X-FAB
MIXED-SIGNAL FOUNDRY EXPERTS

MORE THAN MAKING CHIPS

ANNUAL REPORT 2017

X-FAB Silicon Foundries SE

CONTENTS

DEAR STAKEHOLDERS,

2017 was an exciting year for X-FAB. We celebrated the Group's 25th anniversary, and since April 6, X-FAB has been listed on Euronext Paris, which was a great milestone in the life of the Company. The IPO, for which we recently received the Euronext award "IPO of the Year" in the large caps category, provided us with additional resources to finance expansion capex as well as capacity and capability enhancements, while also providing a strong capital structure in line with industry standards. Based on this, X-FAB has the financial flexibility to seize additional growth opportunities in the future.

We progressed well in reaching our vision to become the foundry of choice for the analog world. In 2017, we grew revenues from USD 512.8 million to USD 581.7 million. Looking at our strategic market segments automotive, industrial, and medical end markets, revenues increased from USD 274.4 million to USD 339.9 million, representing a growth of 24%, largely exceeding the growth of the overall analog/mixed-signal market.

The legacy business at X-FAB France, taken over with the acquisition of the assets of Altis Semiconductor, has grown slightly to USD 121.8 million. In the meantime, we progressed well with the implementation of X-FAB proprietary technologies in our French factory near Paris. First production for consumer customers was delivered in the third quarter of 2017 with a further increase in the fourth quarter. We also advanced with the implementation of automotive process modules. At the end of 2017, we started to manufacture first samples for automotive products for customer evaluation in 2018. Overall, we are well on track and expect automotive production deliveries on X-FAB proprietary technologies to start towards the end of 2018. Thanks to the team at X-FAB France for their great collaboration, geared at integrating the new site into the X-FAB Group and its culture, as well as the hard engineering work on the multitude of new technology implementations to ramp up production with new products.

We have been focusing on the medical market for a few years now, and this is starting to pay off. The revenue share of our medical business has grown from 2.5% in 2016 to 3.9% in 2017. Year-on-year, this part of our business recorded a 75% growth. Medical products include optical detectors for X-ray machines, high-voltage drivers for echography and increasingly also lab-on-a-chip applications. The lab-on-a-chip applications are highly customized technologies implementing various physical measuring principles that help our customers to differentiate. These applications range from next-generation DNA sequencing to tumor cell sorting and allergy testing.

Throughout 2017, our factory in Kuching, Malaysia, was fully loaded, with demand exceeding the available capacity. Thanks to the strong prototyping activities over the past years, the outlook remains strong as well. In the second quarter of 2017, we therefore decided to pull forward the capacity expansion of 4,000 wafer starts per month. This extra capacity will become fully effective in the second quarter of 2018.

In our factory in Lubbock, Texas, we succeeded with the development of our silicon carbide (SiC) business, which will become the future revenue driver for the Texas site. The growth in this market is mainly driven by the electrification of cars and renewable energies. Our engineering team has implemented customized technologies for eleven customers. At the end of 2017, we shipped first production wafers and also reached a mature development status with several other customers.

The major development efforts at our German locations in Erfurt and Itzehoe are focused on MEMS, i.e. micro-electro-mechanical systems. In 2017, we made considerable investments into our MEMS business by adding further capabilities and materials, such as platinum. We reached the process freeze status for our through-silicon-via (TSV) process, which is particularly attractive for a variety of optical and chemical sensors, as used in lab-on-a-chip applications, for example. In 2017, X-FAB's MEMS business grew to USD 43.2 million in revenues, including an all-time high of USD 8.2 million for engineering and prototyping. Looking forward, we expect our MEMS business to grow above average over the next three years.

In 2017, X-FAB's engineering and prototyping revenues totaled USD 54.4 million, which is an increase of 28% compared to the previous year, filling the pipeline for future growth. It is a good indicator for our capability to win new business, and it shows that our customers keep finding their way to X-FAB for new projects. Overall, X-FAB invested USD 38.1 million in R&D activities in 2017 to further strengthen its position as a specialty foundry.

One of our main differentiators is our capability to integrate high voltage, analog, and digital functions, as well as nonvolatile memories and sensors, all in one technology. On top of that, this technology is capable of operating at a junction temperature of up to 175°C, making it well suited for high reliability electronics that can be found in harsh environments, such as under the hood of your car. This makes our high-voltage silicon on insulator (SOI) technology particularly attractive for automotive and industrial applications.

At X-FAB, we strive to make it easy for customers to start working with us or to start using a new technology. Our ultimate goal is to enable our customers to implement first-time-right designs, even for circuits that need to work in harsh environments. We have therefore invested a lot in the characterization and modeling of our technologies. What our customers simulate is exactly what they get in silicon.

Gallium nitride (GaN) is a semiconductor material becoming more and more attractive for power electronics. In 2017, X-FAB proved its leadership in this field. In a joint effort with our customer Exagan, we demonstrated the world's first GaN power devices on 200 mm wafers.

All these great achievements were possible thanks to our "X-FABulous Team". At X-FAB, we put our customers at the center of what we do. Every day, we work towards our goal of being a customer-oriented company by living our values of commitment, integrity and respect, good teamwork, and innovation. We have completed 386 Vision & Values team workshops throughout the Company with all employees to make the X-FAB values tangible in our day-to-day life.

Outlook:

For 2018, X-FAB expects further growth with revenues between USD 615 to 655 million and an EBIT in the range of USD 50 to 70 million. The current planning for 2019 foresees revenues in the range of USD 700 to 760 million and an EBIT in the range of USD 70 to 100 million. Our guidance is based on an average exchange rate of 1.20 USD/euro. The projected growth will mainly be driven by the increase of our organic business for the automotive, industrial, and medical end markets. For MEMS and SiC, we do expect to see more than proportional growth.

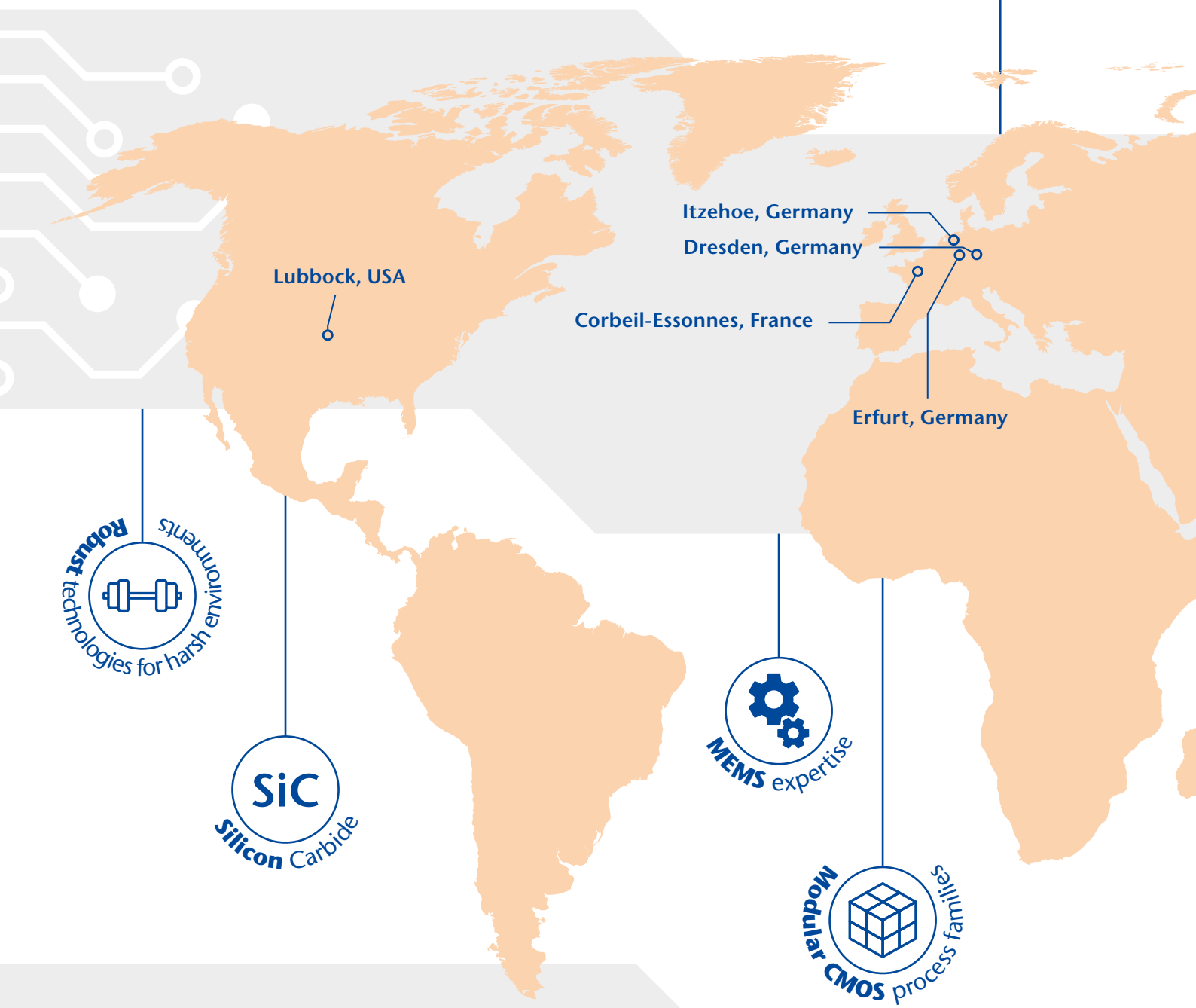
After the close of 2017, there have been no major events that would require disclosure.

I would like to conclude by honoring all X-FAB employees for their great efforts to move us closer to our ultimate vision of being the foundry of choice for the analog world.

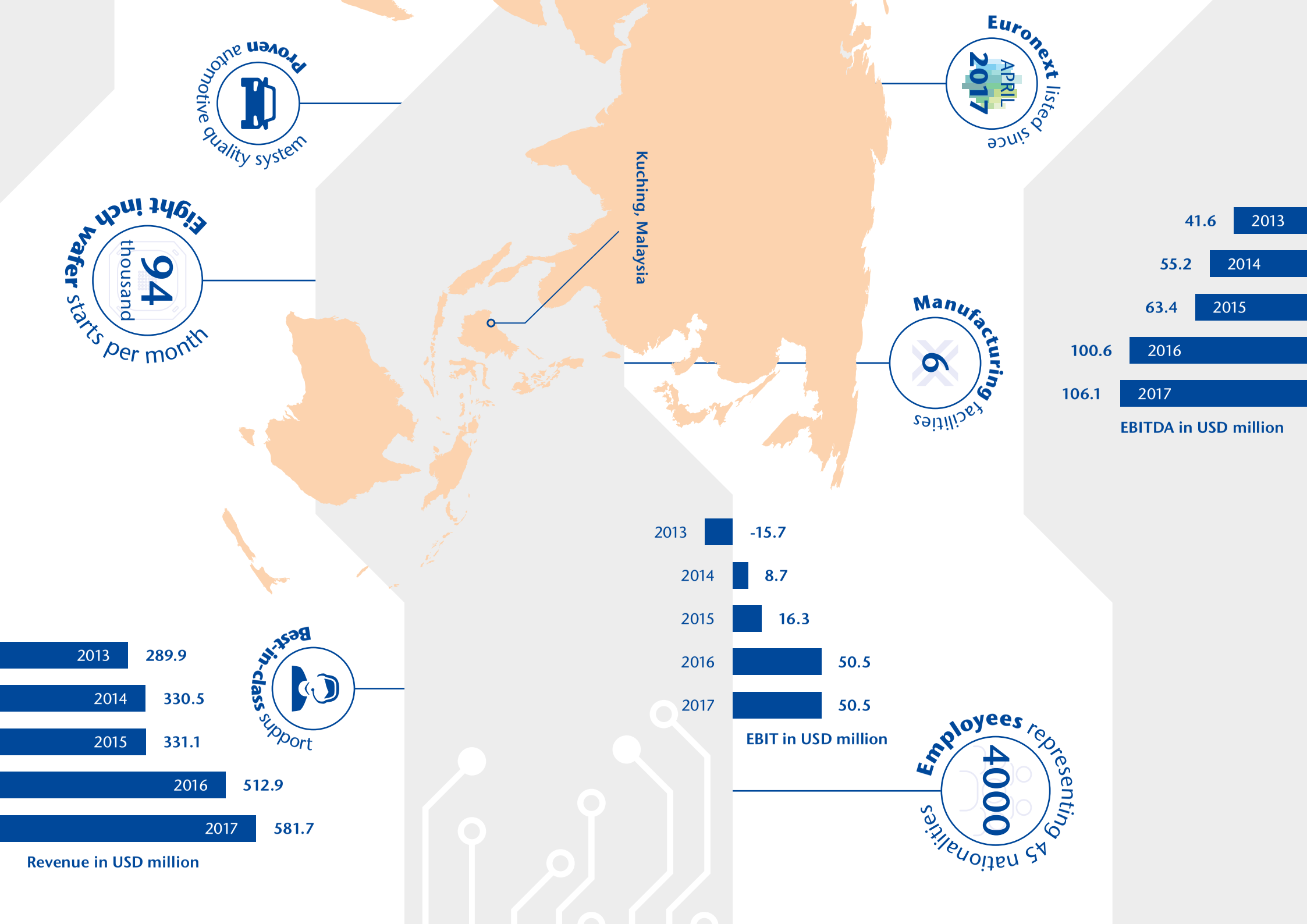
Rudi De Winter
CEO

X-FAB AT A GLANCE

Specialty foundry for analog/mixed-signal technologies with strategic focus on automotive, industrial, and medical markets



X-FAB
MIXED-SIGNAL FOUNDRY EXPERTS


Proven automotive quality system
Euronext listed since APRIL 2017
Kuching, Malaysia
Eight inch wafer starts per month 94 thousand
Manufacturing facilities 6
41.6 2013
55.2 2014
63.4 2015
100.6 2016
106.1 2017
EBITDA in USD million
2013 -15.7
2014 8.7
2015 16.3
2016 50.5
2017 50.5
EBIT in USD million
Best-in-class support
2013 289.9
2014 330.5
2015 331.1
2016 512.9
2017 581.7
Revenue in USD million
Employees representing 45 nationalities 4000

3. OUR CULTURE

Rudi De Winter, CEO

» ***It is not only important what we do, but also how we do it.***

Diversity at X-FAB

Since its inception in 1992, X-FAB has grown to become a global company with a strong presence in Europe, North America, and Asia and approximately 4,000 employees spread all over the globe. At X-FAB, you will find an international and diverse working environment. Our employees represent 45 nationalities and have varying cultural backgrounds. This makes working at X-FAB an inspiring experience – across borders and cultures. Nonetheless, we are well aware that our customers expect excellent products and services irrespective of nationalities and locations. It is therefore essential to enable our employees – no matter where they are located or where they come from – to collaborate successfully.

Who are we?

Back in 2014, the management team stepped out of their daily routine to take a broad view on X-FAB: What does X-FAB stand for? What is X-FAB striving for; what are our ambitions? And how do we want to achieve them? At the end of an intense workshop stood a clear vision and mission for X-FAB:

VISION

To be the foundry of choice for the analog world

MISSION

We are fully engaged to be the foundry of choice for the analog world by focusing on innovative solutions and manufacturing excellence that meet customer expectations, enabling long-lasting success for all our stakeholders.

Guiding us to success

It became clear that strong values build the basis for the success of X-FAB, including the way we work together and interact with each other and with our stakeholders. Apart from confirming the X-FAB values that already existed at that time, an additional value was put in the center of attention: customer orientation.

Fig 3.1: The X-FAB values

To make tangible what it means to be a customer-oriented company and how our values can guide us to success, X-FAB, together with Bright Collective, launched its group-wide Vision & Values program, a workshop-based concept to introduce all employees and teams to the idea of leadership: leadership as a person spurred by the values of integrity and respect, and leadership as a team spurred by the values of teamwork, commitment, and innovation – together leading to customer orientation.

> ***Customer orientation starts with our colleagues. Being reliable and delivering the best quality, in collaboration within and across teams, lays the foundation for excellent products and services for our external customers.***
>
> Henryk Schoder, VP Human Resources

Members of X-FAB staff were trained to facilitate the Vision & Values workshops as so-called Values Promotors. As at year end 2017, the Values Promoters have facilitated 386 workshops worldwide, resulting in manifold initiatives and concrete actions. Meanwhile, the program is entering its third round.

Measuring success

X-FAB conducts regular surveys of its customers and employees. Recent surveys show significant improvements on how customers perceive their collaboration with X-FAB and also on how our employees assess their employer and their working environment.

X-FAB is on a growth path with many complex and demanding projects that have been and are being executed smoothly and successfully. We are confident that the Vision & Values program has made a difference and that strong values across the company are the best foundation for the future success of X-FAB.

Fig 3.2: Posters displayed at all locations to visualize the X-FAB values and to thank our employees

WE THIN
AUTO-
MOTIVE

Semiconductors for automotive markets

X-FAB
technologies
for our future.

SAFETY

SECURITY

CONNECTIVITY

ENVIRONMENTAL CONTROL

AUTONOMOUS DRIVING

Operator staff in the cleanroom of the Erfurt MEMS fab

MONITORING DEVICES IN A RANGE OF ELECTRIC,

HYBRID, AND

INTERNAL COMBUSTION ENGINE VEHICLES

4. OUR BUSINESS

The specialty foundry business model

X-FAB is one of the world's leading specialty foundry groups for analog/mixed-signal semiconductor technologies and the largest pure-play foundry with a clear focus on automotive, industrial and medical applications. As a foundry, X-FAB provides manufacturing and design support services to its 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. As a pure-play foundry, X-FAB does not have own products, but manufactures ICs based on designs created by its customers or third-parties and mostly based on X-FAB's portfolio of modular, highly specialized proprietary process technologies.

Besides pure-play foundries there are also so-called integrated device manufacturer (IDM) foundries, which offer foundry services in addition to manufacturing their own ICs. The main customer groups for foundries – fabless semiconductor companies, IDMs and original equipment manufacturers (OEMs) – are served by both pure-play and IDM foundries equally.

The majority of X-FAB's customers are so-called fabless semiconductor companies (often also called fabless houses): companies that have no own manufacturing and process technology expertise but rely on foundries for those services and the related expertise. A smaller part of X-FAB's customer base is either OEMs or IDMs that normally cover the whole value chain in-house and also own internal manufacturing resources but decide to rely on external foundries for specialty process technologies or expertise that they do not own and do not want to build up internally.

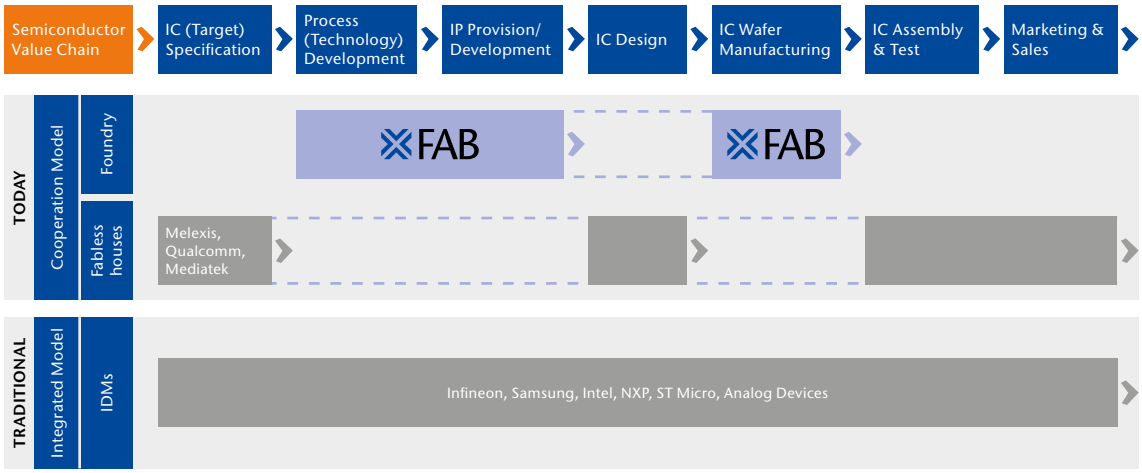


Fig 4.1: Value chains for foundries, fabless companies and IDMs

By providing a wide 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 its nearly 350 customers worldwide, X-FAB typically has strong, long-lasting relationships with those customers. The long product lifecycles of the products manufactured by X-FAB in its key application areas – often ten or more years – support those long-standing customer relationships.

The X-FAB group has an established track record, with over 25 years of experience providing customers with advanced analog/mixed-signal solutions that utilize X-FAB's proprietary manufacturing processes and advanced design and engineering support offerings. The group believes that these process technologies and extensive service offerings clearly differentiate X-FAB from many competitors by supporting customers in designing semiconductors according to their specific end-use applications.

The manufacturing process

At X-FAB we manufacture 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 our proprietary process technologies and third-party silicon wafers and other raw materials. Our modular approach allows customers to choose from a wide range of enhanced analog/mixed-signal functionality options across many 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 ICs specifically tailored to their end-use requirements. We currently offer process technologies with 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.

We operate six wafer manufacturing sites in Germany, France, Malaysia and the United States, with aggregate production capacity of approximately 94,000 200 mm equivalent wafer starts per month (WSPM) to provide customers with their products. All critical process technologies can be sourced from at least two of these sites.

Focus on analog/mixed-signal

In general, semiconductor-based ICs can be classified as analog, mixed-signal 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, typically for computational or data processing functions. Historically, computers and other electronic equipment almost exclusively processed digital data. By contrast, analog circuits (such as sensor, amplifier, transducer, and filter functionalities) 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. With more and more electronic devices interfacing with the "real world" (such as through the Internet of Things (IoT)), the demand for such devices increases continually, making mixed-signal semiconductor ICs an increasingly important part of the market for electronic equipment.

Most advanced electronic products, even those with a high share of digital signaling (especially those for automotive, industrial and medical applications), require an increasing amount of analog functions. Especially when these circuits communicate with the "real world" around them, sensors are needed to detect analog signals and convert them into something that computers and other controlling systems can process, while at the same time so-called actuators might be required to transfer the results of such computations back to the analog world, e.g. through amplifiers for motor drivers, optical output to displays, and many other means of communicating information back to the real world.

The number of analog (including analog/mixed-signal) semiconductors produced annually has grown from approximately 58 billion units in 2005 to approximately 154 billion units in 2017, according to the 2018 McClean Report. This market grew by a CAGR of 7.6% between 2015 and 2017 and is expected to grow at a CAGR of 6.6% between 2017 and 2022.

The stronger emphasis on analog performance, functionality, quality and reliability distinguishes mixed-signal ICs from digital ICs, where decreasing sizes (also called technology nodes or feature sizes, which reflect the minimum width of a single line in the circuit), higher speeds, and computational

capabilities are the most critical success factors. As a result, continual advances in further decreasing feature sizes to improve speed are critical for the 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 continuously reducing the lifecycle 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 technical capabilities as well as the capital investment required to continually upgrade manufacturing facilities to support those improvements. For example, in the years from 2010 to 2017 (respectively), the four major pure-play digital IC foundries – TSMC, GlobalFoundries, UMC and SMIC – together incurred capital spending comprising 54%, 82%, 50%, 41%, 59%, 53%, 52% and 36% of their aggregate sales. Digital ICs are commonly used in products such as mainframe computers, personal computers, and data storage devices. Memories (e.g. DRAMs and flash memories) and CPUs are the most prominent example of digital ICs.

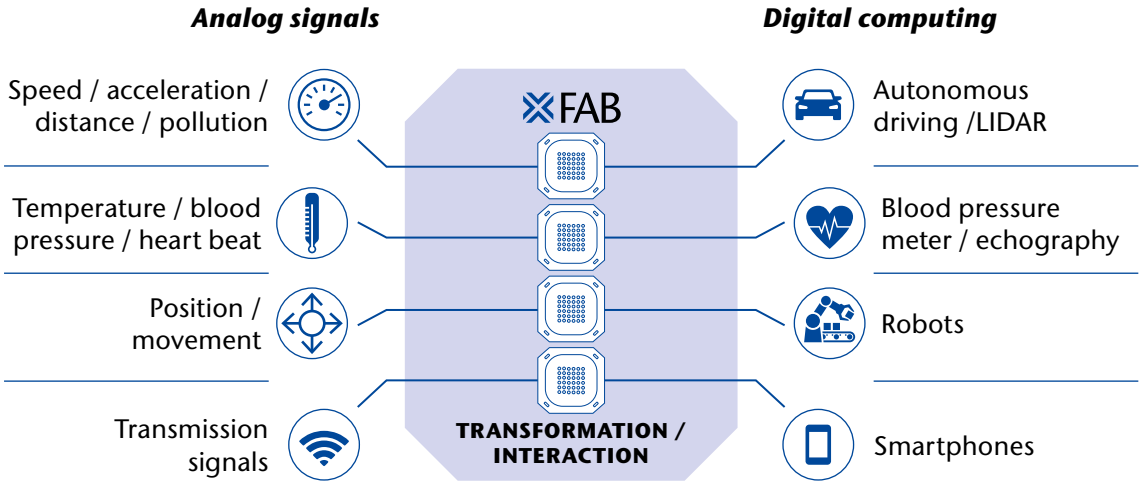


Fig 4.2: Mixed-signal chips as interface between the real world and the digital world

Customer focus and product

In summary, analog/mixed-signal products typically are much more specialized for their application, thus produced in much smaller volumes and typically used for many years in their highly specialized applications – whereas leading-edge digital circuits are typically produced as standard products in higher volume for a shorter period of time, leading to higher competitive pressure among different suppliers.

Our focus on highly customized analog/mixed-signal ICs, resulting in smaller production volumes per each product and requiring more engineering input per unit, is typically yielding higher margins than more commoditized ICs. Due to the high degree of product customization typically required by our customers, combined with the longer product lifecycles and relatively small production volumes associated with each product, we are also less vulnerable to the high price,

demand, and stock volatility experienced by many of our competitors in the broader IC market. At the same time, we tend to serve many more customers at any given point in time, including start-ups and universities, often helping them to realize highly innovative product concepts with prototyping or very small early-volume production.

Our growth in recent years 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. Thus, as an analog/mixed-signal IC foundry, we have not been subject to certain broader semiconductor industry trends that have affected digital IC foundries, such as (i) supplier consolidation and focus on feature size and processing speed and (ii) substantial pricing volatility.

According to the 2018 McClean Report, X-FAB is the fifth largest analog/mixed-signal foundry, the tenth largest pure-play foundry and the twelfth largest overall foundry, based on 2017 sales levels.

More than making chips

In 2017, 61% of our revenue was from customers in the automotive, industrial, and medical end-user markets, which have been characterized by structural growth trends. These trends are expected to support continued growth, largely fueled by several development trends such as (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 complexity physical sensors in industrial devices and (iii) disease diagnosis, drug detection, and chemical and cell analysis with analog/mixed-signal capabilities in new medical products and systems. While a significant portion of our current revenue for the communications market stems from few high-volume consumer mobile products and from the high share of communications revenue on the newly acquired French site, we do 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 niche capabilities for certain applications in this market, including specific sensors and MEMS.

Saving lives

With the majority of the products of our customers being in our core areas of automotive, industrial, and medical applications, many of those products are in critical applications that help saving lives – be it through safety features in cars, cancer diagnostic systems, or user protection systems in industrial machinery.

In the ***Medical*** area, such products saving or easing human lives include pacemakers, x-ray detectors, glucose monitors, and hearing aids, and also more advanced systems such as DNA sequencing and cancer cell identification and sorting, as well as screening for certain diseases or blood analysis.

Typically, the products manufactured for our medical customers sense a variety of biological parameters (e.g. blood parameters, heart rate, breathing air content, etc.) or physical parameters (e.g. size/shape/volume share of certain cells or cell types, audio signals, temperature, etc.), often making use of our MEMS capabilities or combining purely mechanical properties (e.g. for cell sorting) with electronic functions on an integrated circuit (e.g. for optical cell analysis).

It is many of those live-saving products that generate the continuously high growth rates of the relatively young market for “medical electronics”, a market where traditional medical companies are often just entering with highly innovative new product and system concepts. Thus, our customer base for medical applications does not only consist of traditional IC suppliers, but also increasingly includes medical or pharmaceutical OEMs as well as suppliers of complex medical systems and apparatus for diagnostics.

Fig 4.3: Cartridge for blood analysis (courtesy of Silicon Biosystems)

Fig 4.4: Analysis system for blood analysis (courtesy of Silicon Biosystems)

DNA sequencing in cancer diagnostics

A "lab-on-a-chip" type device developed by one of our customers for DNA sequencing is a very good example of the interdisciplinary approach used to exploit both electronic and mechanical properties at the same time. A disposable cartridge contains both the electronic circuit manufactured at X-FAB and the mechanical cover with two holes through which liquids containing the cells to be analyzed are exposed to that chip.

