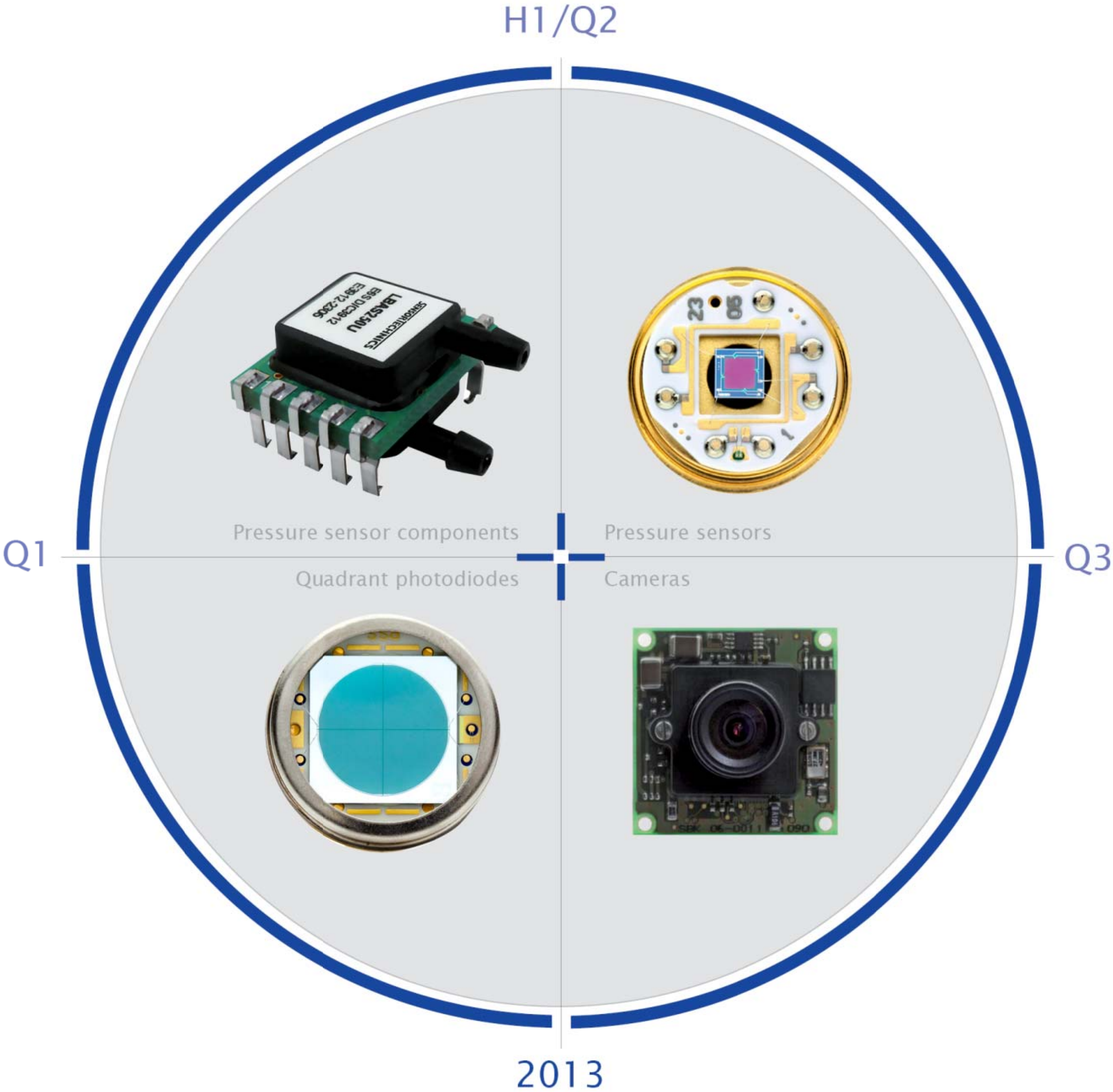
First Sensor



CONSOLIDATED FINANCIAL REPORT AS AT DECEMBER 31, 2013

CONTENT

AT A GLANCE IN FIGURES

in € thousand, unless otherwise indicated	12M 2013	12M 2012	Δ	Q4 2013	Q4 2012	Δ
Sales revenues	108,542	111,936	-3,394	26,483	26,994	-511
EBITDA	11,566	13,383	-1,817	1,480	3,191	-1,711
EBITDA margin (%)	10.6	11.6	-1.0	5.6	11.1	-5.5
Net profit for the period*	4,857	4,842	15	-1,812	-888	-924
Cash flow from operating activities	13,075	9,952	3,123	639	1,630	-991
Cash flow from investment activities	-7,145	-12,836	5,691	-631	-472	-159
Free cash flow	5,930	-2,884	8,814	8	1,158	-1,150
Number of shares in thousand	9,945	9,844	101			
Earnings per share (€)*	0.49	0.49	0			
Incoming orders	121,411	117,830	3,581	23,784	35,663	-11,879
Book-to-bill-ratio	1.11	1.05	0.06	0.90	1.32	-0.42

* For purposes of better comparability adjusted by PPA-amortization and one-off expenses due to extraordinary expenses in the respective financial years.

in € thousand, unless otherwise indicated	Dec. 31, 2013	Dec. 31, 2012	Δ	in %
Orders on hand	73,672	73,422	250	0.3
Shareholders' equity	70,006	69,916	90	0.1
Balance sheet total	146,735	158,607	-11,872	-7.5
Equity ratio (%)	47.7	44.1	3.6	
Net debt	-35,787	-39.002	3,215	-8.2
Number of employees	757	756	1	

AT A GLANCE IN WORDS

- Realignment of First Sensor in four business units
  Medical
  Industrial
  Mobility
  E²MS (Electronic Engineering & Manufacturing Services)
- Debt restructuring by issuing a €31.0 million promissory note loan created a scheduled maturity planning
- Net debt decreased by €3.2 million
- Incoming orders increased by €3.6 million
- First positive results from the projects „Purchasing and Pricing"
- Increase of equity ratio by 3.6%-points leading to 47.7%

FOREWORD (BY THE MANAGEMENT BOARD)

Dear shareholders and business partners, Dear employees,

For First Sensor, 2013 was the year that pointed the way forward into the future. After the change in the composition of the Management Board in June, we set the course that will make the company a market leader in all core areas of business within the next five years.

The strategic framework for this involves stringent alignment to our customers' needs, a clear focus on four highly promising business areas and an organizational structure that is optimized for this task. Stable financing conditions, solid liquidity and steadily improving structures and processes are a good foundation. These are important steps to be taken in order to put the full strength of the Group "on the road".

The Management Board has given First Sensor a clear direction thanks to the new strategy and structure and has set growth targets. We have also created a viable basis for the course ahead. On this basis, we feel extremely optimistic going forward, even though First Sensor total sales of €108.5 million in 2013 were around 3.0% down on the previous year – thus below what we expected.

Establishing the conditions: First Sensor wants to lead the core markets within five years.

In recent years, First Sensor has become a major player in the rapidly growing sensor market. The Group integrates highly specialized development and manufacturing expertise throughout the value chain from the wafer to the sensor system. First Sensor has now achieved a size in terms of sales that makes the company an increasingly interesting prospect for additional customer groups around the world.

Nevertheless, a company of this size and complexity also requires a concomitant further development of its strategic guidelines and adjustments to its management and organizational structures. It was with this ambition that Dr. Martin U. Schefter took over as Chairman of the Management Board in June 2013. In the second half of the last financial year, the Management Board laid the foundations that are instrumental in helping the company achieve the leading market position it is aiming for in all core areas of business.

- Refinancing the existing syndicated loan into a promissory note loan resulted in creating a scheduled maturity planning, putting liquidity at First Sensor on a sound basis. The new financing arrangements give First Sensor greater freedom to conduct its business as it wants.
- The cost-cutting program launched in 2012 was continued successfully and occupies ongoing prominence in the work of management.
- ELBAU Elektronik Bauelemente GmbH Berlin and MEMSfab GmbH were merged with First Sensor AG to simplify the structural complexity of the Group and cut costs.
- In addition, the two US sales companies were merged to form a joint sales unit, thus ensuring a uniform sales approach to customers in the US sensor market.
- Also driven forward were harmonization and optimization of key processes, for example, in purchasing and quality management.
- At the end of 2013, the Management Board gave the go-ahead for a global strategic focus on four attractive business areas. The organizational adjustment in connection with this is expected to take up the first half of financial year 2014. On the basis of the new strategy and organization, we anticipate that we will begin to achieve quantifiable success as early as in 2014.

Strong backbone:
Increasing margins, improving the financial situation and ensuring quality.

Sensor technology is a business that thrives on further developments, changes and innovations. Only companies that have excellent organizational and financial flexibility can lead the market in the long run. In 2013, a key task of the First Sensor Management Board was therefore to optimize the company's earnings strength and financing situation with a view to successively improving its financial independence and liquidity. Future investment in technology, innovation and expertise is only possible on a correspondingly sound basis and with sufficient capital. These are essential conditions for becoming one of the top 10 global players in the sensor market.

To reduce its dependence on third parties and increase margins over the long term, in the last financial year First Sensor pursued a strategy of substituting higher-margin in-house products for trading business with third-party products. A corollary of this decision is posting a decline in trading business over the transitional period. The aim was to persuade old customers to make a product change, acquire new customers and, above all, use our development expertise to bring new product innovations to market maturity.

As a result, the regional distribution of sales initially showed a decline in Germany compared with the previous year. Developments in sales in Europe were slightly positive. Sales fell significantly in North America. This strengthens our conviction that the strategy of merging our sales units, and thus generating "greater clout" in the US sensor market, is the right one. In China, we were pleased to post an approximately 40% increase in sales. The impact of the reduced trading volume was partly offset by higher volumes for ongoing orders with our automotive customers.

Projects were initiated to optimize purchasing and implement necessary price increases with the aim of leveraging further margin potential. Across the Group, the current approach to the procurement of materials and services was documented and analyzed, and the supplier structure was consolidated to improve purchasing prices and conditions.

On the sales side, individual meetings about prices were held with selected customers following a detailed analysis to explain and push through necessary increases in the prices charged to customers. The results of both projects will have a positive effect on our net operating profit as early as in 2014.

The cost-cutting program launched in 2012 was also continued successfully in the reporting year. We are likewise continuing to focus our efforts on utilizing and expanding joint infrastructures and cross-departmental functions in the Group as well as optimizing processes. This will enable us to cut costs continuously, increase our efficiency and also leverage any added value in the Group to benefit our customers.

In addition to improving conditions on the purchasing and sales side, a key task in the last financial year was to restructure the Group's financial situation. By successfully placing two promissory note loans totaling €31.0 million on December 17, 2013, the Management Board team, with CFO Joachim Wimmers in particular, achieved this. The promissory note loans completely replaced the syndicated loan agreement for a total of around €29 million that had been in place since 2011. Hence, in 2014 we are pleased to have significantly improved financial conditions, enhanced flexibility and greater security with regard to maturities.

We also consider this successful agreement as a sign of the confidence that our financial partners have in the First Sensor Group, the new strategy and the work of our Management Board. Once we have successfully cleared these important hurdles, we will be able to concentrate wholeheartedly on our growth course over the next few years.

With respect to the cost optimization steps and the target growth course, it is important that we ensure the quality of our work and products. To be successful, not only must we ensure production at a low cost, but we must also deliver top quality and top service to our customers consistently in the future. A unified strategy for quality management has been defined as part of the harmonization and merging of units within the First Sensor Group. All of the company's quality-relevant processes and interfaces are aligned to this strategy.

New strategy:
Lucrative business areas, more co-operation, strong sales.

The sensor technology market has been a growth market for a number of years. Smart sensor systems for complex requirements are drivers for the future. Growth-intensive core markets include medical technology and industrial applications as well as applications in the automotive and transport sectors. In total, these three segments are expected to represent a market volume of around $20 billion in 2018. The sensor functioning as a system will be a central element of each new product generation – miniaturized, reliable and robust.

In 2013, First Sensor teamed up with external specialists to conduct extensive analyses of the Group's best market opportunities. The analyses revealed that we are in a strong position to service the three aforementioned attractive, rapidly-growing segments with high added value. Based on these findings and after a comprehensive assessment of the current situation, the Management Board formulated a clear strategic direction at the end of the last financial year. Implementation of the change measures is already underway and is scheduled for completion in 2014.

In the future, First Sensor will focus all its efforts on four cross-divisional business units (BU). We occupy business areas in the Medical, Industrial and Mobility fields. First Sensor will pool its engineering and production expertise in the Electronic Engineering & Manufacturing Services (E^2MS) business unit. With this business unit, First Sensor aims to live up to its claim of producing products with the utmost precision and consistency.

Up to now, First Sensor products have largely been developed from a technological perspective. However, it is crucial for our success that we take into account the needs of the market and our customers to a much greater extent than before. Specifically, as a result of the aforementioned development of smart sensor systems or on the basis of the internet of things, new applications for sensors are emerging in these highly specialized sectors such as cyber-physical systems in production infrastructure or virtual and location-independent consultations and examinations in the medical technology sector.

In the next few years, First Sensor will work unremittingly to expand its knowledge of markets, customers and their requirements. The business unit structure creates the necessary conditions for this.

Another step is the systematic use of a number of products across different sectors. This presents further opportunities to improve our sales and earnings. In the future, we will determine right at the start of a development project the extent to which customer products and systems are interesting to customers from more than one business unit.

With our new structure, we are breaking down established boundaries, opening up new sales potential and expanding our opportunities to provide a number of value creation steps in the supplier chain. What is more, we avoid duplication of development work, making our top expertise in specific applications or sectors available to the Group as a whole.

We continue to achieve a large proportion of our sales in Germany. There are also many potential customers in Europe, Asia and North America. We are already successful in these markets with parts of our portfolio. We are planning to systematically tap into important regions and markets around the world in the future. This is why First Sensor is working vigorously to expand its international sales in Europe, Asia and North America.

The production and engineering services of E^2MS will combine the services of all production locations. With this business unit, we not only want to manufacture our own products but also operate on a larger scale as an engineering and production service provider in a rapidly growing market. For this purpose, we have already created a joint management structure to strengthen and market co-operation across the different locations.

Continue to accompany us in the future: We are on the right track.

We would like to expressly thank each one of our 757 employees. Their expertise, commitment and loyalty are the most valuable assets First Sensor has. For this reason, we will continue to invest in the creation of a good working environment and the development of our staff in 2014. We are committed to strengthening our policy of open and honest co-operation and further advancing the communication between the Management Board, managers and all employees that we intensified in 2013.

We would also like to thank all of our business and financing partners for their professional, inspiring and trusting co-operation.

Dear shareholders, we would like to thank you especially for the trust that you place in the work that we do. We are now looking forward full of expectation to the first full financial year with our new Management Board team.

We want to become the leading specialist in the growth market of sensor technology. This is why we have spent the past few months making decisions on what direction to take and establishing the necessary framework for moving forward.

Internally, there is now a logical positioning of the various units in relation to one other, clear responsibilities and binding processes for inter-company co-operation. Externally, we have taken a rigorous positioning toward the market and our customers.

We form the basis to significantly improve our sales and earnings by expanding our added value along the supplier chain, approaching customers with a sector-specific product offering, utilizing cross-sector sales opportunities and marketing our products and solutions across multiple segments. We will substitute loss of sales, for example the declining trading business, and achieve considerable growth in sales and earnings over the coming years.

With these steps, we plan to enhance and ensure First Sensor's success over the long term – for the benefit of our business partners, our employees and our shareholders. Let's face the future together.

Dr. Martin U. Schefter
CEO

Joachim Wimmers
CFO

FIRST SENSOR AG REALIGNMENT

Rapidly growing sensor market

Smart sensor systems for complex requirements are drivers in today's sensor technology market. Simply put, they combine the recording of values, the processing of these values and the relevant response all in one intelligent system.

Core sensor technology markets that are set to grow significantly worldwide in the coming years include medical technology and industrial applications as well as applications in the automotive and transport sectors. In total, these three segments are expected to represent a market volume of around $20 billion in 2018. On the one hand, demand is growing in these markets with high added value and attractive margins.

On the other hand, it is apparent today that technology, and with it product requirements, are evolving at a rapid rate. The sensor functioning as a system will be a central element of each new product generation – miniaturized, reliable and robust. With its broad service offering and technological expertise, First Sensor is well equipped to develop and supply the right systems to meet the requirements of these key sectors and has already proven this over a number of years. These are excellent conditions, which it is now time to leverage in a targeted manner.

Together with its subsidiaries, First Sensor has experience in all of the above-named business areas. Thanks to silicon technology and other new materials, the company's sensors also fit into the smallest devices. First Sensor possesses sophisticated in-house packaging technologies to combine the properties of materials, components and processes in an innovative way. With its products and solutions, First Sensor enables its customers to achieve a better performance and develop entirely new functions.

What is more, First Sensor is the leading provider for companies seeking a competent, reliable partner with many years' experience for the development and production of high-performance, customer-specific sensor systems.

As a specialist for sensor system development and production, First Sensor has been providing its customers with a strong competitive edge for a number of years. First Sensor provides all of the expertise, technologies and capacities required for this.

Developing market and customer focus

The company has laid the necessary foundations to become a market leader in its target sectors within the next five years. It is in an excellent position to service three attractive, rapidly-growing segments with high added value with its products and services: industrial applications (Industrial), medical technology applications (Medical) and applications for the automotive and transport sectors (Mobility). In addition, the sensor manufacturer is also able to offer the most exacting front-end, electronic assembly and sensor system solutions in development and production. It not only wants to produce these products itself at the highest quality but also establish itself even more firmly as an engineering and production service provider. Such electronic engineering & manufacturing services represent a rapidly growing market.

Strategy with four business areas

In order to combine the comprehensive knowledge of markets, customers and their requirements and use this knowledge in a targeted manner – in close cooperation with development, product management and sales – First Sensor will pool its expertise into four business units:

- Medical
- Industrial
- Mobility
- E^2MS (Electronic Engineering and Manufacturing Services)

Central services help us to lay the foundations so that our business units can concentrate on the customers. We will combine and network our expertise and capacities effectively so that we can act in an even more customer-focused way.

Furthermore, within the business units competence centers assume responsibility for products and technology across the various sectors.

Medical

"In no other field is quality and reliability of such fundamental importance as in the field of medical technology. We have been established in this field for 30 years. Our customers know that we are familiar with and understand their applications."
Veit Riebel, Business Unit Manager Medical

Helping to optimize medical care

Patient medical care is becoming increasingly complex. Sensor technologies are playing an increasingly instrumental role in making medical devices even more reliable and easier to use for doctors, hospital and nursing staff – and for patients too.

We know that medical technology saves lives. Medical technology devices must therefore satisfy specific requirements that First Sensor has already been satisfying successfully for a number of years with their sensor solutions:

- Highest precision and reliability
- Development and production in compliance with the most stringent quality standards (ISO 13485)
- Extreme miniaturization and low power consumption
- Long product lifecycles require an especially long sensor availability

Medical technology is one of the largest and fastest growing areas of application in which First Sensor operates successfully.

Sensors provide relief

For measuring respiratory flow in the medical technology sector, the precision measurements provided by sensor technology can be a key factor in speeding up patient recovery. Highly sensitive sensors are essential to identify and support the sudden onset of even very low spontaneous autonomous breathing. The new pressure sensors from First Sensor also meet stringent requirements in terms of resistance to moisture.

Industrial

Slightly different wavelengths are used, for example, to monitor danger zones or X-ray pieces of luggage. First Sensor offers optimized sensor solutions for this application with ultra-high sensitivity that can detect visible UV and infrared light or X-rays."
Olaf Hug, together with Peter Krause, Industrial Business Unit Manager

A wide-ranging field

Optical techniques to determine position and distance have now become indispensable when it comes to measuring or aligning complex components. In exactly the same way, automated production processes are dependent on optical techniques that ensure quality and reduce throughput times. Nowadays, no-one wants to mount ship propellers any more without using laser levelling.

Heating, ventilation and air conditioning systems can only be controlled in an optimal fashion using reliable pressure and flow rate sensors and precise measurements in order to work with maximum efficiency and minimal energy consumption.

First Sensor covers all stages of the value chain from the sensor element to smart systems – and not only with its inertial sensors. The Industrial Business Unit develops reliable sensors and customer-specific solutions for the full range of industrial applications.

New regulations provide for greater security

It has long since been standard practice at airports to X-ray every suitcase before it is allowed on board. However, standard practice at ports is different. Up to now, it has simply been a matter of trust that a container actually contains what is marked on the shipping documents. Controls are only performed in a small number of suspicious cases. This is set to change dramatically, at least in the case of US trade. All containers must be scanned starting right at the port of departure and tested for radioactivity. These are the provisions of House Resolution No 1 enacted by the US Congress. The resolution is giving container ports around the world great cause for concern. It does not come into force until July 1, 2014, but is not clear at all how it is to be implemented in practice. Furthermore, there is neither the time nor the space for time-consuming procedures in the process chains at the quay, which are streamlined to ensure the utmost efficiency. Modern radiation sensors from First Sensor will help to make these processes as efficient as possible.

Mobility

"Innovative product development is essential to provide our customers with the requisite competitive edge in dynamic applications such as those commonly found in today's automotive industry. Application-specific products also require considerable flexibility, which we offer to a pre-eminent degree."

Wilhelm Prinz von Hessen, Mobility Business Unit Manager

In harsh conditions

First Sensor develops and supplies innovative and reliable cameras and sensors that contain the high level of application expertise required in the automotive and transport sectors and are tailored to individual customer requirements. This area in particular calls for products that are able to withstand the harshest conditions, including cold, heat and constant vibrations to name but a few. The robust cameras are used by major suppliers in notable automotive markets in their driver assistance systems. They detect speed limits, warn drivers of any obstructions and help them to keep to the right lane. Robust sensors are used to monitor tank pressure and in vehicles with automatic start/stop functions.

Mass production in line with automotive industry quality and cost standards is a decisive factor that determines whether a company is selected as a partner in the mobility sector. First Sensor benefits from the advantage that it is able to cover the entire value chain from the sensor element to the system. This enables customer-specific developments to be realized cost efficiently. This naturally also includes detailed cost management for projects and products.

Greater support through new technologies

First Sensor high-performance cameras have been specially developed for automotive and video monitoring applications. The field of driver assistance systems is evolving rapidly and is being continuously given fresh impetus, also through the innovative systems developed by First Sensor.

E²MS Electronic Engineering & Manufacturing Services

In addition to the element that takes the measurements, modern sensor technology also requires layout and connection technology that is tailored to the specific application. We will be able to offer customer-specific services in the modern era only with development processes that master and take advantage of material properties and production processes that utilize these properties with the appropriate technology."
Roman Schmidt, together with Dr. Gregor Zwinge, E²MS Business Unit Manager

E²MS from First Sensor

As a specialist for sensor and actuator system development and customer-specific production, First Sensor has been providing its customers with a competitive edge for a number of years. As a solution provider, First Sensor provides all of the development expertise, technologies and production capacities required for this:

- Consultation and design for customer-specific sensor solutions provided by experienced teams
- Complete development services from the solution concept and initial proof-of-concept through prototypes to series-production readiness; from hardware through software to integration; micro-system technology from ASIC through the module to the end product
- Technology design and implementation that enables multiple sensor functions and applications
- State-of-the-art production capacities for the broadest volume spectrum – from rapid prototype manufacture to order-focused, cost-efficient series production in the million unit volume range
- Development support provided by measuring technology specialists with various disciplines and the use of application-specific measuring technology test benches and calibration services
- Development, validation, qualification and reliability checks, production and testing in accordance with sector-specific quality standards and certification (for example ISO 13485 for medical technology)

Joint development with the customer opens up new opportunities

Computer tomography is used in many other sectors besides human medicine and is becoming increasingly popular. The applications range from the examination of trees or musical instruments through the non-destructive examination of archaeological discoveries such as mummies right through to materials testing in industrial computer tomography or even diagnosis of animal diseases in veterinary medicine.

In these areas, sensor module layout technology developed by First Sensor plays an important role in the precision of the scanners.

GROUP MANAGEMENT REPORT (IFRS) AND MANAGEMENT REPORT OF FIRST SENSOR AG

A. ESSENTIAL INFORMATION ABOUT FIRST SENSOR

1. BUSINESS MODEL

Business activities and organization

First Sensor is a developer and manufacturer of customer-specific high-end sensor solutions. These innovative specialized sensor solutions are used for the high-quality conversion of non-electric variables (radiation, light, pressure, flow rate, position, speed, fill level, etc.) into electric variables that are then used in our customers' electronic systems. This means that our sensor solutions make an important contribution to the competitiveness of our customers' products. Our core competencies include solutions in the area of optoelectronics, industrial cameras and MEMS sensor technology.

Customers include prominent industrial groups and research institutes. A project generally starts with the customer issuing the specifications and the joint preparation of a development strategy. Following an extensive development and test phase, a supply relationship is initiated that generally lasts for a number of years.

First Sensor's sensor solutions are mostly used as key components in a wide range of applications in several different industries.

Medical

- Ventilators and anesthesia equipment
- Blood glucose monitors
- Cancer diagnosis
- Measurement systems for the pharmaceutical and environmental technology industries

Mobility

- LIDAR (optical distance and speed measurement)
- Tank pressure and sun angle sensors for motor vehicles
- Air conditioning systems

Industrial

- Fill level measurements in industry
- X-ray machines for baggage screening
- Machine controls
- Aerospace research
- Truck toll monitoring

First Sensor is one of the world's technology leaders, developing and producing optoelectronic and MEMS-based high-end sensor solutions for the most stringent specifications.

First Sensor is active in a future market, and the broad mix of sectors means that the company is generally independent of cyclical developments in the individual sectors.

The market for high-end sensor solutions that First Sensor addresses is generally regarded as a strong global growth market, not least because the number of measurements required in each area of application is also increasing ever further. This means it is important to fit more and more sensors into the smallest possible space. To achieve this, the sensors must become smaller. The market is also demanding robust solutions that are as affordable as possible. First Sensor's broad technological expertise and experience allows it to develop solutions on the basis of technologies other than those that were previously standard. With the new LDE pressure sensor and the new T-bridge, for example, two innovative products that address precisely this demand have just reached market maturity.

