriters disclaim, to the fullest extent permitted by applicable law, any and all liability, whether arising in tort, contract or otherwise, in respect of this Prospectus or any such statement.

### **Notice to Investors**

In making an investment decision, investors must rely on their own assessment, examination, analysis and enquiry of the Company, the terms of the Offering and the contents of this Prospectus, including the merits and risks involved. Any purchase of the Offer Shares should be based on the assessments that an investor may deem necessary, including the legal basis and consequences of the Offering, and including possible tax consequences that may apply, before deciding whether or not to invest in the Offer Shares. In addition to their own assessment of the Company and the terms of the Offering, investors should rely only on the information contained in this Prospectus, including the risk factors described herein, and any notices that the Company publishes under applicable law or the relevant rules of Euronext Paris.

Investors must also acknowledge that: (i) they have not relied on the Underwriters or any person affiliated with the Underwriters in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; and (ii) they have relied only on the information contained in this Prospectus, and that no person has been authorized to give any information or to make any representation concerning the Company or its subsidiaries or the Shares (other than as contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Company, the Selling Shareholders or the Underwriters.

None of the Company, the Selling Shareholders or the Underwriters, or any of their respective representatives, is making any representation to any offeree or purchaser of the Shares regarding the legality of an investment in the Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. Each investor

should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Shares.

No person has been authorized to give any information or to make any representation in connection with the Offering other than those contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized. Without prejudice to the Company's obligation to publish supplements to the Prospectus when legally required (as described below), neither the delivery of this Prospectus nor any sale made at any time after the date hereof shall, under any circumstances, create any implication that there has been no change in the Company's affairs since the date hereof or that the information set forth in this Prospectus is correct as of any time since its date.

The Underwriters are acting exclusively for the Company and the Selling Shareholders and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Offering and will not be responsible to anyone other than the Company and the Selling Shareholders for providing the protections afforded to their respective clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to herein.

The distribution of this Prospectus and the Offering may, in certain jurisdictions, be restricted by law, and this Prospectus may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. This Prospectus does not constitute an offer to sell, or an invitation of an offer to purchase, any Offer Shares in any jurisdiction in which such offer or invitation would be unlawful. The Company, the Selling Shareholders and the Underwriters require persons into whose possession this Prospectus comes to inform themselves of and observe all such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. None of the Company, the Selling Shareholders or the Underwriters accepts any legal responsibility for any violation by any person, whether or not a prospective purchaser of Shares, of any such restrictions. The Company, the Selling Shareholders and the Underwriters reserve the right in their own absolute discretion to reject any offer to purchase Shares that the Company, the Selling Shareholders, the Underwriters or their respective agents believe may give rise to a breach or violation of any laws, rules or regulations.

## **Prospectus Approval and Supplement**

The FSMA approved the English version of this Prospectus on March 21, 2017 in accordance with Article 23 of the Belgian Prospectus Law and notified to the AMF for passporting in accordance with Article 18 of the Prospectus Directive. Neither the FSMA's approval nor the notification to the AMF does imply any opinion by the FSMA or the AMF on the suitability and the quality of the Offering or on the status of the Company. This Prospectus has been prepared in English. The Summary of the Prospectus has been translated into French. The Company is responsible for the consistency between the French and English versions of the Summary of the Prospectus. In the case of discrepancies between the different versions of the Summary of the Prospectus, the English version will prevail.

The information in this Prospectus is current as of the date printed on the front cover, unless expressly stated otherwise. The delivery of this Prospectus at any time does not imply that there has been no change in the Company's business or affairs since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof. In accordance with Article 34 of the Belgian Prospectus Law, in the event of a significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of the Offer Shares during the period from the date of approval of the Prospectus to the Listing Date, a supplement to this Prospectus shall be published. Any supplement is subject to approval by the FSMA and will, following such approval, be notified to the AMF in accordance with the

European passport system provided by the Prospectus Directive, in the same manner as this Prospectus and must be made public in the same manner as this Prospectus.

If a supplement to the Prospectus is published, investors will have the right to withdraw their orders made prior to the publication of the supplement provided that the new factor, mistake or inaccuracy referred to in the previous paragraph arose before the end of the Offering Period and the delivery of the Shares. Such withdrawal must be done within the time period set forth in the supplement (which shall not be shorter than two business days after publication of the supplement).

## **STABILIZATION**

In connection with the Offering, BNP Paribas or its affiliates will act as Stabilization Manager on behalf of itself and the Underwriters and may engage in transactions that stabilize, maintain or otherwise affect the price of the Shares or any options, warrants or rights with respect to, or other interest in, the Shares or other securities of the Company for up to 30 days from the Listing Date (the “Stabilization Period”). These activities may support the market price of the Shares at a level higher than that which might otherwise prevail. Stabilization will not be executed above the Offer Price. Such transactions may be effected on Euronext Paris, in the over-the-counter markets or otherwise. The Stabilization Manager and its agents are not required to engage in any of these activities and, as such, there is no assurance that these activities will be undertaken; if undertaken, the Stabilization Manager or its agents may discontinue any of these activities at any time and they must terminate at the end of the 30-day period mentioned above. During the Stabilization Period, the Stabilization Manager shall ensure adequate public disclosure of the details of all stabilisation transactions no later than the end of the seventh daily market session following the date of execution of such transactions.

Within one week of the end of the Stabilization Period, the following information will be made public in accordance with Article 5 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on Market Abuse (“MAR”) and Article 6 of the Commission Delegated Regulation No 1052/2016 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programs and stabilization measures: (a) whether or not the stabilization was undertaken; (b) the date on which stabilization started; (c) the date on which stabilization last occurred; (d) the price range within which stabilization was carried out, for each of the dates during which stabilization transactions were carried out and (e) the trading venue(s) on which the stabilization transactions were carried out, where applicable.

## **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES**

The Offer Shares have not been and will not be registered under the U.S. Securities Act and are being offered and sold: (i) in the United States only to persons who are reasonably believed to be QIBs in reliance on Rule 144A; and (ii) outside the United States in compliance with Regulation S. Prospective investors are hereby notified that sellers of the Offer Shares may be relying on the exemption from the registration requirements of Section 5 of the U.S. Securities Act provided by Rule 144A. For certain restrictions on transfer of the Offer Shares, see “*Transfer Restrictions.*”

The Offer Shares have not been recommended by any U.S. federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Prospectus. Any representation to the contrary is a criminal offense in the United States.

In the United States, this Prospectus is being furnished on a confidential basis solely for the purpose of enabling a prospective investor to consider purchasing the particular securities described herein. The information contained in this Prospectus has been provided by the Company and other sources identified herein. Distribution

of this Prospectus to any person other than the offeree specified by the Underwriters or their representatives, and those persons, if any, retained to advise such offeree with respect thereto, is unauthorized, and any disclosure of its contents, without the Company's prior written consent, is prohibited. Any reproduction or distribution of this Prospectus in the United States, in whole or in part, and any disclosure of its contents to any other person is prohibited. This Prospectus is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for, or otherwise acquire, the Offer Shares.

## **NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA**

An offer to the public of any Offer Shares may not be made in any Member State of the European Economic Area ("EEA") other than an offer to the public in France unless the Prospectus has been (i) approved by the competent authority in such Member State or passported and (ii) published in accordance with the Prospectus Directive as implemented in such Member State. This Prospectus has been prepared on the basis that all offers of Offer Shares other than the offers contemplated in France, will be made pursuant to an exemption under the Prospectus Directive, as implemented in Member States of the EEA, from the requirement to produce a prospectus for offers of Offer Shares. Accordingly, any person making or intending to make any offer within the EEA of Offer Shares which are the subject of the placement contemplated in this Prospectus should only do so in circumstances in which no obligation arises for the Company, the Selling Shareholders or any of the Joint Global Coordinators to produce a prospectus for such offer. Neither the Company, the Selling Shareholders nor the Joint Global Coordinators have authorized, nor do the Company, the Selling Shareholders or the Joint Global Coordinators authorize, the making of any offer of Offer Shares through any financial intermediary, other than offers made by the Joint Global Coordinators which constitute the final placement of Offer Shares contemplated in this Prospectus.

The Offer Shares have not been, and will not be, offered to the public in any Member State of the European Economic Area that has implemented the Prospectus Directive, except for France (a "Relevant Member State"). Notwithstanding the foregoing, an offering of the Offer Shares may be made in a Relevant Member State:

- to any legal entity that is a qualified investor as defined in the Prospectus Directive;
- to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, if applicable

provided that no such offer of Offer Shares shall result in a requirement for the publication by the Company, the Selling Shareholders or any Joint Global Coordinator of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Offer Shares so as to enable an investor to decide to purchase Offer Shares, as that definition may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

## **NOTICE TO INVESTORS IN THE UNITED KINGDOM**

Offers of the Offer Shares pursuant to the Offering are only being made to persons in the United Kingdom who are “qualified investors” or otherwise in circumstances which do not require publication by the Company of a prospectus pursuant to Section 85(1) of the U.K. Financial Services and Markets Act 2000.

Any investment or investment activity to which the Prospectus relates is available only to, and will be engaged in only with, persons who (i) are investment professionals falling within Article 19(5) or (ii) fall within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations, etc.”) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or other persons to whom such investment or investment activity may lawfully be made available (together, “relevant persons”). Persons who are not relevant persons should not take any action on the basis of the Prospectus and should not act or rely on it.

### **AVAILABLE INFORMATION**

#### **Availability of the Prospectus**

This Prospectus is available in English and the Summary of the Prospectus in French to all investors in France only. The Prospectus and the Summary will be made available to such investors at no cost at the offices of X-FAB France SAS at 224, Boulevard John Kennedy, 91105 Corbeil-Essonnes Cedex, France (accessible through Avenue des Roissys Haut, 91540 Ormoy, France).

Subject to selling and transfer restrictions, the Prospectus is also available to investors in France on the website of the Company: [www.xfab.com](http://www.xfab.com).

The posting of the Prospectus on the internet does not constitute an offer to sell or a solicitation of an offer to buy any of the Shares to or from any person in any jurisdiction in which it is unlawful to make such offer or solicitation to such person. The electronic version may not be copied, made available or printed for distribution. Information on the Company’s website ([www.xfab.com](http://www.xfab.com)) or any other website does not form part of the Prospectus.

#### **Other Company information and documentation**

The Company has filed its deed of incorporation and must file its coordinated articles of association (the “Articles of Association”) and all other deeds that are to be published in the Annexes to the Belgian State Gazette with the clerk’s office of the commercial court of Antwerp, division Hasselt, where they are available to the public. X-FAB Silicon Foundries SE is registered with the register of legal entities (Antwerp, division Hasselt) under enterprise number 0882.390.885. A copy of the Company’s most recent Articles of Association will also be available on its website.

In accordance with Belgian law, the Company must also prepare audited annual statutory and consolidated financial statements. The annual statutory financials statements, together with the report of the Board of Directors and the audit report of the statutory auditor, as well as the consolidated financial statements, together with the report of the Board of Directors and the audit report of the statutory auditor thereon, will be filed with the National Bank of Belgium, where they will be available to the public. Furthermore, as a listed company, the Company must publish an annual financial report (comprised of the financial information to be filed with the National Bank of Belgium and a responsibility statement) and a semi-annual financial report (comprised of condensed financial statements, the report of the statutory auditor, if audited or reviewed, and a responsibility statement). These reports will be made publicly available on (i) the Company’s website, (ii) STORI, the Belgian central storage mechanism, which is operated by the FSMA and can be accessed via [stori.fmsa.be](http://stori.fmsa.be) or [www.fmsa.be](http://www.fmsa.be) and (iii) info-financiere, the French central storage system, which is operated by the Direction de

l'information légale et administrative and can be accessed via [info-financiere.fr](http://info-financiere.fr), [dila.premier-ministre.gouv.fr](http://dila.premier-ministre.gouv.fr) and [amf-france.org](http://amf-france.org).

As a listed company, the Company must also disclose “inside information”, information about its shareholder structure and certain other information to the public. In accordance with MAR and the Belgian Royal Decree of November 14, 2007 relating to the obligations of issuers of financial instruments admitted to trading on a regulated market (*Koninklijk besluit betreffende de verplichtingen van emittenten van financiële instrumenten die zijn toegelaten tot de verhandeling op een gereguleerde markt/Arrêté royal relatif aux obligations des émetteurs d'instruments financiers admis aux négociations sur un marché réglementé*), such information and documentation will be made available through press releases, the communication channels of Euronext Paris, STORI and info-financiere or a combination of these media. All press releases published by the Company will be made available on its website.

The Company has agreed that, for so long as any of the Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934 (the “U.S. Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) under the U.S. Exchange Act, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, on the request of such holder, beneficial owner or prospective purchaser, the information required to be provided to such persons pursuant to Rule 144A(d)(4) under the U.S. Securities Act. The Company is not currently subject to the periodic reporting requirements of the U.S. Exchange Act.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Historical Financial Information

The Company's audited consolidated financial statements as of and for the years ended December 31, 2016, 2015 and 2014 (the "Historical Financial Information") included in this Prospectus have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and have been reported upon by KPMG Bedrijfsrevisoren BV CVBA. The Historical Financial Information is covered by the report of the statutory auditor included herein on page F-1.

In connection with X-FAB's acquisition of the core assets and certain employee-related and other liabilities of Altis Semiconductor SNC ("Altis," the business, assets and liabilities so acquired, the "Altis Assets", and the acquisition thereof, the "Altis Acquisition"), X-FAB received the rights and benefits of the Altis Assets with effect from October 1, 2016. The Altis Assets are described under "*The Altis Acquisition*." Since the Group received the rights and benefits of the Altis Assets from October 1, 2016, the results of the Altis Assets have been consolidated with the Group's results from that date in accordance with IFRS 3. As a result, the financial performance of the Group for the year ended December 31, 2016 is not directly comparable to its financial performance for the years ended December 31, 2015 or 2014, which do not reflect the results of the Altis Assets.

Rounding adjustments have been made in calculating some of the financial information included in this Prospectus. As a result, figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

### Unaudited Pro Forma Consolidated Financial Information

The unaudited pro forma consolidated financial information presented in "The Altis Acquisition — Unaudited Pro Forma Consolidated Financial Information" comprises an unaudited pro forma statement of profit and loss for the year ended December 31, 2016 based on (i) X-FAB's consolidated statement of profit and loss for the year ended December 31, 2016, presented in U.S. dollars, included in its audited consolidated financial statements prepared in accordance with IFRS and (ii) Altis's unaudited financial information relating to profit and loss for the period from January 1, 2016 to September 30, 2016, which has been prepared in accordance with French GAAP. The unaudited pro forma consolidated statement of profit and loss gives effect to the Altis Acquisition as if it had occurred on January 1, 2016 (the "Unaudited Pro Forma Consolidated Statement of Profit and Loss").

The Unaudited Pro Forma Consolidated Statement of Profit and Loss has not been prepared in accordance with the requirements of Regulation S-X under the U.S. Securities and Exchange Act of 1934. Neither the adjustments nor the resulting pro forma financial information have been audited. In evaluating the Unaudited Pro Forma Consolidated Statement of Profit and Loss, investors should carefully consider the Historical Financial Information included elsewhere in this Prospectus.

The adjustments made in order to present the Unaudited Pro Forma Consolidated Statement of Profit and Loss have been made based upon available information and assumptions that X-FAB believes are reasonable, that are directly attributable to the Altis Acquisition and that are factually supportable. These adjustments are not necessarily indicative of the results that would have actually been achieved if the Altis Acquisition had been completed on the dates indicated, or indicative of the results that may be achieved in the future. The Unaudited Pro Forma Consolidated Statement of Profit and Loss is provided for information purposes only.

The Altis unaudited financial information relating to profit and loss used for purposes of preparing the Unaudited Pro Forma Consolidated Statement of Profit and Loss has not been audited by an external accounting firm. No single set of financial statements have been prepared for Altis or the Altis Assets for the year ended December 31, 2016, or any period therein, or formally approved by a shareholders' meeting of Altis. The Altis



unaudited financial information relating to profit and loss used for purposes of preparing the Unaudited Pro Forma Consolidated Statement of Profit and Loss is derived from the management accounts of Altis.

### **Non-IFRS Financial Measures**

This Prospectus contains non-IFRS measures and ratios, including EBITDA, Net Debt and Net Debt/EBITDA, that are not required by, or presented in accordance with, IFRS. EBITDA is defined as EBIT, or operating profit, less depreciation and amortization (before the effect of grants and subsidies). Net Debt is defined as the Group's total loans and borrowings (comprising current loans and borrowings, and non-current loans and borrowings) less cash and cash equivalents and current financial assets. Net Debt/EBITDA is defined as Net Debt divided by EBITDA. X-FAB also presents EBIT, which is equivalent to operating profit as presented in the Historical Financial Information.

X-FAB presents non-IFRS measures because it believes that they and similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. The non-IFRS measures may not be comparable to similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of X-FAB's operating results as reported under IFRS. Non-IFRS measures such as EBITDA, Net Debt and Net Debt/EBITDA are not measurements of X-FAB's performance or liquidity under IFRS or any other generally accepted accounting principles. In particular, EBITDA should not be considered as an alternative to: (i) operating profit or profit for the period (as determined in accordance with IFRS) as a measure of X-FAB's operating performance; (ii) cash flows from operating, investing and financing activities as a measure of X-FAB's ability to meet its cash needs; or (iii) any other measures of performance under generally accepted accounting principles. Some of the limitations of EBITDA are:

- it does not reflect X-FAB's cash expenditures or future requirements for capital expenditure or contractual commitments;
- it does not reflect changes in, or cash requirements for, X-FAB's working capital needs; and
- it does not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on X-FAB's debts.

For a reconciliation of EBITDA to operating profit, and of Net Debt to total loans and borrowings, see "*Selected Consolidated Financial Information — Reconciliations of Non-IFRS Financial Measures.*"

### **Non-financial Operating Measures**

This Prospectus contains the following measures, which X-FAB monitors as indicators of its capabilities and operating performance:

- ***wafers starts per month ("WSPM")***: the number of wafers started in production calculated on the basis of the relevant calendar month;
- ***capacity*<sup>(1)</sup>**: the maximum number of WSPM capable of being produced by the machinery and equipment installed, assuming continuous production (24 hours per day, seven days per week) and assuming a pre-defined mix of technologies and products that X-FAB believes to be representative for the given planning period; and
- ***utilization rate***: the number of wafers produced during a given time period divided by the theoretical total capacity available for that time period, expressed as a percentage.

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Note:

<sup>(1)</sup> X-FAB does not specify capacity figures for MEMS device production due to the wide variety and complexity of process technologies used depending on the particular MEMS design. As a result, MEMS capabilities are not included in the Group's capacity or, as a result, utilization rate calculations.

## **End-User Market Revenue Data**

X-FAB presents certain revenue data in this Prospectus according to the end-user market of the Company's customers. This revenue data is categorized according to X-FAB's internal categorizations and processes for the following end-user markets: "automotive," "communications," "consumer," "industrial," "medical" and "other." X-FAB's categorization of end-user market revenue data is based on information provided by its customers. It is therefore not possible for X-FAB to independently verify the ultimate end-user market for each integrated circuit that it produces.

## **Other Information**

In this Prospectus, references to the "Company" are to X-FAB Silicon Foundries SE and references to "X-FAB," or "Group" are to the Company together with its consolidated subsidiaries.

References to "euros" or "€" are to the common currency of the member states of the EU that are part of the Eurozone. References to the "United States" or the "U.S." are to the United States of America and references to "U.S. dollars" or "\$" are to the lawful currency of the United States.

## **INDUSTRY AND MARKET DATA**

This Prospectus includes market share and industry data, which were obtained by the Company from industry publications and surveys, industry reports prepared by consultants, internal surveys and customer feedback. Unless the source is otherwise stated (or the information is sourced elsewhere in this Prospectus), the market, economic and industry data in this Prospectus constitute the Directors' estimates, using underlying data from independent third parties. The market, economic and industry data have primarily been derived and extrapolated from the 2016 and 2017 editions of the McClean Report (the "McClean Report") and updates thereto, published by IC Insights, Inc. ("IC Insights"). Additional market, economic and industry data has been derived and extrapolated from "Power SiC 2016: Materials, Devices, Modules, and Applications report" by Yole Développement 2016 (the "Yole Report"), and the IHS Inc. Industrial Semiconductor Market Tracker 6-3 2016 ("IHS").

The third-party sources X-FAB has used generally state that the information they contain has been obtained from sources believed to be reliable. These third-party sources also state, however, that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on significant assumptions. As X-FAB does not always have access to the facts and assumptions underlying such market data, or statistical information and economic indicators contained in these third-party sources, it is unable to verify such information and, while it believes it to be reliable, it cannot guarantee its accuracy or completeness.

In addition, certain information in this Prospectus is not based on published data obtained from independent third parties or extrapolations therefrom, but rather is based upon X-FAB's best estimates, which are in turn based upon information obtained from trade and business organizations and associations, consultants and other contacts within the industries in which X-FAB competes, information published by its competitors and its own experience and knowledge of conditions and trends in the markets in which it operates.

X-FAB cannot assure you that any of the assumptions that it has made while compiling this data from third-party sources are accurate or correctly reflect its position in the industry and none of its internal estimates have been verified by any independent sources. None of the Company, the Selling Shareholders nor the Underwriters have independently verified this information. Accordingly, while X-FAB believes it to be reliable, none of X-FAB, the Selling Shareholders or the Underwriters makes any representation or warranty as to the accuracy or completeness of this information. X-FAB confirms that all third-party data contained in this Prospectus has been accurately reproduced and, so far as X-FAB is aware and able to ascertain from information published by that third-party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

## **ENFORCEMENT OF CIVIL LIABILITIES**

The Company is a European company with limited liability incorporated under the laws of Belgium. All of the Company's directors and most members of its Executive Management Team live outside the United States. Many of the Company's assets and the assets of these individuals are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon these individuals or the Company or to enforce against them judgments obtained in the United States based on the civil liability provisions of the U.S. securities laws. There is uncertainty as to the enforceability in Belgium of original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

## FORWARD-LOOKING STATEMENTS

This Prospectus contains “forward-looking statements” within the meaning of the securities laws of certain jurisdictions, including statements under the captions “*Summary*,” “*Risk Factors*,” “*Industry*,” “*Business*,” “*Operating and Financial Review*” and in other sections. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the words “believes,” “estimates,” “anticipates,” “expects,” “guidance,” “intends,” “may,” “will,” “plans,” “continue,” “ongoing,” “potential,” “predict,” “project,” “target,” “seek” or “should” or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, future events or intentions. These forward-looking statements appear in a number of places throughout this Prospectus. Forward-looking statements include statements regarding X-FAB’s intentions, beliefs or current expectations concerning, among other things, its results of operations, prospects, growth, planned strategies, operational initiatives and dividend policy and the industry in which it operates. In particular, certain statements are made in this Prospectus regarding management’s estimates of future growth.

These forward-looking statements and other statements contained in this Prospectus regarding matters that are not historical facts involve predictions. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. These statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by X-FAB, are inherently subject to significant business, economic and competitive uncertainties and contingencies. As such, no assurance can be given that such future results, including guidance provided by the Group, will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. You should not place undue reliance on these forward-looking statements. Any forward-looking statements are made only as of the date of this Prospectus and X-FAB does not intend, and does not assume any obligation, to update forward-looking statements set forth in this Prospectus.

Many factors may cause X-FAB’s results of operations, financial condition, liquidity and the development of the industries in which it competes to differ materially from those expressed or implied by the forward-looking statements contained in this Prospectus.

These factors include:

- structural trends in the end-user markets where the Group’s customers operate;
- global economic and trade conditions;
- the Group’s reliance on certain major customers;
- levels of demand for analog/mixed-signal integrated circuits;
- industry trends among semiconductor foundries;
- the Group’s ability to grow production capacity;
- the Group’s ability to generate growth and profitability;
- the Group’s ability to hire and retain qualified personnel; and
- the Group’s ability to acquire required equipment and supplies necessary to meet business needs.

These risks and others described under “*Risk Factors*” are not exhaustive. Other sections of this Prospectus describe additional factors that could adversely affect X-FAB’s results of operations, financial condition, liquidity and the development of the sectors in which it operates. New risks can emerge from time to time, and

it is not possible for X-FAB to predict all such risks, nor can it assess the impact of all such risks on its business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

## EXCHANGE RATES

The following table sets forth, for the periods and dates indicated, certain information regarding daily reference exchange rate (the “ECB Daily Reference Rate”) published by the European Central Bank (the “ECB”) for U.S. dollars, expressed in U.S. dollars per euro, rounded to the nearest four decimal places. No representation is made that U.S. dollar amounts have been, could have been or could be converted into euro, or vice versa, at such exchange rates or at any other exchange rate.

|                                    | U.S. Dollars per one Euro |                        |        |        |
|------------------------------------|---------------------------|------------------------|--------|--------|
|                                    | Period End <sup>(1)</sup> | Average <sup>(2)</sup> | High   | Low    |
| <b>Year</b>                        |                           |                        |        |        |
| 2012.....                          | 1.3194                    | 1.2848                 | 1.3454 | 1.2089 |
| 2013.....                          | 1.3791                    | 1.3281                 | 1.3814 | 1.2768 |
| 2014.....                          | 1.2141                    | 1.3285                 | 1.3953 | 1.2141 |
| 2015.....                          | 1.0887                    | 1.1095                 | 1.2043 | 1.0552 |
| 2016.....                          | 1.0541                    | 1.1069                 | 1.1569 | 1.0364 |
| 2017 (through March 15, 2017)..... | 1.0622                    | 1.0618                 | 1.0808 | 1.0385 |
| <b>Month</b>                       |                           |                        |        |        |
| September 2016.....                | 1.1161                    | 1.1212                 | 1.1296 | 1.1146 |
| October 2016.....                  | 1.0946                    | 1.1026                 | 1.1236 | 1.0872 |
| November 2016.....                 | 1.0635                    | 1.0799                 | 1.1095 | 1.0548 |
| December 2016.....                 | 1.0541                    | 1.0543                 | 1.0762 | 1.0364 |
| January 2017.....                  | 1.0755                    | 1.0614                 | 1.0755 | 1.0385 |
| February 2017.....                 | 1.0597                    | 1.0643                 | 1.0808 | 1.0513 |

Notes:

- (1) Represents the exchange rate on the last business day of the applicable period.
- (2) Represents the average of the ECB Daily Reference Rates on each business day of each month during the relevant one-year period and, with respect to monthly information, the average of the ECB Daily Reference Rates on each business day for the relevant period.

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## SUMMARY

Summaries are made up of disclosure requirements known as “Elements.” These Elements are numbered in Sections A – E (A.1 – E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and company. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and company, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of “Not applicable.”

### Section A – Introduction and warnings

| Element | Disclosure requirement  |
|---------|---|
| A.1     | <b>Introduction and warnings</b><br>This summary must be read as an introduction to this Prospectus and is provided to aid investors when considering whether to invest in the Shares, but is not a substitute for this Prospectus. Any decision to invest in the Shares should be based on consideration of this Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area, no civil liability will attach to the persons responsible for this summary in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the Shares. Where a claim relating to this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated. |
| A.2     | <b>Consent for use of the prospectus for subsequent resale</b><br>Not applicable. The Company does not consent to the use of the Prospectus for the subsequent resale or final placement of securities by financial intermediaries.   |

### Section B – Company

| Element | Disclosure requirement   |
|---------|--|
| B.1     | <b>The legal and commercial name of the Company</b><br>The legal name of the Company is X-FAB Silicon Foundries SE. It carries out its business under the name of X-FAB.   |
| B.2     | <b>Domicile and legal form of the Company</b><br>The Company is a European company with limited liability organized under the laws of Belgium. It is registered with the legal entities register of Antwerp, division Hasselt under number 0882.390.885. The Company’s registered office is located at Transportstraat 1, 3980 Tessenderlo, Belgium. |

| Element | Disclosure requirement   |
|---------|--|
| B.3     | <p><b>Current operations and principal activities of the Company and the principal markets in which it competes</b></p> <p>X-FAB is one of the world’s leading specialty foundry groups for analog/mixed-signal semiconductor technologies, providing manufacturing and design support services for customers that design analog/mixed-signal integrated circuits (“ICs”) and other semiconductor devices for use in their own products or the products of their customers. X-FAB creates customized analog/mixed-signal ICs for use in a variety of applications, with a strategic focus on the automotive, industrial and medical device end-user markets, which comprised 41 per cent., 11 per cent. and 3 per cent. of 2016 revenue, respectively. As a pure-play specialty foundry, X-FAB manufactures ICs based on its customers’ or third-party designs, which are primarily designed and fabricated using X-FAB’s portfolio of proprietary technologies, available across all of its end-user segments. X-FAB has over 330 customers worldwide.</p> <p>The Group has an established track record, with over 25 years of experience providing customers with advanced analog/mixed-signal solutions and a range of design-related product and support services as part of its comprehensive offering, including extensive design libraries as well as engineering, technical and design support. The Group believes that specialized process technologies and extensive service offerings differentiate X-FAB from its competitors by supporting customers in designing semiconductors according to their specific end-use applications.</p> <p>X-FAB’s modular approach allows customers to choose from a wide range of enhanced analog/mixed-signal functionality options across major semiconductor technologies, designs and processes, including Complementary Metal-Oxide Semiconductor (“CMOS”), Silicon on Insulator (“SOI”), Silicon Carbide (“SiC”) and Micro-Electro-Mechanical Systems (“MEMS”). Customers can then draw on a variety of features, such as high voltage capabilities, optical and other types of sensors, radio frequency, bipolar elements and embedded non-volatile memories, in order to develop bespoke ICs specifically tailored to their end-use requirements. X-FAB currently offers feature sizes of 1.0µm, 0.8µm and 0.6µm on 150-mm wafers and 0.6µm, 0.35µm, 0.25µm, 0.18µm and 0.13µm on 200-mm wafers.</p> <p>X-FAB operates six sites in Germany, France, Malaysia and the United States, with aggregate production capacity of approximately 94,000 200-mm equivalent wafer starts per month. X-FAB is targeting revenue of over \$635 million in 2017 and over \$750 million in 2019, and EBITDA of approximately 19-20 per cent. and over 27 per cent. in those years, respectively.</p> |
| B.4a    | <p><b>Significant recent trends affecting the Company and the industries in which it operates</b></p> <p>The semiconductor industry has experienced consistent high growth in recent decades, at a CAGR of 4.9 per cent. between 1996 and 2016 and is expected to grow a CAGR of 5.2 per cent. between 2016 and 2021, as measured by total sales, according to the 2017 McClean Report.</p> <p>X-FAB operates in the analog/mixed-signal portion of the semiconductor market. According to the 2017 McClean Report, this market experienced growth at a CAGR of 3.5 per cent. between 2014 and 2016, and is expected to grow at a CAGR of 5.2 per cent. between 2016 and 2021, measured by sales. This growth has been supported by increasing demand for devices with analog/mixed-signal capabilities, which interact with real-world, analog sensory data, such as sound, light, pressure, motion, temperature, electrical current and radio waves. As an analog/mixed-signal IC foundry, X-FAB has not been subject to certain broader semiconductor industry trends that have affected digital IC foundries, such as (i) producer consolidation and focus on feature size and processing speed, since analog/mixed-signal foundries tend to be less reliant on achieving significant economies of scale to support research and development, and (ii) significant pricing volatility.</p>   |

| Element                                       | Disclosure requirement   |            |  |            |   |            |   |  |        |              |        |              |        |              |                 |            |      |            |      |            |      |   |            |      |            |      |            |      |                        |           |   |   |   |   |   |
|---|--|------------|--|------------|---|------------|---|--|--------|--------------|--------|--------------|--------|--------------|-----------------|------------|------|------------|------|------------|------|---|------------|------|------------|------|------------|------|------------------------|-----------|---|---|---|---|---|
|   | <p>In 2016, 84 per cent. of X-FAB’s revenue was from customers in the automotive, industrial, medical and communications end-user markets, which have been characterized by structural growth trends. These trends are expected to support continued growth, including due to the use of (i) safety, security, connectivity, environmental control and monitoring devices in a range of electric, hybrid and internal combustion engine vehicles, (ii) internet connectivity and higher technology sensors in industrial devices and (iii) disease diagnosis, drug detection and chemical and cell analysis with analog/mixed-signal capabilities. X-FAB does not anticipate that the communications end-user market will be a key growth area for the Group, although it may continue to comprise a material portion of revenues due to ongoing relationships and established capabilities for certain applications in this market.</p> <p>According to the 2017 McClean Report, X-FAB is the 5<sup>th</sup> largest analog/mixed-signal foundry, the 10<sup>th</sup> largest pure-play foundry and the 12<sup>th</sup> largest overall foundry, based on 2016 sales levels. X-FAB believes that its principal competitors include foundries that operate in the Group’s strategic end-user markets, in particular TSMC in the automotive end-user market, and to a limited extent integrated device manufacturers (“IDMs”) that offer manufacturing services to fabless companies in these end-user markets. X-FAB does not view specialized analog/mixed-signal IC foundries TowerJazz and Vanguard as significant competitors since they do not focus on X-FAB’s strategic end-user markets.</p>   |            |  |            |   |            |   |  |        |              |        |              |        |              |                 |            |      |            |      |            |      |   |            |      |            |      |            |      |                        |           |   |   |   |   |   |
| B.5   | <p><b>Description of the Group and the Company’s position within the Group</b></p> <p>The Company is the parent company and principal holding company of the Group. It operates its business through its direct and indirect subsidiaries. The principal activity of the Company and all of the Company’s subsidiaries is providing manufacturing and related services for the production of analog/mixed-signal integrated circuits.</p>  |            |  |            |   |            |   |  |        |              |        |              |        |              |                 |            |      |            |      |            |      |   |            |      |            |      |            |      |                        |           |   |   |   |   |   |
| B.6   | <p><b>Relationship with major shareholders</b></p> <p>Prior to the closing of the Offering, the principal direct shareholders of X-FAB are (i) Xtrion NV (61.4 per cent.) which is beneficially owned by Roland Duchâtelet, Rudi De Winter and Françoise Chombar and (ii) Sarawak Technology Holdings Sdn. Bhd. (35.2 per cent.), a wholly owned subsidiary of the Malaysian State of Sarawak. The combined ownership of both shareholders represents 96.6 per cent. of the Company’s share capital.</p> <p>The following table presents the ownership of the Shares immediately prior to the closing of the Offering and giving effect to the Offering, assuming a full placement of the Offer Shares and that the Offer Price is at the mid-point of the Price Range:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="3"></th> <th colspan="2" style="border-bottom: 1px solid black;">Shares Owned<br/>Before the<br/>Closing of the<br/>Offering</th> <th colspan="2" style="border-bottom: 1px solid black;">Shares Owned<br/>After the Closing<br/>of the Offering</th> <th colspan="2" style="border-bottom: 1px solid black;">Shares Owned<br/>Assuming Full<br/>Exercise of Over-<br/>Allotment<br/>Option</th> </tr> <tr> <th style="border-bottom: 1px solid black;">Number</th> <th style="border-bottom: 1px solid black;">per<br/>cent.</th> <th style="border-bottom: 1px solid black;">Number</th> <th style="border-bottom: 1px solid black;">per<br/>cent.</th> <th style="border-bottom: 1px solid black;">Number</th> <th style="border-bottom: 1px solid black;">per<br/>cent.</th> </tr> </thead> <tbody> <tr> <td>Xtrion NV .....</td> <td style="text-align: right;">61,141,179</td> <td style="text-align: right;">61.4</td> <td style="text-align: right;">61,141,179</td> <td style="text-align: right;">48.3</td> <td style="text-align: right;">61,141,179</td> <td style="text-align: right;">48.3</td> </tr> <tr> <td>Sarawak Technology<br/>Holdings Sdn. Bhd. ....</td> <td style="text-align: right;">35,009,694</td> <td style="text-align: right;">35.2</td> <td style="text-align: right;">18,248,694</td> <td style="text-align: right;">14.4</td> <td style="text-align: right;">13,670,953</td> <td style="text-align: right;">10.8</td> </tr> <tr> <td>TDK-Micronas GmbH ....</td> <td style="text-align: right;">1,989,390</td> <td style="text-align: right;">2</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> </tr> </tbody> </table> |            | Shares Owned<br>Before the<br>Closing of the<br>Offering |            | Shares Owned<br>After the Closing<br>of the Offering                      |            | Shares Owned<br>Assuming Full<br>Exercise of Over-<br>Allotment<br>Option |  | Number | per<br>cent. | Number | per<br>cent. | Number | per<br>cent. | Xtrion NV ..... | 61,141,179 | 61.4 | 61,141,179 | 48.3 | 61,141,179 | 48.3 | Sarawak Technology<br>Holdings Sdn. Bhd. .... | 35,009,694 | 35.2 | 18,248,694 | 14.4 | 13,670,953 | 10.8 | TDK-Micronas GmbH .... | 1,989,390 | 2 | 0 | 0 | 0 | 0 |
|   | Shares Owned<br>Before the<br>Closing of the<br>Offering   |            | Shares Owned<br>After the Closing<br>of the Offering     |            | Shares Owned<br>Assuming Full<br>Exercise of Over-<br>Allotment<br>Option |            |   |  |        |              |        |              |        |              |                 |            |      |            |      |            |      |   |            |      |            |      |            |      |                        |           |   |   |   |   |   |
|   | Number   |            | per<br>cent.   | Number     | per<br>cent.  | Number     | per<br>cent.  |  |        |              |        |              |        |              |                 |            |      |            |      |            |      |   |            |      |            |      |            |      |                        |           |   |   |   |   |   |
|   | Xtrion NV .....  | 61,141,179 | 61.4   | 61,141,179 | 48.3  | 61,141,179 | 48.3  |  |        |              |        |              |        |              |                 |            |      |            |      |            |      |   |            |      |            |      |            |      |                        |           |   |   |   |   |   |
| Sarawak Technology<br>Holdings Sdn. Bhd. .... | 35,009,694   | 35.2       | 18,248,694   | 14.4       | 13,670,953  | 10.8       |   |  |        |              |        |              |        |              |                 |            |      |            |      |            |      |   |            |      |            |      |            |      |                        |           |   |   |   |   |   |
| TDK-Micronas GmbH ....                        | 1,989,390  | 2          | 0  | 0          | 0   | 0          |   |  |        |              |        |              |        |              |                 |            |      |            |      |            |      |   |            |      |            |      |            |      |                        |           |   |   |   |   |   |

| Element | Disclosure requirement                                      |                                |       |              |       |             |       |
|---------|---|--------------------------------|-------|--------------|-------|-------------|-------|
|         | Elex NV.....  | 1,005,996                      | 1     | 1,005,996    | 0.8   | 1,005,996   | 0.8   |
|         | X-FAB Semiconductor Foundries AG .....                      | 149,748                        | 0.2   | 149,748      | 0.1   | 149,748     | 0.1   |
|         | Management & others .....                                   | 235,662                        | 0.2   | 235,662      | 0.2   | 235,662     | 0.2   |
|         | Public .....  | —                              | —     | 45,777,417   | 36.2  | 50,355,158  | 39.8  |
|         | Total .....   | 99,531,669                     | 100.0 | 126,558,696  | 100.0 | 126,558,696 | 100.0 |
| B.7     | <b>Summary historical key financial information</b>         |                                |       |              |       |             |       |
|         | <i>Consolidated Statement of Profit and Loss</i>            |                                |       |              |       |             |       |
|         |   | <b>Years ended December 31</b> |       |              |       |             |       |
|         |   | <b>2016</b>                    |       | <b>2015</b>  |       | <b>2014</b> |       |
|         |   | <i>(in millions of \$)</i>     |       |              |       |             |       |
|         | Revenue .....   | 512.9                          |       | 331.1        |       | 330.5       |       |
|         | Cost of sales.....  | (407.8)                        |       | (273.3)      |       | (279.0)     |       |
|         | <b>Gross profit</b> .....                                   | <b>105.1</b>                   |       | <b>57.8</b>  |       | <b>51.5</b> |       |
|         | Research and development expenses .....                     | (26.8)                         |       | (21.3)       |       | (20.7)      |       |
|         | Selling expenses.....                                       | (7.4)                          |       | (6.2)        |       | (6.3)       |       |
|         | General and administrative expenses.....                    | (22.8)                         |       | (18.2)       |       | (18.7)      |       |
|         | Rental income and expenses from investment properties ..... | 1.9                            |       | 1.2          |       | 2.3         |       |
|         | Other income and other expenses .....                       | 0.5                            |       | 2.9          |       | 0.7         |       |
|         | <b>Operating profit</b> .....                               | <b>50.5</b>                    |       | <b>16.3</b>  |       | <b>8.7</b>  |       |
|         | Finance income .....  | 11.1                           |       | 14.1         |       | 15.4        |       |
|         | Finance expenses .....                                      | (19.1)                         |       | (19.3)       |       | (9.7)       |       |
|         | <b>Net financial result</b> .....                           | <b>(8.0)</b>                   |       | <b>(5.2)</b> |       | <b>5.7</b>  |       |
|         | <b>Profit before taxes</b> .....                            | <b>42.5</b>                    |       | <b>11.1</b>  |       | <b>14.4</b> |       |
|         | Income-tax .....  | 3.5                            |       | 2.3          |       | (0.9)       |       |
|         | <b>Profit for the year</b> .....                            | <b>46.0</b>                    |       | <b>13.4</b>  |       | <b>13.5</b> |       |

| Element                            | Disclosure requirement  |             |                          |  |  |  |             |             |             |  |                            |  |  |               |  |  |  |                    |  |  |  |                                    |       |       |       |                             |     |     |      |                         |     |     |     |                               |     |   |   |                               |     |     |     |                           |      |      |      |                                |       |       |       |
|------------------------------------|---|-------------|--------------------------|--|--|--|-------------|-------------|-------------|--|----------------------------|--|--|---------------|--|--|--|--------------------|--|--|--|------------------------------------|-------|-------|-------|-----------------------------|-----|-----|------|-------------------------|-----|-----|-----|-------------------------------|-----|---|---|-------------------------------|-----|-----|-----|---------------------------|------|------|------|--------------------------------|-------|-------|-------|
|                                    | <p>X-FAB's revenue increased by \$181.8 million, or 54.9 per cent., to \$512.9 million in 2016 from \$331.1 million in 2015, driven by growth in each of its end-user market segments (including a significant increase in revenue from an existing customer, for which a portion of revenue is from outsourced manufacturing), and supported by the acquisition of the Altis Assets, with effect from October 1, 2016, which contributed \$31.6 million to X-FAB's revenue in 2016. Revenue remained broadly unchanged from 2014 to 2015, moving to \$331.1 million in 2015 from \$330.5 million in 2014. While X-FAB's U.S. dollar revenues increased by \$20.4 million, or 8.4 per cent., from 2014 to 2015 due to higher demand, this growth was broadly offset by a moderate decline in euro sales and the currency impact of a sharp depreciation in the euro as against the U.S. dollar between the two years, which further reduced X-FAB's reported revenues from euro sources.</p> <p>The Group's gross profit increased by \$47.3 million to \$105.1 million in 2016 from \$57.8 million in 2015. This increase was principally due to higher sales volumes and manufacturing operations across the Group's fabs, as described above, which more than offset an increase of \$134.5 million, or 49.2 per cent., in X-FAB's cost of sales to \$407.8 million in 2016 from \$273.3 million in 2015. As a percentage of revenue, gross profit was 20.5 per cent. in 2016 and 17.5 per cent. in 2015, and the Group's utilization rate improved to 79 per cent. in 2016 from 68 per cent. in 2015. The Group's gross profit increased by \$6.3 million, or 12.2 per cent., to \$57.8 million in 2015 from \$51.5 million in 2014. This increase was principally due to higher sales volumes, as well as declines in X-FAB's cost of sales. As a percentage of revenue, gross profit was 17.5 per cent. in 2015 and 15.6 per cent. in 2014, as between the two years, and the Group's utilization rate improved to 68 per cent. in 2015 from 66 per cent. in 2014.</p> <p>The Group's profit for the year increased to \$46.0 million in 2016 from \$13.4 million in 2015, as a result of the significant growth in gross profit described above, which more than offset increases in research and development expenses, selling expenses and general and administrative expenses from 2015 to 2016, which increased as a result of the growth in operating activities. The Group's operating profit increased by \$7.6 million, or 87.4 per cent., to \$16.3 million in 2015 from \$8.7 million in 2014, as a result of the growth in gross profit described above, while the Group experienced only moderate increases in research and development expenses, and decreases in selling expenses and general and administrative expenses, due to depreciation in the euro and Malaysian Ringgit as against the U.S. dollar from 2014 to 2015.</p> <p><b><i>Consolidated Statement of Financial Position</i></b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th colspan="3" style="text-align: center; border-bottom: 1px solid black;"><b>As at December 31</b></th> </tr> <tr> <th></th> <th style="text-align: center; border-bottom: 1px solid black;"><b>2016</b></th> <th style="text-align: center; border-bottom: 1px solid black;"><b>2015</b></th> <th style="text-align: center; border-bottom: 1px solid black;"><b>2014</b></th> </tr> <tr> <th></th> <th colspan="3" style="text-align: center;"><i>(in millions of \$)</i></th> </tr> </thead> <tbody> <tr> <td><b>Assets</b></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Non-current assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Property, plant and equipment.....</td> <td style="text-align: right;">265.5</td> <td style="text-align: right;">231.6</td> <td style="text-align: right;">210.7</td> </tr> <tr> <td style="padding-left: 20px;">Investment properties .....</td> <td style="text-align: right;">9.1</td> <td style="text-align: right;">9.6</td> <td style="text-align: right;">10.9</td> </tr> <tr> <td style="padding-left: 20px;">Intangible assets .....</td> <td style="text-align: right;">7.9</td> <td style="text-align: right;">7.7</td> <td style="text-align: right;">8.5</td> </tr> <tr> <td style="padding-left: 20px;">Non-current investments .....</td> <td style="text-align: right;">0.2</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> </tr> <tr> <td style="padding-left: 20px;">Other non-current assets.....</td> <td style="text-align: right;">0.0</td> <td style="text-align: right;">0.1</td> <td style="text-align: right;">0.1</td> </tr> <tr> <td style="padding-left: 20px;">Deferred tax assets .....</td> <td style="text-align: right;">19.9</td> <td style="text-align: right;">14.6</td> <td style="text-align: right;">11.3</td> </tr> <tr> <td style="border-top: 1px solid black;">Total non-current assets .....</td> <td style="text-align: right; border-top: 1px solid black;">302.6</td> <td style="text-align: right; border-top: 1px solid black;">263.5</td> <td style="text-align: right; border-top: 1px solid black;">241.5</td> </tr> </tbody> </table> |             | <b>As at December 31</b> |  |  |  | <b>2016</b> | <b>2015</b> | <b>2014</b> |  | <i>(in millions of \$)</i> |  |  | <b>Assets</b> |  |  |  | Non-current assets |  |  |  | Property, plant and equipment..... | 265.5 | 231.6 | 210.7 | Investment properties ..... | 9.1 | 9.6 | 10.9 | Intangible assets ..... | 7.9 | 7.7 | 8.5 | Non-current investments ..... | 0.2 | — | — | Other non-current assets..... | 0.0 | 0.1 | 0.1 | Deferred tax assets ..... | 19.9 | 14.6 | 11.3 | Total non-current assets ..... | 302.6 | 263.5 | 241.5 |
|                                    | <b>As at December 31</b>  |             |                          |  |  |  |             |             |             |  |                            |  |  |               |  |  |  |                    |  |  |  |                                    |       |       |       |                             |     |     |      |                         |     |     |     |                               |     |   |   |                               |     |     |     |                           |      |      |      |                                |       |       |       |
|                                    | <b>2016</b>   | <b>2015</b> | <b>2014</b>              |  |  |  |             |             |             |  |                            |  |  |               |  |  |  |                    |  |  |  |                                    |       |       |       |                             |     |     |      |                         |     |     |     |                               |     |   |   |                               |     |     |     |                           |      |      |      |                                |       |       |       |
|                                    | <i>(in millions of \$)</i>  |             |                          |  |  |  |             |             |             |  |                            |  |  |               |  |  |  |                    |  |  |  |                                    |       |       |       |                             |     |     |      |                         |     |     |     |                               |     |   |   |                               |     |     |     |                           |      |      |      |                                |       |       |       |
| <b>Assets</b>                      |   |             |                          |  |  |  |             |             |             |  |                            |  |  |               |  |  |  |                    |  |  |  |                                    |       |       |       |                             |     |     |      |                         |     |     |     |                               |     |   |   |                               |     |     |     |                           |      |      |      |                                |       |       |       |
| Non-current assets                 |   |             |                          |  |  |  |             |             |             |  |                            |  |  |               |  |  |  |                    |  |  |  |                                    |       |       |       |                             |     |     |      |                         |     |     |     |                               |     |   |   |                               |     |     |     |                           |      |      |      |                                |       |       |       |
| Property, plant and equipment..... | 265.5   | 231.6       | 210.7                    |  |  |  |             |             |             |  |                            |  |  |               |  |  |  |                    |  |  |  |                                    |       |       |       |                             |     |     |      |                         |     |     |     |                               |     |   |   |                               |     |     |     |                           |      |      |      |                                |       |       |       |
| Investment properties .....        | 9.1   | 9.6         | 10.9                     |  |  |  |             |             |             |  |                            |  |  |               |  |  |  |                    |  |  |  |                                    |       |       |       |                             |     |     |      |                         |     |     |     |                               |     |   |   |                               |     |     |     |                           |      |      |      |                                |       |       |       |
| Intangible assets .....            | 7.9   | 7.7         | 8.5                      |  |  |  |             |             |             |  |                            |  |  |               |  |  |  |                    |  |  |  |                                    |       |       |       |                             |     |     |      |                         |     |     |     |                               |     |   |   |                               |     |     |     |                           |      |      |      |                                |       |       |       |
| Non-current investments .....      | 0.2   | —           | —                        |  |  |  |             |             |             |  |                            |  |  |               |  |  |  |                    |  |  |  |                                    |       |       |       |                             |     |     |      |                         |     |     |     |                               |     |   |   |                               |     |     |     |                           |      |      |      |                                |       |       |       |
| Other non-current assets.....      | 0.0   | 0.1         | 0.1                      |  |  |  |             |             |             |  |                            |  |  |               |  |  |  |                    |  |  |  |                                    |       |       |       |                             |     |     |      |                         |     |     |     |                               |     |   |   |                               |     |     |     |                           |      |      |      |                                |       |       |       |
| Deferred tax assets .....          | 19.9  | 14.6        | 11.3                     |  |  |  |             |             |             |  |                            |  |  |               |  |  |  |                    |  |  |  |                                    |       |       |       |                             |     |     |      |                         |     |     |     |                               |     |   |   |                               |     |     |     |                           |      |      |      |                                |       |       |       |
| Total non-current assets .....     | 302.6   | 263.5       | 241.5                    |  |  |  |             |             |             |  |                            |  |  |               |  |  |  |                    |  |  |  |                                    |       |       |       |                             |     |     |      |                         |     |     |     |                               |     |   |   |                               |     |     |     |                           |      |      |      |                                |       |       |       |



| Element  | Disclosure requirement |              |              |
|--|------------------------|--------------|--------------|
| Current assets   |                        |              |              |
| Inventories.....   | 89.0                   | 61.9         | 56.5         |
| Trade and other receivables.....                               | 77.3                   | 45.0         | 40.3         |
| Income tax receivables.....                                    | 4.5                    | —            | —            |
| Other assets.....  | 14.3                   | 11.0         | 15.9         |
| Cash and cash equivalents.....                                 | 104.2                  | 66.1         | 26.5         |
| Total current assets.....                                      | 289.3                  | 184.0        | 139.1        |
| <b>Total assets.....</b>                                       | <b>591.9</b>           | <b>447.5</b> | <b>380.6</b> |
| <b>Equity and liabilities</b>                                  |                        |              |              |
| Equity   |                        |              |              |
| Share Capital.....   | 265.2                  | 265.2        | 265.2        |
| Share Premium.....   | 255.3                  | 255.3        | 255.3        |
| Retained Earnings.....   | (196.5)                | (242.4)      | (255.3)      |
| Cumulative translation adjustment.....                         | (0.9)                  | (0.7)        | (0.4)        |
| Treasury Shares.....   | (0.8)                  | (0.8)        | (0.8)        |
| Total equity attributable to equity holders of the parent..... | 322.3                  | 276.6        | 264.1        |
| Non-controlling interests.....                                 | 0.4                    | 0.4          | 0.4          |
| <b>Total equity.....</b>                                       | <b>322.7</b>           | <b>276.9</b> | <b>264.5</b> |
| Non-current liabilities  |                        |              |              |
| Non-current loans and borrowings.....                          | 132.4                  | 102.5        | 51.1         |
| Non-current provisions.....                                    | 0.1                    | 0.1          | 0.1          |
| Other non-current liabilities.....                             | 8.4                    | 1.5          | 2.0          |
| Total non-current liabilities.....                             | 140.9                  | 104.1        | 53.1         |
| Current liabilities  |                        |              |              |
| Trade payables.....  | 49.0                   | 12.3         | 21.7         |
| Current loans and borrowings.....                              | 31.4                   | 16.8         | 11.3         |
| Income tax payable.....  | 1.6                    | 2.6          | 2.0          |
| Provisions.....  | 1.6                    | 1.1          | 0.8          |
| Other current liabilities.....                                 | 44.6                   | 33.7         | 27.3         |
| Total current liabilities.....                                 | 128.3                  | 66.5         | 63.1         |
| <b>Total equity and liabilities.....</b>                       | <b>591.9</b>           | <b>447.5</b> | <b>380.6</b> |

| Element                              | Disclosure requirement   |  |  |  |  |  |  |   |  |                          |                         |                          |  |  |  |              |           |          |          |   |   |           |                     |             |            |            |         |           |             |                          |                  |                |                |                |                  |                  |                                      |            |           |           |       |   |            |
|--------------------------------------|--|--|--|--|--|--|--|---|--|--------------------------|-------------------------|--------------------------|--|--|--|--------------|-----------|----------|----------|---|---|-----------|---------------------|-------------|------------|------------|---------|-----------|-------------|--------------------------|------------------|----------------|----------------|----------------|------------------|------------------|--------------------------------------|------------|-----------|-----------|-------|---|------------|
|                                      | <p>The Group's property, plant and equipment increased by \$33.9 million, or 14.6 per cent., to \$265.5 million as at December 31, 2016 from \$231.6 million as at December 31, 2015, primarily due to continued investment by the Group in fixed assets during the course of 2016, and the acquisition of the Altis Assets. The Group's property, plant and equipment increased by \$20.9 million, or 9.9 per cent., to \$231.6 million as at December 31, 2015 from \$210.7 million as at December 31, 2014, primarily due to continued investment by the Group in fixed assets during the course of 2015. The Group's deferred tax assets increased by \$5.3 million, or 36.3 per cent., to \$19.9 million as at December 31, 2016 from \$14.6 million as at December 31, 2015, primarily due to the recognition of \$8.8 million in previously unrecognized deferred tax assets arising from temporary differences on property, plant and equipment at X-FAB Sarawak. The Group's deferred tax assets increased by \$3.3 million, or 29.2 per cent., to \$14.6 million as at December 31, 2015 from \$11.3 million as at December 31, 2014, primarily due to the recognition of \$4.9 million in previously unrecognized deferred tax assets arising from temporary differences on property, plant and equipment at X-FAB Sarawak.</p> <p>The Group's equity and liabilities increased by \$144.4 million, or 32.3 per cent., to \$591.9 million as at December 31, 2016 from \$447.5 million as at December 31, 2015. As at December 31, 2016, the Group had negative retained earnings of \$196.5 million, as compared to \$242.4 million as at December 31, 2015 and \$255.3 million as at December 31, 2014. These negative retained earnings are due to operating losses prior to 2015, in particular within operations in the Group's German and Malaysian subsidiaries, and the merger with X-FAB Sarawak in 2006. The Group's liabilities increased by \$98.6 million, or 57.8 per cent., to \$269.2 million as at December 31, 2016 from \$170.6 million as at December 31, 2015. This increase was primarily due to an increase in non-current loans and borrowings, trade payable and current loans and borrowings during 2016. The Group's liabilities increased by \$54.4 million, or 46.8 per cent., to \$170.6 million as at December 31, 2015 from \$116.2 million as at December 31, 2014. This increase was primarily due to an increase in current and non-current loans and borrowings, which partially offset a decrease in trade payables during 2015.</p>   |  |  |  |  |  |  |   |  |                          |                         |                          |  |  |  |              |           |          |          |   |   |           |                     |             |            |            |         |           |             |                          |                  |                |                |                |                  |                  |                                      |            |           |           |       |   |            |
| B.8                                  | <p><b>Selected key pro forma financial information</b></p> <p>The following table presents the unaudited pro forma consolidated statement of profit and loss for the year ended December 31, 2016. The unaudited pro forma statement of profit and loss gives effect to the acquisition of the Altis Assets as if it had occurred on January 1, 2016, and is based on X-FAB's consolidated statement of profit and loss for the year ended December 31, 2016, presented in U.S. dollars, included in its audited consolidated financial statements prepared in accordance with IFRS and Altis's unaudited financial information relating to profit and loss for the period from January 1, 2016 to September 30, 2016, presented in thousands of euros, which has been prepared in accordance with French GAAP.</p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: center;">X-FAB 2016</th> <th style="text-align: center;">Altis Jan 1,<br/>2016 – Sept 30,<br/>2016 French<br/>GAAP</th> <th style="text-align: center;">Altis Jan 1,<br/>2016 – Sept<br/>30, 2016<br/>French GAAP</th> <th style="text-align: center;">PPA<br/>Adjustments<br/>Jan 1, 2016 –<br/>Sept 30, 2016</th> <th style="text-align: center;">Pro Forma<br/>Adjustments<br/>Jan 1, 2016 –<br/>Sept 30, 2016</th> <th style="text-align: center;">Pro Forma<br/>Consolidated<br/>X-FAB 2016</th> </tr> <tr> <th></th> <th style="text-align: center;"><i>(thousands of \$)</i></th> <th style="text-align: center;"><i>(thousands of €)</i></th> <th colspan="3" style="text-align: center;"><i>(thousands of \$)</i></th> <th></th> </tr> </thead> <tbody> <tr> <td>Revenue.....</td> <td style="text-align: right;">512,897.4</td> <td style="text-align: right;">79,363.8</td> <td style="text-align: right;">88,573.2</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: right;">601,470.6</td> </tr> <tr> <td>Cost of sales .....</td> <td style="text-align: right;">(407,831.5)</td> <td style="text-align: right;">(73,721.3)</td> <td style="text-align: right;">(82,275.9)</td> <td style="text-align: right;">7,382.0</td> <td style="text-align: right;">(2,037.8)</td> <td style="text-align: right;">(484,763.2)</td> </tr> <tr> <td><b>Gross profit.....</b></td> <td style="text-align: right;"><b>105,065.9</b></td> <td style="text-align: right;"><b>5,642.6</b></td> <td style="text-align: right;"><b>6,297.3</b></td> <td style="text-align: right;"><b>7,382.0</b></td> <td style="text-align: right;"><b>(2,037.8)</b></td> <td style="text-align: right;"><b>116,707.4</b></td> </tr> <tr> <td>Research and<br/>development expenses</td> <td style="text-align: right;">(26,847.2)</td> <td style="text-align: right;">(5,578.1)</td> <td style="text-align: right;">(6,225.4)</td> <td style="text-align: right;">125.3</td> <td style="text-align: center;">—</td> <td style="text-align: right;">(32,947.3)</td> </tr> </tbody> </table> |  | X-FAB 2016   | Altis Jan 1,<br>2016 – Sept 30,<br>2016 French<br>GAAP | Altis Jan 1,<br>2016 – Sept<br>30, 2016<br>French GAAP     | PPA<br>Adjustments<br>Jan 1, 2016 –<br>Sept 30, 2016 | Pro Forma<br>Adjustments<br>Jan 1, 2016 –<br>Sept 30, 2016 | Pro Forma<br>Consolidated<br>X-FAB 2016 |  | <i>(thousands of \$)</i> | <i>(thousands of €)</i> | <i>(thousands of \$)</i> |  |  |  | Revenue..... | 512,897.4 | 79,363.8 | 88,573.2 | — | — | 601,470.6 | Cost of sales ..... | (407,831.5) | (73,721.3) | (82,275.9) | 7,382.0 | (2,037.8) | (484,763.2) | <b>Gross profit.....</b> | <b>105,065.9</b> | <b>5,642.6</b> | <b>6,297.3</b> | <b>7,382.0</b> | <b>(2,037.8)</b> | <b>116,707.4</b> | Research and<br>development expenses | (26,847.2) | (5,578.1) | (6,225.4) | 125.3 | — | (32,947.3) |
|                                      | X-FAB 2016   | Altis Jan 1,<br>2016 – Sept 30,<br>2016 French<br>GAAP | Altis Jan 1,<br>2016 – Sept<br>30, 2016<br>French GAAP | PPA<br>Adjustments<br>Jan 1, 2016 –<br>Sept 30, 2016   | Pro Forma<br>Adjustments<br>Jan 1, 2016 –<br>Sept 30, 2016 | Pro Forma<br>Consolidated<br>X-FAB 2016              |  |   |  |                          |                         |                          |  |  |  |              |           |          |          |   |   |           |                     |             |            |            |         |           |             |                          |                  |                |                |                |                  |                  |                                      |            |           |           |       |   |            |
|                                      | <i>(thousands of \$)</i>   | <i>(thousands of €)</i>                                | <i>(thousands of \$)</i>                               |  |  |  |  |   |  |                          |                         |                          |  |  |  |              |           |          |          |   |   |           |                     |             |            |            |         |           |             |                          |                  |                |                |                |                  |                  |                                      |            |           |           |       |   |            |
| Revenue.....                         | 512,897.4  | 79,363.8   | 88,573.2   | —  | —  | 601,470.6  |  |   |  |                          |                         |                          |  |  |  |              |           |          |          |   |   |           |                     |             |            |            |         |           |             |                          |                  |                |                |                |                  |                  |                                      |            |           |           |       |   |            |
| Cost of sales .....                  | (407,831.5)  | (73,721.3)   | (82,275.9)   | 7,382.0  | (2,037.8)  | (484,763.2)  |  |   |  |                          |                         |                          |  |  |  |              |           |          |          |   |   |           |                     |             |            |            |         |           |             |                          |                  |                |                |                |                  |                  |                                      |            |           |           |       |   |            |
| <b>Gross profit.....</b>             | <b>105,065.9</b>   | <b>5,642.6</b>   | <b>6,297.3</b>   | <b>7,382.0</b>   | <b>(2,037.8)</b>   | <b>116,707.4</b>                                     |  |   |  |                          |                         |                          |  |  |  |              |           |          |          |   |   |           |                     |             |            |            |         |           |             |                          |                  |                |                |                |                  |                  |                                      |            |           |           |       |   |            |
| Research and<br>development expenses | (26,847.2)   | (5,578.1)  | (6,225.4)  | 125.3  | —  | (32,947.3)   |  |   |  |                          |                         |                          |  |  |  |              |           |          |          |   |   |           |                     |             |            |            |         |           |             |                          |                  |                |                |                |                  |                  |                                      |            |           |           |       |   |            |

| Element | Disclosure requirement   |                   |                   |                   |                |                  |                   |
|---------|--|-------------------|-------------------|-------------------|----------------|------------------|-------------------|
|         | Selling expenses .....   | (7,368.8)         | (2,064.5)         | (2,304.0)         | 8.4            | —                | (9,664.5)         |
|         | General and administrative expenses .....  | (22,786.4)        | (8,022.9)         | (8,953.9)         | 278.9          | —                | (31,461.4)        |
|         | Rental income and expenses from investment properties .  | 1,896.6           | 997.4             | 1,113.1           | —              | —                | 3,009.7           |
|         | Other income and other expenses .....  | 496.0             | 182.0             | 203.1             | —              | —                | 699.1             |
|         | <b>Operating Profit .....</b>  | <b>50,456.0</b>   | <b>(8,843.6)</b>  | <b>(9,869.8)</b>  | <b>7,794.6</b> | <b>(2,037.8)</b> | <b>46,343.0</b>   |
|         | Finance income .....   | 11,118.5          | 778.0             | 868.3             | —              | —                | 11,986.8          |
|         | Finance costs .....  | (19,123.2)        | (3,797.6)         | (4,238.3)         | —              | 3,091.0          | (20,270.5)        |
|         | <b>Finance result (net)...</b>   | <b>(8,004.6)</b>  | <b>(3,019.6)</b>  | <b>(3,370.0)</b>  | <b>0.0</b>     | <b>3,091.0</b>   | <b>(8,283.7)</b>  |
|         | <b>Profit before taxes ....</b>  | <b>42,451.4</b>   | <b>(11,863.2)</b> | <b>(13,239.9)</b> | <b>7,794.6</b> | <b>1,053.1</b>   | <b>38,059.3</b>   |
|         | Income tax.....  | 3,500.3           | (1,371.3)         | (1,530.4)         | (124.0)        | 0.0              | 1,845.9           |
|         | <b>Profit for the year .....</b>   | <b>45,951.7</b>   | <b>(13,234.5)</b> | <b>(14,770.3)</b> | <b>7,670.6</b> | <b>1,053.1</b>   | <b>39,905.2</b>   |
|         | Attributable to:   |                   |                   |                   |                |                  |                   |
|         | Equity holders of the parent .....   | 45,913.0          | —                 | —                 | —              | —                | 39,866.2          |
|         | Non-controlling interests .....  | 39.0              | —                 | —                 | —              | —                | 39.0              |
|         | <b>Weighted average number of share outstanding, basic and diluted .....</b>   | <b>33,127,307</b> | <b>—</b>          | <b>—</b>          | <b>—</b>       | <b>—</b>         | <b>33,127,307</b> |
|         | <b>Earnings per share</b>  |                   |                   |                   |                |                  |                   |
|         | Basic and diluted .....  | 1.39              | —                 | —                 | —              | —                | 1.20              |
|         | <b>Earnings per share from continuing operations</b>   |                   |                   |                   |                |                  |                   |
|         | Basic and diluted .....  | 1.39              | —                 | —                 | —              | —                | 1.20              |
| B.9     | <b>Profit forecast or estimate</b><br>Not applicable. No profit forecast has been included in the Prospectus or otherwise published by the Company.  |                   |                   |                   |                |                  |                   |
| B.10    | <b>A description of the nature of any qualifications in the audit report on the historical financial information</b><br>Not applicable. There are no qualifications to the audit report on the historical financial information. |                   |                   |                   |                |                  |                   |
| B.11    | <b>Working capital</b><br>In the opinion of the Company, the working capital available to it is sufficient for the Company's present requirements, that is, for the next 12 months following the date of this Prospectus.        |                   |                   |                   |                |                  |                   |

## Section C – Shares

| Element | Disclosure requirement   |
|---------|--|
| C.1     | <p><b>Type and class of the securities being offered and admitted to trading</b></p> <p>This Offering is an offering (i) by the Company of such number of newly issued ordinary Shares as is necessary to raise gross proceeds of approximately €250 million and (ii) by the Selling Shareholders of up to 18,750,390 existing Shares.</p> <p>All of the Shares belong to the same class of securities. They are in registered or dematerialized form.</p> <p>The following ISIN code has been assigned to the Shares: BE0974310428.</p>   |
| C.2     | <p><b>Currency of the Shares</b></p> <p>The currency of the Shares is euros.</p>   |
| C.3     | <p><b>Numbers of Shares issued</b></p> <p>As of the date of this Prospectus, the Company’s share capital amounts to €500,358,942.84, represented by 99,531,669 Shares, each representing an identical fraction of the Company’s share capital. Assuming that the Offer Price is at the mid-point of the Price Range, the Company’s share capital will amount to €636,227,403.53 as of the closing of the Offering, represented by 126,558,696 shares.</p>  |
| C.4     | <p><b>Rights attached to the Shares</b></p> <p>All of the Shares have the same voting rights except that voting rights are suspended when such Shares are held by the Company as treasury shares.</p> <p>The Shares carry the right to participate in dividends and other entitlements declared after the Closing Date, in respect of the financial year ended December 31, 2017 and future years.</p>   |
| C.5     | <p><b>Restrictions on the free transferability of the Shares</b></p> <p>The Shares are freely transferable, subject to any transactional restrictions.</p>   |
| C.6     | <p><b>Applications for admission to trading on a regulated market and identity of all the regulated markets where the Shares are or are to be traded</b></p> <p>An application has been made to list the Shares on Euronext Paris under the symbol “XFAB.” Trading of the Shares on Euronext Paris is expected to commence, on an “if-and-when-issued and/or delivered” basis, on or about April 6, 2017.</p>  |
| C.7     | <p><b>A description of dividend policy</b></p> <p>The Company currently intends not to pay dividends for the current financial year ending December 31, 2017 and the financial years ending December 31, 2018 and 2019. The Company reserves the right, after carefully assessing X-FAB’s business prospects, cash requirements and financial performance, the condition of the market and the general economic climate, the industry dynamics and other factors, including tax considerations, to still decide to propose to pay out a dividend during these financial years.</p> |

## Section D – Risks

| Element | Disclosure requirement   |
|---------|--|
| D.1     | <p><b>Risks Relating to X-FAB’s Business and the Semiconductor Industry</b></p> <p><i>Structural trends in the markets for the end-user products produced by X-FAB’s customers, or material volatility in demand for these products, may limit X-FAB’s ability to maintain or increase sales and profit levels.</i></p> <p>A significant portion of X-FAB’s revenues are derived from customers who use ICs manufactured by the Group as components for the production of a wide range of products including automotive, industrial, medical and communications devices. If consumer demand for these products is volatile, or past and expected structural growth trends in these industries do not continue, it may lead to reduced demand for X-FAB’s analog/mixed-signal ICs.</p> <p><i>A global systemic economic or financial crisis, increased political uncertainty or increased economic protectionism could negatively affect X-FAB.</i></p> <p>X-FAB’s business is subject to inherent and indirect risks arising from general and sector-specific economic conditions in the markets in which it operates. In recent years, several major systemic economic and financial crises and events leading to political uncertainty have negatively affected global business conditions, the semiconductor industry and a variety of consumer and industrial markets. X-FAB’s protection against downturns is limited, since a substantial majority of customer contracts do not contain minimum order requirements, and as a result any decline or slow GDP growth, whether caused by political uncertainty, changes in trade regulation or broader economic conditions, which leads to reduced consumer and industrial spending, may adversely impact X-FAB’s customers and result in lower demand for its analog/mixed-signal ICs.</p> <p><i>A significant portion of X-FAB’s revenue comes from a relatively limited number of customers, with its largest customer being a related party.</i></p> <p>X-FAB’s largest customer, Melexis NV (“Melexis”), accounted for 34 per cent. of the Group’s revenue in 2016, while the Group’s top three customers accounted for 60 per cent. of revenue and its top five customers accounted for 68 per cent. of revenue during the year. Additionally, the Group on-boarded a significant customer as part of the Altis Acquisition, which it anticipates will be one of the Group’s top three customers in 2017. None of X-FAB’s customers are prohibited by contract from purchasing from other semiconductor suppliers. In the past, customers have switched to other semiconductor suppliers with little or no notice, or have notified the Group that they would source semiconductors for new end-user products from other semiconductor manufacturers. Further, Melexis is a related party, as it is controlled by X-FAB’s largest shareholder Xtrion (which is beneficially owned by Roland Duchâtelet, Rudi De Winter and Françoise Chombar, and X-FAB’s CEO Rudi De Winter is married to Melexis’s CEO Françoise Chombar). Changes in X-FAB’s relationships with its top customers, the loss of one or more of these customers, or a change in the competitive position of any of these customers could have a material adverse impact on X-FAB.</p> <p><i>Due to X-FAB’s relatively fixed-cost structure, its ability to grow profitability is dependent on its ability to maintain appropriate utilization levels.</i></p> <p>In 2016 fixed costs accounted for 53.6 per cent. of the Group’s cost of sales. As a result, the profitability of X-FAB’s operations is closely tied to its level of utilization. X-FAB’s ability to improve or maintain utilization levels depends, among other things, on the general economic environment, the success of its major customers and its ability to offer the technologies and processes required for it to stay competitive. Failure to maintain or improve utilization levels could have a material adverse impact on X-FAB.</p> |

| Element | Disclosure requirement   |
|---------|--|
|         | <p><b><i>X-FAB faces difficulties in forecasting demand and may therefore be unable to match its production capacity to demand.</i></b></p> <p>Difficulties in projecting future business levels make it more difficult to reach and to maintain optimal utilization levels and adequately predict capacity needs across X-FAB’s operations. Since customers usually place orders on a short-term basis, X-FAB may face difficulties accurately predicting demand. Significant capacity problems, including for any outsourced manufacturing activities, or inability or delay in shifting production to another Group fab, could harm X-FAB’s relationships with its customers and lead to lost sales.</p> <p><b><i>X-FAB may be unsuccessful in its attempts to increase its production capacity and capabilities.</i></b></p> <p>As part of its strategy to expand capacity, X-FAB intends to expand capabilities and capacity at the Group’s existing sites. Although X-FAB does not have any current targets for future acquisitions, the Group may acquire additional companies or production sites over the medium term. X-FAB may also seek to grow its production capacity through the development of new manufacturing sites. Failure to integrate any acquired company, wafer fabrication facility (“fab”) or technology successfully, or to achieve desired synergies, may inhibit X-FAB’s future expansion.</p> <p><b><i>X-FAB may not realize the anticipated benefits from its acquisition of Altis’ core business.</i></b></p> <p>X-FAB recently consummated the acquisition of the Altis Assets, including a fab located in Corbeil-Essonnes, France. The integration process includes a series of technology introductions, review of cross-sale opportunities, capacity enhancements, adoption of the Group-wide systems and implementation of cost-efficiency measures. X-FAB may encounter delays or interruptions in this process, whether due to technical issues, lack of customer acceptance or delays in customer qualification of the fab, or need to make additional capital expenditures. Further, the Group may face risks integrating employees that joined X-FAB as a result of the acquisition, or meeting targeted returns in the event of a decline in operating levels since it has committed to keep at least 800 employees at the fab until 2021. There can be no assurance that this integration will be successful, that X-FAB will meet targeted synergies or financial returns at the new facility, or that X-FAB will be able to keep all existing customers (including one that comprised the majority of Altis’s revenue in 2016).</p> <p><b><i>X-FAB’s expectations of an increase in market share by foundries might not occur.</i></b></p> <p>A key component of X-FAB’s strategy is its belief that the market for foundries will grow, due to increased outsourcing of analog/mixed-signal ICs by IDMs and increasing prevalence of fabless companies. Although this trend has been prevalent in the digital IC market, it may not develop to the same extent in the market for analog/mixed-signal ICs. If increasing market growth for foundries were to slow or reverse, it could have a material adverse impact on X-FAB.</p> <p><b><i>X-FAB may face increasing competition.</i></b></p> <p>Although X-FAB operates in a narrow market segment within the broader semiconductor manufacturing industry, the Group faces competition from other semiconductor producers, some of which have greater manufacturing, financial, research and development, and marketing resources than X-FAB does. In the long term, these competitors may win a higher portion of new customers than X-FAB, or win existing customers from X-FAB. If X-FAB cannot provide the same level of design and engineering support, capacity, or advanced capabilities as competitors, it may have a material adverse effect on X-FAB.</p> <p><b><i>X-FAB may face competitive pricing pressures.</i></b></p> |

| Element | Disclosure requirement   |
|---------|--|
|         | <p>Competitors may have an impact on X-FAB’s selling prices and demand for its services. Between 2012 and 2016, X-FAB’s average selling prices (“ASPs”) decreased by 3.0 per cent. (compound annual rate of 0.8 per cent.), due to an increase in ASPs for automotive, industrial and medical devices of 1.3 per cent. (CAGR of 0.3 per cent.), which was offset by a decrease in ASPs for communications and consumer devices of 7.4 per cent. (compound annual rate of 1.9 per cent.). Although X-FAB has not experienced significant pricing pressure in the past, there can be no assurance this will be the case in the future. Significant declines in ASPs could have a material adverse effect on X-FAB.</p> <p><b><i>X-FAB is subject to risks associated with currency fluctuations.</i></b></p> <p>X-FAB records its financial results in U.S. dollars, but receives revenues and incurs costs in a variety of currencies, including euros and Malaysian Ringgit. Changes in the exchange rate of the U.S. dollar to the euro or Malaysian Ringgit could result in translational losses in a given year, as compared to prior operating periods, or a mismatch between local currency expenses and U.S. dollar revenues. X-FAB has engaged in exchange rate hedging transactions, but these only cover a portion of the Group’s business and may not be effective in preventing exchange rate losses.</p> <p><b><i>X-FAB is also subject to the following risks:</i></b></p> <ul style="list-style-type: none"> <li>• X-FAB depends on successful technological advances.</li> <li>• X-FAB’s plans to use a portion of the proceeds of the Offering for acquisitions may change.</li> <li>• X-FAB depends on successful materials, machinery and component procurement for its manufacturing processes.</li> <li>• X-FAB may be unable to recruit or retain the personnel required for its growth strategy.</li> <li>• X-FAB may be affected by reductions in government subsidies and grants and could fail to comply with the conditions and obligations under such subsidy programs.</li> <li>• Industry studies, forecasts and growth rates relating to the semiconductor market as a whole may not be indicative of X-FAB’s operations within the analog/mixed-signal semiconductor market.</li> <li>• X-FAB’s ability to compete successfully and achieve future growth will depend, in part, on its ability to protect its proprietary technology.</li> <li>• X-FAB may be subject to claims for alleged infringement of third parties’ intellectual property rights.</li> <li>• X-FAB depends on intellectual property rights of third parties, and failure to maintain or acquire licenses could harm the Group’s business.</li> <li>• X-FAB could be adversely affected by manufacturing interruptions.</li> <li>• If X-FAB experiences difficulty in achieving acceptable device yields or process performance as a result of manufacturing problems, it could result in delayed deliveries.</li> <li>• X-FAB’s insurance coverage may not be adequate to compensate for any interruptions or loss of business.</li> </ul> |

| Element | Disclosure requirement  |
|---------|---|
|         | <ul style="list-style-type: none"> <li>• X-FAB could incur material costs to comply with regulation, including environmental and health and safety laws.</li> <li>• X-FAB may be subject to litigation, disputes or other legal proceedings.</li> <li>• X-FAB carries a significant amount of deferred tax assets on its balance sheet.</li> <li>• The unaudited pro forma financial information may not be indicative of X-FAB's results.</li> </ul>   |
| D.3     | <p data-bbox="395 566 906 593"><b>Risks Related to the Shares and the Offering</b></p> <ul style="list-style-type: none"> <li>• The interests of X-FAB's principal shareholder may not necessarily be aligned with X-FAB's interests or the interests of the holders of the Shares.</li> <li>• There has been no prior public market for the Shares and the Shares may experience price and volume fluctuations.</li> <li>• Future sales of substantial amounts of X-FAB's ordinary shares, or the perception that such sales could occur, could adversely affect the market value of the Shares.</li> <li>• X-FAB may not be able to pay dividends.</li> <li>• Investors may not be able to recover in civil proceedings for U.S. securities law violations.</li> <li>• Investors resident in countries other than France may suffer dilution if they are unable to participate in future preferential subscription rights offerings.</li> <li>• Investors with a reference currency other than euros will become subject to foreign exchange rate risk when investing in the Shares.</li> <li>• Any sale, purchase or exchange of Shares may become subject to the Financial Transaction Tax.</li> <li>• The Shares will be listed and traded on Euronext Paris on an "if-and-when-issued and/or delivered" basis from the Listing Date until the Closing Date. Euronext Paris may annul all transactions effected in the Offer Shares if they are not issued and delivered on the Closing Date.</li> <li>• Certain provisions of the Belgian Company Code and the Articles of Association may affect potential takeover attempts and may affect the market price of the Shares.</li> </ul> |

### Section E – The Offering

| Element | Disclosure requirement   |
|---------|--|
| E.1     | <p data-bbox="395 1765 874 1792"><b>Net proceeds and expenses of the Offering</b></p> <p data-bbox="395 1809 1458 1910">Based on expected gross proceeds from the Primary Tranche of €250 million, assuming the issuance and placement in full of the Primary Tranche and that the Offer Price is at the mid-point of the Price Range, X-FAB estimates that it will receive net proceeds from the Offering of approximately €240</p> |



| Element | Disclosure requirement   |
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|         | <p>million, following the deduction of underwriting commissions in the amount of up to €8,125,000 and expenses in the amount of approximately €2 million.</p> <p>Assuming a full placement of the Offer Shares in the Secondary Tranche, that the Offer Price is at the mid-point of the Price Range and that the Over-allotment Option is exercised in full, the Selling Shareholders will receive aggregate gross proceeds from the Offering of approximately €216 million. X-FAB will not receive any of the proceeds of the Secondary Tranche, all of which will be paid to the Selling Shareholders. The Selling Shareholders will pay underwriting commissions and expenses in respect of the Offer Shares sold by the Selling Shareholders in the Secondary Tranche.</p>  |
| E.2a    | <p><b>Use of proceeds</b></p> <p>The net proceeds derived from X-FAB’s sale of Shares in the Primary Tranche are intended to be used by it for the following purposes:</p> <ul style="list-style-type: none"> <li>• X-FAB expects to use a portion of the proceeds as partial funding, along with its existing capital resources, of its planned capacity maintenance and expansion program, pursuant to which it intends to spend \$350-370 million over approximately three years on planned capital expenditure projects, including the following targeted capacity expansion investments: <ul style="list-style-type: none"> <li>○ up to \$120 million in additional production capacity for 200-mm wafers at the Group’s Kuching and Dresden sites;</li> <li>○ up to \$32 million in its MEMS capabilities;</li> <li>○ up to \$12 million in SiC capabilities; and</li> <li>○ up to \$60 million at the Corbeil-Essonnes Fab.</li> </ul> </li> <li>• X-FAB intends to use the balance of the net proceeds to strengthen its balance sheet as a platform for further growth, and will continue to evaluate potential acquisition opportunities.</li> </ul>   |
| E.3     | <p><b>Terms and conditions of the Offering</b></p> <p><b>Offering</b></p> <p>The Offering is an offering (i) by the Company of such number of newly issued ordinary Shares, as is necessary to raise gross proceeds of approximately €250 million and (ii) by the Selling Shareholders of up to 18,750,390 existing Shares. The Offering consists of (i) an initial public offering to retail investors in France (the “Retail Offering”) and institutional investors in France (the “French Institutional Offering”, together with the Retail Offering, the “French Offering”); (ii) a private placement in the United States to persons who are reasonably believed to be “qualified institutional buyers” or “QIBs” (as defined in Rule 144A (“Rule 144A”) under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”)), in reliance on Rule 144A; and (iii) private placements to institutional investors in the rest of the world. The Offering outside the United States will be made in compliance with Regulation S under the U.S. Securities Act.</p> <p><b>Offering Period</b></p> <p>The price per Offer Share (the “Offer Price”) will be determined during the Offering Period (as defined herein) through a book-building process in which only institutional investors may participate. The Offer Price is expected to be between €8.00 and €10.50 per Offer Share (the “Price Range”). The Offering Period will begin on March 23, 2017 and is expected to close no later than 17.00 (CET) on April 4, 2017, subject to the possibility of an early closing, provided that the Offering Period will in any event be open for at least six business days from the availability of this Prospectus. The institutional bookbuilding period will begin one day earlier, on March 22, 2017. The Prospectus will be made available as of the first day of the Offering Period. The Offering Period can be closed at the earliest six business days after the start of the Offering</p> |

| Element | Disclosure requirement  |
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|         | <p>Period and, hence, prospective investors can submit their orders at least during six business days after the start of the Offering Period. Any early closing of the Offering Period will be published by means of a Company press release, and the dates for each of pricing, allocation, publication of the Offer Price and the results of the Offering, conditional trading and closing of the Offering will in such case be adjusted accordingly. The Offering Period can only be closed earlier in case of a coordinated action between the Underwriters. In the event the Offering Period is closed early without the full placement of the Offered Shares or is extended, this will be published by means of a Company press release and, to the extent such event would legally require the Company to publish a supplement to the Prospectus, such supplement will be published. Prospective investors can submit their purchase orders during the Offering Period. Taking into account the fact that the Offering Period may be closed early, investors are invited to submit their applications as promptly as possible.</p> <p><b><i>Withdrawal of Orders</i></b></p> <p>Subscription orders placed by individuals via Internet in the Retail Offering will be revocable, via Internet, until the closing of the Retail Offering (April 4, 2017 at 20.00 (CET)). Individuals are responsible for liaising with their respective financial intermediaries in order to confirm whether the orders submitted by other means are revocable.</p> <p>If a supplement to the Prospectus is published, investors will have the right to withdraw their orders made prior to the publication of the supplement provided that the new factor, mistake or inaccuracy referred to in the previous paragraph arose before the end of the Offering Period and the delivery of the Shares.</p> <p><b><i>Allocation and order categories</i></b></p> <p>If the demand expressed for the Retail Offering is lower than 10 per cent. of the total number of Offer Shares, the Retail Offering will be fully served and the remaining balance of unallotted Offer Shares offered will be reallocated to institutional investors in the French Institutional Offering and the International Institutional Offering. Purchase orders for the Retail Offering will be Orders A. Orders A will be broken down into two categories depending on the number of Shares subscribed for:</p> <ul style="list-style-type: none"> <li>• Fraction A1 orders: from 10 Shares up to and including 250 Shares; and</li> <li>• Fraction A2 orders: in excess of 250 Shares.</li> </ul> <p>A1 orders will enjoy preferred treatment if not all A orders can be fully served. All orders placed in the Retail Offering are A orders that are ultimately split between A1 and A2 orders, in order to ensure a preferred treatment to smaller orders (A1) in case A orders are to be reduced as a result of a retail demand above 10 per cent. of the Offer Shares.</p> <p><b><i>Stabilization and Over-allotment</i></b></p> <p>Sarawak TH is also expected to grant to the Underwriters (represented by the Stabilization Manager) the Over-allotment Option to purchase from them, at the Offer Price, additional Shares in an aggregate amount of up to 10 per cent. of the number of Offer Shares for the purpose of covering any such over-allotments (i.e., to cover the short position resulting from the aforementioned stock loan and over-allotment) and facilitate stabilization activities, if any. The Over-allotment Option will be exercisable for a period of 30 days following Listing Date.</p> |
| E.4     | <p><b>Material interests to the Offering</b></p> <p>Assuming a full placement of the Offer Shares, that the Offer Price is at the mid- point of the Price Range and that the Over-allotment Option is exercised in full, the underwriting fees will be</p>  |

| Element | Disclosure requirement  |
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|         | <p>€5,625,000. This does not include any incentive fees which may be paid at the discretion of the Company. The underwriting fees, including any incentive fees with respect to the Primary Tranche, will be paid by the Company. The Company has also agreed to reimburse the Underwriters for certain expenses incurred by them in connection with the Offering. The expenses to be incurred by the Company are estimated at €2 million.</p> <p>Certain of the Underwriters and their respective affiliates have from time to time provided, and may in the future provide, commercial banking, investment banking and financial advisory or other services to X-FAB in the ordinary course of their respective businesses. The Underwriters have received and will receive customary fees and commissions for these transactions and services.</p>   |
| E.5     | <p><b>Selling Shareholders and Lock-ups</b></p> <p>The Company is expected to agree with the Underwriters that it will not, for a period of one year from the Listing Date, without the prior written consent of the Joint Global Coordinators (subject to certain limited exceptions): directly or indirectly, issue, sell, solicit any offer to buy, attempt to dispose, make any offering, short sale or other disposal of any Shares or other financial instruments in the Company or grant any options, convertible securities or other rights to subscribe for or purchase Shares or other financial instruments in the Company or enter into any contract (including any derivative transaction) or commitment with similar effect, nor publicly disclose the intention of any of the abovementioned actions and directly or indirectly, purchase any of its Shares or other financial instruments in the Company or otherwise reduce its share capital.</p> <p>Xtrion, Sarawak TH and those members of the Board of Directors and the Executive Management Team that own Shares, are expected to agree that, for a period of three years in the case of Xtrion and one year in the case of the others from the Closing Date, they will not, without the prior written consent of the Joint Global Coordinators (subject to certain limited exceptions) (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Shares, or any securities convertible into or exercisable or exchangeable for Shares; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any Shares, whether any such transaction described in (i) or (ii) above is to be settled by delivery of Shares or other securities, in cash or otherwise; or (iii) publicly announce such an intention to effect any such transaction.</p> |
| E.6     | <p><b>Dilution resulting from the Offering</b></p> <p>As a result of the issuance of Offer Shares to be sold by the Company in the Primary Tranche, the economic interest and the voting interest of the Shareholders will be diluted. The maximum dilution for the Shareholders would be 23.9 per cent., based on expected gross proceeds from the Primary Tranche of €250 million.</p>  |
| E.7     | <p><b>Estimated expenses charged to the investor by the Company or the Selling Shareholders</b></p> <p>Not applicable. No fees or expenses in connection with the Offering will be charged to investors by the Company or the Selling Shareholders.</p>   |

## RISK FACTORS

*The following risk factors describe certain risks that may affect X-FAB's business, financial condition, results of operations and prospects and the value of an investment in X-FAB's Shares. Before deciding whether to invest in X-FAB's Shares, each investor should carefully consider the following risk factors and all of the other information set forth in this Prospectus. The risks and uncertainties described below are not the only ones that X-FAB faces. Additional risks and uncertainties not currently known to X-FAB or that X-FAB now believes to be immaterial may also adversely affect its business, financial condition and results of operations. The order in which the following risk factors are presented is not indicative of the likelihood of their occurrence.*

### **Risks Relating to X-FAB's Business and the Semiconductor Industry**

***Structural trends in the markets for end-user products produced by X-FAB's customers, or material volatility in demand for these products, may limit X-FAB's ability to maintain or increase sales and profit levels.***

A significant portion of X-FAB's revenues are derived from customers who use ICs manufactured by the Group as components for the production of a wide range of products including automotive, industrial, medical and communications devices. X-FAB's growth strategy is based in part on its expectation that analog/mixed-signal ICs will be subject to high and growing levels of demand by manufacturers in these end-user markets. However, end-user demand in certain of these markets has, at times, been volatile. Any decrease in the level of demand for these end-user products may have a corresponding impact on demand for analog/mixed-signal ICs globally, including those provided by X-FAB, as producers of these products experience inventory build-up and/or difficulty selling their products. For example, declines in automobile sales, such as during the period immediately following the global financial crisis in 2008, may have an impact on demand for X-FAB manufacturing services for ICs used in a wide range of automobile components, such as safety, security, connectivity, environmental control and monitoring devices. Similarly, volatility in mobile phone sales globally influences demand for X-FAB manufacturing services for devices including ICs with radio frequency and optical, haptic and proximity sensors, used for features such as touch-screen and navigation applications.

In recent years, the end-user markets where X-FAB's key customers operate have broadly been characterized by periods of stable growth and an increasing use of analog/mixed-signal ICs across a range of technologies, in particular in the automotive industry. Although X-FAB anticipates continued growth in these markets, and an increasing use of analog/mixed-signal ICs in the end-user products produced for these markets, there can be no assurance that they will grow as expected. If the market for these end-user products does not grow in accordance with X-FAB's expectations, or if the current trend toward increased use of analog/mixed-signal ICs in these and new end-user products slows or is reversed, X-FAB may not reach its target operating or sales levels. Factors that could adversely affect X-FAB's customers in these markets include:

- recessionary periods or periods of reduced growth;
- the inability of its customers to adapt to rapidly changing technology and evolving industry standards;
- the risk that its customers' products may become obsolete or fail to gain widespread commercial acceptance; and
- the possibility of reduced consumer demand for its customers' products.

Should one or more of these factors impact X-FAB's customers or the industries in which they operate, it may lead to decreased demand for the Group's semiconductors, devices, and manufacturing services which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***A global systemic economic or financial crisis, increased political uncertainty or increased economic protectionism could negatively affect X-FAB.***

X-FAB's business is subject to inherent and indirect risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly in Europe, Asia and the United States, where the Group's revenues are predominantly generated. In recent years, several major systemic economic and financial crises and events leading to political uncertainty, particularly in the European Union, have negatively affected global business conditions, including in the semiconductor industry and a variety of consumer and industrial markets. These types of events cause turmoil in global markets that often result in declines in sales due to decreased consumer spending, including in the end-user markets where many of X-FAB's customers operate, alongside falls in consumer sentiment and potentially broader stagnation or declines in gross domestic product ("GDP"). Any future systemic political, economic or financial crisis or sustained periods of slow growth could lead to a deterioration in sales activity in the end-user markets for X-FAB's key customers, which could lead to a reduction in the Group's revenues, or slower growth that does not meet management's expectations.

