First Sensor

is now part of

TE connectivity

Annual Report 2021

FIRST SENSOR AG, BERLIN

ABOUT THIS REPORT

The reporting period is the financial year from January 1 to September 30, 2021. To ensure this report is as current as possible, it includes all relevant information available up to the Responsibility Statement dated January 25, 2022.

Comparability of disclosures

In the past, the financial year of the First Sensor Group (First Sensor AG and its subsidiaries) was the calendar year. In conjunction with the integration into the TE Connectivity Group (TE Connectivity Ltd., Schaffhausen, Switzerland), the Annual General Meeting of First Sensor AG on June 24, 2021 resolved to change the financial year from October 1 to September 30 of the following year, effective October 1, 2021. The period from January 1 to September 30, 2021 therefore formed a short financial year. The reporting period, and thus the 2021 short financial year, therefore covers a period of nine months, whereas the 2020 financial year, the comparative period, covered a period of twelve months. The amounts shown are not fully comparable owing to the different lengths of the reporting and comparative periods.

Information on Accounting

First Sensor's consolidated financial statements have been prepared in accordance with the applicable International Financial Reporting Standards (IFRS) as of the end of the reporting period and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable in the European Union and the additional requirements of German commercial law.

The internal control system (ICS) provides reasonable assurance regarding the reliability of financial reporting and compliance with applicable laws and regulations. To monitor the effectiveness of the ICS, accounting-related processes are regularly reviewed.

Information on formal presentation

This year, we are once again publishing our annual report exclusively in digital form. It is available as a full-content PDF in German and English. In the event of any discrepancies, the German version of the report shall take precedence over the English translation.

For better readability, we refrain from references to rounding differences in this publication and use only the masculine form. It refers to persons of any gender.

Disclaimer

This report contains statements which are forward-looking and do not represent any incitement to purchase shares of First Sensor AG, but rather are intended exclusively for information purposes with regard to possible future developments at the company. Forward-looking statements are those that address activities, events or developments that management intends, expects, projects, believes or anticipates will or may occur in the future. By their nature, forward-looking statements are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. Our results will be subject to many of the same risks that apply to the semiconductor, automotive, medical technology and industrial industries, such as general economic conditions, interest rate fluctuations, consumer spending patterns and technological changes.

All future-oriented specifications in this consolidated financial report were produced on the basis of a probability-based plan and represent reasonable forward-looking statements regarding the future which cannot be guaranteed. It should be noted that all forward-looking statements only speak as of the date of this report and that First Sensor AG does not assume any obligation, except as required by law, to update any forward-looking statement or to conform any such statement to actual events or development.

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1 TO OUR SHAREHOLDERS

1.1 FOREWORD BY THE EXECUTIVE BOARD

Dear Shareholders and Business Partners,

You are reading this new annual report a little earlier than usual. This is because the most recent Annual General Meeting voted to change First Sensor’s financial year. It now runs from October 1 until September 30 of the following year. The figures in this report therefore relate to the nine months of the 2021 short financial year and their comparability with prior-year figures is limited as a result.

Following the start of the integration into TE Connectivity in 2020, we have continued to work over the past nine months to create a competitive, combined business. In conjunction with the consolidation in the area of operations we made the decision to close the First Sensor branch in Puchheim near Munich. Its business was and still is being gradually transferred to the First Sensor branch in Berlin-Weissensee and to First Sensor Lewicki GmbH. This is improving capacity utilization and the depth of production at these locations as we are leveraging synergies and enabling efficiency gains.

As part of the integration, TE's sensor production in Dortmund will be relocated to First Sensor in Berlin-Oberschöneweide. The new TE Sensors center of competence for wafers will be created here by mid-2022. Substantial amounts have already been invested in machinery for this.

In the area of administration, the integration and associated standardization of the process and system landscape means that selected processes and services of our accounting and HR departments will be assumed by a shared service center of the TE Group.

Another key integration project, which was started this year, was the introduction of a shared IT landscape, which affects a number of systems across all functions. The biggest individual project is the roll-out of a common SAP system.

Another top integration project concerned the joint product portfolio. In organizational terms, First Sensor belongs to TE’s Sensors business unit, which in turn is part of the Transportations segment. Key account managers in TE’s Transportations segment and Automotive business unit are familiar with both the connector portfolio and the sensor systems portfolio, and can sell both to their customers.

First Sensor is now focusing primarily on the industrial and medical growth markets and ideally complements TE's existing sensor systems portfolio with its technologies, customers and sales structures. In order to drive growth, we want to focus even more strongly on applications in the industrial and medical technology sectors. To continue our growth, we intend to focus more closely on and expand focus applications in the industry and medical technology areas.

In addition, we are focusing on customer satisfaction with the introduction of a customer service model. To further improve our operational efficiency, we have scrutinized our positioning in operations while simultaneously streamlining our product portfolio. With thousands of products and customers, this is a detailed, data-driven process that will take several more months.

By further expanding our system application expertise, we want to extend our product leadership. In addition to our standard products, we also focus on integrated sensor solutions. In doing so, our know-how enables us to analyze customer requirements, identifying trends and system problems that need to be solved and expanding the share of sensors in these applications and use cases. This enables us to offer customers a comprehensive value proposition while putting them in a better competitive position.

But despite all the systems and processes, in the final analysis it is our employees, who enable us to be successful on the market. That is why it is especially important to us to develop their potential. This includes promoting diversity and creating a coaching culture, a culture of trust and accountability. A key component of such a culture is appreciation, and so we would like to thank not just you, our shareholders, for your support, but also expressly all of our employees at First Sensor as well. The hard work of the integration, and also the stresses of COVID-19 and all that it has entailed, have demanded much of all of us. But by working as a team, we have been able to accept these changes, and to see the new First Sensor and the new world of work as an opportunity. As an opportunity to keep on evolving, and as an opportunity to continue making a significant contribution towards creating a networked world with our sensors and sensor solutions.

We are filled with optimism as we enter the new financial year, and we hope that you will continue our constructive relationship.

The Management Board

Sibylle Büttner	Robin Maly	Dirk Schäfer

1.2 REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

By way of resolution of the Annual General Meeting on June 24, 2021, First Sensor AG changed its financial year from October 1 to September 30 of the following year, effective October 1, 2021. The period from January 1, 2021 to September 30, 2021 therefore formed a short financial year. The change in financial year was entered in the commercial register on August 4, 2021.

In the reporting period comprising the 2021 short financial year and thereafter, the Supervisory Board performed its duties in accordance with law, the Articles of Association and its Rules of Procedure without restriction. It continuously monitored and advised the Management Board in its management of the company and regularly reviewed its activities. In addition, it was directly and closely involved in all decisions of strategic and fundamental importance to the company at an early stage. The Supervisory Board received all relevant information in this connection both comprehensively and promptly. Over the course of the financial year, the Management Board provided regular, prompt and comprehensive information both in writing and verbally on the status of the implementation of strategy and planning, the current business situation, business performance and the economic situation. Deviations from planning and changes to targets in relation to the forecast business performance and measures derived from them were communicated to the Supervisory Board by the Management Board, explained and discussed together. Regular reporting also included the risk situation and risk management, as well as all relevant compliance issues.

There were five ordinary and five extraordinary meetings of the Supervisory Board in the 2021 short financial year. These were primarily held as video conferences or in hybrid format. In addition, resolutions were regularly prepared in advance by telephone. The meeting attendance of the members of the Supervisory Board is broken down by individual member as follows. The attendance rate was 89.7%.

	Ordinary meetings of the Supervisory Board		Extraordinary meetings of the Supervisory Board	
	Number	in %	Number	in %
Michael Gerosa (member since February 18, 2021, Chairman since April 19, 2021)	4/4	100	5/5	100
Peter McCarthy (Deputy Chairman, since May 1, 2020)	5/5	100	3*/5	60
Stephan Itter (since May 1, 2020)	5/5	100	3*/5	60
Rob Tilmans (since June 24, 2021)	1/1	100	0*/1	0
Dirk Schäfer (until May 31, 2021)	3/3	100	3/3	100
Olga Wolfenberg	5/5	100	5/5	100
Tilo Vollprecht (until August 26, 2021)	5/5	100	5/5	100
Christoph Findeisen (since August 26, 2021)	0/0	-	0/0	-

*) The members of the Supervisory Board were unable to attend the individual meetings in person but submitted votes in writing.

While the members of the Management Board took part in the meetings of the Supervisory Board, the Supervisory Board also regularly convened without the Management Board to discuss agenda items that concerned the Management Board itself or internal Supervisory Board matters.

Supervisory Board issues

At the ordinary meeting of the Supervisory Board on February 1, 2021, the Management Board presented the provisional figures for the 2020 financial year and discussed them in depth with the Supervisory Board. The discussion then moved on to the current business performance in the 2021 financial year, taking into account the subsidiaries sold and also the effects of the coronavirus pandemic and the Management Board's measures in this regard. The Supervisory Board also dealt with compliance and ethics issues in addition to IT security matters. Moreover, the Supervisory Board discussed the progress of the merger with TE Connectivity, including as regards the implementation of joint IT systems. An updated declaration of compliance with the German Corporate Governance Code was also approved. In preparation for the Annual General Meeting, the Management Board and the Supervisory Board discussed possible agenda items. Furthermore, the Supervisory Board resolved amendments to the Articles of Association affecting its wording and resulting from the exercise of pre-emption rights in the past financial year.

At the ordinary meeting of the Supervisory Board on March 16, 2021, the Management Board informed the Supervisory Board of the parent company's intention to close the First Sensor location in Puchheim with the aim of achieving significant cost savings. On March 18, the Management Board then received instructions on this matter and approved these plans with the Supervisory Board at an extraordinary meeting on March 18, 2021.

At the extraordinary meeting of the Supervisory Board on April 19, 2021, the Supervisory Board elected Michael Gerosa as the Chairman of the Supervisory Board and resolved to increase the size of the Management Board (see "Personnel changes in the Supervisory Board and the Management Board"). A revision of the Rules of Procedure for the Management Board was also resolved in this context. Furthermore, it was resolved that the new members of the Management Board will not receive Management Board contracts and and that no adjustment of the remuneration paid by other companies of the TE Group will be made in connection with the assumption of the mandates. They will therefore also not receive variable remuneration components based on the goals of First Sensor AG. The reorganization of First Sensor AG proposed by the Management Board was approved. The launch of the new SAP software S4/Hana was also discussed and approved.

At the ordinary meeting of the Supervisory Board on April 22, 2021, the auditors reported on the status of the work on the financial statements for the 2020 financial year and their related audits. The members of the Audit Committee reported on their work in this context and confirmed that all questions were answered promptly and comprehensively. Moreover, the key audit matters, material risks, the accounting and the internal control system (ICS) also were discussed. The Supervisory Board was informed of the planned relocation of production from the TE site in Dortmund to First Sensor in Berlin and approved the associated investments. Furthermore, the Supervisory Board resolved the payment of the bonus for the Management Board for 2020 and resolved the variable remuneration components for management for 2020. The Supervisory Board then elected Michael Gerosa as a member of the Human Resources and Nomination Committee.

At the extraordinary meeting on April 29, 2021, the Supervisory Board discussed the financial statements and the combined management report of First Sensor AG and the Group as of December 31, 2020 and the 2020 annual report, including the report of the Supervisory Board, the non-financial report (CSR report), the corporate governance report, the corporate governance declaration and the remuneration report. Moreover, the Supervisory Board resolved the remuneration system of the Management Board and an updated declaration of compliance with the German Corporate Governance Code. The Supervisory Board approved the proposal by the Management Board to hold the Annual General Meeting as a virtual event in accordance with the German Act on Measures Combat the Effects of the COVID-19 Pandemic and the draft agenda. In connection with the nominations for election, the Supervisory Board took into account the targets resolved for its composition and aimed to complete the skills profile devised for the Supervisory Board as a whole.

At the ordinary meeting of the Supervisory Board on May 31, 2021, the Supervisory Board discussed the agreement to cancel the Management Board contract with Marcus Resch and resolved both this and the subsequent consulting agreement with Mr. Resch.

At the extraordinary meeting of the Supervisory Board on June 2, 2021, the Supervisory Board was informed of and approved the relocation of accounting activities to the TE shared service center. Furthermore, the planned integration of TE Connectivity Solutions GmbH was discussed, which is intended to become the interface between the production facilities and the customers, assuming a common IT structure. Moreover, the Supervisory

Board was informed of the progress in the integration of the First Sensor location in Dresden into the TE Group and the planned closure of the location in Munich (Puchheim).

At the ordinary meeting after the Annual General Meeting on June 24, 2021, the members of the Supervisory Board again elected Michael Gerosa as their Chairman and Peter McCarthy as the Deputy Chairman. Furthermore, Stephan Itter was elected as the Chairman and Michael Gerosa as a member of the Audit Committee, and Peter McCarthy was elected as the Chairman and Rob Tilmans as a member of the Human Resources and Nomination Committee. The table of duties for the Management Board was then discussed.

At the extraordinary meeting on July 5, 2021, the Supervisory Board discussed the intended disposal of First Sensor Mobility GmbH (Dresden) to a subsidiary of the TE Group and approved this sale. The Supervisory Board later granted its approval for the transactions of the Management Board for which this is required.

In a further meeting immediately after the end of the reporting period (October 4, 2021), the planning for First Sensor AG and the Group for the 2022 financial year (October 1, 2021 to September 30, 2022) was discussed and resolved.

Work of the Supervisory Board

Each meeting of the Supervisory Board discussed the Management Board's reporting on the business situation of First Sensor AG and of the Group, particularly the current sales and earnings development and the financial position and performance on the basis of the reporting formats defined by the Supervisory Board. The Supervisory Board received detailed information on and discussed the strategy and its implementation, key transactions and the company's risk management. The Chairman of the Supervisory Board also maintained regular contact with the Management Board. The Management Board promptly informed the Chairman of the Supervisory Board of key events of significance to the assessment of the company's situation, performance and management. In addition to the meetings, there were several discussions between the Management Board and members of the Supervisory Board on operational and strategic matters.

The Supervisory Board also regularly discussed the regulatory framework for the composition of the Supervisory Board, in particular the targets approved by the Supervisory Board for its composition, including the skills profile and diversity concept for the Supervisory Board.

In accordance with the statutory regulations, the audit firm Ebner Stolz GmbH & Co. KG Wirtschaftprüfungsgesellschaft Steuerberatungsberatungsgesellschaft, Berlin, was elected by the Annual General Meeting on June 24, 2021 and engaged by the Supervisory Board for the audit of the annual and consolidated financial statements for the 2021 short financial year. The Supervisory Board then determined the key audit matters and the auditor's fee. The Supervisory Board also addressed the financial reporting and the financial reporting process, the effectiveness of the internal control system, the risk management system and the company's compliance.

The members of the Supervisory Board are responsible for ensuring that they receive the necessary training to perform their duties, for example regarding changes in the legal framework, and is assisted in this by the company. There was no efficiency review of the work of the Supervisory Board in the reporting period.

All members of the Supervisory Board have sufficient time to perform their duties. They always had sufficient opportunity to process and discuss the reports and draft resolutions submitted by the Management Board prior to and at their meetings.

Work of the committees

The Supervisory Board has established an Audit Committee and a Human Resources and Nomination Committee. The committees each comprise two members of the Supervisory Board and prepare the resolutions of the Supervisory Board. The Audit Committee met twice in the reporting period. Its meeting on March 4, 2021 dealt with the current status of the preparation of the financial statements for First Sensor AG and the Group. The auditors explained their audit procedures and answered questions from the committee's members, including on the process and control environment. On August 13, 2021, the Audit Committee dealt in depth with the draft half-year financial report and discussed the results of the critical review by the auditor. In a further meeting immediately after the end of the reporting period, the Audit Committee prepared the resolution of the Supervisory Board for the audit scope and engagement and the key audit matters. The Human Resources and Nomination Committee did not meet in the reporting period.

Audit of the annual and consolidated financial statements

The audit firm, Ebner Stolz GmbH & Co. KG, Berlin, audited the financial statements of First Sensor AG, consolidated financial statements and the combined management report for First Sensor AG and the Group for the 2021 short financial year and granted each an unqualified audit opinion. The audit firm Ebner Stolz GmbH & Co. KG has been the auditor for First Sensor AG and the Group since the 2013 financial year. Karsten Bender has signed as an auditor and Thorsten Sommerfeld has signed as the auditor responsible for the audit since the 2020 financial year. The financial statements of First Sensor AG and the combined management report for First Sensor AG and the Group were prepared in accordance with German statutory provisions. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and in accordance with the additional German legal regulations applicable in accordance with section 315 e(1) of the German Commercial Code. The auditors carried out their audit in accordance with section 317 of the German Commercial Code and the EU regulation on specific requirements regarding statutory audit of public-interest entities, taking into account the principles of proper accounting of the Institute of Public Auditors in Germany (IDW). These documents were distributed to the members of the Supervisory Board after the Audit Committee had examined them intensively at its meeting on December 15, 2021. The single-entity financial statements, the consolidated financial statements and the combined management report were dealt with at length at the Supervisory Board meeting on January 24, 2022. In this context, the members of the Audit Committee reported on their work closely overseeing the audit process, thereby contributing to the preparation of the resolution by the Supervisory Board. In particular, the Supervisory Board dealt with the key audit matters described in the respective audit opinion, including the audit procedures. The Supervisory Board's discussions also covered the non-financial information for First Sensor AG and the Group as well as the remuneration report. The CSR report and the remuneration report were not audited by third parties. However, the auditor was satisfied that the related information was available, and the Supervisory Board reviewed the legality, compliance and expediency of the sustainability reporting.

The auditor's audit reports were distributed to all members of the Supervisory Board and were discussed at length at the accounts meeting of the Supervisory Board on January 24, 2022 based on draft versions with the auditor in attendance. The auditor also reported on the scope, main areas and key findings of the audit and was available for additional questions and information. The auditor's comments focused in particular on the key audit matters and the audit procedures. The report made no reference to material vulnerabilities in the internal control system or the risk management system. At this meeting, the Management Board discussed the financial statements of First Sensor AG and the Group and the risk management system. The Supervisory Board approved the results of the audit of the annual financial statements. Based on the final result of its own review, it made no objections. The Management Board prepared the annual financial statements and the consolidated financial statements. After presentation of the audited financial statements by circulation the Supervisory Board approved the annual financial statements and the consolidated financial statements on January 28, 2022. The stand-alone financial statements of First Sensor AG have thus been adopted in accordance with section 172 of the German Stock Corporation Act. A resolution on the appropriation of profits is no longer required as there is now a control and profit transfer agreement with TE Connectivity.

Personnel changes in the Supervisory Board and the Management Board

John Mitchell had stepped down from his position as Chairman and member of the Supervisory Board effective from the end of October 31, 2020. On April 19, 2021, the Supervisory Board then elected Michael Gerosa, who had been appointed by the court as a member of the Supervisory Board on February 18, 2021, as its Chairman.

This extraordinary meeting of the Supervisory Board also resolved to increase the size of the Management Board of First Sensor AG. Besides Marcus Resch, Sibylle Büttner and Robin Maly were also appointed to the Management Board with immediate effect. As of June 1, 2021, Dirk Schäfer also became a member of the Management Board, for which he resigned as a member of the Supervisory Board as of May 31, 2021. It was decided that all members of the Management Board would operate as equals and that no Chairman would be appointed. The respective responsibilities are set out in the table of duties resolved by the Supervisory Board. Marcus Resch left the Management Board effective May 31, 2021. The Supervisory Board thanked him for his successful work on the focused and punctual integration with TE and for having successfully steered the company through the COVID-19 crisis.

Rob Tilmans was then elected as Dirk Schäfer's successor as a member of the Supervisory Board at the company's Annual General Meeting.

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

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

Berlin, January 28, 2022

Michael Gerosa

Chairman of the Supervisory Board

1.3 NON-FINANCIAL REPORTING (CORPORATE SOCIAL RESPONSIBILITY-REPORT)

Declaration of Compliance of First Sensor AG for the 2021 short financial year (January 1 to September 30)

Dear Shareholders and Business Partners,

This year's "non-financial declaration" again provides you with an insight into the various areas relevant to First Sensor. As a mid-sized German company, to date we have found that we are relatively well positioned for these key aspects of business life, and we address many points that are important to our customers, our employees and our investors. However, the integration into the TE Group has allowed this area to take on an entirely new importance and dimensions. First Sensor is now a part of TE's sustainability strategy and TE's sustainability strategy applies to First Sensor as well. We therefore strongly urge you to read TE Connectivity's corporate social responsibility (CSR) report to see for yourselves!

As a result in the change in reporting lines, the threads of sustainability at First Sensor no longer all run internally, as they are now embedded in the larger Group framework. Nevertheless, and this is reflected in the CSR report by First Sensor, we have our own goals and measures, values and an attitude that this report sets out. As a listed company, it is not only our duty to report on this, but also our wish to acknowledge the importance of sustainability and demonstrate transparency.

In preparing this report for the period from January 1 to September 30, 2021, 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 2021 annual report. 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 more coherent for readers. Thank you for your interest!

The First Sensor CSR Team

Main issues

General information

On September 30, 2021, the First Sensor Group consists of the parent company First Sensor AG, based in Berlin, and two subsidiaries (GRI 102-1) in Germany. The company has been listed since 1999. TE Connectivity Sensors Germany Holding AG has been the largest shareholder in First Sensor AG since 2020, with an interest of approximately 72% (GRI 102-5); there is a control and profit transfer agreement in place between the companies.

First Sensor generated total sales of €105.3 million with an average of 857 employees (762 FTEs) in the 2021 short financial year (GRI 102-7). The DACH region accounted for 53.0% of sales, while sales generated from customers in the rest of Europe accounted for 21.3%. 5.4% of sales are attributable to North America and 19.0% of sales were generated in Asia (GRI 102-6). As of September 30, 2021, the Group's total assets amount to €189.4 million with an equity ratio of 64.4% (GRI 102-7).

On the sensor systems growth market, First Sensor develops and produces standard products and customer-specific solutions for the ever-increasing number of applications on different target markets (GRI 102-6).

Throughout the value chain, two core competencies distinguish First Sensor as a company. Firstly, the Group has expert knowledge in detecting physical parameters through the design and production of silicon-based sensor chips. Secondly, First Sensor uses its expertise in microelectronic layout and connection technology to process these chips with the best form factor for the application in question. System solutions for new applications on various markets are an avenue for additional growth. Such sensor systems not only measure but also respond intelligently to the results and communicate with other systems (GRI 102-2).

As the use of some products for military purposes cannot be ruled out, First Sensor supplies customers abroad in compliance with sanctions and export control restrictions. To this end, First Sensor checks both during the process of initiating new business and before delivery, using technical product parameters, the information on the customer and evidence of intended use, effectively preventing the inadmissible supply of products in the event of anomalies (GRI 102-2).

Employees (GRI-102-8)

Predominantly as a result of the integration into the TE Group and the associated sale of various subsidiaries to TE, First Sensor's headcount continued to decline in 2021. The number of permanent employees decreased by 11.6% to 762 FTEs (full-time equivalents). The share of women remained largely stable at 35.6% (previous year: 34.9%). 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 temporary staff to be subsequently taken on as permanent employees. No temporary staff have been taken on as permanent employees to date in the short financial year, though the ratio over a period of 12 months is similar to previous years (around 10%).

Number of employees	Permanent employees (m/f/o)	Temporary employees (m/f/o)
Germany	741/115/0	38/12/0

As of September 30, 2021

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. This stems from our belief that the happiness of employees has a direct effect on their commitment and motivation. The share of part-time employees was stable at 13.4% in the 2021 short financial year (previous year: 13.5%).

Number of employees	Full-time employees (m/f/o)	Part-time employees (m/f/o)
Germany	520/222/0	35/78/0

As of September 30, 2021

Strategic analysis and measures

As part of the TE Group, First Sensor is included in its parent company's strategy for key sustainability areas. TE Connectivity has published its corporate strategy under the title "One Connected World". The aim of One Connected World is to create a safer, sustainable, productive and connected future. A materiality analysis conducted with customers, shareholders and employees determined the areas where its actions have the most impact. Three areas of focus were derived from this:

- Co-Creating Tomorrow: Focused on the environmental and social management of product creation and supply chain
- Connecting Sustainably: Focused on the environmental management of our operations
- Empowering Innovators: Focused on social performance, including inclusion and diversity (I&D), safety, human rights and communities

Strong governance principles and the commitment to ethical business underscore every aspect of this strategy.

One Connected World was introduced throughout the company in 2020, allowing TE to identify where it can make progress and establishing how it will measure its success in sustainability. This included launching the One Connected World Network, which oversees the strategy's implementation and makes recommendations for better achieving our goals. The Network's members include executives who will lead and drive change throughout the enterprise as well as subject-matter experts and program managers.

Building on the strategy, nine ambitions were formulated that will be achieved by 2030, together with the steps needed to do so. The ambitions are:

- Embed sustainability in product creation
- Partner with direct and logistics suppliers to strengthen the sustainability of the supply chain; align new construction with the Sustainable Facility Initiative.
- 100% of facilities in water-stressed locations meet reduction targets
- Decrease waste disposed
- Greenhouse gas (GHG) emissions reduction
- Zero-accident workplace
- Strengthen the workplace culture, in which all differences are valued and all opinions count
- Impact 3 million in next-generation technology education
- Implement a global human rights program

The TE Group issues an annual sustainability report detailing its strategy, goals, measures and progress. Transparency of the various aspects of sustainability, with the help of this report, for instance, is a top priority for First Sensor as well. This is one reason why we actively seek a dialog with our stakeholders based on the belief that understanding and trust can only grow through dialog (GRI 103-2). In this context, the Group's locations also partner and engage with organizations in their local communities. Various established formats, such as blood drives, Girls' Day to inspire young women to pursue STEM careers and the Long Night of Industry for the interested public at large are usually held, but had to be canceled or postponed in 2021 on account of the pandemic.

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, because sustainable business practices help to align the company for a successful future and make it an attractive employer and a good neighbor at its locations.

First Sensor also uses its products to make a contribution to sustainable development, for example, in medical technology. Sustainability is also important because it provides business opportunities. The corresponding risks are carefully minimized and monitored.

The standards First Sensor applies are based on 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

Moving ahead, First Sensor's activities will be aligned even more closely with TE Connectivity's Group standards (GRI 103-2) to support a general strategy for the Group as a whole (GRI 102-14).

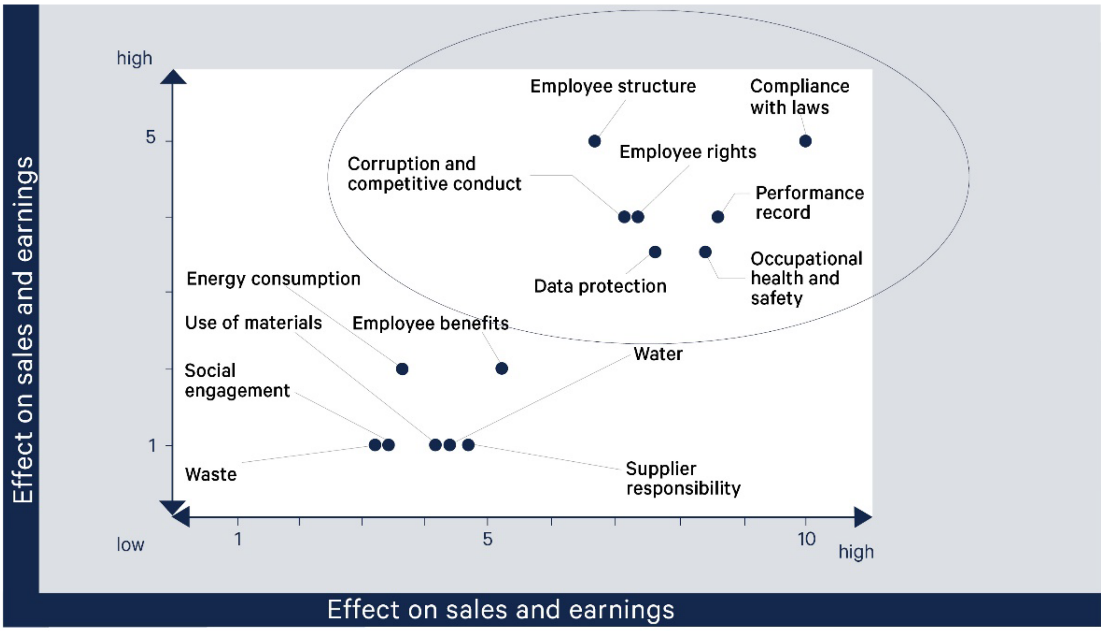
The lawfulness, compliance and expediency of the sustainability reporting is reviewed by the Supervisory Board (GRI-102-32) in accordance with the statutory provisions. The non-financial declaration is also formally audited by the auditor in accordance with section 317(4) sentence 2 of the Handelsgesetzbuch (HGB – German Commercial Code).

Risks and opportunities

As a listed company, First Sensor has established a risk and compliance management system that comprises all locations and business areas as an integral part of corporate governance (GRI 102-11). First Sensor AG's Management Board is responsible for ensuring that it is effective, while the Supervisory Board guides and monitors this process. The Group's opportunity situation is also assessed quarterly in a systematic process alongside the risk situation and incorporated into business decisions.

Materiality

As a foundation for the development of a sustainability strategy, First Sensor carried out its own materiality analysis by means of a structured survey of internal stakeholders (employees, managers, Works Council) and external stakeholders (representatives for customers and suppliers, partners, associations and politicians, the general public and the capital market) (GRI 102-15). In 2018, the analysis was expanded to evaluate the influence of individual factors on the company. The combination of sales and earnings was used as an equivalent measure of performance (GRI 102-49). As the focus of First Sensor's business activities has not changed significantly since then, this materiality analysis was again used as the basis for First Sensor's CSR alignment in the 2021 short financial year.



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

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

- legal compliance
- 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

- 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

- legal compliance (GRI 307, 419)
- data protection (GRI 418)
- corruption and competitive conduct (GRI 205, 206)

Goals

First Sensor's goals and activities have been merged with those of TE Connectivity in conjunction with the integration process. The TE Group's goals take precedence for First Sensor and will be dealt with primarily. (GRI 103-2).

Vertical integration

As a manufacturer of chips, sensors and sensor solutions, First Sensor purchases considerable amounts of raw materials, components and services from suppliers (GRI 102-9). The total volume amounted to €53.6 million in 2021 (previous year: €70.9 million). Sustainability is playing a steadily growing role in First Sensor's business relationships, because customers are increasingly including the company in the implementation of their sustainability strategies and First Sensor is in turn calling upon its suppliers to collaborate on the achievement of sustainability targets (GRI 103-2). This provides further assurance that sustainability aspects are actively embedded throughout the value chain.

Customers often expect a declaration of compliance with a code of conduct as soon as business relations are initiated, and also in contracts. First Sensor therefore also includes suppliers in its sustainability strategy (GRI 103-2). As a result, it has long been normal practice for First Sensor to require its suppliers to comply with certain minimum standards. TE Connectivity's guidelines on this were adopted by First Sensor in 2021. TE works with more than 32,000 direct and indirect suppliers worldwide. The approach to responsible sourcing is detailed in TE's Guide to Supplier Social Responsibility (the SSR Guide), which sets the expectations and ethical principles for suppliers. The SSR Guide was developed using best practices advocated by the Organization of Economic Co-operation and Development and the United Nations (UN) Global Compact, among others. First Sensor suppliers are assessed using a scorecard model or in supplier audits (GRI 102-10). Certain high-risk suppliers may also be monitored by third-party auditors to ensure that they operate to appropriate standards for the ethical treatment of their workers and a safe workplace (GRI 413-2).