Key locations

Value chain

Wafer + Component | Sensor | System

and

Electronic Engineering & Manufacturing Services

The individual companies of First Sensor are active along the entire value chain. In addition to wafers, First Sensor develops and manufactures highly reliable customer-specific hybrid circuits and products in the areas of microsystems technology and advanced packaging (sensor modules) right through to complete sensor systems. The different locations in Berlin, Dresden, Oberdischingen (near Ulm), Puchheim (near Munich), and the foreign locations in the Netherlands, the UK, Sweden, Singapore, Canada and the USA vary in terms of their position along the value chain. The locations Mansfield (MA), USA, Rugby (Warwickshire) UK, and Kungens Kurva, Sweden, are purely sales companies. In several companies, Sales also works in cooperation with fixed trading partners.

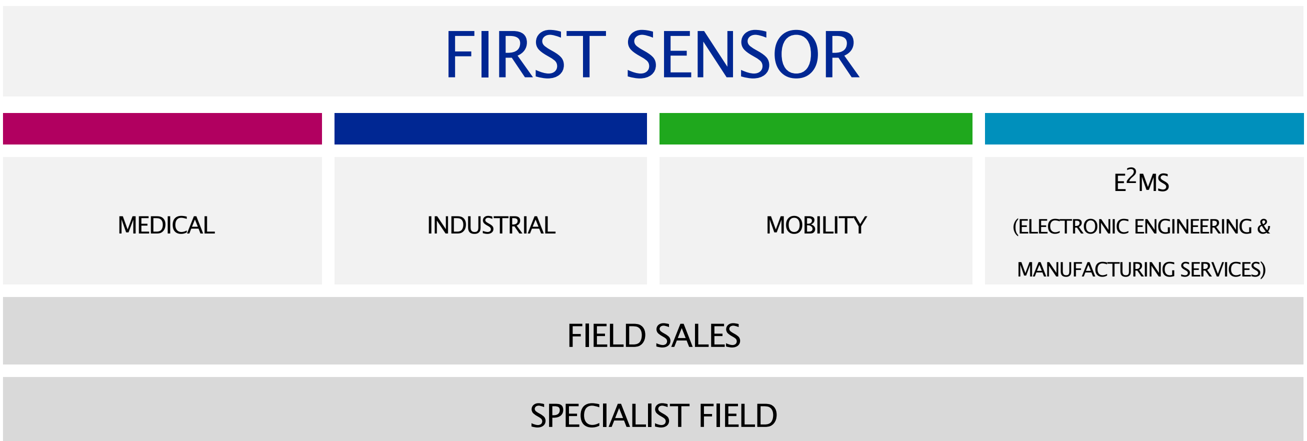
Wafers and components are developed and manufactured at the headquarters in Berlin-Oberschöneweide. If the component is later connected to a circuit together with other electronic components and switching circuits (layout and connection technology, hybrid technology, microsystems technology), this creates a sensor module or a ready-made sensor.

These process steps take place at six locations within the First Sensor Group: Berlin-Weißensee, Dresden (two locations), Oberdischingen, Westlake Village and Singapore. If the sensor module is supplemented with additional stages of the value chain such as signal processing, calibration and product design, this creates a sensor system. This stage of the value chain is implemented at five locations in Berlin-Weißensee, Dresden (two locations), Dwingeloo (Netherlands) and Munich.

Furthermore, First Sensor is the leading provider for companies seeking a competent, reliable partner with many years' experience for the development of high-performance, customer-specific sensor systems, alongside the production of such systems.

With this positioning and interaction of the individual locations, First Sensor covers the entire value chain for a specialized sensor solution and is therefore able both to offer its customers “everything from one source” and also to take on individual steps of the value chain. The specific requirements of the customer in each case dictate at which step in the value chain the services are called on. Depending on cost effectiveness, some types of components and services are also purchased externally.

Diagram of business units



Targets and strategies

First Sensor's future strategy for its sensor products will focus on four growing areas of business: technical applications in the fields of medicine, industry, mobility and engineering and production services (Electronic Engineering & Manufacturing Services). Four business units will be created as part of this plan, which will ensure a consistent focus on markets and customers. The company will also systematically expand its international sales in Europe, Asia and North America. We have identified the changes that we need to make to our organizational structure and are implementing these. First Sensor is aiming to become one of the market leaders in all areas of business within the next five years.

With this clear focus, First Sensor is targeting core markets that are set to grow significantly worldwide in future. In particular, these are medical technology and industrial applications as well as applications in automotive and transport. This focus is complemented by our development and production services, which we offer both within the Group itself and for external customers. Our broad range of expertise in this area is crucial to First Sensor's success.

To make optimum use of these positive conditions, First Sensor plans to focus its product development more consistently on the market and customers as well as strengthen its sales.

First Sensor continues to achieve a large proportion of its sales in Germany. The company will also systematically continue to tap into markets in Europe, Asia and North America in future. The two sales organizations in the USA have been merged accordingly. First Sensor is expanding its sales in Asia and is strengthening its production site in Singapore so that it can offer low-cost production facilities locally. This will further help to create the conditions that will allow the company to serve all attractive markets worldwide in future and to sell products and systems there.

We are still in the process of implementing this strategy at the time of preparing these financial statements, and will continue to focus on this in the 2014 financial year.

2. MANAGEMENT, MONITORING AND CONTROL SYSTEM

Management Board

As at the end of 2013, the Management Board of First Sensor AG consisted of two members: Dr. Martin U. Schefter was appointed as CEO of First Sensor AG for a period of three years with effect from June 17, 2013. The previous CEO, Dr. Hans-Georg Giering, left the company with effect from June 14, 2013.

As CEO, Dr. Martin U. Schefter is in charge of Strategy, Business Development, Communications and Marketing, Sales, Development and Production.

Joachim Wimmers was appointed Chief Financial Officer. He is responsible for the areas of Accounting & Controlling, Treasury, Taxes, Investor Relations, Procurement, Human Resources, IT, Compliance and Risk Management.

Supervisory Board

The Supervisory Board of First Sensor AG consists of three members. Prof. Dr. Alfred Gossner has been Chairman of the Supervisory Board since September 11, 2012. Detailed information on the Supervisory Board can be found in the Supervisory Board's report, the remuneration report and the notes to the consolidated financial statements.

Control system

The working method of the Management Board and the Supervisory Board is determined by the statutory framework, the articles of incorporation and rules of procedure. The Management Board assumes the operational management of the First Sensor Group. The Supervisory Board is involved in important matters of strategy, investment decisions and restructuring measures. The Supervisory Board also regularly monitors the management performance of the Management Board for effectiveness and strict attention to legitimacy and legality.

The members of the Management Board hold regular meetings every four weeks with a set agenda. Regular discussions are also held on current issues.

A management committee for First Sensor was set up at the beginning of the 2014 financial year. In addition to the Management Board, this includes the heads of the business units as well as the heads of the specialist areas of Sales, Marketing, Development, Human Resources, IT, Finance, Controlling and Quality Management. The management committee meets once a month and discusses strategic decisions, current business development and, in particular, issues relating to the realignment of First Sensor in business units. The focus is on the monitoring and management of the course we are pursuing and the identification of opportunities and risks.

Based on our strategic objectives, we draw up a medium-term plan for a 3-year period once a year. Further information on the planning process can be found in the Outlook.

Monthly results meetings are another committee involved in operational control. Here, those accountable for the result report to the Management Board on the financial situation, material developments in day-to-day business and any exceptional transactions. An important control tool in this process is a comparison of actual financial figures with the target figures and the previous year's figures. Plans are also updated on the quarterly balance sheet date.

The following key figures are essentially regarded as relevant to control: sales, incoming orders and orders on hand, gross margin, EBITDA, liquidity and working capital.

First Sensor is currently in the process of implementing the business unit structure and establishing a uniform reporting system that is geared towards the divisions, with relevant key figures relating to finance, production, development, quality management and sales.

3. REMUNERATION REPORT

Remuneration of the Management Board

Management Board compensation is determined by the Supervisory Board. The principal criteria for the appropriateness of the compensation for the Management Board are the duties of the respective member of the Management Board, his personal performance as well as the financial situation and success of the company, taking account of comparison with its peer group. The Supervisory Board and the Management Board of First Sensor AG have reached an agreement, irrespective of the existing contract terms, to adjust the employment contracts for both members of the Management Board in accordance with VorstAG (German Act on the Appropriateness of Management Board Compensation). Sustainable financial success as a criterion for Management Board compensation was and remains a vital element of the management philosophy and fundamental values of First Sensor AG.

Since its revision, compensation for the Management Board comprises the following components, not all of which have been directly incorporated into every contract:

- Fixed annual salary
- Variable remuneration in the form of a target agreement
- Participation in a long-term share option plan
- Benefits in kind and other allowances
- Pension arrangements

The fixed annual salary is paid in twelve equal monthly installments, after statutory and social security deductions.

The variable compensation in the form of a target agreement is based on assessment criteria that are determined on an annual basis, and the amount depends on the company's performance and on personal targets specified by the Supervisory Board. Variable compensation can be adjusted by the Supervisory Board as appropriate in the event of unforeseen, extraordinary developments. A share option plan forms part of the company's remuneration structure, to provide a long-term incentive.

The benefits in kind and other allowances essentially comprise noncash benefits related to private use of company cars, accommodation allowances, reimbursement of expenses, the employer's contribution to health and long-term care insurance and in some cases a pension allowance.

Severance payments for members resigning from the Management Board are limited under the terms of the employment contract in accordance with the recommendations of the German Corporate Governance Code. Please refer to the Notes to the Financial Statements for a summary of Management Board compensation.

The members of the Management Board are covered by third party financial loss insurance (D&O insurance) taken out by the company at an appropriate level, in the interests of the company. The company pays the premiums for this. An appropriate deductible is agreed in accordance with the German Corporate Governance Code.

A detailed remuneration report is presented in the notes to the consolidated financial statements in individualized form including names.

Remuneration of the Supervisory Board

Remuneration of the Supervisory Board is determined by Article 13 of the articles of incorporation and by the Annual General Meeting. In accordance with the resolution passed at the Annual General Meeting on August 20, 2013, Supervisory Board remuneration is to be revised. After the financial year has ended, members of the Supervisory Board will receive remuneration of €10 thousand for each full year of membership of the Supervisory Board. This will increase to €32 thousand for the Chairman and to €18 thousand for his deputy. The members of the Supervisory Board are covered by third party financial loss insurance (D&O insurance) taken out by the company at an appropriate level, in the interests of the company. The company pays the premiums for this.

The company shall reimburse each member of the Supervisory Board for any reasonable expenses incurred in the performance of his duties for which proof has been provided and for any value-added tax that applies to remuneration.

Remuneration for members of the Supervisory Board amounted to €60 thousand in financial year 2013.

Supervisory Board members do not receive any performance-related remuneration and do not participate in the company's share option plan.

4. MARKET DEVELOPMENTS

Developments on the sensor market

Sensor technology is one of the key technologies in technological progress. Expectations of this growth sector are increasing as a result. According to a report from INTECHNO CONSULTING, the global sensor technology market is expected to grow to €184 billion by 2016, which represents an average annual growth rate of 9% between 2011 and 2016.

Sensors are playing an important role in an increasing number of applications in industry, the automotive sector, safety technology and consumer goods.

Special providers such as First Sensor that develop and manufacture high-quality solutions for their customers matched to specific sectors will benefit from this trend.

Development of First Sensor's sectors

According to market surveys conducted by iSuppli, annual growth rates of 8% have been forecast for the pressure sensor market for micromechanical systems (MEMS Micro Electro Mechanical Systems). First Sensor wants to exploit these market opportunities and has specialized in the key sectors of Medical, Industrial, Mobility and Development and Production Services by setting up dedicated business units (BU).

Medical

The growth sector for medical technology is expanding globally at a rate of around 5% per year, according to a study entitled "Impetus for innovation in the health sector" conducted by the Federal Ministry of Economic Affairs. First Sensor is benefiting strongly from this, for example by specializing in the development and manufacture of medical sensor solutions in line with demand, with strong growth in the following areas

Pressure sensor solutions

- Ventilators and anesthesia equipment
- Endoskopy
- Dialysis and infusion equipment
- Blood pressure measurements

Optical sensor solutions

- Blood tests
- Pulse oximetry
- Water analysis

Industrial

According to estimates by Yole Développement, the Industrial sector is set to grow by an average of around 6% per year between now and 2018. Good opportunities for

Pressure sensor solutions

- Flow rate measurements
- Fill level monitoring
- Hydraulic and pneumatic controls

Optical sensor solutions

- Speed and movement controls
- Distance measurements
- Proximity sensors

These are just a few examples of the specific fields in which First Sensor is also a provider of customer-specific sensor solutions in this growth sector with its Industrial business unit.

Mobility

According to forecasts from Yole Développement, an average annual growth rate of 13% is anticipated for Mobility between now and 2018. The market-oriented and customer-specific sensor solutions offered by First Sensor's Mobility business unit include the following solutions in particular:

Pressure sensor solutions

- Oil and tank pressure
- Fuel injection
- Filter monitoring
- Hydraulic pressure systems
- Cabin pressure monitoring
- Fuel flow rate

Optical sensor solutions

- LIDAR (optical distance and speed measurement)
- ACC (adaptive cruise control)
- Blind spot assistants
- Sun and rain sensors
- Simulation tools and
- Laser guidance systems

E²MS

(Electronic Engineering & Manufacturing Services)

Major opportunities are currently emerging for the Electronic Engineering and Manufacturing Services division: As processes are becoming ever more complex and cost-intensive, particularly in modern MEMS (smart systems) packaging, an increasing trend towards "outsourcing" is emerging worldwide. Many companies are no longer willing or able to set up their own capacity or to keep it available, particularly when the volumes involved are small or medium-sized. First Sensor AG's E²MS business unit is taking advantage of this trend to offer its established expertise, particularly in the field of packaging. According to a study by Yole Développement, sales in MEMS packaging are set to grow at an average rate of 20% until 2016.

As a result of the organizational merger, the E²MS division will also have a broader technology and resources base to draw on and will be in a position to accelerate product development further by, for example, extending sensor solutions to other sectors. Diversifying across a wider range of sectors also reduces exposure to cycles in individual areas. With a 47% share in sales, Germany remains First Sensor's most important and stable market.

5. RESEARCH AND DEVELOPMENT

As a technology group, First Sensor considers research and development to be a key component of its activities. Innovation and all activities relating to R&D are crucial to the company's future performance.

Our aim is to secure our position as a leader in innovation and to extend it in selected areas, as well as developing products with important unique selling points. First Sensor can act as a competent development partner for customers in many cases.

First Sensor's innovation process involves several stages. Development projects are assessed using appropriate milestones, based on R&D roadmaps. Both product and process innovations are involved. First Sensor cooperates with university and non-university establishments as well as with key customers in the innovation process. The aims of cooperation in research are wide-ranging. First Sensor brings new developments to the market in joint projects with customers and works on reducing development times, for example, in cooperation with research institutes and service providers. In addition, the Group gains access to the latest specialist knowledge from research. Important R&D partners in the field of scientific establishments include the following:

- Fraunhofer Institute for Electronic Nanosystems ENAS, Chemnitz
- Fraunhofer Institute for Integrated Circuits IIS, Erlangen
- Fraunhofer Institute for Modular Solid State Technologies EMFT, Munich
- Fraunhofer Institute for Telecommunications, Heinrich-Hertz-Institute HHI, Berlin
- Fraunhofer Institute for Reliability and Microintegration IZM, Berlin
- HSG IMIT [Institute of Micromachining and Information Technology], Villingen-Schwenningen
- Leibniz Institute of Agricultural Development, Potsdam
- Institute for Microsensors, Actuators and Systems IMSAS, Bremen

Employees in the development departments are a key factor in the success of development. As at the end of 2013, a total of 75 employees, over 10% of the entire workforce, were employed in R&D. A further 13 staff had thus been added in the area of R&D compared with the previous year.

'Expertise clusters' have been set up for each key technology through a company-wide know-how transfer. Employees selected on the basis of their specialist area work together across the company, thereby not only increasing efficiency but also generating new business as a result of rapid access to specialist knowledge.

As at the end of the year under review, First Sensor held a total of 44 patents, utility models and trademarks. However, the absolute number must not be taken as a reflection of the inventiveness of the development departments. Instead, First Sensor follows a targeted registration strategy. Under this strategy, developments are only registered as patents if there is a reasonable relationship between cost and benefit. At the same time, the risk is assessed as to whether the disclosure associated with the patent registration would not be more beneficial to the competition than if the development was not registered.

There have been no fundamental changes to the focus of development work at First Sensor compared with the previous year, whereby different focal points are set depending on market assessments. These are kept stable at a high level.

B. ECONOMNIC REPORT

1. CHANGES IN THE BASIS OF CONSOLIDATION

The following mergers took place in the last financial year as part of the strategic focusing of First Sensor AG:

Berlin-based ELBAU Elektronik Bauelemente GmbH Berlin, in which First Sensor AG held 100% of voting rights, was merged with First Sensor AG with effect from January 1, 2013, in a merger agreement dated April 17, 2013. It is now trading as the Berlin-Weißensee branch of First Sensor AG.

In addition, Chemnitz-based MEMSfab GmbH, in which First Sensor AG held 100% of voting rights, was merged with the company pursuant to a merger agreement dated June 27, 2013, with an addendum dated October 30, 2013, by transferring all of its assets and dissolving the company without winding it up.

The two sales units in the USA were merged to form a joint company. This was achieved by merging Sensortechnics Inc. with First Sensor Inc. (formerly Pacific Silicon Sensor Inc.) on October 25, 2013.

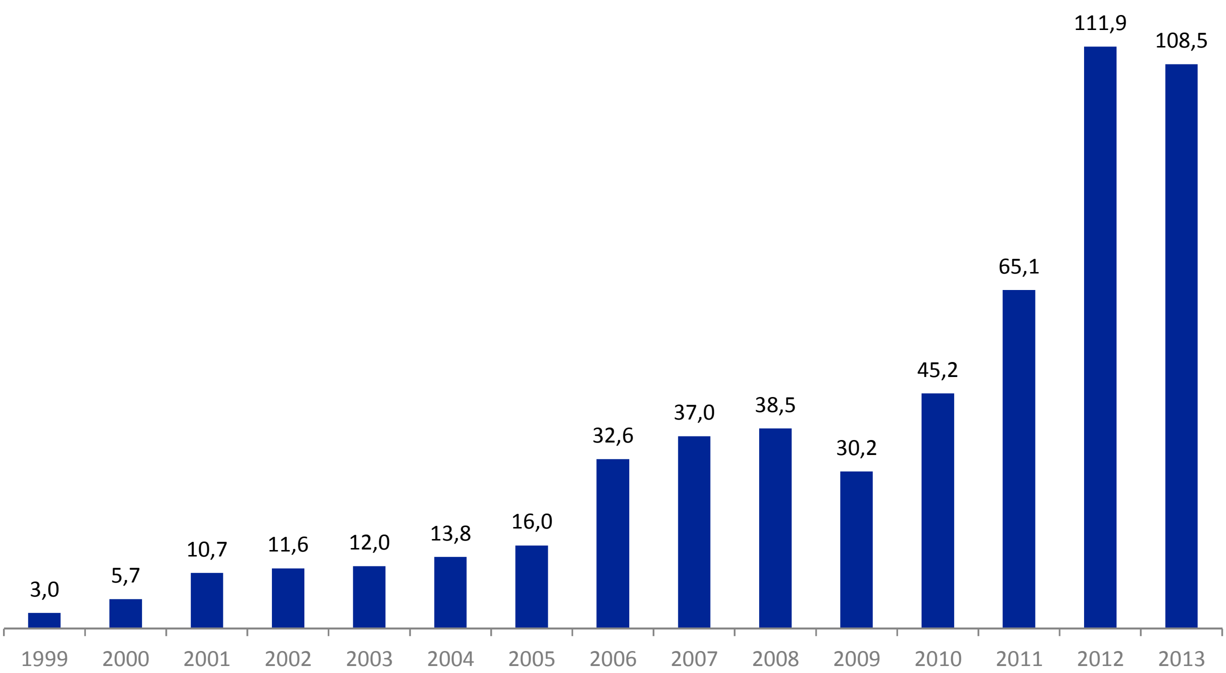
The merger was carried out to strengthen sales and allow the North American market to be handled jointly, as well as to save on administrative costs.

2. STRATEGIC FOCUS ON BUSINESS UNITS

First Sensor's future strategy for its sensor products will focus on four growing areas of business: medical, industrial, mobility and engineering and production services (Electronic Engineering & Manufacturing Services). Four business units will be created as part of this plan, which will ensure a consistent focus on markets and customers. As the structures needed for detailed segment reporting are not yet fully in place, we cannot provide the information content we are aiming for at this stage.

3. EARNINGS SITUATION

The following chart shows changes in consolidated sales since the IPO in 1999.



Development of sales by region

In the last financial year, First Sensor pursued a strategy of substituting higher-margin in-house products for trading business with third-party products. As a result, the regional distribution of sales showed a considerable decline in Germany compared with the previous year. This is due to the fact that substitution took longer than planned. Developments in sales in Europe were slightly positive. Sales fell significantly in North America, although sales in Canada were pleasing and partially compensated for the decline.

We took appropriate precautions in our North America sales region by merging the two sales units. In the 'Other' region, China deserves a special mention, having recorded an increase of around 40% in sales.

in € thousand	2013	2012
Germany	50,846	54,812
Europe	44,544	43,806
North America	4,133	5,184
Other	9,019	8,134
Total	108,542	111,936

The following table shows the earnings situation over a period of several years:

in € thousand	2013	in %	2012	in %	2011	in %	2010	in %
Sales	108,542	**99.6 %**	**111,936**	**97.1 %**	**65,182**	**95.1 %**	**45,232**	**96.8 %**
Total output	108,992	**100.0 %**	**115,251**	**100.0 %**	**68,531**	**100.0 %**	**46,749**	**100.0 %**
Other operating income	3,422	3.1 %	3,913	3.4 %	2,286	3.3 %	1,735	3.7 %
Cost of material	−50,263	−46.1 %	−54,983	−47.7 %	−29,950	−43.7 %	−19,001	−40.6 %
Gross income	62,151	**57.0 %**	**64,181**	**55.7 %**	**40,867**	**59.6 %**	**29,483**	**63.1 %**
Personnel expenses	−36,617	−33.6 %	−36,306	−31.5 %	−23,290	−34.0 %	−15,321	−32.8 %
Other operating expenses	−13,968	−12.8 %	−14,492	−12.6 %	−11,035	−16.1 %	−7,140	−15.3 %
Share in profit of affiliated companies.	0	0.0 %	0	0.0 %	133	0.2 %	10	0.0 %
Operating result (EBITDA)	11,566	**10.6 %**	**13,383**	**11.6 %**	**6,675**	**9.7 %**	**7,032**	**15.0 %**
Depreciation	−6,194	−5.7 %	−6,157	−5.3 %	−4,024	−5.9 %	−3,181	−6.8 %
PPA amortization	−2,628	−2.4 %	−3,384	−2.9 %	−1,061	−1.5 %	−234	−0.5 %
Other depreciation	0	0.0 %	−286	0.2 %	0	0.0 %	0	0.0 %
Earnings before interest and tax (EBIT)	2,744	**2.5 %**	**3,556**	**3.1 %**	**1,590**	**2.3 %**	**3,617**	**7.7 %**
Financial result	−3,832	−3.5 %	−2,612	−2.3 %	−778	−1.1 %	−636	−1.4 %
Consolidated result before tax	−1,088	**−1.0 %**	**944**	**0.8 %**	**812**	**1.2 %**	**2,981**	**6.4 %**
Income tax	626	0.6 %	−452	−0.4 %	−355	−0.5 %	−671	−1.4 %
Consolidated result	−462	**−0.4 %**	**492**	**0.4 %**	**457**	**0.7 %**	**2,310**	**4.9 %**
Minority interest	57	0.1 %	34	0.0 %	12	0.0 %	84	0.2 %

First Sensor's total sales amounted to €108.5 million in the year under review, down 3.0% on the previous year. This was largely due to the substitution of trading business. The expansion of business with automotive customers, with a substantial increase in volumes for major orders extending over several years, partly offset this decline.

Capitalized own work amounting to €1.3 million (previous year: €2.1 million) essentially relates to developments for future sensor products in connection with specific customer projects.

The total output of €109.0 million (previous year: €115.3 million) includes, as well as sales and capitalized own work, the change in inventories of finished goods and work in progress.

The drop of €0.5 million in other operating income to €3.4 million (previous year: €3.9 million) was mainly the result of the sale of minority interests in Heimann Sensor GmbH in 2012 (€0.5 million). This item also includes investment grants and allowances as well as expense subsidies for investment in plant and buildings for research and development.

The materials expense ratio was 46.1%, 1.6 percentage points lower than in the previous year. The main reason for this is the altered product mix in the projects of the First Sensor Group and initial success of the purchasing project.

With personnel expenses of €−36.6 million, personnel expenses remained more or less stable compared with the previous year (€−36.3 million). The personnel expenses ratio rose by around 2 percentage points as a result of the drop in total performance.

The cost-cutting program launched in 2012 continued successfully in the year under review, allowing the ratio of other operating expenses to stay almost constant at 12.8% despite the reduction in total performance. Other operating expenses amounted to €-14.0 million in absolute terms (previous year: €-14.5 million) and break down into the following items:

in € thousand	2013	2012
Costs of premises	-2,665	-2,486
Vehicle costs	-1,058	-980
Maintenance, repair, IT	-1,668	-1,606
Insurance	-525	-727
Sales and marketing expenses	-743	-1,020
Advertising and travel expenses	-633	-990
Goods handling expenses	-703	-794
Legal and consultancy fees (incl. annual financial statements)	-2,626	-1,839
Other operating materials	-1,448	-1,331
Other operating expenses	-1,899	-2,719
Total	**13,968**	**14,492**

Within other operating expenses, there were more significant non-recurring effects of €2.1 million in the year under review, which were attributable in particular to the item 'Legal and consultancy fees'. A reconciliation is carried out below, to adjust for these non-recurring effects.

