Consolidated Financial Statements as of 31 December 2016

AUDIT REPORT

X-FAB Silicon Foundries SE
Tessenderlo, Belgium

KPMG AG Wirtschaftsprüfungsgesellschaft

KPMG

Report of the statutory auditor on the consolidated financial statements as of and for the years ended 31 December 2016, 2015 and 2014

To the Board of Directors of X-FAB Silicon Foundries SE

Opinion

We have audited the consolidated financial statements of X-Fab Silicon Foundries SE ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at 31 December, 2016, 2015 and 2014, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December, 2016, 2015 and 2014, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Belgium, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The board of directors is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hasselt, 17 March 2017

KPMG Réviseurs d'Entreprises /
Bedrijfsrevisoren
Statutory Auditor
represented by

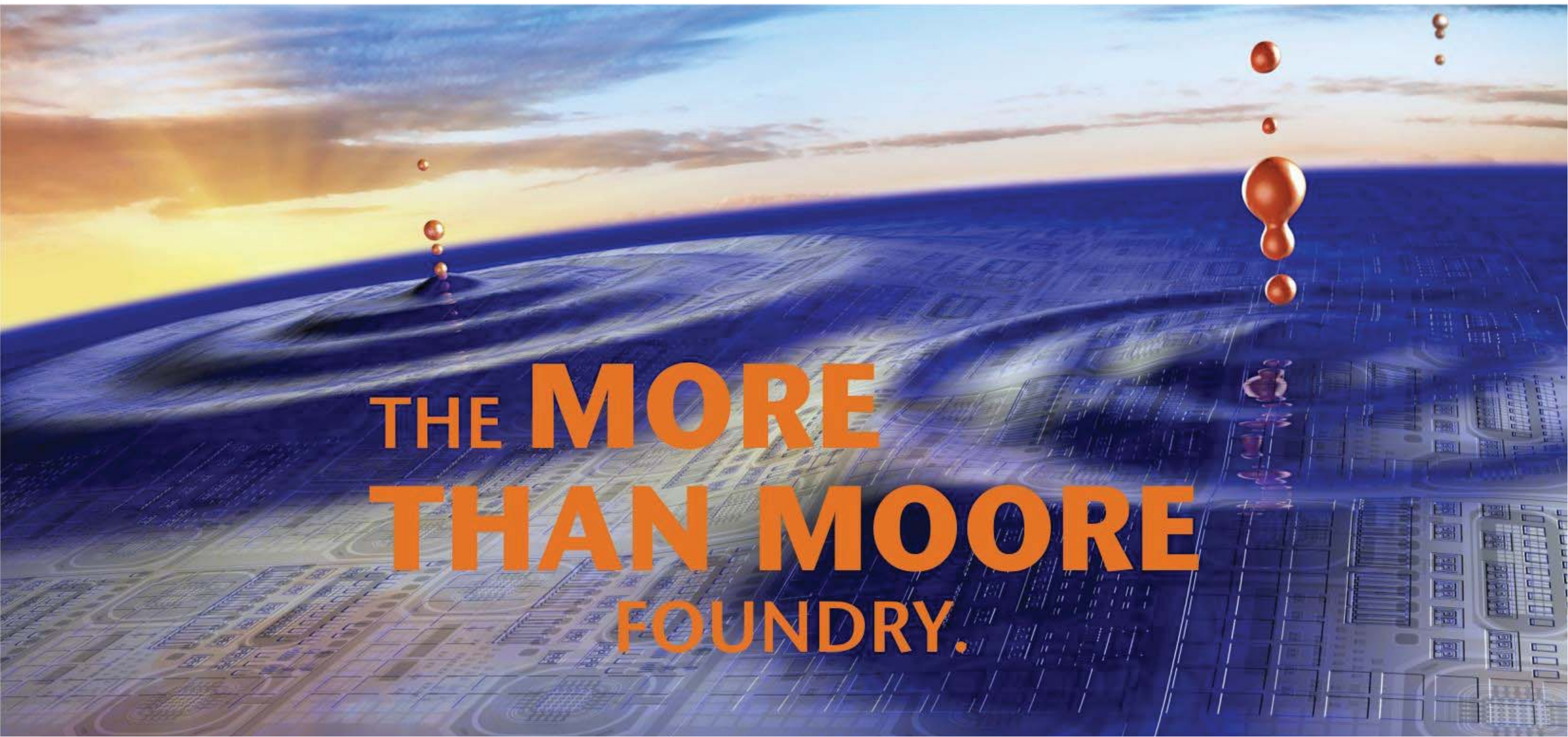
Herwig Carmans
Réviseur d'Entreprises /
Bedrijfsrevisor

MIXED SIGNAL FOUNDRY EXPERTS

X-FAB SILICON FOUNDRIES SE

2016

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016



Contents

List of abbreviations/definitions

CMOS	Complementary Metal-Oxide-Semiconductor
GVG	X-FAB Dresden Grundstücks-Vermietungsgesellschaft mbH & Co. KG
M-MOS	M-MOS Semiconductor Sdn. Bhd.
MEMS	Micro-Electro-Mechanical Systems
MFI	X-FAB MEMS Foundry Itzehoe GmbH
NRE	Non-Recurring Engineering
PCM	Process control monitor
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

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

in thousands of U.S. dollars	Note	2016	2015	2014
Revenue	4.3/6.1/11	512,897	331,119	330,476
Cost of sales	6.7/11	(407,831)	(273,277)	(278,958)
Gross profit		**105,066**	**57,842**	**51,518**
Research and development expenses	4.4/6.6	(26,847)	(21,326)	(20,700)
Selling expenses	6.9	(7,369)	(6,219)	(6,313)
General and administrative expenses	6.10	(22,787)	(18,160)	(18,733)
Rental income and expenses from investment properties	4.6/6.2/6.3/11	1,897	1,231	2,259
Other income and other expenses	6.4/6.5/11	496	2,903	659
Operating profit		**50,456**	**16,271**	**8,690**
Finance income	4.5/6.11/11	11,119	14,104	15,400
Finance costs	4.5/6.12/11	(19,123)	(19,316)	(9,703)
Net financial result		**(8,004)**	**(5,212)**	**5,697**
Profit before taxes		**42,452**	**11,059**	**14,387**
Income tax	4.18/6.13	3,500	2,315	(915)
Profit for the year		**45,952**	**13,374**	**13,472**
Attributable to:				
Equity holders of the parent		45,913	13,353	13,728
Non-controlling interest	4.1/7.8	39	21	(256)
Weighted average number of shares outstanding, basic and diluted		33,127,307	33,127,307	33,127,307
Earnings per share				
Basic and diluted	6.14	1.39	0.40	0.41
Earnings per share from continuing operations				
Basic and diluted	6.14	1.39	0.40	0.41

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

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

in thousands of U.S. dollars	Note	2016	2015	2014
Profit for the year		**45,952**	**13,374**	**13,472**
Other comprehensive income				
Wholly comprising items that are or may be transferred to profit or loss as follows:				
Foreign currency translation differences for foreign operations	4.2	(139)	(359)	(647)
Total comprehensive income for the period		**45,813**	**13,015**	**12,825**
Total comprehensive income attributable to				
Owners of the Company		45,774	12,994	13,081
Non-controlling interest	4.1/7.8	39	21	(256)
Total comprehensive income for the period		**45,813**	**13,015**	**12,825**

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, 2016	December 31, 2015	December 31, 2014
ASSETS				
Non-current assets				
Property, plant and equipment	4.7/4.9/4.16/ 4.17/7.1	265,472	231,559	210,661
Investment properties	4.7/4.9/7.1	9,143	9,572	10,876
Intangible assets	4.8/4.9/7.2	7,874	7,667	8,516
Non-current investments	4.10	190	-	-
Other non-current assets	7.5	36	88	140
Deferred tax assets	4.18/6.13	19,904	14,631	11,309
Total non-current assets		302,619	263,517	241,502
Current assets				
Inventories	4.12/7.3	88,972	61,857	56,473
Trade and other receivables	4.10/7.4/11	77,292	44,964	40,304
Income tax receivables	4.18/6.13	4,543	-	-
Other assets	4.11/7.5	14,338	11,034	15,917
Cash and cash equivalents	4.13/7.6	104,157	66,098	26,452
Total current assets		289,302	183,953	139,146
Total assets		**591,921**	**447,470**	**380,648**
EQUITY AND LIABILITIES				
Equity				
Share capital	4.14/7.7	265,231	265,231	265,231
Share premium	4.14/7.7	255,262	255,262	255,262
Retained earnings		(196,506)	(242,419)	(255,280)
Cumulative translation adjustment	4.2/7.7	(879)	(740)	(381)
Treasury shares	7.7	(770)	(770)	(770)
Total equity attributable to equity holders of the parent		322,338	276,564	264,062
Non-controlling interests	4.1/7.8	400	372	412
Total equity		322,738	276,936	264,474
Non-current liabilities				
Non-current loans and borrow ings	4.10/7.10	132,407	102,508	51,081
Non-current provisions	4.15/7.13	73	73	74
Other non-current liabilities	4.10/7.11	8,408	1,499	1,963
Total non-current liabilities		140,888	104,080	53,118
Current liabilities				
Trade payables	4.10/7.12/11	49,032	12,256	21,716
Current loans and borrow ings	4.15/7.10	31,432	16,752	11,292
Income tax payable	4.18/6.13	1,579	2,635	2,026
Provisions	4.15/7.13	1,622	1,093	751
Other current liabilities	4.10/4.11/7.12	44,630	33,718	27,271
Total current liabilities		128,295	66,454	63,056
Total equity and liabilities		**591,921**	**447,470**	**380,648**

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

Consolidated statement of changes in group equity

in thousands of U.S. dollars	Note	Shares issued and fully paid	Share capital	Share premium	Retained earnings	Cumulative translation adjustment	Treasury shares	Total attributable to owners of the parent	Non-controlling interests	Total equity
At January 1, 2014		**33,177,223**	**265,231**	**264,535**	**(270,113)**	**266**	**(10,043)**	**249,876**	**3,556**	**253,432**
Change in accounting policy	4.19			(9,273)			9,273			
At January 1, 2014 as restated		**33,177,223**	**265,231**	**255,262**	**(270,113)**	**266**	**(770)**	**249,876**	**3,556**	**253,432**
Profit for the year					13,728			13,728	(256)	13,472
Currency translation effect, net of tax	4.2					(647)		(647)	-	(647)
Total comprehensive income										**12,825**
Transactions with owners of the company										
Distribution to non-controlling interests (GVG)	7.8							-	(212)	(212)
Changes in ownership interest										
Acquisition of 44,91% shares of GVG	7.8				1,105			1,105	(2,376)	(1,271)
Acquisition of 15% shares of MFI	7.8							-	(300)	(300)
At December 31, 2014		**33,177,223**	**265,231**	**255,262**	**(255,280)**	**(381)**	**(770)**	**264,062**	**412**	**264,474**
Profit for the year					13,353			13,353	21	13,374
Currency translation effect, net of tax	4.2					(359)		(359)	-	(359)
Total comprehensive income										**13,015**
Transactions with owners of the company										
Distribution to non-controlling interests (GVG)	7.8							-	(11)	(11)
Changes in ownership interest										
Acquisition of 34% shares of MFI	7.8				(490)			(490)	(50)	(540)
Cost incurred in respect of a business combination completed in earlier years					(2)			(2)	-	(2)
At December 31, 2015		**33,177,223**	**265,231**	**255,262**	**(242,419)**	**(740)**	**(770)**	**276,564**	**372**	**276,936**
Profit for the year					45,913			45,913	39	45,952
Currency translation effect, net of tax	4.2					(139)		(139)	-	(139)
Total comprehensive income										**45,813**
Transactions with owners of the company										
Distribution to non-controlling interests (GVG)	7.8							-	(11)	(11)
At December 31, 2016		**33,177,223**	**265,231**	**255,262**	**(196,506)**	**(879)**	**(770)**	**322,338**	**400**	**322,738**

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

Consolidated statement of cash flows
For the year ended December 31

in thousands of U.S. dollars	Note	2016	2015	2014
Cash flow from operating activities:				
Profit for the year		45,952	13,374	13,472
Income tax		(3,500)	(2,315)	915
Income before taxes		**42,452**	**11,059**	**14,387**
Reconciliation of net income to cash flow arising from operating activities:		**51,381**	**41,348**	**38,529**
Depreciation and amortisation, before effect of grants and subsidies	4.7/6.7/ 7.1/7.2	50,158	47,165	46,465
Recognised investment grants and subsidies netted with depreciation and amortisation	4.17/6.7	(2,858)	(3,106)	(3,077)
Interest income and expenses (net)	4.5/6.11/6.12	4,434	3,500	4,462
Loss/(gain) on the sale of plant, property and equipment (net)	4.7/7.1/7.2	(232)	(1,802)	(25)
Loss/(gain) on the sale of financial assets/change in fair value (net)	4.11/10	280	596	(8,970)
Other non-cash transactions (net)	8	(401)	(5,005)	(326)
Changes in working capital:		**(16,359)**	**(14,478)**	**(14,195)**
Decrease/(increase) of trade receivables	4.10/7.4	(32,825)	(4,750)	10,739
Decrease/(increase) of other receivables and prepaid expenses	7.5	(9,828)	1,339	(3,123)
Decrease/(increase) of inventories	4.12/7.3	(16,318)	(5,385)	(8,326)
(Decrease)/increase of trade payables	4.10/7.12	34,802	(10,854)	(10,078)
(Decrease)/increase of other liabilities	4.10/4.15/7.11/7.12	7,810	5,172	(3,407)
Income taxes (paid)/received		(3,554)	(83)	142
Cash flow from operating activities		**73,920**	**37,846**	**38,863**
Cash flow from investing activities:				
Payments for property, plant, equipment and intangible assets	4.7/7.1	(72,189)	(71,283)	(48,665)
Payments for investments	10	(289)	(596)	(458)
Proceeds from sale of investments	10	-	-	41,713
Acquisition of subsidiary, net of cash acquired	5	(10,178)	(542)	(1,571)
Payments for loan investments to related parties	11	(5,694)	(94)	(157)
Proceeds from loan investments related parties	11	5,740	5,156	121
Proceeds from the sale of property, plant and equipment	4.7/7.1	735	2,098	95
Interest received	4.5/6.11/6.12	275	543	204
Cash flow used in investing activities		**(81,600)**	**(64,718)**	**(8,718)**
Cash flow from financing activities:				
Proceeds from loans and borrowings	4.10/7.10	60,981	69,224	29,650
Repayment of loans and borrowings	4.10/7.10	(19,374)	(12,975)	(48,739)
Repayment of loans and borrowings from related parties	11	-	(27)	-
Receipts from sale & leaseback arrangements	4.16/7.10	6,190	5,161	-
Payments of lease installments	4.16/7.10	(1,558)	(730)	(64)
Receipt of government grants and subsidies	4.17	2,532	7,372	4,396
Interest paid	4.5/6.10/6.11	(2,843)	(1,306)	(2,083)
Distribution to non-controlling interests	7.8	(11)	(11)	(212)
Cash flow used in financing activities		**45,917**	**66,708**	**(17,052)**
Effects of changes in foreign currency exchange rates on cash balances		**(178)**	**(190)**	**(451)**
Increase/(decrease) of cash and cash equivalents		**38,237**	**39,836**	**13,093**
Cash and cash equivalents at the beginning of the year		**66,098**	**26,452**	**13,810**
Cash and cash equivalents at the end of the year		**104,157**	**66,098**	**26,452**

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

Notes to the consolidated financial statements 2016

1 Basic information and description of the X-FAB Silicon Foundries SE Group’s business

X-FAB Silicon Foundries SE (hereafter referred to as “X-FAB SE”, “the Company” or “the parent company” and, together with its subsidiaries, as “X-FAB SE Group” or “the Group”) is a European limited company (Societas Europaea/SE) registered under the number BEO882.390.885 in Hasselt, Belgium. The Company is a holding company for the Group’s investments in pure play semiconductor wafer companies. The Company’s registered address is Transportstraat 1, 3980 Tessenderlo, Belgium.

