

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 Gene-

ral 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).