This resulted in a year-on-year reduction in earnings before interest, taxes, depreciation and amortization (EBITDA) to €11.6 million (previous year: €13.4 million). This equates to an EBITDA margin of 10.6% (previous year: 11.6%).

Depreciation of property, plant and equipment and amortization of intangible assets amounted to €-8.8 million (previous year: €-9.8 million). The reduction is essentially due to write-downs on purchase price allocations and a drop in new investments.

The financial result increased significantly to €-3.8 million in the year under review (previous year: €-2.6 million). This is above all due to the fact that two promissory note loans were issued in December, which were used to replace the existing syndicated loan.

This change made it necessary to reverse a deferred item for transaction costs in connection with taking out the syndicated loan and prepayment penalties, which is included in the financial result in the amount of €0.7 million.

The consolidated loss before tax in the amount of €-1.1 million (previous year: €0.9 million) was mainly due to the drop in sales and the effects of the increase in the financial result and integration costs described above. The consolidated result after tax amounted to €-0.5 million (previous year: €0.5 million). Earnings before minority interests amounted to €57 thousand (previous year: €34 thousand).

The following table shows a reconciliation presenting normalized EBITDA and the normalized consolidated result, taking into account the non-recurring effects described above:

in € thousand	2013
EBITDA as shown	**11,566**
Change in Management Board	661
Legal services	316
Consulting projects	868
Non-recurring staff expenses	222
Total normalizations	**2,067**
EBITDA normalized	**13,633**

Consolidated result as shown	**-462**
EBITDA normalizations	**2,067**
Replacement of syndicated loan	93
Reversal of deferred item	588
Adjusted consolidated result	**2,286**

Order book

Orders on hand in the Group remained almost unchanged at €73.7 million as at December 31, 2013, compared with €73.4 million for the previous year. Incoming orders recorded pleasing growth of €3.6 million (3.0%) to €121.4 million (previous year: €117.8 million). The ratio of incoming orders to sales (book-to-bill) as a leading indicator improved to 1.11 (previous year: 1.05).

This is a solid basis for the achievement of our growth targets for 2014.

in € thousand	2013	2012
Incoming orders	121,411	117,830
Orders on hand	73,672	73,422
Book-to-bill-ratio	1.11	1.05

4. FINANCIAL POSITION AND NET ASSETS

Financial analysis

The aim of First Sensor's financial management is to ensure adequate liquidity at all times for the production processes, growth and investments. We counter the risk of interest rate increases by means of interest rate swaps. In the context of financial management we try to reduce foreign currency risks arising from our customer relationships, particularly in Asia, by purchasing raw materials only from the relevant currency areas and by concluding forward foreign exchange contracts.

A syndicated loan was taken out in order to provide some of the financing for the acquisition of 100% of shares in the Sensortechnics Group in 2011 (see annual financial statements for 2011/2012). In addition to the provision of extensive collateral in the form of pledging of shares and assignment of warehouses as security, this involved a repayment structure that led to an initial annual outflow of liquidity of €4.0 million plus €2.1 million in interest expenses and would have led to annual repayments of €5 million plus interest from 2014. The agreement also entailed an obligation to report to the banking syndicate in the form of quarterly confirmations of the covenants to be observed.

First Sensor placed two promissory note loans totaling €31.0 million on December 17, 2013. As part of the placement, German institutional investors subscribed to promissory notes with terms of three years (€19.0 million) and five years (€12.0 million). The promissory note with the three-year term pays variable interest with a margin calculated on the basis of the 6-month EURIBOR. The promissory note with the five-year term pays fixed interest. The financial ratios specified were the debt/equity ratio, the equity ratio and the interest-cover ratio.

The promissory note loans completely replaced the syndicated loan agreement for an amount of €29.7 million (including fees) that had been in place since 2011.

For First Sensor AG, maximum freedom to conduct its business as it wants and greater security with regard to terms were at the center of its agreements with its financing partners. The refinancing of the existing syndicated loan into promissory note loans offers the Group several advantages:

The promissory note loans will be repaid on their expiry date. This will make more cash available in the next few years for the planned growth strategy. All collateral provided for the syndicated loan will revert to First Sensor.

In future, the key financial ratios will be calculated annually. This means that fluctuations during the year in the normal course of business will not be taken into account. The interest rate risk will also be reduced significantly through fixed interest rates and normal hedging mechanisms. The following table shows net debt:

in € thousand	2013	2012
Non-current financial liabilities	-42,927	-39,014
Current financial liabilities	-4,217	-12,189
Cash and cash equivalents	11,357	12,201
Net debt	-35,787	-39,002

The increase in non-current financial liabilities compared with the previous year was largely due to the breakdown of the syndicated loan into a non-current and current portion, which was shown accordingly in the previous year. As a result of promissory note loans being taken out that are slightly higher than the repayment amount of the syndicated loan, the entire amount is shown under non-current financial liabilities.

There was a significant reduction in current financial liabilities due to the standard loan repayments, a reduction of utilized overdraft facilities as well as the reclassification of the current portion resulting from the syndicated loan agreement in the previous year, which was no longer necessary as at the balance sheet date.

Investment analysis

Cash flow from investment activities of €7.1 million mainly concerns investments in machinery and equipment (€2.3 million), among other things for further measures to improve efficiency of production processes at the Berlin location and the integration of the MEMS area into the optoelectronic area at the Berlin head office. This also contains a contractual obligation to pay a subsequent purchase price installment of €4.75 million in connection with the acquisition of the Sensortechnics Group. This was also financed with the syndicated loan.

in € thousand	2013	2012
Intangible assets	-1,432	-2,846
Property, plant and equipment	-2,329	-6,386
Investments	**-3,761**	**-9,232**
Deferred purchase price component	-4,750	-4,509
Disposal of non-current assets and investments	710	279
Investment grants	600	612
Other effects	56	14
Cash flow from investment activities	**-7,145**	**-12,836**
Intangible assets	-3,250	-3,905
Property, plant and equipment	-5,572	-5,636
Depreciation and amortization	**-8,822**	**-9,541**

Liquidity analysis

In order to be able to assess First Sensor's solvency, the following table shows the company's liquidity in the form of liquidity ratios. To calculate the cash ratio, cash and cash equivalents are shown in relation to current liabilities. The quick ratio includes current receivables, while the current ratio takes into account inventories as well. The changes compared with the previous year show an improvement in all areas.

in %	2013	2012
Cash ratio	60.8	36.6
Quick ratio	117.9	84.0
Current ratio	277.3	177.5

The following table shows the condensed consolidated statement of cash flows:

in € thousand	2013	2012
Cash flow from operating activities	13,075	9,952
Cash flow from investment activities	-7,145	-12,836
Cash flow from financing activities	-6,741	2,229
Exchange differences	-33	57
Change in cash and cash equivalents	-844	-599
Cash and cash equivalents at the beginning of the financial year	12,201	12,800
Cash and cash equivalents at the end of the financial year	11,357	12,201
Free cash flow	5,930	-2,884

The cash flow from operating activities totaled €13.1 million, well above the previous year's figure of €10.0 million. This was essentially due to the fact that factoring had been introduced in some areas at the Group.

The free cash flow, which consists of the total of cash flow from operating activities and cash flow from investment activities, amounted to €5.9 million in the period under review (previous year: €-2.9 million). This shows the important structural work involved in the reorganization of First Sensor's Finance area in the last financial year.

Analysis of asset structure

The balance sheet total fell to €146.7 million, compared with €158.6 million for the previous year. The main changes resulted from the following situations:

Compared with the previous year, the value of intangible assets fell from €25.6 million to €22.9 million as a result of scheduled amortization.

The newly created item of internally generated intangible assets provides greater clarity. This value was €2.9 million (previous year: €3.1 million) in 2013.

The amount of goodwill remained unchanged year-on-year. The carrying amounts were subjected to an impairment test and no valuation allowances were found to be necessary.

The value of property, plant and equipment fell by €2.5 million year-on-year to €37.5 million. This was due to reluctance to invest in connection with scheduled depreciation, which led to the current carrying amount. Orders for necessary investment in property, plant and equipment, in particular for the integration of the MEMS area, in measures to increase the efficiency of production facilities, and in expanding the production lines had been placed as at the balance sheet date. This results in a purchase obligation of €0.5 million.

Inventories fell by €1.4 million to €29.8 million, owing to the introduction of inventory management in the previous year. Further optimization measures are expected in financial year 2014 as a result of a completed purchasing project.

The change in trade accounts receivables compared with the previous year was largely due to the fact that factoring had been introduced in some units. The effects of the sale of receivables can be seen in the items trade accounts receivables, other current assets and cash and cash equivalents.

Cash and cash equivalents amounted to €11.4 million as at the end of the year. Compulsory repayments of the principal under the syndicated loan agreement had a particularly negative impact on available funds. The introduction of factoring in some areas at the company compensated for this. The issuing of two promissory note loans totaling €31.0 million at the end of the year under review significantly eased the financial burden for the next few financial years.

Short-term changes in the exchange rate against the Canadian dollar in the last quarter of the year under review made valuation allowances necessary on a loan to Sensortechnics Corp., Montreal, Canada, which led to exchange rate effects of €0.3 million.

Systematic cash management at the Group was supported by the following measures:

- A system-based approval process for all orders in the head office,
- Introduction of rolling liquidity planning,
- Active receivables management,
- Introduction of an investment guideline with a systematic approval process.

Accounts payable remained constant year-on-year at €7.7 million. In the 2012 annual financial statements, the item other current liabilities showed the subsequent purchase price installment of €4.75 million. The repayment of this debt was the main reason for the reduction of €6.5 million from €12.4 million to €5.9 million in 2013.

Group equity is up €0.1 million on the figure for December 31, 2012, at €70.0 million. Please refer to the statement of changes in equity for further information. The reduction in the balance sheet total led to an improvement of 3.6 percentage points in the equity ratio to 47.7% (previous year: 44.1%).

In the year under review, the company issued a total of 31,000 new shares to the CEO at a subscription price of €5.00 per share with shareholders' pre-emptive subscription rights disapplied, as part of Authorized Capital 2013/I. A further capital increase of 10,107 new shares from contingent capital at a subscription price of €6.02 resulted from the exercise of share options issued in previous years.

5. NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS OF FIRST SENSOR AG (HGB)

The scope of the units consolidated at First Sensor AG changed in the year under review to take into account the merger of ELBAU Elektronik Bauelemente GmbH Berlin, Berlin and MEMSfab GmbH, Chemnitz. The companies Sensortechnics GmbH and Silicon Projects GmbH had merged with First Sensor AG in the previous year. The following table shows the income statement for the year under review compared with the previous year.

Due to the mergers described above, comparability with the previous year is only possible to a limited extent.

in € thousand	Jan. 1 – Dec. 31, 2013	Jan. 1 – Dec. 31, 2012
Sales revenues	54,539	45,101
Change in inventories of finished goods and work in progress	-753	699
Other own work capitalized	480	646
Total output	**54,266**	**46,446**
Other operating income	2,836	2,178
Cost of materials	-25,725	-23,877
Gross profit	**31,377**	**24,747**
Personnel expenses	-19,501	-13,914
Other operating expenses	-9,537	-7,940
Profit from operations (EBITDA)	**2,339**	**2,893**
Amortizations of intangible assets	-2,855	-1,912
Write-ups/write-downs of financial assets	10,370	-2,101
Depreciation of property, plant and equipment	-2,894	0
Other depreciation/amortization	-1,500	-322
Earnings before interest and tax (EBIT)	**5,460**	**-1,442**
Financial result	2,803	-1,880
Income from equity holdings	5,310	5,272
Extraordinary result	-533	9
EBT	**7,434**	**1,950**
Taxes	-193	48
Net profit for the financial year	**7,241**	**2,007**

Other operating income arising predominantly from investment grants, intragroup allocations to subsidiaries, reversals of provisions and exchange differences amounted to €2.8 million (previous year: €2.2 million).

Depreciation, amortization and impairment primarily contain depreciation of machinery and equipment, office equipment and the factory and office buildings amounting to €2,894 thousand. In addition, amortization of intangible assets totaled €2,855. As a result of the positive economic development of Microelectronic Packaging Dresden GmbH, a valuation allowance made in previous years on the carrying amount of the holding of €10,370 thousand was reversed. Furthermore, a value allowance of €1,500 thousand has been made on the loan to the Canadian subsidiary.

The following table shows the balance sheet as at the 2013 balance sheet date:

Assets

in € thousand	2013	2012
Intangible assets	3,025	2,776
Internally-generated intangible assets	845	0
Goodwill	28,849	18,920
Advance for customers	880	1,545
Property, plant and equipment	28,429	25,736
Shares in affiliated companies	36,338	44,763
Loans to affiliated companies	6,087	785
Non-current assets	**104,453**	**94,525**
Inventories	18,634	15,093
Trade accounts receivables	1,723	4,078
Due from affiliated companies	4,617	8,213
Other assets	2,049	1,543
Cash and cash equivalents	4,969	6,093
Current assets	**31,992**	**35,020**
Prepaid expenses	455	1,007
ASSETS	**136,900**	**130,552**

Equity and liabilities

in € thousand	2013	2012
Share capital	49,907	49,701
Capital reserves	20,324	20,314
Earning reserves	1,004	1,004
Retained earnings	8,245	1,004
Equity	**79,480**	**72,023**
Special account with reserve characteristics	4,566	4,331
Provisions	4,249	4,060
Liabilities to banks	11,494	41,396
Promissory note loans	31,000	0
Payments received on account of orders	97	319
Trade accounts payables	3,773	2,160
Due to affiliated companies	740	585
Other liabilities	885	5,482
Deferred tax liabilities	616	196
EQUITY AND LIABILITIES	**136,900**	**130,552**

The equity of First Sensor AG amounted to €79.5 million at the balance sheet date (previous year: €72.0 million). This equates to an equity ratio of 58.1% (previous year: 55.2%).

The rise in equity is primarily the result of the write-up of the carrying amount of the holding in Microelectronic Packaging Dresden GmbH totaling €10,370, which is included in net profit.

Cash and cash equivalents amounted to €5.0 million (previous year: €6.1 million) at the balance sheet date. Please refer to the tables for the Group for information on securing further refinancing.

The company's Management Board and Supervisory Board will propose to the Annual General Meeting that net profit for financial year 2013 of €7,241 thousand be carried forward to new account.

In its business plan, the Management Board expects sales of between €55 and €60 million and EBITDA of between €2.5 and €3.0 million in the next financial year.

First Sensor AG employed 361 staff at the end of the year (previous year: 197 employees). Please refer to the table below for details of how staff are distributed across individual units. The previous year's figures have been adjusted to improve comparability. The figures in brackets relate to the number of employees in the previous year's financial statements:

Number of employees	2013	2012
Berlin-Oberschöneweide	146	108
Munich branch	83	89
Berlin-Weißensee branch	131	140 (0)
Chemnitz branch	1	0 (0)
Total	**361**	**337 (197)**

6. DEVELOPMENT OF NON-FINANCIAL PERFORMANCE INDICATORS

Employees

First Sensor employed a total of 698 staff as at December 31, 2013, which was virtually unchanged compared with the previous year's figure of 691 employees. To make the figures more meaningful, they have been presented differently from the previous year, and the term full-time equivalent (FTE) has been used.

Temporary workers were used to cope with peaks in the order book. The total number of temporary workers as at the balance sheet date of December 31, 2013, was 15 (previous year: 21).

At €-36.6 million, personnel costs (wages, salaries, social security contributions, pension costs) in 2013 were up 0.7% compared with the previous year's level of €-36.3 million. Further information on the breakdown of personnel costs can be found in the Notes.

Sales per employee dropped to €155.5 thousand (previous year: €162.0 thousand) owing to the substitution of products described above and the associated reduction in sales. The age structure of employees is largely balanced.

The company-wide sickness absence rate was calculated for the first time at First Sensor in 2013 and was found to be 5.9%. We were pleased to note that the proportion of female employees had risen from 38.2% in 2012 to 39.3% in the year under review. Around one-third of employees at the company (32%) have a university degree.

First Sensor has supported employees for many years in financially securing their standard of living in retirement, with an employee-financed pension plan model. This is based on deferred compensation and an employer-financed private pension allowance.

In view of demographic change and the resulting shortage of skilled workers, an important part of our personnel strategy involves ensuring that we meet our requirements for skilled labor by providing in-house training.

Our aim is to cover our future need for skilled workers through high-quality training in line with demand. This aim is backed up by long-term personnel planning. In particular, First Sensor provides professional training for mechatronics engineers and industrial mechanics.

As in the previous year, First Sensor invested €160 thousand in staff training. The need for staff development within the company is generally determined once a year as part of the budget, in an analysis of training requirements.

Quality management

A unified strategy for quality management has been defined as part of the harmonization and merging of units within the First Sensor Group. In accordance with this, processes of relevance to quality and defined interfaces are being established at the company in order to fulfill all requirements of functioning quality control.

The key achievements resulting from this are reflected in streamlined, standardized processes for reducing additional expenses, in clear interfaces and responsibilities, in a central quality management system with key figures for measuring effectiveness and efficiency, the presentation of a consistent image to customers and suppliers, support with new business and support with purchasing activities as part of supplier management.

The following types of certification are currently being audited and the following guidelines applied at First Sensor:

Types of certification	
DIN EN ISO 9001	Certification of quality management systems
DIN EN 9100	Certification of quality management systems for aviation, aerospace and defense
DIN EN ISO 14001	Certification of environmental management systems
DIN EN ISO 13485	Certification of quality management systems for medical products
ISO/TS 16949	Certification of quality management systems for the automotive industry

Guidelines	
MIL-STD 883	Test Method Standard Microcircuits for Military Applications
IPCJ-STD-001	Requirements for Soldered Electrical and Electronic Assemblies
IPC A 610	Acceptability of Electronic Assemblies
DVS 2810 / 2811	DVS-Regulations for Wire Bonding and Testing Procedures
DLR-RF-PS-STD-008	Requirements for Capability Approval of Monolithic Microcircuit Technologies
ESA PSS / ECSS / ESCC	ESA Procedures, Standards and Specifications for Space Applications
RTCA DO 160	Environmental Conditions and Test Procedures for Airborne Equipment

Through the integration of the Sensortechnics Group, which was acquired in 2011, First Sensor has become one of the top ten global manufacturers of special sensors. Owing to delays in the substitution of in-house products for trading business, the business volume was slightly lower than expected. However, this integration gives rise to further strategic options and the opportunity to leverage further synergies on a systematic basis. The continuation of the integration measures launched and the optimization of company, management and controlling structures with a view to reorganization into business units will continue to constitute a focal point for management in the current financial year 2014.

By reaching a critical mass and increasing the depth of value added in the development, production and sale of sensor solutions, First Sensor will come to the attention of new customers, in particular with respect to major long-term projects.

The financial liabilities, a large proportion of which were incurred in order to finance the acquisition of the Sensortechnics Group, have been converted into a financing concept involving promissory note loans in which conditions have been simplified significantly, ensuring that the necessary funds are available for business operations. In accordance with the planning for the coming financial years, the company currently anticipates that all financial liabilities will be serviced on schedule.

Plans are based on an unchanged general economic situation with no turbulence on the capital markets.

C. SUPPLEMENTARY REPORT

The following important situation has arisen since the end of the financial year.

After the failed attempt to reach an agreement outside of court, the Management Board of First Sensor AG decided on March 13, 2014, to enforce claims against Honeywell Control Systems Ltd., Bracknell, Berkshire, UK. In an initial step, a partial claim for around €1.7 million was submitted to Munich District Court II.

The Management Board estimates total claims against Honeywell to amount to a total of around €3.6 million.

These result from compensation claims due to the termination of a dealership agreement, claims for damages due to non-deliveries and repurchase obligations for inventory stock.

The claims for damages asserted are neither included in the financial statements at 31 December 2013 nor in the budget figures.

D. OUTLOOK, OPPORTUNITY AND RISK REPORT

1. OUTLOOK

Premises and assumptions

The forecasts below relate to financial year 2014, are in keeping with the consolidated financial statements and do not show any changes in the basis of consolidation or other significant facts that would give rise to a different assessment of the net assets, financial position or results of operations.

The investments made in the past in further raising the efficiency of our production processes, in particular at the Berlin-Oberschöneweide location, together with the establishment of the optoelectronic and MEMS areas under one roof, will generate the planned synergy effects and economies of scale in the medium term.

It is assumed that there will be no shortages in the supply of materials, raw materials and components. Furthermore, it is assumed that all key positions at First Sensor will be occupied by qualified personnel.

Planning process

The planning process at the company involves several stages. First of all, a profit and loss plan is drawn up at the level of the cash-generating unit (CGU) in accordance with the German Commercial Code (HGB) for the period 2014-2016 (three-year plan), including a plan for sales, margins and personnel and a plan for types of costs based on cost centers.

Once investment and financial plans are added to this, a balance sheet plan can be drawn up. In the second stage, the units are consolidated, converted into IFRS accounting standards and condensed into Group plans.

The same sales and earnings forecasts for the CGU are used in goodwill impairment tests in connection with the annual financial statements.

The following exchange rates are used centrally as a guide. No other central guidelines have been used in planning.

Target exchange rates	2014	2015/16
USD-EUR	1.31	1.31
GBP-EUR	0.85	0.85
CAD-EUR	1.33	1.33
SEK-EUR	8.55	8.55
CNY-EUR	8.14	8.14
SGD-EUR	1.63	1.63

Development of business

The sensor products in First Sensor's portfolio will in future be sold in four growing areas of business with one strategy:

- Medical
- Industrial
- Mobility
- E²MS
  (Electronic Engineering & Manufacturing Services)

Business units will be created as part of this plan, which will ensure a consistent focus on markets and customers. The company will also systematically expand its international sales in Europe, Asia and North America. First Sensor is aiming to become one of the market leaders in all areas of business within the next five years.

The future segments at First Sensor are already linked to each other in many ways. In particular, the segment for development and production services makes technology and expertise available to the other segments. In addition, First Sensor makes use of shared infrastructure and cross-departmental functions where possible, for example in purchasing and the expansion of the international network. This generates cost benefits. Processes that are harmonized throughout the company improve efficiency. The joint umbrella brand increases awareness and acceptance and enables us to approach large customers on an equal footing.

Two major projects were initiated in the period under review. Firstly, a purchasing project was set up at First Sensor to carry out an analysis of the actual situation with regard to the procurement of materials and services; the findings will be examined and combined, so that in a second phase the supplier structure can be consolidated and purchasing prices and conditions optimized. The second project related to sales prices. The main aim was to push through necessary increases in the prices charged to customers. Individual meetings about prices were also held with selected customers following a detailed analysis. The effects of both projects have been taken into account in the budget for financial year 2014.

The realignment of the company will have a significant influence on financial year 2014, although there is no sign of adverse effects on business operations.

First Sensor invested in serial production at the Berlin-Oberschöneweide site in the year under review, upgrading production to 6 inch technology and thus helping to increase capacity.

First Sensor will continue in the forecast period with its successful substitution of sensors from a supplier, to improve the company's earnings strength by expanding the value chain.

A systematic analysis of its production sites with regard to technologies and capacity and the associated expansion of the production site in Singapore will enable First Sensor to improve its overall utilization of capacity and will make production more cost-effective.

By issuing two promissory note loans totaling €31.0 million at the end of the year under review, First Sensor has secured the company's financing for the forecast period.

First Sensor is continuing to pursue its goal of becoming a leader in all relevant markets in the sensor industry in the medium term. The Management Board is focusing in particular on profitable organic growth.

The following table shows how accurate the company's forecasts are:

Source	Sales revenues	EBITDA
Forecast: increase in sales to around €120 million, increase of at least 30% in EBITDA (ad hoc disclosure on March 5, 2013)	€110 – 120 million	€15 – 20 million
Sales expected to be between €108 million and €120 million, EBITDA before integration costs between €13 million and €15 million (ad hoc disclosure on August 19, 2013)	€108 – 112 million	€13 – 15 million

The deviations from the corresponding forecast values are due to the fact that we were unable to achieve the planned sales and earnings, owing to the postponement of customer orders.

In terms of non-financial performance indicators, no significant changes are expected in human resources and development.

The major strategic realignment in financial year 2014 will tie up more management capacity and resources. However, the Management Board does not expect this to have an impact on business operations. We also paved the way for successful growth in the year under review.

The company's opportunity/risk profile is considered to be positive; it is estimated that the sales volume will amount to €114-119 million and EBITDA to €13-15 million for the forecast period. According to plans, sales volumes will grow strongly in North America, with growth of over 80% by 2016.

2. RISK REPORT

In the course of its national and international business activity, First Sensor is confronted by a range of risks inextricably linked to its business actions. These are largely identical for both First Sensor AG and its major subsidiaries (Silicon Micro Sensors GmbH, Lewicki microelectronic GmbH, Microelectronic Packaging Dresden GmbH) as a result of their value creation processes. All our activities worldwide are monitored and controlled.

The Management Board has set up an early warning system for this, based on the following risk principles in the form of a risk management system:

The principle of decentralized management rests on the organization of operational procedures with adherence to the commonly-accepted rules of internal monitoring systems. The subsidiaries, corporate divisions, business units and specialist areas are each responsible for their own business processes in accordance with guidelines and targets defined by the Management Board. The relevant internal processes are set down in the documentation for ISO process standardization and constitute the basis for internal actions.

First Sensor has a uniform company strategy, planning and budget procedure for recording, evaluating, monitoring and controlling business processes. This procedure is backed up by ongoing analyses of the market and the competition as well as monthly reporting. Data on the orders, employment, earnings and assets situation are reported. Planning for the subsidiaries is summarized in a quarterly forecast.

To assess and monitor cumulative risk and individual risks on a cross-process and cross-company basis, discussions on opportunities and risk between the Management Board and managers of the respective units were conducted at regular meetings in the year under review. Risk assessments comprise a further integral part of the monthly reports.