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

The X-FAB SE Group is one of the world’s leading pure play foundry providers specialising in analog/mixed-signal technologies. As a pure play foundry, the Group develops its own technologies, offering its customers a comprehensive range of product development (design support) and production services. The X-FAB SE Group manufactures integrated circuits to customers’ designs, supplying these in the form of silicon wafers.

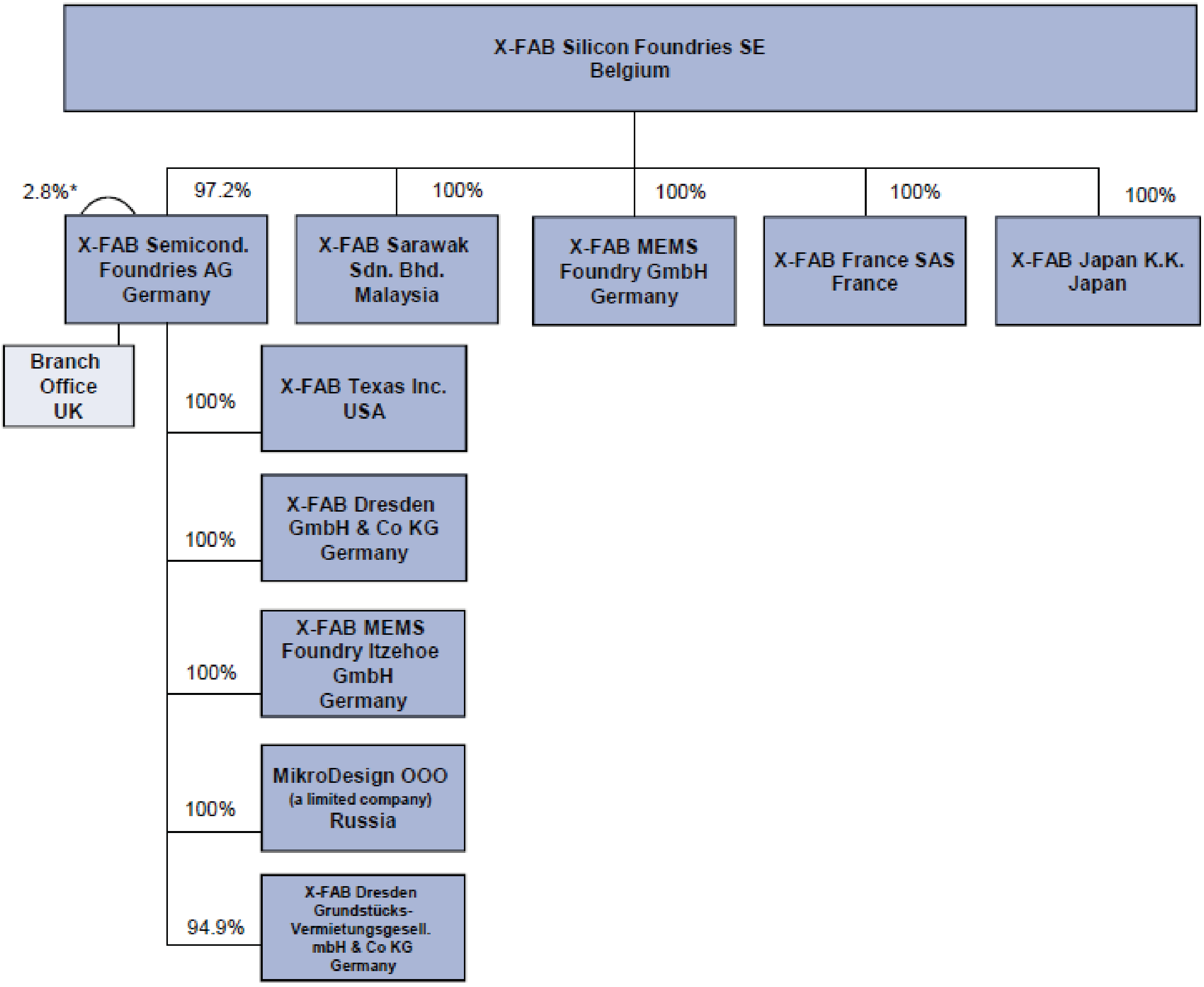
Based on its long experience, X-FAB SE Group specialises mainly in the manufacture of analog/mixed-signal products. These are circuits capable of processing digital as well as analog signals. For this purpose X-FAB SE offers special technology modules, cell libraries and design kits, which allow the Group’s customers to develop specific circuits with broad function spectrums and to accelerate their development processes.

X-FAB SE Group’s customers include companies that concentrate on the development of Integrated Circuits (IC) and leave their manufacture to others (Fabless companies). Increasingly, IDMs (Integrated Device Manufacturers), who integrate development and production, are also using pure play foundries for IC production. The Group’s customers are primarily in the communication, automotive, consumer and industrial product sectors, and are located in Europe, the United States and Asia.

2 Group structure

X-FAB Silicon Foundries SE's major shareholders are Belgium-based XTRION NV, which holds approximately 60% of the shares, and Malaysia-based Sarawak Technologies Holding Sdn. Bhd., holding approximately 35% of the shares. The remaining shares are held by management and other minority shareholders. The shares of XTRION NV are held through Xpeqt (a "Stichting Administratiekantoor", a Foundation under Netherlands law) and are directly owned by Mr. Roland Duchâtelet and Mr. Rudi De Winter.

X-FAB SE Group structure of consolidated entities as of December 31, 2016



* Treasury shares of X-FAB AG
X-FAB Dresden GmbH & Co. KG means X-FAB Dresden GmbH & Co. KG and X-FAB Dresden Verwaltungs-GmbH.

The Group's primary operations are held by X-FAB Semiconductor Foundries AG (X-FAB AG), X-FAB Dresden GmbH & Co. KG (X-FAB Dresden), X-FAB Texas Inc., Lubbock, Texas (X-FAB TX), X-FAB Sarawak Sdn. Bhd. (X-FAB Sarawak) and X-FAB France SAS (X-FAB France) each of which operate wafer factories at their respective locations. X-FAB MEMS Foundry Itzehoe GmbH (MFI) and X-FAB MEMS Foundry GmbH (XMF) offer process technologies for the fabrication of micromechanical sensors for the detection of pressure, acceleration, rotation and IR-radiation including integrated solutions that combine MEMS and CMOS. The remaining entities provide research and development services to other group entities or serve administrative purposes.

3 Basis of preparation

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. All IFRS and IAS standards and associated interpretations were adopted to the extent that they had been endorsed by the European Union by the date of issue of these financial statements.

The consolidated financial statements of X-FAB SE Group for the year ended December 31, 2016 were authorised for issue in accordance with a resolution of the directors on March 17, 2017.

3.2 Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial assets and liabilities and certain non-derivative financial assets which are measured at fair value (current investments and available-for-sale financial assets). The net defined benefit liability is measured at the present value of the defined obligation less the fair value of plan assets.

3.3 Functional and presentation currency

The consolidated financial statements are presented in U.S. dollars (USD), which is the functional and presentation currency of the parent company and the Group's primary operating companies. Amounts are rounded to the nearest thousand except when otherwise indicated. Rounding differences may occur.

3.4 Use of estimates and judgments

In preparing these consolidated financial statements management has made judgments, assumptions, and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Assumptions, judgments and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the next financial year is included in the following notes:

Recognition of deferred tax assets (note 6.13

Deferred tax assets are recorded where there is reasonable certainty that tax savings will be made in future periods from the use of losses carried forward and from the reversal of timing differences arising on the difference between the accounting and tax values of the Group's assets. Taxable profits and the reversal of timing differences in the year ending December 31, 2017 may differ from the amounts assumed which may result in a material adjustment.

Impairment of receivables (note 7.4)

Allowances are made to reflect estimates of the amount of receivables which may not be collectable. The actual amount of receivables which are not collectable in the year ending December 31, 2017 may differ from the amounts recorded as impairments in the year ending December 31, 2016 which may result in a material adjustment.

Acquisition of a business (note 5)

The fair value of the assets acquired and liabilities assumed as part of the business combination described in note 5 have been measured by applying various valuation techniques. For further details we refer to note 5.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, both for financial and non-financial assets and liabilities.

If third party information is used to measure fair values, the evidence obtained from third parties is assessed to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible.

Fair values are classified into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group measures transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- 5 Business combinations
- 7.1 Investment property
- 7.4 Trade and other receivables
- 7.6 Cash and cash equivalents
- 7.10 Current and non-current financial liabilities
- 10 Financial instruments – fair values and risk management

4 Summary of accounting policies

4.1 Basis of consolidation

Entities included in the consolidation

The consolidated financial statements include the financial statements of the parent company and its subsidiaries, which are entities directly or indirectly controlled by the parent company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is generally obtained by ownership of a majority of shares.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. When the Group loses control over a subsidiary it derecognises the assets and liabilities of the subsidiary and any related non-controlling interests and any other components of equity. Any resulting gain or loss is recognised in profit and loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses, as well as profits and losses resulting from intra-group transactions, are fully eliminated in these consolidated financial statements.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss, component of other comprehensive income and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly, by the parent company. Non-controlling interests' share of income and share of equity are presented separately in the income statement and within equity in the consolidated statement of financial position respectively, separately from parent shareholder's equity.

Non-controlling interests are measured at the date of acquisition at their proportionate share of the acquired company's identifiable net assets.

Business combinations

Business combinations, with the exception of transactions between entities under common control and ownership, are accounted for using the acquisition accounting method. Under this method, identifiable assets and liabilities of the acquired business are recognised in the consolidated financial statements on initial consolidation at fair value. The excess of the cost of an acquisition over the fair value of the net identifiable assets and liabilities acquired as at the date of the exchange transaction is recorded as goodwill, and is recognised as an asset in the statement of financial position. Any non-controlling interest is stated at the minority's proportion of the fair values. Any goodwill arising on the acquisition of a foreign entity and any fair value adjustments of the carrying amounts of assets and liabilities arising on the acquisition of that foreign entity are treated as assets and liabilities of that foreign entity. Subsequent to initial recognition, goodwill is carried at cost less accumulated impairment losses. Should, at a later date, acquired goodwill be impaired, the impairment charge is included in determining the operating profit for the period.

Business combinations between entities under common control and ownership are accounted for in a manner similar to the pooling-of-interests method. Under this method the original book values of the acquired company continue to be used on acquisition and any differences between acquisition cost and equity of the entity are eliminated against the share premium account.

Changes in the Group's interest in a subsidiary that do not result in loss of control

Changes in the Group's interest in a subsidiary that do not result in loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

4.2 Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions. If the functional currency of a consolidated entity differs from the Group's presentation currency, assets and liabilities of that entity are translated into the presentation currency at the closing rate at the statement of financial position date, whereas equity is translated using the historic rates, and income statement is translated at the average rate of the reporting period. All resulting differences are recognised in the cumulative translation adjustment in equity.

4.3 Revenue recognition

Sales revenues from PCM wafer are recognised when shipment has been made, transfer of risk to the customer has occurred, the sales price has been agreed upon, there is adequate assurance that collection will be made, and no significant obligations to the benefit of the customer in connection with the realisation of the sale remain to be performed. The Group recognises revenues depending on when title and risk and rewards are transferred under the specific contractual terms of each sale, which may vary from customer to customer.

Revenue in respect of design or engineering services (NRE), rental and other income is recognised at the point in time when the relevant service is provided. Sales revenues are recognised net of discounts, customer bonuses and rebates granted. Provisions for warranty obligations are made based on past experience.

4.4 Research and development expenses

Research and development expenses comprise staff expenses, depreciation and other directly attributable expenses and are allocated process based, i.e. relate to research and development activities that are not related to the improvement of the existing production technologies. Costs incurred in connection with improving existing production technologies used in operational production lines are allocated to cost of sales.

Research and development costs are expensed as incurred. X-FAB SE Group considers that development work performed does not qualify for capitalisation because the amount of future benefits to be derived from use of work performed is characterised by a high level of uncertainty until the projects are completed.

Government grants awarded to the Group for its research and development activities are, recognised when there is reasonable assurance that the entity will comply with the relevant conditions set out in the terms of the grant arrangement and it is probable that the grant will be received. They are recognised in profit or loss on a systematic basis as the entity recognises as expenses the costs that the grants are intended to compensate.

4.5 Finance income and finance costs

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit and loss on the date on which the Group's right to receive payment is established.

4.6 Rental income from investment properties

Rental income from operating leases on investment property is accounted for on a straight line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income and recognised over the term of the lease.

4.7 Property, plant, equipment and investment properties

Property, plant and equipment are measured at purchase cost less accumulated depreciation and accumulated impairment losses. Purchase cost includes expenditure that is directly attributable to the acquisition of the asset. These accounting policies have also been applied to investment properties under the cost model in accordance with IAS 40.

Depreciation is provided using the straight-line method for property, plant, factory/office equipment and investment properties. The following useful lives are used as a basis for calculating depreciation:

- Buildings including investment properties 40 – 50 years
- Factory and office equipment 3 – 10 years

Depreciation for technical equipment is calculated on units of production basis, which reflects the expected consumption of the equipment's future economic benefits.

Borrowing costs were not capitalised because no assets qualifying for the capitalisation of borrowing costs were constructed or acquired in the period. Costs incurred which extend the useful life of assets, or which increase performance or capacity of assets, are capitalised where appropriate. Maintenance and repair costs are expensed as incurred. When discrete components of an item of property, plant or equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Assets are recorded as disposals when they are sold or scrapped. The resulting gain or loss is recorded in income within "other income" or "other expenses", as appropriate.

4.8 Intangible assets

Purchased intangible assets are capitalised at purchase cost, including, where applicable, own work capitalised in preparing the intangible assets for use, and depreciated on a straight line basis over their expected useful lives. The useful life applied is five years.

Other internally generated intangible assets were not capitalised because the criteria for capitalisation were not met (see note 4.4).

The Group has no intangible assets with indefinite useful lives.

