

Sustainability Report

First Sensor AG voluntarily applies the German Sustainability Code. This is based on the conviction that sustainable management must equally take account of ecological, economic and social interests. With this report for fiscal year 2016, the company already fulfills the reporting requirements applicable from 2017. In the following declaration of compliance, First Sensor reports on how it complies with the criteria of the code or explains in a plausible fashion why a criterion has not been reported on, if applicable.

Strategy

1. Strategic analysis and measures

First Sensor's corporate strategy stands for sustainable, profitable and resource-efficient growth. At the operational level, there is a wide range of initiatives to address environmental protection or social welfare issues. The company is currently working on combining these in a sustainability strategy. In doing so, we will build on the management handbook, which already ensures that the company operates in line with the same key recognized industry-specific, national and international standards at all locations. Application of this handbook is stipulated as mandatory by the company management. Key aspects of the management handbook are cited in the relevant parts of the explanations below.

2. Materiality

Various aspects have a significant impact on business activities in terms of sustainability, such as the use of resources in connection with production, aspects pertaining to logistics and packaging or the reduction of the use of hazardous materials in production. There has not yet been a systematic analysis of the aspects that the company considers important from the perspective of sustainability. The areas that are particularly important to stakeholders are also being determined. However, it is becoming apparent that an examination of

the supply chain in this regard and HR topics such as training and employee development are likely to be highly relevant as significant social and ecological opportunities and risks. Generally speaking, sustainability aspects have a significant impact on the company's economic situation in some cases. It is therefore in the company's own interests to handle them in a particularly responsible way.

3. Goals

In line with the development of the sustainability strategy and the analysis of the main aspects from an internal and an external perspective, First Sensor intends to develop specific goals for the short-term and medium-term focus of the associated activities in fiscal year 2017. The company is aware of the importance of diversity and a culture of togetherness, and it recognizes the opportunities and challenges of demographic change. For this reason, among others, the goals will particularly focus on the area of human resources.

In addition, the sensor group will also examine the traditional areas: Manufacturing sensor solutions is an energy-intensive process. As well as operating high-temperature furnaces in the frontend process and power-intensive production facilities, maintaining clean rooms and ultra-clean rooms in production requires

significant energy consumption. Electricity consumption has therefore been identified as a key figure for finding ways to make production more resource-efficient and environmentally friendly and for identifying savings potential in the future.

In addition, a global network of suppliers, service providers and production units requires an elaborate logistics process for the transportation of raw materials, intermediates and finished products. First Sensor is aware of this environmental impact. For example, in the area of production controlling, the company intends to work towards implementing logistically optimized material deliveries within the production chain.

The EU directives 2011/65/EU (RoHS) and 1907/2006 (REACH) set out restrictions on the use of certain hazardous substances in electric and electronic devices and govern the use of hazardous substances in devices and electronic components and their distribution. The aim is to eliminate problematic elements from electrical waste. This includes replacing the leaded soldering of electronic components with lead-free soldering, prohibiting environmentally unfriendly flame-retardant materials in plastics, and introducing equivalent replacement products to the greatest possible extent.

The electrical elements and components used must also be free from problematic substances. First Sensor almost exclusively supplies RoHS- and REACH-compliant products. Exceptions are still permitted for individual products. Inventories of non-compliant raw materials are being systematically reduced and disposed of professionally.

4. Depth of the value chain

As a manufacturer of chips, sensors and sensor systems, First Sensor purchases raw materials and components from suppliers. The total volume in 2016 amounted to €63.5 million. First Sensor's customers include it in the implementation of their sustainability strategies, and First Sensor in turn includes its suppliers. 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. These individuals also undergo inspections during supplier audits. In 2017, the company will focus on examining the entire value chain in more detail, particularly in terms of scrutinizing the social and ecological quality of upstream products and questioning key suppliers on compliance with social and ecological minimum standards. Another aspect to be seen as having

a positive effect on sustainability is the long service life of First Sensor products. As "distributors" as defined in regulations, customers still receive information about responsible disposal at an early stage.