The company-wide reporting and monitoring system ensures all decision-makers are consistently supplied with up-to-date, accurate information. Company performance can be read off at any time and changes in the operational environment detected promptly, enabling any necessary countermeasures to be initiated.

Risk management analyzes the crucial issues on a quarterly basis. This includes market risks, sales risks, purchasing risks, IT risks, liquidity risks, exchange rate risks, risks relating to receivables and inventory risks, human resources risks and the status of existing insurance policies. The main individual risks are listed below.

Within the context of international competition, a risk exists for First Sensor that it may prove impossible to provide the required human resources capacities for the planned levels of growth or that these can only be provided at higher costs than scheduled. This risk relates in particular to highly-qualified employees. First Sensor counters this risk with internal professional development programs and long-term demand planning.

On our sales markets, there is a risk that competitors may gain significant market share with products that are technologically equal or superior. Furthermore, customers may prove cautious in calling up orders or placing new ones, or may postpone orders, which could lead to a drop in sales. Increased efforts by a supplier to sell products itself that until now have been supplied to First Sensor and to develop competition may make it impossible for us to maintain our market share.

We have to date focused strongly on certain markets, which could lead to a drop in sales on other markets if we are not able to compensate for this in good time.

From the company's perspective, there is no significant concentration of risk in the area of sales. Only two customers account for a significant share of consolidated sales, at around 7% each.

In the area of procurement, the First Sensor Group companies are dependent on timely delivery of essential materials for the manufacture of their products. Severe delays, quantity discrepancies, lack of availability or shortcomings in quality on deliveries can have a significant, negative impact on the earnings situation.

In First Sensor's Production division, specialist machinery is used for which it is impossible to maintain full redundancy. There is the risk that production may be disrupted if a specialist machine breaks down, which could lead to temporary restrictions in the company's ability to deliver goods.

In R&D, there is a risk that First Sensor development projects may not lead to the desired results or that innovation trends may not be recognized in time. Production processes that are more cost-effective or innovations on the part of our competitors may impact the market position of the established First Sensor products. The First Sensor Group is in a strong competitive position due to its niche position achieved by the development of customer-specific special sensors.

With regard to financing, German institutional investors subscribed to promissory notes with terms of three years (€19.0 million) and five years (€12.0 million) placed by the company. The promissory note with the three-year term pays variable interest with a margin calculated on the basis of the 6-month EURIBOR. The promissory note with the five-year term pays fixed interest. The financial ratios specified were the debt/equity ratio, the equity ratio and the interest-cover ratio.

First Sensor has undertaken to adhere to key financial ratios (covenants) in connection with the promissory note loans; these are reviewed regularly and must meet the required targets at the end of the year.

Breach of the covenants provides an extraordinary reason for termination. If the agreement is not terminated, the breach will increase the interest margin by one percentage point.

In total, net financial liabilities amounted to €35.8 million at the end of the year (previous year: €39.0 million). A stable earnings situation in the coming years is a prerequisite for timely servicing of our financial liabilities. There is also a risk on the capital market that the basis used for calculating variable interest may develop unfavorably. Some precautions have been taken against this with interest rate hedges.

Changes in exchange rates have an impact on procurement and sales at First Sensor. Our intensive purchases of production materials on the global market mean that strong fluctuations in the US dollar can push up our purchase prices significantly. Changes in the US dollar also affect the competitiveness of First Sensor's products. We hedge known purchasing volumes in foreign currency with forward foreign exchange contracts.

A data protection officer for the entire Group was appointed in the last financial year to meet the requirements of data protection, as prescribed by law and necessary with regard to content. The aim of this measure is to protect individuals against infringement of their personal rights as a result of the use of their personal data.

Development of First Sensor's share price depends to a large extent on the company's earnings strength. Negative business development at the company may result in a lower value for the First Sensor share, restricting potential financial scope with respect to equity measures on a sustained basis or making First Sensor a target for a takeover.

In summary, there were no significant changes in the company's risk positions compared with the previous year in the year under review.

3. OPPORTUNITY REPORT

As well as the risks presented, business development also involves a range of opportunities that could lead to an above-target improvement in the net assets, financial position and results of operations.

The biggest opportunity to increase earnings comes from the reorganization of First Sensor into strategic divisions in order to make better use of existing potential. Four business units will be created as part of this plan, which will ensure a consistent focus on markets and customers.

The company will also systematically expand its international sales in Europe, Asia and North America through its existing units.

There is potential for optimization in Production through increased flexibility in the allocation of orders to different locations. The purchasing project is also expected to significantly improve margins.

In products, opportunities arise owing to the possibility of offering sensor solutions developed elsewhere in the company to other sectors or customers. Areas of overlap have been identified for "cross-selling", which would lead to an improvement in sales.

First Sensor is conducting a large number of internal development projects. According to the progress of these development projects, solutions may either reach market maturity earlier than planned or tap additional market potential.

The critical size reached by First Sensor in terms of sales is increasingly becoming a deciding factor in the awarding of contracts which will result in more orders. This is allowing First Sensor to access new groups of customers.

In summary, there were no significant changes in the company's opportunity positions compared with the previous year in the year under review.

E. RISK REPORTING IN CONNECTION WITH THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS

First Sensor uses derivative financial instruments solely to safeguard its business operations. These are forward foreign exchange contracts to reduce the impact of fluctuations in exchange rates in connection with purchases of materials in foreign currency. Please refer to the Notes for further details.

Interest rate swaps and interest caps have also been used to hedge interest rate risks in connection with the promissory note loans that have been issued. Detailed information is provided in the Notes. Counterparty risks arising from derivative financial instruments are countered by ensuring that these are concluded only with reputable banks.

F. ACCOUNTING-RELATED INTERNAL MONITORING SYSTEM

The principal aspects of the internal monitoring and risk management system are described below both in relation to the accounting processes of the consolidated companies and also in relation to the Group accounting process.

The internal monitoring and risk management system with regard to the accounting process and Group accounting process has not been statutorily defined.

First Sensor considers the internal monitoring and risk management system to be a comprehensive system and refers to the definitions set down by the German Institute of Auditors (IDW) for the accounting-related internal monitoring system (IDW PS 261 Para 19 f.) and for the risk-management system (IDW PS 340, Para 4).

The internal monitoring system is understood to be the principles, procedures and measures introduced by company management and aimed at achieving organizational implementation of management decisions to safeguard the effectiveness and profitability of the business activity (this also includes protection of assets, including prevention and detection of asset misappropriation), appropriateness and reliability of internal and external accounting as well as compliance with the statutory provisions applicable to the company.

The risk management system comprises all organizational rules and measures for the identification of risks and for dealing with the risks inherent in entrepreneurial activity.

The following structures and processes have been implemented at the company with respect to accounting processes for the consolidated companies and the Group accounting process:

- The Management Board bears overall responsibility for the internal monitoring and risk management system in relation to the accounting processes of the consolidated companies and the Group accounting process. All the companies included in the consolidated financial statements are integrated into a strictly defined management and reporting organization.
- With respect to the accounting processes of the consolidated companies and the Group accounting process, First Sensor considers those aspects of the internal monitoring and risk management system that have a material influence on Group accounting and the overall picture conveyed by the consolidated financial statements and Group management report to be significant:
- Deviation analyses to monitor the company-wide accounting process and the results thereof at Management Board level and at the level of the consolidated companies.
- Preventive monitoring measures in finance and accounting at First Sensor AG and the consolidated companies and in operational performance-related processes at the company, which generate material information for the preparation of the consolidated financial statements including the Group management report.
- Measures to ensure the proper computerized processing of accounting-related content and data.

G. INFORMATION OF RELEVANCE TO TAKEOVERS

The subscribed capital of €49.9 million is divided into 9.9 million shares. Of these

- 27.33% are held by Alegria Beteiligungsgesellschaft mbH, Munich, Germany, part of the ING Group, Netherlands, and
- 18.89% are held by DAH Beteiligungs GmbH, Mannheim, Germany, attributable to Mr. Daniel Hopp, Germany, and
- 8.27% are held by Lampe Beteiligungsgesellschaft mbH, attributable to Bankhaus Lampe KG.

The Management Board is not aware of any restrictions that affect the voting rights or the transfer of shares. Furthermore, there are no shares with special rights that confer control powers.

The Management Board is not aware of any employees with a share of the company's capital that do not exercise their controlling rights directly.

The provisions governing nomination and dismissal of members of the Management Board and changes to the articles of association are determined in line with statutory regulations.

In addition to contingent capital for issuing share options to Management Board members and employees, there is 2012 contingent capital for up to 3,800,000 shares if holders of convertible or option bonds exercise conversion or option rights.

The Management Board is authorized to acquire treasury shares up to a limit of 10% of the share capital.

In the event of a change of control at First Sensor AG, a maximum amount has been allowed for Dr. Martin U. Schefter if he resigns within one month of the change of control. A limited lump sum benefit is to be paid to Joachim Wimmers in the event of a change of control, provided that he resigns within two months of the change of control.

H. OTHER DECLARATIONS

The declaration of compliance with the German Corporate Governance Code pursuant to Article 161 AktG (German Stock Corporation Act) and the declaration of corporate governance pursuant to Article 289a HGB are made publicly accessible at all times on the company's website at www.first-sensor.com/de/investor-relations

Berlin, March 24, 2014

First Sensor AG

Dr. Martin U. Schefter
CEO

Joachim Wimmers
CFO

FIRST SENSOR SHARE

The share price reached an annual high of €8.90 in July within a reporting year marked by sideways movements, and was up around 1% by the end of the year at €8.28

Capital market environment

Against the backdrop of continuing low interest rates and their impact on the bond market, combined with significant drops in the gold investment sector, global stock markets recorded growth in prices. Looking back at 2013, this growth on the financial markets is being described as surprisingly positive, as forecasts for 2013 had indicated considerably lower expectations (euro crisis and fiscal cliff).

The policies of the European Central Bank and the US central bank have not resolved the debt problems. In particular, their bond purchases boosted share prices worldwide, leading to new highs in both the DAX and the Dow Jones. However, the highs reached by share indices mask the substantial drops suffered by both mining and metal shares and shares in energy suppliers.

Moreover, the gross domestic product of the euro zone fell again year-on-year in 2013 (-0.4%).

Market and index comparison of the performance of the First Sensor share

The price of First Sensor AG shares, which are listed on the Prime Standard, recorded a moderate drop early in 2013 before reaching a temporary high of €8.70 during the first quarter following the publication of the outlook for the year as a whole (March 5). It then fell again significantly by the end of the month. The share price ended the first quarter with an overall gain of around 1.2%, corresponding to a closing price of €8.30 (Xetra).

The shares did not continue to rise going into the second quarter, but increased later in the quarter. In the course of its rise during the month, the share price tested the downward trend line several times without success. The trend was broken briefly following the announcement of the change in management on June 15. The share price rose following this announcement, finishing the second quarter at a Xetra closing price of €8.30. This represents growth of around 1.2% compared with the beginning of the year.

Sales and earnings expectations for 2013 as a whole were revised downwards in the third quarter (August 19) and the share price came under pressure again, as at the beginning of the quarter, as a result of the bleaker outlook for the full year. Following a moderate increase of 3% in September, the share price stood at €7.75 (Xetra) on September 30.

In November the share price then recorded significant growth of 10%. It responded with a slight increase to announcements regarding the company's strategic realignment in order to focus on four high-growth areas of business (December 10) and the optimization of the financing structure for the growth strategy (December 17).

In conclusion, the price of First Sensor shares recorded a sideways movement in financial year 2013, gaining around 1% year-on-year, corresponding to a Xetra closing price of 8.28 at the end of the year.

The benchmark indices TecDAX and Prime All Share Index performed better than First Sensor shares in the course of 2013. The TecDAX gained around 38% last year, while the Prime All Share Index rose by around 25%.

Performance of the First Sensor share I January 1 to December 31, 2013

First Sensor share key figures

in € thousand, unless otherwise specified	Dec. 31, 2013	Dec. 31, 2012	Δ	Δ %
Share capital (€)	49,907,215	49,701,365	205,850#	0.41
Market capitalization	82,646	81,510	1,126#	1.38
Share price (€), XETRA closing price	8.28	8.20	0.08#	0.96
Net profit attributable to shareholders*	4,857	4,842	15#	0.31
Number of shares, weighted	9,981,443	9,940,273	41,170#	0.41
Earnings per share (€)*	0.49	0.49	0#	0

* For purposes of better comparability adjusted by PPA-amortization and one-off expenses due to extraordinary expenses in the respective financial years.

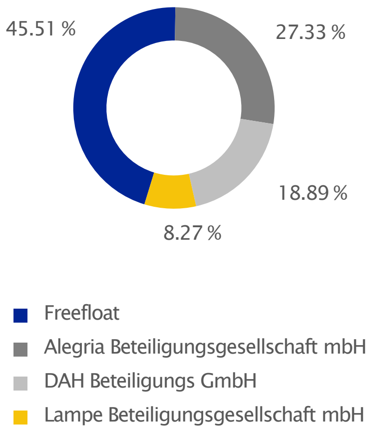
The company's share capital amounted to €49,907,215 as at the balance sheet date, divided into 9,981,443 no-par value bearer shares, each with a notional share of €5.00 in the share capital. This results in market capitalization of approximately €82.6 million at the end of 2013, at a closing price of €8.28.

The average number of First Sensor shares traded each day in financial year 2013 was around 11,000 (2012: average of around 19,000 shares).

Annual General Meeting

The Annual General Meeting of First Sensor AG was held at Pentahotel Berlin Köpenick on August 20, 2013. Around 62% of the company's share capital was represented at the meeting. Resolutions on the individual agenda items were adopted by the shareholders with a very large majority.

Shareholder structure as at December 31, 2013
(according to available voting rights notifications)



First Sensor share key data

ISIN	DE0007201907
Abbreviation	SIS
Class of security	No-par value ordinary bearer share
Market segment	Regulated market
Transparency level	Prime Standard
Trading centers	XETRA, all German stock exchanges
Industry	Technology
IPO	1999
Designated sponsor	Lang & Schwarz Broker GmbH
Analysts	Warburg Research, First Berlin

According to the voting rights notifications issued to us, the following individuals/institutions held more than 3% of shares in First Sensor AG on December 31, 2013:

Individual/company	Share (%)	Share (voting rights)	Allocation (direct/indirect)	Notification date
Alegria Beteiligungs Gesellschaft mbH	27.33	2,690,000		November 1, 2011
ING Groep N.V., Amsterdam, Netherlands	27.33	2,690,000	indirect	November 1, 2011
ING Insurance Topholding N.V., Amsterdam, Netherlands	27.33	2,690,000	indirect	February 22, 2012
ING Verzekeringen N.V., Amsterdam, Netherlands	27.33	2,690,000	indirect	November 1, 2011
ING Insurance Eurasia N.V., Amsterdam, Netherlands	27.33	2,690,000	indirect	November 1, 2011
Nationale Nederlanden Nederland B.V., Amsterdam, Netherlands	27.33	2,690,000	indirect	November 1, 2011
Nationale Nederlanden Levensverzekering Maatschappij N.V., Rotterdam, Netherlands	27.33	2,690,000	indirect	November 1, 2011
Parcom Capital B.V., Schiphol Airport, Netherlands	27.33	2,690,000	indirect	November 1, 2011
DPE Deutsche Private Equity B.V., Schiphol Airport, Netherlands	27.33	2,690,000	indirect	November 3, 2011
Parcom Germany I GmbH & Co. KG, Munich, Germany	27.33	2,690,000	indirect	November 1, 2011
Alegria Beteiligungsgesellschaft mbH, Munich, Germany	27.33	2,690,000	direct	November 1, 2011
DAH Beteiligungs GmbH	18.89	1,859,605		October 28, 2011
Daniel Hopp, Germany	18.89	1,859,605	indirect	October 28, 2011
Hopp Verwaltungs GmbH, Mannheim, Germany	18.89	1,859,605	indirect	October 28, 2011
Hopp Beteiligungsgesellschaft mbH & Co. KG, Mannheim, Germany	18.89	1,859,605	indirect	October 28, 2011
DAH Beteiligungs GmbH, Mannheim, Germany	18.89	1,859,605	direct	October 28, 2011
Lampe Beteiligungsgesellschaft mbH	8.27	814,230		May 15, 2012
Bankhaus Lampe KG, Bielefeld, Germany	8.27	814,230	indirect	May 15, 2012
Lampe Beteiligungsgesellschaft mbH, Düsseldorf, Germany	8.27	814,230	direct	May 16, 2012

CONSOLIDATED BALANCE SHEET (IFRS)

ASSETS in € thousand	Notes	Dec. 31, 2013	Dec. 31, 2012	Δ
Intangible assets	(3)	22,931	25,628	-2,697
Internally-generated intangible assets	(4)	2,875	3,123	-248
Goodwill	(5)	29,816	29,816	0
Property, plant and equipment	(6)	37,528	40,027	-2,499
Securities in fixed assets		0	59	-59
Other non-current assets		21	22	-1
Deferred taxes assets	(26)	1,791	774	1,017
Total non-current assets		**94,962**	**99,449**	**-4,487**
Inventories	(7)	29,765	31,150	-1,385
Trade accounts receivables	(8)	6,577	12,840	-6,263
Tax refund claims		717	482	235
Other current assets	(9)	3,357	2,485	872
Cash and cash equivalents	(10)	11,357	12,201	-844
Total current assets		**51,773**	**59,158**	**-7,385**
TOTAL ASSETS		**146,735**	**158,607**	**-11,872**

EQUITY AND LIABILITIES in € thousand	Notes	Dec. 31, 2013	Dec. 31, 2012	Δ
Share capital	(11)	49,907	49,701	206
Capital reserves	(12)	15,960	15,699	261
Earning reserves	(12)	1,004	1,004	0
Currency translation	(12)	-570	-329	-241
Revaluation reserves	(12)	-495	-821	326
Retained earnings		4,018	4,537	-519
Minority interest		182	125	57
Total shareholders' equity		**70,006**	**69,916**	**90**
Non-current post-employment benefit obligation	(13)	310	325	-15
Other non-current provisions	(14)	195	182	13
Long-term loans, excluding current portion	(15)	42,927	39,014	3,913
Other non-current liabilities	(16)	5,944	7,532	-1,588
Deferred tax liabilities	(26)	6,835	7,171	-336
Total non-current liabilities		**56,211**	**54,224**	**1,987**
Income tax provisions and liabilities		1,299	1,688	-389
Other current provisions	(14)	550	581	-31
Short-term loans and current portion of long-term loans	(15)	4,217	12,189	-7,972
Payments received on account of orders		865	1,055	-190
Trade accounts payables		7,706	7,679	27
Other current liabilities	(17)	5,881	11,275	-5,394
Total current liabilities		**20,518**	**34,467**	**-13,949**
TOTAL EQUITY AND LIABILITIES		**146,735**	**158,607**	**-11,872**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

Consolidated income statement

in € thousand	Notes	Jan. 1 – Dec. 31, 2013	Jan. 1 – Dec. 31, 2012	Oct. 1 – Dec. 31, 2013	Oct. 1 – Dec. 31, 2012
Sales revenues	(19)	108,542	111,936	26,483	26,994
Other operating income	(20)	3,422	3,913	1,029	695
Change in inventories of finished goods and work in progress	(21)	–830	1,217	–757	680
Other own work capitalized	(22)	1,280	2,098	506	1,044
Costs of materials/ purchased services	(23)	–50,263	–54,983	–11,712	–13,315
Personnel expenses	(24)	–36,617	–36,306	–9,877	–9,782
Other operating expenses	(25)	–13,968	–14,492	–4,192	–3,125
PROFIT FROM OPERATIONS (EBITDA)		11,566	13,383	1,480	3,191
Depreciation of property, plant and equipment and amortization of intangible assets		–8,822	–9,541	–2,269	–2,660
Depreciation/ amortization of current assets		0	–286	0	–286
EARNINGS BEFORE INTEREST AND TAX (EBIT)		2,744	3,556	–789	245
Loss from investments		0	–28	0	–36
Interest income		31	92	7	17
Interest expenses		–3,402	–2,741	–1,415	–680
Currency gains		232	277	82	–83
Currency losses		–693	–212	–264	–15
INCOME BEFORE TAX AND MINORITY INTEREST		–1,088	944	–2,379	–552
Income tax expenses	(26)	626	–452	567	–336
NET PROFIT FOR THE PERIOD		–462	492	–1,812	–888
Net profit for the period attributable to First Sensor AG shareholders		–519	458	–1,749	–855
Net profit for the period attributable to minority interest		57	34	–63	–33
Earnings per share in € (basic = diluted)	(27)	–0.05	0.05	–0.18	–0.09

Other comprehensive income

NET PROFIT FOR THE PERIOD	–462	492	–1,812	–888
Actuarial gains and losses on defined benefit plans	16	–39	16	–39
Taxes on other comprehensive income	–5	12	–5	12
Items not subsequently reclassified to the income statement	11	–27	11	–27
Changes from currency translation	–241	–40	–28	22
Revaluation of derivative financial instruments	450	–508	148	–195
Taxes on other comprehensive income	–135	153	–71	153
Items that can be subsequently reclassified to the income statement	74	–395	49	–20
TOTAL COMPREHENSIVE INCOME	–377	70	–1,752	–935
Thereof attributable to shareholders of First Sensor AG	–434	36	–1,689	–902
Thereof attributable to minority interest	57	34	–63	–33

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

in € thousand	Number of shares in thou.	Capital stock	Capital reserves	Earning reserves	Currency translation	Revaluation reserves	Retained earnings	Minority interest	Total shareholders' equity
As at January 1, 2012	9,843	49,215	15,471	0	-289	-439	5,083	91	69,132
Net profit for the period							458	34	492
Other comprehensive income					-40	-382	-422		-422
Total comprehensive income					-40	-382	458	34	70
Share-based remuneration			146						146
Capital increase	97	486	82						568
Appropriation of earnings				1,004			-1,004		0
As at December 31, 2012	9,940	49,701	15,699	1,004	-329	-821	4,537	125	69,916

in TEUR	Number of shares in thou.	Capital stock	Capital reserves	Earning reserves	Currency translation	Revaluation reserves	Retained earnings	Minority interest	Total shareholders' equity
As at January 1, 2013	9,940	49,701	15,699	1,004	-329	-821	4,537	125	69,916
Net profit for the period							-519	57	-462
Other comprehensive income					-241	326			85
Total comprehensive income					-241	326	-519	57	-377
Share-based remuneration			251						251
Capital increase	41	206	10						216
Appropriation of earnings									0
As at December 31, 2013	9,981	49,907	15,960	1,004	-570	-495	4,018	182	70,006

CONSOLIDATED STATEMENT OF CASH FLOW (IFRS)

in € thousand	Jan. 1 – Dec. 31, 2013	Jan. 1 – Dec. 31, 2012
INCOME BEFORE TAX AND MINORITY INTEREST	–1,088	944
Interest paid	2,842	2,649
Depreciation of property, plant and equipment and amortization of intangible assets	8,822	9,541
Income from investment grants	–600	–544
Income/ loss from the disposal of fixed assets	42	4
Other non-cash expenses/ income	283	432
Changes in provisions	–17	–263
Changes in working capital	7,425	–2,345
Changes in other assets and liabilities	–3,671	185
Income tax paid	–963	–651
CASH FLOW FROM OPERATING ACTIVITIES	13,075	9,952
Payments for investments in property, plant and equipment and intangible assets	–3,761	–9,232
Payments for investments in associated companies	0	–66
Payments for acquisition of subsidiaries less cash acquired	–4,750	–4,509
Proceeds from disposal of property, plant and equipment, intangible assets and investments	710	279
Payments for acquisition of other financial assets	0	–12
Proceeds from investment grants	600	612
Interest received	56	92
CASH FLOW FROM INVESTMENT ACTIVITIES	–7,145	–12,836
Proceeds from shareholders	216	593
Repayments of financial liabilities	–41,049	–8,089
Proceeds from loans	36,990	12,466
Interest paid	–2,898	–2,741
CASH FLOW FROM FINANCING ACTIVITIES	–6,741	2,229
NET CHANGE IN CASH AND CASH EQUIVALENTS	–844	–655
Currency differences from converting funds	–33	56
CASH FUNDS AT THE BEGINNING OF THE FINANCIAL YEAR	12,201	12,800
CASH FUNDS AT THE END OF THE FINANCIAL YEAR	11,357	12,201

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

1. PRESENTATION OF THE SITUATION AT THE GROUP

Parent company

The parent company is First Sensor AG, domiciled in Berlin, Peter-Behrens-Straße 15, 12459 Berlin, and entered in the commercial register of Berlin in department B under the number HRB 69326. First Sensor AG is listed in the regulated market on the Frankfurt Stock Exchange in the Prime Standard segment under ISIN DE0007201907.

First Sensor AG and its subsidiaries, referred to hereinafter as "First Sensor", operate in the sensor production and microsystems technology industries. The company's business mainly focuses on the development, manufacture and distribution of customer-specific optical and non-optical semiconductor sensors and sensor systems. First Sensor also develops and manufactures highly reliable customized hybrid circuits and products for microsystem engineering and advanced packaging.

It is anticipated that these Consolidated Financial Statements will be authorized for issue by the Supervisory Board on March 25, 2014.

Reporting principles

First Sensor's consolidated financial statements for 2013 have been prepared in accordance with the applicable International Financial Reporting Standards (IFRS) as at the balance sheet date and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that must be applied in the European Union.

The consolidated financial statements were prepared in euro (€). Unless otherwise indicated, all amounts have been stated in thousands of euros (€ thousand). The financial year of First Sensor AG and its consolidated subsidiaries corresponds to the calendar year.

The statement of comprehensive income has been prepared using the nature of expense method.

To improve clarity, individual items have been summarized in the balance sheet and the statement of comprehensive income. The Notes show a breakdown of these items. Rounding differences in the presentation may result in divergence from the exact mathematical values.

The accounting policies are basically identical to those used in the previous year. Compared with the previous year, the balance sheet structure was organized according to descending maturity. Some of the items were also presented in greater detail. These changes help to streamline the presentation of the assets situation.