The Group also faces risks arising from the increasing prevalence of protectionist political sentiment in Europe, the United Kingdom and the United States, which could have an impact on global trade. Since X-FAB provides manufacturing services to companies globally, any new trade barriers could materially adversely affect the Group's sales. In addition, since many of the Group's customers sell goods in global markets, any increased trade barriers could result in declines in their operating performance, which could also impact X-FAB.

X-FAB's protection against market downturns is limited. Since a substantial majority of X-FAB's customer contracts do not include minimum order requirements, customers may change production quantities, delay production for a number of reasons, or even cease placing new orders. During lengthier periods of volatility or slow economic growth, X-FAB may experience a reduction in new design and prototyping requests and receive fewer new customer orders. Since X-FAB's sales cycles, measured from first contact with a customer to full-volume production, may last as long as two to three years, and a new IC may take several more months to reach full production, lost revenues due to reduced or discontinued orders may take a long time to replace with revenue from new customers or new orders.

As a result of these dynamics, any future economic deterioration, political uncertainty or restrictions on global trade could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***A significant portion of X-FAB's revenue comes from a relatively limited number of customers.***

While X-FAB provides semiconductor manufacturing services to over 330 customers worldwide, the Group has historically derived a significant majority of its revenue from a small number of key customers. X-FAB's largest customer, Melexis NV ("Melexis"), accounted for 34 per cent. of the Group's revenue in 2016, while the Group's top three customers accounted for 60 per cent. of revenue and its top five customers accounted for 68 per cent. of revenue during the year. Melexis is a related-party of the Company, as it is controlled by Xtrion, the Company's main shareholder. Further, Xtrion is beneficially owned by Roland Duchâtelet, Rudi De Winter and Françoise Chombar. Melexis' CEO (Françoise Chombar) is married to the Company's CEO (Rudi De Winter). Significant conflicts between key managers of these companies may create future risks that affect the supplier-customer relationship.

Previous years have seen similar levels of reliance on X-FAB's top customers, some of which are no longer significant customers of X-FAB. Furthermore, Altis, the core business of which was recently acquired by X-FAB, has historically relied on a small number of customers for the majority of its revenue, with its largest customer accounting for approximately 70 per cent. of its revenue in 2016. Based on projected revenue levels for 2017, X-FAB anticipates that this customer will be one of the Group's top three customers this year.

Although X-FAB has longstanding relationships with most of its top customers, and believes that its relationships with these customers are stable, none of its customers is prohibited by contract from purchasing from other semiconductor suppliers. In the past, customers have switched to other semiconductor suppliers with little or no notice, or have notified the Group that they would source ICs for new end-user products from other semiconductor manufacturers. While X-FAB believes that it would be costly and time-consuming for most of its significant customers to switch IC manufacturers due to its use of specialty process technologies owned by X-FAB during the fabrication process, this is not the case for all customers. In particular, customers whose ICs are produced by X-FAB using the customer's process technologies, which represented 13 per cent. of X-FAB's revenue in 2016, may be able to switch manufacturers without significant interruptions or delays to their own supply processes. As a result, the levels of sales to X-FAB's most significant customers may not continue at current levels, or at all. Likewise, X-FAB cannot guarantee that these key customers or their products will continue to be as successful as they have been over the past several years, or that new products developed by these customers will require purchasing semiconductors from X-FAB in similar volumes, or at all.

Changes in X-FAB's relationships with its top customers (including significant reductions in sales to any of these customers), the loss of one or more of these customers, or a change in the competitive position of any of these customers could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***Due to X-FAB's relatively fixed-cost structure, its ability to grow profitability is dependent on its ability to maintain appropriate utilization levels.***

Fixed costs associated with staffing, electricity, infrastructure (including cleanroom climate control), maintenance and property, plants and equipment constitute a significant portion of X-FAB's operating costs. In 2016, fixed costs accounted for 53.6 per cent. of the Group's cost of sales (including the impact of outsourced manufacturing). As a result, the profitability of X-FAB's operations, like that of other semiconductor manufacturers generally, is closely tied to its level of utilization. X-FAB's ability to improve or maintain the current level of utilization depends, among other things, on the general economic environment, the success of its major customers and its ability to offer the technologies and processes required for it to stay competitive. Although X-FAB has successfully raised its utilization levels in recent years, from 47 per cent. in 2012 to 79 per cent. in 2016, supported by a renewed focus on forecasting projected product mix and demand levels (for existing and new customers, across existing and new technologies), targeted investment to reduce bottlenecks during the manufacturing process, and planned sub-contracting for certain processes and activities, there can be no assurance that the Group will be able to continue this trend through further initiatives or maintain current levels of utilization across its manufacturing base.

Difficulties in projecting future business levels make it more difficult to reach and to maintain optimal utilization levels. X-FAB makes significant decisions based on its estimates of customer requirements, including determining the levels of business that the Group will seek and accept, production schedules and resource requirements. Although the Group has long-term relationships with many of its customers, and the design and prototyping processes for new products typically require a significant amount of time and resources, the short-term nature of contractual commitments by many of X-FAB's customers and the possibility of rapid changes in demand for their products can at times hinder the Group's ability to estimate future customer requirements accurately. X-FAB performs regular long-term market demand forecasts to estimate market and general economic conditions for its products and services. However, these projections may be incorrect for a variety of reasons, such as unexpected changes in market conditions or the competitive landscape, which could lead to higher or lower levels of demand than anticipated.

Decreased customer demand and significant declines in the average selling prices of end-user products, which may in extreme circumstances cause end-user product manufacturers to decrease production or stop making certain products entirely, could lead to the under-utilization of X-FAB's manufacturing facilities. Any such

changes in customers' demand may make it difficult for X-FAB to reach and to maintain optimal levels of utilization, which could harm its reputation and market position, and have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***X-FAB faces difficulties in forecasting demand and may therefore be unable to match its production capacity to demand.***

A critical issue for pure-play foundries such as X-FAB is the forecast of its need of production capacities, since customers usually place orders on a short-term basis. During periods of increased demand, X-FAB may not have sufficient capacity to meet customer orders, as was the case in 2016 when X-FAB experienced high demand for semiconductor manufacturing services from mobile communication device producers, resulting in the outsourcing of a portion of manufacturing from the Group's Sarawak fab. Although X-FAB anticipates that revenue derived from manufacturing outsourced to third parties will decrease from \$93.1 million in 2016 to approximately \$50 million in 2017, outsourcing is expected to continue to comprise a portion of revenues going forward. Furthermore, since certain manufacturing lines or tools in some of X-FAB's manufacturing facilities may be suspended or shut down temporarily during periods of decreased or projected decreases in demand, the Group may not be able to accelerate production or bring shuttered capacity back on-line in a timely manner during periods of increased demand, and X-FAB may therefore not have sufficient capacity at any given time at any particular fab to meet its customers' demands. Any inability to shift, or delay in shifting, production to another of the Group's fabs (or, under certain circumstances, to a third party) may increase the impact of any such capacity constraints. Conversely, if X-FAB expands capacity based on forecasted increases in demand that do not materialize, the Group may experience significant declines in utilization.

If the Group were to experience significant capacity problems, including if it encounters any capacity or quality issues when outsourcing production to third parties, this could harm X-FAB's relationships with its customers in the long term. As a result, X-FAB may lose sales and customers as customers turn to other manufacturers in order to satisfy their increased demand. Similarly, if X-FAB operates with too much excess capacity, its utilization levels will drop, which would impact its profitability. Any loss of customers due to under capacity or decrease in profitability due to over-capacity could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***X-FAB may be unsuccessful in its attempts to increase its production capacity and capabilities.***

As part of its strategy to expand capacity, X-FAB intends to expand capabilities and capacity at the Group's existing sites. Although X-FAB does not have any current targets for future acquisitions, the Group may acquire additional companies or production sites over the medium term. X-FAB may also seek to grow its production capacity through the development of new manufacturing sites. Any future expansion plans would be accompanied by a variety of risks, such as delays in the delivery, installation, commissioning and qualification of manufacturing equipment; difficulties in securing necessary government approvals or land use rights; entry into markets or countries in which it may have limited or no experience; the potential need for an equity raise or increase in indebtedness to fund the expansion; the diversion of management's attention due to transition or integration issues; or interruptions to ongoing fabrication processes. In addition, the benefits of expansion activities may take considerable time to realize, and X-FAB cannot guarantee that any expansion will in fact produce the intended benefits in a timely manner, or at all.

Additional risks inherent in the acquisition of a new manufacturing facility, whether through a corporate or asset acquisition, include the following:

- potential inability to maximize its financial or strategic position, which could result in impairment charges if the acquired company or assets are later worth less than the amount paid for them in the acquisition;

- difficulties in assimilating the operations and technologies of an acquired business or in realizing projected efficiencies, cost savings and revenue synergies;
- potential increases in its indebtedness and contingent liabilities and potential unknown liabilities associated with any such acquisition;
- difficulties in managing additional geographic locations;
- cultural impediments that could prevent establishment of good employee relations, difficulties in retaining key personnel of the acquired business and potential litigation with employees; and
- difficulties in harmonizing and maintaining uniform standards, controls and procedures and information systems.

X-FAB cannot guarantee that it will be able to integrate any acquired company, fab or technology successfully, or achieve desired synergies or other benefits, and any failure to do so could harm its business. Any such failure in X-FAB's growth strategy may inhibit its future expansion and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***X-FAB may not realize the anticipated benefits from its acquisition of Altis's core business.***

With economic effect from October 1, 2016, X-FAB consummated the acquisition of the Altis Assets, including a fab located in Corbeil-Essonnes, France, as well as all employee and certain customer contracts. The process of integrating these assets and activities into X-FAB's business operations has been ongoing since that time. The integration process includes a wide range of initiatives, including a series of technology introductions, review of cross-sale opportunities of existing X-FAB technologies from the Corbeil-Essonnes facility (and vice versa), capacity enhancements at the facility, adoption of the Group-wide enterprise resource system ("ERP") and implementation of certain cost-efficiency measures, which may create risks for the Group. In particular, X-FAB may encounter delays or interruptions in process technology introductions, whether due to technical issues or lack of customer acceptance, or need to make additional capital expenditures. Although X-FAB's integration measures have proceeded according to plan to date, there can be no assurance that they will continue to be successful, or that X-FAB will meet targeted synergies or financial returns from its activities at the new facility. Further, in order to commence full-scale manufacturing at the fab, X-FAB's customers will need to complete qualification procedures, which may include testing at the fab. There can be no assurance that qualification will be completed in a timely manner, in particular in the automotive industry, where it can take up to two years, or at all. The Group may also face risks arising from integrating employees that joined X-FAB as part of the acquisition. Since X-FAB is required under the terms of the acquisition to maintain a minimum level of 800 employees at the fab until 2021, any significant decline in operating levels may have a material adverse impact on projected profitability improvements at the fab.

Furthermore, as noted above, Altis has historically relied on a small number of customers, with its largest customer accounting for a majority of its revenue in 2016. Based on projected revenue levels for 2017, X-FAB anticipates that this customer will be one of the Group's top three customers this year. Although this customer contract was on-boarded as part of the Altis Acquisition, it could have a negative impact on the Group's results of operations if this customer were to reduce its current level of orders or cease ordering from the Group in the future. If X-FAB is not able to realize the anticipated benefits of the acquisition of the Altis Assets, it could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***X-FAB's expectations of an increase in market share by foundries might not occur.***

A key component of X-FAB's strategy is its belief that a growing number of analog/mixed-signal integrated device manufacturers ("IDMs") will increasingly outsource a portion of their semiconductor manufacturing activity. In the digital IC segment, this move toward outsourcing has already become pronounced, and there is a growing trend toward increased reliance by IDMs on foundries. While X-FAB expects this trend to continue



into the analog/mixed-signal segment where the Group operates, there is no guarantee that this will be the case. Rather than outsourcing their manufacturing requirements, IDMs may invest in additional capacity in order to reduce their reliance on third-party foundries, or develop their capabilities in the analog/mixed-signal market to keep a larger portion of specialized manufacturing in-house. Similarly, IDMs may view the specialty analog/mixed-signal IC segment as more commercially sensitive than manufacturing for digital semiconductors, and prove less likely to outsource manufacturing of analog/mixed-signal semiconductors for strategic reasons. If the outsourcing trends observed for digital IC manufacturing were not to extend to the analog/mixed-signal segment as expected, a portion of the growth foreseen by X-FAB might not materialize.

The recent growth in market share experienced by foundries has also been supported by the increasing prevalence of fabless companies, which primarily focus on design and marketing of end-user products and outsource manufacturing services for ICs to third-party foundries. This allows fabless companies to retain flexibility when selecting technology processes and specialty manufacturing capabilities. Although X-FAB believes that a significant number of fabless companies are unlikely to invest in semiconductor manufacturing capabilities, certain large technology companies have become more involved in semiconductor design in recent years, and there can be no assurance that they will not decide to acquire or develop manufacturing capabilities which would directly compete with X-FAB in the future. Additionally, IDMs may grow their specialty manufacturing capabilities and aim to compete more aggressively for IC manufacturing services required by fabless companies, which could make it more difficult for X-FAB to win new business from fabless companies.

If increasing market growth for foundries were to slow or reverse, it would be more difficult for X-FAB to achieve its strategic goals and improve profitability, which could have a negative impact on its business, financial condition and results of operations.

***X-FAB may face increasing competition.***

Although X-FAB operates in a narrow market segment within the broader semiconductor manufacturing industry, the Group faces competition from other semiconductor producers. In particular, while X-FAB does not believe that it competes with similarly sized specialty foundries in its key end-user markets (due to their focus on the communication, consumer and computer end-user markets, which are not strategic focus areas for X-FAB), the Group may in the future compete more directly with large digital IC manufacturers that also manufacture analog/mixed-signal ICs and have greater manufacturing, financial, research and development, and marketing resources than X-FAB does, and who also serve some of X-FAB's key end-user markets. X-FAB believes that TSMC currently competes in the analog/mixed-signal market for automotive devices.

X-FAB aims to distinguish its service offering by providing a high level of design and engineering support, which it believes plays a central role in winning and maintaining customers. However, larger competitors may start competing for these customers with improved support and specialty analog/mixed-signal manufacturing offerings. If these foundries, or new entrants to the market, invest significant resources in improving their capabilities in analog/mixed-signal process technologies in X-FAB's key end-user markets, X-FAB may be unable to maintain its current market position. In the long term, these competitors may win a higher portion of new customers than X-FAB, or win existing customers from the Group.

X-FAB's ability to compete successfully depends on a number of factors, including the following:

- its ability to provide outstanding design and engineering support and service to its customers;
- its ability to offer cost-effective manufacturing services on a timely basis;
- its ability to forecast, and quickly and effectively respond to, customer demand for new manufacturing capacity and capabilities;
- its ability to adopt or adapt to emerging industry standards;

- the number and nature of its competitors in a given market; and
- general market and economic conditions.

Although the Group continuously evaluates its service offering and monitors the activities of its customers and competitors, it cannot guarantee that it will not face increased competition in the future. If X-FAB fails to maintain key advantages over its competitors, it could have a material adverse impact on X-FAB's financial condition, results of operations and prospects.

***X-FAB may face competitive pricing pressures.***

Competitors may have an impact on X-FAB's selling prices and demand for its services. The global semiconductor market has experienced volatility and periods of decline in ASPs of ICs and semiconductor devices historically. Digital IC ASPs in particular have experienced significant volatility, and periods of material decline, in recent years. While X-FAB has experienced steady growth in ASPs for ICs in its strategic end-user markets for automotive, industrial and medical devices in recent years, 1.3 per cent. (CAGR of 0.3 per cent.) since 2012, declines in ASPs for customers in the communications and consumer end-user markets of 7.4 per cent. (compound annual rate of 1.9 per cent.) during that period have resulted in declines in ASPs across the Group of 3.0 per cent. (compound annual rate of 0.8 per cent.) since 2012. X-FAB has not experienced, and does not expect to experience, the type of pricing volatility that has historically been experienced by digital IC foundries, but there can be no assurance that this will also be the case in the future, whether due to competition or otherwise. If X-FAB experiences significant declines in ASPs, it could have a material adverse effect on the Group's financial condition, results of operations and prospects.

***X-FAB depends on successful technological advances.***

X-FAB may face risks arising from the development of new process technologies if there is not substantial customer interest in a new offering developed by the Group. Although X-FAB often seeks customer engagement during the development stages of new process technologies for the Group's in-house platform offering, and targets its research and development work based on projected demand in its key end-user markets, X-FAB may not be able to develop new process technologies that are required by its customers or earn back development expenditure through future revenues or to meet projected revenue growth. For example, X-FAB's strategy includes continuing development of its capabilities for ICs integrated with Micro-Electro-Mechanical Systems ("MEMS") devices and increasing use of Silicon Carbide ("SiC") technologies, based on projected increasing demand for these technologies. There can be no assurance, however, that the Group will be successful in these initiatives, or that anticipated demand growth for these capabilities will continue in the future. If X-FAB is not able to continue providing advances in its technological process capabilities that it manufactures, the Group's customers may seek to source ICs from different suppliers, which could have a material adverse impact on its financial condition, results of operations and prospects.

***X-FAB may use a portion of the proceeds of the Offering for future acquisitions.***

X-FAB may use part of the proceeds of this offering to expand its business through acquisitions. X-FAB cannot guarantee, however, that it will succeed in finding any suitable acquisition candidates in the foreseeable future, or that it will successfully acquire any targets that it identifies. In addition, X-FAB reserves the right to decide, due to changes in market conditions or otherwise, that making any such acquisitions does not represent the optimal use of those funds. Accordingly, X-FAB cannot guarantee that any portion of the proceeds from the Offering will be used to invest in new acquisitions or that X-FAB will realize returns on any investment that are in line with investor expectations.

***X-FAB depends on successful materials, machinery and component procurement for its manufacturing processes.***

X-FAB uses a wide range of materials, equipment and components in its operations, including silicon wafers, processing chemicals, processing gases and precious metals, as well as the machinery used in its manufacturing process. X-FAB procures materials and electronic and mechanical components from various international sources and original equipment manufacturers. Under the quality control procedures of both X-FAB and its customers, X-FAB's suppliers are required to undergo an extensive quality assurance review. Consequently, any change of suppliers could result in considerable cost or delay. Although X-FAB aims to qualify at least two supplier sources for each fab for all materials and components that it uses in its manufacturing processes, there can be no assurance that it will be able to do so for each material that it uses, or that any supply interruptions will not affect multiple suppliers. If X-FAB experiences supply interruptions due to an unforeseen catastrophe, worldwide shortage or other reason, it cannot guarantee that alternative suppliers will be available or that these suppliers will provide materials or electronic or mechanical components in a timely manner or on favourable terms.

Notwithstanding X-FAB's qualification of multiple sources for the key raw materials used in its operations (including raw silicon wafers, photo masks, process gases, metals and most process chemicals), since there are a limited number of producers of certain of the raw materials and machinery used by X-FAB for the manufacture of semiconductors (and, in the case of a limited number of the process chemicals used by X-FAB, only one supplier globally), the Group could experience cost increases if any of these suppliers were to reduce output or increase prices charged to X-FAB. Although the Group has not experienced significant price increases in raw materials in recent years, any future increases in the prices of these materials could have a negative impact on X-FAB's operating results if it were unable to pass any material increases in raw material prices on to customers. Further, the development of the market for production using SiC materials is still at early stages, and as a result there are currently a relatively limited number of suppliers globally (in particular for 150-mm wafers).

In addition, if X-FAB's suppliers fail to meet delivery dates or do not comply with quality standards, X-FAB may be exposed to liability claims by its customers or be forced to find new suppliers. While the Group has not experienced significant interruptions in raw material availability in the past, one of its suppliers was affected by the earthquake that struck off the coast of Japan in 2011 and the subsequent tsunami, which resulted in X-FAB utilizing other raw material sources within the same provider, and managing internal stocks as needed. This incident did not lead to any production delays or interruptions for X-FAB, and resulted in additional efforts by the Group to undertake qualification procedures for further suppliers. However, there can be no assurance that any such similar incidents in the future would not impact the Group. Any failure by X-FAB to obtain adequate materials and components in a timely manner or on favourable terms or any liability claims from X-FAB's customers could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***X-FAB may be unable to recruit or retain the personnel required for its growth strategy.***

There is significant competition for highly qualified management and technical personnel in the semiconductor industry. X-FAB is dependent on the continued services of certain key personnel and, in addition, seeks to recruit additional highly qualified personnel in order to carry out its growth strategy, which may be difficult in certain locations. X-FAB expects competition for personnel to increase in the future in line with the growth in the overall semiconductor industry. X-FAB may, therefore, not be able to retain its present personnel (including key executives) or to attract additional qualified personnel as and when needed. X-FAB may also have difficulty retaining key employees following acquisitions, such as the acquisition of the Altis Assets. In addition, X-FAB's employees are not bound by non-competition agreements, which means they may be able to join competitors if they leave X-FAB. Should X-FAB be unable to retain its present personnel or attract additional qualified personnel or adequately replace personnel as and when needed, this could be significantly detrimental to X-

FAB's product development programs and could have a material adverse effect on X-FAB's business, financial condition, results of operations and prospects.

In addition, in order to retain its existing officers and employees and attract and retain the additional personnel that X-FAB expects to require, X-FAB anticipates it will need to increase employee compensation levels in certain areas. Although X-FAB has not experienced material compensation increases in recent years, there can be no assurance that the Group will not face pressure among existing employees, or in recruiting new employees, at any of its sites in the future. Any of these developments could have a material adverse effect on X-FAB's financial conditions, results of operations and prospects.

***X-FAB may be affected by reductions in government subsidies and grants or tax offsets and could fail to comply with the conditions and obligations attached thereto.***

Semiconductor producers and other high-tech companies benefit from a range of governmental grants and subsidies in various jurisdictions. X-FAB received grants from a variety of sources in 2016, totalling \$7.2 million recorded as a reduction in R&D expense in 2016. Additionally, following the acquisition of the Altis Assets, X-FAB is entitled to receive certain tax offsets in France. The subsidies, grants and offsets received by X-FAB or to which it is entitled are subject to certain conditions and obligations, and X-FAB is reviewed periodically to ensure compliance with those terms and conditions, which could result in a loss of funding or tax offsets, or a requirement to repay amounts that X-FAB received in prior years. While no single funding source, grant support or offset is in itself material to the Group, the loss of these as a whole, including due to any failure to comply with their applicable terms or to the discontinuation of public authorities' support, could have a material adverse effect on X-FAB's financial condition and results of operations.

***Industry studies, forecasts and growth rates relating to the semiconductor market as a whole may not be indicative of the analog/mixed-signal semiconductor market.***

X-FAB operates in the foundry market for analog/mixed-signal ICs. The analog/mixed-signal IC foundry market is a relatively small market segment as compared to the semiconductor market as a whole, and the two markets may not necessarily reflect similar trends or growth rates. Industry studies, forecasts and growth rates relating to the semiconductor market as a whole or to the total foundry market, including the McClean Report published by IC Insights from which much of the market data contained in this Prospectus has been sourced, may not be indicative of the analog/mixed-signal semiconductor market where X-FAB operates. For this and other reasons, X-FAB's level of growth may not match that of the semiconductor industry as a whole or meet the projections set out in such industry publications.

***X-FAB is subject to risks associated with currency fluctuations.***

X-FAB records its financial results in U.S. dollars, but receives revenues and incurs costs in a variety of currencies, including euros and Malaysian Ringgit. Changes in the exchange rate of the U.S. dollar to the euro or Malaysian Ringgit could result in translational losses in a given year as compared to prior operating periods. In 2016, 12.6 per cent. of the Group's revenues were denominated in currencies other than the Group's functional currency, as compared to 20.8 per cent. in 2015 and 26.8 per cent. in 2014. The reason for the decrease to 12.6 per cent. in 2016 from 20.8 per cent. in 2015 is due to an increase in U.S. dollar sales during the year, including a significant increase in revenue from an existing customer in Asia (including \$93.8 million in revenue from this customer that was outsourced to another foundry) and revenue contributed by the consolidation of the results of the Corbeil-Essonnes fab since October 1, 2016 (a material portion of which are received in U.S. dollars).

Furthermore, because the majority of X-FAB's revenue is denominated in U.S. dollars, while its costs are typically incurred in the currency of the jurisdiction where the relevant manufacturing site is located (being U.S. dollars, euros or Malaysian Ringgit), a depreciation in the value of the U.S. dollar as compared to the euro or the Malaysian Ringgit would have an adverse impact on X-FAB's results. Since commencing operations at

the Corbeil-Essonnes fab on October 1, 2016, approximately half of the Group's expenses have been denominated in U.S. dollars, with the vast majority of non-U.S. dollar expenses denominated in euro, and the remaining amounts primarily denominated in Malaysian Ringgit. The Group expects future expenses to be broadly in line with these proportions. In the future, X-FAB's exposure to foreign exchange volatility may be higher if the Group experiences a significant mismatch between the currency in which it incurs costs and earns revenues in respect of a particular client or operation. If the currencies in which the Group incurs expenses appreciate materially as compared to the currencies in which it receives revenues, it will have a negative impact on the Group's operating margins.

X-FAB has engaged in exchange rate hedging transactions to partly mitigate the impact of exchange rate fluctuations, in particular in respect of the Malaysian Ringgit. However, since these arrangements are primarily in respect of Malaysian Ringgit expenditure, they do not cover a significant portion of the Group's business. X-FAB cannot guarantee that any hedging transactions will be effective or will not result in exchange rate hedging losses, or that the cost of entering into such arrangements will not exceed any losses that would otherwise have been incurred as a result of foreign exchange movements.

***X-FAB's ability to compete successfully and achieve future growth will depend, in part, on its ability to protect its proprietary technology.***

At December 31, 2016, X-FAB had more than 250 granted patents in more than 190 active patent families (each family containing at least one granted patent), and more than 50 patent applications filed but awaiting evaluation and approval. X-FAB intends to continue to file patent applications when appropriate to protect its technologies. Seeking patent protection is a lengthy process that can require a significant level of expenditure. X-FAB cannot guarantee that patents will be issued from pending or future applications or that, if patents are issued, they will not be challenged, invalidated or circumvented, or that the rights granted under the patents will provide X-FAB with meaningful protection or any commercial advantage. X-FAB also cannot guarantee that other countries in which it markets its services will protect its intellectual property rights to the same extent as Germany, France or the United States. Because of the complexity of the technologies used and the multitude of patents, copyrights and other overlapping intellectual property rights, it is often difficult for semiconductor companies such as X-FAB to determine infringement, which may lead to litigation regarding intellectual property rights in the future.

In addition, a material amount of X-FAB's proprietary process technology and IC design-related intellectual property is not patented, but instead protected as trade secrets. As such, X-FAB's competitors may gain access to such technologies through a variety of means, including the Group's customers. While the Group believes that its process technologies would be difficult to replicate due to their complex nature and the specialty skills involved in the manufacturing process, and the Group puts in place a variety of contractual protections (such as non-disclosure provisions when sharing intellectual property), there can be no assurance that a competitor will not access X-FAB's intellectual property in order to independently develop these capabilities.

If X-FAB is unable to successfully protect its proprietary process technologies, or its IC design-related or other intellectual property, it could harm X-FAB's competitive position and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***X-FAB may be subject to claims for alleged infringement of third parties' intellectual property rights.***

X-FAB's ability to compete successfully depends on its ability to operate without infringing the intellectual property rights of others. X-FAB could find itself subject to claims that it has violated intellectual property rights of others, even if it has been wholly unaware that it had done so. Any such claims could result in damage awards and could, in addition, require X-FAB to pay royalties or license fees going forward or to interrupt its production processes and seek new production technologies. In the event that any third party had a valid claim against the Group or its customers, X-FAB may be held liable for significant damages and could be required to:

- discontinue using certain process technologies, which could cause it to stop manufacturing certain ICs;

- seek to develop non-infringing technologies, which may be costly or time-consuming or may not be feasible; or
- seek to acquire licenses to the infringed technology which may not be available on commercially reasonable terms, if at all.

X-FAB also gains, in the course of the product-design process realized together with its customers, access to considerable proprietary information from its customers in certain cases. Although X-FAB takes measures to safeguard this information and to ensure that it is not passed to other customers or used without permission in its processes for other customers, should these safeguards fail, X-FAB could find that it is subject to claims from its customers relating to alleged abuse of proprietary information. Any such claim could result in damage awards and could also result in the loss of customers, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***X-FAB depends on intellectual property rights of third parties, and failure to maintain or acquire licenses could harm the Group's business.***

X-FAB depends on third-party intellectual property in order for it to provide certain foundry services and design support to its customers. If problems or delays arise with respect to the timely development, quality and provision of such intellectual property to X-FAB, the design and production of its customers' products could be delayed, resulting in underutilization of the Group's capacity. If any of X-FAB's intellectual property vendors go out of business, liquidate, merge with, or are acquired by, another company that discontinues the vendors' previous lines of business, or if the Group otherwise fails to maintain or acquire licenses to such intellectual property for any other reason, including as a result of a decision by any such vendor to seek to modify or terminate any such agreements following the Offering, it could have a material adverse effect on X-FAB's business, financial condition, results of operations and prospects.

***X-FAB could be adversely affected by manufacturing interruptions.***

The fabrication of ICs is a highly complex and precise process, requiring production in a tightly controlled cleanroom environment. Interruptions in the manufacturing process, even momentarily, can result in an entire wafer or batch becoming defective. Power outages are one potential source of manufacturing interruptions, and while some of X-FAB's facilities are served by two alternate sources of power, other facilities are only served by a single power source. In the event of a disruption to its power supply, X-FAB would be required to halt operations while supplies are resumed, as has been the case when it experienced black-outs at its Malaysia manufacturing facility in recent years, which resulted in the loss of a portion of the semiconductors that were in production at the time of the black-out.

Since the fabrication process is complex, manufacturing issues or interruptions could arise for a variety of other reasons as well, including bottlenecks arising due to failures in machinery or a shortage of supplies at one stage of the process, or other issues involving third parties. Additionally, X-FAB is subject to the risk of interruption or loss due to environmental issues, such as chemical leaks, or to explosion and fire because some of the materials used in the Group's manufacturing processes are highly combustible. The interruption of manufacturing at any of X-FAB's manufacturing sites could decrease capacity and adversely affect its business.

X-FAB operates in regions that may be subject to natural disasters, such as severe weather or flooding. Further, certain of X-FAB's suppliers operate in regions that may be subject to earthquakes and tsunamis. Any major natural disaster occurring in any such locations may cause severe disruptions to the Group and its business partners' operations and financial performance. While X-FAB's business continuity management and emergency response plans are intended to prevent or minimize losses in the future, there is no assurance that the measures will fully eliminate these losses.

***If X-FAB experiences difficulty in achieving acceptable device yields or process performance as a result of manufacturing problems, it could result in delayed deliveries.***

X-FAB reviews its process technologies and fabrication practices regularly in an effort to improve device yields and process performance, which at times results in modifications to the Group's manufacturing activities. Microscopic impurities such as dust and other contaminants, difficulties in the production process, defects in the key materials and tools used to manufacture wafers and other factors can cause wafers to be rejected or individual semiconductors on specific wafers to be non-functional. X-FAB may experience difficulty achieving acceptable device yields or process performance in the future as a result of manufacturing problems. Although X-FAB continuously enhances its manufacturing capabilities and efficiency, and has established procedures in place at each of its fab sites to monitor manufacturing processes, from time to time the Group has experienced production difficulties that have caused quality control problems. Should such problems occur to a material degree, X-FAB may suffer delays in delivery, loss of reputation and/or a loss of customers, any of which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***X-FAB's insurance coverage may not be adequate to compensate for any interruptions or loss of business.***

X-FAB endeavours to ensure that it carries insurance for such risks and in such amounts as management considers reasonably prudent. However, the Group is subject to the risk that its estimations regarding the levels and types of insurance that it carries are incorrect, or the Group's insurance and its contractual limitations on liability may not adequately protect it against liability for events involving, without limitation, a catastrophic incident, such as an explosion, a fire or flooding, any of which could result in interruption and closure of that location, or other environmental liability in excess of insurance cover. Although most of the Group's insurance policies cover against losses resulting from business interruption, there can be no assurance that X-FAB will be able to recover the full extent of loss following a period of severe or prolonged disruption to the Group's operations.

***X-FAB could incur material costs to comply with regulation, including environmental and health and safety laws.***

X-FAB is subject to a wide range of environmental, health and safety, tax, anti-bribery compliance and trade laws and regulations across its business in each of the jurisdictions where it operates. These regimes affect all aspects of X-FAB's operations, including supply and machinery procurement, research and development activities, fabrication of ICs and sales to the Group's customers. As a semiconductor manufacturer, the Group faces particularly stringent requirements on the generation, use, manufacture, handling, transport, storage, treatment and disposal of, or exposure to, hazardous materials, discharges to air and water, clean-up of contamination and occupational health and safety matters. X-FAB actively monitors its compliance with these obligations, including through dedicated internal personnel, internal and external audit reviews, and local and global procedures on health and safety compliance. However, there can be no assurance that these efforts will be successful in ensuring compliance with all laws and regulations applicable to the Group, and any significant changes in these regulatory regimes could create new risks for the Group.

Increasingly stringent environmental regulations restrict the amount and types of pollutants that can be released into the environment. X-FAB has incurred, and will in the future incur, costs, including capital expenditures, to comply with these regulations. Significant regulatory changes or increased public attention to the impact of semiconductor operations on the environment may result in more stringent regulations, further increasing its costs or requiring changes in X-FAB's manufacturing processes. For example, in Malaysia, recently enacted regulations place limitations on Ammoniacal Nitrogen levels in waste water. Although X-FAB has received an exemption from complying with these standards until 2020, and does not expect the costs of bringing the fab's operations into compliance by that time to be material to the Group, X-FAB can make no assurance that it will be able to meet that extended deadline or do so in a cost-effective manner.

Existing and future environmental and climate related laws and regulations could also require the Group to undertake a range of actions, including (i) the installation of expensive pollution control, reduction or remediation equipment; (ii) the implementation of climate change mitigation programs and “abatement or reduction of greenhouse gas emissions” programs, or “carbon credit trading” programs; (iii) the modification of product designs and manufacturing processes, or the incurrence of other significant expenses associated with such laws and regulations such as obtaining substitute raw materials or chemicals that may cost more or be less available for its operations. It is still unclear whether such necessary actions would affect the reliability or efficiency of X-FAB’s products and services. However, because X-FAB cannot predict the scope or timing of any such requirements, it is unable to evaluate the ultimate cost of compliance with any future regulations.

In addition, X-FAB’s manufacturing operations are also subject to regulations on working conditions and the health and safety of its employees. While X-FAB does not believe its activities are high risk from a safety perspective, minor injuries have occurred at the Group’s facilities in the past and the Group cannot eliminate the risk of injury to employees or other parties in the future.

Because X-FAB uses hazardous and other regulated materials in its manufacturing processes, it is subject to risks of accidental spills or other sources of contamination, which could result in injury to the environment, personal injury claims and administrative fines and result in significant clean-up costs. Although X-FAB monitors its ongoing manufacturing activities to ensure that its operations comply with all laws and regulations in the jurisdictions where the Group operates, there can be no assurance that the Group’s activities will not result in a violation of some kind. If X-FAB were found to violate applicable environmental laws, environmental authorities may force X-FAB to suspend operations at particular sites on a temporary or permanent basis.

Any failure to comply with the requirements of these regulatory regimes could have an adverse impact on X-FAB’s reputation, which could have a material adverse effect on the Group’s business, financial condition, results of operations and prospects.

***X-FAB may be subject to litigation, disputes or other legal proceedings.***

X-FAB is subject to the risk of legal claims, judicial proceedings and regulatory enforcement actions in the ordinary course of its business. In addition to litigation risks that arise under the Group’s regulatory and environmental obligations, it may also from time to time become subject to contractual disputes with third parties, including suppliers and customers. Although the Group is not currently subject to any material proceedings, or aware of any circumstances that may give rise to material claims in the future, there can be no assurance that X-FAB will not become subject to such claims in the ordinary course of its business, or that there can be no assurance that the Group will be successful in these matters. See “*Business – Litigation and Disputes*”. If the Group is unsuccessful in any future claims, or its reputation suffers as a result of any such claims, it could have a material adverse effect on X-FAB’s business, results of operations, financial condition and prospects.

***X-FAB carries a significant amount of deferred tax assets on its balance sheet.***

X-FAB incurred operating losses in years prior to 2014, in particular within operations in its German and Malaysian subsidiaries, which have resulted in the Group carrying significant levels of unused tax losses.

The Group’s German and Malaysian tax losses can be carried forward indefinitely, while in the United States federal income tax losses will begin to expire, if not utilized, in 2019. However, there can be no assurance that existing or future tax regimes in these countries will continue to recognize these assets. Additionally, these assets are assessed annually, and the Group would be required to reduce the carrying amount of a deferred tax asset to the extent that it was no longer deemed probable that sufficient taxable profit would be available to allow the benefit of the asset to be utilized. A change in control of the Company may, under limited circumstances, also affect its ability to utilize existing deferred tax assets. Although X-FAB believes that it takes a conservative approach in valuing its deferred tax assets, and that its existing deferred tax assets will result in an effective tax rate lower than statutory tax rates in the medium term, if X-FAB were to lose its existing



deferred tax assets for any reason before they are utilized, it could have a material adverse effect on the Group's, financial condition and results of operations.

***The unaudited pro forma financial information presented in this Prospectus may not be indicative of the results of the Group following the acquisition of the Altis Assets.***

This Prospectus contains unaudited consolidated pro forma financial information, which gives effect to the Altis Acquisition as if it had occurred on January 1, 2016. The Unaudited Pro Forma Consolidated Statement of Profit and Loss is based on assumptions that X-FAB believes to be reasonable and is being furnished solely for illustrative purposes and is not necessarily indicative of what the combined results of operations and financial condition would have been had the acquisition of the Altis Assets occurred on January 1, 2016. The unaudited financial information relating to profit and loss of Altis presented in this Prospectus was reported in euros in accordance with French GAAP and are not necessarily indicative of the contribution of the Altis Assets to X-FAB. As a result, undue reliance should not be placed on the Unaudited Pro Forma Consolidated Statement of Profit and Loss.

In addition, the Altis unaudited financial information relating to profit and loss used for purposes of preparing the Unaudited Pro Forma Consolidated Statement of Profit and Loss has not been audited by an external accounting firm. No single set of financial statements have been prepared for Altis or the Altis Assets for the year ended December 31, 2016, or any period therein, or formally approved by a shareholders' meeting of Altis. As such, the Altis unaudited financial information relating to profit and loss used for purposes of preparing the Unaudited Pro Forma Consolidated Statement of Profit and Loss is derived from the management accounts of Altis. Further, since Altis was an insolvent company subject to reorganization proceedings at the time of X-FAB's acquisition of the Altis Assets, and it had been under serious financial distress for a number of years prior to the acquisition of the Altis Assets by the Group, the historic operating and financial performance of Altis may differ materially from (i) the results of operations of the Altis Assets if the Altis Acquisition had been effective from January 1, 2016 and (ii) the results of operations of the Altis Assets as operated as part of the Group in any future period.

## **Risks Related to the Shares and the Offering**

***The interests of X-FAB's principal shareholder may not necessarily be aligned with X-FAB's interests or the interests of the holders of the Shares.***

Prior to the Offering, Xtrion NV ("Xtrion"), a holding company of semiconductor businesses, holds a majority of the Shares and voting rights (61.4 per cent.). Immediately following the completion of the Offering, assuming (i) a full placement of the Offer Shares and (ii) that the Offer Price is at the mid-point of the Price Range, Xtrion will hold 48.3 per cent. of the Shares. Xtrion will have the power to determine or influence certain decisions required to be approved by the Company's shareholders. Such decisions include amendments to the Articles of Association, mergers and restructurings as well as resolutions relating to corporate actions. In addition, Xtrion will be in a position to control or influence the election of members to the Board of Directors. The interests of Xtrion may not, in all cases, be aligned with the interests of the other holders of the Shares. Therefore, there can be no assurance that any matter which is to be put to the shareholders for decision will be resolved in a manner that other holders of the Shares would consider to be their interest or X-FAB's best interests. In addition, Xtrion may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgement, could enhance their equity investment, even though such transactions may involve risks to other holders of the Shares. Xtrion also holds a controlling interest in one of X-FAB's top customers Melexis, and it could, as a result, be in a position to influence or to control the relationship of the two companies in ways that are detrimental to investors' interests. See "*Principal Shareholders*" and "*Related Party Transactions*."

***There has been no prior public market for the Shares and the Shares may experience price and volume fluctuations.***

Prior to the Offering, there has been no public trading market for the Shares. No assurance can be given that an active trading market for the Shares will develop or, if developed, can be sustained or will be liquid following the closing of the Offering. Furthermore, the Offer Price is not necessarily indicative of the prices at which the Shares will subsequently trade on the stock exchange. If an active trading market is not developed or maintained, the liquidity and trading price of the Shares could be adversely affected.

Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them. In addition, the market price of the Shares may prove to be highly volatile and may fluctuate significantly in response to a number of factors, many of which are beyond X-FAB's control, including new government regulation, variations in operating results in the Group's reporting periods, changes in financial estimates by securities analysts, changes in market valuation of similar companies, announcements by X-FAB or its competitors of significant contracts, acquisitions, strategic alliances, joint ventures, capital commitments or new services, loss of major customers, additions or departures of key personnel, any shortfall in revenue or net income or any increase in losses from levels expected by securities analysts, future issues or sales of ordinary shares and stock market price and volume fluctuations. Any of these events could result in a material decline in the price of the Shares.

***Future sales of substantial amounts of X-FAB's ordinary shares, or the perception that such sales could occur, could adversely affect the market value of the Shares.***

The Company, Xtrion, Sarawak TH and those members of the Board of Directors and the Executive Management Team that own Shares are expected to agree that, subject to certain exceptions, they will not, without the prior written consent of the Joint Global Coordinators issue, offer or sell any ordinary Shares of the Company or securities convertible or exchangeable into ordinary Shares of the Company for a period of three years in the case of Xtrion and one year in the case of the others following the Closing Date, as described in "Plan of Distribution — Lock-up Arrangements." Following the expiration of these lock-up provisions, future sales of the Shares could be made by the Company, Xtrion, Sarawak TH or those members of the Board of Directors and the Executive Management Team that own Shares. If the Company were to raise funds through additional equity offerings, this could cause dilution for its shareholders to the extent they do not participate. Moreover, sales of a substantial number of Shares by Xtrion or Sarawak TH (which, following the completion of the Offering, assuming a full placement of the Offer Shares and that the Offer Price is at the mid-point of the Price Range, will hold 48.3 per cent. and 14.4 per cent. of the Shares (or, in the case of Sarawak TH, 10.8 per cent. if the Over-allotment Option is exercised in full)), or the perception that such sales could occur, could adversely affect the market price of the Shares.

***X-FAB may not be able to pay dividends.***

The Company currently intends not to pay any dividend for the current financial year ending December 31, 2017 and the financial years ending December 31, 2018 and 2019. The Company reserves the right, after carefully assessing X-FAB's business prospects, cash requirements and financial performance, the condition of the market and the general economic climate, the industry dynamics and other factors, including tax considerations, to still decide to propose to pay out a dividend during these financial years. See "Dividends and Dividend Policy." No assurance can be given that X-FAB will make any dividend payments in the future. Furthermore, as the Company itself is a holding company and does not perform any operating activities, its ability to pay dividends and the level of any dividends is subject to the extent to which it receives funds, directly or indirectly, from its subsidiaries.

In addition, under Belgian law and the Articles of Association, before it can pay dividends, the Company must allocate an amount of 5 per cent. of its Belgian GAAP annual net profit (*nettowinst/bénéfices nets*) to a legal reserve in its stand-alone statutory accounts until the reserve equals 10 per cent. of the Company's share capital.

The Company's legal reserve currently does not meet this requirement nor will it meet the requirement at the time of the closing of the Offering. Accordingly, 5 per cent. of its Belgian GAAP annual net profit during future years will need to be allocated to the legal reserve, limiting the Company's ability to pay out dividends to its shareholders. As a consequence of these factors, there can be no assurance as to whether dividends or similar payments will be paid out in the future or, if they are paid, their amount.

***Investors may not be able to recover in civil proceedings for U.S. securities law violations.***

All of X-FAB's directors and most members of its Executive Management Team live outside the United States. Some of X-FAB's assets and the assets of these individuals are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon these individuals or X-FAB or to enforce against them judgments obtained in the United States based on the civil liability provisions of the U.S. securities laws. In addition, there is uncertainty as to the enforceability in Belgium of original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

***Investors resident in countries other than France may suffer dilution if they are unable to participate in future preferential subscription rights offerings.***

Under Belgian law, shareholders have a waivable and cancellable preferential subscription right to subscribe pro rata to their existing shareholdings to the issuance, against a contribution in cash, of new Shares or other securities entitling the holder thereof to new Shares. The exercise of preferential subscription rights by certain shareholders not residing in France may be restricted by applicable law, practice or other considerations, and such shareholders may not be entitled to exercise such rights. In particular, there can be no assurance that X-FAB will be able to establish an exemption from registration under the U.S. Securities Act, and X-FAB is under no obligation to file a registration statement with respect to any such preferential subscription rights or underlying securities or to endeavour to have a registration statement declared effective under the U.S. Securities Act. Shareholders in jurisdictions outside France who are not able or not permitted to exercise their preferential subscription rights in the event of a future preferential subscription rights offering may suffer dilution of their shareholdings.

***Investors with a reference currency other than euros will become subject to foreign exchange rate risk when investing in the Shares.***

The Shares are, and any dividends to be announced in respect of the Shares will be, denominated in euro. An investment in the Shares by an investor whose principal currency is not the euro exposes the investor to currency exchange rate risk that may impact the value of the investment in the Shares or any dividends.

***Any sale, purchase or exchange of Shares may become subject to the Financial Transaction Tax.***

On February 14, 2013, the EU Commission adopted a proposal for a Council Directive (the "Draft Directive") on a common financial transaction tax ("FTT") in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Spain, Slovakia and Slovenia. In December 2015, Estonia withdrew from the group of states willing to introduce the FTT (the "Participating Member States").

Pursuant to the Draft Directive, the FTT will be payable on financial transactions provided at least one party to the financial transaction is established or deemed established in a Participating Member State and there is a financial institution established or deemed established in a Participating Member State which is a party to the financial transaction, or is acting in the name of a party to the transaction. The FTT shall, however, not apply to (*inter alia*) primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006, including the activity of underwriting and subsequent allocation of financial instruments in the framework of their issue.

The rates of the FTT shall be fixed by each Participating Member State but for transactions involving financial instruments other than derivatives shall amount to at least 0.1 per cent. of the taxable amount. The taxable amount for such transactions shall in general be determined by reference to the consideration paid or owed in return for the transfer. The FTT shall be payable by each financial institution established or deemed established in a Participating Member State which is either a party to the financial transaction, or acting in the name of a party to the transaction or where the transaction has been carried out on its account. Where the FTT due has not been paid within the applicable time limits, each party to a financial transaction, including persons other than financial institutions, shall become jointly and severally liable for the payment of the FTT due.

Investors should therefore note, in particular, that any sale, purchase or exchange of Shares will be subject to the FTT at a minimum rate of 0.1 per cent. provided the abovementioned prerequisites are met. The investor may be liable to pay this charge or reimburse a financial institution for the charge, and/or the charge may affect the value of the Shares. The issuance of new Shares should not be subject to the FTT.

The Draft Directive is still subject to negotiation among the Participating Member States and therefore may be changed at any time. Moreover, once the Draft Directive has been adopted (the “Directive”), it will need to be implemented into the respective domestic laws of the Participating Member States and the domestic provisions implementing the Directive might deviate from the Directive itself.

Investors should consult their own tax advisors in relation to the consequences of the FTT associated with subscribing for, purchasing, holding and disposing of the Shares.

***The Shares will be listed and traded on Euronext Paris on an “if-and-when-issued and/or delivered” basis from the Listing Date until the Closing Date. Euronext Paris may annul all transactions effected in the Offer Shares if they are not issued and delivered on the Closing Date.***

From the Listing Date until the Closing Date, the Shares will be listed and traded on Euronext Paris on an “if-and-when-issued and/or delivered” basis, meaning that trading of the Shares will begin prior to the closing of the Offering. The Closing Date is expected to occur on the first Euronext Paris trading day following the Listing Date. Investors that wish to enter into transactions in the Offer Shares prior to the Closing Date, whether such transactions are effected on Euronext Paris or otherwise, should be aware that the closing may not take place on the expected date, or at all, if certain conditions or events referred to in the Underwriting Agreement (as defined herein) are not satisfied or waived or do not occur on or prior to such date. Euronext Paris may annul all transactions effected in the Shares if they are not issued and delivered on the Closing Date. Euronext Paris cannot be held liable for any damage arising from the listing and trading on an “if-and-when-issued and/or delivered” basis as of the Listing Date until the Closing Date.

***Certain provisions of the Belgian Company Code and the Articles of Association may affect potential takeover attempts and may affect the market price of the Shares.***

There are several provisions of Belgian company law, certain other provisions of Belgian law and the Articles of Association, such as those relating to the obligation to disclose significant shareholdings, merger control and authorized capital, which may apply to the Company and may make it more difficult for an unsolicited tender offer to succeed. See “*Description of Share Capital, Articles of Association and Group Structure — Legislation and Jurisdiction.*” These provisions could discourage potential takeover attempts that other shareholders may consider to be in their best interest and could adversely affect the market price of the Shares. These provisions may also have the effect of depriving the shareholders of the opportunity to sell their Shares at a premium.

## USE OF PROCEEDS

Based on expected gross proceeds from the Primary Tranche of €250 million, assuming the issuance and placement in full of the Primary Tranche and that the Offer Price is at the mid-point of the Price Range, X-FAB estimates that it will receive net proceeds from the Offering of approximately €240 million, following the deduction of underwriting commissions in the amount of up to €8,125,000 and expenses in the amount of approximately €2 million.

The net proceeds derived from X-FAB's sale of Shares in the Primary Tranche are intended to be used by it for the following purposes:

- X-FAB expects to use a portion of the proceeds as partial funding, along with its existing capital resources, of its planned capacity maintenance and expansion program, pursuant to which it intends to spend \$350-370 million over approximately three years on planned capital expenditure projects, including the following targeted capacity expansion investments:
  - up to \$120 million in additional production capacity for 200-mm wafers at the Group's Kuching and Dresden sites;
  - up to \$32 million in its MEMS capabilities;
  - up to \$12 million in SiC capabilities;
  - up to \$60 million at the Corbeil-Essonnes fab;
- X-FAB intends to use the balance of the net proceeds to strengthen its balance sheet as a platform for further growth, and will continue to evaluate potential acquisition opportunities.

For further details on the Group's capital expenditure targets, see "*Operating and Financial Review — Current Trading and Prospects.*"

Assuming a full placement of the Offer Shares in the Secondary Tranche, that the Offer Price is at the mid-point of the Price Range and that the Over-allotment Option is exercised in full, the Selling Shareholders will receive aggregate gross proceeds from the Offering of approximately €216 million. X-FAB will not receive any of the proceeds of the Secondary Tranche, all of which will be paid to the Selling Shareholders. The Selling Shareholders will pay underwriting commissions and expenses in respect of the Offer Shares sold by the Selling Shareholders in the Secondary Tranche.

## DIVIDENDS AND DIVIDEND POLICY

### Dividends

The Offer Shares carry the right to participate in dividends declared after the Closing Date, in respect of the financial year ending December 31, 2017 and future years. All Shares participate equally in the Company's profits, if any. In general, the Company may only pay dividends with the approval of the shareholders' meeting of the Company (the "Shareholders' Meeting"), although pursuant to the Articles of Association, the Board of Directors may declare interim dividends without shareholder approval. The right to pay such interim dividends is, however, subject to certain legal restrictions.

The maximum amount of the dividend that can be paid is determined by reference to the Company's stand-alone statutory accounts prepared in accordance with Belgian GAAP.

Under Belgian law and the Articles of Association, the Company must allocate an amount of 5 per cent. of its Belgian GAAP annual net profit (*nettowinst/bénéfices nets*) to a legal reserve in its stand-alone statutory accounts until the reserve equals 10 per cent. of the Company's share capital. The Company's legal reserve currently does not meet this requirement nor will it meet the requirement at the Closing Date. Accordingly, 5 per cent. of its Belgian GAAP annual net profit during future years will need to be allocated to the legal reserve until this threshold is met, limiting the Company's ability to pay out dividends to its shareholders.

### Dividend Policy

The Company currently intends not to pay a dividend for the current financial year ending December 31, 2017 and the financial years ending December 31, 2018 and 2019. The Company reserves the right, after carefully assessing X-FAB's business prospects, cash requirements and financial performance, the condition of the market and the general economic climate, industry dynamics and other factors, including tax considerations, to decide to propose to pay out a dividend during these financial years.

The financing agreements of X-FAB do not contain any significant restrictions on the distribution of profits by the Company to its shareholders.

## CAPITALIZATION AND INDEBTEDNESS

The following table sets forth the Company’s capitalization as of December 31, 2016 (i) on an actual basis and (ii) as adjusted to give effect to the Offering, assuming the issuance and placement in full of the Primary Tranche, and that the Offer Price is at the mid-point of the Price Range. Based on expected gross proceeds from the Primary Tranche of €250 million, X-FAB estimates that it will receive net proceeds from the Offering of approximately €240 million, following the deduction of underwriting expenses and commissions in the amount of up to €8,125,000 and expenses in the amount of approximately €2 million.

This table should be read in conjunction with “Use of Proceeds,” “Selected Consolidated Financial Information and Operating Data” and “Operating and Financial Review” and the consolidated financial statements and related notes included elsewhere in this Prospectus.

|   | <b>As of December 31, 2016<sup>(1)(2)</sup></b> |                                  |
|---|---|----------------------------------|
|   | <b>Actual</b>                                   | <b>As Adjusted<sup>(3)</sup></b> |
|   | <i>(in millions of \$)</i>                      |                                  |
| <b>Capitalization</b>                         |   |                                  |
| <b>Current Debt</b>                           |   |                                  |
| Secured.....                                  | 29.4  | 29.4                             |
| Unguaranteed/unsecured .....                  | 2.0   | 2.0                              |
| Total current debt.....                       | 31.4  | 31.4                             |
| <b>Non-current Debt</b>                       |   |                                  |
| Secured – principal amount.....               | 89.0  | 89.0                             |
| Unguaranteed/unsecured .....                  | 43.4  | 43.4                             |
| Total non-current debt .....                  | 132.4   | 132.4                            |
| Total indebtedness .....                      | 163.8   | 163.8                            |
| <b>Shareholders’ equity</b>                   |   |                                  |
| Share capital .....                           | 265.2   | 408.7                            |
| Share premium .....                           | 255.3   | 375.8                            |
| Cumulative translation differences.....       | (0.9)   | (0.9)                            |
| IPO expenses deducted from Share premium..... | —   | (9.7)                            |
| Retained earnings and other reserves .....    | (196.5)   | (197.5)                          |
| Treasury shares.....                          | (0.8)   | (0.8)                            |
| Total shareholders’ equity.....               | 322.3   | 575.6                            |
| Non-controlling interests.....                | 0.4   | 0.4                              |
| Total equity.....                             | 322.7   | 576.0                            |
| Capitalization <sup>(1)</sup> .....           | 486.6   | 739.8                            |
| <b>Net Indebtedness</b>                       |   |                                  |
| <b>Cash</b>                                   |   |                                  |
| Cash and cash equivalents.....                | 104.2   | 357.4                            |

|  | <b>As of December 31, 2016<sup>(1)(2)</sup></b> |                                  |
|--|---|----------------------------------|
|  | <b>Actual</b>                                   | <b>As Adjusted<sup>(3)</sup></b> |
|  | <i>(in millions of \$)</i>                      |                                  |
| <b>Current bank debt</b>   |   |                                  |
| Current portion of non-current debt .....                                | 31.4  | 31.4                             |
| Current financial debt.....  | 31.4  | 31.4                             |
| <b>Net current financial indebtedness</b>                                |   |                                  |
| Non-current bank loans and other borrowing and leasing arrangements .... | 132.4   | 132.4                            |
| Non-current financial indebtedness.....                                  | 132.4   | 132.4                            |
| Net financial indebtedness.....  | (59.6)  | 193.6                            |

Notes:

- (1) Other than in relation to the Offering, there have been no material changes to X-FAB's capitalization since December 31, 2016.
- (2) See note 12.1 to the Historical Financial Information regarding off-balance sheet amounts. As at December 31, 2016 these comprised \$20.4 million in purchase commitments, \$9.8 million in lease commitments, and \$106 million in commitments related to the Altis Assets.
- (3) Capitalization and net indebtedness as of December 31, 2016 as adjusted to give effect to the Offering, assuming the issuance and placement in full of the maximum number of Offer Shares in the Primary Tranche and that the Offer Price is at the mid-point of the Price Range. All amounts denominated in euro were translated applying the exchange rate as of December 31, 2016 of \$1.056 per euro. The Primary Tranche comprises 27,027,027 Offer Shares and the Secondary Tranche comprises 18,750,390 Offer Shares. The mid-point of the Price Range amounts to €9.25 per Offer Share. Share capital increased by 27,027,027 Offer Shares at a par value of €5.027 per share resulting in an increase of \$143.5 million. Share premium increased by \$120.5 million reflecting the number of Primary Offer Shares issued at €9.25 per share or gross proceeds of \$264.0 million less the increase in share capital. The costs of the Offering of \$10.7 million comprise 3.25 per cent. of gross proceeds or \$8.6 million for placement fees and commissions for the Primary Tranche, \$1.9 million directly attributable costs and \$0.2 million of other indirect transaction related costs. The placement fees and commissions for the Primary Tranche were deducted from Share Premium in the line "IPO expenses deducted from Share Premium." Based on the ratio of the Primary and Secondary Tranche of 59 per cent. and 41 per cent., 59 per cent. of the directly attributable costs of the Offering, or USD 1.1 million, were deducted from Share Premium in the line "IPO expenses deducted from Share Premium" and the remainder, together with the indirect transaction related costs, or \$1.0 million, was expensed in the line item "Retained earnings and other reserves." The increase of cash and cash equivalents of \$253.3 million reflects the gross proceeds of \$264.0 million less paid transaction costs for the Offering of \$10.7 million.

### Working capital

In the opinion of the Company, the working capital available to it is sufficient for the Company's present requirements, that is, for the next 12 months following the date of this Prospectus.



## INDUSTRY

*Certain of the projections and other information set out in this section have been derived from the McClean Report and updates thereto, published by IC Insights. These reports generally state that the information contained therein has been obtained from sources thought to be reliable, but that the accuracy and completeness of such information is not guaranteed. X-FAB has not independently verified the McClean Report or any updates thereto and cannot guarantee their accuracy or completeness.*

*The projections and forward-looking statements in this section are not guarantees of future performance and actual events and circumstances could differ materially from current expectations. Numerous factors could cause or contribute to such differences. Investors should read this section in conjunction with “Risk Factors” and “Forward-Looking Statements” for factors that could contribute to such differences. Additionally, the analog/mixed-signal IC foundry market where X-FAB operates is a relatively small market segment as compared to the semiconductor market as a whole, and the two markets may not necessarily reflect similar trends or growth rates. Investors should read “Industry studies, forecasts and growth rates relating to the semiconductor market as a whole may not be indicative of the analog/mixed-signal semiconductor market.” in the section “Risk Factors” in this Prospectus.*

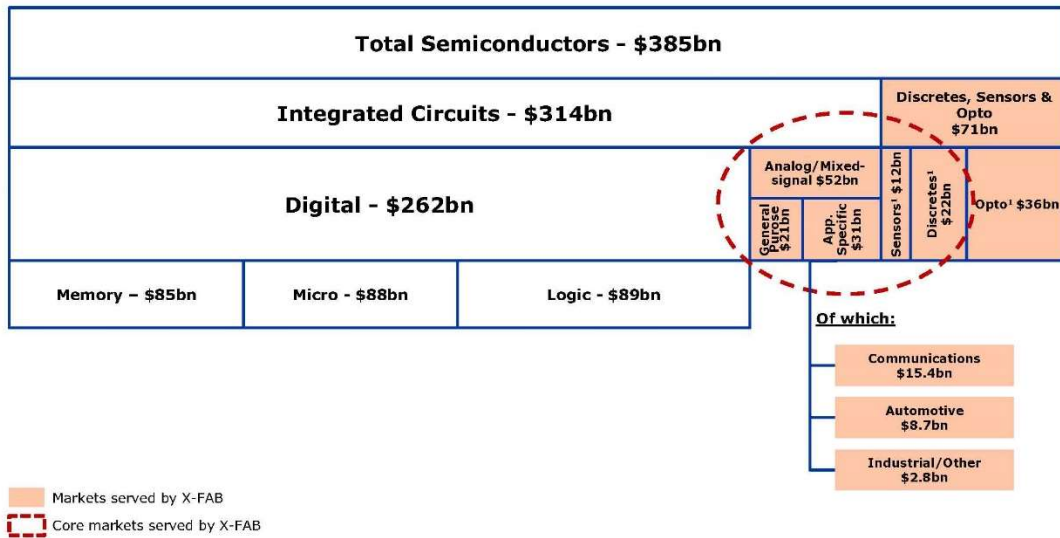
### **The Semiconductor Market**

Electronic systems based on semiconductor compounds are critical components of a wide variety of everyday applications, such as computers, communications equipment, automobiles, consumer products and industrial automation and control systems, as well as an increasingly broad array of internet-enabled products, devices and appliances. Semiconductor-based components can be passive (such as resistors, capacitors or inductors) or active (such as transistors). Integrated circuits (“ICs”) are constituted by a complex combination of active and passive components in order to realize specific functions, such as signal treatment (for example, amplification or filtering), mathematical operations, data storage or transmission. Currently, a wide variety of ICs are in use, ranging from commodity-type ICs (such as dynamic random-access memory (“DRAM”), Flash memory products or general purpose digital circuits like digital signal processors) to more differentiated products (such as communication products, power management devices and sensor-enabled ICs). Although ICs comprise the vast majority of the global semiconductor market, the industry also includes optoelectronics, sensor/actuators and discrete devices (“O-S-D Devices”). X-FAB primarily operates in the IC industry, with a focus on analog/mixed-signal ICs, and also manufactures a limited range of sensor/actuator and discrete devices for certain end-user markets.

As performance has increased and size and cost have decreased over recent years, the use of semiconductors in different application markets has grown significantly. This growth has also been driven by consumer demand for increasingly sophisticated technologies and semiconductor capabilities, including building “systems on chip” and the spread of MEMS technologies. According to the 2017 McClean Report, semiconductor sales by value increased from \$141 billion in 1996 to \$365 billion in 2016 (representing a CAGR of 4.9 per cent. during that period). According to the 2017 McClean Report, the worldwide semiconductor market is expected to grow from \$365 billion in 2016 to \$471 billion in 2021 (representing a CAGR of 5.2 per cent. during that period). Within the \$365 billion global semiconductor market, sales of ICs were \$298 billion in 2016, while O-S-D devices were \$67 billion, expected to grow to \$314 million and \$71 million, respectively, in 2017 according to the 2017 McClean Report.

The following chart shows these market segments, including the portions of the global semiconductor industry where X-FAB operates.

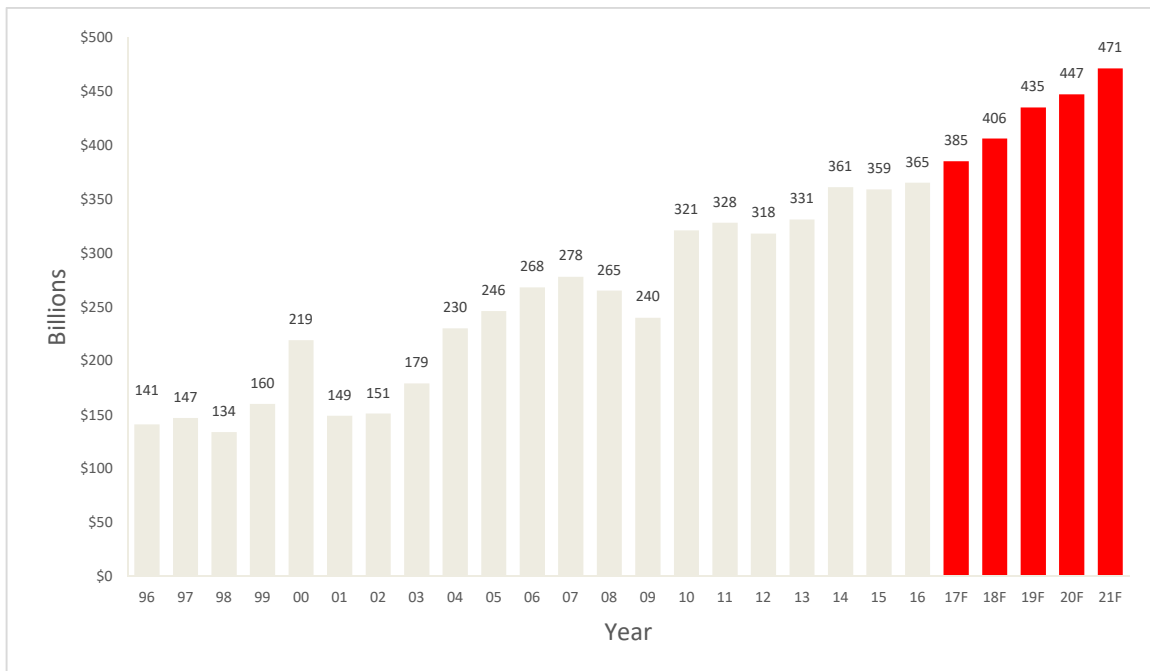
**Worldwide semiconductor market – 2017 forecast**



Source: The 2017 McClean Report; market segments within the analog/mixed-signal market and the O-S-D market that are denoted (1) are X-FAB estimates.

The following chart shows the development of the global semiconductor industry based on annual sales from 1996 to 2016 and forecasted sales from 2017 to 2021.

**Worldwide semiconductor market history and forecast**



Source: The 2017 McClean Report.

## Semiconductor Industry Participants and Trends

Historically, the semiconductor industry was composed primarily of companies that designed and manufactured semiconductors in their own fabrication facilities. This integrated approach spans all aspects of IC manufacture, from the target specification for the IC, to development of the applicable process technology and provision or development of the necessary intellectual property, IC design, IC wafer manufacturing, IC packaging and testing, and marketing and sales. These companies are known as IDMs. In the mid-1980s, fabless semiconductor companies began to emerge, focusing on IC design and marketing and utilising external production capacity provided by third parties. Fabless companies initially relied on the excess capacity made available by IDMs. However, as the semiconductor industry continued to grow, fabless companies in particular began to seek more reliable and dedicated sources of wafer fabrication services. This need has increasingly been met by the development of independent companies, such as X-FAB, known as foundries, which focus primarily on providing wafer fabrication services and the required process technologies to semiconductor suppliers.

The semiconductor industry has evolved into the following four principal categories of participants.

- ***Integrated device manufacturers (IDMs)***. The semiconductor manufacturing industry has traditionally consisted of both original equipment manufacturers (“OEMs”) that manufactured their own electronic products and systems (but also had internal IC design and manufacturing capabilities), and so-called IDMs that focused solely on designing, manufacturing and selling ICs to electronic system manufacturers. While many traditional OEMs (like IBM, Hewlett Packard and others) have largely ceased in-house manufacturing of ICs to concentrate instead on their core competencies in system design and manufacturing, new OEMs have appeared (described below). Examples of IDMs, which design, manufacture and market branded ICs for sale, include Infineon, Samsung, Intel, Micron Technology, ST Microelectronics and Analog Devices. These vertically integrated and dedicated semiconductor companies are collectively referred to as IDMs as they undertake all the functions associated with the design, manufacture, probing, assembly and testing of an IC. Additionally, certain IDMs, known as IDM foundries, also provide foundry (wafer fabrication services) to third-parties.
- ***Fabless companies***. Fabless semiconductor companies focus on IC design, testing and marketing. Fabless companies rely on foundries (and, at times, IDM foundries as described below) for manufacturing. Examples of fabless semiconductor companies include Melexis, Qualcomm, Broadcom and Mediatek.
- ***Foundries***. Pure-play foundries such as X-FAB focus exclusively on providing IC manufacturing services to other semiconductor companies, while refraining from designing and selling own-designed ICs. IDM foundries, while having own-products (that are manufactured in-house) may also provide wafer fabrication services to third parties. Users of foundry services include OEMs and fabless semiconductor companies, as well as IDMs and foundries that outsource a portion of their manufacturing needs.
- ***Original equipment manufacturers (OEMs)***. Over the last decade, a new OEM business model has emerged, under which OEMs invest significantly in proprietary IC design for end-user products (in addition to historic core competencies of product and system design, and manufacturing their own end-user products) without maintaining the extensive IC manufacturing capabilities that past OEMs operated. Under this new model, OEMs rely on foundries for IC manufacturing services. In that respect, these new OEMs mostly fall under the fabless companies category rather than the IDM category. Examples of such OEMs include Apple, Google, Amazon and Philips.

Within broader growth in the overall semiconductor market, revenues for pure-play foundries have expanded more rapidly than for IDM foundries. Between 2011 and 2016, pure-play foundry revenues grew by a CAGR of 13.3 per cent., while IDM foundries revenues grew by 1.6 per cent., according to the 2017 McClean Report. The 2017 McClean Report further predicts that pure-play foundry revenue will grow by a CAGR of 7.5 per cent. between 2016 and 2021, as compared to projected growth of 4.2 per cent. for IDM foundries. X-FAB believes that the faster growth for pure-play foundries is due to rising demand for their services from an increasing customer base of fabless companies, and the higher flexibility that pure-play foundries are able to offer their customers. X-FAB believes that recent growth in the pure-play foundry industry is also supported by sales to IDMs, which may source from pure-play foundries for extra capacity or where doing so is less expensive than producing in-house.

Despite the strong growth trend over the last 20 years, the semiconductor industry has historically been characterized by periods of cyclicalities and other structural trends in the underlying markets. The semiconductor market has fluctuated, cycling through periods of weak demand, production overcapacity, excess inventory and lower sales prices and periods of strong demand, full utilization, product shortages and higher sales prices. In the past 10 years, 2010 and 2014 were particularly strong years, with sales by value of \$321 billion in 2010 (growth of 34 per cent. over 2009) and \$361 billion in 2014 (growth of 9 per cent. over 2013), according to the 2017 McClean Report. Years that registered marked decreases in sales levels from the prior year include 2008 (a decrease of 5 per cent.), 2009 (a decrease of 10 per cent.) and 2012 (a decrease of 3 per cent.), according to the 2017 McClean Report.

This cyclicalities has been less pronounced in the analog IC market, with unit growth at a CAGR of 7.0 per cent. between 2010 and 2016 (as compared to 3.5 per cent. for digital ICs), and a less significant contraction than for digital ICs between 2011 and 2012, according to the 2017 McClean Report. (The 2017 McClean Report presents these market figures on a unit basis only, rather than by total sales.) The market for various digital ICs has also been characterized by periods of significant ASP volatility in recent years, in particular as these tend to be more standardized ICs produced in large volumes. For example, DRAM ASPs experienced decreases of 39 per cent. in 2007, 29 per cent. in 2008, 27 per cent. in 2011 and 14 per cent. in 2016, and increases of 44 per cent. in 2010, 48 per cent. in 2013 and 26 per cent. in 2014, according to the 2017 McClean Report. ASPs in the market for analog ICs have been more stable, with movements under 5 per cent. in all but two years since 2008: a decline of 12 per cent. in 2013, and a decline of 5 per cent. in 2012, according to the McClean Report. In 2016, ASPs for memory ICs declined by 10 per cent. and for logic ICs declined by 3 per cent., while ASPs for analog ICs were stable during the year, according to the 2017 McClean Report. Similarly, certain end-user markets have been characterized by underlying growth in recent years, such as the automotive industry, where overall registrations of new vehicles have increased steadily in recent years, based on third-party industry reports, with the level of semiconductor input used in automobiles increasing consistently across a variety of internal combustion, hybrid and electric vehicles.

The O-S-D Device portion of the global semiconductor market exhibited steady year-on-year growth from \$53.1 billion in 2010 to \$66.6 billion in 2015, at an overall CAGR during that period of 4.6 per cent., based on annual sales, according to the 2016 McClean Report (Oct. update). Within the O-S-D industry, X-FAB produces certain sensor/actuator and discrete devices. According to 2016 McClean Report (Oct. update), sales of MEMS sensor/actuator devices grew year-on-year, and at a CAGR of 6.1 per cent., from \$7.6 billion in 2010 to \$10.2 billion in 2015. During this period, the market for discrete devices declined at a compound annual rate of 0.4 per cent., from \$21.6 billion in 2010 to \$21.2 billion in 2015.

## **The Foundry Industry**

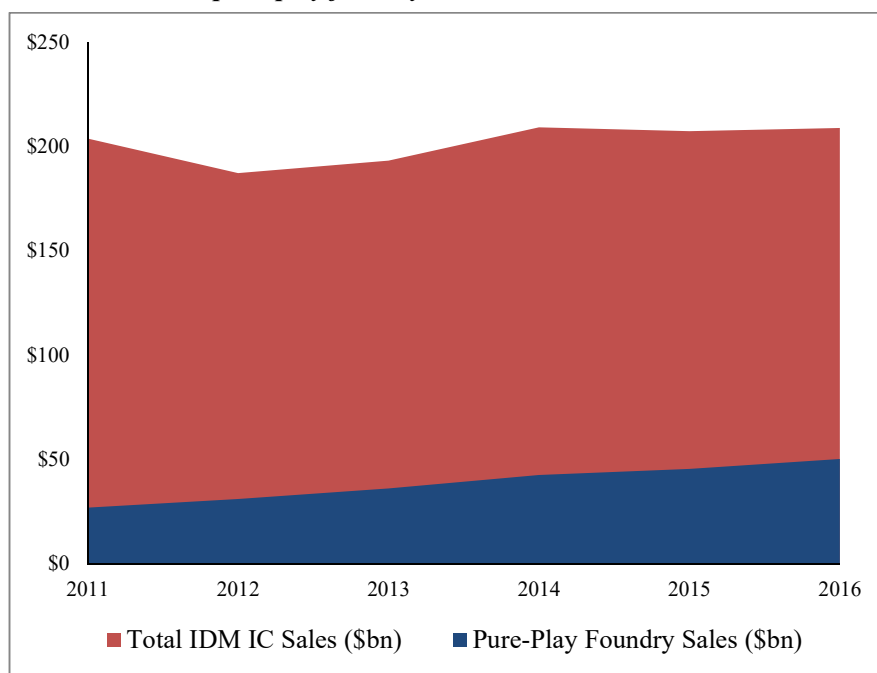
Foundries specialize in the manufacture of semiconductor wafers to order. The foundry industry consists of two types of participants: pure-play foundries such as X-FAB, which produce ICs for other companies instead of

designing and manufacturing their own ICs, and IDM foundries, which offer foundry services in addition to manufacturing their own ICs. The main customer groups for foundries are fabless semiconductor companies, IDMs and OEMs. Until 1987, when Taiwan Semiconductor Manufacturing Co. (“TSMC”) was founded as the first major pure-play foundry, fabless companies contracted IDMs to produce ICs to the fabless companies’ designs. This carried risks, such as giving potential competitors access to valuable design technology and know-how and a dependence on potential competition to make adequate capacity and necessary process technologies available. Since dedicated pure-play foundries had no similar conflict of interest with fabless companies, and could generally offer fabless customers a higher degree of flexibility to select the best technology and processes for their particular products, the pure-play foundry market expanded quickly.

The foundry industry has been characterized by specialization between manufacturers of digital and analog/mixed-signal ICs, as technological differentiation and feature sizes have supported two distinct business models. On the one hand, manufacturers of digital ICs tend to produce commoditized ICs in large production volumes, supporting high levels of capital expenditure seeking rapid improvement in the latest digital IC capabilities. On the other hand, foundries that focus on analog/mixed-signal ICs produce in smaller volumes and focus on high levels of customizable functionality and performance. Since analog/mixed-signal specialty foundries tend not to compete on the basis of (continuously reducing) circuit size and processing speed, they often have lower capital expenditure requirements than digital-focus foundries.

The following table shows the growth of pure-play foundries within the overall foundry industry since 2011:

***Semiconductor market sales – pure-play foundry versus IDM***



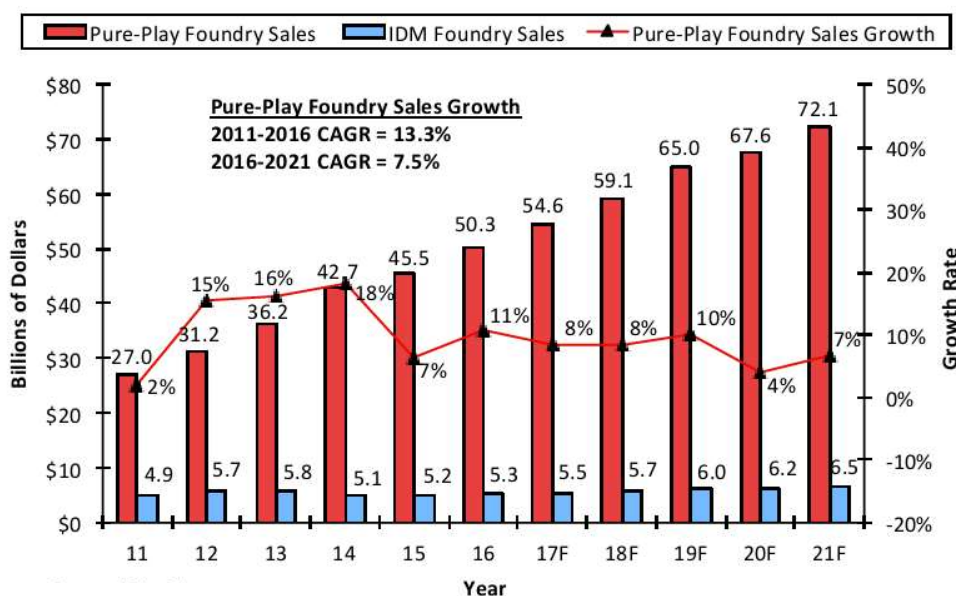
Source: The 2017 McClean Report.

Pure-play foundry sales increased from \$27.0 billion in 2011 to \$50.3 billion in 2016, a CAGR of 13.3 per cent., according to the 2017 McClean Report. During this period, pure-play foundries continued to win market share within the growing semiconductor manufacturing market, as IDM sales grew at a CAGR of 1.6 per cent. from 2011 to 2016.

The last decline in the pure-play foundry market was in 2009, following the global financial crisis, when the pure-play foundry market declined by 9 per cent. In the following years, the pure-play foundry market

experienced double-digit growth in 2010 (44 per cent.), 2012 (15 per cent.), 2013 (16 per cent.) and 2014 (17 per cent.). According to the 2017 McClean Report, the pure-play market grew by 11 per cent. in 2016, which was 9 per cent. higher than the overall semiconductor market growth rate. The 2017 McClean Report forecasts that pure-play foundry sales will increase to \$72.1 billion in 2021, at a CAGR of 7.5 per cent. from 2016 to 2021, compared to the expected 5.2 per cent. CAGR of the overall semiconductor market. The table below sets out the pure-play foundry sales from 2011 to 2016 and projected pure-play foundry sales from 2017 to 2021 according to the 2017 McClean Report.

**Pure-play foundry sales from 2011 to 2021 (Forecast)**

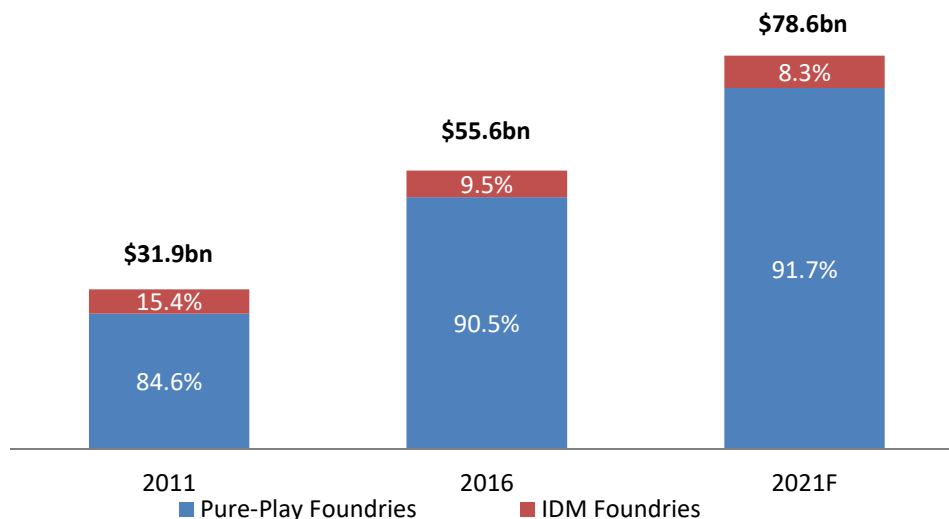


Source: The 2017 McClean Report.

The historic growth of the pure-play foundry market is not only fuelled by fabless semiconductor companies contracting manufacturing to pure-play foundries. X-FAB also expects IDMs to outsource an increasing volume of manufacturing operations to pure-play foundries. Outsourcing has enabled IDMs to increase their sales revenues without incurring the substantial capital expenditure required to build the necessary extra capacity, thereby reducing the financial risk associated with high fixed costs in a cyclical industry. In addition, the experience gained by dedicated foundries in different manufacturing processes for a wide variety of applications offers IDMs specialized manufacturing expertise that they could not have achieved alone. Furthermore, some designs that would have been niche products for any single IDM can benefit from the foundries’ economies of scale in manufacturing. As indicated in the table above, sales by IDM foundries, which make available their unutilized capacity to external customers, declined to \$5.3 billion in 2016, from \$5.7 billion in 2012 and \$5.8 billion in 2013. The 2017 McClean Report forecasts that the IDM foundry market could grow to an estimated \$6.5 billion by 2021, which is considerably smaller than the projected sales of the pure-play foundry market. In terms of CAGR, the 2017 McClean Report expects IDM foundries to have a CAGR of 4.2 per cent. between 2016 and 2021, approximately half the expected CAGR of pure-play foundries. The 2017 McClean Report indicates that the trend away from IDM foundries is a result of increased competition from pure-play foundries, due in part to the inherent conflicts of interest that IDM foundries face. For example, in 2014 Apple moved a significant portion of its microprocessing manufacturing from Samsung’s IDM foundry to TSMC. By moving away from Samsung, which competes with Apple in the mobile phone market, Apple shifted approximately \$1.5 billion in sales to TSMC in 2014 and a further \$3.1 billion in 2015.

According to the 2017 McClean Report, pure-play foundries had a 90.5 per cent. market share of the foundry market by sales in 2016, an increase of 5.9 per cent. from 2011. The 2017 McClean Report projects pure-play foundry to account for 91.7 per cent. of total foundry sales in 2021. The table below sets out the pure-play and IDM foundry market share from 2011 to 2021.

***Pure-play vs. IDM foundry market share***



Source: The 2017 McClean Report.

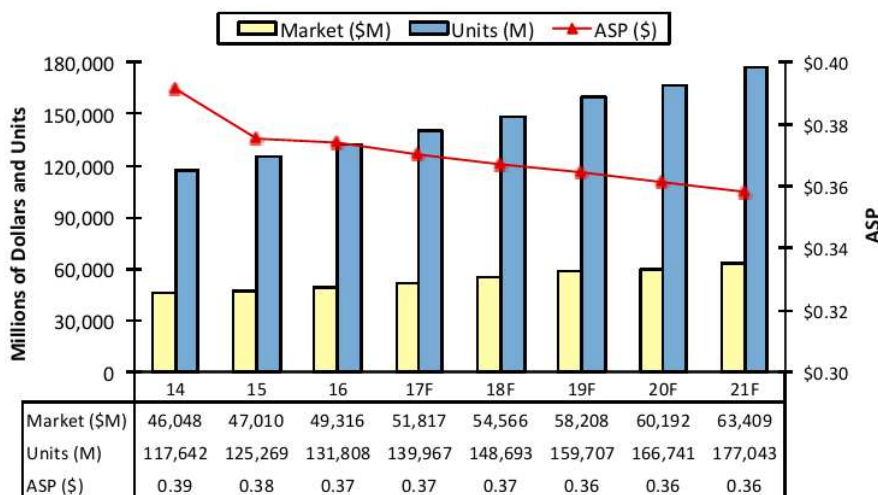
**The Analog/Mixed-Signal Semiconductor Market**

In general, semiconductor-based ICs can be broadly classified as analog or digital, depending on the type of signals they process. Digital circuits process discrete, binary (“on-off” or “1-0”) electrical signals that are used to represent numeric values for computational or data processing functions. Historically, computers and other electronic equipment almost exclusively processed digital data. By contrast, analog circuits (such as amplifiers, transducers and filters) process continuous electrical signals that fluctuate over a wide range of values, representing real-world phenomena such as temperature, pressure, light, sound, or speed.

Mixed-signal circuits (also referred to as “analog/mixed-signal ICs”) embed both digital and analog circuitry onto a single IC, enabling digital electronics to interface with the real world. Over time, there has been an increase in the demand for such devices, making mixed-signal semiconductor ICs an increasingly important part of the market for electronic equipment. Most advanced electronic products, even those that are primarily digital (including those for automotive, industrial, medical and communications applications), require an increasing amount of analog components. The number of analog (including analog/mixed-signal) semiconductors produced annually has grown from approximately 58 billion units in 2005 to approximately 132 billion units in 2016, according to the 2017 McClean Report. As measured by sales, this market grew by a CAGR of 3.5 per cent. between 2014 and 2016, and is expected to grow at a CAGR of 5.2 per cent. between 2016 and 2021, more than offsetting a slight decline in forecasted ASP of approximately \$0.01 per unit during that time. These trends also supported growth in total sales within the application-specific analog IC market for these applications between 2014 and 2016 at a CAGR of 6.6 per cent. in the automotive market (based on volume growth at a CAGR of 14.7 per cent., which more than offset declines in ASP at a compound annual rate of 7.2 per cent.) and 5.0 per cent. in the communications market (supported by volume growth of 10.5 per cent., which more than offset declines in ASP at a compound annual rate of 4.9 per cent.) between 2014 and 2016,

according to the 2017 McClean Report. The application-specific IC market for industrial devices (including medical devices) experienced unit growth at a CAGR of 15.0 per cent. between 2014 and 2016, but this was more than offset during the period by declining average sale prices in this aggregated end-user market, which resulted in a decline in total sales at a compound annual rate of 1.1 per cent., according to the 2017 McClean Report.

**Analog/mixed-signal sales 2014 to 2021 (Forecast)**



Source: The 2017 McClean Report.

A stronger emphasis on analog performance, functionality, quality and reliability distinguishes mixed-signal ICs from digital ICs, where decreasing sizes (also called technological nodes or feature sizes, which reflect the minimum width of a single line in the circuit), higher speeds and computational capabilities are paramount. As a result, continuous advances in further decreasing feature sizes to improve speed are critical for long-term success for producers of digital ICs. The digital IC industry has broadly developed according to the principles of Moore’s Law, which forecasted the doubling of the number of transistors that can be fit on a chip every 18 to 24 months. This focus on latest-edge technology has resulted in a trend in which persistent decreases in the feature size is the most significant technological differentiation among digital ICs, thus reducing the life-cycle of these types of ICs. Further, since digital ICs are highly commoditized, foundries that manufacture these types of ICs tend to produce them in large volumes, supporting the high levels of capital expenditure necessary for the level of research and development needed to continue rapid improvement in digital IC capabilities as well as the capital investment required to continuously upgrade manufacturing facilities to support those improvements. For example, in the years from 2010 to 2016 (respectively), major pure-play digital IC foundries TSMC, GlobalFoundries, UMC and SMIC together incurred capital spending comprising 54 per cent., 82 per cent., 50 per cent., 41 per cent., 59 per cent., 53 per cent., and 52 per cent. of their aggregate sales. Digital ICs are commonly used in products such as mainframe computers, personal computers and data storage devices.

Mixed-signal circuits can be either analog or digitally dominated, however they tend to be characterized by their analog functionality determining the selection of the semiconductor technology. X-FAB specializes in manufacturing mixed-signal ICs, with a focus on analog capabilities. Mixed-signal ICs, conversely, tend to be used for applications that require the ability to process continuous signals and are characterized by a strong emphasis on functionality, performance, quality and reliability rather than size and processing speed. They are often developed through high levels of customization, tailored to the requirements of a particular end-user product. In particular, the design and manufacture of a mixed-signal IC typically necessitates a higher level of engineering per unit produced, both at the design stage as well as at the point of integration into an end-user



product, than a digital IC. The production of mixed-signal ICs relies on manufacturers that can accommodate varying degrees of technological diversification and production processes that can be adapted to specific design requirements. As a result, mixed-signal ICs tend to be produced in smaller volumes by specialized manufacturers and have longer life-cycles than their digital counterparts because the same analog components are frequently used through several generations of products. These factors, along with greater diversity among customer industries, result in more stable demand and pricing for mixed-signal ICs. Moreover, changes in the design of a particular mixed-signal IC can give rise to significant engineering and development costs, supporting longer-term relationships between mixed-signal IC manufacturers and their customers.

For these reasons and due to the relatively high degree of product customization and customer diversity in the mixed-signal semiconductor segment, X-FAB believes that mixed-signal ICs are less likely to be subject to the commodity-style price volatility affecting the digital IC segment in particular and to the cyclicity experienced by the semiconductor industry in general. X-FAB expects that, as electronic devices become increasingly interactive with the real world, rather than relying simply on keyboard or other mechanical input of data, the demand for mixed-signal semiconductor components will continue to grow.

Since mixed-signal ICs are used for a specific range of applications requiring analog capabilities and where the particular functionality is of greater importance than continuous increases in processing speed and integration into progressively smaller devices, mixed-signal ICs are typically produced using larger nodes and robust technologies, rather than the increasingly smaller feature sizes used for digital ICs. As such, manufacturers of mixed-signal ICs generally have capital expenditure requirements that are significantly lower than for producers of digital ICs. In the years from 2010 to 2016 (respectively), pure-play analog/mixed-signal IC foundries X-FAB, TowerJazz and Vanguard together incurred capital spending comprising 16 per cent., 16 per cent., 13 per cent., 9 per cent., 14 per cent., 15 per cent. and 12 per cent. of their aggregate sales.

## **End-user Markets and Other Competitive Factors**

X-FAB's strategic focus includes three end-user markets that have been characterized by strong growth in recent years: automotive, industrial and medical devices. Additionally, a significant portion of the Group's revenue in recent years has been derived from customers in the communications end-user market. X-FAB expects these trends to continue in the coming years.

Growth in the use of semiconductor devices across a range of end-user markets is expected to be driven by a variety of factors:

- **Automotive:** significant expected growth due to an increasing proportion of alternative energy vehicles within a growing automotive market in coming years. Semiconductor input in all vehicles is expected to rise due to their use in an increasing array of safety, security, optics, communications, performance, environmental and other technology features. Continued development of advanced technologies including Silicon Carbide (or SiC) compounds is expected to support this growth. X-FAB manufactures analog/mixed-signal ICs and related devices that are used in a variety of automotive applications, including barometric pressure sensors, inertial sensors, navigation compasses, infrared cabin temperature sensors and passenger detection devices. According to the 2017 McClean Report, global analog (including mixed-signal) device sales for use in automotive products is expected to grow by a CAGR of 9.8 per cent. from \$7.8 billion in 2016 to \$12.5 billion in 2021.
- **Industrial:** including applications in test, measurement and control functions across a variety of industrial and manufacturing uses, this segment is expected to exhibit growth supported by increasing use of internet connectivity and higher numbers of sensors across industrial applications such as factory automation, aircraft, trains, power plants, solar and wind energy, oil fields and refinery, as well as supporting volume and margin growth for industrial use ICs. X-FAB manufactures analog/mixed-signal

ICs and related devices that are used in a variety of industrial applications, including 3D vision, otpo and inductive couplers for galvanic decoupling, and hall position sensors. According to IHS Inc., global semiconductor sales for use in industrial devices is expected to grow by a CAGR of 8.2 per cent. from \$42 billion in 2015 to \$62 billion in 2020.

