First Sensor

We lead the future

Annual Report 2017

First Sensor in figures

in € million, unless otherwise indicated; rounding differences may occur	2013	2014	2015	2016	2017
Sales revenues	108.5	124.0	137.7	150.1	147.5
Industrial	–	68.4	74.1	72.5	75.1
Medical	–	20.4	23.8	30.7	27.9
Mobility	–	35.2	39.8	46.9	44.5
EBITDA	11.6	13.5	11.4	19.4	19.6
EBITDA margin (%)	10.7	10.9	8.3	12.9	13.3
EBIT	2.7	4.1	1.2	10.0	10.6
EBIT margin (%)	2.5	3.3	0.9	6.7	7.2
Net profit for the period	-0.5	0.4	-1.5	6.1	4.4
Earnings per share (€)	-0.05	0.02	-0.17	0.57	0.40
Cash flow from operating activities	13.1	12.2	5.0	16.6	16.0
Free cash flow	5.9	7.5	-1.8	10.0	3.5
Balance sheet total	144.9	144.9	153.5	154.0	159.6
Shareholders' equity	70.0	72.0	71.3	77.5	81.9
Equity ratio (%)	48.3	49.7	46.4	50.3	51.3
Net debt	35.8	29.7	33.0	24.4	22.8
Working capital	28.6	30.3	36.5	35.7	37.5
ROCE (%)	2.3	3.4	1.0	8.5	8.6
Incoming orders	121.4	139.3	142.3	132.9	163.7
Orders on hand	73.7	86.4	90.7	82.2	92.5
Book-to-bill-ratio	1.11	1.12	1.03	0.89	1.11
Employees (average of the period)	686	719	770	791	787
Sales revenues per employee	158.2	172.5	178.8	189.8	187.4
Number of shares in thousand as of Dec., 31	9,981	10,131	10,167	10,208	10,216

For reasons of better legibility, only the masculine form is used below, although it relates to both genders.

Company profile

In the growth market of sensor systems, First Sensor develops and manufactures sensors and sensor solutions for the ever-increasing number of applications in the industrial, medical and mobility target markets. Based on tried-and-tested technology platforms, we develop products such as chips, components, sensors and entire sensor systems. These products give our customers a real competitive edge. These customers include well-known industrial groups and young technology companies that utilize our know-how and many years of expertise to develop their own innovative products. Trends such as Industry 4.0, autonomous driving and the miniaturization of medical technology are all driving forces for our growth.

Contents

We lead the future

Our Proximity

Founded in 1991, First Sensor AG is now a leading provider of sensor technology. The key to our success is proximity. We see ourselves as a partner to our customers. To find the appropriate product or ideal solution for them, personal contact and an open, respectful approach are indispensable for us. We are convinced that proximity is the foundation for a long and successful collaboration. It enables us to develop exceptionally powerful sensors and sensor systems with tailored features that guarantee sustainable success for both us and our customers. Together with the corporate values innovation and excellence, proximity therefore forms the basis of our operations. This combination drives us to use our products to shape the growth markets of tomorrow.

Dear shareholders and business partners,

Three years ago, we started using our annual reports to invite you to discover the "new" First Sensor. Over the course of the following years, we took you on a journey to get to know us better in terms of our corporate values based on the introduction of our vision and mission in 2015.

In 2016, this related to innovative strength under the banner of "We sense the future," and so last year, our employees stated their personal commitment to excellence and how they can make the future possible with their work under the guiding principle of "We empower the future."

This year's annual report now forms the end of the journey through our corporate culture, which, as well as operational projects such as "OneERP" or the development of our production network, is a significant result of the integration of all companies into a future-oriented company. On the following pages, it puts the focus on our customers and illustrates how important proximity and partnership are to the common goal of leading in shaping the future.

The interim figures communicated in February already show that we achieved this last year. They show that we have turned opportunities into success: With our products and technologies, we are participating directly in the topics of the future, like autonomous driving, Industry 4.0 and digital health. At the same time, the implementation of our strategy for profitable growth is now starting to bear fruit.

Therefore, we are delighted to be able to announce annual sales of €147.5 million. This leaves us 2% below our forecast for 2017. As expected, business development gained momentum in the second half of the year after a slower start to the year. This meant that profitability also had a marked improvement.

We significantly exceeded our earnings target of 5% to 6% with an EBIT margin of 7.2%. Both the third and fourth quarters validated our measures with regard to process optimization and increasing efficiency and show that we are gradually coming closer to our goal of generating sustainable double-digit returns.

The figures achieved indicate that we are on the right track with our strategy for profitable growth. In order to leverage the potential that promises greater success for First Sensor, we are relying on consistent focus: Focus on our three target markets of Industrial, Medical and Mobility. All three markets are driven by technological developments, which continue to spur on the demand for sensors. Focus on key customers and key products with which we can generate high sales. Focus on forward integration to increase our added-value share. Focus on sales regions with strong growth. And focus on operational excellence, with which we have already made vital advances in 2017.

Dr. Dirk Rothweiler, CEO (right)
and **Dr. Mathias Gollwitzer**, CFO (left)

Defining the volume markets of tomorrow

LiDAR (light-based radar), which has already been used in the industry for a long time for optical length measurement, has developed into one of our most important areas of focus. LiDAR has taken on a central role in the introduction of autonomous driving when it comes to safely controlling cars, trucks and commercial and specialized vehicles through traffic. The first partially autonomous vehicles are currently already in series production. We equip leading system manufacturers who supply international technology companies and OEMs with their products. We are there with our customers when a volume market breaks out of its niche. Experts such as market researchers from Lux Research, Inc., anticipate that the automotive LiDAR market will grow in five years from the current $250 million to $1.8 billion. First Sensor will also benefit from this because a key product for LiDAR systems is our avalanche photodiodes. Equipped with an internal amplifying mechanism, they detect invisible light signals, which the LiDAR scanner uses to chart its environment with particular precision and reliability. Thanks to our many years of expertise in developing and producing these high-performance diodes, we are in an outstanding position to take part in growth with our customers.

However, not only our expertise in optics is impressive. Our pressure and flow rate sensors and our expertise in layout and connection technology and in developing complex multi-sensor systems are also sought after.

In order to find the best possible standard product or a tailored solution for a specific application, proximity to our customers is often crucial. It is an important factor in having an ear to the market and technical developments that occupy our customers. This is how we succeed time and again in taking a primary request for available standard sensors and developing considerably more complicated and individually tailored solutions with which we can successfully exploit our vertical integration, also in the interest of the customer. This is frequently the basis of a long-term collaboration.

However, the expectations to exceed are close to our hearts also regarding the capital market. This includes carefully finding out and managing expectations. Therefore, dialog with our investors is especially important for us. For this reason, we have intensified our activities considerably over recent months. As we look at performance in the last year, we appear to be succeeding in clearly demonstrating First Sensor's potential. Now our primary task is gradually turning these expectations into operational successes because we want to keep our promises.

Naturally, we as the Executive Board are not accomplishing this alone. Rather, we are part of a team that has set these goals together. We would like to take this opportunity to sincerely thank you for your commitment during fiscal year 2017! And we are positive that we will successfully overcome future challenges with this team as well.

Targeted development of growth potential

So what do we expect from the future? In fiscal year 2018, the results of our operating and strategic measures will appear even more clearly than they have to date. We are going to unlock additional targeted growth potential on the basis of close relations with our key customers and with an optimally tailored product portfolio. Last but not least, we recognize a growing need for increasingly complex sensor solutions, which enables us to offer our customers products that create a real competitive advantage for them. This is not only in Germany and Europe but also in America and Asia, where we are focusing on targeted expansion of our presence. Our goal with this is to achieve an average annual growth of 10% in the medium term.

The increasing volumes and the right mix of products will have a positive effect on profitability. Internally, we have paved the way to optimizing the requirements for this through operational excellence. This includes reducing lead times and introducing SAP to three other Group locations in the past fiscal year. Even if such an adjustment requires particular effort as expected, we know that a standardized ERP system significantly improves the control capabilities across locations and we can increase our efficiency through more uniform processes. With an EBIT margin of 10.4% in the third quarter of 2017, we have demonstrated that First Sensor can balance growth with reasonable profitability. The task is now to shape this development in a sustainable manner. Our goal is for First Sensor to generate an EBIT margin of 10% in the medium term.

For fiscal year 2018, we are anticipating sales of €150 million to €160 million. Whether all projects will be completed as planned and market introduction will be achieved on schedule will have a significant influence on this planning. This is partially outside our influence, as could also be seen in the last fiscal year.

With regard to profitability, we are anticipating another year-on-year increase. In 2018, the EBIT margin should come to at least 7% and, ideally, it would be 9%.

Some effort will be needed to achieve these goals. However, we are confident that we have taken the right path to establishing these successes together. This has to do not only with precise planning and managing but also with the portion of agility that the organization must maintain. The fun factor then also arises, as our much-treasured head of development recently found out. We hope that in the new fiscal year, you once again have fun with your commitment to First Sensor, and we are delighted that you are supporting the company's future development!

We lead the future.

The Executive Board

Dr. Dirk Rothweiler
CEO

Dr. Mathias Gollwitzer
CFO

Staying One Step Ahead Together

STARe K Series

Our standard piezo-resistive components are used in industry and medical technology. Pressure sensor chips based on STARe technology ensure their long-term stability and precision.

Smart Processes in China

Worldwide, companies are pushing forward the fourth industrial revolution. In Asia, First Sensor helps large commercial enterprises control complex processes intelligently with their products.

Formerly known as the extended workbench of the world, the People's Republic of China is completing its transformation to a high-tech production location. The digitalization of production processes is a key pillar of this. This was still in its infancy when First Sensor was first contacted in 2011 by a leading Chinese industrial company. The background was the introduction of high-precision pressure transmitters based on semiconductor technology. In the chemicals industry, for example, pressure transmitters control the flow rate in pipelines and replace manual control with mechanical units or valves. First Sensor is known on the market as a provider of the necessary pressure sensor components. For this reason, the Chinese company was specifically interested in the standard products from the K series and ordered several thousand components in 2012 after a successful test phase.

As a state-owned company, the process automation specialist was able to invest in the new technology sooner than a private competitor. In the years that followed, the company secured shares in the global market and steadily increased its production capacity. Over time, the customer increased its demand for the K series pressure sensor components by an average of approximately 10% per year. First Sensor was able to hold its own because the standard sensors set themselves apart not only due to the extremely important price structure in Asia combined with guaranteed quality but also because they were quickly available.

The Chinese took the growing demand as an opportunity to travel to Germany themselves in 2014 and take a look at the semiconductor production for the pressure sensor chips in Berlin, among other things. The next visit by the industrial company is planned for 2018. The customer appreciates this close contact. It also arises from the fact that German experts from First Sensor travel to the headquarters in China to discuss technical details. At the same time, there is close personal contact at working level as the sales team on-site in Shanghai ensures proximity to major customers.

$56.6 billion
Global Smart Factory sales in 2020

MarketsandMarkets, KESSIA

The Chinese industrial company is now one of the leading suppliers of pressure transmitters and currently the number one for First Sensor when it comes to sales of the K series in Asia. The process automation specialist has since increased the number of units purchased each year more than ten-fold. A further significant increase is expected for 2018. In addition, the next innovation is in the starting blocks: First Sensor is working with the industrial company to develop a customized solution from the standard product. This solution is intended to achieve even better stability and measuring quality in pressure transmitters.

Thinking Joined-Up Together

LMI Multi-Sensor System

On a tailored printed circuit board, this solution combines electronic components with four of our LMI differential pressure sensors that can detect the smallest differences in pressure.

Efficient Systematic Ventilation

Intelligent air conditioning technology provides clean air in workshops, administrative buildings and transport facilities. Ventilation specialists value solutions from First Sensor.

The system specialists at First Sensor were presented with a tight schedule at the beginning of 2017. They had received an order from a leading heating, ventilation and air conditioning (HVAC) company to develop a sensor module for smart building applications. Incorporated into the customer's monitoring system, it will help in future to detect the status of ventilation filters. Intelligent air conditioning systems use this information to provide a constant flow of fresh air in buildings and minimize energy consumption. At the customer's request, there was less than a year to develop a tailored sensor solution.

A sound basis for the ambitious project: The international company was already using First Sensor pressure sensor chips when its sales team contacted the customer in autumn 2016 to discuss current projects and needs. However, only the supply of LMI standard sensors was a concern initially. They are particularly suited to measuring the flow rate of air and gases and are so sensitive that they are also used in medical technology. The standard products served as a springboard in the discussion around monitoring in intelligent HVAC systems. In the course of conversations, it became clear that First Sensor would be able to offer the customer a more comprehensive service.

As both parties already knew each other well, it did not take long to reach a decision. The result was the order for a customized solution for which the scope of delivery included the design of the printed circuit board, layout and connection technology, and the final quality check of the module. The development work eventually culminated in a system with four flow rate sensors, electronics and a tailored casing.

Time was again an important factor here: First Sensor was able to submit the prototype for the multi-sensor system within five weeks. This prototype has already been successfully tested, with the result that the module is now very close to series production. The project clearly showed that the strategy of forward integration is already being translated into specific orders.

Multi-Sensor System

In a multi-sensor system, sensors perform control tasks in conjunction with actuators or other sensors. The system processes, filters, and interprets complex data and can form a two-way communicative connection with its environment.

This year, First Sensor is expecting to sell thousands of units of the system module, which will be produced in the Weissensee district of Berlin. Within the First Sensor production group, this site is regarded as the heart of production of complex sensor systems. The customer, a specialist in HVAC systems, visited the site several times to endorse progress and receive confirmation that its high quality requirements were being applied in production. Therefore, in addition to the existing contact with the customer and the performance of the LMI flow rate sensors, the depth of added value that First Sensor can achieve within the Group is crucial to the success of the project. After all, companies are showing a growing interest in placing extensive tasks such as the development and production of sensor systems in reliable hands.

Irreplaceable Together

H Series

Our standard piezo-resistive pressure sensors measure extremely low pressures in dry, non-corrosive gases. Their applications include fields such as medical technology, measurement technology and air conditioning technology.

Growth in Respiratory Air

A new medical technology group is currently being established in North America. First Sensor is part of this and supporting its growth with sensitive pressure sensors to ensure safe breathing.

In 2014, one of the group's current subsidiaries was looking for a supplier to replace the pressure sensors in one of its products at short notice. Companies in the industry were familiar with First Sensor products and recommended to the medical technology supplier that it worked with First Sensor. Through the services of a partner, First Sensor was then able to provide a suitable standard product very quickly. That marked the start of the cooperation that has continued to this day. An order for modified standard sensors from the H series for a respiratory system to be used in neonatal and pediatric intensive care then followed. Since the start of production in 2015, the company has procured several thousand pressure sensors per year from First Sensor for this alone.

Consolidations in the American medical technology industry ensured that the company, a specialist in respiratory solutions, has been part of a leading group with more than 40,000 employees worldwide since 2015. With several thousand individual products for diagnosing, treating and monitoring diseases of the airway in its range, the company continues to rely on First Sensor. When collaborating, it is particularly important to react quickly and identify issues that are of high relevance to the medical technology company. It is beneficial that the local First Sensor agency is located near to the company's headquarters in the USA. Together with regular management calls, sharing information and updates with the customer on an ongoing basis was easy. The long life cycles in medical technology and the stringent quality standards created an additional tie.

Collaboration has gradually been expanded over the past few years, with the result that sensor technology made in Berlin is now a fixed element of product groups with a demand that is steadily growing. The specialist in respiratory equipment is currently procuring tens of thousands of the sensors for seven ranges in America alone. Additional products are currently being approved. First Sensor has become the exclusive supplier for a range of devices for the entire life time.

41.9 percent

North American share of global market for respiratory systems

Future Markets Insights

There is further potential to tap into in this growth market as this specialist in respiratory solutions is extremely interested in obtaining key components of its systems with guaranteed long-term quality from one source. A large development order for the American company is currently close to completion. The medical technology specialist wants to use this sensor solution with a tailored design in as many of its devices as possible to reduce the complexity of the supply chain. This requirement illustrates that in addition to reliable collaboration, the technology produced by First Sensor is a winning factor.

Giving Perspectives Together

Assembly of Arrays

When building large detector arrays, we mount sensor chips on a backing using state-of-the-art flip chip technology to achieve the best possible fitting accuracy with this solution.

Innovative Processes for Deep Insights

Imaging processes show what is hidden underneath the skin. Unconventional layout and connection technology is opening up new opportunities for computer tomography.

$50.3 billion

Global sales in imaging diagnostic equipment

EvaluateMedTech

When a large medical technology manufacturer approached First Sensor nearly ten years ago, the market launch of computer tomographs was planned with a new generation of high-resolution radiation sensors. Despite the lower radiation dose, these scanners were designed to achieve a better resolution than previous devices and thus be less harmful to patients. In medical technology, innovations such as these have a long lead time in order to ensure the quality and reliability of the products. When the new device was introduced, the challenge was the layout and connection technology of the detector arrays. The medical technology manufacturer was looking for a solution to attach its sensor chips to a specific backing material and achieve greater scalability than with the method previously used.

The layout and connection technology associated with this requirement cannot be produced by every provider. The development team at the site in the Weissensee district of Berlin embraced this challenge. The experts had to find a solution to get around the fact that the requisite material could only be produced very imprecisely at this point, but the computer tomography required maximum precision with more than 1,000 connections on one board. In the tubes, the detector arrays consisting of several sensor elements detect the individual X-ray signals, from which the computer compiles the sectional images. Any fault is thus visible and renders the device unusable. First Sensor therefore started by developing an unconventional coating procedure to precisely position the connections and finalized the prototype in 2011. The customer was extremely pleased with this solution and the finished solution opened doors for the group.

Once a suitable backing material with a higher degree of precision was finally available, the Berlin-Weissensee site independently handled the approval of a coating-free process and the design of the new printed circuit board. Again, the medical technology manufacturer had been won over, given that the costs would be further reduced. First Sensor is currently assembling thousands of detector arrays on this basis and has been the strategic supplier since the array was released for series production in 2013. A distinction of which the Berlin-based sensor technology specialists are proud. It means that First Sensor is regarded as a solid supplier and is also a reliable assistant for troubleshooting. The trust thus built up over the years is a recommendation for further projects within the group.

At the heart of collaboration for the medical technology manufacturer are openness and working together on innovations. At the start of the collaboration, daily updates on the current progress of the project were supplemented with weekly visits. Even today, experts from First Sensor still talk regularly to the customer about future issues or subtle improvements that could be made to Integrated Manufacturing Services (IMS). This partnership is proven by the fact that the medical technology company also wishes to join forces with First Sensor to produce the new generation of detector arrays.

Going into Series Production Together

Avalanche Photodiodes

Our high-performance diodes measure light pulses in the nanosecond range. As one of the leading manufacturers, First Sensor also develops and produces array solutions for LiDAR systems.

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From a Vision to High-Volume Production

The automotive industry is dabbling in driverless cars. The vehicle of the future is making its way through traffic with LiDAR technology – and creating a market worth billions. And First Sensor is equipping leading manufacturers.

When a company that originally specialized in acoustics starts developing LiDAR systems for fully autonomous vehicles, this shows courage, enthusiasm and a good deal of stamina. After all, the North American developers did not give up when they failed to reach their goal with their technology in the second DARPA Grand Challenge in 2005. The competition was set up by the innovation agency of the US Department of Defense to promote the development of driverless cars. This was also the year that the company first contacted First Sensor and asked for avalanche photodiodes (APDs) that detect invisible light signals with an internal magnification mechanism.

During the development of APDs started in 2000, First Sensor was able to build on the founding expertise of former employees of the Werk für Fernsehelektronik, the television electronics plant that laid the foundations for the current group in Berlin in 1991 with its expertise in optoelectronics. In industry, the company has long been a valued provider of high-performance diodes, used to measure lengths, for example. Use in Advanced Driver Assistance Systems (ADAS), on the other hand, had been a niche area for more than ten years, which meant that when the customer inquired there was no suitable standard product. However, the sensor experts recognized that an interesting market was in the making. Together with the customer, it was therefore decided to implement a tailored solution. Following successful sampling, an APD array went into series production for the first automotive group in 2009.

In the same year, the vision of autonomous driving also reached the mass media. The starting signal for the competition on the automotive market: The manufacturer of LiDAR systems got into discussions with other players, with the result that First Sensor had to step up its unit quantities very quickly and adapt the infrastructure accordingly. Within the last two years alone, the unit quantities supplied have increased ten-fold, with this number set to rise even further. To lay the basis for further growth, First Sensor experts regularly travel to the USA and discuss the challenges facing them in order to take the step towards high-volume car production together with the customer.

First Sensor has also successfully provided other companies with samples of APDs. Even today, they are ensuring greater safety in road traffic in modern ADAS, and they are shortly set to facilitate new mobility offers such as car-on-demand services. In addition to customized solutions, the introduction of a standard product is also planned in order to be able to better serve the high demand. Furthermore, First Sensor is currently developing the next generation of APDs. The areas of focus include further miniaturization of products and a high level of integration of the detector and electronics. Both will further enhance the performance of sensors. It will certainly be a few years before drivers can rely on fully autonomous level 5 and take their hands off the steering wheel altogether. However, once we have reached that level, First Sensor will be on board just as it is this year with the first level 3 vehicle approved for road traffic.

LEVELS OF AUTONOMOUS DRIVING

Level 0: Driver only – the driver drives.

Level 1: Certain assistance systems such as adaptive cruise control (ACC) help with operation of the vehicle.

Level 2: In a partially automated vehicle, assistance systems make driving easier for the driver with functions such as automatic parking or lane keeping.

Level 3: This is a highly automated vehicle that automatically controls functions such as triggering the turn signals or changing lanes. The driver takes control as required.

Level 4: This a fully automated vehicle, and the vehicle is controlled by the system at all times. The driver only steps in if the driving tasks can no longer be performed.

Level 5: Apart from specifying the destination and starting the system, human intervention by a driver is no longer required.

Responsibility Together

sensEdge Pressure Sensors

High-pressure sensors based on sensEdge technology are suitable for pressure changes up to 3,000 bar. Our solutions are used in steer-by-wire systems, for example.

High Pressure for Sustainable Technology

New mobility concepts will have a lasting impact on traffic. Together with its partners, First Sensor is working on innovative technologies. Even if the combustion engine has its competitors, pressure sensor technology will remain a key pillar.

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Environmental awareness and mobility: Both are increasingly growing together, driven by national and international legislators. One scenario, for example, is that sharing concepts in cities will replace private cars. Or fast cycle lanes such as those in Copenhagen and Basel will ease the burden on congested road networks. And automotive manufacturers who are converting their fleets to alternative drive forms. Electromobility is not the only alternative. Fuel cell vehicles have also proved their suitability for everyday use and in the long term in particular are regarded as a clean alternative. The roads are therefore gradually seeing a transformation to "green traffic." In addition to autonomous driving, the associated focus on the environment, preserving natural resources and avoiding local emissions are the second biggest issue that will dominate the mobility of tomorrow.

Together with its customers, First Sensor is shaping responsible mobility—and it is doing so across the entire range from passenger cars to trucks and commercial vehicles and specialized vehicles. When it comes to economical driving with low emissions, the OEM pressure sensors from First Sensor Mobility GmbH are already playing a key role today. Developed and manufactured in Dresden, they are used for applications including the diagnosis of tank leaks, keep tank emissions in charcoal filters low, or are required for exhaust aftertreatment. In the case of alternative drives, they are required in the cooling systems of batteries, for example, or for direct combustion of hydrogen.

First Sensor is also working with key customers on implementing new concepts for sustainable driving based on sensEdge technology. These include, for example, the introduction of CO2 air conditioning systems, driven by developments such as EU Directive 2006/40/EC, which came into force in 2017. Forerunners such as Audi and Mercedes have already gone into series production with the new systems. A challenge when it comes to changing over is that the manufacturers have to develop the CO2 air conditioning systems completely from scratch. They are significantly more sophisticated than previous systems and work with higher pressures, among other things. sensEdge high-pressure sensors are an option for solving this challenge.

This patented technology is also in demand for the introduction of partial and fully autonomous driving. In modern vehicles, sensEdge high-pressure sensors perform safety-related functions. An American tier 1 supplier uses them to support electrohydraulic steering systems. In these steer-by-wire systems, high-pressure sensors measure the oil pressure required to create the necessary steering power. Adaptive steering systems offer greater comfort for the driver, but first and foremost they represent a key step towards autonomous steering. First Sensor has been working with the tier 1 supplier since 2011, which in addition to the stable performance of the pressure sensor particularly values the automotive expertise of First Sensor Mobility GmbH. The agreement was therefore renewed last year. It covers the period from 2019 to 2024 and has an anticipated sales volume of more than €2.5 million per year.

FIRST SENSOR MOBILITY GMBH

The Dresden branch of the company develops and produces a range of OEM sensor solutions in accordance with the most recent quality management system for the automotive industry. In addition to high-performance pressure sensors for measuring oil, tank and gasoline pressure, the product range primarily includes optical sensors and camera systems for the passenger car, specialized vehicle, commercial vehicle and transportation market segments. First Sensor Mobility GmbH is the second First Sensor site in the capital of the German state of Saxony: Dresden is also the home to First Sensor Microelectronic Packaging GmbH.

2 To our shareholders

Report of the Supervisory Board

In the reporting year, the Supervisory Board fulfilled its duties as prescribed by law, the articles of incorporation and the rules of procedure. It regularly advised the Executive Board in the course of its management of the company, and continuously reviewed and monitored its activity. In addition, it was directly involved at an early stage in all decisions of strategic and fundamental importance to the company. Over the course of the year and beyond, the Executive Board regularly, promptly, and comprehensively informed the Supervisory Board in both written and verbal form of the current business situation, the business development and the economic situation, the risk situation, risk management, and relevant issues relating to compliance, strategy, and planning. Deviations from planning and changes to targets in relation to the internally forecast business development and measures derived therefrom were communicated to the Supervisory Board, explained, and discussed with the Executive Board. The Supervisory Board approved transactions requiring its approval. All relevant information was passed on promptly and extensively to the Supervisory Board.

Six meetings in person took place in the past fiscal year and were also attended by the Executive Board; details of their content are provided below. In addition, three circular resolutions were adopted. Five meetings were attended by all members of the Supervisory Board; only at the meeting in May with Marc de Jong one Supervisory Board member was absent. The subject of all Supervisory Board meetings was the Executive Board's written and verbal reports on the business situation of First Sensor AG and its subsidiaries, particularly the current revenue and earnings development and the financial position and net assets. The Supervisory Board obtained detailed information on and discussed major transactions, the strategy and its implementation, and the company's risk management. The Executive Board also provided the Supervisory Board with monthly financial reporting with a comprehensive presentation of the First Sensor Group's current net assets, financial position and results of operations including deviations from targets and detailed comments. The Chairman of the Supervisory Board also maintained regular contact with the Executive Board. The Chairman of the Executive Board promptly informed the Chairman of the Supervisory Board of significant events that were important for assessing the company's situation and development and for managing the company.

At the meeting on February 2, 2017, Dr. Dirk Rothweiler reported to the members of the Supervisory Board on his initial impressions and insights after his first four weeks as Chairman of the Executive Board at First Sensor AG. The Supervisory Board and the Executive Board then talked about the priorities for 2017, particularly with regard to growth and quality, and the Supervisory Board's wishes for further information on operating business for future Supervisory Board meetings during the year. In addition, unanswered questions regarding the 2017 budget presented in the last meeting of 2016 were answered by the Executive Board. Finally, a resolution on the allocation of options under the 2016/II share option plan was adopted and the variable remuneration component for the Executive Board for 2016 was determined.

At the Supervisory Board meeting held on March 16, 2017, the separate and consolidated financial statements for fiscal year 2016 were discussed in-depth. In addition, the contents of the Corporate Governance Code and the declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) were on the agenda and were also approved. The Supervisory Board also resolved on the budget for 2017 at this meeting. In addition, the Director of Quality at First Sensor AG was invited to the meeting to speak about quality in the First Sensor Group. Another key topic was the company's strategy, which was the subject of intensive dialog between the Executive Board and the Supervisory Board. In addition, the invitation to the 2017 Annual General Meeting was resolved, including the proposed resolutions on the 2017/I share option program, the re-election of the Supervisory Board, the amendment to the Articles of Association in order to expand the Supervisory Board, and the election of a fourth Supervisory Board member. Finally, the Supervisory Board authorized Dr. Rothweiler to take up an additional job as a member of the supervisory board of LPKF AG, a medium-sized company in the field of laser material processing that is not in competition with First Sensor AG.

At the meeting held on May 23, 2017, the members of the Supervisory Board prepared for the forthcoming Annual General Meeting and reached an agreement on the individual agenda items.

The Annual General Meeting on May 24, 2017, resolved to expand the Supervisory Board to four people and elected Prof. Alfred Gossner as a Supervisory Board member for another term in office and Prof. Christoph Kutter as the fourth member. On July 12, 2017, the Supervisory Board re-elected Prof. Alfred Gossner as Chairman and Götz Gollan as Deputy Chairman of the Supervisory Board by way of a circular resolution. All members of the Supervisory Board have enough time to fulfill their mandates. They always had sufficient opportunity to deal with and discuss the reports and draft resolutions submitted by the Executive Board before the meetings and in their plenary sessions.

As part of an ordinary Supervisory Board meeting on August 23, 2017, the topics of quality, product roadmap, and portfolio were discussed in depth. Another focus was the strategy for profitable growth of the company. Based on a resolution by the Annual General Meeting, the 2017/I share option plan for Executive Board members was also resolved.

The Supervisory Board meeting on September 27, 2017, primarily dealt with the planning for 2018 and beyond. In addition, the topic of quality and the compliance management system developed for the company were discussed in depth. Finally, a discussion of the latest amendments to the Corporate Governance Code led to corresponding resolutions.

At the meeting on December 11, 2017, the strategic and operational development of the company was presented to the Supervisory Board in detail. In this context, the Director of Development spoke about LiDAR and the director of First Sensor Mobility GmbH spoke about prospects on the Mobility target market. The current risk report was also presented to the Supervisory Board. The Supervisory Board and the Executive Board held in-depth discussions on the budget planning for 2018, the Group's long-term debt financing, and the efficiency review of the Supervisory Board in accordance with section 5.6 of the GCGC.

In addition to the scheduled meetings, a range of meetings were held between the Executive Board and members of the Supervisory Board. No separate committees were formed. The requirements for the independent financial expert as defined in section 100 (5) AktG were and are fulfilled by Götz Gollan, who is a banker and business administration graduate (UAS) and whose main occupation since 2002 has been as an Executive Board member for banks.

An efficiency review of the Supervisory Board's activity was conducted using a standardized process of Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover. This did not give rise to any anomalies or a clear need for improvement.

As per statutory regulations, the auditor Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover, was appointed by the Annual General Meeting on May 24, 2017, to audit the annual financial statements and the consolidated financial statements for fiscal year 2017. Prior to submitting a proposal for appointment, the Supervisory Board obtained a declaration of independence from the auditors.

The audit reports, the documents relating to the financial statements, the CSR report, and the Executive Board's proposal for the appropriation of earnings for fiscal year 2017 were sent to all Supervisory Board members in good time. They were discussed by the Supervisory Board extensively and in depth at the meeting on March 15, 2018. At this meeting, the responsible auditor also reported on the main findings of his audits in person and was available for additional questions and information. Both the annual financial statements of First Sensor AG for fiscal year 2017, which were prepared by the Executive Board in accordance with the regulations of the German Commercial Code (HGB), and the consolidated financial statements for fiscal year 2017, which were prepared on the basis of the International Financial Reporting Standards (IFRS) in accordance with section 315a HGB, as well as the combined management report, were audited by the auditor, Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover, and were each granted an unqualified audit opinion. Based on the final result of its own review of the annual financial statements, the consolidated financial statements, and the combined management report, the Supervisory Board did not raise any objections to the findings of the audit of the financial statements. Accordingly, the separate financial statements of First Sensor AG have been adopted and the consolidated financial statements have been approved in accordance with section 172 AktG. After performing its own review, the Supervisory Board agreed with the Executive Board's proposal for the appropriation of earnings. The CSR report was not audited by third parties. The auditor satisfied itself that the related information was available and the Supervisory Board reviewed the lawfulness, correctness, and expediency of the sustainability reporting.

The declaration of compliance of First Sensor AG in accordance with section 161 AktG was also approved at the same Supervisory Board meeting. It was subsequently made permanently available on the company's website. Detailed information is provided in the company's corporate governance report.

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

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

Berlin, March 15, 2018

First Sensor AG

Prof. Dr. Alfred Gossner
Chairman of the Supervisory Board

First Sensor Share

Investors recognize the potential

The 2017 stock market year was the third consecutive year that First Sensor AG shares posted a considerable price performance. Investors could be pleased with an increase of 50% while the DAX increased by 13% over the course of the year and the technology index (TecDAX) moved up 40%.

The expectations for First Sensor's business performance in 2017 were clearly communicated right from the outset. In the first half of the year, declining sales were expected, as a major order expired as of the end of 2016. At the same time, a considerably more dynamic business performance was forecast for the second half of the year. And these expectations were also reflected in the prices over the following months.

After First Sensor shares started the year at €14.50, there was a virtually continuous decline in the price over the first few months, which hit the low at €11.13 on May 24. This was due on the one hand to the first quarter figures, from which the capital market had expected more despite clear expectation management. On the other, impetus from the new management was not yet visible. Furthermore, this period was one of a stock market environment marked by political uncertainty. Not only was the unclear path of the new US president confusing, but also the right-wing influence threatened with the elections in the Netherlands and in France. In addition, the growing tension in North Korea was unsettling.

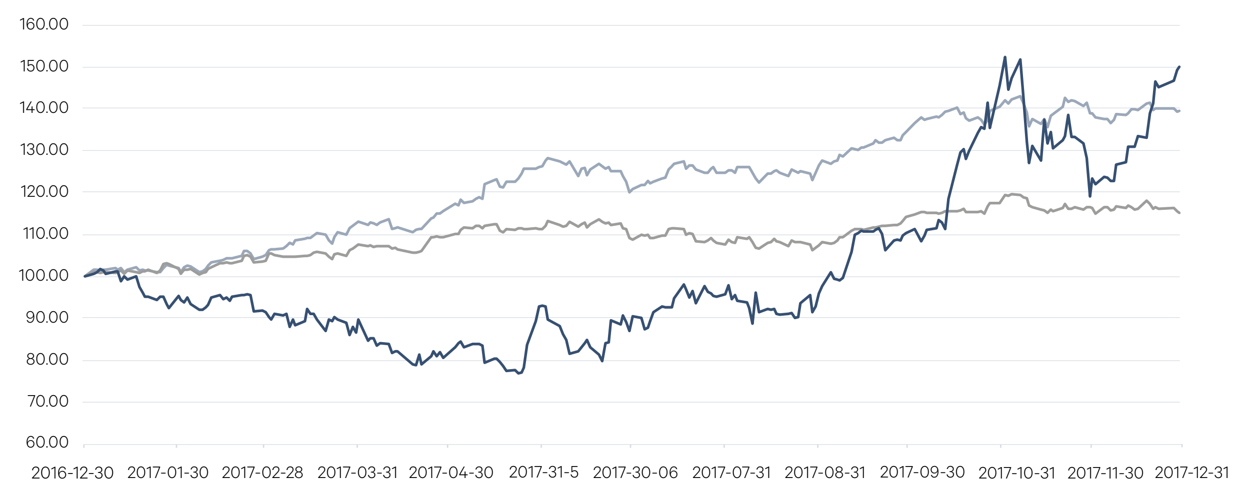
A trend reversal began after the Annual General Meeting. In the first quarter report, incoming orders and order backlog considerably improved as against the previous quarters which motivated investors to make more purchases. However, on comparatively low trading volumes it took until August for the €14.50 mark from the start of the year to be retaken. The markets sent technology shares into a tailspin especially in June. However, this hardly affected the price of First Sensor shares.

