

# Management

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Hans Dieter Schumacher  
Chief Financial Officer



Dr. Stefan Traeger  
President & CEO

*Dear shareholders,  
dear clients, partners, and friends of our company,*

We ended the 2017 fiscal year with new record figures and have grown steadily with revenue increasing by 9.2 percent to 747.9 million euros. Our profitability improved more strongly than the revenue. We achieved an EBIT of 77.8 million euros, corresponding to an EBIT margin of 10.4 percent. There was tailwind from our major sectors, especially the semiconductor equipment industry. Regionally, our business experienced particularly strong development in the USA during 2017. Here, the new technology campus in Rochester Hills and the acquisition of the automation specialist Five Lakes Automation in 2017 have enabled us to set important cornerstones for our further growth as a partner to the US automotive industry. We also recorded growth in our order intake, to 802.9 million euros. We can look back on a strong 4th quarter in 2017 and also see a continuing positive market development in the first months of the current fiscal year.

Our solid financial resources, which we have continued to strengthen in 2017, also make us feel positive for the future. The free cash flow remained at a good level of 72.2 million euros, despite significantly higher investments. Our equity and cash increased as well.

In the second half of 2017, we, as the new Jenoptik Executive Board team, concentrated on determining the right track for our company towards a successful future. Following in-depth analyses and numerous discussions, we have further developed our strategic orientation, presenting it at the beginning of February. At the moment Jenoptik is still facing global challenges with highly fragmented structures and different cultures within our company. Consequently, we are accelerating Jenoptik's development from a diversified industrial conglomerate into a focused technology company. The focus on photonic technologies will be a central aspect of Jenoptik's strategy for the next five years.

We will concentrate on what we do best. By focusing on "More Light" as our motto, we want to turn Jenoptik into a global photonics company. Among the areas of application that will be of particular interest to us in the future are information processing, biophotonics, smart manufacturing, as well as sensing and metrology. We will operate our mechatronics business under a new independent brand that better reflects specific market and customer needs.

In 2018 we will push ahead with the necessary adjustments which we have already defined. Several projects have already started in the first weeks of the current fiscal year. These include preparations for our new organizational structure, the development of the strategic alignment of the divisions, the reorganization of our Asian business, and the development of the new brand for our mechatronic business.

These and other initiatives relating to our three strategic pillars – "More Focus", "More Innovation", and "More International" – will open up new growth opportunities in the medium-term. This should accelerate our revenue growth, which we expect to be in the mid to high single-digit percentage range on average per year by 2022. We will also ensure that profitability continues to increase.

For 2018, we are planning an EBIT margin of between 10.5 and 11.0 percent with revenue of between 790 and 810 million euros. Tailwind continues to come from the semiconductor equipment industry, but also from optical information and communication technology as well as individual major orders acquired in prior years that are now contributing to revenue and earnings.

Overall, we see a very positive development according to current assessments. Financially and strategically, we have laid the foundation required to move Jenoptik to the next level. We thank you for your trust in our company, which has also been reflected in the share price in recent months. We will work together with you to continue the successful development of your Jenoptik in 2018.



Dr. Stefan Traeger  
President & CEO



Hans-Dieter Schumacher  
Chief Financial Officer

### Dr. Stefan Traeger

President and CEO

Dr. Stefan Traeger has been the Chairman of the Executive Board of JENOPTIK AG since May 1, 2017. He is responsible for the divisions (operational business) and the regions as well as for the areas of Corporate Development (Strategy, Mergers & Acquisitions, Innovation), Corporate Communication, Investor Relations, Legal, Compliance & Risk, ESG (Environment, Social, Governance) & CSR (Corporate Social Responsibility) and, as Human Resources Director, for HR.

### Hans-Dieter Schumacher

Chief Financial Officer

Hans-Dieter Schumacher has been Chief Financial Officer (CFO) of JENOPTIK AG since April 1, 2015. He is responsible for the areas of Finance & Controlling (Corporate & Divisional), General Procurement, Treasury, Tax, Real Estate, IT & Data Security as well as Internal Audit.

## Supervisory Board Report

*Honored Shareholders,*

The Jenoptik Group continued to see a successful development in the 2017 fiscal year: group revenue increased 9.2 percent and earnings improved significantly. A sharp rise of 9.4 was also seen in our order intake. Apart from the overall economic situation, this success was mostly due to strong demand from the semiconductor industry and, on a regional level, to good growth in the US. To achieve this, the Supervisory Board closely supported and advised the Executive Board. Together we discussed in detail the future strategic orientation of Jenoptik and look confidently to the Group's development focusing more strongly on photonic technologies.

In the year covered by the report, the Supervisory Board stringently fulfilled its duties as stipulated by law, the Articles of Association, the German Corporate Governance Code and the Rules of Procedure. It regularly advised the Executive Board on the management of the company and continually monitored its activities. The Executive Board intensively involved the Supervisory Board in all decisions of fundamental importance to the company at an early stage. The Supervisory Board was also regularly presented with comprehensive information by the Executive Board, both verbally and in written form, on issues pertaining to corporate planning, on business development and profitability trends, on matters involving risk and risk management, on compliance issues and on the general economic position of the company. One key area of focus in the past fiscal year involved the ongoing evolution of the corporate strategy, which the Executive Board dealt with in detail together with the Supervisory Board on a separate strategy day and at the year-end meeting.

Business events of importance to Jenoptik were presented and discussed in detail in both the committees and the meetings of the Supervisory Board based on reports submitted by the Executive Board. The members of the Supervisory Board fully engaged with the submitted reports and were entitled to put forward their own proposals and suggestions at any time. When convening to discuss topics of particular importance to the Jenoptik Group, the shareholder and employee representatives separately prepared for the meetings.

On occasions where, in accordance with the provisions of the German Stock Corporation Act (Aktien-gesetz [AktG]), the Articles of Association or the Rules of Procedure, the Executive Board required the agreement of the Supervisory Board before undertaking certain actions, approval was granted after thorough examination and consultation. In the event that the business development deviated from the established plans, the Executive Board notified the Supervisory Board of this, explaining the reasons in detail. The Executive Board completely fulfilled its reporting obligations as stipulated in §90 of the German Stock Corporation Act and the German Corporate Governance Code.

The Supervisory Board convened six regular meetings and one extraordinary meeting during the reporting year. The extraordinary meeting was held as a mixture of a telephone and in-person meeting. In two instances, decisions were made through the exchange of written correspondence. No active members of the Supervisory Board, the Audit Committee or the Personnel Committee attended half or fewer than half of the meetings in 2017. One member of the Nomination Committee attended only one of its two meetings. Detailed information on members' attendance at meetings can be found in the chart below.

The Executive Board and Supervisory Board always cooperated in an open and trusting atmosphere. The Chairman of the Supervisory Board and the Chairman of the Audit Committee also maintained regular contact with the Executive Board in between the meetings of the Supervisory Board and the committees. The Chairman of the Supervisory Board consulted with the Executive Board on current business developments, in particular, but also on the company's planning, risk position, risk management, compliance issues and, as a matter of priority in the past fiscal year, the further development of the Jenoptik Group's corporate strategy. The Chairman of the Supervisory Board was also informed by the Executive Board without delay, either verbally or in writing, about important issues of key relevance to the assessment of Jenoptik's position, development, and management, and notified the Supervisory Board of these issues in good time or at the latest by the date of the next meeting. Between the meetings, all members of the Supervisory Board received regular monthly reports on the company's current business and financial situation.

## Particular Subjects Discussed by the Supervisory Board

**At all its regular meetings**, the Supervisory Board dealt with the detailed reports of the Executive Board on the progress of business, particularly with regard to the current development of revenue and earnings, the position of the company, and the financial and risk situations. This included a comprehensive examination and discussion of the corresponding quarterly and monthly reports. The Supervisory Board was regularly updated on the status of current M&A projects by the Executive Board.

In **written correspondence in February 2017**, the Supervisory Board approved the Corporate Governance Statement and the Corporate Governance Report, and passed its report to the 2017 Annual General Meeting.

The focus of the **financial statements meeting on March 21, 2017** was the audit of JENOPTIK AG's Annual Financial Statements, the Consolidated Financial Statements and the Combined Management Reports for JENOPTIK AG and the Group for the prior fiscal year 2016. Representatives of the auditor reported on the results of the audit. After a thorough review, and on the recommendation of the Audit Committee, the Supervisory Board approved the Annual Financial Statements and the Consolidated Financial Statements. The Annual Financial Statements were thus adopted. Following in-depth discussions, it also approved the Executive Board's proposal for the appropriation of profits, providing for an increased dividend of 0.25 euros per qualifying no-par value share. Other key topics included the approval of the agenda for the Annual General Meeting on June 7, 2017, with extensive discussion of the shareholder representatives' proposed candidates for election to the Supervisory Board by the Annual General Meeting. The Supervisory Board scrutinized the Nomination Committee's proposals, taking into account its existing competence and requirements profile. The Supervisory Board also agreed the settlement of the 2016 target agreements for the members of the Executive Board and approved the new target agreement for the Chief Financial Officer in the 2017 fiscal year. Dr. Stefan Traeger was appointed Chairman of the Executive Board earlier than scheduled with effect from May 1, 2017 and the settlement of an agreement with Dr. Michael Mertin on the details of his departure as Chairman of the Executive Board was approved.

The **extraordinary meeting on April 21, 2017** was dedicated entirely to allowing Ms. Elke Eckstein to introduce herself as the shareholder representatives' candidate for election to the Supervisory Board by the Annual General Meeting.

In addition to recurring topics, the Supervisory Board also used its **meeting** prior to the Annual General Meeting **on June 6, 2017** to discuss the changes to the German Corporate Governance Code adopted on February 7, 2017. The Supervisory Board again set a gender equality target for the Executive Board, which applies until June 30, 2020. It also agreed to allow an external evaluation of its own efficiency in the current year.

At the **inaugural meeting on June 7, 2017**, directly following the Annual General Meeting, I, Matthias Wierlacher, was elected Chairman of the Supervisory Board; Mr. Michael Ebenau was elected my deputy. There were also changes on the committees: Mr. Heinrich Reimitz was re-elected Chairman of the Audit Committee, Ms. Doreen Nowotne his deputy. I, in turn, chair the Personnel, Mediation and Nomination Committees.

The meeting on **September 14, 2017** was held at the home of the Microoptics business unit in Dresden. Following a tour of the premises, the Supervisory Board discussed the latest Group Risk and Opportunity Report with the Executive Board in addition to the regular submissions. The Supervisory Board extended the tenure of Chief Financial Officer Mr. Hans-Dieter Schumacher earlier than scheduled by a further five years to March 31, 2023 and approved a new service contract for this period of time. The Executive Board informed the members of the Supervisory Board regarding the start of a project to further develop the corporate strategy and the completed acquisition of shares in Five Lakes Automation, LLC, based in Novi, Michigan, US. The Supervisory Board adopted a new schedule of responsibilities for the Executive Board, reviewed compliance with the recommendations of the German Corporate Governance Code in the form of a checklist and updated its declaration of conformity of December 14, 2016 during the year. The Supervisory Board also discussed two offers to complete an external review of its own efficiency. It then entrusted the Audit Committee to prepare its review of the separate non-financial report by the Supervisory Board and to call on outside assistance wherever necessary.

## T01 Participation of the individual Supervisory Board members in meetings

|  | Astrid Biesterfeldt    | Evert Dudok | Michael Ebenau | Elke Eckstein<br>(since 7/6/2017) | Brigitte Ederer<br>(until 7/6/2017) | Thomas Klippstein | Dörthe Knips<br>(since 7/6/2017) |
|--|------------------------|-------------|----------------|-----------------------------------|-------------------------------------|-------------------|----------------------------------|
| 7 Supervisory Board Meetings<br>(of which one mixed meeting)           | ●●●●●●●                | ●●●●●<br>○  | ●●●●●<br>○     | ●●●●                              | ●●<br>○                             | ●●●●●●●           | ●●●●                             |
| 5 meetings of the Audit Committee<br>(of which 1 by phone)             | ●●<br>(since 7/6/2017) | –           | –              | –                                 | –                                   | ●●●●●             | –                                |
| 3 meetings of the Personnel Committee<br>(of which two mixed meetings) | –                      | –           | ●●●            | –                                 | –                                   | ●●●               | –                                |
| 2 meetings of the Nomination Committee<br>(of which one by phone)      | –                      | –           | –              | –                                 | –                                   | –                 | –                                |



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One of the Supervisory Board’s priorities in the final quarter of the fiscal year was a discussion of the group strategy presented by the Executive Board. To this end, it engaged in detailed discussion of the group project to further develop the Jenoptik corporate strategy and the segments’ strategies and strategic projects with the Executive Board, the members of the Executive Management Board and the Head of Strategy at a separate **strategy day on November 6, 2017**.

At the final **meeting** in the year covered by the report on **December 6, 2017**, the Supervisory Board approved the corporate planning for the 2018 fiscal year and the medium-term planning following in-depth discussion. Once again, the Supervisory Board discussed with the Executive Board the latter’s project to further develop the corporate strategy. In addition to the recurring topics, further subjects of discussion included information on the implementation status of the CSR reporting obligation, on the project to implement the EU General Data Protection Regulation and on the Jenoptik Group’s IT security policy. The Supervisory Board approved a profile of skills and expertise for the full board updated with the assistance of an outside expert and set the number of shareholder representative members it considers to be independent. Further details can be found in the Corporate Governance Report on page 40 of the Combined Management Report. The external expert appointed to evaluate the efficiency of the Supervisory Board presented his findings.

In **written correspondence at the end of the 2017 fiscal year**, the Supervisory Board adopted its declaration of conformity for the 2017 fiscal year. Fulfilling a stipulation in his service contract, the Supervisory Board also agreed to conclude a contract with Dr. Stefan Traeger regarding his retirement benefits in the form of a defined contribution provident fund model.

## Work in the Committees

As in prior years, the Supervisory Board could draw on the work of four committees in the 2017 fiscal year to help perform its tasks with greater efficiency and address individual topics in more detail. The committee chairs reported on the content and results of the committee meetings at each following

|                  | Dieter Kröhn | Sabine Lötzsch<br>(until 7/6/2017) | Doreen Nowotne | Heinrich Reimitz | Stefan Schaumburg | Andreas Tünnermann | Matthias Wierlacher | Total attendance in percent |
|------------------|--------------|------------------------------------|----------------|------------------|-------------------|--------------------|---------------------|-----------------------------|
|                  | ●●●●●●●●     | ●●●                                | ●●●●●●●●       | ●●●●●●●●<br>○    | ●●●●●●●●          | ●●●●●●●●           | ●●●●●●●●            | 93%                         |
| (until 7/6/2017) | ●●●          | –                                  | ●●●●●          | ●●●●●            | –                 | –                  | –                   | 100%                        |
|                  | –            | –                                  | –              | ●●●              | ●●●               | ●●●                | ●●●                 | 100%                        |
|                  | –            | –                                  | –              | ●●               | –                 | ●<br>○             | ●●                  | 83%                         |

meeting of the Supervisory Board. With the exception of the Audit Committee, chaired by Mr. Heinrich Reimitz, the committees are led by myself as the Chairman of the Supervisory Board. An overview of the composition of the individual committees can be found on pages 22 ff. and 188 of the Annual Report.

During the reporting period, the **Audit Committee** met four times and held one conference call. In addition, one decision was made through the exchange of written correspondence. The auditor's representatives attended the first and third face-to-face meetings of the year. The primary duties of the Audit Committee were in-depth audits of the Annual Financial Statements and the Consolidated Financial Statements, the Consolidated Management Report of JENOPTIK AG and the Group and detailed discussions of the quarterly and half-yearly reports prior to their publication. In addition, particular attention was paid to the effectiveness and further development of the risk management system, the internal control and compliance management system and current topics and projects of Internal Audit. Other recurring issues at all meetings of the Audit Committee included the development of the Jenoptik share, current analyst assessments and the group project to implement the CSR reporting obligation. Alongside the Chief Financial Officer, the head of corporate departments were also present as guests for individual agenda items at the committee meetings.

During a **conference call in early February 2017**, the Executive Board presented the committee members the preliminary figures of the 2016 Consolidated Financial Statements, to be published the day after.

The main issue at the **financial statements meeting on March 8, 2017** was an in-depth discussion of the Annual and Consolidated Financial Statements, the Combined Management Report and the Executive Board's proposal for the appropriation of profits. As a result, the Audit Committee recommended to the Supervisory Board that the Annual Financial Statements be adopted. Another purpose of the meeting was the recommendation by the Audit Committee to the Supervisory Board that Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart ("EY"), be proposed to the Annual General Meeting as the auditor for the 2017 fiscal year. EY confirmed that there were no circumstances that might compromise its independence as auditor. In addition to recurring topics, the committee also dealt with the current Group Risk and Opportunity Report.

The financial statements for the first quarter and an initial forecast for the fiscal year were the priorities at the Audit Committee's **meeting on May 9, 2017**. The Audit Committee was updated on the review and implementation of a new whistleblower system, as well as on a project to implement tax compliance measures.

