Dear ladies and gentlemen,

The book you now have in your hands is the annual report of an "almost new" Jenoptik. New, in that we will from now on be concentrating on our core field of expertise: the use of light as an industrial tool. Almost new, in that our corporate realignment is still in progress.

In the future, Jenoptik will combine all its efforts into the Photonics business division. Photonics has been growing for over eight years, with an average 14-percent increase in sales, and 33-percent increase in earnings. At the close of the past fiscal year, Photonics sales had risen from just under 360m euros to over 400m euros, while earnings rose even more sharply – from 34.5m to 39.1m euros, making it a better year than originally expected for Photonics. We can sum up our outlook for the future in one short sentence: Our core business is growing and is highly profitable!

Clean cuts. 2005 was characterized by the sale of M+W Zander. It was almost one year ago that you, dear shareholders, approved this sale with a decisive majority. In mid-December 2005, we signed a contract with the Springwater Capital investment group for the sale of M+W Zander and thus the entire Clean Systems business division. As a result, we had to report a group net loss of 69.4 million euros.

We plan to finalize the process of selling M+W Zander in the first half of 2006. The revenue from the sale, in the low three-figure million euro range, which we will then receive will significantly reduce our net debt. M+W Zander will still be included proportionately in the 2006 financial statements, and we cannot for now exclude the possibility of future effects on earnings from the sale. However, any resulting issues will be dealt with appropriately. We will also continue to gradually extract ourselves from other business areas, which no longer lie within our strategic focus.

Our complex corporate restructuring scheme has been reflected in investor reserve with regard to Jenoptik shares, which did not keep pace with the positive stock market trend in 2005.

I would also like to mention here that the Federal Court appraisal proceedings regarding a DEWB shareholder compensation are scheduled for May 8 – it is our goal to win the proceedings.

Laser & Optics, Sensors, Mechatronics. We have expanded the Photonics business division through new investments in 2005, including the creation of two new facilities in Berlin-Adlershof and Triptis, as well as a number of smaller acquisitions. We have also undertaken intensive preparations for the new Jenoptik that will exclude M+W Zander, concentrating on our technological expertise in putting light to use as an industrial tool. We will conduct our future business in three divisions: Laser & Optics, Sensors and Mechatronics. Through this realignment, the Jenoptik name will stand for a clearer, more transparent profile. We will reinforce these changes with a new corporate identity starting in 2006.

Forecast. We plan to increase our sales by approximately 10 percent annually by 2007. Developments over the first months of the current fiscal year have confirmed the wisdom of this goal and, in our opinion, are also supported by the following arguments:

- The outlook for photonics technology is outstanding. Tremendous growth is expected, especially in view of the strong development in the branches in which this technology is employed.
- We see particularly strong potential for our technology in non-European markets.
- German high-tech and German engineering have become synonyms around the world for the highest standards of precision, reliability and quality. Jena, which is our group's home base, is also home to a concentration of high-tech optics expertise that is virtually unparalleled in Germany. Jenoptik can benefit greatly from this know-how.
- In the future, we can concentrate our financial and management resources solely on expanding Photonics.

I would like to express my thanks to you, esteemed shareholders, customers, and partners, and also to you, dear colleagues, who have joined us on our way to becoming a clearly positioned high-technology group. Thank you for placing your trust in us and the path we have plotted, and for all the hard work that you have already contributed to our company.

Sincerely,

Alexander von Witzleben
Chairman of the Executive Board

Jena, April 2006

JENOPTIK AG Group Management Report for fiscal year 2005.

I. BUSINESS AND FRAMEWORK CONDITIONS.

I.1. GROUP STRUCTURE AND BUSINESS ACTIVITY.

The Jenoptik Group is a group of companies which, in future, will concentrate on its core area of expertise of light as an industrial tool. As a joint stock company listed on the TecDax of the German Stock Exchange, JENOPTIK AG holds investments primarily in mid-cap companies and, as a holding company, does not itself pursue any operational activities.

BUSINESS AREAS AND ORGANIZATIONAL STRUCTURE.

Changing group structure. The Jenoptik Group will until further notice be actively engaged in the two business divisions of Clean Systems Technologies and Photonics Technologies. Whereas the main companies of the Photonics business division have been directly held by JENOPTIK AG since 2004, in the case of the Clean Systems business division there is an interim holding company, M+W ZANDER Holding AG, in which JENOPTIK AG has a 72.89 percent stake. The remaining 27.11 percent are owned by shareholders of the founder families. The contract for the sale of all shares of JENOPTIK AG in M+W ZANDER Holding AG and consequently the entire Clean Systems business division, to the venture capital company Springwater Capital, Geneva/London, was signed in December 2005. Up to the contract closing, i.e. the date on which all the conditions for the sale are met (see p. 9), the shares will continue to be held by JENOPTIK AG.