Another positive aspect in terms of sustainability is the long service life of First Sensor products. As "distributors", at least in sense meant by regulations, customers are conscientiously informed about responsible disposal. In accordance with the requirements of the Elektrogesetz (ElektroG – German Electrical and Electronic Equipment Act), First Sensor has registered with the National Register for Waste Electric Equipment and is working with an external service provider to implement the legal requirements. 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).

Accountability

The Management Board is accountable for corporate social responsibility (CSR) and for implementing measures. The large number of Group-wide activities is managed by various departments and, in some cases, by the TE Group (GRI 102-20). The entire team is guided by the three principles of economic, environmental and social responsibility (GRI 102-26). It ensures that the agreed objectives are communicated and complied with as necessary at all levels of the company. The merger with TE Connectivity is resulting in a harmonization of Group guidelines in this respect.

In accordance with the statutory provisions, the Supervisory Board reviews the lawfulness, compliance 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).

Rules and processes

First Sensor is part of the TE Group and thus included in its management structures and reporting lines. This also applies to the implementation of the sustainability strategy (GRI 103-2). General goals are pursued with the help of local rules, processes and structures. Guidelines and responsibilities are therefore clearly regulated throughout the Group.

Control

First Sensor's locations report various performance indicators for the areas identified by TE as material (GRI 102-31). For example, these include managing and controlling the reduction of emissions or the consumption of resources.

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 its annual declaration of compliance.

First Sensor is subject to Group-wide regulations that set out its values, principles and standards and that are binding upon all employees (GRI 102-16). Details on this can be found in TE's sustainability report (One Connected World); the guidelines also include the supply chain.

In important cases, such as suspected compliance violations by members of the Management Board, the Supervisory Board is informed directly. This also applies to any concerns that employees may have regarding the implementation of the sustainability system (GRI 102-33). No suspected cases or findings were reported to the Supervisory Board in the 2021 short financial year (GRI 102-34).

Incentive systems

The remuneration system for the Management Board of First Sensor AG is intended to promote value-driven management geared towards sustainably increasing the company's success. This includes remuneration in line with market levels and an incentive system based on the achievement of ambitious and not exclusively short-term targets. The Supervisory Board determines the remuneration, taking into account the duties of the respective member of the Management Board, their personal performance and the financial situation and success of the company. It reviews the achievement of the agreed targets annually. The elements of the remuneration system also include a long-term component in the form of stock option plans or comparable instruments. Further details can be found in the remuneration report (GRI 102-35). A new remuneration system that will apply when new Management Board contracts are entered into or existing contracts are renewed was put to the shareholders for their approval at the 2021 Annual General Meeting.

In addition to a fixed salary, the managers and some employees of the company also receive variable remuneration based on the achievement of the company's targets and on operating and personal goals. Members of the Supervisory Board are remunerated as established in the Articles of Association. A component geared towards sustainability is still not intended.

Performance-based remuneration in line with market levels is important to First Sensor (GRI 102-36). Otherwise, it would not be possible to satisfy the company's need for motivated staff when competing for talented employees. A vertical comparison of Management Board remuneration and the remuneration of other employees at the company (GRI 102-38) was part of the process of developing the new remuneration system.

Stakeholder participation

The stakeholder dialog on economic, environmental and social issues is the responsibility of the Management Board (GRI 102-21). If necessary, the Supervisory Board is also on hand to answer any questions, e.g. for investors, as stipulated in the Corporate Governance Code.

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 sharing of information on sustainability issues.

As an employer, the Group has a social commitment and seeks to employ the best employees on a market where there is a shortage of specialists. The company takes part in job and trade fairs to position itself as an attractive employer. For the first time in the 2021 short financial year, owing to the coronavirus pandemic, the company did not take part in any job fairs held in person, but it participated in five national and international trade fairs, partly in virtual form. 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 respective immediate environment at its locations and maintains contact with the authorities and its neighborhoods. Various formats exist to keep these different stakeholder groups adequately informed and promote dialog. For the acquisition of young talent, these include Girls Day, Parents on Tour activities, student internships, open days and close contact with local universities. In the 2021 short financial year, it was largely only possible to implement measures that allowed hygiene protection precautions, e.g. numerous internships. Furthermore, First Sensor is engaged at a social level, supporting, for example, schools and charities with which it has a specific connection through its employees.

Finally, the capital market is 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 still exercise their codetermination and information rights directly at the Annual General Meeting. The company gives presentations on itself and also discusses sustainability aspects at events for investors and media representatives, such as the accounts press conferences and analyst events.

Product and innovation management

First Sensor develops sensors and sensor solutions, from the chip to the entire sensor system. €6.7 million was invested in research and development in the 2021 short financial year (previous year: €9.7 million). Through its products, the company also helps its customers to make their processes more efficient and environmentally friendly, for instance through greater energy efficiency or reduced emissions.

In several decentralized applications, energy consumption is a key criterion for fulfilling customer requirements and securing 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, the energy consumption of the applications in which sensors and sensor systems are ultimately used is often several times higher. Overall, First Sensor’s contribution towards energy savings is therefore only within the per thousand range of the end products’ energy requirements (GRI 302-4). The social and environmental impact of the key products has not yet been determined (GRI 416-1), though their EU Taxonomy-eligibility and alignment has been reviewed.

In its own activities as well, the company focuses on reducing its environmental impact by using energy, resources and materials as efficiently as possible, especially in production. Employees are particularly significant when it comes to potential improvements. Thanks to an extensive knowledge of the processes, their ideas can provide vital information. A software-based system for a company suggestion scheme was therefore developed that provides a structure for reviewing employees’ suggestions for improvements and implements those deemed suitable for operations together with employees. This system is being piloted at the Berlin-Weissensee location and will later be rolled out to other locations as well. The idea of incorporating employees’ suggestions is not only intended to reduce the environmental impact of the company’s activities but is, of course, also in the company’s business interests.

Product specifications are very closely coordinated during development to prevent the use of products from having a negative impact on customers and the environment.

Environment

Use of natural resources

First Sensor AG's production locations already have an environmental management system in accordance with ISO 14001. Beyond this, however, First Sensor has limited options for influencing the rest of the value chain. For example, raw materials cannot be obtained from a recycling process (GRI 301-2). The company does not collect information on the consumption of resource by its products in customer applications, such as energy consumption (GRI 301-2).

The question of the environmental impact of the company's activities can also not be answered in detail at this time (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 have not been prioritized at this time. However, data on certain aspects in the areas of water, waste and energy have been regularly gathered and analyzed by TE Connectivity and are available in the company's annual sustainablility report.

The responsibility of suppliers for environmental issues is a fixed component of the procurement process (GRI 308-1). The concept for responsible sourcing is detailed in TE's Guide to Supplier Social Responsibility (the SSR Guide), which sets the expectations and ethical principles for suppliers.

Resource management

The careful use of resources is a central aspect of the TE sustainability strategy. This focuses on energy and water consumption. Operating standards for energy efficiency have been introduced by TE. The respective energy consumption is tracked and the readings are used to identify the areas with the greatest potential for improvement. Options for the local use of renewable energy are also considered to do more for carbon-neutral energy. Photovoltaic systems will therefore be installed at various locations.

The reduction of water consumption and waste water is a second key area. Production at TE's locations is not particularly water-intensive in its own right, but water is required in various stages of production. Particular attention is therefore given to locations in water-stressed regions. Water stress occurs when demand for water exceeds the amount available over a specific period or when poor water quality limits the use of water. In its 2020 Corporate Responsibility Report, TE set a goal to set water reduction targets for facilities in water-stressed areas.

As part of the TE Group, First Sensor is integrated into these goals and measures. As before, no surface water, water from wetlands, rivers, lakes or oceans, groundwater, rainwater or waste water from other companies is used at the First Sensor Group's locations – only water from the municipal suppliers (GRI 303-1).

Climate emissions

Reducing emissions that affect the climate is an especially important component of TE's sustainability strategy. TE sees GHG emissions as the Group's most significant environmental impact. Around 95% of its Scope 1 and 2 GHG emissions are currently from its energy usage. Corresponding goals for energy savings have been in action since 2009 and have resulted in a reduction of 40% normalized to sales revenue since 2009 and based on fiscal yeaer 2020 data. The goal is to achieve further reduction by 2030. This will focus in particular on energy consumption for injection molding and compressed air in production, and air conditioning in buildings.

Another significant aspect is the reduction of sulfur hexafluoride (SF6) gas, which is used, for example, as an insulator in medium voltage switchgear, but also in electron beam technology as a basis for a variety of specialized applications in the manufacture of semiconductors and microelectromechanical systems. SF6 is the most potent known greenhouse gas and many times more harmful than carbon dioxide. Active steps have been taken by the TE Group to reduce such emissions (GRI 305-1).

The reduction of emissions is also an aspect of product creation. As a reduced energy consumption causes fewer emissions, it also contributes towards environmental protection.

Reducing greenhouse gas emissions as a result of energy consumption is a key aspect of climate protection and limiting climate change for First Sensor. Considerations as to how to save energy are therefore incorporated at many points and in many processes at First Sensor as this is necessary from an environmental and a business standpoint.

SOCIETY

As part of the TE Group, First Sensor is included in sustainability aspects that concern social and community issues. There are big overlaps between the two frameworks in these areas, and differences are primarily due to local or cultural factors. TE's One Connected World strategy is focused on social performance, including inclusion and diversity (I&D), safety, human rights and communities. The strategy's ambitions include creating a zero accident workplace, implementing a global human rights program, strengthening the workplace culture so that all differences are valued and all opinions count, and impacting 3 million people in next-generation technology education.

Safety, engagement, inclusion and support

As a company whose highly qualified and motivated employees are a key factor for future success, First Sensor does not limit itself to compliance with just the minimum national and international standards. The health and professional development opportunities of employees are central and highly important issues in the area of strategic HR management in order for ensuring long-term loyalty to the company among its best and brightest. Of course, this includes anti-discriminatory recruitment and a work environment in which diversity is seen as an asset every day (GRI 103-2, 406-1). The Diversity Charter was signed back in 2018. Furthermore, it is expressly stated that discrimination is not tolerated. No incidents of discrimination were reported in the reporting period.

First sensor is not party to collective wage agreements. The TE Global Job Framework was introduced to First Sensor in the 2021 short financial year. This requires comparable pay for comparable work, independently of gender, age or other personal features. Moreover, agreements are negotiated with the respective First Sensor employee representation bodies and recorded in works agreements (GRI 102-41).

The materiality analysis assigned high priority to the occupational health and safety aspect (GRI 403-1, -2, -3). The physical well-being of employees and safety at work play an especially important role in HR work at First Sensor. Measures for preventive healthcare are largely the responsibility of HR and include, for example, health days, vaccination drives, training, risk assessments for physical work and the beloved company bicycle. This is similar to the TE Safety Policy, which aims to operate facilities around the world in a manner that protects employees, public health and the environment. All applicable laws and regulations are complied with at every location where the First Sensor Group operates, and its own more stringent standards and policies are applied wherever necessary to protect employees and the environment.

All First Sensor employees are informed and made aware of the individual hazards at their place of work, which is supported by intensive training and seminars. During the 2021 short financial year, First Sensor's health, safety and environmental (HSE) management was integrated into the TE system that is described by its Environment, Health and Safety Policy (EHS Policy). This ensures that all First Sensor sites apply the same standards as other TE locations.

Audits are carried out regularly to identify potential for improvement. The findings, whether in the management system or at an operational level, are now being processed. As all areas of EHS management are heavily regulated, this is supported by the EHS software Quentic in practice. This database is a tool for providing the directory of authorization and permits as well as the directory of hazardous substances. The program is also used to carry out the risk assessments required by law. All employees can complete their compulsory annual general occupational health and safety courses online using Quentic, which ensures very high quality and saves resources. These instructions are supplemented by "lessons", on subjects such as work safety or unsafe situations.

Employees are provided with appropriate personal protective equipment where necessary. Hazardous substances, such as those used in production, are labeled appropriately and according to regulations. This is intended to prevent chronic and acute illnesses. Noise is avoided as far as possible or corresponding protective measures taken. Of course, every employee is entitled to refuse to perform any work that they consider to be dangerous. At the same time, information of this kind is valuable because it highlights opportunities to identify and remedy vulnerabilities as soon as possible.

First Sensor is required to report work accidents. However, the reporting obligation only applies to accidents that result in an inability to work for more than three days (GRI 403-2). Monthly analyses are prepared to monitor occupational health and safety even more closely. 174 reports in total were submitted in the 2021 short financial year. 150 were "unsafe situations and near misses" and 24 were "actual accidents". 23 of these accidents were handled with first aid, while 1 resulted in a doctor's visit and some loss of working time.

A number of other activities for better health protection are carried out regularly. These can include check-ups, free fruit baskets and beverages or flu vaccinations.

Precautions to protect against COVID-19 infection were still necessary in the 2021 short financial year as well. An operational coronavirus pandemic plan was implemented back in 2020. It is based on the Federal Office of Civil Protection and Disaster Assistance's Corporate Pandemic Planning Manual, and covers team formation, risk analysis and assessment, action formulation and a communication concept. Building on that, a hygiene concept, corresponding checklists and information materials were developed and implemented. According to the risk assessment, a variety of measures were taken in 2021 as well, such as providing employees with face coverings, FFP2 masks or rapid testing kits. Many areas introduced digital formats for meetings and remote working options in addition to observing basic precautions, such as social distancing, hygiene, masks and ventilation.

First Sensor already supported initiatives that contribute to preserving and promoting equal opportunities and diversity within the company. Equal opportunities do not just apply in relation to men, women and other gender identities, but also in relation to younger and older employees and staff 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. These efforts are entirely in line with TE Connectivity's own ambitions: "We aim to embed a culture where everyone can bring their whole selves to work". In support of TE's purpose and values, we drive business outcomes globally by building a workforce and supplier network that represent our global markets and the customers we serve. We also strive to build a work environment where all employees are engaged and feel all differences are valued and all opinions count. We measure this success by setting aspirations for our workforce demographics and analyzing our engagement and inclusion indicators through our Every Voice Counts Survey.

Owing to the age structure, it is also important for First Sensor to create the conditions required to help employees find a healthy work-life balance. This includes efforts to make individual working hours more flexible through flextime, part-time and temporary home-working solutions. Furthermore, it goes without saying that women and men receive the same wages for the same work. 35.6% of employees are women, which is an excellent ratio for a high-tech company. The global job framework also creates the conditions for continuing to assess all positions within the company with zero discrimination. This applies to all First Sensor locations (GRI 102-4).

No information was requested in accordance with the Entgelttransparenzgesetz (German Wage Transparency Act) in the 2021 short financial year. Since 2019, further information on pay transparency at First Sensor has been provided in a report that can be accessed on the website.

First Sensor's materiality analysis indicated that employee rights issues 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 continuing professional development, diversity within the executive bodies and among employees, the remuneration of male and female employees and discrimination in general (GRI 202-1, 401-3, 402-1, 404, 405, 406). First Sensor is fully aware of its responsibility and takes all the relevant regulations into account, which is also in its own interests. Since 2019, employees have been represented on the Supervisory Board by one man and one woman.

Qualifications

Training and further professional development are highly valued at First Sensor as they ensure that employees can always rise to the growing challenges of their professional environment. However, under the circumstances dictated by the pandemic, only €133 thousand (previous year: €131 thousand) was spent on corresponding measures in the 2021 short financial year (GRI 404-1). First Sensor is also a qualified training organization. Based on long-term personnel planning, the aim is to cover the requirements for talented young members of staff by also providing high-quality, needs-based training within the company existing workforce. First Sensor provides professional training for micro-technologists (19), industrial clerks (5), specialists in warehouse logistics (2) and mechatronics engineers (2). The company thus employed 28 apprentices as of September 30, 2021 (previous year: 32).

Only 32.5% of employees at the First Sensor Group are over 50 years old. Nevertheless, the Management Board is aware that this is no reason to ignore the challenges of demographic trends in the long term.

Below 30 years of age	12%
Age 31-40	34%
Age 41-50	22%
Above 51 years of age	32%

At 34.8%, First Sensor has a comparatively high share of academics for a production company due to the sophisticated technological demands.

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. This Code is in accordance with TE's corresponding guidelines. These state that nobody will be employed against their will or forced to work involuntarily. TE stands against and prohibits all forms of slavery or practices similar to slavery. This policy applies to all TE employees and contractors in every country in which the TE Group operates. All suppliers are expected to adhere to this policy as well as to TE's Supplier Guide to Social Responsibility (GRI 412-1, 2, 3).

First Sensor reviews suppliers from regions considered to be at risk of human rights violations in conjunction with supplier questionnaires (GRI 407-1). Corresponding audits reviews can be carried out in the context of supplier management (GRI 414-2).

Community

It is not just the shareholders of the listed stock corporation, but also many other groups that benefit from sustainable business development, including customers, employees, suppliers and, not least, society in general. The materiality analysis concluded that the economic performance of First Sensor is relevant to internal and external stakeholders.

The economic value generated and its distribution are shown below in the statement of value added for the 2021 short financial year below (economic value generated and distributed, GRI 201-1):

in € million	
Sales	105.3
Financial result	-0.5
Other operating income	25.1
Economic value generated	**129.9**
Operating expenses	-67.1
Depreciation and amortization	-8.2
Net economic value generated	**54.6**
Staff costs	-41.6
Financial expenditure	-0.5
Distribution to shareholders	-5.8
Payments to public authorities	0.0
Donations	0.0
Distributed economic value	**-47.9**
Difference retained by the company	**6.7**

* The amount of donations was €200. The presentation of figures in millions of euro results in this being rounded down to €0.

TE also supports the communities at its business locations. For example, it empowers employees to pursue positive change in their communities through its Community Ambassador Program, which enables more than 100 ambassadors and local councils to make decisions about TE's philanthropic spending and volunteer events. A large part of its corporate philanthropy is employee-driven through the Community Ambassador Program or employee matching gift and volunteer grants programs, allowing employees to personally engage in TE's philanthropic giving.

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 dialog and membership does not entail any political influence (GRI 102-13).

COMPLIANCE

Compliance with the law and regulations

Compliance with the law is a top priority at First Sensor. In addition to the statutory framework, the company's specific expectations regarding 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.

As part of the TE Group, First Sensor will also adopt TE's standards on ethics and compliance moving ahead. TE's Guide to Ethical Conduct provides directors, officers and employees with the necessary information and resources to live by the company's values and make sound and ethical decisions every day. These values also apply to the company's partners, including contractors, vendors, suppliers and other stakeholders.

The Guide – like First Sensor's – covers all relevant areas: diversity, equity, respect and trust, competition law, bribery and corruption, fraud, money laundering, import and export rules, conduct in the workplace and safety, conflicts of interest, gifts and entertainment, human rights and social responsibility. The Guide serves as a binding framework for the activities of members of the Supervisory Board and the Management Board, and of all employees and managers (GRI 102-17).

Compliance with the principles of the Code of Conduct is integrated in the structures and processes of First Sensor's risk and compliance management system (GRI 205-1). Compliance will be integrated into the TE system once the necessary preparations have been made. There is a procedure for reporting violations against the code (whistle-blowing), also confidentially or anonymously. Two cases were reported in the 2021 short financial year, one of which was resolved in the reporting period (GRI 205-3).

The prevention of corruption is a particularly important area of compliance. Corruption is not just a trivial offense to give the company a supposed advantage in the short term, but rather a major risk as it can permanently damage the company's market position (GRI 205-1). Fairness towards all business partners, customers, suppliers and employees is essential for long-term business 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 limits have been defined for giving and receiving benefits to rule out the possibility of corruption. This expectation is communicated not just to all members of the Supervisory Board and the Management Board, all employees and managers, but also to suppliers through supplier management and the supplier code (GRI 205-2).

No sanctions were imposed in connection with prosecuted legal violations or violations of economic or social provisions in the 2021 short financial year (GRI 419-1).

EU Taxonomy

For the first time in the 2021 financial year, quantitative and qualitative KPIs on sales, investments and operating expenses must be disclosed for the company's sustainability activities. For the current reporting period, these disclosure requirements are initially based on the EU targets for climate protection and climate change adaptation. The resulting transparency should allow comparisons of different business models in terms of the ecological sustainability, thereby contributing towards effective capital market allocation and thus sustainable development as defined by the EU Action Plan.

First Sensor is aware of its responsibility for sustainable business practices and, as part of the TE Group, will be included in the parent company's Corporate Responsibility Program. TE reports on its sustainability strategy and its implementation in its annual Corporate Responsibility Report. This sets out the Group's progress in driving the corporate values of Integrity, Accountability, Teamwork and Innovation in conjunction with global challenges in terms of social and ecological activism. The strategy is built around the ambitions for 2030, and the report covers the progress made in the reporting period and other activities in planning. First Sensor will be included in the reporting of performance indicators (see Performance Summary) and the relevant standards (GRI, SASB, TCFD).

First Sensor does not have separate reporting on Taxonomy-eligible and Taxonomy-aligned economic activities under the EU Taxonomy. Following a due review of the applicable technical assessment criteria, First Sensor therefore makes the following declaration:

Taxonomy-eligible economic activities	0%
Non-Taxonomy-eligible economic activities	100%

The Taxonomy-aligned investments thus amount to 0% and the operating expenses to 0% as well.

2 COMBINED CONSOLIDATED MANAGEMENT REPORT OF FIRST SENSOR GROUP AND FIRST SENSOR AG

2.1 BASIC INFORMATION ON THE FIRST SENSOR GROUP

2.1.1 Group structure and business activities

Group legal structure

In the 2021 short financial year, the First Sensor Group (hereinafter also referred to as "First Sensor" or "the Group") initially consisted of the parent company First Sensor AG, based in Berlin, and three subsidiaries in which First Sensor AG held all shares or a majority interest. One of the companies was sold to a subsidiary within the TE Connectivity Ltd. group of companies (hereinafter also referred to as "TE Connectivity," "TE," or the "TE Group") in the reporting period. An overview of shareholdings can be found under "Basis of consolidation" in the notes to the consolidated financial statements. TE Connectivity Sensors Germany Holding AG has been the largest shareholder in First Sensor AG since 2020, with an interest of approximately 72%. There has been a control agreement between the companies since July 6, 2020 and there is a profit transfer agreement effective January 1, 2021.

Segments

First Sensor develops, produces and distributes sensor chips, sensor components, sensors and sensor systems. Sales are reported according to target markets (Industrial, Medical, Mobility) as well as geographically according to the origin of customers (DACH region, rest of Europe, North America, Asia, rest of the world). There is no segmentation in accordance with IAS 8 reflecting internal organizational and reporting structures or the Management Board's control structures.

Locations

The Group had six development and production locations in total in 2021. They specialize in different products and stages of the sensor systems value chain. Most development work and production take place in Germany.

In the reporting period, there were locations in Berlin (Oberschöneweide and Weissensee), Dresden (Albertstadt and Klotzsche), Oberdischingen and Puchheim, plus a distribution company in Kungens Kurva (Sweden).

The Dresden Alberstadt location (First Sensor Mobility GmbH) was sold to TE Connectivity in the reporting period. The preparations to close the location in Puchheim are already at an advanced stage as of the end of the reporting period. The closure of the subsidiary in Sweden has also been initiated.

Products, services and business processes

On the sensor systems growth market, First Sensor develops and manufactures standard products and customer-specific sensor solutions for the ever-increasing number of applications on different target markets.

Throughout the value chain, two core competencies distinguish First Sensor as a company. Firstly, the Group has expert knowledge in detecting physical parameters through the design and production of silicon-based sensor chips. Secondly, First Sensor uses its expertise in microelectronic layout and connection technology to process these chips with the best form factor for the application in question. System solutions for new applications on various markets are an avenue for additional growth. Such sensor systems not only measure but also respond intelligently to the results and communicate with other systems.

On this basis, First Sensor focuses on the product areas of pressure, photonics and advanced electronics. Overall, the Group therefore develops, produces and sells an extensive range of its own standard sensors. Thanks to its years of expertise in sensor systems, First Sensor is also able to offer bespoke sensor solutions to address the specific application challenges posed by key customers' products. The company also has a large number of technical solutions in the area of actuation systems and embedded software, which it uses to provide support for system approaches. For this reason, product and technology development is a vital core process.

The Group relies firstly on its own sales organization, which bundles processes ranging from market analysis, customer support and qualification through to contract formation. The cooperation with TE Connectivity Solutions GmbH (Schaffhausen, Switzerland) is being intensified in order to tap the potential to serve customers in more than 140 countries moving ahead. On the basis of corresponding agreements, it will also be First Sensor's sales and distribution partner in the future.

Sales markets

First Sensor has again broken down its sales by the Industrial, Medical and Mobility target markets in the reporting period. On the Industrial target market, the Group generated sales of €55.6 million in the 2021 short financial year, which covered only 9 months instead of 12 compared with fiscal 2020 (previous year: €76.8 million). This represents a share of sales of 52.8% (previous year: 49.6%) and thus a largely stable performance. On the Medical target market, sales amounted to €22.0 million (previous year: €44.0 million) or 20.9% of total sales (previous year: 28.4%). Here, First Sensor benefited from the higher demand for pressure sensors for respirators in the previous year as a result of the pandemic. The Mobility target market generated sales of €27.7 million (previous year: €34.0 million), accounting for 26.3% of total sales (previous year: 21.9%). This reflects the global recovery in demand among automotive manufacturers. As a result of the disposal of First Sensor Mobility GmbH and the closer cooperation with TE Connectivity Solutions GmbH as a sales and distribution partner moving ahead, the breakdown by target markets will no longer be presented in the future.

In some cases, sales trends on the different regional markets were also affected by the change in the Group's structure. As before, the largest sales volume was achieved in German-speaking countries. The share of sales attributable to the DACH region (Germany, Austria, Switzerland, Liechtenstein) was 53.0% (previous year: 51.3%) in the 2021 short financial year. First Sensor generated 21.3% (previous year: 21.1%) of its sales in non-German-speaking countries in Europe. By contrast, in North America, where it focuses on the United States, the Group generated just 5.4% of its sales (previous year: 10.1%). Asia, and mainly China, accounted for 19.0% (previous year: 16.8%) of sales.

The fundamental sales trend in the Group is also reflected accordingly at First Sensor AG as an individual company.

External influences

External influences that cause changes in customer demand behavior and regulatory frameworks are – in both a positive and a negative sense – of minor significance to First Sensor.

As a result of its integration into the TE Group, First Sensor is not just benefiting from the rapid growth in the number of sensor applications that are being developed for new functions and for safety, comfort and efficiency. TE's global reach is also significantly increasing the number of potential customers that can be served. This combination should also reduce potential fluctuations due to economic cycles.

2.1.2 Objectives and strategies

Strategic orientation of business units

First Sensor is part of TE Connectivity (TE) and is therefore incorporated into TE's strategy for its Sensors business area. The strategy is to seamlessly connect people, machinery and the world so that everyone in the world can lead a better life. To this end, innovative sensor solutions are developed that add value for employees, customers and investors. They are intended to help make the networked world a safer, more productive and more reliable place.

This approach focuses on applications for medical technology, such as Diagnostics and patient monitoring. Moreover, the Group is focusing on industrial automation and condition monitoring as well as movement regulation. Its key USPs are application expertise, technical brilliance, customer experience and its global positioning. TE's values are Integrity, Accountability, Teamwork, and Innovation.

Pressure sensors are a key component of its product portfolio. Here, First Sensor offers products suitable for industry and medical technology applications. Customers often seek bespoke solutions in these high-tech applications. Thanks to its wide-ranging and comprehensive application experience, First Sensor is able to create tailor-made solutions for a number of different sectors – from high-performance, platform-based pressure sensors for pneumatics, hydraulics and the automation of industrial system to custom-made products for highly specialized medical technology applications.

The product range in the photonics area comprises LiDAR applications, imaging modules and light detectors. They are predominantly used in industrial, medical and transport applications. In this area, First Sensor primarily concentrates on industry and medical applications with the aim of focusing on high-growth applications and ongoing product portfolio optimization.

In the area of advanced electronics especially, First Sensor is focused on the rising demand for complex solutions that combine several functions in customer applications. This requires core competencies in chip design and production as well as in layout and connection technology. Not only this, but the company is also building and expanding its expertise in other process technologies, as well as in software and sensor communication. The cooperation with TE is giving rise to additional options that are due to be validated further in the new financial year.

First Sensor is therefore still developing not just products, but solutions as well. When selling solutions, it is important to develop a deep understanding for customers' systems and to identify trends and system problems that need to be solved. This frequently also entails an increased share of sensors in these applications and use cases. This way, customers receive a more comprehensive value proposition. At the same time, the procurement process can be streamlined and complexity and costs can be reduced, for example by using fewer suppliers.

Strategic financing measures

First Sensor primarily finances its business operations from its operating cash flow and cash funds or via the cash pool with TE. There are financial liabilities to banks and leasing companies. They can also be granted by the main shareholder in the future. There has been no strategic financing in the narrower sense to date, and there are also no such plans for the future.

2.1.3 Internal management system

The Management Board is responsible for the strategic orientation of the company. The Supervisory Board advises it and monitors the Management Board in line with the law and the Articles of Association. The interests of customers, employees, investors and suppliers are taken into account to the best possible extent when determining the company's strategic objectives. The medium-term planning for the next three years is derived from the strategic objectives once a year. The detailed planning for the following year is prepared on this basis. The Management Board coordinates this with the Supervisory Board and implements it.

The Management Board regularly discusses strategic and key operational issues with the employees of the first management level below the Management Board, analyzes the current business performance and discusses the handling of risks and opportunities. Moreover, these managers have reporting lines to the regional and global functional line managers at TE Connectivity.

The First Sensor Group is primarily managed by way of the continuous controlling of the achievement of goals in relation to annual and medium-term planning. The aim is to identify deviations as early as possible so that suitable measures can be implemented promptly.

Key performance indicators used

First Sensor AG and its subsidiaries are primarily managed based on the targets for sales and for the EBIT margin (EBIT = earnings before interest and taxes according to the income statement). These are the most significant financial performance indicators.

2.1.4 Research and development

Various new uses of sensors and sensor systems are the driving forces for the target markets on which First Sensor operates. Development activities are therefore highly relevant to the Group's success. Development defines the implementation of customer-specific solutions and is responsible for the production development process and the building of prototypes. Development also forms the basis for First Sensor's platform and technology strategy.

The Group's overall expertise comprises semiconductor development and sensor design, layout and connection technology through to prototype construction, sensor electronics, software and system integration. Project management coordinates the units within the product development projects to ensure that the defined project objectives are achieved.

In conjunction with the integration of First Sensor's development activities into those of TE Connectivity, adjustments were made to the organizational structure, and the process landscape and IT infrastructure were harmonized in the short financial year.

The organizational structure is now geared towards sensor technology and is still spread across multiple locations. The photonics development area deals with the development of photodiodes and imaging sensors. The development of pressure sensors works together with the corresponding developers at TE Connectivity in the Pressure & Force development area. Given the calorimetric processes, the development of L series flow sensor systems is being continued in the Temperature development area. The development location in Montreal that specializes in this area was sold to TE Connectivity at the start of the year, but is still working closely with First Sensor locations. The First Sensor Mobility (Dresden) development location that specializes in the automotive market and that was sold in the reporting period is part of TE's Transportation Sensors development area.