At its **meeting on August 7, 2017**, the Audit Committee discussed the mid-year financial statements prior to their publication with the Chief Financial Officer. The Audit Committee set out the main points for the audit of the Annual Financial Statements in the 2017 fiscal year, reviewed the fee agreement with EY and addressed the issue of monitoring the independence of the auditor. To this end, it reviewed the non-audit services provided in the past year and updated its approved catalog of permissible non-audit services. The Audit Committee then appointed EY to audit the Annual and Consolidated Financial Statements as well as the Combined Management Report for the 2017 fiscal year in accordance with the shareholder resolution at the Annual General Meeting. It was also updated on the new legal requirements for the audit certificate and key audit matters and was informed about the new requirements in accounting standard IFRS 15.

Following delegation by the Supervisory Board, the Audit Committee resolved to commission an external audit review of the separate non-financial report in the course of **written correspondence in September 2017** and appointed an auditor for this purpose.

At its last **meeting** of the year on **November 7, 2017**, the Audit Committee examined the interim financial statements for the third quarter and the current forecast. In addition to recurring issues, the meeting prioritized the presentation of key internal audit findings in the 2017 fiscal year by the Head of Internal Audit.

The **Personnel Committee** met three times in the past fiscal year. The purpose of the sessions in February was the settlement of the target agreements with the members of the Executive Board for 2016 and the target agreement with the Chief Financial Officer, Mr. Hans-Dieter Schumacher, for 2017. The Personnel Committee also prepared an agreement with Dr. Michael Mertin regarding the details of his departure and discussed the handling of the post-contractual non-competition clause agreed with Dr. Mertin. The members recommended that the Supervisory Board agree to appoint Dr. Stefan Traeger Chairman of the Executive Board earlier than scheduled, with effect from May 1, 2017. At its July meeting, the Personnel Committee prepared the Supervisory Board's resolution to extend Mr. Hans-Dieter Schumacher's term on the Executive Board by a further five years with effect from April 1, 2018. It also engaged in preliminary discussion of the new target metric for variable remuneration in the Executive Board service contracts. During a conference call in September, the Personnel Committee examined issues relating to the proposed service contract draft for Mr. Hans-Dieter Schumacher.

Due to the upcoming election of shareholder representatives to the Supervisory Board by the 2017 Annual General Meeting, the **Nomination Committee** convened twice in February and April in the past fiscal year. The meetings were concerned exclusively with discussing suitable candidate proposals for election by the Annual General Meeting. Taking into account a requirements profile approved by the Supervisory Board, and in due consideration of the targets set for its composition, the Nomination Committee discussed the suitability and independence of various candidates to succeed Ms. Brigitte Ederer, who was the only shareholder representative on the Supervisory Board not standing for re-election. It ultimately recommended Ms. Elke Eckstein as the candidate for election by the Annual General Meeting to the Supervisory Board. Ms. Elke Eckstein introduced herself to the Nomination Committee, and then to the Supervisory Board, at the April meeting.

The **Mediation Committee** established on the basis of § 27 (3) of the Codetermination Act (MitbestG) did not meet in the year covered by the report as there was no reason for it to do so.

## Corporate Governance

The Supervisory Board continuously focused on the principles of good corporate governance and regulatory changes in corporate governance over the past fiscal year. At its June meeting, the Supervisory Board discussed the changes to the German Corporate Governance Code in its version of February 7, 2017. The Supervisory Board also approved a new target proportion of women on the Executive Board to be achieved by June 30, 2020 at this meeting. Details on the target figures for women can be found in the Corporate Governance Report on page 33. At its September meeting, the Supervisory Board reviewed its checklist on the Corporate Governance Code and, following the

resolution to extend the tenure of Mr. Hans-Dieter Schumacher and the conclusion of his new service contract, updated the Executive Board and Supervisory Board's declaration of conformity in accordance with § 161(1) of the German Stock Corporation Act (AktG). During its December meeting, the Supervisory Board approved a profile of skills and expertise for the full board updated with the assistance of an outside expert and set the number of independent shareholder representative members it considered sufficient. In written correspondence also conducted in December, the declaration of conformity for the 2017 fiscal year was then adopted. This, together with prior declarations extending back to 2004, are permanently available to shareholders on the company's website. The latest declaration of conformity can also be found on page 36 of the Annual Report.

The Supervisory Board regularly reviews the efficiency of its work in accordance with the Code's recommendations. An external expert was appointed in the past fiscal year and carried out his evaluation by means of both a questionnaire and in-depth interviews. The efficiency of the Supervisory Board's work was investigated with regard to the issues of leadership, strategy, structure and processes, people and composition, culture and the composition of the board regarding formal and substantive strategic aspects. At its December meeting, the external consultant presented his findings to the full Supervisory Board. The review gave a positive picture – also in benchmarking – of the work of the Supervisory Board and its committees.

Individual members of the Supervisory Board exercise an executive role at other companies with which Jenoptik has a business relationship. All of these business transactions, which are not of significant interest to Jenoptik, were conducted under the same conditions as would have been maintained with third-party companies. Detailed information on business transactions with related companies or persons can be found on page 184 in chapter 8.6 of the Notes. In this past fiscal year, there were no conflicts of interest that would have required reporting to the Annual General Meeting with this report.

Detailed information on corporate governance can be found in the Corporate Governance Report beginning on page 36 of the Annual Report.

## Annual Financial Statements and Consolidated Financial Statements

Following delegation by the Supervisory Board to the Audit Committee, the latter, after an in-depth preliminary research and on the basis of the resolution at the Annual General Meeting on June 7, 2017, appointed EY auditor for the 2017 fiscal year at its meeting of August 7, 2017. EY audited the Annual and Consolidated Financial Statements and the Combined Management Report for the second time in succession. The auditor undertook its audit according to § 317 of the German Commercial Code (HGB), giving consideration to the generally accepted German audit principles defined by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer [IDW]). The auditor gave its unqualified approval of the Consolidated Financial Statements and Combined Management Report for the 2017 fiscal year, prepared by the Executive Board according to § 315e of the German Commercial Code and based on the International Financial Reporting Standards (IFRS). This also applies to the Annual Financial Statements of JENOPTIK AG prepared according to the rules of the German Commercial Code (HGB). The auditor also checked whether the Executive Board had adopted suitable measures to ensure that developments that may endanger the continued existence of the company are identified in good time. Immediately upon completion, the audit reports, the Annual Financial Statements, the Consolidated Financial Statements, the Executive Board's proposal for the appropriation

of profits, and the Combined Management Report including the non-financial report, prepared for the first time, were sent to the Audit Committee, and then to the full Supervisory Board, where they were examined and discussed in detail at their meetings on March 8, 2018 (Audit Committee) and March 21, 2018 (Supervisory Board). Both also extensively dealt with the key audit matters. Representatives of the auditor and the auditing company entrusted with the audit review of the non-financial report reported at the meetings on the major findings of their audits and were also available for further questions and information. The auditor also reported on services that were provided in addition to those concerning the audit. According to the auditor, there were no circumstances that gave rise to a concern of impartiality. No major weaknesses in the risk early warning system or the accounting-related internal control system were reported. The Chairman of the Audit Committee also reported in detail to the Supervisory Board on the examination of the statements carried out by the Audit Committee.

Following its own comprehensive examination and discussion, the Supervisory Board concurred with the findings submitted by the auditor and the Audit Committee's recommendation, and raised no objections to the results of the audit. It approved the Annual Financial Statements and Consolidated Financial Statements submitted by the Executive Board, thus adopting the Financial Statements in accordance with § 172(1) of the German Stock Corporation Act. The Supervisory Board discussed in detail with the Executive Board the proposal for the appropriation of profits, providing for an increased dividend of 0.30 euros per qualifying no-par value share and also agreed to this following its own review and consideration of the company's financial position.

## Changes on the Supervisory Board and Executive Board

With effect from the conclusion of the Annual General Meeting on May 7, 2017, Ms. Brigitte Ederer and Ms. Sabine Löttsch stepped down from the JENOPTIK AG Supervisory Board. We thank them for their valuable assistance and years of service on the Supervisory Board. At the Annual General Meeting, Ms. Elke Eckstein and, in the employee representative election, Ms. Dörthe Knips were elected new Supervisory Board members with effect from the conclusion of the Annual General Meeting.

With effect from April 30, 2017, Dr. Michael Mertin left the Executive Board at his own request. Over a period of ten years, he guided and managed Jenoptik's successful growth. The Supervisory Board would like to thank him for the great benefits he has contributed to the company. As of May 1, 2017, Dr. Stefan Traeger succeeded Dr. Michael Mertin as President & CEO.

The Supervisory Board would like to thank the members of the Executive Board and all the employees for their exceptional performance and great commitment throughout the fiscal year, as well as our shareholders for the trust they have shown in us.

Jena, March 2018  
On behalf of the Supervisory Board



Matthias Wierlacher  
Chairman

## Highlights 2017

### Change on the Executive Board

Dr. Stefan Traeger has been the new President & CEO since May 2017. He succeeds Dr. Michael Mertin, who relinquishes his position as CEO at the company after almost ten years of service. Jenoptik's Supervisory Board extends CFO Hans-Dieter Schumacher's service contract by five years, to March 2023.

### New technology campus inaugurated

Jenoptik moves into its new technology campus at the US site in Rochester Hills, Michigan, and starts up production as scheduled in mid-May. The new facility employs around 110 people, who manufacture measuring technology and laser machines for the American market.

### Production boost with new clean room

In Florida, Jenoptik triples its clean room space to respond to globally rising demand for optical systems, e. g. in semiconductor manufacturing and in the aerospace industry.

### Components for military equipment

Jenoptik again supplies components for the Patriot missile defense system. The Group also receives follow-up orders to retrofit Leopard 2 tanks with auxiliary power units, electric gun turret drive systems, and turret / weapon stabilization systems.

### Award-winning prototype presented

The "SkyHoist 800" civil rescue hoist, recipient of two design awards, is presented at the HAI Heli Expo in America. The new hoist also impresses with its technical features and innovative functions.

### High-performance optics made to order

A team in the Optical Systems divisions receives the internal Innovation Award for a technology platform that can be used to manufacture custom high-performance optics.

### Jena "Saaleknirpse" celebrate ten years

To celebrate ten years of the "Saaleknirpse" daycare center, Jenoptik extends its agreement to support the facility by five years, thereby safeguarding the existence of a valuable daycare and education program. The center was built by Jenoptik and offers a number of places to children of company employees.



## Acquisition of a process automation company

On acquiring the US company Five Lakes Automation ("FLA"), Jenoptik transitions from being a machinery supplier to a provider of process solutions for metal and plastics processing. FLA specializes in process automation for the automotive industry.

## New traffic monitoring capabilities

The acquisition of the British software company ESSA Technology boosts the Group's portfolio of software for traffic monitoring and public safety.

## Changes on the Supervisory Board

Elke Eckstein joins the Supervisory Board as shareholder representative and Dörte Knips as employee representative. The remaining members were re-elected by the AGM or employees.

## Lead sponsor for company contest

Now for the 6th time, Jenoptik supports the SPIE Startup Challenge with prize money and expertise. Young entrepreneurs present their products to a team of experts, which includes Jenoptik managers Jay Kumler and Marc Himel as SPIE Fellows.

## Better road safety in Kuwait

Jenoptik supplies measuring systems for stationary speed monitoring to Kuwait's Ministry of Interior. The company is also contracted to install non-invasive section control measuring systems on the world's longest sea bridge in the Bay of Kuwait.

## Laser machines for automotive suppliers

Jenoptik sells JENOPTIK-VOTAN® BIM 3D laser machines to leading German automobile manufacturers. They enable the highly efficient processing of complex metal and plastic parts and are used in new production processes, e.g. to manufacture innovative components for electric cars.

## A base in Silicon Valley

Jenoptik builds an application center in Fremont, California. It aims to serve the unique engineering and product development needs of the region.



# The Jenoptik Share

## Stock Markets

2017 was a good year for both the company and the German economy as a whole. Global economic growth was robust and the Ifo Business Climate Index had a record run from May on. Both inflation and interest rates remained low. In addition, Europe's central bank adopted a highly cautious approach, reluctant to make any rash changes to its monetary policy ten years after the financial crisis. The ECB is still buying bonds at the beginning of 2018, keeping interest rates close to zero and thereby continuing to flood the market with cheap money. The consequences of Brexit still appear manageable, the political risks associated with it overstated. 2017 was accordingly an excellent year for investors, and the financial sector saw good growth almost everywhere around the world. One of the winners here was the euro, which increased in value against all other major currencies and gained more than 14 percent over the year. Oil and commodity prices also rose, but the biggest winner, growing almost 1,400 percent, was the Bitcoin cryptocurrency.

In the light of this very good financial environment, the global stock markets also continued to post good gains. The German Dax index climbed to a new record of 13,479 points on November 3 and grew a total 12.5 percent in value since the beginning of 2017 – almost twice as much as the average in prior decades. It started the year on January 2, 2017 at 11,598 points and ended trading on December 29, 2017 at 12,918 points. In 2017, the Dax sunk to its lowest level of 11,510 points on February 6. Following this, it progressed steadily upward, with minor fluctuations occasioned by the ECB's cash injections. The German technology index developed even better: the TecDax opened the year's trading at 1,841 points, rose consistently until May, and following a sideways trend around the mid-year again began to grow in mid-September. After reaching its highest level of 2,592 points on November 6, the TecDax closed at 2,529 points on the last trading day of the year, equivalent to an increase of 37.4 percent.

## Jenoptik Share Trends

In 2017, the Jenoptik share clearly outperformed the market. It started the year with a closing price of 16.77 euros and briefly fell to its annual low of 16.11 euros on January 10 before rising to an initial high of 26.60 euros on May 4, 2017. Following a mid-year sideways trend, the Jenoptik share again grew impressively from September on, reaching its highest level of 29.68 euros on November 1. The share closed at 27.55 euros on December 29 to end the trading year with an overall increase of 64.3 percent. Total shareholder return, i. e. share price appreciation accounting for dividends paid in the fiscal year, came to 65.8 percent in 2017 (prior year 14.1 percent).

The mood on the international capital markets remained highly positive into January and February 2018. Good economic data is continuing to bolster prices and investors all around the world are adding shares to their portfolios. Wall Street's euphoria is beginning to spread to Europe. The Jenoptik share showed a positive development at the beginning of the year. The share price rose to 33.66 euros in January 2018, consolidated in the subsequent month and closed trading at 28.34 euros on February 28. All figures are Xetra closing prices. **G01 G02**

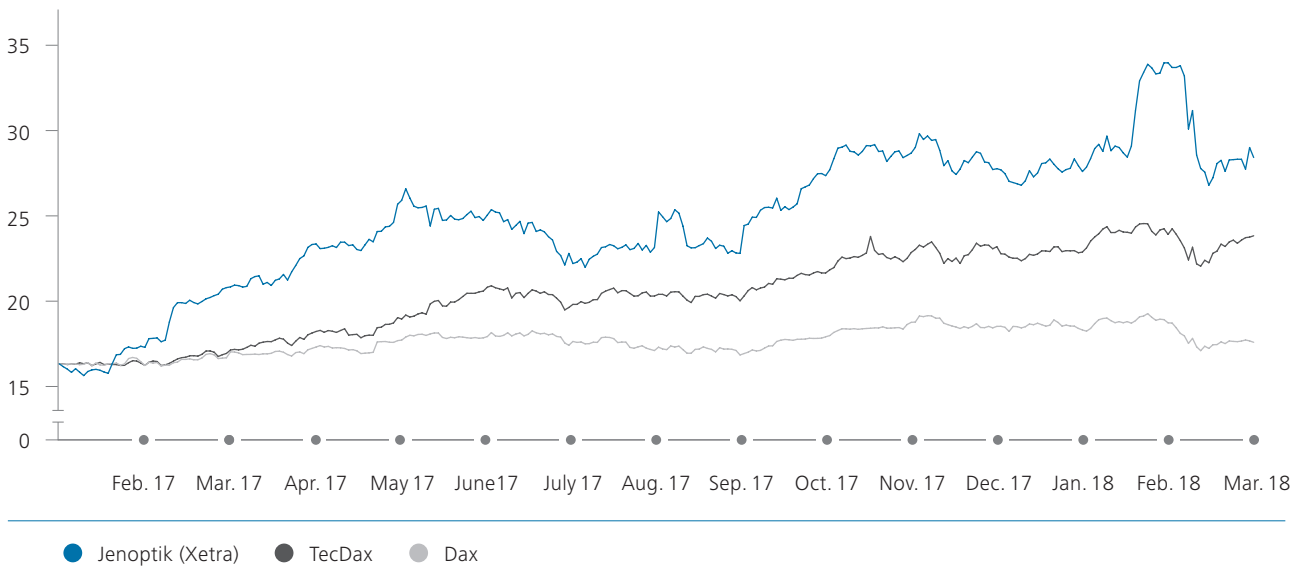
Excellent share price performance in 2017 resulted in a concomitant rise in market capitalization over the year of 636.8 million euros, based on the 57,238,115 issued shares, which thus came to 1,576.9 million euros at the end of the year (prior year 940.1 million euros). Up to February 28, 2018, market capitalization rose further to 1,622.1 billion euros.