The capital market reacted positively to the publication of the half-year report on August 10. There were obviously three key reasons for the subsequent rally to the end of the year - indications of a more dynamic second half of the year were again reflected in incoming orders and order backlog in the half-year report and underpinned forecasts for the year as a whole. At the same time, one of the key topics of First Sensor's strategy became the focus of media and investor attention - autonomous driving and LiDAR technology specifically, which makes autonomous driving possible in the first place. While looking for companies that play a leading role on this future market, First Sensor was brought into the limelight. And the third reason for the above-average performance of the shares was presumably the considerably intensified Investor Relations. During many one-on-one meeting with investors, at conferences and on roadshows, management obviously succeeded in clearly explaining its own growth strategy and the potential of target markets. This resulted in the prices doubling within six months, with the year high of €22.93 being reached on November 2.

The third quarter report then confirmed the expectations, namely a considerably more dynamic business performance in the second half of 2017. However, a pronounced sales upturn and an EBIT margin exceeding 10% for the first time temporarily triggered initial profit-taking, not a further rise in the share price. Shares recovered again up to the year end, closing the year at €21.75, an increase of exactly 50% since the start of the year.

The very positive share price performance went hand in hand with a significant increase in trading volume. In 2016, an average of 8,598 shares had changed hands every day, compared with 11,215 shares per day in 2017. This, combined with a market capitalization of €222.3 million, makes it increasingly interesting for larger institutional investors to establish initial first positions within the First Sensor share.

Performance from January 1 to December 31, 2017

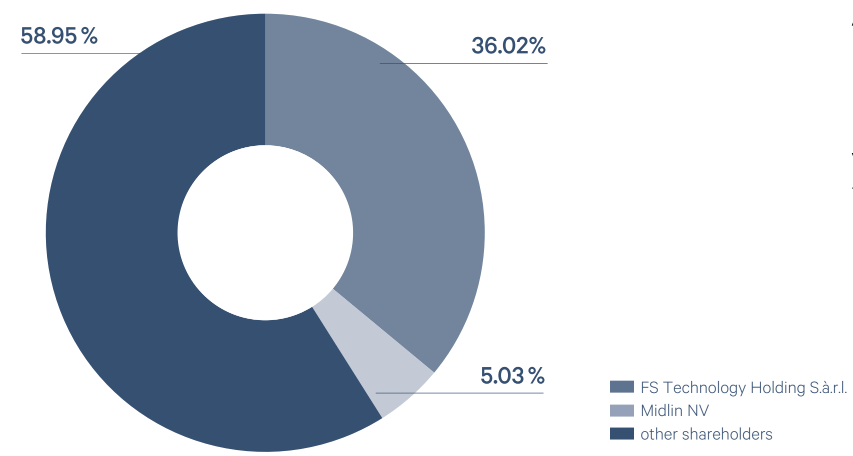


Key figures

in € thousand. unless otherwise indicated	Dec. 31. 2016	Dec. 31. 2017	Δ	Δ %
Share capital (€)	51,041,980	51,081,980	40,000	0,1
Market capitalization	148,022	222,309	80,287	54,2
Share price (€). XETRA closing price	14.50	21.76	7.26	50,0
Net profit attributable to shareholders	5,756	4,131	-1,625	-28,2
Number of shares. weighted	10,171,979	10,211,486	39,507	0,4
Earnings per share (€)	0.57	0.40	-0.17	-29,8

The company's share capital amounted to €51,041,980.00 as at the end of the reporting period, divided into 10,216,396 (previous year: 10,208,396) no-par value bearer shares each with a notional interest in the share capital of €5.00. The difference of 8,000 shares is due to the exercise of share options in the past financial year.

Shareholder structure according to available voting rights notifications (as of March 15, 2018)



As previously, the largest shareholder is FS Technology Holding S.à.r.l., an investment vehicle of DPE Deutsche Private Equity GmbH, Munich. Rolly van Rappard, who exceeded the 5% reporting threshold with his holding last year, sold his shares in 2017 and announced in September that his stake had fallen below 3%. The Dutch investment company Midlin continues to hold more than 5% of the shares.

Corporate Governance Report and Declaration on Business Management

Compliance with the German Corporate Governance Code and declarations of compliance

The Executive Board and the Supervisory Board of First Sensor AG are guided by the principles of good corporate governance as set out in the German Corporate Governance Code (GCGC). The Code is generally reviewed once a year in the context of national and international developments and is adjusted where necessary. For this reason, the Executive Board and the Supervisory Board of First Sensor AG check at least once a year whether the recommendations and suggestions set out in the Code are followed. After being jointly approved by the Executive Board and the Supervisory Board, the declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) is then published on the company's website in the Investor Relations, Corporate Governance section. It was last issued on March 15, 2018, in relation to the GCGC version dated February 7, 2017 (published in the Federal Gazette on April 24, 2017). The Executive Board and the Supervisory Board report on corporate governance on an annual basis and explain the status of implementation of the more than 100 recommendations and 10 suggestions of the Code. According to the current declaration of compliance, the company deviates from seven recommendations; these deviations are presented and justified in the declaration of compliance. All but one of the suggestions are taken into account. The only exception is that the Annual General Meeting has not been broadcast online so far and this is not currently intended to be done in the future, either. Current and previous declarations of compliance with the German Corporate Governance Code are also available on the company's website in the Investor Relations section.

This corporate governance report also includes the declaration on business management in accordance with section 289f of the German Commercial Code (HGB), which is also published on the company's website in the Investor Relations, Corporate Governance section, and the disclosure of the main features of the compliance management system in accordance with section 4.1.3 of the GCGC.

Corporate governance declaration in accordance with section 289f HGB

Management and supervision at First Sensor AG are geared toward good, responsible, and sustainable value creation. Great importance is attached to close and efficient cooperation between the Executive Board and the Supervisory Board, regard for shareholders' interests, open corporate communication, proper accounting and auditing, and responsible handling of risks and of legal and internal regulations. In accordance with section 289f HGB, First Sensor AG has to submit a declaration on business management. The declaration forms part of this report and is permanently available on the company's website.

Compliance management system

In order to ensure that the legal provisions and company-specific principles (Code of Conduct) are followed, a Group-wide compliance management system (CMS) has been established. Its main features are permanently available on the company's website. Compliance, including compliance with the Code of Conduct, is a key element of sustainable business management at First Sensor. The goals of compliance management are consequently derived from the company's mission statement. They ensure that clear expectations for the desired conduct and actions – reliable, fair, honest, and trustworthy – are formulated for all Executive Board and Supervisory Board members and all employees, including in relations with customers and suppliers. Internal and external whistle-blowers can report violations – anonymously if desired – to the Compliance Coordinator or to an external ombudsman. In the event of violations against compliance guidelines by the Executive Board, the Supervisory Board is informed directly. The Compliance Committee is responsible for assessing the reports received and taking measures if necessary. It also periodically reviews the effectiveness of the CMS and initiates changes.

The Supervisory Board

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

Targets for the composition and competence profile of the Supervisory Board

In line with item 5.4.1 of the Code of Conduct, the Supervisory Board has resolved the following specific targets for its composition. They take particular account of the company's specific situation, especially in relation to the size of the company and the Group and the Supervisory board, the international activity of the company, potential conflicts of interests, the number of independent members of the Supervisory Board and diversity.

- Ideally, one Supervisory Board member shall embody the criterion of internationality to a certain degree, whether this entails a foreign nationality and/or significant experience abroad.
- Moreover, at least three members of the Supervisory Board must be independent
- The Supervisory Board strives to find optimal members in line with specialist criteria and the requirements of the company's situation. Here, the requirements profile that has been established shall be used regardless of the gender of potential applicants and women with the same qualifications and experience shall be given preference.
- The creation of committees is rejected due to the low number of Supervisory Board members and the rapid decision-making processes that exist.

The targets set by the Supervisory Board were met in the 2017 financial year.

The Supervisory Board has not specified an age limit for its members or a regular limit for the length of membership of the Supervisory Board, as such limits did not appear to be in the interests of the company given the age structure of the members and the length of their membership of the Supervisory Board.

Prof. Alfred Gossner is a member of an Advisory Board of the DPE. In this function, he has no statutory authorizations, neither does he serve special interests of the DPE. However, since this activity can constitute a business relationship under the German Corporate Governance Code Number 5.4.2, Prof. Alfred Gossner is described as a not-independent member as a precautionary measure. None of the Supervisory Board members are in a personal or business relationship with the company or its bodies that could create a significant conflict of interests that is not only of temporary nature.

The Supervisory Board has put together a competence profile listing the professional and personal requirements to fulfill its duties. The variety of responsibilities and duties within the Supervisory Board must be largely reflected by the specialisms of its members (such as accounting and controlling, knowledge of sectors and sensor technology, R&D, compliance). In addition, professional suitability and personal criteria such as entrepreneurial experience and internationality are to be considered in their selection.

The Supervisory Board regularly analyzes the competence profile using a comprehensive survey. In this context, the qualification profile is compared with potential areas that are represented on the board. This results in the basis for continued education for relevant individuals and staff planning. The Supervisory Board came to the conclusion that the current members matched the Supervisory Board's competence profile to a high degree in fiscal year 2017.

Diversity and equal opportunities

Diversity is increasingly important for an international company like First Sensor. We consider diversity and equal opportunity as key principles of our work environment. Employees from different countries were working for the First Sensor AG Group as of December 31, 2017. 36.0% of these 798 employees (FTE) were women.

On December 20, 2017, the Executive Board resolved the establishment of targets for the quota for women at the two management levels below the Executive Board in accordance with section 76 (4) AktG, which contains the following:

a. The two management levels below the Executive Board are made up of First Sensor AG employees who, as managers/directors of companies included in consolidation, bear responsibility for a region or a business area and/or staff, employees working at the headquarters who, owing to their key area of responsibility, perform management functions and/or bear responsibility for staff in addition to department heads with staff responsibility. The two management levels below the Executive Board are made up of 19 employees, three of whom are female (a share of 15.8%).

b. In accordance with section 76 (4) AktG, the company's Executive Board has established a target of 20% for the quota for women at the two management levels below the Executive Board. This target is to be achieved by June 30, 2022.

On September 27, 2017, the Supervisory Board resolved the establishment of targets for the quota for women on the Executive Board and on the Supervisory Board in accordance with section 111 (5) AktG, which contains the following:

a. For the Executive Board, a target of 0% by June 30, 2019, was established for the quota for women in accordance with section 111 (5) AktG.

   In the selection of members of the Executive Board, in addition to the relevant specialist qualification the Supervisory Board also pays attention to diversity. In the medium and long term, the Supervisory Board is aiming that a woman becomes a member of the company's Executive Board. However, it was not able to reach this objective with the short maximum deadline set by the legislator to reach this target. To avoid setting a goal which the Supervisory Board does not deem realistic with the means it has available and which it does not consider to be in the company's interest, the Supervisory Board has limited itself to setting a target of 0% which corresponds to the current status quo. Of course should a position on the Executive Board unexpectedly become vacant, this does not exclude the possibility that the Supervisory would take into account the target of increasing the woman quota when filling the Executive Board position. This was also the case then the Chairman of the Executive Board position was filled at the beginning of 2017.

b. For the Supervisory Board, a target of 0% by June 30, 2019, was established for the quota for women in accordance with section 111 (5) AktG.

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

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

Reportable transactions in accordance with article 19 of the Market Abuse Regulation, particularly by members of the governing bodies and persons closely associated with them, are published immediately by First Sensor AG in accordance with the legal requirements. They can be accessed in the company register and online at www.first-sensor.com in the Investor Relations, Corporate Governance, Directors' Dealings section.

In fiscal year 2017, Dr. Dirk Rothweiler, CEO of First Sensor AG, purchased 20,214 shares at an average price of €13.08 on August 10, 2017, as part of the participation program and another 3,786 shares at an average price of €13.55 on August 15, 2017.

On June 19 and 20, 2017, the Supervisory Board member Prof. Christoph Kutter purchased a total of 500 shares at an average price of €11.80.

Between October 30 and November 1, 2017, the Supervisory Board member Marc de Jong sold a total of 29,747 shares at prices between €20.80 and €21.96.

Remuneration report

Details of the remuneration system for the Executive Board are to be found in the consolidated management report. The itemized list by individual regarding payments to the Executive Board and Supervisory Board can be found under item 32 of the consolidated financial statements.

Share option programs

The share option programs are described as part of the remuneration report in the management report; further details can be found in the notes to the consolidated financial statements (item 11 and item 18).

Non-Financial Reporting (CSR Report)

Declaration of Compliance of First Sensor AG for Fiscal Year 2017

Dear shareholders and business partners,

With the entry into force of the CSR guidelines (CSR = Corporate Social Responsibility), capital market-orientated companies across Europe with more than 500 employees are obligated to prepare a sustainability report. The aim of this obligation goes far beyond documenting individual measures for waste prevention or energy conservation. Rather, CSR is defined as "the responsibility of enterprises for their impact on society."

With this report, First Sensor is submitting its third account on topics that concern sustainability in a wider sense for the period between January 1 and December 31, 2017. As in previous years, the format of the German Sustainability Code is used. However, in preparation for this report, work was already carried out within the framework of the GRI standards, which will determine the reporting format used in the medium term. Therefore, on a case-by-case basis, references in the text also refer to GRI standards, which were primarily designed for the creation of a sustainability report. The creation of a report in accordance with the GRI standards generally provides a comprehensive picture of the key issues of an organization, the associated impact of these issues and the way in which they are managed. The standards are used, either in whole or in part, for the reporting of specific information from the company.

The report by First Sensor is published together with Annual Report 2017. Nevertheless, it is conceived as a self-contained report, which largely makes no reference to other parts 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 coherent for readers.

The question of materiality is crucial for the content of a sustainability report. When considering economic, environmental or social issues, the judgements that are considered "material" for different companies naturally vary greatly. However, a consideration of the "material" questions ensures that the focus is on aspects where analysis, monitoring and improvement offer the biggest potential.

For this purpose, First Sensor has identified and reported on the material issues for the Group as of December 31, 2017. This report is therefore a snapshot, which can perhaps best be compared with a marathon, in which the first time is taken after the first kilometer. We know that we still have some way to go to achieve a perfect CSR system. However, we have made a start and we are confident that we will improve every year. We would greatly value your support in this endeavor.

The First Sensor CSR Team

1. General information

The First Sensor Group consists of the parent company First Sensor AG, based in Berlin, and ten subsidiaries (GRI 102-1). The company has been listed since 1999. According to available voting rights notifications, its biggest shareholder is Deutsche Private Equity (DPE), which holds 36% of the shares of the company (GRI 102-5).

In fiscal year 2017, First Sensor generated sales of €147.5 million with 916 employees (787 FTEs) (GRI 102-7). Half of the sales were generated in German speaking countries, while sales generated from customers in the rest of Europe accounted for 27.4%, and 11.7% of sales are attributable to the North American continent. 10.1% of sales were generated in Asia (GRI 102-6). As at December 31, 2017, the Group's total assets amount to €159.6 million, while the equity ratio stands at 51.3%.

In the technological field of sensor systems, First Sensor develops and manufactures products and solutions for the ever-increasing number of applications in the industrial, medical and mobility target markets (GRI 102-6). Sensor systems at First Sensor are based on two core competencies. Firstly, the company specializes in detecting physical parameters such as pressure, flow, light and radiation, and acceleration thanks to the design and production of its silicon-based sensor chips. Secondly, it uses its knowledge of microelectronic layout and connection technology to further process the sensor chips with the best form factor to suit individual applications. (GRI 102-2).

Based on decades of expertise in sensor systems, the company offers its customers application-specific solutions for the technical challenges posed by their products. First Sensor also has a wide range of standard products. The extensive assortment of in-house sensors is complemented by sensors and supplementary products from partner companies.

As well as focusing on the aforementioned target markets, as part of its growth strategy, First Sensor also concentrates on standard products with the potential of large quantities (so called key products) and application-specific solutions for key customers. Customers include large international corporations as well as smaller technology companies. As standard, it is checked whether any export control restrictions apply before delivery. As an international legal instrument, export control aims to ensure that armaments are not circulated unchecked. It is also used as part of terrorism prevention. As the use of sensors from First Sensor for military purposes cannot be ruled out, this aspect is checked before delivery by requesting evidence of intended use, and the inadmissible supply of products is effectively prevented in the event of relevant information (GRI 102-2).

However, First Sensor plan to go one step further in complying with this regulatory requirement. In 2018, a commission will be established to safeguard our interests in terms of ethical business principles. The aim of this commission will be to review potentially critical customer requests and make decisions about them even before statutory measures export controls are initiated.

Employees (GRI 102-8)

To handle fluctuations in utilization or temporarily fill vacant positions, First Sensor works with temporary employment agencies that meet general quality standards. It is not uncommon for suitable temporary staff to enter directly into an employment relationship.

	Permanently employed (m/f)	Temporarily employed
Germany	548 / 302	50
Rest of Europe	29 / 12	1
North America	16 / 9	1
Total	**593 / 323**	**52**

First Sensor offers its staff a variety of working hours models to take into account the wishes and needs of employees due to the demands of family life or dependents requiring temporary care, as far as possible. This approach stems from our conviction that the happiness of employees has a direct effect on their motivation.

	Full time (m / w)	Part time (m / w)
Germany	512 / 212	41 / 85
Rest of Europe	28 / 1	1 / 11
North America	16 / 9	-
Total	**556 / 222**	**42 / 96**

Strategic analysis and measures

The various aspects of sustainability can be seen in a variety of activities performed by the companies of the First Sensor Group. We combine long-term business success with environmental and social responsibility as sustainable business practices contribute to orientating the company for a successful future as well as making us an attractive employer and a good neighbor at our locations. This impression has also been confirmed in the analysis of this report. In addition to the traditional areas, such as energy conservation measures and the reduction of water consumption or prevention of waste, many locations engage in lively dialog with their local areas. This includes "Girls Day," the idea of which is to get young women involved in STEM careers, as well as donations to local charities. We have decided to expand on this bottom-up approach because materiality in particular varies considerably from location to location, i.e. a production location focuses on different areas than a sales office, for example. To satisfy these different approaches, a general strategy (GRI 102-14) should be formulated for the entire Group if it can appropriately unite the different points of view. (GRI 102-14)

Not only for the purposes of this report, we continuously analyze the effects of our business activities on people and the environment. We also use our products to make a contribution to sustainable development, for example, in medical technology or in looking for solutions for safe and environmentally friendly mobility. In doing so, we concentrate on issues that are material for our future business success as well as for people and the environment.

Sustainability is also important because it provides business opportunities. We minimize and monitor the corresponding risks. For this reason, an indicator system that makes it possible to measure and manage the key parameters is essential. We have laid the foundations for the development of this system. Nevertheless, we are aware that there is still a lot of development work to do here.

Transparency, as can be found in this report, is important to us. This is why we actively seek dialog with our stakeholders – not only in relation to the materiality analysis but also based on our belief that understanding and trust can only grow through dialog.

To give this trust a basis, we have adopted internal guidelines for some time now. These guidelines encompass not only our mission statement and our values, presented in a way that is understandable for everyone, but also include a code of conduct that stipulates how we should deal with customers, suppliers, employees and other stakeholders. This means that every employee and every manager knows the expectations of the company in terms of the legal and ethical standards of their actions.

Furthermore, our standards are oriented towards 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

The sustainability report is not audited by third parties. But in accordance with the legal provisions, the Supervisory Board reviews the lawfulness, correctness, and expediency of the sustainability reporting.

Risks and rewards

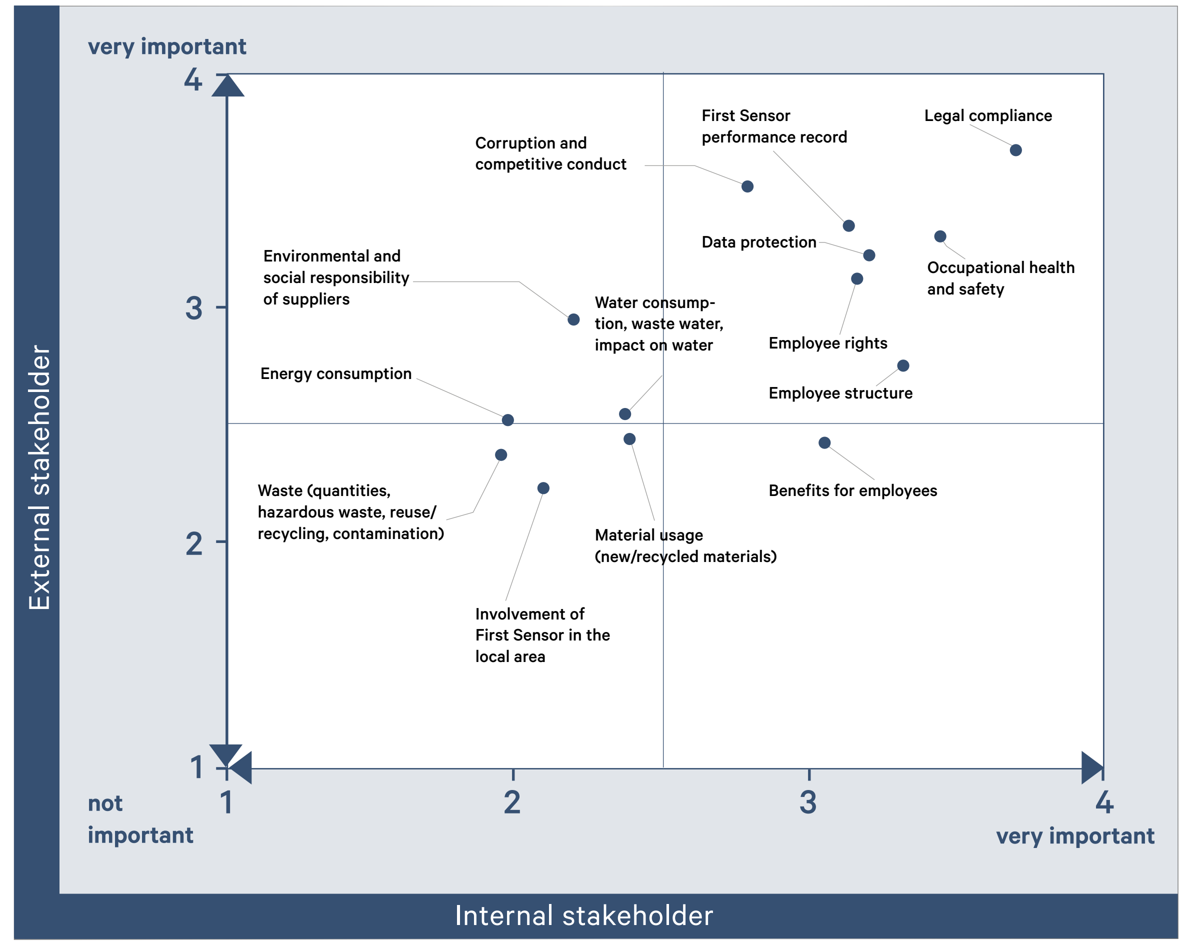
As a listed company, First Sensor uses a risk and compliance management system as an integral part of corporate governance (GRI 102-11). First Sensor AG's Executive Board is responsible for an effective risk and opportunities management system. The Supervisory Board is responsible for monitoring the effectiveness of the Group's risk management system. In 2017, risk and compliance management were linked together and transformed as a permanent process into a Group-wide Enterprise Risk Management system (ERM), which covers all locations and business divisions, continuously analyzes the risk and compliance situation and assesses, manages and controls identified risks. The integrated risk and compliance management system not only ensures that corporate risks are effectively managed but also that the ethical principles of corporate governance and the statutory provisions are used as guidelines for the business. In the past fiscal year, this was also converted into a Code of Conduct, which came into effect on January 1, 2018.

2. Materiality

The materiality analysis is an instrument that aims to fulfill various purposes. To identify the issues that are relevant for an individual company, the internal view of the company gained by surveying employees, managers or the works council is compared with the perspective of external stakeholders. Surveys should provide information about how strongly a particular issue influences stakeholders in their assessment of the company and in their decisions related to the company. These perspectives are extended according to the GRI standards by adding the "impact," i.e. the effects on the company itself or the effects caused by the company. Ultimately, the purpose of the CSR reporting obligation is to ensure that companies evaluate the social impact of their activities.

At First Sensor, we identify relevant topics related to sustainability using a materiality analysis (GRI 102-15). This involves assessing which issues are of high importance for our business success and in which areas in particular First Sensor can contribute to sustainable development. Here, an important indicator is the requirements of our stakeholders, which were collected in a structured survey. The survey involved representatives of customers and suppliers, partners, associations, the political sphere, the general public and the capital market. The issues identified form the focal points of our future sustainability management.

Materiality analysis



In fiscal year 2017, the following issues were identified as material, presented here in descending order of relevance (GRI 102-47):

- Legal compliance
- Occupational health and safety
- First Sensor performance record
- Data protection
- Employee rights
- Corruption and competitive conduct
- Employee structure
- Benefits for employees
- Environmental and social responsibility of suppliers
- Water consumption, waste water, impact on water
- Material usage (new/recycled materials)
- Energy consumption
- Involvement of First Sensor in the local area
- Waste (quantities, hazardous waste, reuse/recycling, contamination)

Due to the large number of topics, we decided to arrange them in the following groups and shed more light on each of the points mentioned:

Economic performance

First Sensor performance record (GRI 201)

Environment

Environmental and social responsibility of suppliers (GRI 308, 414)

Water consumption, waste water, effects on aquatic environments (GRI 303, 306-1, 306-5)

Society

Employee rights (GRI 202-1, 401-3, 402-1, 404, 405, 406)
Employee rights (GRI 202-1, 401-3, 402-1, 404, 405, 406)

Compliance

Compliance with laws (GRI 307, 419)

The survey was carried out for the first time in fiscal year 2017 (GRI 102-49).

3. Goals

In accordance with the analysis of material aspects from an internal and external perspective, we intend to develop specific goals for the short- and medium-term focus of the associated activities (GRI 103-2). As we still have no sustainability strategy and will develop this, as described, as the result of a bottom-up approach, it is currently not possible to answer some questions. Processes need to be implemented, requirements formulated, objectives and provisions determined, and existing projects and initiatives transferred to a “master plan.”

4. Depth of the value chain

As a manufacturer of chips, sensors and sensor systems, First Sensor purchases raw materials and components from suppliers (GRI 102-9). The total volume in 2017 amounted to €69.3 million. First Sensor’s customers include the company in the implementation of their sustainability strategies, and First Sensor in turn includes its suppliers (GRI 103-2). This ensures that aspects pertaining to sustainability are actively anchored throughout the entire value chain. As a result, this is a concrete element of procurement management to oblige suppliers to comply with certain minimum standards. In 2018, this will be enshrined in a separate Supplier Code of Conduct. Suppliers also undergo inspections during supplier audits (GRI 102-10). In 2018, the company will focus on examining the entire value chain in more detail, particularly in terms of scrutinizing the social and ecological quality of upstream products and questioning key suppliers on compliance with minimum social and environmental standards (GRI 413-2).

Another aspect to be seen as having a positive effect on sustainability is the long service life of First Sensor products. As “distributors” as defined in regulations, customers still receive information about responsible disposal at an early stage. In our analysis, we did not identify any business activities of First Sensor with a significant actual or potential negative impact on the local community (GRI 413-2).

5. Responsibility

The subject of corporate social responsibility (CSR) and the responsibility for the development of a sustainability strategy rests with the Executive Board. The large number of Group-wide activities is managed by various departments, which report to the CEO as well as to the CFO. Environmental aspects are primarily monitored and managed by the Quality department, social issues are assigned to HR and Corporate Communications, compliance topics are managed by the Business Process, Risk Management & Compliance central unit (GRI 102-20). The entire team develops the CSR strategy in accordance with the triad of economic, environmental and social responsibility and is in charge of its implementation (GRI 102-26). It is responsible for communicating the objectives agreed upon with the Executive Board and attracting the necessary level of attention at all levels of the company.

The team also launches new projects, reports on their status, initiates measures and coordinates their implementation within the company. CSR should form part of the integrated management system, which has been documented in the form of a Group management handbook.

In accordance with the legal provisions, the Supervisory Board reviews the lawfulness, correctness 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).

6. Rules and processes

First Sensor has created a management handbook to implement processes that are applicable across the company. This instrument is also suitable for supporting their implementation after the development of the sustainability strategy (GRI 103-2). Based on the principle “as centralized as necessary, as decentralized as possible,” rules, processes and structures that clearly regulate the responsibilities across the Group in the form of guidelines and clear instructions are provided for various areas. In this way, a requirement has been laid down to the integrate changes in daily workflows and the mindset of all employees at all levels of the company. Local quality management systems, which are increasingly geared towards standardized, Group-wide requirements complement these guidelines in terms of sustainability.

7. Control

First Sensor AG is currently engaged in a process that will define performance indicators for the material action areas identified(GRI 102-31). As well as economic performance, the issues that were identified as part of the materiality analysis (see section 2) include environmental aspects, society and compliance. Based on internationally recognized standards, the parameters that will be used to monitor and manage the issues are determined after the process has been completed to ensure that the data analyzed is always comparable. This will form part of future reports. An essential requirement for business success is the responsible management and monitoring of our company. We act in accordance with the German Corporate Governance Code presented by the Government Commission. We effectively fulfill the requirements of the code, providing reasons for any deviations in the annual declaration of compliance.

The company has already been using guidelines for some time that describe our values, principles and standards and are binding for all employees (GRI 102-16). This includes the mission statement, with which the values of innovation, excellence and proximity are anchored in the company. The Code of Conduct was prepared in 2017 and implemented on January 1, 2018, to substantiate the expectations for honest work, i.e. legally correct work characterized by ethical principles. It is valid across the Group. It also expresses the expectation that business partners and suppliers should also align their actions with the principles of this Code of Conduct. In addition, the option has also been created to provide information in the event of violation of the code, which can be anonymous if desired.

8. Incentive systems

The remuneration system for the Executive Board of First Sensor AG is intended to promote value-oriented business management geared toward sustainably increasing the company's success. This includes remuneration in line with the market and an incentive system that is geared toward the achievement of ambitious but not only short-term targets. The Supervisory Board determines the remuneration, taking account of the duties of the respective member of the Executive Board, their personal performance, and the financial situation and success of the company. It reviews the achievement of targets on an annual basis that were agreed upon. The elements of the remuneration system also include a long-term component in the form of share option plans or comparable instruments. Further details can be found in the consolidated management report and the remuneration report (GRI 102-35).

The company's managers are remunerated based on the achievement of operating and personal objectives in addition to a fixed salary. The company's employees receive remuneration based on the achievement of operating objectives in addition to their fixed salary (GRI 102-28). Members of the Supervisory Board are remunerated as established in the Articles of Association. A component oriented towards sustainability is not provided for.

At First Sensor, performance-oriented remuneration in line with the market is important (GRI 102-36). Otherwise, it would not be possible to ensure the company's need for motivated staff could be met in the competition for talented employees. However, we do not consider a vertical comparative analysis between the highest remuneration within the company and that of other employees (GRI 102-38) to be an appropriate way to assess the fairness of First Sensor's remuneration system.

9. Stakeholder participation

The First Sensor Group seeks out and maintains dialog with its stakeholders on many levels – both at Group level and at the locations of its subsidiaries. Generally, this includes employees, customers, suppliers, partners, investors, neighbors, politicians, authorities, the science community and non-governmental organizations (GRI 102-42). The knowledge gained from this contact with stakeholders is used, for example, in the development of new products, the key areas of our sustainability management and reporting. A selection from these groups was made for the materiality analysis. The survey involved representatives of customers and suppliers, partners, associations and politics, the general public and the capital market (GRI 102-40, -43).

Dialog with stakeholders with regard to economic, environmental and social issues is the responsibility of the Executive Board (GRI 102-21). If required, the Supervisory Board is also available to answer any questions, e.g. for investors, as stipulated in the Corporate Governance Code. In important cases, such as suspected compliance violations by members of the Executive Board, the Supervisory Board is informed directly. This also applies for any concerns that employees may have regarding the implementation of the sustainability system (GRI 102-33). In fiscal year 2017, there were no suspected cases or findings reported to the Supervisory Board (GRI 102-34). Likewise, no issues or concerns to which the company would have been required to respond to were raised by stakeholders (GRI 102-44).

As a commercial enterprise, First Sensor is closely integrated into the value chain of its suppliers and customers. Supplier and customer audits help to create a tightly knit relationship that leads to the interactive exchange of information on sustainability topics. As an employer, the Group has a social commitment and seeks to employ the best employees in a market where there is a shortage of specialists. Participation in job and trade fairs allows the company to position itself as an attractive employer.

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

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

10. Product and innovation management

First Sensor develops sensors and sensor solutions, from the chip to the entire sensor system. In fiscal year 2017, €8.6 million was invested in research and development. With our products, we also support our customers in making their processes more efficient and environmentally friendly, by providing greater energy efficiency and ensuring reduced emissions, for example.

In several decentralized applications, energy consumption is a key criterion to fulfill customer requirements and secure competitive advantages for both product buyers and the company itself. This is why great emphasis has been placed on the energy consumption of sensors and sensor systems in the development process. However, despite First Sensor's contribution it must be noted that the energy consumption of applications in which sensors and sensor systems are used is several times higher. Overall, the contribution towards energy savings at First Sensor itself only fluctuates in the per-mil range compared with the energy requirements of the end products (GRI 302-4). The social and environmental impacts of the key products have not yet been determined (GRI 416-1).

With regard to our own activities, we focus on reducing environmental impacts by using energy, resources and materials as efficiently as possible, especially in production. As well as the use of energy, this includes the use of raw materials and supplies in addition to the supplied materials and components. In fiscal year 2017 measures were taken to record resource consumption, such as energy and water. The database is still incomplete. When it comes to potential improvements, our employees make a significant contribution. Thanks to an extensive knowledge of the processes, their ideas can provide vital information. This is not only done in the interest of reducing the environmental impact of the company's own activities but is, of course, also in the company's economic interest.

Environment

11. Use of natural resources

Across the company, First Sensor verifies to what extent natural resources can be used in business activities. Materials and the input and output of water, land, waste, energy, surfaces, biodiversity and the emissions of the lifecycle of products and services are considered here. In some cases, these data are already gathered by the locations and are currently defined according to uniform standards. Therefore, the question about what environmental impacts the activity of our company has cannot currently be answered (GRI 103-2). However, two production locations (First Sensor AG, Berlin-Weissensee location, First Sensor Microelectronic Packaging GmbH) have already implemented an environmental management system in accordance with ISO 14001. The potential for First Sensor to have an influence along the value change is limited. It is therefore not possible to use raw materials obtained from a recycling process, for instance (GRI 301-2). We do not collect information about the resource consumption of our products in customer applications, such as energy consumption, because this information is not material (GRI 301-2).

In accordance with the materiality analysis, in the future we will concentrate more on the responsibility of our suppliers for environmental issues (GRI 308-1). For this purpose, we will put together criteria for the evaluation of existing and new suppliers. In this way, we can identify where our suppliers are having actual or potential adverse effects on the environment and, on this basis, decide which steps must be taken to prevent, reduce or eliminate these impacts.

12. Resource management

First Sensor identifies the qualitative and quantitative objectives it would like to use to achieve resource efficiency, for the use of renewable energy, the increase in raw material productivity and decrease in the use of ecosystem services and how these objectives must be attained. At the moment, no reliable data has been identified yet. As a result, no efficiency or savings targets can be set for the main resources at this point.

In accordance with the materiality analysis, we will concentrate on water consumption, waste water and the effects on aquatic environments. Based on current information from our locations, we know that no surface water, water from wetlands, rivers, lakes or oceans, groundwater, rainwater or waste water from other companies is used – only water from the municipal suppliers (GRI 303-1).