4.9 Impairment

The carrying amounts of the Group's non-financial assets other than inventories and deferred tax assets (for which separate reviews are performed) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated annually.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.10 Non derivative financial assets and liabilities

The Group classifies its non-derivative financial assets in the following categories:

(a) Financial assets at fair value through profit or loss

This category comprises non-derivative financial assets classified as held for trading or designated as such on initial recognition as permitted by IAS 39 when doing so results in the presentation of more relevant information. It also includes derivatives described in 4.11. Assets held for trading are assets which have been acquired principally for the purpose of selling in the short term. No additional instruments have been designated to the fair value through profit or loss category in the current or previous period.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not held for trading purposes. They are included in current assets, except for instruments with maturities greater than twelve months after the statement of financial position date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

Receivables are measured at their nominal amount, less, where appropriate, allowances. Allowances are made for uncollectible items or doubtful debts, which are made when the receivables are partly or wholly uncollectible, or where collection is improbable, whereby the amount of loss must be capable of being estimated. The relevant amounts are written off when the Group considers that there is no realistic prospect of recovery of the receivable. The Group has no interest bearing or low interest bearing receivables with an expected remaining term of one year or more.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are included in non-current assets unless the investment is due to mature within twelve months of the statement of financial position date or unless the investment is considered to be very liquid. The Group held no investments which were classified as held-to-maturity investments in the current or previous period.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the statement of financial position date. The Group's investments classified as available-for-sale financial assets are impaired and have no carrying value at December 31, 2016, December 31, 2015, or December 31, 2014.

Initial recognition

Financial assets are initially recognised at fair value plus any directly attributable transaction costs, with the exception of financial assets recognised at fair value through profit and loss, which are initially recognised at fair value with transaction costs recorded as an expense. Regular way purchases and sales of financial assets are accounted for at the settlement date.

Subsequent measurement

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. The gains and losses are transferred to the income statement on realisation. Realised and unrealised gains and losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise.

Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

When securities classified as available-for-sale are impaired, an impairment loss is calculated by reference to its fair value. The accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

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

Derecognition

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities. Any accrued interest or dividends received on settlement are excluded from the calculation of the net gain and reported as interest or dividend income within financial income.

Non-derivative financial liabilities

Non-derivative financial liabilities, with the exception of items classified as at fair value through profit and loss, are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method, these liabilities being known for this purposes as financial liabilities at amortised cost.

A non-derivative financial liability is classified as at fair value through profit and loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in the income statement as incurred. Financial liabilities at fair value through profit and loss are measured at fair value and changes therein, including any interest expense, are recognised in the income statement. No non-derivative financial liabilities were classified as at fair value through profit and loss in the current or previous financial years.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the Group currently has a legal enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Fair values of cash and cash equivalents and current receivables and liabilities

The fair values of cash and cash equivalents, current receivables and current liabilities approximate their book values due to their short-term nature.

4.11 Derivative financial instruments

The Group holds derivative financial instruments to hedge certain foreign currency and interest risk exposures. Derivative financial instruments are not designated as hedging instruments for hedge accounting purposes and are accordingly classified as held-for-trading and carried at fair value.

Gains and losses from changes in the fair values of the derivative financial instruments are reported in the income statement within finance income and finance expenses. The fair values of the derivative financial instruments are presented in the statement of financial position as other current assets and or other current liabilities, as appropriate.

4.12 Inventories

Raw materials, consumables and supplies are measured at their acquisition cost, less allowances for impairments if required. The acquisition cost of raw materials, consumables and supplies is determined by using the weighted average acquisition cost. Allowances are recognised if the carrying amount exceeds the expected sales price less the estimated cost to complete the inventories and the cost of marketing, sales and distribution activities. Allowances are made in full for inventories with no realisable value.

Manufacturing costs include the cost of direct materials, direct cost of production and allocable material, and manufacturing overheads.

4.13 Cash and cash equivalents

Cash and cash equivalents represent cash in hand, checks, and available balances on bank current accounts with an original maturity of four weeks or less. The use of cash and cash equivalents reported are in general not subject to restrictions with the exception of deposits reported as restricted cash in note 7.6.

4.14 Equity

Share capital

The nominal paid-in contribution amount on each share is recorded in share capital.

Share premium

Incremental costs directly attributable to the issue of share capital are recognised as a deduction from the share premium account, less any related tax effects.

Reverse acquisition

X-FAB Sarawak Sdn. Bhd. (X-FAB Sarawak) was acquired by the X-FAB Silicon Foundries SE under a business combination in 2006 (“2006 reverse acquisition”). The business combination was structured so that for legal purposes X-FAB Silicon Foundries SE, which had no significant business activities prior to that date, acquired X-FAB Semiconductor Foundries AG and its subsidiaries as well as X-FAB Sarawak and, as a result, became the Group’s parent entity. For accounting purposes X-FAB Semiconductor Foundries AG was determined to be the acquirer and the continuing business in commercial terms although it was not the legal acquirer. Accordingly, the equity structure of the Group from 2006 (i.e. the number and type of equity interests issued) reflects the legal share capital of the new parent entity whereas the share capital in the consolidated balance sheet reflects the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the 2006 reverse acquisition to the fair value of the legal parent (accounting acquiree) at that date. The assets and liabilities of the Group at that date reflected those of the continuing business of X-FAB Semiconductor Foundries AG together with the acquisition of X-FAB Sarawak by X-FAB Semiconductor Foundries AG.

Treasury shares

Treasury shares are shares in the Group's parent entity held by the parent or a subsidiary (see note 4.19).

Equity instruments and financial liabilities

Equity instruments and financial liabilities (including share capital, loans, redeemable preference shares, loans and borrowings) are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves. Equity instruments issued are recorded at the proceeds received, net of direct issue costs. A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition, contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classified as financial liabilities. Finance costs and gains or losses relating to financial liabilities are included in the income statement. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability.

4.15 Provisions

Provisions are recognised when present obligations (legal or constructive) exist which result from past events and when an outflow of resources resulting from these obligations is probable. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects current market assessments of the time value of money and of the risk specific to the liability.
A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. A provision for onerous contracts is recognised for each specific contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the contract.

4.16 Leases

Lease arrangements are either classified as finance leases or operating leases. Arrangements under which the Group carries the significant risks and rewards from the use of an asset, and for which the Group can therefore be described as the economic owner, are treated as finance leases. The resulting assets and liabilities are recorded at the fair value of the asset at the date of the inception of the lease, or, if lower, at the present value of the future minimum leasing payments. All other lease arrangements are classified as operating leases with the consequence that the lease payments are expensed as incurred.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

When the Group enters into transactions involving the sale of an asset and the leasing back of the same asset ("sale and leaseback transactions") the accounting treatment depends upon the type of lease involved. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount are not recognised as income immediately. Instead, the excess is deferred and amortised over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sales price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used. For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value is recognised immediately. For finance leases, no such adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount in accordance with IAS 36.

4.17 Subsidies

The Group receives government assistance in the form of government investment grants and investment subsidies. Grants and subsidies are recognised when there is reasonable assurance that the entity will comply with the relevant conditions of the grant, and that grant will be received. They are recognised in profit or loss on a systematic basis as the entity recognises as expenses the costs that the grants are intended to compensate. The investment grants and subsidies received reduce the purchase cost for the relevant subsidised assets recorded under property, plant and equipment.

The receipt of government assistance is governed by terms set out in law and by specific terms and conditions attached to the applicable grants and subsidies.

4.18 Income taxes

The income tax charge includes current and deferred taxation. Deferred taxes are calculated using the statement of financial position liability method. Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and the deferred benefits expected from unused tax losses, unused tax credits, other credits carried forward, whereby amounts are only recognised when their realisation is considered by management to probable. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled, based on tax rates enacted or substantially enacted at the statement of financial position date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the statement of financial position date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are not discounted and are classified as non-current assets in the statement of financial position. Current and deferred tax assets and liabilities are offset only if certain criteria are met. Such criteria mean the entity has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

At each statement of financial position date, the Group reassesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The probability of recognition is based on the expected tax profits included in the Group’s current business planning. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilised. A deferred tax liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

4.19 Change in accounting policy

In previous consolidated financial statements the Group accounted for treasury shares held in its subsidiary X-FAB Semiconductor Foundries AG as deductions from the equity of the parent company. This accounting treatment was applied because at the date the treasury shares were purchased, X-FAB Semiconductor Foundries AG was regarded for accounting purposes to be the acquirer in a business combination completed by the Group in the 2006 reverse acquisition (see note 4.14) although it was not the legal acquirer. Accordingly, the treasury shares were presented as a share of Group equity, although they represent treasury shares of a subsidiary. In order to improve the transparency and clarity of consolidated financial statements the Group has amended its accounting policy in the current reporting period so that only shares in the parent entity are reported as treasury shares and deducted from the equity of the parent company.

The change in policy has no effect on total equity, on the equity attributable to the owners of the parent, on the profit for any of the years reported, on total comprehensive income attributable to the owners of the parent, or on the consolidated statement of cash flows for any of the years reported.

4.20 New accounting pronouncements

The following amendments to standards which are effective for annual periods beginning on or before January 1, 2016, have been applied by the Group for the first time in preparing these consolidated financial statements.

Standard/interpretation	Effective Date
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	January 1, 2016
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
Amendments to IAS 16 and IAS 41: Bearer Plants	January 1, 2016
Amendments to IAS 27: Equity Method in Separate Financial Statements	January 1, 2016
Annual Improvements to IFRSs 2012–2014 cycle	January 1, 2016
Amendments to IAS 1: Disclosure Initiative	January 1, 2016
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exemption	January 1, 2016

None of these amendments to standards and new or amended interpretations had a significant effect on the consolidated financial statements of the X-FAB SE Group.

A number of relevant new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these consolidated financial statements.

Standard/interpretation	Effective Date
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses*	January 1, 2017
Amendments to IAS 7: Disclosure Initiative*	January 1, 2017
IFRS 9 Financial Instruments	January 1, 2018
IFRS 15 Revenue from Contracts with Customers	January 1, 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions*	January 1, 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	January 1, 2018
Amendments to IAS 40: Transfers of Investment Property*	January 1, 2018
Annual Improvements to IFRSs 2014-2016*	January 1, 2018
IFRIC 22: Foreign Currency Transactions and Advance Consideration*	January 1, 2018
IFRS 16 Leases*	January 1, 2019

*Not yet endorsed by the European Union

IFRS 9 Financial Instruments is the replacement of IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes new requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 9 defines new classes of financial instruments and determines more specifically the classification of financial instruments in the new classes. IFRS 9 also includes a new approach for determining impairment of non-derivative financial assets, in particular receivables, based on the expected loss model.

IFRS 15 Revenue from Contracts with Customers specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

None of these new or amended standards and interpretations is expected to have a significant effect on the consolidated financial statements of the X-FAB SE Group, except for IFRS 16 Leases, which becomes mandatory for the Group’s 2019 financial statements. The Group does not plan to adopt these standards early.

The Group has prepared a preliminary qualitative assessment of the impact of IFRS 9 and concluded that the effect on reported net income, or the measurement of assets and liabilities is not expected to be significant. However, no quantitative calculations have been performed to date. With respect to IFRS 15 the Group prepared a detailed analysis of the customer contracts and assessed that the implementation of IFRS 15 will not significantly change the recognition of revenue.

No quantitative or qualitative assessment of the impact of IFRS 16 has been made to date, but the Group expects that the most significant impact will be that the Group will recognise new assets and liabilities for its operating leases. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Reference is made to note 12.1 which include the Group’s minimum lease commitments under operating leases.

5 Business combinations

On October 1, 2016 the Group acquired the semiconductor business of Altis Semiconductor (hereafter referred to as 'the Altis business') for a total consideration of USD 10,234 thousand. The purchase consideration was paid in cash by X-FAB France, a previously inactive wholly-owned subsidiary of the Group established for the purpose of completing the acquisition. In addition, the Group incurred acquisition-related costs of USD 115 thousand on legal fees and the costs of expert opinions. These costs have been included in 'General and administrative expenses'. Since the acquisition date the acquired business has operated under the name X-FAB France.

The acquisition provides the Group with additional analog/mixed-signal semiconductor manufacturing capacity, as the experience of the X-FAB France workforce and the plant, property and equipment at X-FAB France compliments the technologies already used by the Group. The acquisition is also expected to provide the Group with an increased share of the semiconductor market through access to the X-FAB France customer base.

For the three months ended December 31, 2016, X-FAB France contributed revenue of USD 31,574 thousand and a loss of USD 1,403 thousand to the Group's results. If the acquisition had occurred on January 1, 2016, management estimates that consolidated revenue would have increased by USD 88,573 thousand, and consolidated profit for the year would have decreased by USD 6.047 thousand. In determining these amounts, management has assumed that the fair value adjustments, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2016.

Assets acquired and liabilities assumed at the date of acquisition

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

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	-
Goodw ill/Gain on a bargain purchase	-
Total acquisition cost	**10,234**

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

Valuation techniques used for measuring the fair value of the assets were as follows

The valuation techniques used for measuring the fair value of the assets were as follows.

Property, plant and equipment

The property, plant and equipment acquired was valued using market comparison and cost techniques. The valuation model considers quoted market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

The acquired land and the buildings have been valued by an independent publicly certified land valuation expert assigned by the Tribunal de Commerce de Paris resulting in a higher fair value of USD 71.8 million (EUR 68.0 million). For valuation of technical machinery and other equipment the cost approach (replacement cost as indicator) was applied to derive the fair value. Neither sufficient marked data based on transactions for used equipment nor directly attributable income to each single asset was available.

Intangible assets

Intangible assets were valued at the income approach (DCF) using relief-from-royalty and multi-period excess earnings methods. The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets. Trademarks, technology patents and customer relationships had no relevance for the PPA.

Investments

Financial investments were valued at market prices.

Inventories

The fair values of inventories were determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Subsequently, the initial individual valuations of the assets acquired & the liabilities assumed, which led to a higher initial valuation of USD 127.9 million (EUR 121.1 million) if compared with the consideration transferred of USD 10.2 million, were subject to a reassessment as required by IFRS 3. This reassessment included a detailed analysis of the transaction and the determination of the fair value of the Altis business based on Discounted Cash Flow (DCF) calculations.

The sale of the Altis business was organised by the French insolvency administrators in the form of a tendering procedure. On 30 September 2016 the commercial court of Paris (France) pronounced a decision, based on an economic comparison of the offer bids (documented in the court decision), to sell the Altis business to X-FAB France.

DCF calculations have been made for different scenarios starting from several business cases which have been based on information provided in the data room. The projections were based on the highest and best use of the assets taken into account any applicable legal restrictions (X-FAB is a guarantor and is responsible for the proper conduct of the asset purchase agreement, X-FAB is required to employ at least 800 employees over the following five years from the date of acquisition and required to invest EUR 100 million in the following 10 years). Both, the comparison of the two other offer bids that were in the same range as X-FAB's bid and the DCF calculations, indicated that the transaction was concluded at a market price which equals fair market value.

With respect to the business cases applied in the DCF calculations a 'worst-case' and a 'best -case' scenario was considered, which reflected amongst other elements certain assumptions relating to the expected length of the continuing business with one existing customer of the business.

The equity values as per the business cases ended up with a value of approx. USD 102 million (best case) & approx. USD –128 million (worst case) and were subsequently weighted 60/40 based on the most realistic expectations which led to an expected value which is very close to the consideration paid of USD 10.2 million, further supporting our conclusion that the transaction was performed at fair value of USD 10.2 million.

The valuation of the identified assets, the subsequent reassessment according to IFRS 3 and the consideration of IAS 36 (an immediate impairment of the acquired assets would not be appropriate) resulted in a proportionate step-down on land and buildings, on technical and other equipment. The IFRS valuation of net assets resulted eventually in a valuation of net assets which equals the purchase consideration and the fair value of the acquired Altis business.