- **Medical:** strong growth in the sector due to an increasing variety of health care applications utilizing analog/mixed-signal ICs, including devices used for disease diagnosis, drug detection and chemical and cell analysis, as well as ingestible, disposable and wearable devices. X-FAB manufactures analog/mixed-signal ICs and related devices that are used in a variety of medical applications, including ultrasonic transducers and receivers, blood-pressure sensors, X-ray scintillators, hearing aid devices, dental X-ray and ingestible smart pills. According to IC Insights, global semiconductor sales for use in medical devices is expected to grow by a CAGR of 12.3 per cent. from \$ 6.2 billion in 2014 to \$8.2 billion in 2018.
- **Communications:** growth is expected due to the increasing use of voice- and data-based communications, in particular continued growth in the use of smartphones in absolute figures and as a proportion of total mobile phone sales. These devices require an increasing variety of optical, haptic, temperature and proximity sensors, accelerometer and gyro features for screen orientation and game play, as well as radio frequency capabilities and navigation capabilities. X-FAB manufactures analog/mixed-signal ICs and related devices (including sensor/actuator and discrete devices) that are used in a variety of communications applications, including auto-focus actuators for cameras, infrared temperature sensors, microphones, navigation compasses and fingerprint readers. According to the 2016 McClean Report (May update), global semiconductor sales (including sensors and discrete devices of the type manufactured by X-FAB) for use in communications products is expected to grow by a CAGR of 6.3 per cent. from \$99.4 billion in 2013 to \$143.1 billion in 2019.

Growth trends for devices with analog or mixed-signal capabilities are expected to continue, as an increasing number of products, devices and appliances are augmented with internet connectivity capabilities.

X-FAB has experienced steady growth in ASPs in its strategic end-user markets for automotive, industrial and medical devices in recent years, with growth of 1.3 per cent. since 2012 (CAGR of 0.3 per cent.). The Group has experienced volatility and overall declines in ASPs for customers in the communications and consumer end-user markets during this period of 7.4 per cent. (compound annual rate of 1.9 per cent.), which have resulted in declines in ASPs across the Group of 3.0 per cent. since 2012 (compound annual rate of 0.8 per cent.).

X-FAB believes that it is strongly positioned since its strategic focus areas are niche markets. Within the global market for pure-play foundry sales, 86 per cent. of the market was the sale of devices for use in computer, communications and consumer devices, which is dominated by digital IC foundries, while devices for automotive, industrial, medical and other products comprised 14 per cent. of the \$50.3 billion market, based on 2016 sales levels, according to the 2017 McClean Report. While much of the competition among Digital IC pure-play foundries is for customers requiring ICs at feature sizes up to (and including) 0.18 $\mu$ m, (78 per cent. of the global market for pure-play foundries), analog/mixed-signal ICs larger than 0.18 $\mu$ m comprise only 22 per cent. of the global pure-pay foundry market. X-FAB produces analog/mixed-signal ICs of 0.18 $\mu$ m and larger.

Additionally, the development of advanced technologies is supporting growth within these end-user markets. In particular, X-FAB believes that devices utilizing SiC are in the preliminary stages of replacing silicon devices in medium and high voltage powered systems, due to its ability to operate at much higher frequencies and temperatures than conventional semiconductor materials, and at increased efficiencies by enabling reduction of size and weight. The use of SiC is still in the early stages of commercial development and production across the semiconductor industry. In 2015, the total size of the SiC market (including diode and transistor

applications) reached \$200 million, according to the Yole Report. However, according to the Yole Report, this market is expected to grow by a CAGR of 19 per cent. in the period to 2021, surpassing \$600 million by that time. A variety of participants in the semiconductor industry are active in commercialization of SiC technologies, including OEMs and foundries, such as Lockheed Martin, Wolfspeed, Infineon, Yangjie Technologies. Key end-user markets that the Group believes will utilize SiC technologies in the coming years include the industries for automotive and industrial devices.

MEMS technologies are also utilized in a variety of devices across these end-user markets. MEMS devices comprise a diverse range of technologies and applications, including motion detection and measurement, micro-mirrors, solid-state microphones, pressure sensors, and a wide range of actuators in digital-light displays, projectors, scanners, microfluidic control, biochips, acoustic-wave radio filters, and silicon oscillators. As a result, there is significant fragmentation of users and producers across these applications within the global semiconductor industry, with uses including automobile safety devices, industrial equipment, scientific instruments, smartphones, video game controllers, portable electronics, and consumer products such as remote controls, digital cameras, wearable fitness/activity trackers and smart watches. X-FAB manufactures MEMS that are utilized in various products across its strategic end-user markets, with a particular focus on applications for sensor/actuator devices. According to the 2016 McClean Report (Oct. update), total sales in the MEMS-based global sensor/actuator device market were approximately \$6.4 billion in 2010, and grew at a CAGR of 5.6 per cent. to reach \$8.4 billion in 2015. The market is expected to reach \$12.8 billion in sales by 2020, reflecting a CAGR of 8.8 per cent. over the period, according to the 2016 McClean Report (Oct. update).

## Competition

The foundry industry consists of two types of participants: pure-play foundries such as X-FAB, which produce ICs for other companies instead of designing and manufacturing their own ICs, and IDM foundries, which offer foundry services in addition to manufacturing their own ICs. The following table shows the largest foundries based on 2016 sales. In 2016, the largest 14 foundries together comprised 94 per cent. of all sales in the foundry industry, according to the 2017 McClean Report.

### *Major foundries (2016)*

| <b>Company</b>             | <b>Foundry Type</b> | <b>Location</b> | <b>2016 Sales</b> |
|----------------------------|---------------------|-----------------|-------------------|
| <i>(in millions of \$)</i> |                     |                 |                   |
| TSMC .....                 | Pure-Play           | Taiwan          | 29,488            |
| GlobalFoundries .....      | Pure-Play           | U.S.A.          | 5,545             |
| UMC .....                  | Pure-Play           | Taiwan          | 4,582             |
| SMIC .....                 | Pure-Play           | China           | 2,921             |
| Samsung .....              | IDM                 | South Korea     | 2,810             |
| Powerchip .....            | Pure-Play           | Taiwan          | 1,275             |
| TowerJazz .....            | Pure-Play           | Israel          | 1,249             |
| Fujitsu .....              | IDM                 | Japan           | 880               |
| Vanguard .....             | Pure-Play           | Taiwan          | 800               |
| Hua Hong Semi .....        | Pure-Play           | China           | 712               |
| Dongbu .....               | Pure-Play           | South Korea     | 672               |

| <b>Company</b>             | <b>Foundry Type</b> | <b>Location</b> | <b>2016 Sales</b>          |
|----------------------------|---------------------|-----------------|----------------------------|
|                            |                     |                 | <i>(in millions of \$)</i> |
| X-FAB .....                | Pure-Play           | Europe          | 510                        |
| SSMC .....                 | Pure-Play           | Singapore       | 470                        |
| Shanghai Huali .....       | Pure-Play           | China           | 460                        |
| Other Foundry .....        | —                   | —               | 3,241                      |
| <b>Total Foundry</b> ..... | —                   | —               | <b>55,615</b>              |

Source: The 2017 McClean Report.

Based on 2016 sales, X-FAB is the 5<sup>th</sup> largest analog/mixed-signal foundry (following Tower Jazz, Vanguard, Hua Hong Semi and Dongbu). The Group is the 10<sup>th</sup> largest pure-play foundry and the 12<sup>th</sup> largest overall foundry, based on 2016 sales levels. Of the 14 largest foundries based on 2016 sales levels, X-FAB is the only foundry with headquarters in Europe, which the Group believes provides it with a significant advantage in winning and working with customers. See “*Business — X-FAB’s Key Strengths — Geographically diverse positioning in Europe, Asia and the United States.*”

### ***Pure-play foundries***

Users of foundry services include OEMs and fabless semiconductor companies, as well as IDMs and foundries that outsource a portion of their manufacturing needs. According to the 2017 McClean Report, of the 14 largest foundries, as measured by 2016 sales, 12 are pure-play foundries. These 12 pure-play foundries together comprised 88 per cent. of sales in the global foundry industry during that year. Pure-play foundries typically focus on either digital ICs or analog/mixed-signal ICs. X-FAB does not compete with the two major IDM foundries listed above, which focus on digital IC technologies.

### ***Digital IC foundries***

The largest pure-play foundries, including TSMC, GlobalFoundries, UMC and SMIC, focus (either exclusively, or with the vast majority of their production volume) on the manufacture of digital ICs. As described above, digital IC foundries typically operate according to a different business model than analog/mixed-signal IC foundries. In particular, since digital ICs are highly commoditized, foundries that manufacture these types of ICs tend to produce ICs in large volumes, supporting high levels of capital expenditure necessary for regular technology enhancements (primarily the development of smaller feature sizes) and facility improvements. Further, since these foundries specialize in applications for the processing of digital data, their largest end-user markets are computers, communications and consumer devices. In 2016, these four end-user markets comprised 86 per cent. of their total sales, according to the 2017 McClean Report.

Although the vast majority of sales by digital IC foundries are in the computer, communications and consumer device end-user markets, digital IC foundries also manufacture ICs for other end-user markets, including for use in industrial, automotive, and medical applications. Sales levels for each of these ancillary end-user markets comprise a small portion of overall sales levels, and as a result they are not individually disclosed by digital foundries. However, since overall sales levels for digital IC foundries are so large, the aggregated sales levels of these ancillary end-user markets are significant in absolute terms. For example, TSMC’s “Other” revenue was \$6.1 billion in 2016, while ancillary revenues for the three other largest foundries were significantly smaller (and, in each case, smaller than X-FAB’s revenues for 2016).

X-FAB does not believe that it competes with most digital IC foundries, which generally focus on different end-user markets, operate under a different business model that provides customers with lower levels of customization capabilities, and specialize in different capabilities than the analog/mixed-signal functionality offered by the Group. However, within its ancillary manufacturing operations, TSMC is active in the production of ICs for use in automotive devices, including a variety of specialized analog/mixed-signal IC applications. As a result, X-FAB believes that it competes with TSMC in this strategic end-user market, although TSMC publishes only limited details about these ancillary activities. While X-FAB does not believe that it currently competes with other large digital IC foundries in its strategic end-user markets, these foundries may expand into these industries in the future and compete effectively, since they have significant manufacturing, financial, research and development, and marketing resources.

X-FAB believes that newly emerging Asian foundries will generally seek to replicate the business model of the large foundries described above and, as a result, will not fiercely compete in the analog/mixed-signal IC market.

#### *Analog/mixed-signal IC foundries*

Analog/mixed-signal IC foundries tend to be smaller than digital IC foundries and to operate under a different business model. Since analog/mixed-signal ICs are developed through high levels of customization, they typically necessitate a higher level of engineering per unit produced, both at the design stage as well as the point of integration into an end-user product, than a digital IC, and are produced in smaller volumes by specialized manufacturers. As a result, even the largest analog/mixed-signal IC foundries are significantly smaller than the largest digital IC foundries. In 2016, only five analog/mixed-signal IC foundries ranked among the 14 largest foundries as measured by sales: TowerJazz, Vanguard, Hua Hong Semi, Dongbu and X-FAB. These five foundries together comprised 7 per cent. of sales in the global foundry industry during the year.

Although these specialized analog/mixed-signal foundries operate a similar business model to X-FAB, by manufacturing ICs based on customer designs, the Group does not view them as significant competitors. In particular, these foundries target customers in the communications, consumer and computer end-user markets, rather than the automotive, industrial and medical device end-user markets where X-FAB is focusing its growth strategy. While X-FAB expects analog/mixed-signal ICs for use in communications devices to comprise a stable portion of its activities going forward, this is not a key growth market for the Group. X-FAB does not believe that these peers could readily modify their existing manufacturing capabilities, or develop process technologies required for the production of ICs in the Group's strategic end-user markets, without significant capital expenditure. Further, given that these foundries do not currently compete in the Group's strategic end-user markets, X-FAB believes that they would need to devote significant resources and attention to winning customers in those industries, in particular given the significant qualification process required by most participants in the automotive industry. The lead-time from first prototyping to full production is significant, and would be a material obstacle to any new entrant in this market. For additional detail on the design, engineering and support services and the process technologies that the Group believes differentiate it from competitors, see "*Business — Design Support and Manufacturing*" and "*Business — Support Services*."

#### **IDMs**

On occasion, X-FAB also competes with IDMs that have technology portfolios focused on the automotive, industrial, medical and communications end-user markets. In particular, smaller IDM foundries in these end-user markets may compete with X-FAB by offering foundry services to third parties, leveraging their investments in manufacturing facilities and any excess capacity. Additionally, X-FAB periodically competes with the internal manufacturing division of an IDM for designs created by the IDM's product division, which X-FAB may target as a customer to provide manufacturing services on an outsourced basis. In these situations, X-FAB may be sought out by (or, in certain circumstances, target) the product division of an IDM on the basis of its specialized technologies, comprehensive support offerings and manufacturing infrastructure, which may be preferred by the relevant design team at the IDM over the capabilities of its internal manufacturing division.

Such outsourcing work can require competitive pricing, as an IDM will often seek to utilize internal manufacturing capacity before outsourcing production to an external provider like X-FAB.

IDMs that produce ICs for use in the automotive end-user market include ams, Infineon, NXP Semiconductors, Renesas and ST Microelectronics. IDMs that produce ICs for use in other end-user markets, including the industrial, consumer and healthcare end-user markets, include Analog Devices, Maxim Integrated and Texas Instruments.

## BUSINESS

### Overview

X-FAB is one of the world's leading specialty foundry groups for analog/mixed-signal semiconductor technologies, providing manufacturing and design support services for customers that design analog/mixed-signal ICs and other semiconductor devices for use in their own products or the products of their customers. X-FAB creates customized analog/mixed-signal ICs for use in a variety of applications, with a strategic focus on the automotive, industrial and medical device end-user markets. As a pure-play specialty foundry, X-FAB manufactures ICs based on its customers' or third-party designs, which are primarily designed and fabricated using X-FAB's portfolio of proprietary technologies, available across all of its end-user segments. X-FAB also provides a range of design-related product and support services as part of its comprehensive offering, including extensive design libraries as well as engineering, technical and design support to over 330 customers worldwide.

X-FAB manufactures analog/mixed-signal ICs that are created using the Group's specialized process technologies. The Group has an established track record, with over 25 years of experience providing customers with advanced analog/mixed-signal solutions that utilize its proprietary manufacturing processes and advanced design and engineering support offerings. The Group believes that these process technologies and extensive service offerings differentiate X-FAB from its competitors by supporting customers in designing semiconductors according to their specific end-use applications, utilizing its experience designing advanced manufacturing capabilities for applications in the Group's strategic automotive, industrial and medical device end-user markets.

X-FAB manufactures analog/mixed-signal ICs through a multi-stage process of oxidization, light exposure and etching on silicon (or other materials) that produces circuitry, transistors and other components comprising an IC, utilizing its proprietary process technologies and third-party silicon wafers and other raw materials. X-FAB's modular approach allows customers to choose from a wide range of enhanced analog/mixed-signal functionality options across major semiconductor technologies, designs and processes, including Complementary Metal-Oxide Semiconductor ("CMOS"), Silicon on Insulator ("SOI"), Silicon Carbide ("SiC") and Micro-Electro-Mechanical Systems ("MEMS"). Customers can then draw on a variety of features, such as high voltage capabilities, optical and other types of sensors, radio frequency, bipolar elements and embedded non-volatile memories, in order to develop bespoke ICs specifically tailored to their end-use requirements. X-FAB currently offers feature sizes of 1.0 $\mu$ m, 0.8 $\mu$ m and 0.6 $\mu$ m on 150-mm wafers and 0.6 $\mu$ m, 0.35 $\mu$ m, 0.25 $\mu$ m, 0.18 $\mu$ m and 0.13 $\mu$ m on 200-mm wafers.

Unlike some of the larger foundries in the IC market, X-FAB's focus on producing highly customized analog/mixed-signal ICs for its customers typically leads to smaller production volumes requiring more engineering input per unit and thereby producing higher margins than more commoditized ICs. Due to the high degree of product customization typically required by X-FAB's customers, combined with the longer product life-cycles and relatively small production volumes associated with its products, X-FAB tends to be less vulnerable to the high price, demand and stock volatility experienced by many of its competitors in the broader IC market.

X-FAB operates six fabs with aggregate production capacity of approximately 94,000 200-mm equivalent WSPM:

- **Erfurt, Germany:** 150-mm production of CMOS semiconductors, with capacity of approximately 12,000 200-mm equivalent WSPM, and 150-mm/200-mm production of MEMS devices.<sup>(1)</sup>
- **Dresden, Germany:** 200-mm production of CMOS semiconductors, with capacity of approximately 8,000 WSPM.

- **Itzehoe, Germany:** 200-mm production of MEMS devices.<sup>(1)</sup>
- **Corbeil-Essonnes, France:** 200-mm production of CMOS semiconductors, including SOI capabilities, with capacity of approximately 35,000 WSPM.
- **Kuching, Sarawak, Malaysia:** 200-mm production of CMOS semiconductors, including SOI capabilities, with capacity of approximately 24,000 WSPM.
- **Lubbock, Texas, USA:** 150-mm production of CMOS and BiCMOS semiconductors, including SiC capabilities, with capacity of approximately 15,000 200-mm equivalent WSPM.

Note:

<sup>(1)</sup> X-FAB does not specify capacity figures for MEMS device production due to the wide variety and complexity of process technologies used depending on the particular MEMS design.

X-FAB manufactures mainly analog/mixed-signal CMOS and SOI ICs from 1.0+ to 0.13µm feature sizes and, on a smaller scale, a number of devices utilising MEMS and SiC technologies. For more information on the technical aspects of the wafers that X-FAB manufactures, see “— *Design Support and Manufacturing.*”

For the financial year ended December 31, 2016, the Group reported revenue of \$512.9 million, compared to \$331.1 million in 2015 and \$330.5 million in 2014, and EBITDA of \$100.6 million, compared to \$63.4 million in 2015 and \$55.2 million in 2014. This growth has been supported by the Altis Acquisition, which contributed \$31.6 million to the Group’s revenue since October 1, 2016, as well as the acquisition of various new customers throughout the period, and a significant increase in revenue from an existing customer in the communications end-user market in Asia in 2016 (including \$93.8 million in revenue from this customer that was outsourced to another foundry, with an EBITDA impact of \$16.7 million). Over the last five years, the Group has achieved a CAGR in revenue of 18.7 per cent. and in EBITDA of 47.1 per cent., from revenue of \$258.5 million and EBITDA \$21.5 million in 2012.

X-FAB’s strategic focus is on the end-user markets for automotive, industrial and medical devices, where it has significant experience and expects strong growth in the coming years. In 2016, X-FAB derived 41 per cent., 11 per cent. and 3 per cent. of its revenue, respectively, from customers in these end-user markets. The Group derived a further 30 per cent. of 2016 revenue from customers in the communications end-user market. Although this is not a key growth market for the Group, it may continue to comprise a material portion of its activities going forward.

The following table shows X-FAB’s proportion of revenue by end-user markets for the years ended December 31, 2016, 2015 and 2014:

|   | <b>Years ended December 31</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2016</b>                    | <b>2015</b> | <b>2014</b> |
| <b>X-FAB’s Revenue by End-User Market<sup>(1)</sup></b> | <i>(in millions of \$)</i>     |             |             |
| Automotive .....  | 211.0                          | 180.8       | 179.1       |
| Communications .....                                    | 154.9 <sup>(2)</sup>           | 42.8        | 31.9        |
| Consumer .....  | 60.0                           | 39.6        | 47.6        |
| Industrial .....  | 54.2                           | 46.4        | 45.1        |
| Medical .....   | 12.9                           | 10.6        | 7.6         |



|   | <b>Years ended December 31</b> |              |              |
|---|--------------------------------|--------------|--------------|
|   | <b>2016</b>                    | <b>2015</b>  | <b>2014</b>  |
| <b>X-FAB's Revenue by End-User Market<sup>(1)</sup></b> | <i>(in millions of \$)</i>     |              |              |
| Other .....   | 19.9                           | 11.1         | 19.2         |
| <b>Total</b> .....                                      | <b>512.9<sup>(3)</sup></b>     | <b>331.1</b> | <b>330.5</b> |

Notes:

- (1) X-FAB's categorization of end-user market revenue data is based on information provided by its customers. See "Presentation of Financial and Other Information — End-User Market Revenue Data."
- (2) X-FAB's revenue in the communications end-user market during 2016 reflects a significant increase in revenue from an existing customer in Asia (including \$93.8 million in revenue that was outsourced to another foundry), and which may not be repeated to the same extent in future years, or at all.
- (3) X-FAB's revenue in 2016 reflects the on-boarding of certain customers as part of the Altis Acquisition from October 1, 2016. A significant portion of this revenue is from customers in the communications end-user market.

## History

X-FAB was founded in 1992 as a wholly-owned subsidiary of Elex NV and began operating its first semiconductor fab in Erfurt, Germany after acquiring it from the German state trustee organization Treuhandanstalt. In early 1999, X-FAB expanded its base beyond Europe into the growing North American market with its acquisition of the former Texas Instruments fab in Lubbock, Texas, USA. Later in 1999, X-FAB acquired a second Erfurt fab. X-FAB subsequently acquired a fab in Plymouth, United Kingdom from Zarlink in 2002. In January of 2006, Elex NV's semiconductor business was spun off into a new holding company, Xtrion.

Later that year, X-FAB merged with 1st Silicon (Malaysia), which expanded its manufacturing footprint into Asia, and in 2007, X-FAB acquired the ZFOUNDRY fab in Dresden from ZMD AG. Following continued expansion across X-FAB's operations, management determined that the smaller Plymouth fab no longer fit within the Group's growth strategy, and it was sold to Plessey in 2009. In 2011, X-FAB expanded its MEMS capabilities by investing in MEMS Foundry Itzehoe (which it subsequently wholly acquired in 2015), through which the Group rents fab space for MEMS manufacturing from Fraunhofer-Gesellschaft, and in 2012 it invested in a new MEMS cleanroom in Erfurt to further strengthen its MEMS offering.

With economic effect from October 1, 2016, X-FAB consummated the Altis Acquisition, including the acquisition of a fab in Corbeil-Essonnes, France, which grew X-FAB's European manufacturing base and significantly expanded the Group's production capacity to support growing demand. For further detail on this acquisition, see "The Altis Acquisition."

## X-FAB's Key Strengths

- **Specialty foundry with comprehensive set of technologies across a wide-range of key end-user markets.** X-FAB believes it has a strong portfolio of CMOS process technologies, which allows the Group to produce customized ICs that meet its customers' semiconductor requirements. These features include a number of advanced analog/mixed-signal capabilities, including high voltage options, embedded non-volatile memories, and optical, radio frequency and bipolar elements. Management believes that relatively few other pure-play foundries currently combine the advanced fabrication process technologies that X-FAB offers to produce as wide a variety of customized analog/mixed-signal

ICs to its customers. This portfolio enables X-FAB to provide foundry services across different customers' specialty needs and focus on the strategic high-growth automotive, industrial, and medical device markets. X-FAB believes that the variety of end-user markets it serves, its strong base in the relatively less cycle-sensitive automotive market, and the long life-cycles of many of the end-user products containing X-FAB components, makes X-FAB comparatively less vulnerable to market shifts than peer semiconductor manufacturers.

In addition, X-FAB has the infrastructure and capacity to increase existing production volumes at its fabs without the potential risks, delays and expense associated with the installation of additional capacity. X-FAB believes that it is therefore well-positioned to capture an increasing share of the anticipated future growth in the analog/mixed-signal semiconductor market, particularly in its strategic end-user markets and from existing customers who have already certified one or more of the Group's fabs as an approved IC provider, and for whom X-FAB has already successfully produced prototypes.

- ***Expertise in analog/mixed-signal IC production with a focus on the high-growth automotive, industrial and medical end-user markets.*** X-FAB has operated as a foundry specializing in analog/mixed-signal IC production since 1992. During this period, it has developed a depth of expertise in analog/mixed-signal IC processes, process characterization and design support, production, and quality assurance that it believes differentiates it from, and cannot easily be replicated by, other foundries or IDMs. X-FAB has strategically focused its expertise on the high-growth automotive, industrial and medical device end-user markets. X-FAB estimates that customers from these three markets accounted for 55 per cent. of its total revenues in 2016. Along with the communications market, these strategic markets have consistently been the most significant areas for the end-users of X-FAB's products in recent years. A key development, which has enabled the Group to leverage its expertise in the automotive end-user segment, has been the increasing use of electronic systems in automobiles, including strong growth within the consumer market for hybrid and electric vehicles. X-FAB believes that the average hybrid or electric vehicle includes significantly more semiconductor-enabled content than an internal combustion vehicle. Hybrid and electric vehicles are expected to become more common and comprise a growing portion of light vehicle production in the coming years. According to the 2017 McClean Report, sales in the automotive application-specific IC market grew by a CAGR of 6.6 per cent. between 2014 and 2016. Further, as analog/mixed-signal capabilities become more prevalent in all vehicles, X-FAB believes its focus on, and track record in, the automotive industry in particular provides it with a significant competitive advantage.
- ***Strong design support and customer service driving customer engagement.*** Analog/mixed-signal ICs are developed in close collaboration with X-FAB's customers. This requires extensive co-operation between the product design and development teams of the customer (whether a fabless company or an IDM, and an existing or target customer) and the process development, design support and engineering support teams at one of X-FAB's sites. The Group offers support across the design process, with dedicated personnel available at all stages from process technology selection to IC design, prototyping, sampling, qualification, and full-volume production. X-FAB believes its strong level of design and engineering support, as well as product specification testing, adds value for new and existing customers by shortening design cycles, which cuts the time to market for their prototypes. It accomplishes this, in part, by giving customers access to proprietary design kits and manufacturing process libraries, as well as through the engineering support it offers its customers in the design and evaluation phases of product development. By providing these design tools and support resources, the Group aims to create an accessible, low-barriers-to-entry environment for new customers to ensure that they are able to easily start the IC design process with X-FAB, and to support existing customers when enhancing existing designs and developing new ones. X-FAB believes that these relationships make X-FAB's customers less likely to transfer the foundry services for their devices to a competitor. In the year ended December

31, 2016, X-FAB's customer base consisted of over 330 customers worldwide, and the Group currently produces over 1,500 devices, with 900 additional products in the prototyping stage.

- ***Strong long-term relationships with successful technology leaders.*** X-FAB has strong relationships with its largest customers and believes that it is well positioned to meet their requirements. In particular, X-FAB provides a dependable source of consistent fabrication services across the longer product life-cycles typical in the analog/mixed-signal market. X-FAB believes that its intimate knowledge of its customers' product needs and design processes, as well as its close relationships with their design and development teams, makes it difficult for another foundry to meet their requirements as well as X-FAB. Furthermore, by working closely with customers that are technological leaders in their respective end-user markets, X-FAB can position itself as an essential partner to their continued growth. Analog/mixed-signal IC development often can take up to two to three years from conception to full commercial production, which further supports stability in the Group's customer base due to the significant time and cost involved in switching to a new foundry. Since 2014, X-FAB has experienced significant stability among the composition of its top ten customers: seven of these customers remain in the Group's top ten, while two are currently in the top 15, and one legacy customer from the time of X-FAB's merger with 1st Silicon (Malaysia) in 2006 ceased manufacturing with X-FAB during the last three years. X-FAB believes that for approximately 90 per cent. of ICs that it sold in 2016, it was the customer's sole provider of that type of IC, reinforcing the Group's importance to the future growth and development of most of its customers. X-FAB expects the strength of these relationships to provide it with revenue visibility and a foundation for growth in structurally growing key end-user markets.
- ***Expertise in conversions and technology transfers to existing and newly acquired operations.*** X-FAB has substantial experience in conversions and technology transfers to existing and newly acquired operations, as well as the implementation of efficiency and cost reduction plans across its manufacturing network. For example, following its merger with 1st Silicon (Malaysia) in 2006, X-FAB implemented a number of initiatives at its new Sarawak fab, including technology transfers, development of the Group's 0.18 $\mu$ m technologies, capability and capacity enhancements, and cost-efficiency measures, all of which supported an increase in revenue at the fab from approximately \$5 million in prototyping revenue (based on X-FAB technologies) in 2006 to approximately \$190 million in production revenue in 2016. In addition, the Group has successfully integrated existing and new technologies across its fabs, combining, for example, a 150-mm SiC foundry line with its high volume silicon fab in Lubbock, Texas. The Group will continue to draw upon this experience as it proceeds with the conversion and implementation of technology at its recently acquired fab in Corbeil-Essonnes, France, which has been under the Group's control since October 1, 2016. X-FAB's expertise in the conversion and transfer of technology has assisted in the integration of X-FAB's six locations, and will support the Group as it continues to work closely across its fabs.
- ***Geographically diverse positioning in Europe, Asia and the United States.*** X-FAB operates six wafer manufacturing sites in Germany, France, Malaysia and the United States. X-FAB's presence across three continents allows its support teams to better liaise with each customer's design team, wherever the customer is located. IC design is a highly interactive process, due to the complexity and customization involved in the design and manufacture processes, and X-FAB typically works closely with each customer during development and prototyping stages of IC production. As a result, X-FAB believes that its geographic reach gives the Group a significant advantage over many of its competitors, in particular for customers with specific preferences in terms of the location of their IC suppliers. The Group's diversified geographical positioning also allows the Group to be flexible when optimizing capacity across its six fabs or shifting manufacturing for a particular customer to a second fab (for example, where required by the relevant customer's internal risk mitigation requirements).

- Successful business model with track record of revenue growth and improving profitability.** X-FAB has developed a customer-centric approach that targets companies in high-growth end-user markets with long product life-cycles. The Group's differentiated approach to customer support and its diversified portfolio of leading process technologies along with its focus on cost saving and improved efficiency across its network have supported strong organic growth in recent years. For example, X-FAB has undertaken a number of initiatives in order to optimize capacity and increase utilization levels at the Group's fabs in recent years, with a renewed focus on forecasting projected product mix and demand levels from existing and new customers, across current and future technologies, and managing production backlogs. These customer-support and operating initiatives, as well as the acquisition of the Altis Assets in 2016, have made a significant contribution to X-FAB's revenue and profitability growth, with revenues growing at a CAGR of 18.7 per cent. (and organic revenue growth of 16.8 per cent., excluding the impact of the Altis Acquisition) between 2012 and 2016 and EBITDA growing at a CAGR of 47.1 per cent. during that period.
- Expertise in MEMS and SiC technologies.** X-FAB has significant experience in MEMS and SiC, two advanced IC technologies that are currently in high demand, and believes they will show strong growth in the future. According to the 2016 McClean Report (Oct. update), sales in MEMS-based sensors/actuators are expected to grow at a CAGR of 8.8 per cent. between 2015 and 2020. The Group's track record in MEMS extends over 20 years, with X-FAB's current MEMS offering having been gradually developed through strategic acquisitions, including of its investment in MEMS Foundry Itzehoe in 2011, and the expansion of the Group's existing capabilities in 2012 when it invested in a new MEMS cleanroom in Erfurt. The Group's significant experience in this field has allowed it to create a specialized MEMS service at these two fabs, which integrates MEMS-based advanced sensor and actuator devices with the Group's CMOS technologies. X-FAB expects MEMS technologies to continue to play an increasing role in its customers' requirements due to growth in the variety of applications for MEMS products and technologies, such as medical diagnostics, silicon microphone devices, chemical and physical sensors, and other applications.

X-FAB has also been at the forefront of innovation for SiC technology, which enables devices to operate at much higher frequencies and temperatures than conventional semiconductor materials such as silicon. The Group began investing in 150-mm SiC capabilities in 2014 when it established the world's first 150-mm SiC foundry offering (compared to then-existing 100-mm sources). The Group has invested approximately \$12 million since that time, and anticipates further investment at similar levels in the medium term. By developing its 150-mm SiC foundry line alongside its high volume silicon fab in Lubbock, Texas, X-FAB has utilized its production experience in silicon wafer manufacturing processes when developing its SiC capabilities. As a result, X-FAB has become a leading foundry supplier for 150-mm wafers utilizing SiC technologies. In 2014, X-FAB joined the PowerAmerica consortium, a public-private partnership between universities in the United States and a number of companies in the semiconductor and related industries focused on the advancement of semiconductor components made with SiC and gallium nitride. The Group aims to continue to be a leader in this field. The increasing use of SiC technologies in hybrid and electric vehicles is expected to support growing demand for X-FAB's SiC capabilities in the future, and will continue to play a role in the Group's offering to this key market.

- Experienced management team.** X-FAB has an experienced management team, with extensive experience in the analog/mixed-signal IC market. The Group's Executive Management Team is led by Chief Executive Officer Rudi De Winter who joined X-FAB in 2011. Mr. De Winter previously served as the Chief Executive Officer of Melexis for 15 years. The Group's Chief Financial Officer, Chris Förster, joined X-FAB in 2001 and has had previous roles as financial controller and finance manager at Sachsenring Automobiltechnik AG and Ibykus AG. Chief Operating Officer, Dr. Manfred Riemer, joined a predecessor company to X-FAB in 1984, with previous experience at Thesys Gesellschaft für

Mikroelektronik mbH and ERMIC mbH. Chief Technical Officer, Dr. Jens Kosch, has served in the role at X-FAB since 2001, with previous experience at Thesys Gesellschaft für Mikroelektronik mbH and Mikroelektronik und Technologie-Gesellschaft mbH. X-FAB believes it will continue to benefit from the depth and breadth of experience of its Executive Management team as it pursues its growth strategy.

## Strategies

X-FAB aims to be the specialty foundry of choice for the analog/mixed-signal world by focusing on specialized solutions and manufacturing excellence, which meet and exceed customer expectations. X-FAB's principal focus will continue to be on the manufacture of semiconductor devices for fabless companies, as well as for IDMs that are reducing their reliance on their own fab operations.

To achieve its goals, X-FAB intends to pursue the following strategies:

- ***Strengthen its position in the analog/mixed-signal market by focusing on specialty technologies for automotive, industrial and medical applications.*** X-FAB intends to remain a market leader in providing advanced process development, design and technical support for specialized analog/mixed-signal applications, enabling customers to stay at the forefront of their own markets, with a particular focus on the strategic key end-user markets for automobile components, industrial devices and medical devices. These end-user markets have been among the most significant for X-FAB in recent years, and the Group plans to continue to specifically target them going forward since it anticipates they will experience the fastest growth in the near to medium term. The Group expects its revenues in these markets to continue to grow strongly, supported by predicted industry-wide CAGRs in global analog sales of approximately 9.8 per cent. in automotive devices (2016-2021), and in global semiconductor sales of approximately 8.2 per cent. in industrial devices (2015-2020), and 12.3 per cent. in medical devices (2014-2018). In line with this expected market growth, the Group plans to invest in capacity expansion and further research and development, and to expand its portfolio of proprietary technologies and corresponding design support. For a description of targeted capital expenditure, see “*Operating and Financial Review — Current Trading and Prospects.*”

Strategic initiatives in the Group's strategic end-user markets include (i) retaining a leading position in the automotive device market, including through further advances in MEMS and SiC capabilities; (ii) exploiting potential for sensors, actuators and sensor conditioning in the industrial device market, through MEMS and CMOS capabilities (including integration into smart sensors); and (iii) taking advantage of the growing market for lab-on-chip applications in the medical device market with MEMS and CMOS capabilities, including disposable chips for blood, DNA and similar analyses, and utilizing high-reliability expertise in the automotive industry for sensitive medical devices (such as pacemakers). The Group will also continue to monitor markets where clear differentiation and value-add is possible, including certain mobile communication devices and internet of things applications.

- ***Continue to grow MEMS capabilities.*** X-FAB's track record in MEMS ICs spans over 20 years. With MEMS capabilities in two of its fabs, the Group's specialized MEMS service integrates advanced MEMS devices with X-FAB's CMOS technologies. The Group views the growth of its MEMS business as a priority because MEMS capabilities are helping to mitigate competitive pressures in CMOS through manufacture of products such as MEMS-based sensors, actuators and packaging solutions. X-FAB aims to become one of the top three MEMS foundries in terms of global sales by investing in innovative technical MEMS-based solutions and continuing to integrate MEMS with CMOS in line with increasing demand, including targeted investment in MEMS capabilities of up to \$32 million over the next three years. X-FAB anticipates these planned improvements in the Group's MEMS capabilities, supported by anticipated increases in demand and average selling prices for MEMS devices, will result in installed MEMS capacity of up to \$100 million annually (from capacity of \$20-\$40 million in recent years). The

Group will continue to focus its MEMS production capabilities on serving the strategic high-growth automotive, industrial and medical device end-user markets, which differentiate X-FAB from a market mostly populated by smaller MEMS foundries offering development and pilot production services for discrete MEMS-enabled applications.

- **Grow SiC business to become the leading foundry for SiC.** According to the Yole Report, the SiC market accounted for \$200 million in revenues in 2015 and is expected to increase to \$600 million by 2021. X-FAB believes that SiC devices are in the preliminary stages of replacing silicon devices in medium and high voltage powered systems. Understanding the need to be at the forefront of this technology, X-FAB began investing in 150-mm SiC devices in 2014 and established the world's first 150-mm SiC foundry offering shortly thereafter. Since 2014, X-FAB has invested over \$12 million in capital expenditures at its Lubbock, Texas fab related to SiC capabilities (gross of any grant funding for these purposes). The commercialization of SiC technologies is still at an early stage, and X-FAB aims to leverage the economies of scale, automotive quality system and equipment set that it has already established in its silicon wafer fabrication line to support its existing SiC platform and knowhow and extend its position in this growing market. X-FAB's intention to become the world's leading SiC foundry aligns with its strategy to focus on specialty technologies for automotive and industrial end-user markets, as the principal end-user markets for SiC technologies include automotive (motor drives for hybrid and electric vehicles) and industrial uses. X-FAB intends to further develop its SiC capabilities and commence full-volume production in 2017.
- **Optimize utilization of existing fab capacity and capabilities to exploit further margin growth potential.** X-FAB plans to continue optimizing its production capacity in order to improve its utilization rates. Utilization is an important factor in driving the Group's profitability, since operating a fab incurs significant expenditure irrespective of the number of wafers actually produced, and manufacturing processes need to be optimized in line with customer demand to ensure utilization remains high on a constant basis without bottlenecks or other interruptions. Over the past five years, the Group's utilization has increased from 47 per cent. in 2012 to 79 per cent. in 2016. In the three months ended December 31, 2016, utilization reached 80 per cent., and the Group intends to improve upon this trend going forward. In order to do so, and to continue to meet the expected growth in demand from existing and prospective customers in its key end-user markets, as well as demand growth from fabless companies and expected increases in IDM outsourcing, the Group intends to continue refining its demand forecasting capabilities and invest in machinery to remove potential bottlenecks from the production process, in particular at its Dresden and Kuching sites, with an aim of improving overall capacity, utilization and resulting output. For example, the Group experienced particularly high utilization of its 200-mm capabilities in 2016, at 98 per cent., so it will continue to explore ways to increase capacity in its 200-mm production lines. Given expected structural growth in X-FAB's strategic end-user markets, and a continued trend toward outsourcing of IC manufacturing from fabless companies and IDMs, X-FAB's ability to manage its capacity and utilization effectively will play a significant role in the Group's targeted future growth.
- **Integrate the Altis Assets and expand the Group's capabilities.** Since consummating the acquisition of the Altis Assets in October 2016, X-FAB has been undertaking an integration process at the acquired fab in Corbeil-Essonnes, France. This process includes a series of technology introductions, review of cross-sale opportunities of existing X-FAB technologies from the fab (and vice versa), capacity enhancements, adoption of the Group-wide ERP, and implementation of certain cost-efficiency measures. The acquisition of the fab fits with the Group's growth strategy, providing the Group the opportunity to expand its offerings in key technologies and end-user markets, continue to develop its process technologies (with a focus on the Group's capacity for 0.35 $\mu$ m, 0.18 $\mu$ m and 0.13 $\mu$ m feature sizes and 200-mm wafers) and utilize the complementary capabilities and facilities already in place at the Corbeil-Essonnes fab. In particular, the Group aims to utilize the fab for increased capacity, including unassigned

cleanroom space that can be made available to reduce existing bottlenecks and further develop X-FAB's automotive end-user market offering, as part of a targeted shift of the fab's production from its current high level of production for communications customers. The additional capacity acquired as a result of the Altis Acquisition will allow X-FAB to shift to its Corbeil-Essonnes fab a portion of manufacturing that is currently outsourced.

- ***Continuously identify and assess attractive acquisition opportunities to grow capacity, capability and customer base.*** In order to increase its production capacities and technical capabilities and strengthen its market position, X-FAB intends to continue to seek opportunities to acquire other foundries or production facilities of IDMs that wish to reduce or divest their manufacturing operations. The Group has a strong track record of growing acquired fabs, including X-FAB Sarawak following the merger with 1<sup>st</sup> Silicon (Malaysia) in 2006, which has grown from approximately 25 customers and approximately \$5 million in prototyping revenue (based on X-FAB technologies) in 2006 to over 170 customers and over \$190 million in annual sales in 2016. Additionally, X-FAB recently commenced operations at its newly acquired fab in Corbeil-Essonnes, France. Operational and integration initiatives implemented since X-FAB commenced operations at the fab on October 1, 2016 have resulted in operating and process improvements, which X-FAB believes will contribute to improved profitability and EBITDA growth in the future. X-FAB is targeting companies or operations in Europe, the United States and Asia with a stable and committed customer base that would maintain the acquired facilities at sufficient utilization until X-FAB is able to implement its own technologies in the new fab. Although X-FAB does not have any current acquisition targets, it will continue to evaluate acquisition opportunities in the ordinary course of its operations. In particular, X-FAB will continue to monitor opportunities to acquire additional capacity where doing so provides a cost-effective way to meet increased demand, including in situations where specialty foundries, digital IC foundries or IDMs seek to divest manufacturing capacity or facilities in X-FAB's existing feature sizes.

X-FAB's pursuit of these strategies will evolve in response to market conditions that develop through time in each geographic region and across different target end-user markets. X-FAB cannot assure investors that it will be able to implement these various strategies on the schedule that it currently foresees or on conditions that are as favourable as those it currently contemplates. See "*Risk Factors.*"

## **End-User Market Segments**

X-FAB's customers sell ICs manufactured by X-FAB as parts of a wide variety of electronic systems and equipment to interface between the analog world and digital signals through sensing and actuating features. The list of products below sets forth the primary uses of ICs manufactured by X-FAB, as well as examples of customers in these end-user markets:

- ***Automotive:*** barometric pressure sensors, inertial sensors and compasses for navigation; infrared temperature sensors; seat occupancy detection mechanisms; pressure sensors for diesel particle filters; pressure sensors and energy harvesting for tire pressure sensors; microphones for voice-control and hands-free phones; gyros and accelerometers for electronic stability control/program and roll detection; infrared imager for gesture recognition; inertial sensors for crash detection; pressure sensors for brake-booster; hall position sensors for headlight levelling; pressure sensors, flow sensors and strain gauges for engine management; rain sensor; and bolometer for night-vision. X-FAB customers in this end-user market include Melexis, Microsemi and Sensata, with selected end-user brands including Mercedes-Benz, BMW, Tesla and Volkswagen.
- ***Communications:*** auto-focus actuators for mobile phone cameras; infrared temperature sensors; three dimensional optical sensors; haptic feed-back sensors and actuators; pressure sensors for navigation; compasses for navigation; electrostatic discharge protection devices; fingerprint readers; ultraviolet

sensors; MEMS microphones; ambient light sensors; radio frequency switches; low-noise amplifier antenna circuits; accelerometer and gyro for screen orientation, game-play and navigation; proximity sensors and gas sensors. X-FAB customers in this end-user market include Knowles Electronics and IDT, with selected end-user brands including Samsung and Huawei.

- **Consumer goods:** devices including optic, infrared and haptic sensors used in a variety of household products, such as electric toothbrushes, infrared headphones, DVD and Blu-ray players, consumer and home audio devices, and entertainment devices, games and toys.
- **Industrial:** opto coupler for galvanic decoupling; inductive coupler for galvanic decoupling; pressure sensors for hydraulic control; strain gauge sensors for force and torque measurement; microphones for voice-control; gyro and accelerometer for motion and position control; optical sensors for positioning encoders; industrial bus communication; hall position sensors; stepper motor controllers; current sensors for power control; and three dimensional sensors. X-FAB customers in this end-user market include Semikron, AMS, with selected end-user brands including ABB.
- **Medical:** blood-pressure sensors; X-Ray scintillators; hearing aid devices; pressure sensors for respirators; dental X-Ray; ingestible smart pills; implantable medical devices; blood oxygen sensor and SpO<sub>2</sub>; continuous glucose monitoring; DNA analysis and genome sequencing; lab-on-chip, including chemical analysis, disease diagnosis, drug detection and cell analysis; and ultrasonic transducers and receivers. X-FAB customers in this end-user market include Hitachi and Thermo Fischer.

## Customers

X-FAB has a diverse and growing customer base. During 2016, X-FAB served over 330 customers worldwide, with over 1,500 unique products in production and approximately 900 additional products in the prototyping stage. The Group's customers principally consist of fabless semiconductor companies and IDMs, as well as foundries that have outsourced production to X-FAB. X-FAB's customer base is relatively stable for two reasons. First, analog/mixed-signal semiconductor products are usually highly customized for a particular use by a single customer. This often requires collaboration between X-FAB and the customer in order to ensure that customers have the right analog/mixed-signal solutions for their end-user products, rather than a pure contractor or manufacturer relationship, as would be typical for more commoditized ICs. As a result, X-FAB has long-standing relationships with many of its customers and, due to its use of specialty process technologies during the fabrication process, most customers cannot easily transfer IC designs to other foundries. Second, analog/mixed-signal IC development often can take up to three years from conception to full commercial production, which further supports stability in the Group's customer base due to the significant time and cost involved in switching to a new foundry.

In addition to providing a relatively stable customer base to support revenue visibility, fabless customers typically engage X-FAB to manufacture a large number of products. For larger customers such as Melexis, X-FAB often manufactures over 100 products at any given time, which significantly decreases the likelihood that such customers would discontinue using X-FAB's services in favour of another foundry. The importance of X-FAB's IDM customer base has varied according to general market demand and IDMs' internal capacity levels. The significant majority of X-FAB's sales are through direct-to-customer relationships, rather than through third-party brokers or distributors. This ensures X-FAB is able to work closely with its customers to deliver manufacturing services and devices that meet each customer's needs.

X-FAB believes it is a competitive advantage for analog/mixed-signal IC manufacturers to be located within the same geographic region as their customers, principally due to the highly interactive design process required for analog/mixed-signal ICs. In the design process, customers' design personnel and the foundry's engineering personnel work closely together to develop and test products over a period of several months. In 2016, X-FAB's



European/Middle East customers accounted for 54 per cent. of its revenues, while North American customers accounted for 10 per cent. and customers in Asia accounted for 36 per cent. of Group revenues. X-FAB’s diversified geographical positioning also allows the Group to be flexible when optimizing capacity across its six fabs or shifting manufacturing for a particular customer to a second fab (for example, where required by the relevant customer’s internal risk mitigation requirements).

X-FAB’s most important customer is Melexis, a fabless semiconductor company controlled by Xtrion, X-FAB’s principal shareholder. Melexis accounted for 34 per cent. of X-FAB’s revenue in 2016. X-FAB’s policy is to conduct its dealings with Melexis at arm’s length, offering Melexis the same terms that it would be prepared to offer any other customer purchasing a similar volume of its products. For a description of the relationship between X-FAB and Melexis, see “*Related Party Transactions*.”

The following table shows the percentage of revenue generated by X-FAB with its top three and top five customers for the financial years ended December 31, 2016, 2015 and 2014.

| <b>Principal Customers (as percentage of revenue)</b> | <b>Years ended December 31</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2016</b>                    | <b>2015</b> | <b>2014</b> |
|   | <i>(per cent.)</i>             |             |             |
| Top 3 customers .....                                 | 60                             | 53          | 54          |
| Top 5 customers .....                                 | 68                             | 61          | 60          |

Although these significant customers comprise a substantial portion of X-FAB’s revenue, the Group has a diversified customer base. In 2016, 40 of X-FAB’s customers contributed more than \$1.0 million each to the Group’s revenues, as compared to 123 customers between \$100,000 and \$1.0 million, and 170 customers under \$100,000.

### **Design Support and Manufacturing**

X-FAB provides design support and wafer fabrication services to fabless IC companies and IDMs. As a pure-play foundry, X-FAB manufactures a variety of semiconductors with different specific functions, specializing in analog/mixed-signal applications.

The Group manufactures semiconductors, typically on silicon wafers, based on IC designs that are typically developed through a collaborative process between each customer and X-FAB using the Group’s proprietary process design resources. This comprises design support and prototyping (or non-recurring engineering (“NRE”)) services for customers designing ICs on X-FAB’s existing process technologies, as well as full-scale volume-production of wafers (also called process control monitor (“PCM”) wafers). This central focus on effective design across the Group’s fabrication services is founded on enabling a “first-time right” solution for customers with complex semiconductor requirements. In particular, combining analog and digital components on a single, mixed-signal semiconductor enables the development of smaller, more highly integrated, power-efficient, feature-rich and cost-effective semiconductor devices. However, it also presents significant design and manufacturing challenges caused by the heterogeneous nature of the IC. Electromagnetic interferences or undesired coupling effects between different functional entities of the IC may decrease the overall performance of the semiconductor or permanently damage the device. As a result, the design and manufacture of analog/mixed-signal ICs requires sophisticated design expertise and advanced process technology capabilities.

The end product of the fabrication process is a silicon wafer containing multiple identical ICs, which are provided to the customer for dicing, assembly, packaging and testing.

## Types of ICs and associated technologies

ICs can be differentiated by their constituent materials and components, as well as the feature size (or minimum width of a single line in the circuit). Each of these factors has an effect on the performance of the device, and variations in design patterns are used to add specialty features and enhanced functionality to the IC. Different types of ICs are manufactured by changing the number and the combinations of layers used to create them and by defining different patterns in which the layers are applied on the wafer.

X-FAB manufactures ICs offering a range of specialty analog/mixed-signal features, which are primarily based on the Group’s modular CMOS, or complementary metal oxide semiconductor, process technologies. CMOS devices utilize a process technology that uses complementary metal oxide transistors to make a chip that will consume relatively low power and permit a high level of integration. As a result, CMOS process technologies have become prevalent in the semiconductor manufacturing industry. CMOS ICs can be separated into digital ICs (including logic and memory devices) on the one hand, which are used in products including computers, computer peripherals, computer memory and Flash devices for solid-state drives, and analog ICs (including mixed-signal ICs) on the other hand. Analog/mixed-signal ICs are used in devices requiring integration of analog elements and functions, combined with low levels of power dissipation, on a single chip, such as for power management units, signal converters or sensors and applications in automotive, industrial, medical and communications products.

Depending on the end-user device and the particular analog/mixed-signal functionality required, X-FAB can manufacture ICs at feature sizes from 0.13µm to 1.0µm. During the design process, based on X-FAB’s modular CMOS process technology, customers can select various options from the Group’s manufacturing process capabilities, depending on the particular supplemental requirements of the end-user product. The following table shows X-FAB’s principal processes, by feature size and type of supplemental technology capability:

| Technology node | 1.0 µm   | 0.8 µm                                       | 0.6 µm   | 0.35 µm   | 0.25 µm                  | 0.18 µm  | 0.13 µm   |
|-----------------|--|--|--|---|--------------------------|--|---|
|                 | Digital, Analog M/S, High Voltage, NVM, Opto, SOI, High Temp, MEMS | Digital, Analog M/S, High Voltage, NVM, Opto | Digital, Analog M/S, High Voltage, NVM, RF, Opto, SOI, High Temp, MEMS | Digital, Analog M/S, High Voltage, NVM, RF, Opto, High Temp, MEMS | Digital, Analog M/S, NVM | Digital, Analog M/S, High Voltage, NVM, RF, Opto, SOI, High Temp | Digital, Analog M/S, High Voltage, NVM, RF, SOI |

These capabilities include the following features and options:

- *Digital circuit design (“Digital”)*: Digital semiconductors process discrete, binary (“on-off” or “1-0”) electrical signals that are used to represent numeric values for computational or data-processing

functions, such as data used by computers. Digital semiconductor development is typically supported by electronic design automation (“EDA”) methodologies, which need to be aligned with the particular manufacturer’s process technologies. Key process technology characteristics include the number of transistors per area, transistor switching speed and the amount of electrical power loss.

- *Analog mixed-signal circuit design (“Analog M/S”)*: Analog semiconductors condition and regulate continuous signals representing “real world” functions such as temperature, light and electrical current, while mixed-signal devices incorporate both analog and digital functions into a single circuit. Technical customer support is critical, since there are high levels of customization (and low automation) in the design of analog/mixed-signal devices. Process technologies for analog designs distinguish themselves by the availability of circuit elements like resistors and capacitors and well-controlled parameters and behaviors like temperature drift and voltage dependency.
- *High voltage (“HV”)*: standard ICs are typically supplied with maximum voltage capabilities ranging from 1V to 5V, and as a result can be destroyed by voltages significantly exceeding these levels. However, a wide field of applications require much higher voltage, such as ICs used in automobile components, which have to protect the remaining electronics from voltage peaks, or ICs used in pacemakers, which need to survive the high electrical pulses from a defibrillator.
- *Embedded non-volatile memories (“NVM”)*: the integration of digital functionality and embedded NVMs on a single chip allows smaller and more power-efficient semiconductor products, since NVMs do not require a power supply or battery to store data on an IC. Embedded NVM technology is used in applications such as microcontrollers for automotive, industrial and smart sensor applications.
- *Radio frequency (“RF”)*: devices operating at radio frequencies up to the GHz range require specialized capabilities, such as low noise transistors and inductors. The primary target applications for RF functionality include mobile phones and telecommunication infrastructure.
- *Optical sensors (“Opto”)*: optical sensors leverage the optical properties of silicon, which convert light into electricity (such as with a solar cell). These optical properties can be adjusted by the deposition of special materials filtering the light onto the silicon. Optical sensors are used in mobile phones to measure the ambient light and adjust the brightness of the display, or in medical equipment such as X-ray detectors.
- *High temperature (“High Temp”)*: semiconductor products used in automotive applications are typically designed to be capable of operating in temperature ranging from -40°C to 125°C. High temperature functionality allows ICs to operate up to 175°C, which may be necessary for components located near heat sources, such as an internal combustion engine, or in locations without sufficient cooling or airflow.

Additionally, X-FAB provides advanced process technologies that can further enhance X-FAB’s CMOS process technologies and features based on each customer’s specific IC requirements:

- ***MEMS Technologies***: MEMS, or Micro-Electro-Mechanical Systems, technologies are used to sense, control or actuate physical parameters or quantities, and can be combined with ICs to provide functionalities related to the signaling or control of the relevant MEMS, such as signal conditioning amplification, analog-to-digital conversion, digital-to-analog conversion, and data processing and transmission. These capabilities are used in a variety of speciality applications, such as for pressure sensors, motion sensors, microphones and temperature sensors, for end-user products including mobile phones, tablet PCs and laptops, digital still and recording cameras, headphones and hands-free headsets, navigation systems, and home appliances, as well as automobile engine management, emissions and safety sensors, night-vision and security devices, and medical applications, including drug delivery, chemical analysis, blood pressure and body-temperature monitoring.

Although most MEMS require CMOS ICs to operate in an end-user product, the integration of MEMS and CMOS circuits is often highly complex. The manufacturing of MEMS devices may require the use of materials or production steps that are not used for, and often cannot be combined with the manufacturing environment of, CMOS ICs. These extraneous materials pose the risk to contaminate the entire production line or, as a result of these extraordinary processing steps, negatively influence the performance of the CMOS circuit. X-FAB was one of the first foundries to offer a specialized batch fabrication process for MEMS IC devices and has more than 20 years of experience manufacturing MEMS devices. The Group offers MEMS services from its dedicated fab in Itzehoe and a special cleanroom at its Erfurt fab, with various methods to integrate MEMS with CMOS circuits for feature sizes from 1.0 $\mu\text{m}$  down to 0.35 $\mu\text{m}$ .

- **Wafer Level Packaging (“WLP”):** WLP is a technology that allows the packaging of ICs or MEMS while still part of the wafer, rather than packaging after the wafer has been cut into individual circuits (dice). Through this packaging process, MEMS and CMOS layers are stacked on to each other, creating three-dimensional integrated circuits or heterogeneous systems. Since the resulting WLP device is practically the same size as a conventionally cut die, WLP technologies can create products that behave as a single device, allowing them to achieve performance improvements at reduced power levels and a smaller footprint than standard two-dimensional processes. Additionally, WLP technologies streamline manufacturing, since a number of manufacturing steps (including wafer fabrication, packaging, test, and burn-in) are completed at the wafer level before dicing. X-FAB utilizes WLP technologies in absolute pressure sensors, optical window for photo sensors, and protective covers for bio sensors.
- **SOI CMOS Process Technologies:** X-FAB utilizes SOI, or silicon-on-insulator, technologies in the manufacturing of certain CMOS ICs that require high voltage capabilities or high switching frequencies. Since SOI technologies can accommodate higher temperatures, voltages and processing speeds, require lower energy use, and allow for smaller chip areas than conventional CMOS technologies, SOI ICs are widely used in mobile devices, automobile components, and industrial applications. ICs manufactured using SOI technologies use an active layer of silicon for the base, which is placed on top of an insulator layer on a silicon handle wafer. The integrated circuit is manufactured in the active silicon layer only, while the insulating material significantly reduces electronic interferences between the various components of the semiconductor, which can lead to overheating and limit processing speeds. Depending on the physical properties of the silicon layer and the insulating material, an SOI process technology can be optimized to handle signals over a range of high frequencies, for data transmission in a cellular network, or enable ICs with high voltage capabilities. X-FAB produces SOI semiconductors in feature sizes of 1.0 $\mu\text{m}$ , 0.6 $\mu\text{m}$ , 0.18 $\mu\text{m}$  and 0.13 $\mu\text{m}$ .

While the significant majority of the analog/mixed-signal ICs manufactured by X-FAB use silicon as the primary semiconductor material, X-FAB believes that devices utilizing Silicon Carbide (or SiC) are in the preliminary stages of replacing silicon devices in medium and high voltage powered systems, due to its ability to operate at much higher frequencies and temperatures than conventional semiconductor materials. X-FAB has partnered with SiC device companies and OEMs to establish a unique and fully integrated SiC offering. The commercialization of SiC technologies is still at an early stage, and X-FAB aims to leverage the economies of scale, automotive quality system and equipment set that it has already established in its silicon wafer fabrication line to become a foundry leader in SiC devices. The Group is undertaking prototyping activities at its Lubbock, Texas fab for more than 10 customers. Following the recent completion of the installation of a high temperature implanter late in 2016, X-FAB completed the tool set required to commence full-volume production using SiC. End-user market segments for SiC technologies include automotive (motor drives for hybrid and electric vehicles) and industrial uses.

X-FAB is able to produce ICs with a minimum feature size of 0.13 $\mu$ m. Although smaller feature sizes have been developed, and tend to perform well in terms of speed, they often involve disadvantages for analog ICs. For digital applications, the increased noise level of smaller ICs has a negligible effect. However, for analog/mixed-signal applications, the increased noise level constitutes an important performance variable.

### **The Design and Fabrication Process**

X-FAB's design and fabrication process consists of the following basic stages:

- **IC Design.** IC design is the development process of an IC using sophisticated design software and a range of building blocks, libraries and simulation tools. Although X-FAB does not engage in proprietary IC design, it has an established design support program that is founded on the primary objective of enabling a "first-time right" solution for customers. Through this program, X-FAB offers design support for all major EDA (electronic design automation) software platforms, and supplies models, process design kits and analog and digital libraries, as well as a hotline service and design-for-manufacturing support. X-FAB believes that the breadth of its design kits and manufacturing process libraries differentiate it from its competitors.

An IC design includes the specific layout of a device's components (comprising each layer of the IC) and designates the interconnections between each circuit component. Each IC design is dependent on the process technologies that will be used for fabrication of the particular device. As a result, the design process is typically a collaborative one between customers and X-FAB. The result of the design process is a pattern of components and connections that defines the function of the IC, which is then verified to ensure compatibility with the design rules of the relevant foundry (process technology) and then converted into a format for production of a photo mask, the next stage of the process.

- **Photomask.** Lithographic photomasks are created based on the specific IC design, by duplicating each layer of the IC's pattern using an electron beam generator. This creates a photographic negative, known as the mask. Once the set of photomasks has been produced, providing a blueprint for each pattern layer in the integrated circuit, it is fed into a photolithography stepper or scanner, and each layer is individually exposed. The pattern is projected and shrunk by four or five times onto the wafer surface, and this process is repeated across the entire wafer.

X-FAB offers its customers data preparation services for photomasking, based on the specific IC design. Like many of its peers, photomasking for ICs manufactured by X-FAB is carried out by a specialist company.

- **Manufacturing.** X-FAB's core competence in the semiconductor production process is the fabrication of ICs, from first prototype to mass production, which it carries out at its six fabs in Europe, Asia and North America. Each IC is produced using a variety of transistors and other circuit elements, which are formed by repeating a series of processes in which silicon wafers are oxidized, and then exposed to various materials to change the connectivity characteristics of the silicon. The wafer is then exposed to light, through the photomask, in order to define the characteristics of the IC design, such as conductors, insulators and transistors or other devices. Next, an etching process removes the materials from the exposed area, which defines conductive lines on the wafer that are used to connect the transistors and other devices, according to the IC design.

Across its fabs, X-FAB has a production capacity of approximately 94,000 WSPM, as well as two fabs that offer MEMS production services, to meet customer IC requirements. To the extent that customer requirements exceed available capacity at the Group's fabs, X-FAB may subcontract manufacturing of an order, or a portion of a customer's order, to a third party. The Group has more than 1,500 unique products in production, and a further 900 products in prototyping stages. For further detail on X-FAB's manufacturing facilities, see "*— Manufacturing Facilities*" below.

- **Probe.** After finishing the manufacturing process, the processed wafers are probed and tested in order to ensure compliance with the design and process specification. This process, which is also called wafer sort, involves electronically inspecting each individual IC in order to identify those that are operable for assembly. Wafer sort is carried out by the customer, or by X-FAB (directly or through a sub-contractor) on request.

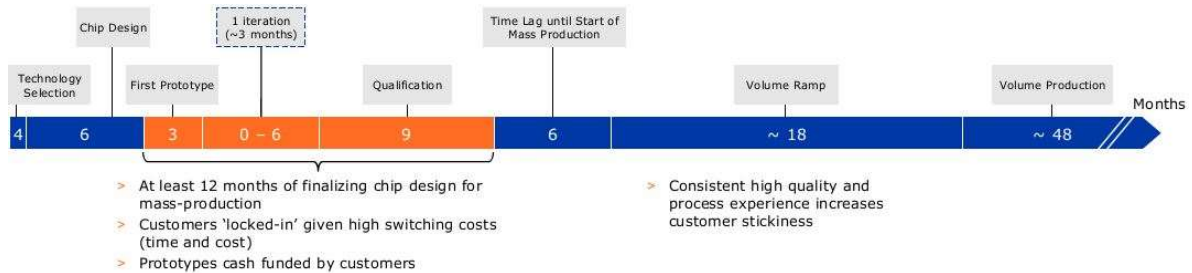
Throughout the manufacturing process, X-FAB undertakes to ensure high levels of quality control, utilising advanced qualification and monitoring procedures based on the Group’s process control and quality management system. These procedures utilize strict monitoring, in accordance with a range of international standards, including the JEDEC Foundry Process Qualification Guidelines and International Organization for Standardization certifications, as well as wafer-level reliability testing in real time at various stages of development and production. For additional details on X-FAB’s quality management processes, see “— *Quality Management*” below.

- **Dicing and Assembly.** After the probe process, the customer (or X-FAB, through a sub-contractor, if the customer so wishes) cuts the wafer into individual ICs, called “die.” The customer uses good die to connect to a conductive lead frame through chip and wire bonding. The customer then encapsulates the bonded die into a plastic or ceramic package.

X-FAB does not directly undertake cutting processes, and instead typically provides ICs to customers as un-cut silicon wafers. However, in the event that a customer prefers to receive die, rather than un-cut wafers, the Group offers cutting services through certain sub-contractors.

- **Test.** Finally, the customer tests whether the packaged IC properly functions using specialized testing equipment.

The length of time from a customer’s initial technology selection to full-scale production can vary significantly depending on a range of factors, including the scope and complexity of the design process and the number of prototypes that are needed before progressing to broader production. The following is an indicative timetable of the stages of a typical IC life-cycle for a customer in the automotive end-user market:



Since an IC can be used by a customer in multiple generations of an end-user product, devices produced by X-FAB typically have long product life-cycles. In particular, in the Group’s experience, even end-user products like smart phones that typically have relatively short product life-cycles (as short as one year) may use specialty sensors or other semiconductor devices through multiple generations of the product.

### Support Services

X-FAB’s business model is founded on a comprehensive customer service program across all of its activities. X-FAB offers the following customer support services:

- **Design Support.** When a customer has decided to commence product development with X-FAB’s technologies, X-FAB continues to provide comprehensive technical customer support including the following:
  - precise and comprehensive characterization of process parameters and circuitry components;
  - digital and analog design cell libraries and own design IP, for example non-volatile embedded memory blocks for X-FAB standard technologies;
  - complete design kits for the most common EDA software; and
  - design consultancy and engineering services.
- **Engineering Support.** Following the design phase, X-FAB seeks to offer cost-effective and fast solutions for prototyping services. These services help to shorten the customers’ development loops in the product development sequence or make them more cost-effective.
- **Customer Service.** X-FAB provides comprehensive customer service to its customers, and customer service personnel act as the principal point of contact for X-FAB’s customer at any particular fab. The customer service team at each fab coordinates logistic control of customer orders, solutions to customers’ operational problems and timely delivery of products.
- **Online Support.** Through its website and related hotline service, X-FAB provides its customers comprehensive information, including detailed technical data and updates on the status of ongoing projects.

X-FAB’s support service offering includes dedicated support personnel and specialists, with more than 60 engineers, many of whom have advanced degrees, supporting this function. The Group believes that this dedication to design and engineering support is fundamental to developing and maintaining strong customer relationships. Based on customer Net Promoter Score feedback, X-FAB rates higher than 8/10 on “design/technical support” and “technology suitability,” with the Group’s overall rating above industry benchmarks.

### Manufacturing facilities

X-FAB operates in six different locations: Erfurt, Germany; Dresden, Germany; Itzehoe, Germany; Corbeil-Essonnes, France; Kuching, Sarawak, Malaysia; and Lubbock, Texas, United States. For the manufacturing process, X-FAB uses a dust-free environment, or “cleanroom,” ventilated by filtered air circulated at a high rate of volume change. The following table sets forth the key data for each location as at December 31, 2016:

|                                    | <b>Erfurt,<br/>Germany</b> | <b>Dresden,<br/>Germany</b> | <b>Itzehoe,<br/>Germany</b> | <b>Corbeil-<br/>Essonnes,<br/>France</b> | <b>Kuching,<br/>Sarawak,<br/>Malaysia</b> | <b>Lubbock,<br/>Texas,<br/>USA</b> |
|------------------------------------|----------------------------|-----------------------------|-----------------------------|--|---|------------------------------------|
| Wafer Sizes Produced (mm).....     | 150, 200                   | 200                         | 200                         | 200                                      | 200                                       | 150                                |
| Capacity (200-mm equiv. WSPM)..... | 12,000 <sup>(1)</sup>      | 8,000                       | — <sup>(1)</sup>            | 35,000                                   | 24,000                                    | 15,000                             |
| Processes .....                    | CMOS<br>SOI<br>MEMS        | CMOS                        | MEMS                        | CMOS<br>SOI                              | CMOS<br>SOI                               | CMOS<br>SiC                        |
|                                    | 1.0                        |                             |                             |  | 0.35                                      | 1.0                                |
|                                    | 0.8                        | 0.6                         |                             | 0.18                                     | 0.25                                      | 0.8                                |
| Minimum Feature Size (µm).....     | 0.6                        | 0.35                        | —                           | 0.13                                     | 0.18                                      | 0.6                                |

|                                  | <u>Erfurt,<br/>Germany</u> | <u>Dresden,<br/>Germany</u> | <u>Itzehoe,<br/>Germany</u> | <u>Corbeil-<br/>Essonnes,<br/>France</u> | <u>Kuching,<br/>Sarawak,<br/>Malaysia</u> | <u>Lubbock,<br/>Texas,<br/>USA</u> |
|----------------------------------|----------------------------|-----------------------------|-----------------------------|--|---|------------------------------------|
|                                  |                            |                             |                             |  | 0.13                                      |                                    |
| Fab Size (m <sup>2</sup> ) ..... | 6,600                      | 3,400                       | 1,400                       | 15,000 <sup>(2)</sup>                    | 12,050                                    | 7,420                              |

Notes:

- (1) X-FAB does not specify capacity figures for MEMS device production due to the wide variety and complexity of process technologies used depending on the particular MEMS design.
- (2) Additionally, 9,000m<sup>2</sup> is not currently used and available for expansion.

## Materials

Semiconductor manufacture requires uniformly sized wafers of purified silicon or other semiconductor materials and a variety of raw materials including metals, chemicals and gases. X-FAB uses these raw materials to produce circuitry, transistors and other components of an IC on the silicon wafer. Most of these raw materials are readily available from a variety of sources but, due to the high quality standards required for semiconductor manufacture, X-FAB restricts purchases of raw and other component materials to a small number of highly-qualified suppliers with whom it has established relationships. As a strategic policy, the Group aims to identify (and successfully complete qualification procedures for) at least two or three suppliers for each raw material that it uses in the course of its normal operations, when possible, for each fab. X-FAB typically purchases these materials either pursuant to one-year supply contracts with flexible volume and pricing conditions or on a spot basis. X-FAB normally maintains an inventory of each of the raw materials necessary for normal production requirements for a period twice as long as the normal delivery time of its principal suppliers for that material.

The most important raw material used in X-FAB's fabrication operations is the silicon wafer, which is the basic raw material from which ICs are made. In total, the Group sources wafers from approximately 25 suppliers, and typically sources wafers from two or three suppliers for each type of wafer used in its manufacturing processes. The Group forecasts its raw wafer needs on a periodic basis, based on anticipated customer demand, following which it seeks pricing terms from qualified wafer suppliers and allocates its projected wafer demand across multiple suppliers based on price and quality experience.



For 2016, material costs across the Group were \$159.1 million, or 39.0 per cent. of total costs of sales. The following table shows further detail on X-FAB's raw material suppliers during 2016:

| Material                | Number of Sources    | Percentage of 2016 Revenue |
|-------------------------|----------------------|----------------------------|
| Silicon wafers.....     | c. 25 <sup>(1)</sup> | 10.5%                      |
| Process chemicals ..... | c. 45 <sup>(2)</sup> | 3.9%                       |
| Process gases.....      | c. 15 <sup>(3)</sup> | 1.6%                       |
| Photo masks .....       | 7 <sup>(4)</sup>     | 1.4%                       |
| Metal targets.....      | 6 <sup>(5)</sup>     | 0.3%                       |

Notes:

- (1) 2-3 sources per material. Selected suppliers include Sumco, Siltronic, MEMC, Shin-Etsu and SunEdison.
- (2) 2-3 sources per material. Certain process chemicals are only produced by one supplier globally. Selected suppliers include Dow, Honeywell, DuPont, Sumitomo and Mitsui Chemicals.
- (3) 2-3 sources per material. Selected suppliers include Air Liquide, Showa, Praxair, Linde and Leeden NOX.
- (4) Multi-sourcing for various mask types. Selected suppliers include Taiwan Mask Corp., Toppan, Photronics, Portal and Hoya Photomask.
- (5) 2-3 sources per material. Selected suppliers include JX Nippon Mining & Metals, Materion, KFMI, Tosom and Sumitomo.

## Research and Development

The Group's approach to research and development ("R&D") is aligned with its business model, which relies upon developing high functionality analog/mixed-signal capabilities rather than frequent advances in feature size and processing power. R&D projects are typically undertaken to develop open platform technology that X-FAB can exploit across multiple IC designs for different customers.

X-FAB's R&D activities focus on development of new fabrication processes, optimization of existing fabrication processes using the Group's key process technologies, and the development of new IC features (to be used in connection with these technologies) in order to meet its customers' analog/mixed-signal needs. Since the product life-cycle for each IC design used by a particular customer can last as long as five to ten years, the Group can thereby earn revenues derived from successful R&D initiatives over an extended period of time. Additionally, a small portion of R&D work is undertaken solely for the exclusive use of a specific customer, and customer-specific process developments or transfers (using the customer's process technologies) are usually only available for use by the relevant customer. X-FAB is currently working to develop a number of dedicated customer-specific processes or process modifications, and is also transferring existing processes from customers into its own fabs.

Most of X-FAB's R&D activities are carried-out in-house. X-FAB also co-operates with other companies as well as universities and institutes, partially financially supported by government grants. Currently, X-FAB's development efforts are particularly focused on further developments for the Group's 0.18µm and 0.13µm CMOS and SOI process technologies, as well as MEMS and wide bandgap (in particular SiC) semiconductor technologies. CMOS and SOI technologies developed and offered by X-FAB often include performance optimized analog primitive devices such as low noise transistors, special features like high voltage transistors (up to 700 volt), integrated sensors such as optical sensors, and non-volatile memories (which are often

customizable for each specific application and an essential element of smart systems). Most of the CMOS and SOI technologies are qualified for automotive applications and support high temperatures up to 175°C.

The Group's business model requires high levels of integration between X-FAB and each customer's product design team, so the Group's R&D capabilities also include customer support for the IC design process, based on its open platform technologies. These resources are targeted at helping to enable customers to design ICs based on X-FAB's processes effectively. In particular, through the Group's R&D function, X-FAB develops and maintains a range of analog and digital macro cell libraries, design blocks (such as embedded non-volatile memories) and complete process design kits based on commonly used computer-aided engineering tools and compatible with leading EDA platforms such as Cadence and Synopsys. A dedicated team within X-FAB's R&D department is focused on working with the Group's customers to effectively utilize these design tools and support new IC development. These comprehensive support elements enable customers' design teams to have easy access to X-FAB's process technologies for product development, and ultimately support a faster process from design to prototyping and full production.

As at December 31, 2016, X-FAB had a total of 280 R&D personnel, based at each of the Group's fabs in Germany, France, Malaysia and the United States, as well as facilities in Russia and the United Kingdom. The Group has experienced low turnover in R&D employees, and believes it has a well-qualified R&D workforce. As a part of its annual budgeting process, X-FAB targets R&D expenditure of approximately seven per cent. of annual revenues each year. However, since the Group does not scale R&D spending higher or lower based on variation as against projected revenues or fluctuations in revenues during the course of a given year, the specific level of expenditure as a percentage of revenue varies from year to year. As a percentage of revenue, R&D expenses were 5.2 per cent. in 2016 (6.4 per cent. in 2016 excluding outsourced revenue), 6.4 per cent. in 2015 and 6.3 per cent. in 2014.

## **Intellectual Property**

X-FAB relies on its experience and expertise across the semiconductor manufacturing process. Since most of the product specifications for the ICs manufactured by X-FAB are designed by the Group's customers, X-FAB's intellectual property protection efforts focus primarily on patent protection for the manufacturing processes and analysis and measurement methods employed by the Group, as well as its design support resources. As at December 31, 2016, X-FAB had more than 250 granted patents in more than 190 active patent families (each family containing at least one granted patent), and more than 50 patent applications filed but awaiting evaluation and approval. X-FAB continues to actively assess its manufacturing processes across the full range of its operations, and it will continue to seek patent protection for newly developed intellectual property as appropriate.

Additionally, X-FAB believes that the Group's intellectual property, in particular for its manufacturing processes, is further protected by a variety of commercial considerations, in addition to contractual protections and non-disclosure provisions in its customer agreements. Generally, customers that use X-FAB's specialty process technologies cannot easily transfer designs to another foundry because the analog/mixed-signal characteristics of the design are dependent upon the specific process technology used for manufacturing. The majority of X-FAB's intellectual property is developed in-house, using a modular approach to platform technologies that can then be offered through the Group's process design kits and utilized across a broad range of customer products. Further, the specialty process design infrastructure is complex and includes design kits and device models that are specific to the foundry in which the process is implemented and to the process technology itself. X-FAB has custom-developed a portion of the manufacturing processes that are needed in order to produce a particular IC over time alongside the relevant customer through joint-development relationships.

Since the design development for an IC is a lengthy process, whether developed from a customer-specific process technology, such as for ICs integrated with MEMS technologies, or based on one of the Group's platform technologies, customer relationships typically survive multiple iterations of an IC, as it is re-developed for continued use alongside advances in the relevant end-user product. Further, due to the high level of customization in the manufacturing process for most of the ICs manufactured by the Group, X-FAB believes that it would be difficult for a competitor to "reverse engineer" a finished product to ascertain its manufacturing process in a timeframe that would make doing so commercially viable. The Group also maintains a broad range of proprietary process design kits and manufacturing process libraries, in order to support customers during the design phase of developing a new IC or adapting an existing one.

In addition to the Group's proprietary intellectual property, X-FAB uses a variety of third-party processes, software and other intellectual property in the ordinary course of its operations. For example, the Group relies on licenses for certain basic manufacturing processes required for particular products that it manufactures, and it uses various types of off-the-shelf and specialized software for activities including electronic design and manufacturing. X-FAB has licenses with major electronic design software providers, including Cadence, Mentor Graphics, Synopsys, Keysight Technologies and Mun EDA. The majority of X-FAB's manufacturing activities are undertaken using semiconductor patent licenses granted by third parties. In order to acquire the relevant licenses and permissions to use required third-party intellectual property, X-FAB typically enters into a subscription or other fee agreement with the relevant owner.

X-FAB has obtained licenses for certain of its processes which may, on a stand-alone basis, be material for certain parts of its business activity. X-FAB believes, however, that it is currently not dependent on a single third-party license that would be material for its business as a whole.

## **Sales and Marketing**

X-FAB's sales and marketing strategy aims to offer customers a holistic approach by combining specialized expertise with outstanding service and first-class technical support throughout the product life-cycle, which it believes distinguishes it from other foundries. Alongside the Group's R&D department, X-FAB's marketing and sales team partners with customers for support and information, from first contact with X-FAB to order placement.

The Group's sales and marketing team consists of a mixture of engineers and personnel with traditional marketing backgrounds. As at December 31, 2016, X-FAB had a total of 33 direct sales and field application engineer personnel, with a further 17 persons in product marketing, corporate marketing, and business unit functions supporting MEMS and SiC initiatives. They are based either at one of the Group's fabs, at six additional sales offices in San Jose, California; Yokohama, Japan; Seoul, South Korea; Shanghai, China; Hsinchu, Taiwan; and Hong Kong, or cover other regions individually. The direct sales and field application team operates across the Group, and covers all existing and potential customers worldwide. Seven non-exclusive sales representatives who cover the United Kingdom, Eastern Europe, Korea, Israel, China and Japan supplement this team. X-FAB's sales activities are further supported by the following:

- six product marketing engineers, who focus on marketing efforts for CMOS and SOI technologies;
- X-FAB's Marketing Communications services, for branding and corporate identity activities;
- dedicated R&D and marketing personnel within the Group's MEMS unit, in order to support customer-specific development initiatives, including all product marketing related activities, business development activities and the development resources to grow the MEMS business across the Group's locations; and

- dedicated R&D and marketing personnel within the Group’s SiC unit, in order to combine marketing activities, business development initiatives and technical support and resources to establish the Group’s foundry services and capabilities for SiC applications with current and potential customers.

This comprehensive technical support includes direct access to engineers (through X-FAB’s hotline service engineers, which are located in various time zones according to X-FAB’s locations), technical seminars at customers’ facilities, and with supplemental webinars and tutorials available for viewing on the X-FAB website. Additionally, X-FAB’s marketing and sales department targets and develops new customer relationships, including through demonstrations to show the technical capabilities of the Group’s process technologies and available libraries and access to X-FAB’s process design kits and online technical information center “my X-FAB.” The Group’s marketing activities also include participation in several annual trade fairs.

## Quality Management

Semiconductor manufacturing requires the maintenance of extensive quality management systems. The Group prioritizes quality management as a central objective within its broader IC manufacturing and customer service activities, through a centralized policy to continually evaluate and improve its systems and processes in an ongoing effort to meet and exceed customer expectations.

In line with this policy, X-FAB has established an integrated process-oriented quality management system, which implements all of the Group’s quality, environmental and safety management procedures based on bottom-up development of its manufacturing processes. This system aims to cover all aspects of the Group’s business, including initial process development, fabrication, testing and delivery, and it comprises a series of procedures that are principally designed to ensure a consistently high level of product quality, as well as to minimize waste and lost manufacturing time, by monitoring key business activities in a proactive manner. As a result, X-FAB’s quality control is embedded at the foundation of the Group’s manufacturing processes, as well as serving as a supervision and control mechanism. Under this system, the Group undertakes stringent statistical process control monitoring of fabrication processes, materials inspections, wafer-level reliability tests, qualifications for new technology, reliability monitoring of technologies and strict change control management, utilizing an experience-based approach to variance analysis. These steps enable X-FAB to maintain proactive control of its manufacturing processes.

X-FAB’s process control and quality management system was developed and is maintained in line with a variety of international third-party standards, including the JEDEC Foundry Process Qualification Guidelines and standards published by the Automotive Electronics Council, the International Automotive Task Force and the U.S. Department of Defense. X-FAB maintains quality management certifications issued by the International Organization for Standardization, or ISO, and similar organizations. These certifications principally serve to pre-qualify X-FAB’s facilities for use by certain customers.

The following chart sets out the various ISO and other similar certifications that X-FAB maintains at its six fabs (as at December 31, 2016):

| <b>Certification Type</b> | <b>Issuing organization</b>                    | <b>Location</b> | <b>Purpose</b>   |
|---------------------------|--|-----------------|--|
| ISO 9001 .....            | International Organization for Standardization | All fabs        | Basic quality management systems requirements                    |
| ISO TS 16949.....         | International Organization for Standardization | All fabs        | Quality management system for automotive suppliers in the United |

| <b>Certification Type</b> | <b>Issuing organization</b>                    | <b>Location</b>  | <b>Purpose</b>                              |
|---------------------------|--|--|---|
|                           |  |  | States, Japan and Europe                    |
| QML 38535 .....           | Defense Logistics Agency                       | Lubbock  | For suppliers of U.S. Department of Defense |
| ISO 14001 .....           | International Organization for Standardization | Erfurt, Dresden, Kuching, Lubbock and Corbeil-Essonnes | Environmental management system             |
| ISO 50001 .....           | International Organization for Standardization | Erfurt and Dresden                                     | Energy management system                    |

Many of the Group’s manufacturing agreements include audit rights granting customers the opportunity to visit X-FAB’s facilities and review the Group’s process and control quality management system. While these audit rights often allow the customer to inspect manufacturing equipment and processes before certifying equipment for manufacture of its products, a number of them also grant customers (including both intermediate- and end-users of the Group’s ICs) audit rights throughout the term of the relevant agreement. As a result, X-FAB’s manufacturing processes and facilities are generally under continuous observation and monitoring, helping to ensure high quality is maintained across the Group’s operations. Over the last decade, the vast majority of customer audits across the Group’s fabs have rated X-FAB as an “A-Supplier,” with only two audits (of over 65 in total during the period) falling below this threshold since 2010.

## Properties

X-FAB operates fabs in six different locations: Erfurt, Germany; Dresden, Germany; Itzehoe, Germany; Corbeil-Essonnes, France; Kuching, Sarawak, Malaysia; and Lubbock, Texas, United States. For additional detail on these fabs, see “*Design Support and Manufacturing — Manufacturing facilities.*”

X-FAB owns the property and plant located at five of its principal locations. At the Itzehoe site, the Group rents cleanroom space pursuant to an agreement with Fraunhofer-Gesellschaft, who also owns the tools and machinery used by X-FAB for MEMS manufacturing activities at the site. This agreement is further described below under “— *Itzehoe agreement.*”

X-FAB has pledged certain of its properties as security for loans, see “*Operating and Financial Review — Liquidity and Capital Resources — Future cash needs and sources of cash.*” At most of its fab locations, X-FAB owns surrounding facilities or property, which it leases to other companies. These surrounding facilities are generally configured as office space that is not suitable for manufacturing activities (or for conversion to manufacturing activities). Certain of the surrounding properties could be used for future expansion of manufacturing activity, if determined to be necessary by the Group. As at December 31, 2016, the fair value of these investment properties was \$21.4 million. In 2016, the Group received \$10.2 million in rental payments and technical services provided in respect of these properties.

### *Itzehoe agreement*

On January 31, 2011, MEMS Foundry Itzehoe GmbH (now X-FAB MEMS Foundry Itzehoe, a wholly-owned subsidiary of X-FAB) and Fraunhofer-Gesellschaft zur Förderung der angewandten Forschung e.V., for its Fraunhofer Institut für Siliziumtechnologie (“ISIT”), entered into a cooperation and license agreement in

connection with MEMS R&D and manufacturing activities at the ISIT facility in Itzehoe, Germany. Under the terms of this agreement, the Group leases cleanroom and laboratory space and certain ISIT machinery, tools and equipment at the facility used in its MEMS R&D and manufacturing activities, and receives ancillary services such as process support, cooperation management services, and the use of certain IT and telecommunications equipment. In 2016, X-FAB incurred expenses (including utilities and equipment know-how licenses) of \$1.4 million under the terms of the agreement, as compared to \$1.2 million in 2015 and \$1.5 million in 2014. Further, X-FAB retains usage and IP rights for MEMS technologies developed during the course of its operations at the fab. The agreement took effect retroactively to January 1, 2010 and will expire on December 31, 2019 unless the parties agree otherwise during negotiations starting no later than December 31, 2017. X-FAB anticipates continuing operations at the fab beyond the current term. ISIT may terminate the agreement under certain limited circumstances, including (i) in the event of significant changes to, or the closing of, the 200-mm manufacturing machinery used by X-FAB, (ii) following certain change of control events involving the X-FAB corporate structure, (iii) as a result of a termination request by the German Ministry of Education and Research, (iv) bankruptcy of X-FAB MEMS Foundry Itzehoe and (v) for cause.

### Employees and Labour Relations

The following tables show the average number of employees of X-FAB, including part-time employees, but excluding temporary employees, by activity and by geographic location during the financial years ended December 31, 2016, 2015 and 2014. The number of employees is calculated based on the 12-month average number of employees.

| Average Employees per Year – Activity | Years ended December 31 |              |              |
|---------------------------------------|-------------------------|--------------|--------------|
|                                       | 2016 <sup>(1)</sup>     | 2015         | 2014         |
| Production .....                      | 2,500                   | 2,124        | 1,955        |
| Research & development .....          | 243                     | 212          | 192          |
| Sales and marketing .....             | 44                      | 40           | 37           |
| Administration .....                  | 159                     | 144          | 135          |
| <b>Total</b> .....                    | <b>2,946</b>            | <b>2,520</b> | <b>2,319</b> |

| Average Employees per Year – Geography | Years ended December 31 |              |              |
|--|-------------------------|--------------|--------------|
|  | 2016 <sup>(1)</sup>     | 2015         | 2014         |
| Europe .....                           | 1,479                   | 1,206        | 1,166        |
| Asia .....                             | 1,066                   | 929          | 783          |
| United States .....                    | 401                     | 385          | 370          |
| <b>Total</b> .....                     | <b>2,946</b>            | <b>2,520</b> | <b>2,319</b> |

Note:

<sup>(1)</sup> Employees that joined X-FAB as part of the acquisition of the Alits Assets have been included in the calculation of the Group's average employee figures since October 1, 2016.

As at December 31, 2016, X-FAB had 3,780 employees.

X-FAB believes that its human resources are its most important asset. The majority of X-FAB's indirect staff is highly trained and highly educated, possessing at least a degree from a university or technical institute. X-FAB maintains a strong focus on talent management across its workforce, from developing good relations with universities to ongoing development of X-FAB employees. Most members of X-FAB's technical staff have significant experience at X-FAB, and temporary workers are typically only employed at lower levels when needed in order to meet excess manufacturing demand.

Some of the Group's employees in Germany and France are members of unions, and most X-FAB employees in these countries are employed under a collective bargaining agreement in place between the Group and the trade union representing employees at the Group's German and French sites, partly outside the industry-wide agreement. In addition, certain specialists and management personnel have individual employment contracts, which may include specifically negotiated terms (for example, with regard to wages or bonuses). X-FAB's German and French operations are required to maintain a works council pursuant to local labour regulations in Germany and France. Except for certain prevailing individually agreed terms, X-FAB applies the same contract terms to all its German employees, regardless of whether they are a member of the union. X-FAB's employees in the United States and Malaysia are, to its knowledge, not members of a union.

Further to governmental promotion in Germany and France to enable employees to invest in pension schemes, X-FAB makes available pension plans to its employees in these countries. These pension systems are covered by applicable statutory requirements, and contributions to the schemes are made by both X-FAB and employees. In France, X-FAB operates a statutory pension scheme, with contributions made by X-FAB, as well as an additional company and employee funded pension scheme for non-manufacturing employees. Under this scheme, X-FAB France awards employees a lump-sum payment on reaching retirement age (65 for management employees, and 62 for other employees), with payment dependent on the final salary level and the length of employment. Defined benefit obligations of \$7.1 million are included in X-FAB's other non-current liabilities as at December 31, 2016, as against the fair value of the plan assets of \$3.1 million and a total defined benefit obligation of \$10.5 million as at that date. For additional detail on this plan, see note 7.11 to the Historical Financial Information. In Germany, X-FAB runs an additional pension scheme, on top of statutory pension scheme, for all employees, which is partially funded by X-FAB and the relevant employees. In the United States, X-FAB contributes to a tax-advantaged 401(k) private pension investment fund, which allows individual employees to select the specific funds where their savings are invested. Under this arrangement, X-FAB does not incur pension liabilities with regard to its employees in the United States, including management, upon their retirement. In Malaysia X-FAB pays into the statutory pension scheme for all Malaysian employees.

X-FAB has not faced any major work stoppages or any significant disputes with employees at any of its sites. X-FAB believes that its relationship with its employees is stable and strong. In recent years, employee engagement has been a key focus area for X-FAB. A recent employee engagement survey showed strong levels of employee satisfaction across a range of measures, including empowerment levels, workplace culture, communication with management and the values of X-FAB.

## **Insurance**

X-FAB has obtained insurance coverage against property damage, business interruption and general liability. X-FAB considers its level of insurance coverage to be appropriate in light of the nature of its business, the types of risks it faces and the available range of insurance products and the rates at which they are offered. There can be no assurance, however, that X-FAB will not incur losses beyond the limits of, or outside the relevant coverage of, its insurance policies.

## **Litigation and Disputes**

X-FAB is not currently, and has not been during the past three financial years, a party to any legal or governmental proceeding that, individually or together with all other such actions, would be or would have been material to its financial condition or results of operations. To X-FAB's knowledge, no such material proceedings are currently being threatened.

X-FAB and certain members of management are currently the subject of an investigation involving the German tax authorities regarding the availability of subsidies for certain capital goods. In the past, other industry participants have also been subject to similar investigations. While X-FAB has received independent advice that these subsidies were received appropriately, and the amounts at issue are not material (less than €750,000), X-FAB has voluntarily repaid these subsidies to the relevant tax authorities pending conclusion of this investigation. Accordingly, while there can be no assurance that the investigation will be resolved in X-FAB's or management's favour, X-FAB does not believe that the resolution of this matter will have a material impact on the Group's financial condition or results of operations.



## MANAGEMENT AND CORPORATE GOVERNANCE

### Overview

This section summarizes the rules and principles by which the Company's corporate governance is organized, which are contained in the Belgian Companies Code, other relevant legislation, the Articles of Association and the Corporate Governance Charter.

The Company was incorporated as a limited liability company on July 5, 2006. The Company changed its legal form to a European company with limited liability at the extraordinary Shareholders' Meeting held on November 4, 2011.

X-FAB is committed to high standards of corporate governance and relies on the Belgian Code on Corporate Governance of March 12, 2009 (the "Corporate Governance Code") as a reference code. The Corporate Governance Code is based on a "comply or explain" approach. Belgian listed companies should follow the Corporate Governance Code, but may deviate from those of its provisions which are not otherwise contained in the Belgian Companies Code, provided they disclose the justification for any such deviation in the annual corporate governance statement included in the annual report.