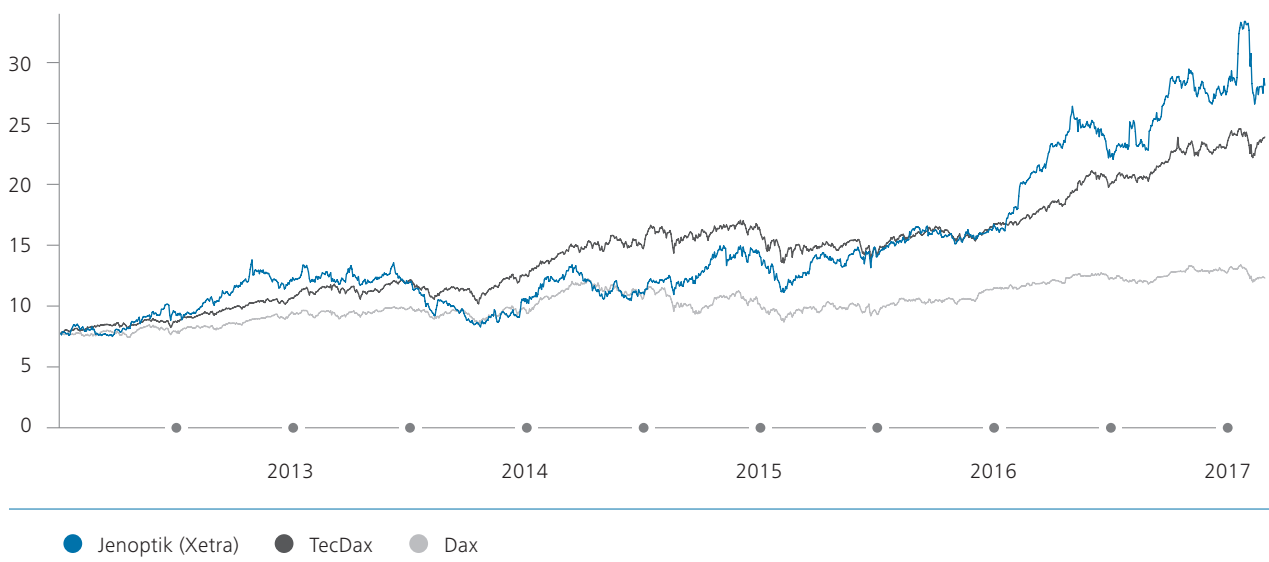
The latest information on the Jenoptik share and the development of the Jenoptik Group can be found on [www.jenoptik.com](http://www.jenoptik.com) or Twitter. Our financial reports can also be viewed using the Jenoptik App for corporate publications.



## G01 Share performance January 2, 2017 to February 28, 2018 (indexed, in euros)



## G02 Share performance 2013-2017 (indexed, in euros)






For more information, see the Notes in the Equity chapter and the Investors/Share/Voting rights announcements section at [www.jenoptik.com](http://www.jenoptik.com)

Compared to the prior year, institutional investor trading saw a marked upturn. In 2017, the average number of Jenoptik shares traded per day on the Xetra, in floor trading and on Tradegate was 152,928. Trading volumes thus saw a considerable increase of 42.7 percent (prior year 107,183 shares). In the TecDax ranking compiled by Deutsche Börse, the Jenoptik share rose seven places to 19th position in terms of stock turnover. In terms of free float market capitalization, the company improved to 15th place, up from 18th.

## Shareholder Structure

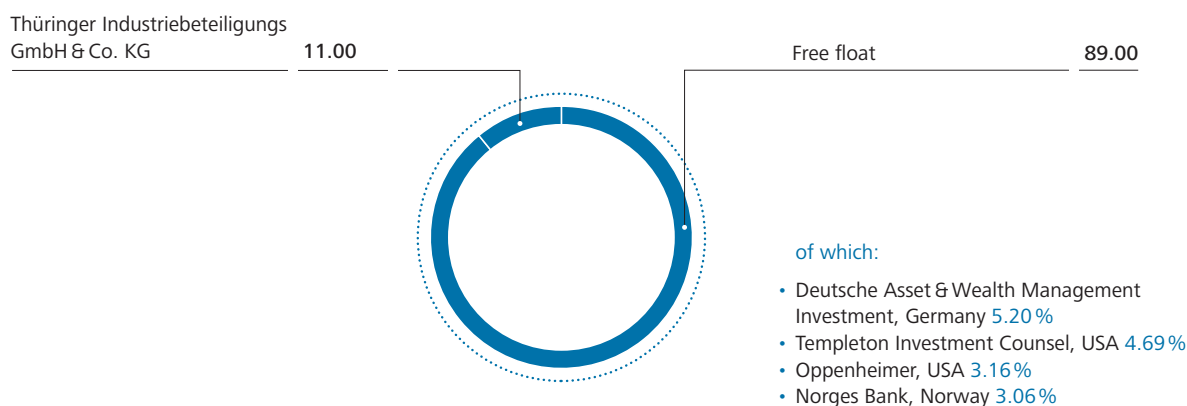
At the end of the fiscal year, the company's free float share was unchanged at 89 percent.

Throughout 2017, we received several voting right notifications from institutional investors to buy or sell larger long stock positions; these were published by the company. 

## Annual General Meeting

Over 350 shareholders, representing around 53 percent of nominal capital, and numerous guests were on hand for the JENOPTIK AG Annual General Meeting in Weimar on June 7, 2017. Dr. Stefan Traeger, the new Chairman of the Executive Board who has been in office since May 2017, introduced himself to the shareholders. By a large majority, the shareholders formally approved the actions of the Executive Board and Supervisory Board and agreed to payment of a dividend and all the other agenda items requiring a vote.

### G03 Shareholder structure (as of February 28, 2018) in %



## Dividend

The Jenoptik management aspires to a policy of dividend reliability and continuity in which shareholders – as in the last five years – receive payment of a dividend in line with the company's success. At the same time, sufficient cash and cash equivalents to finance the operating business, a robust equity position and the use of acquisition opportunities to secure the lasting growth of the company are also in the interests of the shareholders. The Executive and Supervisory Boards of JENOPTIK AG therefore review their dividend recommendation with considerable

prudence every year. In the past fiscal year, Jenoptik paid a dividend of 0.25 euros per share (prior year 0.22 euros) to its shareholders for 2016. In the new year, too, the Executive Board and Supervisory Board will maintain their dividend policy. Particularly in view of very successful growth in 2017, the two boards will propose an increased payment of 0.30 euros per share to the 2018 Annual General Meeting. Subject to approval there, a dividend payment of 17.2 million euros will produce a payout ratio in relation to shareholder earnings of 23.7 percent (prior year 24.9 percent).

## T02 Key Jenoptik Share Data

|  | 2017        | 2016        | 2015        | 2014        | 2013       |
|--|-------------|-------------|-------------|-------------|------------|
| Closing price (Xetra end-year) in euros                  | 27.55       | 16.43       | 14.39       | 10.37       | 12.35      |
| Highest/lowest price (Xetra) in euros                    | 29.68/16.11 | 16.65/11.14 | 15.01/10.22 | 13.61/8.26  | 13.84/7.46 |
| Absolute performance in euros/relative in percent        | 10.78/64.28 | 1.84/12.6   | 3.79/35.8   | -1.83/-15.0 | 4.64/60.3  |
| Issued no-par value bearer shares (31/12) in millions    | 57.24       | 57.24       | 57.24       | 57.24       | 57.24      |
| Market capitalization (Xetra end-year) in million euros  | 1,576.9     | 940.1       | 823.7       | 593.6       | 706.9      |
| Average daily trading volume <sup>1)</sup>               | 152,928     | 107,183     | 224,488     | 167,876     | 135,827    |
| P/E ratio (based on highest price/based on lowest price) | 23.4/12.7   | 16.7/11.1   | 17.3/11.8   | 18.6/11.3   | 16.9/9.1   |
| Operating cash flow per share in euros                   | 1.84        | 1.91        | 1.60        | 0.90        | 1.17       |
| Group earnings per share in euros                        | 1.27        | 1.00        | 0.87        | 0.73        | 0.82       |

<sup>1)</sup> Source: Deutsche Börse; includes trading on the Xetra, in Frankfurt, Munich, Berlin, Düsseldorf, Hamburg, Hannover, Stuttgart and on Tradegate

## T03 Key Dividend Data

|                                   | 2017 | 2016 | 2015 | 2014  | 2013 |
|-----------------------------------|------|------|------|-------|------|
| Dividend per share in euros       | 0.30 | 0.25 | 0.22 | 0.20  | 0.20 |
| Payout amount in million euros    | 17.2 | 14.3 | 12.6 | 11.4  | 11.4 |
| Dividend yield <sup>1)</sup> in % | 1.1  | 1.5  | 1.5  | 1.9   | 1.6  |
| Payout ratio <sup>2)</sup> in %   | 23.7 | 24.9 | 25.4 | 27.5  | 24.3 |
| Total shareholder return in %     | 65.8 | 14.1 | 37.6 | -13.4 | 62.9 |

<sup>1)</sup> based on year-end closing price

<sup>2)</sup> based on earnings attributable to shareholders

## Capital Market Communication

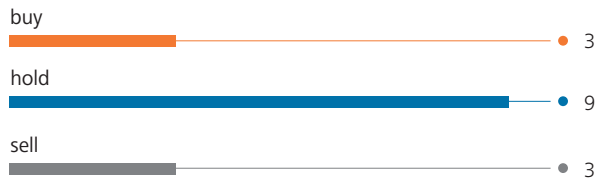
We are committed to making sure our communication with shareholders, analysts and institutional investors is open, transparent and reliable. We publish comprehensive and up-to-date information on the development of our business, while also seeking an active exchange with others. We believe it is important to increase transparency and boost trust in the company by engaging in ongoing dialog.

In the 2017 fiscal year, we attended a total of nine (prior year nine) capital market conferences at international financial centers such as Frankfurt/Main, London, Madrid and Warsaw. The company also held a total of 21 (prior year 18) roadshows in

Finland, France, Germany, Great Britain, Luxembourg, Switzerland and the US. Jenoptik held two analyst conferences in Frankfurt/Main to mark the reporting of its annual and mid-year figures. During conference calls on the publication of the annual and quarterly financial statements and in numerous individual conversations, the Executive Board and the investor relations team explained the development of business, key figures and strategy to institutional investors, analysts and journalists. Investors also took the opportunity to tour Jenoptik's sites.

Fourteen (prior year 14) analysts published recommendations on the Jenoptik share in 2017: Baader Helvea, Bankhaus Lampe, Commerzbank, Deutsche Bank, DZ Bank, Fairesearch, HSBC, Independent Research, Kepler Cheuvreux, LBBW, Bankhaus Metzler, M. M. Warburg, Montega and Oddo Seydler Bank. On December 31, 2017, the average target price of the Jenoptik share as assessed by analysts was 24.43 euros (prior year 16.35 euros). On publication of the 2017 preliminary figures, Hauck & Aufhauser initiated coverage of the Jenoptik share and a number of analysts increased their target price, which came to an average of 27,33 euros on February 28, 2018. **G04**

### **G04** Analyst Recommendations (as of February 28, 2018)



# Corporate Governance

Information and Notes Relating to Takeover Law and the Remuneration Report are part of the Combined Management Report.

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# Corporate Governance Report

In the following Corporate Governance Report, the Executive Board and Supervisory Board give their opinions in accordance with Clause 3.10 of the German Corporate Governance Code ("Code") in its version dated February 7, 2017. We also consider the "Remuneration Report" (from page 45 on) to be a part of the Corporate Governance Report.



## Corporate Governance

The JENOPTIK AG Executive Board and Supervisory Board affirm their commitment to responsible and values-based corporate governance. They see good corporate governance as the foundation for a sustained increase in the company value. This also strengthens trust in Jenoptik on the part of shareholders, business partners, employees, and the general public.

The Executive and Supervisory Boards adhere to the recognized standards. They support the recommendations of the "Governmental Commission on the German Corporate Governance Code" ("Code").

In the year covered by the report, the management and supervisory bodies of JENOPTIK AG have focused intensively on fulfilling the requirements of the Code and in particular on the changes and additions made by the Government Commission in February 2017. The Executive and Supervisory Boards jointly issued the current declaration of conformity in adherence with § 161 of the German Stock Corporation Act (AktG) in December 2017, containing just only one deviation from therefrom. It is permanently available to shareholders on the company's website. Jenoptik has also followed the majority of the suggestions contained in the Code. If changes should arise in the future, the declaration of conformity will be updated during the year.

## Declaration of Conformity by the Executive Board and Supervisory Board of JENOPTIK AG in the 2017 Fiscal Year

According to § 161, Para. 1, Sent. 1 of the German Stock Corporation Act (AktG) the Executive Board and the Supervisory Board of a listed company are required to declare annually that the recommendations of the "Governmental Commission on the German Corporate Governance Code" as published by the Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) have been and are being complied with or to indicate which recommendations have not been or are not being applied and why not.

The Executive Board and Supervisory Board of JENOPTIK AG support the recommendations of the "Governmental Commission on the German Corporate Governance Code" and state pursuant to § 161, Para. 1, Sent. 1 of the German Stock Corporation Act:

Since the update of the declaration of conformity as of September 21, 2017, the recommendations of the "Governmental Commission on the German Corporate Governance Code" ("Code") in the version dated February 7, 2017 have been complied with and will be complied with in future with the following exception:

In accordance with Point 5.4.1 Para. 2 Sent. 2 of the Code the Supervisory Board shall specify a regular limit to the Supervisory Board members' term of office when naming concrete objectives regarding its composition.

This recommendation has not been complied with and will not be complied with in the future. The Supervisory Board has decided not to specify a regular limit regarding the Supervisory Board members' term of office. Such limit is not consistently compatible with the procedure for elections of employee representatives to the Supervisory Board as stipulated in the German Co-Determination Act.

December 2017 | JENOPTIK AG

On behalf  
of the Executive Board

On behalf  
of the Supervisory Board

Dr. Stefan Traeger

Matthias Wierlacher

The Corporate Governance Statement as well as the current Declaration of Conformity, and those of previous years, are permanently accessible on our website at [www.jenoptik.com](http://www.jenoptik.com) under the category Investors/Corporate Governance

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## Shareholders and the Annual General Meeting

JENOPTIK AG shareholders exercise their rights at the Annual General Meeting which takes place at least once a year. They may either participate directly in the Annual General Meeting, or exercise their voting rights via a company-nominated proxy who is bound by the shareholder's instructions, via postal voting, or by authorizing a person of their choice. The shareholders are adequately supported by the company in this process. Each JENOPTIK AG share is accorded one vote. The reports, other documents and information required by law on the Annual General Meeting are available for inspection on our website [www.jenoptik.com](http://www.jenoptik.com) in the Investors/Annual General Meeting category or at the company's premises. Following the Annual General Meeting, the attendance figures, voting results and the speech by the representatives of the Executive Board will also be published on the Internet.

## Transparent Information

As part of our investor relations work, we pursue the goal of providing the participants in the capital market as well as the interested public with equal, continual, prompt, and comprehensive information in order to guarantee as much transparency as possible. Together with the Executive Board, the investor relations team is in regular and intensive contact with participants in the capital market at roadshows, capital market conferences, and other events.


We use the annual and interim reports to provide extensive information about the Group's earnings, assets, and finances four times a year. In addition, important events and current developments are reported in press releases and, where necessary, ad-hoc announcements. These documents, the financial calendar and further information are also available in German and English on the Jenoptik website at [www.jenoptik.com](http://www.jenoptik.com). 

In accordance with the statutory requirements of the Regulation on Market Abuse, inside information is published immediately insofar as JENOPTIK AG is not, in individual cases, exempt from


this obligation. The use of electronic distribution channels ensures that the reports are published worldwide simultaneously in German and English.

Jenoptik immediately publishes major changes to its shareholder structure when it is informed that reportable voting rights targets have been reached, fallen below or exceeded. All publications are available on our website under the category Investors/Share/Voting rights announcements. Further information can also be found in Note 5.16 Equity.

## Directors' Dealings

In the 2017 fiscal year, none of the members of the Executive Board or the Supervisory Board or persons closely related to them disclosed any reportable securities transactions pursuant to Article 19 of the EU Market Abuse Regulation. 

## Executive Board and Supervisory Board Remuneration

As of December 31, 2017, as in prior years, the Jenoptik Group maintained securities-oriented incentive plans in the form of virtual shares or so-called performance shares for the members of the Executive Board and parts of senior management. 