13. Climate-relevant emissions

At the moment, greenhouse gas emissions as a result of energy consumption are not systematically recorded at First Sensor. The materiality analysis has not given any indication that this issue needs to be considered as a priority. Where applicable, these values are calculated at a later date, relevant objectives are formulated, measures for reduction are implemented and a report is then prepared in this regard (GRI 305-1).

Society

14. Employee rights

As a company whose highly qualified and motivated employees are a decisive factor for future success, First Sensor does not limit itself to compliance with only the minimum standards of national and international standards. The health of and professional training opportunities for employees are key issues, which are of significant importance in the area of strategic HR management in order to bind the best talents to the company in the long run. Of course, this includes anti-discriminatory recruitment and a work environment in which diversity is perceived as an asset every day (GRI 103-2, 406-1). The Code of Conduct expressly states that discrimination is not tolerated, and no incidents of discrimination were reported in the reporting period. First Sensor is not bound by collective wage agreements. Corresponding agreements are negotiated with the respective works council committees and recorded in works agreements (GRI 102-41).

The materiality analysis assigned the aspect of occupational health and safety (GRI 403-1, -2, -3) a high priority. The physical well-being of our employees and safety at work play a big role within our HR work, too.

All employees are made aware of the individual hazards at their place of work, which is supported by intensive training and seminars. The aim is to prevent accidents at work and reduce the possible consequences. Where required, employees are provided with appropriate personal protective equipment. Hazardous substances, such as those used in production, are labeled appropriately and according to regulations. This is to prevent chronic and acute illnesses. We try to avoid noise and take appropriate protective measures where this is not possible. We also attach particular importance to the protection of staff, including maternity and youth protection. Of course, every employee is entitled to refuse to perform any work that he/she considers to be dangerous. If anything, we are grateful for this information because it gives us the opportunity to identify weak areas and remedy them as soon as possible.

We will publish statistics about health and safety, including information about the different types of accidents at work and the resulting absences due to illness, in the report for fiscal year 2018 for the first time.

First Sensor is obligated to report accidents at work. However, the reporting obligation applies only to accidents that lead to an incapacity to work of more than three days(GRI 403-2).

In addition to the responsibility of our suppliers for environmental issues, in the future we will also concentrate more on the responsibility of our suppliers regarding social factors (GRI 414-1, -2). For this purpose, we will put together criteria for the evaluation of existing and new suppliers. In this way, we can identify where our suppliers are having an actual or potential negative impact with regards to social factors and, on this basis, decide which steps must be taken to prevent, reduce or eliminate these impacts.

15. Equal opportunities

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

Owing to the aging structure, it is also highly relevant to create the conditions required to help employees find a healthy work-life balance. This includes efforts to make individual working hours more flexible. Furthermore, it goes without saying that women and men receive the same wages for the same work. This is based on a grading system that has been used to evaluate all of the positions at the company – regardless of the employee's gender (GRI 405-2). As for the participation of female employees, please refer to the information found in the Corporate Governance report. Since First Sensor currently has locations only in countries that have similarly high standards, these declarations affect all company locations (GRI 102-4).

The materiality analysis indicated that issues surrounding employee rights 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 education, diversity within the corporate bodies and among employees, remuneration of male and female employees, and discrimination in general (GRI 202-1, 401-3, 402-1, 404, 405, 406). We will develop appropriate systems that we can use to report on these specific issues. However, we can affirm that First Sensor is already fully aware of its responsibility and takes into account all the relevant regulations, including in its own interest.

16. Qualifications

Training and education is a high priority at First Sensor as it ensures that employees can always meet the increasing challenges of their professional environment. This fiscal year 2017, €315,000 was spent on these measures (GRI 404-1). Due to the switch to new ERP software and corresponding trainings, interest in additional training was lower than usual in many areas. First Sensor is also a qualified training organization. Based on long-term personnel planning, the aim is to cover the requirements for talented young staff members by also providing high-quality, needs-based training in the company's own ranks. First Sensor provides professional training for microtechnologists (19), industrial clerks (6), specialists in warehouse logistics (4) and mechatronics engineers (2). At the end of 2017, a total of 31 apprentices were employed at the company (previous year: 33).

Only 30% of employees at First Sensor AG are over 50 years old. Nevertheless, the Executive Board is aware that this is no reason to ignore the challenges of demographic trends in the long run.

Under 30	15%
31-40 years	32%
41-50 years	22%
Above 51	31%

As a growth company, the challenge rather lies in the recruitment of additional employees to secure the planned implementation of the strategy than in concerns related to the loss of expertise as a result of employees leaving due to their age. Should these individuals be interested in employment over a longer period of time, plans to regulate this will be in place on the basis of individual agreements (GRI 405-1).

17. Human rights

Human rights, fundamental principles and employment rights are fully recognized, supported and promoted by First Sensor wherever possible. This includes the company's support for the protection of international human rights and its efforts to ensure to the best of its knowledge and beliefs that it is not complicit in human rights violations (GRI 412-2). Due to the regional distribution of the locations of First Sensor, it can almost certainly be ruled out that the employee rights to freedom of association or collective bargaining could have been potentially violated or seriously threatened. The same applies for the business locations and, if applicable, the investment agreements and contracts that do not contain any human rights clauses due to the regional focus of the business and/or that have not been reviewed in terms of human rights aspects as the appropriate standards can be expected (GRI 412-1, -3). Suppliers from regions considered to be at risk will be given special consideration within our criteria for social issues (GRI 407-1), and we will perform relevant checks in the future (GRI 414-2).

Our intention to abolish all forms of forced labor and child labor and to eliminate discrimination in recruitment and employment are also a matter of course. These principles are also conveyed as expected behavior among all partners in the supply chain.

18. Community

For the shareholders of First Sensor AG, the monetary benefits of their investments are paramount. They expect their commitment to be profitable, primarily through an increase in the stock market price of their shares. However, many other groups also benefit from sustainable business development including customers, employees, suppliers and, not least, society in general. Last year, a total of €6.4 million were paid in taxes in Germany alone. This amount comprises all types of taxes that First Sensor was required to pay. The materiality analysis concluded that the economic performance of First Sensor is extremely relevant for our stakeholders.
The economic value generated and its distribution are shown below in the value added statement for fiscal year 2017 (economic value generated and distributed, GRI 201-1):

In € million	
Sales revenues	147.5
Financial result	0.5
Other operating income	3.3
Generated economic value	**151.3**
Operating expenses	85.4
Depreciation and amortization	9.1
Net economic value generated	**56.8**
Personnel expenses	46.5
Financial expenditure	3.9
Distribution to shareholders	1.6
Payments to public authorities	2.1
Donations	0.0
Distributed economic value	**52.6**
Balance retained by the company	**2.6**

In addition, the company gets involved by means of support for local non-profit initiatives. A conceptual basis was created for these types of activities to link social commitment even more closely with our mission statement and values in the future. In the future, we will report on the implementation of the concept.

19. 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 exchange, and there is no influence connected with the membership (GRI 102-13).

Compliance

20. Compliance with the law and regulations

Compliance with the law is a top priority at First Sensor. This is in line with the materiality analysis, in which the issue was ranked by far the number one stakeholder interest.

The compliance guidelines at First Sensor are defined in the Code of Conduct. They are a binding point of reference for members of the Supervisory Board as well as all employees and managers (GRI 102-17). It combines the obligation to comply with the law with the particular requirements of ethical conduct. The content of the Code of Conduct covers all the key aspects: the general principles of conduct including non-discrimination, how to deal with business partners and third parties including information on competition law and anti-corruption, the prevention of conflicts of interest, how to handle (confidential) information, data protection, employee rights, and the environment, health and safety. Interested parties can find more information on the website under “Compliance,” where you can also obtain a copy of the Code of Conduct.

Compliance with the principles of the Code of Conduct is integrated in the structures and processes of the Group-wide risk management system (GRI 205-1). With its four pillars, the newly introduced so-called First Sensor Risk House based on the COSO ERM framework maps significant risk categories for the company and also includes compliance issues. There is also a reporting procedure for violations of the code (whistleblowing). Every employee can make a complaint to their manager, the responsible compliance coordinator, the external ombudsman (legal council), the HR manager or an employee representative or notify them of a violation of this Code of Conduct or other breaches of rules or regulations, on a confidential or anonymous basis. Where required, appropriate measures will immediately be taken to eliminate a detected violation or to prevent it from happening again. In fiscal year 2017, two suspected cases were reported, one of which was confirmed upon closer examination. The employee involved has left the company in the meantime (GRI 205-3).

The guidelines of the Code of Conduct are dynamic, meaning that they are adapted to new standards of conduct if necessary. The Code of Conduct is the responsibility of the compliance coordinator, who is also responsible for its implementation and the relevant training. The compliance coordinator reports to the Chief Financial Officer.

The prevention of corruption is a particularly important part of compliance. Corruption is not just a trivial offense to give the company a supposed advantage in the short term. In reality, it represents a major risk because it is likely to permanently damage the company’s market position (GRI 205-1). Fairness towards all business partners, customers, suppliers and employees is a condition for long-term corporate 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 boundaries are formulated for granting and accepting benefits, which do not leave any room for interpretation and describe the clear expectation that corruption should be avoided. This expectation is communicated to not only all members of the Supervisory Board and the Executive Board as well as all employees and managers but also our suppliers via supplier management (GRI 205-2).

In 2017, First Sensor was not fined or sanctioned in connection with legal violations or violations of economic or social provisions (GRI 419-1).

3 Combined Consolidated Management Report of First Sensor Group and First Sensor AG

3 Combined Consolidated Management Report of First Sensor Group and First Sensor AG

Basic Information on the Group

Group structure and business activities

Group legal structure

The First Sensor Group (hereinafter also referred to as "the Group") consists of the parent company First Sensor AG, based in Berlin, and 10 subsidiaries in which the parent company holds a majority stake. An overview can be found in the Notes under "Basis of consolidation."

Business model

In the growth market of sensor systems, First Sensor develops and manufactures products and solutions for the ever-increasing number of applications in the industrial, medical, and mobility target markets.

For this reason, First Sensor is based on two core competencies. Firstly, the company is expert in detecting physical parameters such as pressure, flow, light and radiation, and acceleration by designing and producing sensor chips made from silicon. Secondly, it uses its knowledge of microelectronic layout and connection technology to continue to process the sensor chips with the best "form factor" for the application.

Among First Sensor's customers are well-known industrial groups and young technology companies that utilize the company's knowledge and many years of expertise to develop their own innovative products in order to realize opportunities for new businesses with great sales volume potential. They particularly appreciate the opportunities to create exceptionally powerful products with tailored features. Joint development work is often the basis of a long-term partnership.

First Sensor is also increasing its presence on its target markets through new applications developed from sensor solutions (so-called sensor systems), for example. They do not just measure; they react intelligently to the measurement results and communicate with other systems.

In addition, the company is investing in the internationalization of the Group. The strategy is geared toward sustainably increasing value.

Target Markets

Operational management of the company at Group level is implemented in line with the principles described under "Management system." By contrast, reporting is supplemented with sales figures for each of the target markets. The business development in the target markets, measured on the basis of available sales data, is thereby compared with the own positioning and corresponding measures are device for the strategic orientation.

Locations

The Group has a total of nine development and production locations that specialize in different sales markets, products and stages of the value chain. These comprise the German locations in Berlin (Oberschöneweide and Weissensee), Dresden (Albertstadt and Klotzsche), Oberdischingen, and Puchheim, as well as Dwingeloo (the Netherlands), Westlake Village (USA), and Montreal (Canada). There are another six locations that act as sales companies: Paris (France), Shepshed (Great Britain), Valkenswaard (the Netherlands), Copenhagen (Denmark), Kungens Kurva (Sweden), and Mansfield (USA). An in-house sales organization is currently being established in China.

This structure firstly bundles expertise predominantly in Germany, where around half of sales are still generated. Secondly, the branches in Europe, North America, and Asia ensure that market potential there can be tapped in a targeted way and that local content for the respective customer requirements is taken into account.

Products, services and business processes

First Sensor develops, manufactures, and sells customer-specific sensor solutions. Sensors convert non-electric variables (radiation, light, pressure, flow rate, position, speed, fill level, etc.) into electric variables. One of the company's core competencies is designing and manufacturing silicon-based sensor chips. Additionally, there is the second core competency of layout and connection technology (LCT), on the basis of which chips become sensors and sensor systems. First Sensor offers a wide range of own standard sensors, which are developed, produced, and sold in addition to customer-specific sensor solutions. The extensive range of our own standard products is supplemented by other sensors and complementary products from partner companies.

First Sensor uses its several years of expertise in sensors to offer its customers application-specific solutions for technical challenges with their products. Therefore, development is another of the company's core processes.

First Sensor has its own sales organization with staff who specialize in and have experience with technology. This is where processes ranging from market analysis to customer support and from qualification as a supplier of the customer to the conclusion of a contract are bundled. The internal sales organization is supplemented by a global network of trading partners in a variety of countries.

Sales markets

In the growth market of sensor systems, First Sensor focuses on customer-specific solutions and standard products for the ever-increasing number of applications in the industrial, medical, and mobility target markets. In fiscal year 2017, sales of €75.1 million were generated in the industrial target market, corresponding to 50.9% of total sales. The medical target market contributed € 27.9 million in sales, representing a 18.9% share of sales. And in the mobility target market, sales of €44.5 million or 30.2% of total sales were generated.

Half of sales are still generated in DACH-region. This amounted to €74.3 million in fiscal year 2017. The rest of Europe represented 27.4% of total sales, while North America accounted for 11.7% and Asia 10.1%Thereby, the Group is further strengthening its international presence with a particular focus on the USA and China.

External influences

External influences that cause a change in customers' demand-related behavior and regulatory frameworks are important to First Sensor.

With its focus on the three target markets of industrial, medical, and mobility business, First Sensor is participating in the rapidly growing number of sensor applications developed for new functions, as well as safety and comfort. In particular, LiDAR technology (Light Detection And Ranging) and the ongoing miniaturization of digital camera technology, which are two key technologies for highly automated driving, have overcome the pilot applications stage in the past fiscal year and made the breakthrough into series vehicles. At the same time, for a broad market penetration there is a still a lack of legal standards that regulate the use of these new technologies in practice.

Customers in target markets have an increasing need for integrated solutions. This means that the complexity of the requirements is increasing and simple sensors are turning into smart sensor systems that analyze measured data themselves and communicate the results with other systems, for example. As a solution provider with many years of experience, extensive technological expertise, and the ability to supply the chip to components and sensors to the sensor system, First Sensor is already in an outstanding position and is expanding its product and technology portfolio in a targeted fashion in order to further increase its own added-value share through forward integration.

The sales markets on which First Sensor focuses are also subject to an economic cycle that can neither strengthen nor curb its growth. As a result of focusing on different technology-oriented sectors, economic fluctuations in individual industries should have only a limited influence on business as a whole.

Targets and strategies

Strategic orientation

First Sensor's strategy is geared toward sustainably increasing value, i.e. toward profitable growth. In order to achieve this, scales must be generated and used. The aim is to achieve this via the five areas pillars of focus, which are (1) target markets, (2) key customers and products, (3) forward integration, (4) internationalization, and (5) operational excellence.

As part of the first pillar, First Sensor is focusing on the target markets of industrial, medical, and mobility. These markets are distinguished not only by internal growth, but also by the growing significance of sensor systems in these areas. Therefore, First Sensor is participating in megatrends, such as Industry 4.0, the miniaturization and digitalization of medical technology, and autonomous driving.

Industry 4.0 – the intelligent networking of products and production processes – is a growth driver for the industrial target market. Sensors are a fundamental component of this digitalization process to further improve productivity increases and safety in industry. Thanks to broad technology platforms, First Sensor is in a position to develop specialized solutions that support customers' ever-increasing demand for process automation.

In the field of medical technology, too, the trend is towards ever more intelligent solutions that not only measure, but also analyze the measurement results themselves and communicate with corresponding control technology, for example. At the same time, the ongoing miniaturization of medical technology means that devices in the nanometer range and dialysis machines for home use are no longer merely visions of the future; self-tracking will become an increasingly important part of the daily routines of billions of people. Many of these decentralized applications allow the monitoring of patient health or the assessment of the success of treatments, thereby ensuring that "e-health" applications will play an important role in the health growth market in the future. First Sensor is aiming to further expand the success in this market.

Another growth driver is the use of sensors in the vehicle industry. A whole range of comfort and safety applications can be realized only with the help of intelligent sensor systems. Partially and fully autonomous driving is possible only thanks to sensor-based driver assistance systems, for example. The mobility target market is influenced by this trend not only among passenger cars but also increasingly among trucks, commercial vehicles, and specialized vehicles. Furthermore, the topic of green mobility is increasingly important. Sensor systems support the use of low-emission drives and the equipment of vehicles in this area, as well. Based on the several millions of units First Sensor has already delivered and our reputation as a reliable and innovative partner to leading suppliers and automotive groups, the company aims to play an increasingly important role in this market in the future.

In these three markets, First Sensor is focusing on key customers and key products as the second pillar of the strategy for profitable growth. Key customers are major customers with high unit quantities. The company develops tailored solutions for them and then supplies these over a long period of time. This means that the relatively high cost of acquiring customers and development work is seen alongside a long supply relationship with high unit quantities and attractive "Economies of Scale". This results in especially long-term and trusting partnerships, with which new projects can be developed with significantly less expense. Developing tailored solutions for small customers or customers with low unit quantities is often not efficient. Therefore, these customers use key products from First Sensors standard portfolio. Nevertheless it is possible to make modifications to the standard sensors through the company's platform strategy, which is an important feature that distinguishes from the competition.

In future, complex solutions will also become even more important as several functions for customer applications are connected with each other. Therefore, First Sensor is focused on advancing forward integration. The expansion of service offers along the value-added chain strengthens our position as a solution provider and forms the third pillar of the strategy for profitable growth. In addition to further developing the core competencies of chip design and LCT, this includes building expertise in other process technologies, as well as software and sensor communication, so that the product range can be further complemented by Integrated Manufacturing Services and multi-sensor systems. In addition, integrating third-party products, which are required for successful business as a system provider, also plays an important role.

As a manufacturer of sensors and sensor systems that are "made in Germany," First Sensor has a strong position with many customers in Germany. This base is to be expanded strategically, while additional sales potential is to be tapped at the same time by a targeted increase in the company's international presence, particularly in North America and Asia. This further internationalization forms the fourth pillar of the strategy for profitable growth. All sales regions should aim to acquire both standard and solution customers.

The fifth strategic pillar for profitable growth is operational excellence. The foundation for this had already been laid in 2016 with projects such as purchasing initiatives, core processes, OneERP, and Quality First. We will continue on this path with topics such as lead times, deliv ery reliability, and portfolio optimization.

Strategic equity investments

First Sensor is well positioned to play an active role in ongoing consolidation in the highly fragmented sensor systems market. For the company, "perfect fit" companies are those that can provide support in driving forward the implementation of the strategy for profitable growth. In view of this, as part of a "buy-and-build" strategy, strategic equity investments, through which additional applications in the target markets of industrial, medical, and mobility can be tapped into, are reviewed as regularly as investments that expand our own technological expertise and abilities along the added-value chain. Furthermore, investments that can drive forward wider access to customers or tap into the growth markets of North America and Asia would also be conceivable.

Strategic financing measures

In accordance with the corporate strategy, First Sensor relies on a balanced financing structure with regard to both the operating business and the realization of the planned growth. For this reason, a KfW loan of €13.0 million was raised from an ERP digitalization and innovation program at the end of 2017. The term is 10 years and the interest rate is 1.15% p.a.

Recently in 2015, First Sensor placed three promissory note loans totaling €28.0 million: two tranches – one of €7.0 million and one of €18.0 million – with a term of five years and one tranche of €3.0 million with a term of seven years. An issue from 2013 resulted in another tranche of €12 million that will be settled at the end of 2018.

Furthermore, as a listed company, First Sensor AG also has the opportunity to use the capital market.

Internal management system of the company

The First Sensor Group's operating business is managed by the Executive Board, which comprises two people. The Executive Board is monitored by the Supervisory Board, as required by law and the Articles of Association.

The Executive Board develops the corporate strategy and implements it in coordination with the Supervisory Board, taking account of the interests of customers, suppliers, employees and investors to the best possible extent. Based on our strategic objectives, a medium-term plan for a three-year period is drawn up once a year. The detailed annual plan for the following year prepared on this basis is coordinated with the Supervisory Board and implemented.

Management of the Group primarily serves to monitor this implementation. The aim is to identify deviations as early as possible so that suitable measures can be implemented promptly.

The employees in the first management level below the Executive Board form the management team, with which the Executive Board regularly debates strategic and significant operating issues, analyzes the current business development, and discusses the identification of opportunities and risks. In addition, the persons accountable for the results report on their areas each month and set out the financial situation for the Executive Board based on a comparison of actual financial figures with the target figures and the prior-year figures, as well as describing day-today business and any exceptional transactions.

Key performance indicators used

The operating units of 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). At Group level, EBITDA (EBIT before depreciation and amortization) and ROCE (return on capital employed) are also monitored. In addition, the Group monitors the main key figures for working capital (equivalent to current assets less current liabilities), in particular: DIH (days inventory held), DSO (days sales outstanding), and DPO (days payable outstanding). Investments are monitored by a profitability analysis, in addition to the planned pay-back period.

Remuneration systems

Remuneration system for the Executive Board

The remuneration system for the Executive Board of First Sensor AG promotes value-oriented business management geared toward sustainably increasing the company's success. This includes competitive remuneration and an incentive system that is geared toward the achievement of ambitious short and medium-term targets. The Supervisory Board determines the remuneration, taking into account the duties of the respective member of the Executive Board, their personal performance, and the financial situation and success of the company. The elements of the remuneration system consist of a fixed and a variable cash component, participation in share option plans as a long-term incentive, and additional benefits.

The fixed component of the annual cash component amounts to between 50% and 75% of the total remuneration, depending on the contractual arrangement, and is paid in 12 equal monthly installments.

The variable cash component is linked to the achievement of up to five quantitative and qualitative annual targets. They are agreed between the Supervisory Board and the members of the Executive Board. In the event of unforeseen extraordinary developments, this remuneration component may be adjusted by the Supervisory Board.

In addition, the members of the Executive Board participate in two share option plans (2016/II and 2017/I) that were resolved at the respective Annual General Meeting as a long-term incentive system. Further details of the share option plans can also be found in section 18 of the Notes and in the agendas of the 2016 and 2017 Annual General Meetings.

In accordance with the conditions for the share option plans, the Supervisory Board may issue a total of up to 400,000 subscription rights for shares to the members of the Executive Board at its discretion until the end of 2019. In fiscal year 2017, 105,000 subscription rights were issued to the sitting members of the Executive Board (Previous year: 110,000). In addition to the achievement of the performance target, a condition of exercising the share options is that the beneficiary must have acquired one share in the company for every ten share options granted no later than six months after the issue date and must still hold these shares when exercising the options.

In addition, the members of the Executive Board have contractually agreed claims to additional benefits such as use of a company car and laptop, an allowance for health and long-term care insurance, temporary allowances for accommodation in Berlin for those will primary residences outside Germany, and reimbursement of expenses. Furthermore, the company has taken out term life insurance, as well as D&O insurance with an appropriate deductible, for the benefit of members of the Executive Board and pays the premium for this.

In the event of a change of control, the members of the Executive Board have individually agreed claims to a one-off payment if they leave the company. This limitation does not apply to the share option plans described above.

An individualized overview of the Executive Board remuneration paid and granted in the 2017 fiscal year can be found in section 32 of the Notes.

Remuneration system for the Supervisory Board

Remuneration of the Supervisory Board is determined by the Annual General Meeting and is set out in Article 13 of the Articles of Association. Members of the Supervisory Board subsequently receive remuneration of €20 thousand for each full year of membership of the Supervisory Board. This increases to €50 thousand for the Chairman and to €30 thousand for the Deputy Chairman. In the interests of the company, 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 level. The company pays the premiums for this insurance. No deductible is envisaged.

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 value-added tax that applies to their remuneration. Remuneration for the four members of the Supervisory Board (until May 24, 2017 three members) amounted to €112 thousand in fiscal year 2017 (previous year: €100 thousand). Supervisory Board members do not receive any performance-related remuneration and do not participate in the company's share option plan.

in € thousand	2016	2017
Prof. Dr. Alfred Gossner (Chairman)	50	50
Götz Gollan (Deputy Chairman)	30	30
Marc de Jong	20	20
Prof. Dr. Christoph Kutter	0	12
Total	**100**	**112**

Management Report

Research and development

The dynamic technological development in customer markets on one side and the numerous new application areas for sensors and sensor systems on the other require a systematic approach in order to tap into the full potential of the opportunities in a targeted fashion. Therefore, great importance is placed on development at First Sensor and development is a key business process with a significant influence on the Group's success. It not only provides the key technologies in both core competencies, chip design and layout and LCT, but is an important driver in particular for customer-specific solutions, as well as basis for the platform and technology strategy, the product development process, and prototype construction.

Development bundles the Group's expertise across locations. Here in particular, the distributed components in the Group must coordinate in order to flexibly work together with the available resources. In this area, particular attention is applied to personal contact in order to promote communication and collaboration.

The field of development comprises four areas of responsibility: The Design & Simulation unit is responsible for designing sensors and assemblies and develops methods for measuring physical variables. The responsibilities of the LCT & Process Development unit range from layout and connection technology to prototype construction, meaning that this unit bundles a large part of the solutions expertise for customer-specific developments. The Sensor Electronics unit designs circuits, programs microcontrollers, and conceptualizes testing and calibration technology. The Software & Systems unit focuses on sensor systems. This unit also develops methods for processing and interpreting complex data.

Irrespective of whether the impetus for a new development project comes from the customer or ourselves, a structured process is launched first of all. From the start of a project, the business case is reviewed, taking into account not only the cost and time frame of the development project, but also its further potential for the company. In the event of a positive decision, the project is then implemented, from creating a design to creating prototypes to preparing series production. The organization of development projects is based on a so-called "stage-gate process." It ensures that the results at every stage are in line with the desired goal by using pre-defined milestones and standardized reporting requirements, while deviations are recognized, analyzed, processes in a timely manner. In addition, the stage-gate process enables multi-project management.

Development has the task of not only developing new sensor solutions and continuously improving existing products. It also supports production optimization. Through close, active dialog with research institutes and industry associations, it also ensures that scientific findings are applied in useful innovations.

In view of its significance, the area is continuously reviewed for optimization potential and its processes and interfaces are adjusted where necessary. In fiscal year 2017, the result of these reviews were in a technology and product road map that identifies the short and medium-term priorities of development. It guarantees that projects that either represent high sales volumes or are developed together with "A" customers are prioritized, taking into consideration the overarching corporate strategy. In order to meet these requirements, First Sensor continuously enhances its core competencies in chip development and in microelectronic layout and connection technology while also expanding stable cooperations with key suppliers.

Focus of development activities

Development activities firstly focus on seeking and testing new measurement methods and thereby developing new sensor chips in order to detect physical parameters even more precisely and, above all, very reliably. Secondly, the requirements for the use of sensor products are constantly becoming smarter and more complex: They are not only expected to measure, but also to interpret the data, communicate with other systems, consume little energy and take up less space, work extremely reliably, and have the best "form factor" for the relevant application, i.e. fully meet the individual requirements robustly. Furthermore, customers not only expect competitively priced innovations, but also technologies that will still be state-of-the-art in three to five years.

Because customer projects generally start with a development process at the beginning of which aspects such as the expected production volume and the duration of production – usually equivalent to the service life of the customer product – can already be estimated, development provides important indications for medium-term corporate planning and visibility.

Purchase and licensing of R&D expertise

Where necessary for capacity reasons or because of a need for specialist knowledge is not available in-house, Development collaborates with third parties such as the institutes of Fraunhofer Gesellschaft. The economic scale of these purchased development services is of minor significance.

R&D key figures

The annual R&D expenses are budgeted. Costs for projects are determined within the context of internal orders and are included in the income statement as expenses. Costs for individual customer projects are determined separately and, if agreed, are passed on or amortized over the term of the product. Strategic development projects are also determined separately and these are activated only if the criteria in accordance with IAS 38 are met.

in € thousand, unless otherwise indicated	2015	2016	2017
R&D expenses	7,849	8,839	8,578
R&D ratio in %	5,7	5,9	5,8
New capitalization of development costs	1,043	1,423	1,612
Carrying amounts of capitalized costs	3,978	4,903	5,107
Amortization of capitalized development costs	269	542	748
Number of R&D employees (FTE)	83	93	94
Number of patents and licenses	55	35	39

In fiscal year 2017, R&D expenses sunk by 3.0% to €8.6 million. The R&D ratio came to 5.8% of sales. With 94 employees, 12,0% are now employed in Development, compared to 11.4% in the previous year.

R&D results

The main development projects in 2017 included:

- Development of a customer-specific multi-sensor system, combined with a control in a tailored casing, for monitoring the ventilation filter in intelligent HVAC systems. The prototypes were successfully tested by the customer.
- Customer-specific development of a LiDAR system for high-definition LiDAR scanners. The system module is intended for use in the next generation of autonomous vehicles and comprises several APD arrays and the electronic components for strengthening and converting signals. The customer was successfully provided with a solution.
- Introduction of through-silicon via (TSV). This further development of wafer technologies for APDs and bulk photodiodes enables more compact and reliable sensor designs.
- New development of a sensor for unique identification of gas mixtures through the measurement of three physical parameters at the same time. These "gas property sensors" can for example, be used to calculate the heating value and the corresponding amount of natural gas.

Projects like these usually contribute to the Group's sales within 6 to 24 months.

Patents and utility models are registered only selectively. Therefore, the company first examines whether the benefits of an application exceed the risks of disclosure, whether there is a strategic need for it, and whether an application is required for competitive reasons. The patents are subsequently subject to an annual review. If the market situation or the strategic orientation of the company has changed, or if their value can no longer be proven, the company decides to let certain patents expire.

Economic report

General economic and sector conditions

Developments in the economy as a whole

The global economy is currently undergoing a strong upswing according to the Kiel Institute for the World Economy (IfW). In 2017, the economy saw an upwards trend in almost all major countries, with growth in global production amounting to 3.8%. This is 0.1 percentage point more than recently expected and the strongest increase since 2011. While the US reported 2.3% growth, China generated as much as 6.9%.

In 2017, the gross domestic product in the 19 countries in the eurozone accelerated again with an increase of 2.5% (previous year: 1.7%). Overall, we look back on the most successful year of the past decade for Europe.

The economic situation in Germany in 2017 was also marked by strong economic growth. Gross domestic product adjusted for price changes increased by 2.2% year-on-year; in 2016 growth had amounted to 1.9%, meaning that the German economy has grown for the eighth consecutive year. A longer-term view shows that the German economic growth in 2017 was almost one percentage point above the 1.3% average of the last ten years.

Developments on the sensor market

According to the latest figures from the Semiconductor Industry Association, global semiconductor sales are growing faster than ever before. In November 2017, it achieved the record figure of USD 37.7 billion per month – more than 20% more than in the same month last year. The marketing research institution Gartner attributes this growth primarily to two technical developments in particular. Firstly highly complex chips are being installed in more products, which either did not exist in the past or did not need such chips, such as cars and drones, but also industrial machines in the industrial “Internet of Things” (IoT). Secondly, the use of these new products results in more data which has to be analyzed, for example through the use of highly CPU-intensive self-learning algorithms.

Yole Développement estimates that the market for MEMS and sensor systems will grow from USD 38 billion in 2016 to USD 66 billion in 2021 at an average annual growth rate of around 12%. The global sensor market consists of several market segments, each of which are subject to specific trends. Trends such as IoT, Industry 4.0 and autonomous driving are decisive forces driving future market growth. Intelligent sensors, which are expected to reach a market volume of around USD 60 billion by 2020 at an above-average growth rate of 19.2%, are part of First Sensor’s declared target markets.

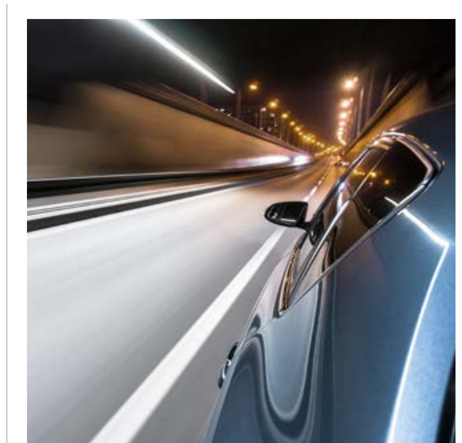
Industrial

In 2017, German industry again benefited from the strong global upturn that has since also reached the eurozone. Production increased significantly and incoming orders rose dynamically. According to calculations from the German Federal Statistical Office, production in mechanical engineering rose by 3.1%. Growth came particularly from increases in export markets, in particular the US (up 12%) and China (up 24%). It was not until the end of the previous year that the first signs of the pace slowing down became evident. The exchange rate of the euro against the dollar has recently increased which makes exports from the eurozone more expensive. In addition, the Chinese economy, which has so far been particularly robust, is expected to lose momentum due to the structural change towards more consumer spending.

Medical

The medical technology industry in Germany is regarded as particularly innovative, with strong growth and a promising future. According to current statistics, global sales of companies in the medical technology industry amounted to around €29.2 billion in 2016 and increased to €30.6 billion in 2017, an increase of 4.8%. €19.7 billion was generated abroad, i.e. an export ratio of almost two thirds. 51% of exports went to European countries, 19% to North America and 18.6% to Asia.

Mobility



According to the German Association of the Automotive Industry, the automotive business developed positively globally in 2017. In China, the market expanded again. In Europe (EU28+EFTA), automobile sales achieved their highest level since 2007. In 2017, significantly more vehicles were sold on the Japanese car market than in the previous year. India also saw a strong increase. Over the course of the year, markets in Brazil and Russia came back with good growth rates. It was only sales in the US which dropped slightly, but they are still at a high level. In 2017, the fact that new technologies and innovative products continue to underpin success was particularly evident in China. Despite the strong decline in growth from 13.3% in 2016 to 2.4% in 2017, according to a PwC analysis, production of battery-powered cars for example has increased sixfold within 24 months although still at a low level.

Business performance in 2017 and comparison with the forecast development

Fiscal 2017 was another very successful year for the First Sensor Group. With sales of €147.5 million, the upper end of original guidance was exceeded by almost 2%. In the second half of the year in particular there was strong momentum, with around €10 million more sales being generated in this period than in the first half of the year. Profitability also improved markedly. As a result, the original assumption of an EBIT margin from 5 to 6% was significantly exceeded at 7.2%. Sales development in the second half of the year and the margin increase were clearly linked.

Sales in the Industrial target market developed positively with an increase of 3.6%, with roughly half of sales being generated in this market. However, due to project delays on the part of some customers, sales in the Medical target market saw a decline of 9.0% after a growth surge exceeding 29% in the previous year. In the Mobility target market, the aim was to compensate for a major order that expired at the end of 2016. This has largely been achieved with a decline in sales of only €2.5 million.

Overall, the figures of fiscal 2017 show the first positive effects of the strategy for profitable growth and operating excellence. The company is therefore well prepared for the future development.

Targets for key performance indicators for fiscal 2017

For fiscal 2017, the aim was for consolidated sales in the range of €140 and 145 million. An EBIT margin between 5% and 6% was anticipated. These targets were published on March 20, 2017 and confirmed during the year.