The Board of Directors intends to comply with the Corporate Governance Code, except in respect of the following:

- certain members of the Executive Management Team are entitled in certain circumstances to severance pay higher than 12 or 18 months of remuneration, to comply with local law requirements; and
- the level of shareholding for the submission of proposals to the shareholders' meeting is, in accordance with the rules applicable to a Societas Europaea such as the Company, set at 10% of the share capital, while the Corporate Governance Code recommends that this level should not exceed 5%.

The Company has adopted a corporate governance charter (the "Corporate Governance Charter"), subject to and with effect as of the closing of the Offering. It will review the Company's corporate governance at regular intervals and adopt any changes deemed necessary and appropriate.

The Articles of Association and the Corporate Governance Charter will be made available on X-FAB's website ([www.xfab.com](http://www.xfab.com)) and can be obtained free of charge at the Company's registered office after completion of the Offering.

### Board of Directors

#### Powers and responsibilities of the Board of Directors

The Company has opted for a "one tier" governance structure whereby the board of directors is the ultimate decision making body, with the overall responsibility for the management and control of the Company. The Board of Directors is vested with the power to perform all acts that are necessary or useful for the realization of the Company's purpose, except for those actions that are specifically reserved by law or the Articles of Association to the Shareholders' Meeting or other management bodies.

In particular, the Board of Directors is responsible for:

- defining the general policy orientations of the Company and its subsidiaries;
- deciding all major strategic, financial and operational matters of the Company;
- overseeing the management by the Chief Executive Officer (the "CEO") and other members of the executive management team ("Executive Management Team"); and

- all other matters reserved to the Board of Directors by the SE Regulation and the Belgian Companies Code.

Within certain limits, the Board of Directors is entitled to delegate special well-defined powers to the CEO and other members of the Executive Management Team.

### **Composition of the Board of Directors**

Pursuant to the Articles of Association, the Board of Directors must be comprised of at least five members and may be comprised of a maximum of nine members. As of the date of this Prospectus, the Board of Directors comprises 6 members.

Subject to and effective as of the closing of the Offering, the Board of Directors will consist of 8 members.

The term of office of directors under Belgian law is limited to six years (renewable) but the Corporate Governance Code recommends that it be limited to four years. The appointment and renewal of directors is based on a recommendation of the Remuneration and Nomination Committee and is subject to approval by the Shareholders' Meeting.

Pursuant to the Corporate Governance Code, at least half of the directors should be non-executive and at least three directors should be independent in accordance with the criteria set out in the Belgian Companies Code and the Corporate Governance Code. The non-executive directors should hold no more than five directorships in listed companies. The composition of the Board of Directors effective as of the closing of the Offering complies with these recommendations.

As of January 1, 2023, at least one third of the directors must be of the opposite gender.

### **Functioning of the Board of Directors**

In principle, the Board of Directors meets on a quarterly basis. Additional meetings may be called with appropriate notice at any time to address specific needs of the business. A meeting of the Board of Directors must in any event be convened if so requested by at least two directors.

### ***Quorum***

The Board of Directors can only deliberate and decide on matters stated on the agenda and only if at least half of its members are present or represented at the meeting.

Such quorum requirement shall not apply (i) to the vote on any matter at a subsequent meeting of the Board of Directors to which such matter has been deferred for lack of quorum at a prior meeting, if said subsequent meeting is held within 30 days from such prior meeting; or (ii) when an unforeseen emergency arises that makes it necessary for the Board of Directors to take action that would otherwise become time-barred by law or in order to avoid imminent harm to the Company.

The Board of Directors can only lawfully deliberate and decide on matters that are not stated on the agenda if all the members are present at the meeting and agree to this.

Each director can grant a proxy to one of his/her colleagues to represent him/her at a specific Board of Directors meeting. Each director may only be granted one proxy.

### ***Deliberation and voting***

The decisions of the Board of Directors are taken by an ordinary majority of votes.

In the case of a tied vote, the director chairing the meeting has a casting vote.

In exceptional cases, when urgent necessity and the Company's interest demand this, the Board of Directors' decisions can be taken by unanimous written agreement by the directors. However, this procedure cannot be adopted for drawing up the annual accounts, or the utilization of the authorized capital.

### Pre-Offering Board of Directors

As of the date of this Prospectus, the Board of Directors is composed of the following 6 directors:

| Name  | Age | Position                | Director since | Mandate expires |
|---|-----|-------------------------|----------------|-----------------|
| Dato Sri Ahmad Tarmizi Bin Haij Sulaiman        | 54  | Chairman                | 2006           | 2021            |
| Sensinnovat BVBA, represented by Rudi De Winter | 56  | Chief Executive Officer | 2011           | 2021            |
| Roland Duchâtelet                               | 70  | Non-Executive Director  | 2006           | 2021            |
| Thomas Hans-Jürgen Straub                       | 62  | Non-Executive Director  | 2006           | 2021            |
| Matthias Bopp                                   | 52  | Non-Executive Director  | 2011           | 2019            |
| Hamid Bin Bugo                                  | 71  | Non-Executive Director  | 2006           | 2021            |

The business address for all of the directors is Transportstraat 1, 3980 Tessenderlo, Belgium.

**Dato Sri Ahmad Tarmizi Bin Haij Sulaiman**, Chairman. Mr. Tarmizi Bin Haji Sulaiman is the State Financial Secretary of the Malaysian State of Sarawak since 1 July 2004. Prior to his current appointment, he was the Deputy State Financial Secretary of the Malaysian State of Sarawak since 1 October 2002. He served as the Chief Executive Officer of Amanah Saham Sarawak Berhad from August 1993 to September 2002. He was the fund manager at Arab-Malaysian Merchant Bank Berhad and following that, American International Assurance. He is currently also a board member of several corporate and governmental agencies. He has a Degree in Business Administration from Syracuse University, New York and a Master in Business Administration from the University of Wisconsin, USA.

**Rudi De Winter**, Chief Executive Officer. Mr. De Winter served as development engineer at Mietec Alcatel (Belgium) from 1984 to 1986 and as development manager at Elmos GmbH (Germany) from 1986 to 1989. In 1990, Mr. De Winter became director of Xtrion, the parent company of Melexis. He served as Chief Executive Officer and Managing Director of Melexis between 1996 and 2010. He joined X-FAB in 2011 as Co-CEO and became CEO in 2014. Mr. De Winter holds a degree as Electronics Engineer from the University of Ghent.

**Roland Duchâtelet**, Non-Executive Director. Mr. Duchâtelet started his career serving in various positions in production, product development and marketing functions for several large and small companies. He contributed in the start-up of various semiconductor manufacturers: Mietec Alcatel (Belgium) from 1983 to 1985 as business development / sales manager, Elmos GmbH (Germany) from 1985 to 1989 as marketing manager and Melexis, where he serves as director since 1994 and is currently their Chairman. He holds a degree as Electronics Engineer, Applied Economics and an MBA from the University of Leuven.

**Thomas Hans-Jürgen Straub**, Non-Executive Director. Mr. Straub has more than 30 years of experience in the management of semiconductor companies. From 1982 to 1990, Mr. Straub served as Director of Central Planning at the Kombinat Mikroelektronik in Erfurt. Thereafter, Mr. Straub was a member of the managing board of PTC electronic AG, a holding company which managed eighteen subsidiaries. From 1991 to 1999, Mr.

Straub served as president of several companies, including Mikroelektronik und Technologie-Gesellschaft mbH, Dresden and Thesys Gesellschaft für Mikroelektronik mbH, Erfurt. From 1999 to 2014, Mr. Straub served as Chief Executive Officer of X-FAB. Mr. Straub holds a diploma in economics from the Hochschule für Ökonomie Berlin (Berlin Business School).

**Matthias Bopp**, Non-Executive Director. Mr. Bopp served in different technical and R&D management positions at Telefunken, then TEMIC. Mr. Bopp worked 11 years with Atmel in various positions, such as director R&D, director marketing and senior director of the business center for communications ICs. Last he was Managing Director of Atmel Automotive GmbH in Heilbronn, Germany and the German sub companies as well as General Manager of the Atmel business unit radio frequency and automotive, from 2008 to 2009. In 2010, he became CEO of Micronas. After the acquisition of Micronas by TDK Corporation in 2016, he became General Manager of TDK's Magnetic Sensors Business Group. He is also the CEO of TDK-Micronas GmbH. He holds a diploma in electrical engineering at the University of Kaiserslautern.

**Hamid Bin Bugo**, Non-Executive Director. Tan Sri Dr. Hamid has worked as Personnel Manager for Malaysia LNG Sdn. Bhd., a joint venture between Petronas, Shell and Mitsubishi. He was the first General Manager of Land Custody and Development Authority, Sarawak, Permanent Secretary to the Ministry of Resource Planning and State Secretary of Sarawak. Tan Sri Dr. Hamid has served as a board member of several corporate and governmental agencies and charitable organizations. Tan Sri Dr. Hamid Bugo is a graduate in economics and political science. He studied at the University of Canterbury and at Lincoln University, New Zealand. He has a postgraduate Diploma in Teaching from Christchurch Teachers' College, New Zealand and a Certificate in Business Studies from the Harvard Institute of Development Studies, USA. He was awarded an honorary Ph. D. in Commerce by Lincoln University, New Zealand.

#### **Post-Offering Board of Directors**

An extraordinary Shareholders' Meeting was held on March 16, 2017 to (i) adopt certain changes to the Articles of Association; and (ii) appoint 2 new members of the Board of Directors, each subject to and with effect as of the closing of the Offering.

The post-Offering Board of Directors shall be composed as follows:

| <b>Name</b>  | <b>Age</b> | <b>Position</b>         | <b>Director since</b> | <b>Mandate expires</b> |
|--|------------|-------------------------|-----------------------|------------------------|
| Dato Sri Ahmad Tarmizi Bin Hajj Sulaiman           | 54         | Chairman                | 2006                  | 2021                   |
| Sensinnovat BVBA,<br>represented by Rudi De Winter | 56         | Chief Executive Officer | 2011                  | 2021                   |
| Roland Duchâtelet                                  | 70         | Non-Executive Director  | 2006                  | 2021                   |
| Thomas Hans-Jürgen Straub                          | 62         | Non-Executive Director  | 2006                  | 2021                   |
| Matthias Bopp                                      | 52         | Independent Director    | 2011                  | 2021                   |
| Hamid Bin Bugo                                     | 71         | Non-executive Director  | 2006                  | 2021                   |
| Estelle Iacona                                     | 44         | Independent Director    | 2017                  | 2021                   |
| Christel Verschaeren                               | 52         | Independent Director    | 2017                  | 2021                   |

The business address for all of the directors is Transportstraat 1, 3980 Tessenderlo, Belgium.

**Dato Sri Ahmad Tarmizi Bin Haij Sulaiman**, Chairman. See “— *Pre-Offering Board of Directors*” above.

**Rudi De Winter**, Chief Executive Officer. See “— *Pre-Offering Board of Directors*” above.

**Roland Duchâtelet**, Non-Executive Director. See “— *Pre-Offering Board of Directors*” above.

**Thomas Hans-Jürgen Straub**, Non-Executive Director. See “— *Pre-Offering Board of Directors*” above.

**Matthias Bopp**, Independent Director. See “*Board of Directors — Pre-Offering Board of Directors*” above.

**Hamid Bin Bugo**, Non-Executive Director. See “*Board of Directors — Pre-Offering Board of Directors*” above.

**Estelle Iacona**, Independent Director. Ms. Iacona was a director of EM2C laboratory (CNRS, Ecole Centrale Paris) from 2008 to 2012 after which she became Dean and Vice-President Research of the Ecole Centrale Paris until December 2014. In 2014 she was furthermore Dean and Vice-President Research and Industrial Partnership of the Ecole Supérieure d’Electricité (Supélec) in Paris. From January 2015 until September 2016 she was the Dean and Vice-President Research of the CentraleSupélec. Currently, Ms. Iacona is Executive Vice-President for Academic Affairs and Research Professor in the CentraleSupélec and member of the board of Ecole Centrale Casablanca. Ms. Iacona holds an Engineering Degree and a Master of Science from the University of Nantes (Polytech’Nantes) and a Ph.D. in Physics of Transfer at the Ecole Centrale Paris.

**Christel Verschaeren**, Independent Director. Ms. Verschaeren served 29 years at IBM. She held different technical positions as well as commercial leadership positions in General Business, Channel Sales and Inside Sales. She led Business Operations for IBM Belgium/Luxembourg for 3 years. In 2005 she became Director of Business Transformation & IT for IBM Europe. From 2010 till 2012 she served as Director Global Organizational Change Management. From 2012 until 2016 she was the VP of CIO Services in EMEA. Ms. Verschaeren holds a Master in Economics from the University of Antwerp.

### **Share ownership and intention of the directors to participate in the Offering**

As of the date of the Prospectus, the following directors own Shares directly in the Company as follows: Rudi De Winter: 37,716 Shares and Roland Duchâtelet: 125,724 Shares.

To the extent known to the Company, no director (based on the post-Offering composition of the Board of Directors) intends to purchase Offer Shares in the Offering.

### **General information on the directors**

In relation to each of the directors (based on the post-Offering composition of the Board of Directors), the Company is not aware of (i) any convictions in relation to fraudulent offenses during the past five years, (ii) any bankruptcies, receiverships or liquidations of any entities in which such members held any office, directorships, or partner or senior management positions during the past five years, or (iii) any official public incrimination and/or sanctions of such members by statutory or regulatory authorities (including designated professional bodies), or disqualification by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer during the past five years.

In certain circumstances, Roland Duchâtelet and Rudi De Winter may have a potential conflict of interest with respect to relations between the Company and Melexis, who is the Company’s principal customer. Xtrion (which is beneficially owned by Roland Duchâtelet, Rudi De Winter and Françoise Chombar) holds a controlling interest in Melexis. See “*Related Party Transactions.*” Roland Duchâtelet and Rudi De Winter may also have a potential conflict of interest with respect to relations between the Company and M-MOS Semiconductor Hong Kong Ltd, one of the Company’s customers. M-MOS Semiconductor Hong Kong Ltd is a wholly owned subsidiary of Xtrion. None of the other directors (based on the post-Offering composition of

the Board of Directors) has a potential conflict of interests between his/her duties to the Company and his/her private interests and/or any other duties he or she may have. No director has a family relationship with any other director or member of Executive Management Team.

The directors' mandates may be terminated "*ad nutum*" (at any time) without any form of remuneration. There are no employment or service agreements that provide for notice periods or indemnities between the Company and members of the Board of Directors who are not a member of the Executive Management Team.

In the five years preceding the date of this Prospectus, the directors (based on the post-Offering composition of the Board of Directors) have held the following directorships (apart from their directorships of the Company and its subsidiaries) and memberships of administrative, management or supervisory bodies and/or partnerships:

| Name                                     | Current   | Past  |
|--|---|---|
| Dato Sri Ahmad Tarmizi Bin Haij Sulaiman | <ul style="list-style-type: none"> <li>- Chairman of the Board of Directors at SACOFA Sdn Bhd;</li> <li>- Director at Amanah Saham Sarawak Berhad;</li> <li>- Director at Syarikat SESCO Berhad;</li> <li>- Director at Borneo Housing.</li> </ul>  | N/A   |
| Roland Duchâtelet                        | <ul style="list-style-type: none"> <li>- Director at Agrupacion Deportivo Alcorcon SAD;</li> <li>- Director at Baton 2010 Ltd;</li> <li>- Director at Callexcell NV;</li> <li>- Director at Charlton Athletic Football Company Ltd;</li> <li>- Director at Charlton Athletic Holding Ltd;</li> <li>- Director at Elex NV;</li> <li>- Permanent Representative of a director at Epiq NV;</li> <li>- Director at Fremach Dieppe SARL;</li> <li>- Director at Fremach Financial Services NV;</li> <li>- Director at Fremach International NV;</li> <li>- Permanent Representative of a director at Fremach International NV;</li> <li>- Director at Fremach Izegem NV;</li> <li>- Director at Hotel Stayen BVBA;</li> <li>- Director at KSTVV NV;</li> <li>- Chairman of the Board of Directors at Melexis NV;</li> <li>- Director at Melexis Technologies NV;</li> <li>- Director at Staprix NV;</li> <li>- Permanent representative of a director at Staprix NV;</li> <li>- Director at Xpeqt NV;</li> <li>- Director at Synegorie;</li> </ul> | <ul style="list-style-type: none"> <li>- Chairman of the Board of Directors at Agost;</li> <li>- Director at Centre de Formation du Standard de Liège ASBL;</li> <li>- Director at Epiq NV;</li> <li>- Director at Pro League ASBL;</li> <li>- Permanent representative of a director at Standard de Liège STAK.</li> </ul> |

| Name   | Current  | Past  |
|--|--|---|
| Sensinnovat BVBA, represented by Rudi De Winter <sup>(1)</sup> | <ul style="list-style-type: none"> <li>- Permanent representative of a director at Synegorie;</li> <li>- Chairman of the Board of the Directors at Vivant VZW;</li> <li>- Director at Xtrion NV;</li> <li>- Director at Zhuhai Epiq Trading Co. Ltd.</li> <li>- Director at Xtrion;</li> <li>- Director at Anvo Systems GmbH;</li> <li>- Director at M-MOS Semiconductor Hong Kong Limited;</li> <li>- Director at Mirogen Inc;</li> <li>- Director at X-Celeprint Limited;</li> <li>- Director at Indigo NV;</li> <li>- Manager at Sensinnovat BVBA.</li> </ul> | <ul style="list-style-type: none"> <li>- Director at Melexis NV;</li> <li>- Director at Melexis Tessenderlo NV.</li> </ul>  |
| Thomas Hans-Jürgen Straub<br>Matthias Bopp                     | <p>N/A</p> <ul style="list-style-type: none"> <li>- CEO at TDK-Micronas GmbH;</li> <li>- Chairman of the Board of Directors and CEO at TDK Magnetic Field Sensor Switzerland AG;</li> <li>- Director at TDK-Micronas K.K.;</li> <li>- Manager at TDK-Micronas New Technologies GmbH, Micronas Mantel 1 GmbH and Micronas Mantel 2 GmbH.</li> </ul>   | <p>N/A</p> <ul style="list-style-type: none"> <li>- CEO of Micronas Semiconductor Holding AG; Zurich;</li> <li>- CEO of Micronas GmbH, Freiburg i. Br.</li> </ul>   |
| Hamid Bin Bugo   | <ul style="list-style-type: none"> <li>- Director and Member of the Audit Committee and Long Term Incentive Planning Committee at SapuraKencana Petroleum Berhad;</li> <li>- Director/Chairman and Member of the Nomination and Remuneration Committee at Sapura Resources Berhad;</li> <li>- Chairman and Member of the Member of the Risk Management Committee at Sarawak Consolidated Industries Berhad.</li> </ul>   | <ul style="list-style-type: none"> <li>- Director and Member of the Governance &amp; Audit Committee, Nomination &amp; Remuneration Committee, Long Term Incentive Planning Committee and Sustainability Committee at Sime Darby Berhad;</li> <li>- Chairman of the Board of Directors at Superlon Holdings Berhad;</li> <li>- Chairman of the Board of Directors and Member of the Risk and Management Committee at Zecon Berhad;</li> <li>- Director at Permodalan Sarawak Berhad.</li> </ul> |
| Estelle Iacona   | <ul style="list-style-type: none"> <li>- Executive Vice President at Ecole Centrale – CentraleSupélec;</li> <li>- Board member at Ecole Centrale, Casablanca, Morocco.</li> </ul>  | <ul style="list-style-type: none"> <li>- Director at EM2C laboratory – CNRS;</li> <li>- Dean of Research at Ecole Centrale – CentraleSupélec.</li> </ul>  |
| Christel Verschaeren   | <p>Director at iDrops VZW</p>  | <p>N/A</p>  |

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Note:

- (1) The listed mandates are those held by Rudi De Winter as a natural person or as a representative through his family holding company Sensinnovat BVBA.

### **Committees of the Board of Directors**

The Board of Directors has established two committees subject to and with effect as of the closing of the Offering, which are responsible for assisting the Board of Directors and making recommendations in specific fields: the Audit Committee (in accordance with Article 899bis *juncto* Article 526bis of the Belgian Companies Code and Provision 5.2 of the Corporate Governance Code) and the Remuneration and Nomination Committee (in accordance with Article 899ter *juncto* Article 526quater of the Belgian Companies Code and Provisions 5.3 and 5.4 of the Corporate Governance Code). The terms of reference of these committees are primarily set out in the Corporate Governance Charter.

#### ***Audit Committee***

The Audit Committee advises the Board of Directors on accounting, audit and internal control matters, and shall, in particular:

- communicate to the Board of Directors information as to (i) the outcome of the statutory audit; and (ii) how the statutory audit contributed to the integrity of financial reporting as well as the role of the Audit Committee in such process;
- monitor the financial reporting process;
- review accounting policies and conventions;
- review the draft annual accounts and examine the proposed distribution of earnings and profits;
- review the quality of financial information furnished to the shareholders and the market;
- monitor and oversee the internal audit process, internal controls and risk management, including for the Company and its subsidiaries as a whole;
- monitor the statutory audit of the annual and consolidated accounts, including any follow-up on any questions and recommendations made by the external auditor;
- review the external audit process;
- review and monitor the independence of the statutory auditor and any additional services rendered by it; and
- propose candidates for the statutory auditor to be appointed by the Shareholders' Meeting to the Board of Directors.

Following the closing of the Offering, the Audit Committee shall consist of at least three members appointed for a term not exceeding that of their Board of Directors membership, all being non-executive directors and a majority of them being independent directors. The members of the Audit Committee dispose of a collective expertise in the field of the Company's activities. At least one of them shall have accounting and audit expertise. The Chairperson of the Audit Committee shall be designated by the Audit Committee but shall not be the Chairperson of the Board of Directors. No executive director (including the CEO) shall be a member of the Audit Committee.



Subject to and with effect as of the closing of the Offering, the following directors will form the Audit Committee: Hamid Bin Bugo (chairperson), Matthias Bopp, Estelle Iacona and Christel Verschaeren.

The Audit Committee will meet at least four times a year and whenever it deems necessary in order to carry out its duties.

#### ***Remuneration and Nomination Committee***

The Remuneration and Nomination Committee advises the Board of Directors principally on matters regarding the appointment and remuneration of directors and the Executive Management Team and shall, in particular:

- identify, recommend and nominate, for the approval of the Board of Directors, candidates to fill vacancies in the Board of Directors and executive management positions as they arise. In this respect, the Remuneration and Nomination Committee shall consider and advise on proposals made by relevant parties, including management and shareholders;
- advise the Board of Directors on proposal for the appointment of the CEO and on the CEO's proposals for the appointment of other members of the Executive Management Team;
- draft appointment procedures for members of the Board of Directors, the CEO and the other members of the Executive Management Team;
- ensure that the appointment and re-election process is organized objectively and professionally;
- periodically assess the size and composition of the Board of Directors and make recommendations to the Board of Directors with regard to any changes;
- consider issues related to succession planning;
- make proposals to the Board of Directors on the remuneration policy for the non-executive directors and executive managers, as well as, where appropriate, on the resulting proposals to be submitted by the Board of Directors to the Shareholders' Meeting;
- make proposals to the Board of Directors on the remuneration of directors and executive managers, including variable remuneration and long-term incentives, whether or not stock-related, in the form of stock options or other financial instruments, and arrangements on early termination, and where applicable, on the resulting proposals to be submitted by the Board of Directors to the Shareholders' Meeting;
- establish performance targets and conduct performance reviews for the CEO and other members of the Executive Management Team;
- submit a remuneration report to the Board of Directors;
- provide explanations on the remuneration report during the annual Shareholders' Meeting; and
- report regularly to the Board of Directors on the exercise of its duties.

Following the closing of the Offering, the Remuneration and Nomination Committee shall consist of at least three members, all being non-executive directors and a majority of them being independent directors. The Chairperson of the Remuneration and Nomination Committee shall be designated by the Board of Directors and shall be either the Chairperson of the Board of Directors or another non-executive director.

Subject to and with effect as of the closing of the Offering, the following directors will form the Remuneration and Nomination Committee: Christel Verschaeren (chairperson), Matthias Bopp, Estelle Iacona and Hamid Bin Bugo.

The Remuneration and Nomination Committee will meet at least twice a year and whenever it deems necessary in order to carry out its duties.

## **Executive Management Team**

### **CEO**

The CEO is responsible for the day-to-day management of the Company and has the power to represent the Company by his sole signature. He may be granted additional well-defined powers by the Board of Directors. He has direct operational responsibility for the Company and oversees the organization and day-to-day management of subsidiaries, affiliates and joint ventures. The CEO is responsible for the execution and management of the outcome of all Board of Directors' decisions.

The CEO leads the Executive Management Team, within the framework established by the Board of Directors and under its ultimate supervision. The CEO chairs the Executive Management Team.

The CEO is appointed and removed by the Board of Directors and reports directly to it.

### **The Executive Management Team**

The Executive Management Team is composed of the CEO, the CFO, the COO, the CTO and the site managers of X-FAB France, X-FAB Sarawak, X-FAB Texas and X-FAB Dresden. Such other members are appointed and removed by the Board of Directors after having received the advice of the CEO and the Remuneration and Nomination Committee.

The Executive Management Team exercises the duties assigned to it by the Board of Directors and the CEO, under the ultimate supervision of the Board of Directors.

The Executive Management Team consists of the following members:

| <b>Name</b>        | <b>Age</b> | <b>Position</b>   |
|--------------------|------------|---|
| Rudi De Winter     | 56         | Chief Executive Officer                                   |
| Chris Förster      | 45         | Chief Financial Officer                                   |
| Dr. Manfred Riemer | 61         | Chief Operating Officer                                   |
| Dr. Jens Kosch     | 56         | Chief Technology Officer                                  |
| Jean-Paul Beisson  | 63         | Chief Executive Officer and Site Manager of X-FAB France  |
| Mike Young         | 56         | Chief Executive Officer and Site Manager of X-FAB Sarawak |
| Lloyd L. Whetzel   | 59         | Chief Executive Officer and Site Manager of X-FAB Texas   |
| Dr. Dirk Drescher  | 51         | Chief Executive Officer and Site Manager of X-FAB Dresden |

**Rudi De Winter**, Chief Executive Officer. See “— *Pre-Offering Board of Directors*” above.

**Chris Förster**, Chief Financial Officer. Mr. Förster served as financial controller at Sachsenring Automobiltechnik AG, Zwickau, Germany from 1997 to 1999, as financial controller at Ibykus AG, Erfurt,

Germany from 1999 to 2001 and as financial controller of X-FAB from 2001 to 2003. Since 2003, Mr. Förster has served as Chief Financial Officer of X-FAB. Mr. Förster holds a diploma in business economics from Georg August University, Goettingen, Germany.

**Dr. Manfred Riemer**, Chief Operating Officer. An industry veteran with more than 20 year's expertise, Dr. Riemer previously served as COO Europe, with responsibility for the company's fabs in Germany and the UK and, earlier, as Waferfab Manager, Germany. Prior to X-FAB, he was operations manager at Thesys Gesellschaft für Mikroelektronik mbH in Erfurt, Germany, a technology development engineer at ERMIC mbH in Erfurt, and a microelectronic development engineer at Funkwerk in Erfurt, Germany. He holds a diploma in analytical and organic chemistry from the Humboldt University in Berlin, Germany, and a Ph.D. degree in chemistry from the Martin-Luther-University Halle, Germany.

**Dr. Jens Kosch**, Chief Technical Officer. Mr. Kosch initially worked at several different companies in the field of engineering. From 1987 to 1990, Mr. Kosch was in charge of research and development for memory ICs at the Kombinat Mikroelektronik in Erfurt, Germany. From 1990 to 1992, he served as design engineer at ERMIC GmbH, Erfurt, and later at Mikroelektronik und Technologie-Gesellschaft mbH, Erfurt. From 1992, Mr. Kosch held various positions at Thesys Gesellschaft für Mikroelektronik mbH, Erfurt, including manager for library development and manager for design engineering. Since 2001, Mr. Kosch has served as Chief Technical Officer of X-FAB and in that role is responsible for technology development and design support. Mr. Kosch holds a diploma in electrical engineering and received a Ph.D. degree in electrical engineering from Ilmenau Technical University, Germany.

**Jean-Paul Beisson**, Chief Executive Officer and Site Manager of X-FAB France. Before assuming the role of Chief Executive Officer of X-FAB France, Jean-Paul Beisson was Chief Executive Officer of Altis since 2006. As part of the founder team of Altis, Mr. Beisson had been a member of the Executive Committee since its creation in 1999. Prior to his role at Altis, he held senior management positions during his 20 year career at IBM, both in France and in the US, in the micro-electronics division, in areas of Corporate Affairs and Strategy, World Wide Supply Chain, Business Development and Corporate Management. Jean-Paul Beisson received a Master's degree in Engineering from Ecole Centrale (Lyon).

**Mike Young**, Chief Executive Officer and Site Manager of X-FAB Sarawak. Mr Young served as a Scientific Officer at Rutherford Appleton Laboratory in Oxford from 1986 to 1989. From 1989 to 1992 he was a development engineer at Plessey Semiconductors (UK) and from 1992 to 1996 a Device Section Manager at National Semiconductor. Mr Young then served as Device Manager with Siemens for 2 years before becoming a Yield Manager at ST Microelectronics, until 2000. He served as Technology Manager and Operations Director at ATMEL until 2008. He then was appointed Operations Manager at X-FAB Plymouth (UK) until 2010 when he took a position in X-FAB Sarawak, (Malaysia), first as COO and currently as CEO. Mr Young holds a degree in Physics, from Aston University, UK, and a Masters Degree in Microelectronics from Middlesex University UK.

**Lloyd L. Whetzel**, Chief Executive Officer and Site Manager of X-FAB Texas. Mr. Whetzel holds a Bachelor of Science degree in electrical engineering technology from Texas Tech University, Lubbock, Texas, United States. From 1976 to 1999, he served in several different positions at Texas Instruments, including as manager of Thinfilm and Ion Implant Group at Lubbock. From 1999 to 2010, he has held the position of Vice President and Chief Operating Officer of X-FAB Texas, United States. Since 2010, he has served as Chief Executive Officer and Site Manager of X-FAB Texas.

**Dr. Dirk Drescher**, Chief Executive Officer and Site Manager of X-FAB Dresden. Dr. Drescher joined X-FAB in August 2016. Mr. Drescher started his career in 1995 as process engineer for Siemens Microelectronics Center Dresden. From 1996 to 1999 he served in different managerial functions. In 2000 Mr. Drescher joined Infineon's Semiconductor 300 organization as Module Manager to help starting up the worlds first 300mm Semiconductor Manufacturing Line. In 2008 he joined Calyxo GmbH to manage a thin film solar panel

manufacturing line. In 2010 he joined Globalfoundries to support the start up of its green field/ leading edge / high volume 300mm Manufacturing Site, Fab8, Malta, NY, USA as Module Manager. In 2013 he took over a Module Manager position at GlobalFoundries Fab1, Dresden, Germany. Mr. Drescher holds a diploma in Physics from Dresden Technical University and a PhD in Experimental Physics from the Technical University Chemnitz. Share ownership and intention of the members of the Executive Management Team to participate in the Offering

As of the date of the Prospectus, the following member of the Executive Management Team (in addition to the CEO) owns Shares directly in the Company as follows: Dr. Jens Kosch: 25,500 Shares.

To the extent known to the Company, no member of the Executive Management Team intends to purchase Offer Shares in the Offering.

### **General information on the members of the Executive Management Team**

In relation to each of the members of the Executive Management Team, the Company is not aware of (i) any convictions in relation to fraudulent offenses during the past five years; (ii) any bankruptcies, receiverships or liquidations of any entities in which such members held any office, directorships, or partner or senior management positions during the past five years; or (iii) any official public incrimination and/or sanctions of such members by statutory or regulatory authorities (including designated professional bodies), or disqualification by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer during the past five years.

In relation to the CEO, see “*Management and Corporate Governance – General Information on the directors.*” None of the other members of the Executive Management Team has a potential conflict of interests between his/her duties to the Company and his/her private interests and/or any other duties he or she may have, except for any matters in relation to his/her management or employment agreement with the Company or any of its subsidiaries (if any) or with any (indirect) shareholder of the Company. No member of the Executive Management Team has a family relationship with any director or other member of the Executive Management Team.

Most of the members of the Executive Management Team have entered into employment agreements of an unlimited duration with termination benefits in line with market standards and local legislation. One member of the Executive Management Team is entitled, upon termination, to receive additional compensation for missed social benefits during the time that he was entrusted with a director's mandate.

One member of the Executive Management Team has entered into an employment agreement for a defined term of two years. The CEO is employed through a management contract with a three months' notice period.

In the five years preceding the date of this Prospectus, the members of the Executive Management Team have held the following main directorships (apart from their directorships of the Company and its subsidiaries) or memberships of administrative, management or supervisory bodies and/or partnerships:

| <b>Name</b>        | <b>Current</b>  | <b>Past</b> |
|--------------------|---|-------------|
| Chris Förster      | - Managing Director at FC<br>Carl Zeiss Jena<br>Spielbetriebs GmbH.     | N/A         |
| Dr. Manfred Riemer | N/A   | N/A         |
| Dr. Jens Kosch     | - Member of the<br>Supervisory Board at<br>Institut für Mikroelektronik | N/A         |

|                   |   |                              |
|-------------------|---|------------------------------|
|                   | und Mechatronik-Systeme<br>GmbH (IMMS). |                              |
| Jean-Paul Beisson | N/A                                     | - Director and CEO at Altis. |
| Mike Young        | N/A                                     | N/A                          |
| Lloyd L. Whetzel  | N/A                                     | N/A                          |
| Dr. Dirk Drescher | N/A                                     | N/A                          |

## Remuneration of Directors and Members of the Executive Management Team

### Board of Directors

The Shareholders' Meeting decides whether the office of director will be remunerated through the allocation of a fixed compensation. The amount of any such remuneration is determined by the Shareholders' Meeting and is borne by the Company.

In 2016, no remuneration or compensation was paid to the directors (excluding the CEO), other than the reimbursement of travel and hotel expenses incurred by the directors in connection with their attendance of meetings of the Board of Directors.

The remuneration of the non-executive members of the Board of Directors as from the closing of the Offering was decided by the annual Shareholders' Meeting dated March 16, 2017 as follows:

- an annual fixed fee of €15,000; and
- an additional annual fixed fee of €5,000 for each membership of a board committee.

The Company will regularly review the remuneration of the non-executive directors. The Company also reimburses reasonable out of pocket expenses of directors (including travel expenses) incurred in performing the mandate of director.

The directors who are also a member of the Executive Management Team, such as the CEO, will be remunerated for the executive management mandate, but not for their director mandate.

### CEO and other members of the Executive Management Team

The remuneration of the CEO and the other members of the Executive Management Team will be based on recommendations made by the Remuneration and Nomination Committee.

The remuneration is determined by the Board of Directors. By law, certain restrictions apply to the remuneration of the CEO and the members of the Executive Management Team. The Articles of Association, as allowed under the Belgian Companies Code, authorize the Company to deviate from the rule that:

- in the event the variable remuneration constitutes more than 25 per cent., at least 25 per cent. of the variable remuneration must relate to pre-determined and objectively measurable performance criteria deferred over a minimum period of two years, and at least another 25 per cent. must relate to such criteria deferred over a minimum period of three years; and
- in respect of share-based remuneration, Shares can only vest and options giving the right to receive Shares or any other rights to acquire Shares can only be exercisable as from three years after the grant.

An appropriate portion of the remuneration package is structured so as to link reward to corporate and individual performance, hereby aligning the interest of the Executive Management Team with the interests of the Company and its shareholders. The remuneration of the Executive Management Team therefore consists of an annual

(fixed) base salary and a variable portion. The members of the Executive Management Team are also reimbursed for certain costs and expenses made in the performance of their function.

The CEO and the other members of the Executive Management Team received the following remuneration and compensation for the financial year ended December 31, 2016:

|  | <b>CEO</b>                            | <b>Members of the Executive<br/>Management Team other than the<br/>CEO (on an aggregate basis)<sup>(1)</sup></b> |
|--|---------------------------------------|--|
|  | <i>(in thousands of U.S. dollars)</i> |  |
| Annual base salary .....                                     | 270                                   | 967  |
| Variable remuneration .....                                  | 106                                   | 237  |
| Pension and death in service and liability<br>coverage ..... | 0                                     | 42   |
| Social Security Contributions                                | 0                                     | 62   |
| Other compensation components                                | 17                                    | 43   |
| <b>Total</b> .....   | <b>393</b>                            | <b>1,351</b>   |

Notes:

- (1) Prior to January 1, 2017, the CEO of X-FAB Dresden was not a member of the Executive Management Team and therefore his remuneration is not included in this table.

## **Conflicts of Interest**

### **Directors' conflicts of interest**

Article 9 (1) c) (iii) of the SE Regulation *juncto* Article 523 of the Belgian Companies Code provides for a special procedure if a director of the Company directly or indirectly has a personal financial interest that conflicts with a decision or transaction that falls within the Board of Directors' powers. The director concerned must inform the other directors before any decision of the Board of Directors is taken and the Statutory Auditor must also be notified. For companies that are making or have made a public call on savings (the Company will qualify as such a company after the Closing Date), the director thus conflicted may not participate in the deliberation or vote on the conflicting decision or transaction. The minutes of the meeting of the Board of Directors must set out the director's declaration of the conflict of interest, the nature of relevant decision or transaction, the financial impact of the matter on the Company, and justify the decision taken. An excerpt of the minutes must be published in the Company's annual report. The report of the Statutory Auditor to the annual accounts must contain a description of the financial impact on the Company of each of the Board of Directors' decisions in matters where a conflict arises.

### **Intra-group transactions**

Save for certain exempted decisions or transactions, Article 9 (1) c) (iii) of the SE Regulation *juncto* Article 524 of the Belgian Companies Code provides for a special procedure when the decisions or transactions of a company whose shares have been admitted to trading on a regulated market (the Company will qualify as such a company after the Listing Date) concern relationships between such company on the one hand, and affiliated companies of such company on the other hand, with the exception of relationships between that company and its subsidiaries. The procedure must also be followed for decisions or transactions between such company's

subsidiaries on the one hand and affiliated companies of the subsidiaries on the other hand, with the exception of relationships between such company's subsidiaries and such subsidiaries' subsidiaries.

Prior to such decisions or transactions, the Board of Directors must appoint a special committee of three independent directors in accordance with Article 9 (1) c) (iii) of the SE Regulation *juncto* Article 526ter of the Belgian Companies Code, supported by one or more independent experts appointed by the special committee. This committee must describe the decision or transaction and determine the commercial advantages and disadvantages of the decision or transaction for the Company and the shareholders. It must also calculate and establish the financial consequences of the decision or transaction, and determine whether or not the decision or transaction is manifestly detrimental in light of the Company's policies. If the committee does not find the decision or transaction to be manifestly detrimental, but believes it will prejudice the Company, it must clarify what benefits the decision or transaction will provide in compensation for the identified prejudices. The committee's recommendation must be submitted in writing, stating each of the above elements to the Board of Directors. The Board of Directors must then make a decision, taking into account the committee's recommendation.

The minutes of the Board of Directors must mention whether the procedure has been complied with and include a justification of any deviation from the committee's recommendation. The written recommendation of the committee and the decision of the Board of Directors must be communicated to the Statutory Auditor, who must issue a separate opinion, which must be annexed to the minutes of the Board of Directors, on the accuracy of the data contained in the recommendation of the committee and in the minutes of the Board of Directors. The committee's recommendation, an excerpt from the minutes of the Board of Directors and the opinion of the Statutory Auditor must be included in the annual report of the Board of Directors. This special procedure is not required for decisions and transactions entered into in the ordinary course of business at usual market conditions or for decisions and transactions in value not exceeding 1 per cent. of the Company's consolidated net assets.

### **Statutory Auditor**

The audit of the unconsolidated and consolidated financial statements of the Company is entrusted to the statutory auditor which is appointed by the Shareholders' Meeting, for in principle a maximum of three renewable terms of three years (subject to certain exceptions). The Shareholders' Meeting determines the remuneration of the statutory auditor.

The statutory auditor currently is: KPMG Bedrijfsrevisoren BV CVBA, represented by Herwig Carmans (member of the *Instituut van de Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises*), Herkenrodesingel 6A Bus 301, 3500 Hasselt, Belgium.

The mandate of KPMG Bedrijfsrevisoren BV CVBA has been renewed for three years at the annual Shareholders' Meeting held on March 16, 2017.

Article 140/1 of the Belgian Companies Code limits an auditor's liability to €12.0 million for tasks reserved to auditors of listed companies by Belgian law or in accordance with Belgian law, such as auditing financial statements, except for liability resulting from the auditor's fraud or other deliberate breach of duty.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information presented below as of and for the years ended December 31, 2016, 2015 and 2014 has been derived from the audited consolidated financial statements of the Company as of and for the years ended December 31, 2016, 2015 and 2014, which have been audited by KPMG Bedrijfsrevisoren BV CVBA. The consolidated financial statements have been prepared in accordance with IFRS.

The selected consolidated financial information presented below should be read in conjunction with “Operating and Financial Review” included elsewhere in this Prospectus.

### Consolidated Statement of Profit and Loss

|   | Years ended December 31 |              |             |
|---|-------------------------|--------------|-------------|
|   | 2016                    | 2015         | 2014        |
|   | (in millions of \$)     |              |             |
| Revenue .....   | 512.9                   | 331.1        | 330.5       |
| Cost of sales.....  | (407.8)                 | (273.3)      | (279.0)     |
| <b>Gross profit</b> .....                                   | <b>105.1</b>            | <b>57.8</b>  | <b>51.5</b> |
| Research and development expenses .....                     | (26.8)                  | (21.3)       | (20.7)      |
| Selling expenses .....                                      | (7.4)                   | (6.2)        | (6.3)       |
| General and administrative expenses.....                    | (22.8)                  | (18.2)       | (18.7)      |
| Rental income and expenses from investment properties ..... | 1.9                     | 1.2          | 2.3         |
| Other income and other expenses .....                       | 0.5                     | 2.9          | 0.7         |
| <b>Operating profit</b> .....                               | <b>50.5</b>             | <b>16.3</b>  | <b>8.7</b>  |
| Finance income.....   | 11.1                    | 14.1         | 15.4        |
| Finance costs .....   | (19.1)                  | (19.3)       | (9.7)       |
| <b>Net financial result</b> .....                           | <b>(8.0)</b>            | <b>(5.2)</b> | <b>5.7</b>  |
| <b>Profit before taxes</b> .....                            | <b>42.5</b>             | <b>11.1</b>  | <b>14.4</b> |
| Income-tax .....  | 3.5                     | 2.3          | (0.9)       |
| <b>Profit for the year</b> .....                            | <b>46.0</b>             | <b>13.4</b>  | <b>13.5</b> |

### Consolidated Statement of Financial Position

|                                    | Years ended December 31 |       |       |
|------------------------------------|-------------------------|-------|-------|
|                                    | 2016                    | 2015  | 2014  |
|                                    | (in millions of \$)     |       |       |
| <b>Assets</b>                      |                         |       |       |
| Non-current assets                 |                         |       |       |
| Property, plant and equipment..... | 265.5                   | 231.6 | 210.7 |
| Investment properties.....         | 9.1                     | 9.6   | 10.9  |



**Years ended December 31**

|  | <b>2016</b>                | <b>2015</b>  | <b>2014</b>  |
|--|----------------------------|--------------|--------------|
|  | <i>(in millions of \$)</i> |              |              |
| Intangible assets.....   | 7.9                        | 7.7          | 8.5          |
| Non-current investments.....   | 0.2                        | —            | —            |
| Other non-current assets .....   | 0.0                        | 0.1          | 0.1          |
| Deferred tax assets .....  | 19.9                       | 14.6         | 11.3         |
| <b>Total non-current assets.....</b>                                   | <b>302.6</b>               | <b>263.5</b> | <b>241.5</b> |
| <b>Current assets</b>  |                            |              |              |
| Inventories.....   | 89.0                       | 61.9         | 56.5         |
| Trade and other receivables.....                                       | 77.3                       | 45.0         | 40.3         |
| Income tax receivables .....   | 4.5                        | —            | —            |
| Other assets.....  | 14.3                       | 11.0         | 15.9         |
| Cash and cash equivalents .....  | 104.2                      | 66.1         | 26.5         |
| <b>Total current assets .....</b>                                      | <b>289.3</b>               | <b>184.0</b> | <b>139.1</b> |
| <b>Total assets .....</b>  | <b>591.9</b>               | <b>447.5</b> | <b>380.6</b> |
| <b>Equity and liabilities</b>  |                            |              |              |
| <b>Equity</b>  |                            |              |              |
| Share Capital .....  | 265.2                      | 265.2        | 265.2        |
| Share Premium .....  | 255.3                      | 255.3        | 255.3        |
| Retained earnings .....  | (196.5)                    | (242.4)      | (255.3)      |
| Cumulative translation adjustment .....                                | (0.9)                      | (0.7)        | (0.4)        |
| Treasury shares .....  | (0.8)                      | (0.8)        | (0.8)        |
| <b>Total equity attributable to equity holders of the parent .....</b> | <b>322.3</b>               | <b>276.6</b> | <b>264.1</b> |
| Non-controlling interests .....  | 0.4                        | 0.4          | 0.4          |
| <b>Total equity .....</b>  | <b>322.7</b>               | <b>276.9</b> | <b>264.5</b> |
| <b>Non-current liabilities</b>   |                            |              |              |
| Non-current loans and borrowings.....                                  | 132.4                      | 102.5        | 51.1         |
| Non-current provisions.....  | 0.1                        | 0.1          | 0.1          |
| Other non-current liabilities.....                                     | 8.4                        | 1.5          | 2.0          |
| <b>Total non-current liabilities .....</b>                             | <b>140.9</b>               | <b>104.1</b> | <b>53.1</b>  |
| <b>Current liabilities</b>   |                            |              |              |
| Trade payables.....  | 49.0                       | 12.3         | 21.7         |
| Current loans and borrowings.....                                      | 31.4                       | 16.8         | 11.3         |
| Income tax payable.....  | 1.6                        | 2.6          | 2.0          |
| Provisions .....   | 1.6                        | 1.1          | 0.8          |
| Other current liabilities .....  | 44.6                       | 33.7         | 27.3         |
| <b>Total current liabilities.....</b>                                  | <b>128.3</b>               | <b>66.5</b>  | <b>63.1</b>  |
| <b>Total equity and liabilities.....</b>                               | <b>591.9</b>               | <b>447.5</b> | <b>380.6</b> |

## Selected Consolidated Statement of Cash Flows

|  | Years ended December 31    |             |             |
|--|----------------------------|-------------|-------------|
|  | 2016                       | 2015        | 2014        |
|  | <i>(in millions of \$)</i> |             |             |
| Cash flow from operating activities.....                                     | 73.9                       | 37.8        | 38.9        |
| Cash flow used in investing activities .....                                 | (81.6)                     | (64.7)      | (8.7)       |
| Cash flow used in financing activities .....                                 | 45.9                       | 66.7        | (17.1)      |
| <b>Increase/(decrease) in cash and cash equivalents .....</b>                | <b>38.2</b>                | <b>39.8</b> | <b>13.1</b> |
| Cash and cash equivalents at the beginning of the year.....                  | 66.1                       | 26.5        | 13.8        |
| Effects of changes in foreign currency exchange rates on cash balances ..... | (0.2)                      | (0.2)       | (0.5)       |
| <b>Cash and cash equivalents at the end of the year .....</b>                | <b>104.2</b>               | <b>66.1</b> | <b>26.5</b> |

## Reconciliations of Non-IFRS Financial Measures

The following table presents a reconciliation of EBITDA to operating profit for the years ended December 31, 2016, 2015, 2014, 2013 and 2012:

|   | Years ended December 31    |             |             |             |             |
|---|----------------------------|-------------|-------------|-------------|-------------|
|   | 2016                       | 2015        | 2014        | 2013        | 2012        |
|   | <i>(in millions of \$)</i> |             |             |             |             |
| Operating profit <sup>(1)</sup> .....   | 50.5                       | 16.3        | 8.7         | (15.7)      | (51.5)      |
| Depreciation and amortization <sup>(2)</sup> .....  | 47.3                       | 44.1        | 43.4        | 53.7        | 68.4        |
| Recognized investment grants and subsidies netted with depreciation and amortization <sup>(3)</sup> ..... | 2.9                        | 3.1         | 3.1         | 3.5         | 4.6         |
| Depreciation and amortization, before effect of grants and subsidies <sup>(3)</sup> .....                 | 50.2                       | 47.2        | 46.5        | 57.2        | 73.0        |
| <b>EBITDA .....</b>   | <b>100.6<sup>(4)</sup></b> | <b>63.4</b> | <b>55.2</b> | <b>41.6</b> | <b>21.5</b> |

### Notes:

- (1) Consolidated statement of profit and loss.
- (2) Note 6.7 of the Historical Financial Information. This includes including the effect of grants and subsidies. Depreciation and amortization for 2015 includes impairment of \$0.3 million of in investment property and \$0.7 million in assets under construction. X-FAB did not incur impairment charges in the other reported years.
- (3) Consolidated statement of cash flows. X-FAB calculates EBITDA using depreciation and amortization without the impact of grants and subsidies (corresponding with the presentation in the Group's consolidated statement of cash flows) because including the grant support for the Group's activities would negatively distort operating results during the relevant period.
- (4) Includes \$16.7 million impact of outsourced production.

The following table presents a reconciliation of Net Debt to total loans and borrowings for the years ended December 31, 2016, 2015, 2014, 2013 and 2012:

|   | <b>Years ended December 31</b> |             |             |             |             |
|---|--------------------------------|-------------|-------------|-------------|-------------|
|   | <b>2016</b>                    | <b>2015</b> | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|   | <i>(in millions of \$)</i>     |             |             |             |             |
| Non-current loans and borrowings <sup>(1)</sup> ..... | 132.4                          | 102.5       | 51.1        | 36.1        | 102.1       |
| Current loans and borrowings <sup>(1)</sup> .....     | 31.4                           | 16.8        | 11.3        | 46.9        | 39.6        |
| Total loans and borrowings.....                       | 163.8                          | 119.3       | 62.4        | 83.0        | 141.7       |
| Cash and cash equivalents <sup>(1)</sup> .....        | (104.2)                        | (66.1)      | (26.5)      | (13.8)      | (21.9)      |
| Short term financial assets <sup>(2)</sup> .....      | —                              | —           | —           | (34.0)      | (52.0)      |
| <b>Net Debt</b> .....                                 | <b>59.6</b>                    | <b>53.2</b> | <b>35.9</b> | <b>35.2</b> | <b>67.8</b> |

Notes:

- (1) Consolidated statement of financial position.
- (2) Short term financial assets as at December 31, 2012 and 2013 primarily comprise X-FAB's shareholding in Dialog Semiconductor plc, as further described in "Operating and Financial Review — Key Operational and Financial Measures."

## OPERATING AND FINANCIAL REVIEW

*Investors are encouraged to read the following discussion and analysis together with X-FAB's financial statements for 2016, 2015 and 2014 and related notes included elsewhere in this Prospectus. The following discussion contains forward-looking statements about the expectations of X-FAB and certain industry analysts of future developments; however, X-FAB cannot assure investors that these expectations will come to pass. This section should be read by investors in conjunction with "Risk Factors."*

### Overview

X-FAB is one of the world's leading specialty foundry groups for analog/mixed-signal semiconductor technologies, providing manufacturing and design support services for customers that design analog/mixed-signal ICs and other semiconductor devices for use in their own products or the products of their customers. X-FAB creates customized analog/mixed-signal ICs for use in a variety of applications, with a strategic focus on the automotive, industrial and medical device end-user markets. As a pure-play specialty foundry, X-FAB manufactures ICs based on its customers' or third-party designs, which are primarily designed and fabricated using X-FAB's portfolio of proprietary technologies, available across all of its end-user segments. X-FAB also provides a range of design-related product and support services as part of its comprehensive offering, including extensive design libraries as well as engineering, technical and design support to over 330 customers worldwide.

X-FAB manufactures analog/mixed-signal ICs that are created using the Group's specialized process technologies. The Group has an established track record, with over 25 years of experience providing customers with advanced analog/mixed-signal solutions that utilize its proprietary manufacturing processes and advanced design and engineering support offerings. The Group believes that these process technologies and extensive service offerings differentiate X-FAB from its competitors by supporting customers in designing semiconductors according to their specific end-use applications, utilizing its experience designing advanced manufacturing capabilities for applications in the Group's strategic automotive, industrial and medical device end-user markets.

X-FAB manufactures analog/mixed-signal ICs through a multi-stage process of oxidization, light exposure and etching on silicon (or other materials) that produces circuitry, transistors and other components comprising an IC, utilizing its proprietary process technologies and third-party silicon wafers and other raw materials. X-FAB's modular approach allows customers to choose from a wide range of enhanced analog/mixed-signal functionality options across major semiconductor technologies, designs and processes, including CMOS, SOI, SiC and MEMS. Customers can then draw on a variety of features, such as high voltage capabilities, optical and other types of sensors, radio frequency, bipolar elements and embedded non-volatile memories, in order to develop bespoke ICs specifically tailored to their end-use requirements. X-FAB currently offers feature sizes of 1.0 $\mu$ m, 0.8 $\mu$ m and 0.6 $\mu$ m on 150-mm wafers and 0.6 $\mu$ m, 0.35 $\mu$ m, 0.25 $\mu$ m, 0.18 $\mu$ m and 0.13 $\mu$ m on 200-mm wafers.

X-FAB operates six wafer manufacturing sites in Germany, France, Malaysia and the United States, with aggregate production capacity of approximately 94,000 200-mm equivalent WSPM.

For the financial year ended December 31, 2016, the Group reported revenue of \$512.9 million, compared to \$331.1 million in 2015 and \$330.5 million in 2014, and EBITDA of \$100.6 million, compared to \$63.4 million in 2015 and \$55.2 million in 2014. This growth has been supported by the acquisition of a fab and the Altis Assets, which contributed \$31.6 million to the Group's revenue since October 1, 2016, as well as the acquisition of various new customers throughout the period, and a significant increase in revenue from an existing customer in the communications end-user market in Asia in 2016 (including \$93.8 million of revenue from this customer that was outsourced to another foundry, with an EBITDA impact of \$16.7 million). Over the last five years, the

Group has achieved a CAGR in revenue of 18.7 per cent. and in EBITDA of 47.1 per cent., from revenue of \$258.5 million and EBITDA \$21.5 million in 2012.

X-FAB's strategic focus is on the end-user markets for automotive, industrial and medical devices, where it has significant experience and expects strong growth in the coming years. In 2016, X-FAB derived 41 per cent., 11 per cent. and 3 per cent., respectively, from customers in these end-user markets. The Group derived a further 30 per cent. of 2016 revenue from customers in the communications end-user market. Although this is not a key growth market for the Group, it may continue to comprise a material portion of its activities going forward.

Unlike some of the larger foundries in the market, X-FAB's focus on producing highly customized analog/mixed-signal ICs for its customers typically leads to smaller production volumes requiring more engineering input per unit and thereby producing higher margins than more commoditized ICs. Due to the high degree of product customization typically required by X-FAB's customers, combined with the longer product life-cycles and relatively small production volumes associated with its products, X-FAB tends to be less vulnerable to the high price, demand and stock volatility experienced by many of its competitors in the broader IC market.

## **Trends and Other Factors Driving Financial Results**

### ***Trends in the semiconductor industry and the analog/mixed-signal market***

The semiconductor industry has experienced consistent high growth over the past 20 years. According to the 2017 McClean Report, semiconductor sales by value increased from \$141 billion in 1996 to \$365 billion in 2016 (representing a CAGR of 4.9 per cent. during that time). The 2017 McClean Report further projects that the global semiconductor market will grow from \$365 billion in 2016 to \$471 billion in 2021 (representing a CAGR of 5.2 per cent. over that period, as measured by total sales).

Growth in the market for analog (including analog/mixed-signal) ICs has been strong in recent years, at a CAGR of 3.5 per cent. between 2014 and 2016, according to the 2017 McClean Report, as measured by sales. Moreover, there has been a rapid growth in demand for mixed-signal products in recent years, as electronic devices are increasingly required to interact with real-world, analog sensory data such as sound, light, pressure, motion, temperature, electrical current and radio waves. Mixed-signal circuits can be either predominantly analog or digital, but they tend to be characterized by their analog functionality, which determines the selection of the semiconductor technology. Since a significant portion of products with digital components, including automotive, industrial, medical and communication devices, also require analog functionality, these trends have supported strong growth in the broader analog/mixed-signal IC market during the periods under review. X-FAB's operations have been supported by these trends, and the Group's revenues have increased significantly year-on-year during this period, from \$258.5 million in 2012 to \$512.9 million in 2016 (including operations at the Corbeil-Essonnes fab since October 1, 2016). The trend toward a higher number of digital devices with analog/mixed-signal capabilities is expected to continue as an increasing number of products, devices and appliances are augmented with connectivity capabilities.

### ***Structurally growing end-user markets***

X-FAB benefits from operating in markets that are experiencing structural growth, driven by the increasing use of analog/mixed-signal ICs in a variety of devices and broader market growth in certain key industries.

These trends have been particularly strong in the markets for automotive and communications devices. Between 2014 and 2016, the application-specific analog IC market for automotive devices grew by a CAGR of 6.6 per cent., as measured by total sales, driven by increases in the use of semiconductor content in electric, hybrid and internal combustion vehicles, including for safety, security, connectivity, environmental monitoring and other technology features, as well as higher levels of passenger car registrations globally. The application-specific analog IC market for communications devices grew by a CAGR of 5.0 per cent. between 2014 and 2016, as

measured by total sales, as IC content per mobile phone and global unit sales for smartphones increased annually during that period. Application-specific analog ICs are also being used in an increasing variety of industrial and medical devices, leading to unit growth at a CAGR of 15.0 per cent. in the industrials/other application-specific IC market (including medical devices) between 2014 and 2016, but this was more than offset during the period by declining average sale prices in this aggregated end-user market, resulting in a decline at a compound annual rate of 1.1 per cent., according to the 2017 McClean Report.

In part as a result of these structural trends, X-FAB's revenue has increased during the periods under review. In 2016, 84 per cent. of X-FAB's revenue was from customers in the automotive, industrial, medical and communications end-user markets.

|   | <b>Years ended December 31</b> |              |              |
|---|--------------------------------|--------------|--------------|
|   | <b>2016</b>                    | <b>2015</b>  | <b>2014</b>  |
| <b>X-FAB's Revenue by End-User Market<sup>(1)</sup></b> | <i>(in millions of \$)</i>     |              |              |
| Automotive .....  | 211.0                          | 180.8        | 179.1        |
| Communications .....                                    | 154.9 <sup>(2)</sup>           | 42.8         | 31.9         |
| Consumer .....  | 60.0                           | 39.6         | 47.6         |
| Industrial .....  | 54.2                           | 46.6         | 45.1         |
| Medical .....   | 12.9                           | 10.6         | 7.6          |
| Other .....   | 19.9                           | 11.1         | 19.2         |
| <b>Total</b> .....                                      | <b>512.9<sup>(3)</sup></b>     | <b>331.1</b> | <b>330.5</b> |

Notes:

- (1) X-FAB's categorization of end-user market revenue data is based on information provided by its customers. See "Presentation of Financial and Other Information — End-User Market Revenue Data."
- (2) X-FAB's revenue in the communications end-user market during 2016 reflects a significant increase in revenue from an existing customer in Asia (including \$93.8 million in revenue from this customer that was outsourced to another foundry) and which may not be repeated to the same extent in future years, or at all.
- (3) X-FAB's revenue in 2016 reflects the on-boarding of certain customers as part of the Altis Acquisition from October 1, 2016. A significant portion of this revenue is from customers in the communications end-user market.

X-FAB anticipates that these structural trends will continue to support the Group's activities in its key strategic automotive, industrial and medical device end-user markets in the future. The global analog IC market for automotive devices is expected to grow by a CAGR of 9.8 per cent. (2016-2021), the global semiconductor market for industrial devices is expected to grow by a CAGR of 8.2 per cent. (2015-2020), and the global semiconductor market for medical devices is expected to grow by a CAGR of 12.3 per cent. (2014-2018). Due to the particularly rapid growth expected in the global IC market for medical devices, X-FAB anticipates that its sales of ICs in this market will comprise a greater proportion of its revenue going forward.

X-FAB's business planning reflects an expectation that the trend toward an increase in demand for products with analog/mixed-signal capabilities will continue, and the Group thereby believes that the analog/mixed-signal IC market will continue to be less cyclical than the semiconductor market as a whole, as the growth in end-user markets that X-FAB focuses on is expected to mitigate the impact of the cyclicity typical in the wider semiconductor industry to some extent.

### ***Levels of fab capacity and utilization***

Utilization is a very important factor in driving the Group's profitability, since operating a fab incurs significant expenditure irrespective of the number of wafers actually produced. These fixed costs include staffing, electricity, infrastructure (including cleanroom climate control) and maintenance costs at each of the Group's fabs. X-FAB incurred fixed costs of \$218.5 million, \$182.4 million and \$191.3 million in 2016, 2015 and 2014, respectively, and estimates (based on stable product mix and ASPs) that the Group needs to operate at a minimum utilization rate of approximately 55-58 per cent. in order to break even as measured by EBITDA. Although analog/mixed-signal foundries typically require lower levels of capital expenditure than is required for digital foundries (which tend toward producing ICs to the smallest commercially available feature sizes, requiring leading-edge technologies and equipment), the analog/mixed-signal activities that the Group focuses on are nevertheless capital-intensive and require a large amount of highly expensive equipment. Since these up-front and fixed costs are significant, they can exceed revenues during periods of low utilization. As such, operating the Group's fabs at a high level of utilization is key to maintaining profitability.

X-FAB's utilization and capacity levels are closely related, and management evaluates the Group's operations across both measures. Management calculates capacity as the maximum number of WSPM capable of being produced by the machinery and equipment installed, assuming continuous production (24 hours per day, seven days per week) and assuming a pre-defined mix of technologies and products that X-FAB believes to be representative for the given planning period. Utilization rate, for a given time period, is calculated as the number of wafers produced during the time period divided by the theoretical total capacity available (calculated as described above), expressed as a percentage. Capacity, and by extension utilization, are by necessity approximations, given that capacity is based on a pre-defined set of technologies and products expected to be produced, which may not correspond to actual production over time. As a result, underlying theoretical capacity may differ from the Group's actual capacity, depending on the product mix actually produced and changes to the Group's processes and capabilities.

X-FAB has undertaken a number of initiatives in order to optimize capacity and increase utilization levels at the Group's fabs in recent years, with a renewed focus on forecasting projected product mix and demand levels from existing and new customers, across current and future technologies, and managing production backlogs. These initiatives, alongside broader increases in customer demand, have played a significant factor in increases in the Group's utilization from 47 per cent. in 2012 to 66 per cent. in 2014, 79 per cent. in 2016, and 80 per cent. in the last quarter of 2016, even as the Group continued to expand capacity (from 54,000 200-mm equivalent WSPM in 2014 to 94,000 WSPM at the end of 2016). X-FAB's periodic forecasting process includes feedback and demand projections from the Group's customers, and utilizes a variance analysis derived from each customer's historic forecasted and actual order levels. These efforts have led to a range of strategic projects that have supported utilization in recent years, in particular by equipping the Group with sufficient capacity to take on customers with high-volume orders. For example, X-FAB was able to increase its utilization levels by expanding the Sarawak fab's capacity for manufacturing smaller feature size analog/mixed-signal ICs at 200-mm wafer sizes during a period of under-capacity in the broader market, as other foundries and IDMs were shifting a portion of their capabilities from 200-mm to 300-mm wafer production. Although digital IC foundries have realized cost savings by shifting production of digital ICs to 300-mm wafers, which are produced in sufficient volumes to warrant the capital expenditure necessary to convert from 200-mm production, not all semiconductor devices (in particular analog/mixed-signal ICs, and image sensors) can take advantage of 300-mm production. This shift in market capacity resulted in an increase in demand for X-FAB's 200-mm wafers in 0.35 $\mu$ m and 0.18 $\mu$ m feature sizes, which the Group's targeted investment has sought to meet. Similarly, X-FAB's conversion and upgrade of machinery from 150-mm to 200-mm capabilities at the Dresden fab has allowed the Group to accommodate increased orders for 0.35 $\mu$ m ICs. Most recently, the Group increased its capacity by approximately 35,000 WSPM with the acquisition of the Altis fab in Corbeil-Essonnes, France, with a strategic focus on the Group's 0.35 $\mu$ m, 0.18 $\mu$ m and 0.13 $\mu$ m IC capacity.

The Group has undertaken targeted efforts to improve utilization levels, such as targeted investment to reduce bottlenecks at certain steps of the manufacturing process and increased use of sub-contracting for certain processes and activities. In addition, X-FAB has made significant progress in increasing the flexibility of its fabs by selectively outsourcing production related to niche capabilities where economical, as well as portions of customer orders that the Group cannot complete using its available capacity. This added flexibility enabled the Group to manage its utilization levels with greater certainty across its six locations, and was a driver of X-FAB's revenue for the year ended December 31, 2016.

***Relationship with and reliance on key customers***

As with many pure-play foundries, X-FAB has longstanding relationships with many of its key customers. These customers represented a significant portion of the Group's revenues in recent years. X-FAB's largest customer, Melexis, accounted for 34 per cent. of the Group's revenue in 2016, as compared to 42 per cent. in each of 2015 and 2014. During these years, the Group's top three customers accounted for 60 per cent., 53 per cent. and 54 per cent. of revenue and its top five customers accounted for 68 per cent., 61 per cent. and 60 per cent. of revenue, respectively. The Group on-boarded a significant customer as part of the Altis Acquisition, which it anticipates will be one of the Group's top three customers in 2017.

X-FAB views its close relationships with these key customers as a source of stability. X-FAB's sales cycles, measured from first contact with a customer to full-volume production, may last as long as two to three years, and a new IC may take several more months to reach full production. As a result, any loss of key customers would expose X-FAB to the risk of periods of under-utilization, which may be over an extended period given the long lead time required for establishing new customer relationships, in particular with high-volume customers. Similarly, this lengthy development process can also lead to a delay between the start of a relationship with a new customer and the subsequent increase in X-FAB's revenues. The percentage of net sales generated by customers using X-FAB technology (rather than a customer's specific process technology, for production of that customer's ICs) increased from 60 per cent. in 2001 to 85 per cent. in 2016. Most of X-FAB's top 10 customers are fabless companies and use X-FAB technology. X-FAB considers the current customer base of fabless companies to be stable. Further, although these significant customers comprise a substantial portion of the Group's revenue, X-FAB has a diversified customer base, as shown in the following table:

| <b>Annual Revenue per Customer</b>       | <b>Years ended December 31</b> |             |
|--|--------------------------------|-------------|
|  | <b>2016</b>                    | <b>2005</b> |
|  | <i>(number of customers)</i>   |             |
| Under \$100,000.....                     | 170                            | 148         |
| Between \$100,000 and \$1.0 million..... | 123                            | 52          |
| Over \$1.0 million .....                 | 40                             | 17          |
| <b>Total</b> .....                       | <b>333</b>                     | <b>217</b>  |

***Pricing and competition***

Pricing for X-FAB's products is generally a function of IC feature size, manufacturing and device complexity, process technology, and production volume for a particular customer. Smaller-feature size ICs, especially 0.35µm and below, are priced at a premium that increases as feature size decreases. X-FAB produces ICs of 0.13µm and larger. The prices of analog/mixed-signal ICs are typically relatively stable in comparison to digital ICs, given that end-product life-cycles for products using analog/mixed-signal ICs are typically longer than for many products that use digital ICs, and many analog/mixed-signal ICs are produced in smaller volumes using higher degrees of customization. Since the pricing is dependent on the complexity of the IC (including the



number of layers), the Group has historically experienced higher ASPs in certain end-user markets. For example, ICs for use in the automotive market have historically been higher than ICs used in communications products. The following table summarizes X-FAB's sales by selected IC feature size for the financial years ended December 31, 2016, 2015 and 2014:

|  | Years ended December 31 |              |              |
|--|-------------------------|--------------|--------------|
|  | 2016                    | 2015         | 2014         |
| <b>Feature Size (as percentage of revenue)</b> | <i>(per cent.)</i>      |              |              |
| Larger than 0.35µm.....                        | 31.7                    | 47.8         | 57.8         |
| 0.35µm.....                                    | 47.5                    | 36.5         | 27.7         |
| 0.25µm and smaller.....                        | 12.3                    | 12.4         | 11.1         |
| Others <sup>(1)</sup> .....                    | 8.5                     | 3.3          | 3.4          |
| <b>Total.....</b>                              | <b>100.0</b>            | <b>100.0</b> | <b>100.0</b> |

Note:

(1) "Others" consists of stand-alone MEMS and other engineering services that have not been attributed to a specific feature size.

Semiconductor foundries such as X-FAB manufacture products based on a mix of their own technologies and the technologies of their customers. Whereas customer technologies can only be used for the specific products that X-FAB is manufacturing for the respective customer, its own technologies may be used for X-FAB's entire range of customers. Foundries that use principally their own technologies are less vulnerable to a withdrawal of orders by a customer than those that principally produce ICs using customer technology. As a result, the average price for ICs produced using customer-owned technologies tends to be lower than for ICs produced using X-FAB-owned technologies. Further, since the product life-cycle for each IC design used by a particular customer can last as long as five to ten years, X-FAB can earn revenues derived from popular process technologies over an extended period of time. The following table shows the stabilization in the use of X-FAB's own technology over the past three years, based on percentage of revenue from customer products that are manufactured using X-FABs own process technologies, as compared to lower levels in prior periods:

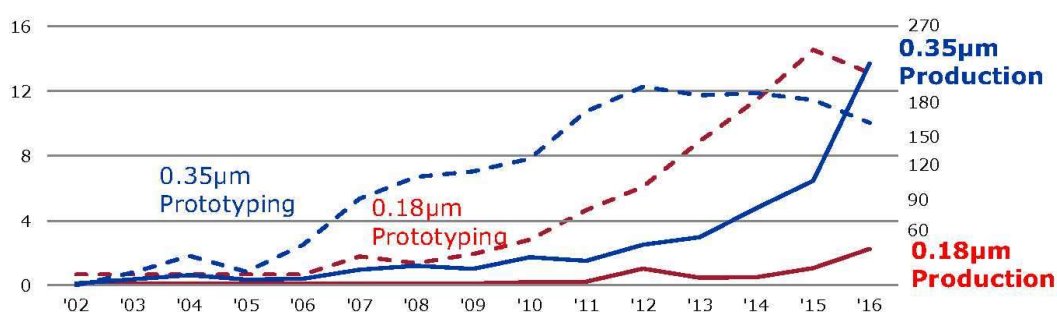
|   | Years ended December 31 |            |            |
|---|-------------------------|------------|------------|
|   | 2016                    | 2015       | 2014       |
|   | <i>(per cent.)</i>      |            |            |
| Use of X-FAB-owned technologies .....   | 84                      | 88         | 84         |
| Use of customer-owned technologies..... | 8                       | 9          | 13         |
| Other revenue.....                      | 9                       | 3          | 3          |
| <b>Total.....</b>                       | <b>100</b>              | <b>100</b> | <b>100</b> |

As a result of these factors, X-FAB's ASPs for ICs purchased by customers in the Group's strategic automotive, industrial and medical end-user markets increased by 1.3 per cent. between 2012 and 2016. The Group's ASPs for ICs for customers in the communications and consumer end-user markets have exhibited higher levels of volatility, including declines in 2013 and 2014, with a partial recovery in 2015 and 2016. As a result, ASPs in

these segments declined 7.4 per cent. from 2012 to 2016, which led to a decrease of 3.0 per cent. across X-FAB's ASPs for all end-user markets.

**Non-recurring engineering services by wafer size**

Non-recurring engineering (“NRE”) services are services performed while a product is in the design and prototyping stage using existing process technologies (including X-FAB providing the mask set (through specialized suppliers) and manufacturing the first prototype wafers). X-FAB considers NRE revenue to be a leading indicator of future business for a given process technology or feature size, since higher levels of products in development tend to result in higher levels of sales after a period of time as the products in development come to the market. For example, X-FAB has observed a strong relationship between early NRE revenues and later-year production revenues from 0.35µm and 0.18µm ICs, as shown in the figure below. However, NRE revenue is an imperfect leading indicator for any particular customer or device since only a limited number of products processed as NRE are actually later brought to the market at full production volume by X-FAB.



The following table shows the amount of NRE revenue by feature size over the past three years:

| NRE Revenue per Feature Size                   | Years ended December 31    |             |             |
|--|----------------------------|-------------|-------------|
|  | 2016                       | 2015        | 2014        |
|  | <i>(in millions of \$)</i> |             |             |
| Larger than 0.35µm.....                        | 11.8                       | 11.4        | 11.9        |
| 0.35µm .....                                   | 11.0                       | 12.1        | 12.3        |
| 0.25µm and below.....                          | 14.1                       | 15.0        | 11.6        |
| Others <sup>(1)</sup> .....                    | 5.5                        | 4.1         | 5.8         |
| <b>Total NRE and technology services .....</b> | <b>42.4</b>                | <b>42.5</b> | <b>41.7</b> |

Note:

<sup>(1)</sup>“Others” consists of stand-alone MEMS and other engineering services that have not been attributed to a specific feature size.

**Research and development**

The Group’s approach to R&D is aligned with its business model, which relies upon developing high functionality analog/mixed-signal capabilities rather than frequent advances in feature size and processing power. X-FAB’s R&D activities focus on development of new fabrication processes, optimization of existing fabrication processes using the Group’s existing process technologies, and the development of new IC features

(to be used in connection with these technologies) in order to meet its customers' analog/mixed-signal needs. As a percentage of revenue, R&D expenses were 5.2 per cent. in 2016 (6.4 per cent. in 2016 excluding outsourced revenue), 6.4 per cent. in 2015 and 6.3 per cent. in 2014. X-FAB targets R&D expenditure of approximately 7 per cent. of annual revenues each year. For further detail on the Group's strategic approach to R&D, see, "*Business — Research and Development.*"

X-FAB's R&D costs are expensed as they are incurred, rather than capitalized, due to the high levels of uncertainty prior to the completion of a particular development project as to whether the work performed will support revenues in future periods. During the periods under review, the majority of X-FAB's R&D expenditure has been incurred for staffing costs. During 2016, the Group's average R&D employee headcount was 243, as compared to 212 in 2015 and 192 in 2014. All production of ICs related to the Group's R&D activities is undertaken in one of the Group's fabs, rather than a stand-alone R&D fabrication facility, and costs are charged to R&D by the relevant fab. The Group receives reimbursement from government grants for certain R&D expenses (in line with the terms of the relevant grant), which totalled \$7.2 million in 2016, \$6.4 million in 2015 and \$6.2 million in 2014. When R&D-related activities are undertaken on behalf of a particular customer, such as to develop a specialty process for a specific IC, the Group is reimbursed by the relevant customer for all R&D expenses incurred.

### ***Foreign exchange***

X-FAB has a global customer base and operates from six manufacturing sites in strategic locations in four countries. Due to the global nature of the Group's business, its revenue and expenses are influenced by foreign exchange movements. In particular, X-FAB records its financial results and receives the majority of its revenues in U.S. dollars, but incurs costs in a variety of currencies, including U.S. dollars, euros and Malaysian Ringgit, depending on the location of the particular fab where a customer's order is produced. Additionally, while X-FAB operates a fab in Sarawak, Malaysia, its revenues from these operations are typically earned in U.S. dollars. Although certain of the Group's fabs earn revenues and incur expenses in the same currency, X-FAB is not able to match revenues and expenses across all of its operations, in particular for its Sarawak fab in Malaysia. X-FAB has engaged in exchange rate hedging transactions in respect of the Malaysian Ringgit. However, since the Group's hedging arrangements are primarily in respect of Malaysian Ringgit expenditure, they do not cover a significant portion of the Group's business. In 2016, 12.6 per cent. of the Group's sales were denominated in currencies other than the Group's functional currency, as compared to 20.8 per cent. in 2015 and 26.8 per cent. in 2014. Additionally, increases or decreases in the value of the U.S. dollar compared to the euro and Malaysian Ringgit will affect the Group's reported results as it translates those currencies into U.S. dollars. As a result, the Group's reported results are impacted by currency exchange movements. In particular, the depreciation of the euro and Malaysian Ringgit as against the U.S. dollar from 2014 to 2015 resulted in significant decreases in the Group's reported cost of sales, primarily due to decreases in reported employee-related and facility (utility) expenses, which are incurred in the local currency of the applicable fab and translated into U.S. dollars for reporting purposes, by 7.5 per cent. and 9.5 per cent., respectively. These currency fluctuations also had an impact on X-FAB's revenue, which was broadly stable on a reported basis despite an increase of 8.4 per cent. in U.S. dollar-denominated revenues during from 2014 to 2015, due to lower reported revenues from euro sources. Since commencing operations at the Corbeil-Essonnes fab on October 1, 2016, approximately half of the Group's expenses have been denominated in U.S. dollars, with the vast majority of non-U.S. dollar expenses denominated in euro, and the remaining amounts primarily denominated in Malaysian Ringgit. The Group expects future expenses to be broadly in line with these proportions. The following table demonstrates the Group's sensitivity to changes in fair value of monetary assets and liabilities on the Group's profit before tax, had exchange rates fluctuated by 5 per cent. in each of the periods indicated:

|   | <b>Years ended December 31</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2016</b>                    | <b>2015</b> | <b>2014</b> |
| <b>Profit before tax – changes in fair value of monetary assets and liabilities</b> | <i>(in millions of \$)</i>     |             |             |
| 5 per cent. increase in the USD/EUR rate .....                                      | 6.4                            | 3.8         | 2.0         |
| 5 per cent. increase in the USD/MYR rate .....                                      | 1.9 <sup>(1)</sup>             | 0.7         | 0.3         |

Note:

- (1) The impact of 20 per cent. increase in the USD/MYR rate in 2016 would have been \$7.5 million. See note 10 of the Historical Financial Information.

### ***Altis Acquisition***

On March 8, 2017, X-FAB closed the acquisition of the Altis Assets, after having received the rights and benefits to those assets with economic effect from October 1, 2016. The core assets acquired by X-FAB include, among others, a fab in Corbeil-Essonnes, France, agreements with customers and suppliers, and approximately 31.8 hectares of land. X-FAB also acquired certain employee-related and other liabilities as part of the transaction. Operations related to the Altis Assets contributed \$31.6 million to X-FAB's revenue in 2016, and the Group expects the acquisition to have a material impact on its results of operations and financial condition in the near to mid-term future. This acquisition supports X-FAB's objective of optimizing its fabrication operations globally by acquiring additional capacity where doing so fits with the Group's process technologies and key end-user markets and is available on commercially attractive terms. In particular, the acquisition gives the Group the opportunity to expand its automotive application offering and grow capacity, utilizing the complementary process technology capabilities and facilities already in place at the Corbeil-Essonnes site. The impact of X-FAB's acquisition of the Altis Assets will be largely driven by the Group's commitment to the Commercial Court of Paris as part of the acquisition process to make a €100 million investment in the Corbeil-Essonnes site over the next 10 years. The Group intends to invest up to \$60 million in the next three years, with a primary objective of optimizing the fab's existing capabilities for use with X-FAB's process technologies and manufacturing in the Group's strategic end-user markets, with targeted expenditure on any new tools or machinery as needed, followed by investment in de-bottlenecking and utilization of existing cleanroom space, as well as potential capacity growth in the medium term. For further information on X-FAB's acquisition of the Altis Assets, including capital expenditure commitments, see "*The Altis Acquisition.*"

### **Key Operational and Financial Measures**

X-FAB monitors a number of key operational and financial measures as indicators of its operating performance. Because some of these measures are not determined in accordance with generally accepted accounting principles, including IFRS, and are susceptible to varying calculations, they may not be comparable with other similarly titled measures of performance of other companies. For more information on the definition and calculation of these non-IFRS measures, see "*Presentation of Financial and Other Information — Non-IFRS Financial Measures.*"

The following table shows selected line items of X-FAB's consolidated statement of profit and loss and other important data from the past five years:

**Years ended December 31**

|  | <b>2016</b>  | <b>2015</b> | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|--|--|-------------|-------------|-------------|-------------|
|  | <i>(in millions of \$, unless otherwise indicated)</i> |             |             |             |             |
| Revenue .....                            | 512.9  | 331.1       | 330.5       | 289.9       | 258.5       |
| Gross profit.....                        | 105.1  | 57.8        | 51.5        | 24.7        | (7.2)       |
| EBIT .....                               | 50.5   | 16.3        | 8.7         | (15.7)      | (51.5)      |
| Profit for the year.....                 | 46.0   | 13.4        | 13.5        | 23.4        | (57.5)      |
| EBITDA <sup>(1)</sup> .....              | 100.6  | 63.4        | 55.2        | 41.6        | 21.5        |
| Capital expenditure <sup>(2)</sup> ..... | (74.7)   | (71.7)      | (58.6)      | (17.9)      | (35.4)      |
| Net Debt <sup>(3)</sup> .....            | 59.6   | 53.2        | 35.9        | 35.2        | 67.8        |
| Net Debt/EBITDA .....                    | 0.6x   | 0.8x        | 0.7x        | 0.8x        | 3.1x        |
| Utilization rate <sup>(4)</sup> .....    | 79%  | 68%         | 66%         | 55%         | 47%         |
| Headcount (persons) <sup>(5)</sup> ..... | 2,946  | 2,520       | 2,319       | 2,204       | 2,173       |

Notes:

- (1) For a reconciliation of EBITDA to operating profit, see “*Selected Consolidated Financial Information — Reconciliations of Non-IFRS Financial Measures.*”
- (2) Capital expenditure figures represent the sum of additions to property, plant and equipment (note 7.1 of the Historical Financial Information), additions to intangible assets (note 7.2 of the Historical Financial Information) and added back grant funding that was netted during the preparation of the basis of the capitalized value of these asset additions (in notes 7.1 and 7.2 of the Historical Financial Information). From 2012 to 2016, expansion capital expenditure totalled \$17.4 million, \$7.4 million, \$36.3 million, \$48.9 million and \$42.8 million, respectively, and maintenance capital expenditure totalled \$18.7 million, \$10.5 million, \$22.3 million, \$22.8 million and \$31.9 million, respectively.
- (3) For a reconciliation of Net Debt to total loans and borrowings, see “*Selected Consolidated Financial Information — Reconciliations of Non-IFRS Financial Measures.*”
- (4) X-FAB does not specify capacity figures for MEMS device production due to the wide variety and complexity of process technologies used depending on the particular MEMS design.
- (5) Headcount calculated as the average number of employees employed by the Group during the year, based on the total payroll figures including trainees, excluding temporary employees.

From 2012 to 2016, X-FAB experienced significant growth and year-on-year improvement across a number of operating measures, including revenue, gross profit, EBIT, net income and EBITDA. Customer demand increased throughout this period, supported by a variety of operational initiatives, resulting in improvements in the Group’s utilization rate at a CAGR of 13.9 per cent., to 79 per cent. in 2016 from 47 per cent. in 2012. Higher levels of customer demand across this period also supported improvement in the Group’s revenues, at a CAGR of 18.7 per cent., to \$512.9 million in 2016 from \$258.5 million in 2012. X-FAB also implemented improvements in its operating activities, which together with these factors resulted in EBITDA growth at a CAGR of 47.1 per cent. to \$100.6 million in 2016 from \$21.5 million in 2012, as well as profitability improvements from negative gross profit, EBIT and net income in 2012.

The Group experienced a significant turnaround in operating results during this period, in particular from 2012 to 2014, and again from 2015 to 2016. Improvements in utilization supported this growth, from 47 per cent. in 2012 to 66 per cent. in 2014, and again from 68 per cent. in 2015 to 79 per cent. in 2016, for the reasons described above. Increased demand, as the result of significantly higher demand from an existing customer in Asia, and the acquisition of the Corbeil-Essonnes fab from October 1, 2016, further supported this growth in 2016. Further, the Group experienced a significant drop in depreciation and amortization between 2012 and

2013, and again between 2013 and 2014, due to the end of the seven-year depreciation period (in September 2013) for tools and machinery acquired as part of the Sarawak acquisition in 2006. This depreciation had a material impact on X-FAB's operating results. For example, in 2012, X-FAB had gross loss of \$7.2 million and positive EBITDA of \$21.5 million, due to depreciation and amortization of \$73.0 million (\$60.0 million of which was included in cost of sales). The end of this depreciation period resulted in significant improvements in the Group's gross profit, EBIT, net income and EBITDA during 2012-2014.

Certain further operating and financing activities impacted X-FAB's key operational and financial measures during this period. In particular, in 2013, the Group had negative EBIT of \$15.7 million, and a positive net income of \$22.9, which resulted from the modifications of the terms of the Group's loan from Sarawak TH, which was renegotiated in September 2013 and resulted in a write-off of \$28.0 million (and conversion of the remaining amount to preference shares), as well as a sale during the year of \$13.4 million in shares of Dialog Semiconductor plc, a publicly traded semiconductor company with shares listed on the Frankfurt Stock Exchange, which had been acquired over a multi-year period starting from 2008 in response to an attractive investment opportunity, and held as current financial assets on the Group's balance sheet. In 2014, X-FAB realized a net gain of \$9.4 million upon the sale of the remainder of its shareholding in Dialog.

X-FAB's results during this period were supported by capital expenditure initiatives across the Group's operations, which targeted increased capacity levels and improvements to X-FAB's manufacturing capabilities. In particular, significant capital expenditure projects included (i) approximately \$50 million of investment into X-FAB's MEMS capacity and capabilities, (ii) approximately \$35 million of investment to expand X-FAB's capacity for production on 200-mm wafers at its Dresden fab, (iii) approximately \$50 million of investment to expand capacity at the X-FAB Sarawak fab and (iv) approximately \$12 million of investment in the Group's SiC capabilities at its Lubbock fab.

## **Current Trading and Prospects**

X-FAB is confident in the outlook for the remainder of 2017 and the Group's longer term prospects. In particular, X-FAB has not experienced any material change in its operations or financial position since December 31, 2016. In respect of the Group's 2017 results, X-FAB is targeting revenue for the Group of over \$635 million, and EBITDA of approximately 19-20 per cent. of revenue. In the medium term, X-FAB is targeting revenue of over \$750 million and EBITDA of over 27 per cent. of revenue in 2019. X-FAB anticipates that its effective tax rate will be lower than the statutory rate in the medium term due to its recognized deferred tax assets.

The Group anticipates undertaking targeted investment across its existing operations and fab network over the next three years, which it expects to comprise \$350-\$370 million of capital expenditure (including for maintenance) during that time, using existing capital resources (including anticipated internally generated funds during that period) and a portion of the proceeds from the Offering. Although this investment is anticipated to increase X-FAB's production capacity and benefit its operational capabilities, it will have a significant impact on the Group's depreciation and amortization in future years. The precise levels of depreciation and amortization recognized in the future will depend on a variety of factors that cannot be predicted, including (i) the timing of investments over the three-year capital investment plan, (ii) the carrying value of existing and acquired assets, (iii) the residual life (for depreciation purposes) of existing and acquired assets, (iv) the residual value of existing and acquired assets and (v) the Group's optimization strategies (including allocation of production between fabs). Additionally, depreciation and amortization levels for existing assets could be in part impacted by utilization levels. X-FAB's depreciation and amortization in coming years will also be subject to implementation of its development plan for the recently acquired Altis Assets.

In particular, X-FAB is targeting investment of up to \$120 million in additional production capacity for 200-mm wafers, which is expected to result in additional capacity of approximately 7,000 WSPM at the Group's

Kuching and Dresden sites. This investment is scheduled to start in 2017 and planned for completion in 2019. The Group is also planning capital investment of up to \$32 million in its MEMS capabilities, including the construction of a 200-mm pilot line at its Erfurt fab and investment in “through-silicon via” and micro transfer printing capabilities, which is expected to be completed in 2018. X-FAB is targeting continued development of its SiC capabilities, with planned investment of up to \$12 million by 2019 in order to convert CMOS capacity at its Lubbock fab and grow its SiC capacity by as much as 6,000 WSPM. Planned investment at the Corbeil-Essonnes fab of up to \$60 million is targeted by the end of 2019, in order to support integration and conversion of the fab’s current 35,000 WSPM capacity with the Group’s product mix and improve utilization at the fab.

These targets and plans have been developed based upon assumptions with respect to X-FAB’s future business decisions and anticipated operating conditions, including projected increases in demand for X-FAB’s services based on the Group’s existing order backlog, feedback and demand projections from existing customers, analysis of historic growth and order trends, current levels of design and prototyping activities, and forecast growth in the Group’s industry and its strategic end-user markets. These targets and plans include the capital expenditure plans described above, but they do not include any potential further acquisitions. Although X-FAB plans to use a portion of the proceeds of the Offering to support these plans and targeted operating levels, the Group anticipates being able to meet these targets without Offering proceeds. X-FAB anticipates that these trends—along with X-FAB’s investment plans to further optimize the Group’s operations and expand manufacturing capacity, as well as targeted continued integration of activities at the Corbeil-Essonnes fab—will support revenue growth and continued utilization improvements in the medium term, with utilization rates expected to reach the mid-80s on a percentage basis. The Group’s ability to achieve the targets and implement the investment plans set out above will depend upon a number of factors, including the Group’s execution of its strategies, development and capital investment, as well as certain factors that are outside of its control. These include significant business, economic and competitive uncertainties and contingencies, such as growth in the markets where the Group operates, growth in its customers’ markets, and actions taken by the Group’s current and targeted customers and its counterparties. As a result, the Group’s actual results may vary from the targets set out above, and those variations may be material. See also “*Forward-Looking Statements*” and the risks set out in “*Risk Factors*.”

## **Description of Key Line Items**

### ***Revenue***

X-FAB’s revenue is principally derived from volume-production or PCM wafers, which are priced on a per-wafer basis for the applicable IC design (and typically agreed prior to production, then updated based on subsequent periodic negotiations with the relevant customer), and from NRE services (which includes technology services), which are charged based on an agreed development order for engineering support.

### ***Cost of sales***

Cost of sales consists principally of material expenses, depreciation and amortization, employee-related expenses, facility costs and costs of fixed assets, including maintenance and spare parts. Costs related to NRE services are also included within the cost of sales.

The principal elements of cost of sales include the following:

- ***Material expenses***

Material expenses primarily include the costs of raw wafers, test wafers, photomasks, resists, process gases, process chemicals, other operating supplies and external service costs for wafer manufacturing.

- ***Depreciation and amortization charges***

Depreciation and amortization charges primarily include the depreciation of cleanrooms and the Group's production equipment. The Group depreciates tools on a straight-line basis over a seven-year period, and buildings on a straight-line basis over 40-50 years.

- *Employee-related expenses*

Employee-related expenses primarily include employee wages and salaries, social security contributions, and benefits costs for operators, maintenance technicians and process engineers at the Group's fabs, as well as personnel in quality oversight, logistics, customer service, purchasing, shipment, procurement, IT production, yield improvement, and health and safety roles.

- *Facility costs*

Facility costs consist principally of the costs of electricity, water and other utilities.

- *Cost of fixed assets*

Cost of fixed assets primarily includes the costs of maintenance and spare parts for machines used in the Group's operations.

- *Other*

Other consists principally of insurance premiums, external quality analysis services, costs of packaging, inbound freight and warranty, telephone usage costs, training expenses and travel expenses as well as changes in inventory of finished and unfinished goods.

#### ***Research and development expenses***

Research and development expenses are calculated as X-FAB's expenditure on research and development (as incurred), primarily including costs for research and development personnel, materials, facility costs and depreciation on equipment used in research and development activities, less government grants received by the Group for research and development activities.

#### ***Selling expenses***

Selling expenses primarily include sales and marketing personnel, the cost of engineering staff that provide customer support and other marketing expenses.

#### ***General and administrative expenses***

General and administrative expenses primarily include Group and local management, finance and control personnel, human resources personnel, as well as business administration IT-related matters, maintenance of IT tools, costs of fixed assets related to IT and external service providers.