6 Notes to the consolidated statement of profit and loss

6.1 Revenue

Revenue comprises the following:

in thousands of U.S. dollars	2016	2015	2014
Gross revenue PCM wafer	470,465	288,623	288,500
Gross revenue NRE and technology services	42,364	42,535	41,687
Other revenue	12	18	449
Discounts	56	(57)	(160)
Total	**512,897**	**331,119**	**330,476**

Revenue increased driven by growth in each of the Group's end-user market segments and in particular due to an increase in demand from customers in Asia and in Europe supported by the acquisition of the Altis business, with effect from 1 October 2016, which contributed USD 31,574 thousand to X-FAB's revenue in 2016.

6.2 Rental income from investment properties

Rental income from investment properties comprises the following:

in thousands of U.S. dollars	2016	2015	2014
Income from technical services provided	6,604	6,072	8,083
Income from investment property rentals	3,582	3,236	3,540
Total	**10,186**	**9,308**	**11,623**

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

6.3 Rental expenses related to investment properties

Expenses related to investment properties comprise the following:

in thousands of U.S. dollars	2016	2015	2014
Expenses for technical services provided	(4,202)	(4,190)	(5,333)
Expenses in connection w ith investment property rentals	(4,088)	(3,887)	(4,031)
Total	**(8,290)**	**(8,077)**	**(9,364)**

6.4 Other income

Other income comprises the following:

in thousands of U.S. dollars	2016	2015	2014
Income from sale & leaseback transactions	5,144	4,206	-
Gains on disposals of property, plant and equipment	608	2,022	86
Income revaluation receivables	29	21	1,017
Income from recharges	1,634	820	1,244
Other	1,059	2,430	1,184
Total	**8,474**	**9,499**	**3,531**

In 2015 and 2016, the Group entered into sale & leaseback transactions which resulted in an increase of other income in 2015 and 2016. Reference is made to note 7.10.

6.5 Other expenses

Other expenses comprise the following:

in thousands of U.S. dollars	2016	2015	2014
Expenses from sale & leaseback transactions	(5,130)	(4,250)	-
Losses on disposal of property, plant and equipment	(376)	(219)	(61)
Expenses revaluation receivables	(55)	(129)	(722)
Expenses from resales	(1,780)	(908)	(1,363)
Other	(637)	(1,090)	(726)
Total	**(7,978)**	**(6,596)**	**(2,872)**

In 2015 and 2016, the Group entered into sale & leaseback transactions which resulted in an increase of other expenses in 2015 and 2016 further information is provided in note 7.10.

6.6 Research and development expenses

Research and development expenses comprise the following:

in thousands of U.S. dollars	2016	2015	2014
Material expenses	(9,726)	(8,638)	(6,278)
Depreciation and amortisation	(2,036)	(1,993)	(2,078)
Employee-related expenses	(18,602)	(14,770)	(15,706)
Facility costs	(714)	(585)	(732)
Costs of fixed assets (maintenance, spare parts etc.)	(3,546)	(2,501)	(2,684)
External services	(1,032)	(332)	(345)
Grants	7,219	6,365	6,225
Other	1,590	1,128	898
Total	**(26,847)**	**(21,326)**	**(20,700)**

In connection with the increased sales volume in 2016 the research and development expenses increased accordingly in 2016. This increase was principally due to an increase in expenditure on R&D staffing and higher payments for software tools.

6.7 Cost of sales

The cost of sales comprise the following:

in thousands of USD	2016	2015	2014
Material expenses	(159,076)	(64,632)	(64,139)
Depreciation and amortisation	(41,033)	(38,079)	(37,241)
Employee-related expenses	(113,909)	(91,667)	(98,682)
Facility costs	(43,201)	(37,035)	(41,539)
Costs of fixed assets (maintenance, spare parts etc.)	(48,199)	(34,090)	(32,809)
Other	(2,413)	(7,774)	(4,548)
Total	**(407,831)**	**(273,277)**	**(278,958)**

In connection with the increased sales volume in 2016 the cost of sales increased accordingly in 2016. Cost of sales in 2016 from X-FAB France amounting to USD 26,986 thousand for the period of October 1, 2016 until December 31, 2016. The increase in cost of sales was principally due to higher levels of material expenses, employee-related expenses and fixed asset costs as a result of an increase in the number of wafers sold in 2016 as compared to 2015. The depreciation of the Euro and Malaysian Ringgit against the U.S. dollar from 2014 to 2015 resulted in decreases in the Group's reported cost of sales, primarily due to decreases in reported employee-related and facility expenses.

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

in thousands of U.S. dollars	2016	2015	2014
Included in cost of sales	(41,033)	(38,079)	(37,612)
Included in research and development expenses	(2,036)	(1,993)	(2,078)
Included in selling expenses	(60)	(67)	(62)
Included in general and administrative expenses	(2,571)	(2,370)	(2,173)
Included in expenses related to investment properties and other expenses	(1,601)	(1,550)	(1,464)
Total	**(47,301)**	**(44,059)**	**(43,389)**

6.8 Employee-related expenses

In the income statement employee-related expenses are allocated according to function. In total, employee-related expenses were as follows:

in thousands of U.S. dollars	2016	2015	2014
Wages and salaries	(127,602)	(99,339)	(108,249)
Social security costs	(11,996)	(11,603)	(11,543)
Contributions to defined contribution plans	(8,456)	(7,656)	(8,517)
Other	(5,090)	(4,507)	(4,222)
Total	**(153,144)**	**(123,105)**	**(132,531)**

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

6.9 Selling expenses

The selling expenses comprise the following:

in thousands of USD	2016	2015	2014
Depreciation and amortisation	(60)	(67)	(62)
Employee-related expenses	(6,344)	(5,384)	(5,407)
Facility costs	(135)	(104)	(124)
Costs of fixed assets (maintenance, spare parts etc.)	(45)	(89)	(43)
External services	(215)	(90)	(112)
Advertising costs and costs of sellings goods	(812)	(759)	(867)
Other	242	274	302
Total	**(7,369)**	**(6,219)**	**(6,313)**

6.10 General and administrative expenses

The general and administrative expenses comprise the following:

in thousands of USD	2016	2015	2014
Depreciation and amortisation	(2,571)	(2,370)	(2,173)
Employee-related expenses	(14,289)	(11,284)	(12,736)
Facility costs	(887)	(720)	(899)
Costs of fixed assets (maintenance, spare parts etc.)	(1,062)	(1,070)	(969)
External services	(2,734)	(1,680)	(1,769)
Insurance, dues and fees	(1,302)	(919)	(974)
Other	58	(117)	787
Total	**(22,787)**	**(18,160)**	**(18,733)**

6.11 Finance income

Finance income comprises the following:

in thousands of U.S. dollars	2016	2015	2014
Change in fair value of financial assets at fair value through profit or loss:			
Held for trading	9	-	-
Net gain from sale of financial assets	-	-	9,428
Interest income on loans and receivables	331	442	262
Income from exchange rate differences	10,688	13,662	5,710
Net gain from derivative financial instruments	91	-	-
Total	**11,119**	**14,104**	**15,400**

6.12 Finance costs

Finance costs comprise the following:

in thousands of U.S. dollars	2016	2015	2014
Change in fair value of financial assets at fair value through profit or loss:			
Held for trading	-	-	(754)
Interest expenses from loans and borrow ings	(4,983)	(4,221)	(4,724)
Impairment of available-for-sale financial assets	(289)	(596)	(458)
Expenses from exchange rate differences	(8,011)	(14,779)	(3,767)
Net loss on derivative financial instruments	(5,840)	280	-
Total	**(19,123)**	**(19,316)**	**(9,703)**

The line item net gain/ net loss on derivative financial instruments includes the unrealised net gain/loss on changes in fair values of interest rate swaps and foreign exchange derivatives. Further, realised gains and losses on derivative financial instruments relating to interest and foreign exchange are presented in interest income/expenses and income/expenses from exchange rate differences, respectively.

6.13 Income taxes

Income taxes comprise German corporation and trade taxes (plus solidarity surcharge) and Malaysian tax charges on interest received. United States federal income taxes and Belgian corporation tax charges were not incurred during the reporting period as sufficient tax losses were available at these components.

The income (expense) for income taxes in the years 2016, 2015 and 2014 comprised the following:

in thousands of U.S. dollars	2016	2015	2014
Current taxes			
Actual income tax charge for the period	(2,273)	(1,052)	(2,111)
Adjustment of prior years' tax charges	501	45	(38)
	(1,772)	**(1,007)**	**(2,149)**
Deferred taxes	5,272	3,322	1,234
Income statement	**3,500**	**2,315**	**(915)**

The Belgian effective tax rate applicable for the Group's result was 33.99% in the years 2016, 2015 and 2014. The deferred tax assets and liabilities of the foreign subsidiaries are valued based on local tax rates. The Group's various German operations incur federal income taxes and local trade taxes which result in overall effective tax rates of between 31.58% 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 2016, 2015 and 2014:

in thousands of U.S. dollars	2016	2015	2014
Result before taxes	**42,452**	**11,059**	**14,387**
Theoretical tax at combined effective Belgian tax rate (33.99%)	(14,429)	(3,759)	(4,890)
Recognition of previously unrecognised losses	25,472	17,534	7,527
Current year losses for which no deferred tax asset is recognised	(8,371)	(9,613)	(4,728)
Adjustment of prior period tax liabilities recorded in the current period	(501)	(45)	38
Effect of tax-free income	460	822	2,117
Currency effects	(112)	(1,187)	(347)
Effect of permanent differences	16	(205)	(626)
Effect of non-deductible expenditures	(4,324)	(3,650)	(1,294)
Effect of different tax rates applying to foreign operations	5,289	2,418	1,288
(Income)/expense for income taxes recognised in the consolidated	**3,500**	**2,315**	**(915)**

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

in thousands of U.S. dollars	2016	2015	2014
Deferred tax assets - unrecognised amounts			
On unused tax losses	147,510	136,274	152,038
On temporary differences			
Property, plant and equipment/capital allowances	356,785	400,455	519,338
Other temporary differences	5,058	470	4,367
Total unrecognised deferred tax assets	**509,353**	**537,199**	**675,743**
Deferred tax assets - recognised amounts			
On unused tax losses	12,039	12,829	14,045
On temporary differences			
Property, plant and equipment/capital allowances	14,186	6,773	3,915
Other temporary differences	(6,321)	(4,970)	(6,650)
Total recognised deferred tax assets	**19,904**	**14,631**	**11,309**

Unrecognised temporary differences on property, plant and equipment of USD 356,785 thousand (December 31, 2015: USD 400,455 thousand, December 31, 2014: USD 519,338 thousand) includes deferred tax on USD 1,483,300 thousand (December 31, 2015: USD 1,669,401 thousand, December 31, 2014: USD 2,134,045 thousand) of investment allowances, capital allowances and other timing differences in Malaysia which can be used to offset future taxable income in the Group's Malaysia subsidiary.

X-FAB SE Group recognises deferred tax assets resulting from temporary differences and from unused tax losses which exceed the deferred tax liabilities only to the extent that, on the basis of the Group's business planning, the realisation of these assets is assessed as probable. This assessment involves a review by management of profits and losses expected in the business plan and limiting recognition of the future tax benefits to take account of potential variances against the business plan. Accordingly, recognised and unrecognised deferred tax assets are subject to estimation uncertainty and there is a significant risk that the carrying amounts will require adjustment in subsequent periods. The estimates are, in particular, subject to the estimation uncertainties inherent in business planning which affect the likely utilisation of unused tax losses and subject to potential changes in exchange rates which affect the size of timing differences.

In particular, tax legislation in the jurisdictions in which the Group operates provide for the full or partial cancellation of unused tax losses on the occurrence of significant changes in the direct or indirect equity ownership of the taxable entity. Accordingly, there is a risk that recognised and unrecognised deferred tax assets may not be realised should such transactions occur in the future.

X-FAB SE's subsidiaries have unused corporation tax losses as follows:

in thousands of U.S. dollars	2016	2015	2014
German corporation tax loss carry forward	127,169	119,263	113,688
German trade tax loss carry forward	138,312	129,999	121,555
US federal tax loss carry forward	98,619	101,828	111,066
Malaysian tax loss carry forward	335,274	350,307	430,156
French tax loss carry forward	2,000	-	-

The Group's German and Malaysian tax losses can be carried forward indefinitely. Federal income tax losses of X-FAB Texas in the United States will expire, if not utilised, in 2019 and in subsequent years.

Significant deferred tax balances arise in respect of tax losses carried forward and on timing differences on property, plant and equipment. A summary of the movements is presented in the table below. Deferred tax balances on other balance sheet positions are presented on a combined basis for this purpose:

in thousands of U.S. dollars	Tax losses carried forward	Property, plant and equipment	Other temporary differences	Total
Balance at January 1, 2014	**5,576**	**4,601**	**(102)**	**10,075**
Recognised in profit and loss	8,469	(687)	(6,547)	1,235
Balance at December 31, 2014	**14,045**	**3,914**	**(6,649)**	**11,310**
Balance at January 1, 2015	**14,045**	**3,914**	**(6,649)**	**11,310**
Recognised in profit and loss	(1,216)	2,009	2,529	3,322
Balance at December 31, 2015	**12,829**	**5,923**	**(4,120)**	**14,632**
Set-off of tax	-	850	(850)	-
Net balance at December 31, 2015	**12,829**	**6,773**	**(4,970)**	**14,632**
Balance at January 1, 2016	**12,829**	**5,923**	**(4,120)**	**14,632**
Recognised in profit and loss	(790)	5,360	702	5,272
Acquired in business combinations	-	415	(415)	-
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**

Changes in recognised deferred tax assets resulted in a deferred tax income of USD 5,272 thousand (2015: income of USD 3,322 thousand; 2014: income of USD 1,234 thousand). The increase in deferred tax assets recognised on property, plant and equipment is due to recognition of previously unrecognised deferred tax assets in Malaysia and other timing differences for the period because it is probable based on achieved and projected operating results that sufficient taxable income will be available against which the Malaysian subsidiary can use the benefits therefrom. The increase was compensated by a decrease of deferred tax assets recognised by X-FAB AG resulting from both, the utilisation of tax losses in 2016 and a decrease of recognised deferred tax assets on tax losses carried forward because of decreasing projected taxable income.

6.14 Earnings per share

The calculation of basic earnings per share has been based on the profit attributable to equity shareholders of the parent Company and the weighted-average number of non-par registered shares outstanding.

The weighted-average number of non-par registered shares outstanding totalled 33,127,307 for the year ended December 31, 2016 (2015: 33,127,307; 2014: 33,127,307).

No instruments with a potential diluting effect on shareholder's equity have been have been in issue during the years ended December 31, 2016, December 31, 2015 or December 31, 2014. Accordingly there is no potential dilution of the profit attributable to equity shareholders and no difference between basic and diluted earnings per share.

