



To our Shareholders

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Q1 2018

LOW PRESSURE CHIP EXPANDS PRESSURE SENSOR PORTFOLIO

The cost efficient sensor chip will broaden the 10 millibar to 100 millibar sector.

With the development of a low pressure chip, we are pushing the implementation of a new generation of pressure sensors in accordance with our technology and product roadmap. The cost efficient sensor chip will expand the standard pressure portfolio of First Sensor in the 10 millibar to 100 millibar sector. It will also strengthen our position as a supplier of high precision standard pressure sensors and customer-specific sensor solutions. First Sensor covers a vast product portfolio from low pressure to high pressure sensors. Our low pressure sensors are put to use, among other things, in medical devices for artificial respiration and dialysis. The roadmap also includes an update of the H family and further development of senseEdge technology.

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JANUARY

NEW TECHNOLOGY FOR ADVANCED GAS MEASUREMENT PATENTED

The innovative measuring principle allows for much faster and lower-energy measurement than before.

In order to capture the growing market for gas sensor technology, we have applied for a patent for a new type of gas property sensor system which allows for much faster and lower-energy measurement than before. The overall market is expected to grow from USD 812.3 million in 2016 to USD 1,3 billion by 2023. The innovative measurement principle has been developed at our Canadian site in Montreal. Using technology based on active flow generation, four different gas properties can be determined at the same time and the composition of gas mixtures can therefore be detected on a continuous basis. The new sensor system can be used in industrial applications such as smart gas meters, or in a medical context for monitoring anesthetic gases. Potential customers can test out an evaluation kit with gas property sensors, flow sensors, and pressure sensors. There are also plans for the expansion of a PC app and for data analysis on the sensor.

FEBRUARY



SERIES PRODUCTION OF „BLUE NEXT“ CAMERA STARTS

An international tier-1 supplier uses our cameras to replace traditional rear-view mirrors. They help to prevent accidents caused by blind spots.

The cameras are being developed and produced at First Sensor Mobility GmbH in Dresden. Volume production of the first camera solution started here for an international tier-1 supplier. The supply agreement for the key customer initially covers the period up to 2022. „We expect an enquiry of 10-20,000 systems by 2019 alone,“ explains Wilhelm Prinz von Hessen, our Vice President of Mobility. The „Blue Next“ cameras replace traditional rearview mirrors and help to prevent accidents caused by the blind spot. Being more aerodynamic, they also contribute to lower consumption costs. The industrialized camera generation supplements batch production of the predecessor „Blue Eagle“ model and the analog „Red Hawk“ series. Its features include a large selection of digital interfaces for simple and flexible integration into vehicle electrical systems and driver assistance systems.

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MARCH

Q2 2018

SETTING THE COURSE FOR FURTHER GROWTH IN MEDICAL TECHNOLOGY

First Sensor confirms the quality of its production network and expands the capacities.

Medical technology is subject to the highest quality standards because it saves lives every day. A renewed ISO 13485:2012 certification testifies to the performance of the First Sensor production network with the current increased demand for highly sensitive and reliable pressure sensors. „For example, a Swiss medical technology manufacturer has doubled its demand for high-precision pressure sensors for ventilator systems, meaning that we expect a sales increase of more than €1 million with this customer alone in 2018. We now have the task of adapting our capacity in line with the increased unit volumes in order to cover the requirements of this and other customers. The certification is an important step in this context,“ says our CEO Dr. Dirk Rothweiler. The ISO 13485:2012 certification confirms the introduction and use of a comprehensive management system for the design and manufacture of medical products at our German production sites in Berlin-Weißensee and Puchheim as well as the Canadian site in Montreal.

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APRIL



STRENGTHENED COLLABORATION WITH CANADIAN TECHNOLOGY LEADER

One of the key factors for the expansion is the technological expertise in the processing of optical sensors.

We are taking over the production of image sensor boards for a new camera series of a Canadian technology leader in the field of machine vision. „Today, almost every household display, from mobile screens to TVs, is inspected by products from our customer to ensure an optimal visual experience for consumers“, explains our CEO Dr. Dirk Rothweiler. The agreement, which will initially run until May 2019, has an anticipated sales volume of around €2 million. It supplements an already existing order for the packaging of image sensors for camera boards. Our collaboration with the customer has been ongoing for 15 years. One of the key factors for the expansion is the technological expertise of Dresdner First Sensor Microelectronic Packaging GmbH in the processing of optical sensors and in the assembly of large and long chips.

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SERIES PRODUCTION OF MULTI SENSOR SYSTEM FOR SMART AIR CONDITIONING STARTS

The system will detect the condition of filters imbedded in the monitoring system of an international HVAC specialist.

Series production of a LMI multi sensor system for an international air conditioning technology specialist starts at our packaging site in Berlin-Weißensee. The HVAC developer has announced that they will acquire a four-digit number of the customized solution annually. We have taken on the design of the circuit board, installation and connection technology as well as quality control for the customer. From the development work originated a system with four flow sensors, electronics and customized casing. In the future, the system will detect the condition of ventilation filters imbedded in the monitoring system of our customer. Intelligent air conditioning systems use this information to provide fresh air in buildings and to keep power consumption at a minimum.

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Q3 2018

EXPANDED COLLABORATION WITH CHINESE COMPANY

The supply of standard sensors for pressure transmitters has created a demand for a solution.

We have signed an extension to our contract with a leading Chinese process automation company for the development and production of customer-specific pressure sensor components. „The aim is to achieve total annual sales of several million euro per year in the medium term,“ explains our CEO Dr. Dirk Rothweiler. The order supplements a supply agreement for standard sensors that has been in place since 2012. Our customer uses the pressure sensor components of the K series in high-precision pressure transmitters. The supply of standard sensors with double-digit growth rates has created a demand for a solution that enables even better stability and measuring quality. Over the last four years, First Sensor has achieved average sales growth of around 9% in Asia. Thus, China is the largest sales market. The most important application fields are industrial process control and length measurement.

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AUGUST

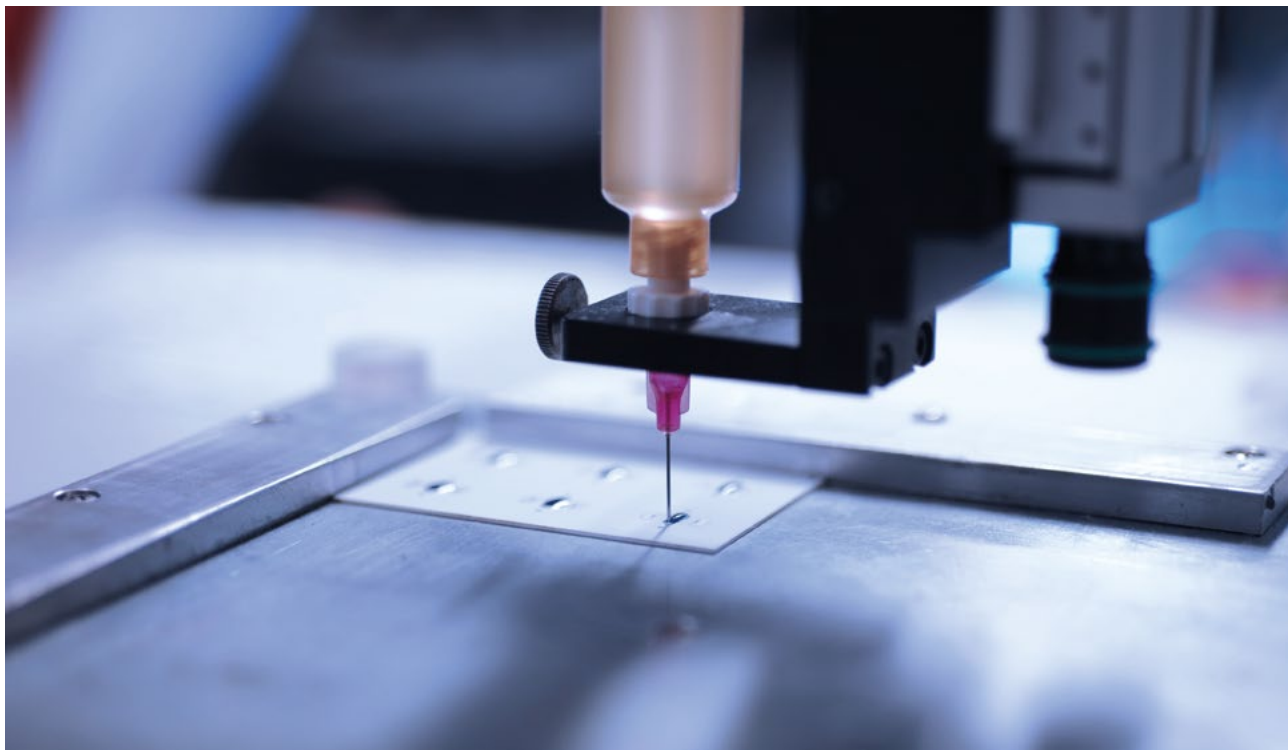
AUTOMOTIVE CERTIFICATION VERIFIES EXCELLENCE IN PRODUCTION

The IATF-certification is applied throughout the whole automotive supply chain and confirms the quality of our production processes.

With the IATF 16949 certification for the automotive industry, our two subsidiaries in Dresden and our location in Berlin-Oberschöneweide confirm the quality of the First Sensor production network and form the basis for making visions of autonomous driving and green mobility a reality. „With our APDs for the LiDAR technology, our cameras for driver assistance systems and our pressure sensors for energy-saving vehicles, we have a highly attractive range of products for the automotive industry. With the IATF 16949 certification, we have now laid the foundation for growth with current and new customers through these products and solutions,“ says our CEO Dr. Dirk Rothweiler. The IATF certificate, which is valid for three years, is used across the entire automotive industry supply chain. The goal of the IATF standard is to constantly improve quality in order to increase customer satisfaction.

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SEPTEMBER



POLYPHOTONICS EXPERTISE ENHANCES PACKAGING TECHNOLOGY

First Sensor has succeeded in combining electronic and optical functions with a new poly-transceiver.

First Sensor is expanding its packaging expertise along the strategic technology and product roadmap, and adding polyphotonics technology to our microelectronic structural design and connection technology. Proof-of-concept is an innovative poly-transceiver for 5G broadband expansion. As an expert in advanced electronics, we are combining optical and electronic functions with the transceiver for the first time. This connection increases the module’s performance advantages and generates clear cost advantages compared with current manufacturing procedures. We have been working on developing the module together with different partners since 2016 and will take over production following series maturity from 2020 onwards. With the proof-of concept, we now have our eyes firmly set on further sensor applications for the innovative polymer-chip technology.

Q4 2018

INCREASED PRODUCTION CAPACITY FOR H SERIES

The pressure sensors measure ultra-low pressures of dry, non-corrosive gases.