As latest research has proven that many nucleic acid modifications seem to play a significant role in cancer development, DNA sequencing can now be applied to the identification and classification of certain cancer cells and has thus become a vital tool in cancer diagnosis and treatment. In manufacturing the DNA sequencing chip, we use a variety of microfabrication techniques, including MEMS (for the mechanical cell sorting) and CMOS circuitry (for the cell analysis part).

The disposable cartridge gets inserted into an analysis system to perform the DNA sequencing. In this concrete application, the system replaces bulky and expensive laboratory equipment, while at the same time reducing both time and cost for each DNA sequencing to a fraction of previous values and thus enabling a much wider use of DNA sequencing in diagnosis and therapy of a variety of diseases.

Cell sorting

A similar medical product manufactured for another customer uses similar mechanical structures and electronic analysis in a MEMS-type device to sort a variety of cells, be it cancer cells, fetal cells or blood samples. In case of blood analysis, the blood is fed into the cartridge shown in Figure 4.3 which is then put into the analysis system shown in Figure 4.4.

This system, called DEPArray™, offers the ability to sort and separate individual cells, for example from a sample of blood.

In ***Industrial*** environments and applications, saving lives can cover completely different aspects. Our focus here is also on sensor and actuator applications, i.e. linking the analog world to the intelligence of digital systems; therefore, practical examples are manifold. A typical example for saving lives in industrial environments is a safety light curtain implemented with a product based on X-FAB technology and design support, as shown in Figure 4.5. The safety light curtain protects the operator from accidentally reaching into the dangerous area of a large machine tool, where moving machine parts could lead to serious human injury or even fatal accidents. An array of sensors detects any interruption of any of the light beams when someone is reaching into the hazardous area and relays a signal that causes the machine or parts of the machine to stop immediately.

Fig 4.5: Machine tool with light curtain for operator protection

The customer selected X-FAB for its on-chip diode function that allows a high level of integration and functional reliability. Like in many other applications, it is the efficient and effective sensing and conversion of the (analog signal of a) movement of the operator into the digital information that can be processed by the system control in the background and – in return – the conversion of such digital signals into analog signals controlling the motors of the moving parts that makes the difference in many analog/mixed-signal device applications and products.

While all such highly innovative applications in industrial and medical environments already help saving lives or avoiding injuries of human beings, it is in the ***Automotive*** environment and applications where a multitude of products containing multiple sensors and actuators have already found their way into mass production and broad customer acceptance. These applications cover innovative security systems, including:

- night vision systems, enabling drivers to "see in the dark" and detect dangerous objects otherwise hidden in the fog, snow, or heavy rain;
- lane change assist systems, also known as blind spot information systems, helping drivers to detect other cars in the blind spot when changing lanes; and
- radar-based adaptive cruise control systems, often with start-stop functionality, supporting drivers in congested traffic to adjust their cruising speed to changing traffic conditions and thus avoid collisions.

Even if completely autonomous cars are still a few years away, the multitude of electronic systems, more specifically sensors and actuators, have already paved the way to reduced mortality rates in car traffic, less congestions in higher density traffic conditions and safer travel under adverse weather conditions, just to name a few.

Sustainable energy/efficient energy conversion

Whenever people talk about latest achievements in areas such as renewable energy, sustainable energy, energy efficiency, and similar buzz words, what they typically refer to are the latest achievements in more efficient conversion of power or energy, be it

- from solar energy into electrical energy;
- from wind energy into electrical energy; or
- from electrical energy into motion with the help of electric motors, just to name a few.

The latest-generation electronic control systems play a critical role in achieving higher power conversion ratios, reducing the loss of energy through such conversion processes. That way, the same windmill can generate more electric power and solar cells achieve higher efficiency and generate more power from the same amount of sunlight.

In many of such latest-generation control systems, the better material properties of SiC have helped improve power conversion efficiency, reduce power losses, increase switching speed, and increase operating temperatures compared to conventional silicon-based solutions or even traditional non-electronic solutions.

Fig 4.6: IGBT gate driver in inverters for wind power stations

Fig 4.7: SiC transistors for charging stations

Higher efficiency in driving latest-generation electronic motors – be it in an electric car, a complex machine tool, an elevator, or any other product or application using electric motors – is seen as one of the largest areas for energy saving in our modern society. Almost any renewable energy system will rely on latest-generation electronic systems to increase energy efficiency and reduce energy losses, helping the world save scarce energy resources.

Our early entry into 150 mm SiC foundry provides us with a head start for the expected strong growth to come – with Yole expecting a CAGR in SiC markets of 28% between 2016 and 2020, subsequently rising to a CAGR of 40% for 2020 to 2022.

Cleaner transportation

In the area of cleaner transportation, electronic systems can assist in and enable cleaner solutions in all kinds of transportation – be it more efficient rail transportation using latest-generation electric locomotives or higher efficiency and cleaner exhausts in all kinds of road transportation vehicles. While cleaner transportation in cars is often only associated with electric and hybrid cars, any traditional combustion engine relies on a multitude of sensors and electronic systems to reduce fuel consumption and exhaust emission and thus improve air quality in all metropolitan areas globally.

Typically, complex engine management systems rely on a multitude of microelectronic sensors, sensing gases or gas compositions, air pressures, positions of valves and moving parts, as well as other physical values to reduce exhaust volumes and thus air pollution.

In hybrid cars, complex electronic systems make sure that at any point in time, the car operates at optimum conditions, the batteries are recharged efficiently by recovering brake energy, and the electric drive mode is best used in inner-city traffic where combustion engines tend to generate the highest fuel consumption and thus the highest exhaust pollution.

In full electric cars, battery management, including efficient charging of the onboard batteries, and efficient deployment of the contained energy over time are some of the core elements of each control system.

To understand the long-term potential of the automotive market for X-FAB, it should be pointed out that, despite the increasing transition to electric cars, most of the electronic systems used in cars today will not disappear but rather increase in volume – be it driver assistance, safety systems such as tire pressure monitoring systems or anti-lock brake systems, other body electronics such as lane assist or lane change assist systems, entertainment functions, and many others. Only the engine management as such will see a drastic change with the transition from combustion engines to electric motors.

Fig 4.8: LED drivers for ambient lighting solutions in cars (courtesy of Melexis)

X-FAB's strategic markets

Automotive electronics – building reliability and trust

For many years, Automotive has been our largest market, with a 44% share in revenue in 2017 or USD 256.1 million, an increase of 22% over its 2016 revenue.

Product reliability and established trust in suppliers are two key prerequisites for successfully serving the automotive industry. Our focus on mission-critical safety applications and increasingly complex product requirements, together with tightening environmental laws and regulations faced by the automotive industry, helped identify which advanced solutions and features best support automotive designers and their customers. Clearly, the automotive industry requires guaranteed reliability – something we have worked on consistently for the last 20 years to meet automotive quality standards and create trust among its customer base – trust in technology, trust on the road, and trust and reliability in case of an emergency situation.

Prototyping activities from existing volume production customers stayed very strong in 2017, while more than 30 customers were using our processes for engineering runs and R&D activities in preparation for later volume production. IC design and development for automotive markets usually takes three to five years in order to reach final qualification stage for the device by our customers, their end customers, and the automotive OEMs.

In order to enable customers to develop reliable ICs for the automotive market we are offering so-called open-platform mixed-signal processes with a well reputed process design support environment (e.g. PDKs = process design kits for various design platforms) and silicon-proven and qualified analog and non-volatile memory (NVM) IP for extended temperature range of up to 175°C.

Industrial electronics – supporting higher energy efficiency

The market for application-specific analog ICs for industrial applications is growing stronger than the overall IC market with a CAGR of about 7% between 2015 and 2020 (source: IC Insights, The McClean Report 2018). Among the market drivers are newer applications like robotics and industrial Internet of Things, for which a multitude of sensors, bus interfaces, and actuators are required.

Our revenue in the industrial market has been growing with a CAGR of 12% since 2012, outpacing the market forecasts in the range of 7% CAGR (2015–2020, as quoted by IHS, Gartner, or IC Insights publications).

Trends driving IC demand in industrial application areas

- Smart factory and automation
- Energy efficiency
- Sensing and actuating
- Industry 4.0 and Industrial IoT
- Surveillance for safety and security

Revenue data 2017 for the industrial market at X-FAB

- Revenue from volume production customers and products
  USD 55.7 million
- Revenue from prototyping
  USD 17.1 million
- Total revenue from industrial customers/ products
  USD 72.8 million
- Total of 71 customers moved products to volume production
- Pipeline of 233 opportunities with 133 different customers

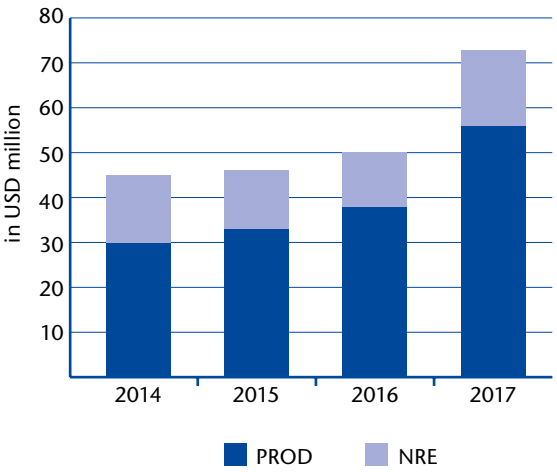


Fig 4.9: Production and prototyping revenue at X-FAB for the industrial market

Among the key areas facilitating the above-average growth of the industrial market are applications for industrial sensors and field bus interfaces as well as various power driver controllers targeting the large variety of power efficiency and energy-saving applications. Our growth in 2017 was additionally fueled by the acquisition of the former Altis fab in Corbeil, France where two large customers were adding about USD 6 million in production revenue for industrial applications, contributing to the steep growth in 2017.

Due to relatively small volume per product and thus higher prototyping costs per device, industrial products and systems typically require semiconductor devices with much longer product lifetimes to amortize the development and prototyping costs for any new product. Thus, it takes typically two to three years to convert a prototype into a volume production device with a subsequent long lifecycle, very similar to automotive products with their comparable quality and reliability requirements (IATF 16949). Industrial customers often rely on X-FAB's ability to provide a product for volume production over a 15 to 20-year period. Supplier stability and continuity and security of supply is thus often one of the clear differentiating and winning factors for us over many newly established Asian foundries and "opportunity IDM foundries" that provide open capacity for a period of low internal utilization, but can't guarantee stable supply over longer time periods.

Medical electronics – enabling innovative solutions

Despite still being by far the smallest of its three strategic markets, medical electronics currently presents the highest growth potential for X-FAB. Over the last few years, we saw the strongest growth in the medical market in the company's history.

Some key numbers illustrating that sustainable growth potential include:

- 52% higher prototyping revenue year-on-year (YoY);
- 98% higher volume production revenue YoY;
- 78% higher total revenue;
- five years' CAGR of 43% for the total revenue;
- five years' CAGR of 34% for the volume production revenue; and
- five years' CAGR of 75% for prototyping revenue as leading indicator for further volume production revenue – pointing toward a continuation of the current upward trend.

Among many other new prototypes, the growth is driven by:

- products for DNA sequencing, where two customers ramped up their production volume;
- high-voltage analog switches for medical ultrasound equipment, where a leading medical provider nearly doubled both production and prototyping revenue;
- various integrated circuits for medical devices such as glucose meters and hearing aids are ramping up volume production; and
- prototyping revenue from new product developments in the areas of medical ultrasound and X-ray.

Despite many innovative and "young" products, our customer base in medical markets is already fairly solid and balanced, with 51% of the revenue generated with medical OEMs, 32% with component providers, 12% with other service providers along the supply chain, and 5% with start-ups and research organizations.

The applications for which customers select X-FAB reflect the strength of our technology offering for advanced analog/mixed-signal solutions and MEMS, including very specific features such as low power consumption (esp. for implanted devices), high ESD protection, high sensitivity of sensor elements, and similar features. Figure 4.10 shows the high diversity of both applications and customers, something that we have always had for each of our other strategic markets.

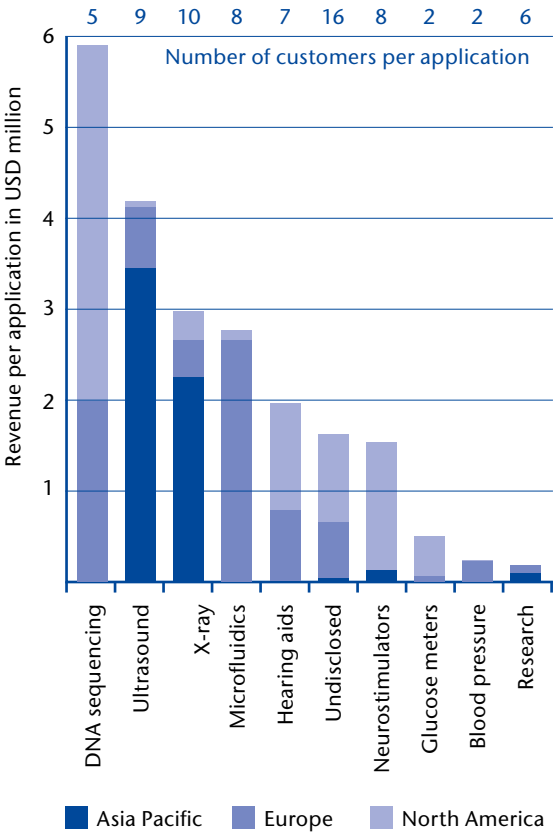


Fig 4.10: Pareto analysis of X-FAB medical market structure

X-FAB proprietary technologies – enabling differentiation and diversification

Our portfolio of highly modular technologies is one of the most critical success factors and differentiators for our customers to enable:

- highly specialized products tailored to each application's specific requirements;
- highly modular product features in terms of a mix-and-match between embedded memories, low-power transistors, high voltage capabilities, high temperature capabilities, etc.; and
- optical and other types of sensors, radio frequency functionality, and bipolar elements.

Our modular approach applied to most of our technology platforms 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 as outlined above, in order to develop bespoke ICs specifically tailored to their end-use requirements. X-FAB currently offers technologies with 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.

Every X-FAB customer develops – or "designs" – an IC using sophisticated design software and a range of building blocks, libraries, and simulation tools. Although we do not engage in proprietary IC design itself, we have an established design support program that is founded on the primary objective of enabling a "first-time-right" solution for customers. Through this program, we offer design support for all major electronic design automation (EDA) software platforms, and supply models, process design kits (PDKs), and analog and digital libraries, as well as a hotline service and design-for-manufacturing support. We believe that the breadth of our design kits and manufacturing process libraries differentiates us from our competitors.

CMOS and SOI technologies – "bread and butter"

Traditionally, the vast majority of our technologies were based on CMOS, with SOI being a specialty variant offering a so-called SOI layer for better technical performance in certain electric parameters.

We typically own all our technologies and the corresponding IP. The extensive IP offering includes the ability of customers to customize certain IP blocks, thus mixing and matching X-FAB IP with their own IP for optimized functionality as required for their specific application. The modular approach to tailor the technology to each application and product features allows the customer to optimize product performance, product size, power consumption, and other parameters to the best compromise for any given set of requirements.

CMOS and SOI technologies developed and offered by X-FAB often include performance-optimized analog primitive devices such as low noise transistors, special features such as high voltage transistors (up to 700 volt breakdown voltage), integrated sensor elements such as optical sensor diodes, and nonvolatile memories such as EEPROM and e-Flash. Most of the CMOS and SOI technologies are qualified for automotive applications and support high temperatures up to 175°C.
Those open-platform technologies typically address multiple applications and sometimes more than one market. For example, high voltage CMOS processes with embedded non-volatile memories are used for automotive but also industrial applications.

MEMS – one technology per product!

MEMS are semiconductor devices or structures that can contain electronic functions such as an integrated circuit (IC) but can – in extreme cases – just consist of (passive) mechanical structures, be it holes, gate structures for mechanical sorting, and other types of structures – or any combination of the above.

As MEMS devices are typically highly specific, there are almost no standard open-platform MEMS technologies available as can be found in our CMOS and SOI technology landscapes. In an extreme case, each and every new MEMS device requires its own manufacturing process to be developed from scratch. This often limits the potential to develop smaller markets for highly specialized MEMS devices – highly innovative products do not make it to volume production as the limited volume does not justify the high one-time (process technology) development and prototyping costs. Thus, identifying the MEMS opportunities with a sufficient market potential and volume demand is one of the key elements in successful market development.

Our current MEMS business can be characterized as follows:

- MEMS technologies at X-FAB are typically used for sensors, actuators and 3D packaging applications serving the automotive, mobile communication and medical markets.
- Among applications typically manufactured in higher volumes are pressure sensors, acceleration sensors and strain gauges, MEMS microphones, and microfluidic medical devices for cell sorting and drug screening.
- The majority of all developments are customer-specific and require high-touch customer interactions to manage all the challenges of concurrent technology and device development.
- We pay special attention to CMOS/MEMS integration projects. Adding custom-specific MEMS layers on top of open-platform X-FAB CMOS technologies creates significant added value in many applications, competitive advantage, and long-lasting customer engagements.
- We are much better positioned than many so-called "MEMS boutique foundries" when it comes to transferring functional prototypes into a reliable product fitting to volume production environments – while at the same time having access to a much broader set of capabilities and materials compared to most other foundries we are typically competing against in the CMOS domain.

Besides our business in the medical market, MEMS currently provides the highest growth rates across our whole business and technology portfolio.

Among the highlights and achievements in 2017 for MEMS were the following:

- multiple customer engagements in our through-silicon-via (TSV) technology;
- launch of a high-volume MEMS microphone production for an OEM flagship smartphone model; and
- launch of an inertial sensor design contest together with Cadence and Coventor.

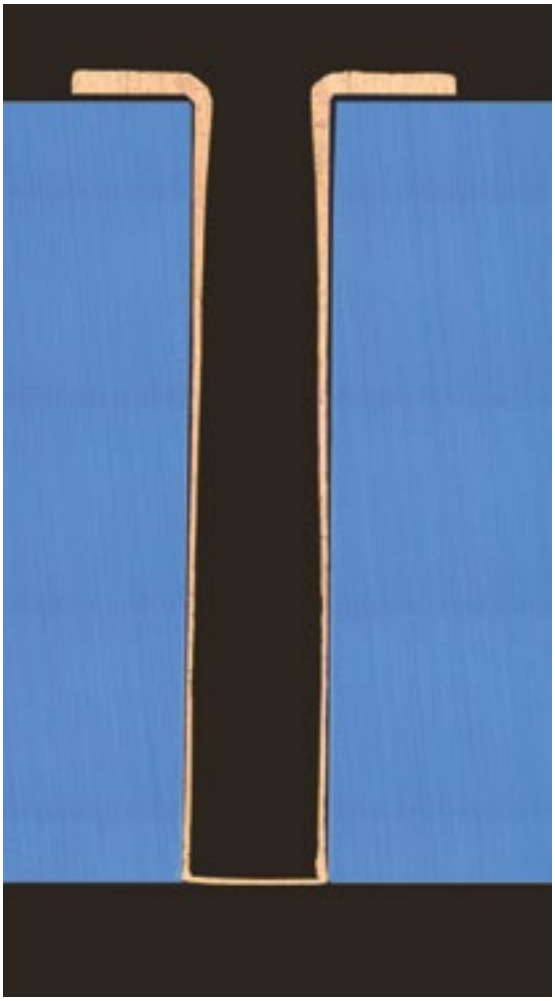


Fig 4.11: Next generation TSV for wafer level chip scale packaging

Silicon carbide – new potential for new applications

For most of our technologies and applications, silicon remains the dominant semiconductor material in the industry and is especially used in our CMOS and SOI technologies. While silicon has outstanding performance in the processing of information (data and signal processing), it is not particularly suited to the control of power. The technical limitations of silicon become most apparent in power conversion applications in the kilowatt (kW) and megawatt (MW) range. Such applications are continuously increasing as we change the way we generate (wind, solar), transmit (high-voltage, direct current (HVDC) power transmission) and consume (electric vehicles, variable speed motors, data centers) electricity.

SiC is a semiconductor material that offers significantly better performance than silicon in those power applications. While still an emerging technology, X-FAB has established a leadership position by providing SiC foundry services since 2014. Given that SiC power devices must be differentiated by both process and design, we work with our customers to port their proprietary technologies into our newly established foundry line. Our prototyping revenues from SiC activity have increased at a CAGR of more than 100% during 2017.

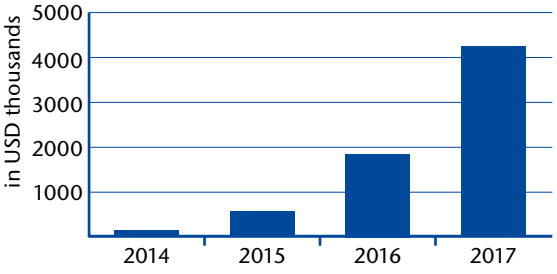


Fig 4.12: X-FAB SiC revenue growth

In 2017 X-FAB achieved the following SiC foundry milestones:

- eleven SiC foundry customers;
- production qualification on four customer-specific technologies;
- first SiC volume production shipments in Q4 2017; and
- 2017 SiC prototyping revenues exceeded USD 4 million.

2018 will mark a significant year for our SiC foundry business, with a significant transition from prototype development to volume production. We expect that four of our SiC customers will ramp into volume production in 2018. We will also continue our business development activities and thus expect to expand our SiC customer base further.

Looking into the future, we are excited about the prospects as SiC moves into the electric vehicle (EV) market. We believe that our automotive quality systems along with the available scale that we have established with silicon processing will enable our SiC customers to succeed in this market.

Research and development

Our approach to R&D is aligned with our business model, which relies upon developing high functionality analog/mixed-signal capabilities rather than frequent advances in feature size and digital processing power. Our R&D activities focus on the development of new fabrication processes, the optimization of existing fabrication processes using our existing process technologies, and the development of new IC features (to be used in connection with these technologies) in order to meet our customers' analog/mixed-signal needs.

Our R&D activities focus on the development of new (or the enhancement of existing) manufacturing processes for analog/mixed-signal CMOS, MEMS and SiC products. These process developments can be either so-called "open platform", i.e. available for all interested customers (the typical case for all CMOS and SOI technologies), or customer specific, i.e. exclusive for one customer (the typical case in MEMS and SiC).

To enable fast and easy design of new products by customers using our open-platform technologies, we are also providing PDKs, analog and digital design libraries, as well as complex design IP blocks such as embedded flash memories.

Most of our R&D activities are carried out in-house. We also cooperate with other companies as well as universities and institutes, partially financially supported by European Union or government grants. Currently, our development efforts are particularly focused on further enhancements of our 0.18µm and 0.13µm CMOS and SOI process technologies, as well as MEMS and wide bandgap semiconductor technologies.

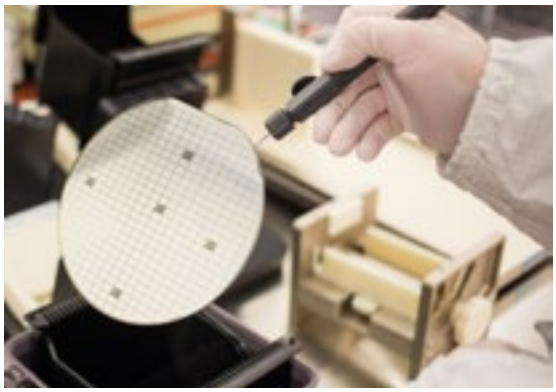


Fig 4.13: 6-inch silicon carbide wafer

2017 R&D highlights include:

- low power embedded flash block optimized for energy harvesting and IoT devices;
- ultra-low-noise transistors made available in the 0.18µm open-platform analog/mixed-signal CMOS technology;
- first gallium nitride (GaN) devices produced on 200 mm wafers;
- multitude of additional options and features added in other open-platform CMOS and SOI technologies as well as additional design libraries and IP.
- Production launch of next generation MEMS microphone; and
- SiC foundry initiated development of standard process blocks to accelerate implementation of proprietary customer technologies.

Our business strategy supports a high level of collaboration with each customer's product design team, so our R&D capabilities also include customer support from IC design process all the way to the start of volume production. The Design Support team provides help and consultancy for customers during the product design, such as selecting the most efficient process technology, libraries, and IP blocks, and consulting on ESD robust design. The Customer Projects team helps customers from tape-out (sending the product design data base) to X-FAB, manufacturing engineering samples, sometimes including customer-specific requirements (CSR), down to the start of volume production.

In 2017, X-FAB applied for 19 patents. Five of them claimed priority in 2017. Eight patents were granted, of which seven were the first to be granted in their respective patent family.

X-FAB
technologies
for our future.

Semiconductors for industrial markets

SMART FACTORY

AUTOMATION

INTERNET CONNECTIVITY

ENERGY EFFICIENCY

SURVEILLANCE FOR SAFETY AND SECURITY

INDUSTRIAL IOT

INTERFACING WITH THE REAL WORLD

ROBUST ELECTRONICS

Planning meeting with colleagues from X-FAB Dresden


WE
ENABLE
SMART
DUSTRIAL
OLUTIONS
PRODUCTION
Dashboard
Monitoring
Problems
Automatic mode

5. X-FAB CONSOLIDATED FINANCIAL STATEMENTS

5.1 Summary of important developments

Revenue

The Group's total sales revenue in 2017 amounted to USD 581,687 thousand, representing an increase of 13% compared to the previous year. The increase is primarily due to the fact that this is the first year in which the Group includes full year figures for the Group's subsidiary X-FAB France, which was acquired by the Group in October 2016. X-FAB France generated revenues of USD 121,779 thousand in 2017 (previous year: USD 31,574 thousand for the period from October to December 2016).

Cost of sales

Cost of sales includes material expenses such as raw materials, the costs of maintaining fixed assets, depreciation, staff costs, and costs incurred for external production-related services. In 2017, cost of sales increased by USD 58,117 thousand, representing a 14% increase compared to 2016, consistent with the increase in revenue. The cost of sales of X-FAB France in 2017 amounted to USD 118,366 thousand (previous year: USD 26,985 thousand for the period from October to December 2016).

Research and development expenses

Research and development expenses amounted to USD 28,326 thousand in 2017, representing 5% of revenue (2016: 5%). The increase of 6% (USD 1,479 thousand) compared to the previous year corresponds with the increase of revenue in 2017. The increase was mainly contributed by X-FAB France. The Group's research and development activities focus on development of new fabrication processes, optimization of existing processes using the Group's key process technologies, and development of new integrated circuit features in order to meet the customers' analog/mixed-signal needs.

General, administrative and selling expenses

General and administrative expenses, and selling expenses increased by 30%, which is primarily due to the increase in Group revenues as well as to the inclusion of the new Group subsidiary, X-FAB France. In 2017, general and administrative expenses included USD 197 thousand of costs incurred in connection with the secondary share offering completed in April 2017. These represent costs directly associated with the share offering which do not qualify for presentation as a deduction from equity. Further details concerning the share offering and the associated costs of the offering are provided in the notes to the consolidated financial statements (note 7.7).

Financial result

The net financial result increased by USD 37,103 thousand from a loss of USD -8,004 thousand in 2016 to a gain of USD 29,099 thousand in 2017. This increase is mainly attributable to exchange rate gains on the translation of euro-denominated proceeds from the share issue and to net gains on derivative financial instruments. Further details are provided in the notes to the consolidated financial statements in note 6.11 and 6.12.

Net income

In 2017, the Group recorded net income of 2017 of USD 89,758 thousand compared to USD 45,952 thousand in the previous year.

5.2 Statement of the Board of Directors

The Board of Directors certifies, on behalf and for the account of the Company, that, to their knowledge,

- the consolidated financial statements which have been prepared in accordance with IFRS as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the entities included in the consolidation as a whole; and
- the annual report provides a fair view of the development and results of the Company and the companies included in the consolidation, as well as a description of the main risks and uncertainties which they are exposed to.

5.3 Statutory auditor's report to the general meeting of X-Fab Silicon Foundries SE on the consolidated financial statements as of and for the year ended December 2017

In the context of the statutory audit of the consolidated financial statements of X-Fab Silicon Foundries SE ("the Company") and its subsidiaries (jointly "the Group"), we provide you with our statutory auditor's report. This includes our report on the audit of the consolidated financial statements for the year ended 31 December 2017, as well as our report on other legal, regulatory and professional requirements. These reports are one and indivisible.

We were appointed as statutory auditor by the general meeting of 16 March 2017, in accordance with the proposal of the board of directors issued on the recommendation of the audit committee. Our mandate will expire on the date of the general meeting deliberating on the annual accounts for the year ended 31 December 2019. We have performed the statutory audit of the consolidated financial statements of X-Fab Silicon Foundries SE for 10 consecutive financial years.

