

Letter to the Shareholders

Dear shareholders,

Last year, our company was for several months in the public eye. The planned takeover by Grand Chip Investment GmbH (GCI) was intended to secure the company's access to the major Chinese market while also ensuring that all of the company's product portfolio could be brought to market maturity. Following the US President's order that prohibited the acquisition of AIXTRON's United States business by the bidder, and the withdrawal of the investor, AIXTRON acted to realign its corporate strategy with the aim of sustainably regaining profitability and generating positive operating earnings for the 2018 fiscal year. Now it is a matter of implementing this strategy.

The great media interest in the transaction tended to overshadow the fact that our company once again made important progress in its operating business in 2016. Following a difficult start to the year, we subsequently met the financial targets communicated at the beginning of the year. The strong performance in the second half, in which we met our target of generating positive earnings, enabled us to further improve the company's full-year results, even if we did not yet return to profitability due to ongoing high research and development costs.

Although the market climate remained difficult, our total revenues of EUR 196.5 million matched the previous year's level. Strong revenues in the optoelectronics, power electronics, and silicon businesses made a key contribution in this respect. At EUR 225.1 million, total order intake reached its highest level since 2011.

AIXTRON pressed successfully ahead with the process of diversifying its technology and product portfolio already initiated in previous years. Optoelectronics (excluding LED) and power electronics systems now account for 48%, and thus almost half of the AIXTRON Group's system revenues. Year-on-year, we also increased the share of revenues attributable to our silicon industry business from 19% to 21%. Revenues with LED systems, including those used to produce red-orange-yellow (ROY) LEDs and UV LEDs, remained stable at 26%. We are particularly pleased that, based on our own calculations, the strength of our optoelectronics business made us the global market leader for MOCVD systems once again in 2016.

Continuous improvement in margins

Given stable operating expenses, the further improvement in key earnings figures was driven in particular by the increase in the gross margin to 29% (2015: 25%; 2014: 20%). This margin growth was due above all to greater efficiency in the company's production and customer service activities, a development also reflected in lower write-downs on inventories.

Although substantial sums continued to be expended on research and development (2016: EUR 54.0 million), operating expenses stabilized at just under 40% of revenues. This reflects the approach adopted in recent years to ensure strict cost awareness.

Against this background, we further reduced the company's losses. On a full-year basis, we achieved further improvements in major key figures such as EBIT (+20%) and EBITDA (+52%). The overall positive EBITDA of EUR 12.1 million generated in the second half of 2016 marks a substantial improvement both on the first half of the year and on the equivalent period in the previous year.

We also made progress with several balance sheet items. We targeted our investments very closely and significantly reduced our surplus stock, particularly in the case of AIX R6. Receivables rose due to the high volume of product deliveries in December 2016. The resultant substantial inflow of funds in the first weeks of this year will thus benefit the free cash flow for 2017. AIXTRON's equity ratio rose to 85% at the end of the fiscal year and the company still does not require any external bank financing.

Realigning AIXTRON

Since December 2016, when it became apparent that the planned takeover by Grand Chip Investment (GCI) would not take place, AIXTRON has been focusing its corporate strategy on ensuring that its technology portfolio is optimally structured and positioned. Consistent with this, AIXTRON is currently investigating various options for reducing the up-front costs needed to develop the company's future-oriented technologies. These options include looking for suitable partners and into joint ventures and other alternatives. All these measures are intended to enable AIXTRON to sustainably return to profitability and to post positive operating earnings for the 2018 fiscal year.

Targeted investments in future-oriented technologies

We are focusing our research and development on future-oriented technologies for applications such as power semiconductors, new logic processors, and organic light-emitting diodes (OLEDs). To this end, in recent years we have more than doubled the share of our total research and development expenses attributable to these technologies from around 30% (2014) to more than 60% (2016). This way, we are creating a basis to position these technologies with innovative products in the semiconductor and display markets in the years ahead. The technology and product development processes we have implemented for this purpose ensure that the resources available are put to efficient and effective use.

Broad technology and product portfolio stabilizes revenue base

On product level, we are witnessing ongoing demand growth for our planetary reactor systems, which are used above all in optoelectronics and power electronics. One main reason for the success of this technology is to be found in the advantages it offers in terms of uniformity and quality requirements, factors that provide our customers with substantial benefits when processing the wafers thereby produced.

Key growth drivers for the **optoelectronics** business were due above all to the ever greater role played by technological megatrends, such as big data, cloud computing, virtual and augmented reality, and the new 5G mobile network technologies. With the systems we offer for applications such as laser, RF chips, infrared LEDs, sensors, and photovoltaics, we enable companies in the communications, IT, and automobile industries to meet the needs created by these megatrends. Having further raised its share of revenues to 34% in 2016, optoelectronics now accounts for more than a third of AIXTRON's revenues. Given our strong market position, this area also harbors further growth potential for the years ahead. Current applications include automobile sensors (for alertness assistants or distance sensors), lasers and high-frequency devices for communications (for 3D sensor technology, broadband, or mobile data communications) and lasers for top-speed data communications (for video streaming, online shopping, or autonomous driving).