In terms of processes, all development activities were converted to TE Connectivity's project governance process, "LEANPD" (Lean Enterprise Accelerated New Product Development). Projects to harmonize software solutions and document management in line with the TE infrastructure were initiated and in some cases have already been successfully completed. Also, 44 engineers were trained in TE's internal Design for Six Sigma Green Belt Program, which is to be rolled out further in the coming financial year. Accordingly, organizational development was a key area of focus in the past short financial year.

Procedures and key areas

Regardless of whether the stimulus for a development project comes from a customer or from within the company, First Sensor's development activities operate according to a structured process. Before the project even begins, the first step is to review the business case. This means looking not only at the time frame and costs, but also at the project's potential for First Sensor. If the review reaches a positive conclusion, the project's implementation can begin. Development is organized on the basis of a multistage process from creating a design to producing prototypes all the way through to preparation for series production. The process uses pre-defined milestones and standardized reporting requirements to ensure that, at every stage of the development project, the results are in line with the desired aim and any deviations are identified, analyzed and processed in a timely manner.

First Sensor incorporates medium- and short-term development activities that fall under the overarching corporate strategy in a technology and product road map. This ensures that projects involving key customers or high sales volumes are prioritized. For this reason, one focus area is customer-specific sensor solutions and thus the development of new sensor chips. These are supplemented by innovative signaling electronic systems and layout and connection technologies. It is also important that products have the best form factor for the relevant application, i.e. to be particularly robust, for example. Furthermore, customers expect innovations that will still be state-of-the-art in three to five years' time while still being competitive in terms of price.

Cooperations

First Sensor follows an approach of opening up innovation processes and entering into strategic partnerships with strong industrial partners and research institutes. Each partner benefits from sharing expertise and can contribute its respective core competencies in the context of joint projects. Through regular close contact with research institutes, Development also plays its part in ensuring that scientific findings are applied in usable innovation.

The Group does not conduct its own research outside the existing cooperations.

R&D key figures

The annual R&D expenses are based on a budget. Project costs are determined within the context of internal orders and are included in the income statement as expenses. Costs for individual customer projects are recognized separately and are passed on or amortized over the useful life of the products, where this has been agreed. Strategic development projects are also recognized separately; these development costs are only capitalized if the criteria of IAS 38 are met.

In € thousand. unless otherwise indicated	2020	2021 short financial year*
R&D expenses	9,668	6,703
R&D ratio in %	6.2	6.4
New capitalization of development costs	1,879	583
Carrying amounts of capitalized costs	8,274	3,021
Amortization of capitalized development costs	498	701
Number of R&D employees (FTEs)	102	86
Number of patents and licenses	34	26

* January 1 to September 30, 2021

R&D expenditure amounted to €6.7 million in the 2021 short financial year. The R&D ratio was 6.4% of sales. With 86 employees (FTEs), Development accounts for 11.3% of the workforce, as compared to 11.8% in the previous year.

R&D results

In the past short financial year, development work mainly focused on products and technologies in the areas of photonic sensors and MEMS pressure and gas sensors. The special challenges presented by the measures for controlling the pandemic were dealt with well. The supply chain situation remains tense as the availability and delivery times for certain electronic components or PCBs have deteriorated.

In the development of pressure sensors, a new platform transmitter has been developed for industrial applications that allows greater precision, a more compact design and lower costs thanks to a range of improvements. In addition, one product line was extended to include IO-Link connectivity, which has become established in the wired networking of sensors in industrial environments. This functionality will be applied to other product lines by way of modular development in the coming months.

Furthermore, in MEMS, the new technology developed for detecting, identifying and measuring gas mixtures has been made available to several customers in the form of developer kits. This allows the ongoing development of the algorithms in a practical setting together with the pilot customers.

In the field of pressure sensors for automotive applications, another major project for tank leakage measurement in hybrid vehicles was secured on the basis of the existing technology platform, thereby expanding the focus on green mobility. Pressure sensors for exhaust gas treatment were developed and prototyped for customers in the automotive and truck area.

Work in the photonics area again focused on sensor systems for LiDAR applications this year. New products and new sub-technologies alike were added to the existing platform. New coating processes increase robustness in demanding environmental conditions and improve the optical properties to minimize false signals due to scattered light.

A second pillar of photonics development was the ongoing development of imaging sensors. Development work continued on the platform for chip-on-board (COB) attachments to achieve a highly productive and cost-efficient solution for sophisticated imager assemblies. This especially focused on large sensors and freedom from foreign particles.

In the area of micro imager sensors for endoscope applications as well, new solutions and products were developed for medical and industrial markets.

A new camera development project in the railway segment was awarded in the mobility area. Furthermore, new product features such as power-over-coax were added to the existing camera series. TE Connectivity's experience with the modular integration of the TE MATE-AX coaxial connector system is also resulting in initial joint solutions.

Development projects such as the above examples typically contribute to the Group's sales within six to 24 months. Patents and utility models are registered on a purely selective basis. The company firstly examines whether the benefits of an application outweigh the risks of disclosure, whether there is a strategic necessity and whether an application is required for competitive reasons. Patents are subsequently subjected to an annual review. If the market situation or the company's strategic focus have changed, or if their value can no longer be demonstrated, the company may decide to let certain patents expire.

2.2 ECONOMIC REPORT

2.2.1 General economic and sector conditions

Performance of the economy as a whole

The International Monetary Fund (IMF) recently lowered its growth forecast for the world economy in 2021 to 5.9%. While the economy deteriorated significantly again in some developing countries as a result of the pandemic, problems in global supply chains caused the outlook for some industrialized nations to temporarily become bleaker as well. Offsetting this were higher commodity prices, which mean better growth prospects for some export nations.

The IMF raised its growth forecast for the euro area by 0.4 percentage points to 5% – partly on account of stronger than expected growth in Italy and France. Meanwhile, the IMF lowered its projection for growth in German gross domestic product in 2021 by 0.5 percentage points to just 3.1%. Other institutions anticipate even lower growth rates (2.1% to 2.6%).

The strong rise in inflation was another cause for concern. Initial indications are emerging that the extensive monetary and fiscal policy action to stimulate the economy after the coronavirus crisis could be reexamined.

Developments on the sensor market

The consequences of the coronavirus pandemic have been particularly significant for the semiconductor industry. While production had already been hindered by shortages in the supply of raw materials, there was another severe shift in demand in 2021. With some car manufacturers having had to shut down production on account of the pandemic and therefore reducing or even canceling their orders for semiconductors outright, manufacturers of communications and consumer electronics needed significantly more chips as a result of the general push in digital transformation.

When car sales finally picked up again, this sparked a global shortage of semiconductors, mostly with lead times of six to nine months. For example, according to a forecast by the global consultant AlixPartners, 7.7 million vehicles worldwide, valued at USD 210 billion, were unable to roll off the production line in 2021. In particular, production cutbacks on account of the pandemic, for instance at plants in Malaysia, also had a negative impact. Sensor sales grew by approximately 6% in 2021, according to a study by BCC Research LLC. This is significantly less than the forecast CAGR of 14.9% for the next five years.

The German electronics industry benefited from this positive trend in demand as well. According to the German Electrical and Electronic Manufacturers' Association (ZVEI), incoming orders rose by more than 25% year-on-year and were therefore significantly higher than pre-crisis levels once again. However, the ramp-up of production was likewise held back by the shortage of materials and supply problems.

By as early as the middle of 2021, the members of the German Association for Sensors and Measurement (AMA) reported that they were back on their usual growth trajectory and that the slump triggered by the crisis had been overcome. Their problems were not so much in the supply chain, but rather the inability to work with customers owing to the travel restrictions.

Development of target markets

Industrial

The German Federal Ministry of Economics and Technology reported a weak performance in global industrial production in the second and third quarters of 2021. This was not just due to the shortage of key intermediate products such as semiconductors. The economic downturn mainly emanated from developing and emerging economies. The recovery there was undermined by slower vaccination progress and infection control activities in conjunction with the spread of the delta variant.

Meanwhile, the order backlog for German industry has grown. According to the German Federal Statistical Office, orders on hand rose as the year progressed to the highest level since statistics began six years ago. However, production was unable to achieve the same momentum, partly because of the shortage of intermediates. In particular, there were heavy declines in the automotive and mechanical engineering areas.

Medical

The members of the German Medical Technology Association (BVMed) had recovered slightly after the year of the coronavirus year. In 2021, the industry expects sales growth of 3.0% in Germany and 3.1% worldwide. Negative effects included higher costs for raw materials and logistics. Digital transformation and outpatient treatment have continued to grow in significance as a result of the coronavirus crisis. A third of companies are already working with start-ups to accelerate their digital transformation. Companies anticipate the biggest potential in data analysis, cloud technologies and artificial intelligence.

Mobility

The European Automobile Manufacturers' Association (ACEA) reported an increase of 2.2% in new car registrations in the first ten months of 2021. The impressive rise in figures at the start of the year therefore more than compensated for the recent decline in unit sales due to the ongoing impact of the semiconductor supply crisis. The markets of Italy (up 12.7%), Spain (up 5.6%) and France (up 3.1%) performed positively. However, the trend in Germany has deteriorated significantly compared to the previous year (down 5.2%). The rise in demand of 14.7% for commercial vehicles, according to the ACEA, stems from the low basis in the first half of 2020.

2.2.2 Financial position and financial performance

Please note: The comparability of the figures for the income statement and the statement of cash flows in this report with those for the previous year is limited on account of the 2021 short financial year (January 1 to September 30) and the disposal of a domestic subsidiary in the third quarter as well as the foreign companies still included in the previous year. Looking purely at the time periods covered, a drop of 25% was caused by the change in financial year, hence declines of less than 25.0% in the tables and passages below on the financial position and financial performance generally indicate an increase, while declines of more than 25.0% generally indicate an actual reduction compared to the same period of the previous year.

The position of the Group

Business performance in the 2021 short financial year and comparison with forecast development

The First Sensor Group generated sales of €105.3 million in the 2021 short financial year (previous year: €154.8 million). The drop in sales of 32.0% essentially results from the shorter reporting period and the disposal of subsidiaries. Sales were therefore at the upper end of the recently updated guidance range of €100 to €105 million. The Mobility target market contributed to this positive development in particular, while demand on the Medical target market – as predicted – normalized again as the year progressed.

On the basis of the positive sales performance and adjusted for the extraordinary effects and expenses resulting from the merger with TE Connectivity, operating profitability achieved the guidance target range of 2.0% to 4.0% with an EBIT margin of 2.7% (previous year: 6.1%). The reported EBIT amounted to €18.2 million and was positively influenced by the disposal of a subsidiary.

Overall, performance in the 2021 short financial year was again satisfactory. Sales and profitability developed in line with planning, while in many sectors the upswing after the pandemic did not achieve the anticipated momentum.

Targets for key performance indicators for the 2021 short financial year

Consolidated sales of between €135 and €145 million were originally forecast for the 2021 financial year. An operating EBIT margin of between 2.0% and 4.0% was anticipated. These targets were published on March 20, 2020. The financial year was changed on the basis of a resolution by the Annual General Meeting and the disposal of another subsidiary was announced in the third quarter. The guidance was updated accordingly when the half-year report was published on August 26, 2021. Sales of between €100 and €105 million were forecast for the 2021 short financial year at that time. The adjusted EBIT margin was still expected to amount to between 2.0% and 4.0%.

Comparison of target and actual figures for 2021

The following table shows the figures achieved in the previous year, the guidance, the subsequent guidance update and the figure achieved in the short financial year:

	Jan. 1 to Dec. 31. 2020	Guidance I Jan. 1 to Dec. 31. 2021	Guidance II Jan. 1 to Sept. 30, 2021	Jan. 1 to Sept. 30, 2021
Sales in € million	154.8	135 to 145	100 to 105	105.3
Adjusted EBIT margin in %	6.1	2.0 to 4.0	2.0 to 4.0	2.7

The forecast for sales and earnings was therefore accurate overall as both targets were achieved for the short financial year.

Financial performance

Sales development

The First Sensor Group generated sales of €105.3 million in the 2021 short financial year (previous year: €154.8 million). The Mobility target market performed particularly well thanks to rising demand in the automotive industry.

The following table shows the development of consolidated sales by target market:

€ thousand	Jan. 1 to Dec. 31. 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Industrial	76,842	55,616	-21,226	-27.6
Medical	44,017	21,958	-22,059	-50.1
Mobility	33,957	27,740	-6,217	-18.3
Total	**154,816**	**105,314**	**-49,502**	**-32.0**

Of the previous year's sales of €154.8 million, €14.4 million were attributable to discontinued operations. On the basis of the previous year's sales of continuing operations, there was a decline in sales of €35.1 million or 25.0%.

Sales on the Industrial target market declined by 27.6% to €55.6 million (previous year: €76.8 million). Business therefore recovered again over the course of 2021 after the severe dent caused by the coronavirus crisis in the previous year. The share of total sales amounts to 52.8% (previous year: 49.6%).

As anticipated, sales declined to €22.0 million on the Medical target market following the boom in the previous year (€44.0 million). The Medical target market still accounts for 20.9% of total sales in 2021 (previous year: 28.4%).

The Mobility target market benefited from the recovery in demand in the automotive industry in 2021. Sales declined by just 18.3% to €27.7 million (previous year: €34.0 million). The share of total sales increased to 26.3% (previous year: 21.9%).

€ thousand	Jan. 1 to Dec. 31. 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
DACH*	79,463	55,815	-23,648	-29.8
Rest of Europe	32,596	22,447	-10,149	-31.1
North America	15,591	5,688	-9,903	-63.5
Asia	26,084	20,030	-6,054	-23.2
Others	1,082	1,334	252	23.3
Total	**154,816**	**105,314**	**-49,502**	**-32.0**

*Germany, Austria, Switzerland, Liechtenstein

The change in the regional distribution of sales is due to the disposals of foreign subsidiaries in the previous year. As a result, sales in the rest of Europe declined by 31.1% and in North America by 63.5% in the reporting period. By contrast, the drop was just 23.2% in Asia and 29.8% in the DACH region.

€ thousand	Jan. 1 to Dec. 31. 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Germany	61,884	55,815	-6,069	-9.8
China	21,655	20,030	-1,625	-7.5
USA	11,948	5,688	-6,260	-52.4
UK	6,880	5,311	-1,569	-22.8
Benelux	8,043	3,802	-4,241	-52.7

These changes were also observed in the key countries in which First Sensor generates sales. The five principal countries represent 86.1% of total sales (previous year: seven countries, 83.0%). Germany is weighted much more heavily under the Group's new structure, and sales here decreased by just 9.8%. Business in China was robust, as in the previous year, and likewise only declined by 7.5%. Things were different in the countries where First Sensor no longer maintains subsidiaries of its own. The biggest slide, also on account on the pandemic, was in the US at -52.4%. The UK and Benelux reported significant declines as well, of 22.8% and 52.7% respectively.

Order situation

Although sales trended downwards by 32.0% in the reporting period, the changes in the order situation were much more positive. Incoming orders decreased by just 22.2% to €119.6 million. Orders on hand amounted to €85.8 million as of the end of the reporting period, just 5.3% lower than the end of the previous year (€90.5 million). This translates into a book-to-bill ratio of 1.14, signaling promising prospects for the new financial year.

€ thousand	Jan. 1 to Dec. 31. 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Sales	154,817	105,314	-49,503	-32.0
Incoming orders	153,836	119,618	-34,218	-22.2
Orders on hand	90,541	85,769	-4,772	-5.3
Disposal due to deconsolidation	1,391	0	-1,391	-100.0
Book-to-bill ratio	0.99	1.14	0.15	15.2

Results

The First Sensor Group's sales amounted to €105.3 million in the 2021 short financial year (previous year: €154.8 million). Other operating income amounted to €25.1 million (previous year: €49.3 million). This includes the gain from the disposal of the subsidiary of €23.5 million. Inventories of finished goods and work in progress rose by €3.6 million (previous year: down €2.5 million). Own work capitalized decreased to €1.0 million (previous year: €1.9 million). Gross revenue (not including other operating income) declined by 2.7% to €110.0 million (previous year: €154.2 million).

The cost of materials was reduced by 24.4% to €53.6 million (previous year: €70.9 million). Given the rise in inventories of finished goods and work in progress, this translates into a higher cost of materials ratio of 48.7% (previous year: 45.8%). The gross margin was 51.3% after 54.1% in the previous year.

Staff costs, which amounted to €49.5 million in the previous year, fell by 15.9% to €41.6 million in the reporting period. Other operating expenses declined by 17.9% to €13.5 million (previous year: €16.4 million). Accordingly, EBITDA amounted to €26.4 million after €66.7 million in the previous year. The EBITDA margin was 25.0% (previous year: 43.1%) and was also largely defined by the disposal of subsidiaries.

Following depreciation on property, plant and equipment and amortization of intangible assets of €8.2 million (previous year: €11.5 million), EBIT amounted to €18.2 million (previous year: €55.2 million) with an EBIT margin of 17.3%. As expected, operating profitability decreased in the reporting period. Adjusted for expenses in connection with the merger with TE Connectivity and the disposal of the subsidiary, the EBIT margin would have been 2.7% (previous year: 6.1%).

Reconciliation of reported EBIT to operating EBIT:

€ thousand	Jan. 1 to Sept. 30, 2021 As reported	Jan. 1 to Sept. 30, 2021 Adjusted	Δ absolute	in %
Sales	105,314	105,314	0	0.0
Gross revenue	109,966	109,966	0	0.0
Other operating income	25,091	1,589	-23,502	-93.7
Staff costs	-41,611	-34,851	6,760	-16.2
Other operating expenses	-13,496	-12,119	1,377	-10.2
EBITDA	26,379	11,014	-15,365	-58.2
EBIT	18,194	2,828	-15,366	-84.5

The difference in other operating income of €23.5 million results from the disposal of the subsidiary. The difference of €6.8 million in staff costs is mostly as a result of the planned closure of the Puchheim location. €1.4 million of the difference relates to structural adjustments in line with the TE Group, e.g. in IT. Adjusted for these dues, operating EBIT for the short financial year amounts to €2.8 million with an EBIT margin of 2.7%.

The financial and currency result declined significantly in the reporting period due to the lower financial liabilities, amounting to €-0.5 million (previous year: €-1.8 million). EBT amounted to €17.7 million (previous year: €53.5 million). After tax income of €1.1 million, relating in particular to the reversal of deferred taxes (previous year: tax expense of €-1.1 million), the consolidated net income amounted to €18.8 million (previous year: €52.4 million). Earnings per share, based on the profit for the period, amounted to €1.82/€1.82 (previous year: €5.09/€5.09; diluted/basic respectively). In accordance with the terms of the control and profit transfer agreement, minority shareholders receive annual compensation in accordance with section 304 of the *Aktiengesetz* (AktG – German Stock Corporation Act), which is paid by the majority shareholder. First Sensor AG merely pays the tax incurred on this (€228 thousand).

Financial position

Principles and aims of financial management

The aim of First Sensor's financial management is to ensure the necessary liquidity for its production processes, growth and investments at all times. It is managed centrally by First Sensor AG. It primarily includes liquidity management, the borrowing of external funds and the management of interest and exchange rate risks. First Sensor has been part of the TE Connectivity cash pool since the 2020 financial year.

The company countered the risk of interest rate increases by using interest rate swaps for floating-rate loans. First Sensor counteracts the foreign currency risks of purchased materials and services by agreeing customer payments in euro for preference.

The Group-wide Financial Risk Management Directive enables the early identification of exchange rate and interest risks and regulates the authorized hedging instruments. The risk and materiality limits determined did not require any hedges to be entered into as of September 30, 2021.

Capital structure

Consolidated equity amounted to €122.0 million as of September 30, 2021 (previous year: €135.6 million). Based on total assets of €189.4 million, the equity ratio thus amounts to 64.4% (previous year: 75.4%). The change results on the one hand from the decline in equity of €13.7 million, mainly as a result of the profit and loss transfer agreement and the dividend paid, and on the other hand from the rise in liabilities of €23.3 million, also as a consequence of the profit and loss transfer agreement.

Non-current financial liabilities, including lease liabilities, were reduced by a further €2.6 million in the reporting period, predominantly as a result of regular repayments. The promissory note loan of €3.0 million matures in December 2022. First Sensor also utilizes a KfW loan of originally €13.0 million.

In connection with the KfW loan and the promissory note loan, compliance with covenants as of the end of a year has been agreed. First Sensor is expected to comply with all necessary covenants as of December 31, 2021.

€ thousand	Dec. 31, 2020	Sept. 30, 2021
Leverage: net debt to EBITDA	-0.38	-0.87
Income coverage: EBITDA to interest expense	46.1	53.5
Equity ratio	74.7%	62.6%

€ thousand	Dec. 31, 2020	Sept. 30, 2021	Δ absolute	in %
Non-current financial liabilities (incl. lease liabilities)	19,675	17,103	-2,572	-13.1
Current financial liabilities (incl. lease liabilities)	4,168	25,777	21,609	518.5
Cash and cash equivalents	49,349	65,784	16,435	33.3
Net debt (+)/net cash (-)	-25,506	-22,904	2,602	-10.2

Current financial liabilities rose by €21.6 million to €25.8 million as of the end of the reporting period. The increase predominantly results from the profit transfer to TE Connectivity.

The proceeds from the disposal of First Sensor Mobility GmbH further increased cash and cash pool receivables (cash and cash equivalents). First Sensor has a net cash position of €22.9 million as of September 30, 2021.

First Sensor can utilize the credit facilities it has been granted, but can first take advantage of the financing options within the TE Group if necessary. It can therefore also be assumed for the future that First Sensor will be able to finance its planned growth from the resources at its disposal. Recourse to the capital market is not planned for the foreseeable future.

First Sensor does not use off-balance sheet financing instruments.

Investments

Investments in intangible assets amounted to €0.6 million (previous year: €2.6 million). €11.3 million (previous year: €8.9 million) was invested in property, plant and equipment, above all in new machinery and equipment to increase capacity and stabilize/improve processes at the Berlin sites.

Depreciation was down as a result of the changes in the consolidated group, and amounted to €8.2 million in the Group (previous year: €11.5 million).

€ thousand	Jan. 1 to Dec. 31. 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Investments in intangible assets	2,552	599	-1,953	76.5
Investments in property, plant and equipment	8,902	11,310	-2,408	-27.1
Investments	**11,454**	11,909	-455	**-4.0**
Sale of intangible assets and property, plant and equipment	531	11	520	97.9
Other effects	62,593	15,354	47,239	75.5
Cash flow from investing activities	**51,670**	27,274	24,396	**47.2**
Amortization of intangible assets	4,105	2,894	1,211	29.5
Depreciation of property, plant and equipment	7,369	5,292	2,077	28.2
- of which due to leases in accordance with IFRS 16	1,504	853	651	43.3
Depreciation and amortization	**11,474**	**8,186**	**3,288**	**28.7**

Liquidity

The operating cash flow declined from €6.5 million in the previous year to €2.6 million. The main changes compared to the prior financial year were the lower profit before tax and reduced deconsolidation effects as a result of the disposal of a subsidiary. Cash flow from investing activities amounted to €27.3 million (previous year: €51.7 million). The change mainly results from the effects in connection with the disposal of subsidiaries. Free cash flow, which represents the net remainder of operating cash flow and cash flow from investing activities, therefore amounted to €29.9 million (previous year: €58.2 million).

€ thousand	Jan. 1 to Dec. 31. 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Operating cash flow	6,482	2,640	3,842	59.3
Cash flow from investing activities	51,670	27,274	24,396	47.2
Cash flow from financing activities	-40,972	-13,472	-27,500	67.1
Change in cash and cash equivalents	17,180	16,443	737	4.3
Exchange differences	-91	-8	-83	91.4
Cash and cash equivalents at the beginning of the financial year	32,260	49,349	-17,089	-53.0
Cash and cash equivalents at the end of the financial year	49,349	65,784	28,238	48.6
Free cash flow	58,152	29,914	3,842	59.3

Cash flow from financing activities amounted to €-13.5 million (previous year: €-41.0 million) and was largely defined by the purchase of non-controlling interests and the distribution of a dividend of €5.8 million (previous year: €2.1 million). Cash and cash equivalents increased from €49.4 million to €65.8 million in the reporting period. The Management Board therefore considers the Group’s liquidity position to be comfortable. First Sensor will again be able to meet its payment obligations from operating activities and repay its debt financing at all times in the 2022 financial year.

To assess First Sensor’s solvency, the following table shows the company’s liquidity in the form of liquidity ratios. Cash and cash equivalents are shown in relation to current liabilities to calculate the cash ratio. The quick ratio includes current receivables and the current ratio also takes inventories into account. The changes primarily resulted from the proceeds from the disposal of the foreign subsidiaries to TE Connectivity.

€ thousand	Dec. 31, 2020	Sept. 30, 2021	Change in % points
Cash ratio	278.6	143.5	-48.5
Quick ratio	406.2	186.7	-54.0
Current ratio	570.3	252.6	-55.7

Net assets

Total assets increased to €189.4 million in the 2021 short financial year (previous year: €179.8 million). The equity ratio declined to 64.4% (previous year: 75.4%). The change results firstly from the decline in equity of €13.7 million and secondly from the rise in liabilities of €23.3 million.

Assets

Non-current assets decreased by €6.8 million to €72.0 million (previous year: €78.8 million). This decline, which mainly occurred in intangible assets, results from the disposal of a subsidiary. Goodwill still amounts to €16.0 million as of the end of the reporting period. At €11.9 million, investment was higher than depreciation on property, plant and equipment and the amortization of intangible assets (€8.2 million).

By contrast, total current assets increased significantly from €101.0 million to €117.3 million. Material changes related to cash and cash equivalents and the cash pool receivables reported under financial assets, which rose from €49.4 million to €67.4 million as a result of the disposal. Inventories increased moderately from €29.1 million to €30.2 million in the reporting period, while trade receivables declined from €20.8 million to €18.6 million.

Equity and liabilities

On the equity and liabilities side of the statement of financial position, equity declined by €13.7 million to €122.0 million (previous year: €135.6 million). Issued capital rose slightly as a result of the issue of 13,500 shares under stock option plans. The change in capital reserves of €3.4 million predominantly results from the difference on the purchase of a non-controlling interest. Retained earnings contracted to €60.1 million (previous year: €69.1 million) due to the result in accordance with IFRS of EUR 18.7 million, the payment of the dividend of €5.8 million (previous year: €2.0 million) and the profit transfer to TE Connectivity of €22.0 million.

Non-current financial liabilities were further reduced to €17.1 million by repayments of €2.7 million. Non-current liabilities thus declined to €20.1 million (previous year: €25.9 million). By contrast, current liabilities rose significantly to €47.4 million (previous year: €18.3 million), mainly as a result of the profit transfer to TE Connectivity and in conjunction with other current liabilities relating to the closure of the Puchheim location.

Working capital was stable at €43.2 million on September 30, 2021 (previous year: €42.9 million). Capital employed declined to €115.2 million (previous year: €121.8 million). This reduction is also largely due to the changes in fixed assets. The return on capital employed (ROCE) was 15.8% (previous year: 45.3%) based on results that were again positively influenced by extraordinary effects.

Net assets, financial position and results of operations of First Sensor AG (HGB)

First Sensor AG's results of operations

Please note: The comparability of the figures for the income statement in this report with those for the previous year is limited on account of the short 2021 financial year (January 1 to September 30) and the sale of a domestic Group company in the third quarter and foreign companies sold in the previous year. Looking purely at the time periods covered, a drop of 25% was caused by the change in financial year, hence declines of less than 25.0% in the tables and passages below on the financial position and financial performance generally indicate an increase, while declines of more than 25.0% generally indicate an actual reduction compared to the same period of the previous year.

Sales generated by First Sensor AG on a standalone basis declined by 28.5% €80.1 million in the 2021 short financial year (previous year: €112.1 million). To safeguard delivery capability, inventories of finished goods and work in progress were increased by €3.7 million in the reporting period. Own work capitalized amounted to €0.6 million (previous year: €0.8 million). Gross revenue amounted to €84.3 million (previous year: €111.3 million). Income of €28.2 million was generated from the disposal of one - in the previous year several - subsidiary (previous year: €56.2 million). Miscellaneous other operating income moved up by €0.2 million to €1.6 million.

The cost of materials was reduced to €40.9 million (previous year: €52.6 million). Gross profit amounted to €73.2 million (previous year: €116.3 million). Personnel expenses declined to €35.4 million (previous year: €41.1 million) with a ratio of 42.0% (previous year: 36.9%).

Other operating expenses amounted to €12.4 million (previous year: €15.9 million). Depreciation and amortization amounted to €6.1 million (previous year: €7.7 million). EBIT totaled €19.3 million (previous year: €41.4 million) and was also largely defined by the proceeds from the disposal of the subsidiary.

There is a profit transfer agreement with First Sensor Lewicki GmbH that resulted in income of €2.1 million (previous year: €2.5 million). The profit transfer to TE Connectivity amounts to €22.0 million (previous year: €0 million). Net other interest and similar income and expenses amounted to €-0.1 million in total (previous year: €-1.0 million). The profit before tax thus amounts to €21.2 million (previous year: €47.1 million). Tax income amount to €0.8 million (Tax expenses previous year: €-1.0 million).

First Sensor AG is therefore reporting net income for the 2021 short financial year of €0 million (previous year: €46.1 million).

Income statement of First Sensor AG (HGB)

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Sales	112,102	80,105	-31,997	-28.5
Changes in inventories of finished goods and work in progress	-1,600	3,656	5,256	328.5
Other own work capitalized	805	584	-221	-27.4
Gross revenue	**111,307**	**84,345**	**-26,962**	**-24.2**
Income from the sale of shares and receivables	56,233	28,210	-28,023	-49.8
Miscellaneous other operating income	1,369	1,553	184	13.4
Cost of materials	-44,368	-34,287	10,081	-22.7
Cost of purchased services	-8,225	-6,614	1,611	-19.6
Gross profit	**116,316**	**73,207**	**-43,109**	**-37.1**
Wages and salaries	-35,354	-30,879	4,475	-12.7
Social security contributions	-5,775	-4,524	1,251	-21.7
Result from merger	-10,252	0	10,252	-100.0
Miscellaneous other operating expenses	-15,893	-12,420	3,473	-21.9
EBITDA	**49,042**	**25,384**	**-23,658**	**-48.2**
Amortization and impairment of intangible assets and depreciation of	-7,687	-6,128	1,559	-20.3
EBIT	**41,355**	**19,256**	**-22,099**	**-53.4**
Income from profit transfer agreement	2,540	2,132	-408	-16.1
Income from equity investments	4,200	0	-4,200	-100.0
Other interest and similar income	92	43	-49	-53.3
Interest and similar expenses	-1,093	-189	904	-82.7
Profit before tax	**47,094**	**21,242**	**-25,852**	**-54.9**
Income taxes	-910	777	1,687	185.4
Other taxes	-81	-25	56	69.1
Income before profit transfer	**46,103**	**21,994**	**-24,109**	**-52.3**
Profit transfer	0	-21,994	-21,994	-
Net profit/loss for the financial year	**46,103**	**0**	**-46,103**	**-100.0**
Loss/profit carryforward	8,699	47,748	39,049	448.9
Appropriation/distribution of earnings	-2,054	-5,762	-3,708	180.5
Transfer to revenue reserves	-5,000	0	5,000	-100.0
Net retained profits (after profit transfer)	**47,748**	**41,986**	**-5,762**	**-12.1**

Financial position and net assets of First Sensor AG

ASSETS

€ thousand	Dec. 31, 2020	Sept. 30, 2021	Δ absolute	in %
Intangible assets	3,522	2,747	-775	-22.0
Internally generated intangible assets	3,459	3,021	-438	-12.7
Goodwill	13,749	12,131	-1,618	-11.8
Payments on account	235	235	0	-0.1
Property, plant and equipment	37,189	43,300	6,111	16.4
Shares in affiliated companies	8,198	8,068	-130	-1.6
Non-current assets	**66,352**	**69,501**	**3,149**	**4.7**
Inventories	22,990	28,003	5,013	21.8
Trade receivables	14,912	16,992	2,080	13.9
Due from affiliated companies	44,383	64,833	20,450	46.1
Other assets	815	862	47	5.8
Cash and cash equivalents	7,677	1,488	-6,189	-80.6
Total current assets	**90,777**	**112,178**	**21,401**	**23.6**
Prepaid expenses	351	352	1	0.3
ASSETS	**157,480**	**182,032**	**24,552**	**15.6**

Total assets increased by 15.6% to €182.0 million as of September 30, 2021 (previous year: €157.5 million).