Report on the audit of the consolidated financial statements

Unqualified opinion

We have audited the consolidated financial statements of the Group as of and for the year ended 31 December 2017, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, consolidated statement of changes in group equity and consolidated statement of cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information. The total of the consolidated statement of financial position amounts to USD 911.637 thousand and the consolidated statement of profit or loss and other comprehensive income shows a profit for the year of USD 89.758 thousand.

In our opinion, the consolidated financial statements give a true and fair view of the Group's equity and financial position as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Basis for our unqualified opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Statutory auditors' responsibility for the audit of the consolidated financial statements" section of our report. We have complied with the ethical require-

ments that are relevant to our audit of the consolidated financial statements in Belgium, including the independence requirements.

We have obtained from the board of directors and the Company's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of deferred tax assets

We refer to note 4.18 of the consolidated financial statements for the accounting policies relating to deferred taxes and to note 6.13 for the disclosures relating to deferred taxes as at 31 December 2017.

- *Description*
  The X-FAB Group, which is subject to various tax jurisdictions and resulting obligations, has a significant amount of unused tax losses carried forward and deductible temporary differences for which it has recognized deferred tax assets of USD 33 million as at 31 December 2017.

  Deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be generated, against which the unused tax losses carried forward and deductible temporary differences can be utilised. Significant judgement is required to assess the amount of probable future taxable profits that support the recognition of deferred tax assets.

- *Our audit procedures*
  In collaboration with our own tax specialists we have assessed the Group's ability to utilise the deferred tax assets. Our procedures included amongst others:
  - Obtaining the forecasted taxable income in the various tax jurisdictions and reconciling these to the latest budget and forecasts approved by the board of directors;
  - Assessing the consistency and reliability of the Group's approach to budgeting by comparing historical budgets to actual results;
  - Challenging management's key assumptions used in its budget and forecasts, such as projected growth rates, by comparing them with our own expectations derived from our knowledge of the industry and our knowledge gained during our audit;
  - Recalculating independently the deferred tax assets which comprise a combination of temporary differences between tax and accounting values as well as available tax losses;
  - Assessing whether deferred tax assets had been appropriately recognized in the consolidated financial statements as at 31 December 2017 based on the extent to which they can be recovered by future taxable profits;
  - Assessing the adequacy of the relevant disclosures.

Board of directors' responsibilities for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium, and for such internal control as board of directors 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, the board of directors is responsible for assessing the Group'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 the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Statutory auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance as to 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 the users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also perform the following procedures:

- 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 controls 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 board of directors;
- Conclude on the appropriateness of board of directors' 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 Group'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 Group 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 audit committee 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.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

For the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on the other legal, regulatory and professional requirements

Responsibilities of the board of directors
The board of directors is responsible for the preparation and the content of the board of directors' annual report on the consolidated financial statements and the other information included in the annual report.

Statutory auditor's responsibilities
In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing as applicable in Belgium, our responsibility is to verify, in all material respects, the board of directors' annual report on the consolidated financial statements and the other information included in the annual report, and to report on these matters.

Aspects concerning the board of directors' annual report on the consolidated financial statements and other information included in the annual report
Based on specific work performed on the board of directors' annual report on the consolidated financial statements, we are of the opinion that this report is consistent with the consolidated financial statements for the same period and has been prepared in accordance with article 119 of the Companies' Code.

In the context of our audit of the consolidated financial statements, we are also responsible for considering, in particular based on the knowledge gained throughout the audit, whether the board of directors' annual report on the consolidated financial statements and other information included in the annual report, being Chapter 1 'Letter to the stakeholders', contain material misstatements, or information that is incorrectly stated or misleading. In the context of the procedures carried out, we did not identify any material misstatements that we have to report to you. We do not express any form of assurance on the board of directors' annual report on the consolidated financial statements and over the other information included in the annual report.

The non-financial information required by article 119 §2 of the Companies' Code has been included in section 6 of the annual report. The Company has prepared this non-financial information based on the Global Reporting Initiative ("GRI") standards. However, we do not comment on whether this non-financial information has been prepared, in all material respects, in accordance with the GRI standards. In addition, we do not express any form of assurance regarding the individual elements included in this non-financial information.

Information about the independence
- Our audit firm and our network have not performed any engagement which is incompatible with the statutory audit of the consolidated accounts and our audit firm remained independent of the Group during the term of our mandate.
- The fees for the additional engagements which are compatible with the statutory audit referred to in article 134 of the Companies' Code were correctly stated and disclosed in the notes to the consolidated financial statements.

Other aspect

- This report is consistent with our additional report to the audit committee on the basis of Article 11 of Regulation (EU) No 537/2014.

Hasselt, 23 March 2018

KPMG Bedrijfsrevisoren /
Réviseurs d'Entreprises
Statutory auditor
represented by

Herwig Carmans
Réviseur d'Entreprises / Bedrijfsrevisor

5.4 Consolidated financial statements

Consolidated statement of profit and loss and other comprehensive income For the year ended December 31

in thousands of U.S. dollars	Note	2017	2016
Revenue	4.3/6.1/11	581,687	512,897
Cost of sales	6.2/6.6/11	(465,948)	(407,831)
Gross profit		**115,739**	**105,066**
Research and development expenses	4.4/6.3/6.6/11	(28,326)	(26,847)
Selling expenses	6.4/6.6/11	(8,874)	(7,369)
General and administrative expenses	6.5/6.6	(30,306)	(22,787)
Rental income and expenses from investment properties	4.6/6.7/6.8/11	2,152	1,897
Other income and other expenses	6.9/6.10/11	105	496
Operating profit		**50,490**	**50,456**
Finance income	4.5/6.11/11	55,208	11,119
Finance costs	4.5/6.12/11	(26,109)	(19,123)
Net financial result		**29,099**	**(8,004)**
Profit before taxes		**79,589**	**42,452**
Income tax	4.18/6.13	10,169	3,500
Profit for the period		**89,758**	**45,952**
Attributable to:			
Equity holders of the parent		89,790	45,913
Non-controlling interest	4.1/7.9	(32)	39

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

in thousands of U.S. dollars	Note	2017	2016
Profit for the period		**89,758**	**45,952**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability (asset)	7.10	(98)	-
Wholly comprising items that are or may be transferred to profit or loss as follows:			
Foreign currency translation differences for foreign operations	4.2	386	(139)
Income tax on other comprehensive income		-	-
Other comprehensive income for the period, net of income tax		288	(139)
Total comprehensive income for the period		**90,046**	**45,813**
Total comprehensive income attributable to:			
Owners of the Company		90,078	45,774
Non-controlling interest	4.1/7.9	(32)	39
Total comprehensive income for the period		**90,046**	**45,813**
Weighted average number of shares outstanding, basic and diluted		122,412,743	99,381,921
Earnings per share			
Basic and diluted (in U.S. dollars)	6.14	0.73	0.46

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position

in thousands of U.S. dollars	Note	December 31, 2017	December 31, 2016
ASSETS			
Non-current assets			
Property, plant, and equipment	4.7/4.9/4.16/ 4.17/7.1	315,856	265,472
Investment properties	4.7/4.9/7.1	9,033	9,143
Intangible assets	4.8/4.9/7.2	7,060	7,874
Non-current investments	4.10	559	190
Other non-current assets	7.5	10,809	36
Deferred tax assets	4.18/6.13	32,959	19,904
Total non-current assets		**376,276**	**302,619**
Current assets			
Inventories	4.12/7.3	105,847	88,972
Trade and other receivables	4.10/7.4/11	82,008	77,292
Income tax receivables	4.18/6.13	1,997	4,543
Other assets	4.10/4.11/7.5	26,274	14,338
Cash and cash equivalents	4.13/7.6	319,235	104,157
Total current assets		**535,361**	**289,302**
Total assets		**911,637**	**591,921**
EQUITY AND LIABILITIES			
Equity			
Share capital	4.14/7.7	432,745	265,231
Share premium	4.14/7.7	348,709	255,262
Retained earnings		(106,814)	(196,506)
Cumulative translation adjustment	4.2/7.7	(493)	(879)
Treasury shares	7.7	(770)	(770)
Total equity attributable to equity holders of the parent		**673,377**	**322,338**
Non-controlling interests	4.1/7.9	357	400
Total equity		**673,734**	**322,738**
Non-current liabilities			
Non-current loans and borrowings	4.10/7.10	106,178	132,407
Non-current provisions	4.15/7.13	87	73
Other non-current liabilities	4.10/7.11	8,785	8,408
Total non-current liabilities		**115,050**	**140,888**
Current liabilities			
Trade payables	4.10/7.12/11	36,684	49,032
Current loans and borrowings	4.16/7.10	37,799	31,432
Income tax payable	4.18/6.13	503	1,579
Provisions	4.15/7.13	2,914	1,622
Other current liabilities	4.10/4.11/7.12	44,953	44,630
Total current liabilities		**122,853**	**128,295**
Total equity and liabilities		**911,637**	**591,921**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in Group equity

in thousands of U.S. dollars	Note	Shares issued and fully paid	Share capital	Share premium	
At January 1, 2016		**99,531,669**	**265,231**	**255,262**	
Profit for the period					
Currency translation effect, net of tax	4.2				
Total comprehensive income		-	-	-	
Transactions with owners of the Company					
Distribution to non-controlling interests (GVG)	7.9				
Total transactions with owners of the Company		-	-		
At December 31, 2016		**99,531,669**	**265,231**	**255,262**	
Profit for the period					
Remeasurement of defined benefit plans					
Currency translation effect					
Total comprehensive income		-	-	-	
Transactions with owners of the Company					
Issue of ordinary shares on April 4, 2017	7.7	31,250,000	167,514	99,062	
Less directly related IPO costs	7.7			(7,389)	
Less deferred tax	7.7/6.13			1,774	
Distribution to non-controlling interests (GVG)	7.9				
Total transactions with owners of the Company		**31,250,000**	**167,514**	**93,447**	
At December 31, 2017		**130,781,669**	**432,745**	**348,709**	

The accompanying notes are an integral part of these consolidated financial statements.

	Retained earnings	Cumulative translation adjustment	Treasury shares	Total attributable to owners of the parent	Non-controlling interests	Total equity
	(242,419)	**(740)**	**(770)**	**276,564**	**372**	**276,936**
	45,913			45,913	39	45,952
		(139)		(139)	-	(139)
	45,913	**(139)**	-	**45,774**	**39**	**45,813**
				-	(11)	(11)
	-	-	-	-	**(11)**	**(11)**
	(196,506)	**(879)**	**(770)**	**322,338**	**400**	**322,738**
	89,790			89,790	(32)	89,758
	(98)			(98)		(98)
		386		386	-	386
	89,692	**386**	-	**90,078**	**(32)**	**90,046**
				266,576		266,576
				(7,389)		(7,389)
				1,774		1,774
					(11)	(11)
	-	-	-	**260,961**	**(11)**	**260,950**
	(106,814)	**(493)**	**(770)**	**673,377**	**357**	**673,734**

Consolidated statement of cash flows
For the year ended December 31

in thousands of U.S. dollars	Note	2017	2016
Cash flow from operating activities:			
Profit for the period		89,758	45,952
Income tax		(10,169)	(3,500)
Income before taxes		**79,589**	**42,452**
Reconciliation of net income to cash flow arising from operating activities:			
Depreciation and amortization, before effect of grants and subsidies	4.7/6.6/ 7.1/7.2	55,625	50,158
Recognized investment grants and subsidies netted with depreciation and amortization	4.17/6.6	(3,622)	(2,858)
Interest income and expenses (net)	4.5/6.11/6.12	2,935	4,434
Loss/(gain) on the sale of plant, property and equipment (net)	4.7/7.1/7.2	8	(232)
Loss/(gain) on the change in fair value of derivatives and financial assets (net)	4.11/6.11/10	(11,698)	280
Currency differences (net)	8	(20,180)	(2,677)
Other non-cash transactions (net)	8	2,264	2,276
Changes in working capital		**(40,526)**	**(16,359)**
Decrease/(increase) of trade and other receivables	4.10/7.4	(2,936)	(32,825)
Decrease/(increase) of other receivables and prepaid expenses	7.5	(14,231)	(9,828)
Decrease/(increase) of inventories	4.12/7.3	(16,875)	(16,318)
(Decrease)/increase of trade payables	4.10/7.12	(11,281)	34,802
(Decrease)/increase of other liabilities	4.10/4.15/ 7.11/7.12/7.13	4,797	7,810
Income taxes (paid)/received		(1,153)	(3,554)
Cash flow from operating activities		**63,242**	**73,920**
Cash flow from investing activities:			
Payments for property, plant, equipment, and intangible assets	4.7/7.1	(102,536)	(72,189)
Payments for investments	10	-	(289)
Acquisition of subsidiary, net of cash acquired	5	-	(10,178)
Payments for loan investments to related parties	11	(131)	(5,694)
Proceeds from loan investments related parties	11	146	5,740
Proceeds from the sale of property, plant, and equipment	4.7/7.1	91	735
Interest received	4.5/6.11/6.12	1,901	275
Cash flow used in investing activities		**(100,529)**	**(81,600)**

in thousands of U.S. dollars	Note	2017	2016
Cash flow from financing activities:			
Proceeds from loans and borrowings	4.10/7.10	-	60,981
Repayment of loans and borrowings	4.10/7.10	(32,008)	(19,374)
Receipts from sale and leaseback arrangements	4.16/7.10/8	-	6,190
Payments of lease installments	4.16/7.10	(2,377)	(1,558)
Receipt of government grants and subsidies	4.17	375	2,532
Interest paid	4.5/6.10/6.11	(2,814)	(2,843)
Gross proceeds from capital increase	7.7	266,575	-
Direct cost related to capital increase	7.7	(7,389)	-
Payment of preference dividend	7.10/8	(3,095)	-
Distribution to non-controlling interests	7.9	(11)	(11)
Cash flow from financing activities		**219,256**	**45,917**
Effects of changes in foreign currency exchange rates on cash balances		33,109	(178)
Increase/(decrease) of cash and cash equivalents		181,969	38,237
Cash and cash equivalents at the beginning of the period		104,157	66,098
Cash and cash equivalents at the end of the period		**319,235**	**104,157**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

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 BEO882.390.885 in Hasselt, Belgium. The parent company's registered address is Transportstraat 1, 3980 Tessenderlo, Belgium.

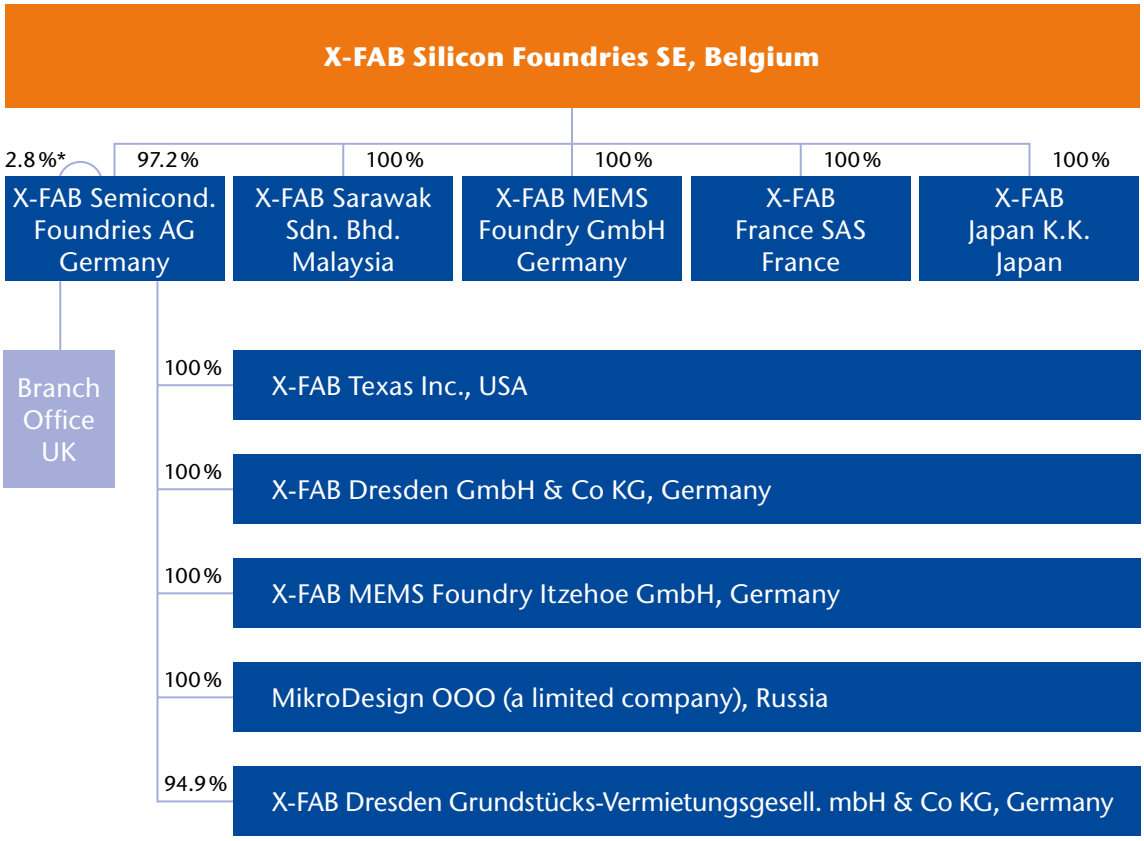
The Group has no associates, joint ventures, joint operations, or investments in unconsolidated structured entities (entities designed so that voting or similar rights are not the dominant factor in deciding which party controls the entity).

The X-FAB SE Group is one of the world's leading pure-play foundry providers specializing in analog/mixed-signal technologies. Analog/mixed-signal products are circuits capable of processing digital as well as analog signals. 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. 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 (ICs) and leave their manufacture to others (fabless companies). 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

The X-FAB SE Group structure as of December 31, 2017 is illustrated below.



** Treasury shares of X-FAB AG*

X-FAB Dresden GmbH & Co. KG refers to 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, 2017 were authorized for issue in accordance with a resolution of the directors on March 19, 2018.

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 recognized 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 it is considered probable that tax savings will be made in future periods from the use of losses carried forward and from the reversal of taxable 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, 2018 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, 2018 may differ from the amounts recorded as impairments in the year ended December 31, 2017 which may result in a material adjustment.

Determination of functional currency

The functional currency of the holding company and of the European entities has been assessed as the U.S. dollar due to the fact that sales prices for goods and services are mainly influenced by the U.S. dollars. Reference is made to note 10.

With respect to the holding company the assessment is based on the fact that the holding acts as an investment holding (in operational subsidiaries with U.S. dollars as their functional currency) and its sole activity consists of the re-allocation of Group costs which are

incurred and subsequently recharged in U.S. dollars. Hence the U.S. dollar is deemed the most appropriate functional currency of the holding for the preparation of the consolidated financial statements.

Acquisition of a business (note 5)
The fair value of the assets acquired and liabilities assumed as part of a business combination effected in 2016 have been measured by applying various valuation techniques. Further details are provided in 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 13, 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 categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized 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.

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 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.

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 the income statement is translated at the average rate of the reporting period. All resulting differences are recognized in the cumulative translation adjustment in equity.

4.3 Revenue recognition
Sales revenues from the sale of process control wafer (PCM wafer) revenue 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 realization of the sale remain to be performed. The Group recognizes 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.

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 capitalization 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 that the grant will be received. These income related grants 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.

4.5 Finance income and finance costs
Interest income or expense is recognized using the effective interest method. Dividend income is recognized 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 recognized as an integral part of the total rental income and recognized 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 a 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 capitalization 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.

4.8 Intangible assets

Purchased intangible assets are capitalized at purchase cost, including, where applicable, own work capitalized 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.

Internally generated intangible assets were not capitalized because the criteria for capitalization 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 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 amortization, if no impairment loss had been recognized.

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 with the intention to generating a short-term gain, or derivatives which are not subject to hedge accounting, even if they are used for hedging purposes. 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 uncollectable, 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, 2017 or December 31, 2016.

Initial recognition

Financial assets are initially recognized at fair value plus any directly attributable transaction costs, with the exception of financial assets recognized at fair value through profit and loss, which are initially recognized 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 amortized 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. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available for sale are recognized in equity. The gains and losses are transferred to the income statement on realization. Realized and unrealized 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 amortized 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 recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss. Impairment losses recognized on financial assets recognized at amortized cost are recorded in an allowance account. Impairment losses recognized on financial assets which are carried at fair value are reflected directly in the fair value of those financial assets.

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 recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

Financial assets which are not impaired are considered collectable in full.

Derecognition
Financial assets are derecognized 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 amortized cost using the effective interest method, these liabilities being known for this purpose as financial liabilities at amortized 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 recognized 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 recognized 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 realize 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, unless their maturity exceeds 12 months in which they will be presented as non-current.

4.12 Inventories
Raw materials, consumables, and supplies are measured at the lower of acquisition cost or net realizable value. 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 realizable 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 recognized 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 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. 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.

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 unfavorable 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 recognized 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 recognized 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 recognized 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 recognized 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 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.

4.17 Subsidies

The Group receives government assistance in the form of government investment grants and investment subsidies which are dependent on the acquisition of certain assets qualifying under the respective grant awards. Grants and subsidies related to assets are recognized 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 recognized in profit or loss on a systematic basis as the entity recognizes as expenses the costs that the grants are intended to compensate. The investment grants and subsidies received reduce the purchase cost for the relevant subsidized 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 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, and other credits carried forward, whereby amounts are only recognized when their realization is considered by management to 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 recognizes 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.

4.19 New accounting pronouncements

The following amendments to standards, which are effective for annual periods beginning on or before January 1, 2017, have been applied by the Group for the first time in preparing these consolidated financial statements.

Standard/interpretation	Effective date
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
Amendments to IAS 7 Disclosure Initiative	January 1, 2017

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, 2018, and have not been applied in preparing these consolidated financial statements.

Standard/interpretation	Effective date
IFRS 9 Financial Instruments	January 1, 2018
IFRS 15 Revenue from Contracts, with Customers, including Amendments to IFRS 15: Effective date of IFRS 15 and Clarifications to 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
Annual Improvements to IFRSs 2014-2016*	January 1, 2018
IFRIC 22: Foreign Currency Transactions and Advance Consideration*	January 1, 2018
Amendments to IAS 40: Transfers of Investment Property*	January 1, 2018
Amendments to IFRS 9: Prepayment Features with Negative Compensation*	January 1, 2019
IFRS 16 Leases	January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatment*	January 1, 2019
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures*	January 1, 2019
Annual Improvements to IFRSs 2015-2017*	January 1, 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	January 1, 2019
IFRS 17 Insurance Contracts*	January 1, 2021

** Not yet endorsed by the European Union.*

Estimated impact of adopting IFRS 9

The Group is required to adopt IFRS 9 Financial Instruments from January 1, 2018. IFRS 9 Financial Instruments is the replacement of IAS 39 Financial Instruments: Recognition and Measurement. The standard includes new requirements for recognition and measure-

ment, impairment, derecognition, and general hedge accounting. 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.

The Group estimates that additional allowances will be made against the potential future impact of losses from defaults on the Group's trade accounts receivable. Under IAS 39 allowances were made for the expected losses on trade accounts receivable which were impaired. Under IFRS 9 additional allowances will be made for the expected loss on trade accounts receivable which are not impaired, based on the Group's expectation of the rate of default and the expected loss to be incurred in case of default. The Group estimates that the retained earnings and trade accounts receivable will be lower as a result of this change by an amount in the range of between USD 250 thousand to USD 350 thousand. The effect on the reported profit for the financial year 2017 is expected to be insignificant. The actual impact of adopting the new standard may differ from this estimate as these estimates are based on a simplified calculation and are therefore approximations and because the new accounting policies are subject to change until the Group presents its first financial statements that include the initial application.

Due to the limited impact of the transition to IFRS 9 the Group anticipates that it will apply a simplification exemption under the IFRS 9 transition provisions and that it will not restate the reported amounts in the consolidated statement of profit and loss and other comprehensive income and consolidated statement of financial position for the financial year 2017. The Group will provide disclosures necessary to understand the effect of transition from IAS 39 to IFRS 9.

Estimated impact of adopting IFRS 15

The Group is required to adopt IFRS 15 Revenue from Contracts with Customers from January 1, 2018. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures, and replaces the existing revenue standards IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31.

The standard provides a single, principles-based five-step model to be applied to all contracts with customers:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

In essence, revenue is recognized at the point control is transferred to the customer (in other words, when the goods are sold to the customer).

As the wafer manufacturing process creates an asset (initially unfinished wafers and then finished wafers) with no alternative use to the Group, X-FAB is required to determine whether it has an enforceable right to payment for performance completed to date at all times during the contract for the case that the contract would be terminated by the customer for a reason other than the entity's failure to perform. For contracts where such a right exists, revenue shall be recognized successively on a basis which reflects the progress to meet the Group's obligations under the contract. The Group is currently performing an analysis to determine which contracts fulfill these criteria and assessing the most appropriate and reliable method of measuring progress to completion.

Irrespective of which contracts meet this criteria, X-FAB's initial analysis indicates that it is unlikely that the application of IFRS 15 will have a significant effect on the recognition of revenue from wafer sales taken into account the chosen retrospective transition method.

IFRS 16 Leases
IFRS 16 Leases replaces existing guidance on how an IFRS reporter will recognize, measure, present, and disclose leases. The new standard is effective for annual periods beginning on or after January 1, 2019. The standard provides a single lessee accounting model, requiring lessees to recognize right-of-use assets representing its right to use the underlying asset and a lease liability representing is obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value assets. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Group has not yet completed an assessment of the potential impact of the new standard on its consolidated financial statements.

Applying IFRS 16 on the financial statements in the period of initial application will result in additional assets and liabilities being recorded on the Group's consolidated balance sheet for lease arrangements that are currently accounted for as operating leases. These will be in addition to the leases currently accounted for as finance leases, as it is anticipated that right-of-use assets and lease liabilities will be recorded for leases currently accounted for as operating leases. The amount of additional assets and liabilities recorded will depend on the contractual rights and obligations under leasing contracts, on the Group's borrowing rate at January 1, 2019, the Group's assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions which are permitted under the standard.

The Group's financial liabilities under the current standard are shown in note 7.10 and the Group's operating lease commitments are disclosed in note 12.1.

In addition, the expenses recorded for lease expenses will change under IFRS 16 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.

Other new or amended standards
The remaining new or amended standards and interpretations are not expected to have a significant effect on the consolidated financial statements of the X-FAB SE Group. The Group does not plan to adopt these standards early.

5 Business combinations

Business combinations in the year ended December 31, 2017

There have been no business combinations in the year ended December 31, 2017 involving the Group.

Business combinations in the year ended December 31, 2016

On October 1, 2016 the Group acquired the semiconductor business of Altis Semiconductor, France, for a total consideration of USD 10,234 thousand. The purchase consideration was paid in cash. In addition, the Group incurred acquisition-related costs of USD 115 thousand which were reported in "general and administrative expenses". Since the acquisition date the acquired business has operated under the name "X-FAB France".

The acquisition provided 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 complements 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 acqui-

sition had occurred on January 1, 2016, management estimates that the consolidated revenue reported in 2016 would have increased by USD 88,573 thousand, and consolidated profit for 2016 would have decreased by USD 6,047 thousand. In determining these amounts, management has assumed that the fair value adjustments which 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 summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition:

in thousands of U.S. dollars	Net identifiable assets acquired and liabilities assumed
Property, plant, and equipment	8,538
Intangible assets	16
Non-current investments	191
Inventories	11,396
Other assets	568
Cash and cash equivalents	1
Total assets	**20,710**
Non-current liabilities	7,503
Other current liabilities	2,973
Total liabilities	**10,476**
Fair value of net assets	**10,234**
Non-controlling interest	-
Goodwill/gain on a bargain purchase	-
Total acquisition cost	**10,234**

Non-current liabilities acquired included long-term net defined benefit liabilities of USD 6,973 thousand, and current liabilities included short-term net defined benefit liabilities of USD 252 thousand.

Valuation techniques used for measuring the fair value of the assets

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 considered quoted market prices for similar items where available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflected adjustments for physical deterioration as well as functional and economic obsolescence.

The acquired land and the buildings were valued by an independent publicly certified land valuation expert assigned by the Tribunal de Commerce de Paris. Technical machinery and other equipment was valued using the cost approach, with replacement cost as indicator.

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 purchase price allocation.

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.

Subsequent reassessment of initial valuations of acquired assets and liabilities

The initial individual valuation of the assets acquired and the liabilities assumed led to an initial valuation of USD 127.9 million (EUR 121.1 million) which exceeded the consideration paid of USD 10.2 million. Accordingly, the valuations were subject to a reassessment in accordance with IFRS 3. This reassessment included a detailed analysis of the transaction and the fair values attributed to the acquired business based on discounted cash flow (DCF) calculations.