## Accounting and Auditing

The Consolidated Financial Statements as well as all Consolidated Interim Financial Statements are compiled in accordance with the International Financial Reporting Standards (IFRS) and the additional requirements of commercial law according to § 315e(1) of the German Commercial Code (HGB), as they are to be used in the European Union. JENOPTIK AG's Financial Statements are compiled in accordance with the requirements of the German Commercial Code (HGB). The Consolidated Financial Statements and the Annual Financial Statements, including the Combined Management Report, are examined by the auditor. On June 7, 2017, the Annual General Meeting elected



Directors' Dealings notifications from prior years can be found at [www.jenoptik.com](http://www.jenoptik.com) under the category Investors/Corporate Governance/Directors' Dealings



Further information on the remuneration system of the Executive Board and the Supervisory Board can be found in the Remuneration Report and Notes



For further information on investor relations activities, please refer to the Jenoptik share chapter

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart ("EY") for the second time as the auditor for the 2017 fiscal year on the recommendation of the Supervisory Board. EY was initially appointed in the 2016 fiscal year following an external tender. The position of responsible auditor for the auditing of the Consolidated Financial Statements and the Annual Financial Statements as well as the Combined Management Report has been held by Michael Blesch (since fiscal year 2016).

The Supervisory Board has agreed with the auditor that he shall inform the Supervisory Board chairman of any grounds for bias or disqualification, as well as of all important events and findings that emerge during the audit. This includes occasions when inaccuracies are established during the audit in the Declaration of Conformity submitted by the Executive Board and Supervisory Board in accordance with § 161 of the German Stock Corporation Act (AktG).

Before submitting the proposal for the election of the firm to the Annual General Meeting, the Supervisory Board received a declaration of independence from the auditing firm, stating that there were no employment, financial, personal or other links between EY, its board members and audit managers on the one side and the company and its board members on the other, that could give rise to doubts about the independence of the auditor. EY also reported in its declaration on the degree to which non-audit services have been provided for Jenoptik over the past fiscal year or which have been contractually agreed for the current year. In the summer of 2017, the Audit Committee reviewed EY's non-audit services provided in the past year and updated the catalog of approved, predefined non-audit services.



Detailed information on risk and opportunity management and on internal audit can be found in the Risk and Opportunity Report




For the Code of Conduct see [www.jenoptik.com](http://www.jenoptik.com) in the category Investors / Corporate Governance


## Internal Audit

With the objective of improving business processes and thereby strengthening compliance and corporate governance within the company, Internal Audit at Jenoptik undertakes independent and objective auditing and consulting services for the Executive and Supervisory Boards. Internal Audit serves to safeguard operational practices and, in particular, monitors compliance with the principles of correctness and legality.

## Risk and Opportunity Management

The continual and responsible evaluation of opportunities and risks which may result from entrepreneurial activity is, for Jenoptik, one of the basic principles of responsible company management. The goal of our risk and opportunity management is to support the formulation of the strategy and to define measures which create an optimum balance between growth and return targets on the one side and the associated risks on the other. 

## Compliance

Compliance with national and internationally recognized compliance requirements is an integral part of risk prevention and the processes of Jenoptik's compliance management system (CMS). The CMS is based on the Jenoptik values, the Code of Conduct for Jenoptik employees, and various guidelines, compliance with which is a fundamental requirement for maintaining the trust of our business partners, shareholders and the public in the performance and integrity of Jenoptik. For us, essential values for responsible conduct with all stakeholders include respect, fairness, and openness. The Code of Conduct summarizes the most important principles of conduct and is equally binding on all employees of the Jenoptik Group. It sets out minimum standards and serves as a yardstick to ensure a high level of integrity as well as to guarantee ethical and legal standards in Jenoptik. The Code of Conduct for Jenoptik employees was revised in 2017 and now focuses more on rules of conduct in the company. 



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All Jenoptik employees can speak confidentially to the respective executive or the contacts named in the Code if they have questions about the Code of Conduct or suspected illegal or unlawful matters. All employees may also use the newly established reporting system on the Jenoptik intranet, by telephone or via email to report significant violations that must be handled confidentially.

The corporate guidelines implemented within the Jenoptik Group with regard to important company processes are continually being reexamined, expanded, and updated. They are published on the intranet. This gives Jenoptik a system of processes and controls which enables it to identify any possible deficits in the company and to minimize or eliminate them using appropriate measures at an early stage.

In order to familiarize employees with these topics and to improve employee awareness, regular online training courses and classroom events on subjects relevant to compliance, such as anti-corruption, anti-trust law and our Code of Conduct, are regularly held at both the German and foreign business units. The aim of this online training is to achieve a uniform understanding of our compliance standards company-wide. In addition to the main training courses offered as part of onboarding training for new staff, employees have been taking part in mandatory e-learning refresher courses since 2017. The aim is to provide the employees with content on the topic of compliance on a continuous basis, but at least once a year, and to then verify this with a test. Employees may direct all questions relating to risk or compliance issues at Jenoptik to the Compliance & Risk Management department or use a help desk on the intranet.

We also understand compliance to mean responsibility to our customers and suppliers. In order to optimize our compliance management system, the Code of Conduct for Suppliers and Sales Partners has also been fundamentally revised in the past fiscal year. 

## Objectives for the Composition and Profile of Skills and Expertise of the Supervisory Board

In accordance with Point 5.4.1 of the German Corporate Governance Code, the Supervisory Board of JENOPTIK AG is composed in such a way that, as a whole, its members are endowed with the knowledge, ability and experience necessary to carry out its tasks in an orderly manner. Taking into consideration the size and purpose of the company as well as the international orientation of the Jenoptik Group, the Supervisory Board has also laid down objectives for its composition which take into consideration the idea of diversity.

In the second half of 2017, the Supervisory Board revised its previous requirements profile with the help of an external expert and adopted a new profile of skills and expertise in accordance with Point 5.4.1 (2) of the German Corporate Governance Code.

In doing so, it is the aim of the Supervisory Board to ensure that all the skills and experience that are considered essential for the activities of the Jenoptik Group should be covered by the Board. In addition, members should have sufficient time to exercise their mandate. It is the opinion of the Supervisory Board that the required skills include, in particular:

- in-depth experience of supervising a stock-listed company,
- financial and business competence, personnel expertise, experience in distribution and sales,
- company-related competence in the following areas: digitization, technology, strategy and growth/M&A, markets and internationality, entrepreneurship/management and capital markets as well as
- CEO experience also in a stock-listed company.

It is the opinion of the Supervisory Board that the above-mentioned requirements are largely fulfilled by the abilities, experiences and skills that are available in the Supervisory Board. The skills, abilities and experiences of the individual members of the Supervisory Board can be found in the CVs, which are published on our website at [www.jenoptik.com](http://www.jenoptik.com) under the category Investors/Corporate Governance/Supervisory Board.



Further information on compliance and on supplier management can also be found in the Non-financial Report

In accordance with its Diversity Statement, the Supervisory Board will ensure that at all times it comprises members who fulfill the criterion of internationality.

Furthermore, the Supervisory Board should include at least four women, thus, fulfilling the quota required by the Act for Equal Participation of Women and Men in Management Positions in the Private Sector and Public Sector.


With regard to the length of service, the Supervisory Board has decided not to establish a regular limit applicable to all members as it is not consistently compatible with the process provided by the Codetermination Act for election of employee representatives to the Supervisory Board.

In addition, the members of the Supervisory Board shall play neither an advisory nor an executive role with customers, suppliers, creditors or other business partners of JENOPTIK AG, inasmuch as this is the basis of a significant and not merely temporary conflict of interest. One of the objectives for the composition of the Supervisory Board is also that at least half of the shareholder representatives must be of independent status. No persons are to be considered who, at the time of election, have already reached the age of 70.


The composition of the Supervisory Board on December 31, 2017 is largely in line with the previously described objectives. There are currently four women members of the Supervisory Board which corresponds to the quota required by § 96(2)(2) of the German Stock Corporation Act (AktG). At least four members of the Board are able to call on extensive international experience. The Supervisory Board is also characterized by a wide variety of professional expertise, reflecting the broad scope of its members' career backgrounds. It is the view of the Board that all current shareholder representatives named in the list of members of the Supervisory Board under Note 11.3 are independent in the sense of the regulations in Point 5.4.2 of the Code. Individual members exercise an executive role at other companies

with which Jenoptik has a business relationship. Jenoptik does not consider any of these business transactions to be of significance, especially as they are conducted under the same conditions as would have been maintained with third-party companies. Consequently, it is the belief of the Supervisory Board that they do not affect the independence of the members. The rules relating to retirement age are taken into consideration.

The Supervisory Board will recommend the best possible candidates, from its point of view, to the Annual General Meeting, taking into account their expertise and personal integrity.

Further information on the Executive Board and the Supervisory Board, in particular on how they work, on participation in the meetings, on other mandates exercised by the members or on D&O liability insurance, can be found in the Report of the Supervisory Board and in the Notes to the Consolidated Financial Statements. 

## Corporate Governance Statement

The **Corporate Governance Statement** in accordance with §§ 289 f, 315 d of the German Commercial Code (HGB) is an unaudited part of the Combined Management Report. It contains the Declaration of Conformity in accordance with § 161 of the German Stock Corporation Act (AktG), information on methods of corporate governance, a description of the functions of the Executive Board and Supervisory Board, the structure and function of the committees of the Supervisory Board, the specification of the target figures for the proportion of women in the company as well as a description of the diversity concept followed for composition of the Executive and Supervisory Boards. 



More detailed information on the specification of target figures for the quota of women can be found at [www.jenoptik.com](http://www.jenoptik.com) in the Corporate Governance Statement in the category Investors / Corporate Governance



The Corporate Governance Statement as well as the current Declaration of Conformity and those of previous years, are permanently accessible on [www.jenoptik.com](http://www.jenoptik.com) under the category Investors / Corporate Governance

## Information and Notes relating to Takeover Law

### Explanatory report in accordance with § 176(1)(1) of the Stock Corporation Act (AktG) and reporting on § 289 a and § 315 a of the German Commercial Code (HGB) in accordance with the Takeover Directive Implementation Act

This information is part of the Combined Management Report.

#### Composition of the Share Capital

As of the balance sheet date on December 31, 2017, the subscribed capital totaled 148,819 thousand euros (prior year 148,819 thousand euros). It is divided into 57,238,115 no-par value bearer shares (prior year 57,238,115). Each share is therefore worth 2.60 euros of the nominal capital.

The same rights and obligations apply to all the shares of the company. Each share represents one vote in the Annual General Meeting and is the determining factor for the shareholders' proportion of company profits (§ 58(4), § 60 of the Stock Corporation Act). The shareholders' rights also include the subscription right to shares in the event of increases in capital (§ 186 of the Stock Corporation Act). In addition, the shareholders are entitled to administrative rights, e.g. the right to participate in the Annual General Meeting and the authority to put forward questions and motions and to exercise their right to vote. The shareholders' additional rights and duties are defined in the Stock Corporation Act, in particular in § 12, 53 et seq., § 118 et seq., and § 186. Under § 4(3) of the Articles of Association, any claim by a shareholder to the securitization of his/her shares is excluded.

#### Restrictions Relating to Voting Rights or the Transfer of Shares

In accordance with § 136(1) of the Stock Corporation Act, legal restrictions affecting voting rights exist with respect to votes for annual approval to the actions regarding shares which are held directly or indirectly by members of the Executive and/or Supervisory Boards. Violations of reporting obligations as specified

in § 33(1) or (2) and § 38(1) or § 39(1) of the Securities Trading Act (WpHG in the version dated 3/1/18) may nullify voting rights, at least temporarily, in accordance with § 44 of the Act.

#### Direct or Indirect Participations in the Capital Exceeding 10 Percent of the Voting Rights

Information on direct or indirect investments in capital which exceed ten percent of the voting rights can be found in the Group Notes under item 5.16, "Equity", from page 163 on.

#### Holders of Shares with Special Rights Conferring Controlling Powers

There are no shares of JENOPTIK AG that entail special rights.

#### Form of Controlling Voting Rights if Employees Own Shares and do not Directly Exercise their Control Rights

There are no employee shareholdings and therefore no resultant control of voting rights.

#### Statutory Regulations and Provisions of the Articles of Association Relating to the Appointment and Dismissal of Executive Board Members and Changes to the Articles of Association

The appointment and dismissal of Executive Board members is carried out exclusively in accordance with the statutory regulations of § 84 and § 85 of the Stock Corporation Act and § 31 of the Codetermination Act (MitbestG). In accordance with this, the Articles of Association stipulate in § 6(2) that the appointment of members to the Executive Board, the revocation of their appointment and the conclusion, modification and termination of contracts for services with members of the Executive Board shall be carried out by the Supervisory Board. In accordance with § 31(2) of the Codetermination Act, a majority of at least two thirds of the members of the Supervisory Board is required for the appointment of Executive Board members. Revocation of appointment as a member of the Executive Board is only possible for serious due cause (§ 84(3) of the Stock Corporation Act).

§ 6(1)(1) of the Articles of Association stipulates that the Executive Board of JENOPTIK AG must comprise at least two members. In the absence of a required Executive Board member, the court must appoint the member on the application of a stakeholder (§ 85(1)(1) of the Stock Corporation Act) in urgent cases. The Supervisory Board can appoint a Chairman of or Spokesperson for the Executive Board (§ 84(2) of the Stock Corporation Act, § 6(2)(2) of the Articles of Association).

In accordance with § 119(1)(5), § 179(1)(1) of the Stock Corporation Act, changes to the content of the Articles of Association are passed by the Annual General Meeting. However, changes relating purely to the wording of the Articles of Association can be passed by the Supervisory Board in accordance with § 179(1)(2) of the Stock Corporation Act and § 28 of the Articles of Association. This also includes the corresponding change to the Articles of Association following the utilization of the Authorized Capital 2015 and of the Conditional Capital 2017. Under § 24(1) of the Articles of Association, resolutions by the Annual General Meeting require a simple majority of the votes cast unless stipulated otherwise by law. In those cases in which the law requires a majority of the nominal capital represented for a resolution to be passed, a simple majority of the nominal capital represented is sufficient, unless specified otherwise by the law.

#### Authority of the Executive Board to Issue and Buy Back Shares

In accordance with § 4(5) of the Articles of Association, the Executive Board is authorized until June 2, 2020 to increase the nominal capital of the company by up to 44.0 million euros through one or multiple issues of new, no-par value bearer shares against cash and/or contributions in kind ("Authorized Capital 2015") with the consent of the Supervisory Board. The Executive Board is authorized, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders

(a) for fractional amounts; b) in the event of capital increases against contribution in kind, in particular also as part of corporate mergers or for the acquisition of companies, parts of companies or investments in companies (including an increase in existing investment holdings) or other depositable assets related to such an acquisition project, including receivables from the company; (c) in the event of capital increases in return for cash contributions, to the extent that the portion of the nominal capital attributable to the new shares, taking into account resolutions at the Annual General Meeting and/or the utilization of other authorizations to exclude the subscription right in direct or corresponding application of § 186(3)(4) of the Stock Corporation Act since the date on which such authorization becomes effective, neither exceeds a total of ten percent of the nominal capital as of the date of registration for such authorized capital, nor exceeds a total of ten percent of the nominal capital in existence as of the date of issuance of the new shares and the issue price of new shares is not significantly below the stock exchange price; (d) for the issuance to employees of the company and in companies in which Jenoptik has a majority participation.

All aforementioned authorizations to exclude subscription rights are limited to a total of 20 percent of the nominal capital available at the time this authorization became effective – or, if this value is lower, to 20 percent of the nominal capital at the time this authorization is exercised. This limit of 20 percent includes shares that (i) are sold for the purpose of servicing option and/or convertible bonds that were or could still be issued during the period of validity of the authorized capital to the exclusion of subscription rights or (ii) are sold by the company as treasury shares during the period of validity of the authorized capital to the exclusion of subscription rights. Decisions on the details of the issuance of new shares, in particular their conditions and the content of rights of the new shares, are taken by the Executive Board, with the consent of the Supervisory Board.

A shareholder resolution passed at the Annual General Meeting on June 7, 2017 empowered the Executive Board, with the consent of the Supervisory Board, to issue option and/or convertible bonds with a maximum total nominal value of 250 million euros. In order to grant shares to the holders/creditors of such option and/or convertible bonds, the company's nominal capital is conditionally increased by up to 28.6 million euros through the issue of up to 11 million new no-par value shares ("Conditional Capital 2017") in accordance with § 4(6) of the Articles of Association. The conditional capital increase will be implemented only to the extent that

- creditors or holders of option and/or conversion rights arising from option and/or convertible bonds issued by the entity, or by a domestic and/or foreign corporation in which the entity either directly or indirectly holds a majority interest, make use of their option or conversion rights by June 6, 2022 as resolved by the shareholders in their Annual General Meeting resolution dated June 7, 2017, and/or
- the creditors of the convertible bonds issued by the company or a domestic or foreign company in which the company has a direct or indirect majority stake on the basis of the resolution of the Annual General Meeting on June 7, 2017, who are obliged to exercise their conversion rights fulfill their conversion rights by June 6, 2022 and/or the shares are tendered

and neither treasury shares are used nor is payment made in cash. The new shares participate in profits from the start of the fiscal year for which, on the date of their issue, no resolution has yet been passed by the Annual General Meeting in respect of the appropriation of profits.