In financial year 2013, new standards, amendments to existing standards and new interpretations were approved.

a. Published standards and interpretations for which application was mandatory for the first time for IFRS financial statements as of December 31, 2013:

Amendments to standards:

- Amendments to IAS 1 "Presentation of Financial Statements": Presentation of Items of Other Comprehensive Income (entry into force on July 1, 2012)
- Amendments to IAS 12 "Income Taxes": Deferred Taxes – Realization of Underlying Assets (entry into force on January 1, 2013 **)
- Amendments to IAS 19 "Employee Benefits": elimination of the corridor method, disclosure of actuarial gains and losses, past service cost, interest cost and expected returns on plan assets (entry into force on January 1, 2013)

- Amendments to IFRS 1 "First-Time Adoption of International Financial Reporting Standards": Severe Hyperinflation and Removal of a Fixed Date of Transition for First-time Adopters (entry into force on January 1, 2013)
- Amendments to IFRS 1 "First-Time Adoption of International Financial Reporting Standards": Government Loans (entry into force on January 1, 2013)
- Amendments to IFRS 7 "Financial Instruments: Disclosures": Disclosures on Offsetting Financial Assets and Financial Liabilities (entry into force on January 1, 2013)
- Various amendments: IASB 2009 – 2011 Annual Improvement Project (entry into force on January 1, 2013)

New standards:

- IFRS 13 "Fair Value Measurement": (entry into force on January 1, 2013)

New interpretations:

- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine": (entry into force on January 1, 2013)

b. Published standards and interpretations for which application was not mandatory for IFRS financial statements as of December 31, 2013:

Amendments to standards:

- Amendments to IAS 19 "Employee Benefits": Defined Benefit Plans – Employee Contributions (entry into force on January 1, 2015) *
- Amendments to IAS 27 "Separate Financial Statements": restriction of the regulations for separate financial statements (entry into force on January 1, 2014 ***)
- Amendments to IAS 28 "Investments in Associates and Joint Ventures": mandatory application of the equity method (entry into force on January 1, 2014 ***)
- Amendments to IAS 32 "Financial Instruments: Presentation": Offsetting Financial Assets and Financial Liabilities (entry into force on January 1, 2014)
- Amendments to IAS 36 "Impairment of Assets": Recoverable Amount Disclosures for Non-Financial Assets (entry into force on January 1, 2014) *
- Amendments to IAS 39 "Financial Instruments": Novation of Derivatives, Transfer of Derivatives and Continuation of Hedge Accounting (entry into force on January 1, 2014) *
- Amendments to IFRS 10, IFRS 12, IAS 27: exceptions to the consolidation obligation for investment entities (entry into force on January 1, 2014) *
- Various amendments: IASB 2010 – 2012 Annual Improvement Project (entry into force on January 1, 2015) *
- Various amendments: IASB 2011 – 2013 Annual Improvement Project (entry into force on January 1, 2015) *

New standards:

- IFRS 10 "Consolidated Financial Statements": (entry into force on January 1, 2014 ***)
- IFRS 11 "Joint Arrangements": (entry into force on January 1, 2014 ***)
- IFRS 12 "Disclosures of Interests in Other Entities": (entry into force on January 1, 2014 ***)
- IFRS 9 "Financial Instruments" (entry into force unknown) *

New interpretations:

- IFRIC 21 "Levies": accounting for levies imposed by governments (entry into force on January 1, 2014) *

* EU endorsement not yet given.

** Binding application for EU companies postponed until January 1, 2013.

*** Binding application for EU companies postponed until January 1, 2014.

At the present time, the company has taken into account the mandatory application of the new standards and interpretations within the EU – and will continue to do so. There has been no material impact on the balance sheet and the income statement and no material impact is expected. The Amendments to IAS 19 have resulted in changes to pension provisions. For more information, please refer to Section 13. Provisions for pensions. Some amendments and additional disclosures were required in the Notes.

Important discretionary decisions and uncertainty of estimates

In preparing the consolidated financial statements, some assumptions and estimates have been made which affected the amount and the disclosure of reported assets and liabilities, earnings and expenses. In individual cases, the actual values may deviate from these assumptions or estimates at a later stage. Relevant changes will be made once more accurate information is available. All assumptions and estimates are made to the best of our knowledge and belief in order to provide a true and fair view of the Group's net assets, financial position and results of operations.

Impairment of goodwill and non-current assets

First Sensor annually tests goodwill and other non-current assets for impairment in accordance with IAS 36. The impairment test is performed on the basis of a comparison between the carrying amount of an asset and the recoverable amount that can be generated from the asset or group of assets or the cash-generating unit. The recoverable amount is the higher of the fair value less the costs to sell and the value in use.

The recoverable amount is calculated by means of a discounted cash flow analysis. The recoverable amount is calculated based on the income planning for the cash-generating unit in question. The WACC was also applied as a discount factor, which reflects the weighted average cost of capital for a corresponding peer group; the cash flow was estimated in a detailed planning phase up to 2016 and then in a terminal value. The income planning is essentially based on previous experience of management expectations regarding the development of the relevant market. The main non-current assets to be subjected to annual impairment testing are the First Sensor Group's reported goodwill as well as intangible assets resulting from business combinations.

Share-based remuneration

First Sensor has granted selected employees and Board members share-based remuneration. The measurement of the personnel expenses for this share-based remuneration contains estimates regarding the extent to which the conditions of these options are met as well as of relevant market parameters.

2. PRINCIPLES OF CONSOLIDATION

Basis of consolidation

The Group's consolidated financial statements comprise First Sensor AG and the companies under its control. First Sensor AG is deemed to control those companies where it directly or indirectly holds over 50% of the voting rights of the company's subscribed capital and/or is in a position to control the financial and business policy of a company such that it profits from the company's activities. As at December 31, 2013, the non-controlling interests correspond to the part of the total net profit for the period and the net worth of Silicon Micro Sensors GmbH attributable to shares the Group does not hold (minority interests). Non-controlling interests are recognized separately in the statement of comprehensive income and under equity capital in the consolidated balance sheet. Recognition under equity is presented in the consolidated balance sheet separately from the parent shareholders' equity. When non-controlling interests are acquired, the carrying amounts for the parent shareholders and the non-controlling interests are adjusted accordingly. Any difference between the adjustment of the non-controlling interest and the received or paid contingent consideration is recognized directly in equity and allocated to the parent company equity holders. Losses incurred by a subsidiary are allocated to non-controlling interests even where this results in a negative balance, provided that there is a corresponding reimbursement right for non-controlling shareholders.

The following mergers took place in the year under review:

- Berlin-based ELBAU Elektronik Bauelemente GmbH Berlin, in which First Sensor AG held 100% of voting rights, was merged with First Sensor AG with effect from January 1, 2013, in a merger agreement dated April 17, 2013. It is now trading as the Berlin-Weißensee branch of First Sensor AG.
- Chemnitz-based MEMSfab GmbH, in which First Sensor AG held 100% of voting rights, was merged with the company pursuant to a merger agreement dated June 27, 2013 with an addendum dated October 30, 2013, by transferring all of its assets and dissolving the company without winding it up.
- In the USA, Boston-based Sensortechnics Inc. was merged with First Sensor Inc. (formerly Pacific Silicon Sensor Inc.), based in Westlake Village, on October 25, 2013.

The following companies were included as fully consolidated subsidiaries in the consolidated financial statements (the First Sensor ownership interest is identical to the current direct or indirect voting rights):

Company	Head office	Core business activity	Ownership interest
First Sensor Technology GmbH	Berlin	Development, manufacture and sale of piezoresistive pressure sensors for all industry sectors	100 %
Lewicki microelectronic GmbH	Oberdischingen	Manufacture and sale of microelectronic components and assemblies	100 %
Microelectronic Packaging Dresden GmbH	Dresden	Manufacture and sale of microelectronic components and assemblies	100 %
First Sensor Inc. (incl. Sensortechnics Inc.)	Westlake Village, USA	Development, production and sale of sensor systems and sale of sensor chips	100 %
Silicon Micro Sensors GmbH	Dresden	Development, production and sale of microelectronic and micromechanical sensor systems, components, modules and microsystems	85 %
Elbau Singapore Pte. Ltd.	Singapore	Developer and manufacturer of sensor modules	100 %
Klay Instruments b.v.	Dwingeloo, Netherlands	Industrial solutions	100 %
Sensortechnics Ltd.	Rugby, England	Sale of sensor modules	100 %
Sensortechnics Corp.	Montreal, Canada	Development of sensor modules	100 %
Sensortechnics Scandinavia AB	Kungens Kurva, Sweden	Sale of sensor modules	51 %

Consolidation methods

The financial statements for the subsidiaries and affiliated companies included in the consolidated financial statements are based on uniform accounting standards and reporting periods/dates which match those of the parent company.

Internal Group balances and transactions and resulting internal Group profits and dividends between consolidated companies were eliminated in full.

Business combinations are reported according to the purchase method. The costs of a company acquisition are calculated as the total of the consideration transferred, assessed at its fair value at the acquisition date, and the non-controlling shares in the acquired company. In any business combination, the non-controlling shares in the acquired company are measured either at fair value or as the relevant proportion of identifiable net assets.

Costs incurred as a result of the business combination are recognized as expenditure. If the Group acquires a company, it assesses the appropriate classification and designation of the financial assets and liabilities assumed in accordance with the contract terms, economic conditions and the prevailing conditions at the time of the acquisition.

The agreed contingent consideration is recognized at fair value at the time of the acquisition. Subsequent changes to the fair value of a contingent consideration representing a financial asset or a financial liability are recognized in the income statement in accordance with IAS 39. A contingent consideration classified as equity is not remeasured and its subsequent payment is accounted for as equity capital.

Upon initial recognition, goodwill is valued at cost, calculated as the surplus of the transferred consideration over the acquired identifiable assets and liabilities assumed by the Group. If this consideration is lower than the fair value of the acquired subsidiary's net worth, the difference is recognized in the statement of comprehensive income.

Following initial recognition, goodwill is valued at cost minus accumulated impairment losses. For the purposes of impairment testing, the goodwill gained from a business combination is allocated, as of the acquisition date, to the Group's cash-generating units that are expected to profit from the business combination. This applies irrespective of whether other assets or liabilities of the acquired company are assigned to these cash-generating units.

If goodwill has been assigned to a cash-generating unit and a division of this unit is sold, the goodwill of the disposed unit is included in the calculation of the result of the sale as part of the carrying amount of the relevant division. The value of the portion of goodwill sold is determined on the basis of the relative values of the business division sold and the remaining portion of the cash-generating unit.

Business combinations and goodwill – before December 31, 2008

Based on the methods applied for accounting of company acquisitions in the past, the following different principles applied in comparison to the above requirements:

Transaction costs directly attributable to the acquisition constituted part of the acquisition costs.

The non-controlling interest (formerly, "minority interest") was measured as the relevant share of the identifiable net assets of the acquired company.

In the case of business combinations achieved in stages, individual acquisition transactions were recorded separately. An interest acquired subsequently did not affect the goodwill from the previous acquisition transaction.

When the Group acquired a company, embedded derivatives accounted for separately by the acquired company at the time of the acquisition were only revalued if the business combination resulted in a change to the contract terms which would have caused significant changes to the payment flows otherwise resulting from the contract.

A contingent consideration was only recognized if the Group had a present obligation, more likely to result in an outflow of resources embodying economic benefits than not, and a reliable estimate could be made. Subsequent adjustments to the contingent consideration affected the goodwill.

Company acquisitions

In connection with the acquisition of the Sensortechnics Group, First Sensor undertook to pay a subsequent purchase price installment of €4.75 million as part of the total consideration. This was paid in April 2013. Financing was provided by the existing syndicate and had already been approved as part of the total commitment.

Shares in affiliated companies

Affiliated companies are holdings in which First Sensor is able to exercise significant influence over financial and business policy. Accounting uses the equity method. The goodwill calculated from the difference between the costs and the share of revalued equity at the time of the acquisition is included in the carrying amount of the affiliated company.

If the carrying amount of the holding exceeds the recoverable amount, the asset is written down to its recoverable amount. The recoverable amount is the higher of the fair value less the costs to sell and the value in use. The impairment is recognized in the income statement under "Share in the profit or loss of affiliated companies".

The share in the net income attributable to the interests held is recognized in earnings from financial assets recognized using the equity method. Proportionate losses and intra-group profits from transactions with affiliated companies, which have to be eliminated, are offset against the carrying amount of the interest in the income statement.

There were no interests in affiliated companies as at the balance sheet date.

Discontinued operations

No operations were discontinued in financial year 2013.

Currency translation

The reporting currency of the First Sensor Group is euro, which is also the functional currency of the parent company. Financial statements of consolidated companies prepared in foreign currency are converted on the basis of the functional currency concept in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" using the modified reporting date method. As subsidiaries run their business independently from a financial, economic and organizational viewpoint, the functional currency is identical to the local currency of the company concerned.

Upon initial recognition, foreign currency transactions are translated from the foreign currency into the functional currency at the spot rate applicable on the date of the respective business transaction. Any exchange differences resulting from the settlement of monetary items or the translation of monetary items at exchange rates other than those in force at the time of initial recognition are recognized in the income statement as an expense or income.

Non-monetary items measured in a foreign currency at historical cost are translated using the exchange rate valid at the date of the transaction. Non-monetary items measured in a foreign currency at fair value are translated using the exchange rate valid at the time of the measurement of fair value.

Foreign subsidiaries

All foreign First Sensor subsidiaries included in consolidation are considered financially independent foreign units since they are financially, economically and organizationally autonomous. Their functional currencies correspond to their local currency. The balance sheets of foreign subsidiaries are translated at the exchange rate valid on the reporting date using the rates shown below:

Exchange rates as at the reporting date	2013	2012
US dollar (USD)	1.37910	1.31940
Pound sterling (GBP)	0.83370	0.81610
Swedish krona (SEK)	8.85910	8.58200
Singapore dollar (SGD)	1.74140	1.61110
Canadian dollar (CAD)	1.46710	1.31370

The income statements are converted at the average monthly exchange rate.

Currency translation is recognized directly in equity, i.e. all exchange differences that arise are recognized as a separate component of equity under exchange equalization items.

Cash and cash equivalents

Cash and cash equivalents include cash, term deposits with remaining terms of up to three months and sight deposits. The cash equivalents shown in the cash flow statement are defined in accordance with the company's cash management and are identical to cash.

Funds with limited availability and remaining terms of over three months are recognized under Other assets.

Financial assets

Financial assets are generally broken down into the following categories:

- receivables and loans granted,
- derivatives which meet the requirements of hedge accounting,
- securities in fixed assets.

A financial asset is initially recognized at the acquisition cost, which corresponds to the fair value of the consideration; transaction costs are included. Financial assets from usual sales and purchases are recognized as of day of trading.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost applying the effective interest method minus any impairment costs. Amortized costs are calculated taking into consideration any discounts or premiums at acquisition and include all fees which are an integral part of the effective interest rate and the transaction costs.

Profits and losses are recorded in the total profit or loss for the period if loans and receivables are derecognized or impaired and in the context of amortization.

Financial assets are reviewed for impairment at the balance sheet date. When it is improbable, in the case of financial assets carried at amortized cost, that the company will be able to collect all loans and receivables due under the terms of the contract, an impairment or value adjustment of the receivables is recognized in the income statement. A value adjustment previously expensed will be corrected in the income statement if the subsequent partial recovery (or reduced impairment) can be objectively measured.

However, an increase in value will be recognized only insofar as it does not exceed the amount of amortized cost.

Derecognition

Financial assets or a part of financial assets are derecognized if First Sensor loses control over the contractual rights from which the asset arises.

Recognition of derivatives which meet the requirements of hedge accounting is explained in the Notes under "Derivative financial instruments".

First Sensor assesses at the balance sheet date whether a financial asset is impaired. If there is objective evidence of impairment on loans and receivables recognized at amortized cost, the amount of the loss is determined as the difference between the carrying amount of the asset and the cash value of expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate (i.e. the interest rate originally recognized).

The carrying amount of the asset is then either reduced directly or an allowance account is used. The amount of the loss is recognized in the income statement. First Sensor first assesses whether there is objective evidence of impairment of financial assets that are significant. It then assesses whether there is objective evidence of impairment of financial assets that are not significant, individually or collectively. If the Group determines that in the case of a financial asset assessed individually, whether significant or not, there is no objective evidence of impairment, it includes this asset in a group of financial assets with a similar default-risk profile and examines them collectively for impairment. Assets individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective impairment assessment.

Offsetting

Financial assets and liabilities are set off only if there is a right at the same time to set off the reported amounts against each other and the intention is to settle on a net basis or to settle the associated liability simultaneously with the realization of the asset.

Fair value

The fair value of financial instruments traded on active markets is determined by the market price quoted on the reporting date or the publicly quoted price (bid price for long positions and asking price for short positions) without any deduction for transaction costs.

The fair value of financial instruments not traded on any active market is determined using valuation measurement methods.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow methods and other valuation models.

Please refer to "Derivative financial instruments" in the Notes for an analysis of the fair values of financial instruments and other details of how financial instruments are valued.

The company assumes that the fair values of financial assets and financial liabilities essentially correspond to their carrying amounts.

The net result for financial assets and liabilities amounted to €3,877 thousand for the financial year (previous year: €2,693 thousand).

Inventories

Materials and other supplies held for use in the production of inventories are measured at cost and not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. Sale costs still to be incurred are also taken into account. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realizable value, the materials are written down to net realizable value.

Work in progress and finished goods are valued at cost or at the market value if lower. Manufacturing costs comprise direct personnel costs, costs of materials and the attributable portion of production overheads. They are determined using cost unit accounting. Interest on borrowing is not capitalized. Obsolete articles and those with low turnover are adjusted in value appropriately.

Due to production related specialties an inversed valuation method for the research and development orders is in place in the Berlin-Weißensee branch. Basically the selling prices with an average gross margin were taken into account. Additionally deductions for the percentage of completion and for assumed selling expenses were made.

Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. No borrowing costs were capitalized in the financial year just closed. In the case of disposals from property, plant and equipment, the historical cost and the cumulative depreciation are derecognized and a gain or loss from the disposal recorded in the income statement.

Scheduled depreciation is performed on a straight-line basis over the following useful lives:

Buildings	25 - 33 years
Capitalization through company acquisitions	5 - 15 years
Office equipment	1 - 14 years

The useful lives and the depreciation methods are reviewed regularly to ensure that the economic benefits are consistent with the period of depreciation.

Assets under development are capitalized at cost and written off on completion and commissioning. Cost includes the production-related full costs. These include the prime costs and production overheads associated with the personnel costs directly related to the construction of assets.

Intangible assets

Intangible assets are capitalized by First Sensor if:

- as a result of past events, the company retains beneficial ownership of the asset and
- it is to be assumed that the company will continue to have beneficial ownership of this asset in the future and
- the asset costs can be reliably measured.

This is the method applied when intangible assets are acquired externally. Internally-generated intangible assets are measured at the directly attributable development costs if all the requirements of IAS 38.57 are met. Overheads necessary to generate the asset and that can be directly attributed to it are also capitalized. Capitalization ceases once the product is completed and available for general use.

The following six requirements must be met for capitalizing development costs under IAS 38.57 and have been met in full in the present cases:

- Technical feasibility of completing the asset so that it will be available for internal use and/or sale; this has been fulfilled.

- The intention is to complete the intangible asset, use or sell it.
- The ability exists to use or sell the intangible asset.
- There is evidence of the expected future economic benefit.
- Adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset.
- The company is able to measure reliably the expenditure attributable to the intangible asset during its development.

Acquired developments (manufacturing expertise) are also recognized as intangible assets provided that they can be reliably measured and that the company has control over utilization of the results of the development project.

Amortizable intangible assets are recognized at cost less accumulated amortization and accumulated impairment. Non-amortizable intangible assets (goodwill) are recognized at cost less accumulated impairment losses. In accordance with IAS 38, amortizable intangible assets are amortized uniformly over their estimated useful life. Amortization begins when the asset is available for use. The period and schedule of amortization are reviewed at the end of each financial year.

(a) Software

Software is capitalized at cost and reported as an intangible asset provided this cost does not constitute an integral part of the associated hardware. Software is amortized over a period of three to four years using the straight-line method.

(b) Goodwill

On initial recognition, goodwill is measured at cost. The cost is calculated as the excess of the consideration received and the amount of the non-controlling interest over the acquired identifiable assets and liabilities assumed by the Group.

Irrespective of whether any indication of impairment exists, the recoverable amount for the cash-generating unit (CGU) to which the goodwill applies is calculated annually. If the carrying amount exceeds the recoverable amount, a valuation allowance is recognized. If the recoverable amount is only 10% more than the carrying amount, the theoretical potential for valuation allowances is calculated in a sensitivity analysis. To do this, the underlying earnings before interest and tax (EBIT) are reduced by 10% and the risk-free basic interest rate is raised by 1 percentage point, and the effects on capitalized goodwill are calculated.

(c) Research and development costs

Expenditure on research and development activities is recognized in income in the period in which it is incurred unless the requirements of IAS 38.57 can be demonstrated in the case of development costs.

(d) Developments

First Sensor has acquired development work as part of one of its acquisitions. This is subject to scheduled amortization over 20 years. Amortization begins when the product is marketed.

(e) Brands

Identified assets were acquired in the form of brands as part of the acquisition of the Sensortechnics Group. The Klay brand is not subject to scheduled amortization because it has no defined useful life. The Sensortechnics brand is amortized over an estimated useful life of 7 years as of the start of 2012.

(f) Customer base

Customer bases have been acquired as a result of the acquisition of the Sensortechnics Group and have been recognized as intangible assets. Customer bases are amortized on a straight-line basis over an expected useful life of 6 – 10 years.

(g) Orders on hand

As part of the acquisition of the Sensortechnics Group, First Sensor acquired orders on hand, which were recognized as intangible assets. Orders on hand will be written off in accordance with the expected life of the underlying contracts by the end of 2013.

(h) Impairment of non-current assets

Property, plant and equipment and intangible assets are tested for potential impairment if, owing to events or changes in external circumstances, there are indications that the recoverable value for the asset at the balance sheet date will remain less than its carrying amount, or if annual impairment tests are required (goodwill and intangible assets unused to date). If the carrying amount of an asset exceeds the lower fair value, impairment is recognized with respect to property, plant and equipment and intangible assets reported at cost. The recoverable amount is the higher of the fair value less the costs to sell and the value in use. The fair value less costs to sell is the amount that can be achieved by sale of the asset in a normal transaction between knowledgeable parties.

The value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life. The recoverable amount of each individual asset must be estimated or, if this is not possible, for the smallest identifiable cash-generating unit.

Provisions

In accordance with IAS 37, provisions are reported for obligations with respect to which the timing or amount are uncertain. Provisions should be recognized when, and only when:

- the company has a present obligation (legal or constructive) as a result of a past event;
- it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefit will be required to settle the obligation and
- a reliable estimate can be made of the amount of the obligation.
- The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date, in other words, the amount the company would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party.

Non-current provisions are discounted at a pre-tax interest rate provided that the effect of discounting is significant. If provisions are discounted, the increase in the provision with the passage of time is reported as financial expenditure.

Liabilities relating to a potential obligation resulting from a past event and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise are reported in the Notes as contingent liabilities. Contingent liabilities may also result from a current obligation related to past events but not recorded, because:

- it is not probable that an outflow of resources embodying economic benefits will be required to settle this obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

No contingent liability is disclosed if the probability of an outflow of resources with economic benefit is small.

Financial liabilities

Financial liabilities are categorized as follows:

- financial liabilities held for trading and
- other financial liabilities.

The financial liabilities reported in the First Sensor consolidated financial statements were classified as other financial liabilities.

A financial liability is initially recognized at cost, which is the fair value of the consideration given; transaction costs are included. After initial recognition, interest-bearing loans are measured at amortized cost using the effective interest method. Gains or losses resulting from amortization or derecognition are recognized in the income statement using the effective interest method.

Financial liabilities are no longer reported once they have been settled, i.e. once contractual obligations have been settled, cancelled or have expired.

Employee benefit

Defined contribution plans

Defined contribution plans exist for Management Board members, directors and senior employees. These are pension commitments in an intercompany provident fund. The company pays fixed monthly amounts into the provident fund. The payments made by the Group into defined contribution plans are recognized in the income statement in the year to which they relate. The same applies to payments made into state pension schemes.

Share options

A share option plan allows selected employees, i.e. the Management Board, directors and staff of First Sensor, to share in the company's future performance in the medium and long term.

The expenses resulting from the granting of equity instruments and the corresponding increase in equity are recognized over the period within which vesting or service conditions have to be met (vesting period). This period ends on the vesting date, in other words, on the date the employee in question becomes irrevocably entitled. The cumulative expenses reported at each balance sheet date arising from the granting of the equity instruments up to the vesting date reflect the portion of the vesting period that has already expired and the number of equity instruments, according to the Group's best estimate, that will vest at the end of the vesting period. The amount recognized in the income statement reflects the changes in the cumulative expenses at the beginning and end of the reporting period.

No expense is recognized for remuneration entitlements that do not vest. This does not include remuneration entitlements which can only vest subject to fulfillment of certain market conditions. These are deemed vested irrespective of whether the market conditions are fulfilled provided that all other service conditions are met.

The dilutive effect of the outstanding share options is reflected in the calculation of the earnings per share as additional dilution (see Note 27 Earnings per share for further details).

Provisions for pensions

Pension payments were agreed for a former director who has since taken retirement. Provisions were made for the present value of the pension commitment.

The annual pension payments are shown as utilization of provisions.

This is calculated based on an actuarial assessment.

The Amendments to IAS 19 as at January 1, 2013, were implemented and the comparative disclosures as at December 31, 2012, were adjusted. No adjustment as at January 1, 2012, was required. As a result of this change, actuarial gains and losses and past service cost are to be recognized in other comprehensive income.