DCF calculations were made for different scenarios starting from several business cases. The projections were based on the highest and best use of the assets taken into account any legal restrictions (X-FAB is a guarantor and is responsible for the proper conduct of the asset purchase agreement; in addition, X-FAB is required to employ at least 800 employees for five years from the date of acquisition and is required to invest EUR 100 million in the ten years from the acquisition date). Comparisons with the two other offer bids (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.

A "worst-case" and a "best-case" business case scenario were considered for DCF calculations purposes which reflected 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 indicated a value of approximately USD 102 million (best case) and approximately USD -128 million (worst case). These were weighted 60/40 based on an assessment of realistic expectations which resulted in an expected value very close to the consideration paid of USD 10.2 million, further supporting our conclusion that the transaction was performed at fair value.

Taking into account 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) a proportionate step-down on land and buildings, and on technical and other equipment was reflected in the valuation. 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 business.

No adjustments were made to the acquisition accounting of X-FAB France in the course of 2017.

Other obligations under the acquisition agreement

Under the terms of the acquisition agreement X-FAB is required to employ at least 800 employees from the date of acquisition until September 30, 2021 and required to invest EUR 100 million in the ten years until September 30, 2026. The remaining investment commitment under this agreement amounts to EUR 84 million at December 31, 2017.

6 Notes to the consolidated statement of profit and loss

6.1 Revenue

Revenue comprises the following:

in thousands of U.S. dollars	2017	2016
Gross revenue PCM wafer	527,237	470,465
Gross revenue NRE and technology services	54,435	42,364
Other revenue	15	12
Discounts	-	56
Total	**581,687**	**512,897**

The increase in revenue is primarily due to the acquisition of X-FAB France, with effect from October 1, 2016, which contributed USD 121,779 thousand to X-FAB's revenue in

2017 (2016: USD 31,574 thousand for the period from acquisition date of October 1, 2016 to December 31, 2016). Gross revenues of PCM wafer adjusted for the acquisition decreased in 2017 compared to 2016 due to lower subcontracted revenue from consumer products.

6.2 Cost of sales

The cost of sales comprises the following:

in thousands of U.S. dollars	2017	2016
Material expenses	(124,126)	(159,076)
Depreciation and amortization	(46,616)	(41,033)
Employee-related expenses	(166,480)	(113,909)
Facility costs	(58,695)	(43,201)
Costs of fixed assets (maintenance, spare parts, etc.)	(70,276)	(48,199)
Other	245	(2,413)
Total	**(465,948)**	**(407,831)**

Cost of sales increased consistently with the increased sales volume in 2017. The increase in cost of sales was principally due to higher levels of employee-related expenses and fixed asset costs as a result of an increase in the number of wafers sold in 2017 as compared to 2016 as well as to the acquisition of X-FAB France, with effect from October 1, 2016, which contributed USD 118,366 thousand to X-FAB's cost of sales in 2017 (2016: USD 26,986 thousand for the period from acquisition on October 1, 2016 to December 31, 2016). Material expenses decreased in 2017 due to lower subcontracted business from consumer products.

6.3 Research and development expenses

Research and development expenses comprise the following:

in thousands of U.S. dollars	2017	2016
Material expenses	(10,548)	(9,726)
Depreciation and amortization	(1,330)	(2,036)
Employee-related expenses	(21,628)	(18,602)
Facility costs	(851)	(714)
Costs of fixed assets (maintenance, spare parts, etc.)	(3,853)	(3,546)
External services	(1,064)	(1,032)
Grants	9,728	7,219
Other	1,220	1,590
Total	**(28,326)**	**(26,847)**

Research and development expenses increased consistently with the increased sales volume in 2017. This increase was principally due to an increase in expenditure on R&D staffing and higher payments for software tools.

6.4 Selling expenses

The selling expenses comprise the following:

in thousands of U.S. dollars	2017	2016
Depreciation and amortization	(62)	(60)
Employee-related expenses	(7,650)	(6,344)
Facility costs	(176)	(135)
Costs of fixed assets (maintenance, spare parts, etc.)	(68)	(45)
External services	(92)	(215)
Advertising costs and costs of selling goods	(1,147)	(812)
Other	321	242
Total	**(8,874)**	**(7,369)**

6.5 General and administrative expenses

The general and administrative expenses comprise the following:

in thousands of U.S. dollars	2017	2016
Depreciation and amortization	(2,721)	(2,571)
Employee-related expenses	(20,295)	(14,289)
Facility costs	(1,005)	(887)
Costs of fixed assets (maintenance, spare parts, etc.)	(1,073)	(1,062)
External services	(3,232)	(2,734)
Insurance, dues and fees	(1,541)	(1,302)
Other	(439)	58
Total	**(30,306)**	**(22,787)**

The increase in general and administrative expenses was mainly due to the acquisition of X-FAB France, with effect from 1 October 2016, which contributed USD 9,956 thousand to X-FAB's general and administrative expenses in 2017 (2016: USD 1,817 thousand for the period from acquisition on October 1, 2016 to December 31, 2016).

6.6 Expenses by nature

In the income statement, expenditures are classified by function. Expenses include depreciation charges allocated to the following items:

in thousands of U.S. dollars	2017	2016
Included in cost of sales	(45,957)	(40,798)
Included in research and development expenses	(1,015)	(825)
Included in selling expenses	(62)	(60)
Included in general and administrative expenses	(1,186)	(1,038)
Included in expenses related to investment properties and other expenses	(1,275)	(1,601)
Total	**(49,495)**	**(44,322)**

Expenses include charges for amortization of intangible assets allocated to the following items:

in thousands of U.S. dollars	2017	2016
Included in cost of sales	(659)	(235)
Included in research and development expenses	(315)	(1,211)
Included in selling expenses	-	-
Included in general and administrative expenses	(1,535)	(1,533)
Total	**(2,509)**	**(2,979)**

Employee-related expenses allocated according to function in the income statement consist of the following:

in thousands of U.S. dollars	2017	2016
Wages and salaries	(166,142)	(127,602)
Social security costs	(34,299)	(11,996)
Contributions to defined contribution plans	(9,109)	(8,456)
Other	(6,503)	(5,090)
Total	**(216,053)**	**(153,144)**

The increase in employee-related expenses was mainly due to the acquisition of X-FAB France, with effect from October 1, 2016, which contributed USD 67,849 thousand to X-FAB's employee-related expenses in 2017 (2016: USD 15,905 thousand for the period from acquisition on October 1, 2016 to December 31, 2016).

Defined contribution plans primarily consist of contributions made under statutory schemes made by employers to state-based defined contribution plans.

6.7 Rental income from investment properties

Rental income from investment properties comprises the following:

in thousands of U.S. dollars	2017	2016
Income from technical services provided	6,618	6,604
Income from investment property rentals	4,523	3,582
Total	**11,141**	**10,186**

Property rentals and technical services for tenants represent activities outside the X-FAB SE Group's core activities.

6.8 Rental expenses related to investment properties

Expenses related to investment properties comprise the following:

in thousands of U.S. dollars	2017	2016
Expenses for technical services provided	(4,597)	(4,202)
Expenses in connection with investment property rentals	(4,391)	(4,088)
Total	**(8,988)**	**(8,290)**

Expenses in connection with investment properties mainly relate to depreciation and building maintenance.

6.9 Other income

Other income comprises the following:

in thousands of U.S. dollars	2017	2016
Income from sale and leaseback transactions	-	5,144
Gains on disposals of property, plant, and equipment	66	608
Income from recharges	3,108	1,634
Other	1,272	1,088
Total	**4,397**	**8,474**

The income from sale and leaseback transactions results from sale and leaseback transactions entered into in 2016. Reference is made to note 7.10.

6.10 Other expenses

Other expenses comprise the following:

in thousands of U.S. dollars	2017	2016
Expenses from sale and leaseback transactions	-	(5,130)
Losses on disposal of property, plant, and equipment	(74)	(376)
Impairment allowances recorded against receivables	(475)	(55)
Expenses from resales	(3,045)	(1,780)
Other	(698)	(637)
Total	**(4,292)**	**(7,978)**

The expenses from sale and leaseback transactions results from sale and leaseback transactions entered into in 2016. Reference is made to note 7.10.

6.11 Finance income

Finance income comprises the following:

in thousands of U.S. dollars	2017	2016
Change in fair value of financial assets at fair value through profit or loss:		
Held for trading	343	9
Interest income on loans and receivables	2,044	331
Income from exchange rate differences	42,554	10,688
Net gain from derivative financial instruments	10,267	91
Total	**55,208**	**11,119**

The increase in income from exchange rate differences is primarily due to the effects of currency exchange rate changes on the euro-denominated proceeds received following the April 2017 share issue.

The line item net gain/net loss on derivative financial instruments includes the unrealized net gain/loss on changes in fair values of interest rate swaps and foreign exchange derivatives. Realized 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.

6.12 Finance costs

Finance costs comprise the following:

in thousands of U.S. dollars	2017	2016
Interest expenses from loans and borrowings	(4,979)	(4,983)
Impairment of available-for-sale financial assets	-	(289)
Expenses from exchange rate differences	(21,131)	(8,011)
Net loss on derivative financial instruments	-	(5,840)
Total	**(26,110)**	**(19,123)**

Exchange rate expenses contain the translation effects of euro-denominated loans. Reference is made to note 7.10.

The line item net gain/net loss on derivative financial instruments includes the unrealized net gain/loss on changes in fair values of interest rate swaps and foreign exchange derivatives. Realized 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. Belgian corporation tax charges, French corporation tax, and United States federal income taxes were not incurred during the reporting period as no taxable income was generated in those countries or, where applicable, sufficient tax losses were available to offset taxable income.

The income/expense for income taxes in the years 2017 and 2016 comprised the following:

in thousands of U.S. dollars	2017	2016
Current taxes:		
Actual income tax charge for the period	(1,034)	(2,273)
Adjustment of prior years' tax charges	(79)	501
	(1,113)	**(1,772)**
Deferred taxes	**11,282**	**5,272**
Total	**10,169**	**3,500**

The Belgian effective tax rate applicable for the Group's result was 33.99% in the years 2017 and 2016. 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% and 32.28%. The federal income tax rate applicable to the Group's earnings in the United States is 34.20%, the tax rate applicable on earnings in Malaysia amounts to 25.00% and the tax rate applicable to X-FAB France is 33.33%.

The reconciliation of the theoretical tax charge based on the IFRS net income before tax is as follows for the years 2017 and 2016:

in thousands of U.S. dollars	2017	2016
Result before taxes	**79,589**	**42,451**
Theoretical tax at combined effective Belgian tax rate (33.99%)	(27,052)	(14,429)
Recognition of previously unrecognized losses	25,080	25,472
Current year losses for which no deferred tax asset is recognized	(11,968)	(8,371)
Adjustment of prior period tax liabilities recorded in the current period	79	(501)
Effect of tax-free income	3,971	460
Currency effects	14,792	(112)
Effect of permanent differences	-	16
Effect of non-deductible expenditures	(1,594)	(4,324)
Effect of changes in applicable tax rates enacted during the year	(55)	-
Effect of different tax rates applying to foreign operations	6,916	5,289
Income/(expense) for income taxes recognized in the consolidated statement of profit or loss	**10,169**	**3,500**

Currency effects mainly relate to EUR denominated cash proceeds from the IPO. Reference is made to note 7.7.

The deferred tax assets and liabilities arise from temporary differences and unused tax losses as follows:

in thousands of U.S. dollars	2017	2016
Deferred tax assets – unrecognized amounts		
On unused tax losses	159,189	147,510
On temporary differences		
Property, plant, and equipment/capital allowances	366,644	356,785
Other temporary differences	5,800	5,058
Total unrecognized deferred tax assets	**531,633**	**509,353**
Deferred tax assets – recognized amounts		
On unused tax losses	9,452	12,039
On temporary differences		
Property, plant, and equipment/capital allowances	27,530	14,186
Other temporary differences	(4,023)	(6,321)
Total recognized deferred tax assets	**32,959**	**19,904**

Unrecognized temporary differences on property, plant, and equipment of USD 366,644 thousand (December 31, 2016: USD 356,785 thousand) include deferred tax on USD 1,535,530 thousand (December 31, 2016: USD 1,483,300 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 recognizes 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 realization 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, recognized and unrecognized 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 utilization of unused tax losses and subject to potential changes in exchange rates which affect the size of timing differences.

More specifically for the assessment of future available taxable profit with respect to X-FAB Malaysia a risk-adjusted profits approach was applied to the forecasts included in the Group's business planning. This method was applied to reflect the risk that actual taxable profits will fall short of the expectations. The board has determined that adjusting the expected future taxable profits for this component by using a risk factor is appropriate considering the inherent risk in the semiconductor market and the specific exchange rate volatility risks which affect the assessment. In addition, the board has determined that taxable income as from 2021 does not meet the "probable" threshold as required per IFRS and is not taken into account for the determination of the amount of deferred tax assets to be recognized.

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 recognized and unrecognized deferred tax assets may not be realized should such transactions occur in the future.

X-FAB SE and its subsidiaries have unused corporation tax losses as follows:

in thousands of U.S. dollars	2017	2016
Belgian tax loss carry forward	6,028	-
German corporation tax loss carry forward	152,950	127,169
German trade tax loss carry forward	164,038	138,312
US federal tax loss carry forward	100,675	98,619
Malaysian tax loss carry forward	371,598	335,274
French tax loss carry forward	17,569	2,000

The Group's German and Malaysian tax losses can be carried forward indefinitely. US federal tax losses expire, if unused, successively in the years from 2019 onwards. Tax losses created in financial years from 2018 onwards can be carried forward indefinitely (see below for further details on the effects of the United States Tax Cuts and Jobs Act enacted in 2017).

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:

in thousands of U.S. dollars	Tax losses carried forward	Property, plant, and equipment	Other temporary differences	Total
Balance at January 1, 2016	**12,829**	**5,923**	**(4,121)**	**14,631**
Recognized in profit and loss	(790)	5,360	703	5,273
Acquired in business combinations	-	415	(415)	-
Balance at December 31, 2016	**12,039**	**11,698**	**(3,833)**	**19,904**
Set-off of tax	-	2,489	(2,489)	-
Net balance at December 31, 2016	**12,039**	**14,187**	**(6,322)**	**19,904**
Balance at January 1, 2017	**12,039**	**11,698**	**(3,833)**	**19,904**
Recognized in profit and loss	(4,361)	15,832	(190)	11,281
Recognized directly in equity	1,774	-		1,774
Balance at December 31, 2017	**9,452**	**27,530**	**(4,023)**	**32,959**
Set-off of tax	-	488	(488)	-
Net balance at December 31, 2017	**9,452**	**28,018**	**(4,511)**	**32,959**

Changes in recognized deferred tax assets resulted in a deferred tax income of USD 11,282 thousand (2016: income of USD 5,272 thousand). The increase in deferred tax assets recognized on property, plant, and equipment is due to recognition of previously unrecognized 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 for by a decrease of deferred tax assets recognized by X-FAB AG resulting from both the utilization of tax losses in 2017 and a decrease of recognized deferred tax assets on tax losses carried forward because of decreasing projected taxable income.

In addition, the transactions costs incurred in connection with the share issue have resulted in tax losses being reported by the parent. The Group has determined that it is probable that the tax losses will be utilized. Accordingly, the deferred tax asset has been recognized in full. The resulting USD 1,774 thousand credit for the amount of the deferred tax asset related to the transaction costs is recognized directly in equity.

Belgian tax reform

During the financial year the Belgian government enacted a corporate income tax reform which has an effect on the rate of corporation tax payable by the Group's parent. The reform is to be effective in two phases- once in 2018 and then in 2020 - and includes a reduction of the corporate tax rate to 29.58% (including a 2% crisis contribution) as from assessment year 2019, and 25% as from assessment year 2021. In addition, following the tax reform, dividends received by the parent company and gains on disposal of subsidiaries will be 100% tax exempt (currently 95%).

To finance these new measures, a minimum tax charge is imposed on companies making more than EUR 1 million profits by placing limits on a basket of corporate tax deductions. The deductions basket contains tax losses carried forward, the dividends received deduction carried forward, the innovation income deduction carried forward, and notional interest deductions. Deductions within the basket can only be claimed on 70% of the profits exceeding the EUR 1 million threshold. The remaining 30% are fully taxable at the new corporation tax rate, with the unused deductibles are carried forward and are available for use in future years.

US tax reform

The United States government enacted the United States Tax Cuts and Jobs Act on December 22, 2017. The Act introduced significant changes to tax laws affecting the Group's US subsidiary. The changes include, among other matters, lower tax rates, amendments to the rules on the carryforward and utilization of federal tax losses and the elimination of the corporate alternative minimum tax. Under these changes, tax losses created in future years may be carried forward indefinitely; however, it will no longer be permissible to set off all taxable profits in any specific year against tax losses of earlier years. Although a full assessment of the effect of the Act has not yet been completed, the Group has made a reasonable assessment of the effect of the changes on the Group's accounting as at December 31, 2018. The Group has recognized a deferred tax asset of USD 660 thousand in respect of an initial analysis of alternative minimum taxes repayable to the Group's US subsidiary following the Act. The Group has not recognized deferred tax assets on US federal tax losses carried forward at December 31, 2017 or 2016.

6.14 Earnings per share

The earnings per share is calculated by dividing the profit for the period attributable to the ordinary shareholders (as reported in the statement of profit and loss and other comprehensive income) by the weighted average number of shares in issue during the period.

The weighted average number of ordinary shares is calculated as follows:

in thousands	2017	2016
Issued ordinary shares on January 1	**99,382**	**99,382**
Effect of shares issued in April 2017	23,031	-
Weighted average number of ordinary shares	**122,413**	**99,382**

The weighted average number of ordinary shares outstanding during the period and for the previous periods has been adjusted for the share split effected on March 16, 2017 as this resulted in a change in the number of ordinary shares outstanding from 33,127,307 to 99,381,921 without a corresponding change in resources. As a result the weighted average number of ordinary shares of the comparative period has been adjusted as if the event had occurred at the beginning of the earliest period presented.

No instruments with a potential diluting effect on shareholder's equity have been in issue during the years ended December 31, 2017, or December 31, 2016. 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

in thousands of U.S. dollars	Land	Buildings	Technical machinery and equipment	Factory and office equipment	Assets under construction	Total
Net book value January 1, 2017	**13,634**	**43,341**	**171,046**	**5,427**	**32,025**	**265,472**
Accumulated historical cost January 1, 2017	**13,696**	**101,967**	**820,375**	**20,947**	**32,715**	**989,700**
Additions	-	696	23,966	1,324	71,299	97,285
Disposals	-	-	(4,854)	(451)	142	(5,163)
Reclassifications	-	(40)	49,563	1,354	(50,997)	(120)
Currency translation effect	38	285	1,721	74	308	2,426
Accumulated historical cost December 31, 2017	**13,734**	**102,908**	**890,771**	**23,248**	**53,467**	**1,084,128**
Accumulated depreciation January 1, 2017	**(62)**	**(58,626)**	**(649,329)**	**(15,520)**	**(690)**	**(724,227)**
Additions	(13)	(2,894)	(43,770)	(2,292)	-	(48,969)
Disposals	-	-	4,785	421	(142)	5,064
Reclassifications	-	26	-	-	-	26
Currency translation effect	-	(10)	(148)	(8)	-	(166)
Accumulated depreciation December 31, 2017	**(75)**	**(61,504)**	**(688,462)**	**(17,399)**	**(832)**	**(768,272)**
Net book value December 31, 2017	**13,659**	**41,404**	**202,309**	**5,849**	**52,635**	**315,856**
Net book value January 1, 2016	**13,025**	**38,542**	**148,266**	**4,165**	**27,560**	**231,559**
Accumulated historical cost January 1, 2016	**13,073**	**94,339**	**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	(8)	1,343	(322)	83	(4)	1,092
Changes in consolidation	631	4,767	3,008	81	-	8,487
Accumulated historical cost December 31, 2016	**13,696**	**101,967**	**820,375**	**20,947**	**32,715**	**989,700**
Accumulated depreciation January 1, 2016	**(48)**	**(55,797)**	**(615,438)**	**(14,063)**	**(690)**	**(686,036)**
Additions	(13)	(2,668)	(39,200)	(1,857)	-	(43,738)
Disposals	-	12	5,295	445	-	5,752
Reclassifications	-	129	-	-	-	129
Currency translation effect	(1)	(303)	14	(45)	-	(335)
Accumulated depreciation December 31, 2016	**(62)**	**(58,626)**	**(649,329)**	**(15,520)**	**(690)**	**(724,228)**
Net book value December 31, 2016	**13,634**	**43,341**	**171,046**	**5,427**	**32,025**	**265,472**

Property, plant, and equipment
The book value of assets held under finance leases at December 31, 2017 comprises assets with a purchase cost of USD 9,520 thousand (December 31, 2016: USD 9,520 thousand) less accumulated depreciation of USD 2,099 thousand (December 31, 2016: USD 803 thousand). Depreciation recorded in the income statement of USD 1,926 thousand (2016: USD 659 thousand) relates to leased assets. Reference is made to note 7.10.

At December 31, 2017 property, plant, and equipment with a book value of USD 84 million (December 31, 2016: USD 125 million) had been provided as collateral security to third party lenders.

The Group received investment grants related to the acquisition of qualifying assets totaling USD 375 thousand (2016: USD 2,532 thousand).

No impairment charges were recorded in 2017 or 2016.

Investment properties
Investment properties consist of properties let to third parties by X-FAB AG, X-FAB Dresden, X-FAB Texas, and X-FAB France. The lease arrangements, the majority of which expire at various dates until 2022, continue after expiry unless cancelled by either party within notice periods of 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:

in thousands of U.S. dollars	2017	2016
Net book value, beginning of period	**9,143**	**9,572**
Additions	-	-
Depreciation	(526)	(582)
Disposals	-	-
Reclassifications	391	153
Net book value, end of period	**9,033**	**9,143**
Accumulated cost	31,879	31,436
Accumulated depreciation	(22,846)	(22,293)
Fair value	**22,134**	**21,353**

Properties are reclassified between the land and buildings and investment properties classifications when there is a change in the use of the property (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 categorized as a Level 3 fair value based on the inputs to the valuation techniques used. The valuations were performed by third party experts for the investment properties in the US and in France and performed by the management of X-FAB SE Group for the investment properties in Germany, calculated on the basis of discounted future cash flows, and discounting future rents at a rate of 1.5% (December 31, 2016: 1.5%). 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 2017 or 2016.

The tables below show the future cash flows resulting from rental agreements under which X-FAB SE Group is the lessor as of December 31:

in thousands of U.S. dollars	2017	2016
2017		4,000
2018-2022		4,441
Thereafter		903
2018	4,216	
2019-2023	8,009	
Thereafter	1,060	
Total	**13,285**	**9,344**

The increase in future cash flows in 2019-2023 reflects a prolongation of a rental agreement between X-FAB Texas and one of its tenants.

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, management performs an impairment testing for the foundries impacted by such an impairment trigger. No impairment triggers were identified in the years 2017 or 2016 and accordingly management did not perform an impairment test.

7.2 Intangible assets

Intangible assets developed as follows:

in thousands of U.S. dollars	Licenses	Payments on account	Total
Net book value January 1, 2017	**4,150**	**3,724**	**7,874**
Accumulated historical cost at January 1, 2017	**78,888**	**3,724**	**82,612**
Additions	564	1,419	1,983
Disposals	(113)	-	(113)
Reclassifications	3,421	(3,717)	(296)
Effect of translation	9	-	9
Accumulated historical cost December 31, 2017	**82,769**	**1,426**	**84,195**
Accumulated amortization January 1, 2017	**(74,738)**	**-**	**(74,738)**
Additions	(2,509)	-	(2,509)
Disposals	113	-	113
Effect of translation	(1)	-	(1)
Accumulated amortization December 31, 2017	**(77,135)**	**-**	**(77,135)**
Net book value December 31, 2017	**5,634**	**1,426**	**7,060**
Net book value January 1, 2016	**7,270**	**1,246**	**8,516**
Accumulated historical cost at January 1, 2016	**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)
Accumulated historical cost December 31, 2016	**78,888**	**3,724**	**82,612**
Accumulated amortization January 1, 2016	**(71,785)**	**-**	**(71,785)**
Additions	(2,979)	-	(2,979)
Disposals	26	-	26
Reclassifications	-	-	-
Effect of translation	-	-	-
Accumulated amortization December 31, 2016	**(74,738)**	**-**	**(74,738)**
Net book value December 31, 2016	**4,150**	**3,724**	**7,874**

Intangible assets in the statement of financial position do not include any capitalized costs of internally generated assets. Payments on account refer to advance and milestone payments made for the acquisition of software licenses and the customization of such software in a project not yet fully completed.

No impairment charges were required in the years 2017 or 2016.

7.3 Inventories

Inventories comprise the following:

in thousands of U.S. dollars	2017	2016
Materials and supplies	65,345	55,208
Work in progress	39,380	31,918
Finished goods	5,682	5,225
Allowances	(4,561)	(3,379)
Total	**105,846**	**88,972**

Changes in work in progress and finished goods totaling USD 6,329 thousand were included in cost of sales in 2017 (2016: USD 6,031 thousand). Allowances are recorded against inventories and recognized as an expense in the period of USD 1,507 thousand (2016: USD 831 thousand). Allowances of inventories are recognized in cost of sales.

7.4 Trade and other receivables

Trade receivables and other receivables comprise the following:

in thousands of U.S. dollars	2017	2016
Trade accounts receivable	52,711	59,170
Amounts due from related party entities	30,644	19,377
Allowances	(1,347)	(1,255)
Total	**82,008**	**77,292**

Trade receivables are generally on 30 to 90-day terms and are non-interest-bearing. They are classified as loans and receivables for financial reporting purposes. Under consideration of allowances made, the fair values of trade receivables approximate their carrying amount.

As at December 31, the aging analysis of trade accounts receivables (third parties, net of allowances) is as follows:

in thousands of U.S. dollars	2017	2016
Neither past due nor impaired	37,037	36,892
Past due 1-30 days	11,045	16,470
Past due 31-60 days	1,344	1,704
Past due 61-360 days	1,662	1,887
Past due > 360 days	276	962
Total	**51,364**	**57,915**

In 2017 and 2016, amounts that were past due more than 61 days primarily include trade receivables due from one customer of X-FAB Sarawak for which X-FAB has determined that the ultimate collection of amounts outstanding of USD 1,477 thousand (2016: 1,501 thousand) is deemed probable based on an agreed payment plan. Accordingly, no impairment allowances have been recorded against this balance.

Impairment allowances of USD 1,347 thousand at December 31, 2017 (December 31, 2016: USD 1,255 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:

in thousands of U.S. dollars	2017	2016
Balance of January 1	**(1,255)**	**(1,256)**
Impairment loss recognized	(92)	-
Use of allowance	-	1
Reversal of allowance	-	-
Balance of December 31	**(1,347)**	**(1,255)**

7.5 Other assets

Other assets comprise the following:

in thousands of U.S. dollars	2017	2016
Other assets	26,274	14,338
Other non-current assets	10,809	36
Total	**37,083**	**14,374**

Other non-current assets in 2017 contain USD 10,657 thousand research and development tax credit of X-FAB France. This tax credit can be offset against income tax payable or this amount is paid within three years if there is no income tax to be paid.

Current other assets comprise the following:

in thousands of U.S. dollars	2017	2016
Taxes (other)	6,808	5,687
Prepaid expenses	3,597	4,375
R&D grants receivable	5,449	272
Investment grants and subsidies receivable	816	466
Deposits	1,724	767
Receivables from energy surcharges	2,954	1,991
Derivatives	4,096	-
Other	830	780
Total	**26,274**	**14,338**

Research and development grants receivable in 2017 include USD 4,800 thousand grants receivable of X-FAB Sarawak. Reference is made to note 12.1

7.6 Cash and cash equivalents

Cash and cash equivalents comprise the following:

in thousands of U.S. dollars	2017	2016
Cash and bank balances	316,461	101,727
Restricted cash	2,774	2,430
Total	**319,235**	**104,157**

The movements of cash and cash equivalents are reported in the cash flow statement and include the net cash inflows of USD 259,186 thousand, reported net of directly related IPO costs of USD 7,389 thousand incurred in connection with the initial public offering described in note 7.7.

Term deposits and some cash at bank balances earn interest at floating rates based on daily bank 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 classified as current assets as they are either in connection with contractual arrangements which may be cancelled at short notice or are expected to be released within 12 months on other grounds.

7.7 Equity

Share capital

X-FAB Silicon Foundries SE has 130,781,669 fully paid-in ordinary shares in issue at December 31, 2017. Each share carries one vote at the Company's general meetings. The 130,781,669 fully paid-in ordinary shares in issue at December 31, 2017 include 33,177,223 shares in issue as of January 1, 2017, which were subsequently converted to 99,531,669 shares by means of a share split in March 2017, as well as 31,250,000 new shares with a fractional value of EUR 5.0271 per share which were issued during the initial public offering (IPO) at Euronext Paris at

an exercise price of EUR 8.00 per share in April 2017. The share capital increased by a total of EUR 157,098 thousand (USD 167,513 thousand) in 2017 as a result of the IPO and amounts to USD 432,745 thousand at December 31, 2017.