Process management

5. Responsibility

The CFO is in charge of corporate social responsibility (CSR). Activities have been delegated to a CSR role within the company. The holder of this role develops the CSR strategy in accordance with the triad of economic, ecological and civil responsibility and is in charge of its implementation. He is responsible for communicating the objectives agreed with the Executive Board and attracting the necessary level of attention at all levels of the company. He also launches new projects, reports on their status, takes measures and coordinates their implementation within the company. The CSR role forms part of the integrated management system, which has been introduced within the Group in the form of a management handbook.

6. Rules and processes

First Sensor has created a management handbook to implement processes that also support the objectives of the sustainability strategy. Based on the principle "as centralized as necessary, as decentralized as possible" guidelines and clear instructions are provided to ensure that responsibilities are clearly regulated across the Group. In this way, a requirement has been laid down in order to integrate changes to daily workflows and the mindset of all employees at all levels of the company. A Group-wide quality management system complements these guidelines in terms of sustainability.

7. Control

First Sensor AG is currently engaged in a process that will end with the definition of performance indicators for the main action areas. Topic areas that have already been identified relate to energy consumption and logistics. Planning and monitoring of the parameters is

to be determined after the process has been completed, so as to ensure that the data analyzed are always comparable. This will form part of future reports.

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 competitive remuneration and an incentive system that is geared toward the achievement of ambitious but by no means 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. The elements of the remuneration system also include a long-term component in the form of participation in two share option plans.

Further details can be found in the consolidated management report and the remuneration report. The company's managers are remunerated based on the achievement of operating and personal objectives in addition to a fixed salary. The company's employees receive remuneration based on the achievement of operating objectives in addition to their fixed salary. The option of integrating social and ecological objectives in the existing variable remuneration components is currently being examined. Members of the Supervisory Board are remunerated as established in the Articles of Association. A component oriented towards sustainability is not provided for.

9. Stakeholder participation

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 fairs and trade fairs allows the company to position itself as an attractive employer.

Thanks to its close cooperation with research institutions and membership of professional bodies, First Sensor is able to identify future technological changes at an early stage and respond appropriately. Last but not least, the capital markets and the banking sector are an important source of financing and must be informed about First Sensor's sustainability policy comprehensively and in good time.

First Sensor's locations are also integrated into their immediate environment and have contact with the authorities and their respective local neighborhoods. To ensure that these stakeholder groups are kept adequately informed, all relevant information is also published on the company's website to the extent required of listed companies. Shareholders can also exercise their rights of information and consultation directly at the Annual General Meeting. The company presents itself and discusses aspects of sustainability at events for investors and media representatives, such as the annual press conference, analyst events and roadshows. In order to compare the goals of the sustainability strategy with the views of stakeholders groups such as investors and employees, dialog with these groups is being increased further.

10. Innovation and product management

First Sensor develops sensors and sensor systems, from chips to entire sensor systems. 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, First Sensor's contribution cannot hide the fact that the energy consumption of applications in which sensors and sensor systems are used is several times higher. The contribution towards energy savings at First Sensor itself fluctuates here in the per-mil range overall compared with the energy requirements of end products.

Thanks to a continuous optimization process, First Sensor is striving to make particularly resource-conserving efforts in production. This process comprises the use of energy, the use of raw materials and supplies in addition to the materials and components that are supplied. Employees' ideas are also particularly important in this context, as employees can provide important tips for potential improvements thanks to their extensive knowledge of the processes. This is not only done in the interest of reducing the ecological impact of the company's own activities but is, of course, also in the company's economic interest.

In this context, quality is another important aspect. By means of relevant control systems, quality is continuously improved in the production process. This not only reduces the reject rate and thus prevents production waste, but also secures long-term customer satisfaction and contributes to the fact that First Sensor products are able to fulfill the high standards set for the service life – as a rule, for several years and, in some cases, for decades – of customer products.

Further information on research and development can be found in the consolidated management report.