The Executive Board is authorized, with the consent of the Supervisory Board, to exclude the subscription rights of shareholders to the bonds under certain circumstances. Authorization to

exclude subscription rights is, however, limited in the sense that the pro rata amount of nominal capital corresponding to those shares that must be issued after exercising conversion and/or option rights/obligations may not account for more than 20 percent of existing nominal capital existing at the time this authorization takes effect or – if the figure is lower – at the time use is made of the authorization. This 20 percent limit also applies to the sale of treasury shares that are excluded from subscription rights during the period of this authorization, and to shares excluded from subscription rights that are issued under authorized capital during the period of this authorization.

The Executive Board is authorized to set out the further details relating to the increase in conditional capital (e. g. terms of the bonds, interest rate, form of interest, specific term, denomination, issue price, option/conversion price, option/conversion period) in the bond terms and conditions.

Further details regarding the resolved authorization can be found in agenda item 8 in the invitation to the 2017 Annual General Meeting, accessible on our website at [www.jenoptik.com](http://www.jenoptik.com) in the section entitled Investors/Annual General Meeting.

Under a resolution passed by the Annual General Meeting on June 12, 2014, the Executive Board is authorized up to June 11, 2019 to purchase own no-par value shares not exceeding a proportion of ten percent of the nominal capital at the time of the resolution for purposes other than trading in its own shares. The purchased treasury shares together with treasury shares that the entity had already purchased and still holds (including the attributable shares in accordance with §§ 71a et seq. of the Stock Corporation Act) may not exceed 10 percent of the share capital of the entity. The authorization may be exercised in whole or in part, on a one-off or repeat basis and for one or more authorized purposes. The purchase and sales of treasury shares may be exercised by the company or, for specific authorized purposes, by dependent companies, by companies

in which the company holds a majority interest, or by third parties for its or their account. At the decision of the Executive Board, acquisition is by purchase, subject to compliance with the principle of equal treatment (§ 53a of the Stock Corporation Act), on the stock exchange or by means of a public offering or a public invitation to the shareholders to submit an offer for sale. Further details regarding the buyback of shares are described in the invitation to the Annual General Meeting 2014, accessible on our website at [www.jenoptik.com](http://www.jenoptik.com) in the category Investors/Annual General Meeting. As of December 31, 2017, the company had no treasury shares.

### Key Agreements in the Event of a Change of Control Resulting from a Takeover Bid

Clauses in contracts concluded by JENOPTIK AG, which apply in the event of a change in control within the ownership structure of JENOPTIK AG following a change of control, exist for various financing agreements with a total utilized volume of approximately 122.7 million euros (prior year 125.7 million euros).

The conditions for accepting a change in control are formulated differently in each of the loan agreements. For the debenture loan with a total utilized volume of 114 million euros, a change of control gives the lenders the right to special termination of the loan in the amount corresponding to their share of the total volume and to demand the immediate repayment of this sum plus the interest accumulated up to the repayment date. For one installment of this debenture loan with a total utilized volume of 11 million euros, a change of control applies if one or more persons acting in concert, with the exception of the existing main shareholders on the date the contract was concluded, acquire more than 30 percent of the outstanding nominal capital or more than 30 percent of the voting rights, directly or indirectly at any time. Regarding the other installments of the debenture loan, this is only the case if the figure exceeds 50 percent of the nominal capital or voting rights.

Under the revolving syndicated loan, every change in the current shareholder base of JENOPTIK AG, under which at least 50 percent of the shares or voting rights are held by one or several persons acting in concert as described in § 2 (5) of the Securities Acquisition and Takeover Act (WpÜG), results in the possibility of refusing further disbursements and immediate termination of loan commitments in full or in part within up to 15 banking days following notification of the change of control and any disbursements executed becoming due, in full or in part, with an execution period of 16 banking days, including subsidiary credit lines and accrued interest. The syndicated loan has a total volume of 230 million euros, of which 8.7 million euros had been utilized by December 31, 2017 (prior year 11.7 million euros).

### Compensation Agreements by the Company with Executive Board Members or Employees in the Event of a Change of Control

No right to give notice of termination in the event of a change of control, i. e. the acquisition of at least 30 percent of voting rights by a third party, has been agreed with the members of the Executive Board. In such cases, they also have no claim to any severance payment. If the premature termination of an Executive Board role is agreed with an Executive Board member due to a change of control, the amount of the agreed severance payment is limited at maximum to three years' annual compensation. Under no circumstance, however, may the severance payment be higher than the compensation due for the remaining term of the service contract.

# Remuneration Report

## Remuneration for the Executive Board

The Remuneration Report below sets out the basic principles of the remuneration system for the members of the Executive Board and Supervisory Board and gives details of the total remuneration for the individual members. This information is part of the Combined Management Report.

## Executive Board Remuneration System

Following preparation by the Personnel Committee, the Supervisory Board is responsible for defining the structure of the remuneration system and the composition of the remuneration for the individual Executive Board members. The criteria for defining the appropriateness of the remuneration for the Executive Board of Jenoptik are primarily the respective tasks and areas of responsibility of the members of the Executive Board, their personal performance, as well as the economic situation, the success of the company and its future prospects. Standard practice within the comparative environment and in relation to established comparative groups within the company is another factor in the remuneration.

The remuneration for the Executive Board of Jenoptik consists of non-performance-related and performance-related components.

With the entry of Dr. Stefan Traeger with effect from May 1, 2017, and for Hans-Dieter Schumacher with effect from January 1, 2018, the system of performance-related remuneration of the Executive Board has been restructured by the Supervisory Board with the assistance of an independent external remuneration expert advisor and made identical for both members of the Executive Board. It is referred to below as the “new remuneration system”.

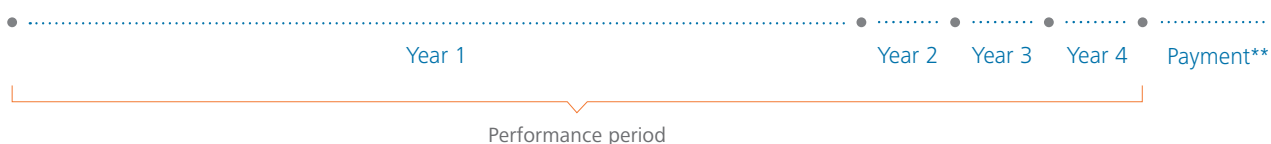
In 2016, an agreement was reached with Dr. Michael Mertin regarding the details of his departure, the content of which is described separately; for the variable remuneration for 2017, the agreement stipulates a fixed bonus on the basis of the remuneration for the targets reached in 2015 and 2016.

Since the previous system of performance-related remuneration (“previous remuneration system”) in 2017 only applied to Hans-Dieter Schumacher and consequences only developed due to the virtual shares allocated to him for 2015 to 2017, it will only be briefly described below; further details can be found in the 2016 Annual Report on pages 47 ff.

The contractual provisions of the contracts of employment with the members of the Executive Board are essentially identical in the respective remuneration systems, unless specified otherwise below.

### G05 The new Remuneration System of the Executive Board Members

|                               |  |   |
|-------------------------------|--|---|
| Total remuneration            |  |   |
| Basic salary<br>approx. 47 %* | Performance-related remuneration   |   |
|                               | One-year variable remuneration<br>approx. 22 %<br>(with 100 % target attainment) | Multi-year variable remuneration<br>approx. 31 %<br>(with 100 % target attainment)*** |



\* without fringe benefits  
 \*\* payment of multi-year variable remuneration  
 \*\*\* based on constant share price

## I. Non-performance-related remuneration components in the previous and new remuneration system

**Fixed remuneration.** The non-performance-related basic salary is paid on a pro rata basis each month. In 2017, it was 300 thousand euros for Dr. Michael Mertin for the months January to June, 400 thousand euros for Dr. Stefan Traeger for the months May to December (equivalent to 600 thousand euros per annum) and 400 thousand euros for Hans-Dieter Schumacher for the full year (450 thousand euros as of April 1, 2018), payable in twelve equal installments at month-end.

**Retirement benefits and fringe benefits.** Agreements relating to occupational retirement benefits were concluded with all members of the Executive Board. The pension commitment is based on a pension fund reinsured by a life insurance policy. This is a defined contribution scheme within the framework of a provident fund. The annual and the long-term costs for Jenoptik are clearly defined. On reaching retirement age, the payments will no longer affect Jenoptik, with the exception of a possible subsidiary liability. The contributions for the provident fund in 2017 totaled 240 thousand euros for Dr. Michael Mertin, 160 thousand euros for Hans-Dieter Schumacher and 116.7 thousand euros for Dr. Stefan Traeger on a pro rata basis since June 1, 2017.

All members of the Executive Board were covered by accident insurance; Dr. Michael Mertin had occupational indemnity insurance until June 30, 2017. Executive Board members are also entitled to the private use of a company vehicle. There is a third party financial loss-liability insurance for the members of the Executive Board. This comprises the contractual obligation to pay a deductible amounting to 10 percent of the loss per claim, however up to a maximum sum of 150 percent of the fixed salary of the Executive Board member in question.

**Non-competition clause.** A post-contractual non-competition clause was agreed upon with both Dr. Michael Mertin and Dr. Stefan Traeger for a period of one year following the end of their contracts of employment. An amount equaling 50 percent of one annual salary is agreed as compensation for the non-competition clause. Prior to the termination of the employment relationship, Jenoptik may also waive the post-contractual non-competition clause by means of a written declaration. No waiver was declared with respect to Dr. Mertin.

## II. Performance-related remuneration components

The performance-related bonus for members of the Executive Board is based on personal target agreements concluded in the first quarter of each calendar year by JENOPTIK AG, represented

by the Supervisory Board, and the respective member of the Executive Board, and is settled in the following year. The target agreement is oriented towards the company's sustainable business development.

A portion of the bonus is paid in cash and the remainder in the form of virtual shares or performance shares.

### a. Performance-related remuneration in the previous remuneration system

In the previous remuneration system, the amount of the bonus was based on the extent to which the financial, share price-related, operational and strategic targets agreed with the member of the Executive Board were achieved, as well as an individual performance assessment. For Hans-Dieter Schumacher, the variable remuneration with a target attainment level of 100 percent is 400 thousand euros. The maximum target attainment level is 150 percent.

Half of the bonus is paid in cash, the other half in the form of virtual shares, which are only paid out as a long-term incentive at the end of the fourth subsequent year after allocation. The number of virtual shares allocated is based on the volume-weighted average closing price of the Jenoptik share in the fourth quarter of the calendar year before last ("allotment price"). The allotment price for the virtual shares allocated for the last time for 2017 is 15,880 euros.

The payout of the virtual shares is made at the end of the fourth subsequent year after allocation, based on the volume-weighted average closing price of the Jenoptik share in the full fourth subsequent year ("payout price"). Throughout the entire four-year period, the virtual shares participate in positive and negative share price developments. Should the payout price fall below the allotment price, it is in economic terms a retroactive reduction in remuneration.

The calculation of the bonus is not linked to the amount or payment of the dividend, however, dividend payments made to shareholders of JENOPTIK AG are taken into account by additional virtual shares being granted in the equal amount of the dividends in the interest of equality between virtual and real shares.

The virtual shares allocated to Hans-Dieter Schumacher for 2017 will be paid out in 2022. Hans-Dieter Schumacher is appointed as a member of the Executive Board until March 31, 2023. In the event of the premature termination of his contract of employment, payment for virtual shares allocated to him, for which the



fourth subsequent year has not yet expired, shall be made at the value based on the average price over the last twelve months prior to the date of termination of employment.

**b. Performance-related remuneration in the new remuneration system**

Contrary to the previous remuneration system, the variable remuneration now consists of two independent components:

1. The bonus based on a one-year assessment basis and payable in cash (approximately 40 percent of the variable remuneration) and
2. the so-called performance shares in the form of virtual shares based on a multi-year assessment basis (approximately 60 percent of the variable remuneration).

Both components are based on a target agreement to be concluded in the first quarter of each year for the respective component. The targets are to be oriented towards the company's sustainable business development. The variable remuneration is between 0 euros and a maximum of 1,400 thousand euros for Dr. Stefan Traeger and 0 euros and a maximum of 1,000 thousand euros for Hans-Dieter Schumacher. The value of 0 euros is the result of less than 50 percent of the targets being achieved, the maximum value is reached with 200 percent of all targets being achieved.

Insofar as information on targets is provided below, these are based on a recommendation of the Personnel Committee of the Supervisory Board made in consultation with the Executive Board and are therefore still subject to the consent of the full Supervisory Board.

**One-year bonus.** After the end of the fiscal year, the Supervisory Board determines the degree to which the financial targets for this component have been reached. The financial targets and their weighting are:

1. Revenue growth (40 percent)
2. Free cash flow (20 percent)
3. EBITDA margin (40 percent)

The yardstick for determining the degree of target attainment does not need to be linear, i.e. target achievement of 200 percent does not necessarily require a doubling of the 100 percent value, just as a 50 percent target achievement does not mean that the 100 percent value must be halved. The precise calibration of the targets is based on historical experience and future expectations, as well as the adopted budget of the respective year.

In the event that less than 50 percent of the target is achieved, there is no full or no pro rata entitlement to a bonus, so the one-year bonus can also be completely eliminated.

To take account of non-financial aspects, the amount resulting from the target attainment is then multiplied by a multiplier of between 0.8 and 1.2 to assess the personal performance of the respective member of the Executive Board. The multiplier is determined primarily on the basis of defined criteria for assessing the individual performance of the Executive Board member, the collective performance of the Executive Board, and certain stakeholder targets such as sustainability/corporate social responsibility, employee satisfaction or diversity. Even if the financial targets have been well achieved, the Supervisory Board can use the multiplier to reduce the remuneration by up to 20 percent

## G06 One-year Variable Remuneration



in the sense of an merit rating (malus regulation), if, for example, the behavior of the Executive Board member strongly warrants it, but is not serious enough to justify termination or liability due to breach of duty or a reduction in remuneration in accordance with § 87 (2) of the German Stock Corporation Act (AktG) is not possible.

With 100 percent target attainment and a multiplier of 1.0, Dr. Stefan Traeger receives a one-year bonus of 300 thousand euros and Hans-Dieter Schumacher of 200 thousand euros. In each case, the maximum one-year bonus payable to Dr. Stefan Traeger is limited to 600 thousand euros, and Hans-Dieter Schumacher 400 thousand euros. The one-year bonus will be paid in cash after the target settlement in the month following adoption of the relevant financial statements.

Dr. Stefan Traeger has agreed on a pro rata temporis calculation of the one-year bonus for the 2017 fiscal year, based on a target attainment of 1.0 and a multiplier of 1.0. In the case of Hans-Dieter Schumacher, the new remuneration system will only be applied as of January 1, 2018, meaning that a target agreement for the one-year bonus according to the new remuneration system will be concluded with both members of the Executive Board for the first time in 2018, and this will be settled and paid out in 2019.

#### Multi-year variable remuneration with performance shares.

Performance shares represent the most significant change in the remuneration system for the Executive Board. To date, half of the variable remuneration determined after fulfillment of one-year goals has been in the form of virtual shares, which were paid out after four years. The performance shares now granted are also virtual shares. However, not only do they participate in the value development of the Jenoptik share over a four-year period, but they are only paid out when multi-year performance targets are reached at the end of the specified period.

In detail: Based on an initial value (400 thousand euros for Dr. Stefan Traeger and 300 thousand euros for Hans-Dieter Schumacher), the member of the Executive Board is provisionally granted virtual performance shares in the first quarter of each fiscal year. The number of performance shares is determined by dividing the initial value by the average volume-weighted closing price of the Jenoptik share in the twenty trading days following the announcement of the preliminary annual figures for the previous fiscal year. At the same time, performance targets are agreed, the achievement of which will be measured in the fourth fiscal year following the fiscal year in which the provisional allocation took place ("performance period"). For the performance shares provisionally allocated in 2018, the performance targets will be measured at the beginning of 2022.

The performance targets and their weighting are:

1. Return on Capital Employed (ROCE) (30 percent)
2. Relative Total Shareholder Return (TSR) compared to TecDax (70 percent)

The ROCE and TSR are calculated using the method described in the glossary on page 204. Again, the yardstick for determining the degree of target attainment does not need to be linear here.

Depending on the degree to which the performance target is achieved, the number of performance shares to be finally allocated is then calculated, but is limited to 150 percent of the number of provisionally allocated performance shares ("allocation cap"). Should the level of target attainment be less than 50 percent, the entitlement to final allocation of performance shares shall no longer exist.