Within fixed assets, goodwill declined by €1.6 million to €12.1 million (previous year: €13.7 million), predominantly as a result of depreciation and amortization. Tangible assets increased by €6.1 million to €43.3 million as a result of investments in the reporting period. Fixed assets rose by €3.1 million to €69.5 million in total (previous year: €66.4 million).

Current assets increased from €90.8 million to €112.2 million. Material changes related to inventories, which increased to €28.0 million (previous year: €23.0 million). Trade receivables amounted to €17.0 million (previous year: €14.9 million) as of the end of the reporting period. Receivables from affiliated companies of €64.8 million (previous year: €44.4 million) include cash pool receivables from the shareholder. In this context, cash and cash equivalents decreased to €1.5 million (previous year: €7.7 million).

Equity and liabilities

€ thousand	Dec. 31, 2020	Sept. 30, 2021	Δ absolute	in %
Issued capital	51,444	51,512	68	0.1
Capital reserves	21,295	21,437	142	0.7
Retained earnings	6,004	6,004	0	0.0
Net retained profits	47,748	41,986	-5,762	-12.1
Equity	**126,490**	**120,939**	**-5,551**	**-4.4**
Special reserve for investment subsidies and grants	2,704	2,586	-118	-4.4
Provisions	6,106	8,307	2,201	36.0
Promissory note loans	3,000	3,000	0	0.0
Liabilities to banks	11,375	12,047	672	5.9
Liability due to profit transfer	0	21,994	21,994	-
Payments received on account of orders	251	204	-47	-18.6
Trade payables	3,431	3,750	319	9.3
Liabilities to affiliated companies	537	1,746	1,209	225.1
Other liabilities	2,627	7,459	4,832	183.9
Deferred tax liabilities	958	0	-958	-100.0
EQUITY AND LIABILITIES	**157,480**	**182,032**	**24,552**	**15.6**

The equity of First Sensor AG was down by €5.6 million at €121.0 million as of the end of the reporting period (previous year: €126.5 million) with an equity ratio of 66.4% (previous year: 80.3%).

The provisions relate to outstanding invoices, personnel obligations and possible warranty claims and rose to €8.3 million (previous year: €6.1 million). Liabilities to banks increased from €11.4 million to €12.0 million as of the end of the reporting period. €22.0 million was reported as a liability on the basis of the control and profit transfer agreement with TE Connectivity. Trade payables rose to €3.8 million (previous year: €3.4 million) as of the end of the reporting period. Other liabilities increased to €7.5 million (previous year: €2.6 million), mainly on account of liabilities to staff.

The operating cash flow amounted to €1.9 million (previous year: €5.7 million). The cash flow from investing activities is €19.1 million (previous year: €-46.4 million) as a result of the disposal of subsidiaries. Free cash flow thus amounted to €21.0 million (previous year: €59.4 million).

Overall statement

The First Sensor Group generated sales of €105.3 million in the 2021 short financial year after €154.8 million in the 2020 financial year. This decline is as a result of the shorter reporting period, the changes in the consolidated group and the disposal of a domestic subsidiary in the third quarter of 2021 and various foreign companies in the 2020 financial year.

The Group was therefore at the upper end of its revised sales guidance of €100 to €105 million. The sales performance was particularly strong on the Mobility target market, which benefited from improving demand from the automotive industry.

Profitability developed in line with planning; the operating EBIT margin was 2.7% and thus within the target corridor of 2% to 4%.

First Sensor coped well with the challenges of the short financial year and has made good progress in its integration into the TE Group. The foundations are therefore in place for increased business and a successful future.

Development of non-financial performance indicators

The separate non-financial report (CSR report) has been made permanently available on the company's website.

Employees

Predominantly as a result of the integration into the TE Group and the associated sale of various subsidiaries to TE, First Sensor's headcount continued to decline in 2021. The number of full-time equivalents declined by 11.6% to 762. First Sensor also had 28 apprentices as of the end of the reporting period (previous year: 32). The share of women remained largely stable at 35.6% (previous year: 34.9%).

To handle fluctuations in utilization and temporarily fill vacant positions, First Sensor works with temporary employment agencies that meet general quality standards. The number of temporary workers was 51 as of September 30, 2021 (previous year: 18). It is not uncommon for temporary staff to be subsequently taken on as permanent employees. No temporary staff have been taken on as permanent employees to date in the short financial year, though the ratio over a period of 12 months is similar to previous years (around 10%).

Share of employees in %	Jan. 1 to Dec. 31. 2020	Jan. 1 to Sept. 30, 2021
Less than 30 years of age	15	12
Between 31 and 40 years of age	33	34
Between 41 and 50 years of age	21	22
Over 51 years of age	31	32
Total	**100**	**100**

The age structure of employees is stable. 46% of employees are less than 40 years old. In view of demographic change and the resulting shortage of skilled workers, which is forecast to rise, an important part of our personnel strategy involves ensuring that we meet our requirements for skilled labor by providing in-house training for qualified employees. Based on long-term personnel planning, the aim is to cover the requirements for talented young members of staff by also providing high-quality, needs-based training within the company existing workforce. First Sensor provides professional training for micro-technologists (19), industrial clerks (5), specialists in warehouse logistics (2) and mechatronics engineers (2). The company thus employed 28 apprentices as of September 30, 2021 (previous year: 32).

Given its role as the parent company of the Group, the above comments apply accordingly to First Sensor AG.

First Sensor AG had 614 employees (full-time equivalents; previous year: 618) as of the end of the reporting period. The following table shows the breakdown of employees by unit:

Number of employees (FTEs)	Dec. 31, 2020	Sept. 30, 2021	Δ absolute	in %
Berlin-Oberschöneweide	221	227	19	9
Munich branch	72	69	-7	-10
Berlin-Weißensee branch	163	160	-7	-4
Dresden branch	162	155	-9	-6
Total	**618**	**611**	**-4**	**-1**

Quality management

The Corporate QHSE (Quality, Health, Safety, Environment) unit is now responsible for an integrated way of thinking and working across all locations and is managing the ongoing harmonization of local processes, for both First Sensor AG and the Group. HSE was integrated into the structures of the TE Group in the reporting period and harmonized accordingly. The Quality function is assigned to Procurement within the TE Group. Management at the level of the parent group ensures that all locations work according to the same rules and guidelines.

All locations successfully passed the monitoring audits for the existing quality and environmental certifications in the reporting period.

-	IATF 16949	Quality management systems for the automotive industry
-	EN ISO 13485	Quality management systems for medical products
-	DIN EN 9100	Quality management systems for the aerospace and defense industry
-	EN ISO 9001	Quality management systems
-	EN ISO 14001	Environmental management systems

2.3 FORECAST, OPPORTUNITY AND RISK REPORT

2.3.1 Forecast report

General economic and sector conditions

As a result of the global slowdown in infection rates, the German Institute for Economic Research (DIW) anticipates that the world economy will have begun its recovery from the third quarter of 2021. The DIW is therefore assuming growth of 6.7% for 2021 and 5.2% for 2022. Disruptions to international supply chains, which slowed developments in 2021, are expected to resolve themselves in the coming year.

The Institute for the World Economy is forecasting that the economy in the euro area is making great strides towards pre-crisis production levels. However, it also predicts a slower economic pace for the winter of 2021/2022. The declines in production stemming from the pandemic should have been largely recouped by that time, and infection rates will be weighing more heavily on economic activity. On top of this, there are supply shortages that will presumably hinder production in the winter months as well. Over the course of 2022, they expect social and economic life to return to normal for the long term and stronger increases in economic performance once again. Gross domestic product is set to grow by 4.6% overall in 2022. The International Monetary Fund (IMF) also anticipates that inflation, which has risen sharply recently, will return to normal by the middle of 2022. It believes that this was essentially caused by temporary factors such as the recovery following the coronavirus crisis, shortages of certain products like microchips and global supply chain problems, with higher energy prices also playing a part. The IMF estimates that inflation will drop back to a pre-pandemic level for most of the world by the middle of 2022.

The DIW recently lowered its growth forecast for Germany in 2021 from 3.2% to 2.1%. It does not expect the German economy to gather momentum, with an uptick of approximately 5%, until 2022, when the supply shortages have been overcome and the fourth wave of infections has died down for good.

As a result of the changes in First Sensor's corporate structure and its advancing integration into the TE Group, the significance of economic developments in other regions of the world has been greatly reduced. The IMF is forecasting strong growth of 4.6% for the global economy in 2022. The IMF raised its forecast for the euro area for 2021 by 0.4 percentage points to 5% – partly on account of stronger projected growth in Italy and France. Such a positive development would also mean favorable conditions for First Sensor's business performance in the 2022 financial year (October 1, 2021 to September 30, 2022).

Development of the sensor market

Digital transformation and thus microelectronics are making their way into all areas of life. Demand for semiconductors is rising as a result. According to World Semiconductor Trade Statistics (WSTS), the prospects for the semiconductor industry are therefore very good. It is forecasting growth of 19.7% for 2021, mainly driven by Europe and Asia. Demand is consistently outstripping the market – there is a shortage of semiconductors. As semiconductor production is complicated and cannot be quickly ramped up, experts do not expect a solution any time soon. Analysts at Roland Berger expect that the semiconductor shortage will continue well beyond 2021 and are predicting a more intensive concentration among manufacturers. According to market researchers at Gartner, supply and demand will not settle at a normal level until the second quarter of 2022. As the world's largest chip manufacturer, TSMC expects that the scarcity will ease in the coming months as it has boosted its chip production by 60%. Other manufacturers also think it possible that the shortage at foundries could continue until 2023.

The members of the German Association for Sensors and Measurement, the AMA, believe that their sector is back on its long-term growth trajectory. Incoming orders have developed positively, hence companies are operating at pre-crisis levels again and growth rates of between 6% and 8% per year are realistic.

Development of the target markets

As a result of its integration into the TE Group, First Sensor will be focusing on the Industrial and Medical target markets moving ahead. The Mobility target market will be handled by TE following its acquisition of these activities. First Sensor continues to generate its own, but significantly lower, sales in this target market, meaning that this target market will be of secondary importance in future compared with the Industrial and Medical markets. As First Sensor will be serving its markets almost exclusively through TE Connectivity Solutions GmbH (Schaffhausen, Switzerland) as a sales and distribution partner, reporting by target markets and by geographical regions will no longer be worthwhile or possible from the coming financial year.

Industrial

Industrial business continued to struggle in the second half of 2021 on account of the obstacles to the international movement of goods. In the absence of necessary intermediate products, companies are unable to work off their high order backlogs. However, this is expected to be only a temporary phenomenon – much of production should have caught up by 2022 and the economy should thus be appropriately stimulated. The ifo Institute in Munich is also forecasting that the supply shortages will become less significant towards the end of 2021. It projects that the shifts in the structure of demand will gradually reverse again as the pandemic dies down, and thus one of the causes of the supply shortages will cease to be an issue. It then expects the industry to rebound powerfully in 2022 as it will be able to work through its high order backlog. The DIW also predicts that the production bottleneck will start to break up around the end of 2021/start of 2022, and that German industry will be off to a flying start in the first quarter of 2022.

Medical

The coronavirus pandemic has exposed the shortcomings of healthcare systems around the world. In order to lastingly improve their healthcare systems and to be better prepared for future crises, countries the world over are investing in modernization and expansion. The European Commission has also published its Work Programme for 2022. Various initiatives, including digital transformation innovations, are planned with the aim of providing access to affordable and high-quality medical care for all citizens in the EU. Experts are forecasting great progress thanks to the miniaturization of products using microsystems technology, nanotech and optical technologies. Relevant examples include implantable microsystems, that actively or passively, work using sensors, telemetry or neural interfacing. As a result, procedures requiring minimally invasive surgery will become more common in the future: using image-guided, catheter-based and endoscopic techniques.

Business performance forecast for 2022 (October 1, 2021 to September 30, 2022)

Sales

The First Sensor Group generated sales of €105.3 million in the 2021 short financial year (January 1 to September 30, 2021). This includes shares of sales generated by the subsidiary First Sensor Mobility GmbH, which has since been sold. The sales development was therefore in line with expectations (€135 to €145 million on a 12-month basis for the financial year as a whole). The adjusted EBIT margin was 2.7% and thus within the planned range of 2% to 4%. Consolidated net income was also largely defined by the sale of the subsidiary to TE Connectivity.

The forecasts for the 2022 financial year (October 1, 2021 to September 30, 2022) take the disposal in the past reporting period into account. As a result, the forward-looking statements can no longer be compared to prior statements on the Group's planned development.

First Sensor is forecasting sales of between €110 and €120 million for the 2022 financial year. The change as against the 2021 short financial year is largely on account of the different time period (nine months as opposed to 12 months) and the disposal of the subsidiary. Besides the anticipated rise in demand from existing customers, future sales growth will also be supported by new projects within the TE Group.

Profitability should improve significantly in the new financial year as the integration into the TE Group is virtually complete and cost-savings and synergies will be leveraged at a more advanced level. An EBIT margin of between 5% and 7% of the planned sales level is therefore anticipated.

2021 short financial year and guidance for 2022

	2021*	Guidance for 2022	Key premises
Sales in € million	105.3	110 to 120	Economic recovery in demand; new projects from the TE Group; disposal of subsidiary
EBIT-margin [%] (adjusted)	2.7	5.0 to 7.0	Integration largely completed; efficiency enhancements and synergies improve profitability

* Short financial year from January 1 to September 30; sales and EBIT include contributions from Group companies since sold

Financial position

Investment of between €8 and €10 million is planned for the 2022 financial year. Around half of this amount is in connection with the relocation of wafer production from the TE site in Dortmund to First Sensor in Berlin. There are also plans for various efficiency enhancement measures including replacement investment. Inventory levels are expected to remain at a higher level until further notice in order to ensure supply capability. This will affect working capital as well.

Operations will be financed from cash funds and cash flow. First Sensor is now part of the TE cash pool and has cash and cash equivalents of €65.8 million at its disposal as of the end of the reporting period. Cash flow was subject to non-recurring effects in 2021. The free cash flow is again set to be positive in the 2022 financial year. Moreover, First Sensor expects to report a positive net cash position throughout the 2022 financial year as well.

Outlook for First Sensor AG

For the 2022 financial year, the Management Board expects the company to benefit from its integration into the TE Group and to develop positively. After sales of €80.1 million in the 2021 short financial year, sales are expected to amount to between €100 and €110 million in the 2022 financial year.

In the 2021 short financial year, EBIT sailed past projections to €20.1 million thanks to non-recurring effects, in particular from the sale of a subsidiary. An EBIT margin of between 3.5 and 5.5% is expected for fiscal 2022.

Overall statement

The change in the consolidated group again had a significant impact on the figures for the 2021 short financial year. Consolidated sales thus amounted to €105.3 million. This includes shares of sales generated by First Sensor Mobility GmbH, which has since been sold. As a result of the proceeds from the disposal, the unadjusted EBIT margin was 17.3%. Under its new corporate structure, First Sensor will now be focusing on leveraging the opportunities for growth afforded by its integration into the TE Group. The Management Board therefore assumes that the First Sensor Group will continue to perform positively moving ahead and that its profitability will improve further. For the 2022 financial year, the Management Board is expecting sales of between €110 and €120 million with an EBIT margin of between 5.0% and 7.0%. This positive development is set to continue in the financial years ahead as well.

2.3.2 Report on risks and opportunities

In this report, risks and opportunities refer to influences or events that make it likely that short and medium-term corporate performance will exceed or fall short of the management's targets. The goal of opportunity management is to recognize such opportunities at an early stage and pursue them in a targeted manner, while risk management aims to ensure not only that risks are identified in good time, but also that countermeasures can be taken promptly in order to control the impact on the company and minimize it wherever possible.

Risk management system

First Sensor AG and its subsidiaries are exposed to a range of risks in the course of their business activity that are inextricably linked to their business actions. This can have a negative impact on the financial position and financial performance. Handling risks carefully is therefore a fundamental part of responsible corporate governance. Active risk awareness, an open risk culture and an effective risk management system are thus necessary to ensure short and long-term success of the company.

First Sensor has an appropriate and effective risk management and internal control system that is the responsibility of the Management Board. It ensures that the risk situation is regularly analyzed and that the identified risks are assessed, managed and controlled. Risk management is run by the Finance department in close cooperation with the management of the companies, locations and business areas. It is supplemented by compliance management that also considers the implementation of and compliance with ethical principles of corporate governance (Code of Conduct) and the statutory provisions that drive the Group's business. The Supervisory Board is regularly informed of the company's risk situation and compliance in a structured process and monitors the effectiveness of the risk management system within this framework.

Objectives and strategies

The most important objective of risk and compliance management is to identify potential risks at an early stage, to make a reliable assessment of their probability of occurrence and their possible impact on business performance, to manage them and to reasonably limit them as far as possible. At the same time, opportunities for success must be utilized, unless their risk content exceeds an appropriate level. On this basis, the risks are managed by appropriate measures in accordance with the First Sensor Group's corporate strategy.

Various strategies are pursued depending on the risk assessment. Risks that could be seriously detrimental to the company's development or that would even pose a threat to its continued existence are avoided as far as possible. The impact of less significant risks is mitigated. For example, specific maximum values are prescribed for this, regular and systematic checks are carried out and the rigorous separation of functions is ensured. Risks are outsourced where possible and expedient, for example to insurers or suppliers. We enter into other risks in a conscious and controlled manner. The terms of the control and profit transfer agreement with TE Connectivity provides First Sensor's minority shareholders with effective protection against risks and their possible consequences for corporate development.

Structures and processes

The structures and processes of risk management are standardized throughout the Group and cover four risk categories that are material to the company. This is supplemented by compliance management.

First Sensor's risk categories:

A quarterly risk assessment is conducted within these risk categories to identify and evaluate any potential risks to which the company considers itself exposed. This is carried out on a decentralized basis and documented using appropriate uniform reporting formats. To this end, each reporting entity considers and assesses a large number of risk types within the risk categories. The individual reports created on this basis are then validated in the Group Finance department and consolidated into an overall risk situation for the Group. The results of this structured process are incorporated into the quarterly risk report, which is communicated to the Management Board and the Supervisory Board in writing. These analyses form the basis for any management measures that may be taken.

The risk management system is supplemented by an internal control system (ICS) to actively limit the risks identified as relevant to First Sensor with appropriate control activities and to regularly check the suitability and effectiveness of defined control activities. The scope and effectiveness of the system are monitored regularly, also by Internal Audit, and new control activities are added where necessary in the form of guidelines or process instructions, for example.

In addition to its risk reporting, First Sensor also uses robust opportunity reporting. The Group's opportunity situation is thus also assessed in a systematic process.

Risk assessment

Risk assessment is based on an assessment matrix specific to the company that takes into account the probability of occurrence and potential amount of damage of possible events and then derives priorities on this basis.

Probability of occurence	Rating	Potential damage per event	Rating
Very unlikely	0	None	0
Unlikely, but possible	1	<€500 thousand	1
Likely, if no countermeasures are taken	2	>€500 thousand <€2 million/and/or achievement of strategic targets is jeopardized	2
Very likely, if no countermeasures are taken	3	>€2 million and/or achievement of strategic targets is jeopardized and/or compliance with legal requirements and regulations is compromised	3

The probability of occurrence and the possible impact in each case are weighted on a rating scale of zero to three and multiplied by each other. If the risk factor calculated from this is higher than the materiality threshold of three, measures to manage the risk are defined and their effectiveness monitored periodically. Accordingly, the cumulative risks are assigned to the categories "low", "medium" or "high".

Principal risks

Principal risks (with a risk factor of three or more), which are reported on below, are defined by the Management Board as those that affect the achievement of the company's goals at the time of this report being prepared and that are thus relevant to decision-making for knowledgeable readers. Risks of minor significance are not listed separately.

Strategic risks

Strategic risks include macroeconomic risks, market and competition risks and specific product and technology risks.

First Sensor currently assesses macroeconomic risks as "medium". Over the course of 2021, a recovery manifested in many areas of the German economy, which had experienced heavy blows in 2020 as a result of the coronavirus pandemic. The further course of the pandemic and its possible impact on the economy, for example as the result of another lockdown, are still subject to considerable uncertainty at this time and would affect First Sensor and its customers as well.

Competitive intensity has risen in various attractive niches, such as for optical sensors. Furthermore, there is still a risk that it will take longer to realize the growth potential on the LiDAR market than assumed in current planning.

The general impact of these risks on business performance is difficult to assess at present. The risks arising from products and technologies are chiefly countered by the active management of the product portfolio and regularly updated strategic technology roadmaps.

The strategic risks are classified as "medium" overall.

Operating risks

Sales risks, development and technology risks, production risks, quality risks, purchasing and inventory risks, IT risks and human resources risks are grouped together as operating risks.

A significant sales risk would be a downward trend in orders from major customers. In the 2021 short financial year, 17.9% (previous year: 19.2%) of consolidated sales were generated with the three largest customers, and the largest customer accounts for 18.2% (previous year: 7.8%) of sales. If they change their ordering behavior or switch to another supplier, this would have a significant impact on sales. The sales risks are therefore still assessed as "high" overall.

In the area of development and technology, the biggest challenges stem from the relocation of production from the TE site in Dortmund to First Sensor in Berlin. This is tying up capacity, which limits flexibility for new projects and prolongs the corresponding lead times. Overall, however, the situation has improved compared to the previous year, hence development and technology risks have been downgraded to "medium".

Production, quality, purchasing and inventory risks are dominated by difficulties in the supply chains of some key suppliers. Like some investment projects or reorganization activities, they are causing production delays that must be compensated for by higher inventories and the qualification of second-source suppliers. This risk group is still rated as "medium".

IT risks have recently been mitigated by various measures. The preparation and implementation of the planned transition to SAP in association with TE is tying up considerable resources. This can have a negative impact on day-to-day business. IT risks are therefore a "low" risk to operations overall.

The human resources risks faced by the company are still rated as "medium". The integration with TE has resulted in unwanted staff turnover in some areas. On the other hand, applicants are hesitant to leave their jobs during the pandemic. Unfilled vacancies increase the workload for the rest of the team, particularly as regards major projects. The company is therefore determined to fill vacancies as quickly as possible.

Financial risks

Risks from the accounting process and financial reporting, liquidity and exchange rate risks, working capital risks and insurance and liability risks are grouped in the financial risks category.

These risks have become less relevant for First Sensor thanks to the business combination with TE Connectivity. While reporting has become more demanding under the new Group guidelines, this can be managed with the appropriate capacity. As First Sensor is a participant in the TE Connectivity cash pool arrangement, the liquidity risks can be disregarded. The same applies to the risks arising from changes in exchange rates as First Sensor now operates almost exclusively in the euro area. In the area of working capital alone, there are currently elevated inventory levels to ensure supply capacity for the reasons stated above. Optimization processes have been initiated. These risks are therefore still rated as "low".

Regulatory risks

Regulatory risks include political risks, legal risks and compliance risks. The political risks include geopolitical and trade conflicts.

International trade relations remain strained in some cases. The related sanctions can have repercussions for First Sensor. Additional risks can result from the transition in environmental, health and safety regulations to TE's Group-wide standards. Overall, these risks are rated as "medium".

Accounting-related internal control system

The accounting-related internal control system (ICS) is part of the risk management system. Its goal is to ensure reliable and transparent financial reporting. First Sensor has implemented suitable structures, processes and checks in order to achieve this goal. These aim to ensure that the results of the accounting process are free from errors and available on schedule. Secondarily, the ICS also serves to help ensure efficient management, to safeguard assets and to prevent or detect criminal offenses and errors. All Group companies and operational business processes that generate significant information for the preparation of the consolidated financial statements are included in the ICS.

The accounting-related ICS is developed by the Management Board and its effectiveness is monitored by the Supervisory Board. It consists of different elements, including guidelines and procedural instructions, such as the Group Financial Manual, the Accounting Manual, the Financial Risk Management Directive and the Approval and Signature Directive, which also stipulates the dual-control principle. These are supplemented by other general procedural instructions on issues such as the calculation of manufacturing costs or intercompany transfer prices. These ICS components are accompanied by controls that examine and validate data relevant to the financial statements at various points. The implementation of these controls ensures with the greatest possible certainty that the (consolidated) financial statements are prepared in accordance with regulations. This includes monthly standardized controlling reports for all Group companies and locations, supplemented by variance analysis of deviations with recommendations for action provided by Corporate Controlling. The Group companies prepare their financial statements on a decentralized basis in accordance with the local legal requirements. Uniform reporting structures are ensured by standardized reporting formats, IT systems and IT-based consolidation processes. Together with the financial reporting calendar, the process of uniform, correct consolidated financial reporting in accordance with IFRS forms the basis for the preparation of the financial statements. In addition, significant local financial statements first undergo a comprehensive internal audit as of the end of the financial year before being approved for the consolidated financial statements. No significant activities are performed by external service providers in the context of preparing the consolidated financial statements, with the exception of XBRL tagging. In addition to this, random spot checks and plausibility analyses are carried out at location and Group level on a monthly basis, accompanied by compliance audits. Head office also has access to all the accounting systems and bank accounts within the Group at all times. To monitor the portfolio of cash funds, a cash tracking table was also set up for all accounts held by Group companies. The Management Board is kept informed of the results of these checks on an ongoing basis.

The ongoing development and amendment of the accounting-related ICS contribute to guaranteeing that the accounting is reliable and will also continue to improve. Despite these efforts, even appropriate and functional systems cannot guarantee with absolute certainty that risks will be identified and managed.

Opportunities and risks for First Sensor AG

Given its role in the Group, the business development of First Sensor AG is subject to the same risks and opportunities as the Group. Please refer to the information at Group level in the report on risks and opportunities in this regard.

Summary of the risk situation

In the opinion of the Management Board, the risks to which First Sensor is exposed at the time of this report being prepared and for the current planning period are manageable. These include the effects of the coronavirus pandemic, though these cannot be reliably estimated. In any event, the Management Board does not consider the continued existence of the Group to be as risk in any way. Despite the comprehensive analysis of risks, their occurrence cannot be completely ruled out.

Opportunity management system

As is the case with risks, opportunities within the Group are also systematically identified, transparently documented and incorporated into business decisions. They represent possible future developments or events that may lead to a positive deviation from forecasts or targets for the company. As with risks, First Sensor differentiates between opportunities based on whether they are of a strategic, operating, financial or regulatory nature.

Strategic opportunities

The acquisition by TE Connectivity means new opportunities for First Sensor. The product portfolio of imaging sensors in conjunction with advanced electronics solutions business can open up major growth prospects for sales and earnings with industrial customers and in medical technology especially. Where necessary, First Sensor can also use sensors from TE’s product range and thus achieve technological advantages and accelerate its time-to-market while simultaneously cutting costs. First Sensor’s integration into the TE Group’s sales network has also significantly increased the international customer base that it can reach.

Operating opportunities

With TE’s assistance, First Sensor has significantly increased the number of new development projects. If these applications for industrial or medical technology make it to market faster than expected or if demand is higher than expected, First Sensor’s growth targets may prove too conservative. In addition to the capacity expansion, advantages here lie in the high vertical integration, which makes it possible to consider customer requirements in every respect. Besides its long-term industrial partners, First Sensor also has the opportunity here to significantly increase its distribution base through the TE network. Furthermore, First Sensor is likewise benefiting from the TE supplier network and thus reducing the impact of delays in supply chains. The further integration with TE also gives First Sensor fresh prospects in terms of recruitment and staff retention as part of a strong, global partner.

Many customer projects were slowed down during the coronavirus pandemic. Through excellent customer support and impressive performance, First Sensor has created the conditions to actively exploit opportunities for growth once the crisis is over. In doing so, a competitive advantage was often acquired by assuring customers that production would be ramped up very quickly after the crisis. This flexibility can help to ensure above average participation in a recovery.

Many customers have entered into framework agreements with terms of one to two years that guarantee purchase volumes while at the same time also defining purchase variances. As positive purchase variances are not incorporated into operational planning, this may give rise to opportunities for additional contributions to sales.

First Sensor is also continuing to work on optimizing its production processes under the heading of “operational excellence”. In addition to the manufacturing execution system (MES), this also includes targeted investments in new equipment and higher automation in the areas of chip production and in layout and connection technology. If individual measures are realized faster than planned, this could lead to an increase in monthly production volumes and thus to more sales. The same applies to unexpectedly higher sales with major customers, which would always also have a positive impact on profitability due to economies of scale.

Financial and regulatory opportunities

First Sensor does not currently anticipate opportunities that would affect the company in either of these categories.

Summary of the opportunity situation

First Sensor is well positioned to systematically take advantage of opportunities in the Group's strategic target markets with its products and internal measures. Although the company is working purposefully to tap into these opportunities, it is generally unlikely that we will be able to achieve successes here in the short term.

2.4 TAKEOVER RELATED DISCLOSURES IN ACCORDANCE WITH SECTIONS 289A (1) AND 315A (1) HGB

Composition of subscribed capital

The composition of subscribed capital is presented in section [11] of the Notes to the Consolidated Financial Statements. All shares grant identical rights in accordance with the AktG (German Stock Corporation Act).

Restrictions affecting voting rights or the transfer of shares

The company's Executive Board is not aware of any restrictions affecting voting rights or the transfer of shares. Otherwise only the statutory provisions in accordance with section 136 (1) AktG and trading bans in accordance with Article 19 (11) MAR apply, especially to members of the Executive Board.

Direct interests in the company's share capital of more than 10%

Disclosures on direct or indirect interests in the share capital exceeding 10% of the voting rights can be found in section [37] of the notes to the Consolidated Financial Statements.

Holders of shares with special rights conferring control powers

There are no shares with special rights, in particular, no shares conferring control powers.

Type of voting right control when employees hold an interest in the share capital and do not exercise their controlling rights directly

Employees who hold an interest in the share capital exercise their voting rights directly.

Statutory provisions and Articles of Association concerning the nomination and dismissal of Executive Board members and amendments to the Articles of Association

Statutory provisions apply concerning the nomination and dismissal of executive board members (sections 84 and 85 AktG) and amendments to the Articles of Association (section 179 AktG).

Authorization of the Executive Board to issue shares and repurchase shares

The Executive Board is authorized to issue convertible or option bonds with a nominal value of up to €90.0 million up to May 23, 2022, and grant their bearers up to 3.8 million shares with an amount in the share capital of up to €19.0 million.

The capital is also conditionally increased for issuing stock options to the Executive Board and managers. Details of the share option plans can be found in section [19] of the Notes to the Consolidated Financial Statements.

Agreements that are subject to the condition of a change of control and agreements on compensation in the event of a takeover bid

The change of control took place in 2020, TE Connectivity now holds the majority of the shares in First Sensor AG. No agreements to cover another change of control were concluded.