#### ***Rental income and expenses from investment properties***

Rental income from investment properties primarily includes income that the Group derives from rental of facilities on the grounds of its fabs in Dresden, Germany; Erfurt, Germany; Sarawak, Malaysia; and Lubbock, Texas, United States, including related utility and technical services provided by the Group. Expenses related to investment properties primarily includes expenses that the Group incurs from rental of facilities on the grounds of these fabs and related utility services.

#### ***Other income and other expenses***

Other income and other expenses primarily related to the Group's sale and leaseback transactions; gains and losses on disposals of property, plant and equipment; income and expenses from resales; and other items.



### ***Finance income***

Finance income primarily includes income recognized as exchange rate differences, amounts received by the Group from sale of financial assets, and any revaluation of financial assets (at the new fair market rate as at year-end).

### ***Finance expense***

Finance expense primarily includes expenses recognized as exchange rate differences and interest expenses from the Group's loans.

### ***Income tax***

Income tax comprises the Group's current and deferred taxation amounts, arising from German corporation and trade taxes (plus solidarity surcharge), United States federal income taxes and Malaysian tax charges.

## **Overview of Financial Results**

The following table shows X-FAB's consolidated statements of profit and loss from the past three years:

|   | <b>Years ended December 31</b> |              |             |
|---|--------------------------------|--------------|-------------|
|   | <b>2016</b>                    | <b>2015</b>  | <b>2014</b> |
|   | <i>(in millions of \$)</i>     |              |             |
| Revenue.....  | 512.9                          | 331.1        | 330.5       |
| Cost of sales .....                                   | (407.8)                        | (273.3)      | (279.0)     |
| <b>Gross profit</b> .....                             | <b>105.1</b>                   | <b>57.8</b>  | <b>51.5</b> |
| Research and development expenses .....               | (26.8)                         | (21.3)       | (20.7)      |
| Selling expenses .....                                | (7.4)                          | (6.2)        | (6.3)       |
| General and administrative expenses .....             | (22.8)                         | (18.2)       | (18.7)      |
| Rental income and expenses from investment properties | 1.9                            | 1.2          | 2.3         |
| Other income and other expenses.....                  | 0.5                            | 2.9          | 0.7         |
| <b>Operating profit</b> .....                         | <b>50.5</b>                    | <b>16.3</b>  | <b>8.7</b>  |
| Finance income .....                                  | 11.1                           | 14.1         | 15.4        |
| Finance costs .....                                   | (19.1)                         | (19.3)       | (9.7)       |
| <b>Net financial result</b> .....                     | <b>(8.0)</b>                   | <b>(5.2)</b> | <b>5.7</b>  |
| <b>Profit before taxes</b> .....                      | <b>42.5</b>                    | <b>11.1</b>  | <b>14.4</b> |
| Income tax.....                                       | 3.5                            | 2.3          | (0.9)       |
| <b>Profit for the year</b> .....                      | <b>46.0</b>                    | <b>13.4</b>  | <b>13.5</b> |

## **Results of operations for the years ended December 31, 2016 and 2015**

### ***Revenue***

Revenue increased by \$181.8 million, or 54.9 per cent., to \$512.9 million in 2016 from \$331.1 million in 2015, driven by growth in each of the Group's end-user market segments and supported by the acquisition of the Altis Assets, with effect from October 1, 2016, which contributed \$31.6 million to X-FAB's revenue in 2016. This increase was driven by increased demand and strong performance across the Group's operations, supported by

revenue from X-FAB's operations at the Corbeil-Essonnes fab. X-FAB's U.S. dollar-denominated sales increased significantly across the Group, due to an increase in demand from customers in Asia, and since sales at the Corbeil-Essonnes are largely denominated in U.S. dollars, which more than offset a moderate decline in euro-denominated sales in 2016 as compared to 2015.

X-FAB experienced strong revenue growth in the automotive end-user market of \$30.2 million, or 16.7 per cent., to \$211.0 million in 2016 from \$180.8 million in 2015, as a result of increased sales across the Group's operations, in particular from certain of X-FAB's largest customers. X-FAB's revenue in the industrial end-user market increased by \$7.8 million, or 16.9 per cent., to \$54.2 million in 2016 from \$46.4 million in 2015 primarily due to growth in X-FAB's customer base, in particular in Asia. The Group's revenue in the medical end-user market increased by \$2.3 million, or 21.5 per cent., to \$12.9 million in 2016 from \$10.6 million in 2015, primarily due to higher demand across the Group's existing customer base globally. X-FAB's revenue in the communications end-user market increased by \$112.2 million to \$154.9 million in 2016 from \$42.8 million in 2015, in part due to a significant increase in revenue from an existing customer in Asia (including \$93.8 million in revenue that was outsourced to another foundry), as well as customers in this end-user market on-boarded as part of the acquisition of Altis. X-FAB's revenue in the consumer end-user market increased by \$20.4 million, or 51.7 per cent., to \$60.0 million in 2016 from \$39.6 million in 2015, primarily due to higher demand in Europe and new customers in this end-user market on-boarded as part of the Altis Acquisition.

- *Volume-production (PCM) wafers*

PCM wafer revenue increased by \$181.9 million, or 63.0 per cent. to \$470.5 million in 2016 from \$288.6 million in 2015, driven by an increase in sales volumes of 150-mm and 200-mm wafers. Sales of 200-mm wafers increased by 111.2 per cent., which was supported by significant growth in outsourced production. Excluding outsourced production volumes and wafers produced by the recently acquired Corbeil-Essonnes fab, sales from the production of 200-mm wafers increased by 33.5 per cent. The Group's 150-mm sales volumes increased by approximately 2.9 per cent. from 2015 to 2016. Revenue from PCM wafers constituted 91.7 per cent. of total revenue in 2016 and 87.2 per cent. in 2015.

- *NRE services*

NRE services revenue remained broadly unchanged from 2015 to 2016, moving to \$42.4 million in 2016 from \$42.5 million in 2015. Revenue from NRE services constituted 8.3 per cent. of total revenue in 2016 and 12.8 per cent. in 2015.

The following table shows the breakdown between sources of revenue for the past two years:

|                       | <b>Years ended December 31</b> |             |
|-----------------------|--------------------------------|-------------|
|                       | <b>2016</b>                    | <b>2015</b> |
|                       | <i>(in millions of \$)</i>     |             |
| <b>PCM wafer</b>      |                                |             |
| 150-mm .....          | 132.3                          | 128.5       |
| 200-mm .....          | 338.2                          | 160.1       |
| Total PCM wafer ..... | 470.5                          | 288.6       |
| <b>NRE</b>            |                                |             |
| 150-mm .....          | 11.9                           | 17.9        |
| 200-mm .....          | 30.5                           | 24.6        |
| Total NRE .....       | 42.4                           | 42.5        |

|                    | <b>Years ended December 31</b> |              |
|--------------------|--------------------------------|--------------|
|                    | <b>2016</b>                    | <b>2015</b>  |
| <b>Total</b> ..... | <b>512.9</b>                   | <b>331.1</b> |

The level of revenue is also a function of the customer's currency of payment and fluctuations in the relevant exchange rates. X-FAB receives a significant majority of its revenues in U.S. dollars, with a lower amount in euros. Although the Group operates a fab in Sarawak, Malaysia, its revenues from these operations are typically earned in U.S. dollars. For further detail on the Group's accounting treatment for revenues in foreign currencies, see "Principal Accounting and Valuation Policies — Reporting Currency and Foreign-Currency Translation" below. The following table shows revenue by currency of payment for 2016 and 2015:

|  | <b>Years ended December 31</b> |                            |
|--|--------------------------------|----------------------------|
|  | <b>2016</b>                    | <b>2015</b>                |
|  | <i>(in millions)</i>           |                            |
| Euro.....                                    | 58.2                           | 62.0                       |
| U.S. dollar.....                             | 448.5                          | 262.3                      |
| MYR.....                                     | 0.0                            | 0.0                        |
| <b>Total revenue (in U.S. dollars)</b> ..... | <b>512.9<sup>(1)</sup></b>     | <b>331.1<sup>(2)</sup></b> |

Notes:

- (1) Calculated based on an average exchange rate during the year of \$1:€0.903.
- (2) Calculated based on an average exchange rate during the year of \$1:€0.901.

### **Cost of sales**

Cost of sales increased by \$134.5 million, or 49.2 per cent., to \$407.8 million in 2016 from \$273.3 million in 2015. This increase was principally due to higher levels of material expenses, employee-related expenses and fixed asset costs as a result of an increase of 68.0 per cent. in the number of wafers sold in 2016 as compared to 2015.

- *Material expenses*

The Group's material expenses increased by \$94.5 million to \$159.1 million in 2016 from \$64.6 million in 2015, principally due to higher sales volumes in 2016 as compared to 2015. Direct raw materials costs, including expenses for raw wafer materials used in X-FAB production activities, as well as raw wafer materials and manufacturing expenditure for outsourced manufacturing, increased by \$84.1 million, to \$123.1 million in 2016 from \$39.0 million in 2015. Excluding costs arising from outsourced manufacturing, X-FAB's direct materials costs increased by 16.8 per cent., primarily due to increased sales volumes. Indirect materials costs, such as process gases and chemicals, resist, test wafers and targets, increased by \$10.4 million, or 40.5 per cent., to \$35.9 million in 2016 from \$25.5 million in 2015, primarily due to higher sales volumes.

- *Depreciation and amortization charges*

The Group's depreciation and amortization charges increased by \$2.9 million, or 7.6 per cent., to \$41.0 million in 2016 from \$38.1 million in 2015, principally due to a higher asset base compared to 2015 as

a result of capital expenditure during the course of 2015 in order to prepare the Group for anticipated demand and production growth (in particular for 0.35µm ICs in Kuching and in Dresden, 0.18µm ICs in Kuching and for MEMS capabilities in Erfurt).

- *Employee-related expenses*

The Group's employee-related expenses increased by \$22.2 million, or 24.2 per cent., to \$113.9 million in 2016 from \$91.7 million in 2015. This increase was principally due to an increase in X-FAB's average employee headcount, to 2,946 employees in 2016 from 2,520 employees in 2015. The majority of this increase was in employees in production activities, which increased to an average of 2,500 in 2016 from an average of 2,124 in 2015. Additionally, the Group's operations at the Corbeil-Essonnes fab commenced on October 1, 2016, which resulted in higher headcount levels from that date. The increase in employee-related expenses was further due to higher levels of bonus payments as a result of X-FAB's strong operating results in 2016.

- *Facility costs*

The Group's facility costs increased by \$6.2 million, or 16.8 per cent., to \$43.2 million in 2016 from \$37.0 million in 2015. This increase is principally due to utility costs incurred as a result of operations at the Corbeil-Essonnes fab, which commenced on October 1, 2016, along with moderate increases in cost across the Group's other five fabs.

- *Cost of fixed assets*

The Group's cost of fixed assets increased by \$14.1 million, or 41.3 per cent., to \$48.2 million in 2016 from \$34.1 million in 2015. This increase was principally due to expenses arising from the acquisition of the Altis Assets, which amounted to \$6.8 million, as well as higher costs of fixed assets, including spare parts, at the Group's Sarawak fab due to higher manufacturing activity and utilization in 2016 as compared to 2015.

- *Other*

The Group's other costs of sales decreased by \$5.4 million, or 69.2 per cent., to \$2.4 million in 2016 from \$7.8 million in 2015. This decrease was principally due to a net \$5.4 million increase in the Group's inventory of finished and unfinished wafers as between the two years, as well as moderate increases in other expenses including freight costs.

Between 2016 and 2015, the Group's cost of sales as a percentage of revenue decreased to 79.5 per cent. from 82.5 per cent. This decrease is primarily due to a significant increase in X-FAB's revenues from 2015 to 2016, as a result of higher volumes produced, which more than offset increases in the Group's cost of sales between the two years.

### ***Gross profit***

The Group's gross profit increased by \$47.3 million to \$105.1 million in 2016 from \$57.8 million in 2015, principally due to increased sales volumes and manufacturing operations across the Group's fabs. As a percentage of revenue, gross profit was 20.5 per cent. in 2016 and 17.5 per cent. in 2015.

X-FAB's average utilization rates for the past two years were 79 per cent. for 2016 and 68 per cent. for 2015. This improvement has been supported by efficiency initiatives undertaken by X-FAB in order to increase utilization levels in recent years, including a renewed focus on demand and product mix forecasting, targeted investment to reduce bottlenecks during the manufacturing process and planned sub-contracting of certain activities, as well as higher customer demand across the Group.

### ***Research and development expenses***

The Group's R&D expenses increased by \$5.5 million, or 25.8 per cent., to \$26.8 million in 2016 from \$21.3 million in 2015. This increase was principally due to an increase in expenditure on R&D staffing and moderately higher payments for software tools. Additionally, the acquisition of the Altis Assets resulted in higher levels of R&D expense as a result of higher R&D headcount from October 1, 2016.

R&D personnel increased to 243 in 2016 from 212 in 2015, as a result of continued growth in the Group's R&D capabilities, as well as R&D personnel that joined the Group as part of the Altis Acquisition.

As a percentage of revenue, R&D expenses were 5.2 per cent. in 2016 (6.4 per cent. in 2016 excluding outsourced revenue) and 6.4 per cent. in 2015.

### ***Selling expenses***

The Group's selling expenses increased by \$1.2 million, or 19.4 per cent., to \$7.4 million in 2016 from \$6.2 million in 2015. This increase was principally due to increased sales staffing across the Group, including additional sales employees that joined the Group as a result of the Altis Acquisition, as well as increased bonus levels to sales and marketing personnel as a result of X-FAB's strong operating results in 2016.

As a percentage of revenue, selling expenses were 1.4 per cent. in 2016 (1.8 per cent. in 2016 excluding outsourced revenue) and 1.9 per cent. in 2015.

### ***General and administrative expenses***

The Group's general and administrative expenses increased by \$4.6 million, or 25.3 per cent., to \$22.8 million in 2016 from \$18.2 million in 2015. This increase was principally due to staff-related expenses from higher headcount levels in the Group's administrative activities as a result of increased operations, in particular in the Group's information technology function, and as a result of the commencement of activities at the Corbeil-Essonnes fab.

As a percentage of revenue, general and administrative expenses were 4.4 per cent. in 2016 (5.4 per cent. in 2016 excluding outsourced revenue) and 5.5 per cent. in 2015.

### ***Rental income and expenses from investment properties***

The Group's net rental income from investment properties increased by \$0.7 million to \$1.9 million in 2016 from \$1.2 million in 2015. This increase was primarily due to increased tenant usage of utility and media services and technical services provided by the Group at its Dresden site. This resulted in an increase in rental income (including income from technical services) of \$0.9 million, or 9.7 per cent., to \$10.2 million in 2016 from \$9.3 million in 2015, which was partially offset by an increase in rental expenses related to investment properties (including expenses from technical services) of \$0.2 million, or 2.5 per cent., to \$8.3 million in 2016 from \$8.1 million in 2015.

### ***Other income and other expenses***

The Group's other income and other expenses decreased by \$2.4 million to \$0.5 million in 2016 from \$2.9 million in 2015. This decrease was principally due to disposals of \$2.0 million of property, plant and equipment from the Group's Dresden fab during 2015 that were not repeated in 2016.

### ***Operating profit***

The Group's operating profit increased by \$34.2 million to \$50.5 million in 2016 from \$16.3 million in 2015, as a result of the factors discussed above.

### ***Net finance expense***

The Group's net finance expense increased by \$2.8 million, or 53.8 per cent., to \$8.0 million in 2016 from \$5.2 million in 2015. This increase was primarily due to higher levels of Group borrowing and a net loss on

Malaysian Ringgit derivative financial instruments during 2016, as compared to a moderate gain in 2015. These items more than offset improvement in the Group's net income from exchange rate differences in 2016 (from a moderate loss in 2015).

### ***Income tax***

The Group recognized an income tax gain of \$3.5 million (on profit before taxes of \$42.5 million) in 2016, as compared to an income tax gain of \$2.3 million (on profit before taxes of \$11.1 million) in 2015. The income tax gain in 2016 was primarily due to utilization of deferred tax assets during the year.

### ***Profit for the year***

The Group's profit for the year increased to \$46.0 million in 2016 from \$13.4 million in 2015, as a result of the factors discussed above.

## **Results of operations for the years ended December 31, 2015 and 2014**

### ***Revenue***

Revenue remained broadly unchanged from 2014 to 2015, moving to \$331.1 million in 2015 from \$330.5 million in 2014. While X-FAB's U.S. dollar-denominated revenues increased by \$20.4 million, or 8.4 per cent., from 2014 to 2015 due to higher demand, this growth was broadly offset by a moderate decline in euro-denominated sales and the currency impact of a sharp depreciation in the euro as against the U.S. dollar between the two years, which further reduced X-FAB's reported revenues from euro sources.

Including the impact of currency fluctuations, X-FAB experienced growth of \$10.8 million, or 34.0 per cent., in revenues in the communications end-user market from 2014 to 2015, which was primarily due to an increase in revenues from one of the Group's existing customers, and of \$3.0 million, or 40.0 per cent., in revenues in the medical end-user market from 2014 to 2015, which was primarily due to higher manufacturing volumes for many existing customers, as well as the acquisition of new customers as between the two years. The Group also experienced moderate growth in the automotive and industrial end-user markets. Increases across these four end-user markets were broadly offset by decreases of \$8.0 million, or 16.9 per cent., in revenues from customers in the end-user market for consumer devices, primarily due to end-user market cyclicality in this end-user market, which has historically been characterized by shorter product life-cycles than X-FAB's other end-user markets, and of \$8.1 million in other revenues.

- *Volume-production (PCM) wafers*

PCM wafer revenue was broadly stable from 2014 to 2015, moving to \$288.6 million in 2015 from \$288.5 million in 2014, respectively, including the impact of exchange rate fluctuations described above. The Group's sales of 200-mm wafers increased by 30.2 per cent. from 2014 to 2015. These increases were substantially offset by a decrease in sales of 150-mm of 22.4 per cent. Revenue from PCM wafers constituted 87.2 per cent. of total revenue in 2015, as compared to 87.3 per cent. of total revenue in 2014.

- *NRE services*

NRE services revenue increased by \$0.8 million, or 1.9 per cent., to \$42.5 million in 2015 from \$41.7 million in 2014. Revenue from NRE services constituted 12.8 per cent. of total revenue in 2015 and 12.6 per cent. in 2014.

The following table shows the breakdown between sources of revenue for 2015 and 2014:

|                       | <b>Years ended December 31</b> |                            |
|-----------------------|--------------------------------|----------------------------|
|                       | <b>2015</b>                    | <b>2014</b>                |
|                       | <i>(in millions of \$)</i>     |                            |
| PCM wafer             |                                |                            |
| 150-mm .....          | 128.5                          | 165.5                      |
| 200-mm .....          | 160.1                          | 123.0                      |
| Total PCM wafer ..... | 288.6                          | 288.5                      |
| NRE                   |                                |                            |
| 150-mm .....          | 17.9                           | 22.6                       |
| 200-mm .....          | 24.6                           | 19.1                       |
| Total NRE .....       | 42.5                           | 41.7                       |
| <b>Total</b> .....    | <b>331.1</b>                   | <b>330.5<sup>(1)</sup></b> |

Note:

(1) Revenue in 2014 included “other” revenue of \$0.4 million, see note 6.1 to the Historical Financial Information.

The level of revenue is also a function of the customer’s currency of payment and fluctuations in the relevant exchange rates. For further detail on the Group’s accounting treatment for revenues in foreign currencies, see “*Principal Accounting and Valuation Policies — Reporting Currency and Foreign-Currency Translation*” below. The following table shows revenue by currency of payment for 2015 and 2014:

|  | <b>Years ended December 31</b> |                            |
|--|--------------------------------|----------------------------|
|  | <b>2015</b>                    | <b>2014</b>                |
|  | <i>(in millions)</i>           |                            |
| Euro .....                                   | 62.0                           | 66.4                       |
| U.S. dollar .....                            | 262.3                          | 241.9                      |
| MYR .....                                    | 0.0                            | 0.0                        |
| <b>Total revenue (in U.S. dollars)</b> ..... | <b>331.1<sup>(1)</sup></b>     | <b>330.5<sup>(2)</sup></b> |

Notes:

(1) Calculated based on an average exchange rate during the year of \$1:€0.901.

(2) Calculated based on an average exchange rate during the year of \$1:€0.752.

### ***Cost of sales***

Cost of sales decreased by \$5.7 million, or 2.0 per cent., to \$273.3 million in 2015 from \$279.0 million in 2014, principally due to the impact of exchange rate movements on X-FAB’s operations in Germany and Malaysia, which more than offset slightly higher sales volumes in 2015 as compared to 2014. In particular, the Group’s

reported employee-related expenses, which comprise a substantial proportion of its total cost of sales, decreased significantly due to fluctuations in the euro and the Malaysian Ringgit as against the U.S. dollar from 2014 to 2015. These currency fluctuations also led to lower reported cost of sales from operating expenses, such as utility expenses, which are incurred by the Group's fabs in their home-country currencies.

- *Material expenses*

The Group's material expenses were broadly unchanged from 2014 to 2015, at \$64.6 million in 2015 and \$64.1 million in 2014. While an increase in production activities led to higher levels of local currency expenditure on manufacturing materials at the Group's fabs, for example due to higher volumes of process gasses used during the year which resulted in increases in euro and Malaysian Ringgit expenditure at the fabs, this increase was largely offset by depreciation in the euro and Malaysian Ringgit when translated into U.S. dollars.

- *Depreciation and amortization charges*

The Group's depreciation and amortization charges increased by \$0.9 million, or 2.4 per cent., to \$38.1 million in 2015 from \$37.2 million in 2014, principally due to a moderate increase in capital expenditures in 2015 as compared to 2014. This expenditure primarily included technical machinery and equipment used in the Group's manufacturing operations.

- *Employee-related expenses*

The Group's employee-related expenses decreased by \$7.0 million, or 7.1 per cent., to \$91.7 million in 2015 from \$98.7 million in 2014, principally due to the impact of currency fluctuations. Since the significant majority of X-FAB employees are paid in the local currency in the jurisdiction where they are located, a sharp depreciation in the value of the euro and the Malaysian Ringgit as against the U.S. dollar from 2014 to 2015 resulted in lower reported employee-related expenses for X-FAB's operations in Germany and Malaysia. The impact of these currency movements more than offset an increase in X-FAB's average headcount from 2,319 employees in 2014 to 2,520 employees in 2015. The vast majority of this increase was due to the hiring of additional persons involved in production activities as a result of increased orders during the course of 2015 and anticipated continued growth in 2016.

- *Facility costs*

The Group's facility costs decreased by \$4.5 million, or 10.8 per cent., to \$37.0 million in 2015 from \$41.5 million in 2014, principally due to the impact of currency fluctuations. In particular, the depreciation in the value of the euro and Malaysian Ringgit as against the U.S. dollar resulted in lower reported expenditure on utilities, including electricity and water, at the Group's fabs in Germany and Malaysia when translated into U.S. dollars. Utility usage and expenditure were broadly stable from 2014 to 2015, in particular as electricity expenses comprise the most significant part of facility costs, and they are typically incurred on a fixed basis since the machinery and climate control equipment located at each fab is in operation at all times in order to control the cleanroom climate and manufacturing environment.

- *Cost of fixed assets*

The Group's cost of fixed assets increased by \$1.3 million, or 4.0 per cent., to \$34.1 million in 2015 from \$32.8 million in 2014, principally due to moderate increases in prices for spare machinery parts used in the course of X-FAB's manufacturing operations, in particular for 150-mm equipment due to shortage of available supply. Those increases were partially offset by lower levels of expenditure on maintenance activities during 2015 as compared to 2014.

- *Other*



The Group's other costs of sales increased by \$3.3 million, or 73.3 per cent., to \$7.8 million in 2015 from \$4.5 million in 2014, principally due to a net \$4.4 million increase in the Group's inventory levels as between the two years, which was partially offset by an increase in the credit against cost of sales for wafers used by X-FAB's research and development personnel as compared to the prior year.

Between 2015 and 2014, the Group's cost of sales as a percentage of revenue decreased to 82.5 per cent. from 84.4 per cent., primarily due to the impact of currency fluctuations as a result of appreciation of the U.S. dollar as against the euro and Malaysian Ringgit from 2014 to 2015, which resulted in a sharp decrease in X-FAB's reported cost of sales.

### ***Gross profit***

The Group's gross profit increased by \$6.3 million, or 12.2 per cent., to \$57.8 million in 2015 from \$51.5 million in 2014, principally due to declines in X-FAB's cost of sales and moderate improvements in the Group's utilization levels as between the two years. As a percentage of revenue, gross profit was 17.5 per cent. in 2015 and 15.6 per cent. in 2014.

X-FAB's average utilization levels for the past two years were 68 per cent. for 2015 and 66 per cent. for 2014.

### ***Research and development expenses***

The Group's R&D expenses increased by \$0.6 million, or 2.9 per cent., to \$21.3 million in 2015 from \$20.7 million in 2014, principally due to increased levels of R&D activity during the year. In particular, X-FAB's expenditure on wafers for use in R&D activities increased from 2014 to 2015, including raw wafer costs and the allocation of Group-wide wafer costs to R&D initiatives. This increase was partially offset by the currency impact of the sharp fall in the euro and Malaysian Ringgit against the U.S. dollar from 2014 to 2015, which resulted in lower levels of reported employee-related R&D expense as between the two years despite an increase in R&D employee headcount over that period.

R&D personnel increased from 192 in 2014 to 212 in 2015, as a result of continued growth in the Group's R&D capabilities.

As a percentage of revenue, R&D expenses were 6.4 per cent. in 2015 and 6.3 per cent. in 2014.

### ***Selling expenses***

The Group's selling expenses were broadly unchanged from 2014 to 2015, at \$6.2 million in 2015 and \$6.3 million in 2014, following a slight decrease in sales commissions paid by X-FAB.

As a percentage of revenue, selling expenses were stable at 1.9 per cent. in 2015 and 2014.

### ***General and administrative expenses***

The Group's general and administrative expenses decreased by \$0.5 million, or 2.7 per cent., to \$18.2 million in 2015 from \$18.7 million in 2014, principally due to depreciation of the euro and the Malaysian Ringgit as against the U.S. dollar between 2014 and 2015.

As a percentage of revenue, general and administrative expenses were 5.5 per cent. in 2015 and 5.7 per cent. in 2014.

### ***Rental income and expenses from investment properties***

The Group's net rental income from investment properties decreased by \$1.1 million to \$1.2 million in 2015 from \$2.3 million in 2014. This decrease was due to a decrease in rental income of \$2.3 million, or 19.8 per cent., to \$9.3 million in 2015 from \$11.6 million in 2014, which was primarily a result of decreased tenant usage of utilities and technical services provided by the Group at its Dresden site. This decrease in income from technical services was partially offset by a decrease in expenses related to investment properties of \$1.3 million, or 13.7 per cent, which was primarily due to a decrease in expenses from the provision of these services.

### ***Other income and other expenses***

The Group's other income and other expenses increased by \$2.2 million to \$2.9 million in 2015 from \$0.7 million in 2014. This increase was principally due to a gain on disposal of \$2.0 million from the disposal of property, plant and equipment from the Group's Dresden fab in 2015.

### ***Operating profit***

The Group's operating profit increased by \$7.6 million, or 87.4 per cent., to \$16.3 million in 2015 from \$8.7 million in 2014, as a result of the factors discussed above.

### ***Net finance expense***

The Group incurred a net finance loss of \$5.2 million in 2015 compared with a net finance gain of \$5.7 million in 2014. X-FAB's net finance income in 2014 was primarily due to the sale of financial assets, which resulted in income of \$9.4 million and, together with income of \$5.7 million from exchange rate differences, more than offset the Group's financial expenses of \$9.7 million incurred primarily due to the payment of interest expenses on bank loans and expenses from exchange rate differences during the year. X-FAB's finance expenses increased by \$9.6 million to \$19.3 million in 2015 from \$9.7 million in 2014, due to a significant increase in expenses from exchange rate differences. X-FAB did not sell or revalue any financial assets in 2015.

### ***Income tax***

The Group's income tax charge decreased from a charge of \$0.9 million in 2014 (on profit before taxes of \$14.4 million) to income tax of \$2.3 million (on profit before taxes of \$11.1 million), principally as a result of an increase in the amount of deferred tax assets utilized.

### ***Profit for the year***

The Group's profit for the year \$13.4 million in 2015 and 13.5 million in 2014, as a result of the factors discussed above.

## **Statement of Financial Position**

### **Assets**

The following table shows X-FAB's consolidated assets as at December 31, 2016, 2015 and 2014:

|                                     | <b>As at December 31</b>   |             |             |
|-------------------------------------|----------------------------|-------------|-------------|
|                                     | <b>2016</b>                | <b>2015</b> | <b>2014</b> |
|                                     | <i>(in millions of \$)</i> |             |             |
| <b>Assets</b>                       |                            |             |             |
| Non-current assets                  |                            |             |             |
| Property, plant and equipment ..... | 265.5                      | 231.6       | 210.7       |
| Investment properties.....          | 9.1                        | 9.6         | 10.9        |
| Intangible assets.....              | 7.9                        | 7.7         | 8.5         |
| Non-current investments.....        | 0.2                        | —           | —           |
| Other non-current assets .....      | 0.0                        | 0.1         | 0.1         |
| Deferred tax assets.....            | 19.9                       | 14.6        | 11.3        |
| Total non-current assets.....       | 302.6                      | 263.5       | 241.5       |
| Current assets                      |                            |             |             |

**As at December 31**

|                                   | <b>2016</b>                | <b>2015</b>  | <b>2014</b>  |
|-----------------------------------|----------------------------|--------------|--------------|
|                                   | <i>(in millions of \$)</i> |              |              |
| Inventories .....                 | 89.0                       | 61.9         | 56.5         |
| Trade and other receivables ..... | 77.3                       | 45.0         | 40.3         |
| Income tax receivables .....      | 4.5                        | —            | —            |
| Other assets .....                | 14.3                       | 11.0         | 15.9         |
| Cash and cash equivalents .....   | 104.2                      | 66.1         | 26.5         |
| <b>Total current assets</b> ..... | <b>289.3</b>               | <b>184.0</b> | <b>139.1</b> |
| <b>Total assets</b> .....         | <b>591.9</b>               | <b>447.5</b> | <b>380.6</b> |

***Property, plant and equipment; and investment properties***

The Group's property, plant and equipment increased by \$33.9 million, or 14.6 per cent., to \$265.5 million as at December 31, 2016 from \$231.6 million as at December 31, 2015. The Group's investment properties, primarily comprising properties let to third parties at the Group's Dresden, Erfurt and Lubbock sites, decreased by \$0.5 million, or 5.2 per cent., to \$9.1 million as at December 31, 2016 from \$9.6 million as at December 31, 2015. The increase in property, plant and equipment was due to continued investment by the Group in fixed assets during the course of 2016. In particular, X-FAB's property, plant and equipment (as measured by accumulated historical cost) increased by \$72.1 million (net of grants and disposals) in 2016, primarily as a result of investment in technical machinery and equipment, an increase in the amount of assets under construction to be used in the course of the Group's manufacturing operations across its network of fabs, and the acquisition of the Altis Assets. These increases were partially offset by depreciation during the year of property, plant and equipment of \$43.7 million, primarily to the Group's existing technical machinery and equipment. X-FAB received capital grants in 2016 of \$2.5 million.

The Group's property, plant and equipment increased by \$20.9 million, or 9.9 per cent., to \$231.6 million as at December 31, 2015 from \$210.7 million as at December 31, 2014. The Group's investment properties decreased by \$1.3 million, or 11.9 per cent., to \$9.6 million as at December 31, 2015 from \$10.9 million as at December 31, 2014. The increase in property, plant and equipment was due to continued investment by the Group in fixed assets during the course of 2015. X-FAB's property, plant and equipment (as measured by accumulated historical cost) increased by \$52.4 million (net of grants and disposals) in 2015, primarily due to increased levels of assets under construction and investments in technical machinery and equipment. These increases were partially offset by depreciation during the year of property, plant and equipment of \$40.0 million, primarily to the Group's existing technical machinery and equipment. X-FAB received capital grants in 2015 of \$7.4 million

***Intangible assets***

The Group's intangible assets increased by \$0.2 million, or 2.6 per cent., to \$7.9 million as at December 31, 2016 from \$7.7 million as at December 31, 2015. This increase was due to investment in intangible assets of \$3.1 million in 2016, including for licenses and payments on account (primarily comprising advance and milestone payments made for the acquisition of software licenses and customization of software during in-process projects). This increase was partially offset by amortization of \$3.0 million during the year.

The Group's intangible assets decreased by \$0.8 million, or 9.4 per cent., to \$7.7 million as at December 31, 2015 from \$8.5 million as at December 31, 2014. This decrease was due to amortization of \$2.9 million in 2015, and investment of \$2.1 million during the year.

#### ***Deferred tax assets***

The Group's deferred tax assets increased by \$5.3 million, or 36.3 per cent., to \$19.9 million as at December 31, 2016 from \$14.6 million as at December 31, 2015. This increase was primarily due to the recognition of \$8.8 million in previously unrecognized deferred tax assets arising from temporary differences on property, plant & equipment at X-FAB Sarawak, which were partially offset by a decrease of \$3.7 million in recognized deferred tax assets of X-FAB AG.

The Group's deferred tax assets increased by \$3.3 million, or 29.2 per cent., to \$14.6 million as at December 31, 2015 from \$11.3 million as at December 31, 2014. This increase was primarily due to the recognition of \$4.9 million in previously unrecognized deferred tax assets arising from temporary differences in property, plant and equipment at X-FAB Sarawak, which were partially offset by a decrease of \$1.1 million in recognized deferred tax assets of X-FAB AG.

The Group recognizes deferred tax assets in respect of tax savings, evaluated with reasonable certainty as to the likelihood of future utilization, that it anticipates will be made in future periods from the use of losses carried forward and from the reversal of timing differences arising on the difference between the accounting and tax values of the Group's assets. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled, based on tax rates enacted or substantially enacted at the statement of financial position date. The Group's various German operations incur federal income taxes and local trade taxes which result in overall effective tax rates of between 31.58 per cent. and 32.28 per cent. The federal income tax rate applicable to the Group's earnings in the United States is 34.20 per cent., the tax rate applicable on earnings in Malaysia amounts to 25.00 per cent, and the tax rate applicable on earnings in France is 33.33 per cent. X-FAB anticipates that its effective tax rate will be lower than the statutory rate in the medium term due to its recognized deferred tax assets. For further detail on the Group's deferred tax assets, see notes 3.4, 4.18 and 6.13 in the Historical Financial Information.

#### ***Inventories***

The Group's inventories increased by \$27.1 million, or 43.8 per cent., to \$89.0 million as at December 31, 2016 from \$61.9 million as at December 31, 2015. This increase was primarily due to increased operations across the Group, corresponding to higher level of manufacturing activities and sales during 2016, which resulted in significantly higher levels of work in progress and materials and supplies. This increase was supported by an increase of \$11.4 million due to the acquisition of the Altis Assets.

The Group's inventories increased by \$5.4 million, or 9.6 per cent., to \$61.9 million as at December 31, 2015 from \$56.5 million as at December 31, 2014. This increase was primarily due to higher levels of materials and supplies, in response to increased demand and sales growth during 2015 and expected to continue in 2016, as well as a moderate increase in work in progress. These increases offset a moderate decline in finished goods during 2015.

#### ***Trade and other receivables***

The Group's trade and other receivables increased by \$32.3 million, or 71.8 per cent., to \$77.3 million as at December 31, 2016 from \$45.0 million as at December 31, 2015. This increase broadly corresponds with the higher levels of sales during 2016, including due to the acquisition of the Altis Assets and commencement of operations at the Corbeil-Essonnes fab from October 1, 2016.

The Group's trade and other receivables increased by \$4.7 million, or 11.7 per cent., to \$45.0 million as at December 31, 2015 from \$40.3 million as at December 31, 2014. This increase broadly corresponds with the higher volumes of sales and increased operating activities during 2015.

#### ***Income tax receivables***

The Group's income tax receivables increased to \$4.5 million as at December 31, 2016 from nil as at December 31, 2015. This increase was primarily due to tax credits acquired by the Group as part of its acquisition of the Altis Assets, as well as recognition by X-FAB AG of a withholding tax receivable of \$0.7 million.

The Group did not have any income tax receivables as at as at December 31, 2015 or December 31, 2014.

#### ***Other assets***

The Group's other assets increased by \$3.3 million, or 30.0 per cent., to \$14.3 million as at December 31, 2016 from \$11.0 million as at December 31, 2015. This increase was primarily due to an increase in VAT receivables of \$2.6 million during 2016, as well as an increase of \$2.4 million in prepaid expenses.

The Group's other assets decreased by \$4.9 million, or 30.8 per cent., to \$11.0 million as at December 31, 2015 from \$15.9 million as at December 31, 2014. This decrease was primarily due to a decrease of \$5.1 million in R&D grants receivable in 2015 as compared to 2014, as well as a moderate decrease in the levels of VAT receivables in 2015 as compared to the prior year.

#### ***Cash and cash equivalents***

The Group's cash and cash equivalents increased by \$38.1 million, or 57.6 per cent., to \$104.2 million as at December 31, 2016 from \$66.1 million as at December 31, 2015. This increase was due to cash inflows from operating activities of \$73.9 million and from financing activities of \$45.9 million in 2016, which more than offset cash outflows from investing activities of \$81.6 million during the year.

The Group's cash and cash equivalents increased by \$39.6 million to \$66.1 million as at December 31, 2015 from \$26.5 million as at December 31, 2014. This increase was due to cash inflows from operating activities of \$37.8 million and from financing activities of \$66.7 million in 2015, which more than offset cash outflows from investing activities of \$64.7 million during the year.

#### **Equity and Liabilities**

The following table shows X-FAB's consolidated equity and liabilities as at December 31, 2016, 2015 and 2014:

|   | <b>As at December 31</b>   |             |             |
|---|----------------------------|-------------|-------------|
|   | <b>2016</b>                | <b>2015</b> | <b>2014</b> |
|   | <i>(in millions of \$)</i> |             |             |
| <b>Equity and liabilities</b>                               |                            |             |             |
| Equity  |                            |             |             |
| Share Capital.....  | 265.2                      | 265.2       | 265.2       |
| Share Premium .....   | 255.3                      | 255.3       | 255.3       |
| Retained earnings .....                                     | (196.5)                    | (242.4)     | (255.3)     |
| Cumulative translation adjustment .....                     | (0.9)                      | (0.7)       | (0.4)       |
| Treasury shares .....                                       | (0.8)                      | (0.8)       | (0.8)       |
| Total equity attributable to equity holders of the parent.. | 322.3                      | 276.6       | 264.1       |
| Non-controlling interests .....                             | 0.4                        | 0.4         | 0.4         |

|   | <b>As at December 31</b>   |              |              |
|---|----------------------------|--------------|--------------|
|   | <b>2016</b>                | <b>2015</b>  | <b>2014</b>  |
| <b>Equity and liabilities</b>             | <i>(in millions of \$)</i> |              |              |
| <b>Total equity</b> .....                 | <b>322.7</b>               | <b>276.9</b> | <b>264.5</b> |
| Non-current liabilities                   |                            |              |              |
| Non-current loans and borrowings .....    | 132.4                      | 102.5        | 51.1         |
| Non-current provisions .....              | 0.1                        | 0.1          | 0.1          |
| Other non-current liabilities.....        | 8.4                        | 1.5          | 2.0          |
| Total non-current liabilities .....       | 140.9                      | 104.1        | 53.1         |
| Current liabilities                       |                            |              |              |
| Trade payables .....                      | 49.0                       | 12.3         | 21.7         |
| Current loans and borrowings.....         | 31.4                       | 16.8         | 11.3         |
| Income tax payable .....                  | 1.6                        | 2.6          | 2.0          |
| Provisions .....                          | 1.6                        | 1.1          | 0.8          |
| Other current liabilities .....           | 44.6                       | 33.7         | 27.3         |
| Total current liabilities .....           | 128.3                      | 66.5         | 63.1         |
| <b>Total equity and liabilities</b> ..... | <b>591.9</b>               | <b>447.5</b> | <b>380.6</b> |

## Equity

The Group's equity increased by \$45.8 million, or 16.5 per cent., to \$322.7 million as at December 31, 2016 from \$276.9 million as at December 31, 2015. This increase was due to the Group's profit for the year in 2016.

The Group's equity increased by \$12.4 million, or 4.7 per cent., to \$276.9 million as at December 31, 2015 from \$264.5 million as at December 31, 2014. This increase was due to the Group's profit for the year in 2015.

As at December 31, 2016, the Group's balance sheet reflected retained earnings of \$(196.5) million, as compared to \$(242.4) million and \$(255.3) million as at December 31, 2015 and 2014, respectively. These negative retained earnings amounts are primarily the result of the Group's acquisition of X-FAB Sarawak Sdn. Bhd. in 2006 by way of a reverse acquisition. Due to a difference between the legal structure of the transaction (under which X-FAB Silicon Foundries SE became the parent company of the Group, including X-FAB Semiconductor Foundries AG and X-FAB Sarawak) and the accounting treatment, the equity structure of the Group from 2006 reflects the legal share capital of the new parent entity whereas the share capital in the consolidated balance sheet reflects the amount recognized as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the 2006 reverse acquisition to the fair value of the legal parent (accounting acquiree) at that date. See note 4.14 to the Historical Financial Information.

## Liabilities

### *Non-current loans and borrowings*

The Group's non-current loans and borrowings increased by \$29.9 million, or 29.2 per cent., to \$132.4 million as at December 31, 2016 from \$102.5 million as at December 31, 2015. This increase was primarily due to the Group's entry into new non-current loan and borrowing facilities of \$60.9 million in 2016, as well as \$2.1

million related to discounting and preferred dividends in respect of the Group's loan payable to Sarawak TH (described below under "*Liquidity and Capital Resources — Future cash needs and sources of cash.*") These increases were partially offset by the repayment of \$20.9 million in borrowings during 2016, as well as a decrease of \$3.8 million from currency effects due to exchange rate fluctuations, as a significant portion of the Group's borrowings are denominated in euro.

The Group's non-current loans and borrowings increased by \$51.4 million to \$102.5 million as at December 31, 2015 from \$51.1 million as at December 31, 2014. This increase was primarily due to the Group's entry into new non-current loan and borrowing facilities of \$69.2 million in 2015, as well as \$2.1 million related to discounting and preferred dividends in respect of the Group's loan payable to Sarawak TH. These increases were partially offset by the repayment of \$13.8 million in borrowings during 2015, as well as a decrease of \$4.6 million from currency effects due to exchange rate fluctuations, as a significant portion of the Group's borrowings are denominated in euro.

#### ***Other non-current liabilities***

The Group's other non-current liabilities increased by \$6.9 million to \$8.4 million as at December 31, 2016 from \$1.5 million as at December 31, 2015. The Group's other non-current liabilities primarily comprise defined pension obligations and deferred rental income. This increase in other non-current liabilities was primarily due to the acquisition of the Altis Assets, which resulted in the recognition of \$7.1 million in net defined benefit obligations under a long service retirement scheme. For further details on this scheme, see note 7.11 to the Historical Financial Information.

The Group's other non-current liabilities decreased by \$0.5 million, or 25.0 per cent., to \$1.5 million as at December 31, 2015 from \$2.0 million as at December 31, 2014. This decrease was due to a decrease in deferred rental income during 2015.

#### ***Trade payables***

The Group's trade payables increased by \$36.7 million to \$49.0 million as at December 31, 2016 from \$12.3 million as at December 31, 2015. This increase broadly corresponds with the higher levels of operating activities during 2016, including due to the commencement of operations at the Corbeil-Essonnes fab from October 1, 2016.

The Group's trade payables decreased by \$9.4 million, or 43.3 per cent., to \$12.3 million as at December 31, 2015 from \$21.7 million as at December 31, 2014. This decrease due to typical fluctuations during the course of normal operations.

#### ***Current loans and borrowings***

The Group's current loans and borrowings increased by \$14.6 million, or 86.9 per cent., to \$31.4 million as at December 31, 2016 from \$16.8 million as at December 31, 2015. This increase was primarily due to the reclassification of non-current loans and borrowings as current loans and borrowings during the year, comprising an increase of \$11.9 million in current loans and borrowings during 2016. The Group's increase in current loans and borrowings was also due to an increase in lease arrangements following its entry into sale and leaseback transactions in 2015 and 2016, which led to current lease liabilities of \$1.0 million in 2015 and \$2.0 million in 2016. These increases were partially offset by the repayment of loans and borrowings during the course of the year.

The Group's current loans and borrowings increased by \$5.5 million, or 48.7 per cent., to \$16.8 million as at December 31, 2015 from \$11.3 million as at December 31, 2014. This increase was primarily due to the reclassification of non-current loans and borrowings as current loans and borrowings during the year, comprising an increase of \$8.5 million in current loans and borrowings during 2015. The Group's increase in current loans and borrowings was also due to the commencement of lease arrangements following its entry into

sale and leaseback transactions in 2015, which led to current lease liabilities of \$1.0 million in 2015 (2014: nil). These increases were partially offset by the repayment of loans and borrowings during the course of the year.

### ***Income tax payable***

The Group's income tax payable decreased by \$1.0 million, or 38.5 per cent., to \$1.6 million as at December 31, 2016 from \$2.6 million as at December 31, 2015. This decrease was primarily due to prepayment by X-FAB AG of \$0.7 million of trade and corporation tax for 2016, as well as payment of certain tax amounts in respect of 2014 that were paid in 2016.

The Group's income tax payable increased by \$0.6 million, or 30.0 per cent., to \$2.6 million as at December 31, 2015 from \$2.0 million as at December 31, 2014. This increase was primarily due to trade and corporation tax in respect of 2014 that was not paid by the Group during the course of 2015.

### ***Provisions***

The Group's provisions increased by \$0.5 million, or 45.5 per cent., to \$1.6 million as at December 31, 2016 from \$1.1 million as at December 31, 2015. This increase was primarily due to higher sales volumes across the Group during 2016, which resulted in a higher level of warranty provisions recorded during the year.

The Group's provisions increased by \$0.3 million, or 37.5 per cent., to \$1.1 million as at December 31, 2015 from \$0.8 million as at December 31, 2014. This increase was primarily due to higher sales volumes across the Group during 2015, which resulted in a higher level of warranty provisions recorded during the year.

### ***Other current liabilities***

The Group's other current liabilities increased by \$10.9 million, or 32.3 per cent., to \$44.6 million as at December 31, 2016 from \$33.7 million as at December 31, 2015. This increase was primarily due to the Group's recognition of \$6.0 million in other current liabilities arising from the negative fair value of currency hedges, due to fluctuations between the U.S. dollar and Malaysian Ringgit during the course of the year, as well as the recognition of \$2.7 million in other current liabilities as part of the acquisition of the Altis Assets.

The Group's other current liabilities increased by \$6.4 million, or 23.4 per cent., to \$33.7 million as at December 31, 2015 from \$27.3 million as at December 31, 2014. This increase was primarily due to \$4.8 million in deferred income of X-FAB Sarawak that was recognized in 2015, which relates to prepayments for R&D grants for project expenses that had not yet been incurred.

## **Liquidity and Capital Resources**

### **Overview of Financial Liabilities and Liquidity**

X-FAB has historically generated adequate cash from sales of its products to meet its cash requirements. Although individual subsidiaries of X-FAB have, due to low utilization, not always been able to provide for their own cash requirements, X-FAB has to date been able to address this situation through intercompany loans or other cash advances for subsidiaries. Expenditures required for expansion of X-FAB's production lines and operations have generally been accomplished through capital increases by its shareholders.

Net cash provided by operating activities can be quite variable at the subsidiary level, even in an environment of stable production with stable revenues, since it depends on the timing of payments.

As at December 31, 2016, the Group's cash and cash equivalents were \$104.2 million. Additionally, as at December 31, 2016, the Group had \$18.7 million available under its undrawn credit lines.



## Origination and use of cash

|   | Years ended December 31    |             |             |
|---|----------------------------|-------------|-------------|
|   | 2016                       | 2015        | 2014        |
|   | <i>(in millions of \$)</i> |             |             |
| Cash flow from operating activities .....                                   | 73.9                       | 37.8        | 38.9        |
| Cash flow used in investing activities .....                                | (81.6)                     | (64.7)      | (8.7)       |
| Cash flow received from (used in) financing activities...                   | 45.9                       | 66.7        | (17.1)      |
| <b>Increase/(decrease) in cash and cash equivalents .....</b>               | <b>38.2</b>                | <b>39.8</b> | <b>13.1</b> |
| Cash and cash equivalents at the beginning of the year ..                   | 66.1                       | 26.5        | 13.8        |
| Effects of changes in foreign currency exchange rates on cash balances..... | (0.2)                      | (0.2)       | (0.5)       |
| <b>Cash and cash equivalents at the end of the year .....</b>               | <b>104.2</b>               | <b>66.1</b> | <b>26.5</b> |

### *Cash flow from operating activities*

The Group generated net cash from operating activities of \$73.9 million in 2016, an increase of \$36.1 million, or 95.5 per cent., compared to \$37.8 million in 2015. This increase was principally due to a significant increase in cash flows from higher sales levels across the Group in 2016 as compared to 2015, including as a result of the acquisition of the Altis Assets, which have been included in X-FAB's consolidated results since October 1, 2016. This increase in cash flows from sales more than offset net outflows reflected in changes in the Group's receivables/payables position, resulting in increases in trade receivables of \$32.8 million and other receivables and prepaid expenses of \$9.8 million, as compared to an increase in trade payables of \$34.8 million as at December 31, 2016.

The Group generated net cash from operating activities of \$37.8 million in 2015, a decrease of \$1.1 million, or 2.8 per cent., compared to \$38.9 million in 2014. This decrease was principally due to a moderate decline in operating results, driven by depreciation in the euro as against the U.S. dollar, and resulting in a decline in profit before tax of \$3.3 million from 2014 to 2015. This decrease was in part due to cash outflows reflected in changes in the Group's receivables/payables position, which resulted in an increase in trade receivables of \$4.8 million, as compared to a decrease in trade payables of \$10.9 million as at December 31, 2015.

### *Cash flow used in investing activities*

The Group's net cash used in investing activities was \$81.6 million in 2016, an increase of \$16.9 million, or 26.1 per cent., compared to \$64.7 million in 2015. This increase was principally due to X-FAB's acquisition of the Altis Assets, consolidated with the Group's operating results from October 1, 2016, which resulted in a cash outflow of \$10.2 million. X-FAB's cash payments for property, plant and equipment comprised the Group's primary cash outflows from investing activities in 2016 and 2015. These outflows were broadly stable as between the two years, at \$72.2 million in 2016 and \$71.3 million in 2015, and were primarily related to cash expenditure on assets under construction across the Group's fabs and on technical machinery and equipment.

The Group's net cash used in investing activities was \$64.7 million in 2015, an increase of \$56.0 million compared to \$8.7 million in 2014. This increase was principally the result of the receipt of non-recurring cash proceeds of \$41.7 million arising from the sale of its shareholding in Dialog Semiconductor plc in 2014, which offset a significant portion of the Group's cash outflows from investing activities during 2014. The Company's cash payments for property, plant, equipment and intangible assets increased by \$22.6 million in 2015 as compared to 2014, from \$48.7 million to \$71.3 million, as a result of increased expenditure on the

Group's MEMS manufacturing capabilities, as well as expansion of the Group's 200-mm manufacturing capacity at its Kuching and Dresden fabs, by 3,000 WSPM and 2,000 WSPM, respectively.

#### *Cash flow received from financing activities*

The Group's net cash received from financing activities was \$45.9 million in 2016, a decrease of \$20.8 million, or 31.2 per cent., compared to \$66.7 million in 2015. This change was principally due to a decrease of \$8.2 million in proceeds from loans and borrowings, from \$69.2 million in 2015 to \$61.0 million in 2016, and an increase of \$6.4 million in repayments of loans and borrowings, from \$13.0 million in 2015 to \$19.4 million in 2016. The Group also received cash proceeds of \$6.2 million in 2016 following entry into sale and leaseback agreements during the year related to machinery at the Group's Dresden fab, which more than offset payments of lease instalments of \$1.6 million during the year.

The Group's net cash received from financing activities was \$66.7 million in 2015, as compared to net cash used in financing activities of \$17.1 million in 2014. This change is principally due to an increase of \$39.5 million in borrowings proceeds received, from \$29.7 million in 2014 to \$69.2 million in 2015, as a result of new borrowings during the course of 2015. Cash outflows for the repayment of borrowings decreased by \$35.7 million as between the two years, from \$48.7 million in 2014 to \$13.0 million in 2015. The Group also received cash proceeds of \$5.2 million in 2015 following entry into sale and leaseback agreements during the year related to machinery at the Group's Dresden fab, which were partially offset by payments of lease instalments of \$0.7 million during the year.

#### *Future cash needs and sources of cash*

The Group's principal sources of liquidity are its existing cash and cash equivalents, cash generated from operations, and certain credit facilities. As at December 31, 2016, the Group total borrowings (including credit lines, bank loans, overdrafts, leasing arrangements, and the loan from Sarawak TH further described below) in a total amount of \$163.8 million, including \$118.4 million secured by charges on plant, machinery and a mortgage on land and future rental income from the Group's investment property in Lubbock.

X-FAB's credit lines, bank loans and overdrafts are summarized below.

|  | Interest Rate<br>(per annum)   | Total<br>Commitment  | Amount<br>outstanding<br>as at<br>December 31,<br>2016 | Maturity<br>Date | Security |
|--|--------------------------------|----------------------|--|------------------|----------|
|  | <i>(per cent.)</i>             | <i>(in millions)</i> |  |                  |          |
| Credit facility agreement (Kreditanstalt für Wiederaufbau, Commerzbank and IKB Deutsche Industriebank) ..... | EURIBOR +<br>2.00              | €5.3                 | €5.3   | 12/31/2019       | (1)      |
| Bank loan (Plainscapital Bank).....  | 5.00                           | \$4.3                | \$0.5  | 07/2017          | (2)      |
| Credit facility agreement (Sachsen Bank (Landesbank Baden-Württemberg)) .....                                | EURIBOR<br>+2.9                | €2.0                 | €0.0   | N/A              | None     |
| Credit facility agreement (BNP Paribas Fortis NV/SA).....  | EURIBOR<br>+3.00               | €5.0                 | €0.0   | N/A              | (3)      |
| Credit facility agreement (Deutsche Bank)  | ECB<br>refinance<br>rate +2.75 | €3.0                 | €0.0   | N/A              | (3)      |
| Credit facility agreement (Commerzbank AG).....  | 4.43                           | €4.0                 | €0.0   | N/A              | None     |
| Credit facility agreement (Deutsche Bank AG).....  | 2.30                           | €8.0                 | €4.4   | 12/31/2018       | (4)      |

|   | Interest Rate<br>(per annum) | Total<br>Commitment  | Amount<br>outstanding<br>as at<br>December 31,<br>2016 | Maturity<br>Date | Security |
|---|------------------------------|----------------------|--|------------------|----------|
|   | <i>(per cent.)</i>           | <i>(in millions)</i> |  |                  |          |
| Credit facility agreement (Commerzbank AG).....                               | EURIBOR<br>+1.85             | €5.0                 | €2.7   | 12/31/2019       | (5)      |
| BNP Paribas Lease Group SA .....  | 2.5                          | €2.6                 | €1.9   | 06/01/2020       | (6)      |
| Credit facility agreement (HSBC Trinkaus & Burkhardt AG).....                 | 2.15                         | €13.0                | €9.8   | 09/30/2020       | (7)      |
| Credit facility agreement (Sparkasse Mittelthüringen) .....                   | 2.69                         | €5.0                 | €2.4   | 05/30/2019       | (8)      |
| Credit facility agreement (Sachsen Bank (Landesbank Baden-Württemberg)) ..... | EURIBOR<br>+2.00             | €7.5                 | €5.3   | 12/31/2019       | (9)      |
| Credit facility agreement (Commerzbank AG).....                               | EURIBOR<br>+1.75             | €10.0                | €7.5   | 09/30/2020       | (10)     |
| Credit facility agreement (Deutsche Bank AG).....                             | 1.95                         | €13.5                | €10.5  | 06/30/2020       | (10)     |
| Credit facility agreement (Sparkasse Jena-Saale-Holzland).....                | 1.95                         | €5.0                 | €3.7   | 09/30/2020       | (10)     |
| Credit facility agreement (BNP Paribas SA)..                                  | 1.40                         | €10.0                | €7.5   | 09/30/2020       | (10)     |
| Credit facility agreement (Sachsen Bank (Landesbank Baden-Württemberg)) ..... | EURIBOR<br>+1.912            | €10.0                | €10.0  | 09/30/2021       | (11)     |
| Credit facility agreement (Deutsche Bank AG).....                             | 1.55                         | €13.5                | €13.5  | 09/30/2021       | (12)     |
| Credit facility agreement (HSBC Trinkaus & Burkhardt AG).....                 | 1.64                         | €13.0                | €13.0  | 12/31/2021       | (12)     |
| Credit facility agreement (Commerzbank AG).....                               | EURIBOR<br>+1.69             | €10.0                | €9.5   | 09/30/2021       | (12)     |
| Credit facility agreement (BNP Paribas SA)..                                  | 1.70                         | €10.0                | €10.0  | 12/31/2021       | (12)     |

Notes:

- (1) Security over right to build; pledge over insurance and lease receivables.
- (2) Security over a lease agreement between X-FAB Texas as lessor and New Cingular Wireless PCS, LCC as lessee granted by X-FAB Texas.
- (3) Guarantee by X-FAB Silicon Foundries SE.
- (4) Transfer of property by way of security in respect of certain machinery by X-FAB Dresden GmbH & CO KG pursuant to a security agreement dated September 24, 2014.
- (5) Transfer of property by way of security in respect of certain machinery granted by X-FAB Semiconductor Foundries AG and X-FAB MEMS Foundry AG pursuant to a security agreement dated October 9, 2014.
- (6) Transfer of property by way of security in respect of certain machinery, first demand guarantee by X-FAB Silicon Foundries SE dated April 9, 2014.
- (7) Transfer of property by way of security in respect of certain assets granted by the borrower and X-FAB Dresden GmbH & Co.KG, X-FAB MEMS Foundry GmbH, X-FAB MEMS Foundry Itzehoe GmbH; guarantee by X-FAB Silicon Foundries SE.
- (8) Transfer of property by way of security in respect of certain machinery by X-FAB MEMS Foundry GmbH pursuant to a security agreement dated 27 March 2014; Guarantee granted by X-FAB Semiconductor Foundries AG.

- (9) Transfer of property by way of security in respect of certain assets granted by X-FAB Dresden GmbH & Co.KG, X-FAB MEMS Foundry GmbH, X-FAB MEMS Foundry Itzehoe GmbH; Guarantee dated September 23, 2015 by X-FAB Silicon Foundries SE.
- (10) Transfer of property by way of security in respect of certain assets granted by the borrower and X-FAB Dresden GmbH & Co.KG, X-FAB MEMS Foundry GmbH, X-FAB MEMS Foundry Itzehoe GmbH; Guarantee dated 23 September 2015 by X-FAB Silicon Foundries SE.
- (11) Transfer of property by way of security in respect of certain assets granted by X-FAB Dresden GmbH & Co.KG, X-FAB MEMS Foundry GmbH, X-FAB MEMS Foundry Itzehoe GmbH; Guarantee dated September 27, 2016 by X-FAB Silicon Foundries SE.
- (12) Transfer of property by way of security in respect of certain assets granted by the borrower and X-FAB Dresden GmbH & Co.KG, X-FAB MEMS Foundry GmbH, X-FAB MEMS Foundry Itzehoe GmbH.

As is usual for these types of finance facilities, the credit agreements listed in the table above contain certain covenants imposing a number of requirements on the relevant obligors, including, among other things, a negative pledge clause, obligations to provide certain information relating to the financial condition of the obligor and change of control provisions. Under certain of the credit agreements, the Company furthermore undertook to maintain its existing equity percentage in the share capital and relating percentage of voting rights of its respective subsidiaries.

In addition to the borrowings summarized above, at the time of X-FAB's merger with 1st Silicon (Malaysia) in 2006, X-FAB (through the acquired entity, renamed X-FAB Sarawak) received an interest-free loan in the amount of \$78.0 million from Sarawak Venture Incorporated ("SVI"), in consideration of *inter alia* assumption of certain debt obligations of the acquired entity by SVI and Sarawak Capital Resourced Ltd. ("SCR"). Under the terms of this agreement, the loan was repayable on September 1, 2016. On September 25, 2013, the terms of the loan agreement were modified such that (i) \$28.0 million of the loaned amount was waived by SVI, (ii) SVI assigned the right to repayment of the remaining \$50.0 million loaned amount to Sarawak TH, and (iii) the repayment date of the loan was extended to December 31, 2030. As part of this modification, Sarawak TH received redeemable preference shares from X-FAB Sarawak. X-FAB accounts for these redeemable preference shares as debt (see note 7.10 of the Historical Financial Information). These preference shares are eligible for redemption on December 31, 2030, and they confer upon the holder the right to receive a cumulative preference dividend of 2.0 per cent. (of the loan amount), to the extent that X-FAB Sarawak has sufficient net profits after taxation available for distribution for the relevant financial year (including retained profits and distributable reserves brought forward), which have been accrued to date but not yet paid out. The cumulative preference dividend must be paid before (and in priority to) any payment of dividends on ordinary shares to other shareholders of X-FAB Sarawak, including the Company. The \$50.0 million loan has been discounted for purposes of the Group's financial statements at an interest rate of 4.12 per cent. (determined by reference to a weighted average risk free rate of United States treasury bills with a corresponding maturity and an additional spread to appropriately reflect the risk premium that market participants would require based on an average credit spread for triple B rated debt instruments with a corresponding maturity at the date of initial recognition). The charge to interest expense on this debt from the unwinding of the liability amounted to \$1.1 million in 2016.

Additionally, X-FAB is party to an intra-group loan agreement dated June 3, 2009 (as amended on June 26, 2013). Under this agreement, X-FAB Sarawak Sdn. Bhd. has made available two credit lines to X-FAB Semiconductor Foundries AG in the amounts of \$15.0 million and \$9.0 million, at an interest rate of 5.0 per cent. per annum. These credit lines are renewable annually.

The following table shows X-FAB's current payment obligations under its existing borrowings (including credit lines, bank loans, overdrafts, leasing arrangements and the loan from Sarawak TH) as at December 31, 2016:

|                               | <i>(in millions of \$)</i> |
|-------------------------------|----------------------------|
| <b>Payment of liabilities</b> |                            |
| 2017 .....                    | 31.7                       |
| 2018 .....                    | 33.4                       |
| 2019 .....                    | 34.8                       |
| 2020 .....                    | 21.6                       |
| 2021 .....                    | 11.3                       |
| Thereafter .....              | 50.0                       |
| <b>Total</b> .....            | <b>182.8</b>               |

### ***Contractual obligations and commitments***

The table below sets out information relating to the Group's contractual obligations and commitments (excluding indebtedness) as at December 31, 2016:

|                            | <b>Less than 1<br/>year</b> | <b>From 1 to 5<br/>years</b> | <b>More than 5<br/>years</b> | <b>Total</b> |
|----------------------------|-----------------------------|------------------------------|------------------------------|--------------|
|                            | <i>(in millions of \$)</i>  |                              |                              |              |
| Operating leases.....      | 3.7                         | 5.8                          | 0.2                          | 9.8          |
| Finance leases .....       | 2.2                         | 6.9                          | 0.0                          | 9.0          |
| Purchase commitments ..... | 20.4                        | 0.0                          | 0.0                          | 20.4         |
| <b>Total</b> .....         | <b>26.3</b>                 | <b>12.7</b>                  | <b>0.2</b>                   | <b>39.2</b>  |

X-FAB's existing operating leases include payments arising from the Group's use of cleanroom facilities at the Itzehoe fab, pursuant to an agreement with Fraunhofer-Gesellschaft, for purposes of MEMS manufacturing activities. This agreement is further described in "*Business — Properties — Itzehoe agreement.*" The Group is also party to operating lease agreements for the use of vehicles and office equipment used in the ordinary course of operating activities, and to gas facility agreements, related to the provision of equipment used in the Group's operations at its Erfurt and Sarawak fabs.

X-FAB's existing finance lease obligations are primarily related to sale and leaseback transactions. In 2015 and 2016, X-FAB entered into a series of sale and leaseback transactions with Deutsche Leasing and Merca Leasing. Under these agreements, certain machinery used in the Group's manufacturing operations was sold at book value and leased back. These arrangements carry interest rates between 0.6 per cent. and 9.6 per cent., and they run until 2021, at which point X-FAB has the option to repurchase the leased assets. Repayment under these arrangements is due in monthly instalments. The minimum lease payments due under these arrangements total \$2.2 million in 2017 and \$6.9 million for 2018-2021, of which \$0.4 million comprises interest payments across the lives of the agreements. These agreements are classified as finance leases and are included in the table above. These arrangements did not result in a gain in 2015 or 2016.

X-FAB's existing purchase obligations comprise a variety of short-term contracts and agreements related to purchase orders for investments in property plant and equipment as well as in intangible assets. This expenditure is contracted on a short-term basis, and as a result the Group is not party to further purchase obligations beyond one year. The Group's contracted property, plant and equipment expenditure includes purchase orders for production machinery, including process tools, implanters and steppers. Expenditure on intangible assets includes software applications used in the ordinary course of the Group's operations, including for MEMS manufacturing activities.

Additionally, X-FAB has certain commitments arising from the Altis Acquisition for which the precise timing of its payment obligations cannot be categorized according to the time periods in the table above. These commitments primarily comprise a commitment by the Group to invest €106 million in the Corbeil-Essonnes site over the next 10 years.

X-FAB anticipates that the funds required for payment of its obligations under these loans and leases and its capital-expenditure program will come from its own internally generated funds. Although it does not currently expect to do so, it may from time to time consider other potential sources of funds, including bank loans and other offerings of debt or equity securities. See and "Risk Factors." For further detail on the classification and accounting treatment of the Group's finance and accounting leases, see note 4 to the Historical Financial Information and "Principal Accounting and Valuation Policies — Leases" below.

#### ***Sarawak TH Incentive Grant***

On December 30, 2013, Sarawak TH and X-FAB Sarawak entered into an agreement for R&D grant funding. Under this agreement, X-FAB Sarawak was granted a R&D incentive in an aggregate amount of a maximum of \$72.0 million, to be distributed in annual instalments of up to \$4.8 million each, to finance R&D activities in the State of Sarawak. Distributions are made following a written request to Sarawak TH, which must include a description of the progress of subsidized activities. Payments are at the discretion of Sarawak TH, and may be withheld where Sarawak TH is of the opinion that X-FAB Sarawak has not complied with the terms of the agreement or is unable to undertake the R&D activities. Sarawak TH may terminate the agreement in the event of non-cured breach by X-FAB Sarawak, false or misleading statements or insolvency, or following a change in government policy. Furthermore, Sarawak TH may also terminate the agreement due to a direct or indirect change of control in X-FAB Sarawak that Sarawak TH believes will negatively affect the ability of X-FAB Sarawak to comply with the agreement, although the Group does not anticipate any change in funding levels as a result of the Offering. X-FAB Sarawak has received \$19.2 million under this agreement to date, with \$4.8 million received in 2013, and \$14.4 million in early 2015 (for the years 2014-2016, and accounted for across those years).

#### **Quantitative and Qualitative Disclosures of Market Risk**

The Group's activities expose it to a variety of financial risks: interest rate risk; foreign currency risk; credit risk; and liquidity risk. The Group has established objectives, formal policies and guidelines to manage these financial risks. For a description of the Group's financial risks and financial risk management objectives, see Note 10 (and the notes referenced therein) in the Historical Financial Information.

#### **Principal Accounting and Valuation Policies**

Note 4 to X-FAB's consolidated financial statements contains a description of significant accounting and valuation policies. Some of these policies require X-FAB's management to make difficult, complex or subjective judgements.

The following is a summary of accounting policies that may involve a high degree of judgement, as well as certain other accounting and valuation policies that are helpful to understanding X-FAB's financial condition and results of operations:

## ***Basis of consolidation***

### *Entities included in the consolidation*

The consolidated financial statements include the financial statements of the parent company and its subsidiaries, which are entities directly or indirectly controlled by the parent company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is generally obtained by ownership of a majority of shares.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. When the Group loses control over a subsidiary it derecognizes the assets and liabilities of the subsidiary and any related non-controlling interests and any other components of equity. Any resulting gain or loss is recognized in profit and loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses, as well as profits and losses resulting from intra-group transactions, are fully eliminated in these consolidated financial statements.

### *Non-controlling interests*

Non-controlling interests represent the portion of profit or loss, component of other comprehensive income and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly, by the parent company. Non-controlling interests' share of income and share of equity are presented separately in the income statement and within equity in the consolidated statement of financial position respectively, separately from parent shareholder's equity.

Non-controlling interests are measured at the date of the acquisition at their proportionate share of the acquired company's identifiable net assets.

### *Business combinations*

Business combinations, with the exception of transactions between entities under common control and ownership, are accounted for using the acquisition accounting method. Under this method, identifiable assets and liabilities of the acquired business are recognized in the consolidated financial statements on initial consolidation at fair value. The excess of the cost of an acquisition over the fair value of the net identifiable assets and liabilities acquired as at the date of the exchange transaction is recorded as goodwill, and is recognized as an asset in the statement of financial position. Any non-controlling interest is stated at the minority's proportion of the fair values. Any goodwill arising on the acquisition of a foreign entity and any fair value adjustments of the carrying amounts of assets and liabilities arising on the acquisition of that foreign entity are treated as assets and liabilities of that foreign entity. Subsequent to initial recognition, goodwill is carried at cost less accumulated impairment losses. Should, at a later date, acquired goodwill be impaired, the impairment charge is included in determining the operating profit for the period.

Business combinations between entities under common control and ownership are accounted for in a manner similar to the pooling-of-interests method. Under this method the original book values of the acquired company continue to be used on acquisition and any differences between acquisition cost and equity of the entity are eliminated against the share premium account.

### *Changes in the Group's interest in a subsidiary that do not result in loss of control*

Changes in the Group's interest in a subsidiary that do not result in loss of control are accounted for as equity transactions.

### *Loss of control*

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

### ***Reporting currency and foreign-currency translation***

X-FAB's reporting currency is the U.S. dollar. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions. If the functional currency of a consolidated entity differs from the Group's presentation currency, assets and liabilities of that entity are translated into the presentation currency at the closing rate at the statement of financial position date, whereas equity is translated using the historic rates, and income statement is translated at the average rate of the reporting period. All resulting differences are recognized in the cumulative translation adjustment in equity.

### ***Revenue recognition***

Sales revenues from PCM wafers are recognized when shipment has been made, transfer of risk to the customer has occurred, the sales price has been agreed upon, there is adequate assurance that collection will be made, and no significant obligations to the benefit of the customer in connection with the realisation of the sale remain to be performed. The Group recognized revenues depending on when title and risk and rewards are transferred under the specific contractual terms of each sale, which may vary from customer to customer.

Revenue in respect of design or engineering services (NRE), rental and other income is recognized at the point in time when the relevant service is provided. Sales revenues are recognized net of discounts, customer bonuses and rebates granted. Provisions for warranty obligations are made based on past experience.

### ***Research and development expenses***

Research and development expenses comprise staff expenses, depreciation and other directly attributable expenses and are allocated process based, i.e. relate to research and development activities that are not related to the improvement of the existing production technologies. Costs incurred in connection with improving existing production technologies used in operational production lines are allocated to cost of sales.

Research and development costs are expensed as incurred. The Group considers that development work performed does not qualify for capitalisation because the amount of future benefits to be derived from use of work performed is characterized by a high level of uncertainty until the projects are completed.

Government grants awarded to the Group for its research and development activities are recognized when there is reasonable assurance that the entity will comply with the relevant conditions set out in the terms of the grant arrangement and it is probable that the grant will be received. They are recognized in profit or loss on a systematic basis as the entity recognizes as expenses the costs that the grants are intended to compensate.

### ***Impairment***

The carrying amounts of the Group's non-financial assets other than inventories and deferred tax assets (for which separate reviews are performed) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated annually.



The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

#### ***Property, plant, equipment and investment properties***

Property, plant and equipment are measured at purchase cost less accumulated depreciation and accumulated impairment losses. Purchase cost includes expenditure that is directly attributable to the acquisition of the asset. These accounting policies have also been applied to investment properties under the cost model in accordance with IAS 40.

Depreciation is provided using the straight-line method for property, plant, factory/office equipment and investment properties. The following useful lives are used as a basis for calculating depreciation:

- Buildings including investment properties                      40 – 50 years
- Factory and office equipment    3 – 10 years

Depreciation for technical equipment is calculated on units of production basis, which reflects the expected consumption of the equipment’s future economic benefits.

Borrowing costs were not capitalized because no assets qualifying for the capitalisation of borrowing costs were constructed or acquired in the period. Costs incurred which extend the useful life of assets, or which increase performance or capacity of assets, are capitalized where appropriate. Maintenance and repair costs are expensed as incurred. When discrete components of an item of property, plant or equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Assets are recorded as disposals when they are sold or scrapped. The resulting gain or loss is recorded in income within “other income” or “other expenses”, as appropriate.

#### ***Income taxes***

The income tax charge includes current and deferred taxation. Deferred taxes are calculated using the statement of financial position liability method. Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and the deferred benefits expected from unused tax losses, unused tax credits, other credits carried forward, whereby amounts are only recognized when their realisation is considered by management to

be probable. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled, based on tax rates enacted or substantially enacted at the statement of financial position date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the statement of financial position date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are not discounted and are classified as non-current assets in the statement of financial position. Current and deferred tax assets and liabilities are offset only if certain criteria are met. Such criteria mean the entity has a legally enforceable right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

At each statement of financial position date, the Group reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Group recognized a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The probability of recognition is based on the expected tax profits included in the Group's current business planning. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilized. A deferred tax liability is recognized for all taxable temporary differences, unless the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

### ***Leases***

Lease arrangements are either classified as finance leases or operating leases. Arrangements under which the Group carries the significant risks and rewards from the use of an asset, and for which the Group can therefore be described as the economic owner, are treated as finance leases. The resulting assets and liabilities are recorded at the fair value of the asset at the date of the inception of the lease, or, if lower, at the present value of the future minimum leasing payments. All other lease arrangements are classified as operating leases with the consequence that the lease payments are expensed as incurred.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

When the Group enters into transactions involving the sale of an asset and the leasing back of the same asset ("sale and leaseback transactions") the accounting treatment depends upon the type of lease involved. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount are not recognized as income immediately. Instead, the excess is deferred and amortized over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognized immediately. If the sale price is below fair value, any profit or loss shall be recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sales price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used. For operating leases, if the fair value at

the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value is recognized immediately. For finance leases, no such adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount in accordance with IAS 36.

## PRINCIPAL AND SELLING SHAREHOLDERS AND GROUP STRUCTURE

The following table presents the ownership of the Shares immediately prior to the closing of the Offering giving effect to the Offering, assuming a full placement of the Offer Shares and that the Offer Price is at the mid-point of the Price Range:

|  | Shares Owned<br>Before the Closing of<br>the Offering |              | Shares Owned After<br>the Closing of the<br>Offering <sup>(5)</sup> |              | Shares Owned<br>Assuming Full<br>Exercise of Over-<br>Allotment Option |              |
|--|---|--------------|---|--------------|--|--------------|
|  | Number  | per<br>cent. | Number  | per<br>cent. | Number   | per<br>cent. |
| Xtrion NV <sup>(1)</sup> .....                               | 61,141,179  | 61.4         | 61,141,179  | 48.3         | 61,141,179   | 48.3         |
| Sarawak Technology Holdings<br>Sdn. Bhd <sup>(2)</sup> ..... | 35,009,694  | 35.2         | 18,248,694  | 14.4         | 13,670,953   | 10.8         |
| TDK-Micronas GmbH .....                                      | 1,989,390   | 2            | 0   | 0            | 0  | 0            |
| Elex NV .....  | 1,005,996   | 1            | 1,005,996   | 0.8          | 1,005,996  | 0.8          |
| X-FAB Semiconductor Foundries<br>AG <sup>(3)</sup> .....     | 149,748   | 0.2          | 149,748   | 0.1          | 149,748  | 0.1          |
| Management & others <sup>(4)</sup> .....                     | 235,662   | 0.2          | 235,662   | 0.2          | 235,662  | 0.2          |
| Public .....   | —   | —            | 45,777,417  | 36.2         | 50,355,158   | 39.8         |
| <b>Total</b> .....   | <b>99,531,669</b>                                     | <b>100.0</b> | <b>126,558,696</b>  | <b>100.0</b> | <b>126,558,696</b>   | <b>100.0</b> |

Notes:

- (1) Xtrion NV is beneficially owned by Roland Duchâtelet, Rudi De Winter and Françoise Chombar.
- (2) Sarawak Technology Holdings Sdn. Bhd. is a wholly owned subsidiary of the Malaysian State of Sarawak.
- (3) X-FAB Semiconductor Foundries AG is a direct subsidiary of the Company.
- (4) Management & others includes the following people: Jerome Casters, Françoise Chombar, Rudi De Winter, Roland Duchâtelet, Dr. Jens Kosch, Annett Eckelt, Hannes Mengs, Jens Stühler and Klaus Burmeister.
- (5) Sarawak TH and TDK-Micronas own 35,009,694 and 1,989,390 Shares, respectively. They will sell 16,761,000 and 1,989,390 Shares in the Offering, assuming a full placement of the Offer Shares and that the Offer Price is at the mid-point of the Price Range, respectively, resulting in them holding 18,248,694 and 0 Shares after the closing of the Offering (or 13,670,953 and 0 Shares after the closing of the Offering assuming that the Over-allotment Option is exercised in full), respectively.

The number of Shares in the Company held by each of the different Selling Shareholders before any sales of Shares in the Secondary Tranche will be determined pursuant to contractual arrangements between shareholders, on the basis of the Offer Price.

All of the Shares have the same voting rights except that voting rights are suspended when such Shares are held by the Company as treasury shares. The Company has only issued Shares and has therefore no outstanding warrants or convertible bonds.

## Selling Shareholders

### Sarawak Technology Holdings Sdn. Bhd. (“Sarawak TH”)

Sarawak TH is a Malaysian investment holding company which was incorporated on March 14, 2006 as a private limited company under the Companies Act, 1965. Its shares are 100% owned by the State Financial Secretary, Sarawak, a body corporate established under the State Financial Secretary (Incorporation) Ordinance, 1948.

### TDK-Micronas GmbH (“TDK-Micronas”)

TDK-Micronas is a part of the TDK group and serves all major automotive electronics customers worldwide, many of them in long-term partnerships, with semiconductor solutions under the Micronas brand. TDK-Micronas is focusing both on highly integrated control systems for car interior applications as well as on sensor systems for a wide range of applications, e.g. powertrain, chassis and body systems, or safety and security applications. TDK-Micronas’ sensor and embedded controller solutions are also sought after in nonautomotive applications such as industrial and white goods applications. Its operational headquarters are based in Freiburg (Germany) and the TDK-Micronas group currently employs around 900 people.

## Shareholders’ Agreement

Xtrion and Sarawak TH are expected to enter into a shareholders’ agreement as shareholders of X-FAB (the “Shareholders’ Agreement”).

The Shareholders’ Agreement is expected to apply for as long as each of the shareholders holds more than 7.5% of the Shares. The Shareholders’ Agreement will address certain matters relating to the governance of X-FAB as well as the transfer of Shares held by the parties to this Shareholders’ Agreement.

Pursuant to the terms of the Shareholders’ Agreement, Xtrion and Sarawak TH are expected to agree among them that each of them will have the right to appoint two directors on the board of directors. The Shareholders’ Agreement will provide for certain restrictions on the ability of Xtrion and Sarawak to transfer their Shares.

## Group Structure

Certain information in relation to the Company’s significant subsidiaries is set out below:

| <u>Name</u>                      | <u>Jurisdiction</u> | <u>Registered Office</u>  | <u>Ownership</u> |
|----------------------------------|---------------------|---|------------------|
| X-FAB Semiconductor Foundries AG | Germany             | Haarbergstrasse 67,<br>99097 Erfurt   | 100 per cent.    |
| X-FAB Dresden GmbH & Co. KG      | Germany             | Grenzstrasse 28,<br>01109 Dresden   | 100 per cent.    |
| X-FAB Dresden Verwaltungs-GmbH   | Germany             | Grenzstrasse 28,<br>01109 Dresden   | 100 per cent.    |
| X-FAB Texas Inc.                 | USA                 | 2301 N. University Ave,<br>Lubbock, Texas 79415                                   | 100 per cent.    |
| X-FAB Sarawak Sdn. Bhd.          | Malaysia            | 1, Silicon Drive,<br>Sama Jaya Free Industrial<br>Zone, 93350 Kuching,<br>Sarawak | 100 per cent.    |

| <b>Name</b>  | <b>Jurisdiction</b> | <b>Registered Office</b>  | <b>Ownership</b> |
|--|---------------------|---|------------------|
| X-FAB Japan KK   | Japan               | 3-19-5 Shin Yokohama,<br>Kohoku-ku,<br>Yokohama 222-0033                  | 100 per cent.    |
| X-FAB MEMS Foundry GmbH  | Germany             | Haarbergstrasse 67,<br>99097 Erfurt                                       | 100 per cent.    |
| OOO Microdesign  | Russia              | 394030 Voronesh,<br>ul. Svobody 69  | 100 per cent.    |
| X-FAB MEMS Foundry Itzehoe GmbH                                | Germany             | Fraunhoferstrasse 1,<br>25524 Itzehoe                                     | 100 per cent.    |
| X-FAB France SAS   | France              | 224<br>Boulevard John Kennedy,<br>91105 Corbeil-Essonnes<br>Cedex, France | 100 per cent.    |
| X-FAB Dresden Grundstücks-Vernietungsgesellschaft mbH & Co. KG | Germany             | Grenzstrasse 28,<br>01109 Dresden   | 94.90 per cent.  |

## RELATED PARTY TRANSACTIONS

Prior to the Offering, X-FAB was a consolidated subsidiary of Xtrion, a company that holds 61.4 per cent. of the Shares and voting rights. Immediately following the completion of the Offering, assuming (i) a full placement of the Offer Shares and (ii) that the Offer Price is at the mid-point of the Price Range, Xtrion will hold 48.3 per cent. of the Shares. See “*Principal Shareholders—Shareholder Structure.*” This percentage of the vote will give Xtrion the ability to control or influence the results of important business decisions that require the approval of the Company’s shareholders. See “*Risk Factors—Risks Related to the Shares and the Offering—The interests of X-FAB’s principal shareholder may not necessarily be aligned with X-FAB’s interests or the interests of the holders of the Shares.*” The ability to control the Company is limited by the fact that only two out of the eight post-Offering directors represent Xtrion in fact. The Board of Directors decides on the major strategic, financial and operational matters of the Company.

In addition, Xtrion holds a controlling interest in Melexis, X-FAB’s principal customer, and it could, as a result, be in a position to influence the relationship of the two companies in ways that are detrimental to investors’ interests.

The following transactions identify the material related-party transactions that X-FAB enters into. It is X-FAB policy to conduct its business with affiliated parties on an arms’-length basis, meaning that it offers those affiliated parties the same terms it would offer to any other parties for the same services in the same volumes.

### **Relationship with its principal customer Melexis**

In the year ended December 31, 2016, Melexis accounted for 34 per cent. of X-FAB’s turnover. The Company’s CEO, Rudi De Winter, a non-executive director of the Company, Roland Duchâtelet, and the CEO of Melexis, Françoise Chombar (who is married to Rudi De Winter), are all shareholders and managing directors of Xtrion, and therefore indirectly a shareholder of both X-FAB and Melexis. In addition, Roland Duchâtelet is currently the chairman of the board of Melexis, and Rudi De Winter was a director of Melexis until March 6, 2017. See “*Principal Shareholders—Shareholder Structure.*” While there is some common economic share ownership in X-FAB and Melexis and they share a mutual board member, both companies are operationally managed independently.

X-FAB’s extensive relationship with Melexis and its various subsidiaries is documented in a larger number of agreements that, in principal, cover the following areas of cooperation:

- *Supply of wafers*

X-FAB supplies volume-production (PCM) tested wafers for Melexis, across a significant volume of ICs and devices for use in various Melexis products. In the framework of this full volume wafer production and as is the case for other customers, X-FAB and Melexis also work closely together in the below listed areas of cooperation.
- *Financing of capital expenditure investments*

At the beginning of a financial year, Melexis pre-pays for anticipated volume-production (PCM) wafers, which supports financing of certain planned capital expenditure investments of X-FAB during the year. These pre-paid amounts are repaid by the delivery of volume-production (PCM) wafers to Melexis following manufacture during the course of the year. Additionally, in the framework of certain volume-production (PCM) wafer orders, Melexis and X-FAB further enter into specific investment agreements depending on any particular investments required for the production of the ordered wafers.
- *Licensing, design and development*

In connection with full volume wafer production, X-FAB and Melexis provide each other certain (sub)licenses and in some instances they share certain license expenses. Furthermore, they also share the development and design costs related to particular licenses that will be used in the ordinary course of both companies' operations, such as the use of the design software platform Cadence.

- *Rendering of services*

X-FAB furthermore provides a number of services to Melexis. These services include, among others, the provision of technical facilities, supplies, utilities, property rentals and IT, personnel and legal support services. For example, X-FAB supplies cooling water and electric energy to Melexis and a part of the Erfurt premises is also leased to Melexis. For services provided, charges are made in relation to the costs incurred.

Melexis also renders some services to X-FAB. This primarily relates to wafer testing and final test services.

### **Other related party transactions**

For further detail on related party transactions, see Note 11 to X-FAB's audited consolidated financial statements.



## DESCRIPTION OF SHARE CAPITAL AND ARTICLES OF ASSOCIATION

### General

The Company is a limited liability company in the form of a European company with limited liability under Belgian law. Pursuant to the provisions of the SE Regulation and the Belgian Companies Code, the liability of the shareholders of the Company is in principle limited to the amount of their respective committed contribution to the capital of the Company.

The Company is registered with the legal entities register of Antwerpen, division Hasselt under number 882.390.885. The Company's registered office is located at Transportstraat 1, 3980 Tessenderlo, Belgium and its telephone number is +32 (0) 13 61 36 27.

This section summarizes information relating to the Company's share capital, the Articles of Association, certain material rights of its shareholders under Belgian law and the Company's group structure. The contents of this section are derived primarily from the Articles of Association, which were adopted by the extraordinary Shareholders' Meeting held on March 16, 2017. The entry into force of the amendments to the Articles of Association is subject to the closing of the Offering.

This section provides details of certain provisions of Belgian law and information on the Company's group structure. The description provided hereafter is only a summary and does not purport to provide a complete overview of the Articles of Association or the relevant provisions of Belgian law.

### Corporate Purpose

According to the Articles of Association, the Company's corporate purpose is the following:

The purpose of the company is, individually or by participation, all activities and operations typical for an investment and holding company in the semiconductor branch, in particular but not limited to:

- (a) the investment, subscription, participation, investment, sale, purchase and trading of shares, securities, bonds, certificates, claims, money and other investment instruments issued by national or foreign (commercial) enterprises, administrative offices, institutions or associations;
- (b) the management of the investments and participations in subsidiaries, the granting of advice, management and other services that are in line with the activities of a holding company; and
- (c) the granting of any loans and advances whatsoever for any period of time to any affiliated companies or companies, in which it participates and to guarantee its commitments and all commitments of these companies by standing bail, providing a security or otherwise.

This list does not apply to regulated activities for which the company does not have any license.

In general the company can perform all financial, movable or immovable acts that relate to its purpose directly or indirectly or that might further facilitate the realisation thereof.

### Share Capital and Shares

#### Share capital history

At the time of the Company's creation, its share capital amounted to €61,500, represented by 1,000 Shares, each representing an identical fraction of the Company's share capital.

Upon conversion into a European company with limited liability on November 4, 2011, the Company's share capital amounted to €500,358,942.84 represented by 33,177,223 Shares, each representing an identical fraction of the Company's share capital.

On March 16, 2017, an extraordinary Shareholders' Meeting of the Company resolved the following:

- to split the existing Shares in the Company with a factor three, bringing the total number of Shares in the Company on 99,531,669; and
- to increase, subject to the closing of the Offering, the Company's share capital by a contribution in cash through the issuance of Shares to be sold in the Primary Tranche of the Offering for a maximum amount of €250,000,000.

Assuming that the Offer Price is at the mid-point of the Price Range, the Company's share capital will amount to €636,227,403.53 as of the closing of the Offering.

### **Form and transferability of the Shares**

All of the Shares belong to the same class of securities and are in registered or dematerialized form. A register of registered Shares (which may be held in electronic form) is maintained at the Company's registered address. It may be consulted by any holder of Shares. A dematerialized security is represented by an entry on a personal account of the owner or holder, with a recognized account holder or clearing and settlement institution. Holders of Shares may elect, at any time, to have their registered Shares converted into dematerialized Shares, and vice versa, at their own expense.

The Shares are freely transferable, subject to any contractual restrictions. See "*Plan of Distribution — Lock-up Arrangements.*"

### **Preferential subscription rights**

The Belgian Companies Code and the Articles of Association give shareholders preferential subscription rights to subscribe on a pro rata basis by reference to the part in the capital represented by their shares, for any issue for cash of new shares, convertible bonds or warrants. The preferential subscription rights may be exercised during a period determined by the Shareholders' Meeting or by the Board of Directors acting within the framework of the Company's authorized capital, with a legal minimum of 15 days.

The Shareholders' Meeting may restrict or suppress the pre-emption rights for any capital increase or issue of convertible bonds or warrants, subject to the quorum and voting requirements applying to an amendment to the Articles of Association, and subject to special reporting requirements. Shareholders may also authorize the Board of Directors to restrict or suppress the pre-emption rights for any capital increase or issue of convertible bonds or warrants when issuing securities within the framework of the Company's authorized share capital, subject to the same special reporting requirements.

On March 16, 2017, an extraordinary Shareholders' Meeting authorized the Board of Directors, subject to and with effect as from the closing of the Offering, to increase the share capital in one or more transactions by a number of Shares, or by financial instruments giving the right to a number of Shares such as, but not limited to, convertible bonds or warrants, so as to bring the share capital to a maximum of 100 per cent. of its amount at the closing of the Offering. Within the framework of the authorized capital, the Board of Directors is empowered to proceed with a capital increase in any form, including, but not limited to, a capital increase accompanied by the restriction or suppression of preferential subscription rights. This authorization includes the restriction or suppression of preferential subscription rights for the benefit of one or more specific persons (whether or not employees of the Company or its subsidiaries) and in connection with capital increases in the event of a public tender offer. See "*— Legislation and Jurisdiction — Public takeover bids.*" The authorization is valid for a term of five years as from the date of the publication of the authorization in the Annexes to the Belgian State Gazette

(*Belgisch Staatsblad/Moniteur belge*). In connection with capital increases in the event of a public tender offer, the authorization is only valid for a term of three years as from the date of the extraordinary Shareholders' Meeting referred to at the beginning of this paragraph.

### **Convertible bonds and warrants**

The Company may issue convertible bonds or warrants (whether or not attached to bonds) either pursuant to a resolution of the Shareholders' Meeting acting under the conditions necessary for modifying the Articles of Association (the presence or representation of at least 50 per cent. of the Company's share capital and an ordinary majority of the votes cast) or pursuant to a resolution of the Board of Directors acting within the scope of the authorized capital.

## **Right to Attend and Vote at Shareholders' Meetings**

### **General Shareholders' Meetings**

The annual Shareholders' Meeting is held on the last Thursday of April of each year at 2 pm, or, if this day is a public holiday on the first business day thereafter. It takes place at the registered office of the Company or at any other place designated by the convening notice convening the Shareholders' Meeting.

The other Shareholders' Meetings shall be held on the day, at the hour and in the place designated by the convening notice. They may be held at locations other than the registered office.

The annual, special and extraordinary Shareholders' Meetings may be convened by the Board of Directors or by the statutory auditor and must be convened at the request of shareholders representing one-tenth of the Company's share capital.