Government grants

Government grants are recognized if there is sufficient certainty that the grants will be paid out and the company meets the attached conditions. Expenditure-based grants are reported as income over the period required to match them against the expenditure they are intended to compensate. Grants related to assets are shown on the consolidated balance sheet as deferred investment grants or subsidies. The latter is released as income in equal annual installments over the expected useful life of the relevant asset.

Recognition of revenue

Revenue is recognized in accordance with IAS 18 when all the following conditions are met:

- First Sensor has transferred to the buyer the significant risks and opportunities associated with ownership of the sold goods and products.
- There is neither a continuing managerial involvement to the degree usually associated with economic ownership, nor effective control over the sold items and entitlements.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the enterprise.
- The costs incurred or to be incurred in respect of the transaction can be reliably estimated.

In accordance with the principle of accrual basis accounting set down in IAS 18, income and expense relating to the same transaction or event are recognized at the same time.

Other operating income

Other operating income is recognized if the economic benefit can be reliably estimated and is gained during the reporting period.

Interest income

Interest is recognized on a time-proportion basis that takes into account the effective yield on the asset.

Dividends

Income is recognized once the legal claim to payment has arisen.

Taxes

Current tax assets and current tax liabilities for current and prior periods should be measured at the amount expected to be recovered from (paid to) the taxation authorities. The amount is calculated on the basis of the tax rates and tax legislation effective at the balance sheet date.

Current taxes relating to items reported directly in equity are not entered on the income statement but in equity.

Deferred taxes are recognized using the balance sheet-related liability method on all temporary differences between the carrying amount of an asset or liability in the balance sheet and the tax base at the balance sheet date. Deferred tax liabilities are recognized for all taxable temporary differences, with the following exceptions:

- The deferred tax liability must not be recognized when it arises from the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither the accounting profit as defined under commercial law nor the taxable profit.
- Deferred tax arising from deductible temporary differences in connection with investments in subsidiaries and associated companies is not recognized if the timing of the reversal of the temporary difference is controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred assets are recognized for all deductible temporary differences, for all carry forward of unused tax losses and unused tax credits in the amount of the future taxable profit that is likely to be available against which the deductible temporary differences, the carry forward of unused tax losses and unused tax credits can be utilized, with the following exceptions:

- Deferred tax assets are not recognized for deductible temporary differences arising from the initial recognition of an asset or liability relating to a transaction which is not a business combination and which, at the time of the transaction, does not influence either the accounting profit for the period defined under commercial law or the taxable profit.
- Deferred tax assets for deductible temporary differences relating to interests in subsidiaries, affiliated companies or shares in joint ventures are only recognized to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and that sufficient taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is tested on the balance sheet date and written off to the extent that it is no longer probable that a sufficient taxable result will be available against which the deferred tax asset can be at least partly applied. Non-recognized deferred tax assets are tested on every balance sheet date and recognized to the extent that it has become probable that the taxable result in the future will allow the realization of deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when an asset is realized or a liability is settled, based on tax rates (and tax legislation) that have been enacted by the balance sheet date. Future changes to tax rates must be taken into account at the balance sheet date providing the material conditions for their effectiveness exist within the scope of a legislative procedure. Deferred taxes relating to items entered directly in equity are entered in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset against one another if the group has a legally enforceable right to set off current tax assets against current tax liabilities and these relate to taxes levied by the same tax authority on the same tax object.

Value-added tax

Sales revenue, expenses and assets are recognized following deduction of value-added tax with the following exceptions:

If the value-added tax incurred on the purchase of assets or services cannot be collected by the tax authorities, it is recognized as part of the production costs of the asset or as part of the expenses.

Receivables and liabilities are reported including value-added tax.

The amount of value-added tax refunded by or transferred to the tax authorities is recognized on the consolidated balance sheet under other assets or other liabilities.

Leases

Determining whether an agreement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

In the case of financial leases, in which basically all opportunities and risks associated with ownership of the lease asset are transferred to the Group, the lease asset is capitalized at the conclusion of the lease agreement. The lease asset is recognized at fair value or at the present value of the minimum lease payments, if this figure is lower. Lease payments are split into financial expenses and the repayment portion of the residual debt so as to produce a constant rate of interest on the remaining balance of the lease debt. Financial expenses are immediately recognized in the income statement.

If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the capitalized lease assets are fully depreciated over the shorter of the two periods, expected useful life and the term of the lease agreement.

Lease payments under operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term.

Derivative financial instruments and hedging

Credit and liquidity risk

First Sensor ensures that it has sufficient funds and irrevocable credit lines available to meet its financial obligations at all times. Credit risk, or the risk that a contractual partner fails to meet its payment obligations, is managed by means of loan commitments, credit lines and control measures. Where appropriate, the company obtains security in the form of rights in securities or arranges master netting agreements.

The maximum credit risk relates to the amounts of financial assets capitalized on the balance sheet.

Currency risk

There is no significant exchange-rate risk since most of the transactions concluded by the companies within the Group are in euro. The corresponding hedges are only entered into occasionally. Foreign currency risks are reduced by the independent operation of First Sensor Inc. and Elbau Singapore Pte. Ltd.

Interest-rate exposure and hedging

The risk of market interest-rate fluctuations to which the Group is exposed results predominantly from non-current financial liabilities with variable interest rates. This risk is countered by taking fixed-rate loans and, when variable-rate loans are procured, the use of derivative financial instruments (interest-rate swaps and interest-rate caps).

Derivative financial instruments are measured at fair value at the time of the agreement and in the following periods. They are reported as assets if their fair value is positive and liabilities if their fair value is negative.

Gains or losses arising from changes in the fair value of derivative financial instruments that do not meet the hedge-accounting criteria are recognized immediately in the income statement.

The fair value of interest-rate swap contracts is measured by reference to the market values of similar instruments.

As at December 31, 2013, First Sensor had used hedging instruments to hedge interest rate risks (cash flow hedge).

These instruments were reported as follows in accordance with the strict criteria for hedge accounting:

The effective portion of the gain or loss from a hedging instrument is recorded directly in equity while the ineffective portion is immediately recognized as profit or loss.

The amounts recognized in equity are reclassified to profit or loss in the period during which the hedged transaction affects profit or loss for the period, for example when hedged financial income or expenses are reported or when a forecast sale takes place. If hedging results in the recognition of a non-financial asset or a non-financial liability, the amounts recorded in equity become part of the cost at the initial measurement of the non-financial asset or liability.

If a forecast transaction or firm commitment is no longer expected to occur, the amounts previously recorded in equity are transferred to the income statement. When the hedging instrument expires or is sold, terminated or exercised without the hedging instrument being replaced or rolled over into a different hedging instrument, the amounts recorded in equity remain there as separate line items in equity until the forecast transaction or firm commitment occurs. The same applies if it is determined that the hedging instrument no longer meets the hedge accounting criteria.

3. INTANGIBLE ASSETS

in € thousand	Orders on hand	Concessions, licenses and similar	Goodwill	Internally generated intangible assets	Customer base/brands	Advance payments	2012
Costs of purchase							
January 1, 2012	1,452	3,873	39,602	8,327	24,075	637	77,966
Additions	0	740	0	1,708	0	398	2,846
Disposals	0	–230	–490	0	0	0	–720
Reclassifications	0	6,210	0	–6,843	0	511	–122
Exchange differences	0	–4	0	0	0	0	–4
December 31, 2012	1,452	10,589	39,112	3,192	24,075	1,546	79,966
Cumulative depreciation							
January 1, 2012	464	1,305	9,296	5,873	556	0	17,494
Depreciation and amortization	908	509	0	161	2,327	0	3,905
Reclassifications	0	5,965	0	–5,965	0	0	0
December 31, 2012	1,372	7,779	9,296	69	2,883	0	21,399
Carrying amount as at January 1, 2012	988	2,568	30,306	2,454	23,519	637	60,472
Carrying amount as at December 31, 2012	80	2,810	29,816	3,123	21,192	1,546	58,567

in € thousand	Orders on hand	Concessions, licenses and similar	Goodwill	Internally generated intangible assets	Customer base/brands	Advance payments	2013
Costs of purchase							
January 1, 2013	1,452	10,589	39,112	3,192	24,075	1,546	79,966
Additions	0	145	0	934	0	353	1,432
Disposals	0	–152	0	–36	0	–29	–217
Reclassifications	0	1,065	0	–1,009	0	–990	–934
Exchange differences	0	–89	0	–3	0	0	–92
December 31, 2013	1,452	11,558	39,112	3,078	24,075	880	80,155
Cumulative depreciation							
January 1, 2013	1,372	7,779	9,296	69	2,883	0	21,399
Depreciation and amortization	80	637	0	134	2,399	0	3,250
Reclassifications	0	–116	0	0	0	0	–116
December 31, 2013	1,452	8,300	9,296	203	5,282	0	24,533
Carrying amount as at January 1, 2013	80	2,810	29,816	3,123	21,192	1,546	58,567
Carrying amount as at December 31, 2013	0	3,258	29,816	2,875	18,793	880	55,622

The reclassification related to the reclassification of an advance payment to property, plant and equipment. As at the balance sheet date, intangible assets did not serve as securities for liabilities and were not otherwise restricted.

Brands

Brands that were acquired as part of the acquisition of 100% of shares in the Sensortechnics Group in 2011 were identified as intangible assets as follows. The carrying amount has been compared with the previous year's figure.

in € thousand	2013	2012
Sensortechnics brand	531	638
ELBAU brand	429	500
Klay Instruments brand	797	797
Total	**1,757**	**1,935**

With the exception of the Klay-Instruments brand, which is not amortized, the brands are amortized over a period of 7 years.

Customer base

Customer bases that were acquired as part of the acquisition of all shares in the Sensortechnics Group in 2011 were identified as intangible assets. The table shows the respective carrying amounts. The customer bases are amortized over an estimated useful life of 6 to 10 years using the straight-line method. The amortization amount was €2,221 thousand in 2013 (previous year: €2,221 thousand).

in € thousand	2013	2012
Sensortechnics Customized	7,376	8,328
Sensortechnics Distributed	164	208
First Sensor AG, Berlin-Weißensee branch (formerly ELBAU)	6,624	7,479
Klay Instruments B.V.	2,872	3,242
Total	**17,036**	**19,257**

Orders on hand

Orders on hand acquired as part of the acquisition of the Sensortechnics Group in 2011 were identified as intangible assets. Estimated useful lives of between 2 and 4 years were determined. The amortization amount was €80 thousand in 2013 (previous year: €908 thousand), so the amounts originally recognized were written off in full at the end of the year under review. The carrying amounts are shown below:

in € thousand	2013	2012
Sensortechnics Customized	0	5
Sensortechnics Distributed	0	12
ELBAU	0	63
Total	**0**	**80**

Development

The development work reported following the acquisition of Micro Packaging Dresden is subject to scheduled amortization over 20 years starting from the initial marketing. The effective amortization charge in 2013 amounted to €23 thousand (previous year: €23 thousand). The residual carrying amount was €298 thousand at the balance sheet date.

Following the acquisition of First Sensor Technology GmbH, intangible assets of €672 thousand were reported relating to the company's own developments and technologies.

4. INTERNALLY-GENERATED INTANGIBLE ASSETS

Internally generated intangible assets are capitalized at First Sensor in connection with developments for new products and technologies. It is assumed in this process that they will be used at a later date and will generate corresponding returns. Carrying amounts of €2,875 thousand (previous year: €3,123 thousand) were reported for internally generated intangible assets as at the balance sheet date. Scheduled write-downs of €134 thousand (previous year: €161 thousand) were recognized on these in the year under review and shown under amortization.

5. GOODWILL

Goodwill as at December 31, 2013 related to the following companies:

in € thousand	2013	2012
Lewicki microelectronic GmbH	1,846	1,846
First Sensor Technology GmbH	1,125	1,125
Former Sensortechnics Group	26,390	26,390
MEMSfab GmbH	455	455
Total	**29,816**	**29,816**

To test goodwill for impairment, the value in use of the unit was calculated and compared with the carrying amount. If the carrying amount exceeds the value in use, a valuation allowance is recognized. The value in use is calculated based on operating cash flows for the planning period, discounted using the WACC method. An indicative check was carried out using the income capitalization approach. The following basic assumptions were made as parameters for the impairment test:

Assumptions in impairment test	2013	2012
Risk-free basic interest rate	2.75 %	2.25 %
Market risk premium	6.25 %	6.0 %
Beta factor	1.1	1.23
Pre-tax borrowing rate	5.0 %	4.03 %

Lewicki microelectronic GmbH

First Sensor reports goodwill amounting to €1,846 thousand resulting from the acquisition of all shares in Lewicki microelectronic GmbH in 2000. In accordance with IAS 36, goodwill on this company was tested for potential impairment as at December 31, 2013 on the basis of the value in use taking into account the following assumptions:

- Sales are expected to increase slightly from 2013 to 2016.
- A growth rate of 1% in the projection variables for 2017 (terminal value).
- The discount factor based on the WACC method will be 9.63% after tax (previous year: 8.44%) and 14.07% before tax (previous year: 11.31%).

As in the previous year, the impairment test did not give rise to any impairment as at the balance sheet date. The Management Board bases its assumptions relating to forecasts for the determination of value in use on past experience.

First Sensor Technology GmbH

First Sensor acquired all shares in First Sensor Technology GmbH in financial year 2010. This acquisition resulted in goodwill of €1,125 thousand. In accordance with IAS 36, goodwill on this company was tested for potential impairment as at December 31, 2013 on the basis of the value in use taking into account the following assumptions:

- Sales are expected to increase slightly from 2013 to 2016.
- A growth rate of 1% in the projection variables for 2017 (terminal value).
- The discount factor based on the WACC method will be 9.54% after tax (previous year: 8.44%) and 13.94% before tax (previous year: 11.31%).

No impairment was necessary as at the balance sheet date.

Sensortechnics Group

First Sensor acquired all shares in the Sensortechnics Group in financial year 2011. This acquisition resulted in goodwill of €26,390 thousand. In accordance with IAS 36, the Sensortechnics Group goodwill was tested for potential impairment as at December 31, 2013 on the basis of the value in use taking into account the following assumptions:

- Sales are expected to increase slightly from 2013 to 2016.
- A growth rate of 1% in the projection variables for 2017 (terminal value).
- The discount factor based on the WACC method will be 9.62% after tax (previous year: 8.44%) and 14.06% before tax (previous year: 11.31%).

No impairments were necessary as a result of this analysis in financial year 2013. However, the recoverable amount that was calculated was not much higher than the carrying amount recognized, so a sensitivity analysis was carried out to determine the impact of a 10% reduction in earnings before interest and tax (EBIT) and an increase of 1 percentage point in the risk-free basic interest rate. A drop of 10% in earnings would result in an impairment requirement of €3.4 million; if the risk-free basic interest rate were to rise by 1 percentage point, a valuation allowance of €3.7 million would be required. The Management Board bases its assumptions relating to forecasts for the determination of value in use on detailed planning discussions and past experience, and does not anticipate any impairment in financial year 2014.

MEMSfab GmbH

First Sensor acquired all shares in MEMSfab GmbH in financial year 2011. In accordance with a merger agreement dated June 27, 2013 with an addendum dated October 30, 2013, the company merged with First Sensor AG and was dissolved without being wound up.

The merger has no effect on the goodwill of €455 thousand (previous year: €455 thousand). This goodwill results mainly from the successive leveraging of synergies, which is expected as a result of the company acquisition.

6. PROPERTY, PLANT AND EQUIPMENT

in € thousand	Land and buildings	Technical equipment and machinery	Office equipment	Advance payments, assets under construction	2012
Costs of purchase					
January 1, 2012	17,479	31,533	5,744	3,223	57,979
Additions	636	1,910	850	2,990	6,386
Disposals	0	-22	-117	-134	-273
Reclassifications	774	3,648	409	-4,709	122
Exchange differences	20	55	-5	2	72
December 31, 2012	18,909	37,124	6,881	1,372	64,286
Cumulative depreciation					
January 1, 2012	3,059	13,061	2,712	5	18,837
Depreciation and amortization	699	3,743	1,156	38	5,636
Disposals	0	-111	-96	0	-207
Exchange differences	0	-1	-6	0	-7
December 31, 2012	3,758	16,692	3,766	43	24,259
Carrying amount as at January 1, 2012	14,420	18,472	3,032	3,218	39,142
Carrying amount as at December 31, 2012	15,151	20,432	3,115	1,329	40,027

in € thousand	Land and buildings	Technical equipment and machinery	Office equipment	Advance payments, assets under construction	2013
Costs of purchase					
January 1, 2013	18,909	37,124	6,881	1,372	64,286
Additions	23	1,363	565	378	2,329
Disposals	0	-857	-169	0	-1,026
Reclassifications	0	1,475	61	-602	934
Exchange differences	-34	-102	-21	0	-157
December 31, 2013	18,898	39,003	7,317	1,148	66,366
Cumulative depreciation					
January 1, 2013	3,758	16,692	3,766	43	24,259
Depreciation and amortization	711	3,796	1,060	5	5,572
Disposals	0	-762	-165	0	-927
Exchange differences	-11	-43	-12	0	-66
December 31, 2013	4,458	19,683	4,649	48	28,838
Carrying amount as at January 1, 2013	15,151	20,432	3,115	1,329	40,027
Carrying amount as at December 31, 2013	14,440	19,320	2,668	1,100	37,528

As at the balance sheet date, property, plant and equipment with a carrying amount of €5,832 thousand served as securities for liabilities or were otherwise restricted.

7. INVENTORIES

in € thousand	2013	2012
Finished goods and products	9,881	12,978
Work in progress	9,220	8,146
Raw materials and supplies	10,515	9,966
Advance payments on inventories	149	60
Total	29,765	31,150

The write-down of inventories recognized as expense amounted to €1,404 thousand (previous year: €1,001 thousand). This expense was reported under cost of materials and changes in inventories.

Assigned inventories amounted to €3,852 thousand as at the balance sheet date (previous year: €20,518 thousand).

8. TRADE ACCOUNTS RECEIVABLES

in € thousand	2013	2012
Trade accounts receivables	6,711	12,966
Less allowances for doubtful accounts	-134	-126
Total	6,577	12,840

The reduction in the portfolio of receivables is primarily the result of the true factoring introduced in the year under review.

Accounts receivable are not interest-bearing and are generally due within 30 - 90 days. As part of a true factoring agreement concluded in the year under review, including assumption of default risk in selected divisions of the company, the portfolio of receivables was significantly reduced compared with the previous year.

Allowances of €134 thousand (previous year: €126 thousand) were made for doubtful receivables from the sale of goods and services.

Changes in the allowance account were as follows:

in € thousand	2013	2012
Beginning of the period	126	126
Allocation to expenses	90	82
Utilization	-2	-24
Reversal	-80	-58
End of the period	134	126

As at December 31, 2013, the age structure of past due accounts receivable is as follows:

in € thousand	2013	2012
Not due	4,741	9,207
Less than 30 days past due	1,694	2,468
Between 30 and 60 days past due	91	649
Between 61 and 90 days past due	21	159
Between 91 and 120 days past due	14	300
More than 120 days past due	16	57
Total	6,577	12,840

9. OTHER CURRENT ASSETS

in € thousand	2013	2012
Assets available for sale	0	550
Prepayments and accrued income	620	450
Receivables from investment grants and subsidies	348	570
Value-added tax receivables	202	214
Insurance claims	153	125
Research and development funding	104	124
Receivables from factoring	1,449	0
Other	481	452
Total	3,357	2,485

Receivables from factoring result from receivables from companies acquiring the receivables. The del credere risk is transferred in full.

10. CASH AND CASH EQUIVALENTS

in € thousand	2013	2012
Cash in hand	9	7
Bank balances	11,348	12,194
total	11,357	12,201

Bank balances are partly subject to variable interest rates for money at call. The fair value of cash and cash equivalents amounted to €11,357 thousand (previous year: €12,201 thousand).

An insignificant amount of cash and cash equivalents was used as deposits in rental agreements as at December 31, 2013.

11. SHARE CAPITAL

The share capital reported as subscribed capital on the balance sheet totaled €49,907,215 as at the balance sheet date (previous year: €49,701,365). It was made up of 9,981,443 shares, each with a nominal value of €5.00. The share capital of First Sensor AG increased by €205,850 year-on-year.

2013	Shares	Share capital
Beginning of the financial year	9,940	49,701
Share option plan for 2009	41	206
End of the financial year	9,981	49,907

2012	Shares	Share capital
Beginning of the financial year	9,843	49,215
Share option plan for 2009	97	486
End of the financial year	9,940	49,701

Authorized capital

The previous Authorized Capital 2012/I pursuant to Article 5 (5), (6) and (7) of the articles of incorporation was cancelled after the new Authorized Capital 2013/I agreed at the Annual General Meeting on August 20, 2013 came into force.

The Management Board was authorized to increase the company's share capital by up to €24,607,430.00 by issuing up to 4,921,486 new bearer shares (Authorized Capital 2013/I) up to August 19, 2018, with the approval of the Supervisory Board, in one or more transactions. The capital can be increased against cash or non-cash contributions. Shareholders are granted subscription rights. Shareholders can also be granted subscription rights indirectly in accordance with Article 186 (5) AktG (German Stock Corporation Act).

The Management Board is, however, authorized, with the approval of the Supervisory Board, to disapply the subscription right of shareholders in certain circumstances in accordance with the further provisions of point 7 c) of the agenda of the Annual General Meeting as published in the German Federal Gazette (Bundesanzeiger).

As at December 31, 2013, Authorized Capital 2013/I amounted to €24,607,430.

Contingent capital

The contingent capital of First Sensor AG is presented in the following table:

in € thousand	2013	2012
Contingent capital 2006/I	1,165	1,165
Contingent capital 2009/I	0	0
Contingent capital 2009/II	913	964
Contingent capital 2011/I	0	600
Contingent capital 2012/I	0	19,000
Contingent capital 2013/I	2,840	0
total	4,918	21,729

Contingent capital as at December 31, 2013, amounted to €4,917,650. The contingent capital increase will be carried out only to the extent that the bearers of subscription rights exercise the subscription rights granted under the respective share option plans, 2006/I, 2009/II and 2013/I.

12. RESERVES

Changes in reserves were as shown in the statement of changes in equity. The items are explained below.

a) Capital reserves – share premium

Due to the exercising of 10,107 share option from the SOP 2009 at an exercise price of €6.02 respectively, in 2013 the capital reserve increased by the exercise price (€5.00) exceeding the nominal value per share of €10 thousand.

b) Capital reserves – share options

Expenses of €251 thousand (previous year: €146 thousand) resulting from the ongoing share option programs (including share matching scheme) and allocated to the vesting period (period in which the corresponding benefits are earned) were recognized in the income statement under Personnel expenses and as addition to retained earnings.

c) Revaluation reserves

The portion of the profit or loss from cash flow hedging instruments that is determined to be an effective hedge is recorded in this item. The actuarial gains and losses from pension provisions are also recorded in this item. The respective tax effects are also recorded here.

Currency translations

In the consolidated balance sheet, another reserve is reported within equity for exchange equalization items. This item is for recognizing the differences arising from the conversion of the financial statements of the foreign subsidiaries.

13. NON-CURRENT POST-EMPLOYMENT BENEFIT OBLIGATION

The employees working at the production facilities in Munich (FSM) received pension commitments. The pension plans are based on the number of years of service. The pension commitments are essentially financed through the recognition of pension provisions. The measurement of employee benefits and the expenses required to cover these benefits are based on the procedures prescribed in IAS 19 (Employee benefits). The Amendments to IAS 19 as of January 1, 2013, include the elimination of the corridor method. As a result of this change, actuarial gains and losses and past service cost are to be recognized in other comprehensive income.

These amendments result in the recognition of the full net pension obligation. The comparative disclosures as at December 31, 2012, were adjusted. No adjustment to the opening balance as at January 1, 2012, was required. In the balance sheet as at December 31, 2012, the adjustments resulted in a €39 thousand increase in pension provisions to €325 thousand (previous year: €286 thousand) and, after accounting for the recognition of deferred tax assets, to a €27 thousand reduction in the revaluation surplus. No material changes resulted from this as at December 31, 2013.

Changes to the defined benefit obligation were as follows:

in € thousand	2013	2012
Defined benefit obligation (DBO) as at January 1	325	294
Reclassifications / changes in the scope of consolidation	0	0
Service cost	0	0
Interest cost	10	14
Actuarial gains (–) / losses (+)	1	43
Pension payments	–26	–26
Defined benefit obligation (DBO) as at December 31	310	325

The pension provisions are derived from the defined benefit obligation as follows:

in € thousand	2013	2012
Defined benefit obligation	310	325
Plan assets	0	0
Balance sheet recognition	**310**	**325**

An overview of the changes in the defined benefit obligation and plan assets is shown in the following table:

in € thousand	2013	2012	2011
Defined benefit obligation	310	325	294
Plan assets	0	0	0
Deficit	**310**	**325**	**294**

Pension expenses break down as follows:

in € thousand	2013	2012
Service cost	0	0
Interest cost	10	14
Actuarial gains (–) / losses (+)	1	43
Total	**11**	**57**

The ongoing service cost is recognized as a personnel expense in the statement of comprehensive income. The interest cost is recorded separately in the financial result.

Pension payments of €26 thousand are expected for the following financial year – as in the previous year.

The calculations are based on the 2005 G von K. Heubeck mortality tables and the following assumptions:

in %	2013	2012
Interest rate	3.3	3.25
Salary trend	0.0	0.0
Pension trend	1.75	1.75

A change in the material mathematical assumptions (interest rate, salary trend, pension trend) by 1 percentage point upwards or downwards would have a maximum impact of €60 thousand respectively on the defined benefit obligation.

14. OTHER PROVISIONS

in € thousand	Warranties	Other	Total
Current	581	0	581
Non-current	155	27	182
2012	**736**	**27**	**763**
Utilization	–188	0	–188
Reversal	–185	–1	–186
Allocation	356	0	356
2013	**719**	**26**	**745**
Current	550	0	550
Non-current	169	26	195

The provision for warranty obligations relating to products sold in the previous two years was classified as a liability. The underlying assumptions for the calculations of warranty provisions are based on sales for which guarantees have been provided and on information currently available regarding complaints within the two-year warranty period. The majority of these costs are expected to be incurred during the next financial year and the entire sum recorded as a liability utilized within two years of the balance sheet date.