Revenues in our **power electronics** business decreased slightly in 2016. We nevertheless expect demand for our award-winning AIX G5 planetary reactor systems to remain robust in the current fiscal year. This is because the transition from R&D to production is gaining momentum at ever more of our customers. Not only that, the number of applications is also rising consistently, especially in the automobile, industrial and consumer goods sectors. We are currently witnessing initial practical applications for wide band gap modules based on gallium nitride (GaN) and silicon carbide (SiC) in fast chargers for mobile devices, renewable energies, and electric vehicles and trains. Moreover, these high-performance and high-frequency-capable devices are also set to play an ever greater role in future in the fields of electro-mobility (charging stations, autonomous driving), in wireless charging applications, and the upcoming 5G mobile network standard.

The market for **LED** systems remains challenging, but also offers opportunities. Given the competitive pressure surrounding lighting applications, customers are making every effort to achieve significant throughput growth by working with new production processes in their chip production. Although individual customers have reacted by investing less in capacity expansion or in more productive substitute requirements, AIXTRON nevertheless benefited by selling its AIX R6 stocks. In the past year, customers qualified Chinese competitors for the first time, in particular in the production of GaN LEDs for lighting applications. Against this background, AIXTRON is now successfully focusing on red-orange-yellow LED production systems and on those for specialist applications, such as micro-LED displays or UV LEDs for use in water disinfection. Here, we will further expand our position by offering innovative LED applications.

In our **silicon semiconductor** business, our memory chip activities benefited in 2016 from increased demand for **flash memories**. These memory modules are used in memory cards, USB sticks, and MP3 players. We have long supplied our systems technology to one of the world's leading manufacturers. In 2016 we also successfully completed the qualification process at a further new customer.

Our MOCVD technology for **III-V-on-silicon applications (TFOS)** enables processor manufacturers to develop high-performance devices. In the past year, we made progress in this area by supplying another TFOS system to a prestigious chip manufacturer. We will enhance our TFOS technology to enable the ever closer integration of day-to-day technology and machines in the Internet of Things (IoT) to be supported in future as well. AIXTRON's success here will crucially depend on the time at which these new materials are introduced into the production of next-generation processors.

In our organic electronics business, we made further progress in marketing our **OLED** technology in the past fiscal year. We took a decisive step forward by supplying a Beta system with Gen1 (200 x 200 mm) configurations to a major display manufacturer to demonstrate our production processes on site. This way, we have moved significantly closer to obtaining the first order initially targeted for 2016. To this end, we will be working closely together with the customer, as the process of adapting our technology to the manufacturer's current production processes will require not only a shared understanding of the technology involved, but also a certain amount of time.

Revenues with our systems for **graphene** and nanomaterials such as **carbon nanotubes** and **carbon nanowires** showed a slight slowdown following the strong performance seen in recent years due to a major project promoted by the EU. However, we will continue to build on the potential harbored by these technologies, which are set to be used in future for applications such as displays, batteries, semiconductors, and many others. Here, we are in close contact with numerous customers.

Internal processes and instruments ensure productivity and transparency

One major focus at AIXTRON in the years behind us involved defining and introducing key processes and instruments in the fields of Research & Development, Supply Chain, Controlling, Personnel Development, and Communications. These have enabled us to achieve fundamental improvements in terms of productivity and transparency.

NASDAQ delisting executed

We decided at the end of last year to withdraw from NASDAQ, the US technology exchange. In 2016, NASDAQ trading accounted for less than 5% of global trading volumes in AIXTRON common stocks, while the remaining trading volumes were handled almost exclusively via the company's listing on the Frankfurt Stock Exchange. Given these relatively low trading volumes on the NASDAQ, we concluded that the disadvantages resulting from the complexity, costs, and effort required to maintain the dual listing, including U.S. Securities and Exchange Commission (SEC) reporting obligations, outweighed the benefits of the listing and the registration in the United States. The delisting of AIXTRON's shares became effective at the beginning of January 2017.

AIXTRON reports on sustainability for the first time

AIXTRON is for the first time publishing a sustainability report based on the guidelines issued by the Global Reporting Initiative. This way, we are documenting our clear commitment to transparency, sustainability, and our corporate responsibility. Our business activities are guided by responsible corporate management based on integrity, and adherence to compliance principles. This is true both of our activities within the company and of our dealings with our business partners.

Thanks to AIXTRON's shareholders, employees, and Supervisory Board

As this is my last Annual Report as the CEO of your company, I would like to take this opportunity to offer my particular thanks to AIXTRON's shareholders and employees as well as to the Supervisory Board.

At first, I would like to thank our employees. Over the past years, we made changes at the company that were by no means always easy, but which were necessary. Despite uncertainties, it was our employees and their commitment that enabled us to successfully implement and press ahead with these changes.

On behalf of Dr. Schulte as well, I would also like to thank the Supervisory Board for its active support and for working with us on a basis of trust in the past years, and in particular during the intense period of transaction-related negotiations in recent months.

I would also like to extend my sincere thanks to the company's shareholders, who have supported and accompanied the ongoing process of change at AIXTRON. Even without the planned takeover, by implementing the strategy agreed with the Supervisory Board we have initiated the right steps to build on partnerships, joint ventures, and other measures and regain profitability in 2018.

I am leaving AIXTRON confident that, with the strategy it has adopted, the innovative products it can offer to numerous key future markets, the processes it has put in place, its strong customer relationships, highly qualified employees and clear results focus, the company is on the road towards sustainable profitability.

Yours,
Martin Goetzeler

The Executive Board



Martin Goetzeler
Chief Executive Officer

Dr. Bernd Schulte
Chief Operating Officer