The M+W Zander Group offers a range of services relating to all aspects of corporate buildings and high-tech production facilities. The focus of the activities is on clean room technology for the electronics, solar, pharmaceutical and food industries, as well as for research institutions and on the manufacture of clean room components, technical facility systems as well as facility management. Jenoptik divides these activities between the business areas of Facility Engineering (planning and construction) and Facility Management (operation). In Facility Engineering the business is characterized by major projects, consequently an individual order can extend to several hundred million euros. Within Facility Management M+W Zander D.I.B. Facility Management GmbH renders services relating to all aspects of existing buildings and facilities. The M+W Zander Group is represented worldwide. The facility enginering business for the electronics industry is managed from the focal market of Asia. The company is one of the global market leaders in the construction of turnkey chip plants and flat panel production plants.

In the Photonics business division, in the laser, optic, sensors and mechatronics areas, Jenoptik develops, manufactures and distributes photonic components, modules and system solutions right up to total systems and enables light to be utilized as an industrial tool.

The main reason behind the sale of the shares in M+W ZANDER Holding AG was the fact that there were no further synergies between the Photonics and Clean Systems areas of business. These are based on very differing business models: research-intensive high technology on the one side and, on the other, highly advanced facility engineering, involving long-term major projects and comprehensive services. In addition, Jenoptik would not have been in a position to provide both business divisions with financial resources over the long term in such a way that would enable them to continue the strong growth they have achieved over the past ten years.

Comprehensive sale process. At the beginning of June 2005 the Annual General Meeting of JENOPTIK AG approved by a large majority the strategy concept decided by the Executive Board to sell the entire Clean Systems business division and consequently to restructure the strategic orientation of the Jenoptik Group. A structured tendering process was set in motion following the Annual General Meeting, with support and advice from an international corporate finance service provider. The aim of the process was to sell the complete Jenoptik shareholding in M+W Zander and consequently the Clean Systems business division in its entirety. By December 2005 JENOPTIK AG had received a total of four concrete offers. Springwater Capital's offer was accepted on December 18, 2005. The Supervisory Board of JENOPTIK AG had given its unanimous approval to the sale to Springwater Capital at an Extraordinary Meeting held on December 15, 2005, subject to the signing of the contract.

The conclusion of the sale of M+W Zander entails various provisos, so-called closing conditions. These include in particular

- approval from the Antitrust Commission,
- the exemption of the buyer from making a takeover offer to the external shareholders of the listed subsidiary caatoosee ag,
- final approval for financing by the deb capital provider as well as,
- a final agreement with the family shareholders.

As a result of the closing process not yet having been concluded the figures for the M+W Zander Group are included in full in the 2005 consolidated financial statements and on a proportional basis in the quarterly financial statements and the 2006 annual financial statements. The contract closing is expected to take place during the course of the 1st half of 2006, thereafter the Jenoptik Group will solely comprise the existing Photonics business division.

PRODUCTS, SERVICES AND BUSINESS PROCESSES.

Light as a core area of expertise. The new Jenoptik will concentrate on its core area of expertise, the utilization of light as an industrial tool. We possess mastery of the technologies along the photonics chain – from light generation, to shaping through to measuring. In the areas of lasers, optics, sensors and mechatronics, Jenoptik employees develop, manufacture and market technologically complex components, modules and system solutions right up to complete plants for the precise measurement, analysis, structuring and processing of various materials in industrial processes. We also develop technologically complex components and systems used in drive and stabilization technology for the defense and civil sectors.

Production is determined by small production runs and contract manufacture. The reason for this are the highly specialized technology markets towards which the vast majority of our systems and facilities are targeted. Research and development occupy a key role within the business processes.

MAIN BUSINESS LOCATIONS.

From Germany throughout the world. Jenoptik's registered offices and central production facilities are in Germany, although the components, systems and facilities are distributed and used throughout the world in various products and production processes. In addition to its headquarters in the city of Jena in the Free State of Thuringia, Jenoptik has major subsidiaries in Monheim near Düsseldorf, Wedel near Hamburg and in Villingen-Schwenningen. The group companies also have their own subsidiaries as well as joint venture companies and investment holdings in Germany as well as worldwide in those countries that occupy a key position for their relevant markets. These include in particular the USA, Europe and Asia. There is also a global network of dealers and partners which is being expanded on a continual basis.

KEY SALES MARKETS AND COMPETITIVE POSITIONS.

At home in the international high technology markets. Light has a diverse range of potential uses as a tool. The group is therefore not focused purely on one or two key sectors. Instead, the markets are derived from the potential uses of light in processes or products. Jenoptik is developing new products and technologies and therefore continually opening up new sales markets in conjunction with its customers. Jenoptik has an extensive presence in those sectors in which the use of light is already replacing conventional technologies. These include eight key markets: the semiconductor industy, the medical technology and aerospace industries, traffic safety systems, the market for materials processing and industrial measurement technology, as well as for digital imaging and security and defense technology. In each of these markets the group companies are in direct competition with just a few companies worldwide. As a general rule, in the relevant markets the group companies have around 4 to 6 competitors, with the respective Jenoptik company today mostly being one of the top three and in some cases even the market leader.

