

Corporate Governance Report 2016 and declaration of Business Management

The Executive Board and the Supervisory Board of First Sensor AG are guided by the principles of good corporate governance as set out in the German Corporate Governance Code. At least once a year, they check whether the recommendations and suggestions set out in the Code are followed. The declaration of compliance jointly approved by the Executive Board and the Supervisory Board is then published on the company's website in the Investor Relations, Corporate Governance section. This joint updated declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) in relation to the GCGC version dated May 5, 2015 (published in the Federal Gazette on June 12, 2015) was last issued on March 16, 2017.

The Executive Board and the Supervisory Board report on corporate governance on an annual basis and explain the status of implementation of the more than 100 recommendations and 7 suggestions of the Code. The declaration of business management in accordance with section 289a of the German Commercial Code (HGB) forms part of this report and is also published on the company's website in the Investor Relations, Corporate Governance section.

Implementation of the German Corporate Governance Code

According to the current declaration of compliance, the company deviates from six recommendations. These deviations are presented and justified in the declaration of compliance. 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 and this is not currently intended to be done in the future, either.

Diversity and equal opportunity at First Sensor AG

Diversity is increasingly important for an international company like First Sensor. We consider diversity and equal opportunity as key principles of our work environment. Employees from a large number of different countries were working for the First Sensor AG Group as of December 31, 2016. 36.2% of these 804 employees were women.

On September 14, 2015, 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. At the moment, 15 employees are working at the two management levels below the Executive Board, including three women (which corresponds to a proportion of 20%).

- b. The company's Executive Board has established targets of 18% for the quota for women at both of these management levels in accordance with section 76 (4) AktG.

On September 21, 2015, 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% was established for the quota for women in accordance with section 111 (5) AktG.
- b. For the Supervisory Board, a target of 0% was established for the quota for women in accordance with section 111 (5) AktG.

Size of the Supervisory Board

In accordance with the Articles of Association, First Sensor AG's Supervisory Board is made up of three members who are elected by the Annual General Meeting.

Supervisory Board expertise

The professional and personal requirements to fulfill its duties are regularly analyzed by the Supervisory Board using a comprehensive survey. These are then compared with potential areas that are represented on the board in a SWOT analysis. This results in the basis for continued education for relevant individuals and staff planning.

The variety of responsibilities and duties within the Supervisory Board (such as finance, legal affairs, market and specialized knowledge of sensor technology, internationality, corporate finance and human resources) must be largely reflected by the specialisms of its members. In addition, professional suitability and social skills are to be considered in their selection.

Objectives for the composition of the Supervisory Board

In view of the particular challenges of business activities at First Sensor AG, the focus on the system provider business and the size of the company and the Group, the Supervisory Board has established the following goals with regard to its intended composition in the future:

- 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, 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 2016 financial year.

With Prof. Alfred Gossner, one shareholder representative with an above-average shareholding is represented on the Supervisory Board; therefore, he is not referred to as an independent member. 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 creation of committees is rejected due to the low number of Supervisory Board members and the rapid decision-making processes that exist.

The Supervisory Board has not specified an age limit for its members or a regular limit for the length of membership of the Supervisory Board.

At the moment, women are not represented on the Supervisory Board.

Risk management and internal control system

Ein Handling risks responsibly is part of corporate governance at First Sensor. Continuous, systematic management of business opportunities and risks is vitally important for professional business management. It contributes to detecting risks at an early stage, assessing them, and managing them with measures. First Sensor has therefore implemented Group-wide risk management as a permanent process that covers all divisions, continuously analyzes the risk situation, and assesses, manages and controls the risks identified. The Executive Board regularly reports to the Supervisory Board on the current development of the main risks for the Group and on the organization of the internal control system. The Supervisory Board deals with the monitoring of the accounting process on a regular basis. The key features of the risk management system are described in the risk report.

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

Disclosures on securities transactions of the Executive Board and the Supervisory Board in accordance with section 15a of the German Securities Trading Act (WpHG) (Directors' Dealings) in First Sensor AG shares are available in the company register. They can also be found on the internet at www.first-sensor.com in the "Investor Relations" section under "Corporate Governance" and under "Directors' Dealings," which are all currently listed and can be consulted beyond the statutory time lapse of one month.

In the 2016 financial year, CFO Dr. Gollwitzer executed and reported reportable transactions in accordance with section 15a WpHG. In early May, he purchased 16,000 shares on the XETRA trading platform at an average price of €10.74. His equity interest amounts to 0.2%.

Based on the shareholdings reported to the company, Supervisory Board member Marc de Jong held a total of 5,439 shares or 0.1% of the shares (previous year: 5,439 shares or 0.1%). According to Mr. de Jong, he already acquired 45,000 shares before becoming a member

of the Supervisory Board. This results in a shareholding of 50,439 shares or 0.5% in total.

Together, the members of the two bodies hold shares in the company amounting to 0.6% (previous year: 1.2%; reduced as a result of the departure of CEO Dr. Schefter).

Remuneration report

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).

Corporate governance declaration in accordance with section 289a HGB

In accordance with section 289a 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.

Berlin, March 16, 2017

First Sensor AG


Dr. Dirk Rothweiler CEO


Dr. Matthias Gollwitzer CFO


Prof. Dr. Alfred Gossner
Chairman of the Supervisory Board