7 Notes to the statement of financial position

7.1 Property, plant, equipment and investment properties

in thousands of U.S. dollars	Land and buildings	Technical machinery and equipment	Factory and office equipment	Assets under construction	Total
Net book value January 1, 2016	**51,568**	**148,266**	**4,165**	**27,560**	**231,559**
Accumulated historical cost January 1, 2016	**107,412**	**763,704**	**18,228**	**28,250**	**917,594**
Additions	604	15,527	1,868	51,065	69,064
Disposals	(13)	(5,796)	(446)	-	(6,255)
Reclassifications	927	44,254	1,133	(46,596)	(282)
Currency translation effect	1,335	(322)	83	(4)	1,092
Changes in consolidation	5,398	3,008	81	-	8,487
Accumulated historical cost December 31, 2016	**115,663**	**820,375**	**20,947**	**32,715**	**989,700**
Accumulated depreciation January 1, 2016	**(55,844)**	**(615,438)**	**(14,063)**	**(690)**	**(686,035)**
Additions	(2,681)	(39,200)	(1,857)	-	(43,738)
Disposals	12	5,295	445	-	5,752
Reclassifications	129	-	-	-	129
Currency translation effect	(305)	14	(45)	-	(336)
Accumulated depreciation December 31, 2016	**(58,689)**	**(649,329)**	**(15,520)**	**(690)**	**(724,228)**
Net book value December 31, 2016	**56,974**	**171,046**	**5,427**	**32,025**	**265,472**
Net book value January 1, 2015	**53,745**	**115,529**	**3,658**	**37,730**	**210,662**
Accumulated historical cost January 1, 2015	**108,829**	**702,116**	**16,507**	**37,730**	**865,182**
Additions	510	14,412	1,545	45,734	62,201
Disposals	(11)	(6,537)	(508)	(7)	(7,063)
Reclassifications	(619)	53,711	768	(55,207)	(1,347)
Currency translation effect	(1,297)	2	(84)	-	(1,379)
Accumulated historical cost December 31, 2015	**107,412**	**763,704**	**18,228**	**28,250**	**917,594**
Accumulated depreciation	**(55,084)**	**(586,587)**	**(12,849)**	-	**(654,520)**
Additions	(2,409)	(35,119)	(1,740)	(690)	(39,958)
Disposals	11	6,259	498	-	6,768
Reclassifications	1,506	9	(32)	-	1,483
Currency translation effect	132	-	60	-	192
Accumulated depreciation December 31, 2015	**(55,844)**	**(615,438)**	**(14,063)**	**(690)**	**(686,035)**
Net book value December 31, 2015	**51,568**	**148,266**	**4,165**	**27,560**	**231,559**
Net book value January 1, 2014	**57,603**	**132,552**	**3,180**	**8,117**	**201,452**
Accumulated historical cost January 1, 2014	**109,645**	**706,072**	**12,838**	**8,117**	**836,672**
	58	8,574	1,264	42,732	52,628
Disposals	-	2,282	1,306	(32)	3,556
Reclassifications	814	(14,881)	1,336	(13,075)	(25,806)
Currency translation effect	(1,688)	69	(237)	(12)	(1,868)
Accumulated historical cost December 31, 2014	**108,829**	**702,116**	**16,507**	**37,730**	**865,182**
Accumulated depreciation January 1, 2014	**(52,042)**	**(573,520)**	**(9,658)**	**-**	**(635,220)**
Additions	(2,666)	(35,161)	(1,905)	-	(39,732)
Disposals	-	(2,314)	(1,315)	-	(3,629)
Reclassifications	(559)	24,459	(86)	-	23,814
Currency translation effect	183	(51)	115	-	247
Accumulated depreciation December 31, 2014	**(55,084)**	**(586,587)**	**(12,849)**	**-**	**(654,520)**
Net book value December 31, 2014	**53,745**	**115,529**	**3,658**	**37,730**	**210,662**

Property, plant and equipment

The book value of assets held under finance leases at December 31, 2016 comprises assets with a purchase cost of USD 9,520 thousand (December 31, 2015: USD 4,392 thousand, December 31, 2014: none) less accumulated depreciation of USD 803 thousand (December 31, 2015: USD 144 thousand, December 31, 2014: none). Depreciation recorded in the income statement of USD 659 thousand (2015: USD 144 thousand; 2014: none) relates to leased assets. Reference is made to note 7.10.

At December 31, 2016 property, plant and equipment with a book value of USD 124.6 million (December 31, 2015: USD 118.6 million; December 31, 2014: USD 45.2 million) had been provided as collateral security to third party lenders.

The group received capital grants in the amount of USD 2,532 million (2015: USD 7,372 thousand; 2014: USD 4,396 thousand).

Impairment charges in the amount of USD 690 thousand were recorded against the carrying values of assets under construction in 2015. No impairment charges were recorded against assets under construction in 2016 or 2014. The impairment charges in 2015 were incurred as the assets were written down in full as the associated commercial project was discontinued. The resulting expense is included within cost of sales in the consolidated income statement.

Investment properties

Investment properties consist of properties let to third parties by X-FAB AG, X-FAB Dresden and X-FAB Texas. The lease arrangements, of which the majority expires until 2022, can be cancelled within notice periods between one month and six months.

Investment properties are accounted for at purchase cost less straight-line depreciation. The book and fair values of these properties at the reporting date were as follows:

in thousands of U.S. dollars	2016	2015	2014
Net book value, January 1	**9,572**	**10,876**	**10,766**
Additions, less depreciation	(582)	(1,164)	(763)
Disposals	-	-	-
Reclassifications	153	(141)	873
Net book value, December 31	**9,143**	**9,572**	**10,876**
Accumulated cost	31,436	31,154	31,325
Accumulated depreciation	(22,293)	(21,582)	(20,449)
Fair value	**21,353**	**13,998**	**13,584**

Reclassifications from investment property to the land and buildings category result from changes in the use of the space (for example when a property previously used by the Group is let to third parties or the Group uses a property previously let to third parties).

The measurements used to determine the fair values of the investment properties have been categorised as a Level 3 fair value based on the inputs to the valuation techniques used. The valuations were performed by a third party expert for the US based investment properties and by X-FAB SE Group for the German based investment properties on the basis of discounted future cash flows, whereas future rents have been discounted at a rate of 1.5% (December 31, 2015: 1.5%; December 31, 2014: 2.0%). The valuation model takes into account the rent per square meter, expected rental growth rates, other costs and the maturity of the contracts.

No impairment charges were recorded against investment properties in 2016 (2015: USD 250 thousand 2014: none). The impairment charges are included within expenses related to investment properties in the consolidated income statement.

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

in thousands of U.S. dollars	2016	2015	2014
2015			3,112
2016-2020			6,837
Thereafter			1,418
2016		2,975	
2017-2021		6,012	
Thereafter		967	
2017	4,000		
2018-2022	4,441		
Thereafter	903		
Total	**9,344**	**9,954**	**11,367**

Impairment testing for cash-generating units due to impairment triggers identified

For impairment testing purposes each foundry of the group is defined as a cash-generating unit. If an impairment trigger is identified, in particular as a result of significant deviations of actual from budgeted revenues and results, management performs an impairment testing for the foundries impacted by such an impairment trigger. No impairment triggers were identified in the years 2016, 2015 or 2014 and accordingly management did not perform an impairment test.

7.2 Intangible assets

Intangible assets developed as follows:

in thousands of U.S. dollars	Licenses	Payments on account	Total
Net book value January 1, 2016	**6,032**	**1,635**	**7,667**
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 amortisation January 1, 2016	**(71,785)**	**-**	**(71,785)**
Additions	(2,979)	-	(2,979)
Disposals	26	-	26
Accumulated amortisation December 31, 2016	**(74,738)**	**-**	**(74,738)**
Net book value December 31, 2016	**4,150**	**3,724**	**7,874**
Net book value January 1, 2015	**7,270**	**1,246**	**8,516**
Accumulated historical cost at January 1, 2015	**76,127**	**1,246**	**77,373**
Additions	379	1,710	2,089
Reclassifications	1,321	(1,321)	-
Accumulated historical cost December 31, 2015	**77,817**	**1,635**	**79,452**
Accumulated amortisation January 1, 2015	**(68,858)**	**-**	**(68,858)**
Additions	(2,937)	-	(2,937)
Reclassifications	-	-	-
Accumulated amortisation December 31, 2015	**(71,785)**	**-**	**(71,785)**
Net book value December 31, 2015	**6,032**	**1,635**	**7,667**
Net book value January 1, 2014	**8,495**	**443**	**8,938**
Accumulated historical cost at January 1, 2014	**50,160**	**443**	**50,603**
Additions	568	2,139	2,707
Reclassifications	25,394	(1,341)	24,053
Effect of translation	5	5	10
Accumulated historical cost December 31, 2014	**76,127**	**1,246**	**77,373**
Accumulated amortisation January 1, 2014	**(41,666)**	**-**	**(41,666)**
Additions	(2,894)	-	(2,894)
Reclassifications	(24,294)	-	(24,294)
Effect of translation	(4)	-	(4)
Accumulated amortisation December 31, 2014	**(68,858)**	**-**	**(68,858)**
Net book value December 31, 2014	**7,270**	**1,246**	**8,516**

Licenses primarily represent a technology license with a book value of USD 0 thousand at December 31, 2016 (2015: USD 863 thousand; 2014: USD 1,726 thousand) and purchased software. Payments on account refer to advance and milestone payments made for the acquisition of software licenses and the customisation of such software in a project not yet fully completed.

No impairment charges were required in the years 2016, 2015 or in 2014.

7.3 Inventories

Inventories comprise the following:

in thousands of U.S. dollars	2016	2015	2014
Materials and supplies	55,208	42,457	37,233
Work in progress	31,918	18,586	17,866
Finished goods	5,225	4,229	5,280
Allowances	(3,379)	(3,415)	(3,906)
Total	**88,972**	**61,857**	**56,473**

Changes in work in progress and finished goods totalling USD 6,031 thousand were included in cost of sales in 2016 (2015: USD 209 thousand; 2014:USD 4,223 thousand). Allowances are recorded against inventories and recognised as an expense in the period of USD 831 thousand (2015: USD 398 thousand; 2014: USD 637 thousand). Allowances of inventories are recognised in cost of sales.

7.4 Trade and other receivables

Trade receivables and other receivables comprise the following:

in thousands of U.S. dollars	2016	2015	2014
Trade accounts receivable	59,170	31,881	29,613
Amounts due from related party entities	19,377	14,339	16,968
Allowances	(1,255)	(1,256)	(6,277)
Total	**77,292**	**44,964**	**40,304**

Trade receivables are generally on thirty- to ninety-day terms and are non-interest bearing. They are classified as loans and receivables, and, under consideration of allowances made, are carried at amounts approximating their fair values.

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

in thousands of U.S. dollars	2016	2015	2014
Neither past due nor impaired	36,892	17,421	11,653
Past due 1 - 30 days	16,470	9,383	4,374
Past due 31 - 60 days	1,704	1,210	1,706
Past due 61 - 360 days	1,887	2,295	5,603
Past due > 360 days	962	317	-
Total	**57,915**	**30,626**	**23,336**

Receivables due from related parties are not more than thirty days past due. In 2016, amounts that are due more than 61 days include trade receivables mainly due from one debtor of X-FAB Sarawak for which X-FAB has determined that the ultimate collection of amounts outstanding of USD 1,501 thousand is deemed probable based on an agreed payment plan and accordingly, have not been provided for.

Impairment allowances of USD 1,255 thousand at December 31, 2016 (December 31, 2015: USD 1,256 thousand; 2014: USD 6,227 thousand) have been recorded against financial assets classified as loans and receivables. These allowances wholly relate to trade receivables. The movement of allowances on receivables during the year was as follows:

in thousands of U.S. dollars	2016	2015	2014
Balance of January 1	**(1,256)**	**(6,277)**	**(6,690)**
Impairment loss recognised	-	-	(587)
Use of allowance	1	5,021	-
Reversal of allowance	-	-	1,000
Balance of December 31	**(1,255)**	**(1,256)**	**(6,277)**

Allowances in 2014 included an allowance of USD 5 million made in full from one specific receivable account in an earlier period. This amount was written off (derecognised) in 2015.

Note 9 (segment reporting) includes a table illustrating the credit risk concentration of trade accounts receivable by geographical region.

7.5 Other assets

Other assets comprise the following:

in thousands of U.S. dollars	2016	2015	2014
Taxes (other)	5,687	3,111	4,428
Prepaid expenses	4,375	1,931	2,416
R&D grants receivable	272	311	5,433
Investment grants and subsidies receivable	466	669	459
Deposits	767	778	371
Receivables from energy surcharges	1,991	2,070	836
Other	780	2,164	1,974
Total	**14,338**	**11,034**	**15,917**

7.6 Cash and cash equivalents

Cash and cash equivalents comprise the following:

in thousands of U.S. dollars	2016	2015	2014
Cash and bank balances	101,727	64,283	25,758
Restricted cash	2,430	1,815	694
Total	**104,157**	**66,098**	**26,452**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one and four weeks, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair values of cash and short-term deposits are identical to the carrying amounts.

Restricted cash balances represent security deposits provided as collateral security. The deposits are expected to be released within twelve months or in connection with contractual arrangements which may be cancelled at short notice.

7.7 Equity

Share capital

The share capital of the parent entity is divided into 33,177,223 (December 31, 2015 and December 31, 2014: 33,177,223) non-par registered shares of X-FAB Silicon Foundries SE each of which carry one vote at the Company's general meetings. All shares are fully paid-in. The share capital in the consolidated balance sheet of USD 265,231 thousand (December 31, 2015 and December 31, 2014: USD 265,231 thousand) reflects the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the 2006 reverse acquisition to the fair value of the legal parent (accounting acquiree) at that date (see note 4.14).

Share premium

The share premium includes the excess of capital paid in over nominal amounts on the issue of share capital of X-FAB Silicon Foundries SE and of its predecessor company prior to the 2006 reverse acquisition (see note 4.14) as well as consolidation differences arising on certain transactions recorded in previous years between the amounts paid (or received) for businesses acquired (or sold) where the transactions were conducted with parties under common control with the X-FAB Group.

Cumulative translation adjustment

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations that have functional currencies other than USD.

Treasury shares

At December 31, 2016 the Group held 49,916 (December 31, 2015 and December 31, 2014: 49,916) treasury shares of X-FAB Silicon Foundries SE held by its fully owned subsidiary X-FAB AG. Based on the purchase price of EUR 11.25 per share, the treasury shares reduced the equity capital of the parent company by USD 770 thousand (December 31, 2015 and December 31, 2014: USD 770 thousand).

In previous consolidated financial statements the Group had accounted for an additional 628,286 treasury shares of its subsidiary X-FAB Semiconductor Foundries AG as deductions from the equity of the parent company. This presentation method was chosen as X-FAB Semiconductor Foundries AG had been determined as the accounting acquirer in the business combination which occurred in 2006 (see note 4.14) and the treasury shares in and held by X-FAB AG were considered as treasury shares in the Group's consolidated financial statements.

In order to improve the transparency and clarity of the consolidated financial statements the Group has changed its accounting policy in the current reporting period to follow the prevailing opinion that treasury shares can be only those of the legal parent entity. Accordingly, in these financial statements the 628,286 treasury shares in and held by X-FAB Semiconductor Foundries AG are no longer presented as treasury shares and as such are no longer shown as deductions from the equity of the parent company in the Group's consolidated financial statements (see note 4.19).

Share-based payment arrangements

The Group had no share-based payment arrangements and no share option programmes during the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

7.8 Non-controlling interests

The non-controlling interests for the period and the accumulated non-controlling interests represent the 5.1% (December 31, 2015 and December 31, 2014: 5.1%) non-controlling shareholders interests in the subsidiary GVG and, prior to their acquisition by the Group in 2015, the remaining shares in MFI. GVG is a company engaged in managing certain of the Group's properties in Dresden, Germany.