15. FINANCIAL LIABILITIES

in € thousand	2013	2012
Current up to 1 year	4,217	12,189
Non-current	42,927	39,014
of which 1 – 5 years	22,959	35,489
of which more than 5 years	19,968	3,525
Total	47,144	51,203

Promissory note loan

First Sensor placed two promissory note loans totaling €31.0 million on December 17, 2013. As part of the placement, German institutional investors subscribed to promissory notes with terms of three years (€19.0 million) and five years (€12.0 million). The promissory note with the three-year term pays variable interest with a margin calculated on the basis of the 6-month EURIBOR. The promissory note with the five-year term pays fixed interest. The financial ratios specified were the debt/equity ratio, the equity ratio and the interest-cover ratio.

The promissory note loans completely replaced the syndicated loan agreement for an amount of around €29 million that had been in place since 2011. All collateral provided for the syndicated loan will revert to First Sensor.

In future, the key financial ratios will be calculated annually. The interest rate risk will be reduced through fixed interest rates and normal hedging mechanisms (see “Derivative financial instruments”).

Finance leases

The Group has signed finance leases and hire purchase contracts for a range of technical machinery and office equipment. The future minimum payments under finance leases and hire purchase contracts can be reconciled to their present values as follows:

December 31, 2013 in € thousand	Minimum lease payments	Present value of minimum lease payments
Current up to 1 year	686	641
Between 1 and 5 years	1,582	1,479
More than 5 years	0	0
Total minimum lease payments	**2,268**	**2,120**
Less discount	-148	0
Present value of the minimum lease payments	**2,120**	**2,120**

December 31, 2012 in € thousand	Minimum lease payments	Present value of minimum lease payments
Current up to 1 year	1,026	962
Between 1 and 5 years	2,162	2,150
More than 5 years	55	55
Total minimum lease payments	**3,243**	**3,167**
Less discount	-76	0
Present value of the minimum lease payments	**3,167**	**3,167**

Leasing expenses from finance leases and hire purchase agreements of €835 thousand (previous year: €1,026 thousand) were reported in the year under review. Operating leases amounting to €580 thousand (previous year: €611 thousand) were recorded.

As at December 31, 2013, the net carrying amount of the technical equipment and machinery financed by means of lease agreements and pledged to the lessor was €2,122 thousand (previous year: €3,080 thousand). Leased assets with a net carrying amount of €1,217 thousand were added in this financial year.

Other

The company also received loans which had a lower interest rate due to state-subsidized refinancing conditions at the lending bank.

As at the 2013 balance sheet date, First Sensor had unused credit lines of €3,231 thousand (previous year: €8,997 thousand). The utilized money-market or overdraft facility as at December 31, 2013 amounted to €1,519 thousand (previous year: €2,734 thousand).

16. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities mainly include deferred investment grants/allowances of €5,197 thousand (previous year: €5,521 thousand). These relate to government grants and were paid out mainly in the form of investment grants for the new production facilities built in Berlin. The grants paid are dependent on evidence of implementation of the investment measures and compliance with conditions related to retention of the assets and future job creation.

In addition, the negative market values of interest-rate hedging instruments of €747 thousand (previous year: €1,135 thousand) are recognized in other non-current financial liabilities. In the previous year, these market values were recognized in other current liabilities. As at January 1, 2012, the negative market values amounted to €627 thousand. On account of the limited effects, a comprehensive balance sheet summary as at January 1, 2012, was not presented.

17. OTHER CURRENT LIABILITIES

in TEUR	2013	2012
Liabilities from company acquisitions	0	4,750
Liabilities due to staff	3,162	2,651
Deferred income	0	3
Liabilities for outstanding invoices	572	1,338
Liabilities from income tax and church tax, social security	136	786
Preparation of tax declarations, annual audits	193	225
Other	1,818	1,522
Total	5,881	11,275

The other current liabilities differ mainly from the previous year in the amount of the outstanding deferred purchase price component concerning the acquisition of the Sensortechnics-group in 2012. All of the other liabilities are not interest-bearing.

18. OBLIGATIONS ARISING FROM EMPLOYEE BENEFITS

Share option plan

Three share option plans are currently in place:

- Share option plan for 2006 (SOP 2006)
- Share option plan for 2009 (SOP 2009)
- Share option plan for 2013 (SOP 2013)

These plans state that options to acquire ordinary shares may be granted to members of the Management Board, directors of affiliated companies, employees of the company and employees of affiliated companies.

	SOP 2006	SOP 2009	SOP 2013
Annual shareholders' meeting resolution	**June 15, 2006**	**June 09, 2009**	**August 20, 2013**
Term of the share option plan	3 years	3 years	3 years
Vesting period (following issue)	2 years	3 years	4 years
Exercise period (following expiry of vesting period)	5 years	5 years	5 years
Maximum subscription rights (total volume)	**233,000**	**290,000**	**568,000**

Share options are exercised subject to the following conditions:

SOP 2006

The SOP 2006 share option plan has a three-year term. A maximum of 233,000 subscription rights from the total volume for the share option plan can be issued in yearly tranches to all entitled parties within this term. The subscription rights can only be issued during each nine-month period following the announcement of the previous financial year's results by the Management Board.

In financial year 2006, 130,000 subscription rights and in financial year 2007, 100,000 subscription rights were granted to employees, managers and members of the Management Board.

The exercise price is the average price for the company's shares in the XETRA trading system (or comparable successor) during the five trading days preceding the announcement of the issue amount for the subscription right, but no less than the proportionate amount of the share capital attributable to one share. The average price for the options issued on June 29, 2006, was €9.33. The average price for the options issued on July 11, 2007 was €18.68.

Shares acquired by exercising the options carry full voting rights and dividend entitlement.

Options can only be exercised if the exercise hurdle has been reached at least once in the six-week period prior to exercise ("exercising window"). The exercise hurdle has been reached if the closing price of shares in the company in XETRA (or a comparable successor system) exceeds the exercise price by at least 20% on five consecutive trading days.

The options may not be exercised in the two weeks prior to the announcement of the quarterly results or in the period between the financial year-end and the company's Annual General Meeting at which the appropriation of the profit or loss from the previous financial year is resolved. Options may not be exercised either in the period extending from the day on which the company publishes a share subscription offer to its shareholders or the option to purchase bonds with conversion or option rights in the electronic German Federal Gazette (Bundesanzeiger), until the date on which the company shares are once again quoted "ex subscription rights" on the Frankfurt Stock Exchange or another stock exchange (blocking periods).

The same applies even if an exercise window opens during these blocking periods. Furthermore, entitled parties must comply with the restrictions set down in general legislation such as the German Securities Trading Act (insider trading).

The maximum term (vesting period plus exercise period) for an option is seven years.

SOP 2009

The SOP 2009 share option plan has a three-year term. A maximum of 290,000 options from the total volume for the share option plan can be issued in yearly tranches to all entitled parties within this term.

In financial year 2009, 160,000 subscription rights (1st tranche: 80,000, 2nd tranche: 80,000) and in the financial year 2010, 130,000 subscription rights were granted to employees, managers and members of the Management Board.

The exercise price is the average price for the company's shares in the XETRA trading system (or comparable successor) during the five trading days preceding the announcement of the issue amount for the subscription right, but no less than the proportionate amount of the share capital attributable to one share. The average price for the options issued on November 17, 2009 was €6.02; the price for the options issued on December 9, 2009 was €5.80 and the price for the options issued on August 25, 2010 was €7.20.

Shares acquired by exercising the options carry full voting rights and dividend entitlement.

Options can only be exercised if the exercise hurdle has been reached at least once in the six-week period prior to exercise ("exercising window"). The exercise hurdle has been reached if the closing price of shares in the company in XETRA (or a comparable successor system) exceeds the exercise price by at least 30% on ten consecutive trading days.
The options may not be exercised in the three weeks prior to the announcement of the quarterly results or in the period between the financial year-end and the company's Annual General Meeting at which the appropriation of the profit or loss from the previous financial year is resolved. Options may not be exercised either in the period extending from the day on which the company publishes a share subscription offer to its shareholders or the option to purchase bonds with conversion or option rights in the electronic German Federal Gazette (Bundesanzeiger), until the date on which the company shares are once again quoted "ex subscription rights" on the Frankfurt Stock Exchange or another stock exchange (blocking periods).

The same applies even if an exercise window opens during these blocking periods. Furthermore, entitled parties must comply with the restrictions set down in general legislation such as the German Securities Trading Act (insider trading).

The maximum term (vesting period plus exercise period) for an option is eight years.

SOP 2013

The SOP 2013 share option plan has a three-year term. A total of 568,000 options can be issued. The plan is divided into three groups of entitled persons:

- A maximum of 300,000 options for members of the company's Management Board (up to around 52.8%)
- A maximum of 134,000 options for directors of affiliated companies (up to around 23.6%)
- A maximum of 134,000 options for employees of the company or of affiliated companies (up to around 23.6%)

Subscription rights can be issued to entitled persons from the total volume of the 2013 share option plan every year during the term of the 2013 share option plan.

Subscription rights may be issued to entitled persons only during the period from the announcement of the previous financial year's results by the Management Board to the end of the financial year and not before Contingent Capital 2013/I has been entered in the commercial register.

The subscription rights may be exercised only after a vesting period. This vesting period lasts for at least four years from the time the subscription rights are granted. The rights may be exercised within five years of the end of the respective vesting period. Options that have not been exercised by the end of this period shall be forfeited without replacement or compensation.

Subscription rights may not be exercised in the three weeks preceding the announcement of quarterly results or in the period between the end of a financial year and the publication of the company's consolidated financial statements. The same applies even if an exercise window opens during these blocking periods.

The exercise price for subscription rights is €15.00 per subscription right.

Subscription rights may be exercised within the exercise period only if the performance target has been achieved within a period of six weeks prior to exercise. The performance target has been achieved if the closing price of shares in the company in XETRA (or a comparable successor system on the Frankfurt Stock Exchange) meets or exceeds the exercise price of €15.00 on ten consecutive trading days.

Options are non-transferable, except in the event of the death of the entitled person.

Further details of the granting of options and further conditions for exercising them are determined by the Supervisory Board if members of the company's Management Board are affected. If employees of the company are concerned or if options are to be granted to directors of affiliated companies, the company's Management Board shall determine further details.

In December 2013, 35,208 subscription rights were granted under the 2013 option plan. The value of an issued option was €0.39. The value of an option was determined using the Black-Scholes model. In addition to the aforementioned parameters, this was based on a share price on the grant date of €8.25, volatility of 26.3% and an interest rate of 0.6%.

The following table shows the number and the weighted average exercise prices (WAEP) of the share options granted for financial years 2013 and 2012:

in € thousand	2013 Number	2013 WAEP	2012 Number	2012 WAEP
Outstanding at the beginning	397,500	10.53	501,500	9.58
Vested at the beginning	270,700	12.10	216,500	13.65
Granted in the year	35,208	15.00	0	0.00
Forfeited in the year	115,500	9.31	6,700	7.22
Exercised in the year	10,170	6.02	97,300	5.84
Outstanding at the end	307,038	11.66	397,500	10.53
Vested at the end	271,830	11.22	270,700	12.10

For options outstanding at the end of the period under review, the exercise prices range between €6.02 and €18.68 (previous year: €6.02 and €18.68). The average remaining term of these options is 3.7 years. Personnel expenses of €53 thousand were recognized in the year under review.

Share Matching Scheme

In the year under review, the company issued a total of 31,000 new shares to the CEO at a subscription price of €5.00 per share as a "share matching scheme" with shareholders' pre-emptive subscription rights disapplied, as part of Authorized Capital 2013/I. In addition, he is also entitled to further subscription rights to shares in First Sensor AG under the share matching scheme irrespective of his own share purchases. The options are valued using the Black-Scholes model, based on the exercise periods (6 months or 15 months), the market price at the time the options are granted (€8.01), the volatility (27.6% or 30.0%) and the discounting interest rate (0.1% or 0.18%). This results in personnel expenses of €198 thousand.

19. SALES REVENUES

in € thousand	2013	2012
Germany	50,846	54,812
Europe	44,544	43,806
North America	4,133	5,184
Other	9,019	8,134
Total	**108,542**	**111,936**

Revenue mainly resulted from the sale of customized semiconductor sensors, sensor systems and development and production services.

20. OTHER OPERATING INCOME

Other operating income breaks down as follows:

in € thousand	2013	2012
Development grants	977	938
Investment allowances	443	450
Investment grants	157	94
Income from other benefits in kind	537	561
Prior-period income	74	91
Insurance claim payments	83	27
Proceeds from reversing provisions	502	670
Proceeds from sale of holdings	0	518
Other	649	564
Total	**3,422**	**3,913**

21. CHANGE IN INVENTORIES OF FINISHED GOODS AND WORK IN PROGRESS

in € thousand	2013	2012
Work in progress	982	-425
Finished goods	-1,812	1,642
Total	**-830**	**1,217**

22. OTHER OWN WORK CAPITALIZED

in € thousand	2013	2012
Capitalized development costs	934	1,708
Other capitalized costs	346	390
Total	**1,280**	**2,098**

Capitalized costs in 2013 amounted to €1,280 thousand (previous year: €2,098 thousand). Capitalized development costs pursuant to IAS 38.57 accounted for €934 thousand (previous year: €1,708 thousand) of this sum. Other capitalized costs related mainly to measures connected to the expansion of capacities (supply of media and machines) and technology at the production site in Berlin-Oberschöneweide and the expansion of the ERP system.

Research and development costs recognized in expenses amounted to €7,891 thousand in 2013 (previous year: €7,254 thousand).

23. COSTS OF MATERIAL/ PURCHASED SERVICES

The cost of materials/purchased services breaks down as follows:

in € thousand	2013	2012
Raw materials and supplies	-45,517	-50,437
Purchased services	-4,746	-4,546
Total	**-50,263**	**-54,983**

24. PERSONNEL EXPENSES

The personnel expenses break down as follows:

in € thousand	2013	2012
Wages and salaries	-30,505	-30,554
Social security contributions including pension plans	-6,112	-5,752
Total	**-36,617**	**-36,306**

Personnel expenses include €251 thousand (previous year: €146 thousand) in expenditure related to granting share options. They also include €24 thousand (previous year: €110 thousand) for defined contribution pension plans.

25. OTHER OPERATING EXPENSES

The other operating expenses include the following items:

in € thousand	2013	2012
Costs of premises	-2,665	-2,486
Vehicle costs	-1,058	-980
Maintenance, servicing, repairs	-1,301	-1,151
Insurance	-525	-727
Sales and marketing costs	-743	-1,020
Advertising costs	-55	-297
Travel costs	-578	-694
IT costs	-367	-455
Communications costs	-267	-270
Goods handling costs	-703	-794
Warranty expenses	-213	-224
Allowances for receivables	-46	-82
Corporate hospitality, entertainment, donations	-147	-167
Legal and consultancy fees	-2,265	-1,375
Patent costs	-120	-68
R&D expenses	-104	-148
Investor relations	-137	-137
Annual shareholders' meeting costs	-72	-22
Supervisory Board remuneration	-61	-24
Annual financial statements	-361	-464
Other operating materials	-470	-681
Ancillary transaction costs	-157	-127
Recruitment	-61	-57
Training costs	-160	-162
Work clothing and protective equipment	-221	-170
Losses from disposal of non-current assets	-320	-39
General administrative costs	-89	-114
Other expenses	-661	-1,506
Other taxes	-42	-51
Total	**-13,968**	**-14,492**

26. INCOME TAX EXPENSES

The principal components of the income tax expense for financial years 2013 and 2012 break down as follows:

in € thousand	2013	2012
Current income tax	-751	-1,195
Prior-period income tax	24	281
Deferred taxes	1,353	462
Amount of tax shown	**626**	**-452**

Deferred taxes of €249 thousand (previous year: €461 thousand) result from the reversal of temporary differences.

The reconciliation of income tax expense with the product of the reported profit for the period and the applicable Group tax rate with respect to the financial years 2013 and 2012 is as follows:

in € thousand	2013	2012
Pre-tax income	**-1,088**	**944**
Tax rate	30 %	30 %
Calculated tax expenses	**-326**	**283**

in € thousand	2013	2012
Current income tax, prior period	-24	-281
Different tax rate in other countries	63	-88
Tax-free disposal of holdings	0	-149
Phase-shifted income from holdings	0	432
Used, non-capitalized loss carry forwards	-780	-338
Tax loss carry forwards, not capitalized	206	365
Additional trade income tax	105	-84
Permanent difference from acquisition transaction	0	318
Tax-free income	-62	0
Non-deductible operating expenses	166	0
Other	26	-6
Tax expenses	**-626**	**452**

The deferred tax assets and deferred tax liabilities as at the balance sheet date break down as follows on the consolidated balance sheet:

in € thousand	2013	2012
Loss carry forwards	1,372	231
Property, plant and equipment	114	100
Inventories	56	-29
Market value of derivatives	224	340
Other provisions	25	120
Deferred tax assets	**1,791**	**762**

in € thousand	2013	2012
Acquired orders on hand	0	24
Own development work	902	181
Property, plant and equipment	278	92
Other provisions	18	0
Due to affiliated companies	0	609
Acquired customer bases	5,110	5,686
Acquired brands	527	579
Deferred tax liabilities	**6,835**	**7,171**

The item Income taxes includes the income tax paid or payable in the respective countries and any deferred taxes. Deferred taxes on the market value of derivatives amounting to €224 thousand (previous year: €341 thousand) as well as on actuarial gains and losses from pension provisions amounting to €7 thousand (€12 thousand) relate to deferred taxes that were recognized outside profit and loss.

Income taxes for 2013 and 2012 include corporation tax, trade income tax, solidarity surcharge and the corresponding foreign taxes. In the Federal Republic of Germany, corporation tax on distributed and undistributed profits is 15%. A solidarity surcharge is levied at a rate of 5.5% on the corporation tax. The trade income tax was calculated on the basis of the assessment rate applied by the relevant municipal authority at 11.55% and 14.35%.

There are no loss carry forwards arising from foreign Group companies. The estimated tax loss carry forwards for consolidated companies in Germany do not expire and amount to €5,096 thousand (previous year: €4,606 thousand) with respect to corporation tax and €4,356 thousand (previous year: €4,581 thousand) with respect to trade income tax. These were included in the valuation in the amount of €1,373 thousand and were capitalized as deferred tax assets. An appreciation in value of deferred tax assets of an amount of €440 due to budget figures has been made. The loss carry forwards are estimated in the absence of tax assessment notices.

27. EARNINGS PER SHARE

In the calculation of the basic earnings per share, the earnings attributable to the bearers of ordinary shares in the parent company are divided by the weighted, average number of ordinary shares outstanding during the year.
In the calculation of the diluted earnings per share, the earnings attributable to the bearers of ordinary shares in the parent company are divided by the weighted, average number of ordinary shares outstanding during the year and by the weighted average number of ordinary shares which would result from the conversion of all potential ordinary shares with dilution effect into ordinary shares.

The following table shows the amounts used in calculating the undiluted and diluted earnings per share:

in € thousand	2013	2012
Net profit attributable to shareholders	-519	458
Weighted average outstanding shares (undiluted)	9,945	9,844
Earnings per share (undiluted)	**-0.05**	**0.05**
Dilutive effect from share options	17	31
Weighted average outstanding shares (diluted)	9,962	9,875
Earnings per share (diluted)	**-0.05**	**0.05**

28. NOTES TO THE CASH FLOW STATEMENT

In accordance with IAS 7 "Statement of cash flows", First Sensor reports the cash flow from operating activities using the indirect method, in which the profit or loss for the period is adjusted by the effects of non-cash transactions, deferrals of past or future in- and outflows from operating activities and items of income or expense in connection with the cash flow from investment or financing activity. Reconciliation is carried out on the basis of pre-tax income, so that interest and tax payments are shown as separate items within the operating cash flow.

Cash and cash equivalents are defined according to the company's cash management. This includes cash and bank balances. In our breakdown we have diverged from the previous year's recognition and have no longer included utilization of the current account under cash and cash equivalents, as utilization of overdraft facilities is not always classed as current in accordance with IAS 7.8. The composition of the cash is expressed as follows.

in € thousand	2013	2012
Cash	9	7
Bank balances	11,348	12,194
Total	**11,357**	**12,201**

29. NOTES TO THE STATEMENT OF CHANGES IN EQUITY

The company did not make any distributions in 2013 (previous year: €0 thousand).

30. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Court actions and claims arising from disputes that occur in the ordinary course of business could be enforced against the companies in the group. The risks involved are analyzed in the light of the likelihood of their occurrence. Although the outcome of these disputes cannot always be accurately forecast, the Management Board is of the view that no material obligations will arise from them.

Further financial obligations arise from renting office premises and office equipment, from leases for vehicles and technical office equipment, building leases and from allocations from defined contribution pension plans. The leases have an average term of between 3 and 20 years and, only in the case of building leases, include options to extend and a purchase option. No obligations of any kind were imposed on the lessee at the conclusion of these leases.

The other financial obligations arising under these agreements are the following:

in € thousand	2014	2015 to 2018	From 2019
Rent and lease expenses	1,820	5,244	3,241
Defined contribution pension plans	24	6	0
Purchase obligations	6,767	75	0
Total	**8,611**	**5,325**	**3,241**

The purchase obligation in 2014 relates to property, plant and equipment in the amount of €500 thousand and inventories in the amount of €6,267 thousand.

31. SEGMENT REPORTING

The integrated industrial Group, First Sensor, is a provider of sensor solutions for many different sectors. The individual subsidiaries of the First Sensor Group occupy different positions in the value chain (wafer, component, module, system) for the production of sensor solutions.

The specific requirements of the customer in each case dictate at which step in the value chain the services are called on. First Sensor is controlled through the monitoring of the financial performance, development of investments and working capital of its individual legal units. Control is based on earnings before interest and taxes (EBIT) as prescribed by the German Commercial Code. Every month, the results of the parent company and its subsidiaries are measured, processed and then analyzed by the Management Board. These business units do not represent segments as defined in IFRS 8. Reports are made available to the Supervisory Board ahead of its meetings.

The other disclosures required under IFRS 8 are shown below:

The information below on segment sales is reported according to the location of the customer.

Sales by region in € thousand	2013	2012
Germany	50,846	54,812
Europe	44,544	43,806
North America	4,133	5,184
Other	9,019	8,134
Total	108,542	111,936

Non-current assets and investments in non-current assets relate almost exclusively to Germany and only to a small degree to North America and Singapore.

Non-current assets in € thousand	2013	2012
Germany	92,783	97,105
Europe	163	169
North America	832	506
Other	1,184	1,669
Total	94,962	99,449

Investments in € thousand	2013	2012
Germany	3,678	9,058
Europe	48	71
North America	13	57
Other	22	46
Total	3,761	9,232

Number of employees (FTE)	2013	2012
Germany	618	608
Europe	29	29
North America	21	24
Other	30	30
Total	698	691

First Sensor's future strategy for its sensor products will focus on four growing areas of business: medical, industrial, mobility and engineering and production services (Electronic Engineering & Manufacturing Services). Four business units will be created as part of this plan, which will ensure a consistent focus on markets and customers. As the structures needed for detailed segment reporting are not yet fully in place, we cannot provide the information content we are aiming for at this stage.

32. TRANSACTIONS BETWEEN RELATED PARTIES

Transactions with individuals or companies who may be subject to the influence of the reporting company or who may exert an influence over the reporting company must be disclosed unless such transactions have already been reported in the consolidated financial statements through the inclusion of consolidated companies.

The following transactions were carried out with individuals and companies deemed parties related to First Sensor:

Management Board

- Dr. Martin U. Schefter, Bonn, from June 17, 2013
- Joachim Wimmers, Cologne
- Dr. Hans-Georg Giering, Deuben,
  up to June 14, 2013

Please refer to the table below for details of remuneration paid to members of the Management Board:

in € thousand	Dr. Martin U. Schefter	Joachim Wimmers	Dr. Hans-Georg Giering	2013	Dr. Hans-Georg Giering	Joachim Wimmers	Dr. Ingo Stein	2012
Fixed annual remuneration	162	216	164	542	360	180	62	602
Variable remuneration	0	0	0	0	174	0	47	221
Additional benefits	77	55	121	253	121	34	9	164
Severance payment	0	0	351	351	0	0	448	448
Total	239	271	636	1,146	655	214	566	1,435

The contract with the CEO, Dr. Martin U. Schefter, began on June 17, 2013 and has been concluded for a period of three years. In accordance with his contract, he will receive fixed annual remuneration of €300 thousand and a variable target component of €150 thousand. Dr. Schefter also takes part in a share option program, under which he is entitled to 65,000 share options each year. He is entitled to a proportionate share of the figures shown for the year under review.

In the event of a change of control he will receive maximum compensation of €500 thousand if he resigns within one month of the change of control.

In the year under review, the company issued a total of 31,000 new shares to the CEO at a subscription price of €5.00 per share with shareholders' pre-emptive subscription rights disapplied, as part of Authorized Capital 2013/I. Furthermore, 135,000 share options were issued to the CEO under the above mentioned share matching scheme. In December 2013 35,208 share options from the share option plan 2013 were issued to the CEO. The value of an issued option was € 1.05.

In accordance with his contract, the CFO, Joachim Wimmers, will receive fixed annual remuneration of €216 thousand and a variable target component of €120 thousand. In the event of a change of control he is entitled to a one-off payment of €240 thousand if he resigns within two months of the change of control.

The additional benefits under contracts of Management Board members include cash benefits for the private use of company cars, the employer contribution to health and long-term care insurance, accommodation allowances and contributions to pensions.

The variable remuneration components are linked to the achievement of specific ratios by the company. No variable components were paid in the year under review (previous year: €221 thousand).

Former Management Board members have unexpired share options in the following amounts:

Share options	2013	2012
Dr. Hans-Georg Giering	70,000	100,000
Dr. Ingo Stein	10,000	10,000
Dr. Bernd Kriegel	50,000	80,000
Total	130,000	190,000

Of the total 190,000 options outstanding, 160,000 options can be exercised as at the balance sheet date.