Demand for our powerful pressure sensors for medical and industrial applications is so high that we are increasing the production capacities for the standard sensors from the H series. Weekly output will rise by 70% compared to last year by the end of 2018. Measures at the Berlin-Weißensee location include optimization of batch sizes and product mix. In addition, new systems have been installed and a new shift model introduced. Furthermore, additional calibration capacity has been built up at our location in Puchheim, near Munich, thus ensuring greater flexibility in the production network. Our H series pressure sensors measure ultra-low pressures of dry, non-corrosive gases in various applications. Besides the DACH region – its largest sales market – demand for the H series is growing in Asia and North America above all. First Sensor will therefore further increase output in 2019.

OCTOBER

NEXT STEP TOWARDS SENSOR DATA FUSION

Up to six cameras as well as further sensors can be combined with a new Embedded Electronic Control Unit.

First Sensor is moving sensor data fusion forward with the introduction of a scalable hardware and software platform for driver assistance systems. The sensor manufacturer is already using samples to promote the Embedded Electronic Control Unit (ECU) to various companies. “With the control unit, we are expanding our capabilities in the future-oriented field of partially and fully autonomous driving and offering OEMs an attractively priced solution for integrating different types of sensors and software applications,” explains our CEO Dr. Dirk Rothweiler. The ECU is being developed and produced at First Sensor Mobility GmbH in Dresden. Up to six cameras as well as further sensors such as LiDAR, radar or ultrasound can be combined with the platform. In addition, various software applications have already been implemented, which customers can augment with their own applications.

NOVEMBER



DECEMBER

LIDAR EXPERT FROM ISRAEL RELIES ON FIRST SENSOR

Technological precision and performance strength in the customized APDs impressed the company.

The Israeli system manufacturer is making use of our customer-specific avalanche photodiodes (APDs) in a novel solid-state LiDAR system designed for use with autonomous vehicles. We were able to make the optical sensors available within a few months. First Sensor is currently providing different companies with samples of a new generation of APD and is preparing for the LiDAR systems to enter series production. „Our task is to get volume production started as quickly as possible

with an accelerated cost roadmap,“ says our CEO Dr. Dirk Rothweiler. The technological precision and performance strength of our APDs is also confirmed in the recently published “Global APD Avalanche Photodiode Market 2018” report. This marks the second time First Sensor has been ranked the top APD manufacturer in this publication.

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Foreword by the Executive Board

FOREWORD BY THE EXECUTIVE BOARD

Dr. Dirk Rothweiler, CEO (right)
and Dr. Mathias Gollwitzer, CFO (left)

Dear shareholders and business partners,

What changes are we seeing in the business world in which our company operates? What innovations will be shaping the future? These are the questions that drive us every single day. And the answers? Our sensors and sensor solutions – the products that have enabled us to grow from a Berlin-based technology startup into one of the leading global sensor companies. Our success is based on pioneering ideas, a commitment to excellence and close collaboration with our customers. Thanks to our expertise in chip design and production as well as microelectronic layout and connection technology, we develop and produce customized and standard sensor solutions in the fields of photonics, pressure and advanced electronics for the growing number of applications in our target markets Industrial, Medical and Mobility. And this is something we have done with sustained success.

With sales of €155.1 million, we ended the fiscal year within the guidance and achieved 5.2% more growth than the previous year. This growth was driven by the target markets Industrial and Medical as well as the sales regions of North America and Asia, where sales grew considerably. We want to – and will – continue this growth in 2019, too. After all, sensor technology is and will always be an innovation driver, and our products are the essential building blocks for the megatrends of digitalization and connectivity.

In Industry 4.0, for example, our solutions are essential for controlling interactions with robots or initiating maintenance measures before a problem occurs. In the world of medical technology, they help to improve diagnostics and support personalized care thanks to mobile e-health devices. And in the automotive industry, they are needed for green mobility – low consumption and low emissions – and for helping us to move into the age of autonomous vehicles. This is why volatile geopolitical developments and the impact of new standards and legislation, which are reflected in the sales in the target market of Mobility, represent only a snapshot of the current situation and why we can expect further growth here in 2019.

To achieve growth in all three target markets, we do not want to depend solely on a subsistence strategy and on market experts, who also expect economic growth and increasing demand for sensor technology in the coming years. Instead, we want to intensify our key account management to promote ongoing and comprehensive dialog with our key customers, invest in a new generation of our key products, upgrade our production facilities and expand both our production capacity and international presence. This will help us to further increase our market share in the DACH region and Europe as well as in Asia and North America. Our focus here will be on our key growth drivers: pressure, LiDAR and camera technology.

We will be continuously enhancing our L-series, H-series, transmitters and sense-Edge products, which cover the measurement range from 1 millibar to 1,000 bar, and further expanding our production capacities – both internally and in collaboration with external partners.

To ensure that we play just as active a role in the introduction of advanced driver assistance systems and autonomous vehicles as we do in the increased use of industrial robotics, we are continuously enhancing and refining our avalanche photodiodes for LiDAR applications and are working on scalable LiDAR structures. We are expecting a sustained increase in the demand for such products, a position shared by industry experts and the recently published Global APD Report and one that is supported by the ever-increasing demand in the market.

We are also looking to significantly increase our camera sales over the course of this year. We laid the foundations for this back in early 2018 when our Blue Next camera entered series production. In addition, as part of our strategic target of forward integration, the end of last year saw the market launch of our embedded electronic control unit (ECU), a scalable hardware and software platform for sensor fusion in driver assistance systems. But we do not want to deploy our camera know-how exclusively in the target market Mobility – instead, we have already started tapping into new, highly specific application fields for our camera solutions in the smart home segment.

Across all target markets, key customers, key products, sales regions and growth drivers, and provided that the geopolitical and economic situation remains stable, we are expecting sales of between €160 million and €170 million in this fiscal year. Over the medium term, we are aiming to achieve year-on-year growth of 10%. We will also be looking to improve our profitability.

After our EBIT margin has for a long time been significantly less than 5%, the measures we have introduced to improve operational excellence and our clear focus on generating and leveraging economies of scale are starting to bear fruit: With an EBIT margin of 6.7% in 2016 and 7.2% in 2017, we ended the last fiscal year on 7.9%, which corresponds to an EBIT of €12.2 million – or a 16% increase compared with the previous year. This means that we are within our guidance here, too. We are looking to further increase our profitability and, based on our sales guidance, are striving for an EBIT margin of 8.5% to 9.5% for fiscal year 2019. By 2020, we want to have an EBIT margin of 10%.

To achieve these targets, we need our team to stay every bit as committed as it always has done, every single day. We need a team to keep on working together on solutions for everyday challenges. A team to look beyond the horizon and to shape our future. I would like to thank every single one of our 972 employees for their service, their creativity and their passion and for their commitment to achieving profitable growth, even if this involves overcoming hurdles along the way.

Equally, I would like to thank our shareholders, who have been accompanying us on our path of successful development, some of them already for many years. We are looking forward to embarking on the next stage together with you.

Your Executive Board



Dr. Dirk Rothweiler
CEO



Dr. Mathias Gollwitzer
CFO

REPORT OF THE SUPERVISORY BOARD

PROF. DR. ALFRED GOSSNER, CHAIRMAN OF THE SUPERVISORY BOARD

"THE COMPANY IS
WELL POSITIONED FOR
CONTINUED PROFITABLE
GROWTH."



Dear Ladies and Gentlemen,

In the reporting year, the Supervisory Board fulfilled its duties as prescribed by law, the articles of incorporation and the rules of procedure. It advised the Executive Board in the course of its management of the company on an ongoing basis, and regularly reviewed and monitored its activity. In addition, it was directly involved at an early stage in all decisions of strategic and fundamental importance to the company. All relevant information was passed on promptly and extensively to the Supervisory Board. Over the course of the year and beyond, the Executive Board regularly, promptly, and comprehensively informed the Supervisory Board in both written and verbal form of the current business situation, the business development and the economic situation. The risk situation, risk management, and relevant issues relating to compliance, strategy, and planning were also elements of regular reporting. Deviations from planning and changes to targets in relation to the internally forecast business development and measures derived therefrom were communicated to the Supervisory Board, explained, and discussed with the Executive Board. The Supervisory Board approved transactions requiring its approval.

Six meetings in person took place in the past fiscal year and were also attended by the Executive Board; details of their content are provided below. In addition, one circular resolution was adopted. Five meetings were attended by all members of the Supervisory Board; only at the meeting in March was with Götz Gollan one Supervisory Board member absent. The subject of all Supervisory Board meetings was the Executive Board's reports on the business situation of First Sensor AG and its subsidiaries, particularly the current revenue and earnings development and the financial position and net assets. The Supervisory Board obtained detailed information on and discussed important transactions, the strategy and its

implementation, and the company's risk management. All members of the Supervisory Board have enough time to fulfill their mandates. They always had sufficient opportunity to deal with and discuss the reports and draft resolutions submitted by the Executive Board before the meetings and in their plenary sessions. The Executive Board also provided the Supervisory Board with monthly reporting with a comprehensive presentation of the First Sensor Group's current net assets, financial position and results of operations as well as risks including deviations from targets and detailed comments. The Chairman of the Supervisory Board also maintained regular contact with the Executive Board. The Chairman of the Executive Board promptly informed the Chairman of the Supervisory Board of significant events that were important for assessing the company's situation and development and for managing the company.

At the meeting on February 1, 2018, the Executive Board and the Supervisory Board discussed the provisional result of fiscal year 2017, current business development and the priorities for the fiscal year 2018. The focus was on the scheduled introduction of a new ERP system as at January 1, 2018. In addition, the Executive Board reported on the strategy conference which had taken place in January. The Supervisory Board and the Executive Board then talked about the priorities for 2018, particularly with regard to the strategy for profitable growth. The agenda items of the Annual General Meeting 2018 were also discussed. A further topic was changing the research service provider from M.M.Warburg & CO KGaA to equinet Bank AG, now Pareto Securities AS. Finally, the target attainment of the Executive Board and managers for 2017 together with the related variable remuneration and the Executive Board's targets for 2018 were discussed.

In the Supervisory Board meeting which took place on March 15, 2018, the single-entity financial statements of First Sensor AG and the consolidated financial statements for fiscal year 2017 were presented by Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft Hanover, scrutinized by the Supervisory Board, and then adopted and approved. In addition, the Executive Board and the Supervisory Board resolved to propose to the Annual General Meeting that a dividend of EUR 0.16 per share be distributed. Subsequently the Executive Board reported about current business, in particular the restricted supply capacity resulting from the introduction of the new ERP system. Together with the increasing shortage of qualified staff, this was also a topic in the subsequently discussed risk report. In addition, the Director of Quality at First Sensor AG was invited to the meeting to speak about quality in the First Sensor Group. Another key topic was the company's strategy, which was the subject of intensive dialog between the Executive Board and the Supervisory Board. Furthermore, the agenda of the Annual General Meeting 2018, including the proposed dividend payment, was resolved. Other topics of the meeting were a regular examination of the D&O insurance and the discussion and approval of a specific investment project in line with the rules of procedure. Finally, the Executive Board's targets for the year 2018 were discussed.

At the meeting held on May 22, 2018, the members of the Supervisory Board prepared for the forthcoming Annual General Meeting and reached an agreement on the individual agenda items. In addition, the current business development was discussed, in particular progress in the process in introducing the new ERP system. Furthermore, the targets for the Executive Board in fiscal year 2018 were determined. Finally the Executive Board reported on the current status of the Honeywell case.