Share premium
The share premium of X-FAB Silicon Foundries SE increased by EUR 92,902 thousand (USD 99,062 thousand) representing the excess of paid-in capital (EUR 8.00 per share) over fractional value (EUR 5.0271 per share) for the shares issued in April 2017.

Costs that are directly attributable to the issuance of new shares within the primary offering (such as underwriter fees, comfort letter costs) have been deducted from in equity and qualifying costs that relate to both existing shares and new shares (such as legal and roadshow costs) are allocated to equity in proportion to the number of shares relating to the primary offering (62.5%). The remaining costs have been presented as an expense in general and administrative expenses and are non-recurring expenses. The IPO costs deducted from share premium totaled USD 7,389 thousand, net of related tax effects of USD 1,774 thousand. The Company received net cash inflows of USD 259,187 thousand as a result of the new shares issued in the IPO, net of associated expenses.

The portion of the IPO expenses recorded in general and administrative expenses amounted to USD 197 thousand.

The share premium also 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, 2017 the Group held 149,748 treasury shares (after the share split) of X-FAB Silicon Foundries SE via 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, 2016: USD 770 thousand).

Share-based payment arrangements
The Group had no share-based payment arrangements and no share option programs during the years ended December 31, 2017, or December 31, 2016.

Authorization to acquire treasury 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% of the votes cast where at least 50% of the share capital and at least 50% 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% of the outstanding shares, for a price not lower than 10% below the lowest closing price in the last 30 trading days preceding the transaction and not more than 5% 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 any 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% of the share capital. Voting rights attached to shares held by the Company as treasury shares are suspended.

7.8 Dividends

No dividends were resolved or paid in the years 2017 or 2016.

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% of its profits for the financial year until such reserve has reached an amount equal to 10% of its share capital (the "Legal Reserve") or if, following any such dividend, the level of the net assets adjusted for the unamortized balance of the incorporation costs and capitalized 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.

7.9 Non-controlling interests

The non-controlling interests for the period and the accumulated non-controlling interests represent the 5.1% (December 31, 2016: 5.1%) non-controlling shareholders' interests in the subsidiary GVG. GVG is a property management company responsible for the administration of certain of the Group's properties in Dresden, Germany.

GVG net loss for the financial year 2017 amounted to USD 345 thousand (2016 net income: USD 1,051 thousand). GVG had total assets amounting to USD 10,751 thousand at December 31, 2017 (December 31, 2016: USD 11,657 thousand), liabilities of USD 8,204 thousand (December 31, 2016: USD 8,615 thousand), and equity of USD 2,547 thousand (December 31, 2016: USD 3,042 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.

7.10 Current and non-current loans and borrowings

The Group has total drawn and undrawn facilities (excluding the loan from Sarawak State Financial Secretary) amounting to USD 124,184 thousand at December 31, 2017 (December 31, 2016: USD 142,744 thousand) and unused credit lines available from bank loans at fixed and variable interest rates denominated in EUR and USD amounting to USD 16,783 thousand at December 31, 2017 (December 31, 2016: USD 18,658 thousand). The facilities include variable interest rate credit lines denominated

in thousands of U.S. dollars	Liabilities		Derivatives		
	Loans and borrowings	Finance lease liabilities	Interest rate swaps and forward exchange contracts - assets	Interest rate swaps and forward exchange contracts - liabilities	
Balance at January 1, 2017	**155,198**	**8,642**	**-**	**6,707**	
Changes from financing cash flows					
Proceeds from loans and borrowings					
Repayment of loans and borrowings	(32,008)				
Repayment of loans and borrowings from related parties					
Receipts from finance leases					
Payments of lease installments		(2,377)			
Interest paid	(2,610)	(204)			
Gross proceeds from capital increase					
Direct cost related to capital increase					
Payment of preference dividend	(3,095)				
Distribution to non-controlling interests					
Receipt of investment government grants and subsidies					
Total changes from financing cash flows	**(37,713)**	**(2,581)**	**-**	**-**	
Other changes					
Effect of changes in foreign exchange rates	**14,434**	**1,011**			
Changes in fair value			**(4,096)**	**(6,171)**	
Liability related					
New finance leases		8			
Interest expenses	4,775	204			
Equity related					
Total liability related other changes	**4,775**	**212**	**-**	**-**	
Total equity related other changes					
Balance at December 31, 2017	**136,694**	**7,284**	**(4,096)**	**536**	

in EUR carrying interest rates of between 1.69% and 3.0% (2016: 2.9% and 3.0%) 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% and 4.43% (2016: 2.75% and 5.0%).

The following table provides a reconciliation of the movements in liabilities to the cash flows arising from financing activities:

	Other	Equity				
		Share capital	Share premium	Retained earnings	NCI	Total
	-	**265,231**	**255,262**	**(196,506)**	**400**	**494,934**
						-
						(32,008)
						-
						-
						(2,377)
						(2,814)
		167,514	99,062			266,576
			(7,389)			(7,389)
						(3,095)
					(11)	(11)
	375					375
	375	**167,514**	**91,673**	-	**(11)**	**219,257**
						15,445
						(10,267)
						8
						4,979
			1,774	**89,692**	**(32)**	**91,434**
	-	-	-	-	-	**10,165**
			1,774	**89,692**	**(32)**	**91,434**
	375	**432,745**	**348,709**	**(106,814)**	**357**	**831,235**

Carrying amounts and fair values
The carrying amounts of the Group's loans and borrowings at December 31 are shown in the following table:

in thousands of U.S. dollars	2017	2016
Bank loans and overdrafts		
Fixed interest bank loans denominated in EUR	78,163	89,570
Maturity: 2017-2021		
Interest rates: 1.4%–2.7%		
Repayments in monthly or quarterly installments		
Variable interest bank loans denominated in EUR	29,238	34,082
Maturity: 2015-2021		
Interest rates: EURIBOR + 1.69%-EURIBOR + 2%		
Repayments in quarterly installments		
Fixed interest bank loans denominated in USD	-	434
Maturity: 2017		
Interest rates: 5.0%		
Repayments in monthly or quarterly installments		
Loan State Financial Secretary of Saraw ak denominated in USD	29,293	31,112
Maturity: 2030		
Interest free and 2.0% preference dividend		
Repayment at maturity date		
Leasing arrangements		
Finance leasing liabilities denominated in EUR	7,283	8,642
Maturity: 2017-2021		
Interest rates: 0.6-9.6%		
Repayment in monthly installments		
Total	**143,977**	**163,840**
Current loans and borrowings	**37,799**	**31,432**
Non-current loans and borrowings	**106,178**	**132,408**

The Group's exchange rate gains and losses include expenses for exchange rate losses of USD 15,445 thousand resulting from the translation of euro-denominated loans.

The fair value of loans and borrowings is USD 143,826 thousand at the reporting date (2016: USD 163,035 thousand).

Taking into account the effect of interest rate swaps, about 73% of the Group's borrowings are at a fixed rate of interest (December 31, 2016: 79%). 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 101,036 thousand (2016: USD 118,449 thousand) are secured by charges on plant and machinery and land (see note 7.1).

The USD 50,000 thousand debt represents X-FAB Sarawak redeemable preference shares held by Sarawak Technologies Holding Sdn. Bhd. which are due for repayment in 2030. The redeemable preference shares confer the holder the right to receive a cumulative preference dividend of 2% 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 total amount accrued for preference dividends amounts to USD 0 thousand at December 31, 2017 (December 31, 2016: USD 3,000 thousand) as cumulative preference dividends of USD 3.095 thousand were paid in 2017 for the years 2013 through 2017. The yearly accrued preference dividend is included within interest expenses. The charge to interest expense amounted to USD 1,000 thousand in 2017 and 2016.

The USD 50,000 thousand has been discounted at an interest rate of 4.12%. The discount rate was calculated at initial recognition of the liability, taking into account a weighted average risk free rate of Unites States treasury bills with a corresponding maturity and an additional spread to reflect the risk premium that market participants would require based on an average credit spread for BBB-rated debt instruments with a corresponding maturity. The charge to interest expense on this debt from the unwinding of the liability amounted to USD 1,180 thousand in 2017 (2016: USD 1,133 thousand).

In 2016 and in earlier years 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. 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 derecognized. The arrangements run until 2021 and carry interest rates between 0.6 and 9.6%. The contractual arrangements include purchase options at a price that is lower than the fair value of the assets 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.

The future minimum lease payments due under finance lease arrangements are as follows:

in thousands of U.S. dollars	2017		2016	
	Minimum leasing payment	Present value	Minimum leasing payment	Present value
2018	2,582	2,467		
2019-2022	4,909	4,816		
2017			2,152	1,985
2018-2021			6,864	6,657
Total	**7,491**	**7,283**	**9,016**	**8,642**
Interest	(208)	(208)	(374)	(374)
Liability	**7,283**	**7,075**	**8,642**	**8,268**

Contractual maturities

The contractual maturities of the Group's non-derivative financial liabilities (including finance lease liabilities) at December 31, 2017 and 2016 are shown in the table below. The amounts presented in the table are gross and undiscounted:

in thousands of U.S. dollars	2017	2016
2017		31,700
2018	37,801	33,391
2019	39,548	34,773
2020	24,531	21,581
2021	12,805	11,282
2030	50,000	50,000
Total	**164,685**	**182,727**

The contractual maturities of the Group's derivative financial instruments with negative fair values will result in cash outflows from 2018 to 2019.

The Group is exposed to a liquidity risk in that the maturity of bank loan agreements, which are presented based on the contractual payment obligations, could be brought forward should the Group fail to comply with its contractual obligations under the bank loan agreements.

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 8,082 thousand at December 31, 2017 (December 31, 2016: USD 7,124 thousand) 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 241 thousand (December 31, 2016: USD 240 thousand) of defined benefit obligations relating to this plan were recorded as other current liabilities. The net defined benefit obligation consists of defined benefit obligations under the scheme of USD 12,271 thousand (December 31, 2016: USD 10,489 thousand) less plan assets recorded at their fair values of USD 3,948 thousand (December 31, 2016: USD 3,125 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 plan assets at December 31, 2017 consist of investments in a fund that is managed by a financial institution of which the underlying assets relate to long-term bonds with capital guarantees of USD 1,866 thousand at December 31, 2017 (December 31, 2016: USD 1,612 thousand) and equity savings plans with a value of USD 2,082 thousand at December 31, 2017 (December 31, 2016: USD 1,513 thousand).

in thousands of U.S. dollars	DBO	Fair value of plan assets	Net defined benefit liability
December 31, 2016	**10,489**	**(3,125)**	**7,364**
Included in profit or loss:			
Current service cost	425	-	425
Net interest on the net defined liability	166	-	166
Currency effects from conversion into USD	1,418	(423)	995
Included in OCI:			
Return on plan assets	-	(400)	(400)
Actuarial losses	498	-	498
Other:			
Contributions paid by the employer	-	-	-
Benefits paid	(726)	-	(726)
December 31, 2017	**12,270**	**(3,948)**	**8,322**

The Group expects to pay contributions of USD 592 thousand to the funding plan in 2018.

The primary assumptions made in calculating the defined benefit obligation were as follows:

in thousands of U.S. dollars	2017	2016
Discount rate	1.20%	1.36%
Employee turnover	5.00%	6.00%
Social security costs	47.00%	47.00%

The discount rate used is calculated by reference to marked yields on high quality corporate bonds. Future salary growth is assumed to be 0.5% lower than inflation (December 31, 2016: 0.5% lower). 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:

in thousands of U.S. dollars	Increase at December 31, 2017	Decrease at December 31, 2017	Increase at December 31, 2016	Decrease at December 31, 2016
Discount rate (+0.25% movement)	-	192	-	201
Future salary growth (+0.25% movement)	200	-	210	-

The defined benefit obligation is not materially sensitive to a reasonable potential change in the assumed mortality rate.

7.12 Trade payables and other current liabilities

Trade payables are non-interest bearing and are normally settled on 60-day terms.

Other current liabilities comprise the following:

in thousands of U.S. dollars	2017	2016
Accrued liabilities	**15,771**	**12,847**
For invoices not yet received	14,052	10,800
Repayment of electricity cost discounts	896	413
Royalties	132	93
Sales commission	394	95
Other	297	1,446
Advances received	6,240	7,497
Derivatives	536	6,707
Deferred income	919	1,155
Employee-related liabilities	**19,144**	**16,114**
Wages	2,019	1,678
Earned holiday entitlement, incentives	10,520	9,853
Payroll taxes	2,533	1,528
Social security costs	4,072	3,055
Other taxes	1,391	1
Other	951	309
Total	**44,952**	**44,630**

7.13 Provisions

Provisions comprise the following:

in thousands of U.S. dollars	2017	2016
Current provisions	2,914	1,622
Non-current provisions	87	73
Total	**3,001**	**1,695**

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 bonuses 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:

in thousands of U.S. dollars	Warranty provisions	Employee provisions	Other	Total
January 1, 2017	**1,562**	**133**	**-**	**1,695**
Provided for	2,250	14	-	2,264
Utilized	(728)	(3)	-	(731)
Released	(290)	-	-	(290)
Effect of changes in exchange rates	45	18	-	63
December 31, 2017	**2,839**	**162**	**-**	**3,001**

in thousands of U.S. dollars	Warranty provisions	Employee provisions	Other	Total
January 1, 2016	**928**	**128**	**110**	**1,166**
Provided for	1,514	14	-	1,528
Utilized	(605)	(6)	(35)	(646)
Released	-	-	(73)	(73)
Reclassification	(283)	-	-	(283)
Effect of changes in exchange rates	8	(3)	(2)	3
December 31, 2016	**1,562**	**133**	**-**	**1,695**

8 Notes to the statement of cash flows

In 2017, the Group paid a preference dividend in the amount of USD 3,095 thousand to Sarawak Technologies Holding Sdn. Bhd. Reference is made to note 7.10.

Non-cash transactions mainly include effects from exchange rate differences and increases of provisions. Regarding the exchange rate differences reference is made to note 7.10.

The Group entered into no sale and leaseback transactions for property, plant, and equipment in 2017. Sale and leaseback transactions were entered into for property, plant, and equipment with a net book value of USD 5,144 thousand in 2016.

9 Segment reporting

Operating segment

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 non-current assets by geographic area for the reporting period.

Revenue by geographic area:

in thousands of U.S. dollars	2017	2016
Europe	**329,364**	**279,097**
Germany	60,266	47,954
France	7,270	2,869
United Kingdom	29,476	27,617
Belgium	203,271	172,420
Austria	9,011	5,599
Sweden	8,534	13,542
Switzerland	4,743	3,783
Denmark	1,311	1,251
Italy	1,161	741
Other	4,321	3,321
Asia	**115,232**	**183,762**
Malaysia	13,557	10,777
Japan	12,730	10,032
China	41,234	122,609
Korea	10,594	9,627
Hong Kong	1,208	1,692
Thailand	11,144	8,030
Singapore	18,084	14,616
Taiwan	3,525	4,003
Other	3,156	2,376
United States of America	**136,255**	**49,152**
Rest of the world	**836**	**886**
Total	**581,687**	**512,897**

Non-current assets by geographic area:

in thousands of U.S. dollars	2017	2016
Germany	145,951	151,614
Malaysia	163,889	118,134
United States of America	28,045	23,365
France	38,391	9,505
Total	**376,276**	**302,618**

The increase in 2017 relates to the Group's investments into equipment less depreciation.

Significant customers
The Group has two (2016: two) customers whose revenues exceeded 10% of the Group's consolidated external revenues. The total revenue from these customers amounted to USD 306,134 thousand in 2017 (2016: USD 279,578 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, 2017

in thousands of U.S. dollars	Carrying amount	Fair value			
	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Investments (held for trading)	559	559	-	-	559
Currency hedge contracts (held for trading)	4,096	-	4,096	-	4,096
Financial assets not measured at fair value					
Trade and other receivables (loans and receivables)	82,008				
Cash and cash equivalents	319,235				
Financial liabilities measured at fair value					
Interest rate swaps (held for trading)	(536)	-	(536)	-	(536)
Currency hedge contracts (held for trading)	-	-	-	-	-
Financial liabilities not measured at fair value					
Trade payables (financial liabilities at amortized cost)	(36,684)				
Bank loans, overdrafts, and finance lease (financial liabilities at amortized cost)	(114,684)	-	(113,725)	-	(113,725)
Related party loans (financial liabilities at amortized cost)	(29,293)	-	(30,101)	-	(30,101)

December 31, 2016

in thousands of U.S. dollars	Carrying amount	Fair value			
	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Investments (held for trading)	190	190	-	-	190
Financial assets not measured at fair value					
Trade and other receivables (loans and receivables)	77,292				
Cash and cash equivalents	104,157				
Financial liabilities measured at fair value					
Interest rate swaps (held for trading)	(714)	-	(714)	-	(714)
Currency hedge contracts (held for trading)	(5,993)	-	(5,993)	-	(5,993)
Financial liabilities not measured at fair value					
Trade payables (financial liabilities at amortized cost)	(49,032)				
Bank loans, overdrafts, and finance lease (financial liabilities at amortized cost)	(132,728)	-	(132,312)	-	(132,312)
Related party loans (financial liabilities at amortized cost)	(31,112)	-	(30,723)	-	(30,723)

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 primarily consist of forward foreign exchange contracts and interest rate swaps, as well as an equity investment in a company listed on the NASDAQ stock exchange. The fair value of the forward foreign exchange contracts and interest rate swaps 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. The fair values are confirmed to the Group by the financial institutions through which the Group has entered into these contracts. The fair value of the equity investment in a company listed on the NASDAQ stock exchange is based on the price quoted for those shares at the reporting date.

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 recognized 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:

in thousands of U.S. dollars	2017	2016
Outstanding interest hedge contracts	(536)	(714)
Outstanding currency hedge contracts	4,096	-
Outstanding currency hedge contracts	-	(5,993)
Total	**3,560**	**(6,707)**

The following table presents the aggregate nominal amounts of the Group's outstanding derivative financial instruments:

in thousands of U.S. dollars	2017	2016
Outstanding interest hedge contracts, maturing after more than one year	8,464	8,511
Outstanding currency hedge contracts, maturing w ithin one year	71,827	-
Outstanding currency hedge contracts, maturing after more than one year	53,130	101,427

In June 2017, the Group entered into USD/EUR exchange forward contracts with three banks. These contracts run until June/July 2018 and contain forward exchanges of USD 114 million in total. The positive fair value at December 31, 2017 amounts to USD 3,615 thousand.

The remaining currency hedge contacts refer to hedging contracts in respect of the Malaysian ringgit. These contracts run until 2018 and 2019.

Available-for-sale financial instruments

The Group's investment in a privately owned semiconductor company (Semprius) classified as available-for-sale financial assets with a historical acquisition cost of USD 2,861 thousand at December 31, 2017 (2016: USD 2,861 thousand) was liquidated in 2017. No additional capital contributions were made to Semprius in 2017 (2016: USD 596 thousand). This investment was impaired and written down in full in 2013, and additional impairments corresponding to the additional contributions made in 2016 were recorded in 2016. The Group is exposed to no further risk from this investment, and no reversals of impairment charges made have been made.

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 minimize 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 summarized 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, 2017, after taking into account the effect of interest rate swaps, about 73% of the Group's borrowings are at a fixed rate of interest (December 31, 2016: 79%). 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:

	2017	2016
USD/EUR		
Closing rate	0.834	0.947
Average rate	0.886	0.903
USD/MYR		
Closing rate	4.047	4.486
Average rate	4.301	4.144

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 16.4% (2016: 12.6%) 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 on 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 as the associated tax effect would not be significant.

USD/EUR	Increase/ decrease in EUR rate	Effect on profit before tax
2017	5% -5%	3,642 -3,642
2016	5% -5%	-6,447 6,447

USD/MYR	Increase/ decrease in MYR rate	Effect on profit before tax
2017	20% -20%	3,431 -3,431
2016	20% -20%	7,536 -7,536

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 recognized, 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, 2017. The expected cash flows from trade and other receivables maturing within two months total USD 82,008 thousand (December 31, 2016: USD 77,292 thousand). Trade accounts payables are due within the next 12 months. An analysis of the maturity of financial liabilities and available credit lines 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 maximize shareholder value. The Group manages its capital structure (consisting of equity and borrowings) 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 making payments to or adjusting 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, 2017 and December 31, 2016.

The X-FAB SE Group's bank loan agreements do not impose externally imposed capital requirements requiring the maintenance of specific equity and free cash flow ratios. 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. The credit agreements contain certain other covenants typical for such borrowing arrangements which impose 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.

11 Transactions with related parties

Transactions with shareholders and their subsidiaries

As part of its normal business activities, X-FAB SE Group undertakes transactions with entities in the XTRION group, a group of companies controlled by XTRION NV, the ultimate parent company and the largest shareholder of X-FAB SE. 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.

in thousands of U.S. dollars	2017	2016
Trade accounts receivable due from Melexis group companies	26,973	16,208
Trade accounts receivable due from Anvo-Systems	1,443	1,324
Trade accounts receivable due from M-MOS group companies	2,224	1,837
Trade accounts receivable due from MicroGen	-	10
Trade accounts receivable due from X-Celeprint	3	(2)
Total	**30,643**	**19,377**

in thousands of U.S. dollars	2017	2016
Financial liabilities due to Sarawak Technologies Holding Sdn. Bhd.	29,293	31,112
Trade accounts payable due to Melexis group companies	306	235
Trade accounts payable due to XTRION	2	11
Trade accounts payable due to M-MOS	(6)	15
Trade accounts payable due to Sensinnovat	243	-
Trade accounts payable due to X-Celeprint	37	-
Other	22	19
Total	**29,897**	**31,392**

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. Interest income and expenses arose in connection with loan arrangements.

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:

in thousands of U.S. dollars	2017	2016
Sales to Melexis group companies	204,074	172,793
Sales to M-MOS group companies	10,785	8,472
Sales to Anvo-Systems	254	675
Sales to MicroGen	214	132
Other income with Sarawak Technologies Holding Sdn. Bhd.	940	-
Other income with Melexis group companies	3,330	2,027
Other income with XTRION	18	36
Interest income w ith Elex	-	26
Total	**219,615**	**184,161**

Purchases, expenses, and other transactions recorded with shareholders and their subsidiaries were as follows:

in thousands of U.S. dollars	2017	2016
Services provided by Melexis group companies	566	586
Services/purchases provided by M-MOS group companies	-	75
Services provided by X-Celeprint	84	71
Services purchased from Sensinnovat	410	392
Interest expenses Melexis	109	117
Warranty cost Melexis group	832	820
Interest from loan from Sarawak Technologies Holding Sdn. Bhd.	2,180	2,133
Total	**4,181**	**4,194**

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 reporting date are unsecured, interest free, and settled 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 2017 or 2016.

Remuneration of persons with key management positions

in thousands of U.S. dollars	2017	2016
Short-term employee benefits	1,824	1,246
Total	**1,824**	**1,246**

The persons with key management positions as referred above as of December 31, 2017 include the Group's COO, CTO, CFO (until September 2017), the CEO of X-FAB Dresden, the CEO of X-FAB Sarawak, the CEO of X-FAB Texas, and the CEO of X-FAB France. No post-employment benefits have been granted to these persons.

The Group has made contributions to defined contribution pension plans for the benefit of persons with key management positions totaling USD 63 thousand (2016: USD 105 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 CFO from October 2017) that are not on the payroll of the Company have charged USD 430 thousand (2016: USD 393 thousand) for his 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:

in thousands of U.S. dollars	2017	2016
Purchase commitments for:		
Property, plant, and equipment	36,399	20,089
Intangible assets	617	350
Material and services	34,848	12,067
Total	**71,864**	**32,506**

Purchase commitments mainly refer to purchase orders placed for investments in technical machinery. On acquiring the semiconductor business of Altis Semiconductor (see note 5) the Group committed to invest USD 120 million (EUR 100 million) in the Corbeil-Essonnes site over a ten-year period from the date of acquisition. USD 102 million (EUR 84 million) of this obligation remains outstanding at December 31, 2017 (December 31, 2016: USD 106 million).

Purchase commitments for material in 2017 include commitments of X-FAB Texas for silicon carbide (SiC) wafer needed in 2018 in the amount of USD 25 million.

Operating leases

The tables below show the amount of minimum lease commitments under operating leases and similar rental arrangements as of December 31:

in thousands of U.S. dollars	2017	2016
2017		3,728
2018-2022		5,825
Thereafter		246
2018	6,780	
2019-2023	6,737	
Thereafter	15	
Total	**13,532**	**9,799**

Expenses under operating leases totaled USD 4,822 thousand (2016: USD 4,533 thousand). Assets held under operating lease agreements include one production hall and leased vehicles and office equipment.

Investment grants and subsidies
Various Group entities receive grants and subsidies in connection with the acquisition of certain qualifying assets (asset-related grants and subsidies) and subsidies to offset research and development costs (income-related grants). No material amounts of other government assistance are received.

Specifically, X-FAB AG, XMF, and X-FAB Dresden receive grants and subsidies in connection with the acquisition of certain qualifying assets (asset-related grants and subsidies). The grant rules require that the assets on which investment grants have been received are retained for a period of five years (the subsidy rule have a similar three-year retention requirement), and that specified employee levels are maintained at specific locations. If it is not possible to fulfil these conditions, the grants and subsidies may be partially repayable.

X-FAB Sarawak was awarded 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 (income-related grant). 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. In 2017 X-FAB Sarawak recognized a grant receivable for USD 4.8 million with respect to year 2017 as reasonable assurance has been obtained that X-FAB has complied with the grant conditions and the cash will be received (reference is made to note 7.5). X-FAB has not recognized a receivable for the remainder of the USD 72 million, relating to the period after 2017, as the recognition criteria (reasonable assurance) are not deemed to be met at this moment. 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 if X-FAB complies with the relevant terms.

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:

	2017	2016
Production	3,258	2,446
Research and development	281	243
Sales, marketing, and administration	256	199
Trainees	65	58
Total	**3,860**	**2,946**

The total number of employees employed by the Group at December 31 was as follows:

	2017	2016
Production	3,336	3,182
Research and development	291	280
Sales, marketing, and administration	270	252
Trainees	68	66
Total	**3,965**	**3,780**

12.4 List of shareholdings

Entity	Place of incorporation	Principal activities	Shareholding %
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%

12.5 Consolidated financial statements of the ultimate parent

The ultimate parent of the Company is XTRION NV. Although XTRION NV does not hold a majority of the Company's shares, it is the Company's largest shareholder and has a controlling interest given its dominant shareholding position relative to the size and dispersion of other shareholders.

The financial statements of the companies included in the Group are also included in the consolidated financial statements of XTRION NV, the Company's ultimate parent. 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 16, 2017, KPMG Bedrijfsrevisoren BV CVBA Belgium were reappointed as the parent company's auditor for the years 2017, 2018, and 2019.

The auditor's remuneration for the period was as follows:

in thousands of U.S. dollars	2017	2016
Audit cost		
KPMG	349	527
Other audit firms	150	176
Other services		
KPMG	562	15
Total	**1,061**	**718**

Other audit-related services mainly related to attestation and assurance services in connection with the Company's initial public offering. Reference is made to note 7.7.

13 Events after the reporting period

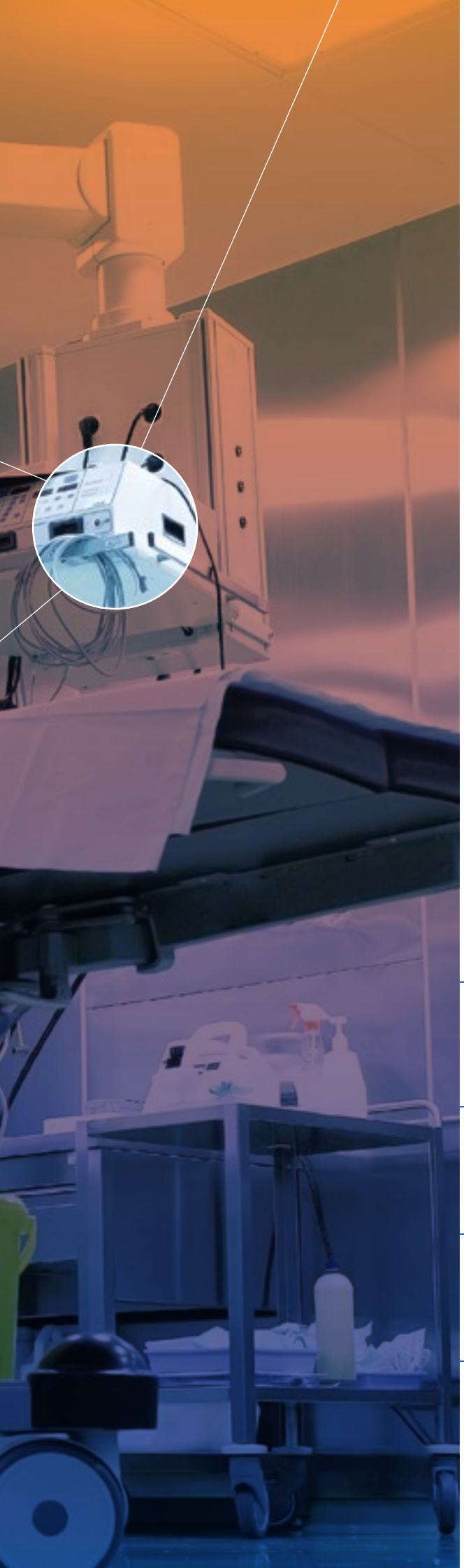
There have been no reportable events subsequent to the reporting date.