The number of finally allocated performance shares is multiplied by the average volume-weighted closing price of the Jenoptik share on the twenty trading days following the announcement of the preliminary annual figures for the last fiscal year of the four-year performance period. The resulting euro amount shall be paid in cash to the member of the Executive Board in the month following adoption of the Annual Financial Statements for the last fiscal year of the performance period. The payout amount is limited to a maximum of 200 percent of the initial value: Stefan Traeger to 800 thousand euros and Hans-Dieter Schumacher to 600 thousand euros ("Payout Cap").

The system of multi-year variable remuneration with performance shares is summarized as follows:

- |            |  |
|------------|--|
| Year 1:    | Agreement of a performance target for the year 1 installment ("Installment 1") with the member of the Executive Board; provisional allocation of performance shares for Installment 1; calculation of the number by dividing the initial value by an average rate determined in year 1.  |
| Years 1–4: | Performance period for Installment 1.  |
| Year 5:    | Measurement of target attainment, based on this determination of the number of final performance shares to be allocated for Installment 1, taking into account the allocation cap; multiplication of this number by an average share price determined in year 5 and payment of this amount to the member of the Executive Board, taking into account the payout cap. |

The virtual performance shares are not entitled to dividends. Dividend payments to shareholders are not separately considered in the form of performance shares within the scope of the variable remuneration.

Contrary to the previous remuneration system, performance shares which have not yet been finally but only provisionally allocated shall, in the event of termination of the Board activity, not be prematurely finally allocated and paid out, but evaluated with respect to achievement of the performance target, allocated and then paid out in accordance with the regular procedure at the end of the respective performance period. Should JENOPTIK AG terminate the employment relationship for a good reason for which the member of the Executive Board is responsible, all provisionally allocated performance shares for which the performance period has not yet expired shall be forfeited without substitution or compensation.

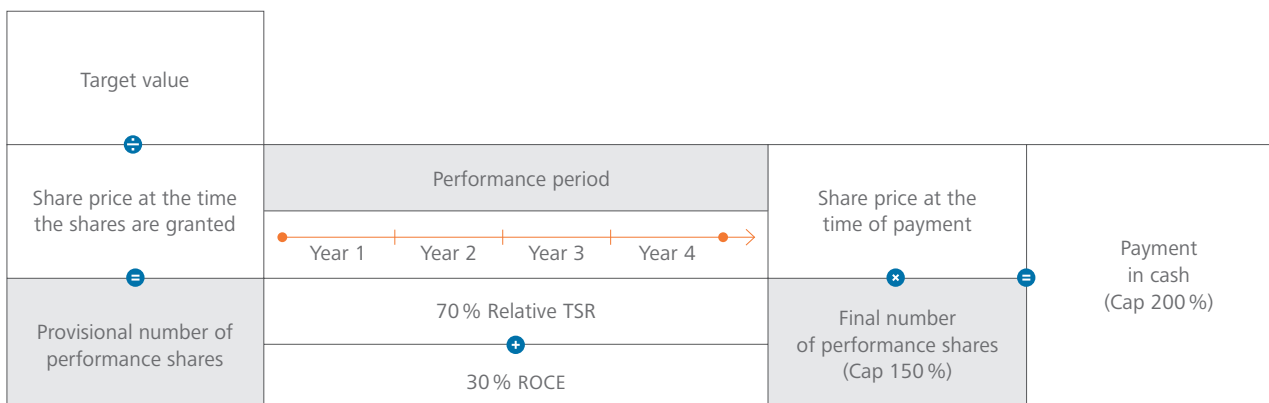
For 2017, it was agreed upon with Dr. Stefan Traeger that in order to calculate the number of performance shares to be allocated provisionally, the pro rata temporis initial amount of 266.7 thousand euros (corresponding to the start of operations during the year on May 1, 2017) will be divided by the average volume-weighted closing price of the Jenoptik share on the twenty trading days prior to him taking up his post on May 1, 2017. This share price amounts to 23,633 euros, so Dr. Stefan Traeger was provisionally allocated 11,284 performance shares for the 2017 installment.

### III. Agreement with Dr. Michael Mertin regarding the details of his departure

On September 20, 2016, Dr. Mertin decided not to seek any further extension to his term on the Executive Board. Consequently, an agreement was concluded with Dr. Mertin, according to which the variable remuneration for 2016 would be paid entirely in cash in 2017. The variable remuneration for the first half-year of 2017 was calculated on the basis of the average target attainment levels for 2015 and 2016 and was also paid out in cash in 2017 in the full amount of 648 thousand euros. As stipulated in the contract of employment with Dr. Michael Mertin, allocated but not yet paid out virtual shares were paid out at the end of July 2017. The payment amount was calculated on the basis of the average price over the last 12 months preceding the date on which Dr. Mertin left his post and an agreed price cap, and amounted to 4,920.8 thousand euros.

Under the terms of his contract of employment, for a period of twelve months from July 1, 2017, Dr. Michael Mertin is entitled to receive bridging payments, to be paid monthly, which amount to a total of 80 percent of his annual salary as well as the continued payment of his pension contributions. The annual salary comprises the fixed remuneration, the bonus and the non-cash benefits for private use of the company car, where the monthly bonus corresponds to one-sixth of the bonus calculated for the first half of 2017. Emoluments resulting

## T04 Multi-year Variable Remuneration



from freelance and/or employed activity, in particular as a member of a management and supervisory body of another company, as well as the compensation for a non-competition clause, will be offset against the payments. In 2017, bridging payments of 772 thousand euros and 120 thousand euros for the continued payment of the pension contributions were paid; in the absence of other emoluments, the payment was made in full. Provisions of 892 thousand euros were set aside for bridging payments and pension contributions expected to be paid in 2018.



For the amount of any settlement in the event of a change of control, see the chapter on Information and Notes Relating to Takeover Law on page 41 ff.

Dr. Stefan Traeger and Hans-Dieter Schumacher are not entitled to payment of bridging payments following their departures. Neither have they agreed upon a right to give notice in the event of a change of control.

## Total Remuneration for the Individual Members of the Executive Board

The tables below contain a list of the remuneration components granted to the members of the Executive Board, Dr. Stefan Traeger, Hans-Dieter Schumacher, and Dr. Michael Mertin, in the past fiscal year. The summaries differentiate between six components – the fixed remuneration, fringe benefits, one-year variable remuneration, multi-year variable remuneration, the pension contributions, and other termination benefits.

Following agreement with the Personnel Committee, but subject to the consent of the Supervisory Board, the variable remuneration for the 2017 fiscal year for Hans-Dieter Schumacher will be 235 thousand euros in cash and 14,819 virtual shares. Fixed bonuses were agreed for Dr. Stefan Traeger and Dr. Michael Mertin for 2017. Further details on the share-based remuneration in the form of virtual shares can be found in Note 5.21 from page 170 on. We consider this to also be an integral part of this Remuneration Report.

## T05 Remuneration of the Executive Board – Benefits Granted

| in euros   | 2016 | Dr. Stefan Traeger<br>President & CEO since 01/05/2017 |                |                |                |
|--|------|--|----------------|----------------|----------------|
|  |      | May – Dec. 2017  |                |                |                |
|  |      | Actual   | Minimum        | 100 %          | Maximum        |
| Fixed remuneration   | 0    | 400,000  | 400,000        | 400,000        | 400,000        |
| Fringe benefits  | 0    | 9,784  | 9,784          | 9,784          | 9,784          |
| <b>Total</b>   | 0    | <b>409,784</b>   | <b>409,784</b> | <b>409,784</b> | <b>409,784</b> |
| One-year variable remuneration*                              | 0    | 200,000  | 200,000        | 200,000        | 200,000        |
| Multi-year variable remuneration**                           | 0    | 266,667  | 0              | 266,667        | 266,667        |
| Thereof LTI 2017/Performance Shares (term until 2022)**      | 0    | 266,667  | 0              | 266,667        | 266,667        |
| Thereof LTI 2016 (term until 2021)**                         | 0    | n. a.  | n. a.          | n. a.          | n. a.          |
| Thereof dividends on LTI tranches outstanding                | 0    | n. a.  | n. a.          | n. a.          | n. a.          |
| <b>Total*</b>  | 0    | <b>876,451</b>   | <b>609,784</b> | <b>876,451</b> | <b>876,451</b> |
| Retirement benefits  | 0    | 116,667  | 116,667        | 116,667        | 116,667        |
| Payments arising from termination of Executive Board mandate | 0    | n. a.  | n. a.          | n. a.          | n. a.          |
| <b>Total remuneration*</b>                                   | 0    | <b>993,117</b>   | <b>726,451</b> | <b>993,117</b> | <b>993,117</b> |

\*included for Dr. Michael Mertin for 2016 als a portion that was paid out in cash instead of LTI in 2016 in accordance with the termination agreement

\*\*for LTI plus performance of the newly granted LTI compared with the share price on which allocation was based

## T06 Remuneration of the Executive Board – Inflow

|   | Dr. Stefan Traeger<br>President & CEO<br>since 01/05/2017 |                | Hans-Dieter Schumacher<br>Member of the<br>Executive Board |                | Dr. Michael Mertin<br>President & CEO<br>until 30/04/2017<br>Employment contract<br>until 30/06/2017 |                  |
|---|---|----------------|--|----------------|--|------------------|
| in euros  | 2016  | 2017           | 2016   | 2017           | 2016   | 2017             |
| Fixed remuneration  | 0   | 400,000        | 400,000  | 400,000        | 600,000  | 300,000          |
| Fringe benefits   | 0   | 9,784          | 13,831   | 13,831         | 46,742   | 23,371           |
| <b>Total</b>  | <b>0</b>  | <b>409,784</b> | <b>413,831</b>   | <b>413,831</b> | <b>646,742</b>   | <b>323,371</b>   |
| One-year variable remuneration                                  | 0   | 0              | 193,965  | 256,018        | 631,200  | 1,978,375        |
| Multi-year variable remuneration                                | 0   | 0              | 0  | 0              | 611,585  | 4,920,801        |
| Thereof LTI 2016 (term until 2021)                              | 0   | 0              | 0  | 0              | 0  | 11,778           |
| Thereof LTI 2015 (term until 2020)                              | 0   | 0              | 0  | 0              | 0  | 1,221,998        |
| Thereof LTI 2014 (term until 2019)                              | 0   | 0              | 0  | 0              | 0  | 768,636          |
| Thereof LTI 2013 (term until 2018)                              | 0   | 0              | 0  | 0              | 0  | 1,514,595        |
| Thereof LTI 2012 (term until 2017)                              | 0   | 0              | 0  | 0              | 0  | 1,403,794        |
| Thereof LTI 2011 (term until 2016)                              | 0   | 0              | 0  | 0              | 611,585  | 0                |
| <b>Total</b>  | <b>0</b>  | <b>409,784</b> | <b>607,796</b>   | <b>669,849</b> | <b>1,889,528</b>   | <b>7,222,547</b> |
| Retirement benefits   | 0   | 116,667        | 160,000  | 160,000        | 240,000  | 120,000          |
| Payments arising from termination<br>of Executive Board mandate | n. a.   | n. a.          | n. a.  | n. a.          | n. a.  | 891,773          |
| <b>Total remuneration</b>                                       | <b>0</b>  | <b>526,451</b> | <b>767,796</b>   | <b>829,849</b> | <b>2,129,528</b>   | <b>8,234,320</b> |

## T05 Remuneration of the Executive Board – Benefits Granted

| 2016             | Hans-Dieter Schumacher<br>Member of the Executive Board |                |                |                  | 2016             | Dr. Michael Mertin<br>President & CEO until 30/04/2017<br>Employment contract until 30/06/2017 |                  |                  |                  |
|------------------|---|----------------|----------------|------------------|------------------|--|------------------|------------------|------------------|
|                  | Actual  | Minimum        | 100%           | Maximum          |                  | Actual   | Minimum          | 100%             | Maximum          |
| 400,000          | 400,000   | 400,000        | 400,000        | 400,000          | 600,000          | 300,000  | 300,000          | 300,000          | 300,000          |
| 13,831           | 13,831  | 13,831         | 13,831         | 13,831           | 46,742           | 23,371   | 23,371           | 23,371           | 23,371           |
| <b>413,831</b>   | <b>413,831</b>  | <b>413,831</b> | <b>413,831</b> | <b>413,831</b>   | <b>646,742</b>   | <b>323,371</b>   | <b>323,371</b>   | <b>323,371</b>   | <b>323,371</b>   |
| 256,018          | 235,330   | 0              | 200,000        | 300,000          | 1,330,220        | 648,155  | 0                | 500,000          | 750,000          |
| 260,710          | 245,278   | 9,948          | 209,948        | 309,948          | 61,342           | 11,778   | 11,778           | 11,778           | 11,778           |
| 0                | 235,330   | 0              | 200,000        | 300,000          | 0                | 0  | 0                | 0                | 0                |
| 256,018          | 0   | 0              | 0              | 0                | 0                | 0  | 0                | 0                | 0                |
| 4,692            | 9,948   | 9,948          | 9,948          | 9,948            | 61,342           | 11,778   | 11,778           | 11,778           | 11,778           |
| <b>930,560</b>   | <b>894,440</b>  | <b>423,780</b> | <b>823,780</b> | <b>1,023,780</b> | <b>2,038,305</b> | <b>983,304</b>   | <b>335,149</b>   | <b>835,149</b>   | <b>1,085,149</b> |
| 160,000          | 160,000   | 160,000        | 160,000        | 160,000          | 240,000          | 120,000  | 120,000          | 120,000          | 120,000          |
| n. a.            | n. a.   | n. a.          | n. a.          | n. a.            | n. a.            | 891,773  | 891,773          | 891,773          | 891,773          |
| <b>1,090,560</b> | <b>1,054,440</b>  | <b>583,780</b> | <b>983,780</b> | <b>1,183,780</b> | <b>2,278,305</b> | <b>1,995,077</b>   | <b>1,346,922</b> | <b>1,846,922</b> | <b>2,096,922</b> |

## Remuneration System for the Supervisory Board

The remuneration for the Supervisory Board comprises a fixed and a performance-related component. The remuneration system for the Supervisory Board was changed to purely fixed remuneration by resolution of the Annual General Meeting on June 7, 2017. The new Supervisory Board remuneration shall apply for the first time with effect from the conclusion of the Annual General Meeting on June 7, 2017. The previous version of Article 19 of the Articles of Association shall apply with respect to remuneration for the members of Supervisory Board for activities which took place prior to the end of the Annual General Meeting on June 7, 2017.

According to that, the fixed annual remuneration for the Supervisory Board amounts to 20 thousand euros pro rata temporis up to the Annual General Meeting 2017. The Chairman of the Supervisory Board receives double and their deputy one-and-a-half times this amount.

Should 2017 group earnings before tax exceed 10 percent of group equity at the end of the fiscal year, each member of the Supervisory Board shall also receive a performance-related annual payment of 10 thousand euros for their activities up until the 2017 Annual General Meeting pro rata temporis for the last time. The performance-oriented annual payment is increased to 20 thousand euros, provided that group earnings before tax in 2017 exceed 15 percent of the group equity at the end of the fiscal year. The Chairman of the Supervisory Board receives double and his deputy one-and-a-half times this amount. The pro rata temporis performance-related remuneration is to be paid after the Annual General Meeting which ratifies the actions of the Supervisory Board for the past fiscal year, i. e. after the 2018 Annual General Meeting.


Group earnings before tax for the year 2016 had exceeded the above mentioned figure of 10 percent of group equity at the end of the fiscal year 2016, consequently the members of the Supervisory Board each received a performance-related remuneration payment following the Annual General Meeting in June 2017. There is also (for the last time) a performance-related remuneration payment for 2017, which will be paid after the 2018 Annual General Meeting.

For activities as a member of the Supervisory Board from the end of the 2017 Annual General Meeting, each member shall now receive fixed compensation of 40 thousand euros (instead of the previous 20 thousand euros). In return, the variable remuneration component shall cease to exist. The Chairman of the

Supervisory Board will receive double and their deputy one-and-a-half times this amount. The fixed remuneration is payable on expiry of the fiscal year. In addition, each member of a committee receives an annual remuneration in the sum of 5 thousand euros per year. The Chairman of the committee receives double this amount. The annual remuneration for members of the Audit Committee, whose duties are particularly labor- and time-intensive, is 10 thousand euros. The Chairman of the Audit Committee receives double and his deputy one-and-a-half times this amount. Members of committees which have not met during the fiscal year receive no remuneration. Members of the Supervisory Board who have only served on the Supervisory Board or a committee for part of the fiscal year receive a pro rata temporis payment.

The members of the Supervisory Board are paid a meeting allowance of 1 thousand euros for attending a meeting. Half of this amount is paid for participation in conference calls. The same applies from the second meeting on any day on which several meetings are convened. Verified expenses incurred in connection with the meeting are reimbursed in addition to the meeting allowance; up until the Annual General Meeting on June 7, 2017, the reimbursement for travel and overnight accommodation costs in connection with a meeting held in Germany was limited to 0.6 thousand euros. By resolution of the Annual General Meeting, the reimbursement of expenses was increased to up to 1 thousand euros per meeting in order to take account of the higher costs of travel expenses incurred by members of the Supervisory Board resident abroad. JENOPTIK AG also reimburses the members of the Supervisory Board for any value added tax applicable to the payment of their expenses.