GVG net income for the financial year 2016 amounted to USD 1,051 thousand (2015: USD 531 thousand; 2014: USD 184 thousand). GVG had total assets amounting to USD 11,657 thousand at December 31, 2016 (December 31, 2015: USD 10,607 thousand; December 31, 2014: USD 11,944 thousand), liabilities of USD 8,615 thousand (December 31, 2015: USD 8,791 thousand; December 31, 2014: USD 10,546 thousand) and equity of USD 3,042 thousand (December 31, 2015: USD 1,816 thousand; December 31, 2014: USD 1,398 thousand). The currency translation effect of the retranslation of non-controlling interests in GVG is not material to the movements on other comprehensive income or the statement of movements on equity.

The acquisition of non-controlling interests in MFI on July 16, 2015 for consideration of USD 540 thousand resulted in reductions of non-controlling interests in the amount of USD 50 thousand and reductions in retained earnings of USD 490 thousand in 2015. These are reported in the consolidated statement of changes in group equity. MFI net income amounted to USD 1,028 thousand for the financial year 2015 (2014: USD -803 thousand). At December 31, 2015 total assets amounted to USD 8,006 thousand (2014: USD 6,833 thousand), total liabilities amounted to USD 9,011 thousand (2014: USD 6,810 thousand) and equity amounted to USD -1,005 thousand (2014: USD 23 thousand).

7.9 Dividends

No dividends were resolved or paid in the years 2016, 2015 or 2014.

Under Belgian Company Law, the shareholders decide on the distribution of profits at the annual shareholders' meeting, based on the latest audited statutory accounts of the Company. Dividends may be paid either in cash or in kind. However, shareholders may not declare a dividend if the Company has not first reserved at least 5% 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 unamortised balance of the incorporation costs and capitalised research and development costs of the Company falls below the amount of the Company's paid-in-capital and of its non-distributable reserves. The Board of Directors may pay an interim dividend, provided certain conditions set forth in Belgian Company Law are met.

7.10 Current and non-current loans and borrowings

The Group has total facilities (excluding the loan from Sarawak State financial Secretary) amounting to USD 142,744 thousand at December 31, 2016 (December 31, 2015: USD 106,281 thousand; December 31, 2014: USD 55,246 thousand) and accordingly, unused credit lines available from bank loans at fixed and variable interest rates denominated in EUR and USD amounting to USD 18,658 thousand at December 31, 2016 (December 31, 2015: USD 20,430 thousand; December 31, 2014: USD 19,921 thousand). The facilities include variable interest rate credit lines denominated in EUR carrying interest rates of between 2.9% and 3.0% (2015: 3.2% and 3.79%; 2014: 3.0% and 3.9%) 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 5% (2015: 3.2% and 5.0%; 2014: 3.25% and 4.95%).

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	2016	2015	2014
Bank loans and overdrafts			
Fixed interest bank loans denominated in EUR Maturity: 2016 - 2021 Interest rates: 1.4% – 2.7% Repayments in monthly or quarterly installments	89,570	66,640	27,093
Variable interest bank loans denominated in EUR Maturity: 2015 - 2021 Interest rates: EURIBOR + 1.69% - EURIBOR + 2% Repayments in quarterly installments	34,082	18,083	-
Variable interest bank overdrafts in EUR Maturity: 2015 Interest rates: EONIA + 3.0% - EONIA + 3.9%	-	-	4,305
Fixed interest bank loans denominated in USD Maturity: 2017 Interest rates: 5.0% Repayments in monthly or quarterly installments	434	1,128	2,924
Loan State Financial Secretary of Sarawak denominated in USD Maturity: 2030 2.0% preference dividend Repayment at maturity date	31,112	28,980	26,892
Long term trade liability third party denominated in USD Maturity: 2016 Interest free Repayments in yearly installments Short term amount in 2015 included in trade accounts payable (626 USD thousand)	-	-	1,003
Leasing arrangements			
Finance leasing liabilities denominated in EUR Maturity: 2017 - 2021 Interest rates: 0.6-9.6% Repayment in monthly installments	8,642	4,429	129
Due to XTRION group	-	-	27
Total	**163,840**	**119,260**	**62,373**
Current loans and borrowings	31,432	16,752	11,292
Non-current loans and borrowings	132,408	102,508	51,081

The fair value of loans and borrowings is USD 163,035 thousand at the reporting date (2015: USD 118,979 thousand, 2014: USD 62,539 thousand). Bank fees of USD 70 thousand which were incurred in connection with the new loans entered into in 2015 were recorded in general and administration expenses in that year as the amounts were not material (2016 and 2014: None).

In 2016 and 2015, the Group entered into new long-term bank loan agreements amounting to USD 60,981 thousand and USD 69,224 thousand. Reference is made to the consolidated statement of cash flows.

Taking into account the effect of interest rate swaps, about 79% of the Group's borrowings are at a fixed rate of interest (December 31, 2015: 85%; December 31, 2014: 93%). The fair value disclosures for loans and borrowings exclude the effects of the separately at fair value accounted interest rate swaps. Reference is made to note 10.

Bank loans and overdrafts of USD 118,449, thousand (2015: USD 85,851 thousand; 2014: USD 34,322 thousand) are secured by charges on the Company's plant and machinery (see note 7.1), a mortgage on land and future rented income from the Group's investment property in Texas.

The USD 50,000 debt represents X-FAB Sarawak redeemable preference shares held by Sarawak Technologies Holding Sdn. Bhd. due for repayment in 2030. The redeemable preference shares confer the holder the right to receive a cumulative preference dividend of 2% to the extent that X-FAB Sarawak has sufficient net profits after taxation available for distribution for the relevant financial year including retained profits and distributable reserves brought forward. The cumulative preference dividend shall be paid before and in priority to any payment of dividends on ordinary shares to other shareholders of X-FAB Sarawak. The charge to interest expense amounted to USD 1,000 thousand in 2016, 2015 and 2014 and has not been paid yet.

The USD 50,000 thousand has been discounted at an interest rate of 4.12%. At initial recognition, the applied discount rate took into account a weighted average risk free rate of Unites States treasury bills with a corresponding maturity and an additional spread to appropriately reflect the risk premium that market participants would require based on an average credit spread for triple B rated debt instruments with a corresponding maturity. . The charge to interest expense on this debt from the unwinding of the liability amounted to USD 1,133 thousand in 2016 (2015: USD 1,087 thousand; 2014: USD 1,043 thousand).

In 2016 and 2015 the Group entered into sale and leaseback transactions under which machinery were sold at book value and leased back. These transactions did not result in a gain in 2016 and 2015. The gross presentation in the disclosures was applied to disclose the proceeds and carrying amounts which were subject to these sale- and leaseback transactions. The assets were not derecognised. The arrangements run until 2021 and carry interest rates between 0.6 and 9.6%. The contractual arrangements include purchase options at a price that is sufficiently lower than the fair value and the lease term is for the major part of the economic life. Accordingly these arrangements are classified as finance leases. The fair values at inception of the leases in 2016 amounted to USD 5,130 thousand (2015: USD 4,074 thousand and 2014: USD 0 thousand).

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

in thousands of U.S. dollars	2016		2015		2014	
	Minimum leasing payment	Present value	Minimum leasing payment	Present value	Minimum leasing payment	Present value
2017	2,152	1,985				
2018-2021	6,864	6,657				
2016			1,060	951		
2017-2020			3,614	3,478		
2015					68	68
2016-2019					61	61
Total	**9,016**	**8,642**	**4,674**	**4,429**	**129**	**129**
Interest	(374)	(374)	(245)	(245)	-	-
Liability	**8,642**	**8,268**	**4,429**	**4,184**	**129**	**129**

Contractual maturities

The contractual maturities of the Group's non-derivative financial liabilities (including finance lease liabilities) at December 31, 2016, 2015 and 2014 are shown in the table below. The amounts presented in the table are gross and undiscounted:

in thousands of U.S. dollars	2016	2015	2014
2015			11,292
2016		19,826	5,662
2017	31,700	19,602	4,903
2018	33,391	20,558	5,936
2019	34,773	21,983	7,838
2020	21,581	8,312	-
2021	11,282	-	-
2030	50,000	50,000	50,000
Total	**182,727**	**140,281**	**85,631**

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

7.11 Other non-current liabilities

Other non-current liabilities mainly comprise of defined pension obligations and deferred rental income.

Other non-current liabilities include an amount of USD 7,124 thousand at December 31, 2016 representing the net defined benefit obligations under a long service retirement lump-sum payment scheme at the Group's subsidiary X-FAB France, which was acquired on October 1, 2016 (see note 5). Additionally USD 240 thousand of defined benefit obligations relating to this plan were recorded as other current liabilities relating to this scheme. The net defined benefit obligation consists of defined benefit obligations under the scheme of USD 10,489 thousand (October 1, 2016: USD 11,147 thousand) less plan assets of USD 3,125 thousand (October 1, 2016: USD 3,324 thousand). Under this scheme, X-FAB France awards its employees a lump-sum payment on reaching retirement age of 65 (for management employees) and 62 (for other employees). The payment is dependent on the final salary of the employee and the length of time the employee has been employed by X-FAB France. Employees are not required to contribute to the plan. The liability recognized for the future defined benefit obligation under this scheme is presented net of the funding plan assets which are "ring fenced" to meet obligations under the scheme. - The fair value of the plan assets at December 31, 2016 amounts to USD 3,125 thousand and relate to investments in a fund that is managed by a financial institution of which the underlying assets relate to long term bonds with capital guarantees (USD 1,612 thousand) and an equity savings plans (USD 1,513 thousand).

Experience adjustments were not significant in the period from the acquisition of X-FAB France on October 1, 2016 until December 31, 2016.

The Group expects to pay USD 239 thousand to the funding plan in 2017.

The defined benefit obligation has been calculated based on the following actuarial assumptions:

Discount rate	1.36%
Employee turnover	6.00%
Social security costs	47.00%

The discount rate has been determined by reference to marked yields on high quality corporate bonds.
Future salary growth is assumed to be 0.5% lower than inflation. Assumptions regarding future mortality have been based on published statistics and mortality tables.

Reasonably possible changes at the reporting date to one of the actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

in thousands of U.S. dollars	Increase at December 31, 2016	Decrease at December 31, 2016
Discount rate (+0,25% movement)	-	201
Future salary grow th (+0,25% movement)	210	-

7.12 Trade payables and other current liabilities

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

Other current liabilities comprise the following:

in thousands of U.S. dollars	2016	2015	2014
Accrued liabilities	12,847	8,835	7,911
For invoices not yet received	*10,988*	*8,290*	*7,098*
Repayment of electricity cost discounts	*413*	*425*	*242*
Other	*1,446*	*120*	*571*
Advances received	7,497	8,870	9,108
Derivatives	6,707	958	1,238
Deferred income	1,155	5,704	821
Employee-related liabilities	16,114	9,090	7,852
Wages	*1,678*	*1,303*	*1,060*
Earned holiday entitlement, incentives	*9,853*	*6,384*	*5,071*
Payroll taxes	*1,528*	*926*	*1,376*
Social security costs	*3,055*	*477*	*345*
Other taxes	1	-	-
Other	309	261	341
Total	**44,630**	**33,718**	**27,271**

Increases in other liabilities in 2016 are mainly determined by the new subsidiary X-FAB France.

7.13 Provisions

Provisions comprise the following:

in thousands of U.S. dollars	2016	2015	2014
Current provisions	1,622	1,093	751
Non-current provisions	73	73	74
Total	**1,695**	**1,166**	**825**

Current provisions primarily relate to warranty provisions. Warranty provisions are estimated based on the Group's experience of past claim rates and knowledge of current claims together with an assessment of rectification costs. Non-current provisions refer to anniversary bonus for employees accounted for in accordance with IAS 19, which include estimates of future staff turnover, based on the Group's experience of staff turnover rates in recent years.

The movement on provisions during the year was as follows:

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**
Utilised	(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**

in thousands of U.S. dollars	Warranty provisions	Employee provisions	Other	**Total**
January 1, 2015	**741**	**84**	**-**	**825**
Provided for	1,166	10	113	**1,289**
Utilised	(1,209)	5	-	**(1,204)**
Reclassification	270	39	(3)	**306**
Effect of changes in exchange rates	(40)	(10)	-	**(50)**
December 31, 2015	**928**	**128**	**110**	**1,166**

in thousands of U.S. dollars	Warranty provisions	Employee provisions	Other	**Total**
January 1, 2014	**1,179**	**(7)**	**690**	**1,862**
Provided for	172	74	-	**246**
Utilised	(412)	(86)	(327)	**(825)**
Released	(165)	-	-	**(165)**
Reclassification	-	103	(422)	**(319)**
Effect of changes in exchange rates	(33)	-	59	**26**
December 31, 2014	**741**	**84**	**-**	**825**

8 Notes to the statement of cash flows

The position “other non-cash transactions (net)” in 2016, 2015 and 2014 disclosed in the cash flow statement primarily includes exchange rate gains and losses.

The Group entered into sale and lease back transactions for property, plant and equipment with a net book value of USD 5,144 thousand in 2016 (2015: USD 4,206 thousand; 2014: none).

9 Segment reporting

Operating 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:

in thousands of U.S. dollars	2016	2015	2014
Europe	**279,097**	**225,675**	**226,758**
Germany	47,954	36,318	41,891
France	2,869	3,377	2,897
United Kingdom	27,617	25,684	27,692
Belgium	172,420	139,064	139,212
Austria	5,599	3,106	4,626
Sweden	13,542	6,331	974
Switzerland	3,783	4,679	4,960
Denmark	1,251	1,421	1,667
Other	4,062	5,695	2,839
Asia	**183,762**	**84,373**	**80,276**
Malaysia	10,777	8,273	12,802
Japan	10,032	8,523	14,539
China	122,609	29,858	13,342
Korea	9,627	8,322	8,353
Hong Kong	1,692	1,098	1,565
Thailand	8,030	10,207	9,540
Singapore	14,616	11,817	12,299
Taiwan	4,003	2,199	4,985
Other	2,376	4,076	2,851
United States of America	**49,152**	**20,254**	**22,694**
Rest of the World	**886**	**817**	**748**
Total	**512,897**	**331,119**	**330,476**

in thousands of U.S. dollars	2016	2015	2014
Germany	151,614	159,045	152,168
Malaysia	118,134	83,051	67,861
United States of Amercia	23,365	21,421	21,473
France	9,505	-	-
Total	**302,618**	**263,517**	**241,502**

This significant growth refers to growth in our three core end-markets within the group of top five customers, the ramp up of a new fingerprint product for a Chinese customer and the acquisition of the Altis assets (reference is made to note 5).

Significant customers

The Group has two (2015: one; 2014: one) customer(s) whose revenues exceeded 10% of the Group's consolidated external revenues. The total revenue with these customers amounted to USD 279,578 thousand in 2016 (2015: USD 139,302 thousand; 2014: USD 138,717 thousand).