2.5 OTHER DECLARATIONS

The declaration of compliance pursuant to Article 161 AktG (German Stock Corporation Act) and the coporate declaration of business management are permanently available in the Investor Relations/Corporate Governance section of the company's website at www.first-sensor.com.

The company prepares a report on sustainability (separate non-financial Group report) based on the format of the German Sustainability Code and the framework of the GRI standard. The report is a separate component of the Annual Report and is also available for download on the company's website.

Berlin, January 25, 2022

Sibylle Büttner	Robin Maly	Dirk Schäfer
Vorstand	Vorstand	Vorstand

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3 CONSOLIDATED FINANCIAL STATEMENTS FOR 2021

3.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

3.1.1 Consolidated statement of financial position, assets (IFRS)

ASSETS in € thousand	Group Notes	Dec. 31, 2020	Sept. 30, 2021	Change
Intangible assets	*3*	13,628	6,130	-7,498
Goodwill	*4*	15,979	15,979	0
Property, plant and equipment	*5*	49,171	49,933	761
Total non-current assets		**78,778**	**72,042**	**-6,736**
Inventories	*6*	29,063	30,199	1,135
Trade receivables	*7*	20,768	18,641	-2,127
Tax assets		294	0	-294
Financial assets	*8*	39,436	64,396	24,960
Other current assets	*9*	1,406	1,078	-328
Cash and cash equivalents	*10*	10,030	3,006	-7,025
Total current assets		**100,997**	**117,318**	**16,322**
Total ASSETS		**179,775**	**189,360**	**9,585**

3.1.2 Consolidated statement of financial position, equity and liabilities (IFRS)

Equity and Liabilities in € thousand	Group Notes	Dec. 31, 2020	Sept. 30, 2021	Change
Issued capital	*11*	51,444	51,512	68
Capital reserves	*12*	13,469	10,023	-3,446
Retained earnings	*12*	69,124	60,106	-9,018
Other reserves		7	1	-6
Non-controlling interests		1,579	312	-1,267
Total equity		**135,623**	**121,954**	**-13,669**
Provisions for pensions	*13*	315	319	4
Non-current financial liabilities	*15/16*	19,675	17,103	-2,572
Other non-current financial liabilities	*17*	3,182	2,631	-551
Deferred tax liabilities		2,688	0	-2,688
Total non-current liabilities		25,860	20,053	-5,807
Provisions for taxes		916	841	-75
Other current provisions	*14*	582	339	-243
Current financial liabilities	*15/16*	4,168	27,278	23,110
Payments received on account of orders		1,010	269	-740
Trade payables		5,785	5,365	-420
Other current financial liabilities	*18*	5,831	13,260	7,429
Total current liabilities		18,292	47,354	29,061
Total EQUITY AND LIABILITIES		179,775	189,360	9,585

3.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

3.2.1 Consolidated income statement

€ thousand	Group Notes	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Change
Sales	*20*	154,816	105,314	-49,502
Other operating income	*21*	49,257	25,091	-24,166
Changes in inventories of finished goods and work in progress	*22*	-2,512	3,648	6,160
Other own work capitalized	*23*	1,940	1,004	-936
Cost of materials/cost of purchased services	*24*	-70,866	-53,571	17,295
Staff costs	*25*	-49,486	-41,611	7,875
Other operating expenses	*26*	-16,434	-13,496	2,938
EBITDA		66,715	26.,380	-40,335
Depreciation of property, plant and equipment and amortization of intangible assets		-11,474	-8,186	3,288
EBIT		55,241	18,194	-37,047
Financial result	*27*	-1,755	-471	1,284
Profit before taxes and non-controlling interests		53,486	17,723	-35,763
Income taxes	*28*	-1,052	1,105	2,157
Profit or loss for the period*		52,434	18,828	-33,606
Thereof attributable to First Sensor AG shareholders		52,334	18,724	-33,610
Thereof attributable to non-controlling interests		100	104	4
Earnings per share in € (basic)	*29*	5.09	1.82	-3,27
Earnings per share in € (diluted)	*29*	5.09	1.82	-3.27

*) The profit or loss for the period January 1 to December 31, 2020 includes income from continuing and discontinued operations. Please refer to Group note 32 for a separate presentation of the profit/loss effects of continuing and discontinued operations. Discontinued operations

3.2.2 Other comprehensive income

€ thousand	Group Notes	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Change
Profit or loss for the period		52,434	18,828	-33,606
Actuarial gains and losses on defined benefit plans		-67	12	79
Taxes on other comprehensive income		20	0	-20
Items not subsequently reclassified to profit or loss		-47	12	59
Changes from currency translation		2	-6	-8
Remeasurement of derivative financial instruments		-7	0	7
Expenses recycled to profit or loss		46	0	-46
Taxes on other comprehensive income		2	0	-2
Items that can be subsequently reclassified to profit or loss		43	-6	-49
Total other comprehensive income		-4	6	10
Total comprehensive income		52,430	18,835	-33,595
Thereof attributable to First Sensor AG shareholders		52,330	18,731	-33,599
Thereof attributable to non-controlling interests		100	104	4

3.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

€ thousand	Number of shares in thousands	Issued capital	Capital reserves	Retained earnings	Other reserves	Non-controlling interests	Total equity
As of January 1, 2020	10,269	51,347	18,200	18,907	-52	1,479	89,881
Profit or loss	0	0	0	52,334	0	100	52,434
Other comprehensive income	0	0	0	-47	43	0	-4
Total comprehensive income	0	0	0	52,287	43	100	52,430
Share-based remuneration	0	0	-4,870	0	0	0	-4,870
Dividend distribution	0	0	0	-2,054	0	0	-2,054
Capital increase	20	97	139	0	0	0	236
Reclassification	0	0	0	-16	16	0	0
As of December 31, 2020	10,289	51,444	13,469	69,124	7	1,579	135,623

€ thousand	Number of shares in thousands	Issued capital	Capital reserves	Retained earnings	Other reserves	Non-controlling interests	Total equity
As of January 1, 2021	10,289	51,444	13,469	69,124	7	1,579	135,623
Profit or loss	0	0	0	18,724	0	104	18,828
Other comprehensive income	0	0	0	12	-6	0	6
Total comprehensive income	0	0	0	18,737	-6	104	18,835
Profit transfer to TE	0	0	0	-21,994	0	0	-21,994
Share-based remuneration	0	0	41	0	0	0	41
Dividend distribution	0	0	0	-5,762	0	0	-5,762
Capital increase from the issue of new shares (IFRS 2)	14	68	143	0	0	0	210
Purchase of non-controlling interests	0	0	-3,629	0	0	-1,371	-5,000
As of September 30, 2021	10,302	51,512	10,023	60,106	1	312	121,954

3.4 CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

€ thousand	Group Notes	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Change
PROFIT BEFORE TAXES		53,486	17,723	-35,763
Interest paid		1,453	456	-997
Depreciation of property, plant and equipment and amortization of intangible assets		11,474	8,186	-3,288
Gains/losses on the disposal of non-current assets		261	181	-80
Other non-cash expenses/income		826	88	-738
Gains from deconsolidation		-47,539	-23,502	24,037
Changes in provisions		134	-161	-295
Changes in working capital		-8,873	-7,260	1,613
Changes in other assets and liabilities		-4,347	6,817	11,164
Income taxes paid		-393	112	505
CASH FLOW FROM OPERATING ACTIVITIES		6,482	2,640	-3,842
Payments for investments in property, plant and equipment and intangible assets		-10,440	-11,079	-639
Proceeds from disposal of property, plant and equipment, intangible assets and equity investments		531	11	-520
Proceeds from disposal of subsidiaries, less cash and cash equivalents		61,569	38,305	-23,264
Interest received		10	37	27
CASH FLOW FROM INVESTING ACTIVITIES		51,670	27,274	-24,396
Proceeds from shareholders		236	210	-26
Dividends paid		-2,054	-5,762	-3,708
Purchase of non-controlling interests		0	-5,000	-5,000
Repayments of financial liabilities		-29,494	-1,805	27,689
Repayments of lease liabilities		-2,466	-857	1,609
Payments from plan amendments for share-based payment		-5,730	0	5,730
Proceeds from borrowings		0	235	235
Interest paid		-1,464	-494	970
CASH FLOW FROM FINANCING ACTIVITIES		-40,972	-13,472	27,500
CHANGE IN CASH AND CASH EQUIVALENTS		17,180	16,443	-737
Changes in cash and cash equivalents due to exchange rate movements		-91	-8	83
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	30	32,260	49,349	17,089
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	30	49,349	65,784	16,435

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.1 GROUP PROFILE

Parent company

The parent company is First Sensor AG, domiciled at Peter-Behrens-Str. 15, 12459 Berlin, and entered in the Commercial Register of Berlin in Department B under HRB 69326. First Sensor AG is listed in the regulated market on the Frankfurt Stock Exchange in the Prime Standard segment under ISIN DE0007201907.

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

These consolidated financial statements take into account all events known to the Management Board as of January 25, 2022.

As the parent company of the First Sensor Group, First Sensor AG prepares consolidated financial statements for the smallest group of companies for the short 2021 financial year in accordance with the International Financial Reporting Standards (IFRS, as applicable in the EU) and the additional requirements of German commercial law. The consolidated financial statements are published in the electronic German Federal Gazette (Bundesanzeiger).

The First Sensor Group is included in the consolidated financial statements of TE Connectivity Ltd., Schaffhausen, Switzerland, which prepares consolidated financial statements for the largest group of companies as of September 24, 2021 and publishes them on the Internet on the homepage of TE Connectivity Ltd. (https://investors.te.com/financial-reports/annual-reports/default.aspx).

Financial reporting principles

First Sensor's consolidated financial statements have been prepared in accordance with the applicable International Financial Reporting Standards (IFRS) as of the end of the reporting period and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable in the European Union and the additional requirements of German commercial law.

In the past, the financial year of the First Sensor Group (First Sensor AG and its subsidiaries) was the calendar year. In conjunction with the integration into the TE Connectivity Group (TE Connectivity Ltd., Schaffhausen, Switzerland), the Annual General Meeting of First Sensor AG on June 24, 2021 resolved to change the financial year from October 1 to September 30 of the following year, effective October 1, 2021. The period from January 1 to September 30, 2021 therefore formed a short financial year. The reporting period, and thus the 2021 short financial year, therefore covers a period of nine months, whereas the 2020 financial year, the comparative period, covered a period of twelve months. The amounts shown are not fully comparable owing to the different lengths of the reporting and comparative periods.

The consolidated financial statements were prepared in euro. Unless indicated otherwise, all amounts are stated in thousands of euro (€ thousand).

The consolidated income statement was prepared in line with the nature of expense method.

Individual items have been combined in the consolidated statement of financial position and the consolidated statement of comprehensive income to improve the clarity of presentation. A breakdown of these items is presented in the notes to the consolidated financial statements. The amounts presented may differ from the exact mathematic amounts as a result of rounding effects.

The accounting policies applied are the same as those applied in the previous year. As in the previous year, the statement of financial position was structured in order of descending maturity.

Published standards and interpretations effective for IFRS financial statements for the first time as of September 30, 2021:

The initial application of the IFRS effective as of January 1, 2021 – Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 Interest Rate Benchmark Reform (Phase 2) – had no significant effect on financial position or financial performance in the 2021 short financial year.

Published standards and interpretations not yet effective for IFRS financial statements as of September 30, 2021:

Amendments to standards:

- Amendments to IFRS 16 "Covid-19-Related Rent Concessions beyond 30 June 2021", no significant effects (effective for annual periods beginning on or after April 1, 2021)
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards", amendments to IFRS 9 "Financial Instruments and IFRS 16 Leases": amendments as part of the Annual Improvements to IFRS Standards 2018-2020 Cycle (Subsidiary as a First-time Adopter); no significant effects (effective date: January 1, 2022)
- Amendments to IFRS 3 "Business Combinations": amended by reference to the Conceptual Framework (amendments to IFRS 3); no significant effects (effective date: January 1, 2022)
- Amendments to IAS 16 "Property, Plant and Equipment": Proceeds before Intended Use; no significant effects (effective date: January 1, 2022)
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets": Onerous Contracts – Cost of Fulfilling a Contract; no significant effects (effective date: January 1, 2022)
- IFRS 17 "Insurance Contracts" replaces IFRS 4 "Insurance Contracts"; postponement of effective date (effective date: January 1, 2023), amendments to IAS 1 "Presentation of Financial Statements": classification of liabilities as current or non-current; amendments to IAS 8: Definition of accounting estimates; amendments to IAS 1 and IFRS Practice Statement 2: disclosure of accounting policies; no significant effects (effective date: January 1, 2023).

The company has taken the new standards and interpretations into account as of their effective date in the EU in the past and will continue to do so moving ahead. There will be no early voluntary adoption. The company does not expect any significant amendments to be required for the amendments resolved or the resulting restatements.

Significant accounting judgments and estimation uncertainty

In preparing the consolidated financial statements, some assumptions and estimates have been made that affected the amount and the reporting of recognized assets, liabilities, income and expenses. The key assumptions and key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

- The calculation of the fair values of assets and liabilities, the useful lives of the assets and the impairment of assets is based on management's assessments and planning.
- Impairment losses are recognized for doubtful debts to reflect estimated losses due to customers' inability or unwillingness to pay. Past and forward-looking information is used when deriving probabilities of default and calculating the expected loss.
- Assumptions are made on the basis of the recoverable amount calculated when testing for impairment.
- Assumptions may be necessary at various points when assessing a contract for revenue recognition. It must also be assessed whether revenue is recognized at a point in time or over a period of time.

In some cases, the actual values can deviate from these assumptions or estimates at a later time. Corresponding changes would be made in profit or loss when more information is available. All assumptions and estimates are made to the best of knowledge and belief to provide a true and fair view of the financial position and financial performance of the Group. The carrying amounts recognized in the consolidated financial statements that are subject to uncertainty can be found in the consolidated statement of financial position or the notes to the consolidated financial statements.

Impairment test of goodwill and non-current assets

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

The recoverable amount is calculated by means of a discounted cash flow analysis. The recoverable amount is calculated based on the income planning for the respective cash-generating unit. The WACC was also applied as a discount factor, which reflects the weighted average cost of capital for a corresponding peer group; the cash flow was estimated in a detailed planning phase up to 2024 and then as a terminal value. The income planning is essentially based on past experience of management expectations for the development of the respective cash-generating unit and the relevant market. The main non-current assets that are tested for impairment annually are the First Sensor Group's reported goodwill and the intangible assets with indefinite useful lives resulting from business combinations. Intangible assets with finite useful lives and property, plant and equipment are only tested for impairment if there is objective evidence of impairment.

Share-based remuneration

In the past, First Sensor has granted selected employees and members of executive bodies share-based remuneration. The measurement of the staff costs for this share-based remuneration contains estimates regarding the fulfillment of the conditions associated with these options and market parameters.

4.2 PRINCIPLES OF CONSOLIDATION

Consolidated group

The Group's consolidated financial statements comprise First Sensor AG and the companies it controls. First Sensor AG is deemed to control those companies where it directly or indirectly holds more than 50% of the company's voting rights or issued capital, or is able to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Non-controlling interests held by third parties (minorities) are reported separately in the Consolidated statement of comprehensive income and within equity in the consolidated statement of financial position. They are reported within equity separately from the equity attributable to the shareholders of the parent company. When non-controlling interests are acquired, the carrying amounts of the equity attributable to the shareholders of the parent company and the non-controlling interests are adjusted accordingly. Any difference between the adjustment of the non-controlling interest and the consideration paid or received is recognized directly in equity and allocated to the equity attributable to the shareholders of the parent company.

Losses by a subsidiary are attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance if there is a corresponding right to reimbursement from the non-controlling interests. The following companies were included in the consolidated financial statements as subsidiaries:

Company	Registered office	Principal activities	Ownership interest
First Sensor Lewicki GmbH	Oberdischingen, Germany	Development, microelectronic assembly and sale of components and modules; power electronics	100%
First Sensor Scandinavia AB	Kungens Kurva, Sweden	Sale of standard sensors and sensor solutions of the whole First Sensor Group	51%

The following company was included as a consolidated company until the date of sale (August 2021):

Company	Registered office	Principal activities	Ownership interest
First Sensor Mobility GmbH	Dresden, Germany	Development, production and sale of microelectronic and mechanical components, modules, sensors and sensor systems	100%

The following companies were included as consolidated companies until the date of sale (September 2020/December 2020):

Company	Registered office	Principal activities	Ownership interest
First Sensor France S.A.S.	Paris, France	Sale of standard sensors and sensor solutions of the whole First Sensor Group	100%
First Sensor Inc.	Westlake Village, USA	Production of sensor modules and sensors, sale of standard sensors and sensor solutions of the whole First Sensor Group	100%
Klay Instruments B.V.	Dwingeloo, Netherlands	Development, production and sale of pressure transmitters	100%
First Sensor Technics Ltd.	Shepshed, Leicestershire, England	Sale of standard sensors and sensor solutions of the whole First Sensor Group	100%
First Sensor Corp.	Montreal, Canada	Development and production of flow sensors	100%

Consolidation methods

The financial statements for the subsidiaries included in the consolidated financial statements are based on uniform accounting standards, which match those of the parent company. The consolidated reporting date corresponds to the reporting date of the annual financial statements of the parent company and all included subsidiaries, with the exception of First Sensor Scandinavia AB, Kungens Kurva/Sweden (reporting date December 31), which prepared interim financial statements in accordance with IFRS 10.

Intragroup balances and transactions and resulting internal Group gains and losses as well as dividends between consolidated companies were eliminated in full.

Business combinations are accounted for using the acquisition method. The cost of a business acquisition is calculated as the total of the consideration transferred, measured at fair value as of the acquisition date, and the non-controlling interests in the company acquired. For each business combination, the acquirer measures any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Costs incurred in the business combination are largely recognized as an expense. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration for a financial asset or financial liability are recognized in the consolidated income statement in accordance with IFRS 9. Contingent consideration classified as equity is not remeasured and its subsequent payment is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed). If this consideration is less than the fair value of the acquired subsidiary's net assets, the difference is recognized in the consolidated statement of comprehensive income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination. This applies regardless of whether other assets or liabilities of the acquired company are assigned to these cash-generating units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

With the disposal of the equity investments in subsidiaries, these were deconsolidated by the Group. For this purpose, all assets and liabilities of the companies sold were booked out from the consolidated statement of financial position. In conjunction with deconsolidation, the statements of financial position of the foreign subsidiaries were translated using the exchange rate as of the date of deconsolidation.

Currency translation

The reporting currency of the First Sensor Group is euro, which is also the functional currency of the parent company. The financial statements of the companies included in consolidation that are prepared in foreign currency are translated on the basis of the functional currency concept (IAS 21 "The Effects of Changes in Foreign Exchange Rates") in accordance with the modified closing rate method.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was last determined.

Foreign subsidiaries

All foreign First Sensor subsidiaries included in consolidation are considered financially independent foreign units as they are financially, economically, and organizationally autonomous. Their functional currencies are the respective local currency. The statements of financial position of the foreign subsidiaries were translated at the closing rate on September 30, 2021 or the closing rate on deconsolidation as show below:

Closing rates	Dec. 31, 2020*	Sept. 30, 2021
US dollar (USD)	1.1708	-
Pound sterling (GBP)	0.89903	-
Swedish krona (SEK)	10.0343	10.1683
Canadian dollar (CAD)	1.5633	-

* Rates as of September 30, 2020/December 31, 2020 for the deconsolidated foreign companies.

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

Annual average rates	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021
US dollar (USD)	1.21697	-
Pound sterling (GBP)	0.90624	-
Swedish krona (SEK)	10.30882	10.1710
Canadian dollar (CAD)	1.55955	-

Currencies are translated through other comprehensive income, i.e. all translation differences that arise are reported in equity under other reserves.

The currency translation differences recognized in equity while the company is part of the consolidated Group are released to profit or loss when the Group company is deconsolidated.

Cash and cash equivalents

Cash and cash equivalents include cash, term deposits with remaining terms of up to three months and sight deposits. The cash equivalents reported in the consolidated statement of cash flows also include the contributions to the cash pool of Tyco Electronics Germany Holdings GmbH reported under financial assets and current overdrafts.

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

Financial assets

Financial instruments are recognized on the trading day as soon as First Sensor becomes party to the contract for the financial instrument. First-time measurement of financial assets and liabilities is at fair value. Transaction costs are included if the financial asset or financial liability is not measured at fair value when the changes in value are recognized through profit or loss for the period.

In accordance with IFRS 9, all financial assets are divided into two classification categories for subsequent accounting: those measured at amortized cost and those measured at fair value. If financial assets are measured at fair value, expenses and income can be recognized either at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVTOCI).

A debt instrument must be measured at amortized cost (possibly applying the effective interest method) if it satisfies both the following criteria:

- the objective of the company's business model is achieved by collecting the contractual cash flows of financial assets;
- the contractual terms of the financial asset result in cash flows at specified dates that are solely payments of principal and interest.

Costs are calculated taking into account any discounts or premiums on acquisition and all fees that are an integral part of the effective interest rate plus the transaction costs. Interest income is included in financial result in the consolidated income statement. A debt instrument must be measured at fair value through other comprehensive income (FVTOCI) if it satisfies the two following criteria:

- the objective of the company's business model is to hold financial assets in order to collect contractual cash flows and sell these financial assets; and
- the contractual terms of the financial asset result in cash flows at specified dates that are solely payments of principal and interest.

All other debt instruments that do not meet the above criteria must be measured at fair value through profit or loss (FVTPL), unless they are part of a hedge.

First Sensor recognizes impairment losses on debt instruments measured at amortized cost or at FVTOCI for expected losses on financial assets (expected loss model).

Derecognition

Financial assets or a part of financial assets are derecognized if First Sensor loses control over the contractual rights from which the asset arises or the contractual rights to the cash flows expire. If a financial asset is derecognized, the difference between the carrying amount and the total of the consideration received or to be received is recognized in the consolidated income statement. For financial assets recognized at FVTOCI, cumulative gains or losses that were recognized in other comprehensive income are reclassified to the consolidated income statement.

Accounting for derivatives that satisfy the requirements of hedge accounting is explained in the notes on derivative financial instruments.

Impairment

At the end of the reporting period, First Sensor recognizes impairment losses on debt instruments measured at amortized cost or at FVTOCI for expected losses on financial assets (expected loss model). The amount of expected losses and the criteria used to assess the risk of default are updated or reviewed at the end of each reporting period.

In the "expected loss" model, a distinction is made between the general and simplified approach. The general approach uses a three-stage model, starting with the "12-month expected credit loss" (stage 1) with migration to the "lifetime expected credit loss" (stages 2 and 3) where necessary.

In assessing default risk, the company takes into account both qualitative and quantitative information that is available and relevant to making this decision and uses this to support the assessment. This includes both past and future information, including industry development, rating, and collateral. Past country-specific default rates are also used to determine the probability of default for each country.

The company uses the simplified method for trade receivables. Under this method, impairment losses are recognized for these financial instruments on the basis of expected losses over their lifetime. Past and forward-looking information is used when deriving probabilities of default and calculating the expected loss.

Impairment losses are recognized in the consolidated income statement.

Offsetting

Financial assets and liabilities are offset so only the net amount is reported in the consolidated statement of financial position. This occurs when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously. In the reporting period, assets and liabilities were offset in particular with regard to the cash pool with Tyco Electronics Germany Holdings GmbH.

Fair value

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

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

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

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

The company assumes that the fair values of financial assets and financial liabilities are essentially the same as their carrying amounts.

Inventories

Materials and other supplies held for use in the production of inventories are measured at cost and not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. Selling costs still to be incurred are also taken into account. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realizable value, the materials are written down to net realizable value. If the reasons for a previous write-down no longer apply, the reversals of the write-downs are recognized as a reduction of the cost of materials.

Work in progress and finished goods are measured at cost or fair value. Manufacturing costs comprise direct staff costs, costs of materials and the attributable share of production overheads. They are calculated on the basis of cost unit accounting. Interest on borrowing is not capitalized. Obsolete articles and those with low turnover are adjusted in value appropriately.

The values of any identified excess capacity are adjusted as part of marketability and inventory range analyses.

Property, plant and equipment

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

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. No interest on borrowing was capitalized in the past financial year. On disposals of property, plant and equipment, the historical cost and accumulated depreciation are derecognized and a gain or loss on disposal is recognized in profit or loss.

Depreciation is recognized over the following useful lives on a straight-line basis:

Buildings	25 to 33 years
Operating and office equipment	1 to 15 years

The useful lives and depreciation method are reviewed regularly to ensure that the economic benefit matches the period of depreciation.

Construction in progress is capitalized at cost and depreciated from the time of completion and initial use. Cost includes the full production cost. This includes production costs and production overheads incurred in connection with the construction of plant and machinery through work performed by the Group's own employees.

Intangible assets

First Sensor capitalizes intangible assets when:

- the company retains beneficial ownership of the asset as a result of past events;
- it is assumed that the economic benefits associated with the transaction will flow to the company in the future; and
- the costs of the asset can be measured reliably.

This is the method applied when intangible assets are acquired externally.

Internally generated intangible assets are capitalized in connection with developments for new products and technologies. If all the requirements of IAS 38 for the capitalization of development costs are met, the development costs are recognized in the amount of the directly attributable development costs incurred. Overheads necessary to generate the asset and that can be directly attributed to it are also capitalized. Capitalization ceases once the product is completed and available for general use.

In accordance with IAS 38.57, the following six requirements must be met for the capitalization of development costs. They have been met in full in these cases:

- the completion of the asset so that it will be available for internal use or sale is technically feasible;
- it is intended to complete the intangible asset and use or sell it;
- the company is able to use or sell the intangible asset;
- there is evidence of the expected future economic benefit;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the company is able to measure reliably the expenditure attributable to the intangible asset during its development.

Furthermore, acquired developments (manufacturing expertise) are recognized as intangible assets if they can be measured reliably and the company controls exploitation of the results of these development projects.

Finite-lived intangible assets are recognized at cost less accumulated amortization and impairment. Non-finite-lived intangible assets (goodwill) are recognized at cost less accumulated impairment. In accordance with IAS 38, finite-lived intangible assets are amortized on a straight-line basis over the estimated useful life. The amortization period starts as soon as the asset can be used. The amortization period and schedule are reviewed annually at the end of the financial year.

(a) Software

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

(b) Goodwill

Goodwill is initially measured at cost. This is calculated as the excess of the total consideration transferred and the amount of the non-controlling interest over the fair values of the acquired identifiable assets and liabilities assumed, including deferred taxes.

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

(c) Research and development costs

Expenditure on research and development activities is recognized in profit or loss in the period in which it is incurred unless the requirements of IAS 38.57 can be fulfilled for development costs.

(d) Developments

First Sensor has acquired development work as part of one of its acquisitions. This will be amortized over 20 years. Amortization is recognized when the marketing of the development begins.

(e) Brands

Identified assets were acquired in the form of brands as part of the acquisition of the Sensortechnics Group. The Klay brand was not amortized because it does not have a definite useful life. Therefore, the brand was tested annually for impairment. In the context of the sale of Klay Instruments B.V. in fiscal year 2020, the brand was disposed of. The Sensortechnics and ELBAU brands were written down in full as of December 31, 2015 as both brand names are no longer used following the concentration on the “First Sensor” umbrella brand.

(f) Customer base

Customer bases have been acquired as a result of the acquisition of the Sensortechnics Group and have been recognized as intangible assets. Customer bases were amortized on a straight-line basis over an expected useful life of six to ten years. They were written down in full as of September 30, 2021.

(g) Impairment of non-current assets

Property, plant and equipment and intangible assets are tested for potential impairment if, owing to events or changes in external circumstances, there are indications that the recoverable value of the asset at the end of the reporting period will be permanently less than its carrying amount, or if annual impairment tests are required (goodwill and intangible assets not yet utilized). If the carrying amount of an asset exceeds the lower fair value, impairment is recognized on property, plant and equipment and intangible assets carried at cost. The recoverable amount is the higher of the fair value less the costs to sell and the value in use. The fair value less costs to sell is the amount that can be achieved by sale of the asset in a normal transaction between knowledgeable parties.

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

Provisions and contingent liabilities

In accordance with IAS 37, provisions are reported for obligations of uncertain timing or amount. A provision is recognized when:

- the company has a present obligation (legal or constructive) as a result of a past event;
- it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefit will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, in other words, the amount the company would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. This is measured using the full cost approach, taking into account future cost increases.

Non-current provisions are discounted at a pre-tax interest rate provided that the effect of discounting is significant. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expenses.

Contingent liabilities resulting from a past event and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise are reported in the notes to the consolidated financial statements as contingent liabilities. Contingent liabilities can also result from a current obligation that arises from past events but is not recognized because:

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

Financial liabilities

All financial liabilities were measured either at amortized cost using the effective interest rate method or as FVTPL in the reporting period.

Financial liabilities are classified at FVTPL if:

- the fair value option was exercised;
- the liability is held for trading; or
- the liability is for contingent claims of an acquirer in conjunction with a business combination as referred to by IFRS 3.

Derivatives that are liabilities are recognized at FVTPL.

Financial liabilities classified as FVTPL are recognized at fair value. Changes to fair value are recognized in the consolidated income statement unless they are part of a hedge.

Financial liabilities classified at amortized cost are recognized at fair value less directly attributable transaction costs. For financial liabilities at amortized cost, gains or losses resulting from amortization are recognized in profit or loss using the effective interest method and in the event of derecognition.

Financial liabilities are no longer reported once they have been settled, i.e. once contractual obligations are discharged, canceled or expire.

All financial liabilities at amortized cost were measured using the effective interest method as of the end of the reporting period: A derivative classified at fair value through profit or loss was sold and derecognized in the reporting period.

Employee benefits

Defined contribution plans

There are defined contribution plans for members of the Management Board, managing directors and senior employees. These are pension commitments in an intercompany provident fund. The company pays fixed monthly amounts into the provident fund. Contributions by the Group for defined contribution plans are recognized in profit or loss in the reporting period in which they are incurred.

Defined benefit plans

Provisions for pensions and similar liabilities are calculated using the projected unit credit method in accordance with IAS 19 Employee Benefits. The defined benefit obligations are determined annually by independent actuarial experts. In calculating these benefit obligations, in addition to biometric calculation bases, the current long-term capital market interest rate and current assumptions about future salary and pension increases are taken into account. The discount rate for the euro area is derived from iBoxx™ Corporates AA corporate bonds. The probability of fluctuation was taken into account depending on the length of service and age of the pension beneficiaries. Pension obligations for Germany are calculated using biometric principles in accordance with the 2018 G Heubeck mortality tables.

Actuarial gains and losses resulting from changes in actuarial assumptions or from differences between previous actuarial assumptions and actual developments are recognized immediately in other comprehensive income when they occur, taking deferred taxes into account.

Actuarial gains and losses recognized in other comprehensive income and related deferred taxes are not reversed in the Consolidated income statement in subsequent periods. Actuarial gains and losses recognized in the respective reporting period and the related deferred taxes are presented separately in the Consolidated statement of comprehensive income.

Pension provisions are not offset by any plan assets that would reduce the pension obligation.

Share options

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

Share-based payments settled by equity instruments are accounted for in accordance with IFRS 2. Accordingly, the Group measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If this is not the case, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. Vesting conditions other than market conditions are not taken into account when estimating the fair value. Instead, the Group takes these into account by adjusting the number of equity instruments included in the determination of the transaction amount.