Comparison of target and actual figures for 2017

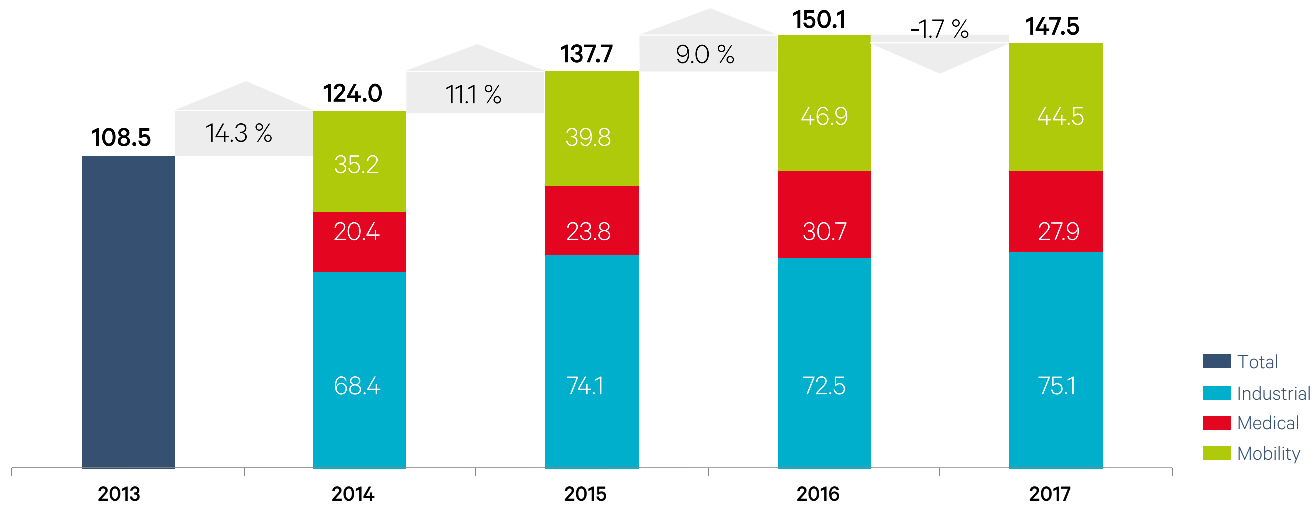
The table below shows the figures achieved in the previous year, the guidance and the figure achieved in the past fiscal year:

	2016	Guidance 2017	2017
Sales in Mio. Euro	150.1	140-145	147.5
EBIT margin in %	6.7	5-6	7.2

The sales guidance for the fiscal year was exceeded by close to 2%. After a restrained business performance in the first half of the year, as expected profitability improved in the second half of the year and was as much as 1.2 percentage points above the originally forecast corridor. The business performance in fiscal 2017 thus slightly exceeded the Executive Board's original expectations in terms of sales and significantly exceeded the EBIT margin. This was primarily due to pleasing sales momentum in the second half of the year combined with an advantageous product mix.

Results of operations

In fiscal 2017, sales in the First Sensor Group were €147.5 million (previous year: €150.1 million). The decline of €2.6 million or 1.7% is attributable to the expiration of a major order at the end of 2016 (volume of approximately €10 million), which however was already largely compensated for in the past fiscal year. The company's strategy is targeting average annual growth of 10%. The graph below shows the development of consolidated sales during the last five years.

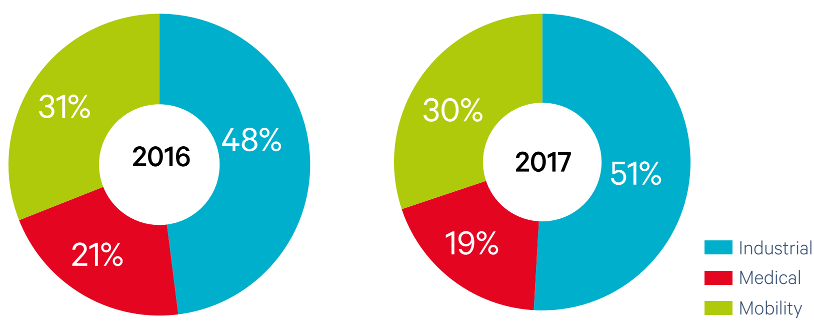


Sales developed positively in the Industrial target market in which roughly half of the sales are generated. Growth of 3.6% to €75.1 million (previous year: €72.5 million) was generated here. After the growth surge of over 29% in the previous year, project delays on the part of some customers in the Medical target market in fiscal 2017 resulted in sales declined by 9.0% to €27.9 million (previous year: €30.7 million). Sales in the Mobility target market amounted to €44.5 million (previous year: €46.9 million). Thus, the decrease was only €2.5 million. As a result, it was possible to compensate for the major order of approximately €10 million which expired last year.

Sales by target markets

in € thousand	2016	2017	Δ Δ absolute	in %
Industrial	72,486	75,096	2,610	3.6
Medical	30,705	27,943	-2,762	-9.0
Mobility	46,920	44,461	-2,459	-5.2
Total	**150,111**	**147,500**	**-2,611**	**-1.7**

Sales distribution by target markets



In fiscal 2017, First Sensor again achieved the majority of its sales in Germany, posting €62.9 million after €64.2 million in the previous year. The decrease is mainly attributable to project postponements on part of customers and deliveries to locations outside Germany. A major step in growth was taken in the US, where sales rose again by more than 45% to the current level of €14.0 million (previous year: €9.6 million). Growth in China by €1.6 million was pleasing as were sales in the UK (€1.1 million). Sales in Scandinavia decreased significantly by €9.7 million or 65.6%, with it being here that the major order from the Mobility target market expired.

Top 7 countries in terms of sales

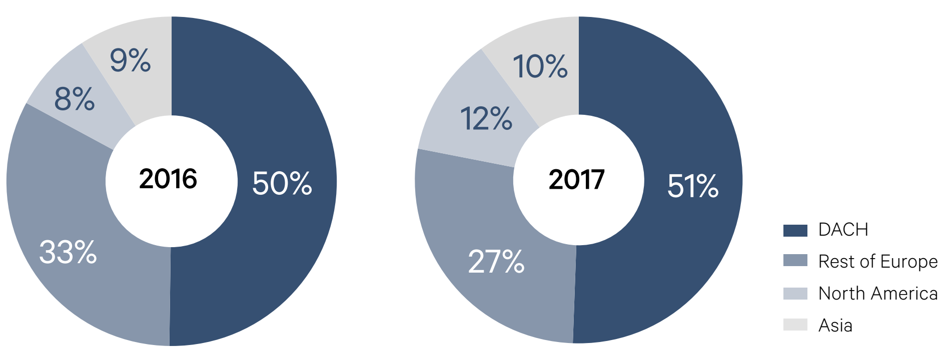
in € thousand	2016	2017	Δ absolute	in %
Germany	64,152	62,915	-1,237	-1.9
USA	9,585	14,015	4,431	46.2
Hungary	9,397	10,423	1,026	10.9
China	7,574	9,180	1,606	21.2
Great Britain	6,383	7,448	1,064	16.7
Benelux	6,864	5,975	-889	-13.0
Scandinavia	14,802	5,085	-9,717	-65.6

These changes are also reflected in the sales shares of the sales regions. The share of sales generated in the German-speaking area remained unchanged against the previous year at 50%. However, the share attributable to the rest of Europe decreased from 32.5% to 27.4%, with the share of sales in North America rising from 7.9% in the previous year to 11.7%. The share of sales in Asia increased by one percentage point to 10.1%.

in € thousand	2016	2017	Δ absolute	in %
DACH*	75,088	74,303	-785	-1.0
Rest of Europe	48,851	40,414	-8,437	-17.3
North America	11,922	17,293	5,371	45.0
Asia	13,665	14,911	1,246	9.1
Rest of the world	585	579	-6	-13.0
Total	**150,111**	**147,500**	**-2,611**	**-1.7**

*Germany, Austria, Switzerland, Liechtenstein

Sales distribution by region



Order situation

The lower order backlog as at the start of 2017 had given an indication for the modest business performance in the first half of the year. However, the picture changed significantly over the course of the year. Incoming orders of €163.7 million were posted, an increase of 23.1%. The order backlog as at the end of the year amounted to €92.5 million and was thus around €10 million higher than a year ago. The book-to-bill ratio improved again to 1.11 and provides a good starting point for a successful fiscal 2018.

in € thousand	2016	2017	Δ	in %
Sales	150,111	147,500	-2,611	-1.7
Incoming orders	132,936	163,674	30,738	23.1
Orders on hand	82,232	92,465	10,233	12.4
Book-to-bill-ratio	0.89	1.11	0.22	-

Earnings

With sales declining slightly to €147.5 million (previous year: €150.1 million), inventories were reduced by a further €-1.5 million (previous year: €-1,3 million). However, other capitalized costs increased by €1.1 million to €2.5 million. The higher volume relates to the introduction of a standard ERP software, commissioning of equipment and new projects in the R&D sector. Consequently, total operating performance amounted to €148.5 million (previous year: €150.3 million).

With a 1.7% decline in sales, cost of material including purchased services decreased most strongly - by €3.1 million or 4.2% to €69.3 million (previous year: €72.4 million) The ratio in relation to sales thus improved from 48.2% to 47.0%. Gross income from sales also improved, by €1.7 million to €82.5 million (previous year: €80.8 million); in percentage terms the gross income margin increased from 53.8% to 56.0%. In addition to higher own work capitalized, significant causes for these improvements were optimization in the value chain, product mix and economies of scale.

Personnel expenses increased year-on-year, amounting to €46.6 million (previous year: €44.1 million). Recruitment of highly qualified employees, but also higher provisions for holidays and overtime due to reporting date factors impacted alongside the usual wage and salary increases and structural changes which make the organization more efficient and more effective.

Other operating expenses were again down year-on-year, moving lower by around €1.0 million from €17.3 million to €16.3 million. This effect is almost exclusively attributable to legal and consultancy fees halving to only €1.1 million (previous year: €2.2 million).

All positive effects contributed to a slight improvement in EBITDA (earnings before interest, taxes, depreciation and amortization) despite the decline in sales, namely from €19.4 million in the previous year to €19.6 million. The margin thus increased from 12.9% to 13.3%.

Depreciation on property, plant and equipment and amortization of intangible assets and from purchase price allocations amounted to €9.1 million in fiscal year 2017 and was thus almost unchanged (previous year: €9.4 million). Adjusted for amortization of intangible assets income resulted in EBITA of €12.8 million (previous year: €12.4 million), corresponding to a margin of 8.7% (previous year: 8.2%). EBIT improved correspondingly, achieving €10.6 million (previous year: €10.0 million), an upturn of 6.0%. The EBIT margin reached 7.2% on a whole-year basis (previous year: 6.7%) and was therefore significantly higher than the planning for fiscal 2017. Originally, a margin in the range of 5% and 6% had been expected.

Interest expenses and income did not change significantly in comparison to the previous year and amounted to €-1.9 million (previous year: €-1.8 million). Due to reversing forward foreign exchange contracts (TARF) early, net currency gains and losses amounted to €-1.6 million (previous year: €0.5 million). EBT therefore declined in comparison to the previous year from €8.7 million to €7.2 million. On the other hand, tax expenses increased to €2.8 million (previous year: €2.6 million). This corresponds to a tax rate in the Group of 38.4% (previous year: 30.0%). In particular, this was due to the proportionally higher sales and earnings contributions of foreign consolidated companies and the non-recognition of deferred tax assets on loss carry-forwards of other foreign consolidated companies.

In fiscal 2017, consolidated net income before minority interests of €4.4 million is reported (previous year: €6.1 million). Earnings per share in circulation was €0.40 (previous year: €0.57).

Financial position

Principles and aims of the financial management

The aim of First Sensor's financial management is to ensure adequate liquidity at all times for the production processes, growth and investments. It is managed centrally by First Sensor AG. It primarily includes liquidity management, borrowing of external funds, and management of interest rate and exchange rate risks.

The company counters the risk of interest rate increases by using interest rate swaps for variable- interest loans. First Sensor counteracts foreign currency risks arising from purchases of materials and purchased services in USD, particularly in Asia, by optimizing customer payments in USD (natural hedge) and concluding forward foreign currency derivatives. Derivative financial instruments are used solely for hedging operating business and minimizing the impact of financial transactions. The extent of their use is regulated by clear instructions.

Capital structure

As at December 31, 2017, the Group's equity amounted to €81.9 million (previous year: €77.5 million). Based on the balance sheet total of €159.6 million, this corresponds to a equity ratio of 51.3% (previous year: 50.3%). Financial liabilities amounted to €48.3 million (previous year: €48.2 million).

€40.0 million of financial liabilities result from the placement of promissory notes maturing in 2018, 2020 and 2022. In 2015, First Sensor placed three promissory note loans totaling €28.0 million: two tranches – one of €7.0 million and one of €18.0 million – with a term of five years and one tranche of €3.0 million with a term of seven years. An issue in 2013 resulted in another tranche of €12 million, which is due in 2018. This financing structure allows the company to choose between investing surplus liquidity in company growth or using it for repayment in the coming years.

In connection with the most recent promissory note loans, contractual covenants have been agreed to the end of the year in each case. As at December 31, 2017, First Sensor fulfilled all required key financial ratios.

	2016	2017
Leverage, net debt to EBITDA	1.26	1.16
Interest cover ratio, EBITDA to interest expense	11.1	11.0
Equity ratio	41%	43%

In 2017, net debt (as financial liabilities - cash and cash equivalents) decreased further from €24.4 to €22.8 million. It is presented in the table below:

in € thousand	2016	2017	Δ absolute	in %
Non-current financial liabilities	43,599	32,184	-1,415	-26.2
Current financial liabilities	4,640	16,115	11,475	247.3
Cash and cash equivalents	-23,791	-25,505	1,714	7.2
Net debt	**24,448**	**22,794**	**-1,654**	**-6.8**

The ratio of net debt to equity (gearing) amounted to 27.8% as of the balance sheet date (previous year: 31.6%).

As at December 31, 2017, First Sensor also had unused credit lines of €11.1 million (previous year: €13.3 million). The volume-weighted average cost of capital as at the end of the fiscal year came to roughly 2.6%.

There were no restrictions in 2017 with regard to the availability of the loans granted. The longstanding business relationships with our banks once again proved stable. As a listed company, First Sensor also has capital market instruments available to it.

It can also be assumed for the future that First Sensor will be in a position to finance planned growth from the resources at its disposal. Utilization of the capital market is not planned in the foreseeable future.

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

Investments

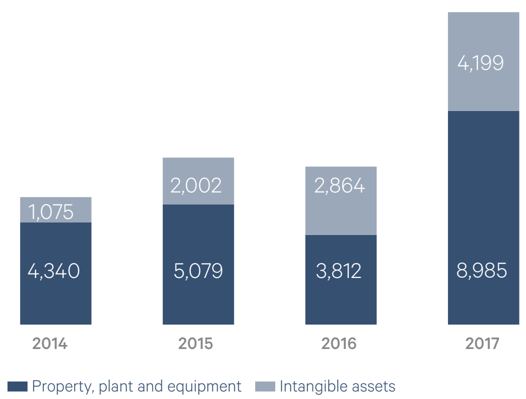
In 2017, investments reached a high level. The introduction of standard ERP software, commissioning of equipment and new projects in the R&D sector had an impact in the area of intangible assets. In the area of property, plant and equipment, investments related to new machines and equipment for expanding vertical integration, for process improvements and increasing capacity and also replacement investments, mainly at the Berlin Oberschöneweide and Dresden locations.

in € thousand	2016	2017	Δ absolute	in %
Investments intangible assets	2,864	4,199	1,335	46.6
Investments in property, plant and equipment	3,812	8,985	5,173	135.7
Investments	**6,676**	**13,184**	**6,508**	**97.5**
Disposal of non-current assets and investments	123	589	466	378.9
Other effects	24	62	38	158.3
Cash flow from investment activities	**-6,529**	**-12,533**	**6,004**	**92.0**
Amortization of intangible assets	3,653	3,757	104	2.9
Depreciation of property, plant and equipment	5,766	5,327	-439	-7.6
Depreciation and amortization	**9,419**	**9,084**	**-335**	**-3.6**

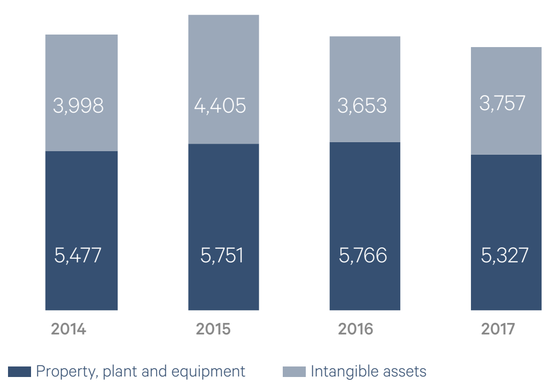
As a result, investments were considerably higher than depreciation and amortization.

The following graphs show investments and depreciation and amortization over the last four years:

Investments



Depreciation and amortization



Liquidity

Operating cash flow was down slightly year-on-year and amounted to €16.0 million (previous year: €16.6 million). In contrast, cash flow from investing activities increased significantly as expected, after €6.5 million in the previous year, it totaled €12.5 million. This was due to the introduction of standard ERP software, commissioning of equipment and new projects in the R&D sector and investments in new machines and equipment for expanding vertical integration, for process improvements and increasing capacity. Free cash flow, which represents the difference between operating cash flow and cash flow from investing activities, was therefore lower than in the previous year and amounted to €3.5 million (previous year: €10.0 million).

n € thousand	2016	2017	Δ absolute	in %
Cash flow from operating activities	16,568	16,005	-563	-3,4
Cash flow from investment activities	-6,529	-12,533	-6,004	92.0
Cash flow from financing activities	-7,770	-1,704	6,066	-78.1
Change in cash and cash equivalents	2,269	1,768	-501	-22.1
Exchange differences	-1	-54	-53	5,300.0
Cash and cash equivalents at the beginning of the financial year	21,523	23,791	2,268	10.5
Cash and cash equivalents at the end of the financial year	23,791	25,505	1,714	7.2
Free cash flow	10,039	3,472	-6,567	-65.4

Cash flow from financing activities totaled €-3.0 million (previous year: €-7.8 million). Cash and cash equivalents increased from €23.8 million to €25.5 million in fiscal 2017. From the perspective of the Executive Board, the Group's liquidity position thus remains comfortable. In 2018, First Sensor was thus also able not only to meet its payment obligations from operating business at all times again and but also repay promissory note tranches of €12 million due at the end of the year.

To assess First Sensor's solvency, the following table shows the company's liquidity in the form of liquidity ratios. To calculate the cash ratio, cash and cash equivalents are shown in relation to current liabilities. The quick ratio includes current receivables, while the current ratio also takes inventories into account. Due to the reclassification of a promissory note loan into the current category, the following changes arise in comparison to the previous year:

in %	2016	2017	Δ PP
Cash ratio	108.1	72.7	-35.4
Quick ratio	209.2	141.3	-67.9
Current ratio	326.7	211.5	-115.2

Net assets

Total assets increased to €159.6 million in fiscal 2017 (previous year: €154.0 million). As a result of the retained earnings for fiscal 2017, the equity ratio rose by one percentage point to 51.3%.

Assets

Non-current assets increased to €85.4 million (previous year: €82.1 million) as a result of the above-average investment volume (see "investments"), which significantly exceeded the levels of scheduled depreciation of property, plant and equipment and amortization of intangible assets. The amount of goodwill remained unchanged at €29.8 million.

Current assets increased by €2.3 million to €74.2 million. While inventories decreased by €1.2 million to €24.6 million due to an optimized inventory management, trade receivables increased by €2.4 million to €20.8 million due to reporting date factors. This was also due to early deliveries to customers because of output reduction in December as a result of introducing a standard ERP software. Cash and cash equivalents further increased year-on-year to €25.5 million (previous year: €23.8 million), again representing a comfortable level.

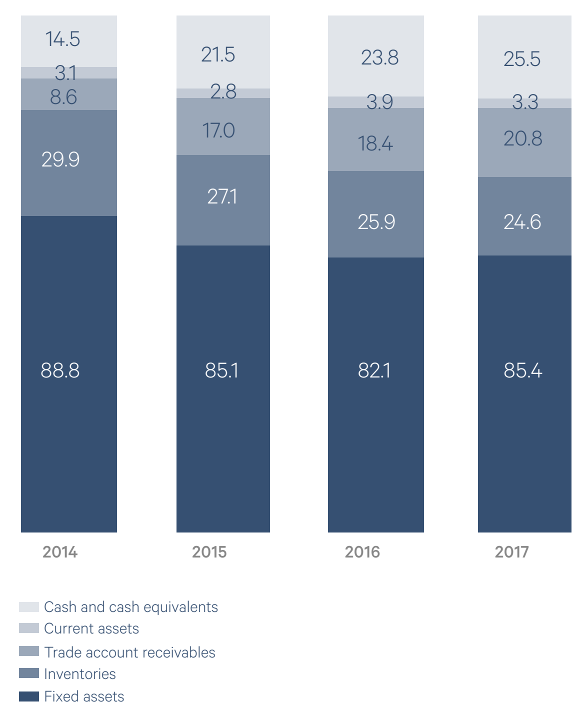
Equity and liabilities

On the equity and liabilities side of the balance sheet, equity increased by €4.4 million to €81.9 million (previous year: €77.5 million). Subscribed capital increased slightly due to issuing 8,000 shares from the share option plans. Due to transfers from fiscal 2017 amounting to €4.1 million, retained earnings increased to €12.4 million.

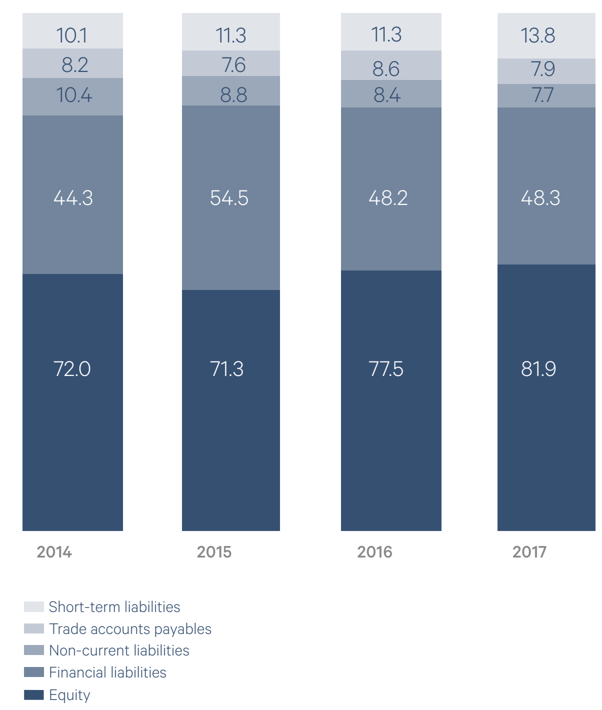
Non-current liabilities decreased from €52.0 million to €39.9 million, primarily due to the reclassification of a promissory loan of €12.0 million to the current category. Current liabilities increased accordingly by €13.2 million to €37.8million (previous year: €24.6 million). This was partly offset by a €0.7million decrease in trade payables to €7.9 million.

Working capital saw an increase of nearly €1.8million to €37.5 million (previous year: €35.7 million) due to the changes to the balance sheet mentioned above. The same applied for capital employed which increased by €5.1 million to €122.9 million. However, this only marginally impacted ROCE which inched up to 8.6% after 8.5% in the previous year.

Assets



Equity and liabilities



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

In contrast to the consolidated financial statements, the annual financial statements of First Sensor AG are not prepared in accordance with International Financial Reporting Standards (IFRS as adopted by the EU), but in accordance with the rules of the Handelsgesetzbuch (HGB — German Commercial Code). First Sensor AG's management report and consolidated management report for fiscal 2017 are combined in accordance with section 315(5) HGB in connection with section 298(2) HGB. The combined management report also comprises all mandatory elements for First Sensor AG. In addition to the reporting on the First Sensor Group, the development of First Sensor AG is explained below.

First Sensor AG's financial position

First Sensor AG's income statement (HGB)

in € thousand	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2017	Δ absolute	in %
Sales	72,029	73,471	1,442	2.0
Change in inventories of finished goods and work-in-progress	-1,148	-484	664	-57.8
Other own work capitalized	746	1,468	722	96.8
Other operating income	3,692	3,474	-218	-5.9
	75,319	**77,929**	**2,610**	**3.5**
Cost of materials	-29,141	-29,925	-784	2.7
Expenses for services	-5,001	-5,962	-961	19.2
	-34,142	**-35,887**	**-1,745**	**5.1**
Salaries and wages	-21,380	-22,776	-1,396	6.5
Expenses for social securities	-3,765	-3,907	-142	3.8
	-25,145	**-26,682**	**-1,537**	**6.1**
Depreciation and amortization of intangible assets and property, plant and equipment	-5,927	-6,024	-97	1.6
Write-downs of current assets	-480	0	-480	-100.0
Other operating expenses	-11,261	-11,923	-662	5.9
Earnings before interest and taxes (EBIT)	**-1,636**	**-2,587**	**-951**	**58.1**
Income from profit transfer agreement	6,033	5,678	-355	-5.9
Income from investments	1,350	1,200	-150	-11.1
Income from appreciations to fixed assets	537	973	436	81.2
Interest income	148	406	258	174.4
Write-downs of financial assets	-58	-222	-164	282.8
Interest expenses	-1,680	-2,954	-1,274	75.8
	6,330	**5,082**	**-1,248**	**-19.7**
Results from ordinary operations	**4,694**	**2,495**	**-2,199**	**-46.8**
Income taxes	-1,289	-760	529	41.0
Other taxes	-36	-34	2	-5.5
Net loss for the financial year	**3,369**	**1,701**	**1,668**	**-49.5**
Retained earnings	-1,008	2,361	3,369	-334.3
Net profit (previous year net loss)	**2,361**	**4,062**	**1,701**	**72.1**

Sales revenues increased year-on-year by €1.4 million or 2.0% (previous year: €72.0 million).

Compared to 2016, changes in inventories normalized from €1.1 million to €0.5 million. In addition to a continuous optimization of inventories, reduced production at the end of the previous year in connection with the introduction of new ERP software also impacted. In fiscal 2017, other own work capitalized increased by €0.7 million in 2016 to €1.5 million. The higher volume relates to the introduction of standard ERP software, commissioning of equipment and new projects in the R&D sector. Other operating income, which primarily resulted from investment grants, intragroup allocations to subsidiaries and changes in provisions hardly changed and totaled €3.5 million (previous year: €3.7 million).

Total operating performance increased by €2.6 million to €77.9million (previous year: €75.3 million), an increase of 3.5%.

In connection with the increase in sales by 2.0%, costs of materials increased by 2.7% to €29.9 million (previous year: €29.1 million). However, gross income improved from €41.2 million to €42.0 million with gross income margin remaining roughly stable at 51.8% (previous year: 52.3%).

The personnel expenses ratio rose from 34.9% in the previous year to 36.3%, from €25.1 million to €26.7 million (an increase of €1.6 million) in absolute terms. This increase was mainly due to the usual wage and salary increases, recruitment of better qualified employees in development and sales and non-recurring expenses for changes at management level below the Executive Board.

Depreciation relates to machinery and equipment, operating and office equipment and production and office buildings. It remains almost unchanged year-on-year. In 2017, there was a non-recurring effect for write-downs on intercompany receivables. The increase of other operating expenses was reflected in the increase of currency losses by €597 thousand (previous year: €164 thousand), as these effects were countered by reversals in loans to affiliated companies (€973 thousand).

At €-2.6 million EBIT at First Sensor AG was negative again. In the previous year EBIT it amounted to €-1.6 million. Adjusted for the large part of costs for central functions in the Group (Holding, €8.3 million in 2017), EBT is considerably positive. The transfer of these costs is expected to take place from 2018.

There are profit and loss transfer agreements in place with First Sensor Microelectronic Packaging GmbH and First Sensor Lewicki GmbH. The profit and loss transfer agreements result in income of €5.7 million (previous year: €6.0 million). In addition, a distribution by a subsidiary resulted in income from investments of €1.2 million (previous year: €1.4 million).

Other interest and similar income totaled €0.4 million (previous year: €0.2 million). Interest and similar expenses increased to €3.0 million (previous year: €1.7 million) as a result of non-recurring effects: Firstly, an interest rate swap was exchanged against more advantageous products and secondly, foreign currency derivatives from hedging (EUR-USD) were closed out early. Together, this results in a one-time charge of €1.6 million. In contrast, interest expenses for loans decreased by around €30 thousand.

The lower earnings before taxes also corresponds to the lower tax expenses. It was €760 thousand after €1.3 million in the previous year (-41.0%).

For fiscal 2017, First Sensor AG's net income amounts to €1.7 million (previous year: €3.4 million); corresponding to a net margin of 2.3% (previous year: 4.7%). Due to the accumulated income from the previous year, this led to retained earnings of €4.1 million.

Shareholders are also expected to participate in these earnings. The Executive Board and the Supervisory Board intend to propose to the Annual General Meeting that a dividend of 0.16 per share be distributed. With 10,216,396 shares outstanding, this corresponds to a total distribution of €1.6 million or 40.2% of retained earnings.

First Sensor AG's financial position and net assets
The following table shows the balance sheet as at December 31, 2017:

ASSETS

in € thousand	2016	2017	Δ absolute	in %
Intangible assets	2,071	2,327	256	12.4
Internally-generated intangible assets	2,137	2,375	238	11.1
Goodwill	22,378	20,220	-2,158	-9.6
Advance for customers	1,097	2,632	1,535	139.9
Property, plant and equipment	25,029	28,284	3,255	13.0
Shares in affiliated companies	32,560	33,533	973	3.0
Non-current assets	**85,272**	**89,371**	**4,099**	**4.8**
Inventories	16,528	15,854	-674	-4.1
Trade accounts receivables	7,052	7,155	103	1.5
Due from affiliated companies	9,527	8,080	-1,447	-15.2
Other assets	1,156	316	-840	-72.7
Cash and cash equivalents	13,858	15,993	2,135	15.4
Current assets	**48,121**	**47,399**	**-722**	**-1.5**
Prepaid expenses	453	418	-35	-7.7
Deferred tax assets	0	0	0	0
ASSETS	**133,846**	**137,188**	**3,342**	**2.5**

On the assets side, the extension of the balance sheet is primarily due to higher investments in tangible fixed assets, which considerably exceeded depreciation and amortization in fiscal 2017. This includes investments in new machinery and equipment which serve to expand vertical integration, for process improvements and increasing capacity as well as in replacement investments. The increase in cash and cash equivalents to €16.0 million (previous year: €13.9 million) also had an impact on extending the balance sheet.

In inventories, improved inventory management already had some impact and the restriction of output as at the end of the year as part of the switch to a standard ERP software had a corresponding effect due to deliveries directly from finished goods warehouses.

EQUITY AND LIABILITIES

in € thousand	2016	2017	Δ absolute	in %
Share capital	51,042	51,082	40	0.1
Capital reserves	20,610	20,626	16	0.1
Earning reserves	1,004	1,004	0	0.0
Net profit (previous year net loss)	2,361	4,062	1,701	72.0
Equity	**75,017**	**76,774**	**1,757**	**2.3**
Special account with reserve characteristics	3,480	3,270	-294	-6.0
Provisions	4,258	6,335	-714	48.8
Liabilities to banks	40,000	40,000	0	0.0
Promissory note loans	4,564	4,767	203	4.4
Payments received on account of orders	164	196	32	19.5
Trade accounts payables	5,257	3,253	-2,004	-38.1
Due to affiliated companies	180	196	16	8.9
Other liabilities	594	1,662	1,068	179.7
Deferred tax liabilities	332	736	404	121.7
Equity and liabilities	**133,846**	**137,188**	**3,342**	**2.5**

As at the balance sheet date, the equity of First Sensor AG amounted to €76.8 million (previous year: €75.0 million), with higher retained earnings impacting here. The equity ratio stands unchanged at 56.0%.

Provisions and other liabilities also increased. Please refer to the notes at Group level for a detailed presentation of the financing situation.

Despite lower net income, operating cash flow increased from €7.6 million to €8.9 million. The development of inventories had a significant influence on this. Due to the high investment volume, cash flow from investing activities increased year-on-year from from €3.5 million to €9.2 million. Free cash flow was thus slightly negative at €-395 thousand (previous year: €4.1 million). Cash and cash equivalents increased to €16.0 million (previous year: €13.9 million).

Risks and opportunities
Due to its role in the Group, business development at First Sensor AG is subject to the same risks and opportunities as the Group. To that extent, we refer the reader to the risk and opportunities report of the Group.

Outlook
In its business plan, the Executive Board is anticipating sales of €70-75 million and positive results from ordinary activities in fiscal year 2018.

The outlook of the previous year for fiscal 2017 was fully met, both with regard to the sales forecast (between €70-75 million) and regarding the results (positive results from ordinary activities).

Employees
First Sensor AG had 431 employees (FTEs – full-time equivalents) as at the end of the year (previous year: 431) plus 20 apprentices (previous year: 23). The following table provides a breakdown of the workforce across the individual units.

Number of employees (FTE)	Dec. 31, 2016	Dec. 31, 2017	Δ absolute	in %
Berlin-Oberschöneweide	198	203	5	2,5
Munich branch	71	71	0	0
Berlin-Weißensee branch	161	156	-5	-3,1
Chemnitz branch	1	1	0	0
Total	**431**	**431**	**0**	**0**

Overall statement

Ultimately, business performance in fiscal 2017 was very pleasing for the First Sensor Group. Sales achieved €147.5 million and were therefore almost 2% above the original guidance. Sales in the Industrial target market developed positively in particular (up €2.6 million), but the Mobility target market caught up significantly. After the discontinuation of major order with a volume of approximately €10 million, the shortfall to the end of the year was only €2.5 million. After the growth surge in fiscal 2016, we consider the slight consolidation in the Medical sales market uncritical. The strategic focus on these three target markets thus proved to be the right approach again.

Despite the slight decline in sales, profitability was again further improved in fiscal 2017. The fact that the EBIT margin ultimately achieved 7.2%, thus exceeding the planning of 5% to 6%, was due primarily to the higher volume of business in the second half of the year.

Overall, the business performance in fiscal 2017 thus exceeded forecasts.

Development of non-financial performance indicators

The non-financial reporting can be found as a coherent, separate section in the Annual Report 2017.

Employees

The First Sensor Group had a total of 798 employees as at the reporting date December 31, 2017, compared with 804 in the previous year. As such, recruitment and resignations were in approximate equilibrium in the past year. In addition, 31 apprentices were employed at First Sensor as at the reporting date December 31, 2017 (previous year: 33).

To enable the company to react flexibly to fluctuations in orders, peak volumes are absorbed using temporary workers. At December 31, 2017, the number of temporary workers was 52 (previous year: 41), although this number was also higher at times during the year.

At €46.6 million, personnel expenses in the year under review were 5.6% higher than the prior-year level of €44.1 million. In addition to the usual wage and salary increases, expenses for downsizing at management level below the Executive Board are also included. Further information on the breakdown of personnel costs can be found in the notes.

Sales per employee remained roughly stable at €187.7 thousand (previous year: €189.8 thousand), in line with the sales trend.

The age structure of the workforce did not change significantly in comparison to the previous year:

Aging structure of employees in %	2016	2017
Age under 30 years	16	15
Age between 31 and 40 years	29	32
Age between 41 and 50 years	27	22
More than 51 years	28	31
Total	**100**	**100**

The company-wide sickness absence rate at First Sensor was again determined in 2017 and was close to 6% (previous year: 6.0%). In the future, this comparably high figure is expected to be reduced by various measures. For example, this includes return-to-work interviews, complimentary fruit in winter months and implementation of health days. The promotion of health portal services, vaccinations and bicycles for employees is currently being tested, initially on a trial basis at individual locations.

The proportion of female employees slightly increased year-on-year and amounted to 36.0% (previous year: 32.2%) as at the reporting date. This is a comparatively high figure for a technology company. At 34.0%, the level of graduates at the company remains unchanged at around one-third (previous year: 32.4%).