No remuneration was paid to members of management or their surviving dependents in the financial year.

A severance payment of €376 thousand was agreed for Dr. Hans-Georg Giering after he resigned from his post on the Management Board as of June 14, 2013.

Supervisory Board

Remuneration of the Supervisory Board is determined by Article 13 of the articles of incorporation and by the Annual General Meeting. In accordance with the resolution passed at the Annual General Meeting on August 20, 2013, Supervisory Board remuneration was revised. After the financial year has ended, members of the Supervisory Board will receive remuneration of €10 thousand for each full year of membership of the Supervisory Board. This will increase to €32 thousand for the Chairman and to €18 thousand for his deputy. The members of the Supervisory Board are covered by third party financial loss insurance (D&O insurance) taken out by the company at an appropriate level, in the interests of the company. The company pays the premiums for this. No deductible has been agreed.

The company shall reimburse each member of the Supervisory Board for any reasonable expenses incurred in the performance of his duties for which proof has been provided and for any value-added tax that applies to remuneration.

Remuneration for members of the Supervisory Board amounted to €60 thousand in financial year 2013 (previous year: €33 thousand). Supervisory Board members do not receive any performance-related remuneration and do not participate in the company's share option plan.

Other related parties

The director of a subsidiary leased an office property to the subsidiary at standard market conditions. He received €91 thousand (previous year: €89 thousand) for this.

No other transactions with other related parties took place in the year under review.

The holding in Vereta GmbH, Einbeck, was shown in the 2012 financial statements as an asset held for sale and was sold in February 2013.

33. FINANCIAL RISK MANAGEMENT

Risk management for financial instruments

First Sensor sells its products and services worldwide and purchases materials on an international market, which leads to market risks owing to changes in exchange rates.

The company also finances its operations partly with bank loans, which involve interest-rate risks owing to variable interest conditions. The company hedges the interest-rate risk. Foreign currency risks are partly reduced by concluding forward foreign exchange contracts in connection with purchases of materials.

In addition to trade accounts receivables, the company's main financial instruments comprise cash and cash equivalents and utilized overdraft facilities and loans. The aim of these financial liabilities is to finance the company's business operations. The principal risks result from default, liquidity, currency, interest-rate and fair value risks. The company is not exposed to other price risks related to financial instruments.

The company has concluded interest rate swaps and interest caps to hedge against interest rate risks from variable interest agreements.

Fair value risk

The fair value of the financial assets and financial liabilities is recognized at the amount at which the relevant instrument could be exchanged in a market transaction (excluding forced sale or liquidation) between willing parties. The methods and assumptions used to calculate fair values are as follows:

- Cash and cash equivalents and current deposits, trade accounts receivables, trade accounts payables and other current liabilities are shown at their carrying amount, owing to their short terms.
- The fair value of unquoted instruments, loans and other financial liabilities, obligations under finance leases and other non-current financial liabilities is estimated by discounting the future cash flow on the basis of interest rates currently available for borrowings on similar terms, credit risks and remaining maturities.

The Group enters into derivative financial transactions with various parties, in particular with banks with a good credit rating. Derivatives measured using a valuation technique with input parameters that can be observed on the market are interest-rate swaps and interest-rate caps. Among the most frequently-used measurement methods are forward-price and swap models using present values. The models include various variables such as the credit rating of business partners, foreign exchange spot and forward rates and yield curves. Changes to the counterparty default risk had no effects on the assessment of the hedge effectiveness and other financial instruments measured at fair value.

Hierarchy for fair values

The Group uses the following hierarchy for each valuation technique to determine and record fair values of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: techniques where all input parameters which have a material effect on the recognized fair value are observable, either directly or indirectly.
- Level 3: techniques using input parameters which have a material effect on the recognized fair value and are not based on observable market data.

As at December 31, 2013, First Sensor measured specific liabilities at fair value using the level 2 valuation technique. These liabilities included several interest rate swaps to hedge the interest rate risk.

There were no changes in the calculation of fair value during the period under review.

Derivative financial instruments

The Group uses interest rate swaps and interest rate caps to hedge the exposure to interest rate risk arising from variable-rate liabilities.

in € thousand	Maturity	Hedge	Interest rate	Nominal	2012	Market value	2012
Interest rate swap I (3145170UK)	12.31.2020	3M EURIBOR	3.83 %	1,462	1,566	-148	-11
Interest rate swap II (3467328UK)	12.31.2020	3M EURIBOR	2.17 %	718	769	-30	-49
Interest rate swap III (3665880UK)	10.14.2016	3M EURIBOR	2.15 %	7,212	6,200	-284	-431
Interest rate swap IV (4449932L)	10.14.2016	3M EURIBOR	2.15 %	7,212	6,200	-285	-431
Interest rate cap I (3665880UK)	09.30.2014	3M EURIBOR	2.15 %	3,062	3,700	0	0
Interest rate cap II (4449941L)	09.30.2014	3M EURIBOR	2.15 %	3,062	3,700	0	0

The stated fair values are based on the market values of equivalent financial instruments as at the balance sheet date (level 2 in the fair value hierarchy). All interest rate swaps were identified for cash flow hedging and classified as effective. The fair values were therefore recognized in equity. The interest rate cap was identified for cash flow hedging and classified as effective. Due to a temporary over-collateralization, €64 thousand was recognized as an expense for hedging inefficiency. The interest rate caps were identified for cash flow hedging and classified as effective.

Interest rate sensitivity

The risk of market interest-rate fluctuations to which the Group is exposed results predominantly from cash invested in a way that bears interest as well as from floating rate liabilities that are not hedged against interest rate risks via interest-rate hedging instruments. The following table shows the sensitivity of the consolidated result before tax in the light of reasonably possible changes in interest rates. All other variables remain constant. Direct effects on Group equity result from interest rate hedging instruments used in hedge accounting.

in € thousand	2013	2012
Increase of 15 basis points	41	74
Reduction of 10 basis points	–27	–49

Direct effects on equity from interest rate hedging instruments used in hedge accounting would amount to approximately €+/–0.1 million if the interest rate were to increase by 15 basis points or were to decrease by 10 basis points.

Currency sensitivity

The domestic subsidiaries usually have trade business in euro. Only a small amount of trade accounts receivables and trade accounts payables were nominated in foreign currencies. Therefore the currency sensitivity has only a small impact on the profit of at least €0.1 million.

In the case of increase or decrease of the euro regarding the relevant foreign currencies an amount of at least €0.3 million would appear in the position currency translation in the equity due to the currency translation of the financial statements of the foreign subsidiaries.

Liquidity risk

The Group monitors the risk of a liquidity squeeze using an automated planning tool. This tool assesses cash and cash equivalents on a daily basis, the terms of financial investments and financial assets (e.g. receivables, other financial assets) together with expected cash flow from the business activity.

As at December 31, 2013, the Group's financial liabilities show the following maturities. All data is based on contractual, non-discounted payment.

in € thousand	Due within 1 year	Due in 1 to 5 years	Due in over 5 years	2013
Interest-bearing loans	4,217	22,959	19,968	47,144
Accounts payable	7,706	0	0	7,706
Other liabilities	5,881	5,944	0	11,825
Total	**17,804**	**28,903**	**19,968**	**66,675**

in € thousand	Due within 1 year	Due in 1 to 5 years	Due in over 5 years	2012
Interest-bearing loans	12,189	35,489	3,525	51,203
Accounts payable	7,679	0	0	7,679
Other liabilities	11,275	7,532	0	18,807
Total	**31,143**	**43,021**	**3,525**	**77,689**

Capital control

The primary aim of capital management at the company is to ensure a high credit rating and a good equity ratio, which helps to support the business and maximize shareholder value. Minimum equity ratios are stipulated as conditions in some loan agreements. The equity ratio also affects the credit rating, which is one of several factors determining the applicable interest rate. The credit rating is also a deciding factor for customers when deciding which company to award a contract to.

The Group monitors its capital on the basis of the equity ratio:

in € thousand	2013	2012
Equity	70,006	69,916
Balance sheet total	146,735	158,607
Equity ratio	47.7 %	44.1 %

The company fulfilled the key ratios (covenants) required under loan agreements in the year under review.

34. FURTHER NOTES IN LINE WITH HGB REGULATIONS

The following notes contain additional information constituting mandatory components of the Notes to the Financial Statement as defined in the German Commercial Code (HGB).

Members of the Management Board

Name	Position on the Board
Dr. Martin U. Schefter	CEO from June 17, 2013
Joachim Wimmers	CFO

Former members of the Management Board

Name	Position on the Board
Dr. Hans-Georg Giering	CEO up to June 14, 2013

Members of the Supervisory Board

Name/ job title	Position on the Supervisory Board	Membership of statutory supervisory boards	Membership of comparable domestic or foreign supervisory committees
Prof. Dr. Alfred Gossner *Executive Officer for Finance, Controlling, IT Headquarters of Fraunhofer-Gesellschaft, Munich*	Chairman of the Supervisory Board since September 11, 2012	Bayern Innovativ GmbH, Nuremberg, since 2003	None
Götz Gollan *Executive Officer of Bankhaus Dr. Masel AG, Berlin*	Deputy Chairman of the Supervisory Board since September 11, 2012 Chairman of the Supervisory Board, June 9, 2011, to September 11, 2012 Member of the Supervisory Board since June 17, 2010	Capitell Vermögens-Management AG, Frankfurt am Main Member of the Supervisory Board	None
Volker Hichert *Managing Director Parcom Deutsche Private Equity, Munich*	Member of the Supervisory Board since September 11, 2012	None	SLM Solutions GmbH, Lübeck (Member of the Advisory Council) Availon GmbH, Rheine (Member of the Advisory Council) Westfalia Automotive GmbH, Rheda-Wiedenbrück (Member of the Advisory Council) proFagus Holding GmbH, Bodenfelde (Member of the Advisory Council)

Disclosure in accordance with Article 160 (1) 8 AktG

According to the voting rights notifications issued to us, the following individuals/companies held more than 3% of shares in First Sensor AG on December 31, 2013:

Individual/company	Domicile	Date of notification	Date threshold touched	Date of publication	Threshold value reached exceeded or fallen below	Percentage of shares at time of notification %	Voting power	Allocation according to
ING Insurance Topholding N.V.	Amsterdam, Netherlands	02.22.2012	12.29.2011	02.23.2012	3 %, 5 %, 10 %, 15 %, 20 % and 25 % exceeded	27.33	2,690,000	Article 22 paragraph 1 sentence 1 no. 1 WpHG
Total voting power were attributable to ING Insurance Topholding N. V.:								
The attributable voting power will be held by the following companies, controlled by ING Insurance Topholding N.V.: – ING Verzekeringen N.V., – ING Insurance Eurasia N.V., – Nationale Nederlanden Nederland B.V., – Nationale Nederlanden Levensverzekering Maatschappij N.V., – Parcom Capital B.V., – Parcom Germany I GmbH & Co KG, – Alegria Beteiligungsgesellschaft mbH.								
Upolu Holding Inc.	Tortola, British Virgin Islands	05.16.2012	05.14.2012	05.16.2012	3 % fallen below	0.00	0	–
Bankhaus Lampe KG	Bielefeld, Germany	05.15.2012	05.14.2012	05.16.2012	3 % and 5 % exceeded	8.27	814,230	Article 22 paragraph 1 sentence 1 no. 1 WpHG
Total voting power attributable to Bankhaus Lampe KG:								
The attributable voting power will be held by the following company, controlled by Bankhaus Lampe KG: – Lampe Beteiligungsgesellschaft mbH.								
Lampe Beteiligungs-gesellschaft mbH	Düsseldorf, Germany	05.16.2012	05.14.2012	05.21.2012	3 % and 5 % exceeded	8.27	814,230	–
Daniel Hopp	Germany	10.28.2011	10.25.2011	11.01.2011	25 % and 20 % fallen below	18.89 %	1,859,605	Article 22 paragraph 1 sentence 1 no. 1 WpHG
Thereof attributable to Daniel Hopp:						18.89 %	1.859,605	Article 22 paragraph 1 sentence 1 no. 1 WpHG
The attributable voting power will be held by the following companies, controlled by Daniel Hopp: – DAH Beteiligungs GmbH, – Hopp Beteiligungsgesellschaft mbH & Co. KG, – Hopp Verwaltungs GmbH.								
Hopp Verwaltungs GmbH	Mannheim, Germany	10.28.2011	10.25.2011	11.01.2011	25 % and 20 % fallen below	18.89 %	1,859,605	Article 22 paragraph 1 sentence 1 no. 1 WpHG
Thereof attributable to Daniel Hopp Verwaltungs GmbH:						18.89 %	1,859,605	Article 22 paragraph 1 sentence 1 no. 1 WpHG
The attributable voting power will be held by the following companies, controlled by Daniel Hopp Verwaltungs GmbH: – DAH Beteiligungs GmbH, – Hopp Beteiligungsgesellschaft mbH & Co. KG.								
Hopp Beteiligungs-gesellschaft mbH & Co. KG	Mannheim, Germany	10.28.2011	10.25.2011	11.01.2011	25 % and 20 % fallen below	18.89 %	1,859,605	Article 22 paragraph 1 sentence 1 no. 1 WpHG
Thereof attributable to Hopp Beteiligungsgesellschaft mbH & Co. KG:								
The attributable voting power will be held by the following companies, controlled by Hopp Beteiligungsgesellschaft mbH & Co. KG: – DAH Beteiligungs GmbH.								
DAH Beteiligungs GmbH	Mannheim, Germany	10.28.2011	10.25.2011	11.01.2011	25 % and 20 % fallen below	18.89 %	1,859,605	

Employees

The average number of employees as at December 31, 2013, was:

Number of employees	2013	2012
Germany	669	665
Europe	35	35
North America	22	25
Other	31	31
Total	**757**	**756**

To enable clearer presentation, the number of employees will in future be stated as full-time equivalents (FTE):

Full-time equivalents	2013	2012
Germany	618	608
Europe	29	29
North America	21	24
Other	30	30
Total	**698**	**691**

Fees of the auditor

	2013
Annual audit	129
Other advisory services	7
Total	**136**

Berlin, March 24, 2014

First Sensor AG

Dr. Martin U. Schefter
CEO

Joachim Wimmers
CFO

The audit fees for the financial statements comprise the audit of First Sensor AG's separate financial statement pursuant to HGB, First Sensor's consolidated financial statement pursuant to IFRS and the financial statements of major subsidiaries of First Sensor pursuant to HGB.

Waiver of disclosure pursuant to Article 264 (3) HGB

The following domestic subsidiary with the legal status of a limited liability corporation has met the conditions for claiming exemption under Article 264 (3) German Commercial Code HGB and has thus exercised the option not to publish annual financial statements:

- Lewicki microelectronic GmbH, Oberdischingen

35. CORPORATE GOVERNANCE

The company has issued a declaration of compliance pursuant to Article 161 AktG (German Stock Corporation Act) and this is permanently available on the company's website.

AUDITORS'S REPORT

On behalf of First Sensor AG, Berlin, we have audited the consolidated financial statements – consisting of balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes – and the consolidated management report for the fiscal year from January 1, 2013 until December 31, 2013. Preparation of the consolidated financial statements and the consolidated management report in accordance with the regulations of the International Financial Reporting Standards (IFRS), as applicable in the EU, and the additional regulations to be applied in accordance with section 315a (1) of the German Commercial Code (HGB) is the responsibility of the legal representative of the company. Our task is to provide an assessment of the financial statements and the consolidated management report on the basis of our audit.

We have carried out our audit in accordance with section 317 of German Commercial Code (HGB), taking into account the German principles of proper accounting established by the German Institute of Accountants (IDW). These principles stipulate that the audit is planned and conducted in such a way that misstatements and infringements having an impact on the asset, financial and profit situation conveyed by the financial statements and consolidated management report under consideration of the basic principles of proper accounting can be recognized with reasonable assurance. When defining the audit activities, knowledge about the business activity and the economic and legal environment of the group, as well as expectations of possible errors are taken into account.

Within the scope of the audit, the effectiveness of accounting-related internal control systems and evidence for statements made in the financial statements and consolidated management report are mainly examined on the basis of spot checks. The audit comprises the assessment of annual accounts of the companies included in the financial statements; the delineation of the scope of consolidation, the accounting and consolidation principles applied and the main estimates of the legal representative, as well as appraisal of the audit provides a sufficiently secure basis of our assessment.

Our audit did not raise any objections.

According to our assessment from knowledge gained during the audit, the consolidated financial statements conform with the regulations of the International Financial Reporting Standards (IFRS), as applicable in the EU, and the additional regulations to be applied in accordance with section 315a (1) of the German Commercial Code (HGB) and give a fair view of the asset, financial and earning situation of the group, in accordance with the above regulations. The consolidated management report agrees with the financial statements, conveys a true and fair view of the group's situation and accurately represents the opportunities and risks of the future development.

Hanover, March 25, 2014

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Steffen Fleitmann
Auditor

Hans-Peter Möller
Auditor

ASSURANCE OF THE LEGAL REPRESENTATIVES

According to Articles 264 (2) sentence 3, 289 (1) sentence 5 HGB

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, financial position and profit or loss of the group, and the consolidated management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Berlin, March 24, 2014

First Sensor AG

Dr. Martin U. Schefter
CEO

Joachim Wimmers
CFO

DECLARATION
DEUTSCHER CORPORATE GOVERNANCE KODEX

Declaration by the Management Board and the Supervisory Board of First Sensor AG with respect to the recommendations of the Government Commission German Corporate Governance Code pursuant to Article 161 Aktiengesetz (German Stock Corporation Act)

With the exception of deviations from the recommendations listed below, First Sensor AG complies with the recommendations of the Government Commission German Corporate Governance Code (Code) published by the Federal Ministry of Justice in the regulatory section of the German Federal Gazette in the current version from May 15, 2012 and has complied with the recommendations of the Code in the version from May 26, 2010 since issuing the last declaration in March 2012 subject to the limitations listed in the declaration of compliance.

- In line with **Article 3.8 (3)** of the Code, a deductible in accordance with the guidelines shall be agreed in any D&O policy for the Supervisory Board.

  There is no deductible for members of the Supervisory Board because in the company's view, it is easier to recruit qualified members for the Supervisory Board if there is no deductible.

- In accordance with **Article 5.1.2 (1)** of the Code, the Supervisory Board together with the Management Board shall ensure there is long-term succession planning.

  The company has no long-term succession planning. There has been no requirement for one to date. Long-term succession planning shall be drawn up for the future.

- In Accordance with **Articles 5.3.1, 5.3.2 and 5.3.3** of the Code, the Supervisory Board shall form relevant committees.

  The Supervisory Board of First Sensor AG does not form committees. In the light of a Supervisory Board comprising just three members, the company sees no advantages in forming committees.

- In accordance with **Article 7.1.2 (4)** of the Code, the Consolidated financial statements should be publicly accessible within 90 days of the financial year and the interim reports within 45 days of the end of the reporting period.

  The interim reports of First Sensor AG are not generally published within 45 days because publication of the interim reports within the period set down by the Stock Exchange rules of Procedures of the Frankfurt Stock Exchange is deemed acceptable.

Berlin, March 25, 2014

First Sensor AG

Dr. Martin U. Schefter
CEO

Joachim Wimmers
CFO

Prof. Dr. Alfred Gossner
Chairman of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD

For First Sensor AG, the 2013 financial year was characterized by change. The integration that commenced in 2012 following the acquisition of the Sensortechnics Group and the subsequent consolidation of the company units set the course for the Company's realignment.

Over the past few years, unique expertise comprising employees and know-how has been built up for the relevant technology fields. This rapid growth observed in recent years has seen the Company grow in a short space of time to a size and complexity that now requires new elements of focus in its management and organization.

For this reason, the Supervisory Board decided to implement a change of leadership and incorporated Dr. Martin U. Schefter as CEO. He rules the business together with Joachim Wimmers as the new team in the Management Board. It is now time to direct the Company in a targeted manner toward the relevant markets with respect to process optimization and internationalization.

Four business units have been created for this purpose, which service the rapidly growing markets in the sensor industry in the areas of Medical, Industrial, Mobility and Electronic Engineering and Manufacturing Services.

In the reporting year, the Supervisory Board fulfilled its duties as prescribed by law, the articles of incorporation and the rules of procedure, regularly advised the Management Board in the course of its management of the Company and regularly reviewed and constantly monitored its activity. The Supervisory Board was directly involved in all decisions of fundamental importance for the Company. The Management Board made regular, prompt and extensive reports to the Supervisory Board, both written and verbal, concerning the course of business, strategic development, business planning, relevant questions relating to the risk situation, risk management and compliance as well as on the current situation of the Group. Any differences between actual business development and the formulated plans and objectives, as well as measures derived from these, were presented to the Supervisory Board in detail and the reasons explained. These were then discussed extensively with the Management Board.

The Supervisory Board kept itself regularly informed of business development at First Sensor AG and its subsidiaries and was convinced that the management was lawful and regular. In a total of nine meetings which were personally attended and three held by telephone, the Supervisory Board primarily discussed in detail matters of business policy, corporate strategy, corporate structure and associated measures to increase efficiency with the Management Board.

Agreeing and examining the Company's strategic focus on the business units and the implementation of this constituted important areas in the work of the Supervisory Board in 2013. These themes ran through all meetings of the Supervisory Board. This included a strategy meeting with a meeting of the Supervisory Board at the same time on November 20 and 21, 2013, which, in addition to the First Sensor AG Management Board and Supervisory Board, was also attended by the managers of the Group and its companies as well as an external strategy consultant. The business transactions material to the Company on the basis of the reports of the Management Board and external consultants were examined in detail.

In the meeting held on March 27, 2013, the Consolidated Financial Statements were approved and the Annual Financial Statements for the Company were discussed in detail with the auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Berlin, and subsequently adopted. The remuneration system for the Management Board and the appropriateness of the remuneration paid to the members of the Management Board was also examined at the meeting held on April 30, 2013.

At the Supervisory Board meeting on June 14, 2013, the change in the composition of the Management Board was decided and the resignation statement of Dr. Giering accepted.

In the meetings held in December 2013, in addition to business planning and a range of other topics, it was discussion of the future corporate and management structure and the continuation of consolidation that constituted the focal point of the consultations with the Management Board.

In addition to the above, a range of meetings were held between the Management Board and the Chairman and other members of the Supervisory Board. The Supervisory Board has not formed any separate committees but always discussed collectively. All the current members of the Supervisory Board attended all meetings. An efficiency review of the Supervisory Board's activity was conducted with the support of Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover, in an advisory capacity and the outcome was discussed in a subsequent telephone meeting. One of the decisions taken as a result was to separate the approval and invoicing of business trips. There were no conflicts of interest in the Supervisory Board during financial year 2013.

In its meeting held on March 25, 2014, the Supervisory Board examined in depth the content of the German Corporate Governance Code. Information on Corporate Governance within the Company together with a detailed report on the level and structure of Supervisory Board and Management Board remuneration is contained in this Annual Report. At the meeting mentioned above, the Management Board and Supervisory Board also decided to issue a declaration of compliance pursuant to Article 161 AktG (German Stock Corporation Act). More details are available in the Annual Report. The declaration of compliance shall be permanently accessible to shareholders on the Company website.

As per statutory regulations, the auditors Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover, were appointed by the Annual General Meeting on August 20, 2013 to audit the annual financial statements and the consolidated financial statements. Prior to submitting a proposal for appointment, the Supervisory Board obtained a declaration of independence from the auditors.

The financial statements and management report of First Sensor AG prepared by the Managing Board according to the principles of the German Commercial Code (HGB), as well as the consolidated financial statements and the consolidated management report prepared according to the accounting standards of the International Financial Reporting Standards (IFRS) for the fiscal year 2013, including the accounting have been audited by Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover, and granted an unqualified audit opinion.

The supervisory board collaborated closely with the Managing Board and the auditors during the entire audit process. The Supervisory Board was provided with all final documentation relating to the annual financial statements of the limited company and the group, the Management Board's proposal on the appropriation of net profit, and the long-form audit reports from the auditor before and during its meeting on March, 26, 2014. The documents were subsequently examined during this Supervisory Board meeting and discussed in detail in the presence of the auditor. The Supervisory Board concurred with the results of the audit by the auditor and did not raise any objections in the course of its own examination. The annual financial statements of the limited company and of the group have thus been adopted in accordance with section 172 of the German Stock Corporation act (AktG).

The Supervisory Board would like to thank the Management Board and all employees for their dedication and outstanding performance over the past financial year and wishes everyone every success in their future challenges.

Very special thanks go to the shareholders who have put and continue to put their trust in the Company.

Berlin, March 25, 2014

First Sensor AG

Prof. Dr. Alfred Gossner
Chairman of the Supervisory Board

LEGAL NOTICE, FINANCIAL CALENDAR, CONTACT

Legal disclaimer

This report contains statements of a predictive nature and does not represent any incitement to purchase shares of First Sensor AG, but rather is intended exclusively for information purposes with regard to possible future developments at the company.

All future-oriented specifications in this consolidated financial report were produced on the basis of a propability-based plan and represent statements regarding the future which cannot be guaranteed.

Financial calendar 2014

Date	Topic	Location
March 27, 2014	Publication of consolidated financial report 2013	
May 23, 2014	Annual General Meeting	Penta Hotel Berlin Köpenick, Grünauer Str. 1, 12557 Berlin
May 28, 2014	Publication of consolidated interim financial report as at March 31, 2014	
August 28, 2014	Publication of consolidated interim financial report as at June 30, 2014	
November 24 - 26, 2014	Analysts' conference First Sensor AG/ German Equity Capital Forum 2014	Congress Center at Messe Frankfurt, Frankfurt am Main
November 27, 2014	Publication of consolidated interim financial report as at September 30, 2014	

As we cannot rule out the possibility of delays, we recommend that you consult the latest set of dates at http://www.first-sensor.com/de/investor-relations/termine

Internet, information, contact

This consolidated financial report as at December 31, 2013 is available in German and English. Both versions are also available for download on the internet at www.first-sensor.com.

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