As part of an ordinary Supervisory Board meeting on August 15, 2018, the current business development of the AG was discussed. The Vice President Production provided details on topics such as production optimization and in this connection indicated initial improvements as a result of the new ERP system as well as potential for optimization. Also, the Vice President Sales & Marketing was invited to the meeting to report on initiatives to improve margin optimization. Subsequently, the Vice President of Development and Managing Director of

First Sensor Mobility GmbH spoke about LiDAR and the Mobility 2.0 strategy. In addition, the Executive Board provided information on current topics in the areas of quality and risk management.

The Supervisory Board meeting on October 11, 2018 primarily dealt with the planning for 2019 and beyond. Margin optimization was also discussed. Additionally, the Executive Board and Supervisory Board dealt with the Group's compliance management system. On this basis it was resolved to convene a compliance committee.

At the meeting on December 5, 2018, the strategic and operational development of the company was presented to the Supervisory Board in detail. In this context, the Director of Development and the Managing Director of First Sensor Mobility GmbH provided an update on the perspectives of LiDAR and on the Mobility target market. The Supervisory Board and Executive Board also discussed in detail the budget planning for 2019 to 2021. Moreover, the Executive Board and Supervisory Board exchanged information on the cooperation with the investment bank Goldman Sachs, which was to provide the company support in a possible change of the shareholder structure.

In addition to the scheduled meetings, a range of meetings about operative and strategic questions were held between the Executive Board and members of the Supervisory Board. No separate committees were formed. The requirements for the independent financial expert as defined in section 100 (5) AktG were and are fulfilled by Götz Gollan, who is a banker and business administration graduate (UAS) and whose main occupation since 2002 has been as an Executive Board member for banks/finance.

An efficiency review of the Supervisory Board's activity was conducted using a standardized process of Wirtschaftsprüfungs- und Steuerberatungsgesellschaft Ebner Stolz GmbH & Co. KG, Hanover. This did not give rise to any anomalies or a clear need for improvement.

As per statutory regulations, the auditor Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft Hanover, was appointed by the Annual General Meeting

on May 23, 2018, to audit the annual financial statements and the consolidated financial statements for fiscal year 2018. Prior to submitting a proposal for appointment, the Supervisory Board obtained a declaration of independence from the auditors.

The audit reports, the documents relating to the financial statements, the CSR report, and the Executive Board's proposal for the appropriation of earnings for fiscal year 2018 were sent to all supervisory board members in good time. At the meeting on March 11, 2019, they were discussed intensively and in detail by the Supervisory Board. At this meeting, the responsible auditor, Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft Hanover, also reported on the key findings of his audit in person and was available for additional questions and information. Both the annual financial statements of First Sensor AG for fiscal year 2018, which were prepared by the Executive Board in accordance with the regulations of the German Commercial Code (HGB), and the consolidated financial statements for fiscal year 2018, which were prepared on the basis of the International Financial Reporting Standards (IFRS) in accordance with section 315a HGB, as well as the combined management report, were audited by the auditor, and were each granted an unqualified audit opinion. Based on the final result of its own review of the annual financial statements, the consolidated financial statements, and the combined management report, the Supervisory Board did not raise any objections to the findings of the audit of the financial statements. Accordingly, the separate financial statements of First Sensor AG have been adopted and the consolidated financial statements have been approved in accordance with section 172 AktG. After performing its own review, the Supervisory Board agreed with the Executive Board's proposal for the appropriation of earnings. The CSR report was not audited by third parties. The auditor satisfied itself that the related information was available and the Supervisory Board reviewed the lawfulness, correctness, and expediency of the sustainability reporting.

The declaration of compliance of First Sensor AG in accordance with section 161 AktG was also approved at the same supervisory board meeting. It was subsequently made permanently available on the company's website. Detailed information is provided in the company's corporate governance report.

I would like to take this opportunity - both personally and on behalf of my colleagues on the Supervisory Board - to thank the Executive Board and all employees for their firm commitment and outstanding performance over the past fiscal year, and wish them every success in future projects and challenges.

We are also grateful for the trust placed in us by our shareholders. We would greatly value your continued support as an investor in First Sensor AG.

Berlin, March 12, 2019

First Sensor AG



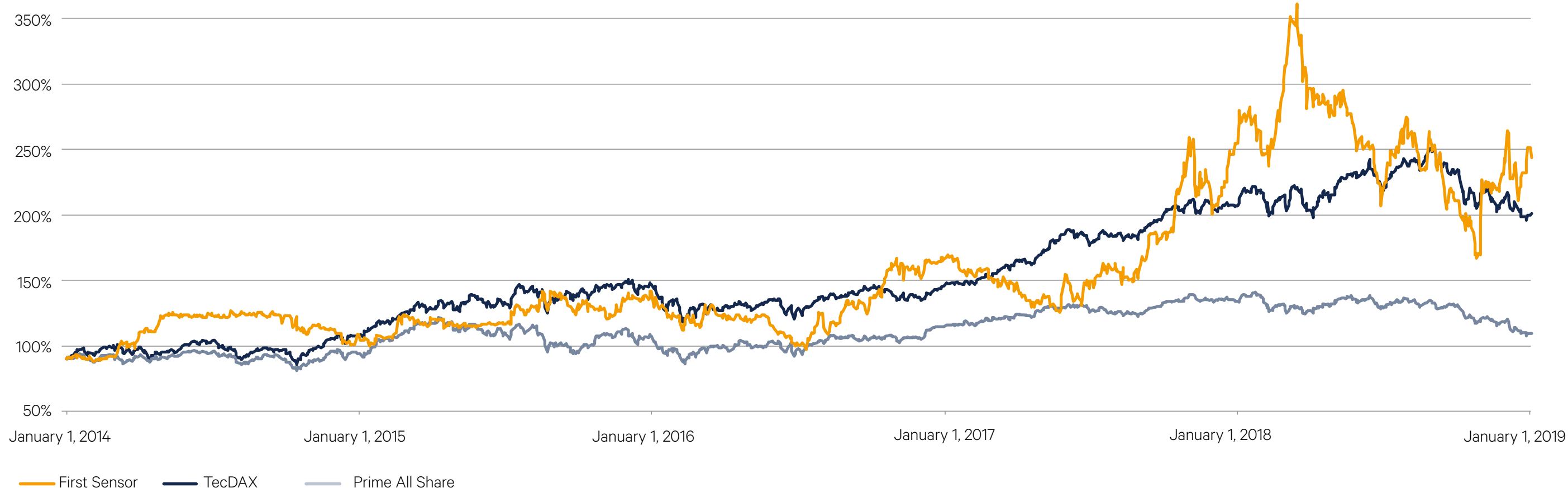
Prof. Dr. Alfred Gossner
Chairman of the Supervisory Board

First Sensor closes 2018 stock market year at previous year's level in a difficult environment

First Sensor shares started the new fiscal year up slightly on the 2017 closing price at €23.00, and maintained this level throughout the first few weeks of the year. Publication of the provisional figures on February 16, 2018, which promised a result above the guidance, subsequently triggered an upward trend, driving the shares up to a high of €31.80 for the year over the course of March 15, 2018. However, before publication of the consolidated financial statements for 2017 on March 22, 2018, there was an onset of profit-taking, which pushed the share price back down to the level seen at the start of the year until mid-May.

During this period, the stock market environment was already marked by increasing political uncertainty. Negative factors affecting European indexes included not only the US trade war, which had been impacting equity markets since February, but also the dispute over Italy's budget and indebtedness, discussions surrounding a disorderly Brexit and also the ECB's scaled-down bond purchases. These circumstances caused the First Sensor share price to fall to €21.80 until early June. Teslin Capital Management BV, Netherlands, was one of the parties that took advantage of this level to acquire another 3.36% of First Sensor's share capital from its managed fund.

Performance over the past 5 years



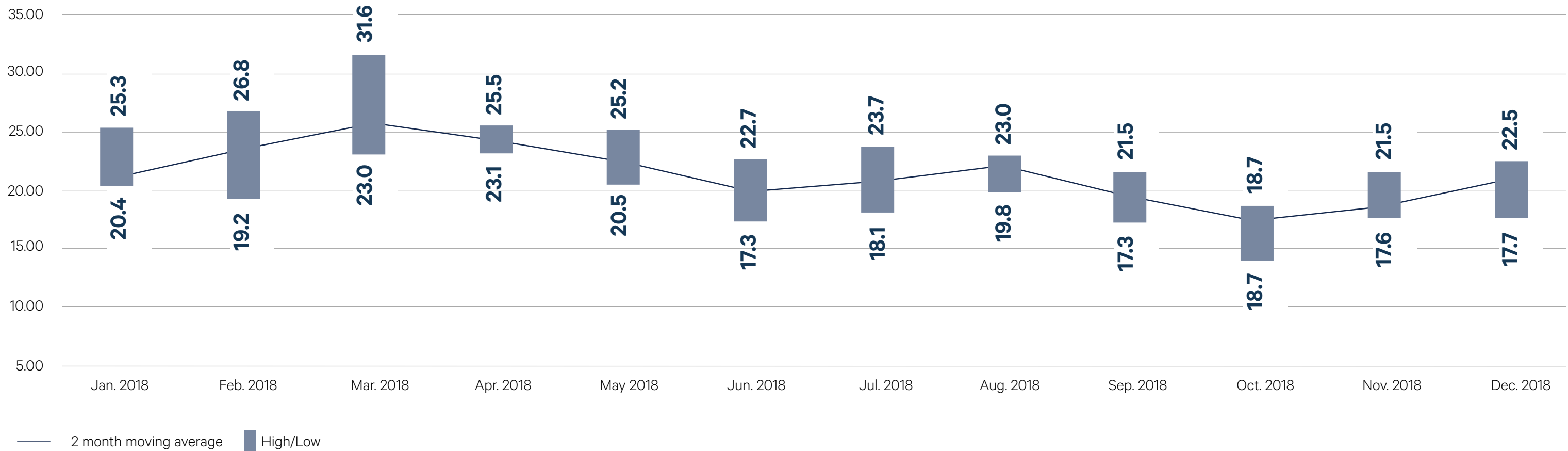
From mid-June, the stock market environment was impacted not only by political uncertainty but also by profit warnings from 42 companies in the Prime Standard segment, including five DAX companies. The fact that one in four of these companies was assigned to the automotive sector meant that the negative automotive sector sentiment was also reflected in First Sensor's share price. During this period, Teslin Capital Management increased its shareholding in First Sensor AG further to over 10% and announced on July 12, 2018 in accordance with section 43 paragraph 1 WpHG (Wertpapierhandelsgesetz) within this notification its intention to acquire more shares. At the same time, the investor told the company that it was not seeking any changes to First Sensor AG's capital structure with respect to the ratio of equity and debt financing and the dividend policy.