The expenses resulting from the granting of equity instruments and the corresponding increase in equity are recognized over the period within which vesting or service conditions have to be met (vesting period). This period ends on the vesting date, in other words, on the date the employee in question becomes irrevocably entitled. The cumulative expense reported for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The amount reported in the Consolidated income statement represents the movement in cumulative expense recognized as of the beginning and end of that period.

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (for more details see group note 29 “Earnings per share”).

Government grants

Government grants are recognized if there is reasonable assurance that the grant will be received and that the entity will comply with the conditions attached to it.

Grants relating to expenses are recognized as income on a systematic basis over the period necessary to match them with the costs they are intended to compensate. Grants relating to assets are shown in the consolidated statement of financial position as deferred investment grants or subsidies. These are reversed to profit or loss in equal annual installments over the expected useful life of the asset in question.

Revenue recognition

Revenue is recognized in line with the five-step model set out under IFRS 15. This looks at whether the performance commitments listed are separate and distinct performance obligations or whether the contract contains other commitments that represent separate performance obligations to which a portion of the transaction price must be allocated.

The model consists of the following five steps:

- identifying the contract with the customer;
- identifying the stand-alone performance obligations in the contract;
- determining the transaction price;
- allocating the transaction price to performance obligations;
- recognition of revenue (at a point in time or over a period of time);

revenue is recognized in line with the transfer of control to the customer. In the Group, revenue is predominantly recognized at a point in time when the customer obtains ownership of the products.

Other operating income

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

Interest income

Interest is recognized pro rata temporis taking into account the effective yield on the asset.

Taxes

Deferred taxes

On the basis of the control and profit transfer agreement entered into with TE Connectivity Sensors Germany Holding AG as the parent company on April 14, 2020, which was approved by way of resolution of the Annual General Meeting on May 26, 2020, there is a consolidated tax group as referred to by section 14 of the *Körperschaftsteuergesetz* (KStG – German Corporation Tax Act) effective January 1, 2021. Similarly, there is also a profit transfer agreement between First Sensor AG as the parent company and First Sensor Lewicki GmbH as the subsidiary, and therefore a consolidated tax group as referred to by section 14 KStG. As a result of the consolidated tax group for corporation and trade tax purposes, the taxable income and trade income of First Sensor AG and First Sensor Lewicki GmbH are attributed to TE Connectivity Sensors Germany Holding AG as the ultimate parent company from the 2021 assessment period. Consequently, deferred taxes have no longer been recognized since January 1, 2021. Deferred tax liabilities from the previous year of 2020 were reversed in profit or loss.

Income taxes

Current tax assets and tax liabilities for the current and earlier periods are measured at the amount expected to be refunded by the tax authority/paid to the tax authority. The amount is calculated based on the tax rates and tax laws applicable at the end of the reporting period in the countries in which the Group operates.

Current income tax relating to items recognized directly in equity is recognized in other comprehensive income and not in the consolidated income statement.

Leases

In accordance with IFRS 16, all contractual arrangements in which the Group is the lessee are assessed as to whether an asset is clearly identifiable and the Group obtains substantially all the economic benefits and has the right to make decisions about the asset. If this is the case, a right-of-use asset and a lease liability are recognized in the Consolidated balance sheet. On first-time recognition, lease liabilities are measured at the present value of the future lease payments. The interest rates implicit in the leases are used for discounting. For leases without their own interest rate, a Group incremental borrowing rate is used according to the term of the lease; these incremental borrowing rates range from 1.39% and 2.79%. In addition, sufficient fixed payments for renewal and purchase options and variable payments are included in the calculation of the lease liability. Depending on its maturity, the lease liability is recognized under current and non-current financial liabilities. The right-of-use asset is initially recognized at the amount of the lease liability plus initial direct costs. The right-of-use asset is reported as a separate item under property, plant and equipment and is written down on a straight-line basis over the term of the lease. If the useful life of the underlying asset is shorter than the term of the lease, amortization is charged over the shorter period. The leases recognized have terms of between 13 months and 38 years.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made. These contracts are assessed using the practical expedients for short-term leases (with terms of less than one year) and for small-ticket leases (for assets of less than USD 5,000). Neither right-of-use assets nor lease liabilities are recognized for such leases. Instead, the lease expenses are recognized as an expense in the Consolidated income statement. The option to apply the standard to a portfolio of leases with similar characteristics is not used.

Derivative financial instruments and hedging

Credit and liquidity risk

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

The maximum exposure to credit risk is limited to the carrying amount of the financial instruments recognized in the Consolidated balance sheet.

Currency risk

There is no significant currency risk as most of the transactions entered into by Group companies are in euro. Where materials were purchased abroad in the reporting period, foreign currency risks have been reduced by partial invoicing in euro.

Interest rate exposure and hedging

The risk of market interest rate fluctuations to which the Group is exposed predominantly resulted from non-current financial liabilities with floating interest rates. This risk was countered by borrowing fixed-rate loans and, when floating-rate loans are procured, by entering into derivative financial instruments (interest rate swaps). As a significant portion of the hedged item was ended in the 2020 financial year, and no significant interest rate risks are expected from the remaining hedged item, the derivative financial instrument (interest rate swap) was sold in the 2021 reporting period. The Group is not exposed to any significant risk of fluctuations in market interest rates as of the end of the reporting period.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. They are reported as assets when the fair value is positive and liabilities if the fair value is negative.

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

The fair value of interest rate swaps was measured by reference to the market values of similar instruments.

Until March 18, 2021, First Sensor had used hedging instruments to hedge interest rate risks (cash flow hedges). These instruments were recognized as follows in accordance with the strict criteria for hedge accounting:

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

Amounts recognized in equity are transferred to the Consolidated income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized in equity are transferred to the initial carrying amount of the non-financial asset or liability.

If a forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognized in equity are reclassified to the Consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, the amounts recognized in equity remain there separately in equity until the forecast transaction or firm commitment occurs. The same applies if it is found that the hedging instrument no longer satisfies the criteria for hedge accounting.

4.3 INTANGIBLE ASSETS

€ thousand	Orders on hand	Concessions, licenses and similar	Internally generated intangible assets	Customer base	Payments on account	Total
Cost of purchase						
Jan. 1, 2020	**1,452**	**15,289**	**11,721**	**24,075**	**734**	**53,271**
Additions	0	623	1,879	0	50	2,552
Disposals	-1,452	0	-594	0	0	-2,046
Reclassifications	0	1,092	-757	0	-498	-163
Exchange differences	0	-1	0	0	0	-1
Changes in the consolidated group	0	-59	0	-4,502	0	-4,561
Dec. 31, 2020	**0**	**16,944**	**12,249**	**19,573**	**286**	**49,052**
Cumulative depreciation						
Jan. 1, 2020	**1,452**	**11,818**	**3,477**	**19,469**	**44**	**36,260**
Additions	0	1,422	498	2,177	8	4,105
Disposals	-1,452	0	0	0	0	-1,452
Reclassifications	0	0	0	0	0	0
Exchange differences	0	-2	0	0	0	-2
Changes in the consolidated group	0	-59	0	-3,428	0	-3,487
Dec. 31, 2020	**0**	**13,179**	**3,975**	**18,218**	**52**	**35,424**
Carrying amount as of January 1, 2020	**0**	**3,471**	**8,244**	**4,606**	**690**	**17,011**

Carrying amount as of December 31, 2020	0	3,765	8,274	1,355	234	13,628

€ thousand	Orders on hand	Concessions, licenses and similar	Internally generated intangible assets	Customer base	Payments on account	Total
Cost of purchase						
Jan. 1, 2021	**0**	**16,944**	**12,249**	**19,573**	**286**	**49,052**
Additions	0	16	583	0	0	599
Disposals	0	-4,966	-397	0	0	-5,363
Reclassifications	0	0	-273	0	0	-273
Exchange differences	0	0	0	0	0	0
Changes in consolidated group	0	-567	-7,465	0	0	-8,032
Sept. 30, 2021	**0**	**11,427**	**4,697**	**19,573**	**286**	**35,983**
Cumulative depreciation						
Jan. 1, 2021	**0**	**13,179**	**3,975**	**18,218**	**52**	**35,424**
Additions	0	839	701	1,355	0	2,894
Disposals	0	-4,959	-265	0	0	-5,224
Reclassifications	0	0	0	0	0	0
Exchange differences	0	0	0	0	-1	-1
Changes in consolidated group	0	-507	-2,735	0	0	-3,242
Sept. 30, 2021	**0**	**8,552**	**1,676**	**19,573**	**51**	**29,852**
Carrying amount as of January 1, 2021	**0**	**3,765**	**8,274**	**1,355**	**234**	**13,628**
Carrying amount as of September 30, 2021	**0**	**2,875**	**3,021**	**0**	**235**	**6,131**

Intangible assets were neither pledged as security for liabilities nor otherwise restricted as of the end of the reporting period.

Customer base

The following customer bases that were acquired as part of the acquisition of the shares in the Sensortechnics Group in 2011 were identified and recognized as intangible assets.

€ thousand	Dec. 31, 2020	Sept. 30, 2021
Sensortechnics Customized	714	0
First Sensor AG subsidiary Berlin-Weißensee (formerly: ELBAU)	641	0
Total	**1,355**	**0**

The customer bases were amortized on a straight-line basis over an estimated useful life of ten years. The customer bases were written down in full as of September 30, 2021.

Concessions, licenses and similar

Concessions, licenses and similar also include the development services recognized as part of the acquisition of First Sensor Microelectronic Packaging GmbH. These are amortized over 20 years from the start of marketing. The effective amortization charge was €17 thousand in the short fiscal year 2021 (previous year: €23 thousand). The residual carrying amount was €120 thousand as of the end of the reporting period.

4.4 GOODWILL

€ thousand	2020	2021
Cost of purchase		
January, 1	**39,112**	**25,275**
Additions	0	0
Disposals	0	0
Exchange differences	0	0
Changes in the consolidated group	-13,837	0
December 31/September 30	**25,275**	**25,275**
Cumulative depreciation		
January, 1	**9,296**	**9,296**
Additions	0	0
Disposals	0	0
Exchange differences	0	0
Changes in the consolidated group	0	0
December 31/September 30	**9,296**	**9,296**
Carrying amount as of January 1	**29,816**	**15,979**
Carrying amount as of December 31/September 30	**15,979**	**15,979**

Goodwill related to the following companies as of September 30, 2021:

€ thousand	Dec. 31, 2020	Sept. 30, 2021
First Sensor Lewicki GmbH	1,846	1,846
First Sensor AG (formerly: Sensortechnics Group including First Sensor Technology GmbH and MEMSfab GmbH)	14,133	14,133
Total	**15,979**	**15,979**

In order to test goodwill for impairment, the value in use of the respective cash-generating unit was calculated and compared against the corresponding carrying amount. An impairment loss is recognized if the carrying amount exceeds the value in use. The value in use is calculated based on the discounting of operating cash flows for the planning period, derived from the WACC method. An indicative check was carried out using the income capitalization approach.

The following basic assumptions were made as parameters for the impairment test:

Assumptions in impairment test	2,020	2,021
Risk-free basic interest rate	-0.20%	0.10%
Market risk premium	7.50%	7.50%
Beta factor	1.25	1.20
Pre-tax borrowing rate	3.26%	2.73%
WACC pre-tax	12.13%	11.98%
WACC after tax	8.49%	8.38%

First Sensor Lewicki GmbH

First Sensor reports goodwill of €1,846 thousand from the acquisition of all shares in First Sensor Lewicki GmbH in 2000. In accordance with IAS 36, the company's goodwill was tested for potential impairment as of September 30, 2021 on the basis of the value in use and using the following assumptions:

- from the 2021 short financial year, slight increases in sales and a roughly constant margin are expected until 2024;
- a growth rate of 1% is assumed for planning in 2025 (terminal value);
- the discount factor based on the WACC method is 8.38% after tax (previous year: 8.49%) and 11.98% before tax (previous year: 12.13%);
- as in the previous year, the detailed planning period is three years.

As in the previous year, the impairment test did not give rise to any impairment as of the end of the reporting period. The Management Board bases its assumptions for forecasts for calculating value in use on past experience.

First Sensor AG (formerly: Sensortechnics Group including First Sensor Technology GmbH and MEMSfab GmbH)

First Sensor acquired all shares in First Sensor Technology GmbH in the 2010 financial year. This acquisition resulted in goodwill of €1,125 thousand. On the basis of the merger agreement of August 24, 2015, First Sensor Technology GmbH was merged by transfer of assets with First Sensor AG retroactively from January 1, 2015; it was merged by way of transfer of assets by dissolution without liquidation in accordance with section 2 of the *Umwandlungsgesetz* (UmwG – German Transformation Act).

First Sensor acquired all shares in the Sensortechnics Group in the 2011 financial year. This acquisition resulted in goodwill of €26,390 thousand. On the basis of the merger agreement of June 28, 2012, Sensortechnics GmbH was merged with First Sensor AG retroactively from January 1, 2012 and, on the basis of the merger agreement of April 17, 2013, Elbau Elektronik Bauelemente GmbH Berlin was merged with First Sensor AG retroactively from January 1, 2013. Both companies were merged by way of transfer of assets by dissolution without liquidation in accordance with section 2 UmwG.

First Sensor acquired all shares in MEMSfab GmbH in the 2011 financial year. This acquisition resulted in goodwill of €455 thousand. On the basis of the merger agreement of June 27, 2013, amended October 30, 2013, the company was merged with First Sensor AG and dissolved without liquidation.

In the 2018 financial year, the impairment test was changed such that the goodwill from the acquisitions of First Sensor Technology GmbH, the Sensortechnics Group and MEMSfab GmbH, which had previously been consistently transferred to First Sensor AG for several years, are tested for impairment collectively, with First Sensor AG as the cash-generating unit. This change was driven by the fact that at the latest since the merger with First Sensor AG, the value creation process within First Sensor AG takes place increasingly not on an isolated basis in the individual units, but across these individual units. As a result, the development and production process is now managed in such a way that the value added in the individual units is no longer considered in isolation. Also, in organizational terms, since the introduction of the new SAP ERP system as of January 1, 2018, the provision of goods and services between the individual units is no longer mapped and managed in isolation as sub-processes within the respective units, but rather in an overarching and ongoing production process. As a result, the cash flows identified within the units can no longer be regarded largely independently from the other units.

In connection with the acquisition by the TE Group and the integration of the First Sensor Group into the TE Group, all significant foreign subsidiaries, most of which originated from the acquisition of the Sensortechnics Group, were sold in the 2020 financial year. Goodwill of €13,837 thousand was derecognized in this context. The amount of goodwill disposed of was measured on the basis of the ratios of the fair values of the disposed and remaining entities. Goodwill was tested for impairment both before and after disposal.

This company's goodwill was tested for potential impairment on the basis of the value in use and using the following assumptions:

- from the 2021 short financial year, sales are expected to increase significantly, particularly in 2022 and 2023. The planned sales growth is the result of measures introduced to leverage synergies from the merger with the TE Group. The synergies will also lead to an improvement in the planned EBIT margins. The planning for the 2022 financial year also takes into account the effects of the coronavirus crisis;
- a growth rate of 1% is assumed for planning in 2025 (terminal value);
- the discount factor based on the WACC method is 8.38% after tax (previous year: 8.49%) and 11.98% before tax (previous year: 12.13%);

- as in the previous year, the detailed planning period is three years.

As in the previous year, the impairment test did not give rise to any impairment as of the end of the reporting period. The Management Board bases its assumptions for forecasts for calculating value in use on past experience.

4.5 PROPERTY, PLANT AND EQUIPMENT

€ thousand	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments, assets under construction	Right-of-use assets	Total
Cost of purchase						
Jan. 1, 2020	**18,906**	**58,888**	**12,730**	**6,514**	**9,000**	**106,038**
Additions	102	2,825	710	5,013	252	8,902
Disposals	0	-3,081	-56	-172	0	-3,309
Reclassifications	507	4,011	354	-4,709	0	163
Exchange differences	17	-58	-47	41	-21	-68
Changes in the consolidated group	0	-817	-1,400	0	-1,111	-3,328
Dec. 31, 2020	**19,532**	**61,768**	**12,291**	**6,687**	**8,120**	**108,398**
Cumulative depreciation						
Jan. 1, 2020	**7,879**	**38,151**	**9,866**	**40**	**1,528**	**57,464**
Additions	644	4,134	1,087	0	1,504	7,369
Disposals	0	-3,052	-58	0	0	-3,110
Reclassifications	0	0	0	0	0	0
Exchange differences	0	-48	-48	0	-9	-105
Changes in the consolidated group	0	-678	-1,250	0	-463	-2,391
Dec. 31, 2020	**8,523**	**38,507**	**9,597**	**40**	**2,560**	**59,227**
Carrying amount as of January 1, 2020	**11,027**	**20,737**	**2,864**	**6,474**	**7,472**	**48,574**
Carrying amount as of December 31, 2020	**11,009**	**23,261**	**2,694**	**6,647**	**5,560**	**49,171**

€ thousand	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments, assets under construction	Right-of-use assets	Total
Cost of purchase						
Jan. 1, 2021	**19,532**	**61,768**	**12,291**	**6,687**	**8,120**	**108,398**
Additions	35	1,858	171	8,412	833	11,310
Disposals	-5	-3,882	-1,964	-30	-200	-6,080
Reclassifications	32	2,419	32	-2,210	-11	261
Exchange differences	0	0	0	0	-1	-1
Changes in the consolidated group	0	-10,943	-2,837	-1,582	-1,242	-16,605
Sept. 30, 2021	**19,595**	**51,220**	**7,693**	**11,278**	**7,499**	**97,284**
Cumulative depreciation						
Jan. 1, 2021	**8,523**	**38,507**	**9,597**	**40**	**2,560**	**59,227**
Additions	480	3,251	687	22	853	5,292
Disposals	-6	-3,853	-1,941	-29	-173	-6,001
Reclassifications	0	15	0	-15	-11	-11
Exchange differences	0	0	0	0	-1	-1
Changes in the consolidated group	0	-7,951	-2,143	0	-1,059	-11,154
Sept. 30, 2021	**8,997**	**29,968**	**6,199**	**18**	**2,169**	**47,352**
Carrying amount as of January 1, 2021	**11,009**	**23,261**	**2,694**	**6,647**	**5,560**	**49,171**
Carrying amount as of September 30, 2021	**10,597**	**21,252**	**1,494**	**11,260**	**5,330**	**49,933**

Property, plant and equipment with a carrying amount of €3,813 thousand (previous year: €6,873 thousand) were pledged as security for liabilities or otherwise restricted as of the end of the reporting period.

The right-of-use assets were reported under property, plant and equipment. The development of right-of-use assets included in property, plant and equipment (IFRS 16) is as follows:

€ thousand	Right-of-use assets for land and buildings	Right-of-use assets for operating and office equipment	Right-of-use assets for vehicles	Total
Cost of purchase				
January 1, 2020	8,357	74	569	9,000
Additions	47	0	205	252
Disposals	0	0	0	0
Exchange differences	-18	0	-3	-21
Changes in the consolidated group	-1,072	0	-39	-1,111
December 31, 2020	7,314	74	732	8,120
Cumulative depreciation				
January 1, 2020	1,241	24	263	1,528
Additions	1,237	23	244	1,504
Disposals	0	0	0	0
Exchange differences	-8	0	-1	-9
Changes in the consolidated group	-435	0	-28	-463
December 31, 2020	2,035	47	478	2,560
Carrying amount as of January 1, 2020	7,116	50	306	7,472
Carrying amount as of December 31, 2020	5,279	27	254	5,560

€ thousand	Right-of-use assets for land and buildings	Right-of-use assets for operating and office equipment	Right-of-use assets for vehicles	Total
Cost of purchase				
January 1, 2021	7,314	74	732	8,120
Additions	601	0	231	833
Disposals	-122	-51	-37	-211
Exchange differences	-1	0	0	-1
Changes in the consolidated group	-1,106	0	-137	-1,242
September 30, 2021	6,687	23	789	7,499
Cumulative depreciation				
January 1, 2021	2,035	47	478	2,560
Additions	695	10	149	853
Disposals	-109	-45	-31	-184
Exchange differences	-1	0	0	-1
Changes in the consolidated group	-981	0	-78	-1,059
September 30, 2021	1,639	12	518	2,169
Carrying amount as of January 1, 2021	5,279	27	254	5,560
Carrying amount as of September 30, 2021	5,048	11	271	5,330

The calculation of the carrying amount of right-of-use assets for land and buildings included a potential purchase option for a property in Dresden in 2022 of €3,732 thousand.

4.6 INVENTORIES

€ thousand	Dec. 31, 2020	Sept. 30, 2021
Raw materials and supplies	13,095	11,954
Unfinished goods and work in progress	10,966	12,298
Finished goods and products	4,952	5,885
Advance payments on inventories	49	61
Total	**29,063**	**30,199**

The write-down on inventories was recognized as an expense and amounted to €487 thousand (previous year: €255 thousand) in the reporting period. This expense was reported under cost of materials for write-downs on materials and other supplies and under changes in inventories for unfinished goods, work in progress and finished goods.

As in the previous year, there were no inventories assigned as security as of the end of the reporting period.

4.7 TRADE RECEIVABLES

€ thousand	Dec. 31, 2020	Sept. 30, 2021
Trade receivables	21,041	18,730
Less impairment losses	-273	-89
Total	**20,768**	**18,641**

Trade receivables are not interest-bearing and are typically due within 30 to 90 days. Write-downs of €89 thousand (previous year: €273 thousand) were recognized on receivables from the sale of goods and services. This equates to a default ratio of 0.5% (previous year: 1.3%).

Changes in the provision for impairment of receivables were as follows:

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021
Beginning of the period	**173**	**273**
Charge for the year	235	50
Utilization	0	0
Unused amounts reversed	-135	-123
Deconsolidation	0	-111
End of the period	**273**	**89**

As of September 30, 2021, the aging structure of trade receivables past due is as follows:

€ thousand	Dec. 31, 2020	Sept. 30, 2021	Δ absolute	in %
Not due	15,562	13,880	-1,682	-11
Less than 60 days	3,402	3,845	444	13
Between 61 and 90 days	149	204	54	36
Between 91 and 120 days	732	576	-157	-21
More than 120 days	922	136	-786	-85
Total	**20,768**	**18,641**	**-2,127**	**-10**

The receivables include disputed receivables of €47 thousand (previous year: €311 thousand) and receivables offset by debit notes from customers that were not accepted of €96 thousand (previous year: €230 thousand). These receivables are nevertheless expected to be recovered.

4.8 CURRENT FINANCIAL ASSETS

Current financial assets essentially include receivables from shareholders (cash pooling).

4.9 CURRENT OTHER ASSETS

€ thousand	Dec. 31, 2020	Sept. 30, 2021
Prepaid expenses	517	368
VAT receivables	87	413
Research and development funding	214	0
Others	588	297
Total	**1,406**	**1,078**

4.10 CASH AND CASH EQUIVALENTS

€ thousand	Dec. 31, 2020	Sept. 30, 2021
Cash in hand	1	0
Bank balances	10,029	3,006
Total	**10,030**	**3,006**

Bank balances partly earn interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents at financial institutions is €3,006 thousand (previous year: €10,030 thousand).

4.11 ISSUED CAPITAL

The share capital reported in the Consolidated balance sheet as issued capital amounts to €51,511,980.00 as of the end of the reporting period (previous year: €51,444,480.00) and consists of 10,302,396 no-par shares (previous year: 10,288,896 shares) with a notional value of €5.00 per share. First Sensor AG's share capital was increased by €67,500.00 year-on-year as a result of pre-emption rights exercised under the 2016 stock option plan.

Jan. 1 to Sept. 30, 2021	Shares *	Share capital **
Beginning of the financial year	**10,289**	**51,444**
2016 stock option plan	13.5	68
End of the financial year	**10,302**	**51,512**

Jan. 1 to Dec. 31, 2020	Shares *	Share capital **
Beginning of the financial year	**10,269**	**51,347**
2013 stock option plan	1.0	5
2016 stock option plan	18.5	92
End of the financial year	**10,289**	**51,444**

* Number of shares in thousand

** € thousand

Authorized capital

The Management Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the company by up to €25,379,150.00 in total by issuing up to 5,075,830 new bearer shares by May 27, 2020 in one or more transactions (Authorized Capital 2015/I). The capital was increased against cash or non-cash contributions. Shareholders were granted pre-emption rights. Shareholders were also granted pre-emption rights indirectly in accordance with section 186(5) of the *Aktiengesetz* (AktG – German Stock Corporation Act).

The Management Board did not resolve a capital increase from Authorized Capital 2015/I before May 27, 2020. Authorized Capital 2015/I expired on December 31, 2020.

Contingent capital

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

€ thousand	Dec. 31, 2020	Sept. 30, 2021
Contingent Capital 2013/I	185	185
Contingent Capital 2016/II	2,508	2,440
Contingent Capital 2017/I	1,200	1,200
Contingent Capital 2017/II	19,000	19,000
Total	**22,893**	**22,825**

The contingent capital amounted to €22,825,000.00 in total as of September 30, 2021 (previous year: €22,893,000.00). The contingent capital increase will only be implemented to the extent that the bearers of pre-emption rights exercise said rights under the respective stock option plans for Contingent Capital 2013/I, Contingent Capital 2016/II and Contingent Capital 2017/I. The 2013/I stock option plan has already ended and, following the departure and severance agreements with the beneficiaries of the 2017/I stock option plan in the 2020 financial year, there are no longer any pre-emption rights under the 2017/I stock option plan. As a result, the 2013/I or 2017/I contingent capital increases can no longer be exercised, even on a pro rata basis. The 2017/II contingent capital increase will only be implemented to the extent that the holders of convertible or bonds with warrants exercise their pre-emption rights. No such bonds had been issued as of the end of the reporting period.

4.12 RESERVES

Changes in reserves were as shown in the Consolidated Statement of Changes in Equity. The items are explained below:

(a) Capital reserves – share premium

As a result of 13,500 pre-emption rights being exercised under the 2016 SOP at an exercise price of €11.95 (1,500 pre-emption rights) and €16.03 (12,000 pre-emption rights), the capital reserves were increased by the exercise price in excess of the notional value per share (€5.00) for a total of €143 thousand in 2021.

(b) Capital reserves – stock options

The expense of the current stock option programs recognized as staff costs in profit or loss and as an addition to capital reserves amounts to €41 thousand (previous year: €860 thousand). In the 2020 financial year, the change in capital reserves predominantly resulted from the cancellation of stock option programs, whereby equity instruments with a fair value of €5,730 thousand were repurchased and capital reserves reduced accordingly. The effects of share-based payment in the capital reserves amounted to €-4,870 thousand in total in the 2020 financial year.

c) Capital reserves – purchase of non-controlling interests

The remaining 15% of non-controlling interests in First Sensor Mobility GmbH were acquired for a purchase price of €5,000 thousand in January 2021. Non-controlling interests of €1,371 thousand were derecognized. The capital reserves were reduced by the difference of €3,629 thousand.

d) Retained earnings

Retained earnings include net retained profits, other retained earnings and actuarial gains and losses from the remeasurement of pensions. These amounted to €-85 thousand as of September 30, 2021. The dividend of €0.56 per share (previous year: €0.20 per share) distributed in the 2021 short financial year resulted in a total reduction of retained earnings of €5,762 thousand (previous year: €2,054 thousand). Retained earnings were also reduced by €21,994 thousand by the profit transfer agreement. The profit for the period increased retained earnings by €18,724 thousand. Together with the currency translation adjustments, retained earnings were reduced by €9,018 thousand.

e) Other reserves

Other reserves exclusively contain the currency translation adjustments since December 31, 2020. Currency translation adjustments are used to recognize the differences arising from the translation of the financial statements of the foreign subsidiaries into euro.

The effect of currency translation adjustments is due to the remaining foreign company in Sweden and reduced other reserves by €6 thousand.

4.13 PROVISIONS FOR PENSIONS

The employees of the Munich branch (FSM) have received defined benefit pension commitments. The pension plans are based on the number of years of service. The pension commitments are financed through the recognition of pension provisions. The measurement of employee benefits and the expenses required to cover these benefits are based on the procedures (projected unit credit method) prescribed in IAS 19 (Employee Benefits). Interest expenses are recognized in profit or loss in the financial result and any current service cost is recognized in profit or loss in staff costs. Actuarial gains and losses and any past service cost are recognized in other comprehensive income.

The defined benefit obligation developed as follows:

€ thousand	01.01. to Dec. 31, 2020	01.01. to Sept. 30, 2021
Defined benefit obligation (DBO) on January 1	272	315
Past service cost	0	35
Net interest expense	2	1
Actuarial gains (-)/losses (+)	68	-12
Pension payments	-27	-20
Defined benefit obligation (DBO) on December 31/September 30	**315**	**319**

As in the previous year, there are no asset values that would reduce the pension obligation. The amount of the provision therefore corresponds to the defined benefit obligation. Pension payments of €27 thousand (previous year: €27 thousand) are expected for the following financial year. Pension payments of a comparable amount are also expected for the 2023 to 2026 financial years.

The calculations are based on the 2018 G mortality tables produced by K. Heubeck and the following assumptions:

in %	Dec. 31, 2020	Sept. 30, 2021
Interest rate	0.55	0.77
Salary trend	0	0
Pension trend	1.80	1.80

A change in the material actuarial assumptions (interest rate, salary trend, pension trend) of one percentage point up or down would have an impact of less than €50 thousand on the defined benefit obligation in each case.

4.14 OTHER PROVISIONS

€ thousand	01.01. to Dec. 31, 2020	01.01. to Sept. 30, 2021
Other current provisions on January 1	**559**	**582**
Utilization	-49	-130
Unused amounts reversed	-107	-58
Arising during the year	247	10
Reclassification	0	0
Deconsolidation	-68	-65
Other current provisions on December 31/September 30	**582**	**339**

Other current provisions are current at all times presented and relate exclusively to provisions for warranty obligations. These were recognized as liabilities for products sold in the past two years. Assumptions used to calculate the provision for warranties were based on sales under warranty and current information available about returns based on the two-year warranty period.

4.15 FINANCIAL LIABILITIES

€ thousand	Dec. 31, 2020	Sept. 30, 2021
Current up to 1 year	2,996	26,312
Non-current	14,861	12,322
of which 1 to 5 years	10,289	10,613
of which more than 5 years	4,572	1,709
Total	**17,857**	**38,635**

The financial liabilities reported in the Consolidated balance sheet also include lease liabilities in accordance with IFRS 16. These are explained separately in group note 16 and are not included in the above breakdown of financial liabilities. Financial liabilities include a KfW loan of €13 million. The loan was raised in 2018 with a duration of 10 years and a fixed interest rate of 1.15% p.a., and will be repaid in quarterly installments from March 31, 2020. The value recognized in the statement of financial position as of September 30, 2021 is €10.6 million. Machinery and equipment at the Berlin-Weißensee location have been assigned as collateral. First Sensor Lewicki GmbH is jointly liable. Current financial liabilities include the profit transfer to TE Connectivity of €21,994 thousand.

Promissory note loans

First Sensor placed three promissory note loans totaling €28.0 million on December 15, 2015.

As part of the placement, German institutional investors subscribed to promissory notes with terms of five years (€18.0 million, floating rate and €7.0 million, fixed rate) and seven years (€3.0 million, fixed rate). The promissory note pays variable interest with a margin calculated on the basis of 6-month EURIBOR. The financial ratios for the placed promissory notes are leverage and equity ratio.

The floating rate and fixed-rate promissory note loans of €18.0 million and €7.0 million in place since 2016 were repaid on December 21, 2020. The remaining promissory note loan of €3 million is reported as non-current due to its final maturity in December 2022.