Environment

11. Use of natural resources

Across the company, First Sensor verifies to what extent natural resources can be used in business activities. Materials and the input and output of water, land, waste, energy, surfaces, biodiversity and the emissions of the lifecycle of products and services are considered here. In some cases, these data are already gathered by the locations and are currently defined according to uniform standards.

12. Resource management

First Sensor identifies the qualitative and quantitative objectives it 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 at this point.

13. Climate-relevant emissions

At the moment, greenhouse gas emissions as a result of energy consumption are not systematically recorded at First Sensor AG. As part of the development of the CSR program, these values are calculated at a later date where applicable, relevant objectives are worded, reduction measures are implemented and a report is then written on these aspects.

17. Human rights

Human rights, fundamental principles and employment rights are fully recognized, supported and promoted by First Sensor wherever possible. This includes the company's support for the protection of international human rights and its efforts to make sure to the best of its ability that it is not complicit in human rights violations. The freedom of association among employees, the recognition of the right to collective bargaining and the will to abolish all forms of forced labor, child labor and eliminate discrimination in recruitment and employment are also matters of course. These principles are also conveyed as expected behavior among all partners in the supply chain.

19. Political influence

First Sensor does not exert political influence based on basic considerations.

20. Compliance with the law and regulations

Compliance with the law is a top priority at First Sensor. To provide guidance for all employees, a Code of Conduct has been developed as part of the First Sensor Group's compliance management. This is currently in the process of being coordinated. It combines the obligation to comply with the law with the particular requirements of ethical conduct. As such, it sets a standard for the company internally while also representing an external commitment. The guidelines in the Code of Conduct are dynamic, meaning that they are continuously adapted to new standards of conduct. The section on preventing corruption is particularly important. Corruption is not a trivial offense because it gives the company a supposed advantage in the short term, but rather represents a major risk because it is likely to permanently damage the company's market position. Fairness towards all business partners, customers, suppliers and employees is a condition for long-term corporate success. For this reason, among others, internal and external whistle-blowers are given protection where necessary. Violations of the principles set out in the Code of Conduct are not tolerated. In 2016, there were no breaches of the law or complaints in this regard and there were no corresponding financial penalties that were pending.

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 matters that are of significant importance in the area of strategic HR management in order to link 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. As for the participation of female employees, please refer to the information found in the Corporate Governance report. Since First Sensor is currently only present in countries that have similarly high standards, these declarations affect all company locations. In the future, compliance with fundamental employee rights (ILO standards) will also be required of suppliers.

15. Equal opportunities

First Sensor supports all initiatives that contribute to preserving and promoting equal opportunities and diversity within the company. In addition to the issues mentioned in section 14, the impartial integration of people with disabilities in the work process naturally contributes to this as well. In light of current developments, options will also be assessed to offer job prospects at First Sensor to qualified individuals from the influx of refugees.

Owing to the aging structure, it is also highly relevant 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 men and women receive the same wages for the same work. The conditions for this are established by a grading system that has been used to evaluate all of the positions at the company – regardless of the employee's gender, of course.

16. Qualifications

Nearly 30% of employees at First Sensor AG are over 50 years old. The Executive Board is aware that this is no reason to ignore the challenges of demographic trends in the long run. As a growth company, the challenge rather lies in the recruitment of additional employees to secure the planned implementation of the strategy than in concerns related to the loss of expertise as a result of employees leaving due to their age. Should these individuals be interested in employment over a longer period of time, plans to regulate this will be in place on the basis of individual agreements.

18. Community

Besides job creation, the main contribution of First Sensor AG and its Group companies to the common good is the payment of taxes, which totaled €7.8 million in Germany last year. This amount consists of all types of taxes that First Sensor was required to pay. In addition, the company gets involved by means of support for local non-profit initiatives and allowing employees to be acknowledged for their volunteer involvement in the form of individual financial support or working hour concessions. The aim is to establish a conceptual basis for these activities so that social commitment will be even more closely linked with the company's values and mission statement in the future.