Having closed the first half of 2018 at a price of €18.40, in July and August First Sensor shares hovered around a price level of €21.10, bolstered by a good half-year result, before being forced to relinquish ground from September onwards as the automotive industry crisis continued to manifest

itself. By October 26, the intraday share price had plunged to its lowest point of the year at €14.00. Success stories on the impact of the profitable growth strategy and DPE Deutsche Private Equity GmbH's announcement that it was contemplating the sale of its shares in First Sensor AG held via FS Technology Holding S.à.r.l. provided a boost and ushered in another upward trend from the start of November, driving the shares up to a closing price of €21.30 by the end of the year. This equates to a mildly negative performance of -1.4% compared with the previous year, with comparative indexes (TecDAX and Prime All Share Index) suffering losses of around 3% and 17% respectively in the same period.

The trading volume of First Sensor shares was almost constant compared with the previous year. According to Bloomberg, in the 2018 stock market year an average of 21,715 shares changed hands every day on the XETRA market (previous year: 22,219 shares), with a peak trading volume of as many as 30,288 shares per day.

Monthly highest and lowest rate of the First Sensor share in €



Key figures for First Sensor shares

The company's share capital amounted to €51,111,980.00 as at the end of the reporting period (previous year: €51,081,980.00), divided into 10,222,396 (previous year: 10,216,396) no-par value bearer shares each with a notional interest in the share capital of €5.00. The difference of 6,000 shares is due to the exercise of share options in the past fiscal year. Given the encouraging operating results in 2018, the solid financial position and the opti-

stic view of the management regarding the company's long-term growth prospects, the Executive Board and Supervisory Board of First Sensor AG intend to propose to pay a dividend of €0.20 per share in circulation at the Annual General Meeting on May 3, 2019. Provided the Annual General Meeting gives its approval, the dividend will be paid on May 8, 2019.

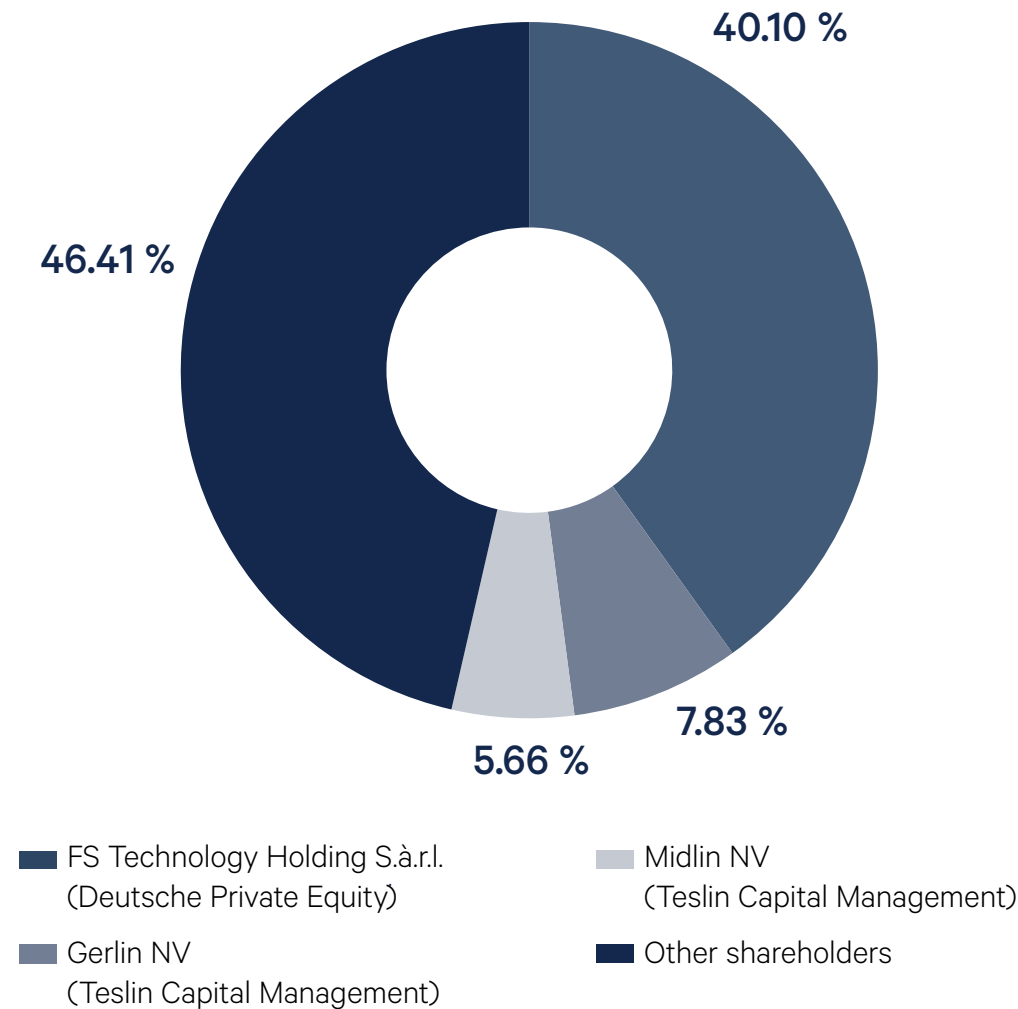
in € thousand, unless otherwise indicated	Dec. 31, 2017	Dec. 31, 2018	Δ absolute	in %
Share capital (€)	51,081,980	51,111,980	30,000	0.1
Number of shares (weighted, diluted)	10,216,396	10,222,396	6,000	0.1
Number of shares (basic)	10,259,565	10,355,012	95,447	0.9
Earnings per share (€, diluted)	0.40	0.72	0.32	80.0
Earnings per share (€, basic)	0.40	0.71	0.31	77.5
Year-end price (€), XETRA closing price	21.76	21.30	-0.46	-2.1
Highest price (€)	22.93	31.80	8.87	38.7
Lowest price (€)	11.13	14.00	7.13	25.8
Market capitalization ¹	222,309	217,737	-4,572	-2.1
Dividend per share (€)	0.16	0.20 ²	0.04	25.0
Total dividend (€)	1,633,837	2,043,312	409,475	25.1
Dividend yield	0.7	0.9	0.2	28.6
Average trading volume per trading day ³	22.219	21.715	504	-2.3

¹ Based on number of shares as of Dec. 31, 2018 ² Subject to approval by the Annual General Meeting ³ Based on number of shares traded on Xetra

Shareholder structure according to available information

Teslin Capital Management BV exceeded the 10% threshold with share purchases in June 2018. Available information suggests that via its Midlin NV and Gerlin NV funds, it currently holds 13.5% of the share capital of First Sensor AG. DPE Deutsche Private Equity GmbH, which currently has a shareholding of 40.1% via FS Technology Holding S.à.r.l., announced on October 31, 2018, that it was considering selling its shares.

Status: February 1, 2019



Corporate Governance Report and declaration on Business Management

Compliance with the German Corporate Governance Code and declarations of compliance

The Executive Board and the Supervisory Board of First Sensor AG are guided by the principles of good corporate governance as defined in the German Corporate Governance Code (GCGC). The code is generally reviewed once a year in the context of national and international developments and is adjusted where necessary. For this reason, the Executive Board and the Supervisory Board of First Sensor AG examine at least once a year whether the company follows the recommendations and suggestions set out in the code. After being jointly approved by the Executive Board and the Supervisory Board, the declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) is then published on the company's website in the Investor Relations, Corporate Governance section. It was last issued on March 12, 2019, in relation to the GCGC version dated February 7, 2017 (published in the Federal Gazette on April 24, 2017).

With regard to the more than 100 recommendations and 10 suggestions in the Corporate Governance Code, the Executive Board and the Supervisory Board report once a year on the current status of implementation in the company. According to the declaration of compliance on March 12, 2019, First Sensor AG deviates from seven recommendations; these deviations are presented and justified in the declaration. All but one of the suggestions are taken into account. The only exception is that the Annual General

Meeting has not been broadcast online so far. In the future, however, it should be made easier for shareholders to follow the Annual General Meeting. Therefore, the Executive Board and the Supervisory Board will propose the approval of a corresponding amendment to the Articles of Association at the Annual General Meeting. Both current and previous declarations of compliance with the German Corporate Governance Code are available on the company's website in the Investor Relations section.

This corporate governance report also includes the declaration on business management in accordance with section 289f of the German Commercial Code (HGB), which is also published on First Sensor AG's website in the Investor Relations, Corporate Governance section, and the disclosure of the main features of the compliance management system in accordance with section 4.13 of the GCGC.

Corporate governance declaration in accordance with section 289f HGB

Management and supervision at First Sensor AG are geared toward good, responsible, and sustainable value creation. Great importance is attached to close and efficient cooperation between the Executive Board and the Supervisory Board, regard for shareholders' interests, open corporate communication, proper accounting and auditing, and responsible handling of risks and

of legal and internal regulations. In accordance with section 289f HGB, First Sensor AG has to submit a declaration on business management. The declaration forms part of this report and is permanently available on the company's website.

Compliance management system

Compliance is a key element of sustainable business management at First Sensor. In order to ensure that the legal provisions and company-specific principles (Code of Conduct) are followed, a Group-wide compliance management system (CMS) has been established. The main features of this system are permanently available on the company's website in the Our Responsibility, Compliance section. The goals of compliance management are derived from the company's mission statement and define the desired conduct and actions – reliable, fair, honest, and trustworthy – of all employees with each other, including in relations with customers and suppliers. Internal and external whistle-blowers can report infringements of our principles and other compliance requirements confidentially to the Compliance Officer or completely anonymously to an external ombudsman. The Compliance Committee is responsible for assessing the reports received and taking measures if necessary. It also periodically reviews the effectiveness of the CMS and initiates changes if necessary. Violations of the compliance guidelines by the Executive Board result in the Supervisory Board being informed directly.

The Supervisory Board

In accordance with the Articles of Association, in fiscal year 2018 First Sensor AG’s Supervisory Board was made up of four members who were elected by the Annual General Meeting.

Targets for the composition and competence profile of the Supervisory Board

In line with item 5.4.1 of the GCGC, the Supervisory Board has resolved the following specific targets to take account of the company’s specific situation, especially in relation to the size of the company and the Group, the international activity, potential conflicts of interests, the number of independent members of the Supervisory Board and diversity:

- Ideally, one supervisory board member shall embody the criterion of internationality to a certain degree, whether this entails a foreign nationality and/or significant experience abroad.
- Moreover, at least three members of the Supervisory Board must be independent
- The Supervisory Board strives to find optimal members in line with specialist criteria and the requirements of the company’s situation. Here, the requirements profile that has been established shall be used regardless of the gender of potential applicants and women with the same qualifications and experience shall be given preference.

The targets set by the Supervisory Board were met in the 2018 financial year.

The Supervisory Board has neither specified an age limit for its members nor a regular limit for the length of membership, as limits in these areas did not appear to be in the interests of the company.

The creation of committees is rejected due to the low number of Supervisory Board members and the short decision-making processes that exist.

Prof. Alfred Gossner is a member of an Advisory Board of DPE Deutsche Private Equity (DPE). In this function, he has no statutory authorizations, neither does he serve special interests of the DPE. However, since this activity can constitute a business relationship under the GCGC Number 5.4.2, Prof. Alfred Gossner is described as a not-independent member as a precautionary measure. None of the Supervisory Board members are in a personal or business relationship with the company or its bodies that could create a significant conflict of interests that is not only of temporary nature.