First Sensor has supported employees for many years in financially securing their standard of living in retirement, with an employee financed pension plan model. This is based on deferred compensation and an employer financed private pension allowance.

In view of demographic change and the resulting shortage of skilled workers, an important part of our personnel strategy involves ensuring that we meet our requirements for skilled labor by providing in-house training. Based on long-term personnel planning, the aim is to cover the requirements for talented young staff by providing high-quality, needs-based training in the company's own ranks, too. First Sensor provides professional training for microtechnologists (19 people), industrial clerks (6 people), specialists in warehouse logistics (4 people) and mechatronics engineers (2 people). At the end of 2017, a total of 31 apprentices were employed at the company (previous year: 33).

First Sensor invested €315 thousand in staff training in fiscal 2017 (previous year: €373 thousand). The decline was mainly due to the introduction of a new ERP system, which is why the interest in other training measures was a little lower this year. The need for staff development within the company is determined once a year as part of the budget in an analysis of further training requirements.

With a global grading system, First Sensor has established the conditions for evaluating all positions at the company using an analytical procedure. This helps ensure performance-oriented, competitive remuneration in line with the importance of the respective position, regardless of gender of the incumbent, in order to position the company as an attractive employer for existing and new employees.

Quality Management

Last year, there was additional cross-site harmonization of the processes relevant to quality within the First Sensor Group. It was led by Corporate Quality Management with the aim of lean and uniform processes in all areas and teams. Clearly defined interfaces and responsibilities as well as key figures to measure effectiveness and efficiency are increasingly leading to a uniform image to customers and suppliers, support for new business, and support for purchasing activities as part of supplier management.

The successes of the last few years are the basis to continue satisfying the growing demands of customers with robust processes and higher product quality in the coming years as well.

The required conditions have also been created to meet the increased demands of the new quality management standards and to prove this in the upcoming 2018 certifications.

Individual processes received special attention. For instance, the customer complaint process was harmonized across all plants. In this context, the interfaces between the existing CAQ software and the SAP software at other locations were also created.

Quality management also supported the introduction and further development of development and project management processes that are defined uniformly across the Group. In cooperation with the Business Process unit, additional elements of a central risk management system were developed and realized in practice.

The topic of HSE management became a stronger focus of management and teams in order to ensure that all of the relevant statutory and official requirements are met in full and to give the employees of First Sensor a secure and healthy workplace. Environmental topics also came more into focus: In the near future, more locations are expected to join the two locations that have had environmental certifications for many years. Preparations are being made for this, including in the area of the CSR report, and the use of the existing software for HSE management is being expanded.

The following certifications are currently audited at First Sensor:

ISO/TS 16949
Quality management systems for the automotive industry

DIN EN ISO 13485
Quality management systems for medical products

DIN EN 9100
Quality management systems for the aerospace and defense industry

DIN EN ISO 9001
Quality management systems

DIN EN ISO 14001
Environmental management systems

Supplementary report

The company is not aware of other key events following the end of the fiscal year, which will affect the net assets, financial position and results of operations.

Forecast, opportunity and risk report

Forecast report

General economic and sector conditions

The International Monetary Fund recently raised its forecasts for global economic growth by 0.2% to 3.9% for both 2018 and 2019. This was due to the current upturn in Europe, where growth of 2.4% is anticipated for the next two years. The expectations for the development of the German economy were also increased significantly. The growth rates of 2.3% for 2018 and 2.0% for 2019 are half a percentage point higher than in the previous forecasts and represent an unabated continuation of the upturn.

Development of the sensor market

The global semiconductor industry posted record market growth and sales volumes in 2017. After an increase of around 20% to USD 400 billion, growth in 2018 is now expected to be somewhat more moderate. Gartner anticipates growth of 7.5% this year, corresponding to the long-term average. At present, 70% of semiconductors are attributable to the consumer segment, a market that First Sensor does not address. Total sensor sales amounted to USD 12.5 billion last year. The market for optical position sensors alone is expected to grow from USD 1.4 billion in 2016 to USD 2.8 billion in 2023. This corresponds to an average annual growth rate of 9.8% between 2017 and 2023.

Market and competition

As a manufacturer of sensors and a developer of customer-specific sensor systems, First Sensor competes with a large number of international companies. As a niche player, First Sensor is not in competition with manufacturers that primarily produce and sell standard sensors in large quantities.

Analyzing the market shares of the companies operating in this sector is still difficult, according to Yole Developpement, as the variety of types of sensors, major differences in their fields of application, the low transparency of both large corporations and small players on the market, and the different roles that the companies play in the supply chain make it virtually impossible to make a reliable assessment.

Industrial

In Industry 4.0, traditional production systems are being upgraded with IT and telecommunications. They can be controlled digitally and facilitate data analyses – for example, for predictive maintenance of machinery or management of goods flows. There are also many different application areas for LiDAR systems in industry. For example, they help facilitate collaboration between mobile robots and humans in the production environment and enable autonomous transport and logistics systems to take on complex tasks such as assembling pallets. Studies estimate the potential for the German economy at between €100 billion and €150 billion in the next five years. Industry 4.0 solutions are expected to generate sales of €7.2 billion on the German market alone in 2018, after €5.9 billion in 2017.

Medical

German medical technology manufacturers invest an average of 9% of their sales in research and development. Germany therefore plays a particularly important role as an innovation and research location for med-tech companies. These companies generate roughly one-third of their sales with products that are no more than three years old. The fast-growing medical technology sector is recording annual growth rates of around 5% worldwide and this is expected to be the case in the future, too.

This is due to progress in medical technology, which allows for the treatment of diseases that could not be treated 10 or 20 years ago. With innovative, more gentle procedures, more operations can be performed on increasingly elderly patients. This, combined with demographic change and the expanded concept of healthcare including further improvements in quality of life, will also have a positive impact on the market in the future.

Mobility

The US market researcher IC Insights forecasts that semiconductor manufacturers can expect high growth rates in automotive electronics business. For example, Intel expects sales from business relating to autonomous vehicles to grow to USD 800 billion by 2035 and as much as USD 7 trillion by 2050. Although estimates put growth in the number of vehicles sold at only 3% per year by 2022, Yole expects the number of sensors for this application area to increase by 8% per year with sales rising by as much as 14%. They attribute this development to strong growth in sensors for image processing, radar, and LiDAR systems, with sensors for LiDAR systems expected to reach a volume of USD 1.4 billion by 2022.

Forecast for the business development in 2018

Sales revenues

The First Sensor Group closed fiscal year 2017 very successfully. With sales of €147.5 million, the sales guidance was slightly exceeded by 2%. This also benefited the EBIT margin, which came to just under 7.2% and was thus a little over one percentage point above the guidance.

In fiscal year 2018, we expect the strategy for profitable growth to continue taking effect. Sales should reach between €150 million and €160 million. This planning is the result of a bottom-up process that subsequently undergoes an intensive plausibility check taking account of markets, products, and customers, and thus represents a real-case scenario. The planning does not include growth from acquisitions. By systematically implementing our strategy, we aim to achieve the target of annual organic growth rates of around 10% in the medium term.

Industrial

In view of the positive economic climate in industry, we anticipate further growth in this market. Industry 4.0 is one of the driving factors here, as sensors will increasingly be needed in order to automate processes and make production more flexible. We participate in this development through the increased need for LiDAR systems, for example, as well as through the use of sensor systems that detect wear and tear and thus allow for needs-based maintenance. Our solutions developed for intelligent air conditioning technology, for example, will also contribute. They provide clean air in workshops, administrative buildings and transport facilities. In collaboration with ventilation specialists (companies from the field of heating, ventilation, and air conditioning, or HVAC), we have developed a customized multi-sensor system that is now being manufactured in series production and delivered.

Medical

After a year of consolidation, primarily due to project delays on the part of customers, we expect growth on the medical target market again in fiscal year 2018. In particular, the use of highly sensitive and reliable pressure sensors in respirators promises growing demand. Our sensors are also used in diagnostic imaging equipment. Several projects that have been developed together with customers over the past few years are now reaching market maturity. Because First Sensor is often the only supplier for the service life of models of these medical devices, we share in the growth in this sector.

Mobility

The sales planning for 2018 is particularly based on growing demand for sensors and sensor solutions for the automotive industry, especially with regard to LiDAR for use in (partially) autonomous driving. First Sensor has an excellent position here thanks to its sophisticated technology and stable, long-standing customer relationships with the leading manufacturers and suppliers in Germany and beyond. In addition, cameras are an important component for the introduction of partially and fully autonomous driving. Together with LiDAR systems and radar sensors, they keep sight of a vehicle's surroundings and contribute to greater safety and comfort. The start of series production for the new 'Blue Next' camera family is therefore expected to lay the foundations for further growth on the mobility target market. At the same time, pressure sensor technology will remain a key pillar of mobility business.

Earnings

The EBIT margin is expected to come to between 7% and 9% in fiscal year 2018 and will thus improve further compared to fiscal year 2017 or at least be comparable with 2017. We expect to further improve our efficiency and productivity and gradually move closer to our medium-term target of an EBIT margin of 10%.

	Result 2017	Guidance 2018
Sales in € million	147.5	150-160
EBIT margin in %	7.2	7-9

Financial position and net assets

For fiscal year 2018, we have planned for investments at a similar level to depreciation and amortization at around €10 million. Part of this is attributable to investments postponed from the previous year. The investments will focus on the production facilities in order to expand capacity, modernize existing facilities, and achieve improvements in efficiency. To help finance these investments, a loan of €13.0 million with an interest rate of 1.15% p.a. and a term of 10 years will be provided under a KfW digitalization and innovation program in 2018.

Based on further solid free cash flow, cash and cash equivalents will increase slightly again over the course of 2018. We will use part of this liquidity to repay a promissory note loan of €12 million from 2013 as of the end of the year. Net debt will accordingly decrease further.

The planned business growth will also be accompanied by a moderate increase in inventories. At the same time, we will thereby increase our supply capability to meet growing demand and will improve efficiency by means of larger batch sizes in production.

Overall statement

All in all, the economic conditions provide a good basis for achieving the targets for the fiscal year. With the strategic preparations for profitable growth and our measures for operational excellence, we have established the conditions for another successful year for the First Sensor Group in fiscal year 2018. We expect sales to increase to up to €160 million with an EBIT margin of up to 9%. The medium-term target is sales growth of 10% per year and a sustainable EBIT margin of 10%.

Disclaimer:
This combined consolidated management report contains statements relating to the future. All future-oriented specifications in this consolidated financial report were produced on the basis of a probability-based plan and represent statements regarding the future which cannot be guaranteed.

Risk and opportunities report

In this report, risks and opportunities refer to influences or events that make it likely that the short- and medium-term corporate development exceeds or falls short of the management's objectives. The goal of opportunity management is therefore to recognize and seize these opportunities at an early stage, while risk management ensures not only that risks are identified in good time, but also that countermeasures are taken promptly in order to control and minimize the impact on the company.

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 its business actions. It can have a negative impact on the assets, financial and earnings situation. 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 therefore necessary to ensure short and long-term success of the company.

Risk management system

First Sensor AG's Executive Board is responsible for the risk and compliance management as an integral part of corporate governance at First Sensor. The Supervisory Board is responsible for monitoring the effectiveness of the Group's risk management system.

The system is organized and controlled by the Business Processes, Risk Management & Compliance central unit in close cooperation with the management of the operating units. All companies of the First Sensor Group are included in the risk consolidated group, which is responsible for the respective risk reporting. In 2017, the risk management system was comprehensively revised.

Risk and compliance management were linked together and transformed as a permanent process into a Group-wide Enterprise Risk Management (ERM), that covers all locations and business divisions, continuously analyzes the risk and compliance situation and assesses, manages and controls the risks identified. The ERM system also not only ensures that corporate risks are effectively managed, but also that ethical principles of corporate governance (Code of Conduct) and statutory provisions drive the business.

Targets and strategies

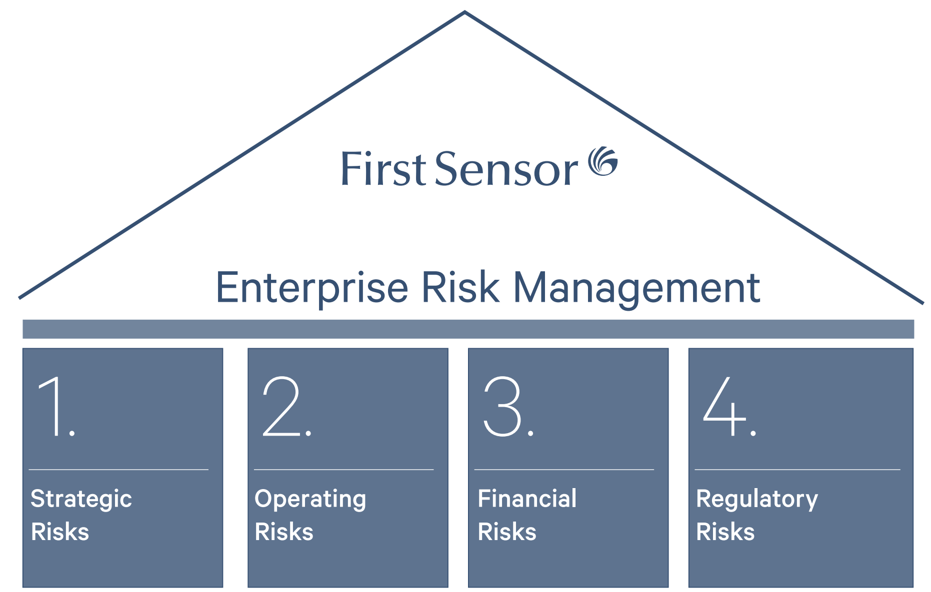
The goal of risk and compliance management is to identify potential risks at an early stage, to make a reliable assessment of their probability of occurrence and their possible impact on business performance and to manage and limit them. At the same time, opportunities for success are to be utilized,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

The goal of risk and compliance management is not to eliminate all risks, as costs and benefits should be in a healthy relationship to each other, and otherwise this could also mean missing out on opportunities for success. Instead the objective is to identify potential risks at an early stage and to make a reliable assessment of their possible impact on business performance. This ensures that appropriate measures are taken, with which the risks will be managed in line with the First Sensor Group's corporate strategy and thereby contribute to achieving the company's goals.

Structures and processes

Structures and processes of risk management have been standardized throughout the Group as part of the revision of risk management in fiscal year 2017, e.g. for accounting, export control and warehousing. It is based on the newly-introduced so-called First Sensor Risk House based on the COSO ERM framework with its four pillars which map significant risk categories for the company and also includes compliance issues:

First Sensor Risk House



The core of risk management activities is risk assessment, i.e. identification and assessment of risks. Potential risks are assigned to the four categories of the First Sensor Risk House. A large number of individual risks are taken into consideration and assessed within these categories, then aggregated in the Group Business Processes, Risk Management & Compliance unit to assess an overall risk situation. In a structured process, this is then documented (quarterly risk report) and communicated to the Executive and Supervisory Board. This information thus is integrated in the regular business analyses of the Executive Board, location and division managers and are used to derive measures.

These measures are supplemented by the internal control system (ICS) to actively manage the operating risks identified as relevant for First Sensor in the business areaa with appropriate control activities, and by Internal Audit to check the defined control activities regularly for adequacy and effectivity.

In 2017, production management and quality assurance were also optimized through specific benchmark projects. In the area of finance management, guidelines were specified across the Group, including for the use of derivative finance instruments, for the approval of transactions and for the calculation of production and internal costs. Based on the First Sensor process model, individual key performance indicators (KPI) were implemented.

Risk assessment

Risk assessment is based on a company-specific assessment matrix, which takes into consideration the probability of occurrence and potential amount of damage of events and derives priorities as a result.

Probability of occurrence	Factor	Potential damage per event	Factor
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 violations of law or regulations	3

In each case, the probability of occurrence and possible impact are weighted on a scale from zero to three and multiplied with each other. If the calculated risk factor is over the threshold of three, measures for managing the risk are defined and its implementation is periodically monitored. The accumulated risks are rated accordingly as “low”, “medium” or “high”.

Principal risks

Principal risks, which we will report on below, are defined by the Executive Board as those having an impact on the achievement of the company’s goals at the time this report is being prepared and are thus relevant to decision-making for knowledgeable readers. Risks of minor significance are not listed separately.

Strategic risks

Strategic risks include macro-economic risks, risks from markets and competition and risks from products and technologies. Only in the optical sensor technologies sector were risks identified, which pose a threat for established products from the First Sensor range. This risk is countered by the active management of the product portfolio and strategic technology roadmaps that were pushed and updated in 2017.

As a whole, strategic risks are classified as “low”.

Operating risks

Sales risks, development and technology risks, production risks, quality risks, purchasing and inventory risks, IT risks and human resources risks are combined under operating risks.

Development and technology risks are determined by good manageable human resources and capacity bottlenecks as well as quality issues. Production risks, IT risks and human resources risks are of higher significance in comparison.

For example, delivery times can also be longer due to limited resources and an increasing demand from existing customers. This can have a negative impact on downstream processes and lead to customer dissatisfaction. This risk is countered by many organizational and human resources measures at the affected locations, including using lean management tools and expanding shift work.

The introduction of a new ERP system at three further locations as of the end of 2017 not only commits a significant resources, but it also includes all other typical risks related to such a serious intervention in the company’s core processes. Precautions such as a tight-knit incorporation of management in project management and a preceding inventory build-up of specific (primary) products and active communication with customers are measures taken to reduce risks.

The Group is effected by of the increasing general shortage of specialist staff, which makes it more difficult to gain qualified specialist staff for specific areas of work within specific time periods. In turn this can lead to a stress on the part of existing employees and dissatisfaction as a consequence. These risks are countered by numerous human resources measures, for example the increased use of external staff and management training.

The key sales risk is the fact that a total of 21.5% of consolidated sales (previous year:18.9%) are generated with the three biggest customers, and the biggest customer accounts for 9.0% of sales (previous year: 7.5%). If these customers were to change their order behavior or switch to a different supplier, this could have a significant impact on corporate sales. Due to our longstanding close relationships to these companies and supply agreements that generally cover several years, we consider this risk to be limited in the short term. At the same time, Sales is focusing intensively on customer benefits and a close dialog in order to mitigate the risk.

The risks mentioned are rated as “high”, even though with a downward trend.

Financial risks

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

Due to the internal control system and the professionalism of the processes in financial reporting, the risk profile has decreased in 2017. At Group level, the solid balance sheet ratios and the comfortable financial resources position result in a low liquidity risk. Exchange rate risks not hedged by a natural hedge are hedged to an appropriate extent and by instruments customary on the market.

These instruments are selected on the basis of the forecast net exposure and the company's ability to bear risks. Errors cannot be completely ruled out here. Careful working capital management and hedging on the basis not only of accounting measures but also with insurance reduce the risk situation.

Following the implementation of different improvement measures in foreign currency risks in the year under review, known risks are rated as “low”.

Regulatory risks

Regulatory risks include political and legal risks as well as compliance risks. The latter are increasing in importance, therefore compliance management system is an integral part of Enterprise Risk Management at First Sensor. It contributes to the fact that binding rules at the company are known and that infringements are identified in good time. Reports of infringements may also be given anonymously via an external ombudsman. In the past fiscal year, there were two suspected cases, one of which was confirmed and led to adequate measures.

Due to the low threshold reporting procedures and the clear specifications of the Compliance Directive, these risks are classified as “low”.

Other risks

In the area of intangible assets, First Sensor has capitalized development costs of (€5.1 million) and goodwill of €29.8 million. These are tested for impairment on a regular basis (see notes for details). In this context, risks primarily relate to the possibility that development projects may not reach market maturity and the forecast income therefore may not be generated. If the economic environment were to deteriorate significantly, the risk of impairment losses on goodwill could generally increase. There are no signs of either of these developments at present.

Other risks are therefore rated as “low”.

Summary of the risk situation

In the opinion of the Executive Board, the risks to which First Sensor is exposed at the time this report is being prepared and for the current planning period are manageable and the continued existence of the Group is not threatened in any way. Despite the comprehensive analysis of risks, their occurrence cannot be completely ruled out.

Opportunity management system

As with risks, opportunities within the Group are also processed transparently and systematically incorporated in business decisions. They represent possible future developments or events that may lead to a positive deviation from forecasts or targets for the company.

Opportunity categories

First Sensor differentiates between opportunities based on whether they are of a strategic nature or mainly contribute to a positive deviation from the target for sales or for earnings.

Strategic opportunities

By concentrating on the target markets of Industrial, Medical and Mobility, First Sensor has acted early to secure the opportunity of sharing in the growth opportunities on these markets. Trends such as Industry 4.0, miniaturization and digitalization in medical technology or autonomous driving can be drivers of a significant growth of the relevant markets. The focus on key customers and key products also creates the opportunity of above-average growth of First Sensor compared to market growth. This is possible, for instance, if existing customers buy an increasingly wide range of products from First Sensor or demand from lucrative customers rises significantly with corresponding market penetration.

Sales-related opportunities

Sales are planned according to (target) customer and product. Contact with new customers is usually handled via the Sales department, but trade fairs and the Internet are increasingly resulting in contact with parties interested in First Sensor's products and solutions. Related enquiries (new business opportunities - NBOs) involving standard products are assessed on the basis of a structured procedure. The probability of the possible sales contribution is continuously weighted higher across the various phases from the enquiry to the offer and the test through to the delivery agreement. In the field of customer-specific solutions, the potential of NBOs is assessed at an early stage in order to put resources in place, use them and adapt them flexibly in line with requirements, for instance in development. The biggest uncertainty in this process is estimating the potential and the timescale until relevant sales contributions are achieved. It is possible here that the assumptions behind the forecasts may prove to be too conservative.

Opportunities also arise from products that were developed for particular applications or target markets but can also be used in other customer applications or target markets.

In addition, internationalization continues apace, and presence is being stepped up further in markets in which First Sensor has generated lower sales than in its domestic market to date. In connection with this, the company has outstanding growth opportunities, particularly in North America and Asia as well as selected European markets such as France, and is working to further increase its market presence via organic growth and selected cooperations.

Major new customers may also be enough for the planning to be exceeded. And not least, strategic measures can help to boost additional potential by external growth, when the target companies are compatible with the company's overarching goals across the strategy for profitable growth.

Earnings-related opportunities

Unexpected increases in sales normally have a positive impact on earnings (e.g. economies of scale). In addition, First Sensor is working to optimize a host of processes and structures (operational excellence) such as reduction of delivery times, further optimization of production quality and IT-based professionalization of project management. If these projects take effect faster than planned or if the extent of the planned optimizations is significantly exceeded, the earnings forecast could prove to be too low. Such potential continues to exist in production, where further improvements in efficiency can be achieved. Similarly, further margin potential can be leveraged in procurement by means of strategic purchasing. Depending on the extent of the corresponding effects, these can result in an increase in earnings that is higher than anticipated.

Summary of the opportunity situation

First Sensor is well positioned to systematically take advantage of the opportunities for the Group with its products in its strategic target markets. Although we are working purposefully to tap into these opportunities sustainably, it is generally unlikely that we will already be able to achieve successes here in the short term. For this reason, we attach great importance to quarterly reporting to our shareholders to allow them to participate in our progress in a timely manner.

Risk reporting in line with the use of derivative financial instruments

At First Sensor, derivative financial instruments are solely used for hedging interest rate and exchange rate risks and are subject to strict internal requirements. On the one hand, the derivatives used at First Sensor are foreign currency derivatives to reduce the impact from payment flows in foreign currency, in particular in US dollar, on changes in exchange rates. Further details can be found in item 33 of the notes to the consolidated financial statements. On the other hand, interest rate swaps have been concluded to hedge interest rate risks in connection with the promissory note loans issued. Detailed information can be also found in item 33 of the notes to the consolidated financial statements. The default risk arising from the financial instruments is countered by ensuring that they are concluded solely with banks with a good to very good credit rating. The exchange rate risks, financial liabilities and financial assets are regularly reported to the Executive Board and are subject to a check.

In fiscal year 2017, First Sensor further professionalized the management of exchange rate risks. For the efficient and careful management of exchange rate risks, the treasury guideline was specified and was made available to all companies within the Group in the Group Financial Manual for the mandatory use. It defines clear rules, target ratios, risk limits and approval procedures, according to which the exchange rate risks may be determined, updated and hedged using financial instruments.

Accounting-related internal control system

The goal of the internal control system (ICS) is to ensure reliable and transparent financial reporting. In order to achieve this goal, First Sensor implemented appropriate structures, processes, and checks. These aim to ensure that the results of the accounting process are free of 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. Consequently, 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 ICS is developed by the Executive Board and its effectiveness is monitored by the Supervisory Board. It consists of different elements, including on the one hand guidelines and procedural instructions, such as the Group Financial Manual, the Accounting Manual or the Approval and Signature Directive, and supplementary, general procedural instructions such as the Intercompany Directive. These are accompanied by checks which check and validate data relevant to the financial statements at different points. This includes monthly standardized controlling reports of all Group subsidiaries and locations supplemented with target-actual deviation analyses with recommendations for action by the Corporate Controlling unit and monthly Business Review meetings between the location and division officers and the Executive Board. The Group companies prepare their financial statements on a decentralized basis in accordance with the local legal requirements. Uniform reporting structures are ensured by means of standardized notification formats, IT systems, and IT-based consolidation processes. Together with the financial reporting calendar that is applicable throughout the Group, the process of uniform, correct consolidated accounting in accordance with IFRS forms the basis for the process of preparing the financial statements. In addition, significant local financial statements are initially comprehensively internally examined at the end of the fiscal year before being released for the consolidated financial statements. No tasks are performed by external service providers in the context of preparing the consolidated financial statements.

Within the scope of the regular checks of the effectiveness of the system, the existing guidelines, work and procedural instructions of the ICS were further optimized in fiscal year 2017. This includes the Group Financial Manual, which provides a uniform basis for the accounting process of the Group subsidiaries. This ensures that risks are managed in an more structured way and the efficiency and transparency of financial reporting is further increased.

At First Sensor, derivative financial instruments are solely used for hedging interest rate and exchange rate risks and are subject to strict internal requirements. On the one hand, the derivatives used at First Sensor involve forward foreign exchange contracts to reduce the impact of exchange rate fluctuations when purchasing materials in foreign currency. Further details can be found in item 33 of the notes to the consolidated financial statements. On the other hand, interest rate swaps have been concluded to hedge interest rate risks in connection with the promissory note loans issued. Detailed information can be also found in item 33 of the notes to the consolidated financial statements. The default risk arising from the financial instruments is countered by ensuring that they are concluded solely with banks with a good to very good credit rating. The exchange rate risks, financial liabilities and financial assets are regularly reported to the Executive Board and are subject to a check. In fiscal year 2017, First Sensor further professionalized the management of exchange rate risks. For the efficient and careful management of exchange rate risks, the treasury guideline was specified and was made available to all companies within the Group in the Group Financial Manual for the mandatory use. It defines clear rules, target ratios, risk limits and approval procedures, according to which the exchange rate risks may be determined, updated and hedged using financial instruments.

All measures and the ongoing development and amendment of the ICS contribute to guaranteeing that the accounting is reliable. However, even appropriate and functional systems cannot guarantee with absolute certainty that risks will be identified and managed.

Takeover-related disclosures in accordance with sections 289a and 315a HGB

1. Composition of subscribed capital

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

2. 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.

3. 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 34 of the Notes.

4. Holders of shares with special rights conferring control powers

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

5. 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.

6. 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).

7. Authorization of the Executive Board to issue shares and repurchase shares

The Executive Board is authorized to increase the company's share capital by up to €25,379,150 by issuing up to 5,075,830 new bearer shares (Authorized Capital 2015/I) up to May 27, 2020, with the approval of the Supervisory Board, in one or more transactions.

Furthermore, 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 (Contingent capital 2017/II).

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 sections 11 and 18 of the Notes.

The Executive Board is authorized to acquire treasury shares up to a maximum of 10% of the share capital. No use has been made of this authorization to date.

8. Agreements that are subject to the condition of a change of control

The company has no significant agreements that are subject to the condition of a change of control as a result of a takeover bid.

9. Agreements on compensation in the event of a takeover bid

In the event of a change of control at First Sensor AG, each Executive Board member has the right to resign from office within one month after becoming aware of the completion of the takeover. In this case, the Executive Board member affected receives compensation. This is limited with regard to the cash components of the remuneration.

Other declarations

The declaration of compliance pursuant to Article 161 AktG (German Stock Corporation Act) and the declaration of business management pursuant to Article 289a HGB (German Commercial Code) are permanently available in the Investor Relations/Corporate Governance section of the company's website at www.first-sensor.com.

The consolidated management report contains statements relating to the future. The actual results may deviate materially from expectations regarding probable development, if one of the uncertainties mentioned or other uncertainties occur or the assumptions on which the statements are based prove to be inaccurate.

Berlin, March 15, 2018

First Sensor AG

Dr. Dirk Rothweiler
CEO

Dr. Mathias Gollwitzer
CFO

4 Financial Statements 2017

FINANCIAL STATEMENTS

4 Financial Statements 2017 (IFRS)

Consolidated balance sheet (IFRS)

Consolidated balance sheet ASSETS

ASSETS in € thousand	Notes	Dec. 31, 2016	Dec. 31, 2017	Changes
Intangible assets	(3)	14,433	13,984	-449
Internally-generated intangible assets	(4)	4,903	5,107	204
Goodwill	(5)	29,816	29,816	0
Property, plant and equipment	(6)	32,965	36,443	3,478
Total non-current assets		**82,117**	**85,350**	**3,233**
Inventories	(7)	25,856	24,626	-1,230
Trade accounts receivables	(8)	18,426	20,765	2,339
Tax refund claims		593	11	-582
Other current assets	(9)	3,258	3,320	62
Cash and cash equivalents	(10)	23,791	25,505	1,714
Total current assets		**71,924**	74,227	**2,303**
Total ASSETS		**154,041**	159,577	**5,536**

Consolidated balance sheet EQUITY AND LIABILITIES

EQUITY AND LIABILITIES in € thousand	Notes	Dec. 31, 2016	Dec. 31, 2017	Changes
Share capital	(11)	51,042	51,082	40
Capital reserves	(12)	16,707	16,863	156
Revenue reserves	(12)	1,004	1,004	0
Currency translation	(12)	-108	-552	-444
Revaluation reserves	(12)	-347	-38	309
Retained earnings		8,232	12,363	4,131
Minority interest		935	1,177	242
TOTAL Equity		**77,465**	**81,899**	**4,434**
Non-current post-employment benefit obligation	(13)	300	277	-23
Other non-current provisions	(14)	0	0	0
Long-term loans, excluding current portion	(15)	43,599	32,184	-11,415
Other non-current liabilities	(16)	4,241	3,537	-704
Deferred tax liabilities	(26)	3,861	3,913	52
Total non-current liabilities		**52,001**	**39,911**	**-12,090**
Income tax provisions and liabilities		1,057	1,415	358
Other current provisions	(14)	1,502	1,259	-243
Short-term loans and current portion of long-term loans	(15)	4,640	16,115	11,475
Payments received on account of orders		910	401	-509
Trade accounts payables		8,611	7,885	-726
Other current liabilities	(17)	7,855	10,692	2,837
Total current liabilities		**24,575**	**37,767**	**13,192**
TOTAL Equity and liabilities		**154,041**	**159,577**	**5,536**

Financial Statements

Consolidated statement of comprehensive income (IFRS)

Consolidated income statement

in € thousand	Notes	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2017	Changes
Sales revenues	(19)	150,111	147,500	-2,611
Other operating income	(20)	2,913	3,331	418
Changes in inventories in finished goods and work-in-progress	(21)	-1,251	-1,485	-234
Other own work capitalized	(22)	1,423	2,507	1,084
Cost of material and purchased services	(23)	-72,382	-69,314	3,068
Personnel expenses	(24)	-44,129	-46,586	-2,457
Other operating expenses	(25)	-17,270	-16,315	955
Profit from operations (EBITDA)		**19,415**	**19,638**	**223**
Depreciation of property, plant and equipment and amortization of intagible assets		-9,419	-9,084	335
Earnings before interest and tax (EBIT)		**9,996**	**10,554**	**558**
Interest income		40	62	22
Interest expenses		-1,826	-1,915	-89
Currency gains		738	398	340
Currency losses		-220	-1,948	-1,728
Income before tax and minority interest		**8,728**	**7,151**	**-1,577**
Income tax expenses	(26)	-2,631	-2,778	-147
Net profit/loss for the period		**6,097**	**4,373**	**-1,724**
Net profit/loss for the period attributable to First Sensor AG shareholders		5,756	4,131	-1,625
Net profit/loss for the period attributable to minority interest		341	242	-99
Earnings per share in € (basic=diluted)	(27)	**0.57**	**0.40**	**-0.17**

Other comprehensive income

in € thousand	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2017	Changes
Net profit for the period	**6,097**	**4,373**	**-1,724**
Actuarial gains and losses on defined benefit plans	-9	-7	2
Taxes on other comprehensive income	2	2	0
Items not subsequently reclassified to the income statement	-7	-5	2
Changes from currency translation	-170	-444	-274
Revaluation of derivative financial instruments	-162	449	611
Taxes on other comprehensive income	49	-135	-184
Items that can be subsequently reclassified to the income statement	**-283**	**-130**	**153**
Total comprehensive income	**5,807**	**4,238**	**-1,569**
There of attributable to First Sensor AG shareholders	5,466	3,996	-1,470
Thereof attributable to minority interest	341	242	-99

Consolidated statement of changes in equity from January 1 to December 31, 2016 (IFRS)

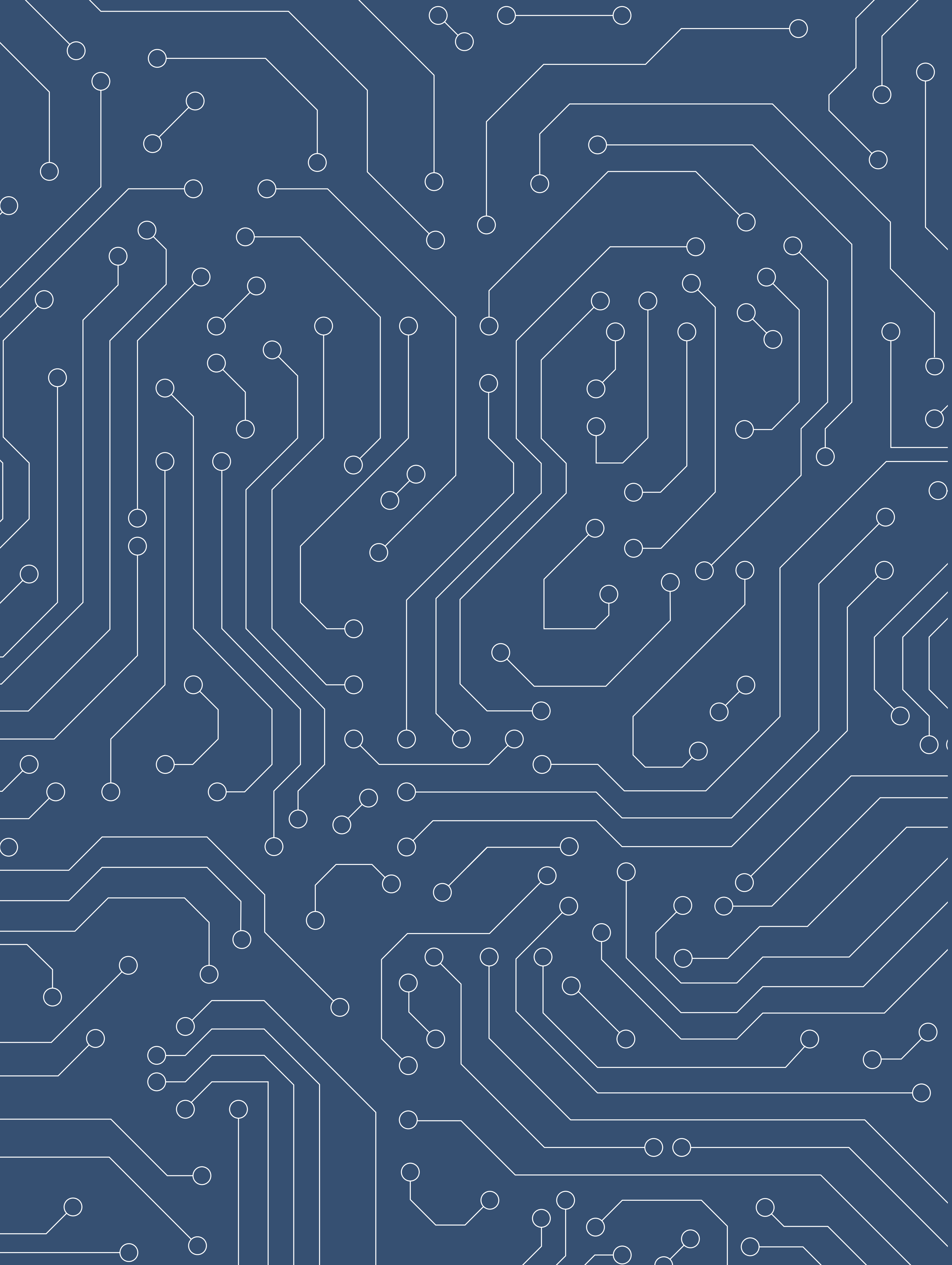
in € thousand	Number of shares in thou.	Capital stock	Capital reserves	Revenue reserves	Currency translation	Revalua-tion reserves	Retained earnings	Minority interest	Total sharehol-ders' equity
As at January 1, 2016	**10,167**	**50,835**	**16,527**	**1,004**	**62**	**-227**	**2,476**	**594**	**71,271**
Net profit/loss for the period	0	0	0	0	0	0	5,756	341	**6,097**
Other comprehensive income	0	0	0	0	-170	-120	**0**	0	**-290**
Total comprehensive income	**0**	**0**	**0**	**0**	**-170**	**-120**	**5,756**	**341**	**5,807**
Share-based remuneration	0	0	102	0	0	0	0	0	**102**
Capital increase	41	207	78	0	0	0	0	0	**285**
Appropriation of earnings	0	0	0	0	0	0	0	0	**0**
As at December 31, 2016	**10,208**	**51,042**	**16,707**	**1,004**	**-108**	**-347**	**8,232**	**935**	**77,465**

Consolidated statement of changes in equity from January 1 to December 31, 2017 (IFRS)

in € thousand	Number of shares in thou.	Capital stock	Capital reserves	Revenue reserves	Currency translation	Revaluation reserves	Retained earnings	Minority interest	Total sharehol-ders' equity
As at January 1, 2017	**10,208**	**51,042**	**16,707**	**1,004**	**-108**	**-347**	**8,232**	**935**	**77,465**
Net profit/loss for the period	0	0	0	0	0	0	4,131	242	**4,373**
Other comprehensive income	0	0	0	0	-444	309	**0**	0	**-135**
Total comprehensive income	**0**	**0**	**0**	**0**	**-444**	**309**	**4,131**	**242**	**4,238**
Share-based remuneration	0	0	140	0	0	0	0	0	**140**
Capital increase	8	40	16	0	0	0	0	0	**56**
Appropriation of earnings	0	0	0	0	0	0	0	0	**0**
As at December 31, 2017	**10,216**	**51,082**	**16,863**	**1,004**	**-552**	**-38**	**12,363**	**1,177**	**81,899**

Consolidated statement of cash flow from January 1 to December 31, 2017 (IFRS)

in € thousand	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2017	Changes
Income before tax and minority interest	**8,728**	**7,151**	**-1,577**
Interest paid	1,740	1,758	18
Depreciation of property, plant and equipment and amortization of intangible assets	9,419	9,084	-335
Income/loss from the disposal of fixed assets	129	233	104
Other non-cash expenses and income	102	140	38
Changes in provisions	-688	-291	397
Changes in working capital	856	-1,835	-2,691
Changes in other assets and liabilities	-1,075	2,248	3,324
Income tax paid	-2,643	-2,483	159
Cash flow from operating activities	**16,568**	**16,005**	**-563**
Payments for investments in property, plant and equipment and intangible assets	-6,676	-13,184	-6,508
Proceeds from disposal of property, plant and equipment, intangible assets and investments	123	589	466
Interest received	24	62	38
Cash flow from investment activities	**-6,529**	**-12,533**	**-6,004**
Proceeds from shareholders	285	56	-229
Repayments for financial liabilities	-6,501	-2,885	3,616
Proceeds from loans	210	2,945	2,735
Interest paid	-1,764	-1,820	-56
Cash flow from financing activities	**-7,770**	**-1,704**	**6,066**
Net change in cash and cash equivalents	**2,269**	**1,768**	**-501**
Currency differences from converting funds	-1	-54	-53
Cash funds at the beginning of the financial year	**21,523**	**23,791**	**2,268**
Cash funds at the end of the financial year	**23,791**	**25,505**	**1,714**



5 Notes to the consolidated interim financial statements

5 Notes to the consolidated financial statements (IFRS)

1. Consolidated group

Parent company

The parent company is First Sensor AG, domiciled in Berlin, 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 compa-ny's business focuses mainly on the development, manufacture and distribution of customer-specific 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 were authorized for issue by the Supervisory Board on March 15, 2018.

