First Sensor

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

Report from the Management Board to the Annual General Meeting regarding agenda item 9

Under Sections 186 Para. 4 Sentence 2, Section 221 Para. 4 AktG, the Management Board reports to the Annual General Meeting on item 9 of the agenda as follows:

With the authorization proposed under agenda item 9, the Management Board and Supervisory Board wish to use the opportunity granted by law to create equity by issuing bonds that are tied to conversion or option rights on shares of First Sensor AG (C/O Notes). A sufficient equity base is a key part of the company's further development. By issuing C/O Notes, the company will also initially have low-interest liabilities.

In general, the shareholders of the company have subscription rights to C/O Notes to be newly issued in a number that corresponds to their prior stake in the company's share capital.

The C/O Notes should then be issued by at least one credit institution or at least one company under Section 53 Para. 1 Sentence 1 or Section 53b Para. 1 Sentence 1 or Para. 7 KWG (Banking Act), with the obligation of offering them to the shareholders for subscription. This is for easier handling, and is not to be construed as an exclusion of subscription rights, because it gives the shareholders an indirect subscription right to the bonds.

The proposed resolution stipulates an authorization to exclude this subscription right (which would generally exist when issuing C/O Notes) for certain purposes specified in the proposed resolution under the relevant legal guidelines. From the viewpoint of the Management Board and the Supervisory Board, this authorization to de-recognize shareholder subscription rights, in consideration of all circumstances, is factually justified and appropriate with regard to the shareholders for the reasons set forth below.

The intended authorization to de-recognize subscription rights for the use of fractions allows for the presentation of a practical subscription ratio. Otherwise, particularly with the issue of C/O Notes with whole amounts, the implementation of the corporate action would be more difficult. Fractions result when, due to the subscription ratio and the amount of an issue, not all new C/O Notes can be issued equally to the shareholders. The costs of subscription rights trading for fractions are in no way advantageous to shareholders. The C/O Notes not subject to subscription rights due to de-recognition of subscription rights for fractions will be liquidated through sale on the stock market (if possible) or in another manner in the best possible way for the company. Any liquidation effect is low due to the limitation to fractions.

The authorization to de-recognize subscription rights to the benefit of holders of conversion or option rights serves the purpose of not having to reduce the option or conversion price for the option or conversion rights already issued or pay an additional cash amount. Instead, the holders of such rights should be given subscription rights to the new bonds to the extent they would be granted them after exercising their rights, in order to ensure dilution protection.

Moreover, the Management Board and Supervisory Board should be authorized to issue C/O Notes while de-recognizing subscription rights of the shareholders if the new shares to be issued under the conversion or option rights do not exceed 10% of the company's share capital, neither at the time they take effect nor at the time of exercise of this authorization. This

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will allow the company to use favorable stock market conditions on short notice in future and, thanks to standard market conditions, achieve the best possible conditions for the bonds.

This would not be possible if subscription rights were granted, because the length of the subscription period would limit the possibility to respond to market situations on short notice. The uncertainty about exercising the subscription rights can also interfere with successful placement of the C/O Notes with third parties. Moreover, de-recognizing subscription rights gives the company the opportunity to further expand its shareholder base with the inclusion of international investors.

The legal basis for de-recognizing subscription rights includes Sections 221 Para. 4 Sentence 2, 186 Para. 3 Sentence 4 AktG. These standards are intended to account for dilution protection for the shareholders with regard to their stakes. It can be determined whether such a dilution effect will occur. In application of the Black/Scholes model or other recognized actuarial methods, the hypothetical stock price of the share can be determined; by comparing this with the issue price, any dilution effect can be identified. After authorization, the issue price cannot be significantly lower than the theoretical market value determined by recognized actuarial methods. Nothing applies apart from a capital increase with de-recognition of subscription rights under Section 186 Para. 3 Sentence 4 AktG.

The Supervisory Board and Management Board will review whether dilution protection is assured. This can be done by obtaining an expert opinion from an investment bank or auditing firm regarding the question of a dilution effect.

The Management Board and Supervisory Board will apply the following shares to the limit of 10% of share capital under the authorization:

- Shares that are issued during the term of this authorization in accordance with or in the spirit of Section 186 Para. 3 Sentence 4 AktG, with de-recognition of shareholder subscription rights, and

- shares that are or must be issued to cover notes with conversion or option rights due to other authorizations, if and to the extent the notes are issued during the term of this authorization in the spirit of Section 186 Para. 3 Sentence 4 AktG with de-recognition of shareholder subscription rights.

The contingent capital is needed to cover the conversion and option rights affiliated with the C/O Notes.

The conversion or option price for a new share will be defined by the Management Board with the consent of the Supervisory Board, taking account of the market situation upon issue of the C/O Notes and cannot be less than 80% of the reference price defined in the authorization (see above, agenda item 9 b) (5)).

Berlin, in April 2017

First Sensor AG
The Executive Board