The Supervisory Board has defined the professional and personal requirements to fulfill its duties in a competence profile. The diversity of responsibilities and duties within the Supervisory Board should be reflected by the specialisms of its members (e.g. accounting and controlling, knowledge of sectors and sensor technology, R&D, compliance). In addition to professional suitability, personal criteria such as entrepreneurial experience and internationality should also be considered when selecting members.

The Supervisory Board analyzes the competence profile on a regular basis and compares it with potential areas that are represented by its members. This results in the basis for continued education for relevant individuals and staff planning. The Supervisory

Board came to the conclusion that the current members matched the Supervisory Board’s competence profile to a high degree in fiscal year 2018.

Diversity and equal opportunities

As an international company, First Sensor attaches great importance to diversity. We consider diversity and equal opportunities as key principles at work and have thus also signed the Diversity Charter in May 2018. Employees from many different countries were working for the First Sensor AG Group as of December 31, 2018. 36.1% of these 972 employees were women.

On December 20, 2017, the Executive Board resolved the establishment of targets for the quota for women at the two management levels below the Executive Board in accordance with section 76 (4) AktG, which contains the following:

- a. The two management levels below the Executive Board are made up of First Sensor AG employees who, as managers/directors of companies included in consolidation, bear responsibility for a region or a business area and/or staff, employees working at the headquarters who, owing to their key area of responsibility, perform management functions and/or bear responsibility for staff in addition to department heads with staff responsibility. The two management levels below the Executive Board are made up of 20 employees, four of whom are female (a share of 20%).
- b. In accordance with section 76 (4) AktG, the company’s Executive Board has established a target of 20% for the

quota for women at the two management levels below the Executive Board by June 30, 2022. This target was met in fiscal year 2018.

On September 27, 2017, the Supervisory Board resolved the establishment of targets for the quota for women on the Executive Board and on the Supervisory Board in accordance with section 111 (5) AktG, which contains the following:

- a. For the Executive Board, a target of 0% by June 30, 2019, was established for the quota for women in accordance with section 111 (5) AktG. Naturally, in the selection of members of the Executive Board, in addition to the specialist qualification the Supervisory Board also pays attention to diversity. Thus, in the medium and long term, the aim is for a woman to become a member of the company's Executive Board. However, it was not able to reach this objective with the short maximum deadline set by the legislator to reach this target. To avoid setting a goal which the Supervisory Board does not deem realistic with the means it has available and which it does not consider to be in the company's interest, the Supervisory Board has limited itself to setting a target of 0% which corresponds to the current status quo. Of course, should a position on the Executive Board unexpectedly become vacant, this does not exclude the possibility that the Supervisory Board would take into account the target of increasing the woman quota when filling the Executive Board position.

- b. For the Supervisory Board, a target of 0% by June 30, 2019, was established for the quota for women in accordance with section 111 (5) AktG. To date, women are not represented on the Supervisory Board.

Reportable securities transactions and shareholdings of the Executive Board and Supervisory Board

Reportable transactions in accordance with article 19 of the market abuse regulation, particularly by members of the governing bodies and persons closely associated with them, are published immediately by First Sensor AG in accordance with the legal requirements. They can be accessed in the company register and on the company's website in the Investor Relations, Corporate Governance, Directors' Dealings section.

In fiscal year 2018, Dr. Dirk Rothweiler, CEO, accepted 80,000 share options as part of the participation program on March 23, 2018. The vesting of stock options depends in particular on the successful fulfillment of targets and the end of the four-year vesting period.

Dr. Mathias Gollwitzer, CFO, accepted 25,000 share options as part of the participation program on March 26, 2018.

On June 29, 2018, Prof. Alfred Gossner, Chairman of the Supervisory Board, purchased a total of 660 shares at an average price of €18.45 and a total of 500 shares at an average price of €19.65 on July 4, 2018. On July 12, 2018, Prof. Alfred Gossner purchased a total of 730 shares at an average price of €20.96 and sold 300 shares at an average price of €21.00.

Remuneration report

The Chairman of the Supervisory Board informed the Annual General Meeting on the main features of the remuneration system. Details of the remuneration system for the Executive Board are to be found in the consolidated management report. The itemized list by individual regarding payments to the Executive Board and Supervisory Board can be found under item 32 of the consolidated financial statements.

Share option programs

The share option programs are described as part of the remuneration report in the management report; further details can be found in the notes to the consolidated financial statements (item 11 and item 18).

Non-Financial Reporting (CSR-Report)

DECLARATION OF COMPLIANCE OF FIRST SENSOR AG FOR FISCAL YEAR 2018

Dear shareholders and business partners,

In this CSR report we disclose for the fourth time the aspects of sustainability that are of particular significance within our company. For us, the term CSR, that is corporate social responsibility, encompasses more than environmental protection measures. It is much rather a question of acting in a sustainable manner and taking responsibility for our company's impact on society. In view of this, our CSR activities are oriented toward a long-term contribution rather than short-term effects.

Last year we defined our first targets and measures in this context. You can read about our progress in this year's report. At the same time, our work on the various issues also made clear to us that we must set priorities in a meaningful way: What are the areas in which a little effort already goes a long way? And which issues are of such minor significance in view of the overall picture that we can defer them so as to direct our efforts toward more essential aspects?

Further development of our materiality analysis endorsed an even more focused approach. In the 2017 reporting year we asked our internal and external stakeholders; that is employees, managers and Works Council, but also customers and suppliers, partners and the general public, what issues they considered important in relation to First Sensor. This year we took

an additional question into consideration: What issue, having an effect on the company itself or caused by the company, would have the greatest impact? This enabled us to identify the really relevant issues even more clearly and thus to concentrate on them, both in this report and in other respects.

When preparing this report for the period from January 1 to December 31, 2018, we were once again guided by the format of the German Sustainability Code. However, as in the previous year, we also worked within the framework of the GRI standard; some references in the text therefore refer to this. The CSR report by First Sensor is published together with the Annual Report 2018. Nevertheless, it is conceived as a self-contained report, which makes no reference to passages of the annual report. On the one hand, this complies with the format of the German Sustainability Code and, on the other, it makes the report coherent for readers.

In this report we provide an insight into our actions and into the responsibility we have assumed: responsibility based on perseverance, responsibility with a focus on the really important issues and responsibility for the things which can make a difference.

The First Sensor CSR Team

1. General information

The First Sensor Group consists of the parent company First Sensor AG, based in Berlin, and ten subsidiaries (GRI 102-1). The company has been listed since 1999. According to the information available, its biggest shareholder is DPE Deutsche Private Equity GmbH, which holds 40.1% of the shares of the company via FS Technology Holding S.à.r.l. (GRI 102-5).

In fiscal year 2018, First Sensor generated sales of €155.1 million with 972 employees (863 FTEs) (GRI 102-7). The DACH region accounted for 49.2% of sales, while sales generated from customers in the rest of Europe accounted for 25.9%. 12.4% of sales are attributable to North America and 12.5% of sales were generated in Asia (GRI 102-6). As at December 31, 2018, the Group's total assets amount to €168.4 million, while the equity ratio stands at 52.7% (GRI 102-7).

In the growth market of sensor systems, First Sensor develops and manufactures standard products and customer-specific solutions for the ever-increasing number of applications in the Industrial, Medical, and Mobility target markets (GRI 102-6). The portfolio of these standard products is supplemented by products from partner companies.

First Sensor is characterized by two core competencies within these fields. Firstly, the company specializes in detecting physical parameters thanks to the design and manufacture of its silicon-based sensor chips. Secondly, it uses its expertise in microelectro-

nic layout and connection technology to continue to process the sensor chips with the best “form factor” for the application. In this context, First Sensor is an expert in the areas of photonics, pressure and advanced electronics. In addition, First Sensor is generating growth in its target markets through new applications such as system solutions (so-called sensor systems), for example. They do not just measure; they react intelligently to the measurement results and communicate with other systems. (GRI 102-2).

We ensure compliance with sanctions and export control restrictions before delivering to customers based internationally. As an international legal instrument, export control aims to ensure that armaments are not circulated unchecked. It is also used as part of terrorism prevention. As the use of some First Sensor products for military purposes cannot be ruled out, First Sensor checks whether export control restrictions could apply, both during the process of initiating new business as well as before delivery. For example, technical product parameters and evidence of intended use are used here, effectively preventing the inadmissible supply of products in the event of anomalies (GRI 102-2).

First Sensor plans to go beyond compliance with this regulatory requirement by establishing a commission to safeguard its own ethical business interests. The aim of this commission will be to review potentially critical customer requests and make decisions even before statutory export control measures take effect. In fiscal year 2018 we already agreed on key aspects in preparation for

this. We intend to call in external support for developing a suitable concept prior to possible implementation in the 2019 fiscal year in order to define responsibilities and decision-making powers in advance and benefit from experiences in other companies.

Employees (GRI-102-8)

First Sensor hired further new employees in 2018 as part of its growth strategy. The total number of permanent employees rose by 5.8% to 972. The proportion of women remained at the previous year's level of 36.1%. To handle fluctuations in utilization and temporarily fill vacant positions, First Sensor works with temporary employment agencies that meet general quality standards. It is not uncommon for the temporary staff employed to subsequently enter into an employment relationship. The proportion taken on permanently in the last fiscal year amounted to 46.3%.

Employees (Heads)	Permanent employees (m/f)	Temporary employees (m/f)
Germany	577/331	46/20
Rest of Europe	26/13	1/0
North America	16/9	0/0
Total	619/353	47/20

First Sensor offers staff a variety of working time models to take into account the wishes and needs of employees due to the demands of family life or dependents requiring temporary care, as far as possible.

This approach stems from our conviction that the happiness of employees has a direct effect on their level of commitment and motivation. The proportion of part-time employees in the 2018 fiscal year was 14.4% (previous year: 15.1%).

	Permanent employees (m/f)	Temporary employees (m/f)
Germany	532/247	45/84
Rest of Europe	26/2	0/11
North America	16/9	0/0
Total	574/258	45/95

Strategic analysis and measures

The various aspects of sustainability can be seen in a variety of activities performed by the companies of the First Sensor Group. Long-term business success is thus combined with environmental and social responsibility as sustainable business practices contri-

bute to orientating the company for a successful future as well as making it an attractive employer and a good neighbor at its locations. This impression has also been confirmed in the analysis of this report.

In addition to the traditional areas, such as energy conservation measures and the reduction of water consumption or prevention of waste, many locations engage in lively dialog with their local areas. This includes Girls Day, the idea of which is to get young women involved in STEM careers, and the Long Night of Industry, aimed at the interested public in general, as well as monetary donations and donations in kind to local charities or schools. For this reason, too, we decided to expand on this bottom-up approach (GRI 103-2), because materiality in particular still varies considerably from location to location. For instance, a production location focuses on different areas than a sales office. To satisfy these different approaches, a general strategy should only be formulated for the entire Group if it can appropriately unite the different points of view (GRI 102-14).