The key financial ratios are calculated annually. The interest rate risk is reduced by fixed interest rates and normal hedging mechanisms (see “Derivative financial instruments”).

Others

First Sensor had unutilized credit facilities of €3,000 thousand as of September 30, 2021 (previous year: €3,000 thousand). Given the cash pool with the TE Group set up in the 2020 financial year, it is unlikely that the credit facilities will be utilized. Nonetheless, First Sensor intends to retain the option of utilizing the credit facility at short notice. Further short-term liabilities to banks of €1,501 thousand were reported as of September 30, 2021. In conjunction with the cash pooling agreement with TE, all movements in the participating bank accounts were offset on an ongoing basis. There was no offsetting in conjunction with cash pooling as of the end of the reporting period for technical reasons. The liabilities were offset on October 1, 2021.

4.16 LEASE LIABILITIES

The lease liabilities, reported under financial liabilities, break down as follows:

€ thousand	Dec. 31, 2020	Sept. 30, 2021
Current up to 1 year	1,173	966
Non-current	4,814	4,780
of which 1 to 5 years	4,137	4,110
of which more than 5 years	677	671
Total	**5,987**	**5,746**

Interest expenses for lease liabilities amounted to €263 thousand (previous year: €281 thousand). The amounts still recognized as lease expenses in the Consolidated income statement the basis of the simplification rules utilized amounted to €242 thousand (€177 thousand) and are reported within other operating expenses.

4.17 OTHER NON-CURRENT FINANCIAL LIABILITIES

Non-current liabilities include deferred investment grants/subsidies of €2,631 thousand (previous year: €2,749 thousand). These relate to government grants and were essentially paid out in the form of investment grants for the new production facilities built in Berlin. The grants paid are dependent on evidence of implementation of the investment measures and compliance with conditions related to retention of the assets and future job creation.

The fair value of an interest rate hedging instrument reported at €433 thousand as of January 1, 2021 was ended and reversed in the 2021 short financial year.

4.18 OTHER CURRENT FINANCIAL LIABILITIES

€ thousand	Dec. 31, 2020	Sept. 30, 2021
Liabilities due to staff	2,894	3,113
Liabilities from income tax	999	535
Deferred trade payables	278	2,037
Social security liabilities	14	15
Liabilities and deferrals for restructuring costs	0	6,073
Others	1,646	1,486
Total	**5,831**	**13,260**

Liabilities and deferrals for restructuring costs of €6,073 thousand were reported as of September 30, 2021 in connection with the closure of the Puchheim location. These relate to severance payments of €5,642 thousand and legal and consulting costs of €431 thousand.

All other current liabilities are non-interest-bearing.

4.19 SHARE-BASED REMUNERATION

Stock option plan

There are/were three stock option plans:

- 2013 stock option plan (SOP 2013)
- 2016/II stock option plan (SOP 2016/II)
- 2017/I stock option plan (SOP 2017/I)

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

	2013 SOP**	2016/II SOP	2017/I SOP **
Annual General Meeting resolution	August 20, 2013*	May 4, 2016	May 27, 2017
Term of stock option plan	3 years	3 years	2 years
Vesting period after issue	4 years	4 years	4 years
Exercise period after vesting period	5 years	3 years	3 years
Maximum pre-emption rights (total volume)	**91,000***	**520,000**	**240,000**

* Adjusted by way of resolution of the Annual General Meeting on May 27, 2017

** Already ended

Share options are exercised subject to the following conditions.

SOP 2013

All pre-emption rights from the 2013 stock option plan have either expired or were converted into shares in the previous year. The 2013/I stock option plan is therefore over.

The 2013 stock option plan had a three-year term. The option program was reduced to 91,000 options by way of resolution of the Annual General Meeting on May 27, 2017. The plan is divided into three groups of beneficiaries:

- members of the Management Board of the company;
- members of management at affiliated companies;
- employees of the company or affiliated companies.

Pre-emption rights could be issued to beneficiaries from the total volume every year during the term of the 2013 stock option plan.

Pre-emption rights could only be issued to beneficiaries between the announcement by the Management Board of the results for the previous financial and the end of the financial year, and not before Contingent Capital 2013/I has been entered in the commercial register.

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

Pre-emption rights could not be exercised in the three weeks preceding the announcement of quarterly results or in the period between the end of a financial year and the publication of the company’s consolidated financial statements. The same applied even if an exercise window opens during these blocking periods.

The exercise price for pre-emption rights was €15.00 per right.

Pre-emption rights could only be exercised within the exercise period if the performance target has been achieved in the six weeks prior to exercise. The performance target had been achieved if the closing price of the company's shares on XETRA (or a comparable successor system of the Frankfurt Stock Exchange) met or exceeded the exercise price of €15.00 on ten consecutive trading days.

Options were non-transferable, except in the event of the beneficiary's death.

Further details for granting of options and further conditions for exercising them were determined by the Supervisory Board if members of the Management Board of the company were affected. If employees of the company were affected or if options were to be granted to members of management at affiliated companies, the further details were determined by the Management Board of the company.

A total of 185,208 pre-emption rights were issued to Executive Board members. These pre-emption rights are forfeited if the members of the Management Board leave the company. Furthermore, 118,000 pre-emption rights in total were granted to members of management at affiliated companies and employees of the company and affiliated companies.

2016/II SOP

The 2016/II stock option plan was resolved at the Annual General Meeting on May 4, 2016. It provides for up to 520,000 pre-emption rights to be issued to members of the Management Board, members of management at affiliated companies in Germany and abroad and managers of the company until December 31, 2019. If pre-emption rights are forfeited because beneficiaries leave the company within the authorization period, a corresponding number of pre-emption rights can be reissued.

The total volume of pre-emption rights under the 2016/II stock option plan breaks down among the groups of beneficiaries as follows:

- members of the Management Board of the company will receive a maximum of up to 160,000 options in total (up to around 30.8%);
- members of management at affiliated companies will receive a maximum of up to 70,000 options in total (up to around 13.5%);
- managers of the company will receive a maximum of up to 290,000 options in total (up to around 55.7%).

Pre-emption rights can be issued for the first time in the 2016 financial year.

The pre-emption rights can be exercised for the first time after a vesting period of four years from the respective issue date. The pre-emption rights have a total term of seven years from the issue date; after this they are forfeited without replacement. After the end of the vesting period, pre-emption rights can be exercised if the performance target has been achieved within 30 trading days prior to exercise. The exercise price is equal to the average closing price of the shares on the 30 consecutive trading days before the respective issue date of the options plus 20%. However, the exercise price for the pre-emption rights issued in the 2017 and 2018 financial years is at least €15.00. The performance target has been achieved if the closing price of the shares meets or exceeds the exercise price on 30 consecutive trading days. The exercise price for the pre-emption rights is €11.95 per right in the first tranche, €16.03 in the second tranche and €31.32 in the third tranche.

In addition to the achievement of the performance target, the exercise of pre-emption rights is also subject to the strict requirement that the beneficiary must have acquired one share in the company for every ten pre-emption rights granted no later than six months after the issue date of the respective pre-emption rights, and must have held these shares continuously in their own name until the date when these pre-emption rights are first exercised. If there is no such proof of the acquisition of shares, the pre-emption rights cannot be exercised.

Pre-emption rights can be inherited but they cannot be transferred or sold. They cannot be pledged.

Contingent Capital 2016/II was created in the amount of €2,600,000.00 to serve the 2016/II stock option plan.

290,000 pre-emption rights in total were granted under the 2016/II stock option plan in the 2016 financial year. 110,000 of these pre-emption rights were granted to the CFO. The value per option issued was €2.00 and was calculated using the Black-Scholes model.

78,000 pre-emption rights in total were granted under the 2016/II stock option plan in the 2017 financial year. 25,000 of these pre-emption rights were granted to the CFO. The value per option issued was €3.08 and was calculated using the Black-Scholes model. The calculation was based on the following parameters: share price on the grant date of €11.73, volatility of 39.4% and an interest rate of 0.0%. It was also assumed that there would be an annual non-exercise rate of 15%.

101,000 pre-emption rights in total were granted under the 2016/II stock option plan in the 2018 financial year. 25,000 of these pre-emption rights were granted to the CFO. The value per option issued was €7.91 and was calculated using the Black-Scholes model. The calculation was based on the following parameters: share price on the grant date of €25.20, volatility of 44.32% and an interest rate of 0.0%. It was also assumed that there would be an annual non-exercise rate of 15%.

160,000 pre-emption rights were settled on the departure of a member of the Management Board in the 2020 financial year.

2017/I SOP

With the retirement of the Management Board and settlement of the beneficiaries in the 2020 financial year, there are no longer any subscription rights under the stock option plan. The 2017/I stock option plan is therefore over.

The 2017/I stock option plan was resolved at the Annual General Meeting on May 27, 2017. It provided for up to 240,000 pre-emption rights to be issued to members of the Management Board until December 31, 2019. If pre-emption rights were forfeited because beneficiaries leave the company within the authorization period, a corresponding number of pre-emption rights could be reissued.

Pre-emption rights can be issued for the first time in the 2017 financial year.

The pre-emption rights could be exercised for the first time after a vesting period of four years from the respective issue date. The pre-emption rights had a total term of seven years from the issue date; after this they were forfeited without replacement. After the end of the vesting period, pre-emption rights could be exercised if the performance target had been achieved. The performance target had been achieved if the closing price of the shares on XETRA (or a comparable successor system of the Frankfurt Stock Exchange) met or exceeded the exercise price on 30 consecutive trading days prior to exercise. The exercise price was equal to the average closing price of the shares on the 30 consecutive trading days before the respective issue date of the options plus 20%. However, the exercise price for the pre-emption rights issued in the 2017 and 2018 financial years was at least €15.00.

In addition to the achievement of the performance target, the exercise of pre-emption rights was also subject to the strict requirement that the beneficiary must have acquired one share in the company for every ten pre-emption rights granted no later than six months after the issue date of the respective pre-emption rights, and must have held these shares continuously in their own name until the date when these pre-emption rights are first exercised. If there is no such proof of the acquisition of shares, the pre-emption rights could not be exercised.

Contingent Capital 2017/I was created in the amount of €1,200,000.00 to serve the 2017/I stock option plan.

A total of 80,000 pre-emption rights were granted to the CEO of First Sensor AG under the stock option plan 2017/I in the 2017 financial year. The value per option issued was €4.16 and was calculated using the Black-Scholes model. The calculation was based on the following parameters: share price on the grant date of €14.14, volatility of 39.4% and an interest rate of 0.0%. It was also assumed that there would be an annual non-exercise rate of 15%.

A total of 80,000 pre-emption rights were granted to the CEO of First Sensor AG under the 2017/I stock option plan in the 2018 financial year. The value per option issued was €7.91 and was calculated using the Black-Scholes model. The calculation was based on the following parameters: share price on the grant date of €25.20, volatility of 44.32% and an interest rate of 0.0%. It was also assumed that there would be an annual non-exercise rate of 15%.

A total of 80,000 pre-emption rights were granted to the CEO of First Sensor AG under the 2017/I stock option plan in the 2019 financial year. The value per option issued was €4.99 and was calculated using the Black-Scholes model. The calculation was based on the following parameters: exercise price of €23.59, share price on the grant date of €20.40, volatility of 37.0% and an interest rate of 0.0%. No fluctuation was assumed.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

4.20 SALES

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
DACH*	79,463	55,815	-23,648	-29.8
Rest of Europe	32,596	22,447	-10,149	-31.1
North America	15,591	5,688	-9,903	-63.5
Asia	26,084	20,030	-6,054	-23.2
Others	1,082	1,334	252	23.3
Total	**154,816**	**105,314**	**-49,502**	**-32.0**

Sales essentially result from the sale of customized semiconductor sensors, sensor systems and development and production services. Sales allowances of €129 thousand were granted in the reporting period (previous year: €214 thousand).

4.21 OTHER OPERATING INCOME

Other operating income breaks down as follows:

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Gain on the disposal of consolidated subsidiaries	47,539	23,502	-24,037	-50.6
Income from the reversal of provisions and deferred liabilities	184	410	226	123.0
Income from other benefits in kind	436	300	-136	-31.2
Insurance claim payments	77	2	-75	-97.0
Investment allowances	113	65	-48	-42.8
Investment grants	82	54	-28	-34.5
Prior-period income	134	394	260	193.9
Development grants	60	124	64	107.0
Others	632	240	-392	-62.0
Total	**49,257**	**25,091**	**-24,166**	**-49.1**

4.22 CHANGES IN INVENTORIES OF FINISHED GOODS AND WORK IN PROGRESS

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Unfinished goods and work in progress	-1,741	1,483	3,224	185.2
Finished goods	-771	2,164	2,935	380.7
Total	**-2,512**	**3,648**	**6,160**	**245.2**

4.23 OWN WORK CAPITALIZED

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Capitalized development costs	1,879	583	-1,296	-69.0
Other capitalized costs	61	421	360	590.2
Total	**1,940**	**1,004**	**-936**	**-48.2**

Capitalized expenses amounted to €1,004 thousand in the 2021 short financial year (previous year: €1,940 thousand). Capitalized development costs in accordance with IAS 38 accounted for €583 thousand (previous year: €1,879 thousand) of this amount. Other capitalized costs essentially relate to measures in connection with the capacity expansion (media supply and machinery) and technological capabilities at the production sites in Berlin-Oberschöneweide and Berlin-Weißensee.

Recognized research and development costs amounted to €6,703 thousand in the 2021 short financial year (previous year: €9,668 thousand).

4.24 COST OF MATERIALS, COST OF PURCHASED SERVICES

The cost of materials breaks down as follows:

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Raw materials and supplies	61,331	45,882	-15,449	-25.2
Purchased services	9,535	7,689	-1,846	-19.4
Total	**70,866**	**53,571**	**-17,295**	**-24.4**

4.25 STAFF COSTS

The staff costs break down as follows:

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Wages and salaries	41,396	35,410	-5,986	-14.5
Social security contributions including pension plans	8,090	6,201	-1,889	-23.3
Total	**49,486**	**41,611**	**-7,875**	**-15.9**

Staff costs include expenses for granting share options of €41 thousand (previous year: €860 thousand).

4.26 OTHER OPERATING EXPENSES

Miscellaneous other operating expenses comprise the following items:

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Costs for premises	1,327	1,117	-210	-15.9
Maintenance and repairs	2,383	1,867	-516	-21.6
Sales and marketing expenses	1,484	1,751	267	18.0
Legal and consulting fees	1,841	866	-975	-53.0
IT costs	1,370	1,710	340	24.8
Vehicle costs	85	96	11	12.6
Travel costs	255	153	-102	-40.2
Warranty expenses	360	22	-338	-93.9
Goods handling costs	561	381	-180	-32.1
Other operating requirements	1,289	861	-428	-33.2
Other expenses	401	1,102	701	174.8
Disposal of assets	393	196	-197	-50.0
Insurance	750	374	-376	-50.2
Investor Relations	261	179	-82	-31.5
Recruitment costs	216	126	-90	-41.7
General administration expenses	1,430	691	-739	-51.7
Work clothing and protective equipment	458	459	1	0.1
Training costs	164	133	-31	-18.7
Communication costs	254	156	-98	-38.6
R&D expenses	178	37	-141	-78.9
Prior-period expenses	540	833	293	54.3
Audits of financial statements	145	315	170	117.2
Supervisory Board remuneration	188	45	-143	-76.1
Other taxes	101	27	-74	-73.4
Total	**16,434**	**13,496**	**-2,938**	**-17.9**

The reduction in legal and consulting fees is due to costs deferred in the previous year in connection with the acquisition by TE Connectivity Sensors Germany Holding AG. The other operating expenses include expenses for short-term leases with a term of less than one year of €208 thousand (previous year: €152 thousand) and lease expenses for low-value assets of €34 thousand (previous year: €25 thousand).

4.27 FINANCIAL RESULT

Net financial result broke down as follows:

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Interest income	10	37	27	271.8
Interest expenses	-1,448	-494	954	-65.9
Others	-317	-14	303	-95.5
Total	**-1,755**	**-471**	**1,284**	**-73.2**

4.28 INCOME TAXES

The material components of income taxes are as follows:

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Current income taxes	1,597	128	-1,469	-92.0
Deferred taxes	-545	-1,233	-688	126.3
Reported tax amount	**1,052**	**-1,105**	**-2,157**	**-205.0**

The reconciliation of income tax expense and the product of the reported profit for the period and the applicable Group tax rate is as follows:

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Profit before income taxes	**53,486**	**17,723**	**-35,763**	**-66.9**
Tax rate	30%	30%		
Calculated tax expenses/income (expenses positive, income negative)	**16,046**	**5,317**	**-10,729**	**66.9**
Prior-period taxes	5	-100	-105	-2,100.0
Taxes on compensation for non-controlling interests	0	228	228	-
Different tax rate in other countries	-128	-14	114	-89.1
Consolidated tax group with TE	0	-6,536	-6,536	-
Additional trade income tax	60	0	-60	-100.0
Tax-free income	-13,628	0	13,628	100.0
Non-deductible operating expenses	29	0	-29	-100.0
Permanent differences from stock option programs	-1,484	0	1,484	100.0
Others	152	0	-152	-100.0
Tax expenses (+)/Tax income(-)	**1,052**	**-1,105**	**-2,157**	**-205.0**

Income taxes comprise the income taxes paid or payable in the respective countries.

The income taxes for 2021 include corporation tax, trade income tax, the solidarity surcharge and the corresponding foreign taxes. Corporation tax on distributed and retained profits is 15% in the Federal Republic of Germany. A solidarity surcharge of 5.5% is levied on corporation tax. The trade income tax was calculated on the basis of the assessment rate applied by the relevant municipal authority at 11.55% and 14.35%.

There are no loss carryforwards at foreign Group companies as of September 30, 2021. As in the previous year, there are no tax loss carryforwards for German Group companies.

4.29 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The amounts used to calculate basic and diluted earnings per share are shown in the table below:

€ thousand, unless otherwise indicated	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Net profit attributable to shareholders	52,334	18,724	-33,610	-64.2
Weighted average shares outstanding (basic) in thousands	10,277	10,293	16	0.2
Earnings per share (basic) in EUR	**5.09**	**1.82**	**-3.27**	**-64.3**
Dilutive effect from share options	6	9	3	47.9
Weighted average outstanding shares (diluted)	10,283	10,302	19	0.2
Earnings per share (diluted)	**5.09**	**1.82**	**-3.27**	**-64.3**

Earnings per share attributable to discontinued operations (basic/diluted) amounted to EUR 4.85 in the previous year of 2020.

4.30 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

In accordance with IAS 7 Statement of Cash Flows, First Sensor reports the cash flow from operating activities using the indirect method, in which the profit or loss for the period is adjusted by the effects of non-cash transactions, deferrals of past or future inflows and outflows from operating activities and items of income or expense in connection with the cash flow from investing or financing activities. Reconciliation is carried out on the basis of pre-tax income. Tax payments are shown in the operating cash flow, interest received as part of cash flow from investing activities, and interest paid as part of cash flow from financing activities. Almost all the cash flow from financing activities is due to payments. Changes in exchange rates or fair values are insignificant.

Cash and cash equivalents are defined according to the company’s cash management. This includes cash and bank balances and deposits in the cash pool and current account liabilities:

€ thousand	Dec. 31, 2020	Sept. 30, 2021	Δ absolute	in %
Cash on hand	1	0	-1	-100.0
Bank balances	10,029	3,006	-7,023	-70.0
Cash pool	39,319	64,279	24,960	63.5
Bank overdrafts	0	-1,501	-1,501	-
Total	**49,349**	**65,784**	**17,936**	**36.3**

Current financial liabilities included bank overdrafts of € 1,501 thousand as of September 30, 2021. In conjunction with the cash pooling agreement with TE, all movements in the participating bank accounts were offset on an ongoing basis. There was no offsetting in conjunction with cash pooling as of the end of the reporting period for technical reasons. The liabilities were offset on October 1, 2021.

The net cash flow of discontinued operations was as follows in the 2020 financial year:

€ thousand	**2,020**
Cash flow from operating activities	1,564
Cash flow from investing activities	-173
Cash flow from financing activities	-2,301
Net change in cash and cash equivalents	**-910**
Cash funds at the beginning of the period under review	5,041
Cash funds at the end of the period under review	4,131

4.31 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

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

Further financial obligations arise from renting office premises and office equipment, from leases for capital assets, vehicles and technical office equipment, from long-term building leases, from building leases and from allocations from defined contribution pension plans. Since January 1, 2019, all rental and lease obligations have been measured in accordance with IFRS 16 and recognized in property, plant and equipment or as a financial liability. The expenses for short-term leases with a term of less than one year and lease expenses for low-value assets remaining in other operating expenses amount to €242 thousand in the reporting period (previous year: €177 thousand). Other financial obligations break down as follows:

€ thousand	**2,022**	**2023 to 2026**	**From 2027**
Purchase obligations	24,677	2,009	0
Guarantees	0	0	0
Total	**24,677**	**2,009**	**0**

The purchase obligation in 2022 relates to ordered capital assets and inventories.

4.32 DISCONTINUED OPERATIONS

First Sensor sold the following subsidiaries to the TE Group in full in the 2020 financial year:

- First Sensor Inc., Westlake, CA, USA
- First Sensor France SAS, Paris, France
- First Sensor Technology Ltd., Shepshed, UK
- First Sensor Corp., Montreal, Canada
- Klay-Instruments B.V., Dwingeloo, Netherlands

The sale took place in connection with the integration of First Sensor into the TE Group. The sales proceeds received from these transactions amount to €65,700 thousand in total. The cash and cash equivalents sold with the companies amount to €4,131 thousand. The gain on the deconsolidation of the companies sold recognized in the consolidated income statement amounted to €47,539 thousand in the 2020 financial year. The disposal of the shares resulted in a tax expense of €0.8 million.

The following table provides an overview of the assets and liabilities sold:

ASSETS in € thousand	**2,020**
Property, plant and equipment	937
Total non-current assets	**937**
Inventories	2,956
Trade receivables	2,096
Tax assets	1
Other current assets	238
Prepaid expenses and deferred charges	348
Cash and cash equivalents	4,131
Total current assets	**9,769**
Total ASSETS	**10,707**

EQUITY AND LIABILITIES in € thousand	**2,020**
Equity	**3,311**
Non-current financial liabilities	458
Total non-current liabilities	**458**
Provisions for taxes	296
Other current provisions	68
Current financial liabilities	5,112
Payments received on account of orders	3
Trade payables	707
Other current financial liabilities	752
Total current liabilities	**6,938**
Total EQUITY AND LIABILITIES	**10,707**

Presentation of earnings effects by continuing and discontinued operations

The income and expenses reported in the Consolidated income statement for the 2020 financial year are reported separately by continuing and discontinued operations below. The gain on disposal of €47,539 thousand is allocated to discontinued operations.

	Financial year 2020		
€ thousand	Discontinued operations	Continuing operations	Total
Sales	14,417	140,400	154,816
Other operating income	47,806	1,451	49,257
Changes in inventories of finished goods and work in progress	239	-2,751	-2,512
Other own work capitalized	57	1,883	1,940
Cost of materials/cost of purchased services	-5,669	-65,197	-70,866
Staff costs	-4,457	-45,029	-49,486
Other operating expenses	-1,678	-14,756	-16,434
EBITDA	**50,715**	**16,001**	**66,715**
Depreciation of property, plant and equipment and amortization of intangible assets	-285	-11,189	-11,474
EBIT	**50,430**	**4,812**	**55,241**
Financial result	-73	-1,683	-1,755
PROFIT BEFORE TAXES and non-controlling interests	**50,357**	**3,129**	**53,486**
Income taxes	-534	-518	-1,052
PROFIT OR LOSS FOR THE PERIOD	**49,823**	**2,612**	**52,434**

The operating result of continuing operations is reduced by one-time expenses in connection with the integration into the TE Group of around €1.8 million in the 2020 financial year.

First Sensor Mobility GmbH was sold to Tyco Electronics Germany Holdings GmbH on August 27, 2021. The sale of First Sensor Mobility GmbH is not a discontinued operation as defined by IFRS 5.

4.33 PRO FORMA CONSOLIDATED INCOME STATEMENT

As a result of the change in financial year as of October 1, 2021, the figures in the consolidated income statement for the 2021 short financial year cannot be compared to those in the income statement for the 2020 financial year. A simplified pro forma 2020 income statement was prepared to allow users of the financial statements to compare the results of the 2021 short financial year. The following table shows the results for the 2021 short financial year and the pro forma income statement for the first nine months of the 2020 financial year. The 2020 pro forma figures include First Sensor Mobility GmbH for the whole of the nine-month period, whereas it was deconsolidated as of August 27 in the 2021 short financial year.

Non-recurring effects of severance payments and gains on disposal have been eliminated in the pro forma comparison to show comparable EBIT. The pro forma adjusted EBIT is therefore significantly improved for the comparative period, based on the unaudited prior-year figures (Q3 2020).

€ thousand	Jan. 1 to Sept. 30, 2020*	Jan. 1 to Sept. 30, 2021	Change
Sales	107,978	105,314	-2,664
Other operating income	1,370	25,091	23,722
Changes in inventories of finished goods and work in progress	-240	3,648	3,887
Other own work capitalized	1,620	1,004	-616
Cost of materials/cost of purchased services	-53,493	-53,571	-78
Staff costs	-34,156	-41,611	-7,455
Other operating expenses	-13,547	-13,496	51
EBITDA	**9,531**	**26,380**	**16,849**
Depreciation of property, plant and equipment and amortization of intangible assets	-8,039	-8,186	-147
EBIT	**1,493**	**18,194**	**16,701**
Adjustment for severance payments	0	6,760	6,760
Adjustment for other operating expenses	0	1,377	1,377
Adjustment for 2021 gain on disposal	0	-23,502	-23,502
Adjusted EBITDA	**9,531**	**11,014**	**1,483**
Adjusted EBIT	**1,493**	**2,828**	**1,335**

4.34 SEGMENT REPORTING

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

The specific requirements of the customer in each case dictate at which step in the value chain the services are called on.

First Sensor operates as a homogeneous company which comprises the development, production and sale of sensor chips, sensor components, sensors and sensor systems. Sales are monitored by target market (industrial, medical, mobility) and geographically according to the origin of the customers (DACH region, Europe, North America, Asia).

To ensure a consistent focus on markets and customers, First Sensor caters to the three target markets of Industrial, Medical and Mobility business with its sensor products. However, these do not constitute the basis for internal management and internal reporting. Sales break down across these markets as follows:

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Industrial	76,842	55,616	-21,226	-27.6
Medical	44,017	21,958	-22,059	-50.1
Mobility	33,957	27,740	-6,217	-18.3
Total	**154,816**	**105,314**	**-49,502**	**-32.0**

Every month, the results of the parent company and its subsidiaries are measured, processed and then analyzed by the Management Board. However, the business units do not represent segments as referred to by IFRS 8.

Following the sale of the foreign subsidiaries to the TE Group in the 2020 financial year, the First Sensor Group has non-current assets in Germany of €72,042 thousand (previous year: €78,778 thousand) as of September 30, 2021.

The investments in non-current assets also relate exclusively to Germany.

Investments in € thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021	Δ absolute	in %
Germany	11,281	11,909	628	5.6
Rest of Europe	48	0	-48	-100.0
North America	125	0	-125	-100.0
Total	**11,454**	**11,909**	**455**	**4.0**

4.35 RELATED PARTY TRANSACTIONS

Related parties as referred to by IAS 24 are the majority shareholder TE Connectivity Sensors Germany Holding AG, TE Connectivity Ltd., Schaffhausen, Switzerland, and its subsidiaries and associates. Transactions with related parties essentially relate to the cash management system, ongoing supply and clearing transactions and service contracts. First Sensor utilizes potential economies of scale by participating in the TE Group's cash management system. All transactions with related parties have been contractually agreed and are carried out at arm's length conditions.

Transactions with individuals or companies who can be subject to the influence of First Sensor or who can influence First Sensor must be disclosed unless such transactions have already been recognized in the consolidated financial statements through the inclusion of consolidated companies.

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

Sale of subsidiaries to the TE Group

As previously stated, First Sensor sold subsidiaries to the TE Group for a purchase price of €65,700 thousand in the 2020 financial year and one subsidiary for a purchase price of €33,340 thousand in the 2021 short financial year. The sales are intended to leverage synergies as part of the integration of First Sensor into the TE Connectivity Group. The supply relationships will remain in place. The purchase price agreed between the respective parties was agreed at arm's length, as between third parties. The sale resulted in a deconsolidation result of €23,502 thousand (previous year: €47,539 thousand).

Goods and services between First Sensor and companies of the TE Group:

€ thousand	Jan. 1 to Dec. 31, 2020	Jan. 1 to Sept. 30, 2021
Sale of goods and services		
Sales	404	1,822
Other operating income	239	12
Purchase of goods		
Other operating expenses	-366	-1,705
Financing		
Other interest and similar income	15	36

Receivables from and liabilities to companies of the TE Group:

€ thousand	Dec. 31, 2020	Sept. 30, 2021
Trade		
receivables	342	107
Cash Pool	39,319	64,279
Trade		
payables	597	1,704
from the profit transfer to TE Connectivity	0	21,944

Member of the Management Board

- Marcus Resch, Bad Homburg v.d.H. (since March 14, 2020; departed on May 31, 2021)
- Sibylle Büttner, Unna (since April 20, 2021)
- Robin Maly, Meilen, Switzerland (since April 20, 2021)
- Dirk Schäfer, Mannheim, (since June 1, 2021)

The former member of the Management Board Marcus Resch was granted total remuneration of €606 thousand for his work as a member of the Management Board in the 2021 short financial year. The company did not grant him any pre-emption rights or other share-based remuneration. The current members of the Management Board of First Sensor AG, Sybille Büttner, Robin Maly and Dirk Schäfer, were not granted or promised any remuneration for their work on the Management Board by First Sensor AG or any third party.

Further details can be found in the remuneration report.

The Supervisory Board

The remuneration of the Supervisory Board is governed by Article 13 of the Articles of Association and determined by the Annual General Meeting. The remuneration system for the Supervisory Board was revised in accordance with the resolution of the Annual General Meeting on May 23, 2014. After the end of the financial year, members of the Supervisory Board receive remuneration of €20 thousand for each full year of membership of the Supervisory Board. This increases to €50 thousand for the Chairman and €30 thousand for the Deputy Chairman. The members of the Supervisory Board are covered by third-party financial loss insurance (D&O insurance) taken out by the company at an appropriate amount in the interests of the company. These premiums are paid by the company. No deductible has been agreed.

The company reimburses each member of the Supervisory Board for any reasonable expenses incurred in the performance of their duties for which proof has been provided and for any VAT that is incurred on their remuneration.

The remuneration of the members of the Supervisory Board amounted to €45 thousand in the 2021 short financial year (previous year: €94 thousand). Supervisory Board members do not receive any performance-based remuneration and do not participate in the company’s stock option plan.

Other related parties

There were no other transactions with other related parties in the 2021 short financial year.

4.36 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management for financial instruments

In the reporting period, First Sensor sold its products and services worldwide and purchased materials on an international market, which led to market risks owing to changes in exchange rates.

As required, foreign exchange risks are reduced by concluding foreign exchange forward transactions in connection with material purchases. This did not occur in the short financial year.

The company's main financial instruments comprise trade receivables, cash and cash equivalents, current financial assets (cash pool), trade payables, promissory note loans, overdraft facilities and bank loans. The aim of these financial liabilities is to finance the company's business operations. The principal risks result from default, liquidity, currency, interest rate and fair value risks. There are no other price risks from financial instruments.