10 Financial instruments – fair values and risk management

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

December 31, 2016

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 amortised cost)	(49,032)				
Bank loans, overdrafts and finance lease (financial liabilities at amortised cost)	(132,728)	-	(132,312)	-	(132,312)
Related party loans (financial liabilities at amortised cost)	(31,112)	-	(30,723)	-	(30,723)

December 31, 2015

in thousands of U.S. dollars	Carrying amount	Fair value			
	Total	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value					
Trade and other receivables (loans and receivables)	44,964				
Cash and cash equivalents	66,098				
Financial liabilities measured at fair value					
Interest rate swaps (held for trading)	(958)	-	(958)	-	(958)
Financial liabilities not measured at fair value					
Trade payables (financial liabilities at amortised cost)	(12,256)				
Bank loans, overdrafts and finance lease (financial liabilities at amortised cost)	(90,280)	-	(90,280)	-	(90,280)
Related party loans (financial liabilities at amortised cost)	(28,980)	-	(28,699)	-	(28,699)

December 31, 2014

in thousands of U.S. dollars	Carrying amount		Fair value		
	Total	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value					
Trade and other receivables (loans and receivables)	40,304				
Cash and cash equivalents	26,452				
Financial liabilities measured at fair value					
Interest rate swaps (held for trading)	(1,238)	-	(1,238)	-	(1,238)
Financial liabilities not measured at fair value					
Trade payables (financial liabilities at amortised cost)	(21,716)				
Bank loans, overdrafts and finance lease (financial liabilities at amortised cost)	(34,451)	-	(34,451)	-	(34,451)
Related party loans (financial liabilities at amortised cost)	(27,922)	-	(28,088)	-	(28,088)

Financial instruments not measured at fair value

The carrying amount of cash and cash equivalents, bank overdrafts, trade and other receivables and trade payables approximates their fair value due to the short-term maturity of these financial instruments.

The fair value of the Group's non-current liabilities is based on their present values calculated by discounting future cash flows at current rates of interest available for debt with the same maturity profile.

The Group's principal financial instruments not carried at fair value are cash and cash equivalents, trade receivables, other current assets, other non-current assets, trade and other payables, bank overdrafts and long-term borrowings.

Financial instruments measured at fair value

Financial assets and liabilities accounted for at fair value through profit and loss

The Group's financial instruments measured at fair value consist of forward foreign exchange contracts and interest rate swaps. The fair value of these instruments is determined by calculating the present value of the contractually agreed payments at the statement of financial position date by reference to current interest rates and exchange rates. For all of these instruments, the fair values are confirmed to the Group by the financial institutions through which the Group has entered into these contracts.

The fair values of derivatives are calculated using discounting techniques applied to expected cash flows arising on the respective instruments (level 2 fair value measurements). The changes in the estimated fair value of derivatives are recognised in profit and loss. There have been no transfers of assets or liabilities between levels of the fair value hierarchy in the current or previous year.

The fair values of derivatives comprise the following:

in thousands of U.S. dollars	2016	2015	2014
Outstanding interest hedge contracts	(714)	(958)	(1,238)
Outstanding currency hedge contracts	(5,993)	-	-
Total	**(6,707)**	**(958)**	**(1,238)**

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

in thousands of U.S. dollars	2016	2015	2014
Outstanding interest hedge contracts, maturing after more than one year	8,511	9,896	12,739
Outstanding currency hedge contracts, maturing after more than one year	101,427	-	-

Currency hedge 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 holds an investment in Semprius, a privately owned semiconductor company classified as available-for-sale financial assets with a historical acquisition cost of USD 2,861 thousand at December 31, 2016 (2015: USD 2,572 thousand; 2014: USD 1,976 thousand). This investment was impaired and written down in full in 2013. Additional capital contributions of USD 289 thousand were made to Semprius and immediately impaired in 2016 (2015: USD 596 thousand; 2014: USD 457 thousand). The Group is exposed to no further risk from this investment, and no reversals of impairment charges made have been made. However, under the terms of the investment agreement made between the investors in Semprius, the Group's shareholding interest in this investment will be diluted should it decline to participate in further bridging finance arrangements. As at the reporting date the investors in Semprius are planning to liquidate the investment.

Management of risks arising from financial instruments

The X-FAB SE Group's principal financial liabilities, other than its derivatives, comprise bank loans and bank overdrafts, and trade payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

Financial assets in form of free short-term cash available are placed on deposit with banks with a high credit rating. Deliveries made by the Group are subject to the reservation of proprietary rights until the customer has paid for the goods. Generally, further security is not obtained.

From time to time the Group also enters into derivative transactions. The purpose is to manage the foreign exchange risks and interest rate arising from the Group's sources of finance where the risks of financial loss or the liquidity risk appears excessive. While these transactions are classified as "held for trading" for accounting purposes because the Group does not formally account for them using hedge accounting techniques, they are exclusively entered into to reduce the risk of contractually agreed or highly probable transactions.

The main risks arising from Group's financial instruments are market risks (interest rate and foreign currency risks), credit risk, and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks. The primary objectives in managing these risks is to minimise the risk of financial loss and the risk of any interference with the Group's ability to pursue its commercial objectives. The policies followed in respect of each risk are summarised below.

Interest rate risk

The X-FAB SE Group exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At December 31, 2016, after taking into account the effect of interest rate swaps, about 79% of the Group's borrowings are at a fixed rate of interest (December 31, 2015: 85%; December 31, 2014: 93%). 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:

	2016	2015	2014
USD/EUR			
Closing rate	0.947	0.915	0.822
Average rate	0.903	0.901	0.752
USD/MYR			
Closing rate	4.486	4.292	3.497
Average rate	4.144	3.899	3.272

The Group also has currency exposures arising from sales or purchases made when operating units undertake transactions in currencies other than their functional currencies.

Approximately 12.6% (2015: 20.8%; 26.8%) 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 because of only immaterial tax effects.

USD/EUR	Increase/decrease in EUR rate	Effect on profit before tax
2016	5%	-6,447
	-5%	6,447
2015	5%	-3,766
	-5%	3,766
2014	5%	-2,046
	-5%	2,046

USD/MYR	Increase/decrease in MYR rate	Effect on profit before tax
2016	20%	7,536
	-20%	-7,536
2015	5%	691
	-5%	-691
2014	5%	329
	-5%	-329

The Group has engaged in exchange rate hedging transactions in respect of the Malaysian Ringgit, although these hedges only cover a small portion of the Group's business. The effects have not been considered in the table above.

The Group believes that a reasonably possible change of other exchange rates, with all other variables held constant, will not have a significant effect on the Group's profit before tax and on the Group's equity.

Credit risk

The Group's primary risk credit concentrations affecting financial assets are in respect of trade receivables (described in note 7.4), balances with related parties (note 11), and balances and short-term deposits at banks (note 7.6). The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables balances are monitored on an ongoing basis to ensure that the Group is not exposed significant risk of credit loss. The maximum exposure is the carrying amount as disclosed in notes 7.4 and 7.5. With respect to credit risk arising from financial assets, including cash and cash equivalents, the Group's maximum exposure to credit risk arising from default of the counterparty is equal to their carrying amounts in the statement of financial position.

Liquidity risk

The Group monitors its risk to a shortage of funds and of difficulties in meeting obligations associated with financial liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, bank overdrafts and other financial instruments. Based on the positive cash flow projections and the excess of current assets over current liabilities there is no significant liquidity risk at December 31, 2016. The expected cash flows from trade and other receivables maturing within two month were USD 77,292 thousand. Trade accounts payables are due within the next twelve months. An analysis of the maturity of financial liabilities and available credit lines are presented in note 7.10.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may choose to take measures such as adjusting the dividend payments made to shareholders, returning capital to shareholders or raising new capital by issuing new shares. No change was made in the objectives, policies or processes during the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

The X-FAB SE Group's bank loan agreements no longer include externally imposed capital requirements requiring the maintenance of specific equity and free cash flow ratios at December 31, 2016. The X-FAB SE Group complied with equity and free cash flow ratios set out in bank loan agreements until the conditions to meet those requirements were dispensed with during 2016.

11 Transactions with related parties

Transactions with shareholders and their subsidiaries

X-FAB SE Group undertakes transactions with entities in the XTRION group, a group of companies controlled by XTRION NV, the majority shareholder of X-FAB SE as part of its normal business activities. These include the purchase of certain work in process and services, as well as the sale of products and provision of services to these companies. XTRION NV is also the parent company of Melexis NV, which develops, designs and sells integrated circuits to clients such as the automotive industry. The main wafer suppliers for Melexis group are X-FAB SE's subsidiaries. Melexis group also provides final test services as well as design support to X-FAB SE subsidiaries.

The tables below show the balances with shareholders and their subsidiaries included in the statement of financial position.

in thousands of U.S. dollars	2016	2015	2014
Trade accounts receivable due from Melexis group companies	16,208	11,500	8,478
Trade accounts receivable due from XTRION	-	22	1
Trade accounts receivable due from Anvo-Systems	1,324	1,536	1,107
Trade accounts receivable due from M-MOS group companies	1,837	1,118	2,357
Trade accounts receivable due from MicroGen	10	110	-
Trade accounts receivable due from X-Celeprint	(2)	53	-
Other receivables due from Xtrion	-	-	5,025
Total	**19,377**	**14,339**	**16,968**

in thousands of U.S. dollars	2016	2015	2014
Financial liabilities due to Saraw ak Technologies Holding Sdn. Bhd	31,112	28,980	26,892
Trade accounts payable due to Melexis group companies	235	242	627
Trade accounts payable due to XTRION	11	13	385
Trade accounts payable due to M-MOS	15	11	-
Advances received from Melexis	-	1,033	1,945
Other	19	18	87
Total	**31,392**	**30,297**	**29,936**

Further information is provided on the financial liability payable to Sarawak Technologies Holding Sdn. Bhd., a Malaysian government agency, in note 7.10.

Sales made to companies of the XTRION group primarily include the supply of pcm-tested wafers and NRE on the basis of wafer supply agreements made between the parties.

Other income results from the provision of technical facilities supplies, utilities, property rentals, and services provided. Services provided include information technology, personnel and legal support services. For services provided, charges are made in relation to the costs incurred based on an agreed formula which considers the use of facilities, employee time spent, and specific transaction details. Further, interest income and expenses arose in connection with loan arrangements.

Other receivables from Xtrion in 2014 have been repaid in 2015 as shown in the proceeds from loan investments related parties in the consolidated statement of cash flows. Payments for loan investments to related parties of

USD 5,694 thousand and proceeds from loan investments related parties of USD 5,740 in 2016 relate to short-term financing advances paid to related parties that were repaid within a month.

Sales and other income comprises the following:

in thousands of U.S. dollars	2016	2015	2014
Sales to Melexis group companies	172,793	139,302	138,717
Sales to M-MOS group companies	8,472	7,082	9,578
Sales to Anvo-Systems	675	585	357
Sales to MicroGen	132	197	127
Other income w ith Melexis group companies	2,027	974	3,059
Other income w ith XTRION	36	91	-
Interest income w ith Elex	26	-	-
Total	**184,161**	**148,231**	**151,838**

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

in thousands of U.S. dollars	2016	2015	2014
Services provided by Melexis group companies	586	999	690
Services/purchases provided by M-MOS group companies	75	109	237
Services provided by X-Celeprint	71	-	-
Services purchased from Sensinnovat	392	368	457
Interest expenses Melexis	117	254	457
Warranty cost Melexis group	820	1,088	133
Interest from loan from Saraw ak Technologies Holding Sdn. Bhd	2,133	2,087	2,043
Total	**4,194**	**4,905**	**4,017**

Services purchased from member companies of the XTRION group primarily included wafer test and final test services. Outstanding balances from sales and purchases of goods and from receiving and rendering of services at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. The X-FAB SE Group has not recorded any impairment of receivables relating to amounts owed by related parties in the years 2016, 2015 and 2014.

Remuneration of persons with key management positions

in thousands of U.S. dollars	2016	2015	2014
Short term employee benefits	1,246	1,231	1,934
Total	**1,246**	**1,231**	**1,934**

Within the new group structure in 2016 (X-FAB France) the persons with key management positions as referred above as of December 31, 2016 include COO, CTO, CFO, CEO of X-FAB Sarawak, CEO of X-FAB Texas and CEO of X-FAB France. Neither post-employment benefits nor termination benefits are granted.

The Group has made contributions to defined contribution pension plans for the benefit of persons with key management positions totalling USD 105 thousand (2015: USD 44 thousand; 2014: USD 53 thousand). Defined contribution plans comprise (mainly) statutory contributions to be made by employers to state based defined contributions plans. In connection with these plans there are no minimum guarantees by the employer. The defined contribution is based on a fixed percentage of the (capped) gross salary determined by state laws.

Members of management (the CEO and the VP Strategic Projects in 2015 and 2014) that are not on the payroll of the company have charged USD 393 thousand (2015: USD 561 thousand; 2014: USD 687 thousand) for their management services in the period. These amounts are not included in the table for remuneration of persons with key management positions above.

12 Other disclosures

12.1 Commitments and contingencies

Purchase commitments

Purchase commitments comprise the following at December 31:

in thousands of U.S. dollars	2016	2015	2014
Purchase commitments for			
Property, plant and equipment	20,089	36,400	37,100
Intangible assets	350	300	-
Total	**20,439**	**36,700**	**37,100**

Purchase commitments mainly refer to purchase orders placed for investments into technical machinery. With respect to the acquisition of the semiconductor business of Altis Semiconductor (see note 5) the Group committed to invest USD 106 million (EUR 100 million) in the Corbeil-Essonnes site over the next 10 years.

Operating leases

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

in thousands of U.S. dollars	2016	2015	2014
2015			5,001
2016 - 2020			14,820
Thereafter			383
2016		3,683	
2017-2021		10,035	
Thereafter		258	
2017	3,728		
2018-2022	5,825		
Thereafter	246		
Total	**9,799**	**13,976**	**20,204**

Expenses under operating leases totalled USD 4,533 thousand (2015: USD 4,470 thousand; 2014: USD 5,095 thousand). Assets held under operating lease agreements include one production hall and leased vehicles and office equipment.

Investment grants and subsidies

X-FAB AG, XMF and X-FAB Dresden are required to retain the assets on which grants have been received for five years and for three years for assets subsidised, and to retain employee levels at specific locations. If it is not possible to fulfil these conditions, the grants and subsidies may be partially repayable.

X-FAB Sarawak was granted a R&D incentive grant in an aggregate amount of a maximum of USD 72.0 million to finance R&D activities in the State of Sarawak. To date, X-FAB Sarawak has received $19.2 million under this agreement with USD 14.4 million received in early 2015 and accounted for in the years 2014-2016 corresponding to the R&D expenses incurred. X-FAB Sarawak must comply with the terms of the agreement in particular undertake the R&D activities as planned. This grant will be distributed in annual instalments of up to $4.8 million each year.

12.2 Unresolved legal disputes and claims

X-FAB SE Group is not involved in court or tribunal proceedings which could have a significant financial impact on the Group, and management is not aware of the threat of any such proceedings.

12.3 Employees

The average number of employees employed by the Group during the year was as follows:

	2016	2015	2014
Production	2,446	2,064	1,891
Research and development	243	212	192
Sales, marketing and administration	199	180	167
Trainees	58	64	69
Total	**2,946**	**2,520**	**2,319**

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

	2016	2015	2014
Production	3,182	2,130	1,950
Research and development	280	224	199
Sales, marketing and administration	252	182	168
Trainees	66	65	71
Total	**3,780**	**2,601**	**2,388**

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 Verw altungs-GmbH	Dresden, Germany	No activity	100.00%
X-FAB Texas Inc.	Texas, USA	Wafer manufacturing	100.00%
X-FAB Saraw ak Sdn. Bhd.	Kuching, Malaysia	Wafer manufacturing	100.00%
X-FAB France SAS	Corbeil-Essonnes, France	Wafer manufacturing	100.00%
X-FAB Japan KK	Yokohama, Japan	Trading company	100.00%
X-FAB MEMS Foundry GmbH	Erfurt, Germany	Wafer manufacturing	100.00%
OOO Microdesign	Voronesh, Russia	R&D, Design	100.00%
X-FAB MEMS Foundry Itzehoe GmbH	Itzehoe, Germany	Wafer manufacturing	100.00%
X-FAB Dresden Grundstücks-Vermietungsgesellschaft mbH & Co. KG	Dresden, Germany	Real estate	94.90%
Semprius Inc.	Durham, NC, USA	Photovoltaic module	5.30%

12.5 Consolidated financial statements of the parent

XTRION NV, the Company’s parent, produces consolidated financial statements that are available for public use. These can be obtained on request from Xtrion NV, Transportstraat 1, 3980 Tessenderlo, Belgium.