The effects of our business activities on people and the environment are analyzed continuously, not only for the purposes of this report. First Sensor also uses its products to make a contribution to sustainable development, for example, in medical technology or in looking for solutions for safe and environmentally friendly mobility. Sustainability is also important because it provides business opportunities. The corresponding risks are carefully minimized and monitored. For this reason, an indicator system that makes it possible to measure and manage the key parameters is essential. The foundations for the development of this system have been laid. We are aware that First Sensor still has a lot of development work to do here.

Transparency, as provided by this report for example, is important to the company. This is why it actively seeks dialog with its stakeholders – not only in relation to the materiality analysis but also based on the belief that understanding and trust can only grow through dialog (GRI 103-2).

Internal guidelines were adopted some time ago in order to give this trust a basis. These guidelines encompass not only the mission statement and values of the Group, presented in a way that is understandable for everyone, but also include a code of conduct that stipulates how it should deal with customers, suppliers, employees and other stakeholders. This means that every employee and every manager knows the expectations of the company in terms of the legal and ethical standards of their actions.

Furthermore, the standards First Sensor applies orient it toward internationally recognized principles and guidelines (GRI 102-12). These include:

- The German Corporate Governance Code
- The Universal Declaration of Human Rights
- ILO Core Labor Standards
- The UN Guiding Principles for Business and Human Rights
- The ten principles of the UN Global Compact

The sustainability report is not audited by third parties. However, the Supervisory Board reviews the lawfulness, correctness and expediency of the sustainability reporting in accordance with the legal provisions (GRI 102-32).

Opportunities and risks

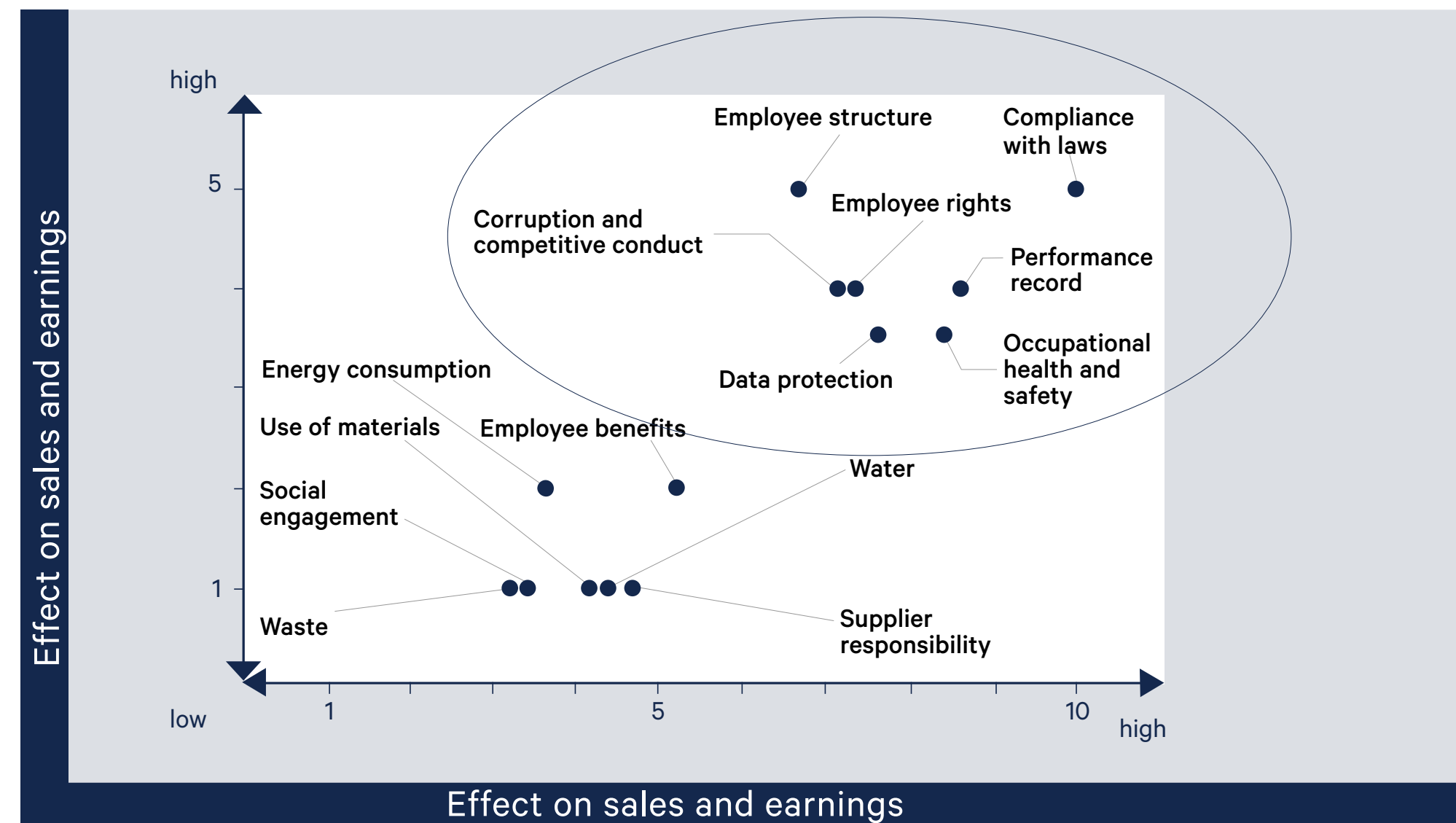
As a listed company, First Sensor has established a risk and compliance management system as an integral part of corporate governance (GRI 102-11). First Sensor AG's Executive Board is responsible for ensuring it is effective, while the Supervisory Board advises on and monitors this. At First Sensor, risk and compliance management are linked together and mapped in a permanent Group-wide Enterprise Risk Management (ERM) process covering all locations and business divisions. The risk and compliance situation is continuously analyzed along different dimensions throughout this process. The identified risks are assessed, managed and monitored. The integrated risk and compliance management system therefore not only ensures that corporate risks are effectively managed but also guarantees that the ethical principles of corporate governance, as set out in the Code of Conduct that came into effect in 2018, and the statutory provisions are used as guidelines for acting. The goal for the 2019 fiscal year is to systemize opportunity management yet further in a similar way to risk and compliance management in order to optimize Group-wide analysis, assessment and management further.

2. Materiality

Materiality analysis plays a key role in the development of a sustainability strategy. It is the basis for determining what issues are of particular importance for First Sensor and should be the focus of targets and measures. In 2017, therefore, the first materiality analysis was carried out by means of a structured survey of internal stakeholders (employees, managers, works council) and external stakeholders (representatives of customers and suppliers, partners, associations and politics, the general public and the capital

market) (GRI 102-15). This resulted in an overview of the aspects these stakeholders considered particularly important for the development of First Sensor. The company addressed these issues in depth and reported on corresponding targets and measures for the first time in 2018.

First Sensor did not conduct a new survey for this report as opinions on and attitudes to such fundamental issues do not change dramatically. Instead, the existing analyses were extended to include the "impact", i.e. the effects on the company itself or the effects caused by the company. The combination of sales and earnings was used as an equivalent measure of performance (GRI 102-49).



The graphic shows the result of the modified materiality analysis: The summary assessment of all stakeholders was mapped on the x-axis and the identified effect on sales and earnings on the y-axis. All the issues in the circled area are top issues that First Sensor will subsequently focus on in particular.

Taking into account this additional impact assessment in 2018, the following issues are of particular importance for First Sensor (in descending order of importance):

- Compliance with laws
- Employee structure
- Performance record
- Employee rights
- Corruption and competitive conduct
- Data protection
- Occupational health and safety

These issues were allocated to the following blocks:

Economic performance

- First Sensor performance record (GRI 201)

Society

- Occupational health and safety (GRI 403)
- Employee rights (GRI 202-1, 401-3, 402-1, 404, 405, 406)
- Employee structure (GRI 401-1)

Compliance

- Compliance with laws (GRI 307, 419)
- Data protection (GRI 418)
- Corruption and competitive conduct (GRI 205, 206)

Some issues that were classified as less relevant in the materiality analysis will nevertheless be followed up. This includes, for ex-

ample, social engagement at the various company locations. This stems from our conviction that this is worthwhile and makes a difference. We also believe that sustainable actions start as early as when selecting business partners. We will therefore maintain the focus on our suppliers’ responsibility for environmental and social matters (GRI 308, 414). For this reason, additional information on these issues can also be found below.

The plan for subsequent years is to review the materiality analysis regularly in terms of the selected criteria and their potential effect on the development of the company in order to adjust the strategy and measures initiated where necessary in the event of significant changes.

3. Goals

In accordance with the analysis of material aspects, First Sensor is developing specific goals for the short and medium-term focus of the associated activities (GRI 103-2). As we still have no integrated sustainability strategy and this is to be developed, as described, as the result of a bottom-up approach, it is currently not possible to answer some questions. Processes need to be implemented, requirements formulated, objectives and provisions determined, and existing projects and initiatives transferred to a “master plan.”

4. Depth of the value chain

As a manufacturer of chips, sensors and sensor systems, First Sensor purchases raw materials and components from suppliers (GRI 102-9). The total volume amounted to €76.1 million in 2018 (previous year: €69.3 million). First Sensor’s customers include

the company in the implementation of their sustainability strategies, and First Sensor in turn includes its suppliers (GRI 103-2). This ensures that aspects pertaining to sustainability are actively anchored throughout the entire value chain. As a result, this is a concrete element of procurement management to oblige suppliers to comply with certain minimum standards. In 2018, this was enshrined in a Supplier Code of Conduct. Suppliers also undergo inspections during supplier audits (GRI 102-10). In addition, First Sensor began examining the entire value chain in even more detail in 2018. Particular issues here are to be the ecological quality of upstream products and suppliers’ compliance with minimum social and environmental standards (GRI 413-2). Supplier self-disclosure was therefore updated in 2018. Before a business relationship is commenced, potential suppliers receive a comprehensive questionnaire which, in addition to general company information, also contains questions on aspects such as procurement, warehousing and packaging policies, environmental management and dealing with the RoHS and REACH directives, as well as a statement on the Dodd-Frank Act. The aim is to link this supplier self-disclosure even more closely with the Code of Conduct and the general purchasing terms.

Another positive aspect in terms of sustainability is the long service life of First Sensor products. “Distributors” as defined in regulations, customers receive information about responsible disposal at an early stage. The analysis did not identify any business activities of First Sensor with a significant actual or potential negative impact on the local community (GRI 413-2).

5. Responsibility

The subject of corporate social responsibility (CSR) and the responsibility for the development of a sustainability strategy rests with the Executive Board. The large number of Group-wide activities is managed by various departments, which report to the CEO as well as to the CFO. Environmental aspects are primarily monitored and managed by the Quality Department, social issues are assigned to HR and Corporate Communications, compliance topics are managed by the Business Process, Risk Management & Compliance central unit (GRI 102-20). The entire team develops the CSR strategy in accordance with the triad of economic, environmental and social responsibility and is in charge of its implementation (GRI 102-26). It is responsible for communicating the objectives agreed upon with the Executive Board and attracting the necessary level of attention at all levels of the company.