Tessenderlo, March 19, 2018

Managing Director, CEO

Sensinnovat BVBA
Represented by Rudi De Winter
CEO


WE
HELP
TO
SAVE
LIVES



Semiconductors for medical markets

X-FAB
technologies for our future.

Maintenance engineers checking equipment in the cleanroom

DISEASE DIAGNOSIS

DRUG DETECTION AND DELIVERY

CELL SORTING

PATIENT MONITORING

DNA SEQUENCING

BIOMEDICAL SCREENING

MEDICAL IMAGING

6. CORPORATE SOCIAL RESPONSIBILITY AT X-FAB

6.1 Company ethics

Introduction

X-FAB is fully committed to being the foundry of choice for the analog world by focusing on innovative solutions and on the quality of products as well as services. X-FAB's manufacturing excellence meets customer expectations and enables long-lasting success for all stakeholders. To exceed the expectations of its customers, X-FAB practices a quality management system certified according to IATF 16949:2016 and ISO 9001:2015.

ISO 9001 and IATF 16949

ISO 9001:2015 specifies the requirements for a quality management system. It helps organizations to ensure they meet the needs of customers and other stakeholders while also respecting statutory and regulatory requirements related to a product or service. IATF 16949:2016 as a new automotive standard for quality management systems is implemented as a supplement to and in conjunction with ISO 9001:2015. It specifies the requirements for establishing, implementing, maintaining, and continually improving a quality management system in the automotive supply chain.

Furthermore, X-FAB assumes responsibility by seeking an appropriate balance of interests between the consequences of required business decisions and its activities on economic, technological, social, and environmental levels. To save natural resources and to support the global reduction of CO2 emissions, X-FAB operates an environmental, health and safety, and energy management system that is certified according to ISO 14001:2015. Additionally, X-FAB is a member of the "German Electrical and Electronic Manufacturers" association (ZVEI) and has signed the ZVEI Code of Conduct in 2014.

ZVEI

The ZVEI ("Zentralverband Elektrotechnik- und Elektronikindustrie e.V.") is the representative of the economic, technological, and environmental interests of the German electrical industry.

The ZVEI has drawn up a Code of Conduct of its own, governing corporate social responsibility. The ZVEI Code of Conduct takes internationally established benchmarks as its reference and covers all relevant subjects.

X-FAB, as one of the largest specialty foundry groups, is aware of the social responsibility it has connected to the Company's global business activities. X-FAB's company ethics are based on universal ethical values and principles, especially integrity, honesty, respect of human dignity, openness, and nondiscrimination comprising religion, ideology, gender, and ethnicity. X-FAB is also committed to promoting those values wherever possible and across all parts of the value chain. X-FAB unrestrictedly abides by all applicable laws and other legal requirements at all of its sites. In 2017, no noncompliance with any laws or regulations has been identified concerning the provision and use of products and services and related to environmental laws and regulations. X-FAB fosters partnerships and trustworthy interactions with supervisory authorities. Additionally, X-FAB also globally applies good company practices that enable supportive, responsible company management.

Scope and boundary

The content of this chapter documents X-FAB's environmental and social performance during the 2017 fiscal year. X-FAB is disclosing data relating to its non-financial performance figures for the first time and will continue to do so annually. The environmental and social performance figures encompassed in this chapter have been prepared according to the Global Reporting Initiative Guideline (version 3.1) core option.

During the materiality analysis for X-FAB's CSR report 2017 expectations and requirements of external and internal stakeholders were evaluated. Thus, the outline of this report takes into account various topics with regards to sustainability including human rights, social commitment, healthy work environment, environmental responsibility, and supply chain. The report contains the core GRI indices as well as standard disclosures on general characteristics of X-FAB as an organization. Some figures can be found in other parts of the annual report. A table identifying the location of key figures and statements can be found on X-FAB's website. Unless otherwise specified, the disclosed information refers to the 2017 fiscal year. Where applicable, data were collected and/or measured by X-FAB or obtained from external sources, such as utility providers. Data compiled from X-FAB sites were validated using internal procedures.

In general, the provided statements and figures are valid for the entire organization. Site-specific information is indicated where applicable. The report covers all entities of X-FAB Silicon Foundries SE. Outsourced operations were excluded from the CSR report due to their insignificant share of X-FAB's overall business volume in 2017. The report scope and boundary was confirmed by the X-FAB Management Board.

Anti-corruption and bribery

X-FAB's business practices follow the principles of fair competition with particular focus on professional behavior. X-FAB respects consumer interests by abiding by regulations that protect consumers, and by using appropriate sales, marketing, and information practices in accordance with the ICC International Code of Advertising Practice and the OECD Guidelines for Multinational Enterprises.

ICC International Code of Advertising Practice

The International Chamber of Commerce (ICC) establishes rules governing the conduct of business across borders. The ICC Code of Advertising Practice provides self-disciplinary rules of ethical conduct to be followed by all concerned with advertising: All advertising should be legal, decent, honest, truthful, and prepared with a due sense of social responsibility and the principles of fair competition.

OECD Guidelines for Multinational Enterprises

Founded in 1961, the Organization for Economic Co-operation and Development (OECD) fosters economic progress and stimulates world trade. It is an intergovernmental economic organization with 35 member countries. The OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct comprising employment, industrial relations, human rights, environment, and taxation, among others.

In particular, X-FAB rejects corruption and bribery as stated in the relevant UN Convention against corruption from 2003, and promotes transparency, trading with integrity, responsible leadership, and company accountability.

In order to prevent corruption, X-FAB is aiming for an increased awareness from its employees through comprehensive and repetitive sessions on the company values and strict regulations as outlined in the company handbook. These sessions are attended by all employees and emphasize the corporate values, such as integrity and respect. An Ethics and Conflict of Interest policy is available on the Company's intranet. Furthermore, anti-corruption is

mentioned in the Company's rules, which are part of each employment contract. Concerns about unethical behavior are reported either via the workers' council or directly to Human Resources. X-FAB is preparing an internal policy to increase transparency and reporting mentality about any corruption incidents.

Ethics training is provided to all employees. At the start of employment with X-FAB, each new employee receives a copy of the working regulations, which comprise policies on harassment prevention and the acceptance of gifts, and includes a definition of infractions that lead to contract termination. Actions taken in response to incidents of corruption comprise all legal actions according to the corresponding national laws. In addition to following all national laws regarding ethical and anti-corruption behavior, X-FAB does not influence politics, neither by participating in political activities nor by donating or supporting parties in elections.

Stakeholder engagement

With the introduction of CSR reporting in the 2017 Annual Report, X-FAB puts the CSR report on a regular agenda to improve the Company's overall sustainability continuously. X-FAB's mission is to contribute to the social and economic development of the countries and regions where it conducts business and promotes appropriate, volunteer activities by its employees. X-FAB thereby contributes to the well-being and long-term development of affected societies, in particular regarding working conditions, social and environmental compatibility, transparency, collaboration, and dialog. X-FAB promotes state-of-the-art technologies and their advancement through its involvement in numerous industry associations and other organizations.

Industry associations

X-FAB is a member of or otherwise related to several industry associations as well as scientific, governmental and standardization organizations including but not limited to:

A. Industry associations

- ACSIEL, Alliance Électronique (French electronics industry association)
- AENEAS – Association for European Nano-electronics Activities
- edaCentrum (Association for Electronic Design Automation, Germany)
- ESIA – European Semiconductor Industry Association
- Förderkreis Mikroelektronik (Society for the Promotion of Microelectronics, Germany)
- IVAM Microtechnology Network, Germany
- SECA – Sarawak Electronics and Supporting Industries Companies Association, Malaysia
- SEMI, global industry association serving the manufacturing supply chain for the micro- and nano-electronics industries
- SFAM – Semiconductor Fabrication Association of Malaysia
- Silicon Saxony, Germany
- SYSTEMATIC, Paris-region cluster connecting software, digital and industry players, France
- ZVEI – Zentralverband Elektrotechnik- und Elektronikindustrie (Electrical Industry Association, Germany)

B. Scientific organizations

- Curatorship in different Fraunhofer Institutes, Germany
- IMMS Institut für Mikroelektronik- und Mechatronik-Systeme (IMMS Institute for Microelectronic and Mechatronic Systems, Germany)
- Texas Tech University, Electrical Engineering Industrial Advisory Board and Dean's Council for the College of Engineering

C. Governmental committees/organizations

- Mikroelektronik Strategiekreis (Microelectronics strategy circle, Germany)
- Silicon Germany

D. Standardization organizations

- DKE – Deutsche Kommission Elektrotechnik Elektronik Informationstechnik in DIN und VDE (German Commission for Electrical engineering, Electronics and Information Technology of DIN and VDE)

To achieve X-FAB's mission, good and effective communication with all stakeholders is essential. The following equally important stakeholders were identified: customers, employees, investors, suppliers, and local communities. Fig 6.1 shows the different channels X-FAB is using to communicate about its activities.

Stakeholder group	Communication channel
Customers	Website (xfab.com)
	Customer portal (my X-FAB)
	24/7 technical support hotline
	Customer audits
	Customer satisfaction surveys (NPS)
	Field sales engineers/inside sales/customer service
	Technical interface engineers
	Quarterly business review (QBR) with key customers
	Social media platforms (e.g. LinkedIn/Facebook/Twitter)
	Trade shows/exhibitions
Investors	Website, Investors pages (xfab.com/investors)
	Annual general meeting
	Quarterly reports
	Annual report
	Investor relations updates via email
	Social media platforms (e.g. LinkedIn/Facebook/Twitter)
Employees	Global intranet
	Employee engagement surveys (Barometer)
	X-PRESS (X-FAB's company journal)
	X-FAB Quarterly (newsletter for employees)
	Global employee performance management system (Compass)
	Info sessions for managers and team leaders (CEO Talk)
	Social media platforms (e.g. Facebook/Twitter/YouTube)
Suppliers	Supplier audits and business reviews
	Supplier assessment (Supplier of the Year awards)
Communities	Industry associations
	Promotion of local sports events
	Social Media Platforms (e.g. Facebook/Twitter/YouTube)

Fig 6.1: Stakeholder engagement

6.2 Human rights and human resources

X-FAB's company ethics are based on universally held ethical values and principles, including respect of human dignity, openness and nondiscrimination according to the Code of Conduct (ZVEI). Consequently, X-FAB stands up for human rights as stated in the Charter of the United Nations, especially the protection from harassment, the prohibition of child and forced labor, the prohibition of discrimination, fair working standards and compensation, and freedom of thought, expression, association, and assembly, as well as collective bargaining.

All operations are continually monitored and reviewed regarding human rights. All of X-FAB's investments are in compliance with respective local laws. Additionally, a specific policy exists addressing the sourcing of conflict minerals. Respecting human rights is a matter of course for X-FAB, and in all employment contracts any kind of child and forced labor are prohibited. Health and safety for all employees is guaranteed. The protection from corporal punishment as well as physical, sexual, psychological, or verbal harassment and abuse is ensured. X-FAB supports disabled persons according to local laws. Any kind of discrimination is strictly prohibited. Every

new employee undergoes a mandatory employee orientation and is specifically trained on human rights policies. Relevant local laws together with company handbooks are accessible to all employees on X-FAB's intranet as well as in printed form. This is implemented by the Human Resources (HR) department, whose members are regularly trained on human rights topics in more detail. Employees are encouraged to report incidents related to human rights to the HR department or, where available, the workers council and the equal opportunities officer. In the case of reported incidents, corrective actions are initiated in consultation with the HR department and in compliance with local laws. In 2017, corporate management was made aware of one concern regarding human rights and took appropriate actions according to the law and regulations. The identity and well-being of employees who report on the violation of any law or regulation of the Company, on any activities that are against the interests of the Company or on any matter likely to harm any other person will be even better protected with a corresponding global procedure to be established in 2018.

Employee statistics

At the end of 2017, X-FAB had approximately 4,000 employees worldwide at six different manufacturing sites in Europe, Asia, and the US. At all of its sites, X-FAB's recruitment policy is based on the employee's qualifications and the Company's requirements. Consequently, different requirement profiles exist in technology and operations-related positions. In order to ensure global knowledge transfer in a challenging job market, X-FAB is trying to broaden its pool of candidates. In particular, X-FAB is aiming at increasing its share of female employees. The share of female employees increased from 23% in 2016 to 25% in 2017.

Region	Absolute # of employees	Share by region in %	Absolute # of male employees	Absolute # of female employees	Share of female employees in %
North America	431	10.9	328	103	23.9
Europe	2,286	57.6	1,784	502	22
Asia	1,250	31.5	871	379	30.3
TOTAL	**3,967**	**100**	**2,983**	**984**	**24.8**

Fig 6.2: Number of employees by region and gender as at year end 2017

Employees' rights and working standards are highly valued at X-FAB. Consequently, all arrangements comply with corresponding national laws and requirements. X-FAB employees with a full-time contract, which applies to 96% of all employees, work between 35 and 40 hours per week. 91% of employees hold a permanent employment contract. However, X-FAB also supports part-time contracts to offer flexibility in adjusting the work-life balance to varying life and family circumstances. 2% of staff are contract workers.

Subcontracted relationships/ contracted workers

In a subcontracted relationship, an employee is temporarily lent (borrowed) by a borrowing employer. The employee is actually employed at a lending employer and has to grant his or her approval to the lending.

Location	Gender	Restricted/ fixed term	Unrestricted/ permanent	Contracted	Trainees/ interns	Full-time	Part-time
North America	Male	0	331	23	0	326	2
	Female	0	104	7	0	102	1
Europe	Male	153	1,573	35	58	1,722	62
	Female	48	444	8	10	428	74
Asia	Male	49	814	0	4	863	0
	Female	40	337	0	2	377	0
TOTAL	**Male**	**202**	**2,718**	**58**	**62**	**2,915**	**64**
	Female	**88**	**885**	**15**	**12**	**907**	**75**

Fig 6.3: Employment contracts by type, region, and gender as at year end 2017

About 81% of all contracts in Europe are collective bargaining contracts. In other regions of the world this concept is not common and therefore, there are no collective bargaining agreements in place.

In 2017, 499 new employees were hired, 72% of them being male and 28% being female. This reflects X-FAB's efforts to increase its share of female employees. The majority of newly hired employees is younger than 35 years.

Location	Gender	< 35 yrs	36–50 yrs	51–60 yrs	> 60 yrs	Total
North America	Male	33	20	11	1	65
	Female	18	5	1	0	24
Europe	Male	130	39	13	0	182
	Female	33	11	5	1	50
Asia	Male	93	18	1	0	112
	Female	64	2	0	0	66
TOTAL	**Male**	**256**	**77**	**25**	**1**	**359**
	Female	**115**	**18**	**6**	**1**	**140**

Fig 6.4: Newly hired employees (including contracted workers) by age and gender in 2017

Location	Gender	< 35 yrs	36–50 yrs	51–60 yrs	> 60 yrs	Total
North America	Male	12	6	1	6	25
	Female	5	2	3	0	10
Europe	Male	62	35	14	48	159
	Female	16	3	3	7	29
Asia	Male	48	8	2	1	59
	Female	31	1	0	0	32
TOTAL	**Male**	**122**	**49**	**17**	**55**	**243**
	Female	**52**	**6**	**6**	**7**	**71**

Fig 6.5: Employees who have left X-FAB in 2017 by age and gender

X-FAB conducts an employee engagement survey, referred to as Barometer, on a regular basis. The responses indicate a higher satisfaction and engagement of X-FAB's employees compared to the worldwide high-tech benchmark. This finding is supported by a low turnover rate in 2017 of 4.8%.

X-FAB is aware of the importance of fair payment. Therefore, all employees receive salaries above the minimum wage according to individual qualification irrespective of gender or age. Of all employees who were on parental leave, nearly 100% returned to X-FAB.

Developing excellence

The success of a company, and thus also X-FAB, depends on whether its employees are able to optimally contribute their individual strengths, which consequently need to be identified and individually developed. The required expertise includes solid knowledge and understanding of X-FAB's internal procedures and production processes as well as job-specific knowledge, all of which are part of the introductory training plan for each new employee. For a high level of environmental and social awareness, company values, quality awareness as well as employee rights are highlighted from the beginning of the working relationship at X-FAB. Enabling employees to be promoted to positions with either higher technical or staff responsibility requires constant development in different areas. To ensure global knowledge transfer and continual development of all employees, internal workshops, training sessions, Lunch & Learn

sessions, Knowledge Networks, and webinars on various technical topics are incorporated into the daily work of every X-FAB employee. Besides the technical skills, leadership and project management are also valued competencies in employees and are thus fostered by X-FAB. Leadership and personality development training is performed in cooperation with external partners.

Location	Gender	<35 yrs	36-50 yrs	51-60 yrs	>60 yrs
North America	Male	5	3	2	1
	Female	3	2	2	2
Europe	Male	6	3	2	2
	Female	4	3	3	1
Asia	Male	4	5	4	1
	Female	5	5	4	0

Fig 6.6: Average training hours per month and employee in 2017

In 2016, X-FAB initiated a dedicated two-year education program for young professionals and talents in Erfurt, Dresden, and Itzehoe designed to develop project management skills. This program concentrates on the areas of "personality and leadership," "project management," "quality management," and "business English." After the positive experience from the first round, the program will be rolled out globally in 2018 to address all employees and to standardize project management approaches.

To support the career of X-FAB's technical experts and to acknowledge that technical and management expertise make contributions to the organization that are equally important, X-FAB has established a system of human capital management. An important part of that is X-FAB's Technical Ladder. It enables visionary technical leadership and expertise, and supports recruitment, individual development, and retention of talented people in a competitive employment market, acknowledging the highest levels of technical expertise. The Technical Ladder is a result of standardization processes to ensure comparable job grades and responsibilities in all working areas within X-FAB. This helps X-FAB to fulfill the requirements of technically demanding project work and to implement the company values.

To keep up with the fast development within the high-tech area, X-FAB supports innovation – being one of the company values – and participates in publicly funded projects. In those projects, X-FAB enables technical experts to conduct research and to propel state-of-the-art technologies by proving feasibility of new concepts or the industrialization of innovative process technologies. Innovation is appreciated by X-FAB, and technical experts are explicitly invited and encouraged to publish their findings in international journals and to file patents.

Besides the development of its existing staff, X-FAB is highly interested in offering a wide range of opportunities to potential future employees, for example via apprenticeships, internships, and student training. This comprises commercial and technical careers, dual study programs, and financial support for employees who enhance their skill and knowledge by obtaining relevant qualifications. In 2017, for example, X-FAB supported students who started their studies in microsystems technology in cooperation with the technical university OTH Regensburg. Dual study programs combine theoretical sessions and practical work, allowing students to integrate these skills into their future working life from the beginning of their studies. Apprenticeships offered by X-FAB to young talents cover commercial careers, for example as an office assistant, industrial business specialist, or warehouse logistics specialist, but also technical careers, such as a microtechnologist, chemical lab technician, or IT specialist. X-FAB is continually improving its vocational program, intending to roll-out dual study apprenticeships globally in 2018.

Rewarding efforts

As an international company, X-FAB employs people from many different regions around the world with different ethnic origin and

social backgrounds, resulting in a broad range of individual needs. Being aware of those needs and driven by the responsibility for the Company's staff as well as the aim of long-term employment, X-FAB strives to meet those needs. Nowadays, the modern world demands a high level of self-responsibility and flexibility, especially from working parents and those with elder care responsibilities. Therefore, X-FAB offers flexible working time models and strives to find individual working time solutions for its employees. X-FAB grants leisure time for private matters, such as moving and marriage, and supports working parents financially in case of their children's illness. Employees above a certain age are offered the possibility to reduce their weekly working hours. Moreover, X-FAB's company pension scheme supports its employees financially after their transition to retirement.

X-FAB cares about its employees' increased health awareness and growing interest in an active way of life. X-FAB supports activities at its different sites to keep the employees healthy, such as internal sport groups, soccer teams, and running groups, or reduced pricing for fitness clubs. Furthermore, a variety of fitness activities and trial lessons as well as fitness and health checks are offered to employees during global Environment, Health & Safety (EHS) weeks.

X-FAB is interested in a good working atmosphere and strives to provide a pleasant and inspiring working environment. Cafeterias, lunchrooms, and subsidized meals are offered to employees. Furthermore, chill-out rooms and staff rooms with journals, internet access, and free nonalcoholic drinks are available to support employees during their work breaks. X-FAB rewards outstanding employee performance with incentive cash payments during the year and in the form of bonuses. Both individual employees and teams who undertake extraordinary efforts for X-FAB's benefit are acknowledged by the Company's corporate management.

6.3 Social commitment

X-FAB encourages its employees to engage in nonprofit and educational activities that contribute to the communities X-FAB is active in. In several sessions, each employee is trained in the company values with the implementation of those values in everyday work life being recorded in a learning management system (LMS) aiming at personal development. Eventually, this leads to even more innovation and higher ethical standards, which also has a positive impact outside the working environment.

Social awareness and responsibility

X-FAB identified opportunities for global and local activities that contribute to the communities in which X-FAB is operating. X-FAB supports such local activities through donations, e.g. with the program "Helping Hands" to support senior citizens by providing aid, food, and clothes and by cleaning public places. X-FAB has also raised money to support local programs, e.g. the Sarawak Children Cancer Society and the Kuching Autistic Association, as well as international charity organizations, such as United Way Worldwide. Blood donation is one of the most important activities for making a direct personal contribution. X-FAB supports such collective efforts by organizing regular blood donation campaigns several times a year. For employees it is a matter of course to voluntarily support the Red Cross through blood donation.

X-FAB also supports sport events with a charity background by enabling its employees to attend these events. This not only helps to increase team spirit but also supports local organizations and sports clubs. By organizing and participating in the "Race for the Cure," X-FAB's employees raised funds for the American Heart Association.

Educational awareness and responsibility
It is important to X-FAB to invest in the education and skill development of the young and children as the next generation by sponsoring books and other educational material to kindergartens, supporting lectures at universities (e.g. providing design courses in engineering schools), investing in education competitions, and organizing summer schools ("Microchip Summer University"). To provide opportunities for practical training and work experience in technical fields, X-FAB offers internships to high school and university students and also offers students company tours on request. X-FAB also cooperates with the program CertiLingua, which guides students towards cultural and lingual diversity. Besides its sponsoring activities, X-FAB maintains close relations with high schools, colleges, and universities to support students by offering internships and career guidance. X-FAB also works with local universities and supported the third annual event of the SEMI High Tech University for high school graduates considering a future career in a science, technology, engineering, or mathematics (STEM) field.

Various scientific and engineering competitions are supported either by providing knowledge to the participants or by serving as judges, e.g. at the students robotics competition. X-FAB works with many global and local partners to improve educational opportunities for kids and the young, e.g. by supporting corresponding technical clubs. Besides our educational responsibility towards society, X-FAB cares about gender equality and the development of girls in STEM jobs. Therefore, X-FAB is participating in the "Ability Gender" Project, which encourages girls to consider working in technical areas. X-FAB actively participated within this area by sponsoring and running STEM days for girls.

To maintain contact with the public, X-FAB enables regular public visits and also uses social media channels, such as Facebook, to inform them about social activities and job opportunities. In addition, each X-FAB site participates in college and university career fairs in order to recruit interested students and to inform them about career opportunities. An example is the college fair at the University of Malaysia Sarawak (UNIMAS). Besides the presence at job fairs, X-FAB also participated in numerous technical exhibitions and conferences to offer its employees the possibility to gain and exchange professional knowledge and to network.

6.4 Healthy work environment

Employees' well-being and safety
X-FAB ensures that all company activities are performed in a manner that considers the health and safety of employees, contractors, suppliers, customers, and the general public with no adverse impact on the environment through manufacturing operations and products by operating an EHS management system that is certified according to ISO 14001:2015.

Education and training to improve employees' EHS awareness, safety, and well-being is critical for X-FAB. Regular safety-related trainings and instructions help to avoid accidents and injuries. Each location has an associated company doctor performing routine medical examinations, such as eye examinations, vaccinations, travel-related medical consultations, etc.

Additionally, periodic safety briefings are performed and a global EHS week program has been established. At the annual EHS week, information about health protection, safety, sustainability, and environmental topics is offered to all employees via information desks, posters, and other events. Company tours offered by coworkers increase employees' awareness of hazards in the workplace and several training sessions are offered to improve their skills in first aid and firefighting. Furthermore, a variety of fitness activities and trial lessons as well as fitness and health checks are offered to employees. In addition to these dedicated training sessions and events, information on environmental and quality awareness is provided and made accessible to all employees via the company intranet.

At all X-FAB locations, accidents are tracked according to local laws but there is no globally harmonized procedure to collect additional information related to accidents or occupational diseases. However, X-FAB tracks accidents in the Operations department the same way at all manufacturing locations. Based on this information, X-FAB recorded 36 accidents in 2017, which caused 1,639 work hours lost, resulting in a lost days rate (LDR) of 7.5 and an injury rate (IR) of 1.3. There were no fatal work-related accidents at X-FAB in 2017.

Hygiene concepts for cleanrooms

At each of X-FAB's production sites, a large share of employees work in a cleanroom where the use of rubber gloves, special clothes, and shoes is a requirement. It is necessary to avoid particle and ion contamination or electrostatic discharge as it would negatively impact the functionality of the semiconductor products manufactured. X-FAB aims to prevent any medical harm as well as ensure a safe working environment and employees' well-being. X-FAB has therefore established cleanroom concepts to maintain a high level of hygiene and health including specific protection plans. For example, to prevent skin diseases, there is a skin protection plan in place with skin care products available at any time for each employee. For orthopedic reasons, cleanroom shoes are individualized and ergonomic. Cleanroom clothes are partially personalized. Ear plugs are available for noise protection.

Preventive maintenance

Maintenance activities are the basis for the safe operation of equipment and tools. To prevent equipment malfunctions and failures X-FAB uses a global procedure to manage a preventive maintenance system. Even though the system's focus is on securing the productivity of the equipment, operational safety is one of the objectives covered. The execution of the global procedure is secured with local instructions, which manage the preventive maintenance regime for each production site. The maintenance instructions and schedule include information based on vendor manuals, experiences during operation, tool performance parameters, major incidents, product quality, and audit findings. Furthermore, two types of preventive maintenance actions exist: actions triggered by a time interval, and actions triggered by reaching special tool parameters describing the current tool wear.

This all together helps to confirm that the overall tool status remains excellent and to prevent accidents caused by machine malfunctions such as electrical hazards, leakage of dangerous materials, or mechanical issues.

6.5 Environmental responsibility

X-FAB's expertise in process technologies is used by its customers to develop green technology for green energy solutions that enable a sustainable future. However, the production of high-quality microchips and microsensors requires a huge amount of materials and energy in general. Thus, X-FAB has a responsibility regarding environmental topics. This is why, in addition to the Company's business, environmental activities are handled with an integrated quality management system with all sites being certified according to the ISO 14001:2015 standard. It is X-FAB's goal to balance current environmental, social, and economic requirements in order to minimize its impact on future generations. One standard and permanent goal is to fulfill all existing compliance obligations.

Environmental awareness and responsibility

In addition to the company values, X-FAB trains its employees on various topics in order to increase individual awareness for the Company's environmental impact as well as sustainability. All sites obey strict environmental local laws. In addition, each site defines specific environmental goals, which are renewed annually and implemented to continuously reduce the Company's impact on the environment.

Various environmental topics have been assigned to dedicated employees within X-FAB to ensure these environmental responsibilities in compliance with the EHS Policy following the requirements of ISO 14001:2015 are fully covered. The following functions are defined: waste inspector, energy management inspector, radiation and emission inspector, and safety inspector. Employees taking over any of these roles are trained accordingly.

To maintain high standards, X-FAB engages with external experts and institutes for employee development. Apprentices of the site in Erfurt, for example, participated in a qualification program under the SME Initiative Energy Transition and Climate Protection to qualify for the certificate as energy scouts. During this training program, X-FAB's apprentices designed and implemented an energy-efficiency project, which was subsequently honored with a national award in 2017.