The members of the Supervisory Board are covered by third-party financial loss-liability insurance. This comprises the contractual obligation to pay a deductible amounting to 10 percent of the loss per claim, however up to a maximum sum of 150 percent of the fixed remuneration of the Executive Board member in question.

In the 2017 fiscal year, 533.1 thousand euros (net) was set aside as a provision for the fixed remuneration of the Supervisory Board and its committees to be paid in January 2018, and 116.9 thousand euros (net) for the variable remuneration to be paid after the Annual General Meeting in June 2018. Jenoptik did not pay any other remuneration or benefits to the members of the Supervisory Board for services rendered personally by them, in particular consulting and intermediary services. 



# Combined Non-financial Report

The Combined Non-financial Report is part of the Combined Management Report.

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Combined  
Non-financial Report

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4 ■



# Separate Combined Non-financial Report in accordance with the CSR Directive Implementation Act

## Position and Business Model

Jenoptik sees its entrepreneurial activity as more than purely the realization of commercial objectives; it is also an obligation to society and the environment. Together with our customers, we create forward-looking trends in the fields of energy efficiency, healthcare, environment, mobility, and safety. As an international technology company, innovation is our driving force and the basis of our success in business. Our innovative products allow us to make significant contributions to the societal challenges we face and facilitate both the conservation and efficient use of resources.

The Jenoptik Group operates in three segments, Optics & Life Science, Mobility and Defense & Civil Systems, and the majority of its services are provided for the photonics market. With our high-quality capital goods – from standard components to modules to complex solutions – we are primarily partners to industrial companies and public sector clients.

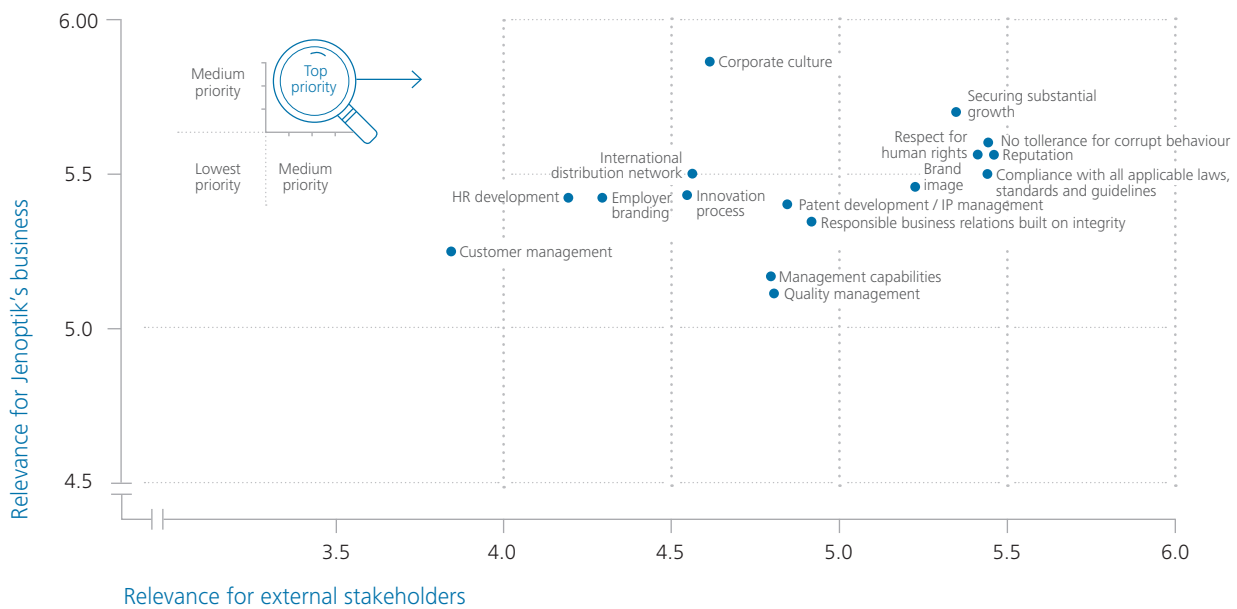
More information on the business model and markets can be found on page 68 ff. of this Annual Report

## Our Take on Sustainability

Our understanding of sustainability is based on the conviction that the best way to achieve our economic goals and lastingly profitable growth is to adopt a position of responsibility to the environment and society. To satisfy this demand, the issue of sustainability at Jenoptik is the responsibility of the President & CEO. An active Sustainability Working Group, consisting of the heads of the Finance, Investor Relations, Communication & Marketing, HR, Environmental Management and Compliance & Risk Management departments, regularly reports to the Executive Board and the Supervisory Board on relevant issues.

In this report we inform about key sustainability issues that help to better understand our business performance and the company's development in the future. The separate Combined Non-financial Report published here serves the purpose of fulfilling the requirements of the CSR Directive Implementation Act (CSR-RL UG) in accordance with § 315b, § 315c in conjunction

### G07 Materiality Matrix





with § 289c to 289e of the German Commercial Code (HGB) and covers the key topics in the fields of employees, environmental and social matters, human rights, and anti-corruption, in the 2017 fiscal year, for both external audiences and from the company perspective. The description of the approaches set out here is based on Standard 103 of the Global Reporting Initiative (GRI); key figures were produced on the basis of the GRI standards and both the materiality analysis and risk assessment in accordance with the requirements of CSR-RL UG. In accordance with § 315b(1)(3) of the German Commercial Code, reference is occasionally made to other information available in the Group Management Report. The list below shows all the relevant passages in the Management Report that are relevant to the separate Combined Non-financial Report.

- Business model: page 68
- Strategy: page 70 ff.
- R+D / Innovation management: page 76 ff.
- Risks & opportunities: page 108 ff.
- Diversity policy see Corporate Governance Statement, [www.jenoptik.com/investors/corporate-governance](http://www.jenoptik.com/investors/corporate-governance)

## Materiality Analysis

Jenoptik maintains ongoing dialog with all stakeholders. In order to identify the key non-financial factors influencing sustainable business development within the Group, ten currently relevant topic clusters with a total of 54 issues were defined in the Sustainability Working Group. The topic clusters reflect the aspects required under the German Commercial Code (employee, environmental and social matters, respect for human rights, anti-corruption and anti-bribery) and also include those aspects that

are specific to Jenoptik (business model, management, internationalization, innovation, customer and market penetration, operating excellence, brand, and reputation). The 2017 materiality analysis involved an independent assessment of the 54 issues by the Executive Management Board, departmental heads and employees – both from Jenoptik’s perspective and the perspective of target groups (customers, business partners, employees, shareholders, suppliers, and the general public). Both the internal assessment from Jenoptik’s perspective and our assumptions regarding the issues’ significance to target groups were used representatively to assess the impacts on the aforementioned sustainability issues. They were subjected to an overall assessment, the findings of which were summarized in a materiality matrix. Topics in the upper right quadrant are of major significance to the Group’s business development from the perspective of both Jenoptik and its stakeholders. **G07**

The following overview shows all the topics defined as “key” to Jenoptik in the materiality analysis. They reveal where Jenoptik sees its priorities in the value-added chain. In addition, we report on environmental matters and our corporate citizenship on a voluntary basis. **T07**

Our corporate culture, the development of our employees, as well as our brand and reputation have top priority. Securing substantial growth by promoting good underlying conditions for greater innovation and ensuring increases in capital expenditure for research and development are the decisive factors influencing our future performance. Innovation and IP management are thus indispensable to a technology company such as Jenoptik. Our future success depends crucially on a deep understanding of customer and market requirements as well as on an efficient international distribution network.

## T07 Jenoptik's Key Topics

| Employee Matters  | Environmental Matters                           | Social Commitment  | Human Rights             | Anti-Corruption   | Other Topics                    |
|-------------------|---|--|--------------------------|---|---------------------------------|
| Corporate culture | Environmental management                        | Commitment to science & education, art & culture as well as in social projects | Respect for human rights | No tolerance for corrupt behaviour                            | Brand & reputation              |
| HR development    | Waste management                                |  |                          | Responsible business relations built on integrity             | Quality management              |
|                   | Processes to ensure compliance with regulations |  |                          | Compliance with all applicable laws, standards and guidelines | Innovation & patent development |
|                   | Resource management                             |  |                          |   | Corporate strategy              |

● Jenoptik's key topics    ● Topics reported on a voluntary basis


We are also committed to law-abiding and compliant conduct while respecting human rights as well as to ensuring above-average quality of our products and services. As a responsible and socially committed company, Jenoptik considers it its duty to play an active role in shaping its environment. Dedication to our region is therefore another high priority. Our obligations to the environment are also close to our hearts, and environmental issues are of key concern to us in all our business decisions.




See R+D chapter from page 76 on



Detailed information on our risk management system and major risks, including in connection with non-financial factors, can be found from page 108 on and on our website [www.jenoptik.com/About-Jenoptik/Responsibility/Compliance](http://www.jenoptik.com/About-Jenoptik/Responsibility/Compliance)

The key topics are reflected in the new corporate strategy and are value drivers in our various areas of business.  Our materiality matrix thus sets out the basis of all our long-term activities. These key topics are explained in detail in the sections below.

## Risks in Connection with Non-financial Aspects

Acting in conformity with rules and considering business risks and opportunities – for Jenoptik, these are the principles of responsible corporate governance. The Group maintains a risk manual and a system of guidelines that document all relevant processes throughout the Group and represent a reliable reference framework for all employees. Twice a year, the Compliance & Risk Management department identifies all risks within the Group and discusses the top issues – set in net terms – with the Executive Board. Our risk assessment systems takes account of both financial and all relevant non-financial factors, such as occupational health and safety, environmental protection, compliance, marketing and sales, HR and quality management. The net analysis did not identify any risks that are very likely to have a serious negative impact on the specified key non-financial factors now or in the future. 



See the Targets and Strategies chapter on page 70 ff. and the Corporate Governance Statement for more information




See page 36 ff. of the Corporate Governance Report and in the Corporate Governance Statement

## Employee Matters

Our employees, with their knowledge and abilities, are our greatest asset and absolutely essential to the Jenoptik Group's business success. By supporting, accompanying, and promoting the employees in their particular areas of expertise, we are able to ensure the quality of our products and processes, our innovative potential and thus also our ability to create value in the long term. Structured HR work and a responsible approach to working conditions are key aspects of our employment policies, as consistently excellent business performance is only possible with happy and dedicated employees.

HR work at Jenoptik covers all employee-related measures to realize the Group's objectives and is thus an essential component of the overall leadership and management process. HR is an internal business partner, and comprises a strategic area and several operating areas. It reports directly to the Chairman of the Executive Board, who is also HR Director. HR officers are the points of contact for employees and managers within the Group. Group-wide guidelines and an authorization matrix govern all relevant processes, workflows, and rights of employees internally and to outside parties.

Alongside an appealing corporate culture, we see our employees' efforts, expertise, experience, and commitment to the company as key values. In the future, HR will concentrate its focus on the issues of corporate culture, HR development, and employee satisfaction.

Detailed information on gender equality and targets for the proportion of women on the Executive Board and the two management levels below the Executive Board can be found in the Corporate Governance Report and in the Corporate Governance Statement. 

A pleasant [corporate culture](#) provides guidance to employees, as well as to customers, suppliers, and potential applicants. The implementation of the new group strategy published in February 2018 involves changes to a number of specific aspects within

the company. At their heart is the establishment of a dialog-based corporate culture based on trust, respect for diversity, and equal opportunities. Jenoptik's leadership culture is set to become even more modern and flexible. We primarily aim to achieve this by promoting respectful behavior in the workplace, flexible working hours, and a healthy work environment. Using regular surveys once every two years, we will gauge our employees' satisfaction with the various aspects of their work and with the corporate and leadership culture, with the intention of identifying specific objectives and actions. On the basis of the surveys on the topics of work organization, working conditions and cooperation, information and communication, leadership and Jenoptik as an employer conducted in Germany in 2012 and 2014, an online survey of all employees, with a revised focus, will be carried out in the 2018 fiscal year. The findings will be used to define implementation projects with specific actions, which can then be evaluated in the year 2020 and reviewed for their effectiveness.

A further measure serving to create an appealing corporate culture is a good work/life balance. Jenoptik is family-friendly and responds to the needs of its employees with flexible working hour models. Flexitime, part-time work, and flexible parental leave all make it easier for our employees to strike their own balance between family and working life. In 2017, 156 employees (prior year: 167 employees) took parental leave, 6.6 percent less than in the prior year. The number of part-time contracts rose by around 35 percent in the last five years. 7.4 percent of employees worked part-time in 2017. To further improve the work/life balance, we are presently developing an integrated approach to mobile working, which is due to be rolled out to the first German locations in mid-2018. One of the most important preconditions for balancing career and family is the availability of childcare. For several years, Jenoptik has been investing in daycare centers at the Jena, Wedel, and Monheim locations, as well as in flexible childcare models. This means that our employees are assured a place at the daycare centers. The low staff fluctuation rate of 3.0 percent for the overall Group (prior year 4.2 percent) itself reflects a high level of employee satisfaction with Jenoptik.

Occupational health and safety are also key topics affecting the basic needs of our employees and their satisfaction in the workplace. They are firmly anchored in the Group's operating processes and aim to minimize risks arising in the work environment that may endanger employees. The Jenoptik companies are each responsible for applying the law on all aspects of occupational health and safety. The central Safety, Occupational and Environmental Protection (SEH) department reports directly to the Chairman of the Executive Board and is available to advise all the group companies. It coordinates the relevant tasks and assists the Executive Board on enforcing necessary measures. There are occupational health and safety committee meetings at all Jenoptik companies each quarter. In addition, all employees are briefed on issues relating to occupational health and safety at work at least once a year. At all of the German locations, around ten percent of the workforce are trained as first-aiders. In 2017, we managed to reduce the number of [workplace accidents](#) in Germany to 10.73 per 1,000 employees (prior year 10.86 per 1,000 employees). Compared to the members of the ETEM trade association, Jenoptik is thus well below the average figure of 18.2 in 2016. In the interests of our employees' health and performance, the Group offers regular medical examinations by a company physician, and in 2017 launched a health day for the employees of the Optics & Life Science segment in Triptis.

[HR development](#) is a key factor that determines the future viability of our company. To help promote employees in line with their potential and interests, and thus maintain their lasting motivation, Jenoptik will be focusing on this issue in 2018. The development needs of every single employee are assessed in regular appraisals and appropriate training is selected. In 2017, Jenoptik invested around 2.0 million euros in its employees' professional development. Over the year covered by the report, this benefited 1,755 employees (prior year 1,832 employees).



More information  
in the Employees  
chapter from  
page 81 on

At the same time, our managers are key drivers of our corporate success and are of particular importance to our HR development activities. They are responsible for motivating their employees and have a direct influence on their satisfaction. Jenoptik's leadership program provides training in areas such as leadership and change management, helping to ensure a standardized understanding of management and the use of uniform management tools. The Jenoptik Junior Leadership Program (J<sup>2</sup>LP) enables the targeted development and promotion of potential leaders within the Group. In addition to preparing management trainees for their future career paths, its target is to develop a uniform leadership culture and encourage cross-segment networking among the participants. 2017 saw the successful completion of the 11th generation of this program.

Specific support for school students, university students and graduates forms part of the Group's strategy for skilled personnel, ensuring early loyalty to the company and thus simplifying the recruitment process. **T08**

But it is not only our employees who are developed in line with the corporate strategy and future market requirements – Jenoptik's future HR needs are also aligned with the Group's international growth strategy. In addition to Germany, this results in a higher need for recruitment particularly in Asia and the US. The target groups addressed by recruitment and thus also HR marketing are primarily specialists and skilled workers in the fields of natural and engineering sciences as well as experts with business management and legal backgrounds.

## Environmental Matters

We see the efficient use of resources and energy at all our global locations as our corporate responsibility and here report voluntarily on key environmental matters in the Jenoptik Group. As many of our products contribute to the efficient and responsible use of resources, Jenoptik primarily makes an indirect contribution to conserving resources.

**Environmental management** is an established part of our corporate activities, but we also oblige our suppliers and contractual partners to comply with relevant laws to minimize environmental risks. As a manufacturing company, we set our focus on efficient resource management so as to reduce energy consumption and greenhouse gas emissions to the best of our ability, use commodities and materials in a safe and saving manner and largely avoid producing hazardous waste. Several Jenoptik companies are certified in accordance with the ISO 14001 environmental management system. Photonic Sence GmbH in Eisenach was awarded an ISO 50001 energy management system certificate, as it has higher energy requirements than the other companies due to its energy-intensive handling of germanium and silicon for high-precision optical systems.