Reporting principles

First Sensor's consolidated financial statements for 2017 have been prepared in accordance with the applicable International Financial Reporting Standards (IFRS) as at the balance sheet date and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that must be applied in the European Union.

The consolidated financial statements were prepared in euro (€). Unless otherwise indicated, all amounts have been stated in thousands of euro (€ thousand). The fiscal year of First Sensor AG and its consolidated subsidiaries corresponds to the calendar year.

The statement of comprehensive income has been prepared using the nature of expense method.

To improve clarity, individual items have been summarized in the balance sheet and the statement of comprehensive income. The Notes show a breakdown of these items. Rounding differences may arise.

The accounting policies are basically identical to those used in the previous year. As in the previous year, the balance sheet structure was organized according to descending maturity.

In fiscal year 2017, new standards, amendments to existing standards and new interpretations were approved.

Published standards and interpretations for which application was mandatory for the first time for IFRS financial statements as of December 31, 2017:

Amendments to standards:

- Amendments to IAS 12 "Income Taxes": Recognition of deferred tax assets for unrealized losses (entry into force on January 1, 2017)
- Amendments to IAS 7 "Cash Flow Statements": Disclosures on changes in certain financial liabilities (entry into force on January 1, 2017)

New standards:

- None

New interpretations:

- None

Published standards and interpretations for which application was not mandatory for IFRS financial statements as of December 31, 2017:

Amendments to standards:

- Amendments to IFRS 4 "Insurance Contracts": Consequences of first-time adoption dates for IFRS 9 and IFRS 17 (entry into force on January 1, 2018)
- Amendments to IFRS 2 "Share-based Payment": Various clarifications (entry into force on January 1, 2018) *
- Amendments to IAS 40 "Investment Property": Changes in use (entry into force on January 1, 2018) *
- Various amendments: IASB 2014 - 2016 Annual Improvement Project (entry into force on January 1, 2018) *
- Amendments to IAS 28 "Investments in Associates and Joint Ventures": Long-term interests (entry into force on January 1, 2019) *
- Amendments to IFRS 9 "Financial Instruments": Prepayment features with negative compensation (entry into force on January 1, 2019) *
- Various amendments: IASB 2015 - 2017 Annual Improvement Project (entry into force on January 1, 2019) *

New standards:

- IFRS 9 "Financial Instruments" (entry into force on January 1, 2018)
- IFRS 15 "Revenue from Contracts with Customers" (entry into force on January 1, 2018)
- IFRS 16 "Leases" (entry into force on January 1, 2019)
- IFRS 17 "Insurance Contracts" (entry into force on January 1, 2021) *

New interpretations:

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (entry into force on January 1, 2018) *
- IFRIC 23 "Uncertainty over Income Tax Treatments" (entry into force on January 1, 2019) *

* EU endorsement not yet given.

At the present time, the company has taken into account the mandatory application of the new standards and interpretations within the EU and will continue to do so. The new provisions of IFRS 9 and IFRS 15 are not expected to have any significant effects on the statement of financial position or the income statement. As a result of the new provisions of IFRS 16, assets and liabilities will increase and the equity ratio will decrease.In the consolidated statement of comprehensive income, EBITDA and also EBIT will increase as a result of the introduction of IFRS 16, as lease expenses to date will be distributed to depreciation and interest cost. These effects have not yet been quantified in detail. However, we do not expect the decrease in the equity ratio to result in our being unable to comply with agreements on the minimum equity ratio that have been made in the context of loan agreements. Some amendments and additional disclosures were required in the Notes.

Important discretionary decisions and uncertainty of estimates

In preparing the consolidated financial statements, some assumptions and estimates have been made which affected the amount and the disclosure of reported assets and liabilities, earnings and expenses. In individual cases, the actual values may deviate from these assumptions or estimates at a later stage. Relevant changes will be made once more accurate information is available. All assumptions and estimates are made to the best of our knowledge and belief in order to provide a true and fair view of the Group's net assets, financial position and results of operations.

Impairment 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 on the basis of a comparison between 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 cash generating unit in question. 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 2020 and then in a terminal value. The income planning is essentially based on previous experience of management expectations regarding the development of the respective cash generating unit and the relevant market. The main non-current assets to be subjected to annual impairment testing are the First Sensor Group's reported goodwill as well as intangible assets resulting from business combinations.

Share based remuneration

First Sensor has granted selected employees and Board members share based remuneration. The measurement of the personnel expenses for this share based remuneration contains estimates regarding the extent to which the conditions of these options are met as well as of relevant market parameters.

2. Principles of consolidation

Basis of consolidation

The Group's consolidated financial statements comprise First Sensor AG and the companies under its control. First Sensor AG is deemed to control those compa-nies where it directly or indirectly holds over 50% of the voting rights of the company's subscribed capital and/or is in a position to control the financial and business policy of a company such that it profits from the company's activities.

Non-controlling interests held by third parties (minorities) are reported separately in the statement of comprehensive income and in equity in the consolidated balance sheet. Re-cognition under equity is presented separately from the parent shareholders' equity. When non-controlling interests are acquired, the carrying amounts for the parent shareholders and the non-controlling interests are adjus-ted accordingly. Any difference between the adjustment of the non-controlling interest and the received or paid contingent consideration is recognized directly in equity and allocated to the parent company equity holders.

Losses by a subsidiary are also assigned to minority interests even when this leads to a negative balance if there is a matching right to reimbursement vis-à-vis the minority interests.

The following companies were included in the consolidated financial statements as fully consolidated:

Company	Head office	Core business activity	Ownership interest
First Sensor Lewicki GmbH	Oberdischingen, Germany	Manufacture and sale of microelectronic components and assemblies	100 %
First Sensor Microelectronic Packaging GmbH	Dresden, Germany	Manufacture and sale of microelectronic components and assemblies	100 %
First Sensor Mobility GmbH	Dresden, Germany	Development, production and sale of microelectronic and micromechanical sensor systems, components, modules and microsystems	85 %
First Sensor France S.A.S.	Paris, France	Sale of sensor modules	100 %
First Sensor Inc.	Westlake Village, USA	Development, production and sale of sensor systems and sale of sensor chips	100 %
First Sensor Singapore (FSG) Pte. Ltd.	Singapore, Singapore	No longer operationally active	100 %
Klay Instruments B. V.	Dwingeloo, The Netherlands	Industrial solutions	100 %
First Sensor Technics Ltd.	Shepshed, Grafschaft Leicester-shire, England	Sale of sensor modules	100 %
First Sensor Corp.	Montreal, Canada	Development of sensor modules	100 %
First Sensor Scandinavia AB	Kungens Kurva, Swe-den	Sale of sensor modules	51 %

Consolidation methods

The financial statements for the subsidiaries and affiliated companies included in the con-solidated financial statements are based on uniform accounting standards and reporting periods and dates which match those of the parent company.

Internal Group balances and transactions and resulting internal Group profits and dividends between consolidated companies were elimi-nated in full.

Business combinations are reported accor-ding to the purchase method. The costs of a company acquisition are calculated as the total of the consideration trans-ferred, assessed at its fair value at the acquisition date, and the non-controlling shares in the acquired compa-ny. In any business combination, the non-con-trolling shares in the acquired company are measured either at fair value or as the relevant proportion of identifiable net assets.

Costs incurred as a result of the business combination are recognized as expenditure. If the Group acquires a company, it assesses the appropriate classification and designation of the financial assets and liabilities assumed in accordance with the contract terms, economic conditions and the prevailing conditions at the time of the acquisition.

The agreed contingent consideration is recog-nized at fair value at the time of the acquisition. Subsequent changes to the fair value of a con-tingent consideration representing a financial asset or a financial liability are recognized in the income statement in accordance with IAS 39. A contingent consideration classified as equity is not remeasured and its subsequent payment is accounted for as equity capital.

Upon initial recognition, goodwill is valued at cost, calculated as the surplus of the transfer-red consideration over the acquired identifiab-le assets and liabilities assumed by the Group. If this consideration is lower than the fair value of the acquired subsidiary's net worth, the difference is recognized in the statement of comprehensive income.

Following initial recognition, goodwill is valued at cost minus accumulated impairment losses. For the purposes of impairment testing, the goodwill gained from a business combinati-on is allocated, as of the acquisition date, to the Group's cash generating units that are expected to profit from the business combina-tion. This applies irrespective of whether other assets or liabilities of the acquired company are assigned to these cash generating units.

If goodwill has been assigned to a cash gene-rating unit and a division of this unit is sold, the goodwill of the disposed unit is included in the calculation of the result of the sale as part of the carrying amount of the relevant division. The value of the portion of goodwill sold is determined on the basis of the relative values of the business division sold and the remaining portion of the cash generating unit.

Currency translation

The reporting currency of the First Sensor Group is euro, which is also the functional currency of the parent company. Financial sta-tements of consolidated compa-nies prepared in foreign currency are converted on the basis of the functional currency concept in accor-dance with IAS 21 "The Effects of Changes in Foreign Ex-change Rates" using the modified reporting date method. As subsidiaries run their business independently from a financial, economic and organizational viewpoint, the functional currency is identical to the local currency of the company concerned.

Upon 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 res-pective business transaction. Any exchange differences resulting from the settlement of monetary items or the translation of monetary items at exchange rates other than those in force at the time of initial recognition are reco-gnized in the income statement as an expense or income.

Non-monetary items measured in a foreign currency at historical cost are translated using the exchange rate valid at the date of the transaction. Non-monetary items measured in a foreign currency at fair value are translated using the exchange rate valid at the time of the measurement of fair value.

Foreign subsidiaries

All foreign First Sensor subsidiaries included in consolidation are considered financially inde-pendent foreign units since they are financially, economically and organi-zationally autono-mous. Their functional currencies correspond to their local currency. The balance sheets of foreign subsidiaries are translated at the exch-ange rate valid on the reporting date using the rates shown below:

Exchange rates	Dec. 31, 2016	Dec. 31, 2017
US Dollar USD	1.0541	1.1993
Britische Pfund GBP	0.8562	0.8872
Swedish Krona SEK	9.5525	9.8438
Singapore Dollar SGD	1.5234	1.6024
Canadian Dollar CAD	1.4188	1.5039

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

Currency translation is recognized directly in equity, i.e. all exchange differences that arise are recognized as a separate component of equity under exchange equalization items.

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 equiva-lents shown in the cash flow statement are defined in accordance with the company's cash management and are identical to cash.

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

Financial assets

Financial assets are generally broken down into the following categories:

- receivables and loans granted,
- derivatives which meet the requirements of hedge accounting,
- securities in fixed assets.

A financial asset is initially recognized at the acquisition cost, which corresponds to the fair value of the consideration; transaction costs are included. Financial assets from usual sales and purchases are recognized as of day of trading.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost applying the effective interest method minus any impairment costs. Amortized costs are cal-culated taking into consideration any discounts or premiums at acquisition and include all fees which are an integral part of the effective interest rate and the transaction costs.

Gains and losses are recorded in the net profit for the period if loans and receivables are dere-cognized or impaired as well as those resulting from amortization.

Financial assets are reviewed for impairment at the balance sheet date. When it is improbable, in the case of financial assets carried at amor-tized cost, that the company will be able to collect all loans and receivables due under the terms of the contract, an impairment or value adjustment of the receivables is recognized in the income statement. A value adjustment previously expensed will be corrected in the income statement if the subsequent partial recovery (or reduced impairment) can be objectively measured.

However, an increase in value will be recog-nized only insofar as it does not exceed the amount of amortized cost.

Derecognition/impairment

Financial assets or a part of financial assets are derecognized if First Sensor loses control over the contractual rights from which the asset arises.

Recognition of derivatives which meet the requirements of hedge accounting is explained in the Notes under “Derivative financial instru-ments”.

First Sensor assesses at the balance sheet date whether a financial asset is impaired. If there is objective evidence of impairment on loans and receivables recognized at amortized cost, the amount of the loss is determined as the difference between the carrying amount of the asset and the cash value of expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate (i.e. the interest rate originally recognized).

The carrying amount of the asset is then either reduced directly or an allowance account is used. The amount of the loss is recognized in the income statement. First Sensor first assesses whether there is objective eviden-ce of impairment of financial assets that are significant. It then assesses whether there is objective evidence of impairment of financial assets that are not significant, individually or collectively. If the Group determines that in the case of a financial asset assessed individually, whether significant or not, there is no objective evidence of impairment, it includes this asset in a group of financial assets with a similar default risk profile and examines them collectively for impairment. Assets individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective impairment assessment.

Offsetting

Financial assets and liabilities are offset so only the net amount is reported in the balance sheet. This only happens if there is a legal right to offset the recorded amounts with each other at the present time and if the intention is to effect compensation on a net basis or to redeem the liability associated with the asset in question at the same time it is realized.

Fair value

The fair value of financial instruments traded on active markets is determined by the market price quoted on the reporting date or the pub-licly 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 tra-ded on any active market is determined using valuation measurement methods.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, dis-counted cash flow methods and other valuation models.

Please refer to "Derivative financial instru-ments" in the Notes for an analysis of the fair values of financial instruments and other de-tails of how financial instruments are valued.

The company assumes that the fair values of fi-nancial assets and financial liabilities essentially correspond to their carrying amounts.

The net result for financial assets and liabilities amounted to €-1,609 thousand for the fiscal year (previous year: €-115 thousand). The high net loss in the year under review particularly resulted from closing out three forward foreign exchange contracts (€ 1,187 thousand) as well as one interest rate swap (€ 405 thousand) early; the resulting loss of €1,592 thousand in total is recognized under currency losses in the consolidated statement of comprehensive income.

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. Sale costs still to be incurred are also taken into account. However, when a decline in the price of mate-rials indicates that the cost of the finished products exceeds net realizable value, the materials are written down to net realizable value.

Work in progress and finished goods are valued at cost or at the market value if lower. Manufacturing costs comprise direct personnel costs, costs of materials and the attributable portion of production overheads. They are determined using 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

Tangible assets are accounted for at cost less accumulated amortization.

Interest on borrowing, which can be assigned directly to the acquisition, construction or manufacture of a qualified asset, are capitalized. No interest on borrowing was capitalized in the last fiscal year. On disposals of tangible assets, their historical cost and accumulated amortization are derecognized and a gain or loss from the disposal of the asset is recognized in the income statement.

Scheduled amortization is recognized over the following useful lives in accordance with the straight line method:

Buildings	25 – 33 years
Office equipment	1 – 15 years

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

Plant under construction are capitalized at cost and amortized from completion and commissioning. Cost includes the production-related full costs. These include production costs and production overheads, which were caused in connection with the construction of plant through work performed by the Group's own employees.

Intangible assets

Intangible assets are capitalized by First Sensor if:

- as a result of past events, the company retains beneficial ownership of the asset,
- it is to be assumed that the company will continue to have beneficial ownership of this asset in the future,
- the asset costs can be reliably measured.

This is the method applied when intangible assets are acquired externally. Internally generated intangible assets are measured at the directly attributable develop-ment costs if all the requirements of IAS 38 are met. Overheads necessary to generate the asset and that can be directly attributed to it are also capitalized. Capitali-zation ceases once the product is completed and available for general use.

The following six requirements must be met for capitalizing development costs under IAS 38.57 and have been met in full in the present cases:

- Technical feasibility of completing the asset exists so that it will be available for internal use and/or sale.
- The intention is to complete the intangible asset, use or sell it.
- The ability exists to use or sell the intangible asset.
- There is a evidence of the expected future economic benefit.
- Adequate technical, financial and other resources are available 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.

Intangible assets subject to wear and tear are recognized at cost minus accumulated depreciation and accumulated impairments. Intangible assets not subject to wear and tear (goodwill) are recognized at cost minus accumulated impairment losses. According to IAS 38, intangible assets subject to wear and tear are amor-tized uniformly over the estimated useful life. The amortization period starts as soon as the asset can be used. The amortization period and amortization schedule are reviewed annually at the end of the fiscal 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 four years using the straight-line method.

(b) Goodwil
On initial recognition, goodwill is measured at cost. The cost is calculated as the excess of the consideration received and the amount of the non-controlling interest over the acquired identifiable assets and liabilities assumed by the Group.

Irrespective of whether any indication of impairment exists, the recoverable amount for the cash generating unit (CGU) to which the goodwill applies is calculated annually. If the carrying amount exceeds the recoverable amount, a valuation allowance is recognized. If the recoverable amount is only 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 income in the period in which it is incurred unless the requirements of IAS 38 can be demonstrated in the case of development costs.

(d) Developments
First Sensor has acquired development work as part of one of its acquisitions. This is subject to scheduled amortization over 20 years. Amortization begins when the product is marketed.

(e) Brands
Identified assets were acquired in the form of brands as part of the acquisition of the Sensortechnics Group. The Klay brand is not subject to scheduled amortization because it has no defined useful life. The Sensortechnics and ELBAU brands were written off in full as of December 31, 2015, since both brand names are no longer used as a result of concentrating 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 are amortized on a straight-line basis over an expected useful life of 6 to 10 years.

(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 indica-tions that the recoverable value for the asset at the balance sheet date will remain less than its carrying amount, or if annual impairment tests are required (good-will and intangible assets unused to date). If the carrying amount of an asset exceeds the lower fair value, impairment is recognized with respect to property, plant and equipment and intangible assets reported 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 of each individual asset must be estimated or, if this is not possible, for the smallest identifiable cash generating unit.

Provisions

In accordance with IAS 37, provisions are reported for obligations with respect to which the timing or amount are uncertain. Provisions should be recognized when, and only 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 balance sheet date, in other words, the amount the company would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party.

Non-current provisions are discounted at a pre-tax interest rate provided that the effect of discounting is significant. If provisions are discounted, the increase in the provision with the passage of time is reported as financial expenditure.

Liabilities relating to a potential obligation 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 as contingent liabilities. Contingent liabilities may also result from a current obligation related to past events but not recorded, because:

- it is not probable that an outflow of resources embodying economic benefits will be required to settle this obligation; or
- the amount of the obligation can be estimated sufficiently reliably.

Financial liabilities

Financial liabilities are categorized as follows:

- financial liabilities held for trading
- other financial liabilities.

The financial liabilities reported in the First Sensor consolidated financial statements were classified as other financial liabilities.

A financial liability is initially recognized at cost, which is the fair value of the consideration given; transaction costs are included. After initial recognition, interest bearing loans are measured at amortized cost using the effective interest method. Gains or losses resulting from amortization or derecognition are recognized in the income statement using the effective interest method.

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

Employee benefits

Defined contribution plans
Defined contribution plans exist for Executive Board members, directors and senior employees. These are pension commitments in an inter-company provident fund. The company pays fixed monthly amounts into the provident fund. The payments made by the Group into defined contribution plans are recognized in the income statement in the year to which they relate. The same applies to payments made into state pension schemes.

Share options
A share option plan allows selected employees, i.e. the Executive Board, directors and staff of First Sensor, to share in the company's future performance in the medium and long term.

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 expenses reported at each balance sheet date arising from the granting of the equity instruments up to the vesting date reflect the portion of the vesting period that has already expired and the number of equity instruments, according to the Group's best estimate, that will vest at the end of the vesting period. The amount recognized in the income statement reflects the changes in the cumulative expenses at the beginning and end of the reporting 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 fulfilled provided that all other service conditions are met.

The dilutive effect of the outstanding share options is reflected in the calculation of the earnings per share as additional dilution (see Note 27 Earnings per share for further details).

Pension provisions

Pension payments were agreed for a former director who has taken retirement. Provisions were made for the present value of the pension commitment.

The annual pension payments are shown as utilization of provisions. This is calculated based on an actuarial assessment.

Government grants

Government grants are recognized if there is sufficient certainty that the grants will be provided and that the company satisfies the associated conditions.

Expenditure based grants are reported as income over the period required to match them against the expenditure they are intended to compensate. Grants related to assets are shown on the consolidated balance sheet as deferred investment grants or subsidies. The latter is released as income in equal annual installments over the expected useful life of the relevant asset.

Recognition of revenue

Revenue is recognized in accordance with IAS 18 when all the following conditions are met:

- First Sensor has transferred to the buyer the significant risks and opportunities associated with ownership of the sold goods and products.
- There is neither a continuing managerial involvement to the degree usually associated with economic ownership, nor effective control over the sold items and entitlements.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the enterprise.
- The costs incurred or to be incurred in respect of the transaction can be reliably estimated.

In accordance with the principle of accrual basis accounting set down in IAS 18, income and expense relating to the same transaction or event are recognized at the same time.

Other operating income

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

Interest income

Interest is recognized on a time proportion basis that takes into account the effective yield on the asset.

Taxes

Tax assets and liabilities
Current tax assets and current tax liabilities for current and prior periods should be measured at the amount expected to be recovered from (paid to) the taxation authorities. The amount is calculated on the basis of the tax rates and tax legislation effective at the balance sheet date.

Current taxes relating to items reported directly in equity are not entered on the income statement but in equity.

Deferred taxes
Deferred taxes are recognized using the balance sheet related liability method on all temporary differences between the carrying amount of an asset or liability in the balance sheet and the tax base at the balance sheet date. Deferred taxes are recognized for all taxable temporary differences.

The following exceptions apply:

- The deferred tax liability must not be recognized when it arises from the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither the accounting profits defined under commercial law nor the taxable profit.

- Deferred tax arising from deductible temporary differences in connection with investments in subsidiaries and associated companies is not recognized if the timing of the reversal of the temporary difference is controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax loss carryforwards and unused tax credits in the amount of the future taxable profit that is likely to be available against which the deductible temporary differences and the unused tax loss carryforwards and tax credits can be utilized. The following exceptions apply:

- Deferred tax assets are not recognized for deductible temporary differences arising from the initial recognition of an asset or liability relating to a transaction which is not a business combination and which, at the time of the transaction, does not influence either the accounting profit for the period defined under commercial law or the taxable profit.

- Deferred tax assets for deductible temporary differences relating to interests in subsidiaries, affiliated companies or shares in joint ventures are only recog-nized to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and that sufficient taxable profit will be availa-ble against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is tested on the balance sheet date and written off to the extent that it is no longer probable that a sufficient taxable result will be available against which the deferred tax asset can be at least partly applied. Non-recognized deferred tax assets are tested on every balance sheet date and recognized to the extent that it has become probable that the taxable result in the future will allow the realization of deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when an asset is realized or a liability is settled, based on tax rates (and tax legislation) that are applicable at the balance sheet date. Future changes to tax rates must be taken into account at the balance sheet date providing the material conditions for their effectiveness exist within the scope of a legislative procedure. Deferred taxes relating to items entered directly in equity are entered in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset against one another if the group has a legally enforceable right to set off current tax assets against current tax liabilities and these relate to taxes levied by the same tax authority on the same tax object.

Leases

Determining whether an agreement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

In the case of financial leases, in which basically all opportunities and risks associated with ownership of the lease asset are transferred to the Group, the lease asset is capitalized at the conclusion of the lease agreement. The lease asset is recognized at fair value or at the present value of the minimum lease payments, if this figure is lower. Lease payments are split into financial expenses and the repayment portion of the residual debt so as to produce a constant rate of interest on the remaining balance of the lease debt. Financial expenses are immediately recognized in the income statement.

If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the capitalized lease assets are fully depreciated over the shorter of the two periods, expected useful life and the term of the lease agreement.

Lease payments under operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term.

Derivative financial instruments and hedging

Credit and liquidity risk
First Sensor ensures that it has sufficient funds and irrevocable credit lines available to meet its financial obligations at all times. Credit risk, or the risk that a contrac-tual partner fails to meet its payment obligations, is managed by means of loan commitments, credit lines and control measures. Where appropriate, the company obtains security in the form of rights in securities or arranges master netting agreements.

The maximum credit risk relates to the amounts of financial assets capitalized on the balance sheet.

Currency risk
There is no significant exchange rate risk since most of the transactions concluded by the companies within the Group are in euro. However, materials are purchased in dollars abroad. Corresponding forward foreign exchange contracts are concluded for this purpose. Foreign currency risks are reduced by the independent operation of First Sensor Inc. and in part by First Sensor AG invoicing in USD.

Interest rate exposure and hedging
The risk of market interest rate fluctuations to which the Group is exposed results predominantly from non-current financial liabilities with variable interest rates. This risk is countered by borrowing fixed-rate loans and, when variable- rate loans are procured, by concluding derivative financial instruments (interest rate swaps and/or interest rate caps).

Derivative financial instruments are measured at fair value at the time of the agreement and in the following periods. They are reported as assets if their fair value is positive and liabilities if their 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 swap and interest rate cap contracts is measured by reference to the market values of similar instruments.

As at December 31, 2017, First Sensor had used hedging instruments to hedge interest rate risks (cash flow hedge). These instruments were reported as follows in accordance with the strict criteria for hedge accounting:

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

The amounts recognized in equity are reclassified to profit or loss in the period during which the hedged transaction affects profit or loss for the period, for example when hedged financial income or expenses are reported or when a forecast sale takes place.
If hedging results in the recognition of a non-financial asset or a non-financial liability, the amounts recorded in equity become part of the cost at the initial meas-urement of the non-financial asset or liability.

If a forecast transaction or firm commitment is no longer expected to occur, the amounts previously recorded in equity are transferred to the income statement. When the hedging instrument expires or is sold, terminated or exercised without the hedging instrument being replaced or rolled over into a different hedging instrument, the amounts recorded in equity remain there as separate line items in equity until the forecast transaction or firm commitment occurs. The same applies if it is determined that the hedging instrument no longer meets the hedge accounting criteria.

3. Intangible assets

in € thousand	Orders on hand	Concessions, licenses and similar	Goodwill	Internally generated intangible assets	Customer base/ brands	Advance payments	Dec. 31, 2016
Cost of purchase							
January 1, 2016	1,452	11,105	39,112	5,174	24,075	441	81,359
Additions	0	518	0	1,571	0	775	2,864
Disposals	0	-504	0	-123	0	0	-627
Reclassifications	0	127	0	-8	0	-119	0
Exchange differences	0	2	0	27	0	0	29
December 31, 2016	1,452	11,248	39,112	6,641	24,075	1,097	83,625
Cumulative depreciation							
January 1, 2016	1,452	8,692	9,296	1,196	10,683	0	31,319
Depreciation and amortization	0	889	0	542	2,222	0	3,653
Disposals	0	-499	0	0	0	0	-499
Reclassifications	0	0	0	0	0	0	0
Exchange differences	0	0	0	0	0	0	0
December 31, 2016	1,452	9,082	9,262	1,738	12,905	0	34,473
Carrying amount as at January 1, 2016	0	2,413	29,816	3,978	13,392	441	50,040
Carrying amount as at December 31, 2016	0	2,166	29,816	4,903	11,170	1,097	49,152

in € thousand	Orders on hand	Concessions, licenses and similar	Goodwill	Internally generated intangible assets	Customer base/ brands	Advance payments	Dec. 31, 2017
Cost of purchase							
January 1, 2017	1,452	11,248	39,112	6,641	24,075	1,097	83,625
Additions	0	308	0	2,357	0	1,534	4,199
Disposals	0	-95	0	-707	0	0	-802
Reclassifications	0	762	0	-745	0	0	17
Exchange differences	0	-4	0	-27	0	0	-31
December 31, 2017	1,452	12,219	39,112	7,519	24,075	2,631	87,008
Cumulative depreciation							
January 1, 2017	1,452	9,082	9,296	1,738	12,905	0	34,473
Depreciation and amortization	0	799	0	748	2,210	0	3,757
Disposals	0	-95	0	-30	0	0	-125
Reclassifications	0	44	0	-44	0	0	0
Exchange differences	0	-4	0	0	0	0	-4
December 31, 2017	1,452	9,826	9,296	2,412	15,115	0	38,101
Carrying amount as at January 1, 2017	0	2,166	29,816	4,903	11,170	1,097	49,152
Carrying amount as at December 31, 2017	0	2,393	29,816	5,107	8,960	2,631	48,907

Intangible assets neither served as securities for liabilities nor were otherwise restricted at the balance sheet date.

Brands

Brands that were acquired as part of the acquisition of all shares in the Sensortechnics Group in 2011 were identified as intangible assets as follows. The carrying amount is compared with the previous year's figure:

in € thousand	Dec. 31, 2016	Dec. 31, 2017	Δ absolute	in %
Brand Klay Instruments	797	797	0	0
Total	**797**	**797**	**0**	**0**

The Klay Instruments brand is not amortized. The Sensortechnics and ELBAU brands were written off in full as of December 31, 2015, since both brand names are no longer used as a result of concentrating on the "First Sensor" umbrella brand.

Customer base

Customer bases that were acquired as part of the acquisition of the shares in the Sensortechnics Group in 2011 were identified as intangible assets. The table shows the carrying amounts. The customer bases are amortized over an estimated useful life of 6 to 10 years using the straight-line method. The amortization amount was €2,210 thousand in 2017 (previous year: €2,222 thousand).

in € thousand	Dec. 31, 2016	Dec. 31, 2017	Δ absolute	in %
Sensortechnics Customized	4,521	3,569	-952	-21,1
Sensortechnics Distributed	33	0	-33	-100,0
First Sensor AG subsidiary Berlin-Weißensee (prev.: ELBAU)	4,060	3,205	-855	-21,1
Klay Instruments B.V.	1,759	1,389	-370	-21,1
Total	**10,373**	**8,163**	**-2,210**	**-21,3**

Development

The development work reported following the acquisition of First Sensor Microelectronic Packaging GmbH is subject to scheduled amortization over 20 years start-ing from the initial marketing. The effective amortization charge in 2017 amounted to €23 thousand (previous year: €23 thousand). The residual carrying amount was €206 thousand at the balance sheet date.

Following the acquisition of First Sensor Technology GmbH, intangible assets of €672 thousand were reported relating to the company's own developments and technologies. The residual carrying amount was written down to zero in 2017 as planned.

4. Internally generated intangible assets

Internally generated intangible assets are capitalized at First Sensor in connection with developments for new products and technologies. It is assumed in this pro-cess that they will be used at a later date and will generate corresponding returns. Carrying amounts of €5,107 thousand (previous year: €4,903 thousand) were reported for internally generated intangible assets as at the balance sheet date. Write-downs of €748 thousand (previous year: €542 thousand) were recognized on these in the year under review.