The production of semiconductors requires the use of large amounts of different materials, amongst them toxic materials and greenhouse gases. Thus, tracking the material flow and monitoring the material efficiency as well as their use is necessary to reach sustained environmental conservation. All X-FAB sites are located in industrial areas. There are no adjacent nature reserves or similarly classified areas so that the impact on the biodiversity is minimized.

The data used for an overview of X-FAB's environmental indicators is consolidated across all sites and normalized to wafer area sold in cm^2 (total of 289 million cm^2). X-FAB Itzehoe is not included as it is part of a joint site with only aggregated data available. However, compared to all other sites, the material and energy consumption as well as the corresponding output of waste and gases are not material.

Materials and waste management

The need to use material that might cause toxic waste in the production of semiconductor products is a special challenge and a key environmental aspect. Therefore, material departments and waste commissioners have been established at each X-FAB site. The following materials are used for production: solvents, resists, neutral etchants, acids and bases, metals, gases, and water. Classifications are used and waste is separated by X-FAB to reduce the amount of hazardous or nonrecyclable waste. The majority of the waste (hazardous as well as nonhazardous) is sent for recycling in order to recover valuable resources.

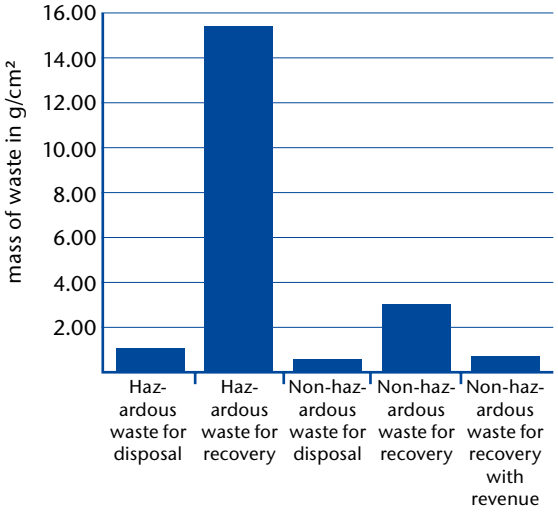


Fig 6.7: Amount of waste by type and disposal method normalized to the total wafer area sold

X-FAB pursues permanent environmental objectives to decrease its overall environmental impact.

Energy efficiency

At X-FAB, energy is mainly used in the form of electricity, whereas other sources play only a minor role. The production department has the highest energy consumption based on the advanced cleanroom conditions as well as the production process itself. In 2017, X-FAB's global energy consumption was at about 533 GWh. The share of primary energy sources (diesel, liquid and natural gas) was 9.3%. Secondary energy sources (electricity and district heating) contributed 90.7%.

At the sites in Erfurt, Dresden, and Corbeil-Essonnes X-FAB has implemented an energy management system according to the requirements of ISO 50001:2011.

ISO 50001:2011

This International Standard specifies requirements for establishing, implementing, maintaining, and improving an energy management system, the purpose of which is to enable an organization to follow a systematic approach in achieving continual improvement of energy performance, including energy efficiency, energy use, and consumption.

This enables the assessment of improvement potentials of the Company's energy efficiency and their implementation in the daily work. Across the Company, different activities and projects exist to reduce energy consumption, which are part of the aforementioned annually renewed environmental goals.

X-FAB's permanent goal is to improve its energy efficiency resulting in different activities and projects, including:

- reduce energy consumption (all sites); and
- replace recirculating fan LTA5 to save 300 MWh per year (Dresden).

Such environmental goals are communicated during annual EHS weeks taking place at all sites.

Water

In 2017, X-FAB's production consumed roughly 15 liters of water per each cm^2 wafer area sold. The main part was used for cooling as well as for the supply and cleaning of production tools. Different sources of water supply are used including surface water, municipal water, and ground water.

Source	Amount in l/cm^2
River water	2.12
Ground water	4.19
Local water supplier	8.65
Total water withdrawal	**14.95**

Fig 6.8: Total water withdrawal by source

8.1% of that water was recycled. Besides the efforts to minimize energy consumption, internal projects exist that intend to reduce the amount of water consumed. Some examples include:

- optimization of the water concentration rate in cooling towers (Corbeil-Essonnes);
- reduction of water consumption in cleaning tools (Kuching); and
- reduction of water consumption by the waste water reuse project (Lubbock).

After using water for production, the concentration of all substances is enhanced through vaporizing steps during the production process, including organic carbons (TOC). Their concentration is above the value that makes the water suitable for production purposes but, of course, far below the legal threshold for fresh water standards. Thus, the main part of the water is discharged, whereas 58.5% (8.8 l/cm^2) is discharged directly into the river and the remaining 15.1% (2.3 l/cm^2) is sewage water. Around 18% of the water evaporates.

Greenhouse gases

Global climate change is an important challenge to all industrial players worldwide. X-FAB understands the climate impact from its operations on society and the global economy. Nevertheless, the use of greenhouse gases is inevitable for the production of microchips and sensors. Fig 6.9 lists the total consumption of these gases.

Gas	Amount in mg/cm^2
CHF_3	4.17
CF_4	22.5
C_4F_8	3.25
C_3F_8	0.14
C_2F_6	74.44
SF_6	18.9
NF_3	53.99
N_2O	200.05

Fig 6.9: Gas emissions by weight

It is X-FAB's intention to minimize the output of greenhouse gases. Therefore, each production site is equipped with state-of-the-art cleaning systems. The functionality of these systems is tracked and linked to the production equipment using greenhouse gases. There are additional measurements at every site to confirm all regulations are followed. As a result, no significant spills of hazardous substances and greenhouse gases were found in the reporting period. Notable improvements regarding the emission of greenhouse gases in the reporting period were:

- reduction of VOC-gas emissions (Erfurt); and
- no more R22 in cooling units used in the manufacturing line (Corbeil-Essonnes).

6.6 Supply chain

Selection and categorization of X-FAB suppliers

As a manufacturer of a large variety of products, X-FAB relies on a number of suppliers. It is part of the Company's corporate ethics to strive for a long-term partnership with them. The selection and auditing of suppliers is carried out by means of a global, cross-site procedure valid for all X-FAB sites. Part of this procedure is a classification of suppliers, based on, among others, the supplied quantity as well as the frequency of supply: Tier 1 suppliers, strategic suppliers, and all others that do not qualify for one of the two categories. In order to be approved as a new supplier, depending on the categorization, the supplier has to pass a process audit according to the requirements of automotive standard VDA 6.3 (the German Association of the Automotive Industry) and answer various questions, including on environmental topics. The existence of an environmental management system and compliance with RoHS or REACH are important criteria for X-FAB during the selection process for new suppliers.

RoHS and REACH

RoHS is short form of the "Directive 2011/65/EU of the European Parliament and of the Council of 8 June 2011 on the restriction of the use of certain hazardous substances in electrical and electronic equipment." It aims to address the global issue of consumer electronics waste. It pertains to manufacturing of various types of electronic and electrical equipment without the use of six different hazardous materials. It is the responsibility of the company that puts the product on the market to comply with the directive.

REACH stands for Registration, Evaluation, Authorization, and Restriction of Chemicals. The purpose of this European Union regulation is to address the production and use of chemical substances and their potential impacts on both human health and the environment.

Whereas RoHS bans substances that are present in electrical equipment, REACH pertains to all chemicals including those used to make a product. This can include materials, solvents, paints, chemicals, and more.

Furthermore, X-FAB recommends certification according to ISO 14001:2015 or IATF 16949:2016 to its suppliers and their commitment to ZVEI or another industry code of conduct if there is no specific company code of conduct in place that covers corporate social responsibility.

Continual improvement of suppliers

X-FAB stores all certificates and completed questionnaires from its suppliers in a database that is accessible for all X-FAB sites in order to improve the harmonization and standardization of supplier management. The most important suppliers are subject to a supplier assessment once a year. If X FAB's requirements are not met by at least 85%, the supplier must

submit proposals for improvement to stay under contract with X-FAB. In addition to these annual assessments, a regular audit exists to verify the existence of a management system.

Furthermore, X-FAB has introduced a supplier award system to encourage its suppliers to continuously commit to environmental protection and social aspects. An annual "Supplier Excellence award" is awarded to the best local supplier for each X-FAB site and the supplier with the highest value in the supplier assessment is nominated as "Supplier of the Year."

Handling of conflict minerals

X-FAB is aware of the Dodd-Frank Act requirements regarding, amongst others, the sourcing of tin, tantalum, tungsten, and gold from conflict regions and is accepting its responsibility along the supply chain. Thus, X-FAB requests all its relevant suppliers to source minerals from regions that are conflict free. The commitment of X-FAB suppliers to these requirements is documented in a central company database to ensure traceability and transparency.

X-FAB has described a product declaration committing that to the best of its knowledge, X-FAB products do not contain materials that had been sourced from mines in conflict regions in the eastern region of the Democratic Republic of Congo. As the list of compliant Tungsten Smelters based on the "Conflict-Free Smelter Program" is still in progress, X-FAB will continuously work with its suppliers on this matter. All strategic material suppliers for materials containing tungsten, tantalum, tin, and gold must complete the Conflict-Free Smelter Reporting Template.

X-FAB's responsibility towards its customers and society

In line with its EHS policy, X-FAB continually works on the reduction of its environmental impact via legal compliances and also promotes human rights values among its suppliers and customers. It is X-FAB's policy to ensure that all purchased materials are compliant with current government and safety constraints on restricted, toxic, and hazardous materials and that all environmental standards, applicable to the country of manufacture and sale, are fulfilled.

X-FAB follows RoHS and meets the requirements of REACH. X-FAB thereby confirms that all its products are halogen-free and do not contain intentionally introduced lead (Pb), cadmium (Cd), mercury (Hg), hexavalent chromium (Cr6+), polybrominated biphenyl (PBB), or polybrominated diphenyl ether (PBDE). Furthermore, RoHS and REACH-conformant safety data sheets are available for all X-FAB products and are accessible to every X-FAB customer on the Company's website. Finally, all products do not contain any of the substances in the Candidate List of Substances of Very High Concern.

There is a global procedure in place to control and avoid negative health and safety impacts, requiring that every X-FAB product is tested at every stage of development. In addition, all X-FAB products are inspected annually by an external institute for hazardous substances, and the Company's customers are informed about the results by means of product declarations.

It is part of the Company's ethics that products are not sold into countries that are listed on an embargo list for corresponding products. During 2017, X-FAB was compliant with laws in relation to this provision and use of X-FAB products and did not have to pay any fines for violations.

X-FAB also makes use of its special capabilities as a foundry to support innovative technical ideas through an award program. Here, free slots at a multiproject wafer run for the "First-Time-Right award" and the "X-Cite award" are granted. These X-FAB awards honor skilled designers who meet target specifications within the first-time design and production iteration, and are selected by an X-FAB committee.

7. CORPORATE GOVERNANCE STATEMENT

The information included in this chapter has also been prepared in order to comply with Articles 96 and 119 of the Belgian Companies Code with respect to the board of directors' annual report. Reference is made to chapter 10 with respect to the risk factors, chapter 6 for the non-financial information, chapter 1 for information on subsequent events, chapter 5 for the use of financial instruments, chapter 4 for information on research & development, and chapter 8 for transparency requirements related to the shareholder structure.

The Royal Decree of June 6, 2010 (published in the Belgian Official Gazette on June 28, 2010) designated the Belgian Code on Corporate Governance 2009 as the reference code for Belgian listed companies. This Code is available for download on the website of the Belgian Corporate Governance Committee (www.corporategovernancecommittee.be).

X-FAB has aligned its Corporate Governance Charter with the 2009 Belgian Code on Corporate Governance. In view of the "comply-or-explain" principle of the Code, Section 12 of X-FAB's Corporate Governance Charter gives an overview of the provisions of the Code that X-FAB does not comply with, along with an explanation of the reasons for non-compliance. The Corporate Governance Charter can be consulted on the "Investors" page of the Company's website.

7.1 Shareholders

X-FAB seeks to guarantee transparent and clear communication with its shareholders. Active participation of the shareholders is encouraged by X-FAB.

In order to achieve this goal, shareholders can find important and relevant information on X-FAB's website. X-FAB publishes its annual reports, half-year reports, statutory reports, quarterly results, and financial calendar on its website in the "Investors" section. X-FAB realizes that the publication of these reports and information benefits its trust-based relationship with its shareholders and other stakeholders.

Furthermore, X-FAB is committed to guaranteeing shareholder rights.

- At the shareholders' meeting, the Chairman will lead the meeting in such a manner that there will be sufficient time to answer questions that shareholders may have relating to the annual report, special reports, and/or the items on the agenda.
- At the latest 30 days prior to the general meeting, the agenda and other relevant documents are published in different locations including X-FAB's website and the Belgian Official Gazette.
- Shareholders representing at least 10% of the share capital have the right to add items and/or resolution proposals to the agenda.
- During the general meeting, shareholders have the right to vote on each item on the agenda. If they cannot attend the general meeting, they have the right to appoint a proxy.
- The minutes of the general meeting with the voting results will be kept in a special register after the general meeting.

Chapter 8 shows the shareholder structure of X-FAB based on the transparency notifications received.

7.2 Management structure

X-FAB has opted for a "one-tier" governance structure whereby the Board of Directors is the ultimate decision-making body, with 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. As such, the Board among others defines the general policy orientations, decides on major strategic, financial, and operational matters, and oversees the management.

Fig 7.1: Roland Duchâtelet, Christel Verschaeren, Hans-Jürgen Straub, Christine Juliam, Tan Sri Hamid Bin Bugo, Dato Sri Ahmad Tarmizi bin Haji Sulaiman, Estelle Iacona, Rudi De Winter (from left to right)

The Board has established committees (an Audit Committee and a Remuneration and Nomination Committee) to analyze specific issues and advise the Board on those issues. The decision-making power remains within the responsibility of the Board of Directors itself.

The daily management of X-FAB has been delegated by the Board of Directors to the Chief Executive Officer, Mr. Rudi De Winter, who can represent the Company with his sole signature within and outside the framework of the daily management. For actions that fall outside the scope of the daily management, X-FAB is also validly represented by two directors acting jointly.

The Chief Executive Officer is also the chairman of the Executive Management. The Executive Management is responsible for leading X-FAB in accordance with the global strategy, values, planning, and budgets as set out and approved by the Board of Directors. The Executive Management is also responsible for screening the various risks and opportunities that the Company might encounter in the short, medium, or longer term, as well as for ensuring that systems are in place to identify and address these risks and opportunities.

7.3 Board of Directors

Composition

In accordance with Article 15 of X-FAB's Articles of Association, the Board of Directors consists of at least five members and may be comprised of a maximum of nine members. At least three members should be independent in accordance with Article 526ter of the Companies Code. As of the date of this annual report, the Board of Directors comprises eight members, three of which are indeed independent.

At least half of the Board of Directors consists of non-executive members and there is at least one executive member. Independent directors qualify as non-executive directors.

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. Directors of X-FAB are appointed for a period of four years by the majority of the votes cast at the general meeting, after having received a recommendation of the Remuneration and Nomination Committee. In the same way the general meeting may revoke a director at any time. There is no age limit for directors, and directors with an expiring mandate can be reappointed within the limits stipulated in the Companies Code.

The Chief Executive Officer is the only member of the Board of Directors that has an executive mandate. The Chairman of the Board is Mr. Ahmad Tarmizi Bin Haji Sulaiman.

Mr. Matthias Bopp was member of the Board of Directors until he resigned on July 17, 2017. The remaining directors decided unanimously on August 4, 2017 to appoint Aurore NV (represented by Ms. Christine Juliam) as independent director effective immediately. This appointment is subject to the confirmation of the shareholders' meeting in 2018.

The composition of the Board of Directors already takes into account Article 518bis of the Companies Code which requires that one third of its members have to be of a different gender.

The directors of X-FAB are:

Name	Age	Mandate expires	Position
Dato Sri Ahmad Tarmizi bin Haji Sulaiman	55	2021	Chairman of the Board (non-executive director)
Sensinnovat BVBA (Represented by Rudi De Winter)	57	2021	Managing Director, CEO
Roland Duchâtelet	71	2021	Non-executive director
Thomas Hans-Jürgen Straub	63	2021	Non-executive director
Tan Sri Dr. Hamid Bin Bugo	72	2021	Non-executive director
Aurore NV (Represented by Christine Juliam) (as from August 4, 2017)	57	2018	Non-executive and independent director
Christel Verschaeren	53	2021	Non-executive and independent director
Estelle Iacona	45	2021	Non-executive and independent director

Mr. Dato Sri Ahmad Tarmizi bin Haji Sulaiman, Chairman, is the State Financial Secretary of the Malaysian State of Sarawak since July 1, 2004. Prior to his current appointment, he was the Deputy State Financial Secretary of the Malaysian State of Sarawak since October 1, 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.

Sensinnovat BVBA is represented by Mr. Rudi De Winter. Mr. De Winter joined X-FAB in 2011 as Co-CEO and became CEO in 2014. Between 1996 and 2011 he served as the Chief Executive Officer and Managing Director of Melexis NV. Prior to that date, Mr. De Winter served as a development engineer at Mietec Alcatel (Belgium) from 1984 to 1985 and as a development manager at Elmos GmbH (Germany) from 1985 to 1989. In 1990, Mr. De Winter became director together with Mr. Duchâtelet of XTRION NV, the parent company of X-FAB. Mr. De Winter holds a degree in electronic engineering from the University of Ghent. Mr. De Winter is married to Ms. Chombar, the Chief Executive Officer and Managing Director of Melexis NV.

Mr. Roland Duchâtelet started his career serving in various positions in production, product development, and marketing functions for several large and small companies. He contributed to the start-up of two other semiconductor manufacturers: Mietec Alcatel (Belgium) from 1983 to 1985 as business development/sales manager and Elmos GmbH (Germany) from 1985 to 1989 as marketing manager. Mr. Duchâtelet is the co-founder of the parent company of X-FAB. He holds a degree in electronic engineering and applied economics and an MBA from the University of Leuven.

Mr. Thomas Hans-Jürgen 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 that managed 18 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).

Mr Tan Sri (Dr) Hamid Bugo 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

the Land Custody and Development Authority, Sarawak and is Permanent Secretary to the Ministry of Resource Planning and State Secretary of Sarawak. Tan Sri (Dr) Hamid Bugo has also served as a board member of several corporate and governmental agencies and charitable organizations. After graduating with a degree in economics and political science from the University of Canterbury, New Zealand, he gained 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. Tan Sri (Dr) Hamid Bugo was awarded an honorary PhD in commerce by Lincoln University, New Zealand.

Currently, he sits on the Board of Sapura Energy Berhad, Sarawak Consolidated Industries Berhad, and the Institute of Integrity, Malaysia.

Aurore NV is represented by Ms. Christine Juliam. She started her career in clinical research at MSD in Belgium before moving into product management, and subsequently into sales, marketing, and business planning responsibilities. In July 1996, she started to work for Abbott Belgium as director of its pharmaceutical product division and joined Nycomed as Managing Director Belgium/Luxembourg in 2006. From 2011 onwards she was Region Head for France, the Netherlands, Belgium, and Luxembourg for Nycomed, which was acquired by Takeda in the same year. Subsequently, Ms. Juliam managed Takeda Italy and France as country manager between 2013 and 2017. Christine Juliam has a doctor of medicine degree from the University of Ghent, a license in marketing from St. Aloysius College in Brussels, a master's in management from Solvay Commercial School in Brussels, and an MBA from Northwestern University.

Ms. Christel Verschaeren served for 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 three years. In 2005, she became Director of Business Transformation and IT for IBM Europe. From 2010 until 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's in economics from the University of Antwerp.

Ms. Estelle Iacona was a director of EM2C laboratory (CNRS, École Centrale Paris) from 2008 to 2012 after which she became Dean and Vice-President Research of the École Centrale Paris until December 2014. In 2014, she also became Dean and Vice-President Research and Industrial Partnership of the École 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 École Centrale Casablanca. Ms. Iacona holds an engineering degree and a master of science from the University of Nantes (Polytech'Nantes) and a PhD in physics of transfer from the École Centrale Paris.

Appointment and replacement of directors

The Articles of Association (Article 16) and the X-FAB Corporate Governance Charter contain specific rules concerning the (re)appointment, the induction, and the evaluation of directors. Directors are appointed for a term not exceeding four years by the general meeting of shareholders, who can also revoke their mandate at any time. An appointment or dismissal requires a simple majority of the votes cast.

If and when a position of a director prematurely becomes vacant within the Board, the remaining directors have the right to temporarily appoint a new director until the next general meeting which shall confirm such appointment. Said appointment will then be included in the agenda of the next general meeting.

The Remuneration and Nomination Committee makes recommendations to the Board with regard to the appointment of directors, the CEO, and the other members of the Executive Management. The Committee will consider proposals made by the members of the Board or other relevant parties.

Functioning of the Board
The internal regulation of the Board is part of the Corporate Governance Charter. 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.

The Board convened ten times in 2017 and discussed, among others, the following topics:
- financial results of the Group;
- merger and acquisition activity;
- strategic review;
- budget for the financial years 2018-2020; and
- management structure.

Mr. Dato Sri Ahmad Tarmizi Bin Sulaiman and Aurore NV, represented by Christine Juliam, could not attend one meeting of the Board. Mr. Dato Sri Ahmad Tarmizi Bin Sulaiman was represented by a proxyholder during three other meetings. Mr. Hamid Bin Bugo was represented by proxy during two meetings of the Board.

7.4 Committees

Audit Committee
The Audit Committee advises the Board of Directors on accounting, audit, and internal control matters as further detailed in the Company's Corporate Governance Charter. The Audit Committee also assists the Executive Management in its assessment and follow-up of the auditor's recommendations.

The Audit Committee is composed of four non-executive members: Mr. Hamid Bin Bugo, Chairman; Aurore NV, represented by Ms. Christine Juliam, independent director; Ms. Christel Verschaeren, independent director; and Ms. Estelle Iacona, independent director.

According to Article 526bis, section 2 of the Belgian Companies Code 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. Given his education as well as extensive experience as a board member for a number of different companies, Mr. Hamid Bin Bugo complies with this requirement.

Since X-FAB became a listed company in April 2017, the Audit Committee only met twice during the remainder of 2017. During these meetings the audit plan and key audit matters were discussed with the external auditor. There were also discussions on upcoming regulatory requirements. At the first meeting Mr. Matthias Bopp did not attend because the committee meeting took place after his resignation and before the appointment of Aurore NV (represented by Ms. Christine Juliam). All other members did attend the meeting. At the second meeting of the Audit Committee only Mr. Hamid Bin Bugo did not attend.

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 members of the Executive Management.

The Remuneration and Nomination Committee is composed of four non-executive members: Ms. Christel Verschaeren, Chairman, Aurore NV, represented by Ms. Christine Juliam, independent director, Mr. Hamid Bin Bugo, non-executive director, and Ms. Estelle Iacona, independent director.

The Remuneration and Nomination Committee met twice in 2017. At the first meeting, all members were present. At the second meeting, where a successor to Mr. Matthias Bopp was discussed, all remaining members were present.

7.5 Executive Management

Composition

The Executive Management is composed of the following members:

Name	Age	Position
Rudi De Winter	57	Chief Executive Officer
Alba Morganti	49	Chief Financial Officer
Dr. Manfred Riemer	62	Chief Operating Officer
Dr. Jens Kosch	57	Chief Technology Officer
Mike Young	57	Chief Executive Officer, X-FAB Sarawak
Jean-Paul Beisson	64	Chief Executive Officer, X-FAB France
Lloyd Whetzel	60	Chief Executive Officer, X-FAB Texas
Dr. Dirk Drescher	52	Chief Executive Officer, X-FAB Dresden

Functioning

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. The 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 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.

7.6 Diversity policy

Three of the eight members of the Board are female. Consequently, the composition of the Board is in line with the requirements of the Belgian Companies Code on diversity.

X-FAB continues to be managed by the Executive Management in place prior to the initial public offering in light of their proven track record. Nevertheless, X-FAB will continue to optimize its recruitment policy and will consider gender diversity in future recruitments. An example of this is the appointment of Ms. Alba Morganti as new CFO of the Company effective November 1, 2017.

7.7 Remuneration report

Remuneration of directors

The remuneration policy of the directors is determined by the shareholders' meeting. The company's non-executive directors are remunerated for their services with a fixed annual compensation for attending Board meetings, as well as meetings of the Remuneration and Nomination Committee and the Audit Committee in which they are appointed. X-FAB strives to set the remuneration in such a way to ensure the right people can be attracted and to ensure directors can spend sufficient time on their mandate. The remuneration policy will not materially change in the next two financial years.

If members of the Executive Management are appointed as director in the Board, their director mandate will not be remunerated, but they will receive remuneration for their executive duties within the Company.

The general meeting approved a fixed annual remuneration of EUR 15,000, an additional annual remuneration of EUR 5,000 for each membership in a Board committee as well as a reimbursement of reasonable costs to attend the Board and/or committee meetings. The directors are expected to uphold the expenditure policy within X-FAB and to submit suitable justification for their costs. Mr. Roland Duchâtelet waived his right to receive any remuneration as non-executive Board member. In 2017, X-FAB paid in total EUR 109,998 as remuneration to the non-executive directors and EUR 30,000 as reimbursement of costs as follows:

Name	Remuneration (in EUR)	Remuneration (in USD)	Costs (in EUR)	Costs (in USD)
Dato Sri Ahmad Tarmizi bin Haji Sulaiman	EUR 15,000	USD 16,934	EUR 15,000	USD 16,934
Roland Duchâtelet	-	-	-	-
Thomas Hans-Jürgen Straub	EUR 15,000	USD 16,934	-	-
Hamid Bin Bugo	EUR 25,000	USD 28,223	EUR 15,000	USD 16,934
Aurore NV (represented by Christine Juliam)	EUR 10,190	USD 11,504	-	-
Christel Verschaeren	EUR 18,750	USD 21,167	-	-
Estelle Iacona	EUR 18,750	USD 21,167	-	-
Matthias Bopp (until July 17, 2017)	EUR 7,308	USD 8,250	-	-

The performances of directors are evaluated by the Board of Directors to ensure that only persons with competences matching X-FAB's international ambitions are nominated as director.

Remuneration of Executive Management

The Board, upon recommendations by the Remuneration and Nomination Committee, decides on the policy governing the remuneration of the CEO and of the other members of the Executive Management Team, including any share-based or other incentives (without prejudice to the powers of the shareholders' meeting, to the extent applicable). In fixing compensation levels for the Executive Management, both the market pay levels and internal practices are considered.

The remuneration of the Executive Management is designed to:

- ensure that the Company can continually attract, motivate, and retain high-caliber and high-potential executive talent for which the Company competes internationally;
- promote the achievement of Board approved performance goals and targets, aligned with building stakeholder value over the short and longer term; and
- stimulate, recognize, and reward strong individual contribution and team performance.

The Articles of Association, as allowed under the Belgian Companies Code, authorize the Company to deviate from the following rules set out in Article 520ter of the Belgian Companies Code:

- in the event that the variable remuneration constitutes more than 25%, at least 25% of the variable remuneration must relate to predetermined and objectively measurable performance criteria deferred over a minimum period of two years, and at least another 25% 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.

The compensation of the Executive Management members combines three integrated elements: base salary, variable pay, and other benefits.

The base salaries remain in line with market average. Variable pay payments are dependent on the Company's performance and the individual/team performance measured through the achievement of pre-established targets. They can vary up to 60% of the annual base salary, except for the CEO, who can potentially receive a variable pay up to 50% of his annual base salary. Variable pay is paid out in cash. No shares, options, or other rights to acquire shares are granted as part of the compensation. The other benefits concern only a smaller part of the total compensation of the Executive Management.

The Remuneration and Nomination Committee evaluates the performance of the CEO and discusses with the CEO the performance of the other members of the Executive Management.

The Remuneration and Nomination Committee then makes recommendations to the Board of Directors with respect to the compensation level of the CEO and the other members of the Executive Management based on performance outputs and a benchmark analysis of compensation levels for similar positions at comparable companies. The Company has not materially deviated from its remuneration policy during the reported financial year and has no plans to materially change the policy in the next two financial years.

CEO

The remuneration of the CEO will be based on recommendations made by the Remuneration and Nomination Committee. The remuneration is determined by the Board of Directors.

Of all the members of the Executive Management only the CEO is also a member of the Board of Directors. The CEO does not receive additional remuneration for this mandate.

The remuneration of the CEO is composed of a fixed amount and a variable pay. The variable pay of the CEO may vary up to 50% of the determined fixed compensation.

In 2017, the CEO received a fixed remuneration amounting to EUR 250,000 and a variable pay of EUR 125,000.

