

Annual General Meeting of First Sensor AG on May 24, 2017

Report from the Management Board to the Annual General Meeting regarding agenda item 6

In relation to the intended creation of Contingent Capital 2017/I, the Management Board issues the following report: The Stock Option Plan 2016/I launched in 2016 shall be withdrawn and replaced by the new Stock Option Plan 2017/I. Stock Option Plan 2016/I was intended only for members of the Management Board. It was different from the general Stock Option Plan 2016/II, which includes the Management Board alongside members of management of affiliated companies and managers of First Sensor AG, including with regard to the financial parameters. The reason is that the Stock Option Plan 2016/I was part of the employment contract for the former CEO. Stock Options were not issued under the Stock Option Plan 2016/I.

The distinction between both Stock Option Plans 2016/I and 2016/II will be discontinued. The new Stock Option Plan 2017/I will correspond to the financial parameters of the Stock Option Plan 2016/II. At the same time, legislative changes that have since occurred will be accounted for. The Stock Option Plan 2016/II will remain as is.

The Stock Option Plan 2017/I will be used for long-term compensation of members of the Management Board. The exercise of stock options is tied to exceeding the strike price and to acquiring own shares. For every ten subscription rights, it must be proven that the person has an own share in the safekeeping account. This promotes the entitled persons' own investment in and loyalty to the company.

Stock price-based compensation, as intended by the Stock Option Plan 2017/I, is a key part of compensation systems under modern standards as are common around the world. Issuing stock options is a form of stock price-based compensation. A significant advantage for the company is that it saves liquidity which it can use to invest in profitability instead. Stock-based compensation systems help balance out the interests of shareholders with those of the entitled persons. This is because when the company's share price rises, it benefits the shareholders and benefits the persons entitled to subscribe under the Stock Option Plan. Any dilution in shareholder rights is balanced out by the fact that the subscription rights can be exercised by authorized persons only if the performance target is met. Under the Stock Option Plan 2017/I, the subscription rights cannot be exercised unless the performance target was met in a period of thirty trading days before the respective exercise.

The performance target is achieved if the closing price of the shares of the Company reaches or exceeds the strike price, as defined in the Stock Option Program for each tranche, in Xetra trading (or a similar successor system of the Frankfurt Stock Exchange) on thirty consecutive trading days. The achievement of the performance target is equivalent to a significant increase in the value of the company shares. The issue of stock options increases the opportunity for the Supervisory Board to retain the entitled persons, i.e., the members of the Management Board, with the company for the longest period possible and to motivate them to pursue a business policy that serves the shareholders' interests.

Under the Stock Option Program 2017/I, the strike price corresponds to the average closing price of the shares of the Company in Xetra trading (or a similar successor system of the Frankfurt Stock Exchange) on the thirty consecutive trading days before the Issue Date of the options plus 20%. However, the strike price is at least EUR 15.00 for the Stock Options issued in the 2017 and 2018 financial years under the Stock Option Program 2017/I.

This ensures that occasional price volatility (in positive or negative terms) does not influence the strike price in an unreasonable manner. The minimum waiting period of four years is prescribed by law and is considered appropriate in order to ensure the long-term and sustainable development of the company. The option rights can be issued only until December 31, 2019, so that after a maximum of three years, the shareholders can see how many subscription rights were issued under the conditions resolved. The subscription rights must be exercised within three years after the end of the waiting period.

This report will be available for shareholder review at the business premises of First Sensor AG, Peter-Behrens-Straße 15, 12459 Berlin from the time that notice of the Annual General Meeting is issued. Moreover, the report will be made accessible to shareholders from the time the notice of the Annual General Meeting is issued at www.first-sensor.com under “Investor Relations” and “General Meeting.”

Berlin, in April 2017

First Sensor AG
The Executive Board