The team also launches new projects, reports on their status, initiates measures and coordinates their implementation within the company. CSR should form part of the integrated management system, which has been documented in the form of a Group management handbook.

In accordance with the legal provisions, the Supervisory Board reviews the lawfulness, correctness and expediency of the sustainability reporting (GRI 102-32). This also includes the annual review of the effectiveness of the risk management processes with regard to economic, environmental and social issues (GRI 102-30, -31).

6. Rules and processes

First Sensor uses a management handbook to implement regulations and processes that are applicable across the Group. This instrument is also suitable for supporting their implementation after the development of a sustainability strategy (GRI 103-2). Based on the principle “as centralized as necessary, as decentralized as possible,” rules, processes and structures that clearly regulate the responsibilities across the Group in the form of guidelines and clear instructions are provided for various areas. In this way, a requirement has been laid down to integrate changes in daily workflows and the mindset of all employees at all levels of the company. Local quality management systems, which are increasingly geared towards standardized, Group-wide requirements complement these guidelines in terms of sustainability

7. Control

First Sensor AG is currently engaged in a process of gradually defining performance indicators for the material action areas identified (GRI 102-31). As well as economic performance, the issues that were identified as part of the materiality analysis include society and compliance. Based on internationally recognized standards, the parameters that will be used to monitor and manage the issues are determined after the process has been completed to ensure that the data analyzed is always comparable. This will form part of future reports.

An essential requirement for business success is the responsible management and monitoring of the company. The guiding principle for this is the German Corporate Governance Code presented by the Government Commission. First Sensor effectively fulfills the requirements of the code, providing reasons for any deviations in the annual declaration of compliance.

First Sensor has Group-wide guidelines that describe its values, principles and standards and are binding for all employees (GRI 102-16). This includes the mission statement, which sets out the jointly defined Group-wide values of innovation, excellence and proximity for the company. In addition, the Code of Conduct describes First Sensor's expectations of honest work, i.e. legally correct work characterized by ethical principles. It furthermore contains information on the various ways to provide information, including anonymously, to the responsible person at First Sensor in the event that violation of the code or compliance requirements is suspected. In 2018, a supplier code was developed based on the Code of Conduct which expresses the expectation that suppliers and business partners should also align their actions with the principles of the Code of Conduct.

In important cases, such as suspected compliance violations by members of the Executive Board, the Supervisory Board is informed directly. This also applies for any concerns that employees may have regarding the implementation of the sustainability system (GRI 102-33). In fiscal year 2018, there were no suspected cases or findings reported to the Supervisory Board (GRI 102-34).

8. Incentive systems

The remuneration system for the Executive Board of First Sensor AG is intended to promote value-oriented business management geared toward sustainably increasing the company’s success. This includes remuneration in line with the market and an incentive system that is geared toward the achievement of ambitious and not only short-term targets. The Supervisory Board determines the remuneration, taking account of the duties of the respective member of the Executive Board, their personal performance, and the financial situation and success of the company. It reviews the achievement of targets on an annual basis that were agreed upon. The elements of the remuneration system also include a long-term component in the form of share option plans or comparable instruments. Further details can be found in the consolidated management report and the remuneration report (GRI 102-35).

In addition to a fixed salary, the company’s managers, as well as some employees, also receive variable remuneration based on the achievement of company goals as well as operating and personal objectives. Members of the Supervisory Board are remunerated as established in the Articles of Association. There continues to be no provision for a component oriented toward sustainability.

Performance-oriented remuneration in line with the market is important to First Sensor (GRI 102-36). Otherwise, it would not be possible to ensure the company’s need for motivated staff in the competition for talented employees. However, the company still does not consider a vertical comparative analysis between the highest remuneration within the company and that of other em-

ployees (GRI 102-38) to be an appropriate way to assess the fairness of First Sensor’s remuneration system.

9. Stakeholder participation

The First Sensor Group seeks out and maintains dialog with its stakeholders on many levels – both at Group level and at the locations of its subsidiaries. Generally, this includes employees, customers, suppliers, partners, investors, neighbors, politicians, authorities, the science community and non-governmental organizations (GRI 102-42). The knowledge gained from this contact with stakeholders is used, for example, in the development of new products, the key areas of sustainability management and reporting. A selection from these groups was made for the materiality analysis. The survey involved representatives of customers and suppliers, partners, associations and politics, the general public and the capital market (GRI 102-40, -43).

Dialog with stakeholders with regard to economic, environmental, and social issues is the responsibility of the Executive Board (GRI 102-21). If required, the Supervisory Board is also available to answer any questions, e.g. for investors, as stipulated in the Corporate Governance Code. This dialog is a concrete element of the management agenda, as open and transparent communication is the basis for growing understanding and trust.

As a commercial enterprise, First Sensor is closely integrated into the value chain of its suppliers and customers. Supplier and customer audits help to create a tightly knit relationship that leads to

the interactive exchange of information on sustainability topics. As an employer, the Group has a social commitment and seeks to employ the best employees in a market where there is a shortage of specialists. Participation in job and trade fairs allows the company to position itself as an attractive employer. The company participated in 11 job fairs and 21 national and international trade fairs in fiscal 2018.

Thanks to its close cooperation with research institutions and membership of professional bodies, First Sensor is able to identify technological changes at an early stage and respond appropriately.

First Sensor is integrated into the immediate environment at its different locations and has contact with the authorities and the respective local neighborhoods. Various formats exist to keep these different stakeholder groups adequately informed and promote dialog. These include Girls Day, general apprentice days and contact with local universities. Furthermore, First Sensor is also particularly engaged on a social level, supporting, for example, schools and charities with which it has a specific connection via its employees.

Last but not least, the capital markets and financing banks are informed about First Sensor’s sustainability policy comprehensively and in good time. In accordance with the disclosure requirements relevant to listed companies all relevant information is also available on the company’s website. Shareholders can also exercise their rights of information and consultation directly at the Annual General Meeting. The company presents itself and, there, also discusses aspects of sustainability at events for investors and

media representatives, such as the annual press conference, analyst events and roadshows. In order to align the sustainability strategy closer to the expectations of civic stakeholder groups such as investors, dialog with these groups was increased further as planned. In total, First Sensor participated in four capital market conferences and one roadshow in 2018 and also held 20 individual meetings at Executive Board level alone.

10. Product and innovation management

First Sensor develops sensors and sensor solutions, from the chip to the entire sensor system. In fiscal year 2018, €10.2 million was invested in research and development (previous year: €8.6 million). With its products, the company also supports its customers in making their processes more efficient and environmentally friendly, by providing greater energy efficiency and ensuring reduced emissions, for example.

In several decentralized applications, energy consumption is a key criterion to fulfill customer requirements and secure competitive

advantages for both product buyers and the company itself. This is why great emphasis has been placed on the energy consumption of sensors and sensor systems in the development process. However, despite First Sensor’s contribution it must be noted that the energy consumption of applications in which sensors and sensor systems are ultimately used is often several times higher. Overall, the contribution towards energy savings at First Sensor itself only fluctuates in the per-mil range compared with the energy requirements of the end products (GRI 302-4). The social and environmental impacts of the key products have not yet been determined (GRI 416-1).

With regard to its own activities, the company focuses on reducing environmental impacts by using energy, resources and materials as efficiently as possible, especially in production. As well as the use of energy, this includes the use of raw materials and supplies in addition to the supplied materials and components. The employees make a significant contribution when it comes to potential improvements. Thanks to an extensive knowledge of the processes, their ideas can provide vital information. Work is there-

fore underway on a company suggestions scheme that provides a structure for examining employees’ suggestions for improvements and implementing them in processes where appropriate. This is not only done in the interest of reducing the environmental impact of the company’s own activities but is, of course, also in the company’s economic interest.

Product specifications are very closely aligned with customers and market requirements during development in order to rule out use of the products having a negative impact on customers and the environment. Safeguarding the quality of processes, materials and products throughout the entire value chain plays a crucial role in regards to longevity in use.

Environment

11. Use of natural resources

Two production locations (First Sensor AG, Berlin-Weißensee location, First Sensor Microelectronic Packaging GmbH) have already implemented an environmental management system in accordance with ISO 14001. Beyond this, however, the potential for First Sensor to have an influence along the value chain is limited. It is therefore not possible to use raw materials obtained from a recycling process, for instance (GRI 301-2). The company does not collect information about the resource consumption of its products in customer applications, such as energy consumption (GRI 301-2).

The question about what environmental impacts the company's activity has cannot currently be answered in detail as of yet either (GRI 103-2). As the materiality analysis has not given any indication of the increased relevance of issues such as input and output of water, land, waste, energy, surfaces, biodiversity and emissions for the lifecycle of products and services these issues are being deferred for the time being.

However, last year we began addressing the responsibility of our suppliers for environmental issues in greater depth (GRI 308-1).

Therefore, we have recently started querying aspects of environmental management via supplier self-disclosure. This way, we can identify where our suppliers are having actual or potential adverse effects on the environment. On this basis we can decide which steps must be taken to prevent, reduce or eliminate these impacts. We will also examine whether further criteria are useful for evaluating existing and new suppliers.

12. Resource management

First Sensor identifies the qualitative and quantitative objectives the company would like to use to achieve resource efficiency, for the use of renewable energy, the increase in raw material productivity and decrease in the use of ecosystem services and how these objectives must be attained. At the moment, no reliable data has been identified yet. As a result, no efficiency or savings targets can be set for the main resources. As the materiality analysis does not identify a high level of relevance in this area either, the priority is to follow up on other issues for the time being. However, it is known from current surveys that no surface water, water from wetlands, rivers, lakes or oceans, groundwater, rainwater or waste water from other companies is used at the Group's locations – only water from the municipal suppliers (GRI 303-1).

13. Climate relevant emissions

Reducing greenhouse gas emissions as a result of energy consumption is a key aspect as combating climate change is a task for the global community, and one that First Sensor has set for itself too. However, internal and external assessments of this issue have not given any indication that First Sensor has a particular responsibility for making a material contribution here. Considerations as to how to save energy are nevertheless included at many points in the processes as this is necessary from an ecological and economic standpoint alone. However, relevant values relating to emissions are not systematically recorded at present (GRI 305-1).

SOCIETY

14. Employee rights

As a company whose highly qualified and motivated employees are a decisive factor for future success, First Sensor does not limit itself to compliance with only the minimum standards of national and international standards. The health of and professional training opportunities for employees are key issues, which are of significant importance in the area of strategic HR management in order to bind the best talents to the company in the long run. Of course, this includes anti-discriminatory recruitment and a work environment in which diversity is perceived as an asset every day (GRI 103-2, 406-1). In light of this, the Diversity Charter was signed in the 2018 fiscal year. Furthermore, the Code of Conduct expressly states that discrimination is not tolerated. No incidents of discrimination were reported in the reporting period. The Group companies are not bound by collective wage agreements. In 2018 initial negotiations were commenced with a union to investigate a possible affiliation. One Berlin location is subject to a time-limited company collective agreement. In addition, agreements are negotiated with the respective employee representation bodies and recorded in works agreements (GRI 102-41).