Fair value risk

The fair value of financial assets and financial liabilities is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The methods and assumptions used to calculate fair values are as follows:

The fair value of unquoted instruments, loans and non-current financial liabilities, and obligations under finance leases is estimated by discounting the future cash flow on the basis of interest rates currently available for borrowings on similar terms, credit risks and remaining maturities.

In the past, First Sensor entered into derivative financial instruments with various banks of good credit standing. The interest rate swaps are measured using a valuation technique with input parameters that can be observed on the market. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. These models take into account various factors such as the credit rating of business partners, foreign exchange spot and forward rates and yield curves. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment of the hedge relationship or other financial instruments recognized at fair value. No such agreements were entered into with banks in the 2021 short financial year.

Classification and fair value

The following table shows the reconciliation of the statement of financial position items as of December 31, 2020 for financial instruments to classes and measurement categories in accordance with IFRS 9. It also shows aggregate carrying amounts for each line item, which are essentially equal to the fair values.

	Categories of financial instruments (IFRS 9)			Reconciliation to line item	Line item
Dec. 31, 2020	Debt instruments at fair value through profit or loss and derivatives	Financial assets at amortized cost	Financial liabilities at amortized cost		
ASSETS in € thousand					
Trade receivables	-	20,768	-	-	20,768
Financial assets	-	39,436	-	-	39,436
Cash and cash equivalents	-	10,030	-	-	10,030
EQUITY AND LIABILITIES in € thousand					
Non-current financial liabilities*	-	-	14,861	4;814	19;675
Other non-current financial liabilities	433	-	-	2,749	3,182
Current financial liabilities*	-	-	2,996	1;172	4;168
Trade payables	-	-	5,785	-	5,785
Other current liabilities	-	-	4,078	1,753	5,831

*Lease liabilities are recognized and measured in accordance with IFRS 16. These are explained separately in the group notes under item 4.16. Lease liabilities are reported under financial liabilities in the consolidated statement of financial position.

The following table shows the reconciliation of the statement of financial position items as of September 30, 2021 for financial instruments to classes and measurement categories in accordance with IFRS 9. It also shows aggregate carrying amounts for each line item, which are essentially equal to the fair values.

	Categories of financial instruments (IFRS 9)			Reconciliation to line item	Line item
Sept. 30, 2021	**Debt instruments at fair value through profit or loss and derivatives**	**Financial assets at amortized cost**	**Financial liabilities at amortized cost**		
ASSETS in € thousand					
Trade receivables	-	18,641	-	-	18,641
Financial assets	-	64,396	-	-	64,396
Cash and cash equivalents	-	3,006	-	-	3,006
EQUITY AND LIABILITIES in € thousand					
Non-current financial liabilities*	-	-	12,322	4,781	17,103
Other non-current financial liabilities	-	-	-	2,631	2,631
Current financial liabilities*	-	-	26,312	966	27,278
Trade payables	-	-	5,365	-	5,365
Other current financial liabilities	-	-	2,821	10,439	13,260

*Lease liabilities are recognized and measured in accordance with IFRS 16. These are explained separately in the group notes under item 4.16. Lease liabilities are reported under financial liabilities in the consolidated statement of financial position.

The net result from financial assets and financial liabilities recognized in the consolidated income statement was €-512 thousand in the 2021 short financial year (previous year: €-1,263 thousand).

Fair value hierarchy

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

- Level 1: quoted (non-adjusted) prices on active markets for similar assets or liabilities;
- Level 2: techniques where all inputs with a material effect on the recognized fair value are observable, either directly or indirectly;
- Level 3: techniques using inputs with a material effect on the recognized fair value and not based on observable market data.

First Sensor AG had recognized derivative financial instruments at fair value in the past. They were subject to recurring fair value measurement and were assigned to Level 2. The fair value of these financial instruments that are not traded on an active market is determined using valuation techniques that maximize the use of observable market data and rely as little as possible on estimates specific to the company. If all significant inputs to measure an instrument at fair value are observable, the instrument is assigned to Level 2. At Level 2, fair value is determined using a discounted cash flow model based on inputs that are not quoted prices allocated to Level 1 and that can be observed directly or indirectly.

All financial assets and liabilities in the Group were measured at amortized cost as of the end of the reporting period.

There were no changes in the methods for calculating fair value in the reporting period. At the end of each reporting period, it is assessed whether there were any transfers between the levels of the fair value hierarchy for financial assets and liabilities accounted for at fair value. There were no reclassifications in the past reporting period.

Derivate financial instruments

The negative fair value of an interest rate hedging instrument reported at €433 thousand as of January 1, 2021 was ended and reversed to cash in the 2021 short financial year. As a significant portion of the hedged loan was repaid in the 2020 financial year, and no significant interest rate risks are expected from the remaining promissory note loan, the derivative financial instrument (interest rate swap) was sold in the 2021 reporting period. The Group is not exposed to any significant risk of fluctuations in market interest rates as of the end of the reporting period.

There were no contracts for currency hedges in the 2021 short financial year.

Interest rate sensitivity

As the cash and cash equivalents are due on a daily or current basis, they are only subject to an insignificant risk of fluctuations in value. A change in interest rates of 100 basis points would have a maximum impact on net profit of €0.1 million (previous year: €0.1 million).

Exchange rate risks and exchange rate sensitivity

Certain transactions are settled in foreign currency within the Group. This gives rise to risks from exchange rate fluctuations. The German Group subsidiaries perform transactions predominantly settled in euro. Only a small amount of trade receivables and trade payables were in foreign currencies.

The main carrying amounts of financial assets and liabilities denominated in foreign currencies, to the extent that they are exposed to a currency risk through profit or loss, are as follows:

Sept. 30, 2021 in € thousand	USD	GBP	CNY/CNH	SEK	Total
Financial assets (cash and cash equivalents)	68	142	2	688	900
Total	**68**	**142**	**2**	**688**	**900**
Dec. 31, 2020 in € thousand	USD	GBP	CNY/CNH	SEK	Total
Financial assets (cash and cash equivalents)	513	214	117	544	1,388
Total	**513**	**214**	**117**	**544**	**1,388**

All other currencies in the Group are of minor importance due to the amounts in foreign currency.

As no equity investments in foreign companies will be held after the end of the 2020 financial year – with the exception of First Sensor Scandinavia AB, Kungens Kurva, Sweden – the risk in the event of a depreciation of the euro against the relevant currencies used in the financial statements of the former subsidiaries denominated in foreign currencies is virtually eliminated. Therefore the exchange rate risk has been reduced.

A depreciation of the euro of 10% would have an effect on currency translation of €154 thousand.

Sept. 30, 2021 in € thousand	USD	GBP	CNY/CNH	SEK	Total
Closing rate as of Sept. 30, 2021	1.15790	0.86053	7.48470	10.1683	
Increase in closing rate of 10%	1.04211	0.77448	6.73623	9.15147	
Financial assets (cash and cash equivalents) given 10% appreciation of the euro	76	157	3	765	1,000
Change	**8**	**16**	**0**	**76**	**154**

Risk of default

The risk of default is the risk of financial losses in the event that a counterparty does not fulfill its obligations towards the Group. The risk of default relates to trade receivables, other financial assets at amortized cost and the investment of cash and cash equivalents. A default event occurs when the contracting party is unable to meet its obligations to the Group. This can relate to payment delays or insolvency. The maximum default risk to which the Group is exposed is limited to the carrying amount of financial assets recognized as of the end of the reporting period (see: Classification and fair value).

The risk of default at First Sensor relates in particular to trade receivables. The risk of default is considered immaterial for all other financial assets.

The Group regularly monitors the payment behavior of customers or contractual parties. Where these are available at reasonable cost, external ratings or reports on customers or other contractual parties are obtained and analyzed. Corresponding impairment losses are recognized for trade receivables on the basis of information regarding the counterparty's current financial situation and past experience regarding payment history. Impairment losses are thus recognized if the expected future cash flows are lower than the carrying amount of the receivables.

No collateral or other credit improvement measures are in place to mitigate the risk of default. In accordance with IFRS 9, First Sensor uses the expected loss model to calculate impairment losses so that expected losses are also recognized and not just losses that have already occurred.

Liquidity risk

Given the inflow of cash and cash equivalents from the sale of subsidiaries in connection with the acquisition by the TE Group and the associated integration into cash pooling, First Sensor considers liquidity risk to be minor.

Liquidity risk also includes maturities of liabilities. Non-current liabilities are subject to fixed payment terms with suppliers. There is thus no risk of earlier payments.

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

As of September 30, 2021, the contractual undiscounted payments of principal and interest on the Group's financial liabilities mature as follows:

Sept. 30, 2021 in € thousand	Maturing in less than 1 year	Maturing in 1 to 5 years	Maturing in more than 5 years	Total
Interest-bearing loans and overdrafts	4,466	10,663	2,049	17,178
Trade payables	5,365	0	0	5,365
Other liabilities*	35,254	0	0	35,254
Lease liabilities	1,123	4,376	1,052	6,551
Total	**46,208**	**15,039**	**3,100**	**64,347**

*In this table, other liabilities include the profit transfer to TE Connectivity of €21,994 thousand. Furthermore, other liabilities include agreed severance payments of €5,642 thousand resulting from the closure of the Puchheim location. The line item "Interest-bearing loans and overdrafts" contains short-term overdrafts of €1,501 thousand, which were offset against the ongoing cash pool receivable on October 1, 2021.

Dec. 31, 2020 in € thousand	Maturing in less than 1 year	Maturing in 1 to 5 years	Maturing in more than 5 years	Total
Interest-bearing loans	4,587	9,240	4,758	18,585
Trade payables	5,785	0	0	5,785
Other liabilities	4,078	433	0	4,511
Lease liabilities	1,173	4,137	677	5,987
Total	**15,623**	**13,810**	**5,435**	**34,868**

Financial liabilities repayable on demand are always assigned to the earliest time band.

Risk concentration

The Group is careful to ensure a balanced customer portfolio, long-standing customer relations and risk diversification with regard to industry-specific end markets and regional sales markets. According to the Management Board's assessment, there is no disproportionately high concentration of risk.

Capital management

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

The Group manages its capital structure according to changes in economic conditions. To adjust the capital structure, the Group can make adjustments to dividend payments to shareholders, repay capital to its shareholders or issue new shares. Management monitors the company's capital structure at regular intervals.

The Group uses the equity ratio to monitor its capital:

€ thousand	Dec. 31, 2020	Sept. 30, 2021	Δ absolute	in %
Equity	135,623	121,954	-13,668	-10.1
Total equity and liabilities	179,775	189,360	9,586	5.3
Equity ratio in %	75%	64.4%	-11.0%	

The company fulfilled the covenants required under loan agreements in the reporting period.

4.37 FURTHER DISCLOSURES BASED ON HGB REGULATIONS

The following disclosures contain additional information that is required in the group notes in accordance with the *Handelsgesetzbuch* (HGB – German Commercial Code).

Member of the Management Board

Name	Position on the Management Board
Marcus Resch	CFO (March 14, 2020 to June 30, 2020), sole member of the Management Board (July 1, 2020 to May 31, 2021)
Sibylle Büttner	Member of the Management Board without a separate business area (from April 20, 2021)
Robin Maly	Member of the Management Board without a separate business area (from April 20, 2021)
Dirk Schäfer	Member of the Management Board without a separate business area (from June 1, 2021)

Marcus Resch was appointed as the Chief Financial Officer of First Sensor AG effective March 14, 2020. His area of responsibility initially comprised the areas of Finance and Controlling, plus Human Resources, IT, Investor Relations, Legal, Risk Management and Compliance. Following Dr. Rothweiler's resignation as of June 30, 2020, Marcus Resch also took on this Management Board responsibility. Marcus Resch was the sole member of the Management Board with no separate business area from July 1, 2020 to April 19, 2021. In conjunction with the reorganization of the Management Board of First Sensor AG following the take-over by TE Connectivity Sensors Germany Holding AG, Marcus Resch and the Supervisory Board agreed that Marcus Resch would resign as of May 31, 2021. Marcus Resch served in an advisory capacity to the new members of the Management Board in the period after he stepped down.

Sibylle Büttner and Robin Maly joined the Management Board as new members on April 20, 2020. Dirk Schäfer was appointed as a third new member of the Management Board on June 1. The new members of the Management Board jointly represent the company without their own separate business areas.

The Supervisory Board

Name/job title	Position on the Supervisory Board	Membership of statutory supervisory board	Membership of comparable domestic or foreign supervisory committees
Michael Gerosa *Senior Director/Regional Controller EMEA, TE Connectivity Ltd., Schaffhausen, Switzerland*	Chairman of the Supervisory Board since April 19, 2021 (member of the Supervisory Board since February 18, 2021)	None	TE Connectivity Poland Services sp. z o.o. in Krakow, Poland (member of the Board of Directors), TE Connectivity India Private Limited in Bangalore, India (member of the Board of Directors), Jaquet Technology Group AG in Pratteln, Switzerland (member of the Board of Directors), Tyco Electronics Finland Oy in Helsinki, Finland (member of the Board of Directors), TE Connectivity Svenska AB in Upplands-Vasby, Sweden (member of the Board of Directors), Tyco Electronics Saudi Arabia Limited in Riyadh, Saudi Arabia (member of the Board of Directors), TE Connectivity (Denmark) ApS in Glostrup, Denmark (member of the Board of Directors), Tyco Electronics (Gibraltar) Limited in Gibraltar (member of the Board of Directors)
Peter McCarthy *Vice President and General Manager, Sensor Solutions, TE Connectivity Germany GmbH, Bensheim, Germany*	Deputy Chairman of the Supervisory Board since May 1, 2020	None	None
Stephan Itter *Commercial Director, Läpple AG, Heilbronn, Germany*	Member of the Supervisory Board since May 1, 2020	Läpple Automotive GmbH, Teublitz; FIBRO GmbH, Weinsberg, Germany	None
Olga Wolfenberg *(employee representative)*	Member of the Supervisory Board since May 03, 2019	None	None
Rob Tilmanns *Director of Commercial Excellence*	Member of the Supervisory Board since June 24, 2021	None	None
Christoph Findeisen *(Employee representative)*	Member of the Supervisory Board since August 26, 2021	None	None

Disclosure in accordance with Article 160 (1) 8 AktG

According to the voting rights notifications we have received, the following individuals/companies held more than 3% of the shares in First Sensor AG as of September 30, 2021. This information can deviate from the current voting rights held if a reporting threshold has not been reached since the last notification, meaning that the person or institution concerned was not required to submit a voting rights notification:

Name/company	Domicile	Date of notification	Date threshold affected	Date of publication	Threshold reached, exceeded or fallen below	Percentage of voting rights at time of notification	Voting rights	Allocation according to
TE Connectivity Ltd. Shareholder: TE Connectivity Sensors Germany Holding AG	Schaffhausen, Switzerland	Mar. 31, 2020	Mar. 12, 2020	Mar. 31, 2020	3%, 5%, 10%, 15%, 20%, 25% and 30% exceeded	71.87	7,380,905	Section 34 WpHG
John Addis Shareholder: FourWorld Capital Management LLC	Wilmington, Delaware, United States of America	September 3, 2021	September 2, 2021	September 7, 2021	10% exceeded	12.31	1,267,452	Section 34 WpHG

Syquant Capital SAS	Paris, France	Oct. 23, 2020	Oct. 20, 2020	Oct. 23, 2020	3% exceeded	3.4	349,767	Section 34 WpHG

Employees

The average headcount, broken down by production and administration, is as follows:

Average headcount	Jan. 1 to Sept. 30, 2021
Production	422
Administration	435
Total	**857**

An average of 28 apprentices were also employed.

Fees of the auditor

€ thousand	Jan. 1 to Dec. 31 2020	Jan. 1 to Sept. 30, 2021
Audits of financial statements	130	308 (thereof for prior year: 147)
Other confirmation services	0	1 (thereof for prior year:1)
Other assurance services	6	0
Total	**136**	**309 (therof für prior year: 148)**

The audit fees for the financial statements comprise the audit of First Sensor AG’s separate financial statements in accordance with HGB, First Sensor’s consolidated financial statements in accordance with IFRS and the financial statements of material German subsidiaries of First Sensor in accordance with HGB. The auditor audits the separate financial statements of the company and the consolidated financial statements for all audit periods starting from 2013.

Waiver of disclosure in accordance with section 264(3) HGB

The following German subsidiary with the legal status of a limited liability corporation has met the conditions to exercise exemption in accordance with section 264(3) HGB and has therefore not published its annual financial statements:

First Sensor Lewicki GmbH, Oberdischingen

Appropriation of earnings of the parent company

Based on the control and profit and loss transfer agreement concluded with TE Connectivity Sensors Germany Holding AG on April 14, 2020, which was approved by the Annual General Meeting by resolution on May 26, 2020, the entire profit of the parent company First Sensor AG under commercial law in the amount of €21,994 thousand will be transferred to TE Connectivity Sensors Germany Holdings AG.

4.38 CORPORATE GOVERNANCE

The company has issued a declaration of compliance in accordance with section 161 of the *Aktiengesetz* (AktG – German Stock Corporation Act) and made this permanently available on the company’s website.

4.39 SUPPLEMENTARY REPORT

There were no significant events after the end of the 2021 short financial year that would have had a notable effect on the financial position and financial performance of First Sensor AG or the Group.

Berlin, January 25, 2022

First Sensor AG

Sibylle Büttner	Robin Maly	Dirk Schäfer
Member of the Management Board	Member of the Management Board	Member of the Management Board

5 FURTHER INFORMATION

5.1 INDEPENDENT AUDITORS REPORT

The auditor's report reproduced below also includes a "Report on assurance in accordance with section 317(3b) HGB on the electronic reproductions of the annual financial statements and the combined management report prepared for publication purposes in accordance with section 317(3b) HGB" (ESEF Report). The subject matter of the ESEF report (ESEF documents to be audited) is not attached. The audited ESEF documents can be viewed in or downloaded from the Federal Gazette.

To First Sensor AG, Berlin

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

Audit opinions

We have audited the consolidated financial statements of **First Sensor AG, Berlin**, and its subsidiaries (the Group) – consisting of the consolidated statement of financial position as of September 30, 2021, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the short financial year from January 1 to September 30, 2021, and the notes to the consolidated financial statements, including a summary of key accounting policies. Furthermore, we have audited the "combined management report of the company and the Group" (hereinafter: combined management report) of First Sensor AG, Berlin, for the short financial year from January 1 to September 30, 2021. We have not audited the content of the separate non-financial consolidated report (CSR report) published on the company's website, which is referred to in the combined management report in the section entitled "Development of non-financial performance indicators" and in "5 Other disclosures", in accordance with German law. We have not audited the content of the (Group) corporate governance declaration published on the company's website, which is referred to in the combined management report in section "5 Other disclosures", in accordance with German law.

In our opinion, based on the findings of our audit:

- the attached consolidated financial statements, in all material respects, comply with the IFRS as adopted by the EU and the additional requirements of German commercial law in accordance with section 315e(1) HGB, and give a true and fair view of the net assets and financial position of the Group in accordance with these requirements as of September 30, 2021 and its results of operations for the short financial year from January 1 to September 30, 2021; and

- as a whole, the attached combined management report provides a suitable view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements and with German legal requirements, and accurately presents the risks and opportunities of future development. Our audit opinion on the combined management report does not extend to the unaudited parts of the combined management report set out above.

In accordance with section 322(3) sentence 1 HGB, we declare that our audit has not led to any objections to the regularity of the consolidated financial statements or the combined management report.

Basis for audit opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW – German Institute of Public Auditors). Our responsibility under these provisions and policies is described further in the section of our audit report entitled "Auditor's responsibility for the audit of the consolidated financial statements and the combined management report". We are independent from the Group companies in accordance with the commercial and professional regulations of European and German law and have fulfilled our other German professional obligations in accordance with these requirements. Furthermore, in accordance with Article 10(2)(f) of the EU Audit Regulation, we declare that we have not performed any prohibited non-audit services as defined by Article 5(1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to serve as a basis for our audit opinions on the consolidated financial statements and the combined management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the short financial year from January 1 to September 30, 2021. These matters were taken into account in the context of our audit of the consolidated financial statements as a whole and in the formation of our audit opinion; we have not issued a separate opinion on these matters.

The audit matter that we consider to be key, the recoverability of goodwill, is described below:

a) Risk to financial reporting

Goodwill with a total carrying amount of €16.0 million (previous year: €16.0 million) is reported in the consolidated statement of financial position as of the end of the reporting period. This accounts for around 8.4% of total consolidated assets (previous year: 8.9%).

The company's disclosures on goodwill are included in sections "2. Principles of consolidation", subsection "Intangible assets/(b) Goodwill", and "4. Goodwill" of the notes to the consolidated financial statements.

In accordance with IAS 36.90, cash-generating units to which goodwill has been allocated must be tested for impairment at least once a year.

The recoverability of goodwill was reviewed based on the recoverable amounts. The company calculates the recoverable amounts of each of the relevant cash-generating units as the present values of future cash flows using discounted cash flow models. The projections prepared by the company's management are adjusted using long-term assumptions, taking current developments into account. The results of measurement are highly dependent on the planning assumptions and the estimates of future cash flows made by the company's management and on the discount rates used in the measurement models. The measurements are therefore subject to considerable uncertainty, such that this was a key audit matter.

b) Audit approach and conclusions

As part of our audit, we checked the plausibility of the planning on which goodwill impairment testing was based. We also examined the planning for potentially biased judgment.

In addition to checking the plausibility of the underlying planning, we assessed adherence to planning by comparing the previous year's planning with the values actually achieved.

In addition, we examined the calculation methods used for correct methodology, the derivation of discount rates and, on a test basis, the accuracy of the calculations.

The assumptions and judgments of the company's management on which the impairment testing of goodwill is based are within acceptable limits and are balanced overall.

Other information

The company's management and the Supervisory Board are responsible for the other information. The other information comprises:

- the separate non-financial consolidated report (CSR report) published on the company's website, which is referenced in the combined management report;
- the (Group) corporate governance declaration published on the company's website, which is referenced in the combined management report;
- the report of the Supervisory Board;

- the other parts of the annual report, but not the consolidated financial statements, the audited parts of the combined management report or our associated auditor's report; and

- the responsibility statement in accordance with section 297(2) sentence 4 HGB on the consolidated financial statements in section XI. of the combined management report and the statement in accordance with section 289(1) sentence 5 HGB in conjunction with section 315(1) sentence 5 HGB on the combined management report.

The Supervisory Board is responsible for the report of the Supervisory Board. The company's management and the Supervisory Board are responsible for the declaration of compliance with the German Corporate Governance Code in accordance with section 161 AktG, which is part of the (Group) corporate governance declaration published on the company's website. The company's management is responsible for the other information in other respects.

Our audit opinions on the consolidated financial statements and the combined management report do not extend to the other information, and accordingly we do not offer any audit opinion or any other form of audit conclusion on it.

In connection with our audit of the consolidated financial statements, we have the responsibility to read the above other information and to assess whether the other information:

- contains material inconsistencies with the consolidated financial statements, the audited disclosures in the combined management report or our findings from the audit; or

- is otherwise materially misrepresented.

If, on the basis of our work, we come to the conclusion that this other information contains a material misstatement, we are required to report this fact. We have nothing to report in this context.

Responsibility of the company's management and the Supervisory Board for the consolidated financial statements and the combined management report

The company's management is responsible for the preparation of the consolidated financial statements that, in all material respects, comply with the IFRS as adopted by the EU and the additional requirements of German commercial law in accordance with section 315e(1) HGB, and that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group. Furthermore, the company's management is responsible for the internal controls that they have deemed necessary to enable the preparation of consolidated financial statements that are free from – intentional or unintentional – material misstatement.

In preparing the consolidated financial statements, the company's management is responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing going concern matters, if relevant. Furthermore, they are responsible for the accounting on the basis of the going concern principle, unless there is the intention to liquidate or discontinue the Group, or there is no realistic alternative.

Moreover, the company's management is responsible for the preparation of the combined management report that, on the whole, provides a suitable view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and with German legal requirements, and accurately presents the risks and opportunities of future development. Also, the company's management is responsible for the precautions and measures (systems) that they deem necessary to enable the preparation of a combined management report in accordance with German legal requirements to provide sufficient suitable evidence for the statements in the combined management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the combined management report.

Auditor's responsibility for the audit of the consolidated financial statements and the combined management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material – intentional or unintentional – misstatement and whether the combined management report as a whole provides a suitable view of the Group's position and, in all material respects, is consistent with the consolidated financial statements, audit findings and German legal requirements, and accurately presents the risks and opportunities of future development, and to issue an audit report containing our audit opinions on the consolidated financial statements and the combined management report.

Reasonable assurance is a high degree of assurance, but not a guarantee that an audit performed in accordance with section 317 HGB, the EU Audit Regulation and the German generally accepted standards for the audit of financial statements promulgated by the IDW will always reveal a material misstatement. Misstatements can result from violations or inaccuracies, and are considered material if they could reasonably be expected, individually or collectively, to influence the economic decisions that users make on the basis of these consolidated financial statements and the combined management report.

We exercise due discretion and maintain a critical approach. Furthermore:

- We identify and assess the risks of – intentional or unintentional – material misstatements in the consolidated financial statements and the combined management report, we plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to form the basis of our audit opinions. The risk that material misstatements are not detected is greater for violations than for inaccuracies, as violations can include fraud, falsification, intentional omissions, misrepresentation or the invalidation of internal controls;

- We gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and of the systems relevant to the audit of the combined management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the objective of expressing an opinion on the effectiveness of these systems;

- We assess the appropriateness of the accounting policies applied by the company's management and the reasonableness of the estimates and related disclosures by the company's officers;

- We draw conclusions about the appropriateness of the going concern principle applied by the company's management and, on the basis of the audit evidence obtained, whether there is material uncertainty about events or circumstances that can give rise to significant doubts about the Group's ability to continue as a going concern. If we come to the conclusion that material uncertainty exists, we are required to refer to the relevant disclosures in the consolidated financial statements and the combined management report in the auditor's report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- We assess the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements present the underlying transactions and events in such a way that the consolidated financial statements, in accordance with the IFRS as adopted by the EU and the additional requirements of German commercial law in accordance with section 315e(1) HGB, give a true and fair view of the net assets, financial position and results of operations of the Group;

- We obtain sufficient, suitable audit evidence for the accounting information of the companies or business activities within the Group in order to issue audit opinions on the consolidated financial statements and the combined management report. We are responsible for designing, monitoring and performing the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions;

- We assess whether the combined management report is consistent with the consolidated financial statements and the law, and the view of the position of the company that it provides;

- We perform audit procedures on the forward-looking statements made in the combined management report by the company's management. In particular, on the basis of sufficient and suitable audit evidence, we analyze the significant assumptions on which the forward-looking statements are based, and assess whether the forward-looking statements have been properly derived from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

Of the issues we discussed with those responsible for overseeing the audit, we determine which issues were most significant in the audit of the consolidated financial statements for the current reporting period and that are therefore the key audit issues. We describe these matters in our audit report, unless the public disclosure of such issues is prevented by law or other legal provisions.

OTHER STATUTORY AND LEGAL REQUIREMENTS

Report on assurance in accordance with section 317(3a) HGB on the electronic reproductions of the consolidated financial statements and the management report prepared for publication purposes

Audit opinion

We have performed assurance work in accordance with section 317(3b) HGB to obtain reasonable assurance about whether the reproductions of the consolidated financial statements and the combined management report (hereinafter the "ESEF documents") contained in the file "ESEF-Unterlagen_First_Sensor_AG_KA_30.9.2021.zip", that can be downloaded by the issuer from the electronic client portal with access protection, and prepared for publication purposes comply in all material respects with the requirements of section 328(1) HGB for the electronic reporting format (ESEF format). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained in these reproductions nor any other information contained in the above electronic file.

In our opinion, the reproductions of the consolidated financial statements and the combined management report contained in the above electronic file and prepared for publication purposes comply in all material respects with the requirements of section 328(1) HGB for the electronic reporting format. We do not express any opinion on the information contained in these reproductions nor on any other information contained in the above file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying combined management report for the short financial year from January 1 to September 30, 2021 contained in the "Report on the audit of the consolidated financial statements and of the combined management report" above.

Basis for audit opinion

We conducted our assurance work of the reproductions of the consolidated financial statements and the combined management report contained in the above electronic file in accordance with section 317(3a) HGB and the IDW auditing standard: Assurance in accordance with section 317(3a) HGB on the electronic reproductions of financial statements and management reports prepared for publication purposes (IDW PS 410 (October 2021)). Our responsibilities under those requirements and standards are further described in the section entitled "Auditor's responsibility for the audit of the ESEF documents". Our audit firm has applied the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

Responsibility of management and the Supervisory Board for the ESEF documents

The company's management is responsible for the preparation of the ESEF documents including the electronic reproductions of the consolidated financial statements and the combined management report in accordance with section 328(1) sentence 4 item 1 HGB and for tagging the consolidated financial statements in accordance with section 328(1) sentence 4 item 2 HGB.

In addition, the company's management is responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of section 328(1) HGB for the electronic reporting format.

The supervisory board is responsible for overseeing the process of the preparation of the ESEF documents as part of the financial reporting process.

Auditor's responsibility for the audit of the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of section 328(1) HGB. We exercise due discretion and maintain a critical approach. Furthermore:

- We identify and assess the risks of material intentional or unintentional non-compliance with the requirements of section 328(1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

- We obtain an understanding of internal control relevant to the assessment of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- We evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.

- We evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited combined management report.

OTHER DISCLOSURES IN ACCORDANCE WITH ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as the auditor of the consolidated financial statements by the Annual General Meeting on June 24, 2021. We were engaged by the Supervisory Board on September 15, 2021. We have served as the auditor of the consolidated financial statements of First Sensor AG, Berlin, without interruption since the 2013 financial year.

We declare that the audit opinions contained in this audit report are consistent with the additional report to the Audit Committee in accordance with Article 11 of the EU Audit Regulation (audit report).

OTHER ISSUE – USE OF THE AUDIT REPORT

Our audit report should always be read in conjunction with the audited consolidated financial statements, the audited combined management report and the audited ESEF documents. The consolidated financial statements and the combined management report converted into ESEF format – and the versions to be published in the Bundesanzeiger – are merely electronic reproductions of the audited consolidated financial statements and the audited combined management report and do not take their place. In particular, the ESEF report and our audit opinion that it contains can only be used in conjunction with the audited ESEF documents provided in electronic form.

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Thorsten Sommerfeld.

Berlin, January 27, 2022

Ebner Stolz GmbH & Co. KG

Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Karsten Bender	Thorsten Sommerfeld
Wirtschaftsprüfer (German Public Auditor)	*Wirtschaftsprüfer* (German Public Auditor)

5.2 STATEMENT BY THE LEGAL REPRESENTATIVES (RESPONSIBILITY STATEMENT) In accordance with sections 297, para. 2, sentence 4, 315, para. 1, sentence 5 HGB

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

Berlin, January 25, 2022

Sibylle Büttner	Robin Maly	Dirk Schäfer

5.3 FINANCIAL CALENDAR 2022

The financial calendar includes all dates for fiscal year 2022 (Oct. 1, 2021 - Sept. 30, 2022).

January 31	Publication of Annual Report 2021
January 31	Annual press conference 2022
January 31	Analyst conference 2022
February 28	Publication Q1 Quarterly Statement 2022
March 15	Annual General Meeting , virtual
May 31	Publication of interim report (6-Month Financial Report) as of May 31, 2022
August 31	Publication Q3 Quarterly Statement 2022

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