Environmental management lies within the remit of Safety, Occupational and Environmental Protection, which reports directly to the Chairman of the Executive Board. The Jenoptik companies

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## T08 Initiatives and Cooperations (Selection)

Jenoptik supports:

- career guidance projects at schools, also offering their students the opportunity to complete state-level an internship
- young researchers as a longstanding corporate sponsor of the "Jugend forscht" initiative
- various industry organizations to promote professional development activities
- students in the form of degree theses, internships, and scholarships

Jenoptik works together with:

- selected universities around the world with regard to HR marketing and recruitment, for research purposes, and to foster the professional development of its employees
  - selected universities around the world via projects and sponsorship activities, and is active in a range of committees and networks in an advisory capacity
-

are each responsible for applying the law on all aspects of environmental protection. The central environmental protection officer is available to provide assistance where required and, as just one example, reviews all group investment projects with regard to their environmental relevance. The managers responsible for environmental issues at the German locations meet twice a year to share their experiences and ensure a standard approach to implementing environmental law requirements and processes. Waste officers take care of all matters relating to the production, recycling, and disposal of hazardous and non-hazardous waste.

Jenoptik continues to implement and in part exceed statutory requirements relating to nature conservation and environmental protection for new buildings, extensions and the modernization of production facilities. State-of-the-art technologies for saving resources and protecting the environment are applied when fitting out production facilities. As an example, the new production facility in Michigan, US, completed in 2017 was fitted with the latest sensor-controlled LED lighting for the offices and production environment, as well as special energy-saving heating and air-conditioning equipment.

As a technology company, Jenoptik generates only small amounts of emissions within its plants (scope1); the majority of its pollutant emissions are attributable to externally sourced energy (district heating or electricity). In order to meet our goal of recording energy consumption at all of the Group's main production sites, the American facilities were included in our reports for the first time in the 2017 fiscal year. This will in future provide comparison values that allow for an assessment of the energy consumption levels as a ratio of revenue and consequently in relation to changing levels of energy efficiency in production.

As a company in the photonics market, Jenoptik generates only minor amounts of hazardous waste, e.g. adhesive residues or acetone. Within all segments located in Germany, types of waste are systematically recorded and categorized, and the quantities calculated. The volume of hazardous waste in the 2017 reporting year fell marginally to 175 tons (prior year 183 tons); this was disposed of in waste treatment/disposal plants. The quantity of non-hazardous waste, by contrast, rose to 871 tons (prior year 620 tons), primarily due increased production at the Altenstadt location. In general, Jenoptik aims at recycling waste through certified waste management facilities. Through continuous waste separation and training of the employees on waste prevention the amount of residual waste was substantially reduced.

As a high-tech company, Jenoptik is dependent on a wide range of raw materials. In the face of an increasing scarcity of resources, Jenoptik is committed to making sparing use of the materials it requires. We comply with applicable regulations, for example the requirements of the European chemicals regulation REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) and the European RoHS directive (Restriction of certain Hazardous Substances), and are fully involved on associated committees. In the past fiscal year, a project team conducted a group-wide as-is analysis of all companies and is currently defining a target process in line with statutory requirements (REACH) to be implemented across the Group from 2018 on. As Jenoptik does not require large quantities of water for its production processes, we do not see ourselves encountering any key risks in this area. In view of its business purpose, conservation regulations are also of only very minor significance to the Group. The objective of our purchasing processes is to meet all regulations relating to conflict minerals in compliance with the Dodd-Frank Act.

## Resource Management

Many of Jenoptik's innovative products and services make a contribution to the efficient and responsible use of resources. As a technology company, we are mostly involved in the areas where our customers' production processes and products can be made more efficient. T09

## Social Commitment/ Corporate Citizenship

Supporting young people in their education and scientific activities, as well as in social projects is at the heart of Jenoptik's corporate citizenship. The Group supports a whole range of non-profit projects, organizations and initiatives and is actively

### T09 Contribution of our products to resource conservation

#### Product

**Jenoptik diode lasers and laser machines** for a wide range of applications, e. g. in medical technology or the automotive industry

#### Contribution to resource conservation

- The most efficient light sources available with an efficiency of up to 70 percent
- Resource-friendly alternative to traditional machining processes, especially when machining high-strength steel with a low weight

„JENOPTIK RayLance“ – powerful and energy-efficient LED lighting system

- Approx. 40 percent higher light yield while maintaining high energy efficiency
- Wide-ranging use, particularly in high industrial spaces such as warehouses, logistics buildings, and production facilities

**Optical systems and components** for information and data transmission and medical diagnostics methods

- Ongoing development toward ever-smaller crystalline structures in semiconductor production opens up a growing number of new applications
- Time-saving processes and more cost-effective production save resources

**Metrology** – systems and equipment to check shape and roughness, particularly in the automotive industry

- The results are more precise surfaces and tighter tolerances in engine components (downsizing) and thus entire vehicles that require less fuel and produce fewer emissions
- More complex transmissions for electromobility demand the increasing use of metrology

**Hybrid power generation systems** to enable an efficient power supply to the Patriot missile defense system

- Use of battery technology reduces fuel consumption
- Longer life cycles for customers, less service expenditure and thus product sustainability

**Traffic monitoring systems** check compliance with road traffic regulations

- Contribution to increasing road safety and reducing accidents
- Reduction in pollutant and noise emissions
- Installation at the side of the road limits interference in the environment (no installation of monitoring gantries)

**Toll payment monitoring systems** on federal highways

involved in the following three areas, primarily in Germany but increasingly also abroad: T10

- A commitment to the younger generation with projects in science, education, and in the social arena.
- Art and culture projects to make our company locations attractive and create good conditions for our employees' work/life balance.
- A commitment to integration and internationality to strengthen the foundations of business and society in the future.

As a responsible and socially committed company, Jenoptik considers it its duty to play an active role in shaping its business environment. As part of this process, our main concern is to achieve close, long-term partnerships, with the aim of providing not just financial but also personal assistance. With our commitment to society, we want to strengthen the confidence placed in Jenoptik and boost our employees' sense of identification with the company. We also expect it to have a positive effect on our brand image, reputation and our attractiveness as an employer.

Corporate citizenship is thus the direct responsibility of the Executive Board office. Group-wide guidelines govern the prin-


ciples of a structured and standardized approach to defining "Jenoptik as a Corporate Citizen" and ensure a uniform method of handling donations and sponsorship queries, as well as carrying out sponsorship projects.

Our dedication to our region is of particular relevance. Since 1996, the Group has acted as the patron of the "Parent Initiative for Children with Cancer Jena". Donations both made by Jenoptik and collected from partners, and the organization of various events, have helped to support children with cancer and their parents. Particularly worthy of note is the Easter Charity Concert given by the International Youth Orchestra Academy, the proceeds of which are donated to the initiative. In the US, employees at the Rochester Hills, Michigan location provide education and career guidance to young people from financially disadvantaged families. Jenoptik employees at the Jupiter, Florida location assist the "Habitat for Humanity" organization in championing affordable, decent housing, and help to build homes for families in need. In Huntsville, Alabama, our employees donate Christmas presents to children from disadvantaged families as part of the "Angel Tree Program" every year. In 2017, two children were also given the opportunity to spend the Christmas holidays with employee families.

## T10 Social Commitment – Further Exemplary Projects

|                       |   |  |
|-----------------------|---|--|
| Social issues         | Jenoptik supports   | <ul style="list-style-type: none"> <li>• Easter Charity Concert by the International Youth Orchestra Academy for the Elterninitiative für krebskranke Kinder Jena e.V.</li> <li>• „Habitat for Humanity“; Jupiter, Florida</li> <li>• Fund-raising campaign on the occasion of the New Year's Eve Reception for the Center for Children and Youth in Jena</li> <li>• Summer camp for children of employees and for the first time for children from recognized refugee families</li> </ul> |
| Science and education | Jenoptik has been a partner for many years for  | <ul style="list-style-type: none"> <li>• the Thuringian youth researchers competition "Jugend forscht" (since 1991)</li> <li>• the competition of school students "Schüler experimentieren" (since 2012)</li> <li>• long "Night of Sciences" in (since 2005)</li> <li>• the workshops "BEGEGNUNGEN Kultur Technik Wirtschaft" for students of the Ernst-Abbe-Hochschule Jena (since 2004)</li> </ul>   |
| Art and culture       | Jenoptik focuses on promoting regional and young artists with its in-house "tangente" art exhibition (since 1994) | <ul style="list-style-type: none"> <li>• tangente "in space" – Peter Wackernagel</li> <li>• tangente "homo fragilis" – Thomas Lindner</li> <li>• and together with partners the exhibition by Georg Thumbach "Ins Holz", organized by the Friedrich-Schiller-University Jena and the "Kirchentag auf dem Weg" Church Congress on the occasion of the anniversary of the Reformation</li> </ul>   |


Since the company's earliest days, Jenoptik has been enriching life in Jena with art and cultural projects. The in-house "tangente" art exhibition is a key part of this endeavor.


Together with numerous partners, the Group is also active as a member of the "Familienfreundliches Jena e. V." (Family-Friendly Jena) support group for projects conducted by the "Jenaer Bündnis für Familie" (Jena Family Alliance) to improve general underlying conditions, the [work/life balance](#) and equal opportunities in education. In the process, Jenoptik supports various models of family-friendly childcare, the "Saaleknirpse" in Jena, the "Wasserstrolche" in Wedel, and the "Talentschuppen" in Monheim. The highlight once again was the summer camp jointly organized for children of Jenoptik employees and children of recognized refugee families. 



More information can be obtained by going to [About Jenoptik/Responsibility/Compliance](#) at [www.jenoptik.com](http://www.jenoptik.com)

## Human Rights and Anti-Corruption

In a globalized market environment, Jenoptik is fully committed to responsible corporate governance and law-abiding, compliant conduct. We make our business decisions with this in mind and always work to ensure that our actions do not contravene regulations, laws or our values. Corporate Compliance & Risk Management therefore lies within the remit of the Chairman of the Executive Board, the Jenoptik Compliance Manager reports relevant incidents directly and regularly and remains in close contact with the entire organization and all employees. It organizes and manages the Group's risk and opportunity management system in close cooperation with the corporate departments and the divisions' risk officers. 

Upholding [human rights](#) is one of Jenoptik's key priorities also in the supply chain. Jenoptik is committed to internationally recognized standards of human rights and does not tolerate any form of slavery, forced labor, child labor, human trafficking, or exploitation in its own business operations or those of its supply chain. We expect our suppliers to comply with and respect internationally recognized human rights standards, e.g. the Slavery and Human Trafficking Statement. 

All our suppliers are contractually bound to adhere to the standards of the "Code of Conduct for Suppliers to the Jenoptik

Group", which was updated in 2017, and similarly oblige their own suppliers to adhere to them. Processes relevant to the issue of compliance were revised in 2017 with the aim of identifying violations and high-risk business partners in good time. In a two-step process, a supplier compliance declaration and an additional code of conduct for distributors first oblige all our business partners to adhere to the law. In the second step, a centralized high-risk business partner screening process is used to ensure that Jenoptik cooperates only with those business partners that meet all of its compliance requirements.

**Anti-Corruption:** Jenoptik fights all forms of active and passive corruption and expects all its business partners to do the same. We also see it as our responsibility to ensure that our customers and suppliers act in compliance with the law. For detailed information on Jenoptik's compliance management system, the company guidelines and codes of conduct for employees, suppliers and sales partners, our online training, and the whistleblower system implemented in 2017, we refer to the Corporate Governance Report from page 36 on and the Risk and Opportunity Report from page 108 on.

## Quality Management and Brand Image

### Quality Management

The key to Jenoptik's success as a technology company is primarily based on the quality of its products and solutions. Long-standing collaborations with key customers, sometimes in the form of development partnerships, and the confidence placed in us by our partners are proof that our products and solutions are of impressive quality. As a quality leader, we are committed to ensuring that the quality of our products and services is above the average in many of our product areas. Quality management at Jenoptik is managed locally in the business units and falls within the responsibility of the division managers. The diversity of our product range makes this structure necessary; each division applies individual quality indicators (e.g. customer satisfaction, complaints rate as a percentage of revenue, quality level as a percentage of revenue).

One measure to ensure and further improve our quality is the quality initiative we launched in 2017; its impact can be felt



For further information of employee matters see page 56 ff. and page 81



For more information, see the Risk and Opportunity Report on page 108



in all areas of the business – from the development of new products to quality planning and assurance and all the way to the finished product quality. The initiative will continue to run in 2018, now with an increased focus on internal customer and supplier relationships, i. e. a better understanding of all parties relating to downstream processes.

In addition to certifications, further issues in quality management at Jenoptik include standardization, process controls, tests and continuous dialog with customers, e. g. analyses of customer satisfaction.

Almost all the Group companies comply with the requirements of quality management standard ISO 9001; many of them also meet the requirements of the ISO 14001 environmental management system.

The table below shows a selection of Group certifications and actions undertaken in 2017. In the Optical Systems division,

the quality management system was successfully switched to DIN ISO 9001:2015, the environmental management system to DIN ISO 14001:2015. JENOPTIK Robot GmbH in the Mobility segment successfully passed the certification process for all locations conducted by DEKRA in accordance with DIN EN ISO 9001:2015. In the past fiscal year, the Wedel location in the Defense & Civil Systems segment renewed its occupational health and safety management OHSAS 18001 certification and NATO quality assurance system certification in accordance with AQAP 2110/2210.

Jenoptik's **brand image and reputation** are of key importance in many respects – the trust placed in us by our stakeholders, our position in the competitive environment, our attractiveness as an employer, and our employees' sense of identification with the company. As an international photonics company, we work in many different markets and compete with numerous companies to be visible, predictable and attractive both to customers, as a supplier of high-quality capital goods, and to

## T11 Certification within the Group (selection)

| Certification                | Description  | 2017 actions  |
|------------------------------|--|---|
| ISO 9001                     | Certification of quality management processes  | Change in quality management system in the Optics & Life Science segment (JENOPTIK Optical Systems GmbH) and the Mobility segment (JENOPTIK Robot GmbH and JENOPTIK Industrial Metrology GmbH) to ISO 9001:2015 |
| ISO 50001                    | Certification of the energy management system  | Certification of Photonic Sence GmbH due to energy-intensive machining processes  |
| EN 9100                      | Certification of quality management processes specific to the aerospace and defense industries               |   |
| ISO 13485                    | Certification of comprehensive quality management systems for the design and manufacture of medical products |   |
| ISO 14001                    | Certification of the environmental management system   | Renewal of certification in the Optics & Life Science segment (JENOPTIK Optical Systems GmbH)   |
| ISO/TS 16949                 | Certification for the automotive industry  |   |
| EG 748/2012                  | Certification as a manufacturer for the civil aviation industry  |   |
| EG 2042/2003                 | Certification as a maintenance company for the civil aviation industry                                       |   |
| IRIS                         | International Railway Industry Standard  |   |
| ILO-OSH-2001/<br>OHSAS 18001 | Certification of occupational safety and health management   | Renewal of certification in the Defense & Civil Systems segment (JENOPTIK Advanced Systems GmbH)  |
| AQAO 2110/2210               | NATO quality assurance system  | Renewal of certification in the Defense & Civil Systems segment (JENOPTIK Advanced Systems GmbH)  |

future employees. This is dependent on lasting and stable relationships with our customers and suppliers, shareholders and other stakeholders, which we consistently strengthen with transparent communication and trust. Internal and external communications are the task of the corporate Communication and Marketing department at Jenoptik, which reports directly to the Chairman of the Executive Board and ensures a consistent image for the overall Group and the Jenoptik brand. The aim is to ensure that the company's communications and public image are up-to-date, clear, ongoing and memorable, and are aligned with the Executive Board's strategic targets. All topics relating to markets and products are managed locally by the division marketing managers in the operating areas. Group-wide guidelines, for example, govern the information channels for internal communications and central marketing. Communications to the capital market are the responsibility of the Investor Relations department, which also reports to the Chairman of the Executive Board and remains in close, regular contact with Corporate Communications.

Within the highly specialized photonics market, which is characterized by a multitude of smaller companies, the Jenoptik brand is perceived as synonymous with a major supplier – with an integrated brand image covering all products. We have been actively shaping the Jenoptik umbrella brand throughout

the Group for over ten years. At present, the Group is working to boost the brand's international presence and further shore up its brand positioning. We have been stepping up our regional marketing efforts in Singapore and North America since the summer of 2017 to reflect the Group's increasingly international outlook. With its new strategy the Group will focus more intensively on the photonic core competencies of light and optics under the brand Jenoptik. The introduction of an independent brand for the mechatronic business (so far part of the Defense & Civil Systems segment) that better meets the specific market requirements will be one of the priorities in the current fiscal year. Brand management is made centrally at the Corporate Center. 

The Jenoptik Group benefits from the reputation of our headquarters in Jena, which is highly renowned by both scientists and customers as an "Optical Valley". Jenoptik is conscious of this reputation and is involved in various activities aimed at sustainably improving the location. More information can be found in the Corporate Citizenship section of this chapter, on page 60.

The audit report for the separate combined non-financial report can be found on page 202.



Further information  
on strategy see  
Management Report  
from page 70