### **Notices convening the Shareholders' Meeting**

Holders of registered Shares must receive written notice of the Shareholders' Meeting by regular mail at least 30 days prior to the meeting. The Company must also publish a notice of the meeting in the Belgian State Gazette (*Belgisch Staatsblad/Moniteur belge*), in a newspaper with national distribution (except for those annual Shareholders' Meeting which take place at the location, place, day and hour indicated in the Articles of Association and whose agenda is limited to the approval of the annual accounts, the annual reports of the Board of Directors and the statutory auditor, discharge to be granted to the directors and statutory auditor, the remuneration report and termination provisions) and in media that can be reasonably considered having effective distribution with the public in the European Economic Area and that is swiftly accessible, and in a non-discriminatory manner. The notices are published at least 30 days prior to the meeting. If a new convocation is required for lack of quorum and the date of the second meeting was mentioned in the first notice, then, in the absence of new agenda items, notices are published at least 17 days in advance of that second meeting.

As from the publication of the notice, the Company shall make the information required by law available on the Company's website ([www.xfab.com](http://www.xfab.com)) for a period of five years after the relevant Shareholders' Meeting.

### **Formalities to attend the Shareholders' Meeting**

A shareholder wishing to attend and participate in the Shareholders' Meeting must:

- have the ownership of its Shares recorded in its name, as at midnight Central European Time, on the fourteenth calendar day preceding the date of the meeting (the "record date") either through registration in the shareholders' register in the case of registered Shares or through book-entry in the accounts of an authorized account holder or clearing institution in the case of dematerialized Shares; and
- notify the Company (or the person designated by the Company) by returning a signed original paper form or, if permitted by the Company in the notice convening the Shareholders' Meeting, by sending a form electronically (in which case the form shall be signed by means of an electronic signature in

accordance with applicable Belgian law), at the latest on the sixth calendar day preceding the day of the meeting, of its intention to participate in the meeting. In addition, the holders of dematerialized Shares must provide the Company (or the person designated by the Company), or arrange for the Company (or the person designated by the Company) to be provided, with an original certificate issued by an authorized account holder or a clearing institution certifying the number of Shares owned on the record date by the relevant shareholder and for which it has notified its intention to participate in the meeting.

Holders of profit-sharing certificates, non-voting shares, bonds, subscription rights or other securities issued by the Company, as well as holders of certificates issued with the cooperation of the Company and representing securities issued by the latter, may participate in the Shareholders' Meeting insofar as the law or the Articles of Association entitles them to do so and, as the case may be, gives them the right to participate in voting. If they propose to participate, such holders are subject to the same formalities concerning admission and access, and forms and filing of proxies, as those imposed on shareholders.

### **Voting by proxy**

Any shareholder with the right to vote may either personally participate in the meeting or give a proxy to another person, who need not be a shareholder, to represent him or her at the meeting. A shareholder may designate, for a given meeting, only one person as proxy holder, except in circumstances where Belgian law allows the designation of multiple proxy holders. The appointment of a proxy holder may take place in paper form or electronically (in which case the form shall be signed by means of an electronic signature in accordance with applicable Belgian law), through a form which shall be made available by the Company. The signed original paper or electronic form must be received by the Company at the latest on the sixth calendar day preceding the meeting. Any appointment of a proxy holder shall comply with relevant requirements of applicable Belgian law in terms of conflicting interests, record keeping and any other applicable requirements.

### **Remote attendance**

When such possibility is provided for in the convening notice and subject to the conditions and formalities included therein, shareholders that comply with the conditions of admission to the shareholder's meeting may participate to the shareholders' meeting by means of telecommunication. The convening notice describes the resources used by the company to identify the shareholders which participate in the meeting by means of telecommunication.

### **Remote voting in relation to the Shareholders' Meeting**

The notice convening the meeting may allow shareholders to vote remotely in relation to the Shareholders' Meeting, by sending a paper form or, if specifically allowed in the notice convening the meeting, by sending a form electronically (in which case the form shall be signed by means of an electronic signature in accordance with applicable Belgian law). These forms shall be made available by the Company. The original signed paper form must be received by the Company at the latest on the sixth calendar day preceding the date of the meeting. Voting through the signed electronic form may occur until the last calendar day before the meeting.

The Company may also organize a remote vote in relation to the Shareholders' Meeting through other electronic communication methods, such as, among others, through one or several websites. The Company shall specify the practical terms of any such remote vote in the convening notice.

Shareholders voting remotely must, in order for their vote to be taken into account for the calculation of the quorum and voting majority, comply with the admission formalities.

### **Right to request items to be added to the agenda and ask questions at the Shareholders' Meeting**

One or more shareholders that together hold at least 10 per cent. of the Company's share capital may request for items to be added to the agenda of any convened meeting, provided that (i) they prove ownership of such shareholding as at the date of their request and record their Shares representing such shareholding on the record

date; and (ii) the additional items on the agenda have been submitted in writing by these shareholders to the Board of Directors at the latest within 48 hours after either the receipt of the convocation by registered letter, either the first publication of the convocation in an advertisement. The shareholding must be proven by a certificate evidencing the registration of the relevant Shares in the share register of the Company or by a certificate issued by the authorized account holder or the clearing organization certifying the book-entry of the relevant number of dematerialized Shares in the name of the relevant shareholder(s).

If necessary, the Company shall publish a revised agenda of the Shareholders' Meeting, at the latest on the eighth day preceding the Shareholders' Meeting. The right to request that items be added to the agenda or that proposed resolutions in relation to existing agenda items be submitted does not apply in case of a second Shareholders' Meeting that must be convened because the quorum was not obtained during the first Shareholders' Meeting.

Within the limits of Article 53 SE Regulation *juncto* Article 540 of the Belgian Companies Code, the directors and the auditor answer, during the Shareholders' Meeting, the questions raised by shareholders. Shareholders can ask questions either during the meeting or prior to the meeting (in writing or electronic form), provided that the Company receives the written question at the latest on the sixth day preceding the Shareholders' Meeting.

### **Quorum and majorities**

In general, there is no attendance quorum requirement for a general Shareholders' Meeting, except as provided for by law in relation to certain decisions. Decisions are taken by a majority of the votes cast, except where the law or the Articles of Association provide for a special majority.

Matters involving special legal quorum requirements include, among others, amendments to the Articles of Association, issues of new Shares, convertible bonds or warrants and decisions regarding mergers and demergers, which require at least 50 per cent. of the share capital to be present or represented. If the quorum is not reached, a second meeting may be convened at which no quorum shall apply.

Matters involving special majority requirements include, among others, decisions regarding mergers and demergers, which require a majority of at least 75 per cent. of the votes cast.

### **Dividend Rights**

All Shares participate equally in the Company's profits, if any. The Shares offered in the Offering carry the rights to participate in dividends declared in respect of the financial year ending December 31, 2017 and future years.

In general, the Company may only pay dividends with the approval of the Shareholders' Meeting, although the Board of Directors may declare interim dividends without shareholder approval. The right to pay such interim dividends is, however, subject to certain legal restrictions. The maximum amount of the dividend that can be paid is determined by reference to the Company's unconsolidated financial statements prepared in accordance with Belgian GAAP.

Under Belgian law and the Articles of Association, the Company must allocate an amount of 5 per cent. of its Belgian GAAP annual net profit (*nettowinst/bénéfices nets*) to a legal reserve in its stand-alone statutory accounts until the reserve equals 10 per cent. of the Company's share capital. The Company's legal reserve currently does not meet this requirement nor will it do so at the closing of the Offering. Accordingly, 5 per cent. of its Belgian GAAP annual net profit during the next years will have to be allocated to the legal reserve, limiting the Company's ability to pay out dividends to its shareholders.

For more information on the dividend policy of the Company and other restrictions, see "*Dividends and Dividend Policy*" and "*Risk Factors—Risks related to the Offering—X-FAB may not be able to pay dividends.*"

## **Liquidation and Bankruptcy**

The Company can only be dissolved by a resolution of the Shareholders' Meeting passed with a majority of at least 75 per cent. of the votes cast at an extraordinary Shareholders' Meeting where holders of at least 50 per cent. of the share capital is present or represented.

If, as a result of losses incurred, the ratio of the Company's net assets (determined in accordance with Belgian legal and accounting rules) to share capital is less than 50 per cent., the Board of Directors must convene an extraordinary Shareholders' Meeting within two months of the date upon which the Board of Directors discovered or should have discovered this undercapitalisation. At this Shareholders' Meeting the Board of Directors needs to propose either the dissolution or the continuation of the Company, in which case the Board of Directors must propose measures to restore the Company's financial situation. The Board of Directors must justify its proposals in a special report to the Shareholders. A majority of at least 75 per cent. of the votes validly cast at this meeting can decide to dissolve the Company, provided that at least 50 per cent. of the Company's share capital is present or represented at the meeting.

If, as a result of losses incurred, the ratio of the Company's net assets to share capital is less than 25 per cent., the same procedure must be followed, it being understood, however, that in that event the shareholding representing at least 25 per cent. of the votes at this meeting can decide to dissolve the Company. If the amount of the Company's net assets has dropped below €61,500 (the minimum paid-up share capital of a European company with limited liability in accordance with Article 875 of the Belgian Companies Code), any interested party is entitled to request the competent court to dissolve the Company. The court can order the Company's dissolution or grant a grace period for the Company to remedy the situation.

If the Company is dissolved for any reason, the liquidation must be carried out by one or more liquidators appointed by the Shareholders' Meeting and whose appointment has been ratified by the commercial court. Any balance remaining after discharging all debts, liabilities and liquidation costs must first be applied to reimburse, in cash or in kind, the paid-up capital of the shares not yet reimbursed. Any remaining balance shall be equally distributed amongst all the shareholders.

## **Acquisition of Own Shares**

In accordance with the Belgian Companies Code, the Articles of Association permit the Company to acquire, on or outside the stock market, its own Shares, profit-sharing certificates or associated certificates by resolution approved by the Shareholders' Meeting by a majority of at least 80 per cent. of the votes cast where at least 50 per cent. of the share capital and at least 50 per cent. of the profit certificates, if any, are present or represented. Prior approval by the shareholders is not required if the Company purchases the Shares in order to offer them to the Company's employees.

On March 16, 2017, an extraordinary Shareholders' Meeting authorized the Board of Directors to purchase up to 20 per cent. of the outstanding Shares, for a price not lower than ten per cent. below the lowest closing price in the last 30 trading days preceding the transaction and not more than five per cent. above the highest closing price during the last 30 trading days preceding the transaction. This authorization is valid for five years from March 16, 2017.

The above authorization is also valid if the acquisition is made by one of the subsidiaries directly controlled by the Company, as set out in Article 5 SE Regulation *juncto* Article 627 of the Belgian Companies Code.

The Board of Directors is also authorized to acquire for the Company's account the Company's own Shares, profit-sharing certificates or associated certificates if such acquisition is necessary to prevent a serious and imminent harm to the Company. This authorization is valid for three years as from the date of the publication of the authorization in the Annexes to the Belgian State Gazette (*Belgisch Staatsblad/Moniteur belge*).

The Board of Directors is authorized to divest all or part of the Shares, profit-sharing certificates or associated certificates at a price it determines, on or outside the stock market or in the framework of its remuneration policy to employees, directors or consultants of the Company or to prevent any serious and imminent harm to the Company. This authorization is valid without any restriction in time, except when the divestment is made to prevent serious and imminent harm to the Company, in which case the authorization is only valid for three years as from the date of the publication of the authorization in the Annexes to the Belgian State Gazette (*Belgisch Staatsblad/Moniteur belge*). The authorization covers the divestment of the Shares, profit-sharing certificates or associated certificates by a direct subsidiary of the Company, as set out in Article 5 SE Regulation *juncto* Article 627 of the Belgian Companies Code.

The Shares, profit-sharing certificates or associated certificates can only be acquired with funds that would otherwise be available for distribution as dividend. The total nominal value or fractional value of the Shares, profit-sharing certificates or associated certificates held by the Company can at no time be more than 20 per cent. of the share capital. Voting rights attached to Shares held by the Company as treasury shares are suspended.

## **Legislation and Jurisdiction**

### **Notification of significant shareholdings**

Pursuant to the Belgian Law of May 2, 2007 on the disclosure of significant shareholdings in issuers whose securities are admitted to trading on a regulated market and containing various provisions (the “Transparency Law”), a notification to the Company and to the FSMA is required by all natural and legal persons in the following circumstances:

- an acquisition or disposal of voting securities, voting rights or financial instruments that are treated as voting securities;
- the holding of voting securities upon first admission of them to trading on a regulated market;
- the passive reaching of a threshold;
- the reaching of a threshold by persons acting in concert or a change in the nature of an agreement to act in concert;
- where a previous notification concerning the voting securities is updated;
- the acquisition or disposal of the control of an entity that holds the voting securities; and
- where the Company introduces additional notification thresholds in the Articles of Association,

in each case where the percentage of voting rights attached to the securities held by such persons reaches, exceeds or falls below the legal threshold, set at 5 per cent. of the total voting rights, and 10 per cent., 15 per cent., 20 per cent. and so on at increments of 5 per cent. or, as the case may be, the additional thresholds provided in the Articles of Association. The Company has not provided for additional thresholds in the Articles of Association.

The notification must be made as soon as possible and at the latest within four trading days following the acquisition or disposal of the voting rights triggering the reaching of the threshold. Where the Company receives a notification of information regarding the reaching of a threshold, it has to publish such information within three trading days following receipt of the notification.

No shareholder may cast a greater number of votes at a Shareholders’ Meeting than those attached to the rights or securities it has notified in accordance with the Transparency Law at least 20 days before the date of the Shareholders’ Meeting, subject to certain exceptions.

## **Public takeover bids**

The Takeover Bids Directive (European Directive 2004/25/EC of April 21, 2004) requires each Member State to ensure the protection of minority shareholders by obliging any person that acquires control of a company to make an offer to all the holders of that company's voting securities for all their holdings at an equitable price.

The Takeover Bids Directive applies to all companies governed by the laws of a Member State of which all or some voting securities are admitted to trading on a regulated market in one or more Member States. The laws of the Member State in which a company has its registered office will determine the percentage of voting rights that is regarded as conferring control over that company.

Belgium has implemented the Takeover Bids Directive in the Belgian Law of April 1, 2007 on public takeover bids (the "Belgian Takeover Law") and the Belgian Royal Decree of April 27, 2007 on public takeover bids (the "Belgian Takeover Royal Decree"). These Belgian rules provide that a mandatory bid must be launched on all voting securities and all other securities giving access to voting rights if a person, as a result of its own acquisition or the acquisition by persons acting in concert with it or by persons acting for their account, directly or indirectly holds more than 30 per cent. of the voting securities in a company having its registered office in Belgium and of which at least part of the voting securities are traded on a regulated market or on a multilateral trading facility designated by the rules. The mere fact of exceeding the relevant threshold through the acquisition of shares will give rise to a mandatory bid, irrespective of whether the price paid in the relevant transaction exceeds the current market price. The duty to launch a mandatory bid does not apply in certain cases set out in the Belgian Takeover Royal Decree such as (i) in case of an acquisition if it can be shown that a third party exercises control over the company or that such party holds a larger stake than the person holding 30 per cent. of the voting securities or (ii) in case of a capital increase with preferential subscription rights decided by the Shareholders' Meeting.

The Belgian Takeover Law and the Belgian Takeover Royal Decree partially apply to the Company as X-FAB is a company organized under the laws of Belgium. Since X-FAB's Shares are not admitted to trading on a Belgian regulated market and its principal trading market will be located in another Member State, the Belgian takeover rules will only apply in respect of the following matters: (i) the recognition of the prospectus, (ii) the marketing and publicity of the offer, (iii) the information to employees; (iv) the corporate law aspects of the bid; (v) aspects relating to the calculation of the threshold to be taken into account for launching a mandatory takeover bid, and (vi) the squeeze-out proceedings. The FSMA will be the competent authority to supervise these aspects of a takeover bid for the Shares pursuant to Article 35 of the Belgian Takeover Law.

As long as the sole trading market of X-FAB remains in France, and save for the matters specified in the paragraph above, French law and the French takeover rules under the AMF General Regulation, implementing regulatory provisions of the Takeover Bids Directive, will govern the offered consideration, the contents of the bid document and other procedural matters in relation to a public takeover bid for the Shares. The AMF will be the competent authority for the supervision of these aspects pursuant to Article L 433-1-II of the French monetary and financial code.

In principle, the authorization of the Board of Directors to increase the share capital of the Company through contributions in kind or in cash with cancellation or limitation of the preferential subscription rights of the existing shareholders is suspended as of the notification to the Company by the FSMA of a public takeover bid for the securities of the Company. The Shareholders' Meeting can, however, under certain conditions, expressly authorize the Board of Directors to increase the capital of the Company in such case by issuing Shares in an amount of not more than 10 per cent. of the existing Shares at the time of such a public takeover bid. Such authorization was granted to the Board of Directors of the Company on March 16, 2017. Those powers remain in effect for a period of three years from the date of the adoption of this authorization.



### **Squeeze-out**

Pursuant to Article 513 of the Belgian Companies Code or the regulations promulgated thereunder, a person or legal entity, or different persons or legal entities acting alone or in concert, who own together with the company 95 per cent. or more of the securities with voting rights in a public company are entitled to acquire the totality of the securities with voting rights in that company following a squeeze-out offer. The securities that are not voluntarily tendered in response to such an offer are deemed to be automatically transferred to the bidder at the end of the procedure. At the end of the squeeze-out procedure, the company is no longer deemed a public company, unless bonds issued by the company are still spread among the public. The consideration for the securities must be in cash and must represent the fair value (verified by an independent expert) as to safeguard the interests of the transferring shareholders.

A squeeze-out offer is also possible upon completion of a public takeover bid, provided that the bidder holds at least 95 per cent. of the voting capital and 95 per cent. of the voting securities of the public company. In such a case, the bidder may require that all remaining shareholders sell their securities to the bidder at the offer price of the takeover bid, provided that, in case of a voluntary takeover offer, the bidder has also acquired 90 per cent. of the voting capital to which the offer relates. The shares that are not voluntarily tendered in response to any such offer are deemed to be automatically transferred to the bidder at the end of the procedure.

### **Sell-out right**

Within three months following the expiration of an offer period related to a public takeover bid, holders of voting securities or of securities giving access to voting rights may require the offeror, acting alone or in concert, who own at least 95 per cent. of the voting capital and 95 per cent. of the voting securities in a public company following a takeover bid, to buy its securities from it at the price of the bid, on the condition that, in case of a voluntary takeover offer, the offeror has acquired, through the acceptance of the bid, securities representing at least 90 per cent. of the voting capital subject to the takeover bid.

## THE ALTIS ACQUISITION

### Overview

On March 8, 2017, X-FAB closed the acquisition of the Altis Assets, after having received the rights and benefits to those assets as from 1 October 2016. Altis was a foundry organized as a French *société en nom collectif*. Located in Corbeil-Essonnes, France, Altis specialized in applications relating to the telecommunication sector and employed approximately 950 persons.

### Acquisition Process

On August 4, 2016, the commercial court of Paris in France opened a procedure of judicial reorganization in respect of Altis. A request for takeover offers was published and three offers were submitted, including an initial offer from X-FAB on September 7, 2016 which was subsequently improved on September 23, 2016. On September 30, 2016, the commercial court of Paris granted the transfer of the Altis Assets to X-FAB France SAS (a subsidiary of the Company incorporated for that purpose) for a purchase price of €9,200,000. Pursuant to the judgment, X-FAB received the rights and benefits to the Altis Assets with effect as from October 1, 2016. As a result thereof, and in accordance with IFRS 3, the Altis Assets have been included in the consolidated accounts of X-FAB per October 1, 2016. The court accepted X-FAB's offer for the following reasons:

- the long-term vision presented by X-FAB better ensured for the continued survival of the core assets;
- in terms of diversification, X-FAB's focus on the automotive end-user market, would complement the more volatile telecommunications end-user market, which was Altis' specialty; and
- X-FAB received the support of Altis' employees as well as its principal customer.

In implementation of the court's judgement, a business transfer agreement was executed on March 8, 2017 between Altis and X-FAB France to record the legal transfer of the Altis Assets to X-FAB France.

### Core assets acquired

The acquired Altis Assets include:

- Altis' manufacturing fab with the ongoing productions and the products in its stock;
- approximately 31.8 hectares of land;
- all of Altis' employees;
- agreements with customers and suppliers;
- goodwill, and intellectual property rights; and
- 0.59 per cent. shareholding in Adesto Technologies Corporation, a company listed on Nasdaq.

X-FAB also acquired certain employee-related and other liabilities as part of the transaction.

### Rationale

The acquisition of the Altis Assets aligns with X-FAB's strengths and strategies and presents the Group with the benefit of complementing its product offering. The Group's principal reasons for acquiring the Altis Assets include:

- **Opportunity to expand its automotive application offering by leveraging its technology transfer expertise.** X-FAB has substantial experience in the conversions and technology transfers to other manufacturing operations, including the Group’s successful conversion and technology transfer following the acquisition of 1st Silicon (Malaysia). One of the key reasons why the Group acquired the Altis Assets was to implement manufacturing using X-FAB’s 0.18µm process technologies at the Altis site (which is currently operating on 0.18µm and 0.13µm technologies). After qualification of the site by the Group’s customers in the automotive end-user market for manufacturing of devices using X-FAB’s process technologies, X-FAB intends to use Altis as a hub for both its existing 0.18µm technology platform and for its 0.13µm automotive technology currently in development, and to implement manufacturing for 0.35µm process technologies where appropriate at the Corbeil-Essonnes fab to utilize capacity available within the Group’s fab network.
- **Complementary geographical presence.** Prior to acquiring the Altis Assets, X-FAB had manufacturing sites in Germany; Malaysia; and the United States. The acquisition will provide X-FAB with a strategic second source opportunity.
- **Grow its capacity.** One of X-FAB’s stated strategies is to continuously identify and assess attractive acquisition opportunities for further growing capacity, capability and customer base. The acquisition of the Altis Assets allows X-FAB to expand its capacity by 35,000 WSPM, with space available at the fab to potentially further increase capacity by 20,000-30,000 WSPM in the future.
- **Complementary technology offering.** X-FAB and Altis have complementary product offerings. X-FAB has a strong focus on automotive, industrial and medical end-user markets, while Altis’s focus is on telecommunication applications. While X-FAB intends to focus and strengthen its position in its strategic end-user markets, the acquisition of the Altis Assets will allow the Group to diversify its product offering.

## Financing

X-FAB has financed the acquisition of the Altis Assets from its own funds. In order to complete its planned technology transfer, X-FAB has committed to invest €100 million in the Altis site over the next 10 years, including the first €60 million in the next four years and approximately €30 to €40 million in the first year after the economic date of the acquisition. The Group currently intends to invest up to €60 million in the Altis site in the next three years, as described in “*Operating and Financial Review — Current Trading and Prospects.*” In addition, X-FAB has committed to maintain a minimum of 800 employees at the Altis site until 2021. X-FAB intends to finance the further capital expenditures in the Altis Assets from its own funds as well as from the funds raised through the Primary Tranche. See “*Use of Proceeds.*”

## Financial Performance

The following table shows the income statement of X-FAB France SAS for the three-month period ended December 31, 2016. It reflects the financial performance of the Altis Assets since their acquisition by X-FAB. The following table has been prepared in accordance with IFRS, and all intra-group transactions are treated as normal cost allocations since X-FAB France SAS has been part of the Group for accounting purposes since October 1, 2016.

## *X-FAB France SAS Income Statement Data*

|   | <b>For the<br/>three-month<br/>period ended<br/>December<br/>31, 2016</b> |
|---|---|
|   | <i>(in millions of<br/>\$)</i>  |
| Revenue.....  | 31.6  |
| Cost of Sales .....   | (28.0)  |
| <b>Gross Profit (Loss) .....</b>                            | <b>3.6</b>  |
| Research & Development Expenses .....                       | (1.8)   |
| Selling Expenses .....                                      | (0.4)   |
| General and Administration Expenses .....                   | (2.8)   |
| Rental income and expenses from investment properties ..... | 0.4   |
| <b>Operating Profit .....</b>                               | <b>(1.0)</b>  |
| Finance cost .....  | (0.1)   |
| Finance Result.....   | (0.1)   |
| <b>Profit before Taxes .....</b>                            | <b>(1.1)</b>  |
| Tax Expenses.....   | (0.3)   |
| <b>Profit for the Year.....</b>                             | <b>(1.4)</b>  |

Note:

- (1) Calculated based on an average exchange rate during the period of €1:\$1.0797.

### **Unaudited Pro Forma Consolidated Financial Information**

The following unaudited pro forma consolidated financial information, which comprises the unaudited pro forma statement of profit and loss for the year ended December 31, 2016, has been prepared based on the assumptions described in the notes thereto and in application of European Commission regulation EC No 809/2004 and compliance with the recognition and measurement principles of IFRS.

On September 30, 2016, the commercial court of Paris granted the transfer of the Altis Assets to X-FAB France SAS, and the results of the Altis Assets have been consolidated with the Group's results from October 1, 2016, in accordance with IFRS 3 "Business combinations" ("IFRS 3").

The unaudited pro forma consolidated financial information has been prepared only and exclusively for illustrative purposes and in light of its hypothetical nature, it does not represent the actual financial result of the Group. Also, it does not form the basis for any forecasts, comparisons or budgets. It is not intended to be indicative of future results. The unaudited pro forma consolidated financial information has been prepared on a basis consistent with the Group's accounting policies as set out in Note 4 (Summary of Accounting Policies) to

the Historical Financial Information. All the financial information relating to the companies covered by the unaudited pro forma consolidated financial information is based on the consolidated financial statements of the Group for the year ended December 31, 2016, to which the adjustments were made as indicated below.

The unaudited pro forma consolidated statement of profit and loss has been prepared in thousands of U.S. dollars and gives effect to the acquisition of the business of Altis as if it had occurred on January 1, 2016 for the purposes of the unaudited pro forma consolidated statement of profit and loss for the year ended December 31, 2016 (the “Unaudited Pro Forma Consolidated Statement of Profit and Loss”).

The Unaudited Pro Forma Consolidated Statement of Profit and Loss has been prepared based on the following:

- The audited statement of profit and loss for 2016 extracted from the Historical Financial Information of the Group, presented in thousands of U.S. dollars, which has been prepared in accordance with IFRS and includes the results of operation of the Altis Assets consolidated with the Group’s operating results from October 1, 2016; and
- Altis’s unaudited financial information relating to profit and loss for the period from January 1, 2016 to September 30, 2016, presented in thousands of euros, which has been prepared in accordance with French GAAP.

The Unaudited Pro Forma Consolidated Statement of Profit and Loss should be read in conjunction with the relevant audited consolidated financial statements included in the Historical Financial Information.

The Altis Acquisition is being accounted for using the acquisition method of accounting in accordance with IFRS 3. Under the acquisition method of accounting, the identifiable assets acquired and liabilities assumed are measured at fair value and the difference between the consideration paid and the net of the fair value of the assets and liabilities is recognized as goodwill or as a gain on a bargain purchase. For further information, see note 5 to the Historical Financial Information, and the notes to the table “Unaudited Pro Forma Consolidated Statement of Profit and Loss” below.

The adjustments made in order to present the Unaudited Pro Forma Consolidated Statement of Profit and Loss have been made based upon available information and assumptions that X-FAB believes are reasonable, that are directly attributable to the Altis Acquisition and that are factually supportable. The Unaudited Pro Forma Consolidated Statement of Profit and Loss do not purport to present the Group’s results of operations for any future period. Further, since Altis was an insolvent company subject to reorganization proceedings at the time of X-FAB’s acquisition of the Altis Assets, and it had been under serious financial distress for a number of years prior to the acquisition of the Altis Assets by the Group, the historic operating and financial performance of Altis may differ materially from (i) the results of operations of the Altis Assets if the Altis Acquisition had been effective from January 1, 2016 and (ii) the results of operations of the Altis Assets as operated as part of the Group in any future period. Additionally, Altis’ financial information relating to profit and loss used for purposes of preparing the Unaudited Pro Forma Consolidated Statement of Financial Position presented below has not been audited by an external accounting firm. No single set of financial statements have been prepared for Altis or the Altis Assets for the year ended December 31, 2016, or any period therein, or formally approved by a shareholders’ meeting of Altis. As such, the Altis unaudited financial information relating to profit and loss used for purposes of preparing the Unaudited Pro Forma Consolidated Statement of Profit and Loss is derived from the management accounts of Altis.

## Unaudited Pro Forma Consolidated Statement of Profit and Loss

|  | X-FAB 2016               | Altis<br>Jan 1, 2016 –<br>Sept 30, 2016<br>French<br>GAAP | Altis<br>Jan 1, 2016 –<br>Sept 30, 2016<br>French<br>GAAP | PPA<br>Adjustments<br>Jan 1, 2016 –<br>Sept 30, 2016 | Pro Forma<br>Adjustments<br>Jan 1, 2016 –<br>Sept 30, 2016 | Pro Forma<br>Consolidated<br>X-FAB 2016 |
|--|--------------------------|---|---|--|--|---|
|  | Note 1                   | Note 2  | Note 3  | Note 4   | Note 5   |   |
|  | <i>(thousands of \$)</i> | <i>(thousands of €)</i>                                   | <i>(thousands of \$)</i>                                  |  |  |   |
| Revenue .....  | 512,897.4                | 79,363.8  | 88,573.2  | —  | —  | 601,470.6                               |
| Cost of sales .....  | (407,831.5)              | (73,721.3)  | (82,275.9)  | 7,382.0  | (2,037.8)  | (484,763.2)                             |
| <b>Gross profit</b> .....  | <b>105,065.9</b>         | <b>5,642.6</b>  | <b>6,297.3</b>  | <b>7,382.0</b>                                       | <b>(2,037.8)</b>   | <b>116,707.4</b>                        |
| Research and development expenses.....                                       | (26,847.2)               | (5,578.1)   | (6,225.4)   | 125.3  | —  | (32,947.3)                              |
| Selling expenses.....  | (7,368.8)                | (2,064.5)   | (2,304.0)   | 8.4  | —  | (9,664.5)                               |
| General and administrative expenses.....                                     | (22,786.4)               | (8,022.9)   | (8,953.9)   | 278.9  | —  | (31,461.4)                              |
| Rental income and expenses from investment properties....                    | 1,896.6                  | 997.4   | 1,113.1   | —  | —  | 3,009.7                                 |
| Other income and other expenses.....   | 496.0                    | 182.0   | 203.1   | —  | —  | 699.1                                   |
| <b>Operating Profit</b> .....  | <b>50,456.0</b>          | <b>(8,843.6)</b>  | <b>(9,869.8)</b>  | <b>7,794.6</b>                                       | <b>(2,037.8)</b>   | <b>46,343.0</b>                         |
| Finance income .....   | 11,118.5                 | 778.0   | 868.3   | —  | —  | 11,986.8                                |
| Finance costs.....   | (19,123.2)               | (3,797.6)   | (4,238.3)   | —  | 3,091.0  | (20,270.5)                              |
| <b>Finance result (net)</b> .....  | <b>(8,004.6)</b>         | <b>(3,019.6)</b>  | <b>(3,370.0)</b>  | <b>0.0</b>   | <b>3,091.0</b>   | <b>(8,283.7)</b>                        |
| <b>Profit before taxes</b> .....   | <b>42,451.4</b>          | <b>(11,863.2)</b>   | <b>(13,239.9)</b>   | <b>7,794.6</b>                                       | <b>1,053.1</b>   | <b>38,059.3</b>                         |
| Income tax .....   | 3,500.3                  | (1,371.3)   | (1,530.4)   | (124.0)  | 0.0  | 1,845.9                                 |
| <b>Profit for the year</b> .....   | <b>45,951.7</b>          | <b>(13,234.5)</b>   | <b>(14,770.3)</b>   | <b>7,670.6</b>                                       | <b>1,053.1</b>   | <b>39,905.2</b>                         |
| Attributable to:   |                          |   |   |  |  |   |
| Equity holders of the parent ..  | 45,913.0                 | —   | —   | —  | —  | 39,866.2                                |
| Non-controlling interest .....   | 39.0                     | —   | —   | —  | —  | 39.0                                    |
| <b>Weighted average number of share outstanding, basic and diluted</b> ..... | <b>33,127,307</b>        | <b>—</b>  | <b>—</b>  | <b>—</b>   | <b>—</b>   | <b>33,127,307</b>                       |
| <b>Earnings per share</b>  |                          |   |   |  |  |   |
| Basic and diluted.....   | 1.39                     | —   | —   | —  | —  | 1.20                                    |
| <b>Earnings per share from continuing operations</b>                         |                          |   |   |  |  |   |
| Basic and diluted.....   | 1.39                     |   |   |  |  | 1.20                                    |

### Notes:

- (1) The Group's statement of profit and loss for the year ended December 31, 2016 has been extracted without adjustment from the Historical Financial Information.

- (2) Altis's unaudited financial information relating to profit and loss for the period from January 1, 2016 to September 30, 2016 has been prepared in accordance with French GAAP by Altis and denominated in euro. X-FAB received the rights and benefits of the core assets of Altis with effect from October 1, 2016. As such, X-FAB was not responsible for Altis Assets at any time prior to October 1, 2016. Pursuant to the terms of the acquisition, X-FAB has not acquired the shares of Altis, and as a result X-FAB will not be involved in the shareholder approval process (if any) of the unaudited financial information relating to profit and loss for 2016 (or any period therein). For purposes of the Unaudited Pro Forma Consolidated Statement of Profit and Loss, the presentation of Altis's unaudited financial information relating to profit and loss has been aligned with the presentation of the Group's statement of profit and loss included in the Historical Financial Information.
- (3) Altis's unaudited financial information relating to profit and loss for the period from January 1, 2016 to September 30, 2016 has been converted into U.S. dollars (the functional currency of the Group) at the average rate observed during the period from January to September 2016 of €1:\$1.11604.
- (4) The Altis Acquisition is being accounted for using the acquisition method of accounting in accordance with IFRS 3. Under the acquisition method of accounting, the identifiable assets acquired and liabilities assumed are measured at fair value and the difference between the consideration paid and the net of the fair value of the assets and liabilities is recognized as goodwill or as a gain on a bargain purchase. The valuation techniques used for measuring the fair value of the assets were as follows (per note 5 to the Historical Financial Information):

**Property, plant and equipment:** The property, plant and equipment acquired was valued using market comparison and cost techniques. The valuation model considers quoted market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

The acquired land and the buildings have been valued by an independent publicly certified land valuation expert assigned by the Tribunal de Commerce de Paris resulting in a higher fair value of \$71.8 million (€68.0 million). For valuation of technical machinery and other equipment the cost approach (replacement cost as indicator) was applied to derive the fair value. Neither sufficient marked data based on transactions for used equipment nor directly attributable income to each single asset was available.

**Intangible assets:** Intangible assets were valued at the income approach ("DCF") using relief-from-royalty and multi-period excess earnings methods. The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets. Trademarks, technology patents and customer relationships had no relevance for the PPA.

**Investments:** Financial investments were valued at market prices.

**Inventories:** The fair values of inventories were determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Subsequently, the initial individual valuations of the assets acquired & the liabilities assumed, which led to a higher initial valuation of \$127.9 million (€121.1 million) if compared with the consideration transferred of \$10.2 million, were subject to a reassessment as required by IFRS. This reassessment included a detailed analysis of the transaction and the determination of the fair value of the Altis business based on Discounted Cash Flow (DCF) calculations.

The sale of the Altis business was organized by the French insolvency administrators in the form of a tendering procedure. On September 30, 2016 the commercial court of Paris (France) pronounced a decision, based on an economic comparison of the offer bids (documented in the court decision), to sell the Altis business to X-FAB France.

DCF calculations have been made for different scenarios starting from several business cases which have been based on information provided in the data room. The projections were based on the highest and best use of the assets taken into account any applicable legal restrictions. (X-FAB is a guarantor and is responsible for the proper conduct of the asset purchase agreement, X-FAB is required to employ at least 800 employees over the following five years from the date of acquisition and required to invest EUR 100 million in the following 10 years). Both, the comparison of the two other offer bids that were in the same

range as X-FAB's bid and the DCF calculations, indicated that the transaction was concluded at a market price which equals fair market value.

With respect to the business cases applied in the DCF calculations a 'worst-case' and a 'best-case' scenario was considered, which reflected amongst other elements certain assumptions relating to the expected length of the continuing business with one existing customer of the business.

The equity values as per the business cases ended up with a value of approx. \$102 million (best case) & approx. \$128 million (worst case) and were subsequently weighted 60/40 based on the most realistic expectations which led to an expected value which is very close to the consideration paid of \$10.2 million, further supporting our conclusion that the transaction was performed at fair value of \$10.2 million.

The valuation of the identified assets, the subsequent reassessment according to IFRS 3 and the consideration of IAS 36 (an immediate impairment of the acquired assets would not be appropriate) resulted in a proportionate step-down on land and buildings, on technical and other equipment. The IFRS valuation of net assets resulted eventually in a valuation of net assets which equals the purchase consideration and the fair value of the acquired Altis business.

The fair value of the tangible assets recognized in the Unaudited Pro Forma Consolidated Statement of Profit and Loss mainly consists of land, building & machinery, and equipment at lower carrying amounts (book value) than in the local GAAP financial information of Altis. These adjustments reflect the recognition of related depreciation expenses in "Cost of Sales," "Research and development expenses," "Selling expenses" of "General and administrative expenses" as applicable. These adjustments reflect the recognition of amounts in respect of depreciation and amortization that X-FAB estimates it would have incurred during the period from January 1, 2016 to September 30, 2016 in line with the fair values of the Altis Assets and X-FAB's depreciation policy.

- (5) Pro forma adjustments: These adjustments reflect the reversal of certain amounts recorded in cost of sales and finance costs on Altis's unaudited financial information relating to profit and loss during the period from January 1, 2016 to September 30, 2016, and the replacement of such amounts with the amounts X-FAB estimates it would have incurred in respect of the Altis Assets during that period if the Altis Acquisition had taken effect from January 1, 2016.

In particular, this note reflects adjustments to reverse (i) property taxes incurred (\$2,439.01 thousand); (ii) R&D tax credits claimed (\$6,761.34 thousand); and (iii) finance costs incurred (\$3,090.98 thousand) by Altis during the period from January 1, 2016 to September 30, 2016, and the inclusion of amounts in respect of these items that X-FAB estimates it would have incurred during that period if the Altis Acquisition had taken effect from January 1, 2016 of \$1,827.01 thousand, \$4,111.49 thousand and nil, respectively. The difference in property taxes incurred results from the acquisition by X-FAB of only a portion of land and buildings owned by Altis, and hence reduces the property taxes to be paid during that period had the Altis Acquisition taken effect from January 1, 2016. The reduction in R&D tax credits claimed is because R&D tax credits depend on the eligible costs incurred, in particular on the depreciation of the equipment used for such R&D tasks eligible for a tax credit. Had the acquisition taken effect from January 1, 2016, depreciation would decrease and therefore the R&D tax credits would have been lower as compared to the Altis operations. Finance costs were reversed because X-FAB France was and is financed by X-FAB without having to enter into additional bank loans and borrowings from a Group perspective. Accordingly, it is assumed that had the acquisition taken effect as of January 1, 2016, the financing of X-FAB France would have been provided by X-FAB Group internal financing and as such the finance costs were required to be reversed.

There are no further differences in valuation rules between French GAAP and IFRS which had an effect on the pro forma consolidated statement of profit and loss. All pro forma adjustments are expected to have a continuing impact on X-FAB.



## **Assurance Report of the statutory auditor on Pro Forma Financial Information**

To the Board of Directors of X-FAB Silicon Foundries SE

We report on the pro forma financial information (the “pro forma financial information”) included in the Prospectus (“the Prospectus”). The applicable criteria on the basis of which the board of directors has compiled the pro forma financial information are specified in the Commission Regulation (EC) No 809/2004 (“the applicable criteria”) and the basis of compilation is described in the pro forma financial information.

The pro forma financial information has been compiled by X-FAB Silicon Foundries SE (the Company) for illustrative purposes only, to provide information about how the acquisition of the Altis business on 1 October 2016 might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the year ended 31 December 2016. As part of this process, information about the Company’s financial performance has been extracted by the board of directors from the Company’s consolidated financial statements for the year ended 31 December 2016, on which an audit report has been published.

### *Board of director’s responsibility*

The board of directors is responsible for the compilation of the pro forma financial information in accordance with the requirements of the Commission Regulation (EC) No 809/2004.

### *Practitioner’s responsibilities*

Our responsibility is to express an opinion as required by item 7 of Annex II of the Commission Regulation (EC) No 809/2004, as to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and whether the basis is consistent with the accounting policies of the Company.

We conducted our engagement in accordance with International Standard on Assurance Engagements 3420, Assurance Engagements to report on Pro Forma Financial Information Included in a Prospectus. This standard requires that the practitioner comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the board of directors has compiled, in all material respects, the pro forma financial information on the basis of the applicable criteria and that such basis is consistent with the accounting policies of the Company. For the purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the board of directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the practitioner's judgement, having regard to the practitioner's understanding of the nature of the company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

In our opinion:

- the pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of the Company.

*Restriction on Use*

This report is required by the Commission Regulation (EC) No 809/2004 and is given for the purpose of complying with that Regulation and for no other purpose.

Hasselt, 18 March 2016

KPMG Réviseurs d'Entreprises – Bedrijfsrevisoren  
Statutory auditor  
represented by

Herwig Carmans  
Réviseur d'Entreprises / Bedrijfsrevisor

## TAXATION

### Belgian Taxation

The paragraphs below present a summary of certain material Belgian federal income tax consequences of the ownership and disposal of Shares by an investor that purchases such Shares in connection with this Offering. The summary is based on laws, treaties and regulatory interpretations in effect in Belgium on the date of this Prospectus, all of which are subject to change, including changes that could have retroactive effect.

Investors should appreciate that, as a result of evolutions in law or practice, the eventual tax consequences may be different from what is stated below.

This summary does not purport to address all tax consequences of the ownership and disposal of Shares, and does not take into account the specific circumstances of particular investors, some of which may be subject to special rules, or the tax laws of any country other than Belgium. This summary does not describe the tax treatment of investors that are subject to special rules, such as banks, insurance companies, collective investment undertakings, dealers in securities or currencies, persons that hold, or will hold, Shares as a position in a straddle, share-repurchase transaction, conversion transactions, synthetic security or other integrated financial transactions. This summary does not address the local taxes that may be due in connection with an investment in the Shares, other than Belgian local surcharges which generally vary from 0 per cent. to 9 per cent. of the investor's income tax liability.

For purposes of this summary, a Belgian resident is an individual subject to Belgian personal income tax (that is, an individual who is domiciled in Belgium or has his seat of wealth in Belgium or a person assimilated to a resident for purposes of Belgian tax law), a company subject to Belgian corporate income tax (that is, a corporate entity that has its statutory seat, its main establishment, its administrative seat or seat of management in Belgium), an Organization for Financing Pensions subject to Belgian corporate income tax (i.e., a Belgian pension fund incorporated under the form of an Organization for Financing Pensions), or a legal entity subject to Belgian income tax on legal entities (that is, a legal entity other than a company subject to Belgian corporate income tax, that has its statutory seat, its main establishment, its administrative seat or seat of management in Belgium). A Belgian non-resident is any person that is not a Belgian resident.

Investors should consult their own advisors regarding the tax consequences of an investment in Shares in the light of their particular circumstances, including the effect of any state, local or other national laws.

### Dividends

For Belgian income tax purposes, the gross amount of all benefits paid on or attributed to the Shares is generally treated as a dividend distribution. By way of exception, the repayment of capital carried out in accordance with the Belgian Companies Code is not treated as a dividend distribution to the extent that such repayment is imputed to fiscal capital. This fiscal capital includes, in principle, the actual paid-up statutory share capital and, subject to certain conditions, the paid-up issuance premiums and the cash amounts subscribed to at the time of the issue of profit sharing certificates.

Belgian withholding tax of 30 per cent. is normally levied on dividends, subject to such relief as may be available under applicable domestic or tax treaty provisions.

In the case of a redemption of the Shares, the redemption distribution (after deduction of the part of the fiscal capital represented by the redeemed Shares) will be treated as a dividend subject to a Belgian withholding tax of 30 per cent., subject to such relief as may be available under applicable domestic or tax treaty provisions. No withholding tax will be triggered if this redemption is carried out on a stock exchange and meets certain conditions.

In case of liquidation of the Company, any amounts distributed in excess of the fiscal capital will in principle be subject to a 30 per cent. withholding tax, subject to such relief as may be available under applicable domestic or treaty provisions.

### ***Belgian resident individuals***

For Belgian resident individuals who acquire and hold Shares as a private investment, the Belgian dividend withholding tax fully discharges their personal income tax liability. They may nevertheless elect to report (the gross amount of) the dividends in their personal income tax return. Where the beneficiary opts to report them, dividends will normally be taxable at the lower of the generally applicable 30 per cent. withholding tax rate on dividends or at the progressive personal income tax rates applicable to the taxpayer's overall declared income. If the beneficiary reports the dividends, the income tax due on such dividends will not be increased by local surcharges. In addition, if the dividends are reported, the dividend withholding tax levied at source may, in both cases, be credited against the personal income tax due and is reimbursable to the extent that it exceeds the personal income tax due, provided that the dividend distribution does not result in a reduction in value of or a capital loss on Shares. This condition is not applicable if the individual can demonstrate that he has held Shares in full legal ownership for an uninterrupted period of 12 months prior to the payment or attribution of the dividends.

For Belgian resident individual investors who acquire and hold Shares for professional purposes, the Belgian withholding tax does not fully discharge their income tax liability. Dividends received must be reported by the investor and will, in such a case, be taxable at the investor's personal income tax rate increased with local surcharges. Withholding tax levied at source may be credited against the personal income tax due and is reimbursable to the extent that it exceeds the income tax due, subject to two conditions: (i) the taxpayer must own Shares in full legal ownership at the time the dividends are paid or attributed and (ii) the dividend distribution may not result in a reduction in value of or a capital loss on Shares. The latter condition is not applicable if the investor can demonstrate that he has held the full legal ownership of Shares for an uninterrupted period of 12 months prior to the payment or attribution of the dividends.

### ***Belgian resident companies***

#### *Corporate income tax*

For Belgian resident companies, the gross dividend income (including the withholding tax) must be declared in the corporate income tax return and will be subject to a corporate income tax rate of 33.99 per cent. In certain circumstances, reduced corporate income tax rates may apply.

Belgian resident companies can under certain conditions deduct up to 95 per cent. of the gross dividend received from the taxable income ("dividend received deduction"), provided that at the time of a dividend payment or attribution: (i) the Belgian resident company holds Shares representing at least 10 per cent. of the Company's share capital or a participation in the Company with an acquisition value of at least €2,500,000; (ii) the Shares have been held or will be held in full ownership for an uninterrupted period of at least one year; and (iii) the conditions relating to the taxation of the underlying distributed income, as described in Article 203 of the Belgian Income Tax Code (the "Article 203 ITC Taxation Condition") are met (together, the "Conditions for the application of the dividend received deduction regime"). Dividends received by a Belgian resident company that qualify for the dividend received deduction are first to be included in the taxable income. Then, if the conditions are met, 95% of the dividends is deducted from the taxable income. This means that in case the Company is in a loss position or the profits are insufficient, there will be no deduction possible. Dividends that cannot be deducted may be carried forward indefinitely.

The Conditions for the application of the dividend received deduction regime depend on a factual analysis and for this reason the availability of this regime should be verified upon each dividend distribution.

Any Belgian dividend withholding tax levied at source may be credited against the corporate income tax due and is reimbursable to the extent that it exceeds the corporate income tax due, subject to two conditions: (i) the taxpayer must own the Shares in full legal ownership at the time the dividends are paid or attributed and (ii) the dividend distribution may not result in a reduction in value of or a capital loss on the Shares. The latter condition is not applicable: (i) if the company can demonstrate that it has held the Shares in full legal ownership for an uninterrupted period of 12 months prior to the payment of or attribution on the dividends or (ii) if, during that period, the Shares never belonged to a taxpayer other than a resident company or a non-resident company which has, in an uninterrupted manner, attributed the Shares to a Belgian permanent establishment (“PE”).

#### *Withholding tax*

Dividends distributed to a Belgian resident company will be exempt from Belgian withholding tax provided that the Belgian resident company holds, upon payment or attribution of the dividends, at least 10 per cent. of the Company’s share capital and such minimum participation is held or will be held during an uninterrupted period of at least one year.

In order to benefit from this exemption, the investor must provide the Company or its paying agent with a certificate confirming its qualifying status and the fact that it meets the two required conditions. If the investor holds a minimum participation for less than one year, at the time the dividends are paid on or attributed to Shares, the Company will levy the withholding tax but will not transfer it to the Belgian Treasury provided that the investor certifies its qualifying status, the date from which the investor has held such minimum participation, and the investor’s commitment to hold the minimum participation for an uninterrupted period of at least one year. The investor must also inform the Company or its paying agent if the one-year period has expired or if its shareholding will drop below 10 per cent. of the Company’s share capital before the end of the one-year holding period. Upon satisfying the one-year shareholding requirement, the provisionally withheld dividend withholding tax will be paid to the investor.

Please note that the above withholding tax exemption will not be applicable to dividends which are connected to an arrangement or a series of arrangements (rechtshandeling of geheel van rechtshandelingen/acte juridique ou un ensemble d’actes juridiques) for which the Belgian tax administration, taking into account all relevant facts and circumstances, has proven, unless evidence to the contrary, that this arrangement or this series of arrangements is not genuine (kunstmatig/non authentique) and has been put in place for the main purpose or one of the main purposes of obtaining the dividend received deduction, the above dividend withholding tax exemption or one of the advantages of the EU Parent-Subsidiary Directive of November 30, 2011 (2011/96/EU) (“Parent-Subsidiary Directive”) in another EU Member State. An arrangement or a series of arrangements is regarded as not genuine to the extent that they are not put into place for valid commercial reasons which reflect economic reality.

#### ***Organizations for financing pensions***

For organizations for financing pensions (“OFPs”), i.e., Belgian pension funds incorporated under the form of an OFP (organisme voor de financiering van pensioenen/organisme de financement de pensions) within the meaning of Article 8 of the Belgian Law of October 27, 2006, the dividend income is generally tax-exempt. Subject to certain limitations, any Belgian dividend withholding tax levied at source may be credited against the corporate income tax due and is reimbursable to the extent that it exceeds the corporate income tax due.

#### ***Other taxable legal entities***

For taxpayers subject to the Belgium income tax on legal entities, the Belgian dividend withholding tax in principle fully discharges their Belgian income tax liability in this respect.

### ***Belgian non-resident individuals and companies***

For non-resident individuals and companies, the dividend withholding tax will be the only tax on dividends in Belgium, unless the non-resident holds Shares in connection with a business conducted in Belgium through a fixed base in Belgium or a Belgian PE.

If Shares are acquired by a non-resident in connection with a business in Belgium, the investor must report any dividends received, which will be taxable at the applicable Belgian non-resident individual or corporate income tax rate, as appropriate. Belgian withholding tax levied at source may be credited against Belgian non-resident individual or corporate income tax and is reimbursable to the extent that it exceeds the income tax due, subject to two conditions: (i) the taxpayer must own Shares in full legal ownership at the time the dividends are paid or attributed and (ii) the dividend distribution may not result in a reduction in value of or a capital loss on Shares. The latter condition is not applicable if (i) the non-resident individual or the non-resident company can demonstrate that Shares were held in full legal ownership for an uninterrupted period of 12 months prior to the payment or attribution of the dividends or (ii) with regard to non-resident companies only, if, during the said period, Shares have not belonged to a taxpayer other than a resident company or a non-resident company which has, in an uninterrupted manner, attributed the Shares to a Belgian PE.

Non-resident companies whose Shares are attributable to a Belgian PE may deduct up to 95 per cent. of the gross dividends included in their taxable profits if, at the date dividends are paid or attributed, the Conditions for the application of the dividend received deduction regime are met (see above). Application of the dividend received deduction regime depends, however, on a factual analysis to be made upon each distribution and its availability should be verified upon each distribution.

### ***Belgian dividend withholding tax relief for non-residents***

Under Belgian tax law, withholding tax is not due on dividends paid to a foreign pension fund which satisfies the following conditions: (i) it is a non-resident saver in the meaning of Article 227, 3° of the Belgian Income Tax Code (“ITC”) which implies that it has separate legal personality and fiscal residence outside of Belgium; (ii) whose corporate purpose consists solely in managing and investing funds collected in order to pay legal or complementary pensions; (iii) whose activity is limited to the investment of funds collected in the exercise of its statutory mission, without any profit making aim; (iv) which is exempt from income tax in its country of residence; and (v) provided that it is not contractually obligated to redistribute the dividends to any ultimate beneficiary of such dividends for whom it would manage the Shares, nor obligated to pay a manufactured dividend with respect to the Shares under a securities borrowing transaction. The exemption will only apply if the foreign pension fund provides a certificate confirming that it is the full legal owner or usufruct holder of the Shares and that the above conditions are satisfied. The organization must then forward that certificate to the Company or its paying agent.

Dividends distributed to non-resident companies established in a Member State of the EU or in a country with which Belgium has concluded a double tax treaty that includes a qualifying exchange of information clause and qualifying as a parent company, will be exempt from Belgian withholding tax provided that Shares held by the non-resident company, upon payment or attribution of the dividends, amount to at least 10 per cent. of the Company’s share capital and such minimum participation is held or will be held during an uninterrupted period of at least one year. A company qualifies as a parent company provided that (i) for companies established in a Member State of the EU, it has a legal form as listed in the annex to the Parent-Subsidiary Directive as amended from time to time, or, for companies established in a country with which Belgium has concluded a qualifying double tax treaty it has a legal form similar to the ones listed in such annex; (ii) it is considered to be a tax resident according to the tax laws of the country where it is established and the double tax treaties concluded between such country and third countries; and (iii) it is subject to corporate income tax or a similar tax without benefiting from a tax regime that derogates from the ordinary tax regime.

In order to benefit from the above exemption, the investor must provide the Company or its paying agent with a certificate confirming its qualifying status and the fact that it meets the three abovementioned conditions. If the investor holds a minimum participation for less than one year, at the time the dividends are paid on or attributed to Shares, the Company will levy the withholding tax but will not transfer it to the Belgian Treasury provided that the investor certifies its qualifying status, the date from which the investor has held such minimum participation, and the investor's commitment to hold the minimum participation for an uninterrupted period of at least one year. The investor must also inform the Company or its paying agent if the one-year period has expired or if its shareholding will drop below 10 per cent. of the Company's share capital before the end of the one-year holding period. Upon satisfying the one-year shareholding requirement, the provisionally withheld dividend withholding tax will be paid to the investor.

Please note that the above withholding tax exemption will not be applicable to dividends which are connected to an arrangement or a series of arrangements (rechtshandeling of geheel van rechtshandelings/acte juridique ou un ensemble d'actes juridiques) for which the tax Belgian tax administration, taking into account all relevant facts and circumstances, has proven, unless evidence to the contrary, that this arrangement or this series of arrangements is not genuine (kunstmatig/non authentique) and has been put in place for the main purpose or one of the main purposes of obtaining the dividend received deduction, the above dividend withholding tax exemption or one of the advantages of the Parent-Subsidiary Directive in another EU Member State. An arrangement or a series of arrangements is regarded as not genuine to the extent that they are not put into place for valid commercial reasons which reflect economic reality.

Dividends distributed to non-resident companies are subject to a reduced Belgian withholding tax of 1.6995 per cent. (the "Reduced Withholding Tax") in case (i) the non-resident company is established in the European Economic Area or in a country with which Belgium has concluded a tax treaty that includes a qualifying exchange of information clause, (ii) the non-resident company is subject to corporate income tax or a similar tax without benefiting from a tax regime that derogates from the ordinary tax regime, (iii) the non-resident company does not satisfy the 10 per cent.-participation threshold but has a participation in the Company with an acquisition value of at least €2,500,000 on the date the dividend is paid on or attributed, (iv) the non-resident company has a legal form as listed in the annex to the Parent-Subsidiary Directive, as amended from time to time, or, has a legal form similar to the ones listed in such annex that is governed by the laws of another Member State of the EEA, or, has a legal form similar to the ones listed in such annex in a country with which Belgium has concluded a qualifying double tax treaty and (v) the dividends are not paid or attributed by a company which falls within the scope of Article 203 ITC (i.e. the Article 203 ITC Taxation Condition must be met; see above). The Reduced Withholding Tax only applies if and to the extent that the ordinary Belgian withholding tax is, in principle, neither creditable nor reimbursable in the hands of the non-resident company.

In order to benefit from the Reduced Withholding Tax, the investor must provide the Company or its paying agent with a certificate confirming (i) it is established in another EEA Member State or in a State with which Belgium has concluded a tax treaty, provided that the tax treaty or any other treaty provides for the exchange or information which is necessary to give effect to the provisions of the domestic laws of the Contracting States, (ii) it has a legal form as listed in the Annex I, part A of the Parent-Subsidiary Directive, as amended by Directive 2014/86/EU of July 8, or a legal form similar to the ones listed in said Annex and governed by the laws of the EEA Member State, or a legal form similar to the ones listed in said Annex in a country with which Belgium has concluded a tax treaty, (iii) it is subject to corporate income tax or a similar tax without benefiting from a tax regime that deviates from the ordinary domestic tax regime, (iv) it holds a participation of less than 10 per cent. in the capital of the Company but with an acquisition value of at least €2,500,000 on the date the dividend is paid on or attributed, (v) the dividends relate to Shares in the Company which it has held or will hold in full legal ownership for an uninterrupted period of at least one year and (vi) it cannot in principle credit the Belgian withholding tax paid on the dividends or obtain a refund thereof according to the legal provisions in force on December 31 of the year preceding the year of the payment or attribution of the dividends. The Company or

the paying agent may also request confirmation from the investor that the investor commits to keep the participation with an acquisition value of at least €2,500,000 until the completion of the minimum holding period of one year and that the investor immediately notifies the Company or the paying agent of the completion of said one year holding period. The investor must furthermore provide on the certificate its full name, legal form, address and fiscal identification number, if applicable.

Belgium has concluded tax treaties with over 90 countries, reducing the dividend withholding tax rate to 20 per cent., 15 per cent., 10 per cent., 5 per cent. or 0 per cent. for residents of those countries, depending on conditions, among others, related to the size of the shareholding and certain identification formalities. Such reduction may be obtained either directly at source or through a refund of taxes withheld in excess of the applicable tax treaty rate.

Prospective holders should consult their own tax advisors as to whether they qualify for reduction in withholding tax upon payment or attribution of dividends, and as to the procedural requirements for obtaining a reduced withholding tax upon the payment of dividends or for making claims for reimbursement.

## **Capital gains and losses on Shares**

### ***Belgian resident individuals***

In principle, Belgian resident individuals acquiring and holding Shares as a private investment should not be subject to Belgian capital gains tax on the disposal of Shares and capital losses are not tax deductible.

However, capital gains realized by a private individual on the disposal of Shares are taxable at 33 per cent. (plus local surcharges) if the capital gain is deemed to be speculative or realized outside the scope of the normal management of the individual's private estate. Capital losses are, however, not tax deductible.

Moreover, capital gains realized by Belgian resident individuals on the disposal of Shares for consideration, outside the exercise of a professional activity, to a non-resident company (or a body constituted in a similar legal form), to a foreign State (or one of its political subdivisions or local authorities) or to a non-resident legal entity, are in principle taxable at a rate of 16.5 per cent. (plus local surcharges) if, at any time during the five years preceding the sale, the Belgian resident individual has owned directly or indirectly, alone or with his/her spouse or with certain relatives, a substantial shareholding in the Company (i.e., a shareholding of more than 25 per cent. in the Company). This capital gains tax does not apply if the Shares are transferred to the above mentioned persons provided that they are established in the European Economic Area (EEA). Capital losses are, however, not tax deductible.

Belgian resident individuals who hold Shares for professional purposes are taxable at the ordinary progressive personal income tax rates (plus local surcharges) on any capital gains realized upon the disposal of Shares, except for Shares held for more than five years, which are taxable at a separate rate of 16.5 per cent. (plus local surcharges). Capital losses on Shares incurred by Belgian resident individuals who hold Shares for professional purposes are in principle tax deductible.

Capital gains realized by Belgian resident individuals upon the redemption of Shares or upon the liquidation of the Company will generally be taxable as a dividend (see above). In the case of a redemption of the Shares followed by their annulment, the redemption distribution (after deduction of the part of the fiscal capital represented by the redeemed Shares) will be treated as a dividend subject to a Belgian withholding tax of 30 per cent., subject to such relief as may be available under applicable domestic or tax treaty provisions. No withholding tax will be triggered if this redemption is carried out on a stock exchange and meets certain conditions.

In case of liquidation of the Company, any amounts distributed in excess of the fiscal capital will in principle be subject to a 30 per cent. withholding tax, subject to such relief as may be available under applicable domestic or treaty provisions.



### ***Belgian resident companies***

Belgian resident companies (not being small enterprises within the meaning of Article 15 of the Belgian Companies Code, hereinafter referred to as “Small Enterprises”) are subject to Belgian capital gains taxation at a separate rate of 0.412 per cent. on gains realized upon the disposal of Shares provided that: (i) the Article 203 ITC Taxation Condition is met and (ii) the Shares have been held in full legal ownership for an uninterrupted period of at least one year. The 0.412 per cent. separate capital gains tax rate cannot be off-set by any tax assets (such as e.g. tax losses).

Belgian resident companies qualifying as Small Enterprises are in principle not subject to Belgian capital gains taxation on gains realized upon the disposal of the Shares provided that (i) the Article 203 ITC Taxation Condition is met and (ii) the Shares have been held in full legal ownership for an uninterrupted period of at least one year.

If the one-year minimum holding period condition would not be met (but the Article 203 ITC Taxation Condition is met) then the capital gains realized upon the disposal of Shares by Belgian resident companies (both non-Small Enterprises and Small Enterprises) would be taxable at a separate corporate income tax rate of 25.75 per cent.

Capital losses on Shares incurred by resident companies (both non-Small Enterprises and Small Enterprises) are as a general rule not tax deductible.

Capital gains realized by Belgian resident companies upon the redemption of Shares or upon the liquidation of the Company will, in principle, be subject to the same taxation regime as dividends (see above).

Shares held in the trading portfolios of qualifying credit institutions, investment enterprises and management companies of collective investment undertakings are subject to a different regime. The capital gains realized by these investors will be subject to corporate income tax at the general rates, and capital losses are tax deductible. Internal transfers to and from the trading portfolio are assimilated to a realization.

### ***Organizations for financing pensions***

OFPs are, in principle, not subject to Belgian capital gains taxation realized upon the disposal of Shares, and capital losses are not tax deductible.

### ***Other taxable legal entities***

Belgian resident legal entities subject to the legal entities income tax are, in principle, not subject to Belgian capital gains taxation on the disposal of Shares. However, capital gains realized upon disposal of (part of) a substantial participation in a Belgian company (being a participation representing more than 25 per cent. of the share capital of the Company at any time during the last five years prior to the disposal) may under certain circumstances give rise to a 16.5 per cent. tax (plus crisis surcharge of currently 3 per cent.).

Capital gains realized by Belgian resident legal entities upon the redemption of Shares or upon the liquidation of the Company will in principle be taxed as dividends.

Capital losses on Shares incurred by Belgian resident legal entities are not tax deductible.

### ***Belgian non-resident individuals***

Capital gains realized on the Shares by a non-resident individual that has not acquired the Shares in connection with a business conducted in Belgium through a fixed base in Belgium or a Belgian PE are in principle not subject to taxation, unless in the following cases if such capital gains are obtained or received in Belgium:

- the gains are deemed to be realized outside the scope of the normal management of the individual’s private estate. In such case the capital gains have to be reported in a non-resident tax return for the income year during which the gain has been realized and may be taxable in Belgium; or,

- the gains originate from the disposal of (part of) a substantial participation in a Belgian company (being a participation representing more than 25 per cent. of the share capital of the Company at any time during the last five years prior to the disposal). Then, the realized capital gains may, under certain circumstances, give rise to a 16.5 per cent. tax (plus local surcharges of currently 7 per cent.).

However, Belgium has concluded tax treaties with more than 90 countries which generally provide for a full exemption from Belgian capital gains taxation on such gains realized by residents of those countries. Capital losses are generally not tax deductible.

Capital gains realized by Belgian non-resident individuals upon the redemption of Shares or upon the liquidation of the Company will generally be taxable as a dividend (see above).

Capital gains will be taxable at the ordinary progressive income tax rates and capital losses will be tax deductible, if those gains or losses are realized on Shares by a non-resident individual that holds Shares in connection with a business conducted in Belgium through a fixed base in Belgium or a Belgian permanent establishment.

### ***Belgian non-resident companies or entities***

Capital gains realized on the Shares by non-resident companies or non-resident entities that have not acquired the Shares in connection with a business conducted in Belgium through a Belgian PE are in principle not subject to taxation and losses are not tax deductible.

Capital gains realized by non-resident companies or other non-resident entities that hold the Shares through a Belgian PE are generally subject to the same regime as Belgian resident companies (see above).

### ***Tax on stock exchange transactions***

No tax on stock exchange transactions is due upon subscription to Shares (primary market transactions).

The purchase and the sale and any other acquisition or transfer for consideration of existing Shares (secondary market transactions) in Belgium through a professional intermediary is subject to the tax on stock exchange transactions (taks op de beursverrichtingen/taxe sur les opérations de bourse) of 0.27 per cent. of the purchase price, capped at €1,600 per transaction and per party.

Following the Law of December 25, 2016, the scope of application of the tax on the stock exchange transactions has been extended as of January 1, 2017 to secondary market transactions of which the order is directly or indirectly made to a professional intermediary established outside of Belgium by (i) a private individual with habitual residence in Belgium or (ii) a legal entity for the account of its seat or establishment in Belgium (both referred to as a “Belgian Investor”). In such a scenario, the tax on the stock exchange transactions is due by the Belgian Investor, unless the Belgian Investor can demonstrate that the tax on the stock exchange transactions due has already been paid by the professional intermediary established outside of Belgium. Alternatively, professional intermediaries established outside of Belgium could appoint a stock exchange tax representative in Belgium, subject to certain conditions and formalities (“Stock Exchange Tax Representative”). Such Stock Exchange Tax Representative will then be liable toward the Belgian Treasury for the tax on stock exchange transactions due and for complying with reporting obligations in that respect. If such a Stock Exchange Tax Representative would have paid the tax on stock exchange transactions due, the Belgian Investor will, as per the above, no longer be the debtor of the tax on stock exchange transactions.

No tax on stock exchange transactions is due on transactions entered into by the following parties, provided they are acting for their own account: (i) professional intermediaries described in Article 2,9° and 10° of the Belgian Law of August 2, 2002 on the supervision of the financial sector and financial services; (ii) insurance companies described in Article 2, §1 of the Belgian Law of July 9, 1975 on the supervision of insurance companies; (iii) pension institutions referred to in Article 2,1° of the Belgian Law of October 27, 2006

concerning the supervision of pension institutions; (iv) collective investment institutions; (v) regulated real estate companies; and (vi) Belgian non-residents provided they deliver a certificate to their financial intermediary in Belgium confirming their non-resident status.

As stated above, on February 14, 2016 the EU Commission adopted the Draft Directive on an FTT. The Draft Directive currently stipulates that once the FTT enters into force, the Participating Member States shall not maintain or introduce taxes on financial transactions other than the FTT (or VAT as provided in the Council Directive 2006/112/EC of November 28, 2006 on the common system of value added tax). For Belgium, the tax on stock exchange transactions should thus be abolished once the FTT enters into force. The Draft Directive is still subject to negotiation between the Participating Member States and therefore may be changed at any time.

### ***Common reporting standard***

Following recent international developments, the exchange of information will be governed by the Common Reporting Standard ("CRS"). On October 29, 2014, 51 jurisdictions signed the multilateral competent authority agreement (MCAA), which is a multilateral framework agreement to automatically exchange financial and personal information, with the subsequent bilateral exchanges coming into effect between those signatories that file the subsequent notifications.

More than 50 jurisdictions, including Belgium, have committed to a specific and ambitious timetable leading to the first automatic information exchanges in 2017, relating to income year 2016 ("early adopters").

Under CRS, financial institutions resident in a CRS country will be required to report, according to a due diligence standard, financial information with respect to reportable accounts, which includes interest, dividends, account balance or value, income from certain insurance products, sales proceeds from financial assets and other income generated with respect to assets held in the account or payments made with respect to the account. Reportable accounts include accounts held by individuals and entities (which includes trusts and foundations) with fiscal residence in another CRS country. The standard includes a requirement to look through passive entities to report on the relevant controlling persons.

On December 9, 2014, EU Member States adopted Directive 2014/107/EU on administrative cooperation in direct taxation ("DAC2"), which provides for mandatory automatic exchange of financial information as foreseen in CRS. DAC2 amends the previous Directive on administrative cooperation in direct taxation, Directive 2011/16/EU.

The mandatory automatic exchange of financial information by EU Member States as foreseen in DAC2 will at the latest take place as of September 30, 2017, except with regard to Austria. The mandatory automatic exchange of financial information by Austria will at the latest take place as of September 30, 2018.

The Belgian government has implemented said Directive 2014/107/EU, respectively the Common Reporting Standard, per the Law of 16 December 2015 regarding the exchange of information on financial accounts by Belgian financial institutions and by the Belgian tax administration, in the context of an automatic exchange of information on an international level and for tax purposes.

As a result of the Law of 16 December 2015, the mandatory automatic exchange of information applies in Belgium (i) as of income year 2016 (first information exchange in 2017) toward the EU Member States (including Austria, irrespective the fact that the automatic exchange of information by Austria toward other EU Member States is only foreseen as of income year 2017), (ii) as of income year 2014 (first information exchange in 2016) toward the US and (iii), with respect to any other non-EU States that have signed the MCAA, as of the respective date to be further determined by Royal Decree.

Investors who are in any doubt as to their position should consult their professional advisers.

## **French Taxation**

The description below presents a summary of certain French tax consequences of the ownership and disposal of Shares by investors, individuals or legal entities, which are fiscally domiciled or resident in France, that purchases such Shares in connection with this Offering. Such summary is based on the laws as currently in force. However, such laws may be modified by subsequent amendments (potentially with retrospective effect) and their interpretation by the French tax authorities.

The statements below are a summary provided for general information purposes only and should by no means be considered as a comprehensive analysis of all tax consequences that may apply to the ownership and disposal of Shares. Holders of Shares should contact their usual tax advisor in order to determine the tax regime applicable to their own situation.

Please also note that this summary does not describe the French tax considerations for (i) individual shareholders holding their shares in the Company through an equity savings plan (*plan d'épargne en actions* ("PEA"), including PEA PME-ETI – and this summary does not envisage whether the shares are eligible to such PEA), or who conduct stock market transactions under conditions similar to those which define an activity carried out by a person conducting such operations on a professional basis, and (ii) shareholders who are legal entities which hold 5 per cent. or more of the capital of the Company or for which the shares of the Company qualify as equity investment (*titres de participation*) or assimilated securities for the purposes of the provisions of article 219 I-a *quinquies* of the FTC.

Individual shareholders of the Company who are subject to a different tax treatment than those described hereafter, in particular individuals who deal in securities on a basis that goes beyond simple portfolio management or who have recorded their shares as assets on their commercial balance sheet, should seek professional advice from their usual tax advisor as to the tax treatment that will apply to their own situation.

Shareholders who are legal entities subject to a tax regime other than one of those described below should contact their usual tax advisor to get informed about the tax regime applicable to their own situation.

Attention should be drawn to the fact that the following is simply a summary of certain tax rules and that investors should consult their usual tax advisor as to their particular situation.

### **Dividends**

***Individual shareholders (other than shareholders holding their shares through a PEA or who conduct stock market transactions under conditions similar to those which define an activity carried out by a person conducting such operations on a professional basis)***

#### *(i) Personal income tax and additional contribution on high-income taxpayers*

The dividends paid on the Shares to holders who are fiscally domiciled in France are subject to personal income tax in France under the conditions described below.

The gross amount of the dividends is taken into account to calculate the taxpayer's total income in the category of tax on income from investment in securities (*revenus de capitaux mobiliers*), subject to personal income tax at the progressive scale, after deduction of an allowance equal to 40 per cent. of the amount of the dividends (such allowance applies only if the dividends are paid out pursuant to a valid resolution of the paying company).

Under Article 19-B, 1-a of the of the double tax treaty entered into between France and Belgium (the "Treaty"), the withholding tax levied in Belgium on such dividends in accordance with the Treaty, if any, will be deductible from the French income tax due by holders of the Shares on such dividends.

The gross amount of the dividends received will also be included (before application of the 40 per cent. allowance) in the taxpayer's reference income (*revenu de référence*), which may be subject to the 3 per cent. or 4 per cent. contribution on high-income taxpayers.

*(ii) 21 per cent. levy*

It should be noted that, subject to limited exceptions, under Article 117 *quater* of the French tax code, a 21 per cent. levy must be paid on dividends, such levy being an advance personal income tax payment which can be set off against the personal income tax charge due in respect of the year in which the 21 per cent. levy applies, the surplus, if any, being refunded to the taxpayer. This levy is paid (i) by withholding at source where the paying agent is established in a European Union member State or in a State that is a party to the European Economic Area Agreement that has signed a tax agreement with France that contains an administrative assistance clause with a view to combating tax fraud or tax evasion, provided, in the latter case, that the taxpayer instructs the paying agent in this respect, or, otherwise, (ii) by the taxpayer himself or herself, within fifteen days from the end of the month during which the dividends are paid. If the paying agent is established in France, the tax is levied by the paying agent.

However, in situations where the paying agent is established in France, individuals belonging to a tax household whose taxable income for the year before last, as defined in 1° of IV of Article 1417 of the FTC, is less than EUR50,000 for taxpayers who are single, divorced or widowed, or €75,000 for couples filing jointly, may request exemption from this withholding under the terms and conditions of Article 242 *quater* of the FTC, i.e. by providing to the paying agent no later than November 30 of the year preceding the year of the payment of the dividends a sworn statement that the reference fiscal income shown on the taxation notice (*avis d'imposition*) issued in respect of the second year preceding the year of payment was below the above-mentioned taxable income thresholds. However, taxpayers who acquire shares after the deadline for providing the aforementioned exemption request can, subject to certain conditions, provide such exemption request to the paying agent upon acquisition of such shares pursuant to paragraph 320 of the administrative guidelines BOI-RPPM-RCM-30-20-10-20160711.

When the paying agent is established outside France, only individuals belonging to a tax household whose taxable income of the year before last, as defined in 1° of IV of Article 1417 is equal or superior to the amounts mentioned in the previous paragraph are subject to this tax.

This 21 per cent. levy does not discharge the taxpayer from the payment of personal income tax on such amounts nor from the payment of the exceptional contribution on high income earners, where applicable. It however constitutes an advance payment on account of the taxpayer's final income tax and is creditable against the final personal income tax due by the taxpayer with respect to the year during which it is withheld, the surplus, if any, being refunded to the taxpayer.

*(iii) Social contributions*

The gross amount of the dividends paid by the Company (before deduction of the Belgian withholding tax) is also subject to social contributions at an overall rate of 15.5 per cent., which is made up of:

- the *contribution sociale généralisée* (the “CSG”) at a rate of 8.2 per cent.;
- the *contribution pour le remboursement de la dette sociale* (the “CRDS”) at a rate of 0.5 per cent.;
- the *prélèvement social* at a rate of 4.5 per cent.;
- the *contribution additionnelle au prélèvement social* at a rate of 0.3 per cent.; and
- the *prélèvement de solidarité* instituted by the French social financing act of 2013, at a rate of 2 per cent.

These social contributions are levied in the same manner as the 21 per cent. levy described above where such 21 per cent. withholding tax is applicable. Specific rules, which vary depending on whether the paying agent is established in France or not, apply where the 21 per cent. levy is not applicable.

Apart from the CSG applicable at a rate of 8.2 per cent. of which a portion representing 5.1 per cent. of the dividends is tax deductible from the taxable income for the year of its payment, these contributions are not tax deductible.

*(iv) General*

Relevant shareholders are advised to consult their usual tax advisor to determine the appropriate methods of reporting the dividends and paying the 21 per cent. levy and the applicable social contributions, as well as, more generally, the tax regime that will apply to their own situation (including the personal income tax consequences of receiving dividends and the conditions under which the Belgian withholding tax may be credited against their personal income tax).

***Legal entities subject to corporate income tax under standard conditions and owning less than 5 per cent. of the share capital of the Company***

The dividends paid by the Company to holders who are legal entities subject to corporate income tax in France are subject to corporate income tax in France under the conditions described below.

The gross amount of the dividends received is included in the taxable income of such holders subject to corporate income tax at the standard rate of 33 1/3 per cent., increased by the social contribution of 3.3 per cent. (Article 235 ter ZC of the FTC), which is based on the amount of corporate tax reduced by a discount that cannot exceed €763,000 per twelve-month period. Small and medium sized enterprises (i.e., enterprises whose turnover is lower than €7,630,000) may benefit, if the conditions specified under Articles 219 I b) and 235 ter ZC of the French Tax Code are met, from a 15% reduced rate of corporation tax on profits up to €38,120 and from an exemption from the 3.3% social surtax respectively.

For the financial years 2017, 2018 and 2019, lower rates apply under certain conditions to small companies or certain legal entities, notably as a result of the 2017 Finance Act. A new rate of 28% will apply to all companies for the financial years opened as from 1 January 2020 (small and medium sized enterprises may still benefit from the 15% reduced rate mentioned above if they meet the conditions under article 219 I b) of the French Tax Code).

Under Article 19-B, 1-a of the Treaty, the withholding tax levied in Belgium on such dividends in accordance with the Treaty, if any, may be deductible under certain conditions from the French corporate income tax due by holders of the Shares on such dividends.

**Capital gains**

***Individual shareholders (other than shareholders holding their shares through a PEA or who conduct stock market transactions under conditions similar to those which define an activity carried out by a person conducting such operations on a professional basis)***

Net capital gains realized upon the sale of the shares of the Company during a given year will be subject to personal income tax at the progressive scale (and will also be included, without deduction, in the taxpayer's reference income (*revenu de référence*), which may be subject to the 3 per cent. or 4 per cent. contribution on high-income taxpayers), after application, as the case may be, of a rebate the amount of which depends on the period during which the taxpayer has held such shares, as provided by article 150-0 D of the FTC, it being provided that such rebate does not apply for the purposes of the calculation of the reference income and the basis of the contribution on high-income taxpayers.

Such rebate currently amounts to (i) 50 per cent. of the net capital gains when the shares sold have been held for at least two (2) years and for less than eight (8) years as at the date of the sale, or (ii) 65 per cent. of the net capital gains when the shares sold have been held for at least eight (8) years as at the date of the sale. No rebate is applicable where the sale is realized during the first two (2) years of holding of the shares.

In addition, and with no rebate applicable, capital gains arising on the sale of the shares will also be subject to social contributions at an overall rate of 15.5 per cent. made up of:

- the *contribution sociale généralisée* (the “CSG”) at a rate of 8.2 per cent.; of which a portion representing 5.1 per cent. of the gain is tax deductible;
- the *contribution pour le remboursement de la dette sociale* (the “CRDS”) at a rate of 0.5 per cent.;
- the *prélèvement social* at a rate of 4.5 per cent.;
- the *contribution additionnelle au prélèvement social* at a rate of 0.3 per cent.; and
- the *prélèvement de solidarité* instituted by the French social financing act of 2013, at a rate of 2 per cent.

According to Article 150-0 D of the French Tax Code, capital losses incurred in a given year may be offset against capital gains of the same kind realised during that year and during the ten following years. The 50 per cent./65 per cent. rebates do not apply to capital losses but to the net amount of capital gains (i.e. to the amount obtained after deduction of any offsettable capital losses).

***Legal entities subject to corporate income tax under standard conditions which do not hold their shares as equity investment (titres de participation) or assimilated securities for the purposes of the provisions of article 219 I-a quinquies of the FTC***

Net capital gains and net capital losses realized upon the sale of the shares of the Company shall be included in the taxable income subject to corporate income tax at the standard rate of 33 1/3 per cent., increased, as the case may be, by the 3.3 per cent. social tax, under the conditions described hereinabove. Small and medium sized enterprises (i.e., enterprises whose turnover is lower than €7,630,000) may benefit, if the conditions specified under Articles 219 I b) and 235 ter ZC of the French Tax Code are met, from a 15% reduced rate of corporation tax on profits up to €38,120 and from an exemption from the 3.3% social surtax respectively.

For the financial years 2017, 2018 and 2019, lower rates apply under certain conditions to small companies or certain legal entities, notably as a result of the 2017 Finance Act. A new rate of 28% will apply to all companies for the financial years opened as from 1 January 2020 (small and medium sized enterprises may still benefit from the 15% reduced rate mentioned above if they meet the conditions under article 219 I b) of the French Tax Code).

#### **Wealth Tax (*Impôt de Solidarité sur la Fortune – ISF*)**

Subject to certain exemptions, shares held by individuals fiscally domiciled in France will be included, if applicable, in their taxable assets subject to French wealth tax.

#### **Financial transactions tax**

Shares of the Company and Rights will not fall within the scope of the French financial transactions tax set out under Article 235 ter ZD of the FTC.

#### **Registration tax (*droits d'enregistrement*)**

No registration tax will be payable by a shareholder upon the issue, subscription or acquisition or upon the disposal of the Company's shares unless the sale is recorded in a deed signed in France or, if signed outside France, unless the deed is voluntarily registered before the French tax authorities. In the latter cases, the sale of

shares is subject to a transfer tax at the proportional rate of 0.1 per cent. based on the higher of sale price or fair market value of the shares, subject to certain exceptions provided for by II of Article 726 of the FTC. Pursuant to Article 1712 of the FTC, the registration taxes that would be due if the sale were recorded in a deed will be borne by the transferee (unless otherwise contractually stipulated). However, by virtue of Articles 1705 et seq. of the FTC, all parties to the deed will be jointly and severally liable to the tax authorities for the payment of the taxes.

### **Certain U.S. Federal Income Tax Considerations**

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, SHAREHOLDERS ARE HEREBY NOTIFIED THAT (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY SHAREHOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SHAREHOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE COMPANY IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE COMPANY OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) SHAREHOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

#### **General**

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Shares by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Shares that are U.S. Holders that will hold the Shares as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Shares by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, non-U.S. or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly, indirectly or by attribution) 5 per cent. or more of the voting stock of the Company, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold the Shares as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Shares in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the U.S. dollar).

As used herein, the term “U.S. Holder” means a beneficial owner of Shares that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organized under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Shares will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal



income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Shares by the partnership.

Except as otherwise noted, the summary assumes that the Company is not a passive foreign investment company (a “PFIC”) for U.S. federal income tax purposes, which the Company believes to be the case. The Company’s possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be a PFIC in any year, materially adverse consequences could result for U.S. Holders.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and Belgium (the “Treaty”), all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE SHARES, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

## **Dividends**

### ***General***

Distributions paid by the Company out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), before reduction for any Belgian withholding tax paid by the Company with respect thereto, generally will be taxable to a U.S. Holder as dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder’s basis in the Shares and thereafter as capital gain. However, the Company does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by the Company with respect to Shares will be reported as ordinary dividend income. U.S. Holders should consult their own tax advisers with respect to the appropriate U.S. federal income tax treatment of any distribution received from the Company.

Dividends paid by the Company generally will be taxable to a non-corporate U.S. Holder at the reduced rate normally applicable to long-term capital gains, provided the Company qualifies for the benefits of the Treaty and certain holding period requirements are met.

### ***Foreign Currency Dividends***

Dividends paid in euros will be included in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the U.S. Holder, regardless of whether the euros are converted into U.S. dollars at that time. If dividends received in euros are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

### ***Effect of Belgian withholding taxes***

As discussed in “*Taxation—Belgian Taxation*,” under current law payments of dividends by the Company to foreign investors are subject to Belgian withholding tax. For U.S. federal income tax purposes, U.S. Holders will be treated as having received the amount of Belgian taxes withheld by the Company, and as then having paid over the withheld taxes to the Belgian taxing authorities. As a result of this rule, the amount of dividend income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a

payment of dividends may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Company with respect to the payment.

A U.S. Holder generally will be entitled, subject to certain limitations, to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Belgian income taxes withheld by the Company. Dividends generally will constitute “passive category income” for purposes of the foreign tax credit. The rules governing foreign tax credits are complex. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of Belgian withholding taxes.

### **Sale or other Disposition**

Upon a sale or other disposition of Shares, a U.S. Holder generally will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realized on the sale or other disposition and the U.S. Holder’s adjusted tax basis in the Shares. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder’s holding period in the Shares exceeds one year. Long-term capital gain of non-corporate U.S. Holders is generally subject to favourable rates of tax. The deductibility of capital losses is subject to limitations.

Any gain or loss generally will be U.S. source. Therefore, a U.S. Holder may have insufficient foreign source income to utilise foreign tax credits attributable to any Belgian tax imposed on a sale or disposition. Prospective purchasers should consult their tax advisers as to the availability of and limitations on any foreign tax credit attributable to any Belgian tax imposed on capital gains.

A U.S. Holder’s tax basis in a Share generally will be its U.S. dollar cost. The U.S. dollar cost of a Share purchased with euros will generally be the U.S. dollar value of the purchase price on the date of purchase, or, in the case of Shares treated as traded on an established securities market (for purposes of the applicable U.S. Treasury regulations) that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), the settlement date for the purchase. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. The amount realized on a sale or other disposition of Shares for an amount in euros generally will be the U.S. dollar value of this amount on the date of sale or disposition. On the settlement date, the U.S. Holder generally will recognize U.S. source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the U.S. dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of Shares treated as traded on an established securities market that are sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), the amount realized will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognized at that time.

### **Disposition of Euros**

Euros received on the sale or other disposition of a Share will have a tax basis equal to the U.S. dollar value on the settlement date. Euros that are purchased generally will have a tax basis equal to the U.S. dollar value of the euros on the date of purchase. Any gain or loss recognized on a sale or other disposition of a euro (including the use of euros to purchase Shares or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

### **Passive Foreign Investment Company Considerations**

A foreign corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable “look-through rules,” either (i) at least 75 per cent. of its gross income is “passive income” or (ii) at least 50 per cent. of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. The Company does not believe that it should be treated as, and does not expect to become, a PFIC for U.S. federal income tax purposes but the Company’s possible status as a PFIC must be determined annually and therefore

may be subject to change. This determination will depend in part on whether the Company continues to earn substantial amounts of operating income, as well as on the market valuation of the Company's assets and the Company's spending schedule for its cash balances and the proceeds of the Offering. If the Company were to be treated as a PFIC, U.S. Holders of Shares would be required (i) to pay a special U.S. addition to tax on certain distributions and gains on sale, (ii) to pay tax on any gain from the sale of Shares at ordinary income (rather than capital gains) rates in addition to paying the special addition to tax on this gain, and (iii) comply with additional reporting requirements in respect of their Shares. Additionally, dividends paid by the Company would not be eligible for the reduced rate of tax described above under "*Dividends—General.*" Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime to an investment in the Shares.

### **Information Reporting and Backup Withholding**

Payments of dividends and other proceeds with respect to Shares, by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Shares, including requirements related to the holding of certain foreign financial assets.

## THE OFFERING

Certain key dates in connection with the Offering are summarized in the following table. These are all anticipated dates, which are subject to any unforeseen circumstances and to an early closing of the Offering Period.

| Date           | Event  |
|----------------|--|
| March 23, 2017 | Expected start of Offering Period                                      |
| April 4, 2017  | Expected end of Offering Period  |
| April 5, 2017  | Pricing and allocation   |
| April 5, 2017  | Publication of Offer Price and results of the Offering                 |
| April 6, 2017  | Expected Listing Date (listing and start of trading)                   |
| April 7, 2017  | Expected Closing Date (payment, settlement and delivery of the Shares) |

### Conditions and Nature of the Offering

The Offering is an offering (i) by the Company of such number of newly issued Shares as is necessary to raise gross proceeds of approximately €250 million and (ii) by the Selling Shareholders of up to 18,750,390 existing Shares. The Offering consists of (i) the French Offering (i.e., an initial public offering to retail and institutional investors in France); (ii) a private placement in the United States to persons who are reasonably believed to be “qualified institutional buyers” or “QIBs” (as defined in Rule 144A under the U.S. Securities Act), in reliance on Rule 144A; and (iii) private placements to institutional investors in the rest of the world. The Offering outside the United States will be made in compliance with Regulation S under the U.S. Securities Act. The offering to investors referred to in (ii) and (iii) above is herein referred to as the “International Institutional Offering” (i.e., a private placement in the United States to QIBs and a private placement to institutional investors in the rest of the world).

The Joint Global Coordinators are BNP Paribas and HSBC France. The Joint Bookrunners are BNP Paribas, HSBC France and Credit Suisse. The Co-Lead Managers are Odco & Cie and Commerzbank (together with the Joint Bookrunners, the “Underwriters”). See “*Plan of Distribution.*”

The actual number of Offer Shares to be sold by the Selling Shareholders and issued by the Company in the Offering will only be determined after the Offering Period and will be published by means of a Company press release, simultaneously with the publication of the Offer Price and the allocation of Offer Shares to retail investors. Such publication is currently expected to be made on or about April 5, 2017 and in any event no later than the first business day after the end of the Offering Period.

The Company and the Selling Shareholders reserve the right to withdraw the Offering or to reduce the maximum number of Offer Shares at any time prior to the allocation of the Offer Shares. No minimum amount has been set for the Offering. If the maximum number of Offer Shares were reduced, such reduction would be applied first to the Secondary Tranche. Any withdrawal of the Offering or reduction of the number of Offer Shares will be published by means of a Company press release, through electronic information services such as Reuters or Bloomberg, and to the extent such event would legally require the Company to publish a supplement to the Prospectus, such supplement will be published. Any changes to the maximum number of Offer Shares or any extension or shortening of the Offering Period will not void purchase orders that have already been submitted. However, in the event a supplement to the Prospectus is published, the investors will be entitled to withdraw their orders.

## **Offer Price**

The Offer Price will be a single price in euro, exclusive of any tax on stock exchange transactions, if applicable (See “*Taxation*”), and costs, if any, charged by financial intermediaries for the submission of applications. No fees or expenses in connection with the Offering will be charged to investors by the Company or the Selling Shareholders.

The Offer Price will be determined on the basis of a book-building process in which only institutional investors can participate, taking into account various relevant qualitative and quantitative elements, including but not limited to the number of Offer Shares requested, the size of purchase orders received, the quality of the investors submitting such purchase orders and the prices at which the purchase orders were made, as well as market conditions at that time.

The Price Range has been determined by the Company and the Selling Shareholders following recommendations from the Joint Global Coordinators, taking into account market conditions and factors including but not limited to:

- the condition of the financial markets;
- the Company’s financial position;
- qualitative assessment of the demand for the Offer Shares; and
- all other factors deemed relevant.

The Company and the Selling Shareholders reserve the right to increase or decrease the lower limit of the Price Range or to decrease the upper limit of the Price Range. If the Price Range is modified, the change will be published by means of a Company press release, by means of an announcement through electronic information services such as Reuters or Bloomberg. In the event the lower limit of the Price Range is decreased or in the event the Offer Price is set below the lower limit of the Price Range, a supplement to the Prospectus will also be published. Any changes to the Price Range will not void purchase orders that have already been submitted but investors will be entitled to withdraw their application in the event that a supplement to the Prospectus is published. The Offer Price for investors shall not, however, exceed the higher end of the Price Range.

Retail investors in France can only acquire the Offer Shares at the Offer Price and are legally bound to purchase the number of Shares indicated in their purchase order at the Offer Price.

## **Dilution Resulting from the Offering**

As a result of the issuance of Offer Shares to be sold by the Company in the Primary Tranche, the economic interest and the voting interest of the Shareholders will be diluted. The maximum dilution for the Shareholders would be 23.9 per cent., based on expected gross proceeds from the Primary Tranche of €250 million.

## **Offering Period**

The Offering Period will begin on March 23, 2017 and is expected to close no later than 17.00 (CET) on April 4, 2017, subject to the possibility of an early closing, provided that the Offering Period will in any event be open for at least six business days from the availability of this Prospectus. The institutional bookbuilding period will begin one day earlier, on March 22, 2017. The Prospectus will be made available as of the first day of the Offering Period. The Offering Period can be closed at the earliest six business days after the start of the Offering Period and, hence, prospective investors can submit their orders at least during six business days after the start of the Offering Period. X-FAB expects the subscription period for the Offering to end on April 4, 2017. Any early closing of the Offering Period will be published by means of a Company press release, and the dates for each of pricing, allocation, publication of the Offer Price and the results of the Offering, conditional trading and closing of the Offering will in such case be adjusted accordingly. The Offering Period can only be closed earlier in case of a coordinated action between the Underwriters. In the event the Offering Period is closed early without

the full placement of the Offered Shares or is extended, this will be published by means of a Company press release and, to the extent such event would legally require the Company to publish a supplement to the Prospectus, such supplement will be published. Prospective investors can submit their purchase orders during the Offering Period. Taking into account the fact that the Offering Period may be closed early, investors are invited to submit their applications as promptly as possible.