5. Goodwill

Goodwill as at December 31, 2017 related to the following companies:

in € thousand	Dec. 31, 2016	Dec. 31, 2017
First Sensor Lewicki GmbH	1,846	1,846
First Sensor Technology GmbH	1,125	1,125
Former: Sensortechnics Group	26,390	26,390
MEMSfab GmbH	455	455
Total	**29,816**	**29,816**

To test goodwill for impairment, the value in use of the unit was calculated and compared with the carrying amount. If the carrying amount exceeds the value in use, a valuation allowance is recognized. The value in use is calculated based on operating cash flows for the planning period, discounted using 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	Dec. 31, 2016	Dec. 31, 2017
Risk-free basic interest rate	0.90%	1.25%
Market risk premium	7.00%	7.00%
Beta factor	1.0	1.0
Pre-tax borrowing rate	3.50%	3.00%
WACC pre-tax	10.74%	11.15%
WACC after tax	7.35%	7.63%

Lewicki First Sensor GmbH

First Sensor reports goodwill amounting to €1,846 thousand resulting from the acquisition of all shares in First Sensor Lewicki GmbH in 2000. In accordance with IAS 36, goodwill on this company was tested for potential impair-ment as at December 31, 2017 on the basis of the value in use taking into account the following as-sumptions:

- Sales are expected to increase slightly between 2017 and 2020.
- A growth rate of 1% in the projection variab-les for 2021 (terminal value).
- The discount factor based on the WACC method will be 7.63% after tax (previous year: 7.35%) and 11.15% before tax (previous year: 10.74%).

As in the previous year, the impairment test did not give rise to any impairment as at the balan-ce sheet date. The Executive Board bases its assumptions relating to forecasts for the deter-mination of value in use on past experience.

First Sensor Technology GmbH

First Sensor acquired all shares in First Sensor Technology GmbH in fiscal year 2010. This acquisition resulted in goodwill of €1,125 thousand. In accordance with IAS 36, good-will on this company was tested for potential impairment as at December 31, 2017 on the basis of the value in use taking into account the following assumptions:

- Sales are expected to increase slightly from 2017 to 2020.
- A growth rate of 1% in the projection variab-les for 2021 (terminal value).
- The discount factor based on the WACC method will be 7.63% after tax (previous year: 7.35%) and 11.15% before tax (previous year: 10.74%).

As in the previous year, the impairment test did not give rise to any impairment as at the balan-ce sheet date. The Executive Board bases its assumptions relating to forecasts for the deter-mination of value in use on past experience.

Sensortechnics Group

First Sensor acquired all shares in the Sensor-technics Group in fiscal year 2011. This acquisi-tion resulted in goodwill of €26,390 thousand. In accordance with IAS 36, the Sensortechnics Group goodwill was tested for potential im-pairment as at December 31, 2017 on the basis of the value in use taking into account the following assumptions:

- Sales are expected to increase slightly from 2017 to 2020.
- A growth rate of 1% in the projection variab-les for 2021 (terminal value).
- The discount factor based on the WACC method will be 7.63% after tax (previous year: 7.35%) and 11.15% before tax (previous year: 10.74%).

As in the previous year, the impairment test did not give rise to any impairment as at the balan-ce sheet date. The Executive Board bases its assumptions relating to forecasts for the deter-mination of value in use on past experience.

MEMSfab GmbH

First Sensor acquired all shares in MEMSfab GmbH in fiscal year 2011. In accordance with a merger agreement dated June 27, 2013 with an addendum dated October 30, 2013, the company merged with First Sensor AG and was dissolved without being wound up.

The merger has no effect on the goodwill of €455 thousand (previous year: €455 thous-and). This goodwill results mainly from the successive realization of synergies, which is expected as a result of the company acquisi-tion.

As in the previous year, the impairment test did not give rise to any impairment as at the balan-ce sheet date. The Executive Board bases its assumptions relating to forecasts for the deter-mination of value in use on past experience.

6. Property, plant and equipment

in € thousand	Land and buildings	Technical equipment and machinery	Office equipment	Advance payments, assets under construction	Dec. 31, 2016
Cost of purchase					
January 1, 2016	18,313	43,319	9,007	1,052	71,691
Additions	25	1,655	992	1,140	3,812
Disposals	0	-960	-293	-90	-1,343
Reclassifications	37	612	43	-692	0
Exchange differences	-2	15	11	0	24
31. Dezember 2016	18,373	44,641	9,760	1,410	74,184
Cumulative depreciation					
January 1, 2016	5,377	25,265	5,960	53	36,655
Depreciation and amortization	602	4,005	1,159	0	5,766
Disposals	0	-929	-290	0	-1,219
Exchange differences	2	4	11	0	17
December 31, 2016	5,981	28,345	6,840	53	41,219
Carrying amount as at January 1, 2016	12,936	18,054	3,047	999	35,036
Carrying amount as at December 31, 2016	12,392	16,296	2,920	1,357	32,965

in € thousand	Land and buildings	Technical equipment and machinery	Office equipment	Advance payments, assets under construction	Dec. 31, 2017
Cost of purchase					
January 1, 2017	18,373	44,641	9,760	1,410	74,184
Additions	14	1,633	796	6,542	8,985
Disposals	0	-246	-126	-42	-414
Reclassifications	208	1,858	481	-2,564	-17
Exchange differences	8	-27	-49	-1	-69
December 31, 2017	18,603	47,859	10,862	5,345	82,669
Cumulative depreciation					
January 1, 2017	5,981	28,345	6,840	53	41,219
Depreciation and amortization	619	3,570	1,138	0	5,327
Disposals	0	-245	-11	-13	-269
Exchange differences	8	-15	-44	0	-51
December 31, 2017	6,608	31,655	7,923	40	46,226
Carrying amount as at January 1, 2017	12,392	16,296	2,920	1,357	32,965
Carrying amount as at December 31, 2017	11,995	16,204	2,939	5,305	36,443

Property, plant and equipment with a carrying amount of €1,954 thousand (previous year: €2,740 thousand) served neither as security for liabilities nor were otherwise restricted as at the balance sheet date.

7. Inventories

in € thousand	Dec. 31, 2016	Dec. 31, 2017	Δ absolute	in %
Raw materials and supplies	10,632	11,067	435	4.1
Unfinished goods and work in progress	6,501	6,340	-161	-2.5
Finished goods and products	8,672	7,113	-1,559	-18.0
Advance payments on inventories	51	106	55	107.8
Total	**25,856**	**24,626**	**-1,230**	**-4.8**

The write-down on inventories was recognized as expense and amounted to €737 thousand (previous year: €587 thousand). 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 assigned inventories as of the balance sheet date.

8. Trade accounts receivables

in € thousand	Dec. 31, 2016	Dec. 31, 2017	Δ absolute	in %
Trade accounts receivables	18,578	20,922	2,344	12,6
Less allowances for doubtful accounts	-152	-157	-5	3,3
Total	**18,426**	**20,765**	**2,339**	**12,7**

Accounts receivable are not interest-bearing and are generally due within 30-90 days. Allowances of €157 thousand (previous year: €152 thousand) were made for doubtful receivables from the sale of goods and services. This equates to a default ratio of 0.8% (previous year: 0.8%).

Changes in the allowance account were as follows:

in € thousand	2016	2017	Δ absolute	in %
Beginning of the period	**92**	**152**	**60**	**65.2**
Allocation to expenses	102	95	-7	-6.9
Utilization	0	-1	-1	-
Reversal	-42	-89	-47	111.9
End of the period	**152**	**157**	**5**	**3.3**

As at December 31, 2017, the age structure of past due accounts receivable is as follows:

in € thousand	Dec. 31, 2016	Dec. 31, 2017	Δ absolute	in %
Not due	14,397	14,442	45	0.3
Less than 30 days past due	2,549	4,202	1,653	64.8
Between 30 and 60 days past due	619	772	153	24.7
Between 61 and 90 days past due	203	303	100	49.3
Between 91 and 120 days past due	328	215	-113	-34.5
More than 120 days past due	330	831	501	151.8
Total	**18,426**	**20,765**	**2,339**	**12.7**

9. Other current assets

in € thousand	Dec. 31, 2016	Dec. 31, 2017	Δ absolute	in %
Prepayments and accrued income	665	684	19	2,9
Value-added tax receivables	1,916	2,090	174	9,1
Insurance claims	141	143	2	1,4
Research and development funding	2	2	0	0
Others	534	401	-133	-24,9
Total	**3,258**	**3,320**	**-62**	**-1,9**

10. Cash and cash equivalents

in € thousand	Dec. 31, 2016	Dec. 31, 2017	Δ absolute	in %
Cash in hand	6	20	14	233.3
Bank balances	23,785	25,485	1,700	7.2
Total	**23,791**	**25,505**	**1,714**	**7.2**

Bank balances are partly subject to variable interest rates for money at call. The fair value of cash and cash equivalents amounted to €25,505 thousand (previous year: €23,791 thousand).

11. Capital stock

The share capital reported as subscribed capital on the balance sheet totaled €51,081,980.00 as at the balance sheet date (previous year: €51,041,980.00). It was made up of 10,216,396 shares (previous year: 10,208,396 shares), each with a nominal value of €5.00. The share capital of First Sensor AG increased by €40,000.00 year-on-year as a result of share options from the 2009 share option plan being exercised.

2017	shares*	Share capital**
Beginning of the financial year	10,208	51,042
Share option plan for 2009	8	40
End of the financial year	**10,216**	**51,082**

2016	shares*	Share capital**
Beginning of the financial year	10,167	50,835
Share option plan for 2009	41	207
End of the financial year	**10,208**	**51,042**

* number of shares in thousand

** in € thousand

Authorized capital

The Executive Board is authorized to increase the company's share capital by up to €25,379,150.00 by issuing up to 5,075,830 new bearer shares (Authorized Capital 2015/I) up to May 27, 2020, with the approval of the Supervisory Board, in one or more transactions. The capital can be increased against cash or non-cash contributions. Shareholders are granted subscription rights. Shareholders can also be granted subscription rights indirectly in accordance with section 186 (5) AktG (German Stock Corporation Act).

The Executive Board is, however, authorized, with the approval of the Supervisory Board, to disapply the subscription right of shareholders in certain circumstances in accordance with the further provisions of point 5c) of the agenda of the Annual General Meeting as published in the German Federal Gazette (Bundesanzeiger).

As at December 31, 2017, Authorized Capital 2015/I amounted to €25,379,150.00.

Contingent capital

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

in € thousand	Dec. 31, 2016	Dec. 31, 2017
Contingent capital 2009/II	149	109
Contingent capital 2012	19,000	0
Contingent capital 2013/I	1,665	455
Contingent capital 2016/I	450	0
Contingent capital 2016/II	2,600	2,600
Contingent capital 2017/I	0	1,200
Contingent capital 2017/II	0	19,000
Total	**23,864**	**23,364**

As at December 31, 2017, contingent capital totaled €23,363,585.00 (previous year: €23,863,585.00). The contingent capital increase will be carried out only to the extent that the bearers of subscription rights exercise the subscription rights granted under the respective share option plans from Contingent Capital 2009/II, Contingent Capital 2013/I, Contingent Capital 2016/II and Contingent Capital 2016/I. The convertible or option bonds on which Contingent Capital 2012 is based were not issued up to the balance sheet date. The contingent capital increase 2017/II will be carried out only to the extent that the holders of convertible or option bonds exercise their subscription rights. The contingent capital 2013/I was reduced by resolution of the Annual General Meeting on May 24, 2017.

12. Reserves

Changes in reserves were as shown in the statement of changes in equity. The items are explained below:

a) Capital reserves - share premium
Due to the exercising of 8,000 share options from the SOP 2009/II at an exercise price of €6.02 and €7.20 respectively, in 2017 the capital reserves increased by the exercise price exceeding the nominal value per share (€5.00) by €16 thousand in total.

b) Capital reserves – share options
Expenses of €140 thousand (previous year: €102 thousand) resulting from the ongoing share option programs were recognized in the income statement under Personnel expenses and as an addition to capital reserves.

c) Revaluation reserves
The portion of the profit or loss from cash flow hedging instruments that is determined to be an effective hedge is recorded in this item. The actuarial gains and losses from pension provisions are also recorded in this item. The respective tax effects are also recorded here.

d) Currency translation
In the consolidated balance sheet, another reserve is reported within equity for exchange equalization items. This item is for recognizing the differences arising from the conversion of the financial statements of the foreign subsidiaries.

13. Non-current post-employment benefit obligation

The employees working at the production facilities in Munich (FSM) received pension commitments. The pension plans are based on the number of years of service. The pension commitments are essentially 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 prescribed in IAS 19 (Employee benefits). As a result of this change, actuarial gains and losses and past service cost are to be recognized in other comprehensive income.

Changes to the defined benefit obligation were as follows:

in € thousand	2016	2017
Defined Benefit Obligation (DBO) as at January 1	312	300
Reclassifications / changes in the scope of consolidation	0	0
Service cost	0	0
Interest cost	5	5
Actuarial gains (-) / losses (+)	9	-2
Pension payments	-26	-26
Defined Benefit Obligation (DBO) as at December 31	**300**	**277**

Changes to the defined benefit obligation were as follows:

in € thousand	Dec. 31, 2016	Dec. 31, 2017
Defined Benefit Obligation	300	277
Plan assets	0	0
Balance sheet recognition	**300**	**277**

The post-employment benefit obligations must be deduced as follows from the defined benefit obligation:

in € thousand	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017
Defined Benefit Obligation	310	323	312	300	277
Plan assets	0	0	0	0	0
Deficit	**310**	**323**	**312**	**300**	**277**

Pension expense was as follows:

in € thousand	2016	2017
Service cost	0	0
Interest cost	5	5
Actuarial gains (-) / losses (+)	9	-2
Total	**14**	**3**

The interest cost is recorded separately in the financial result.

Pension payments of €26 thousand are expected for the following fiscal year – as in the previous year.

The calculations are based on the 2005 G mortality tables produced by K. Heubeck and the following assumptions:

in %	Dec. 31, 2016	Dec. 31, 2017
Interest rate	1.70	1.90
Salary trend	0	0
Pension trend	1.80	1.80

A change in the main actuarial assumptions (interest rate, salary trend, pension trend) of 1 percentage point up or down would have an impact of no more than €60 thousand on the defined benefit obligation in each case.

14. Other provisions

in € thousand	Warranties	Others	Total
Current	1,427	75	1,502
Non-current	0	0	0
Dec. 31, 2016	**1,427**	**75**	**1,502**
Utilization	-390	-75	-465
Reversal	-160	0	-160
Allocation	382	0	382
Dec. 31, 2017	**1,259**	**0**	**1,259**
Current	1,259	0	1,259
Non-current	0	0	0

The provision for warranty obligations was recognized for products sold in the past two years. The underlying assumptions applied in calculating the warranty provision are based on sales under warranty and currently available information on claims within the two-year warranty period. In addition, warranty provisions for current claims were recognized in the amount of €382 thousand (previous year: €431 thousand) based on anticipated utilization. These expenses are expected to be in-curred within the next fiscal year.

15. Financial liabilities

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, variable 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 specified for the placed promissory notes were the debt/equity ratio and the equity ratio.

The fixed-rate promissory note loan of €12.0 million in place since 2013 has a term until December 20, 2018.

The key financial ratios will be calculated annually. The interest rate risk will be reduced through fixed interest rates and normal hedging mechanisms (see "Deriva-tive financial instruments").

in € thousand	Dec. 31, 2016	Dec. 31, 2017
Current up to 1 year	4,640	16,115
Non-current	43,599	32,184
of which 1 - 5 years	40,599	32,184
of which more than 5 years	3,000	0
Total	**48,239**	**48,299**

Leases and hire purchase agreements

The Group has signed leases and hire purchase contracts for a range of technical machinery and office equipment. The leases are all operating leases. The future minimum payments under leases and hire purchase contracts can be reconciled to their present values as follows:

December 31, 2016 in € thousand	Minimum lease payments	Present value of minimum lease payments
Current up to 1 year	549	489
Between 1 and 5 years	1,340	1,257
More than 5 years	135	124
Total minimum lease payments	**2,024**	**1,870**
Less discount	154	0
Present value of the minimum lease payments	**1,870**	**1,870**

December 31, 2017 in € thousand	Minimum lease payments	Present value of minimum lease payments
Current up to 1 year	1,460	1,405
Between 1 and 5 years	3,415	3,244
More than 5 years	307	289
Total minimum lease payments	**5,182**	**4,938**
Less discount	244	0
Present value of the minimum lease payments	**4,938**	**4,938**

Expenses from leases and hire purchase agreements of €888 thousand (previous year: €931 thousand) were reported in the year under review. €651 thousand (previous year: €595 thousand) of this amount was recorded for operating leases.

As at December 31, 2017, the net carrying amount of the technical equipment and machinery financed by means of leasing and pledged to the lessor was €4,653 thousand (previous year: €2,740 thousand). Leased assets with a net carrying amount of €2,885 thousand were added in this fiscal year (previous year: €354 thousand).

Others

As at the 2017 balance sheet date, First Sensor had unused credit lines of €11,050 thousand (previous year: €13,250 thousand).

16. Other non-current liabilities

Other non-current liabilities mainly include deferred investment grants/allowances of €3,457 thousand (previous year: €3,739 thousand). These relate to govern-ment grants and were paid out mainly 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.

In addition, the negative market values of interest rate hedging instruments of €81 thousand (previous year: €502 thousand) are recognized in other non-current financial liabilities.

17. Other current liabilities

in € thousand	Dec. 31, 2016	Dec. 31, 2017
Liabilities due to staff	1,985	1,810
Liabilities from income tax	2,295	2,723
Liabilities from church tax, social security	82	97
Others	3,493	6,062
Total	**7,855**	**10,692**

All of the other current liabilities are not interest-bearing.

18. Obligations arising from employee benefits

Share option plan

Four share option plans are currently in place:

- Share option plan for 2009 (SOP 2009)
- Share option plan for 2013 (SOP 2013)
- Share option plan for 2016/I (SOP 2016/I) (rescinded by resolution of the General Meeting on May 24, 2017)
- Share option plan for 2016/II (SOP 2016/II)
- Share option plan for 2017/I (SOP 2017/I)

These plans state that options to acquire ordinary shares may be granted to members of the Executive Board, directors of affiliated companies, employees of the company and employees of affiliated companies.

	SOP 2009	SOP 2013	SOP 2016/II	SOP 2017/I
Annual shareholders' meeting resolution	**June 9, 2009**	**August 20, 2013***	**May 4, 2016**	**May 24, 2017**
Term of the share option plan	3 years	3 years	3 years	2 years
Vesting period (following issue)	3 years	4 years	4 years	4 years
Exercise period (following expiry of vesting period)	5 years	5 years	5 years	3 years
Maximum subscription rights (total volume)	**290,000**	**91,000***	**520,000**	**240,000**

*Adjusted by resolution of the Annual General Meeting on May 24, 2017

Share options are exercised subject to the following conditions:

SOP 2009
The SOP 2009 share option plan has a three-year term. A maximum of 290,000 options from the total volume for the share option plan can be issued in yearly tranches to all entitled parties within this term.

160,000 subscription rights (1st tranche: 80,000, 2nd tranche: 80,000) were granted to employees, senior executives and members of the Executive Board in fiscal year 2009 and 130,000 subscription rights were granted to them in fiscal year 2010.

The exercise price is the average price for the company's shares in the XETRA trading system (or comparable successor) during the five trading days preceding the announcement of the issue amount for the subscription right, but no less than the proportionate amount of the share capital attributable to one share. The average price for the options issued on November 17, 2009 was €6.02; the price for the options issued on December 9, 2009 was €5.80 and the price for the options issued on August 25, 2010 was €7.20.

Shares acquired by exercising the options carry full voting rights and dividend entitlement.

Options can only be exercised if the exercise hurdle has been reached at least once in the six week period prior to exercise ("exercising window"). The exercise hurdle has been reached if the closing price of shares in the company in XETRA (or a comparable successor system) exceeds the exercise price by at least 30% on ten consecutive trading days.

The options may not be exercised in the three weeks prior to the announcement of the quarterly results or in the period between the fiscal year end. Options may not be exercised either in the period extending from the day on which the company publishes a share subscription offer to its shareholders or the option to purchase bonds with conversion or option rights in the electronic German Federal Gazette (Bundesanzeiger), until the date on which the company shares are once again quoted "ex subscription rights" on the Frankfurt Stock Exchange or another stock exchange (blocking periods).

The same applies even if an exercise window opens during these blocking periods. Furthermore, entitled parties must comply with the restrictions set down in general legislation such as the German Securities Trading Act (insider trading).

The maximum term (vesting period plus exercise period) for an option is eight years.

SOP 2013
The SOP 2013 share option plan has a three-year term. The option program was reduced to 91,000 options by resolution of the Annual General Meeting on May 24, 2017. The plan is divided into three groups of entitled persons:

- For members of the company's Executive Board
- For directors of affiliated companies
- For employees of the company or of affiliated companies

Subscription rights can be issued to entitled persons from the total volume every year during the term of the 2013 share option plan.

Subscription rights may be issued to entitled persons only during the period from the announcement of the previous fiscal year's results by the Executive Board to the end of the fiscal year and not before Contingent Capital 2013/1 has been entered in the commercial register.

The subscription rights may be exercised only after a vesting period. This vesting period lasts for at least four years from the time the subscription rights are granted. The rights may 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 shall be forfeited without replacement or compensation.

Subscription rights may not be exercised in the three weeks preceding the announcement of quarterly results or in the period between the end of a fiscal year and the publication of the company's consolidated financial statements. The same applies even if an exercise window opens during these blocking periods.

The exercise price for subscription rights is €15.00 per subscription right.

Subscription rights may be exercised within the exercise period only if the performance target has been achieved within a period of six weeks prior to exercise. The performance target has been achieved if the closing price of shares in the company in XETRA (or a comparable successor system on the Frankfurt Stock Exchange) meets or exceeds the exercise price of €15.00 on ten consecutive trading days.

Options are non-transferable, except in the event of the death of the entitled person.

Further details of the granting of options and further conditions for exercising them are determined by the Supervisory Board if members of the company's Executive Board are affected. If employees of the company are concerned or if options are to be granted to directors of affiliated companies, the company's Executive Board shall determine further details.

A total of 185,208 subscription rights have so far been issued to Executive Board members. These subscription rights were forfeited as a result of the Executive Board members leaving the company. A total of 118,000 subscription rights were granted to directors of affiliated companies and employees of the company and affiliated companies.

SOP 2016/II
The share option plan 2016/II was resolved at the Annual General Meeting on May 4, 2016. It provides for up to 520,000 subscription rights to be issued to members of the Executive Board, directors of affiliated companies in Germany and abroad and managers at the company by December 31, 2019. If share options are forfeit-ed because entitled persons leave the company within the authorization period, a corresponding number of share options may be issued again.

The total volume of the share options under the share option plan 2016/II breaks down across the groups of entitled persons as follows:

- Members of the company's Executive Board will receive a maximum of up to 160,000 options in total (up to around 30.8%)
- Directors of affiliated companies will receive a maximum of up to 70,000 options in total (up to around 13.5%)
- Managers at the company will receive a maximum of up to 290,000 options in total (up to around 55.7%)

Subscription rights may be issued for the first time in fiscal year 2016.

The share options may be exercised for the first time after a vesting period of four years from the respective issue date. Overall, the share options each have a term of seven years from the issue date; after this they are forfeited without replacement. After the end of the vesting period, share options may be exercised if the performance target has been achieved within a period of 30 trading days prior to exercise. The exercise price corresponds to the average closing price of the share on the 30 consecutive trading days before the respective issue date of the options plus 20%. However, the exercise price for the share options issued in fiscal years 2017 and 2018 amounts to at least €15.00. The performance target has been achieved if the closing price of the share meets or exceeds the exercise price on 30 consecu-tive trading days. The exercise price for the subscription rights is amounted to €12 per subscription right.

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

Subscription rights may be inherited but they may not be transferred or sold. They may not be pledged.

In order to service the share option plan 2016/II, the contingent capital 2016/II was created in the amount of €2,600,000.00.

A total of 282,000 share options were granted under the share option plan 2016/II in fiscal year 2016. 110,000 of these subscription rights were granted to the CFO. The value of the option issued amounted to €2.00 and was calculated using the Black-Scholes model.

A total of 67,000 share options were granted under the share option plan 2016/II in fiscal year 2017. 25,000 of these subscription rights were granted to the CFO. The value of the options issued amounted to €3.08 and was calculated using the Black-Scholes model.

The calculation was based on the following parameters: Share price on the grant day of €11.73, volatility of 39.4% and an interest rate of 0.0%. In addition, it was assumed that an annual non-exercise rate of 15% would arise.

SOP 2017/I

The share option plan 2017/I was resolved at the Annual General Meeting on May 24, 2017. It provides for up to 240,000 subscription rights to be issued to members of the Executive Board by December 31, 2019. If share options are forfeited because entitled persons leave the company within the authorization period, a corresponding number of share options may be issued again.

Subscription rights may be issued for the first time in fiscal year 2017.

The share options may be exercised for the first time after a vesting period of four years from the respective issue date. Overall, the share options each have a term of seven years from the issue date; after this they are forfeited without replacement. After the end of the vesting period, share options may be exercised if the performance target has been achieved. The performance target has been achieved if the closing price of the share in XETRA (or a comparable successor system on the Frankfurt Stock Exchange) meets or exceeds the exercise price on 30 consecutive trading days prior to exercise.

The exercise price corresponds to the average closing price of the share on the 30 consecutive trading days before the respective issue date of the options plus 20%. However, the exercise price for the share options issued in fiscal years 2017 and 2018 amounts to at least €15.00.

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

In order to service the share option plan 2017/I, the contingent capital 2017/I was created in the amount of €1,200,000.00.

A total of 80,000 share options were granted to the CEO of First Sensor AG under the share option plan 2017/I in fiscal year 2017. The value of the options issued amounted to €4.16 and was calculated using the Black-Scholes model. The calculation was based on the following parameters: Share price on the grant day of €14.14, volatility of 39.4% and an interest rate of 0.0%. In addition, it was assumed that an annual non-exercise rate of 15% would arise.

19. Sales revenues

in € thousand	2016	2017	Δ absolute	in %
DACH (Germany, Austria, Switzerland, Liechtenstein)	75,088	74,303	-785	-1.0
Rest of Europe	48,851	40,414	-8,437	-17.3
North America	11,922	17,293	5,371	45.1
Asia	13,665	14,911	1,246	9.1
Others	585	579	-6	-1.0
Total	**150,111**	**147,500**	**-2,611**	**-1.7**

Revenues mainly result from the sale of customer-specific semiconductor sensors, sensor systems and development and production services. Sales deductions of €309 thousand were granted in the year under review (previous year: €324 thousand).

20. Other operating income

Other operating income breaks down as follows:

in € thousand	2016	2017	Δ absolute	in %
Insurance claim payments	357	735	378	105.9
Income from other benefits in kind	581	678	97	16.7
Development grants	546	633	87	15.9
Proceeds from reversing provisions	761	570	-191	-25.1
Investment allowances	291	189	-102	-35.1
Prior-period income	19	227	208	1.094.7
Investment grants	100	93	-7	-7.0
Others	258	206	-52	-20.2
Total	**2,913**	**3,331**	**418**	**14.3**

21. Change in inventories

in € thousand	2016	2017	Δ absolute	in %
Unfinished goods and work in progress	-1,298	-317	981	-75.6
Finished goods	47	-1,234	-1,281	-2,725.5
Eliminating unrealized income	0	66	66	-
Total	**-1,251**	**-1,485**	**-234**	**18.7**

22. Own work capitalized

in € thousand	2016	2017	Δ absolute	in %
Capitalized development costs	1,320	1,435	115	8.7
Other capitalized costs	103	1,072	969	940.8
Total	**1,423**	**2,507**	**1,084**	**76.2**

Capitalized costs in 2017 amounted to €2,507 thousand (previous year: €1,423 thousand). Capitalized development costs pursuant to IAS 38 accounted for €1,435 thousand (previous year: €1,320 thousand) of this sum. Other capitalized costs related mainly to the expansion of the ERP system and to measures in connection with the expansion of capacities (supply of media and machines) and technology at the production site in Berlin-Oberschöneweide.

Research and development costs recognized in expenses amounted to €8,578 thousand in 2016 (previous year: €8,839 thousand).

23. Cost of materials/purchased services

The cost of materials/purchased services breaks down as follows:

in € thousand	2016	2017	Δ absolute	in %
Raw materials and supplies	65,597	60,712	-4,885	-7.4
Purchased services	6,785	8,602	1,817	26.8
Total	**72,382**	**69,314**	**-3,068**	**-4.2**

24. Personnel expenses

The personnel expenses break down as follows:

in € thousand	2016	2017	Δ absolute	in %
Wages and salaries	37,434	39,390	1,956	5.2
Social security contributions including pension plans	6,695	7,196	501	7.5
Total	**44,129**	**46,586**	**2,457**	**5.6**

Personnel expenses include €140 thousand (previous year: €102 thousand) in expenditure related to granting share options. They also include €33 thousand (previous year: €32 thousand) for defined contribution pension plans.

25. Other operating expenses

Miscellaneous other operating expenses comprise the following items:

in € thousand	2016	2017	Δ absolute	in %
Costs of premises	2,714	2,755	41	1.5
Maintenance and repairs	1,848	1,670	-178	-9.6
Sales and marketing expenses	1,617	1,636	19	1.2
Legal and consultancy fees	2,171	1,145	-1,026	-47.3
IT-costs	865	1,057	192	22.2
Vehicle costs	1,009	1,049	40	4.0
Travel expenses	869	909	40	4.6
Other operating materials	556	748	192	34.5
Goods handling costs	660	704	44	6.7
Insurance	676	665	-11	-1.6
Other expenses	608	563	-45	-7.4
Investor relations	331	421	90	27.2
Recruitment costs	462	368	-94	-20.3
General administration expenses	379	334	-45	-11.9
Work clothing and protective equipment	305	324	19	6.2
Training costs	373	315	-58	-15.5
Communication costs	277	272	-5	-1.8
R&D expenses	414	201	-213	-51.4
Communication costs	154	172	18	11.7
Annual financial statements	177	161	-16	-9.0
Supervisory Board remuneration	114	126	12	10.5
Other taxes	113	107	-6	-5.3
Other expenditures	578	613	35	6.1
Total	**17,270**	**16,316**	**-955**	**-5.5**

26. Income tax expenses

The key components of income tax expenses for fiscal years 2016 and 2017 break down as follows:

in € thousand	2016	2017	Δ absolute	in %
Current income tax	2,319	2,987	668	28,8
Prior-period income tax	-76	-146	-70	-92,1
Deferred taxes	388	-63	-451	-116,2
Displayed tax amount	**2,631**	**2,778**	**147**	**5,6**

Deferred taxes of €-63 thousand (previous year: €388 thousand) result from the reversal of temporary differences.

The reconciliation of income tax expense with the product of the reported profit for the period and the applicable Group tax rate with respect to the fiscal years 2016 and 2017 is as follows:

in € thousand	2016	2017	Δ absolute	in %
Pre-tax income	**8,728**	**7,151**	**-1,577**	**-18.1**
Tax rate	30%	30%	-	-
Calculated tax expenses/income (expenses negative, income positive)	**-2,618**	**-2,145**	**473**	**18.1**
Current income tax, prior period	76	146	70	92.1
Different tax rate in other countries	41	-260	-301	-734.1
Used, non-capitalized loss carry forwards	0	3	3	-
Tax loss carry forwards, not capitalized	-82	-312	-230	-280.5
Additional trade income tax	-73	-105	-32	-43.8
Tax-free income	13	8	-5	-38.5
Non-deductible operating expenses	-3	-28	-25	-833.3
Others	15	-85	-100	-666.7
Tax expenses	**-2,631**	**-2,778**	**-147**	**-5.6**

The deferred tax assets and deferred tax liabilities as at the balance sheet date break down as follows before offsetting:

in € thousand	Dec. 31, 2016	Dec.31, 2017	Δ absolute	in %
Loss carry forwards	290	290	-907	-75.8
Property, plant and equipment	88	88	-3	-3.3
Inventories elimination of intercompany profits	68	68	-27	-28.4
Market value of derivatives	194	194	65	50.4
Other provisions	29	29	2	7.4
Deferred tax assets	**669**	**669**	**-870**	**-56.5**

in € thousand	Dec. 31, 2016	Dec.31, 2017	Δ absolute	in %
Internally generated intangible assets	1,154	1,365	211	18.3
Property, plant and equipment	151	134	-17	-11.3
Other provisions	2	36	34	1,700.0
Acquired customer bases	3,024	2,379	-645	-21.3
Acquired brands	199	199	0	0.0
Deferred tax liabilities	**4,530**	**4,113**	**-417**	**-9.2**

Deferred taxes were offset at the level of the individual companies in the year under review, as they were last year.

Income taxes comprise the income taxes paid or payable in the respective countries as well as deferred taxes. The deferred taxes on the market values of derivatives of €16 thousand (previous year: €151 thousand) as well as on actuarial gains and losses on pension provisions of €0 thousand (previous year: €2 thousand) relate to deferred taxes recognized outside the net profit for the period.

Income taxes for 2016 and 2017 include corporation tax, trade income tax, solidarity surcharge and the corresponding foreign taxes. In the Federal Republic of Germany, corporation tax on distributed and undistributed profits is 15%. A solidarity surcharge is levied at a rate of 5.5% on the 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%.

Deferred taxes on loss carryforwards at foreign consolidated companies were not recognized for prudential reasons. The estimated tax loss carry forwards for consolidated companies in Germany do not expire and amount to €0 thousand (previous year: €1,816 thousand) with respect to corporation tax and €0 thousand (previous year: €0 thousand) with respect to trade income tax.

27. Earnings per share

In the calculation of the basic earnings per share, the earnings attributable to the bearers of ordinary shares in the parent company are divided by the weighted, average number of ordinary shares outstanding during the year.

In the calculation of the diluted earnings per share, the earnings attributable to the bearers of ordinary shares in the parent company are divided by the weighted, average number of ordinary shares outstanding during the year and by the weighted average number of ordinary shares which would result from the conversion of all potential ordinary shares with dilution effect into ordinary shares.

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

in € thousand unless othervise indicated	2016	2017	Δ absolute	in %
Net profit attributable to shareholders	5,756	4,131	1,625	28.2
Weighted average outstanding shares (undiluted)	10,172	10,211	39	0.4
Earnings per share (undiluted)	**0.57**	**0.40**	**-0.17**	**-29.8**
Dilutive effect from share options	6	49	43	716.7
Weighted average outstanding shares (diluted)	10,178	10,260	82	0.8
Earnings per share (diluted)	**0.57**	**0.40**	**-0.17**	**-29.8**

28. Notes to the cash flow statement

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 in and outflows from operating activities and items of income or expense in connection with the cash flow from investment or financing activity. 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 absolutely insignificant.

Cash and cash equivalents are defined according to the company's cash management. This includes cash and bank balances:

in € thousand	2016	2017	Δ absolute	in %
Cash on hand	6	20	14	233.3
Bank balances	23,785	25,485	1,700	10.6
Total	**23,791**	**25,505**	**1,714**	**10.5**

29. Notes to the statement of changes in equity

The company did not make any distributions in 2017 (previous year: €0 thousand).

30. 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 Executive Board is of the view 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 building leases and from allocations from defined contribution pension plans. The leases have an average term of between 3 and 20 years and, only in the case of building leases, include options to extend and a purchase option. No obligations of any kind were imposed on the lessee at the conclusion of these leases.

The resultant financial obligations break down as follows:

in € thousand	2018	2019 to 2022	From 2023
Rent and lease expenses	2,040	5,501	3,095
Purchase obligations	5,706	5	0
Long-term building lease	22	5,594	793
Total	**7,768**	**5,594**	**3,888**

The purchase obligation in 2018 relates to ordered capital assets and inventories.

Notes to the consolidated interim financial statements

31. 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 in 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.

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:

in € thousand	2016	2017	Δ absolute	in %
Industrial	72,486	75,096	2,610	3.6
Medical	30,705	27,943	-2,762	-9.0
Mobility	46,920	44,461	-2,459	-5.2
Total	**150,111**	**147,500**	**-2,611**	**-1.7**

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

Non-current assets and investments in non-current assets relate almost exclusively to Germany and only to a small degree to Europe and North America.