Sensinnovat BVBA (represented by Rudi De Winter)	Remuneration 2017 (in EUR)	Remuneration 2017 (in USD)
Base remuneration	EUR 250,000	USD 292,425
Variable remuneration	EUR 125,000*	USD 140,162*
Pension	EUR 0	USD 0
Extra-legal arrangements	EUR 0	USD 0
Reimbursement of costs	EUR 15,237	USD 18,266

**Note: the variable remuneration represents the amount paid in 2017 for performance in 2016.*

The CEO does not benefit from contributions to a pension scheme, nor does he have any extra-legal arrangements through an individual/group insurance paid for by the Company, nor does he receive any other fringe benefits.

Other Executive Managers

The total amount of the fixed remuneration of the other members of the Executive Management amounted to USD 1,360,785 in 2017. The total of the 2017 variable pay component payouts amounted to USD 280,473.

Executive Managers	Remuneration 2017 (in EUR)	Remuneration 2017 (in USD)
Base remuneration	EUR 1,205,376	USD 1,360,785
Variable remuneration	EUR 248,441*	USD 280,473*
Pension	EUR 56,155	USD 63,395
Extra-legal arrangements	EUR 146,959	USD 165,906
Reimbursement of costs	EUR 7,056	USD 7,966

**Note: the variable remuneration represents the amount paid in 2017 for performance in 2016.*

The Executive Management variable pay scheme does not include a multi-year payout horizon so far.

The annual variable pay opportunities of the Executive Management, except for the CEO, can constitute up to maximum 60% of the annual base remuneration, and include (i) a global business performance measured through revenue growth and EBIT growth, which represents a 50% opportunity of the total variable pay (ii) an assessment of individual performance measured through achievement of pre-established targets, which represents a 50% opportunity of the total variable pay.

In the event that any variable remuneration would be paid based on incorrect financial data, such miscalculation could be compensated with the payment of future remuneration.

The members of the Executive Management, except for the CEO, also benefit from extra-legal arrangements through a group insurance that is in effect in their respective home countries, i.e. pension, life insurance, disability, and medical insurance, all defined contribution schemes. All these group insurance elements are in line with home country market practices and only represent a minor portion of their remuneration.

Members of the Executive Management have contractual agreements with the Company or with a subsidiary of the Company that provide for severance payments in case of termination of the cooperation in line with the applicable laws of the country where the Company or its subsidiary is located.

In 2017, one member of the Executive Management Team chose to pursue a career in a different field. In order to ensure continuity within the management of the organization, the Board agreed to a severance payment. The amount of the severance payment was the result of bilateral negations between the Executive Manager and the Board, with close involvement of the Remuneration and Nomination Committee.

7.8 Policy on certain transactions

Conflicts of interest in the Board of Directors

According to Article 523 of the Companies Code a member of the Board of Directors has to inform the other directors about any item on the agenda of the Board that will cause a direct or indirect conflict of interest of a financial nature to him/her. In this event the respective director may not participate in the deliberation and voting on this agenda item.

Pursuant to Article 524 of the Belgian Companies Code, companies listed on the stock exchange must follow a special procedure before decisions are taken or operations are executed concerning (i) the relations of the listed company with an affiliated company, except its subsidiaries, and (ii) the relations between a subsidiary of the listed company and an affiliated company of the subsidiary, other than a subsidiary of the subsidiary. Prior to the decision or transaction, a committee composed of three independent directors, assisted by one or more independent experts, must prepare written advice for the Board of Directors. The auditor delivers an opinion regarding the accuracy of the information contained in the committee advice and in the minutes of the

Board of Directors' decision. The advice of the committee, an excerpt from the minutes of the Board of Directors, and the opinion of the auditor have to be recorded in the annual report of the Company.

In 2017, there was a conflict of interest for one topic on the agenda of the Board of Directors meeting of March 17. It concerned the approval of the management contract of the CEO. Please find the full excerpt of the board minutes on this subject below:

Approval of the Management Agreement of CEO

Conflict of interest

Prior to discussing this item on the agenda, Rudi De Winter, permanent representative of Sensinnovat BVBA, director of the Company, declares to have an interest of a patrimonial nature which is conflicting with the decisions that fall within the scope of the powers of the board of directors, in respect of the entry into of his management agreement with the Company (the "Management Agreement").

This conflict of interest results from the fact that Sensinnovat BVBA is a director of the Company and a party to the Management Agreement.

The Management Agreement will have financial consequences for the Company as it will require the Company to pay a management fee to Sensinnovat BVBA as compensation for the provision of its services under the Management Agreement.

Under Article 9 of the Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European company (the "SE Regulation") juncto Article 523 of the Companies Code, a conflict of interest in a company not making or having made a public appeal on savings does not prevent the directors in question from taking part in the deliberations and from voting on the decision for which a potential conflict of interest exists.

In accordance with Article 9 of the SE Regulation juncto Article 523 of the Companies Code, the auditor of the Company, KPMG

Bedrijfsrevisoren Burg. CVBA, permanently represented by Herwig Carmans, will be informed of the existence of the conflict of interest.

Furthermore, the relevant sections of these minutes will be entirely included in the annual report of the board of directors.

Approval of the Management Agreement

The board of directors took note of the Management Agreement.

Informed of the existence of a conflict of interest with respect to this agreement, the board of directors decided nevertheless to approve the entry into thereof. The Company requires highly qualified specialists with extensive experience and expertise in its field of business. The board of directors is of the opinion that Sensinnovat BVBA (represented by its permanent representative Rudi De Winter) has these skills.

The board of directors has concluded that the Management Agreement is in the interest of the Company, given that, even though it involves the payment by the Company to Sensinnovat BVBA of a management fee, those management fees are proportionate for the services to be provided by this manager to the Company.

RESOLVED that the Management Agreement is approved in the form presented to the board of directors.

Other transactions with directors and Executive Management

As determined by section 3.6.2 (a) of the X-FAB Corporate Governance Charter, members of the Board of Directors should arrange their personal and business affairs in such a way as to avoid conflicts with X-FAB. Moreover, the members of the Board of Directors and the Executive Management are not permitted to enter, either directly or indirectly, into agreements with X-FAB or any of its subsidiaries for the provision of paid services or goods, unless explicitly authorized by the Board of Directors. Such agreements must always be at arm's length.

In 2017, however, there were no transactions between the Company and its directors or Executive Managers involving a conflict of interest.

Insider trading

In compliance with the Belgian Corporate Governance Code 2009 and EU regulation on market abuse (EU No. 596/2014) the X-FAB Insider Trading Policy was updated in 2017. A summary of the Dealing and Disclosure Code has been incorporated into the Corporate Governance Charter of X-FAB. The Dealing and Disclosure Code was approved by the Board of Directors on March 17, 2017.

X-FAB complies with the Belgian provisions on insider trading and market abuse. In this respect a list is kept up to date of all people with managerial responsibilities as well as all other people who have access to sensitive information which could have an effect on the share price.

The purpose of the X-FAB Insider Trading Policy is to prevent the abuse of information which could have a considerable effect on the share price, in particular during the periods prior to the publication of financial results, or decisions or events that can affect the share price. As determined in the X-FAB Insider Trading Policy it is prohibited to sell X-FAB shares during such a closed period. This closed period is a period of 30 calendar days immediately preceding the announcement of the financial results.

Moreover, before trading any company shares, the members of the Board and the Executive Management have to receive the green light from the Compliance Officer and have to report back once the transaction has been completed. Furthermore, in compliance with the same legislation, the members of the Board and the Management have to notify all their transactions above a certain threshold in X-FAB shares to the Belgian Financial Services and Markets Authority, who will publish these notices on its website.

Compliance with the X-FAB Insider Trading Policy will be supported and verified by the Compliance Officer.

7.9 Internal control and risk assessment procedures in relation to financial reporting

The internal control and risk assessment procedures in relation to the process of financial reporting are coordinated by the Chief Financial Officer. Such procedures are in place to ensure that the financial reporting is based on reliable information and that the continuity of the financial reporting in conformity with the IFRS accounting principles is guaranteed.

The process of internal control in relation to the financial reporting is based on the following principles:

- Data on transactions or use of assets of the Company are registered accurately and saved in an automated global enterprise resource planning (ERP) system by the different X-FAB business units.
- Accounting transactions are registered in globally standardized operating charts of accounts.
- The financial information is prepared and reported in first instance by the accounting teams in the different legal entities of X-FAB worldwide.
- Consequently the finance managers at the different X-FAB sites will review the prepared and reported local financial information before sending it to the Global Finance Department.

- In the Global Finance Department the financial information will receive its final review before it is included in the consolidated financial statements.

X-FAB is validly represented by the sole signature of the CEO for all aspects within and outside the daily management of the Company. Specific powers are granted to members of the Executive Management to represent X-FAB in matters that relate to the functional area for which they are responsible. For actions that fall outside the scope of the daily management, the Company is validly represented by two directors acting together.

In the event of detection of certain deficiencies, this will be reported to the Executive Management to determine which appropriate measures can be taken.

The risk assessment in connection with the financial reporting is based on the following principles:

- Risks that the Company is confronted with are detected and monitored with the responsible persons of the different departments of the Company.
- By using an automated ERP system, the responsible persons of the departments have permanent access to the financial information with regard to their functional area for monitoring, controlling, and directing purposes with regard to their business activities.
- Closing the accounts at the end of every month warrants that the financial consequences of the identified risks are monitored closely to be able to anticipate to possible adverse evolutions.
- The financial results are also monthly reviewed on a global level.
- A data protection system based on antivirus software, internal and external backup of data, and the controlling of access rights to information protects the Company's information and guarantees the continuity of the financial reporting. The adequacy and integrity of these IT systems and procedures are reviewed regularly.
- In accordance with the 2009 Belgian Code on Corporate Governance X-FAB has set up an internal audit function for its financial department, whose resources and skills are adapted to assess the financial reporting and the risk management of the Company. The Audit Committee receives a periodic summary of the internal audit activities.

7.10 Description of certain information from the Articles of Association and elements pertinent to a take-over bid

Capital structure

The registered capital of X-FAB amounts to EUR 657,456,850.68 and is represented by 130,781,669 equal shares without par value. The shares are in registered or dematerialized form.

Restrictions on the transfer of securities

The Articles of Association contain no restrictions on the transfer of the shares. The Board of Directors is furthermore not aware of any restrictions imposed by law on the transfer of shares by any shareholder, except in the framework of market abuse regulations.

Restrictions on the exercise of voting rights

Each share entitles the holder to one vote. The Articles of Association contain no restrictions on the voting rights and each shareholder can exercise his voting rights provided he is validly admitted to the general meeting and his rights have not been suspended. Pursuant to Article 11 of the Articles of Association the Company is entitled to suspend the exercise of the rights attaching to securities belonging to several owners until one person is appointed towards the Company as representative of the security.

No one can vote at the general meeting using voting rights attached to securities that have not been reported in due time in accordance with the Articles of Association and with the law.

The Board is not aware of any other restrictions imposed by law on the exercise of voting rights.

Agreements among shareholders

XTRION NV and Sarawak Technology Holdings Sdn. Bhd. have entered into a shareholders' agreement as shareholders of X-FAB (the "Shareholders' Agreement").

The Shareholders' Agreement applies for as long as each of the shareholders holds more than 7.5% of the shares in X-FAB. The Shareholders' Agreement addresses certain matters relating to the governance of X-FAB as well as the transfer of shares in X-FAB held by the parties to this Shareholders' Agreement.

Pursuant to the terms of the Shareholders' Agreement, XTRION NV and Sarawak Technology Holdings Sdn. Bhd. each have the right to appoint two directors on the Board of Directors. The Shareholders' Agreement furthermore provides for certain restrictions on the ability of XTRION NV and Sarawak Technology Holdings Sdn. Bhd. to transfer their shares in X-FAB.

Amendments to the Articles of Association

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% 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% of the votes cast.

Authorities of the Board to issue, buy back, or dispose of own shares

The Articles of Association foresee that the Board of Directors may increase the registered capital of the Company in one or several times by a (cumulated) amount of maximum EUR 657,456,850.68. Such authorization may be renewed in accordance with the relevant legal provisions. The Board of Directors can exercise this power for a period of five (5) years as from the date of publication in the Annexes to the Belgian State Gazette of the amendment to these Articles of Association approved by the shareholders' meeting on March 16, 2017 (i.e. April 26, 2017).

The Board of Directors is further authorized by Article 13 of the Articles of Association to acquire own shares in the Company, either directly, by a person acting in his/her own name on behalf of the Company or by a direct subsidiary within the meaning and the limits set out by Article 627, indent 1 of the Companies Code, under following conditions:

- This authorization applies for a number of own shares, profit-sharing certificates, or associated certificates that is at most equal to that which, after acquisition, results in a total number of own shares held by the Company equal to the set limit of 20% as stipulated in Article 5 of the SE Regulation juncto Articles 620 ff. of the Companies Code;
- Under this authorization a share should be acquired at a price which will respect the legal requirements, but which will in any case not be more than 10% below the lowest closing price in the last 30 trading days preceding the transaction and not more than 5% above the highest closing price in the last 30 trading days preceding the transaction;
- This authorization is valid for five years from March 16, 2017.

By resolution of the shareholders' meeting held on March 16, 2017 the Board of Directors is also authorized, subject to compliance with the provisions of the Companies Code, to acquire for the Company's account the Company's own shares, profit-sharing certificates, or associated certificates if such acquisition is necessary to avoid serious and imminent harm to the Company. Such authorization is valid for three years as from the date of publication of the authorization in the Annexes to the Belgian State Gazette (i.e. April 26, 2017).
By resolution of the shareholders' meeting held on March 16, 2017 the Board of Directors is authorized to divest itself of part of or all the Company's shares, profit-sharing certificates or associated certificates.

- This can be done at any time and 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.
- The authorization covers the divestment of the Company's shares, profit-sharing certificates, or associated certificates by a direct subsidiary within the meaning of Article 627, indent 1 of the Companies Code.
- The authorization is valid without any time restriction, except when the divestment is to prevent any serious and imminent harm, in which case the authorization is valid for three years as from the date of publication of the authorization in the Annexes to the Belgian State Gazette (i.e. April 26, 2017).

Other elements

The Company has not issued securities with special control rights.

No agreements have been concluded between the Company and its directors or employees providing for a compensation if, as a result of a take-over bid, the directors should resign or are made redundant without valid reason or if the employment of the employees is terminated.

7.11 Auditor

KPMG Bedrijfsrevisoren BV CVBA, whose registered office is situated at 1930 Zaventem, Luchthaven, Brussel Nationaal 1K, was appointed as statutory auditor of the Company. Mr. Herwig Carmans, auditor, was appointed as the permanent representative of the auditor.

The mandate of KPMG Bedrijfsrevisoren BV CVBA was renewed for three years at the annual shareholders' meeting held on March 16, 2017.

The consolidated annual fee for this mandate amounted to EUR 309,500 in audit fees, VAT excluded (USD 349,323). In 2017, the additional fees for other services amounted to EUR 497,500 VAT excluded (USD 561,512). Non-audit-related services mainly relate to attestation and assurance services in connection with the company's Initial Public Offering. Reference is made to note 7.7.

7.12 Compliance with the 2009 Belgian Code on Corporate Governance

X-FAB complies with the principles of the 2009 Belgian Code on Corporate Governance. In view of the "comply-or-explain" principle of the Code the following overview sets out the provision of the Code that X-FAB does not comply with, along with an explanation of the reasons for non-compliance:

- 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 provision 8.8 of the Corporate Governance Code recommends that this level should not exceed 5%.

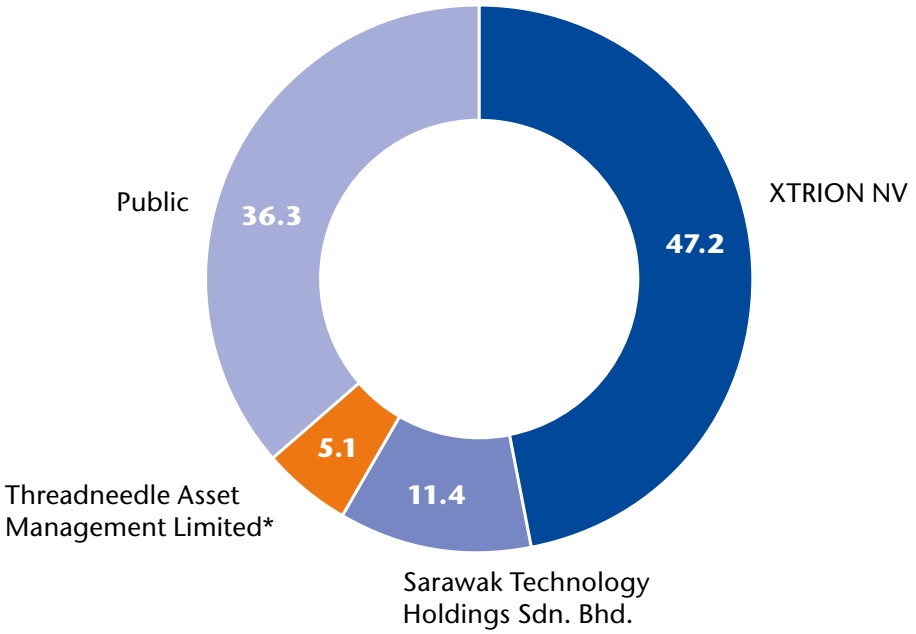
8. SHAREHOLDER INFORMATION

Shareholder structure

	Number of shares	Share in %
XTRION NV	61,718,079	47.2
Sarawak Technology Holdings Sdn. Bhd.	14,948,655	11.4
Threadneedle Asset Management Limited*	6,606,784	5.1
Public	47,508,151	36.3
TOTAL	**130,781,669**	**100.0**

**Participation based on transparency notification as at July 26, 2017*

Total number of votes: 130,781,669



Share information

First day of listing:	April 6, 2017
Stock exchange:	Euronext Paris
Ticker:	XFAB
ISIN:	BE0974310428
Number of shares outstanding on December 31, 2017:	130,781,669
Market capitalization on December 31, 2017:	EUR 1,255,896,367.40

For details on the capital increase in the context of the IPO, please refer to section 7.7 of the notes in chapter 5, X-FAB consolidated financial statements.

Financial calendar

April 26, 2018
Annual shareholders' meeting 2018

May 2, 2018
Publication of Q1 2018 results

July 31, 2018
Publication of Q2 2018 results
Publication of half-year report

November 6, 2018
Publication of Q3 2018 results

November 20, 2018
X-FAB Investor Day

Contact information

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9. X-FAB SILICON FOUNDRIES SE STATUTORY ACCOUNTS

The separate financial statements of X-FAB Silicon Foundries SE, the Group's parent, have been audited in accordance with Belgian statutory requirements. The auditor's report is unqualified and certifies that the financial statements have been prepared in accordance with Belgian GAAP, and that they give a true and fair view of the financial position and results of X-FAB Silicon Foundries SE in accordance with all legal and regulatory requirements.

The separate financial statements, together with the separate management report of the board of directors to the general assembly of shareholders as well as the auditor's report thereon, will be filed with the National Bank of Belgium in accordance with the relevant statutory filing due dates. In addition, they are available on the Company's website or can also be obtained on request at the registered office of the company at Transportstraat 1, 3980 Tessenderlo.

The separate financial statements are reproduced below in condensed form.

The condensed statutory financial statements of X-FAB Silicon Foundries SE are presented in thousands of EUR as the functional currency of the statutory accounts is the EUR.

Participations in affiliated companies are recognized at their acquisition cost.

Condensed non-consolidated statement of profit and loss
For the year ended December 31

in thousands of EUR	2017	2016
Operating income		
Turnover	5,795	3,518
Operating charges		
Cost of services and other expenses	(11,798)	(3,663)
Wages and salaries, social security costs and pension costs	(8)	-
Operating profit (loss)	**(6,011)**	**(145)**
Finance income		
Income from current assets	9,971	-
Income from financial fixed assets	811	15
Other financial income	28	107
Finance costs		
Debt charges	(32)	(32)
Other financial charges	(1,040)	(126)
Net financial result	**9,738**	**(36)**
Profit before taxes	**3,727**	**(181)**
Income tax	-	1
Profit for the period	**3,727**	**(180)**

Condensed non-consolidated statement of financial position

in thousands of EUR	December 31, 2017	December 31, 2016
ASSETS		
Fixed assets		
Financial assets		
Affiliated companies		
Investments in affiliates	509,876	509,876
Loans issued to affiliated companies	109,053	385
Total fixed assets	**618,929**	**510,261**
Current assets		
Amounts receivable within one year		
Other receivables	27,679	6
Cash and cash equivalents	110,996	64
Total current assets	**138,675**	**70**
Total assets	**757,604**	**510,331**
EQUITY AND LIABILITIES		
Equity		
Capital		
Share capital - issued	657,457	500,359
Share premium	92,902	-
Reserves		
Legal reserves	322	135
Accumulated profits	5,933	2,394
Total equity	**756,614**	**502,888**
Current liabilities		
Amounts payable within one year		
Trade payables	141	7,258
Other current liabilities	754	-
Accrued charges and deferred income	95	185
Total current liabilities	**990**	**7,443**
Total equity and liabilities	**757,604**	**510,331**

10. RISK FACTORS

An investment in shares involves risks and uncertainties. Prior to making a decision to invest into shares of X-FAB, the information provided in this annual report and, in particular, the risks and uncertainties described below should be read and considered carefully. The occurrence of any of these risks could adversely affect the Company's business, results of operations, and/or financial condition.

Risks relating to X-FAB's business and the semiconductor industry

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.

A significant portion of X-FAB's revenues is 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.

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. 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.

A significant portion of X-FAB's revenue comes from a relatively limited number of customers, with its largest customer being a related party.

X-FAB's largest customer accounted for 35% of the Group's revenue in 2017, while the Group's top three customers accounted for 58% of revenue and its top five customers accounted for 65% of revenue during the year. 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' 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.

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

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.

X-FAB faces difficulties in forecasting demand and may therefore be unable to match its production capacity to demand.
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. Because customers usually place orders on a short-term basis, X-FAB may face difficulties accurately predicting demand. Significant capacity problems or inability or delay in shifting production to another fab could harm X-FAB's relationships with its customers and lead to lost sales.

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. Failure to integrate any acquired company, fab, or technology successfully, or to achieve desired synergies, may inhibit X-FAB's future expansion.

X-FAB may not realize all the anticipated benefits from its acquisition of Altis' core business.
X-FAB acquired the Altis assets in 2016, including a fab located in Corbeil-Essonnes, France. The integration process includes a series of technology introductions, capacity enhancements, adoptions of Group-wide systems, and implementation of cost-efficiency measures. X-FAB may encounter delays or interruptions in this integration process, among others due to delays in customer qualifications in the fab or a need to make additional capital expenditures. Further, the Group may face risks meeting targeted returns in the event of a decline in operating levels since it has committed to keep at least 800 staff employed 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 to secure satisfactory fab utilization during the business transition.

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 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.

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, 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.

X-FAB may face competitive pricing pressures.
Competitors may have an impact on X-FAB's selling prices and demand for its services. 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 Average Selling Prices (ASPs) could have a material adverse effect on X-FAB.

X-FAB is subject to risks associated with currency fluctuations.
X-FAB records its financial results in US dollars, but receives revenues and incurs costs in a variety of currencies, including euros and Malaysian ringgit. Changes in the exchange rate of the US 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 US 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.

For price, credit, liquidity and cash flow risks as well as the use of financial instruments, please refer to section 10 of the notes in chapter 5, X-FAB Consolidated Financial Statements.

X-FAB is also subject to the following risks:
- X-FAB depends on successful technological advances.
- X-FAB depends on successful materials, machinery, and component procurement for its manufacturing processes.
- X-FAB may be unable to recruit or retain the personnel required for its growth strategy.
- 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.
- 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.
- X-FAB's ability to compete successfully and achieve future growth will depend, in part, on its ability to protect its proprietary technology.
- X-FAB may be subject to claims for alleged infringement of third parties' intellectual property rights.
- 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 could be adversely affected by manufacturing interruptions.
- 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's insurance coverage may not be adequate to compensate for any interruptions or loss of business.
- X-FAB could incur material costs to comply with regulation, including environmental and health and safety laws.
- X-FAB may be subject to litigation, disputes, or other legal proceedings.
- X-FAB carries a significant amount of deferred tax assets on its balance sheet.

Risks related to the shares
- 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.
- 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.
- X-FAB may not be able to pay dividends.
- Investors with a reference currency other than euros will become subject to foreign exchange rate risk when investing in the shares.
- Any sale, purchase, or exchange of shares may become subject to the financial transaction tax.
- Certain provisions of the Belgian Companies Code and the Articles of Association may affect potential takeover attempts and may affect the market price of the shares.

Forward-looking information

This annual report may include forward-looking statements. Forward-looking statements are statements regarding or based upon management's current intentions, beliefs, or expectations relating to, among other things, X-FAB's future results of operations, financial condition, liquidity, prospects, growth, strategies, or developments in the industry in which it operates. By their nature, forward-looking statements are subject to risks, uncertainties, and assumptions that could cause actual results or future events to differ materially from those expressed or implied thereby. These risks, uncertainties, and assumptions could adversely affect the outcome and financial effects of the plans and events described herein.

Forward-looking statements contained in this annual report regarding trends or current activities should not be taken as a report that such trends or activities will continue in the future. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. You should not place undue reliance on any such forward-looking statements, which speak only as of the date of this annual report.

The information contained in this annual report is subject to change without notice. No re-report or warranty, express or implied, is made as to the fairness, accuracy, reasonableness, or completeness of the information contained herein, and no reliance should be placed on it.

11. GLOSSARY

AMF	The French Financial Markets Authority (Autorité des Marchés Financiers)
ASP	Average selling price
Belgian Companies Code	The Belgian Act of May 7, 1999 containing the Companies Code as amended from time to time
Belgian GAAP	Belgian generally accepted accounting principles, which refers to the financial reporting framework applicable in Belgium
CAGR	Compound annual growth rate
CMOS	Complementary metal-oxide-semiconductor
Company	X-FAB Silicon Foundries SE
CSR	Corporate social responsibility
DNA	Deoxyribonucleic acid
DRAM	Dynamic random-access memory
EBIT	Earnings before net finance cost and income taxes, which is equivalent to operating profit, as presented in the historical financial information
EBITDA	Earnings before net finance cost, income taxes, depreciation, and amortization.
EDA	Electronic design automation
EEA	European Economic Area
EEPROM	Electronically Erasable Programmable Read-only Memory
EHS	Environmental, Health and Safety
ERP	Enterprise resource planning
ESD	Electrostatic discharge
EU	The European Union
EUR, euros, or €	The common currency of the EU member states that are part of the Eurozone
EV	Electric vehicle

Fab	Wafer fabrication facility
FSMA	The Belgian Financial Services and Market Authority
GaN	Gallium nitride
GDP	Gross domestic product
GRI	Global Reporting Initiative
GVG	X-FAB Dresden Grundstücks-Vermietungsgesellschaft mbH & Co. KG
IATF	International Automotive Task Force
IC	Integrated circuit
ICC	International Chamber of Commerce
IDM	Integrated device manufacturer
IFRS	International Financial Reporting Standards as adopted by the European Union
IGBT	Insulated Gate Bipolar Transistor
IP	Intellectual property
kW	kilowatt
LED	Light Emitting Diode
MAR	Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014 on Market Abuse
MEMS	Micro-electro-mechanical systems
MFI	X-FAB MEMS Foundry Itzehoe GmbH
M-MOS	M-MOS Semiconductor Sdn. Bhd.
MW	Megawatt
NRE	Nonrecurring engineering
NVM	Nonvolatile memory
OECD	Organization for Economic Cooperation and Development

OEM	Original equipment manufacturer
PDK	Process design kit
REACH	Registration, Evaluation, Authorization, and Restriction of Chemicals
RoHS	Restriction of the use of certain hazardous substances
SE Regulation	Council Regulation (EC) No 2157/2001 of October 8, 2001 on the Statute for a European company (SE)
SiC	Silicon carbide
SME	Small or medium-sized enterprise
SOI	Silicon-on-insulator
STEM	Science, technology, engineering, and mathematics
TOC	Total organic carbon
TSV	Through-silicon-via
UNIMAS	University of Malaysia Sarawak
VOC	Volatile organic compound
WLP	Wafer level packaging
WSPM	Wafer starts per month
X-FAB SE, or the Company	X-FAB Silicon Foundries SE
X-FAB SE Group, or the Group	X-FAB Silicon Foundries SE together with its subsidiaries
X-FAB AG	X-FAB Semiconductor Foundries AG
X-FAB AG Group	X-FAB Semiconductor Foundries AG together with its subsidiaries
X-FAB Dresden	X-FAB Dresden GmbH & Co. KG and X-FAB Dresden Verwaltungs-GmbH
X-FAB France	X-FAB France SAS
X-FAB TX	X-FAB Texas Inc.

X-FAB Sarawak	X-FAB Sarawak Sdn. Bhd.
X-FAB Japan	X-FAB Japan K.K.
XMF	X-FAB MEMS Foundry GmbH

ANNUAL REPORT 2017

X-FAB
MIXED-SIGNAL FOUNDRY EXPERTS

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