Applications are not binding upon the Company, the Selling Shareholders or the Underwriters as long as they have not been accepted in accordance with the allocation rules described below under “— *Allocation.*”

Investors wishing to place purchase orders for the Offer Shares through intermediaries other than the Underwriters and their affiliates should request details of the costs which these intermediaries may charge, which they will have to pay themselves.

To be valid, purchase orders must be submitted no later than 17.00 (CET) on April 4, 2017, unless the Offering Period is closed earlier.

### **Retail Offering in France**

The Offer Shares will be offered to eligible retail investors in France in accordance with applicable law and regulations. The number of Offer Shares allocated in response to the orders placed by eligible retail investors as part of the Retail Offering will be up to 4,577,741 ordinary Shares representing 10 per cent. of the total number of Offer Shares before any exercise of the Over-Allotment Option and assuming that the Offer Price is at the mid-point of the Price Range (the “*Preferential Retail Allocation*”). The Company and the Joint Global Coordinators have full discretion as to whether or not and how to allocate the remainder of the Offer Shares subscribed for. If the demand expressed for the Retail Offering is lower than 10 per cent. of the total number of Offer Shares, the Retail Offering will be fully served and the remaining balance of unallotted Offer Shares offered will be reallocated to institutional investors in the French Institutional Offering and the International Institutional Offering.

For the purpose of the Preferential Retail Allocation and the Retail Offering, an eligible retail investor is either:

- (a) a natural person resident in France which also includes employees of the Company residing in France; or
- (b) a special investment vehicle having its seat in France which is a legal entity or another scheme (notably a fund) established for the express and sole purpose of providing asset management or retirement planning services for a natural person.

All investors must inform themselves regarding the investment restrictions of the Offering. Please see “*Plan of Distribution—Selling Restrictions.*”

### **Purchase in the Retail Offering**

To be eligible for the Preferential Retail Allocation, eligible retail investors must place their subscriptions during the period commencing on March 23, 2017 at 9.00 CET and ending on April 4, 2017 at 17.00 CET for subscriptions placed with their financial intermediary and on April 4, 2017 at 20.00 CET for subscriptions placed online.

### **Allocation**

The number of Offer Shares allotted to investors will be determined at the end of the Offering Period by the Company and the Selling Shareholders in consultation with the Joint Global Coordinators on the basis of the respective demand of both retail and institutional investors and on the quantitative and, for institutional investors only, the qualitative analysis of the order book, and as described above for the Retail Offering in France.

### **Notice of Allocation of the Retail Offering**

On the date that the allocation of the Offer Shares occurs, Euronext Paris, as local centralisation agent for France will communicate to the financial intermediaries the aggregate number of Shares allocated to retail investors. It is up to the financial intermediaries to notify eligible retail investors of their individual allocations. Each retail investor should consult with its financial intermediary to determine if any delay will be applicable between the allocation of ordinary Shares to such retail investor and the time that such retail investor is able to resell its Shares.

### **Order Categories of the Retail Offering**

Purchase orders for the Retail Offering will be Orders A. Orders A will be broken down into two categories depending on the number of Shares subscribed for:

- Fraction A1 orders: from 10 Shares up to and including 250 Shares; and
- Fraction A2 orders: in excess of 250 Shares.

A1 orders will enjoy preferred treatment if not all A orders can be fully served.

All orders placed in the Retail Offering are A orders that are ultimately split between A1 and A2 orders, in order to ensure a preferred treatment to smaller orders (A1) in case A orders are to be reduced as a result of a retail demand above 10 per cent. of the Offer Shares.

Furthermore, it is specified that:

- each A order must relate to a minimum number of 10 Shares;
- each party responsible for submitting a given A order can only place a single A order; this A order may not be divided between several financial intermediaries and must be sent to a single financial intermediary only;
- each member of a tax household may place one A order only. Orders from minors must be placed by their legal guardians; each of these A orders will enjoy the same benefits that are normally attached to them; in the event of a reduction in the number of Shares allotted to each A order, the reduction will be applied separately to the orders of each of said members of the tax household;
- orders may be subject to a reduction in accordance with the terms and conditions set forth below;
- no A order may relate to a number of Shares accounting for more than 20 per cent. of the number of Offer Shares offered as part of the Retail Offering;
- if the application of the reduction rate(s) does not lead to the allocation of a whole number of Shares, this number will be rounded down to the nearest whole number;
- A orders will be expressed in numbers of Shares with no indication of price and will be deemed stipulated at the Offer Price;
- even in the case of a reduction, the A orders will be irrevocable; and
- each eligible retail investor and financial intermediary placing an order in the Retail Offering agrees to the terms and conditions of the Retail Offering set out in this Prospectus.

Financial intermediaries will report the demand collected in the Retail Offering, according to the timetable and the terms and conditions specified in the opening notice of the Retail Offering that will be published by Euronext Paris.

Potential investors are reminded that orders will be void if the press release from the Company indicating the final terms and conditions of the institutional offering and of the Retail Offering is not published by the Company.

### **Institutional Investors**

Institutional investors must indicate in their purchase orders the number of Offer Shares they are committing to purchase, and the prices at which they are making such purchase orders during the book-building period. Only institutional investors can participate in the book-building process during the Offering Period.

### **Reduction of Orders**

A1 orders have priority in relation to A2 orders. A reduction rate of up to 100 per cent. may be applied to A2 orders to serve A1 orders.

Reductions will be made proportionally within each order category. In cases where the application of the reduction terms leads to a non-whole number of Offer Shares, this number will be rounded down to the nearest whole number.

### **Withdrawal of Orders**

Subscription orders placed by individuals via Internet in the Retail Offering will be revocable, via Internet, until the closing of the Retail Offering (April 4, 2017 at 20.00 (CET)). Individuals are responsible for liaising with their respective financial intermediaries in order to confirm whether the orders submitted by other means are revocable and if so under what conditions (including whether orders submitted via the Internet can be revoked by means other than via the Internet).

Moreover, the circumstances under which orders may be withdrawn in the case of a modification of the terms of the Retail Offering, are described in “*The Offering – Offer Price.*” In such case, the new indicative date for the determination of the indicative price range will be published in a Euronext Paris notice and a press release published by the Company.

### **Result of the Offering**

The results of the Offering, the allocation for retail investors and the Offer Price will be published by means of a Company press release and by a notice issued by Euronext Paris, which is currently expected to take place on or about April 5, 2017 and in any event no later than the first business day after the end of the Offering Period. This press release and the notice will specify any reduction rate applied to the orders in the Retail Offering.

No tax on stock exchange transactions is due on the subscription of newly issued Shares (see “*Taxation — Capital Gains and Losses on Shares — Tax on Stock Exchange Transactions.*”).

### **Payment and Taxes**

The Offer Price must be paid by the investors in full, in euro, together with any applicable stock exchange taxes and costs. For further information about applicable taxes, see “*Taxation — Belgian Taxation.*”

The Closing Date is expected to be April 7, 2017 unless the Offering Period is closed earlier. The Offer Price must be paid by investors upon submission of the purchase orders or, alternatively, by authorizing their financial institutions to debit their bank accounts with such amount for value on the Closing Date.

For a description of material tax consequences resulting from an investment in the Offer Shares, please see “*Taxation.*”

### **Form of the Offer Shares and Delivery**

The Offer Shares will have the same rights and benefits as the other Shares, including the right to dividends for the financial year ending December 31, 2017 and future years. For a further description of the Shares and the



rights and benefits attached thereto, see “*Description of Share Capital, Articles of Association and Group Structure.*”

All Offer Shares will be delivered in book-entry form only, and will be credited on or around the Closing Date to investors’ securities accounts via Euroclear Belgium, the Belgian central securities depository.

Investors who, after delivery, wish to have their shares registered, should request that the Company record the Shares in the Company’s share register.

Holders of registered shares may request that their registered shares be converted into dematerialized shares and vice versa. Any costs incurred in connection with the conversion of Shares into another form will be borne by the shareholders.

All Offer Shares will be fully paid-up upon their delivery and freely transferable, subject to what is set forth under “*Plan of Distribution.*”

### **Trading and Listing on Euronext Paris**

An application has been made for the listing and admission to trading on Euronext Paris of all Shares, including the Offer Shares. The Shares are expected to be listed under the symbol “XFAB” with an ISIN code of BE0974310428.

Trading is expected to commence on or about April 6, 2017 (unless the Offering Period closes earlier) and will start at the latest on the Closing Date, when the Offer Shares are delivered to investors.

As of the Listing Date until the Closing Date and delivery of the Offer Shares, the Shares will be traded on Euronext Paris on an “as-if-and-when issued and/or delivered” basis. Investors who wish to effect transactions in shares of the Company prior to the Closing Date, whether such transactions are effected on Euronext Paris or otherwise, should be aware that the issuance and delivery of the Offer Shares may not take place on the expected Closing Date, or at all, if certain conditions or events referred to in the Underwriting Agreement (as defined below) are not satisfied or waived or do not occur on or prior to such date. Euronext Paris may annul all transactions effected in the shares of the Company if the Offer Shares are not delivered on the Closing Date. See “*Risk Factors — Risks Related to the Shares and the Offering — The Shares will be listed and traded on Euronext Paris on an “if-and-when-issued and/or delivered” basis from the Listing Date until the Closing Date. Euronext Paris may annul all transactions effected in the Offer Shares if they are not issued and delivered on the Closing Date.*” Euronext Paris cannot be held liable for any damage arising from the listing and trading on an “if-and-when-issued and/or delivered” basis as of the Listing Date until the expected Closing Date.

### **Share Lending**

Sarawak TH is expected to agree to lend to the Stabilization Manager (on behalf of the Underwriters) a number of Shares equal to up to 10 per cent. of the number of Offer Shares (corresponding to a maximum number of 5,000,039 Shares), in order to enable the Stabilization Manager to settle any over-allotments.

Sarawak TH is also expected to grant to the Underwriters (represented by the Stabilization Manager) the Over-allotment Option to purchase from them, at the Offer Price, additional Shares in an aggregate amount of up to 10 per cent. of the number of Offer Shares for the purpose of covering any such over-allotments (i.e., to cover the short position resulting from the aforementioned stock loan and over-allotment) and facilitate stabilization activities, if any. The Over-allotment Option will be exercisable for a period of 30 days following Listing Date.

### **Authorizations**

This Prospectus and the participation of the Company in the Offering were approved by the Board of Directors of the Company on March 17, 2017. The issuance of the new Shares and required amendments to the Articles of Association, both of which are subject to the condition precedent of the closing of the Offering, were

approved by the shareholders of the Company at their extraordinary Shareholders' Meeting held on March 16, 2017.

**Jurisdiction and Competent Courts**

The Offering is subject to Belgian law and the Dutch-speaking courts of Brussels are exclusively competent to adjudicate any and all disputes with investors concerning the Offering.

## PLAN OF DISTRIBUTION

### Underwriting

The Company, the Selling Shareholders and the Underwriters named below expect to enter into an underwriting agreement on or about April 5, 2017 (the “Underwriting Agreement”) with respect to the offer and sale of the Offer Shares in the French Offering and the International Institutional Offering. The entering into the Underwriting Agreement may depend on various factors including, but not limited to, market conditions and the result of the book-building process. Subject to certain conditions set forth in the Underwriting Agreement, the Company will agree to issue the Shares in the Primary Tranche and the Selling Shareholders will agree to sell the Shares offered in the Secondary Tranche and the Underwriters will severally agree to purchase, with a view to immediate placement with investors, the following percentage of the total number of the Offer Shares:

| <b>Underwriters</b>                               | <b>Percentage of Offer Shares to be sold</b> |
|---|--|
| BNP Paribas .....                                 | 40%  |
| HSBC France .....                                 | 40%  |
| Credit Suisse Securities (Europe) Limited .....   | 10%  |
| Oddo & Cie SCA .....                              | 5%   |
| Commerzbank AG.....                               | 5%   |
| Total percentage of Offer Shares to be sold ..... | 100%   |

The Underwriters will be under no obligation to purchase any Offer Shares prior to the execution of the Underwriting Agreement (and then only on the terms and subject to the conditions set out therein). The Underwriting Agreement is expected to provide that if an Underwriter defaults, in certain circumstances, the purchase commitments of the non-defaulting Underwriters may be increased or the Underwriting Agreement may be terminated. The Underwriters will distribute the Offer Shares to investors, subject to prior sale, when, as and if delivered to them, subject to the satisfaction or waiver of the conditions that will be contained in the Underwriting Agreement, including the receipt by the Underwriters of certificates from the Company and the Selling Shareholders and certain legal opinions. In the Underwriting Agreement, the Company and the Selling Shareholders will make certain customary representations and warranties and the Company and the Selling Shareholders will agree to indemnify the Underwriters against certain liabilities. If the Underwriting Agreement is not entered into, a supplement to the Prospectus to this effect will be published.

The actual number of Offer Shares to be sold by the Company and the Selling Shareholders in the Offering will only be determined after the Offering Period and will be published by means of a Company press release, simultaneously with the publication of the Offer Price and the allocation to retail investors, which are currently expected to take place on or about April 5, 2017 and in any event no later than the first business day after the end of the Offering Period.

The Price Range set forth on the cover page of this Prospectus is subject to change as a result of market conditions and other factors. There can be no assurance that an active trading market will develop for the Shares or that the Shares will trade in the public market after the Offering at or above the Offer Price.

The Underwriters will offer the Offer Shares at the Offer Price. Assuming placement of the maximum number of Offer Shares, that the Offer Price is at the mid- point of the Price Range and that the Over-allotment Option is exercised in full, the underwriting fees will be €5,625,000. This does not include any incentive fees which may be paid at the discretion of the Company. The underwriting fees, including any incentive fees with respect to the Primary Tranche, will be paid by the Company. The Company has also agreed to reimburse the

Underwriters for certain expenses incurred by them in connection with the Offering. The expenses to be incurred by the Company are estimated at €2 million.

The Underwriting Agreement is expected to provide that the Joint Global Coordinators will have the right to terminate collectively but not individually, the Underwriting Agreement and their obligation thereunder to purchase and deliver the Offer Shares (i) upon the occurrence of certain customary events including, but not limited to, if the Company or any of the Selling Shareholders fails to comply with any material obligation contained in the Underwriting Agreement; if there is a suspension or material limitation in trading of securities on Euronext Paris or the New York Stock Exchange; or if admission to listing of the Shares on Euronext Paris is withdrawn, and (ii) if the conditions contained in the Underwriting Agreement, such as the delivery of certificates from the Company and the Selling Shareholders and legal opinions, are not satisfied or waived. If the Underwriting Agreement is terminated, the allocation of the Offer Shares to investors will be cancelled, and investors will not have any claim to delivery of the Offer Shares. In the event that the Underwriting Agreement is not executed or is executed but subsequently terminated, a supplement to this Prospectus shall be published.

### **Lock-up Arrangements**

The Company is expected to agree with the Underwriters that it will not, for a period of one year from the Listing Date, without the prior written consent of the Joint Global Coordinators (subject to certain limited exceptions): directly or indirectly, issue, sell, solicit any offer to buy, attempt to dispose, make any offering, short sale or other disposal of any Shares or other financial instruments in the Company or grant any options, convertible securities or other rights to subscribe for or purchase Shares or other financial instruments in the Company or enter into any contract (including any derivative transaction) or commitment with similar effect, nor publicly disclose the intention of any of the abovementioned actions and directly or indirectly, purchase any of its Shares or other financial instruments in the Company or otherwise reduce its share capital.

Xtrion, Sarawak TH and those members of the Board of Directors and the Executive Management Team that own Shares, are expected to agree that, for a period of three years in the case of Xtrion and one year in the case of the others from the Closing Date, they will not, without the prior written consent of the Joint Global Coordinators (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Shares, or any securities convertible into or exercisable or exchangeable for Shares; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any Shares, whether any such transaction described in (i) or (ii) above is to be settled by delivery of Shares or other securities, in cash or otherwise; or (iii) publicly announce such an intention to effect any such transaction.

The restrictions to which the Company, Xtrion, Sarawak TH and those members of the Board of Directors and the Executive Management Team that own Shares are subject shall not prohibit Sarawak TH from disposing of Shares for the purposes of the Offering and the Company, Xtrion, Sarawak TH and those members of the Board of Directors and the Executive Management Team that own Shares from (i) accepting a general take-over bid on all of the ordinary share capital of the Company, giving an irrevocable commitment to accept such an offer, or disposing of shares to an offeror or potential offeror during the period of such an offer; (ii) any disposal required by law, regulation or a court of competent jurisdiction; and (iii) transferring Shares intra-group or intra-family.

### **Over-allotment Option and Price Stabilization**

Sarawak TH is expected to grant to BNP Paribas, as Stabilization Manager, on behalf of itself and the Underwriters an Over-allotment Option, i.e., an option to purchase additional Shares in an aggregate amount equal to up to 10 per cent. of the aggregate number of Offer Shares initially offered to cover over-allotments or short positions, if any, at the Offer Price. The Over-allotment Option may be exercised for a period of 30 days

following the Listing Date. To the extent the Over-allotment Option is exercised, each Underwriter will become severally obligated, subject to certain conditions, to purchase the same proportion of Shares for which the Over-allotment Option is exercised as set forth in the table under “*Plan of Distribution — Underwriting*” above. In order to be able to effect any over-allotments made prior to the exercise of the Over-allotment Option, it is expected that Sarawak TH will lend shares to the Stabilization Manager.

In connection with the Offering, the Stabilization Manager or its agents may, during the Stabilization Period and to the extent permitted by applicable law, over-allot and effect transactions to stabilize the price of the Shares or any options, warrants or rights with respect to, or other interest in, the Shares or other securities of the Company. These activities may support the market price of the Shares at a level higher than that which might otherwise prevail and may affect the price of the Shares or any options, warrants or rights with respect to, or other interest in, the Shares or other securities of the Company. Stabilization will not be executed above the Offer Price. Such transactions may be effected on Euronext Paris, in the over-the-counter markets or otherwise. The Stabilization Manager and its agents are not required to engage in any of these activities and, as such, there is no assurance that these activities will be undertaken; if undertaken, the Stabilization Manager or its agents may end any of these activities at any time and must be brought to an end within 30 days after the commencement of conditional dealings in the Shares.

Within one week of the end of the Stabilization Period, the following information will be made public in accordance with Article 5 of MAR and Article 6 of the Commission Delegated Regulation of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programs and stabilization measures: (a) whether or not the stabilization was undertaken; (b) the date on which stabilization started; (c) the date on which stabilization last occurred; (d) the price range within which stabilization was carried out, for each of the dates during which stabilization transactions were carried out and (e) the trading venue(s) on which the stabilization transactions were carried out, where applicable.

#### **Other Relationships with the Underwriters**

Certain of the Underwriters and their respective affiliates have from time to time provided, and may in the future provide, commercial banking, investment banking and financial advisory or other services to X-FAB (see “*Operating and Financial Review—Liquidity and Capital Resources*”) in the ordinary course of their respective businesses. The Underwriters have received and will receive customary fees and commissions for these transactions and services. In the ordinary course of their various business activities, certain of the Underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve the Company’s securities and instruments.

In connection with the Offering, each of the Underwriters and any of their respective affiliates, acting as an investor for its own account, may take up Shares in the Offering and in that capacity may retain, purchase or sell for its own account such securities and any Shares or related investments and may offer or sell such Shares or other investments otherwise than in connection with the Offering. Accordingly, references in the Prospectus to Shares being offered or placed should be read as including any offering or placement of Shares to any of the Underwriters or any of their respective affiliates acting in such capacity. None of the Underwriters intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, hold or dispose of Shares.

Moreover, a number of Underwriters have in the past provided and may in the future provide investment banking or advisory services to the Company and or other members of the Group in the ordinary course of their business.

### **No Public Offering Outside France**

No action has been or will be taken in any jurisdiction other than France that would permit a public offering of the Offer Shares, or the possession, circulation or distribution of this Prospectus or any other material relating to the Offer Shares, in any jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the Offer Shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

Purchasers of the Offer Shares may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the Offer Price.

### **Selling Restrictions**

#### **General**

No public offer is being made and no one has taken any action that would, or is intended to, permit a public offering in any country or jurisdiction, other than France, where any such action for such purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the Offer Shares may be distributed or published in any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

Persons into whose hands this Prospectus comes are required by the Company, the Selling Shareholders and the Underwriters to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Offer Shares or have in their possession or distribute such offering material, in all cases at their own expense. Neither the Company, the Selling Shareholders nor the Underwriters accept any legal responsibility for any violation by any person, whether or not a prospective subscriber or purchaser of any of the Offer Shares, of any such restrictions.

#### **United States**

The Offer Shares have not been and will not be registered under the U.S. Securities Act or with any state securities regulatory authority for offer or sale as part of their distribution and may not be offered, sold, pledged or transferred within the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act.

The Offer Shares may only be resold: (i) in the United States to QIBs in reliance on Rule 144A under the U.S. Securities Act or pursuant to another exemption from the registration requirements of the U.S. Securities Act; and (ii) outside the United States in offshore transactions in compliance with Regulation S under the U.S. Securities Act and in accordance with applicable law. Any offer or sale of Shares in reliance on Rule 144A or pursuant to another exemption from, or transaction not subject to, the registration requirements of the U.S. Securities Act will be made by broker-dealers who are registered as such under the U.S. Exchange Act. Terms used above shall have the meanings given to them by Regulation S and Rule 144A under the U.S. Securities Act. Resales of the Shares are restricted as described under “*Transfer Restrictions.*”

#### **European Economic Area**

In relation to each Relevant Member State an offer to the public of any Offer Shares may not be made in that Relevant Member State unless the Prospectus has been approved by the competent authority in such Relevant Member State or passported and published in accordance with the Prospectus Directive as implemented in such

Relevant Member State, except that the Offer Shares may be offered to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to any legal entity which is a qualified investor as defined under the Prospectus Directive;
- by the Underwriters to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Offer Shares shall result in a requirement for the publication by the Company, the Selling Shareholders or any Manager of a Prospectus pursuant to Article 3 of the Prospectus Directive and each person who initially acquires Offer Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to and with the Underwriters and the Company that it is a “qualified investor” within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

The Company, the Selling Shareholders, the Underwriters and their affiliates and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement, and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Underwriters of such fact in writing may, with the consent of the Underwriters, be permitted to purchase Offer Shares in the Offering.

### **United Kingdom**

Any offer or sale of the Offer Shares may only be made to persons in the United Kingdom who are “qualified investors” or otherwise in circumstances which do not require publication by the Company of a prospectus pursuant to Section 85(1) of the U.K. Financial Services and Markets Act 2000. Any investment or investment activity to which this Prospectus relates is available only to, and will be engaged in only with, investment professionals falling within Article 19(5), or falling within Section 49(2)(a) to (d) (“high net worth; unincorporated associations, etc.”), of the UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or other persons to whom such investment or investment activity may lawfully be made available (together, “relevant persons”). Persons who are not relevant persons should not take any action on the basis of this Prospectus and should not act or rely on it.

### **Japan**

The Shares have not been and will not be registered under the Financial Instruments and Exchange Law, as amended (the “FIEL”). This document is not an offer of securities for sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organized under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements under the FIEL and otherwise in compliance with such law and any other applicable laws, regulations and ministerial guidelines of Japan.

### **Switzerland**

The Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (“SIX”) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under Article 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Shares or the Offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the Offering, the Company or the Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Prospectus will not be filed with, and the offer of Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the Offering has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (“CISA”). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Shares.

#### **DIFC**

This Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (“DFSA”). This Prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Prospectus nor taken steps to verify the information set forth herein and has no responsibility for the Prospectus. The Shares to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Offer Shares should conduct their own due diligence on the Shares. If you do not understand the contents of this Prospectus you should consult an authorized financial advisor.



## TRANSFER RESTRICTIONS

The Shares have not been and will not be registered under the U.S. Securities Act or the applicable securities laws of any state or other jurisdiction of the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws.

Each purchaser of the Offer Shares outside the United States in compliance with Regulation S will be deemed to have represented and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an informed investment decision and that:

- (1) the purchaser is authorized to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations;
- (2) the purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority of any state of the United States, and, subject to certain exceptions, may not be offered or sold within the United States;
- (3) the purchaser and the person, if any, for whose account or benefit the purchaser is acquiring the Offer Shares, was located outside the United States at the time the buy order for the Offer Shares was originated and continues to be located outside the United States and has not purchased the Offer Shares for the account or benefit of any person in the United States or entered into any arrangement for the transfer of the Offer Shares or any economic interest therein to any person in the United States;
- (4) the purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate;
- (5) the Offer Shares have not been offered to it by means of any “directed selling efforts” as defined in Regulation S;
- (6) the purchaser acknowledges that the Company shall not recognize any offer, sale, pledge or other transfer of the Shares made other than in compliance with the above-stated restrictions;
- (7) if it is acquiring any of the Offer Shares as a fiduciary or agent for one or more accounts, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and
- (8) the purchaser acknowledges that the Company, the Selling Shareholders, the Underwriters and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each purchaser of the Offer Shares within the United States purchasing pursuant to an exemption from the registration requirements of the U.S. Securities Act will be deemed to have represented and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an informed investment decision and that:

- (1) the purchaser is authorized to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations;
- (2) the purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States and are subject to restrictions on transfer;
- (3) the purchaser: (i) is a qualified institutional buyer (as defined in Rule 144A under the U.S. Securities Act); (ii) is aware that the sale to it is being made pursuant to an exemption from the registration

requirements of the U.S. Securities Act; and (iii) is acquiring such Offer Shares for its own account or for the account of a qualified institutional buyer;

- (4) the purchaser is aware that the Offer Shares are being offered in the United States in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act;
- (5) if in the future, the purchaser decides to offer, resell, pledge or otherwise transfer such Offer Shares, or any economic interest therein, such Offer Shares or any economic interest therein may be offered, sold, pledged or otherwise transferred only: (i) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; (ii) in compliance with Regulation S under the U.S. Securities Act; or (iii) in accordance with Rule 144 under the U.S. Securities Act (if available), in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction;
- (6) the purchaser acknowledges that the Offer Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act and no representation is made as to the availability of the exemption provided by Rule 144 for resales of any Offer Shares;
- (7) the purchaser will not deposit or cause to be deposited such Offer Shares into any depository receipt facility established or maintained by a depository bank other than a Rule 144A restricted depository receipt facility, so long as such Offer Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act;
- (8) the purchaser acknowledges that the Company shall not recognize any offer, sale, pledge or other transfer of the Offer Shares made other than in compliance with the above-stated restrictions;
- (9) if it is acquiring any of the Offer Shares as a fiduciary or agent for one or more accounts, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of such account; and
- (10) the purchaser acknowledges that the Company, the Selling Shareholders, the Underwriters and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each person in a Relevant Member State, other than persons receiving offers contemplated in the Prospectus in France, who receives any communication in respect of, or who acquires any Offer Shares under, the offers contemplated hereby will be deemed to have represented, warranted and agreed to and with each of the Underwriters, the Selling Shareholders and the Company that:

- (1) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- (2) in the case of any Offer Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Offer Shares acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in other circumstances falling within Article 3(2) of the Prospectus Directive and the prior consent of the Joint Global Coordinators has been given to the offer or resale; or (ii) where Offer Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Offer Shares to it is not treated under the Prospectus Directive as having been made to such persons.

## **LEGAL MATTERS**

Certain legal matters in connection with this Offering have been passed upon for the Company by Linklaters LLP, with respect to the laws of the United States, France and Belgium. Certain legal matters in connection with this Offering have been passed upon for the Underwriters by Allen & Overy LLP, with respect to the laws of the United States, France and Belgium.

## **INDEPENDENT AUDITORS**

The consolidated financial statements of the Company as of December 31, 2016, 2015 and 2014 and for each of the years then ended, included in this Prospectus, have been audited by KPMG Bedrijfsrevisoren BV CVBA, independent auditors, as stated in their report appearing herein.

## GLOSSARY OF SELECTED TERMS

The following explanations are intended to assist the general reader to understand certain terms used in this Prospectus.

|                               |  |
|-------------------------------|--|
| <b>AMF</b>                    | The French Financial Markets Authority   |
| <b>Altis</b>                  | Altis Semiconductor SNC  |
| <b>Altis Acquisition</b>      | The acquisition by the Group of the Altis Assets through subsidiary X-FAB France SAS   |
| <b>Altis Assets</b>           | Altis' manufacturing fab with the ongoing productions and the products in its stock; approximately 31.8 hectares of land; all of Altis' employees; agreements with customers and suppliers; goodwill, and intellectual property rights; and 0.59 per cent. shareholding in Adesto Technologies Corporation, a company listed on Nasdaq; and certain employee-related and other liabilities |
| <b>ASPs</b>                   | Average selling prices   |
| <b>Belgian Companies Code</b> | The Belgian Act of 7 May 1999 containing the Companies Code as amended from time to time   |
| <b>Belgian GAAP</b>           | Belgian generally accepted accounting principles, which refers to the financial reporting framework applicable in Belgium  |
| <b>BICMOS</b>                 | Bipolar junction CMOS  |
| <b>CAGR</b>                   | Compound annual growth rate  |
| <b>CMOS</b>                   | Complementary metal-oxide-semiconductor  |
| <b>Company</b>                | X-FAB Silicon Foundries SE   |
| <b>DRAM</b>                   | Dynamic random-access memory   |
| <b>EBIT</b>                   | earnings before net finance cost and income taxes, which is equivalent to operating profit as presented in the Historical Financial Information  |
| <b>EBITDA</b>                 | Earnings before net finance cost, income taxes, depreciation and amortization. See page 94 for a reconciliation of EBITDA to operating profit.   |
| <b>EDA</b>                    | electronic design automation   |
| <b>EEA</b>                    | European Economic Area   |
| <b>ERP</b>                    | Enterprise resource system   |
| <b>EU</b>                     | The European Union   |
| <b>euros or €</b>             | The common currency of the member states of the EU that are part of the Eurozone   |
| <b>Fab</b>                    | Wafer fabrication facility   |
| <b>FSMA</b>                   | The Belgian Financial Services and Market Authority  |

|                               |  |
|-------------------------------|--|
| <b>GDP</b>                    | Gross domestic product   |
| <b>ICs</b>                    | Integrated circuits  |
| <b>IDMs</b>                   | Integrated device manufacturers  |
| <b>IFRS</b>                   | International Financial Reporting Standards as adopted by the European Union                               |
| <b>MAR</b>                    | Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on Market Abuse |
| <b>Member State</b>           | Any member state of the European Economic Area   |
| <b>MEMS</b>                   | Micro-electro-mechanical systems   |
| <b>NRE</b>                    | Non-recurring engineering  |
| <b>OEMs</b>                   | Original equipment manufacturers   |
| <b>PCM</b>                    | Volume-production (or process control monitor) wafers  |
| <b>SE Regulation</b>          | Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European company (SE)          |
| <b>SiC</b>                    | Silicon carbide  |
| <b>SOI</b>                    | Silicon on insulator   |
| <b>U.S. dollars or U.S.\$</b> | the lawful currency of the United States   |
| <b>WLP</b>                    | Wafer level packaging  |
| <b>WSPM</b>                   | Wafer starts per month   |

## HISTORICAL FINANCIAL INFORMATION

### SECTION A

#### **Report of the statutory auditor on the consolidated financial statements as of and for the years ended December 31, 2016, 2015 and 2014**

To the Board of Directors of X-FAB Silicon Foundries SE

##### *Opinion*

We have audited the consolidated financial statements of X-Fab Silicon Foundries SE (“the Company”) and its subsidiaries (“the Group”), which comprise the consolidated statements of financial position as at 31 December, 2016, 2015 and 2014, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December, 2016, 2015 and 2014, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

##### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Belgium, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### *Responsibilities of the Board of Directors for the Consolidated Financial Statements*

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The board of directors is responsible for overseeing the Company’s financial reporting process.

##### *Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hasselt, 17 March 2017

KPMG Réviseurs d'Entreprises /  
Bedrijfsrevisoren  
Statutory Auditor  
represented by

Herwig Carmans  
Réviseur d'Entreprises /  
Bedrijfsrevisor



## SECTION B

### HISTORICAL FINANCIAL INFORMATION RELATING TO THE GROUP

#### List of abbreviations/definitions

|                                     |   |
|-------------------------------------|---|
| <b>CMOS</b>                         | Complementary Metal-Oxide-Semiconductor                         |
| <b>GVG</b>                          | X-FAB Dresden Grundstücks-Vermietungsgesellschaft mbH & Co. KG  |
| <b>M-MOS</b>                        | M-MOS Semiconductor Sdn. Bhd.                                   |
| <b>MEMS</b>                         | Micro-Electro-Mechanical Systems                                |
| <b>MFI</b>                          | X-FAB MEMS Foundry Itzehoe GmbH                                 |
| <b>NRE</b>                          | Non-Recurring Engineering                                       |
| <b>PCM</b>                          | Process control monitor   |
| <b>X-FAB SE, or the Company</b>     | X-FAB Silicon Foundries SE                                      |
| <b>X-FAB SE Group, or the Group</b> | X-FAB Silicon Foundries SE together with its subsidiaries       |
| <b>X-FAB AG</b>                     | X-FAB Semiconductor Foundries AG                                |
| <b>X-FAB AG Group</b>               | X-FAB Semiconductor Foundries AG together with its subsidiaries |
| <b>X-FAB Dresden</b>                | X-FAB Dresden GmbH & Co. KG and X-FAB Dresden Verwaltungs-GmbH  |
| <b>X-FAB France</b>                 | X-FAB France SAS  |
| <b>X-FAB TX</b>                     | X-FAB Texas Inc.  |
| <b>X-FAB Sarawak</b>                | X-FAB Sarawak Sdn. Bhd.   |
| <b>X-FAB Japan</b>                  | X-FAB Japan K.K.  |
| <b>XMF</b>                          | X-FAB MEMS Foundry GmbH   |

#### Consolidated statement of profit and loss and other comprehensive income For the year ended December 31

|  | Note           | 2016           | 2015          | 2014          |
|--|----------------|----------------|---------------|---------------|
| <i>(in thousands of U.S. dollars)</i>                          |                |                |               |               |
| Revenue .....  | 4.3/6.1/11     | 512,897        | 331,119       | 330,476       |
| Cost of sales.....   | 6.7/11         | (407,831)      | (273,277)     | (278,958)     |
| <b>Gross profit</b> .....                                      |                | <u>105,066</u> | <u>57,842</u> | <u>51,518</u> |
| Research and development expenses .....                        | 4.4/6.6        | (26,847)       | (21,326)      | (20,700)      |
| Selling expenses .....   | 6.9            | (7,369)        | (6,219)       | (6,313)       |
| General and administrative expenses.....                       | 6.10           | (22,787)       | (18,160)      | (18,733)      |
| Rental income and expenses from<br>investment properties ..... | 4.6/6.2/6.3/11 | 1,897          | 1,231         | 2,259         |
| Other income and other expenses .....                          | 6.4/6.5/11     | 496            | 2,903         | 659           |

|  | Note        | 2016                                  | 2015       | 2014       |
|--|-------------|---------------------------------------|------------|------------|
|  |             | <i>(in thousands of U.S. dollars)</i> |            |            |
| <b>Operating profit</b> .....  |             | 50,456                                | 16,271     | 8,690      |
| Finance income.....  | 4.5/6.11/11 | 11,119                                | 14,104     | 15,400     |
| Finance costs .....  | 4.5/6.12/11 | (19,123)                              | (19,316)   | (9,703)    |
| <b>Net financial result</b> .....  |             | (8,004)                               | (5,212)    | 5,697      |
| <b>Profit before taxes</b> .....   |             | 42,452                                | 11,059     | 14,387     |
| Income tax .....   | 4.18/6.13   | 3,500                                 | 2,315      | (915)      |
| <b>Profit for the year</b> .....   |             | 45,952                                | 13,374     | 13,472     |
| <b>Attributable to:</b>  |             |                                       |            |            |
| Equity holders of the parent.....  |             | 45,913                                | 13,353     | 13,728     |
| Non-controlling interest.....  | 4.1/7.8     | 39                                    | 21         | (256)      |
| Weighted average number of shares<br>outstanding, basic and diluted..... |             | 33,127,307                            | 33,127,307 | 33,127,307 |
| <b>Earnings per share</b>  |             |                                       |            |            |
| Basic and diluted .....  | 6.14        | 1.39                                  | 0.40       | 0.41       |
| <b>Earnings per share from continuing<br/>operations</b>                 |             |                                       |            |            |
| Basic and diluted .....  | 6.14        | 1.39                                  | 0.40       | 0.41       |

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated statement of profit and loss and other comprehensive income (continued) For the year ended December 31**

|  | Note    | 2016                                  | 2015   | 2014   |
|--|---------|---------------------------------------|--------|--------|
|  |         | <i>(in thousands of U.S. dollars)</i> |        |        |
| <b>Profit for the year</b> .....   |         | 45,952                                | 13,374 | 13,472 |
| <b>Other comprehensive income</b>  |         |                                       |        |        |
| Wholly comprising items that are or may be transferred to profit or loss as follows: |         |                                       |        |        |
| Foreign currency translation differences for<br>foreign operations.....              | 4.2     | (139)                                 | (359)  | (647)  |
| <b>Total comprehensive income for the<br/>period</b> .....                           |         | 45,813                                | 13,015 | 12,825 |
| <b>Total comprehensive income<br/>attributable to:</b>                               |         |                                       |        |        |
| Owners of the Company .....  |         | 45,774                                | 12,994 | 13,081 |
| Non-controlling interest.....  | 4.1/7.8 | 39                                    | 21     | (256)  |
| Total comprehensive income for the period<br>.....                                   |         | 45,813                                | 13,015 | 12,825 |

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated statement of financial position

|   | Note            | December 31,   |                |                |
|---|-----------------|----------------|----------------|----------------|
|   |                 | 2016           | 2015           | 2014           |
| <i>(in thousands of U.S. dollars)</i>                             |                 |                |                |                |
| <b>ASSETS</b>   |                 |                |                |                |
| Non-current assets  |                 |                |                |                |
|   | 4.7/4.9/4.16/4. |                |                |                |
| Property, plant and equipment .....                               | 17/7.1          | 265,472        | 231,559        | 210,661        |
| Investment properties.....  | 4.7/4.9/7.1     | 9,143          | 9,572          | 10,876         |
| Intangible assets.....  | 4.8/4.9/7.2     | 7,874          | 7,667          | 8,516          |
| Non-current investments.....                                      | 4.10            | 190            | —              | —              |
| Other non-current assets .....                                    | 7.5             | 36             | 88             | 140            |
| Deferred tax assets.....  | 4.18/6.13       | 19,904         | 14,631         | 11,309         |
| Total non-current assets.....                                     |                 | <u>302,619</u> | <u>263,517</u> | <u>241,502</u> |
| Current assets.....   |                 |                |                |                |
| Inventories .....   | 4.12/7.3        | 88,972         | 61,857         | 56,473         |
| Trade and other receivables .....                                 | 4.10/7.4/11     | 77,292         | 44,964         | 40,304         |
| Income tax receivables .....                                      | 4.18/6.13       | 4,543          | —              | —              |
| Other assets.....   | 4.11/7.5        | 14,338         | 11,034         | 15,917         |
| Cash and cash equivalents .....                                   | 4.13/7.6        | 104,157        | 66,098         | 26,452         |
| Total current assets .....  |                 | <u>289,302</u> | <u>183,953</u> | <u>139,146</u> |
| <b>Total assets</b> .....   |                 | <u>591,921</u> | <u>447,470</u> | <u>380,648</u> |
| <b>EQUITY AND LIABILITIES</b>                                     |                 |                |                |                |
| Equity  |                 |                |                |                |
| Share capital .....   | 4.14/7.7        | 265,231        | 265,231        | 265,231        |
| Share premium.....  | 4.14/7.7        | 255,262        | 255,262        | 255,262        |
| Retained earnings .....   |                 | (196,506)      | (242,419)      | (255,280)      |
| Cumulative translation adjustment .....                           | 4.2/7.7         | (879)          | (740)          | (381)          |
| Treasury shares.....  | 7.7             | (770)          | (770)          | (770)          |
| Total equity attributable to equity holders<br>of the parent..... |                 | <u>322,338</u> | <u>276,564</u> | <u>264,062</u> |
| Non-controlling interest.....                                     | 4.1/7.8         | 400            | 372            | 412            |
| Total equity.....   |                 | <u>322,738</u> | <u>276,936</u> | <u>264,474</u> |
| Non-current liabilities.....                                      |                 |                |                |                |
| Non-current loans and borrowings.....                             | 4.10/7.10       | 132,407        | 102,508        | 51,081         |
| Non-current provisions .....                                      | 4.15/7.13       | 73             | 73             | 74             |
| Other non-current liabilities.....                                | 4.10/7.11       | 8,408          | 1,499          | 1,963          |

|                                     | Note           | December 31,                          |         |         |
|-------------------------------------|----------------|---------------------------------------|---------|---------|
|                                     |                | 2016                                  | 2015    | 2014    |
|                                     |                | <i>(in thousands of U.S. dollars)</i> |         |         |
| Total non-current liabilities ..... |                | 140,888                               | 104,080 | 53,118  |
| Current liabilities                 |                |                                       |         |         |
| Trade payables.....                 | 4.10/7.12/11   | 49,032                                | 12,256  | 21,716  |
| Current loans and borrowings.....   | 4.15/7.10      | 31,432                                | 16,752  | 11,292  |
| Income tax payable.....             | 4.18/6.13      | 1,579                                 | 2,635   | 2,026   |
| Provisions .....                    | 4.15/7.13      | 1,622                                 | 1,093   | 751     |
| Other current liabilities.....      | 4.10/4.11/7.12 | 44,630                                | 33,718  | 27,271  |
| Total current liabilities.....      |                | 128,295                               | 66,454  | 63,056  |
| Total equity and liabilities .....  |                | 591,921                               | 447,470 | 380,648 |

The accompanying notes are an integral part of these consolidated financial statements.

### Consolidated statement of changes in group equity

| Note  | Shares issued and fully paid | Share capital | Share Premium | Retained earnings | Cumulative translation adjustment | Treasury shares | Total                                |                           | Total equity |
|---|------------------------------|---------------|---------------|-------------------|-----------------------------------|-----------------|--------------------------------------|---------------------------|--------------|
|   |                              |               |               |                   |                                   |                 | attributable to owners of the parent | Non-controlling interests |              |
| <i>(in thousands of U.S. dollars)</i>                 |                              |               |               |                   |                                   |                 |                                      |                           |              |
| At January 1, 2014 .....                              | 33,177,223                   | 265,231       | 264,535       | (270,113)         | 266                               | (10,043)        | 249,876                              | 3,556                     | 253,432      |
| Change in accounting policy.....                      | 4.19                         |               | (9,273)       |                   |                                   | 9,273           |                                      |                           |              |
| At January 1, 2014 as restated .....                  | 33,177,223                   | 265,231       | 255,262       | (270,113)         | 266                               | (770)           | 249,876                              | 3,556                     | 253,432      |
| Profit for the year.....                              |                              |               |               | 13,728            |                                   |                 | 13,728                               | (256)                     | 13,472       |
| Currency translation effect, net of tax.....          | 4.2                          |               |               |                   | (647)                             |                 | (647)                                | —                         | (647)        |
| <b>Total comprehensive income.....</b>                |                              |               |               |                   |                                   |                 |                                      |                           | 12,825       |
| <b>Transactions with owners of the company</b>        |                              |               |               |                   |                                   |                 |                                      |                           |              |
| Distribution to non-controlling interests (GVG) ..... | 7.8                          |               |               |                   |                                   |                 | —                                    | (212)                     | (212)        |
| <b>Changes in ownership interest</b>                  |                              |               |               |                   |                                   |                 |                                      |                           |              |
| Acquisition of 44,91% shares of GVG .....             | 7.8                          |               |               | 1,105             |                                   |                 | 1,105                                | (2,376)                   | (1,271)      |
| Acquisition of 15% shares of MFI .....                | 7.8                          |               |               |                   |                                   |                 | —                                    | (300)                     | (300)        |
| At December 31, 2014 ....                             | 33,177,223                   | 265,231       | 255,262       | (255,280)         | (381)                             | (770)           | 264,062                              | 412                       | 264,474      |
| Profit for the year.....                              |                              |               |               | 13,353            |                                   |                 | 13,353                               | 21                        | 13,374       |
| Currency translation effect, net of tax.....          | 4.2                          |               |               |                   | (359)                             |                 | (359)                                | —                         | (359)        |
| <b>Total comprehensive income.....</b>                |                              |               |               |                   |                                   |                 |                                      |                           | 13,015       |

| Note   | Shares issued and fully paid | Share capital | Share Premium | Retained earnings | Cumulative translation adjustment | Treasury shares | Total                                |                           | Total equity |         |
|--|------------------------------|---------------|---------------|-------------------|-----------------------------------|-----------------|--------------------------------------|---------------------------|--------------|---------|
|  |                              |               |               |                   |                                   |                 | attributable to owners of the parent | Non-controlling interests |              |         |
| <i>(in thousands of U.S. dollars)</i>  |                              |               |               |                   |                                   |                 |                                      |                           |              |         |
| <b>Transactions with owners of the company</b>                                 |                              |               |               |                   |                                   |                 |                                      |                           |              |         |
| Distribution to non-controlling interests (GVG) .....                          | 7.8                          |               |               |                   |                                   |                 | —                                    | (11)                      | (11)         |         |
| <b>Changes in ownership interest C</b>   |                              |               |               |                   |                                   |                 |                                      |                           |              |         |
| Acquisition of 34% shares of MFI .....   | 7.8                          |               |               | (490)             |                                   |                 | (490)                                | (50)                      | (540)        |         |
| Cost incurred in respect of a business combination completed in earlier years. |                              |               |               | (2)               |                                   |                 | (2)                                  | —                         | (2)          |         |
| <b>At December 31, 2015</b> ....   |                              | 33,177,223    | 265,231       | 255,262           | (242,419)                         | (740)           | (770)                                | 276,564                   | 372          | 276,936 |
| Profit for the year .....  |                              |               |               | 45,913            |                                   |                 |                                      | 45,913                    | 39           | 45,952  |
| Currency translation effect, net of tax .....                                  | 4.2                          |               |               |                   | (139)                             |                 |                                      | (139)                     | —            | (139)   |
| <b>Total comprehensive income</b> .....  |                              |               |               |                   |                                   |                 |                                      |                           |              | 45,813  |
| <b>Transactions with owners of the company</b>                                 |                              |               |               |                   |                                   |                 |                                      |                           |              |         |
| Distribution to non-controlling interests (GVG) .....                          | 7.8                          |               |               |                   |                                   |                 |                                      | —                         | (11)         | (11)    |
| <b>At December 31, 2016</b> ....   |                              | 33,177,223    | 265,231       | 255,262           | (196,506)                         | (879)           | (770)                                | 322,338                   | 400          | 322,738 |

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

For the year ended December 31

| Note   | 2016            | 2015          | 2014          |         |
|--|-----------------|---------------|---------------|---------|
| <i>(in thousands of U.S. dollars)</i>  |                 |               |               |         |
| <b>Cash flow from operating activities:</b>  |                 |               |               |         |
| Profit for the year .....  | 45,952          | 13,374        | 13,472        |         |
| Income tax .....   | (3,500)         | (2,315)       | 915           |         |
| <b>Income before taxes</b> .....   | <b>42,452</b>   | <b>11,059</b> | <b>14,387</b> |         |
| <b>Reconciliation of net income to cash flow arising from operating activities:</b> .....  |                 |               |               |         |
| Depreciation and amortisation, before effect of grants and subsidies .....                 | 4.7/6.7/7.1/7.2 | 50,158        | 47,165        | 46,465  |
| Recognised investment grants and subsidies netted with depreciation and amortisation ..... | 4.17/6.7        | (2,858)       | (3,106)       | (3,077) |
| Interest income and expenses (net) .....   | 4.5/6.11/6.12   | 4,434         | 3,500         | 4,462   |

|   | Note            | 2016                                  | 2015            | 2014            |
|---|-----------------|---------------------------------------|-----------------|-----------------|
|   |                 | <i>(in thousands of U.S. dollars)</i> |                 |                 |
| Loss/(gain) on the sale of plant, property and equipment (net).....         | 4.7/7.1/7.2     | (232)                                 | (1,802)         | (25)            |
| Loss/(gain) on the sale of financial assets/change in fair value (net)..... | 4.11/10         | 280                                   | 596             | (8,970)         |
| Other non-cash transactions (net) .....                                     | 8               | (401)                                 | (5,005)         | (326)           |
| <b>Changes in working capital:</b> .....                                    |                 | <u>(16,359)</u>                       | <u>(14,478)</u> | <u>(14,195)</u> |
| Decrease/(increase) of trade receivables....                                | 4.10/7.4        | (32,825)                              | (4,750)         | 10,739          |
| Decrease/(increase) of other receivables and prepaid expenses .....         | 7.5             | (9,828)                               | 1,339           | (3,123)         |
| Decrease/(increase) of inventories .....                                    | 4.12/7.3        | (16,318)                              | (5,385)         | (8,326)         |
| (Decrease)/increase of trade payables.....                                  | 4.10/7.12       | 34,802                                | (10,854)        | (10,078)        |
|   | 4.10/4.15/7.11/ |                                       |                 |                 |
| (Decrease)/increase of other liabilities.....                               | 7.12            | 7,810                                 | 5,172           | (3,407)         |
| Income taxes (paid)/received .....  |                 | (3,554)                               | (83)            | 142             |
| <b>Cash flow from operating activities</b> .....                            |                 | <u>73,920</u>                         | <u>37,846</u>   | <u>38,863</u>   |
| <b>Cash flow from investing activities:</b>                                 |                 |                                       |                 |                 |
| Payments for property, plant, equipment and intangible assets .....         | 4.7/7.1         | (72,189)                              | (71,283)        | (48,665)        |
| Payments for investments .....  | 10              | (289)                                 | (596)           | (458)           |
| Proceeds from sale of investments.....                                      | 10              | —                                     | —               | 41,713          |
| Acquisition of subsidiary, net of cash acquired .....                       | 5               | (10,178)                              | (542)           | (1,571)         |
| Payments for loan investments to related parties .....                      | 11              | (5,694)                               | (94)            | (157)           |
| Proceeds from loans investments related parties .....                       | 11              | 5,740                                 | 5,156           | 121             |
| Proceeds from the sale of property, plant and equipment .....               | 4.7/7.1         | 735                                   | 2,098           | 95              |
| Interest received.....  | 4.5/6.11/6.12   | 275                                   | 543             | 204             |
| <b>Cash flow used in investing activities</b> .....                         |                 | <u>(81,600)</u>                       | <u>(64,718)</u> | <u>(8,718)</u>  |
| <b>Cash flow from financing activities:</b>                                 |                 |                                       |                 |                 |
| Proceeds from loans and borrowings.....                                     | 4.10/7.10       | 60,981                                | 69,224          | 29,650          |
| Repayment of loans and borrowings.....                                      | 4.10/7.10       | (19,374)                              | (12,975)        | (48,739)        |
| Repayment of loans and borrowings from related parties.....                 | 11              | —                                     | (27)            | —               |
| Receipts from sale & leaseback arrangements.....                            | 4.16/7.10       | 6,190                                 | 5,161           | —               |
| Payments of lease installments .....  | 4.16/7.10       | (1,558)                               | (730)           | (64)            |

|   | Note          | 2016           | 2015          | 2014            |
|---|---------------|----------------|---------------|-----------------|
| <i>(in thousands of U.S. dollars)</i>   |               |                |               |                 |
| Receipt of government grants and subsidies .....                                    | 4.17          | 2,532          | 7,372         | 4,396           |
| Interest paid .....   | 4.5/6.10/6.11 | (2,843)        | (1,306)       | (2,083)         |
| Distribution to non-controlling interests ....                                      | 7.8           | (11)           | (11)          | (212)           |
| <b>Cash flow used in financing activities ....</b>                                  |               | <u>45,917</u>  | <u>66,708</u> | <u>(17,052)</u> |
| <b>Effects of changes in foreign currency exchange rates on cash balances .....</b> |               | <u>(178)</u>   | <u>(190)</u>  | <u>(451)</u>    |
| <b>Increase/(decrease) of cash and cash equivalents .....</b>                       |               | <u>38,237</u>  | <u>39,836</u> | <u>13,093</u>   |
| <b>Cash and cash equivalents at the beginning of the year .....</b>                 |               | <u>66,098</u>  | <u>26,452</u> | <u>13,810</u>   |
| <b>Cash and cash equivalents at the end of the year .....</b>                       |               | <u>104,157</u> | <u>66,098</u> | <u>26,452</u>   |

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements 2016

## 1 Basic information and description of the X-FAB Silicon Foundries SE Group's business

X-FAB Silicon Foundries SE (hereafter referred to as "X-FAB SE", "the Company" or "the parent company" and, together with its subsidiaries, as "X-FAB SE Group" or "the Group") is a European limited company (Societas Europaea/SE) registered under the number BE0882.390.885 in Hasselt, Belgium. The Company is a holding company for the Group's investments in pure-play semiconductor wafer companies. The Company's registered address is Transportstraat 1, 3980 Tessenderlo, Belgium.

The Group has no associates, joint ventures, joint operations or investments in unconsolidated structured entities (entities designed so that voting or similar rights are not the dominant factor in deciding which party controls the entity).

The X-FAB SE Group is one of the world's leading pure-play foundry providers specialising in analog/mixed-signal technologies. As a pure-play foundry, the Group develops its own technologies, offering its customers a comprehensive range of product development (design support) and production services. The X-FAB SE Group manufactures integrated circuits to customers' designs, supplying these in the form of silicon wafers.

Based on its long experience, X-FAB SE Group specialises mainly in the manufacture of analog/mixed-signal products. These are circuits capable of processing digital as well as analog signals. For this purpose X-FAB SE offers special technology modules, cell libraries and design kits, which allow the Group's customers to develop specific circuits with broad function spectrums and to accelerate their development processes.

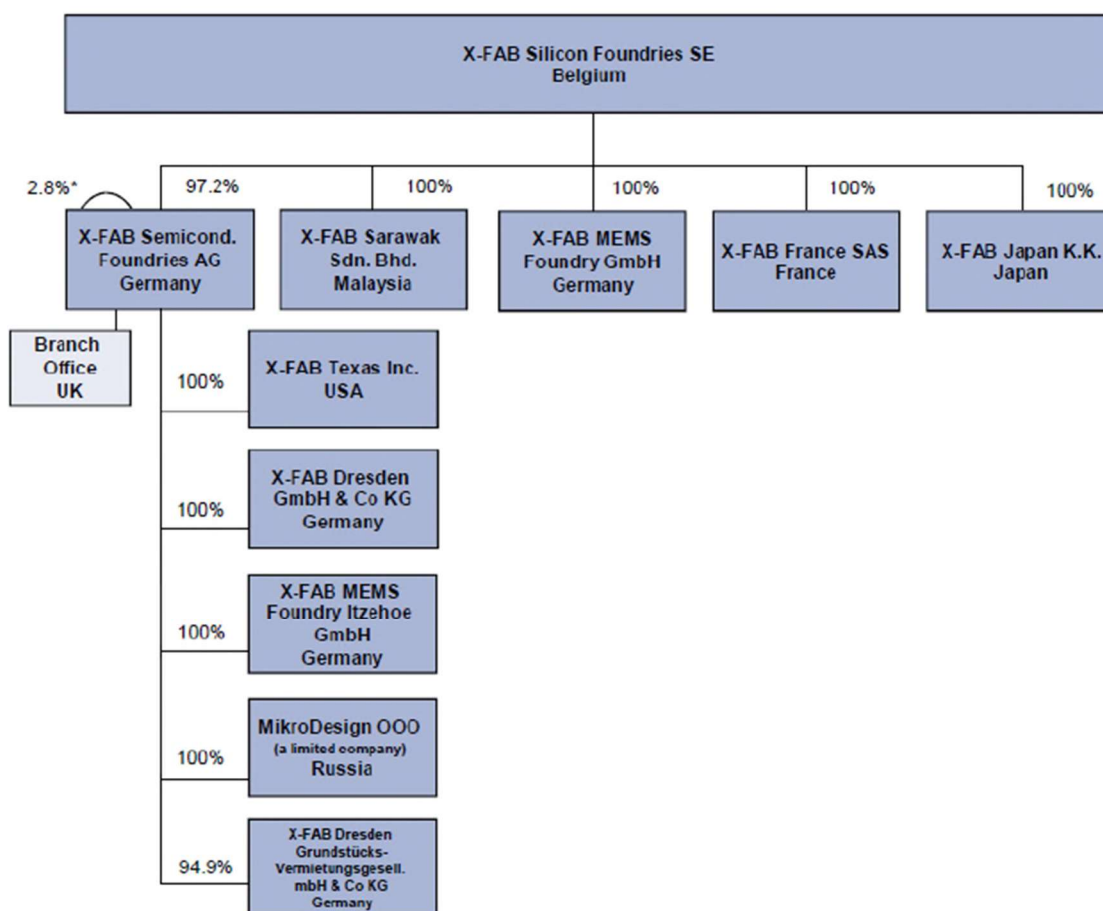
X-FAB SE Group's customers include companies that concentrate on the development of Integrated Circuits (IC) and leave their manufacture to others (Fabless companies). Increasingly, IDMs (Integrated Device Manufacturers), who integrate development and production, are also using pure-play foundries for IC

production. The Group’s customers are primarily in the communication, automotive, consumer and industrial product sectors, and are located in Europe, the United States and Asia.

## 2 Group structure

X-FAB Silicon Foundries SE’s major shareholders are Belgium-based XTRION NV, which holds approximately 60 per cent. of the shares, and Malaysia-based Sarawak Technologies Holding Sdn. Bhd., holding approximately 35 per cent. of the shares. The remaining shares are held by management and other minority shareholders. The shares of XTRION NV are held through Xpeqt (a “Stichting Administratiekantoor”, a Foundation under Netherlands law) and are directly owned by Mr. Roland Duchâtelet and Mr. Rudi De Winter.

### X-FAB SE Group structure as of December 31, 2016



\* Treasury shares of X-FAB AG

X-FAB Dresden GmbH & Co. KG means X-FAB Dresden GmbH & Co. KG and X-FAB Dresden Verwaltungs-GmbH.

The Group’s primary operations are held by X-FAB Semiconductor Foundries AG (X-FAB AG), X-FAB Dresden GmbH & Co. KG (X-FAB Dresden), X-FAB Texas Inc., Lubbock, Texas (X-FAB TX), X-FAB Sarawak Sdn. Bhd. (X-FAB Sarawak) and X-FAB France SAS (X-FAB France) each of which operate wafer factories at their respective locations. X-FAB MEMS Foundry Itzehoe GmbH (MFI) and X-FAB MEMS Foundry GmbH (XMF) offer process technologies for the fabrication of micromechanical sensors for the detection of pressure, acceleration, rotation and IR-radiation including integrated solutions that combine MEMS and CMOS. The remaining entities provide research and development services to other group entities or serve administrative purposes.



### **3 Basis of preparation**

#### **3.1 Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. All IFRS and IAS standards and associated interpretations were adopted to the extent that they had been endorsed by the European Union by the date of issue of these financial statements.

The consolidated financial statements of X-FAB SE Group for the year ended December 31, 2016 were authorised for issue in accordance with a resolution of the directors on February 9, 2017.

#### **3.2 Basis of measurement**

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial assets and liabilities and certain non-derivative financial assets which are measured at fair value (current investments and available-for-sale financial assets). The net defined benefit liability is measured at the present value of the defined obligation less the fair value of plan assets.

#### **3.3 Functional and presentation currency**

The consolidated financial statements are presented in U.S. dollars (USD), which is the functional and presentation currency of the parent company and the Group's primary operating companies. Amounts are rounded to the nearest thousand except when otherwise indicated. Rounding differences may occur.

#### **3.4 Use of estimates and judgments**

In preparing these consolidated financial statements management has made judgments, assumptions, and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

#### **Assumptions, judgments and estimation uncertainties**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the next financial year is included in the following notes:

##### ***Recognition of deferred tax assets (Note 6.13)***

Deferred tax assets are recorded where there is reasonable certainty that tax savings will be made in future periods from the use of losses carried forward and from the reversal of timing differences arising on the difference between the accounting and tax values of the Group's assets. Taxable profits and the reversal of timing differences in the year ending December 31, 2017 may differ from the amounts assumed which may result in a material adjustment.

##### ***Impairment of receivables (Note 7.4)***

Allowances are made to reflect estimates of the amount of receivables which may not be collectable. The actual amount of receivables which are not collectable in the year ending December 31, 2017 may differ from the amounts recorded as impairments in the year ending December 31, 2016 which may result in a material adjustment.

##### ***Acquisition of a business (Note 5)***

The fair value of the assets acquired and liabilities assumed as part of the business combination described in note 5 have been measured by applying various valuation techniques. For further details we refer to note 5.

## **Measurement of fair values**

A number of the Group's accounting policies and disclosures require the measurement of fair values, both for financial and non-financial assets and liabilities.

If third party information is used to measure fair values, the evidence obtained from third parties is assessed to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible.

Fair values are classified into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group measures transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- 5 Business combinations
- 7.1 Investment property
- 7.4 Trade and other receivables
- 7.6 Cash and cash equivalents
- 7.10 Current and non-current financial liabilities
- 10 Financial instruments – fair values and risk management

## **4 Summary of accounting policies**

### **4.1 Basis of consolidation**

#### **Entities included in the consolidation**

The consolidated financial statements include the financial statements of the parent company and its subsidiaries, which are entities directly or indirectly controlled by the parent company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is generally obtained by ownership of a majority of shares.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. When the Group loses control over a subsidiary it derecognises the assets and liabilities of the subsidiary and any related non-controlling interests and any other components of equity. Any resulting gain or loss is recognised in profit and loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses, as well as profits and losses resulting from intra-group transactions, are fully eliminated in these consolidated financial statements.

### **Non-controlling interests**

Non-controlling interests represent the portion of profit or loss, component of other comprehensive income and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly, by the parent company. Non-controlling interests' share of income and share of equity are presented separately in the income statement and within equity in the consolidated statement of financial position respectively, separately from parent shareholder's equity.

Non-controlling interests are measured at the date of acquisition at their proportionate share of the acquired company's identifiable net assets.

### **Business combinations**

Business combinations, with the exception of transactions between entities under common control and ownership, are accounted for using the acquisition accounting method. Under this method, identifiable assets and liabilities of the acquired business are recognised in the consolidated financial statements on initial consolidation at fair value. The excess of the cost of an acquisition over the fair value of the net identifiable assets and liabilities acquired as at the date of the exchange transaction is recorded as goodwill, and is recognised as an asset in the statement of financial position. Any non-controlling interest is stated at the minority's proportion of the fair values. Any goodwill arising on the acquisition of a foreign entity and any fair value adjustments of the carrying amounts of assets and liabilities arising on the acquisition of that foreign entity are treated as assets and liabilities of that foreign entity. Subsequent to initial recognition, goodwill is carried at cost less accumulated impairment losses. Should, at a later date, acquired goodwill be impaired, the impairment charge is included in determining the operating profit for the period.

Business combinations between entities under common control and ownership are accounted for in a manner similar to the pooling-of-interests method. Under this method the original book values of the acquired company continue to be used on acquisition and any differences between acquisition cost and equity of the entity are eliminated against the share premium account.

### **Changes in the Group's interest in a subsidiary that do not result in loss of control**

Changes in the Group's interest in a subsidiary that do not result in loss of control are accounted for as equity transactions.

### **Loss of control**

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### **4.2 Foreign currency translation**

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions. If the functional currency of a consolidated entity differs from the Group's presentation currency, assets and liabilities of that entity are translated into the presentation currency at the closing rate at the statement of financial position date, whereas equity is translated using the historic rates, and income statement is translated at the average rate of the reporting period. All resulting differences are recognised in the cumulative translation adjustment in equity.

#### **4.3 Revenue recognition**

Sales revenues from PCM wafers are recognised when shipment has been made, transfer of risk to the customer has occurred, the sales price has been agreed upon, there is adequate assurance that collection will be made, and no significant obligations to the benefit of the customer in connection with the realisation of the sale remain to be performed. The Group recognises revenues depending on when title and risk and rewards are transferred under the specific contractual terms of each sale, which may vary from customer to customer.

Revenue in respect of design or engineering services (NRE), rental and other income is recognised at the point in time when the relevant service is provided. Sales revenues are recognised net of discounts, customer bonuses and rebates granted. Provisions for warranty obligations are made based on past experience.

#### **4.4 Research and development expenses**

Research and development expenses comprise staff expenses, depreciation and other directly attributable expenses and are allocated process based, i.e. relate to research and development activities that are not related to the improvement of the existing production technologies. Costs incurred in connection with improving existing production technologies used in operational production lines are allocated to cost of sales.

Research and development costs are expensed as incurred. X-FAB SE Group considers that development work performed does not qualify for capitalisation because the amount of future benefits to be derived from use of work performed is characterised by a high level of uncertainty until the projects are completed.

Government grants awarded to the Group for its research and development activities are recognised when there is reasonable assurance that the entity will comply with the relevant conditions set out in the terms of the grant arrangement and it is probable that the grant will be received. They are recognised in profit or loss on a systematic basis as the entity recognises as expenses the costs that the grants are intended to compensate.

#### **4.5 Finance income and finance costs**

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit and loss on the date on which the Group's right to receive payment is established.

#### **4.6 Rental income from investment properties**

Rental income from operating leases on investment property is accounted for on a straight line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income and recognised over the term of the lease.

#### **4.7 Property, plant, equipment and investment properties**

Property, plant and equipment are measured at purchase cost less accumulated depreciation and accumulated impairment losses. Purchase cost includes expenditure that is directly attributable to the acquisition of the asset. These accounting policies have also been applied to investment properties under the cost model in accordance with IAS 40.

Depreciation is provided using the straight-line method for property, plant, factory/office equipment and investment properties. The following useful lives are used as a basis for calculating depreciation:

- Buildings including investment properties 40 – 50 years
- Factory and office equipment 3 – 10 years

Depreciation for technical equipment is calculated on units of production basis, which reflects the expected consumption of the equipment's future economic benefits.

Borrowing costs were not capitalised because no assets qualifying for the capitalisation of borrowing costs were constructed or acquired in the period. Costs incurred which extend the useful life of assets, or which increase performance or capacity of assets, are capitalised where appropriate. Maintenance and repair costs are expensed as incurred. When discrete components of an item of property, plant or equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Assets are recorded as disposals when they are sold or scrapped. The resulting gain or loss is recorded in income within "other income" or "other expenses", as appropriate.

#### **4.8 Intangible assets**

Purchased intangible assets are capitalised at purchase cost, including, where applicable, own work capitalised in preparing the intangible assets for use, and depreciated on a straight line basis over their expected useful lives. The useful life applied is five years.

Other internally generated intangible assets were not capitalised because the criteria for capitalisation were not met (see Note 4.4).

The Group has no intangible assets with indefinite useful lives.

#### **4.9 Impairment**

The carrying amounts of the Group's non-financial assets other than inventories and deferred tax assets (for which separate reviews are performed) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated annually.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the

cash inflows of other assets or groups of assets (the “cash-generating unit”). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **4.10 Non derivative financial assets and liabilities**

The Group classifies its non-derivative financial assets in the following categories:

(a) Financial assets at fair value through profit or loss

This category comprises non-derivative financial assets classified as held for trading or designated as such on initial recognition as permitted by IAS 39 when doing so results in the presentation of more relevant information. It also includes derivatives described in 4.11. Assets held for trading are assets which have been acquired principally for the purpose of selling in the short term. No additional instruments have been designated to the fair value through profit or loss category in the current or previous period.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not held for trading purposes. They are included in current assets, except for instruments with maturities greater than twelve months after the statement of financial position date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

Receivables are measured at their nominal amount, less, where appropriate, allowances. Allowances are made for uncollectible items or doubtful debts, which are made when the receivables are partly or wholly uncollectible, or where collection is improbable, whereby the amount of loss must be capable of being estimated. The relevant amounts are written off when the Group considers that there is no realistic prospect of recovery of the receivable. The Group has no interest bearing or low interest bearing receivables with an expected remaining term of one year or more.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group’s management has the positive intention and ability to hold to maturity. They are included in non-current assets unless the investment is due to mature within twelve months of the statement of financial position date or unless the investment is considered to be very liquid. The Group held no investments which were classified as held-to-maturity investments in the current or previous period.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the statement of financial position date. The Group's investments classified as available-for-sale financial assets are impaired and have no carrying value at December 31, 2016, December 31, 2015, or December 31, 2014.

***Initial recognition***

Financial assets are initially recognised at fair value plus any directly attributable transaction costs, with the exception of financial assets recognised at fair value through profit and loss, which are initially recognised at fair value with transaction costs recorded as an expense. Regular way purchases and sales of financial assets are accounted for at the settlement date.

***Subsequent measurement***

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. The gains and losses are transferred to the income statement on realisation. Realised and unrealised gains and losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise.

***Impairment***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

When securities classified as available-for-sale are impaired, an impairment loss is calculated by reference to its fair value. The accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Financial assets which are not impaired are considered collectable in full.

### ***Derecognition***

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities. Any accrued interest or dividends received on settlement are excluded from the calculation of the net gain and reported as interest or dividend income within financial income.

### ***Non-derivative financial liabilities***

Non-derivative financial liabilities, with the exception of items classified as at fair value through profit and loss, are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method, these liabilities being known for this purposes as financial liabilities at amortised cost.

A non-derivative financial liability is classified as at fair value through profit and loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in the income statement as incurred. Financial liabilities at fair value through profit and loss are measured at fair value and changes therein, including any interest expense, are recognised in the income statement. No non-derivative financial liabilities were classified as at fair value through profit and loss in the current or previous financial years.

### ***Offsetting***

Financial assets and financial liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the Group currently has a legal enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

### ***Fair values of cash and cash equivalents and current receivables and liabilities***

The fair values of cash and cash equivalents, current receivables and current liabilities approximate their book values due to their short-term nature.

## **4.11 Derivative financial instruments**

The Group holds derivative financial instruments to hedge certain foreign currency and interest risk exposures. Derivative financial instruments are not designated as hedging instruments for hedge accounting purposes and are accordingly classified as held-for-trading and carried at fair value.

Gains and losses from changes in the fair values of the derivative financial instruments are reported in the income statement within finance income and finance expenses. The fair values of the derivative financial instruments are presented in the statement of financial position as other current assets and or other current liabilities, as appropriate.

## **4.12 Inventories**

Raw materials, consumables and supplies are measured at their acquisition cost, less allowances for impairments if required. The acquisition cost of raw materials, consumables and supplies is determined by using the weighted average acquisition cost. Allowances are recognized if the carrying amount exceeds the expected sales price less the estimated cost to complete the inventories, and the cost of marketing, sales and distribution activities. Allowances are made in full for inventories with no realisable value.



Manufacturing costs include the cost of direct materials, direct cost of production and allocable material, and manufacturing overheads.

#### **4.13 Cash and cash equivalents**

Cash and cash equivalents represent cash in hand, checks, and available balances on bank current accounts with an original maturity of four weeks or less. The use of cash and cash equivalents reported are in general not subject to restrictions with the exception of deposits reported as restricted cash in Note 7.6.

#### **4.14 Equity**

##### ***Share Capital***

The nominal paid-in contribution amount on each share is recorded in share capital.

##### ***Share premium***

Incremental costs directly attributable to the issue of share capital are recognised as a deduction from the share premium account, less any related tax effects.

##### ***Reverse acquisition***

X-FAB Sarawak Sdn. Bhd. (X-FAB Sarawak) was acquired by the X-FAB Silicon Foundries SE under a business combination in 2006 (“2006 reverse acquisition”). The business combination was structured so that for legal purposes X-FAB Silicon Foundries SE, which had no significant business activities prior to that date, acquired X-FAB Semiconductor Foundries AG and its subsidiaries as well as X-FAB Sarawak and, as a result, became the Group’s parent entity. For accounting purposes X-FAB Semiconductor Foundries AG was determined to be the acquirer and the continuing business in commercial terms although it was not the legal acquirer. Accordingly, the equity structure of the Group from 2006 (i.e. the number and type of equity interests issued) reflects the legal share capital of the new parent entity whereas the share capital in the consolidated balance sheet reflects the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the 2006 reverse acquisition to the fair value of the legal parent (accounting acquiree) at that date. The assets and liabilities of the Group at that date reflected those of the continuing business of X-FAB Semiconductor Foundries AG together with the acquisition of X-FAB Sarawak by X-FAB Semiconductor Foundries AG.

##### ***Treasury shares***

Treasury shares are shares in the Group’s parent entity held by the parent or a subsidiary (see Note 4.19).

##### ***Equity instruments and financial liabilities***

Equity instruments and financial liabilities (including share capital, loans, redeemable preference shares, loans and borrowings) are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves. Equity instruments issued are recorded at the proceeds received, net of direct issue costs. A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition, contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classified as financial liabilities. Finance costs and gains or losses relating to financial liabilities are included in the

income statement. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability.

#### **4.15 Provisions**

Provisions are recognised when present obligations (legal or constructive) exist which result from past events and when an outflow of resources resulting from these obligations is probable. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects current market assessments of the time value of money and of the risk specific to the liability. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. A provision for onerous contracts is recognised for each specific contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the contract.

#### **4.16 Leases**

Lease arrangements are either classified as finance leases or operating leases. Arrangements under which the Group carries the significant risks and rewards from the use of an asset, and for which the Group can therefore be described as the economic owner, are treated as finance leases. The resulting assets and liabilities are recorded at the fair value of the asset at the date of the inception of the lease, or, if lower, at the present value of the future minimum leasing payments. All other lease arrangements are classified as operating leases with the consequence that the lease payments are expensed as incurred.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

When the Group enters into transactions involving the sale of an asset and the leasing back of the same asset ("sale and leaseback transactions") the accounting treatment depends upon the type of lease involved. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount are not recognised as income immediately. Instead, the excess is deferred and amortised over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sales price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used. For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value is recognised immediately. For finance leases, no such adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount in accordance with IAS 36.

#### **4.17 Subsidies**

The Group receives government assistance in the form of government investment grants and investment subsidies. Grants and subsidies are recognised when there is reasonable assurance that the entity will comply with the relevant conditions of the grant, and that grant will be received. They are recognised in profit or loss on a systematic basis as the entity recognises as expenses the costs that the grants are intended to compensate. The investment grants and subsidies received reduce the purchase cost for the relevant subsidised assets recorded under property, plant and equipment.

The receipt of government assistance is governed by terms set out in law and by specific terms and conditions attached to the applicable grants and subsidies.

#### **4.18 Income taxes**

The income tax charge includes current and deferred taxation. Deferred taxes are calculated using the statement of financial position liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and the deferred benefits expected from unused tax losses, unused tax credits, other credits carried forward, whereby amounts are only recognised when their realisation is considered by management to be probable. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled, based on tax rates enacted or substantially enacted at the statement of financial position date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the statement of financial position date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are not discounted and are classified as non-current assets in the statement of financial position. Current and deferred tax assets and liabilities are offset only if certain criteria are met. Such criteria mean the entity has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

At each statement of financial position date, the Group reassesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The probability of recognition is based on the expected tax profits included in the Group's current business planning. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilised. A deferred tax liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

#### **4.19 Change in accounting policy**

In previous consolidated financial statements the Group accounted for treasury shares held in its subsidiary X-FAB Semiconductor Foundries AG as deductions from the equity of the parent company. This accounting treatment was applied because at the date the treasury shares were purchased, X-FAB Semiconductor Foundries AG was regarded for accounting purposes to be the acquirer in a business combination completed by the Group in the 2006 reverse acquisition (see note 4.14) although it was not

the legal acquirer. Accordingly, the treasury shares were presented as a share of Group equity, although they represent treasury shares of a subsidiary. In order to improve the transparency and clarity of consolidated financial statements the Group has amended its accounting policy in the current reporting period so that only shares in the parent entity are reported as treasury shares and deducted from the equity of the parent company.

The change in policy has no effect on total equity, on the equity attributable to the owners of the parent, on the profit for any of the years reported, on total comprehensive income attributable to the owners of the parent, or on the consolidated statement of cash flows for any of the years reported.

#### 4.20 New accounting pronouncements

The following amendments to standards which are effective for annual periods beginning on or before January 1, 2016, have been applied by the Group for the first time in preparing these consolidated financial statements.

| <b>Standard/interpretation</b>  | <b>Effective Date</b> |
|---|-----------------------|
| Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation ..... | January 1, 2016       |
| Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations .....                   | January 1, 2016       |
| Amendments to IAS 16 and IAS 41: Bearer Plants .....  | January 1, 2016       |
| Amendments to IAS 27: Equity Method in Separate Financial Statements .....                                  | January 1, 2016       |
| Annual Improvements to IFRSs 2012–2014 cycle .....  | January 1, 2016       |
| Amendments to IAS 1: Disclosure Initiative .....  | January 1, 2016       |
| Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exemption.....  | January 1, 2016       |

None of these amendments to standards and new or amended interpretations had a significant effect on the consolidated financial statements of the X-FAB SE Group.

A number of relevant new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these consolidated financial statements.

| <b>Standard/interpretation</b>   | <b>Effective Date</b> |
|--|-----------------------|
| Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses.....               | January 1, 2017       |
| Amendments to IAS 7: Disclosure Initiative .....   | January 1, 2017       |
| IFRS 9 Financial Instruments*.....   | January 1, 2018       |
| IFRS 15 Revenue from Contracts with Customers .....  | January 1, 2018       |
| Amendments to IFRS 2: Classification and Measurement of Share- based Payment Transactions .....  | January 1, 2018       |
| Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts..... | January 1, 2018       |

| <b>Standard/interpretation</b>   | <b>Effective Date</b> |
|--|-----------------------|
| Amendments to IAS 40: Transfers of Investment Property*                  | January 1, 2018       |
| Annual Improvements to IFRSs 2014-2016*.....                             | January 1, 2018       |
| IFRIC 22: Foreign Currency Transactions and Advance Consideration* ..... | January 1, 2018       |
| IFRS 16 Leases* .....  | January 1, 2019       |

\*Not yet endorsed by the European Union

IFRS 9 Financial Instruments is the replacement of IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes new requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 9 defines new classes of financial instruments and determines more specifically the classification of financial instruments in the new classes. IFRS 9 also includes a new approach for determining impairment of non-derivative financial assets, in particular receivables, based on the expected loss model.

IFRS 15 Revenue from Contracts with Customers specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

None of these new or amended standards and interpretations is expected to have a significant effect on the consolidated financial statements of the X-FAB SE Group, except for IFRS 16 Leases, which becomes mandatory for the Group's 2019 financial statements. The Group does not plan to adopt these standards early.

The Group has prepared a preliminary qualitative assessment of the impact of IFRS 9 and concluded that the effect on reported net income, or the measurement of assets and liabilities is not expected to be significant. However, no quantitative calculations have been performed to date. With respect to IFRS 15 the Group prepared a detailed analysis of the customer contracts and assessed that the implementation of IFRS 15 will not significantly change the recognition of revenue.

No quantitative or qualitative assessment of the impact of IFRS 16 has been made to date, but the Group expects that the most significant impact will be that the Group will recognise new assets and liabilities for its operating leases. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Reference is made to note 12.1 which include the Group's minimum lease commitments under operating leases.

## 5 Business combinations

On October 1, 2016 the Group acquired the semiconductor business of Altis Semiconductor (hereafter referred to as ‘the Altis business’) for a total consideration of USD 10,234 thousand. The purchase consideration was paid in cash by X-FAB France, a previously inactive wholly-owned subsidiary of the Group established for the purpose of completing the acquisition. In addition, the Group incurred acquisition-related costs of USD 115 thousand on legal fees and the costs of expert opinions. These costs have been included in ‘General and administrative expenses’. Since the acquisition date the acquired business has operated under the name X-FAB France.

The acquisition provides the Group with additional analog/mixed-signal semiconductor manufacturing capacity, as the experience of the X-FAB France workforce and the plant, property and equipment at X-FAB France compliments the technologies already used by the Group. The acquisition is also expected to provide the Group with an increased share of the semiconductor market through access to the X-FAB France customer base. For the three months ended December 31, 2016, X-FAB France contributed revenue of USD 31,574 thousand and a loss of USD 1,403 thousand to the Group’s results. If the acquisition had occurred on January 1, 2016, management estimates that consolidated revenue would have increased by USD 88,573 thousand, and consolidated profit for the year would have decreased by USD 6,047 thousand. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2016.

### Assets acquired and liabilities assumed at the date of acquisition

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

|                                       | <b>Net identifiable<br/>assets acquired<br/>and liabilities<br/>assumed</b> |
|---------------------------------------|---|
|                                       | <i>(in thousands of<br/>U.S. dollars)</i>                                   |
| Property, plant and equipment.....    | 8,538   |
| Intangible assets .....               | 16  |
| Non-current investments .....         | 191   |
| Inventories.....                      | 11,396  |
| Other assets .....                    | 568   |
| Cash and cash equivalents.....        | 1   |
| <b>Total assets</b> .....             | <b>20,710</b>   |
| Non-current liabilities .....         | 7,503   |
| Other current liabilities .....       | 2,973   |
| <b>Total liabilities</b> .....        | <b>10,476</b>   |
| <b>Fair value of net assets</b> ..... | <b>10,234</b>   |
| Non-controlling interest              | –   |

**Net identifiable  
assets acquired  
and liabilities  
assumed**

*(in thousands of  
U.S. dollars)*

|  |               |
|--|---------------|
| Good will/Gain on a bargain purchase ..... | –             |
| <b>Total acquisition cost</b> .....        | <b>10,234</b> |

Non-current liabilities include long-term net defined benefit liabilities of USD 6,973 thousand, current liabilities include short-term net defined benefit liabilities of USD 252 thousand.

**Valuation techniques used for measuring the fair value of the assets were as follows**

The valuation techniques used for measuring the fair value of the assets were as follows.

***Property, plant and equipment***

The property, plant and equipment acquired was valued using market comparison and cost techniques. The valuation model considers quoted market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

The acquired land and the buildings have been valued by an independent publicly certified land valuation expert assigned by the Tribunal de Commerce de Paris resulting in a higher fair value of USD 71.8 million (EUR 68.0 million). For valuation of technical machinery and other equipment the cost approach (replacement cost as indicator) was applied to derive the fair value. Neither sufficient marked data based on transactions for used equipment nor directly attributable income to each single asset was available.

***Intangible assets***

Intangible assets were valued at the income approach (DCF) using relief-from-royalty and multi-period excess earnings methods. The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets. Trademarks, technology patents and customer relationships had no relevance for the PPA.

***Investments***

Financial investments were valued at market prices.

***Inventories***

The fair values of inventories were determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Subsequently, the initial individual valuations of the assets acquired & the liabilities assumed, which led to a higher initial valuation of USD 127.9 million (EUR 121.1 million) if compared with the consideration transferred of USD 10.2 million, were subject to a reassessment as required by IFRS 3. This reassessment included a detailed analysis of the transaction and the determination of the fair value of the Altis business based on Discounted Cash Flow (DCF) calculations.

The sale of the Altis business was organised by the French insolvency administrators in the form of a tendering procedure. On 30 September 2016 the commercial court of Paris (France) pronounced a decision, based on an economic comparison of the offer bids (documented in the court decision), to sell the Altis business to X-FAB France.

DCF calculations have been made for different scenarios starting from several business cases which have been based on information provided in the data room. The projections were based on the highest and best use of the assets taken into account any applicable legal restrictions (X-FAB is a guarantor and is responsible for the proper conduct of the asset purchase agreement, X-FAB is required to employ at least 800 employees over the following five years from the date of acquisition and required to invest EUR 100 million in the following 10 years). Both, the comparison of the two other offer bids that were in the same range as X-FAB's bid and the DCF calculations, indicated that the transaction was concluded at a market price which equals fair market value.

With respect to the business cases applied in the DCF calculations a 'worst-case' and a 'best -case' scenario was considered, which reflected amongst other elements certain assumptions relating to the expected length of the continuing business with one existing customer of the business.

The equity values as per the business cases ended up with a value of approx. USD 102 million (best case) & approx. USD -128 million (worst case) and were subsequently weighted 60/40 based on the most realistic expectations which led to an expected value which is very close to the consideration paid of USD 10.2 million, further supporting our conclusion that the transaction was performed at fair value of USD 10.2 million.

The valuation of the identified assets, the subsequent reassessment according to IFRS 3 and the consideration of IAS 36 (an immediate impairment of the acquired assets would not be appropriate) resulted in a proportionate step-down on land and buildings, on technical and other equipment. The IFRS valuation of net assets resulted eventually in a valuation of net assets which equals the purchase consideration and the fair value of the acquired Altis business.

## 6 Notes to the consolidated income statement

### 6.1 Revenue

Revenue comprises the following:

|  | 2016                                  | 2015           | 2014           |
|--|---------------------------------------|----------------|----------------|
|  | <i>(in thousands of U.S. dollars)</i> |                |                |
| Gross revenue PCM wafer .....                  | 470,465                               | 288,623        | 288,500        |
| Gross revenue NRE and technology services..... | 42,364                                | 42,535         | 41,687         |
| Other revenue.....                             | 12                                    | 18             | 449            |
| Discounts.....                                 | 56                                    | (57)           | (160)          |
| <b>Total</b> .....                             | <u>512,897</u>                        | <u>331,119</u> | <u>330,476</u> |

Revenue increased driven by growth in each of the Group's end-user market segments and in particular due to an increase in demand from customers in Asia and in Europe supported by the acquisition of the Altis business, with effect from 1 October 2016, which contributed USD 31,574 thousand to X-FAB's revenue in 2016.

### 6.2 Rental income from investment properties and other income

Rental income from investment properties comprises the following:



|   | <b>2016</b>                           | <b>2015</b>  | <b>2014</b>   |
|---|---------------------------------------|--------------|---------------|
|   | <i>(in thousands of U.S. dollars)</i> |              |               |
| Income from technical services provided ..... | 6,604                                 | 6,072        | 8,083         |
| Income from investment property rentals ..... | 3,582                                 | 3,236        | 3,540         |
| <b>Total</b> .....                            | <u>10,186</u>                         | <u>9,308</u> | <u>11,623</u> |

Property rentals and technical services for tenants represent activities outside the X-FAB SE Group's core activities.

### 6.3 Rental expenses related to investment properties

Expenses related to investment properties comprise the following:

|  | <b>2016</b>                           | <b>2015</b>    | <b>2014</b>    |
|--|---------------------------------------|----------------|----------------|
|  | <i>(in thousands of U.S. dollars)</i> |                |                |
| Expenses for technical services provided.....                | (4,202)                               | (4,190)        | (5,333)        |
| Expenses in connection with investment property rentals..... | (4,088)                               | (3,887)        | (4,031)        |
| <b>Total</b> .....   | <u>(8,290)</u>                        | <u>(8,077)</u> | <u>(9,364)</u> |

### 6.4 Other income

Other income comprises the following:

|  | <b>2016</b>                           | <b>2015</b>  | <b>2014</b>  |
|--|---------------------------------------|--------------|--------------|
|  | <i>(in thousands of U.S. dollars)</i> |              |              |
| Income from sale & leaseback transactions .....          | 5,144                                 | 4,206        |              |
| Gains on disposals of property, plant and equipment..... | 608                                   | 2,022        | 86           |
| Income revaluation receivables.....                      | 29                                    | 21           | 1,017        |
| Income from recharges.....                               | 1,634                                 | 820          | 1,244        |
| Other .....  | 1,059                                 | 2,430        | 1,184        |
| <b>Total</b> .....                                       | <u>8,474</u>                          | <u>9,499</u> | <u>3,531</u> |

In 2015 and 2016, the Group entered into sale & leaseback transactions which resulted in an increase of other income in 2015 and 2016. Reference is made to note 7.10.

### 6.5 Other expenses

Other expenses comprise the following:

|   | <b>2016</b>                           | <b>2015</b>    | <b>2014</b>    |
|---|---------------------------------------|----------------|----------------|
|   | <i>(in thousands of U.S. dollars)</i> |                |                |
| Expenses from sale & leaseback transactions .....         | (5,130)                               | (4,250)        |                |
| Losses on disposals of property, plant and equipment..... | (376)                                 | (219)          | (61)           |
| Expenses revaluation receivables.....                     | (55)                                  | (129)          | (722)          |
| Expenses from resales .....                               | (1,780)                               | (908)          | (1,363)        |
| Other .....   | (637)                                 | (1,090)        | (726)          |
| <b>Total</b> .....  | <u>(7,978)</u>                        | <u>(6,596)</u> | <u>(2,872)</u> |

In 2015 and 2016, the Group entered into sale & leaseback transactions which resulted in an increase of other income in 2015 and 2016 further information is provided in 7.10.

## 6.6 Research and development expenses

Research and development expenses comprise the following:

|   | <b>2016</b>                           | <b>2015</b>     | <b>2014</b>     |
|---|---------------------------------------|-----------------|-----------------|
|   | <i>(in thousands of U.S. dollars)</i> |                 |                 |
| Material expenses.....                                      | (9,726)                               | (8,638)         | (6,278)         |
| Depreciation and amortisation .....                         | (2,036)                               | (1,993)         | (2,078)         |
| Employee-related expenses.....                              | (18,602)                              | (14,770)        | (15,706)        |
| Facility costs .....  | (714)                                 | (585)           | (732)           |
| Costs of fixed assets (maintenance, spare parts etc.) ..... | (3,546)                               | (2,501)         | (2,684)         |
| External services .....                                     | (1,032)                               | (332)           | (345)           |
| Grants.....   | 7,219                                 | 6,365           | 6,225           |
| Other .....   | 1,590                                 | 1,128           | 898             |
| <b>Total</b> .....  | <u>(26,847)</u>                       | <u>(21,326)</u> | <u>(20,700)</u> |

In connection with the increased sales volume in 2016 the research and development expenses increased accordingly in 2016. This increase was principally due to an increase in expenditure on R&D staffing and higher payments for software tools.

## 6.7 Cost of sales

The cost of sales comprise the following:

|                                     | <b>2016</b>                           | <b>2015</b> | <b>2014</b> |
|-------------------------------------|---------------------------------------|-------------|-------------|
|                                     | <i>(in thousands of U.S. dollars)</i> |             |             |
| Material expenses.....              | (159,076)                             | (64,632)    | (64,139)    |
| Depreciation and amortisation ..... | (41,033)                              | (38,079)    | (37,241)    |

|   | <b>2016</b>                           | <b>2015</b>      | <b>2014</b>      |
|---|---------------------------------------|------------------|------------------|
|   | <i>(in thousands of U.S. dollars)</i> |                  |                  |
| Employee-related expenses.....                              | (113,909)                             | (91,667)         | (98,682)         |
| Facility costs .....  | (43,201)                              | (37,035)         | (41,539)         |
| Costs of fixed assets (maintenance, spare parts etc.) ..... | (48,199)                              | (34,090)         | (32,809)         |
| Other .....   | (2,413)                               | (7,774)          | (4,548)          |
| <b>Total</b> .....  | <u>(407,831)</u>                      | <u>(273,277)</u> | <u>(278,958)</u> |

In connection with the increased sales volume in 2016 the cost of sales increased accordingly in 2016. Cost of sales in 2016 from X-FAB France amounted to USD 26,986 thousand for the period of October 1, 2016 until December 31, 2016. The increase in cost of sales was principally due to higher levels of material expenses, employee-related expenses and fixed asset costs as a result of an increase in the number of wafers sold in 2016 as compared to 2015. The depreciation of the Euro and Malaysian Ringgit against the U.S. dollar from 2014 to 2015 resulted in decreases in the Group's reported cost of sales, primarily due to decreases in reported employee-related and facility expenses.