Non-current assets in € thousand	31.12.2016	31.12.2017	Δ absolute	in %
Germany	81,256	84,886	3,630	4.5
Europe	104	99	-5	-4.8
North America	757	365	-392	-51.8
Total	**82,117**	**85,350**	**3,233**	**3.9**

Investments in € thousand	2016	2017	Δ absolute	in %
Germany	6,026	12,950	6,924	114.9
Europe	29	43	14	48.3
North America	276	191	-85	-32.0
Total	**6,331**	**13,184**	**6,853**	**108.2**

Number of employees (FTE)	31.12.2016	31.12.2017	Δ absolute	in %
Germany	747	739	-8	-1.1
Europe	34	34	4	0.0
North America	23	25	2	8.7
Total	**804**	**798**	**6**	**-0.7**

32. Transaktionen zwischen nahe stehenden Unternehmen und Personen

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

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

Board

Dr. Dirk Rothweiler, Weimar (since January 1, 2017)
Dr. Mathias Gollwitzer, Berlin (since August 10, 2015)
Dr. Martin U. Schefter, Bonn (until June 16, 2016)

Please refer to the table below for details of remuneration paid to members of the Executive Board:

in € thousand	Dr. Martin U. Schefter		Dr. Mathias Gollwitzer		Dr. Dirk Rothweiler	
Position		**CEO**		**CFO**		**CEO**
Start of employment		**June 17, 2013**		**August 10, 2015**		**January 01, 2017**
Termination of employment		**June 16, 2016**				
	2016	2017	2016	2017	2016	2017
Fixed remuneration	138	0	300	300	0	330
Additional benefits	5	0	56	17	0	30
Total	**143**	**0**	**356**	**317**	**0**	**360**
Annual variable remuneration	95	40	39	261	0	0
Perennial variable remuneration	0	0	0	0	0	0
SOP 2016/II (ends on Dec. 31, 2019)	0	0	0	0	0	0
Severance payment	0	0	0	0	0	0
Compensation	81	61	0	0	0	0
Total	**176**	**101**	**39**	**261**	**0**	**0**
Pension expenses	0	0	0	0	0	0
Total remuneration	**319**	**141**	**395**	**578**	**0**	**360**

The following table shows the remuneration **granted** to members of the Executive Board:

in € thousand	Dr. Martin U. Schefter		Dr. Mathias Gollwitzer		Dr. Dirk Rothweiler	
Position		CEO		CFO		CEO
Start of employment		June 17, 2013		August 10, 2015		January 01, 2017
Termination of employment		June 16, 2016				
	2016	2017	2016	2017	2016	2017
Fixed remuneration	138	0	300	300	0	330
Additional benefits	5	0	56	17	0	30
Total	**143**	**0**	**356**	**317**	**0**	**360**
Annual variable remuneration	69	40	100	100	0	120
Perennial variable remuneration	0	0	0	0	0	0
SOP 2016/II (ends on Dec. 31, 2019)	0	0	220	77	0	0
SOP 2017/I (ends on Dec. 31, 2019)	0	0	0	0	0	333
Severance payment	0	0	0	0	0	0
Compensation	81	61	0	0	0	0
Total	**150**	**101**	**320**	**177**	**0**	**453**
Pension expenses	0	0	0	0	0	0
Total renumeration	**293**	**141**	**676**	**494**	**0**	**813**

The contract concluded with the CEO, Dr. Martin U. Schefter, for a period of three years began on June 17, 2013 and ended on June 16, 2016. The contract stipulates that Dr. Schefter shall receive fixed annual remuneration of €300 thousand and a variable target component of €150 thousand. In the year of his departure, these amounts were paid pro rata temporis. Furthermore, he receives compensation for a subsequent non-competition clause in the amount of €12,500 per month for a period of 12 months after the end of the employment contract. The share options granted to date were forfeited when the employment contract ended.

Dr. Mathias Gollwitzer assumed the role of CFO on August 10, 2015. He receives fixed annual remuneration of €300 thousand and a variable target component of €100 thousand. In the year under review, subscription rights were issued to him under the share option plan SOP 2016/II with a exercise price of €16.03. These came to a total of 25,000 share options valued at €3.08 each in line with the Black-Scholes model. In the event of a change of control, he is entitled to a one-off payment up to €700 thousand if he resigns within one month of the change of control. He will be subject to a non-competition clause for a period of 6 months from the end of his contract of employment for which he will receive a monthly, subsequent compensation of 50% of a twelfth of his fixed salary applicable at the time.

Dr. Dirk Rothweiler assumed the role of CEO on January 1, 2017. He receives fixed annual remuneration of €330 thousand and a variable target component of €120 thousand. In the year under review, subscription rights were issued to him under the share option plan SOP 2017/I with a exercise price of €16.37. These came to a total of 80,000 share options valued at €4.16 each in line with the Black-Scholes model. In the event of a change of control, he is entitled to a one-off payment up to €700 thousand if he resigns within one month of the change of control. He will be subject to a non-competition clause for a period of 12 months from the end of his contract of employment for which he will receive a monthly, subsequent compensation of 50% of a twelfth of his fixed salary applicable at the time.

The additional benefits under contracts of Executive Board members include cash benefits for the private use of company cars, accommodation allowances, allow-ances for trips home and relocation costs.

The variable remuneration components of Executive Board contracts are linked to the achievement of specific ratios by the company. 40% of the variable salary is dependent on quantitative targets and 60% on qualitative targets. The qualitative targets are agreed individually between each Executive Board member and the Supervisory Board.

In the year under review, variable components amounting to €301 thousand (previous year: €134 thousand) were paid out, which are reported under annual variable remuneration. Multi-annual remuneration components have been agreed under share option plans.

No remuneration was paid to former Executive Board members or directors or to their surviving dependents in the fiscal year. As of December 31, 2017, former Executive Board members had no share options.

Supervisory Board

Remuneration of the Supervisory Board is regulated by Article 13 of the Articles of Association and determined by the Annual General Meeting. In accordance with the resolution passed at the Annual General Meeting on May 23, 2014, Supervisory Board remuneration was revised. After the fiscal year has ended, 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 to €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 level in the interests of the company. The company pays the premiums for this insurance. 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 value-added tax that applies to their remuneration.

Remuneration for members of the Supervisory Board amounted to €112 thousand in fiscal year 2017 (previous year: €100 thousand). Supervisory Board members do not receive any performance-related remuneration and do not participate in the company's share option plan.

Other related parties

The director of a subsidiary leased an office property to the subsidiary at standard market conditions. He received €95 thousand (previous year: €94 thousand) for this.

No other transactions with other related parties took place in the year under review.

33. Financial risk management

Risk management for financial instruments

First Sensor sells its products and services worldwide and purchases materials on an international market, which leads to market risks owing to changes in exchange rates.

The company also finances its operations partly with bank loans, which involve interest rate risks owing to variable interest conditions. The company hedges the interest rate risk. Foreign currency risks are partly reduced by concluding forward foreign exchange contracts in connection with purchases of materials.

The company's main financial instruments comprise trade accounts receivable, cash and cash equivalents, promissory note loans, utilized overdraft facilities and money market 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.

The company has concluded interest rate swaps as well as one interest rate cap to hedge against interest rate risks from variable interest agreements.

Fair value risk

The fair value of the financial assets and financial liabilities is recognized at the amount at which the relevant instrument could be exchanged in a market transaction (excluding forced sale or liquidation) between willing parties. The methods and assumptions used to calculate fair values are as follows:

- Cash and cash equivalents and current deposits, trade accounts receivables, trade accounts payables and other current liabilities are shown at their carrying amount, owing to their short terms.
- The fair value of unquoted instruments, loans and other financial liabilities, obligations under finance leases and other non-current financial liabilities 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.

First Sensor enters into derivative financial instruments with various banks with a good credit rating. The interest rate caps and interest rate swaps are measured using a valuation tech-nique with input parameters that can be observed on the market. Among the most frequently used measurement methods are forward price and swap models using present values. The models include various variables such as the credit rating of business partners, foreign exchange spot and forward rates and yield curves. Changes to the counterparty default risk had no effects on the assessment of the hedge effectiveness and other financial instruments measured at fair value.

Fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: techniques where all input parameters which have a material effect on the recognized fair value are observable, either directly or indirectly.
- Level 3: techniques using input parameters which have a material effect on the recognized fair value and are not based on observable market data.

As at December 31, 2017, First Sensor measured specific liabilities at fair value using the level 2 valuation technique. These liabilities comprise several interest rate swaps to hedge the interest rate risk..

There were no changes in the calculation of fair value during the period under review.

Derivative financial instruments

The First Sensor Group uses interest rate hedging instruments to hedge the exposure to interest rate risk arising from variable rate liabilities and forward foreign exchange transactions to hedge exposure to currency risk. The following table shows the market values:

Interest rate hedging

in € thousand	Maturity	Hedge	Interest rate	Nominal 2016	Nominal 2017	Market value 2016	Market value 2017
Interest rate swap I (3145170UK)	Dec. 31, 2020	3M EURIBOR	3.83 %	835	626	-73	-42
Interest rate swap II (3467328UK)	Dec. 31, 2020	3M EURIBOR	2.17 %	410	308	-21	-12
Interest rate swap VI (1145807)	Dec. 21, 2020	6M EURIBOR	0.53 %	18,000	-	-408	-
Interest rate swap/interest rate cap (50W8OY5GN4FRA 2017040600000002 53109305)	Dec. 21, 2022	6M EURIBOR + cap	0.27 %	-	18,000		27
				19,245	**18,934**	**-502**	**-81**

Two interest rate swaps were intended to hedge cash flow and were classified as effective.

Foreign exchange hedges in 2016

in € thousand	Maturity	Buying currency	Nominal purchase	Selling currency	Nominal sold	Traded exchange rate	Market value
FX Option (European)	Dec. 27, 2017	USD	3,000	EUR	2,671	1,12300	-108
FX Option (European)	March 29, 2017	USD	750	EUR	674	1,11200	-37
			3,750		**3,345**		**-145**

Hedging instruments

The foreign exchange hedges ended in 2017 and no new contracts were entered into.

The stated fair values are based on the market values of equivalent financial instruments as at the balance sheet date (level 2 in the fair value hierarchy).

Currency sensitivity

The domestic subsidiaries usually have trade business in euro. Only a small amount of trade accounts receivables and trade accounts payables were nominated in foreign currencies. Appreciation or depreciation of the euro by 10% compared with the major currencies would have a maximum impact on the profit of €0.4 million (previous year: €0.3 million).

Appreciation or depreciation of the euro by 10% compared with the relevant currencies would decrease or increase the exchange equalization item in equity by a maximum of €0.4 million (previous year: €0.4 million) because financial statements of subsidiaries denominated in foreign currencies are converted using the modified reporting date method.

Interest rate sensitivity

The risk of market interest rate fluctuations to which the Group is exposed results from interest-bearing cash investments and from floating- rate liabilities that are not hedged against interest rate risks with interest rate hedging instruments.

Since the vast majority of First Sensor's floatingrate liabilities are hedged against interest rate risks via interest rate caps and interest rate swaps, the Group is only exposed to interest rate risk to a minor degree. 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). Direct effects on equity from interest rate hedging instruments used in hedge accounting would amount to approximately €+/-0.1 million if the interest rate were to increase by 15 basis points or were to decrease by 10 basis points.

Liquidity risk

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, other financial assets) together with expected cash flow from business activities.

As at December 31, 2017, the Group's financial liabilities show the following maturities. All data are based on contractual, non-discounted payment obligations.

in € thousand	Due within 1 year	Due between 1 to 5 years	Due in over 5 years	Dec. 31, 2017 Total
Interest-bearing loans	16,115	32,184	0	48,299
Trade accounts payables	7,885	0	0	7,885
Other liabilities	10,692	0	0	10,692
Total	**34,692**	**32,184**	**0**	**66,876**

in € thousand	Due within 1 year	Due between 1 to 5 years	Due in over 5 years	Dec. 31, 2016 Total
Interest-bearing loans	4,640	40,599	3,000	48,239
Trade accounts payables	8,611	0	0	8,611
Other liabilities	7,855	0	0	7,855
Total	**21,106**	**40,599**	**3,000**	**64,705**

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 uses the equity ratio to monitor its capital:

in € thousand unless otherwise indicated	31.12.2016	31.12.2017	Δ absolute	in %
Shareholders' equity	77,465	81,899	4,434	5.7
Total assets	154,041	159,577	5,536	3.6
Equity ratio in %	50.3	51.3	1.0	2.0

The company fulfilled the key ratios (covenants) required under loan agreements in the year under review.

34. Further notes in line with HGB regulations

The following notes contain additional information constituting mandatory components of the Notes to the Financial Statement as defined in the German Commercial Code (HGB).

Board

Name	Position on the Board
Dr. Dirk Rothweiler	CEO (since January 1, 2017)
Dr. Mathias Gollwitzer	CFO (since August 10, 2015)

As CEO, Dr. Dirk Rothweiler is responsible for business policy guidelines, company law, corporate strategy, corporate communication, management development, M&A, investments, subsidiaries, sales and marketing, research and development, product development, production, market analysis and market development, and shareholder and investor support as well as Supervisory Board concerns.

Dr. Mathias Gollwitzer is appointed Chief Financial Officer. He is responsible for finance, investor relations, planning, controlling, reporting, human resources, law, IT, purchasing, Group risk management, internal control and compliance.

Supervisory Board

Name/ job title	Position on the Board	Membership of statutory supervisory boards	Membership of comparable domestic or foreign supervisory committees
Prof. Dr. Alfred Gossner Board to the Fraunhofer Zukunftsstiftung, Munich	Chairman of the Supervisory Board since September 11, 2012	Bayern Innovativ GmbH, Nürnberg	DPE Deutsche Private Equity GmbH (member of advisory board)
Götz Gollan Board to the equinet Bank AG, Frankfurt am Main	Deputy Chairman of the Supervisory Board since September 11, 2012 (member since June 7, 2010)	None	None
Marc de Jong CEO LM Wind Power A/S, Kolding, Denmark CEO InnoMarket B.V. Eindhoven, Netherlands	Member of the Supervisory Board since May 23, 2014	None	Technical University Eindhoven, The Netherlands (Member of the Supervisory Board)
Prof. Dr. Christoph Kutter Director to the Fraunhofer EMFT, Munich	Member of the Supervisory Board since May 24, 2017	keine	VDI/VDE Innovation+Technik GmbH, Berlin (Member of the Supervisory Board)

Notes to the consolidated interim financial statements

Disclosure in accordance with Article 160 (1) 8 AktG

According to the voting rights notifications submitted to us, the following individuals/companies held more than 3% of the shares in First Sensor AG as at December 31, 2017. This information may 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:

Individual/ company	Domicile	Date of notification	Date of threshold touched	Date of publication	Threshold value reached exceeded or fallen below	Percentage of shares at time of notification		Allocation according to
						%	voting rights	
ING Groep N.V.	Amsterdam, The Netherlands	Nov. 06, 2015	Nov. 05, 2015	Nov. 09, 2015	3%, 5%, 10%, 15 %, 20 %, 25% and 30% exceeded	36.02	3,659,419	Article 34 paragraph 1 sentence 1 no. 1 WpHG
Total voting power were attributable to ING Groep N. V.: The attributable voting power will be held by the following companies, controlled by **ING Groep N.V.** each of which has a share of the voting rights of First Sensor AG, Berlin, Germany, of 3% or more: - NN Insurance Eurasia N.V. - Nationale Nederlanden Nederland B.V. - Nationale Nederlanden Levensverzekering Maatschappij N.V. - Parcom Capital B.V. - Parcom Deutschland I GmbH & Co KG - FS Technology Holding S.à.r.l. The same voting rights are also attributable to the following companies: **DPE Deutsche Private Equity B.V.,** Schiphol Airport, The Netherlands The attributable voting rights are held by the following companies controlled by **DPE Deutsche Private Equity B.V.**, each of which has a share of the voting rights of First Sensor AG, Berlin, Germany, of 3% or more: - DPE Deutsche Private Equity GmbH - Deutsche Private Equity Administration GmbH - Parcom Capital B.V. - Parcom Deutschland I GmbH & Co. KG - FS Technology Holding S.à.r.l.								
Midlin N.V.	Maarsbergen, The Netherlands	Mar. 21, 2016	Mar. 21, 2016	Mar. 24, 2016	5% exceeded	5.03	511,548	Article 33 paragraph 1 WpHG

Employees

The average number of employees is stated as full-time equivalents (FTE):

Average full time equivalents	2016	2017	Δ absolut	in %
Germany	735	729	39	-0.8
Europe	33	34	3	3.0
North America	23	24	1	4.3
Others	0	0	0	0
Total	**791**	**787**	**-4**	**-0.5**

Additionally the average number of apprentices was 31 (previous year: 29).

Fees of the auditor

in € thousand	2017
Annual audit	136
Other advisory services	10
Total	**146**

The audit fees for the financial statements comprise the audit of First Sensor AG's separate financial statements pursuant to HGB, First Sensor's consolidated financial statements pursuant to IFRS and the financial statements of major subsidiaries of First Sensor pursuant to 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 pursuant to section 264 (3) HGB

The following domestic subsidiaries with the legal status of a limited liability corporation have met the conditions for claiming exemption under section 264 (3) of the German Commercial Code (HGB) and have thus exercised the option not to publish annual financial statements:

- First Sensor Lewicki GmbH, Oberdischingen
- First Sensor Microelectronic Packaging GmbH, Dresden

Payout block

Internally created intangible assets in the amount of €2,375 thousand (previous year: €2,137 thousand) were reported in the balance sheet of the individual financial statements of First Sensor AG. There were also deferred taxes of €736 thousand (previous year: €332 thousand). This led to €1,639 thousand (previous year: €1,805 thousand) that is subject to the payout block.

The difference between the recognition of pension liabilities with an average market interest rate of the last ten years (3.68%) and the last seven years (2.8%) is €15 thousand (previous year: €13 thousand) and is also subject to the payout block in accordance with section 253 (6) sentence 2 HGB.

35. Corporate Governance

The company has issued a declaration of compliance pursuant to section 161 AktG (German Stock Corporation Act) and this is permanently available on the company's website.

36. Supplementary report

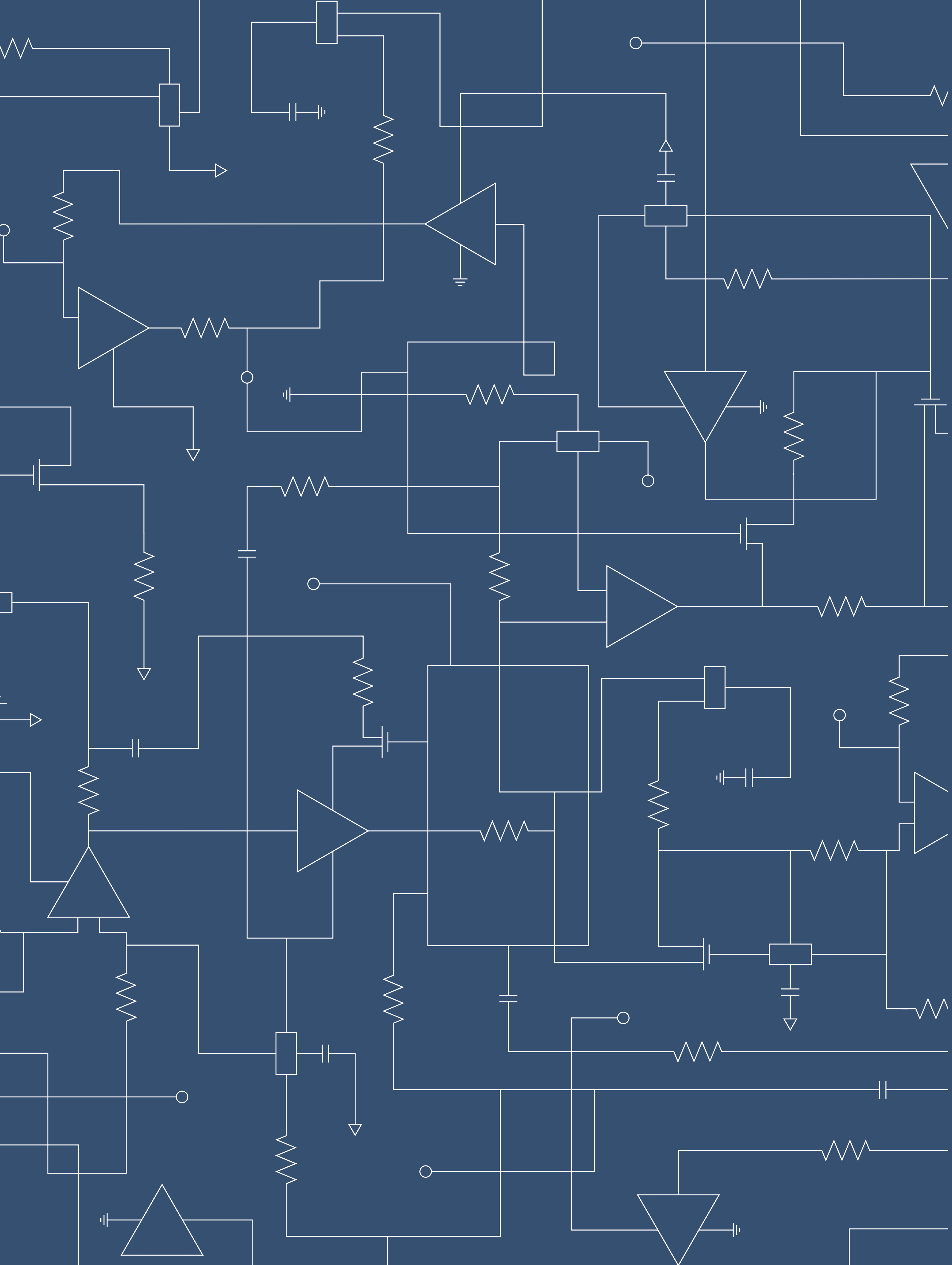
The company is not aware of other key events following the end of the fiscal year, which will affect the net assets, financial position and results of operations.

Berlin, March 15, 2018

First Sensor AG

Dr. Dirk Rothweiler
CEO

Dr. Mathias Gollwitzer
CFO



6 Further information

6 Further information

Audit opinion

Audit opinion of the consolidated financial statements and the combined management report

We have audited the consolidated financial statements of First Sensor AG, Berlin and its subsidiaries – consisting of the consolidated balance sheet as at December 31, 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the fiscal year from January 1 to December 31, 2017 and the notes, including a summary of significant accounting policies.

Furthermore, we have audited the combined management report summarized in the management re-port (subsequently: combined management report) of First Sensor AG, Berlin for the fiscal year from January 1 to December 31, 2017. The non-financial Group declaration included in the company's Annu-al Report, to which reference is made in the combined management report was not audited in terms of its content in line with German legal regulations. We have not audited the non-financial Group declara-tion included in the company's Annual Report, to which reference is made in the combined manage-ment report in terms of its content in line with German legal regulations.

In our opinion based on the findings of our audit,

- the accompanying consolidated financial statements conform in all material respects with regulations of the International Financial Reporting Standards (IFRS), as applicable in the EU, and the additional German legal regulations to be applied in accordance with section 315 e (1) of the Handelsgesetzbuch (HGB – German Commercial Code) and give a fair view of the asset and financial situation of the Group as at December 31, 2017 and its earning situation for the fiscal year from January 1 to December 31, 2017 and
- the accompanying combined management report conveys a true and fair view of the compa-ny's and the Group's situation. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with the German legal regula-tions and accurately presents the opportunities and risks of the future development. Our audit opinion on the combined management report does not apply to the content of the non-financial Group declaration included in the company's Annual Report and the Group declara-tion of business management published on the company's website each of which is referred to in the combined management report.

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

Basis for the audit opinion

We have carried out our audit of the consolidated financial statements and the combined management report in accordance with section 317 of German Commercial Code (HGB) and the EU directive on spe-cific requirements regarding statutory audit of public-interest entities (No. 537/2014; referred to be-low as "EU Regulation No. 537/2014"), taking into account the principles of proper accounting estab-lished by the German Institute of Accountants (IDW). In accordance with these regulations and princi-ples our responsibility is described in the "Responsibility of the auditor for the audit of the consolidated financial statements and the combined management report" section of our audit opinion. We are inde-pendent from the consolidated companies in accordance with the European and German regulations on commercial and professional law and have met our other German professional obligations in ac-cordance with these requirements. Furthermore, in accordance with Article 10 (2) f EU Regulation No. 537/2014, we declare that have not carried out any prohibited non-audit services in accordance with Article 5 (1) EU Regulation No. 537/2014. We believe that that the audit evidence we have obtained is sufficient and appropriate to serve as a basis for our audit opinion on the consolidated financial state-ments and the combined management report.

Particularly key audit matters for the audit of the consolidated financial statements

In particular, key audit matters are such matters which were most significant at our due discretion in our audit of the consolidated financial statements for the fiscal year from from January 1 to December 31, 2017. These matters have been taken into account in connection with our audit of the consolidated financial statements as a whole and for forming our audit opinion; we do not provide a separate audit opinion on these matters.

We present what we consider to be the most important audit matter, the goodwill for impairment be-low:

a. The risk for the financial statements

   ZAs at the balance sheet date, the consolidated balance sheet reports six goodwill items with a carrying amount of €29.8 million. This corresponds to around 18.7% of total assets.

   The company's disclosures on goodwill are included in the following sections of the notes of the consolidated financial statements: "2. Principles of consolidation", sub-section "Intangible as-sets/ (b) Goodwill" and "5. Goodwill".

   In accordance with IAS 36.90, cash generating units, to which goodwill has been assigned, are subject to an impairment test at least once a year.

   As part of this test, the company uses complex valuation models which are based on forecasts of the future development of the respective operating business and the resulting payment flows. The result of the impairment test is therefore largely subject to the influence of estimat-ed values. As a result, we consider that these matters were of particular importance during our audit.

b. Processes and conclusions of the audit

   IAs part of our audit, we performed plausibility checks on the planning underlying the impair-ment tests of all significant goodwill. In doing so, we also assessed these for potentially one-sided exercise of discretion.

   In addition to a plausibility check of underlying planning, we assessed the reliability of the fore-casts by comparing it to last year's forecasts and the realized actual figures.

   In doing so, we paid particular attention to such material goodwill where the recoverable amount of the cash generating unit is only slightly above the carrying amount.

   Furthermore, we examined the calculation methods used for their methodologically correct application, derivation of discount rates and, in random samples, the mathematical correctness.

   The assumptions and discretionary decisions of the legal representatives which the impairment test of goodwill is based on are within acceptable limits and are balanced overall.

Other information

The legal representatives are responsible for other information. Other information consists of:

- The Group non-financial declaration included in the company's Annual Report,
- The Group declaration of business management published on the company's website, to which reference is made in the combined management report,
- The other parts of the Annual Report, not including the audited consolidated financial state-ments and combined management report and our audit opinion,
- The Corporate Governance Report under No. 3.10 of the German Corporate Governance Co-dex and
- the statement in accordance with section 297 (2) sentence 4 HGB on the consolidated finan-cial statements and the statement in accordance with section 315 (1) sentence 5 HGB on the combined management report.

Our audit opinion on the consolidated financial statements and on the combined management report do not apply to the other information and accordingly, we provide neither an audit opinion nor any an-other form of audit conclusion for this.

In connection with our audit, we have the responsibility to read the other information and in doing so, assess whether the other information

- has significant discrepancies to the consolidated financial statements, combined management report or our figures obtained in the audit or
- appear otherwise significantly misrepresented.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the combined management report

DThe legal representatives are responsible for the preparation of the consolidated financial statements, which comply with the regulations of the International Financial Reporting Standards (IFRS), as applica-ble in the EU, and the additional regulations in accordance with section 315 e (1) HGB, and the German legal regulations in all material respects, and that the consolidated financial statements give a fair view of the asset, financial and earning situation of the Group in accordance with the above regulations. In addition, the legal representatives are responsible for internal controls, which they have determined as necessary, to enable the preparation of consolidated financial statements that are free from signifi-cant– intended or unintended – material misstatements.

In the preparation of the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also are responsible for disclosing matters, if relevant, in connection to the continuation of the Group as a going concern. Furthermore, they are responsible for preparing the accounts on the basis of the continuation of the Group as a going concern, unless there is the intention to liquidate the Group or discontinue business operations or there is no realistic alternative.

The legal representatives are also responsible for preparing the combined management report, which overall gives a fair view of the Group's situation, and, in all material respects, is in accordance with the consolidated financial statements, complies with German legal regulations and accurately represents the opportunities and risks of the future development. In addition, the legal representatives are re-sponsible for the precautions and measures (systems), which they considered necessary to enable the preparation of a combined management report in accordance with applicable German legal regulations and for providing sufficient suitable evidence for the statements in the combined management report.

The Supervisory Board is responsible for monitoring the Group's accounting processes for preparing the consolidated financial statements and the combined management report,

Responsibility of the auditor 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 are free as a whole from significant – intended or unintended – material misstatements, and whether the combined management report gives a fair view of the Group's situation overall and is in accordance with the consolidated financial statements in all material respects and with the knowledge gained dur-ing the audit, complies with German legal regulations and accurately presents the opportunities and risks of the development and to issue an audit report which includes our audit opinions on the consoli-dated financial statements and the combined management report.

Reasonable assurance is a high degree of assurance but is no guarantee that an audit conducted in ac-cordance with section 317 HGB and the EU Regulation No. 537/2014 taking into account the principles of proper accounting established by the German Institute of Accountants (IDW) always detects a signifi-cant material misstatement. Misrepresentations can result from infringements and misstatements and are considered as significant if they could reasonably be expected to influence, individually or collec-tively, the economic decisions of addressees on the basis of these consolidated financial statements and combined management report.

During the audit, we exercise due discretion and maintain a critical attitude. Furthermore,

- we identify and assess the risks of material misstatement – intended or unintended – in the consolidated financial statements and in the combined management report, planning and per-forming audit activities as a reaction to these risks and obtaining audit evidence that is suffi-cient and appropriate to serve as the basis for our audit opinion. The risk that material mis-statements will not be detected is higher with infringements than with misstatements as in-fringements may include fraudulent conduct, forgery, intentional incompleteness, misrepre-sentations or overriding internal controls.
- We gain an understanding of the internal control system relevant for the audit of the consoli-dated financial statements and the precautions and measures relevant for the audit of the combined management report to plan the audit activities which are appropriate under the given circumstances, but not with the aim of providing an audit opinion on the effectiveness of these systems.
- We assess the adequacy of the accounting policies used by the legal representatives and the reasonableness of the values estimated by the legal representatives and the related disclo-sures.
- We draw conclusions on the adequacy of the reporting principles used by the legal represent-atives for the continuation of the Group as a going concern, and, on the basis of the audit evi-dence obtained, whether there is material uncertainty relating to events or conditions, which may raise significant doubts on the Group's ability to continue as a going concern. If we come to the conclusion that there is significant uncertainty, we are obligated to draw attention in the audit opinion to the related disclosures of the consolidated financial statements and the com-bined management report, or, if these discloses are inadequate, to modify our respective au-dit opinion. We draw our conclusions based on the audit evidence obtained up until the date of our audit opinion. However, future events or conditions may result in the Group being una-ble to continue as a going concern.
- We assess the overall presentation, the preparation and the contents of the consolidated fi-nancial statements, including the disclosures and whether the consolidated financial state-ments represent the underlying transactions and events in a way that the consolidated finan-cial statements are prepared in compliance with the regulations of the International Financial Reporting Standards (IFRS), as applicable in the EU, and the additional regulations in accord-ance with section 315 e (1) HGB, and the German legal regulations in all material respects, and that the consolidated financial statements give a fair view of the asset, financial and earning situation of the Group in accordance with the above regulations.
- We obtain sufficient appropriate audit evidence for the accounting information of the compa-ny or business activities within the Group to provide an audit opinion on the consolidated fi-nancial statements and the combined management report. We are responsible for directing, monitoring and implementing the audit of the consolidated financial statements. We take sole responsibility for our audit opinion.
- We assess the consistency of the combined management report with the consolidated finan-cial statements, its compliance with legislation and the view it conveys regarding the Group's situation.
- We perform audit activities on the forward-looking statements presented by the legal repre-sentatives in the combined management report. On the basis of sufficient, suitable audit evi-dence, we have monitored the important assumptions on which the forward-looking state-ments are based and assess the proper derivation of the forward-looking statements from these assumptions. We do not provide an independent audit opinion on the forward-looking statements or on the underlying assumptions. There is a significant, unavoidable risk that fu-ture events will significantly differ from forward-looking statements.

Our discussions with those responsible for monitoring include the planned scope and timing of the au-dit and significant audit findings, including any deficiencies in the internal control system that we identi-fy during our audit.

We provide those responsible for monitoring with a statement that we have complied with the relevant independence requirements and discuss all relationships and other matters with them that may rea-sonably be expected to have an impact on our independence and the protective measures adopted.

From the matters which we have discussed with those responsible for monitoring, we determine those matters which were most important during the audit of the consolidated financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in the audit opinion, unless laws or other legislations exclude public disclosure of the facts.

Other legal requirements

Other disclosures in accordance with Article 10 EU Regulation No. 537/2014

We were elected as the auditor of the consolidated financial statements by the Annual General Meet-ing on May 24, 2017. Following the Annual General Meeting, we were appointed by the Supervisory Board. Since fiscal 2013, we have been continuously engaged as the auditors of the consolidated finan-cial statements of First Sensor AG, Berlin.

We declare that the audit opinions included in this audit opinion are consistent with the additional re-port to the Supervisory Board in accordance with Article 11 EU Regulation No. 537/2014 (audit report).

Responsible auditor

The auditor responsible for the audit is Mr. Hans-Peter Möller.

Hanover, March 15, 2018

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Christian Fröhlich
Auditor

Hans-Peter Möller
Auditor

Statement by the legal representatives (responsibility statement) in accordance with §§ 297 Abs. 2 S. 4, 315 Abs. 1 S. 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, financial position and profit or loss of the group, and the group management report 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, March 15, 2018

First Sensor AG

Dr. Dirk Rothweiler
CEO

Dr. Mathias Gollwitzer
CFO

Legal notice, financial calendar 2018 and Contact

Legal disclaimer

This report contains statements of a predictive nature and does not represent any incitement to purchase shares of First Sensor AG, but rather is intended exclusively for information purposes with regard to possible future developments at the company. All future-oriented specifications in this consolidated financial report were produced on the basis of a propability-based plan and represent statements regarding the future which-cannot be guaranteed.

Financial calendar 2018

Date	Topic	Location
March 22, 2018	Publication of consolidated financial report 2017	
March 22, 2018	Annual press conference 2017	First Sensor AG, Peter-Behrens-Str. 15, 12459 Berlin
March 22, 2018	Capital Market Day	First Sensor AG, Peter-Behrens-Str. 15, 12459 Berlin
May 14, 2018	Q1, Interim Report	
May 15, 2018	German Spring Conference 2018	Marriott Hotel, Frankfurt am Main
May 23, 2018	Annual General Meeting	Penta Hotel, Grünauer Str. 1, 12557 Berlin
August 13, 2018	6-Month Financial Report	
November 12, 2018	Q3, Interim Report	
November 28, 2018	German Equity Forum 2018 (Analysts Conference)	Sheraton Frankfurt Airport Hotel & Conference Center, Frankfurt am Main

As we cannot rule out the possibility of delays, we recommend that you consult the latest set of dates at **www.first-sensor.com** in the section Investor Relations, Financial Calender.

Contact

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This consolidated financial report as at December 31, 2017 is available in German and English.
Both versions are also available for download on the internet at **www.first-sensor.com**, section Investor Realations.