The materiality analysis assigned the aspect of occupational health and safety (GRI 403-1, -2, -3) a high priority. The physical well-being of employees and safety at work play a significant role

within our HR work, too. All employees are made aware of and sensitized to the individual hazards at their place of work, which is supported by intensive training and seminars. In the 2018 fiscal year work commenced on providing an online tool for this training. The plan for 2019 is to involve the Berlin locations following a successful test phase at the Munich location. The aim is to prevent accidents at work and reduce the possible consequences. Where required, employees are provided with appropriate personal protective equipment. Hazardous substances, such as those used in production, are labeled appropriately and according to regulations. This is to prevent chronic and acute illnesses. Noise is avoided as far as possible or appropriate protective measures taken. Of course, every employee is entitled to refuse to perform any work that he/she considers to be dangerous. At the same time, information of this kind is valuable because it highlights opportunities to identify weak areas and remedy them as soon as possible.

First Sensor is obligated to report accidents at work. However, the reporting obligation applies only to accidents that lead to an incapacity to work of more than three days(GRI 403-2). At the end of 2018 the company began preparing monthly analyses in order to monitor occupational health and safety even more closely. The data currently available is too rudimentary for analysis at present. Nevertheless, the plan for 2019 is to record these data for all pro-

duction locations on a continuous basis to enable us to derive analyses and determine measures. Accordingly, statistics about health and safety, including information about the different types of accidents at work and the resulting absences due to illness are to be published together with the CSR report for fiscal year 2019.

Additional measures aimed at better protection of health have been introduced, particularly at the production locations. These include free fruit baskets, flu vaccinations, additional clothing for industrial employees, hand sanitizers, organization and promotion of sports events and implementation of health days with different health checks at the First Sensor AG headquarters. The possibility of also holding health days at other locations in the future is under consideration.

15. Equal opportunities

First Sensor supports all initiatives that contribute to preserving and promoting equal opportunities and diversity within the company. Equal opportunities do not only apply in relation to men and women, but also in relation to younger and older employees and colleagues of different religions, cultural groups, and skin colors, for example. The impartial integration of people with disabilities in the work process naturally contributes to this as well.

Owing to the aging structure, it is also important to create the conditions required to help employees find a healthy work-life balance. This includes efforts to make individual working hours more flexible. Furthermore, it goes without saying that women and men receive the same wages for the same work. This is based on a grading system that has been used to evaluate all of the positions at the company – regardless of the employee’s gender (GRI 405-2). Further information on pay transparency at First Sensor is to be provided in an annual report as of 2019. 36.1% of employees are women, which is an excellent ratio for a high-tech company. Since First Sensor currently has locations only in countries that have similarly high standards, these declarations affect all company locations (GRI 102-4).

The materiality analysis indicated that issues surrounding employee rights are highly relevant. These include the application of the German Minimum Wage Act, experiences of parental leave, the involvement of the works council in key organizational decisions, training and education, diversity within the corporate bodies and among employees, remuneration of male and female employees, and discrimination in general (GRI 202-1, 401-3, 402-1, 404, 405, 406). Due to the significant workload of the HR team last year in connection with hiring new employees as a basis for future growth, relevant indicator systems on which observations of these specific issues can be based have not yet been established. A review of what indicators have priority and how these can be recorded and monitored is to be carried out in 2019. However, First Sensor is already fully aware of its responsibility and takes into account all the relevant regulations, including in its own interest.

16. Qualifications

Training and education is a high priority at First Sensor as it ensures that employees can always meet the increasing challenges of their professional environment. In fiscal year 2018 €380 thousand (previous year: €315 thousand) was spent on relevant measures (GRI 404-1). However, due to the switch to new ERP software and corresponding trainings, interest in additional training was lower than usual in many areas. First Sensor is also a qualified training organization. Based on long-term personnel planning, the aim is to cover the requirements for talented young staff members by also providing high-quality, needs-based training in the company’s own ranks. First Sensor provides professional training for microtechnologists (20), industrial clerks (6), specialists in warehouse logistics (3), mechatronics engineers (2) and specialized technicians (1). Therefore, 32 apprentices were employed at the company at the end of 2018 (previous year: 33). First Sensor concentrates primarily on Berlin when fostering new talent; the apprentice ratio there is now 5.0%, which is considerably higher than the average of 3.2% calculated for Berlin at the end of 2017. In Dresden the ratio is 6.4%, with 10 apprentices at First Sensor Microelectronic Packaging GmbH. Across all its German locations First Sensor is now achieving a ratio of 3.7%.

Only 30.9% of employees at the First Sensor Group are over 50 years old. Nevertheless, the Executive Board is aware that this is no reason to ignore the challenges of demographic trends in the long run.

Below 30 years of age	15%
Age 31-40	33%
Age 41-50	21%
Above 51 years of age	31%

At 35.9%, First Sensor has a comparatively high proportion of academics for a production company due to the high technological demands. As a growth company, therefore, the challenge continues to lie in recruiting qualified specialist staff in a competitive market.

17. Human rights

The company’s own code of conduct ensures that human rights, fundamental principles and employment rights are fully recognized, supported and promoted by First Sensor wherever possible. Among other things, this means the company’s support for the protection of international human rights and its efforts to ensure to the best of its knowledge and beliefs that it is not complicit in human rights violations (GRI 412-2). Due to the regional distribution of the locations of First Sensor and the statutory provisions applicable there, it can be ruled out that the employee rights to freedom of association or collective bargaining could have been potentially violated or seriously threatened. The same applies to the business locations and, if applicable, to the investment agreements and contracts that do not contain any human rights clauses due to the regional focus of

the business and/or that have not be reviewed in terms of human rights aspects as the appropriate standards can be expected (GRI 412-1, -3).

Suppliers from regions considered to be at risk in respect of human rights violations will be considered based on the usual supplier surveys (GRI 407-1). With the future in mind, relevant reviews were carried out as part of the reorganization of supplier management (GRI 414-2). Anchoring the principles of the Code of Conduct in the First Sensor supplier code supports this expectation. The intention to abolish all forms of forced labor and child labor and to eliminate discrimination in recruitment and employment are also a matter of course. These principles are also conveyed in the supplier code as expected behavior among partners in the supply chain.

18. Community

For the shareholders of First Sensor, a listed stock corporation, the monetary benefits of their investments are paramount. They expect their commitment to be profitable, primarily through an increase in the stock market price of their shares. However, many other groups also benefit from sustainable business development including customers, employees, suppliers and, not least, society in general. Last year, a total of €7.2 million (previous year: €6.4 million) was paid in taxes in Germany alone. This amount comprises all types of taxes that First Sensor was required to pay. The materiality

analysis concluded that the economic performance of First Sensor is extremely relevant for internal and external stakeholders. The economic value generated and its distribution are shown below in the value added statement for fiscal year 2018 (economic value generated and distributed, GRI 201-1):

in € million	
Sales revenues	155.1
Financial results	0.7
Other operating income	2.6
Achieved economic value	158.4
Operating expenses	-93.6
Depreciation and amortization	-9.0
Net economic value generated	55.8
Personnel expenses	-49.0
Financial expenditure	-2.5
Distribution to shareholders	-1.6
Payments to public authorities	-1.5
Donations	0*
Distributed economic value	54.6
Balance retained by the company	1.2

* The amount of donations was €4.272,86. Due to the presentation in million euros, this results in a rounding to €0.

This economic contribution safeguards jobs with First Sensor and its suppliers and enables shareholders to share in its economic success. Moreover, the company is supporting local charitable initiatives. A conceptual basis was developed for these types of activities to link this social commitment even more closely with the company’s mission statement and values in the future. In future, social activities will be implemented in three main areas under the banner of “First Sensor helps”. This includes (1) showing appreciation of voluntary work by employees via a donation to the organization they are supporting as well as (2) supporting activities at the locations, such as donating PCs to a local school, and (3) supporting an overarching social issue or a charitable organization. The company began supporting activities at the locations (2) as planned in 2018 and has already supported four initiatives altogether. The aim in 2019 is now also to roll out financial support for voluntary work by employees (1) and identify approaches for Group-wide social engagement (3).

19. Political influence

First Sensor does not exert political influence based on basic considerations and does not give donations to political parties (GRI 415-1). First Sensor is a member of various initiatives and associations. This network primarily serves for professional exchange, and there is no political influence connected with the membership (GRI 102-13).

Compliance

20. Compliance with the law and regulations

Compliance with the law is a top priority at First Sensor. This is in line with the materiality analysis, in which the issue featured as a prominent stakeholder interest.

In addition to the statutory framework, the specific expectations of the company with regard to compliance are enshrined in the Code of Conduct. The code thus combines the obligation to comply with the law with the particular requirements of ethical conduct as the basis for business activities. The content of the Code of Conduct covers all the key aspects: the general principles of conduct including non-discrimination, how to deal with business partners and third parties including information on competition law and anti-corruption, the prevention of conflicts of interest, how to handle (confidential) information, data protection, employee rights, and the environment, health and safety. Interested parties can find more information on the website under “Corporate responsibility” in the “Company” section and can also request a copy of the Code of Conduct. It serves as a binding framework for the activities of members of the Supervisory Board and the Executive Board as well as all employees and managers (GRI 102-17).

Compliance with the principles of the Code of Conduct is integrated in the structures and processes of the Group-wide risk manage-

ment system (GRI 205-1). With its four pillars, the First Sensor Risk House based on the COSO ERM framework maps significant risk categories for the company and also includes compliance issues. There is also a reporting procedure for violations of the code (whistle-blowing). Every employee can make complaints to their manager, the responsible compliance coordinator, an external ombudsman (legal council), the HR manager or an employee representative or notify them of a violation of this Code of Conduct or other breaches of rules or regulations, on a confidential or anonymous basis. Where required, appropriate measures will immediately be taken to eliminate a detected violation or to prevent it from happening again. In fiscal year 2018, one suspected case was reported, which was confirmed upon closer examination. The manager responsible successfully took appropriate measures (GRI 205-3).

The guidelines of the Code of Conduct are dynamic, meaning that they are adapted to new standards of conduct if necessary. The Code of Conduct is the responsibility of the compliance coordinator, who is also responsible for its implementation and the relevant training. The compliance coordinator reports to the Chief Financial Officer. The prevention of corruption is a particularly important part of compliance. Corruption is not just a trivial offense to give the company a supposed advantage in the short term. In reality, it represents a major risk because it can permanently damage the company’s market position (GRI 205-1). Fairness towards all busi-

ness partners, customers, suppliers, and employees is a condition for long-term corporate success. This is why a detailed section of the Code of Conduct has been dedicated to dealing with business partners and third parties. In particular, clear boundaries are formulated for the granting and acceptance of benefits which do not leave any room for interpretation and describe the clear expectation that corruption should be avoided. This expectation is communicated not only to all members of the Supervisory Board and the Executive Board as well as all employees and managers but also to suppliers via supplier management and the supplier code (GRI 205-2).

In 2018, First Sensor was once again not fined or sanctioned in connection with legal violations or violations of economic or social provisions (GRI 419-1).