In the income statement, expenditures are classified by function and include depreciation charges allocated to the following items:

|  | <b>2016</b>                           | <b>2015</b>     | <b>2014</b>     |
|--|---------------------------------------|-----------------|-----------------|
|  | <i>(in thousands of U.S. dollars)</i> |                 |                 |
| Included in cost of sales.....   | (41,033)                              | (38,079)        | (37,612)        |
| Included in research and development expenses .                                | (2,036)                               | (1,993)         | (2,078)         |
| Included in selling expenses .....   | (60)                                  | (67)            | (62)            |
| Included in general and administrative expenses.                               | (2,571)                               | (2,370)         | (2,173)         |
| Included in expenses related to investment properties and other expenses ..... | (1,601)                               | (1,550)         | (1,464)         |
| <b>Total</b> .....   | <u>(47,301)</u>                       | <u>(44,059)</u> | <u>(43,389)</u> |

## 6.8 Employee-related expenses

In the income statement employee-related expenses are allocated according to function. In total, employee-related expenses were as follows:

|  | <b>2016</b>                           | <b>2015</b>    | <b>2014</b>    |
|--|---------------------------------------|----------------|----------------|
|  | <i>(in thousands of U.S. dollars)</i> |                |                |
| Wages and salaries .....                         | (127,602)                             | (99,339)       | (108,249)      |
| Social security costs .....                      | (11,996)                              | (11,603)       | (11,543)       |
| Contributions to defined contribution plans..... | (8,456)                               | (7,656)        | (8,517)        |
| Other .....                                      | <u>(5,090)</u>                        | <u>(4,507)</u> | <u>(4,222)</u> |

|                    | <b>2016</b>                           | <b>2015</b> | <b>2014</b> |
|--------------------|---------------------------------------|-------------|-------------|
|                    | <i>(in thousands of U.S. dollars)</i> |             |             |
| <b>Total</b> ..... | (153,144)                             | (123,105)   | (132,531)   |

Defined contribution plans primarily consist of contribution made under statutory schemes made by employers to state based defined contributions plans.

## 6.9 Selling expenses

The selling expenses comprise the following:

|   | <b>2016</b>                           | <b>2015</b> | <b>2014</b> |
|---|---------------------------------------|-------------|-------------|
|   | <i>(in thousands of U.S. dollars)</i> |             |             |
| Depreciation and amortisation .....                         | (60)                                  | (67)        | (62)        |
| Employee-related expenses.....                              | (6,344)                               | (5,384)     | (5,407)     |
| Facility costs .....  | (135)                                 | (104)       | (124)       |
| Costs of fixed assets (maintenance, spare parts etc.) ..... | (45)                                  | (89)        | (43)        |
| External services .....                                     | (215)                                 | (90)        | (112)       |
| Advertising costs and costs of selling goods.....           | (812)                                 | (759)       | (867)       |
| Other .....   | 242                                   | 274         | 302         |
| <b>Total</b> .....  | (7,369)                               | (6,219)     | (6,313)     |

## 6.10 General and administrative expenses

The general and administrative expenses comprise the following:

|   | <b>2016</b>                           | <b>2015</b> | <b>2014</b> |
|---|---------------------------------------|-------------|-------------|
|   | <i>(in thousands of U.S. dollars)</i> |             |             |
| Depreciation and amortisation .....                         | (2,571)                               | (2,370)     | (2,173)     |
| Employee-related expenses.....                              | (14,289)                              | (11,284)    | (12,736)    |
| Facility costs .....  | (887)                                 | (720)       | (899)       |
| Costs of fixed assets (maintenance, spare parts etc.) ..... | (1,062)                               | (1,070)     | (969)       |
| External services .....                                     | (2,734)                               | (1,680)     | (1,769)     |
| Insurance, dues and fees.....                               | (1,302)                               | (919)       | (974)       |
| Other .....   | 58                                    | (117)       | 787         |
| <b>Total</b> .....  | (22,787)                              | (18,160)    | (16,733)    |

## 6.11 Finance income

Finance income comprises the following:

|  | <u>2016</u>                           | <u>2015</u>   | <u>2014</u>   |
|--|---------------------------------------|---------------|---------------|
|  | <i>(in thousands of U.S. dollars)</i> |               |               |
| Change in fair value of financial assets at fair value through profit or loss: |                                       |               |               |
| Held for trading.....  | 9                                     | –             | –             |
| Net gain from sale of financial assets.....                                    | –                                     | –             | 9,428         |
| Interest income on loans and receivables.....                                  | 331                                   | 442           | 262           |
| Income from exchange rate differences .....                                    | 10,688                                | 13,662        | 5,710         |
| Net gain from derivative financial instruments ....                            | 91                                    | –             | –             |
| <b>Total</b> .....   | <u>11,119</u>                         | <u>14,104</u> | <u>15,400</u> |

## 6.12 Finance costs

Finance expenses comprise the following:

|  | <u>2016</u>                           | <u>2015</u>     | <u>2014</u>    |
|--|---------------------------------------|-----------------|----------------|
|  | <i>(in thousands of U.S. dollars)</i> |                 |                |
| Change in fair value of financial assets at fair value through profit or loss: |                                       |                 |                |
| Held for trading.....  | –                                     | –               | (754)          |
| Interest expenses from loans and borrowings .....                              | (4,983)                               | (4,221)         | (4,724)        |
| Impairment of available-for-sale financial assets.                             | (289)                                 | (596)           | (458)          |
| Expenses from exchange rate differences .....                                  | (8,011)                               | (14,779)        | (3,767)        |
| Net loss on derivative financial instruments .....                             | (5,840)                               | 280             | –              |
| <b>Total</b> .....   | <u>(19,123)</u>                       | <u>(19,316)</u> | <u>(9,703)</u> |

The line item net gain/ net loss on derivative financial instruments includes the unrealised net gain/loss on changes in fair values of interest rate swaps and foreign exchange derivatives. Further, realised gains and losses on derivative financial instruments relating to interest and foreign exchange are presented in interest income/expenses and income/expenses from exchange rate differences, respectively.

## 6.13 Income taxes

Income taxes comprise German corporation and trade taxes (plus solidarity surcharge) and Malaysian tax charges on interest received. United States federal income taxes and Belgian corporation tax charges were not incurred during the reporting period as sufficient tax losses were available at these components.

The income (expense) for income taxes in the years 2016, 2015 and 2014 comprised the following:

|  | <b>2016</b>                           | <b>2015</b>    | <b>2014</b>    |
|--|---------------------------------------|----------------|----------------|
|  | <i>(in thousands of U.S. dollars)</i> |                |                |
| <b>Current taxes</b>                         |                                       |                |                |
| Actual income tax charge for the period..... | (2,273)                               | (1,052)        | (2,111)        |
| Adjustment of prior years' tax charges.....  | 501                                   | 45             | (38)           |
|  | <u>(1,772)</u>                        | <u>(1,007)</u> | <u>(2,149)</u> |
| <b>Deferred taxes</b> .....                  | 5,272                                 | 3,322          | 1,234          |
| <b>Income Statement</b> .....                | <u>3,500</u>                          | <u>2,315</u>   | <u>(915)</u>   |

The Belgian effective tax rate applicable for the Group's result was 33.99 per cent. in the years 2016, 2015 and 2014. The deferred tax assets and liabilities of the foreign subsidiaries are valued based on local tax rates. The Group's various German operations incur federal income taxes and local trade taxes which result in overall effective tax rates of between 31.58 per cent. and 32.28 per cent. The federal income tax rate applicable to the Group's earnings in the United States is 34.20 per cent. and the tax rate applicable on earnings in Malaysia amounts to 25.00 per cent. and the tax rate applicable to X-FAB France is 33.33 per cent.

The reconciliation of the theoretical tax charge based on the IFRS net income before tax is as follows for the years 2016, 2015 and 2014:

|   | <b>2016</b>                           | <b>2015</b>  | <b>2014</b>  |
|---|---------------------------------------|--------------|--------------|
|   | <i>(in thousands of U.S. dollars)</i> |              |              |
| <b>Result before taxes</b> .....  | 42,452                                | 11,059       | 14,387       |
| Theoretical tax at combined effective Belgian tax rate (33.99%).....            | (14,429)                              | (3,759)      | (4,890)      |
| Recognition of previously unrecognized losses ...                               | 25,472                                | 17,534       | 7,527        |
| Current year losses for which no deferred tax asset is recognised.....          | (8,371)                               | (9,613)      | (4,728)      |
| Adjustment of prior period tax liabilities recorded in the current period ..... | (501)                                 | (45)         | 38           |
| Effect of tax-free grants .....   | 460                                   | 822          | 2,117        |
| Currency effects .....  | (112)                                 | (1,187)      | (347)        |
| Effect of permanent differences .....   | 16                                    | (205)        | (626)        |
| Effect of non-deductible expenditures .....                                     | (4,324)                               | (3,650)      | (1,294)      |
| Effect of different tax rates applying to foreign operations.....               | 5,289                                 | 2,418        | 1,288        |
| <b>(Income)/expense for income taxes recognised in the consolidated</b> .....   | <u>3,500</u>                          | <u>2,315</u> | <u>(915)</u> |

The deferred tax assets and liabilities arise from temporary differences and unused tax losses as follows:

|  | 2016                                  | 2015           | 2014           |
|--|---------------------------------------|----------------|----------------|
|  | <i>(in thousands of U.S. dollars)</i> |                |                |
| <b>Deferred tax assets – Unrecognised amounts</b>  |                                       |                |                |
| On unused tax losses .....                         | 147,510                               | 136,274        | 152,038        |
| On temporary differences.....                      |                                       |                |                |
| Property, plant and equipment.....                 | 356,785                               | 400,455        | 519,338        |
| Other temporary differences .....                  | 5,058                                 | 470            | 4,367          |
| <b>Total unrecognised deferred tax assets.....</b> | <b>509,353</b>                        | <b>537,199</b> | <b>675,743</b> |
| <b>Deferred tax assets – Recognised amounts</b>    |                                       |                |                |
| On unused tax losses .....                         | 12,039                                | 12,829         | 14,045         |
| On temporary differences                           |                                       |                |                |
| Property, plant and equipment.....                 | 14,186                                | 6,773          | 3,915          |
| Other temporary differences .....                  | (6,321)                               | (4,970)        | (6,650)        |
| <b>Total recognised deferred tax assets .....</b>  | <b>19,904</b>                         | <b>14,631</b>  | <b>11,309</b>  |

Unrecognised temporary differences on property, plant and equipment of USD 356,785 thousand (December 31, 2015: USD 400,455 thousand, December 31, 2014: USD 519,338 thousand) includes deferred tax on USD 1,483,300 thousand (December 31, 2015: USD 1,669,401 thousand, December 31, 2014: USD 2,134,045 thousand) of investment allowances, capital allowances and other timing differences in Malaysia which can be used to offset future taxable income in the Group's Malaysia subsidiary.

X-FAB SE Group recognises deferred tax assets resulting from temporary differences and from unused tax losses which exceed the deferred tax liabilities only to the extent that, on the basis of the Group's business planning, the realisation of these assets is assessed as probable. This assessment involves a review by management of profits and losses expected in the business plan and limiting recognition of the future tax benefits to take account of potential variances against the business plan. Accordingly, recognised and unrecognised deferred tax assets are subject to estimation uncertainty and there is a significant risk that the carrying amounts will require adjustment in subsequent periods. The estimates are, in particular, subject to the estimation uncertainties inherent in business planning which affect the likely utilisation of unused tax losses and subject to potential changes in exchange rates which affect the size of timing differences.

In particular, tax legislation in the jurisdictions in which the Group operates provide for the full or partial cancellation of unused tax losses on the occurrence of significant changes in the direct or indirect equity ownership of the taxable entity. Accordingly, there is a risk that recognised and unrecognised deferred tax assets may not be realised should such transactions occur in the future.

X-FAB SE's subsidiaries have unused corporation tax losses as follows:

|  | 2016                                  | 2015    | 2014    |
|--|---------------------------------------|---------|---------|
|  | <i>(in thousands of U.S. dollars)</i> |         |         |
| German corporation tax loss carry forward..... | 127,169                               | 119,263 | 113,688 |

|   | <b>2016</b>                           | <b>2015</b> | <b>2014</b> |
|---|---------------------------------------|-------------|-------------|
|   | <i>(in thousands of U.S. dollars)</i> |             |             |
| German trade tax loss carry forward ..... | 138,312                               | 129,999     | 121,555     |
| US federal tax loss carry forward.....    | 98,619                                | 101,828     | 111,066     |
| Malaysian tax loss carry forward .....    | 335,274                               | 350,307     | 430,156     |
| French tax loss carry forward.....        | 2,000                                 | –           | –           |

The Group's German and Malaysian tax losses can be carried forward indefinitely. Federal income tax losses of X-FAB Texas in the United States will expire, if not utilised, in 2019 and in subsequent years.

Significant deferred tax balances arise in respect of tax losses carried forward and on timing differences on property, plant and equipment. A summary of the movements is presented in the table below. Deferred tax balances on other balance sheet positions are presented on a combined basis for this purpose:

|   | <b>Tax losses<br/>carried<br/>forward</b> | <b>Property,<br/>plant and<br/>equipment</b> | <b>Other<br/>temporary<br/>differences</b> | <b>Total</b> |
|---|---|--|--|--------------|
|   | <i>(in thousands of U.S. dollars)</i>     |  |  |              |
| <b>Balance at January 1, 2014</b> .....   | 5,576                                     | 4,601  | (102)                                      | 10,075       |
| Recognised in profit and loss .....       | 8,469                                     | (687)  | (6,547)                                    | 1,235        |
| <b>Balance at December 31, 2014</b> ..... | 14,045                                    | 3,914  | (6,649)                                    | 11,310       |
| <b>Balance at January 1, 2015</b> .....   | 14,045                                    | 3,914  | (6,649)                                    | 11,310       |
| Recognised in profit and loss .....       | (1,216)                                   | 2,009  | 2,529                                      | 3,322        |
|   | 12,829                                    | 5,923  | (4,120)                                    | 14,632       |
| Set-off tax .....                         | –   | 850  | (850)                                      | –            |
| <b>Net Balance at December 31, 2015</b>   | 12,829                                    | 6,773  | (4,970)                                    | 14,632       |
| <b>Balance at January 1, 2016</b> .....   | 12,829                                    | 5,923  | (4,120)                                    | 14,632       |
| Recognised in profit and loss .....       | (790)                                     | 5,360  | 702  | 5,272        |
| Acquired in business combinations..       | –   | 415  | (415)                                      | –            |
| <b>Balance at December 31, 2016</b> ..... | 12,039                                    | 11,698                                       | (3,833)                                    | 19,904       |
| Set-off tax .....                         | –   | 2,489  | (2,489)                                    | –            |
| <b>Net Balance at December 31, 2016</b>   | 12,039                                    | 14,187                                       | (6,322)                                    | 19,904       |

Changes in recognised deferred tax assets resulted in a deferred tax income of USD 5,272 thousand (2015: income of USD 3,322 thousand; 2014: income of USD 1,234 thousand). The increase in deferred tax assets recognised on property, plant and equipment is due to recognition of previously unrecognised deferred tax assets in Malaysia and other timing differences for the period because it is probable based on achieved and projected operating results that sufficient taxable income will be available against which the Malaysian subsidiary can use the benefits therefrom. The increase was compensated by a decrease of deferred tax assets recognised by X-FAB AG resulting from both, the utilisation of tax losses in 2016 and a decrease of recognised deferred tax assets on tax losses carried forward because of decreasing projected taxable income.



## 6.14 Earnings per share

The calculation of basic earnings per share has been based on the profit attributable to equity shareholders of the parent Company and the weighted-average number of non-par registered shares outstanding.

The weighted-average number of non-par registered shares outstanding totalled 33,127,307 for the year ended December 31, 2016 (2015: 33,127,307; 2014: 33,127,307).

No instruments with a potential diluting effect on shareholder's equity have been in issue during the years ended December 31, 2016, December 31, 2015 or December 31, 2014. Accordingly there is no potential dilution of the profit attributable to equity shareholders and no difference between basic and diluted earnings per share.

## 7 Notes to the statement of financial position

### 7.1 Property, plant, equipment and investment properties

|  | Land and<br>buildings                 | Technical<br>machinery<br>and<br>equipment | Factory and<br>office<br>equipment | Assets under<br>construction | Total     |
|--|---------------------------------------|--|------------------------------------|------------------------------|-----------|
|  | <i>(in thousands of U.S. dollars)</i> |  |                                    |                              |           |
| <b>Net book value January 1, 2016</b> ....       | 51,568                                | 148,266                                    | 4,165                              | 27,560                       | 231,559   |
| <b>Accumulated historical cost</b>               |                                       |  |                                    |                              |           |
| <b>January 1, 2016</b> .....                     | 107,412                               | 763,704                                    | 18,228                             | 28,250                       | 917,594   |
| Additions .....                                  | 604                                   | 15,527                                     | 1,868                              | 51,065                       | 69,064    |
| Disposals.....                                   | (13)                                  | (5,796)                                    | (446)                              | –                            | (6,255)   |
| Reclassifications .....                          | 927                                   | 44,254                                     | 1,133                              | (46,596)                     | (282)     |
| Currency translation effect.....                 | 1,335                                 | (322)                                      | 83                                 | (4)                          | 1,092     |
| Changes in consolidation.....                    | 5,398                                 | 3,008                                      | 81                                 | –                            | 8,487     |
| <b>Accumulated historical cost</b>               |                                       |  |                                    |                              |           |
| <b>December 31, 2016</b> .....                   | 115,663                               | 820,375                                    | 20,947                             | 32,715                       | 989,700   |
| <b>Accumulated depreciation</b>                  |                                       |  |                                    |                              |           |
| <b>January 1, 2016</b> .....                     | (55,844)                              | (615,438)                                  | (14,063)                           | (690)                        | (686,035) |
| Additions .....                                  | (2,681)                               | (39,200)                                   | (1,857)                            | –                            | (43,738)  |
| Disposals.....                                   | 12                                    | 5,295                                      | 445                                | –                            | 5,752     |
| Reclassifications .....                          | 129                                   | –  | –                                  | –                            | 129       |
| Currency translation effect.....                 | (305)                                 | 14   | (45)                               | –                            | (336)     |
| <b>Accumulated depreciation</b>                  |                                       |  |                                    |                              |           |
| <b>December 31, 2016</b> .....                   | (58,689)                              | (649,329)                                  | (15,520)                           | (690)                        | (724,228) |
| <b>Net book value December 31, 2016</b><br>..... | 56,974                                | 171,046                                    | 5,427                              | 32,025                       | 265,472   |
| <b>Net book value January 1, 2015</b> ....       | 53,745                                | 115,529                                    | 3,658                              | 37,730                       | 210,662   |
| <b>Accumulated historical cost</b>               |                                       |  |                                    |                              |           |
| <b>January 1, 2015</b> .....                     | 108,829                               | 702,116                                    | 16,507                             | 37,730                       | 865,182   |
| Additions .....                                  | 510                                   | 14,412                                     | 1,545                              | 45,734                       | 62,201    |
| Disposals.....                                   | (11)                                  | (6,537)                                    | (508)                              | (7)                          | (7,063)   |

|  | <b>Land and<br/>buildings</b>         | <b>Technical<br/>machinery<br/>and<br/>equipment</b> | <b>Factory and<br/>office<br/>equipment</b> | <b>Assets under<br/>construction</b> | <b>Total</b> |
|--|---------------------------------------|--|---|--------------------------------------|--------------|
|  | <i>(in thousands of U.S. dollars)</i> |  |   |                                      |              |
| Reclassifications .....                          | (619)                                 | 53,711   | 768   | (55,2070)                            | (1,347)      |
| Currency translation effect.....                 | (1,297)                               | 2  | (84)  | –                                    | (1,379)      |
| <b>Accumulated historical cost</b>               |                                       |  |   |                                      |              |
| <b>December 31, 2015</b> .....                   | 107,412                               | 763,704  | 18,228                                      | 28,250                               | 917,594      |
| <b>Accumulated depreciation</b> .....            | (55,084)                              | (586,587)  | (12,849)                                    | –                                    | (654,520)    |
| Additions .....                                  | (2,409)                               | (35,119)   | (1,740)                                     | (690)                                | (39,958)     |
| Disposals.....                                   | 11                                    | 6,259  | 498   | –                                    | 6,768        |
| Reclassifications .....                          | 1,506                                 | 9  | (32)  | –                                    | 1,483        |
| Currency translation effect.....                 | 132                                   | –  | 60  | –                                    | 192          |
| <b>Accumulated depreciation</b>                  |                                       |  |   |                                      |              |
| <b>December 31, 2015</b> .....                   | (55,844)                              | (615,438)  | (14,063)                                    | (690)                                | (686,035)    |
| <b>Net book value December 31, 2015</b><br>..... | 51,568                                | 148,266  | 4,165                                       | 27,560                               | 231,559      |
| <b>Net book value January 1, 2014</b> ....       | 57,603                                | 132,552  | 3,180                                       | 8,117                                | 201,452      |
| <b>Accumulated historical cost</b>               |                                       |  |   |                                      |              |
| <b>January 1, 2014</b> .....                     | 109,645                               | 706,072  | 12,838                                      | 8,117                                | 836,672      |
|  | 58                                    | 8,574  | 1,264                                       | 42,732                               | 52,628       |
| Disposals.....                                   | –                                     | 2,282  | 1,306                                       | (32)                                 | 3,556        |
| Reclassifications .....                          | 814                                   | (14,881)   | 1,336                                       | (13,075)                             | (25,806)     |
| Currency translation effect.....                 | (1,688)                               | 69   | (237)                                       | (12)                                 | (1,868)      |
| <b>Accumulated historical cost</b> .....         |                                       |  |   |                                      |              |
| <b>December 31, 2014</b> .....                   | 108,829                               | 702,116  | 16,507                                      | 37,730                               | 865,182      |
| <b>Accumulated depreciation</b>                  |                                       |  |   |                                      |              |
| <b>January 1, 2014</b> .....                     | (52,042)                              | (573,520)  | (9,658)                                     | –                                    | (635,220)    |
| Additions .....                                  | (2,666)                               | (35,161)   | (1,905)                                     | –                                    | (39,732)     |
| Disposals.....                                   | -                                     | (2,314)  | (1,315)                                     | –                                    | (3,629)      |
| Reclassifications .....                          | (559)                                 | 24,459   | (86)  | –                                    | 23,814       |
| Currency translation effect.....                 | 183                                   | (51)   | 115   | –                                    | 247          |
| <b>Accumulated depreciation</b>                  |                                       |  |   |                                      |              |
| <b>December 31, 2014</b> .....                   | (55,084)                              | (586,587)  | (12,849)                                    | –                                    | (654,520)    |
| <b>Net book value December 31, 2014</b><br>..... | 53,745                                | 115,529  | 3,658                                       | 37,730                               | 210,662      |

### Property, plant and equipment

The book value of assets held under finance leases at December 31, 2016 comprises assets with a purchase cost of USD 9,520 thousand (December 31, 2015: USD 4,392 thousand, December 31, 2014: none) less accumulated depreciation of USD 803 thousand (December 31, 2015: USD 144 thousand, December 31, 2014: none). Depreciation recorded in the income statement of USD 659 thousand (2015: USD 144 thousand; 2014: none) relates to leased assets. Reference is made to note 7.10.

At December 31, 2016 property, plant and equipment with a book value of USD 124.6 million (December 31, 2015: USD 118.6 million; December 31, 2014: USD 45.2 million) had been provided as collateral security to third party lenders.

The group received capital grants in the amount of USD 2,532 million (2015: USD 7,372 thousand; 2014: USD 4,396 thousand).

Impairment charges in the amount of USD 690 thousand were recorded against the carrying values of assets under construction in 2015. No impairment charges were recorded against assets under construction in 2016 or 2014. The impairment charges in 2015 were incurred as the assets were written down in full as the associated commercial project was discontinued. The resulting expense is included within cost of sales in the consolidated income statement.

### **Investment properties**

Investment properties consist of properties let to third parties by X-FAB AG, X-FAB Dresden and X-FAB Texas. The lease arrangements, of which the majority expires until 2022, can be cancelled within notice periods between one month and six months.

Investment properties are accounted for at purchase cost less straight-line depreciation. The book and fair values of these properties at the reporting date were as follows:

|  | <b>2016</b>                           | <b>2015</b> | <b>2014</b> |
|--|---------------------------------------|-------------|-------------|
|  | <i>(in thousands of U.S. dollars)</i> |             |             |
| <b>Net book value, January 1</b> .....   | 9,572                                 | 10,876      | 10,766      |
| Additions, less depreciation .....       | (582)                                 | (1,164)     | (763)       |
| Disposals .....                          | -                                     | -           | -           |
| Reclassifications .....                  | 153                                   | (141)       | 873         |
| <b>Net book value, December 31</b> ..... | 9,143                                 | 9,572       | 10,876      |
| Accumulated cost .....                   | 31,436                                | 31,154      | 31,325      |
| Accumulated depreciation .....           | (22,293)                              | (21,582)    | (20,449)    |
| <b>Fair value</b> .....                  | 21,353                                | 13,998      | 13,584      |

Reclassifications from investment property to the land and buildings category result from changes in the use of the space (for example when a property previously used by the Group is let to third parties or the Group uses a property previously let to third parties).

The measurements used to determine the fair values of the investment properties have been categorised as a Level 3 fair value based on the inputs to the valuation techniques used. The valuations were initially performed by a third party expert for the US based investment properties and by X-FAB SE Group for the German based investment properties on the basis of discounted future cash flows, whereas future rents have been discounted at a rate of 1.5 per cent. (December 31, 2015: 1.5 per cent.; December 31, 2014: 2.0 per cent.). The valuation model takes into account the rent per square meter, expected rental growth rates, other costs and the maturity of the contracts.

No impairment charges were recorded against investment properties in 2016 (2015: USD 250 thousand 2014: none). The impairment charges are included within expenses related to investment properties in the consolidated income statement.

The tables below show the future cash flows result from rental and similar agreements under which X-FAB SE Group is the lessor as of December 31:

|                    | <b>2016</b>                           | <b>2015</b>  | <b>2014</b>   |
|--------------------|---------------------------------------|--------------|---------------|
|                    | <i>(in thousands of U.S. dollars)</i> |              |               |
| 2015 .....         |                                       |              | 3,112         |
| 2016-2020 .....    |                                       |              | 6,837         |
| Thereafter .....   |                                       |              | 1,418         |
| 2016 .....         |                                       | 2,975        |               |
| 2017-2021 .....    |                                       | 6,012        |               |
| Thereafter .....   |                                       | 967          |               |
| 2017 .....         | 4,000                                 |              |               |
| 2018-2022 .....    | 4,441                                 |              |               |
| Thereafter .....   | 903                                   |              |               |
| <b>Total</b> ..... | <u>9,344</u>                          | <u>9,954</u> | <u>11,367</u> |

#### **Impairment testing for cash-generating units due to impairment triggers identified**

For impairment testing purposes each foundry of the group is defined as a cash-generating unit. If an impairment trigger is identified, in particular as a result of significant deviations of actual from budgeted revenues and results, management performs an impairment testing for the foundries impacted by such an impairment trigger. No impairment triggers were identified in the years 2016, 2015 or 2014 and accordingly management did not perform an impairment test.

## **7.2 Intangible assets**

Intangible assets developed as follows:

|  | <b>Licenses</b>                       | <b>Payments<br/>on account</b> | <b>Total</b> |
|--|---------------------------------------|--------------------------------|--------------|
|  | <i>(in thousands of U.S. dollars)</i> |                                |              |
| <b>Net book value January 1, 2016</b> .....                    | 6,032                                 | 1,635                          | 7,667        |
| <b>Accumulated historical cost at January 1, 2016</b><br>..... | 77,817                                | 1,635                          | 79,452       |
| Additions.....   | 545                                   | 2,628                          | 3,173        |
| Disposals .....  | (24)                                  | –                              | (24)         |
| Reclassifications .....  | 539                                   | (539)                          | –            |
| Changes in consolidation .....                                 | 16                                    | –                              | 16           |
| Effect of translation.....                                     | (5)                                   | –                              | (5)          |
| <b>Accumulated historical cost December 31,<br/>2016</b> ..... | 78,888                                | 3,724                          | 82,612       |
| <b>Accumulated amortisation January 1, 2016</b> ....           | (71,785)                              | –                              | (71,785)     |
| Additions.....   | (2,979)                               | –                              | (2,979)      |

|  | <b>Licenses</b>                       | <b>Payments<br/>on account</b> | <b>Total</b>    |
|--|---------------------------------------|--------------------------------|-----------------|
|  | <i>(in thousands of U.S. dollars)</i> |                                |                 |
| Disposals.....   | 26                                    | –                              | 26              |
| <b>Accumulated amortisation December 31, 2016</b>              | <b>(74,738)</b>                       | <b>–</b>                       | <b>(74,738)</b> |
| <b>Net book value December 31, 2016.....</b>                   | <b>4,150</b>                          | <b>3,724</b>                   | <b>7,874</b>    |
| <b>Net book value January 1, 2015.....</b>                     | <b>7,270</b>                          | <b>1,246</b>                   | <b>8,516</b>    |
| <b>Accumulated historical cost at January 1, 2015</b><br>..... | <b>76,127</b>                         | <b>1,246</b>                   | <b>77,373</b>   |
| Additions.....   | 379                                   | 1,710                          | 2,089           |
| Reclassifications .....  | 1,321                                 | (1,321)                        | –               |
| Accumulated historical cost December 31 2015..                 | 77,817                                | 1,635                          | 79,452          |
| Accumulated amortisation January 1, 2015 .....                 | (68,858)                              | –                              | (68,858)        |
| Additions.....   | (2,937)                               | –                              | (2,937)         |
| Reclassifications .....  | –                                     | –                              | –               |
| <b>Accumulated amortisation December 31, 2015</b>              | <b>(71,785)</b>                       | <b>–</b>                       | <b>(71,785)</b> |
| <b>Net book value December 31, 2015.....</b>                   | <b>6,032</b>                          | <b>1,635</b>                   | <b>7,667</b>    |
| <b>Net book value January 1, 2014.....</b>                     | <b>8,495</b>                          | <b>443</b>                     | <b>8,938</b>    |
| <b>Accumulated historical cost at January 1, 2014</b><br>..... | <b>50,160</b>                         | <b>443</b>                     | <b>50,603</b>   |
| Additions.....   | 568                                   | 2,139                          | 2,707           |
| Reclassifications .....  | 25,394                                | (1,341)                        | 24,053          |
| Effect of translation.....                                     | 5                                     | 5                              | 10              |
| <b>Accumulated historical cost December 31,<br/>2014 .....</b> | <b>76,127</b>                         | <b>1,246</b>                   | <b>77,373</b>   |
| <b>Accumulated amortisation January 1, 2014 ....</b>           | <b>(41,666)</b>                       | <b>–</b>                       | <b>(41,666)</b> |
| Additions.....   | (2,894)                               | –                              | (2,894)         |
| Reclassifications .....  | (24,294)                              | –                              | (24,294)        |
| Effect of translation.....                                     | (4)                                   | –                              | (4)             |
| <b>Accumulated amortisation December 31 2014</b>               | <b>(68,858)</b>                       | <b>–</b>                       | <b>(68,858)</b> |
| <b>Net book value December 31, 2014.....</b>                   | <b>7,270</b>                          | <b>1,246</b>                   | <b>8,516</b>    |

Licenses primarily represent a technology license with a book value of USD 0 thousand at December 31, 2016 (2015: USD 863 thousand; 2014: USD 1,726 thousand) and purchased software. Payments on account refer to advance and milestone payments made for the acquisition of software licenses and the customisation of such software in a project not yet fully completed.

No impairment charges were required in the years 2016, 2015 or in 2014.

### 7.3 Inventories

Inventories comprise the following:

|                             | 2016                                  | 2015          | 2014          |
|-----------------------------|---------------------------------------|---------------|---------------|
|                             | <i>(in thousands of U.S. dollars)</i> |               |               |
| Materials and supplies..... | 55,208                                | 42,457        | 37,233        |
| Work in progress .....      | 31,918                                | 18,586        | 17,866        |
| Finished goods .....        | 5,225                                 | 4,229         | 5,280         |
| Allowances.....             | (3,379)                               | (3,415)       | (3,906)       |
| <b>Total</b> .....          | <u>88,972</u>                         | <u>61,857</u> | <u>56,473</u> |

Changes in work in progress and finished goods totalling USD 6,031 thousand were included in cost of sales in 2016 (2015: USD 209 thousand; 2014: USD 4,223 thousand). Allowances are recorded against inventories recognised as an expense in the period of USD 831 thousand (2015: USD 398 thousand; 2014: USD 637 thousand). Allowances of inventories are recognised in cost of sales.

### 7.4 Trade and other receivables

Trade receivables comprise the following:

|   | 2016                                  | 2015          | 2014          |
|---|---------------------------------------|---------------|---------------|
|   | <i>(in thousands of U.S. dollars)</i> |               |               |
| Trade accounts receivable .....               | 59,170                                | 31,881        | 29,613        |
| Amounts due from related party entities ..... | 19,377                                | 14,339        | 16,968        |
| Allowances.....                               | (1,255)                               | (1,256)       | (6,277)       |
| <b>Total</b> .....                            | <u>77,292</u>                         | <u>44,964</u> | <u>40,304</u> |

Trade receivables are generally on thirty- to ninety-day terms and are non-interest bearing. They are classified as loans and receivables, and, under consideration of allowances made, are carried at amounts approximating their fair values.

As at December 31, the ageing analysis of trade accounts receivables (third parties) is as follows:

|                                     | 2016                                  | 2015          | 2014          |
|-------------------------------------|---------------------------------------|---------------|---------------|
|                                     | <i>(in thousands of U.S. dollars)</i> |               |               |
| Neither past due nor impaired ..... | 36,892                                | 17,421        | 11,653        |
| Past due 1 – 30 days.....           | 16,470                                | 9,383         | 4,374         |
| Past due 31 – 60 days.....          | 1,704                                 | 1,210         | 1,706         |
| Past due 61 – 360 days.....         | 1,887                                 | 2,295         | 5,603         |
| Past due > 360 days.....            | 962                                   | 317           | –             |
| <b>Total</b> .....                  | <u>57,915</u>                         | <u>30,626</u> | <u>23,336</u> |

Receivables due from related parties are not more than thirty days past due. In 2016, amounts that are due more than 61 days include trade receivables mainly due from one debtor of X-FAB Sarawak for which X-FAB has determined that the ultimate collection of amounts outstanding of USD 1,501 thousand is deemed probable based on an agreed payment plan and accordingly, have not been provided for.

Impairment allowances of USD 1,255 thousand at December 31, 2016 (December 31, 2015: USD 1,256 thousand; 2014: USD 6,227 thousand) have been recorded against financial assets classified as loans and receivables. These allowances wholly relate to trade receivables. The movement of allowances on receivables during the year was as follows:

|                                     | <b>2016</b>                           | <b>2015</b> | <b>2014</b> |
|-------------------------------------|---------------------------------------|-------------|-------------|
|                                     | <i>(in thousands of U.S. dollars)</i> |             |             |
| <b>Balance of January 1</b> .....   | (1,256)                               | (6,277)     | (6,690)     |
| Impairment loss recognised.....     | –                                     | –           | (587)       |
| Use of allowance.....               | 1                                     | 5,021       | –           |
| Reversal of allowance .....         | –                                     | –           | 1,000       |
| <b>Balance of December 31</b> ..... | (1,255)                               | (1,256)     | (6,277)     |

Allowances in 2014 included an allowance of USD 5 million made in full from one specific receivable account in an earlier period. This amount was written off (derecognised) in 2015.

Note 9 (segment reporting) includes a table illustrating the credit risk concentration of trade accounts receivable by geographical region.

## 7.5 Other assets

Other current assets comprise the following:

|  | <b>2016</b>                           | <b>2015</b>   | <b>2014</b>   |
|--|---------------------------------------|---------------|---------------|
|  | <i>(in thousands of U.S. dollars)</i> |               |               |
| Taxes (other) .....                              | 5,687                                 | 3,111         | 4,428         |
| Prepaid expenses.....                            | 4,375                                 | 1,931         | 2,416         |
| R&D grants receivable.....                       | 272                                   | 311           | 5,433         |
| Investment grants and subsidies receivable ..... | 466                                   | 669           | 459           |
| Deposits .....                                   | 767                                   | 778           | 371           |
| Recoverable energy surcharges.....               | 1,991                                 | 2,070         | 836           |
| Other .....                                      | 780                                   | 2,164         | 1,974         |
| <b>Total</b> .....                               | <u>14,338</u>                         | <u>11,034</u> | <u>15,917</u> |

## 7.6 Cash and cash equivalents

Cash and cash equivalents comprise the following:

|                              | 2016                                  | 2015          | 2015          |
|------------------------------|---------------------------------------|---------------|---------------|
|                              | <i>(in thousands of U.S. dollars)</i> |               |               |
| Cash and bank balances ..... | 101,727                               | 64,283        | 25,758        |
| Restricted cash .....        | 2,430                                 | 1,815         | 694           |
| <b>Total</b> .....           | <u>104,157</u>                        | <u>66,098</u> | <u>26,452</u> |

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one and four weeks, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair values of cash and short-term deposits are identical to the carrying amounts.

Restricted cash balances represent security deposits provided as collateral security. The deposits are expected to be released within twelve months or in connection with contractual arrangements which may be cancelled at short notice.

## 7.7 Equity

### Share capital

The share capital of the parent entity is divided into 33,177,223 (December 31, 2015 and December 31, 2014: 33,177,223) non-par registered shares of X-FAB Silicon Foundries SE each of which carry one vote at the Company's general meetings. All shares are fully paid-in. The share capital in the consolidated balance sheet of USD 265,231 thousand (December 31, 2015 and December 31, 2014: USD 265,231 thousand) reflects the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the 2006 reverse acquisition to the fair value of the legal parent (accounting acquiree) at that date (see note 4.14).

### Share premium

The share premium includes the excess of capital paid in over nominal amounts on the issue of share capital of X-FAB Silicon Foundries SE and of its predecessor company prior to the 2006 reverse acquisition (see note 4.14) as well as consolidation differences arising on certain transactions recorded in previous years between the amounts paid (or received) for businesses acquired (or sold) where the transactions were conducted with parties under common control with the X-FAB Group.

### Cumulative translation adjustment

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations that have functional currencies other than USD.

### Treasury shares

At December 31, 2016 the Group held 49,916 (December 31, 2015 and December 31, 2014: 49,916) treasury shares of X-FAB Silicon Foundries SE held by its fully owned subsidiary X-FAB AG.

Based on the purchase price of EUR 11.25 per share, the treasury shares reduced the equity capital of the parent company by USD 770 thousand (December 31, 2015 and December 31, 2014: USD 770 thousand).

In previous consolidated financial statements the Group had accounted for an additional 628,286 treasury shares of its subsidiary X-FAB Semiconductor Foundries AG as deductions from the equity of



the parent company. This presentation method was chosen as X-FAB Semiconductor Foundries AG had been determined as the accounting acquirer in the business combination which occurred in 2006 (see note 4.14) and the treasury shares in and held by X-FAB AG were considered as treasury shares in the Group's consolidated financial statements.

In order to improve the transparency and clarity of the consolidated financial statements the Group has changed its accounting policy in the current reporting period to follow the prevailing opinion that treasury shares can be only those of the legal parent entity. Accordingly, in these financial statements the 628,286 treasury shares in and held by X-FAB Semiconductor Foundries AG are no longer presented as treasury shares and as such are no longer shown as deductions from the equity of the parent company in the Group's consolidated financial statements (see note 4.19).

### **Share-based payment arrangements**

The Group had no share-based payment arrangements and no share option programs during the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

## **7.8 Non-controlling interests**

The non-controlling interests for the period and the accumulated non-controlling interests represent the 5.1 per cent. (December 31, 2015 and December 31, 2014: 5.1 per cent.) non-controlling shareholders interests in the subsidiary GVG and, prior to their acquisition by the Group in 2015, the remaining shares in MFI. GVG is a company engaged in managing certain of the Group's properties in Dresden, Germany.

GVG net income for the financial year 2016 amounted to USD 1,051 thousand (2015: USD 531 thousand; 2014: USD 184 thousand). GVG had total assets amounting to USD 11,657 thousand at December 31, 2016 (December 31, 2015: USD 10,607 thousand; December 31, 2014: USD 11,944 thousand), liabilities of USD 8,615 thousand (December 31, 2015: USD 8,791 thousand; December 31, 2014: USD 10,546 thousand) and equity of USD 3,042 thousand (December 31, 2015: USD 1,816 thousand; December 31, 2014: USD 1,398 thousand). The currency translation effect of the retranslation of non-controlling interests in GVG is not material to the movements on other comprehensive income or the statement of movements on equity.

The acquisition of non-controlling interests in MFI on July 16, 2015 for consideration of USD 540 thousand resulted in reductions of non-controlling interests in the amount of USD 50 thousand and reductions in retained earnings of USD 490 thousand in 2015. These are reported in the consolidated statement of changes in group equity. MFI net income amounted to USD 1,028 thousand for the financial year 2015 (2014: USD -803 thousand). At December 31, 2015 total assets amounted to USD 8,006 thousand (2014: USD 6,833 thousand), total liabilities amounted to USD 9,011 thousand (2014: USD 6,810 thousand) and equity amounted to USD -1,005 thousand (2014: USD 23 thousand).

## **7.9 Dividends**

No dividends were resolved or paid in the years 2016, 2015 or 2014.

Under Belgian Company Law, the shareholders decide on the distribution of profits at the annual shareholders' meeting, based on the latest audited statutory accounts of the Company. Dividends may be paid either in cash or in kind. However, shareholders may not declare a dividend if the Company has not first reserved at least 5 per cent. of its profits for the financial year until such reserve has reached an amount equal to 10 per cent. of its share capital (the "Legal Reserve") or if, following any such dividend, the level of the net assets adjusted for the unamortised balance of the incorporation costs and capitalised research and development costs of the Company falls below the amount of the Company's paid-in-capital and of its non-distributable reserves. The Board of Directors may pay an interim dividend, provided certain conditions set forth in Belgian Company Law are met.

## 7.10 Current and non-current loans and borrowings

The Group has total facilities (excluding the loan from Sarawak State financial Secretary) amounting to USD 142,744 thousand at December 31, 2016 (December 31, 2015: USD 106,281 thousand; December 31, 2014: USD 55,246 thousand) and accordingly, unused credit lines available from bank loans at fixed and variable interest rates denominated in EUR and USD amounting to USD 18,658 thousand at December 31, 2016 (December 31, 2015: USD 20,430 thousand; December 31, 2014: USD 19,921 thousand). The facilities include variable interest rate credit lines denominated in EUR carrying interest rates of between 2.9 per cent. and 3.0 per cent. (2015: 3.2 per cent. and 3.79 per cent.; 2014: 3.0 per cent. and 3.9 per cent.) above EONIA (Euro Overnight Indexed Average) or EURIBOR (European Interbank Offered Rate) and credit lines denominated in EUR and USD with fixed interest rates of between 2.75 per cent. and 5 per cent. (2015: 3.2 per cent. and 5.0 per cent.; 2014: 3.25 per cent. and 4.95 per cent.).

### Carrying amounts and fair values

The carrying amounts of the Group's loans and borrowings at December 31, are shown in the following table:

| Note   | 2016                                  | 2015   | 2014   |
|--|---------------------------------------|--------|--------|
|  | <i>(in thousands of U.S. dollars)</i> |        |        |
| <b>Bank loans and overdrafts</b>                         |                                       |        |        |
| Fixed interest bank loans<br>denominated in EUR .....    | 89,570                                | 66,640 | 27,093 |
| Maturity: 2016 - 2021                                    |                                       |        |        |
| Interest rates: 1.4 – 2.7%                               |                                       |        |        |
| Repayments in monthly or<br>quarterly instalments        |                                       |        |        |
| Variable interest bank loans<br>denominated in EUR ..... | 34,082                                | 18,083 | —      |
| Maturity: 2015-2021                                      |                                       |        |        |
| Interest Rates: EURIBOR + 1.69%<br>- EURIBOR + 2%        |                                       |        |        |
| Repayments in quarterly<br>installments                  |                                       |        |        |
| Variable interest bank overdrafts in<br>EUR.....         | —                                     | —      | 4,305  |
| Maturity: 2015   |                                       |        |        |
| Interest rates: EONIA + 3.0% -<br>EONIA +3.9%            |                                       |        |        |
| Fixed interest bank loans<br>denominated in USD .....    | 434                                   | 1,128  | 2,924  |
| Maturity: 2017   |                                       |        |        |
| Interest rates: 5.0%                                     |                                       |        |        |

| Note  | 2016                                  | 2015           | 2014          |
|---|---------------------------------------|----------------|---------------|
|   | <i>(in thousands of U.S. dollars)</i> |                |               |
| Repayments in monthly or quarterly instalments                                  |                                       |                |               |
| Loan State Financial Secretary of Sarawak denominated in USD.....               | 31,112                                | 28,980         | 26,892        |
| Maturity: 2030  |                                       |                |               |
| 2.0% preference dividend  |                                       |                |               |
| Repayment at maturity date  |                                       |                |               |
| Long term trade liability third party denominated in USD .....                  | —                                     | —              | 1,003         |
| Maturity: 2016  |                                       |                |               |
| Interest free   |                                       |                |               |
| Repayments in yearly instalments  |                                       |                |               |
| Short term amount in 2015 included in trade accounts payable (626 USD thousand) |                                       |                |               |
| <b>Leasing arrangements</b>   |                                       |                |               |
| Finance leasing liabilities denominated in EUR .....                            | 8,642                                 | 4,429          | 129           |
| Maturity: 2017 - 2021   |                                       |                |               |
| Interest rates: 0.6-9.6%  |                                       |                |               |
| Repayment in monthly instalments  |                                       |                |               |
| <b>Due to XTRION group</b>  | —                                     | —              | 27            |
| <b>Total</b> .....  | <u>163,840</u>                        | <u>119,260</u> | <u>62,373</u> |
| Current financial loans and borrowings.....                                     | <u>31,432</u>                         | <u>16,752</u>  | <u>11,292</u> |
| Non-current financial loans and borrowings.....                                 | <u>132,408</u>                        | <u>102,508</u> | <u>51,081</u> |

The fair value of loans included in loans and borrowings is USD 163,035 thousand at the reporting date (2015: USD 118,979 thousand, 2014: USD 62,539 thousand). Bank fees of USD 70 thousand which were incurred in connection with the new loans entered into in 2015 were recorded in general and administration expenses in that year as the amounts were not material (2016 and 2014: None).

In 2016 and 2015, the Group entered into new long-term bank loan agreement amounting to USD 60,981 thousand and USD 69,224 thousand. Reference is made to the consolidated statement of cash flows.

Taking into account the effect of interest rate swaps, about 79% of the Group's borrowings are at a fixed rate of interest (December 31, 2015: 85%; December 31, 2014: 93%). The fair value disclosures for loans and borrowings exclude the effects of the separately at fair value accounted interest rate swaps. Reference is made to note 10.

Bank loans and overdrafts of USD 118,449 thousand (2015: USD 85,851 thousand; 2014: USD 34,322 thousand) are secured by charges on the Company's plant and machinery (see Note 7.1), a mortgage on land and future rented income from the Group's investment property in Texas.

The USD 50,000 debt represents X-FAB Sarawak redeemable preference shares held by Sarawak Technologies Holding Sdn. Bhd. due for repayment in 2030. The redeemable preference shares confer the holder the right to receive a cumulative preference dividend of 2 per cent. to the extent that X-FAB Sarawak has sufficient net profits after taxation available for distribution for the relevant financial year including retained profits and distributable reserves brought forward. The cumulative preference dividend shall be paid before and in priority to any payment of dividends on ordinary shares to other shareholders of X-FAB Sarawak. The charge to interest expense amounted to USD 1,000 thousand in 2016, 2015 and 2014 and has not been paid yet.

The USD 50,000 thousand has been discounted at an interest rate of 4.12 per cent. At initial recognition, the applied discount rate took into account a weighted average risk free rate of United States treasury bills with a corresponding maturity and an additional spread to appropriately reflect the risk premium that market participants would require based on an average credit spread for triple B rated debt instruments with a corresponding maturity. The charge to interest expense on this debt from the unwinding of the liability amounted to USD 1,133 thousand in 2016 (2015: USD 1,087 thousand; 2014: USD 1,043 thousand).

In 2016 and 2015 the Group entered into sale and leaseback transactions under which machinery were sold at book value and leased back. These transactions did not result in a gain in 2016 and 2015. The gross presentation in the disclosures was applied to disclose the proceeds and carrying amounts which were subject to these sale- and leaseback transactions. The assets were not derecognised. The arrangements run until 2021 and carry interest rates between 0.6 and 9.6 per cent. The contractual arrangements include purchase options at a price that is sufficiently lower than the fair value and the lease term is for the major part of the economic life. Accordingly these arrangements are classified as finance leases. The fair values at inception of the leases in 2016 amounted to USD 5,130 thousand (2015: USD 4,074 thousand and 2014: USD 0 thousand).

The future minimum lease payments due under finance lease arrangements are as follows:

|                | 2016                                  |               | 2015                    |               | 2014                    |               |
|----------------|---------------------------------------|---------------|-------------------------|---------------|-------------------------|---------------|
|                | Minimum leasing payment               | Present value | Minimum leasing payment | Present value | Minimum leasing payment | Present value |
|                | <i>(in thousands of U.S. dollars)</i> |               |                         |               |                         |               |
| 2017.....      | 2,152                                 | 1,985         |                         |               | —                       | —             |
| 2018-2021..... | 6,864                                 | 6,657         |                         |               | —                       | —             |
| 2016.....      |                                       |               | 1,060                   | 951           |                         |               |
| 2017-2020..... |                                       |               | 3,614                   | 3,478         |                         |               |

|                    | 2016                                  |               | 2015                    |               | 2014                    |               |
|--------------------|---------------------------------------|---------------|-------------------------|---------------|-------------------------|---------------|
|                    | Minimum leasing payment               | Present value | Minimum leasing payment | Present value | Minimum leasing payment | Present value |
|                    | <i>(in thousands of U.S. dollars)</i> |               |                         |               |                         |               |
| 2015 .....         |                                       |               |                         |               | 68                      | 68            |
| 2016-2019 .....    |                                       |               |                         |               | 61                      | 61            |
| <b>Total</b> ..... | 9,016                                 | 8,642         | 4,674                   | 4,429         | 129                     | 129           |
| Interest .....     | (374)                                 | (374)         | (245)                   | (245)         | —                       | —             |
| Liability .....    | 8,642                                 | 8,268         | 4,429                   | 4,184         | 129                     | 129           |

### Contractual maturities

The contractual maturities of the Group's non-derivative financial liabilities (including finance lease liabilities) at December 31, 2016, 2015 and 2014 are shown in the table below. The amounts presented in the table are gross and undiscounted:

|                    | 2016                                  | 2015    | 2014   |
|--------------------|---------------------------------------|---------|--------|
|                    | <i>(in thousands of U.S. dollars)</i> |         |        |
| 2015 .....         |                                       |         | 11,292 |
| 2016 .....         |                                       | 19,826  | 5,662  |
| 2017 .....         | 31,700                                | 19,602  | 4,903  |
| 2018 .....         | 33,391                                | 20,558  | 5,936  |
| 2019 .....         | 34,773                                | 21,983  | 7,838  |
| 2020 .....         | 21,581                                | 8,312   | —      |
| 2021 .....         | 11,282                                | —       | —      |
| 2030 .....         | 50,000                                | 50,000  | 50,000 |
| <b>Total</b> ..... | 182,727                               | 140,281 | 85,631 |

The contractual maturities of the Group's derivative financial instruments with negative fair values will result in cash outflows from 2018 to 2019.

### 7.11 Other non-current liabilities

Other non-current liabilities mainly comprise of defined pension obligations and deferred rental income.

Other non-current liabilities include an amount of USD 7,124 thousand at December 31, 2016 representing the net defined benefit obligations under a long service retirement lump-sum payment scheme at the Group's subsidiary X-FAB France, which was acquired on October 1, 2016 (see note 5). Additionally USD 240 thousand of defined benefit obligations relating to this plan were recorded as other current liabilities relating to this scheme. The net defined benefit obligation consists of defined benefit obligations under the scheme of USD 10,489 thousand (October 1, 2016: USD 11,147 thousand) less plan assets of USD 3,125 thousand (October 1, 2016: USD 3,324 thousand). Under this scheme, X-FAB France awards its employees a lump-sum payment on reaching retirement age of 65 (for

management employees) and 62 (for other employees). The payment is dependent on the final salary of the employee and the length of time the employee has been employed by X-FAB France. Employees are not required to contribute to the plan. The liability recognized for the future defined benefit obligation under this scheme is presented net of the funding plan assets which are “ring fenced” to meet obligations under the scheme. The fair value of the plan assets at December 31, 2016 amounts to USD 3,125 thousand and relate to investments in a fund that is managed by a financial institution of which the underlying assets relate to long term bonds with capital guarantees (USD 1,612 thousand) and an equity savings plans (USD 1,513 thousand).

Experience adjustments were not significant in the period from the acquisition of X-FAB France on October 1, 2016 until December 31, 2016.

The Group expects to pay USD 239 thousand to the funding plan in 2017.

The defined benefit obligation has been calculated based on the following actuarial assumptions:

|                       |        |
|-----------------------|--------|
| Discount rate         | 1.36%  |
| Employee turnover     | 6.00%  |
| Social security costs | 47.00% |

The discount rate has been determined by reference to market yields on high quality corporate bonds. Future salary growth is assumed to be 0.5% lower than inflation. Assumptions regarding future mortality have been based on published statistics and mortality tables.

Reasonably possible changes at the reporting date to one of the actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

|   | <b>Increase at<br/>December<br/>31, 2016</b> | <b>Decrease at<br/>December<br/>31, 2016</b> |
|---|--|--|
|   | <i>(in thousands of U.S. dollars)</i>        |  |
| Discount rate (+25 per cent. movement).....         |  | -201   |
| Future salary growth (+ 25 per cent. movement)..... | 210  |  |

## 7.12 Trade payables and other current liabilities

Trade payables are non-interest bearing and are normally settled on sixty-day terms.

Other current liabilities comprise the following:

|  | <b>2016</b>                           | <b>2015</b>  | <b>2014</b>  |
|--|---------------------------------------|--------------|--------------|
|  | <i>(in thousands of U.S. dollars)</i> |              |              |
| Accrued liabilities .....                            | 12,847                                | 8,835        | 7,911        |
| <i>For invoices not yet received</i> .....           | <i>10,988</i>                         | <i>8,290</i> | <i>7,098</i> |
| <i>Repayment of electricity cost discounts</i> ..... | <i>413</i>                            | <i>425</i>   | <i>242</i>   |
| <i>Other</i> .....                                   | <i>1,446</i>                          | <i>120</i>   | <i>571</i>   |

|   | <b>2016</b>                           | <b>2015</b>   | <b>2014</b>   |
|---|---------------------------------------|---------------|---------------|
|   | <i>(in thousands of U.S. dollars)</i> |               |               |
| Advances received .....                             | 7,497                                 | 8,870         | 9,108         |
| Derivatives .....                                   | 6,707                                 | 958           | 1,238         |
| Deferred income.....                                | 1,155                                 | 5,704         | 821           |
| Employee-related liabilities .....                  | 16,114                                | 9,090         | 7,852         |
| <i>Wages</i> .....                                  | <i>1,678</i>                          | <i>1,303</i>  | <i>1,060</i>  |
| <i>Earned holiday entitlement, incentives</i> ..... | <i>9,853</i>                          | <i>6,384</i>  | <i>5,071</i>  |
| <i>Payroll taxes</i> .....                          | <i>1,528</i>                          | <i>926</i>    | <i>1,376</i>  |
| <i>Social security costs</i> .....                  | <i>3,055</i>                          | <i>477</i>    | <i>345</i>    |
| Other taxes .....                                   | 1                                     | —             | —             |
| Other .....   | 309                                   | 261           | 341           |
| <b>Total</b> .....                                  | <b>44,630</b>                         | <b>33,718</b> | <b>27,271</b> |

Increases in other liabilities in 2016 are mainly determined by the new subsidiary X-FAB France.

### 7.13 Provisions

Provisions comprise the following:

|                              | <b>2016</b>                           | <b>2015</b>  | <b>2014</b> |
|------------------------------|---------------------------------------|--------------|-------------|
|                              | <i>(in thousands of U.S. dollars)</i> |              |             |
| Current provisions.....      | 1,622                                 | 1,093        | 751         |
| Non-current provisions ..... | 73                                    | 73           | 74          |
| <b>Total</b> .....           | <b>1,695</b>                          | <b>1,166</b> | <b>825</b>  |

Current provisions primarily relate to warranty provisions. Warranty provisions are estimated based on the Group's experience of past claim rates and knowledge of current claims together with an assessment of rectification costs. Non-current provisions refer to anniversary bonus for employees accounted for in accordance with IAS 19, which include estimates of future staff turnover, based on the Group's experience of staff turnover rates in recent years.

The movement on provisions during the year was as follows:

|                              | <b>Warranty provisions</b>            | <b>Employee provisions</b> | <b>Other</b> | <b>Total</b> |
|------------------------------|---------------------------------------|----------------------------|--------------|--------------|
|                              | <i>(in thousands of U.S. dollars)</i> |                            |              |              |
| <b>January 1, 2016</b> ..... | <b>928</b>                            | <b>128</b>                 | <b>110</b>   | <b>1,166</b> |
| Provided for .....           | 1,514                                 | 14                         | —            | <b>1,528</b> |

|                                     | Warranty<br>provisions                | Employee<br>provisions | Other    | Total        |
|-------------------------------------|---------------------------------------|------------------------|----------|--------------|
|                                     | <i>(in thousands of U.S. dollars)</i> |                        |          |              |
| Utilised.....                       | (605)                                 | (6)                    | (35)     | <b>(646)</b> |
| Released.....                       | —                                     | —                      | (73)     | <b>(73)</b>  |
| Reclassification.....               | (283)                                 | —                      | —        | <b>(283)</b> |
| Effect of changes in exchange rates | 8                                     | (3)                    | (2)      | <b>(3)</b>   |
| <b>December 31, 2016</b> .....      | <b>1,562</b>                          | <b>133</b>             | <b>—</b> | <b>1,695</b> |

|                                     | Warranty<br>provisions                | Employee<br>provisions | Other      | Total          |
|-------------------------------------|---------------------------------------|------------------------|------------|----------------|
|                                     | <i>(in thousands of U.S. dollars)</i> |                        |            |                |
| <b>January 1, 2015</b> .....        | <b>741</b>                            | <b>84</b>              | <b>—</b>   | <b>825</b>     |
| Provided for .....                  | 1,166                                 | 10                     | 113        | <b>1,289</b>   |
| Utilised.....                       | (1,209)                               | 5                      | —          | <b>(1,204)</b> |
| Reclassification.....               | 270                                   | 39                     | (3)        | <b>306</b>     |
| Effect of changes in exchange rates | (40)                                  | (10)                   | —          | <b>(50)</b>    |
| <b>December 31, 2015</b> .....      | <b>928</b>                            | <b>128</b>             | <b>110</b> | <b>1,166</b>   |

|                                     | Warranty<br>provisions                | Employee<br>provisions | Other      | Total        |
|-------------------------------------|---------------------------------------|------------------------|------------|--------------|
|                                     | <i>(in thousands of U.S. dollars)</i> |                        |            |              |
| <b>January 1, 2014</b> .....        | <b>1,179</b>                          | <b>(7)</b>             | <b>690</b> | <b>1,862</b> |
| Provided for .....                  | 172                                   | 74                     | —          | <b>246</b>   |
| Utilised.....                       | (412)                                 | (86)                   | (327)      | <b>(825)</b> |
| Released.....                       | (165)                                 | —                      | —          | <b>(165)</b> |
| Reclassification.....               | —                                     | 103                    | (422)      | <b>(319)</b> |
| Effect of changes in exchange rates | (33)                                  | —                      | 59         | <b>26</b>    |
| <b>December 31, 2014</b> .....      | <b>741</b>                            | <b>84</b>              | <b>—</b>   | <b>825</b>   |

## 8 Notes to the statement of cash flows

The position “other non-cash transactions (net)” in 2016, 2015 and 2014 disclosed in the cash flow statement primarily includes exchange rate gains and losses.

The Group entered into sale and lease back transactions for property, plant and equipment with a net book value of USD 5,144 thousand in 2016 (2015: USD 4,206 thousand; 2014: none).

## 9 Segment reporting

### Operating segments



The Group manages its CMOS and MEMS operations as one single operating segment. Operating decisions are taken on a product and technology level by the President and Chief Executive Officer, who is assisted by the parent Company's management team. Accordingly X-FAB has identified its president and CEO as its chief operating decision maker for the purposes of defining segments in accordance with IFRS 8. No separate operating results for the CMOS and MEMS operations are used by the chief operating decision maker to manage X-FAB's operations, assess performance or make resource allocation decisions. As a result X-FAB has determined that its operations constitute one single segment.

### Geographic concentrations

The following table shows an analysis of revenue (based on the customer's billing location) and of non-current assets by geographic area for the reporting period:

|   | 2016                                  | 2015           | 2014           |
|---|---------------------------------------|----------------|----------------|
|   | <i>(in thousands of U.S. dollars)</i> |                |                |
| <b>Europe</b> .....                       | 279,097                               | 225,675        | 226,758        |
| Germany.....                              | 47,954                                | 36,318         | 41,891         |
| France.....                               | 2,869                                 | 3,377          | 2,897          |
| United Kingdom.....                       | 27,617                                | 25,684         | 27,692         |
| Belgium.....                              | 172,420                               | 139,064        | 139,212        |
| Austria.....                              | 5,599                                 | 3,106          | 4,626          |
| Sweden.....                               | 13,542                                | 6,331          | 974            |
| Switzerland.....                          | 3,783                                 | 4,679          | 4,960          |
| Denmark.....                              | 1,251                                 | 1,421          | 1,667          |
| Other.....                                | 4,062                                 | 5,695          | 2,839          |
| <br><b>Asia</b> .....                     | <br>183,762                           | <br>84,373     | <br>80,276     |
| Malaysia.....                             | 10,777                                | 8,273          | 12,802         |
| Japan.....                                | 10,032                                | 8,523          | 14,539         |
| China.....                                | 122,609                               | 29,858         | 13,342         |
| Korea.....                                | 9,627                                 | 8,322          | 8,353          |
| Hong Kong.....                            | 1,692                                 | 1,098          | 1,565          |
| Thailand.....                             | 8,030                                 | 10,207         | 9,540          |
| Singapore.....                            | 14,616                                | 11,817         | 12,299         |
| Taiwan.....                               | 4,003                                 | 2,199          | 4,985          |
| Other.....                                | 2,376                                 | 4,076          | 2,851          |
| <br><b>United States of America</b> ..... | <br>49,152                            | <br>20,254     | <br>22,694     |
| <b>Rest of the World</b> .....            | 886                                   | 817            | 748            |
| <b>Total</b> .....                        | <u>512,897</u>                        | <u>331,119</u> | <u>330,476</u> |

|                                | 2016                                  | 2015           | 2014           |
|--------------------------------|---------------------------------------|----------------|----------------|
|                                | <i>(in thousands of U.S. dollars)</i> |                |                |
| Germany.....                   | 151,614                               | 159,045        | 152,168        |
| Malaysia.....                  | 118,134                               | 83,051         | 67,861         |
| United States of America ..... | 23,365                                | 21,421         | 21,473         |
| France.....                    | 9,505                                 | —              | —              |
| <b>Total.....</b>              | <b>302,618</b>                        | <b>263,517</b> | <b>241,502</b> |

This significant growth refers to growth in our three core end-markets within the group of top five customers, the ramp up of a new fingerprint product for a Chinese customer and the acquisition of the Altis assets (reference is made to note 5).

### Significant customers

The Group has two (2015: one; 2014 one) customers whose revenues exceed 10 per cent. of the Group's consolidated external revenues. The total revenue with these customers amounted to USD 279,578 thousand in 2016 (2015: USD 139,302 thousand; 2014: USD 138,717 thousand).

## 10 Financial instruments – fair values and risk management

### Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

|  | December 31, 2016                     |            |         |         |         |
|--|---------------------------------------|------------|---------|---------|---------|
|  | Carrying<br>amount                    | Fair value |         |         |         |
|  | Total                                 | Level 1    | Level 2 | Level 3 | Total   |
|  | <i>(in thousands of U.S. dollars)</i> |            |         |         |         |
| <b>Financial assets measured at fair value</b>                   |                                       |            |         |         |         |
| Investments (held for trading).....                              | 190                                   | 190        | —       | —       | 190     |
| <b>Financial assets not measured at fair value</b>               |                                       |            |         |         |         |
| Trade and other receivables (loans and<br>receivables).....      | 77,292                                |            |         |         |         |
| Cash and cash equivalents .....                                  | 104,157                               |            |         |         |         |
| <b>Financial liabilities measured at fair value</b>              |                                       |            |         |         |         |
| Interest rate swaps (held for trading) .....                     | (714)                                 | —          | (714)   | —       | (714)   |
| Currency hedge contracts (held for trading) ..                   | (5,993)                               | —          | (5,993) | —       | (5,993) |
| <b>Financial liabilities not measured at fair<br/>value</b>      |                                       |            |         |         |         |
| Trade payables (financial liabilities at<br>amortised cost)..... | (49,032)                              |            |         |         |         |

**December 31, 2016**

|  | Carrying<br>amount | Fair value                            |           |         | Total     |
|--|--------------------|---------------------------------------|-----------|---------|-----------|
|  |                    | Level 1                               | Level 2   | Level 3 |           |
|  | Total              |                                       |           |         |           |
|  |                    | <i>(in thousands of U.S. dollars)</i> |           |         |           |
| Bank loans, overdrafts and finance lease(financial liabilities at amortised cost) .. | (132,728)          | —                                     | (132,312) | —       | (132,312) |
| Related party loans (financial liabilities at amortised cost) .....                  | (31,112)           | —                                     | (30,723)  | —       | (30,723)  |

**December 31, 2015**

|  | Carrying<br>amount | Fair value                            |          |         | Total    |
|--|--------------------|---------------------------------------|----------|---------|----------|
|  |                    | Level 1                               | Level 2  | Level 3 |          |
|  | Total              |                                       |          |         |          |
|  |                    | <i>(in thousands of U.S. dollars)</i> |          |         |          |
| <b>Financial assets not measured at fair value</b>                                       |                    |                                       |          |         |          |
| Trade and other receivables (loans and receivables).....                                 | 44,964             |                                       |          |         |          |
| Cash and cash equivalents .....  | 66,098             |                                       |          |         |          |
| <b>Financial liabilities measured at fair value</b>                                      |                    |                                       |          |         |          |
| Interest rate swaps (held for trading) .....   | (958)              | —                                     | (958)    | —       | (958)    |
| <b>Financial liabilities not measured at fair value</b>                                  |                    |                                       |          |         |          |
| Trade payables (financial liabilities at amortised cost).....                            | (12,256)           |                                       |          |         |          |
| Bank loans, overdrafts and finance lease (financial liabilities at amortised cost) ..... | (90,280)           | —                                     | (90,280) | —       | (90,280) |
| Related party loans (financial liabilities at amortised cost) .....                      | (28,980)           | —                                     | (28,699) | —       | (28,699) |

**December 31, 2014**

|  | Carrying<br>amount | Fair value                            |         |         | Total   |
|--|--------------------|---------------------------------------|---------|---------|---------|
|  |                    | Level 1                               | Level 2 | Level 3 |         |
|  | Total              |                                       |         |         |         |
|  |                    | <i>(in thousands of U.S. dollars)</i> |         |         |         |
| <b>Financial assets not measured at fair value</b>       |                    |                                       |         |         |         |
| Trade and other receivables (loans and receivables)..... | 40,304             |                                       |         |         |         |
| Cash and cash equivalents .....                          | 26,452             |                                       |         |         |         |
| <b>Financial liabilities measured at fair value</b>      |                    |                                       |         |         |         |
| Interest rate swaps (held for trading) .....             | (1,238)            | —                                     | (1,238) | —       | (1,238) |

December 31, 2014

| Carrying amount  | Fair value |         |          | Total |
|--|------------|---------|----------|-------|
|  | Level 1    | Level 2 | Level 3  |       |
| Total  |            |         |          |       |
| <i>(in thousands of U.S. dollars)</i>  |            |         |          |       |
| <b>Financial liabilities not measured at fair value</b>                                  |            |         |          |       |
| Trade payables (financial liabilities at amortised cost).....                            | (21,716)   |         |          |       |
| Bank loans, overdrafts and finance lease (financial liabilities at amortised cost) ..... | (34,451)   | —       | (34,451) | —     |
| Related party loans (financial liabilities at amortised cost) .....                      | (27,922)   | —       | (28,088) | —     |

**Financial instruments not measured at fair value**

The carrying amount of cash and cash equivalents, bank overdrafts, trade and other receivables and trade payables approximates their fair value due to the short-term maturity of these financial instruments.

The fair value of the Group’s non-current liabilities is based on their present values calculated by discounting future cash flows at current rates of interest available for debt with the same maturity profile.

The Group’s principal financial instruments not carried at fair value are cash and cash equivalents, trade receivables, other current assets, other non-current assets, trade and other payables, bank overdrafts and long-term borrowings.

**Financial instruments measured at fair value**

***Financial assets and liabilities accounted for at fair value through profit and loss***

The Group’s financial instruments measured at fair value consist of forward foreign exchange contracts and interest rate swaps. The fair value of these instruments is determined by calculating the present value of the contractually agreed payments at the statement of financial position date by reference to current interest rates and exchange rates. For all of these instruments, the fair values are confirmed to the Group by the financial institutions through which the Group has entered into these contracts.

The fair values of derivatives are calculated using discounting techniques applied to expected cash flows arising on the respective instruments (level 2 fair value measurements). The changes in the estimated fair value of derivatives are recognised in profit and loss. There have been no transfers of assets or liabilities between levels of the fair value hierarchy in the current or previous year.

The fair values of derivatives comprise the following:

|  | 2016           | 2015         | 2014           |
|--|----------------|--------------|----------------|
| <i>(in thousands of U.S. dollars)</i>      |                |              |                |
| Outstanding interest hedge contracts.....  | (714)          | (958)        | (1,238)        |
| Outstanding currency hedge contracts ..... | (5,993)        | —            | —              |
| <b>Total.....</b>                          | <b>(6,707)</b> | <b>(958)</b> | <b>(1,238)</b> |

The following table presents the aggregate nominal amounts of the Group's outstanding derivative financial instruments:

|   | 2016                           | 2015  | 2014   |
|---|--------------------------------|-------|--------|
|   | (in thousands of U.S. dollars) |       |        |
| Outstanding interest hedge contracts, maturing after more than one year ..... | 8,511                          | 9,896 | 12,739 |
| Outstanding currency hedge contracts, maturing after more than one year ..... | 101,427                        | —     | —      |

Currency hedge contracts refer to hedging contracts in respect of the Malaysian Ringgit. These contracts run until 2018 and 2019.

#### ***Available-for-sale financial instruments***

The Group holds an investment in Semprius, a privately owned semiconductor company classified as available-for-sale financial assets with a historical acquisition cost of USD 2,861 thousand at December 31, 2016 (2015: USD 2,572 thousand; 2014: USD 1,976 thousand). This investment was impaired and written down in full in 2013. Additional capital contributions of USD 289 thousand were made to Semprius and immediately impaired in 2016 (2015: USD 596 thousand; 2014: USD 457 thousand). The Group is exposed to no further risk from this investment, and no reversals of impairment charges made have been made. However, under the terms of the investment agreement made between the investors in Semprius, the Group's shareholding interest in this investment will be diluted should it decline to participate in further bridging finance arrangements. As at the reporting date the investors in Semprius are planning to liquidate the investment.

#### **Management of risks arising from financial instruments**

The X-FAB SE Group's principal financial liabilities, other than its derivatives, comprise bank loans and bank overdrafts, and trade payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

Financial assets in form of free short-term cash available are placed on deposit with banks with a high credit rating. Deliveries made by the Group are subject to the reservation of proprietary rights until the customer has paid for the goods. Generally, further security is not obtained.

From time to time the Group also enters into derivative transactions. The purpose is to manage the foreign exchange risks and interest rate arising from the Group's sources of finance where the risks of financial loss or the liquidity risk appears excessive. While these transactions are classified as "held for trading" for accounting purposes because the Group does not formally account for them using hedge accounting techniques, they are exclusively entered into to reduce the risk of contractually agreed or highly probable transactions.

The main risks arising from Group's financial instruments are market risks (interest rate and foreign currency risks), credit risk, and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks. The primary objectives in managing these risks is to minimise the risk of financial loss and the risk of any interference with the Group's ability to pursue its commercial objectives. The policies followed in respect of each risk are summarised below.

### **Interest rate risk**

The X-FAB SE Group exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At December 31, 2016, after taking into account the effect of interest rate swaps, about 79 per cent. of the Group's borrowings are at a fixed rate of interest (December 31, 2015: 85 per cent.; December 31, 2014: 93 per cent.). Accordingly the Group's exposure to interest rate risk is limited.

### **Foreign currency risk**

As a result of significant investments made by the Group in its operations in Germany and Malaysia, the Group's statement of financial position can be affected by changes in the dollar exchange rates against the euro (EUR) and Malaysian Ringgit (MYR).

The Group's policy is to manage selected foreign currency exchange risk by entering into forward rate currency purchase or sale transactions (currency forwards) for specific amounts of foreign currencies in anticipation of transactions which are contractually fixed or highly probable.

The following exchange rates were used in preparing the consolidated financial statements:

|                    | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|--------------------|-------------|-------------|-------------|
| <b>USD/EUR</b>     |             |             |             |
| Closing rate ..... | 0.947       | 0.915       | 0.822       |
| Average rate ..... | 0.903       | 0.901       | 0.752       |
| <b>USD/MYR</b>     |             |             |             |
| Closing rate ..... | 4.486       | 4.292       | 3.497       |
| Average rate ..... | 4.144       | 3.899       | 3.272       |

The Group also has currency exposures arising from sales or purchases made when operating units undertake transactions in currencies other than their functional currencies.

Approximately 12.6 per cent. (2015: 20.8 per cent.; 26.8 per cent.) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sales.

The following table demonstrates the sensitivity to changes in fair value of monetary assets and liabilities of the Group's profit before tax to reasonably possible changes in the USD/EUR and USD/MYR exchange rates, with all other variables held constant and excluding effects of foreign exchange related derivatives held. We have also assessed that the sensitivity to changes in fair value of monetary assets and liabilities to profit before taxes is a good approximation of the effect on equity of the Group because of only immaterial tax effects.

|                                    | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|------------------------------------|-------------|-------------|-------------|
| <b>USD/EUR</b>                     |             |             |             |
| Increase/decrease in EUR rate..... | 5%          | 5%          | 5%          |
|                                    | (5%)        | (5%)        | (5%)        |
| Effect on profit before tax .....  | (6,447)     | (3,766)     | (2,046)     |

|                                     | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|-------------------------------------|-------------|-------------|-------------|
|                                     | 6,447       | 3,766       | 2,046       |
| <b>USD/MYR</b>                      |             |             |             |
| Increase/decrease in MYR rate ..... | 20%         | 5%          | 5%          |
|                                     | (20%)       | (5%)        | (5%)        |
| Effect on profit before tax .....   | 7,536       | 691         | 329         |
|                                     | (7,536)     | (691)       | (329)       |

The Group has engaged in exchange rate hedging transactions in respect of the Malaysian Ringgit, although these hedges only cover a small portion of the Group's business. The effects have not been considered in the table above.

The Group believes that a reasonably possible change of other exchange rates, with all other variables held constant, will not have a significant effect on the Group's profit before tax and on the Group's equity.

### ***Credit risk***

The Group's primary risk credit concentrations affecting financial assets are in respect of trade receivables (described in Note 7.4), balances with related parties (Note 11), and balances and short-term deposits at banks (Note 7.6). The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables balances are monitored on an ongoing basis to ensure that the Group is not exposed significant risk of credit loss. The maximum exposure is the carrying amount as disclosed in Notes 7.4 and 7.5. With respect to credit risk arising from financial assets, including cash and cash equivalents, the Group's maximum exposure to credit risk arising from default of the counterparty is equal to their carrying amounts in the statement of financial position.

### ***Liquidity risk***

The Group monitors its risk to a shortage of funds and of difficulties in meeting obligations associated with financial liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, bank overdrafts and other financial instruments. Based on the positive cash flow projections and the excess of current assets over current liabilities there is no significant liquidity risk at December 31, 2016. The expected cash flows from trade and other receivables maturing within two months were USD 77,292 thousand. Trade accounts payables are due within the next twelve months. An analysis of the maturity of financial liabilities is presented in Note 7.10.

### **Capital Management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may choose to take measures such as adjusting the dividend payments made to shareholders, returning capital to shareholders or raising new capital by issuing new shares. No change was made in the objectives, policies or processes during the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

The X-FAB SE Group's bank loan agreements no longer include externally imposed capital requirements requiring the maintenance of specific equity and free cash flow ratios at December 31, 2016. The X-FAB SE Group complied with equity and free cash flow ratios set out in bank loan agreements until the conditions to meet those requirements were dispensed with during 2016.

## 11 Transactions with related parties

### Transactions with shareholders and their subsidiaries

X-FAB SE Group undertakes transactions with entities in the XTRION group, a group of companies controlled by XTRION NV, the majority shareholder of X-FAB SE as part of its normal business activities. These include the purchase of certain work in process and services, as well as the sale of products and provision of services to these companies. XTRION NV is also the parent company of Melexis NV, which develops, designs and sells integrated circuits to clients such as the automotive industry. The main wafer suppliers for Melexis group are X-FAB SE's subsidiaries. Melexis group also provides final test services as well as design support to X-FAB SE subsidiaries. The tables below show the balances with shareholders and their subsidiaries included in the statement of financial position.

|  | <b>2016</b>                           | <b>2015</b>   | <b>2014</b>   |
|--|---------------------------------------|---------------|---------------|
|  | <i>(in thousands of U.S. dollars)</i> |               |               |
| Trade accounts receivable due from Melexis group companies ..... | 16,208                                | 11,500        | 8,478         |
| Trade accounts receivable due from XTRION.....                   | —                                     | 22            | 1             |
| Trade accounts receivable due from Anvo-Systems.....             | 1,324                                 | 1,536         | 1,107         |
| Trade accounts receivable due from M-MOS group companies .....   | 1,837                                 | 1,118         | 2,357         |
| Trade accounts receivable due from MicroGen .....                | 10                                    | 110           | —             |
| Trade accounts receivable due from X-Celeprint                   | (2)                                   | 53            | —             |
| Other receivables due from Xtrion.....                           | —                                     | —             | 5,025         |
| <b>Total</b> .....   | <u>19,377</u>                         | <u>14,339</u> | <u>16,968</u> |

|   | <b>2016</b>                           | <b>2015</b>   | <b>2014</b>   |
|---|---------------------------------------|---------------|---------------|
|   | <i>(in thousands of U.S. dollars)</i> |               |               |
| Financial liabilities due to Sarawak Technologies Holding Sdn. Bhd..... | 31,112                                | 28,980        | 26,892        |
| Trade accounts payable due to Melexis group companies .....             | 235                                   | 242           | 627           |
| Trade accounts payable due to XTRION .....                              | 11                                    | 13            | 385           |
| Trade accounts payable due to M-MOS.....                                | 15                                    | 11            | —             |
| Advances received from Melexis.....                                     | —                                     | 1,033         | 1,945         |
| Other .....   | 19                                    | 18            | 87            |
| <b>Total</b> .....  | <u>31,392</u>                         | <u>30,297</u> | <u>29,936</u> |

Further information is provided on the financial liability payable to Sarawak Technologies Holding Sdn. Bhd., a Malaysian government agency, in Note 7.10.



Sales made to companies of the XTRION group primarily include the supply of pcm-tested wafers and NRE on the basis of wafer supply agreements made between the parties.

Other income results from the provision of technical facilities supplies, utilities, property rentals, and services provided. Services provided include information technology, personnel and legal support services. For services provided, charges are made in relation to the costs incurred based on an agreed formula which considers the use of facilities, employee time spent, and specific transaction details. Further, interest income and expenses arose in connection with loan arrangements.

Other receivables from Xtrion in 2014 have been repaid in 2015 as shown in the proceeds from loan investments related parties in the consolidated statement of cash flows. Payments for loan investments to related parties of USD 5,694 thousand and proceeds from loan investments related parties of USD 5,740 in 2016 relate to short-term financing advances paid to related parties that were repaid within a month.

Sales and other income comprises the following:

|  | <b>2016</b>                           | <b>2015</b>    | <b>2014</b>    |
|--|---------------------------------------|----------------|----------------|
|  | <i>(in thousands of U.S. dollars)</i> |                |                |
| Sales to Melexis group companies .....         | 172,793                               | 139,302        | 138,717        |
| Sales to M-MOS group companies .....           | 8,472                                 | 7,082          | 9,578          |
| Sales to Anvo-Systems .....                    | 675                                   | 585            | 357            |
| Sales to MicroGen.....                         | 132                                   | 197            | 127            |
| Other income with Melexis group companies..... | 2,027                                 | 974            | 3,059          |
| Other income with XTRION.....                  | 36                                    | 91             | —              |
| Interest income with Elex.....                 | 26                                    | —              | —              |
| <b>Total</b> .....                             | <b>184,161</b>                        | <b>148,231</b> | <b>151,838</b> |

Purchases, expenses and other transactions were recorded with shareholders and their subsidiaries were as follows:

|  | <b>2016</b>                           | <b>2015</b>  | <b>2014</b>  |
|--|---------------------------------------|--------------|--------------|
|  | <i>(in thousands of U.S. dollars)</i> |              |              |
| Services provided by Melexis group companies .....                 | 586                                   | 999          | 690          |
| Services/purchases provided by M-MOS group companies .....         | 75                                    | 109          | 237          |
| Services purchased from Sensinnovat.....                           | 392                                   | 368          | 457          |
| Interest expenses Melexis .....                                    | 117                                   | 254          | 457          |
| Warranty cost Melexis group .....                                  | 820                                   | 1,088        | 133          |
| Interest from loan from Sarawak Technologies Holding Sdn. Bhd..... | 2,133                                 | 2,087        | 2,043        |
| <b>Total</b> .....   | <b>4,194</b>                          | <b>4,905</b> | <b>4,017</b> |

Services purchased from member companies of the XTRION group primarily included wafer test and final test services. Outstanding balances from sales and purchases of goods and from receiving and rendering of services at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. The X-FAB SE Group has not recorded any impairment of receivables relating to amounts owed by related parties in the years 2016, 2015 and 2014.

### Remuneration of persons with key management positions

|                                   | 2016                                  | 2015         | 2014         |
|-----------------------------------|---------------------------------------|--------------|--------------|
|                                   | <i>(in thousands of U.S. dollars)</i> |              |              |
| Short term employee benefits..... | 1,246                                 | 1,231        | 1,934        |
| <b>Total</b> .....                | <u>1,246</u>                          | <u>1,231</u> | <u>1,934</u> |

Within the new group structure in 2016 (X-FAB France) the persons with key management positions as referred above as of December 31, 2016 include COO, CTO, CFO, CEO of X-FAB Sarawak, CEO of X-FAB Texas and CEO of X-FAB France. Neither post-employment benefits nor termination benefits are granted.

The Group has made contributions to defined contribution pension plans for the benefit of persons with key management positions totalling USD 105 thousand (2015: USD 44 thousand; 2014: USD 53 thousand). Defined contribution plans comprise (mainly) statutory contributions to be made by employers to state based defined contributions plans. In connection with these plans there are no minimum guarantees by the employer. The defined contribution is based on a fixed percentage of the (capped) gross salary determined by state laws.

Members of management (the CEO and the VP Strategic Projects in 2015 and 2014) that are not on the payroll of the company have charged USD 393 thousand (2015: USD 561 thousand; 2014: USD 687 thousand) for their management services in the period. These amounts are not included in the table for remuneration of persons with key management positions above.

## 12 Other disclosures

### 12.1 Commitments and contingencies

#### Purchase commitments

Purchase commitments comprise the following at December 31:

|                                    | 2016                                  | 2015          | 2014          |
|------------------------------------|---------------------------------------|---------------|---------------|
|                                    | <i>(in thousands of U.S. dollars)</i> |               |               |
| <b>Purchase commitments for</b>    |                                       |               |               |
| Property, plant and equipment..... | 20,089                                | 36,400        | 37,100        |
| Intangible assets .....            | 350                                   | 300           | —             |
| <b>Total</b> .....                 | <u>20,439</u>                         | <u>36,700</u> | <u>37,100</u> |

Purchase commitments mainly refer to purchase orders placed for investments into technical machinery. With respect to the acquisition of the semiconductor business of Altis Semiconductor (see note 5) the Group committed to invest USD 106 million (EUR 100 million) in the Corbeil-Essonnes site over the next 10 years.

## Operating leases

The tables below show the amount of minimum lease commitments under operating leases and similar rental arrangements as of December 31:

|                    | 2016                                  | 2015          | 2014          |
|--------------------|---------------------------------------|---------------|---------------|
|                    | <i>(in thousands of U.S. dollars)</i> |               |               |
| 2015 .....         |                                       |               | 5,001         |
| 2016-2020 .....    |                                       |               | 14,820        |
| Thereafter .....   |                                       |               | 383           |
| 2016 .....         |                                       | 3,683         |               |
| 2017-2021 .....    |                                       | 10,035        |               |
| Thereafter .....   |                                       | 258           |               |
| 2017 .....         | 3,728                                 |               |               |
| 2018-2022 .....    | 5,825                                 |               |               |
| Thereafter .....   | 246                                   |               |               |
| <b>Total</b> ..... | <u>9,799</u>                          | <u>13,976</u> | <u>20,204</u> |

Expenses under operating leases totalled USD 4,533 thousand (2015: USD 4,470 thousand; 2014: USD 5,095 thousand). Assets held under operating lease agreements include one production hall and leased vehicles and office equipment.

## Investment grants and subsidies

X-FAB AG, XMF and X-FAB Dresden are required to retain the assets on which grants have been received for five years and for three years for assets subsidised, and to retain employee levels at specific locations. If it is not possible to fulfil these conditions, the grants and subsidies may be partially repayable.

X-FAB Sarawak was granted a R&D incentive grant in an aggregate amount of a maximum of USD 72.0 million to finance R&D activities in the State of Sarawak. To date, X-FAB Sarawak has received USD 19.2 million under this agreement with USD 14.4 million received in early 2015 and accounted for in the years 2014-2016 corresponding to the R&D expenses incurred. X-FAB Sarawak must comply with the terms of the agreement, in particular undertake the R&D activities as planned. This grant will be distributed in annual instalments of up to USD 4.8 million each year.

### 12.2 Unresolved legal disputes and claims

X-FAB SE Group is not involved in court or tribunal proceedings which could have a significant financial impact on the Group, and management is not aware of the threat of any such proceedings.

### 12.3 Employees

The average number of employees employed by the Group during the year was as follows:

|                                | 2016  | 2015  | 2014  |
|--------------------------------|-------|-------|-------|
| Production .....               | 2,446 | 2,064 | 1,891 |
| Research and development ..... | 243   | 212   | 192   |

|   | <b>2016</b>  | <b>2015</b>  | <b>2014</b>  |
|---|--------------|--------------|--------------|
| Sales, marketing and administration ..... | 199          | 180          | 167          |
| Trainees.....                             | 58           | 64           | 69           |
| <b>Total</b> .....                        | <b>2,946</b> | <b>2,520</b> | <b>2,319</b> |

The total number of employees employed by the Group at December 31, was as follows:

|   | <b>2016</b>  | <b>2015</b>  | <b>2014</b>  |
|---|--------------|--------------|--------------|
| Production .....                          | 3,182        | 2,130        | 1,950        |
| Research and development.....             | 280          | 224          | 199          |
| Sales, marketing and administration ..... | 252          | 182          | 168          |
| Trainees.....                             | 66           | 65           | 71           |
| <b>Total</b> .....                        | <b>3,780</b> | <b>2,601</b> | <b>2,388</b> |

#### 12.4 List of shareholdings

| <b>Entity</b>  | <b>Place of incorporation</b> | <b>Principal activities</b> | <b>Shareholding %</b> |
|--|-------------------------------|-----------------------------|-----------------------|
| X-FAB Silicon Foundries SE .....                               | Tessenderlo, Belgium          | Holding company             |                       |
| X-FAB Semiconductor Foundries AG.....                          | Erfurt, Germany               | Wafer manufacturing         | 100.00%               |
| X-FAB Dresden GmbH & Co. KG.....                               | Dresden, Germany              | Wafer manufacturing         | 100.00%               |
| X-FAB Dresden Verwaltungs-GmbH.....                            | Dresden, Germany              | No activity                 | 100.00%               |
| X-FAB Texas Inc. ....  | Texas, USA                    | Wafer manufacturing         | 100.00%               |
| X-FAB Sarawak Sdn. Bhd.....                                    | Kuching, Malaysia             | Wafer manufacturing         | 100.00%               |
| X-FAB France SAS.....  | Corbeil-Essonnes, France      | Wafer manufacturing         | 100.00%               |
| X-FAB Japan KK.....  | Yokohama, Japan               | Trading company             | 100.00%               |
| X-FAB MEMS Foundry GmbH  | Erfurt, Germany               | Wafer manufacturing         | 100.00%               |
| OOO Microdesign  | Voronesh, Russia              | R&D, Design                 | 100.00%               |
| X-FAB MEMS Foundry Itzehoe GmbH                                | Itzehoe, Germany              | Wafer manufacturing         | 100.00%               |
| X-FAB Dresden Grundstücks-Vermietungsgesellschaft mbH & Co. KG | Dresden, Germany              | Real estate                 | 94.90%                |
| Semprius Inc.  | Durham, NC, USA               | Photovoltaic module         | 5.30%                 |

#### 12.5 Consolidated financial statements of the parent

XTRION NV, the Company's parent, produces consolidated financial statements that are available for public use. These can be obtained on request from Xtrion NV, Transportstraat 1, 3980 Tessenderlo, Belgium.

## 12.6 Auditor and auditor's remuneration

During the General Shareholders' Meeting on May 28, 2014, KPMG Bedrijfsrevisoren – Réviseurs d'Enterprises BV CVBA Belgium, represented by Mr Herwig Carmans, was appointed as auditor for the years 2014, 2015 and 2016.

The auditor's remuneration for the period was as follows:

|                    | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|--------------------|-------------|-------------|-------------|
| KPMG.....          | 527         | 212         | 255         |
| Whitley Penn.....  | 176         | 86          | 83          |
| <b>Total</b> ..... | <b>703</b>  | <b>298</b>  | <b>338</b>  |

## 13 Corporate governance

X-FAB SE's controlling shareholder is XTRION NV, a Belgian company which is controlled by Roland Duchâtelet and Rudi De Winter. Both are managing directors of XTRION NV. Roland Duchâtelet is also chairman of the Supervisory Board of X-FAB AG, a member of the board of X-FAB SE and a director of Melexis Technologies NV. Rudi De Winter is CEO as well as director of X-FAB SE and a director of Melexis Technologies NV. The X-FAB SE subsidiaries are the main suppliers of wafers to Melexis NV.

X-FAB SE's Board of Directors manages the Company in accordance with the principles laid down in the Articles of Association and makes decisions on general policy, including assessment and approval of strategic plans and budgets, supervision of reports and internal audits and other tasks assigned by law to the Board of Directors. In accordance with the Companies Code, the Board of Directors has appointed Rudi De Winter as managing director (CEO), to whom it has delegated its managerial powers with the exception of general policy and all actions that are reserved to the Board of Directors by statutory provisions.

The CEO is appointed by the Board of Directors for an indefinite period, unless the Board of Directors decides otherwise.

In accordance with Article 15 of X-FAB SE's Articles of Association, the Board of Directors consists of at least three and at most nine members. They are appointed by the General Meeting of Shareholders for a term of three years. At any time the General Shareholders' Meeting can dismiss a director. There is no age limit for directors, and outgoing directors can be reappointed.

The Board is chaired by Dato Sri Ahmad Tarmizi Bin Sulaiman.

The directors of the Company are:

| <b>Name</b>                              | <b>Position</b>       |
|--|-----------------------|
| Dato Sri Ahmad Tarmizi Bin Sulaiman..... | Chairman of the Board |
| Rudi De Winter .....                     | CEO                   |
| Hamid Bin Bugo .....                     | Director              |
| Roland Duchâtelet.....                   | Director              |
| Matthias Bopp.....                       | Director              |
| Hans-Jürgen Straub .....                 | Director              |

No remuneration was paid to the Company's Board of Directors in 2016, 2015 or 2014.

**14 Shareholder contact information**

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**15 Events after the reporting period**

There have been no reportable events subsequent to the reporting date.

Tessengerlo, March 17, 2017

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