12.6 Auditor and auditor’s remuneration

During the General Shareholders’ Meeting on May 28, 2014, KPMG Bedrijfsrevisoren – Réviseurs d’Enterprises BV CVBA Belgium, represented by Mr. Herwig Carmans, was appointed as auditor for the years 2014, 2015 and 2016.

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

in thousands of U.S. dollars	2016	2015	2014
KPMG	527	212	255
Whitley Penn	176	86	83
Total	**703**	**298**	**338**

13 Corporate governance

X-FAB SE's controlling shareholder is XTRION NV, a Belgian company which is controlled by Roland Duchâtelet and Rudi De Winter. Both are managing directors of XTRION NV. Roland Duchâtelet is also chairman of the Supervisory Board of X-FAB AG, a member of the board of X-FAB SE and a director of Melexis Technologies NV. Rudi De Winter is CEO as well as director of X-FAB SE and a director of Melexis Technologies NV. The X-FAB SE subsidiaries are the main suppliers of wafers to Melexis NV.

X-FAB SE's Board of Directors manages the Company in accordance with the principles laid down in the Articles of Association and makes decisions on general policy, including assessment and approval of strategic plans and budgets, supervision of reports and internal audits and other tasks assigned by law to the Board of Directors. In accordance with the Companies Code, the Board of Directors has appointed Mr. Rudi De Winter as managing director (CEO), to whom it has delegated its managerial powers with the exception of general policy and all actions that are reserved to the Board of Directors by statutory provisions.

The CEO is appointed by the Board of Directors for an indefinite period, unless the Board of Directors decides otherwise.

In accordance with Article 15 of X-FAB SE's Articles of Association, the Board of Directors consists of at least three and at most nine members. They are appointed by the General Meeting of Shareholders for a term of three years. At any time the General Shareholders' Meeting can dismiss a director. There is no age limit for directors, and outgoing directors can be reappointed.

The Board is chaired by Dato Sri Ahmad Tarmizi Bin Sulaiman.

The directors of the Company are:

Name	Position
Dato Sri Ahmad Tarmizi Bin Sulaiman	Chairman of the Board
Rudi De Winter	CEO
Hamid Bin Bugo	Director
Roland Duchâtelet	Director
Matthias Bopp	Director
Hans-Jürgen Straub	Director

No remuneration was paid to the Company's Board of Directors in 2016, 2015 or 2014.

14 Shareholder contact information

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Chief Financial Officer
X-FAB Silicon Foundries SE

Phone: +49 361 427 6115
Fax: +49 361 427 8089

15 Events after the reporting period

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

Tessenderlo, March 17, 2017

The Board of Directors

Rudi De Winter
Director
CEO

Dato Sri Ahmad Tarmizi Bin Sulaiman
Chairman of the Board

Roland Duchâtelet
Director

Hamid Bin Bugo
Director

Hans-Jürgen Straub
Director

Matthias Bopp
Director

General Engagement Terms

[Translator's notes are in square brackets]

General Engagement Terms
for
Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften
[German Public Auditors and Public Audit Firms]
as of January 1, 2002

This is an English translation of the German text, which is the sole authoritative version

1. Scope

(1) These engagement terms are applicable to contracts between Wirtschaftsprüfer [German Public Auditors] or Wirtschaftsprüfungsgesellschaften [German Public Audit Firms] (hereinafter collectively referred to as the "Wirtschaftsprüfer") and their clients for audits, consulting and other engagements to the extent that something else has not been expressly agreed to in writing or is not compulsory due to legal requirements.

(2) If, in an individual case, as an exception contractual relations have also been established between the Wirtschaftsprüfer and persons other than the client, the provisions of No. 9 below also apply to such third parties.

2. Scope and performance of the engagement

(1) Subject of the Wirtschaftsprüfer's engagement is the performance of agreed services - not a particular economic result. The engagement is performed in accordance with the Grundsätze ordnungsmäßiger Berufsausübung [Standards of Proper Professional Conduct]. The Wirtschaftsprüfer is entitled to use qualified persons to conduct the engagement.

(2) The application of foreign law requires - except for financial attestation engagements - an express written agreement.

(3) The engagement does not extend - to the extent it is not directed thereto - to an examination of the issue of whether the requirements of tax law or special regulations, such as, for example, laws on price controls, laws limiting competition and Bewirtschaftungsrecht [laws controlling certain aspects of specific business operations] were observed; the same applies to the determination as to whether subsidies, allowances or other benefits may be claimed. The performance of an engagement encompasses auditing procedures aimed at the detection of the defalcation of books and records and other irregularities only if during the conduct of audits grounds therefor arise or if this has been expressly agreed to in writing.

(4) If the legal position changes subsequent to the issuance of the final professional statement, the Wirtschaftsprüfer is not obliged to inform the client of changes or any consequences resulting therefrom.

3. The client's duty to inform

(1) The client must ensure that the Wirtschaftsprüfer - even without his special request - is provided, on a timely basis, with all supporting documents and records required for and is informed of all events and circumstances which may be significant to the performance of the engagement. This also applies to those supporting documents and records, events and circumstances which first become known during the Wirtschaftsprüfer's work.

(2) Upon the Wirtschaftsprüfer's request, the client must confirm in a written statement drafted by the Wirtschaftsprüfer that the supporting documents and records and the information and explanations provided are complete.

4. Ensuring independence

The client guarantees to refrain from everything which may endanger the independence of the Wirtschaftsprüfer's staff. This particularly applies to offers of employment and offers to undertake engagements on one's own account.

5. Reporting and verbal information

If the Wirtschaftsprüfer is required to present the results of his work in writing, only that written presentation is authoritative. For audit engagements the long-form report should be submitted in writing to the extent that nothing else has been agreed to. Verbal statements and information provided by the Wirtschaftsprüfer's staff beyond the engagement agreed to are never binding.

6. Protection of the Wirtschaftsprüfer's intellectual property

The client guarantees that expert opinions, organizational charts, drafts, sketches, schedules and calculations - expecially quantity and cost computations - prepared by the Wirtschaftsprüfer within the scope of the engagement will be used only for his own purposes.

7. Transmission of the Wirtschaftsprüfer's professional statement

(1) The transmission of a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) to a third party requires the Wirtschaftsprüfer's written consent to the extent that the permission to transmit to a certain third party does not result from the engagement terms.

The Wirtschaftsprüfer is liable (within the limits of No. 9) towards third parties only if the prerequisites of the first sentence are given.

(2) The use of the Wirtschaftsprüfer's professional statements for promotional purposes is not permitted; an infringement entitles the Wirtschaftsprüfer to immediately cancel all engagements not yet conducted for the client.

8. Correction of deficiencies

(1) Where there are deficiencies, the client is entitled to subsequent fulfillment [of the contract]. The client may demand a reduction in fees or the cancellation of the contract only for the failure to subsequently fulfill [the contract]; if the engagement was awarded by a person carrying on a commercial business as part of that commercial business, a government-owned legal person under public law or a special government-owned fund under public law, the client may demand the cancellation of the contract only if the services rendered are of no interest to him due to the failure to subsequently fulfill [the contract]. No. 9 applies to the extent that claims for damages exist beyond this.

(2) The client must assert his claim for the correction of deficiencies in writing without delay. Claims pursuant to the first paragraph not arising from an intentional tort cease to be enforceable one year after the commencement of the statutory time limit for enforcement.

(3) Obvious deficiencies, such as typing and arithmetical errors and formelle Mängel [deficiencies associated with technicalities] contained in a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) may be corrected - and also be applicable versus third parties - by the Wirtschaftsprüfer at any time. Errors which may call into question the conclusions contained in the Wirtschaftsprüfer's professional statements entitle the Wirtschaftsprüfer to withdraw - also versus third parties - such statements. In the cases noted the Wirtschaftsprüfer should first hear the client, if possible.

9. Liability

(1) *The liability limitation of § ["Article"] 323 (2)["paragraph 2"] HGB ["Handelsgesetzbuch": German Commercial Code] applies to statutory audits required by law.*

(2) *Liability for negligence; An individual case of damages*
If neither No. 1 is applicable nor a regulation exists in an individual case, pursuant to § 54a (1) no. 2 WPO ["Wirtschaftsprüferordnung": Law regulating the Profession of Wirtschaftsprüfer] the liability of the Wirtschaftsprüfer for claims of compensatory damages of any kind - except for damages resulting from injury to life, body or health - for an individual case of damages resulting from negligence is limited to € 4 million; this also applies if liability to a person other than the client should be established. An individual case of damages also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty without taking into account whether the damages occurred in one year or in a number of successive years. In this case multiple acts or omissions of acts based on a similar source of error or on a source of error of an equivalent nature are deemed to be a uniform breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the Wirtschaftsprüfer is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(3) *Preclusive deadlines*
A compensatory damages claim may only be lodged within a preclusive deadline of one year of the rightful claimant having become aware of the damage and of the event giving rise to the claim - at the very latest, however, within 5 years subsequent to the event giving rise to the claim. The claim expires if legal action is not taken within a six month deadline subsequent to the written refusal of acceptance of the indemnity and the client was informed of this consequence.

The right to assert the bar of the preclusive deadline remains unaffected. Sentences 1 to 3 also apply to legally required audits with statutory liability limits.

10. Supplementary provisions for audit engagements

(1) A subsequent amendment or abridgernent of the financial statements or management report audited by a Wirtschaftsprüfer and accompanied by an auditor's report requires the written consent of the Wirtschaftsprüfer even if these documents are not published. If the Wirtschaftsprüfer has not issued an auditor's report, a reference to the audit conducted by the Wirtschaftsprüfer in the management report or elsewhere specified for the general public is permitted only with the Wirtschaftsprüfer's written consent and using the wording authorized by him.

(2) If the Wirtschaftsprüfer revokes the auditor's report, it may no longer be used. If the client has already made use of the auditor's report, he must announce its revocation upon the Wirtschaftsprüfer's request.

(3) The client has a right to 5 copies of the long-form report. Additional copies will be charged for separately.

11. Supplementary provisions for assistance with tax matters

(1) When advising on an individual tax issue as well as when furnishing continuous tax advice, the Wirtschaftsprüfer is entitled to assume that the facts provided by the client - especially numerical disclosures - are correct and complete; this also applies to bookkeeping engagements. Nevertheless, he is obliged to inform the client of any errors he has discovered.

(2) The tax consulting engagement does not encompass procedures required to meet deadlines, unless the Wirtschaftsprüfer has explicitly accepted the engagement for this. In this event the client must provide the Wirtschaftsprüfer, on a timely basis, all supporting documents and records - especially tax assessments - material to meeting the deadlines, so that the Wirtschaftsprüfer has an appropriate time period available to work therewith.

(3) In the absence of other written agreements, continuous tax advice encompasses the following work during the contract period:

a) preparation of annual tax returns for income tax, corporation tax and business tax, as well as net worth tax returns on the basis of the annual financial statements and other schedules and evidence required for tax purposes to be submitted by the client

b) examination of tax assessments in relation to the taxes mentioned in (a)

c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)

d) participation in tax audits and evaluation of the results of tax audits with respect to the taxes mentioned in (a)

e) participation in Einspruchs- und Beschwerdeverfahren [appeals and complaint procedures] with respect to the taxes mentioned in (a).

In the afore-mentioned work the Wirtschaftsprüfer takes material published legal decisions and administrative interpretations into account.

(4) If the Wirtschaftsprüfer receives a fixed fee for continuous tax advice, in the absence of other written agreements the work mentioned under paragraph 3 (d) and (e) will be charged separately.

(5) Services with respect to special individual issues for income tax, corporate tax, business tax, valuation procedures for property and net worth taxation, and net worth tax as well as all issues in relation to sales tax, wages tax, other taxes and dues require a special engagement. This also applies to:

a) the treatment of nonrecurring tax matters, e. g. in the field of estate tax, capital transactions tax, real estate acquisition tax

b) participation and representation in proceedings before tax and administrative courts and in criminal proceedings with respect to taxes, and

c) the granting of advice and work with respect to expert opinions in connection with conversions of legal form, mergers, capital increases and reductions, financial reorganizations, admission and retirement of partners or shareholders, sale of a business, liquidations and the like.

(6) To the extent that the annual sales tax return is accepted as additional work, this does not include the review of any special accounting prerequisities nor of the issue as to whether all potential legal sales tax reductions have been claimed. No guarantee is assumed for the completeness of the supporting documents and records to validate the deduction of the input tax credit.

12. Confidentiality towards third parties and data security

(1) Pursuant to the law the Wirtschaftsprüfer is obliged to treat all facts that he comes to know in connection with his work as confidential, irrespective of whether these concern the client himself or his business associations, unless the client releases him from this obligation.

(2) The Wirtschaftsprüfer may only release long-form reports, expert opinions and other written statements on the results of his work to third parties with the consent of his client.

(3) The Wirtschaftsprüfer is entitled - within the purposes stipulated by the client - to process personal data entrusted to him or allow them to be processed by third parties.

13. Default of acceptance and lack of cooperation on the part of the client

If the client defaults in accepting the services offered by the Wirtschaftsprüfer or if the client does not provide the assistance incumbent on him pursuant to No. 3 or otherwise, the Wirtschaftsprüfer is entitled to cancel the contract immediately. The Wirtschaftsprüfer's right to compensation for additional expenses as well as for damages caused by the default or the lack of assistance is not affected, even if the Wirtschaftsprüfer does not exercise his right to cancel.

14. Remuneration

(1) In addition to his claims for fees or remuneration, the Wirtschaftsprüfer is entitled to reimbursement of his outlays: sales tax will be billed separately. He may claim appropriate advances for remuneration and reimbursement of outlays and make the rendering of his services dependent upon the complete satisfaction of his claims. Multiple clients awarding engagements are jointly and severally liable.

(2) Any set off against the Wirtschaftsprüfer's claims for remuneration and reimbursement of outlays is permitted only for undisputed claims or claims determined to be legally valid.

15. Retention and return of supporting documentation and records

(1) The Wirtschaftsprüfer retains, for ten years, the supporting documents and records in connection with the completion of the engagement - that had been provided to him and that he has prepared himself - as well as the correspondence with respect to the engagement.

(2) After the settlement of his claims arising from the engagement, the Wirtschaftsprüfer, upon the request of the client, must return all supporting documents and records obtained from him or for him by reason of his work on the engagement. This does not, however, apply to correspondence exchanged between the Wirtschaftsprüfer and his client and to any documents of which the client already has the original or a copy. The Wirtschaftsprüfer may prepare and retain copies or photocopies of supporting documents and records which he returns to the client.

16. Applicable law

Only German law applies to the engagement, its conduct and any claims arising therefrom.