Broadly-based position creates independence. On the basis of our broad presence in most cases we are extremely well positioned to counter cyclical fluctuations to which individual sectors like the semiconductor industry are subject. We are not actively involved in the markets for consumer goods which are subject to strong seasonal fluctuations. Our products and services are primarily geared towards industry and in individual branches of business also geared towards the public sector. There are no major legal factors that influence our direct, operational business apart from export conditions relating to the export of defense technology in which Jenoptik is however only involved to a minimal extent.

MANAGEMENT AND CONTROL.

Since December 2005 the Executive Board of JENOPTIK AG has consisted of two members. During the course of the spin-off of the M+W Zander Group from the Jenoptik Group, Jürgen Gießmann left the Jenoptik Executive Board at the end of November 2005 at his own request. He will now be concentrating solely on his role as Chairman of the Executive Board of M+W ZANDER Holding AG.

Alexander von Witzleben, Chairman of the Executive Board, is responsible for strategic corporate planning and investments, finance, taxation, controlling and real estate, personnel, data processing, investor and public relations, risk management, central marketing and corporate governance. Norbert Thiel, as a member of the Executive Board, is responsible for the Photonics business division, data protection, auditing/compliance as well as quality and environmental management.

The Supervisory Board, as a monitoring body of JENOPTIK AG, comprises 16 members, eight of whom are employee representatives. Since June 2003 Prof. Dr. h.c. Lothar Späth has been Chairman of the Supervisory Board. Detailed information on the Supervisory Board can be found on page 131 in the Notes as well as in the Report of the Supervisory Board from page 136.

Extensive independence. Control and profit transfer agreements exist between JENOPTIK AG and the main group companies. The holding company provides support for the companies in particular by coordinating and expanding technological synergies, supplying and monitoring financial resources, providing group-wide services as well as a communications infrastructure.

The German group companies of Jenoptik are limited liability companies and have a high degree of personal responsibility for their commercial activities. Such extensive flexibility enables them to act and respond flexibly to the fast moving and, occasionally, relatively small technology markets. The management of the group companies is normally the responsibility of a dual team, generally comprising one technical and one commercial managing director. This enables us to create a balance of interests.

BASIC FEATURES OF THE REMUNERATION SYSTEM.

Collective wage agreements for the group companies. The employees of JENOPTIK AG as well as of the group companies JENOPTIK Laser, Optik, Systeme GmbH, JENOPTIK Automatisierungstechnik GmbH and JENOPTIK Instruments GmbH are remunerated in accordance with a group collective wage agreement. This came into force with effect from January 1, 2005 and is valid up to December 2007. All elements of the remuneration are being increased on three levels – following a 1.6 percent rise as from January 1, 2005, gross salaries will increase by 2 percent at the beginning of the year 2006 and 2007 respectively. The target agreements that previously applied were replaced by a collective wage agreement-based profit-sharing scheme in the form of one-off payments dependent upon the profits earned. In addition, the working time, based on the 38 hour week, was structured on a more flexible basis. The results of the wage and salary negotiations held in February 2004, apply to those employees covered by the industry-wide wage agreement of the metals and electronics industry. In total some 75 percent of all the 2,835 Photonics employees work in companies covered by the collective wage agreement.

Up to 15 percent of the profits earned by the respective group company which remunerates in accordance with the Jenoptik collective wage agreement can be distributed for the profit-related, one-off payments. There is also the option of special rewards for individual performances. The decision in this respect is taken by the manager within the framework of an annual employee review assessment. Employees of the Jenoptik Group with contracts of employment not covered by the collective wage agreement will normally be paid a fixed salary together with an additional bonus granted to reflect their performance over the year. This will be assessed by the respective manager. The profit-sharing scheme does not apply to these employees.

There are currently no employee option programs. The more recent of two option programs which were created in 1999 and 2000 to run for a period of five and four years respectively, expired in 2005. The options could not be exercised as the price of the Jenoptik share was significantly below the exercise levels required.

Since 2001 Jenoptik has been offering an employee-funded retirement provision model which is based on a number of pillars: the provident fund, the pension scheme of the metals industry as well as private pension agreements with Allianz. Direct pension guarantees are no longer given. The provisions for existing pension liabilities that were taken on with the acquisition of ESW-EXTEL Systems Wedel Gesellschaft für Ausrüstung mbH are approx. 25m euros. They are combined within the Jenoptik Pension Trust and are mainly secured through real estate and share assets and are therefore independent of Jenoptik's operating business.

The Jenoptik Pension Trust was set up in 2002 with the aim, at that time, to combine all the Group's pension commitments together. Once it emerged that M+W Zander was to be separated the gradual transfer of the M+W Zander pensions was halted and M+W Zander pensions already transferred were re-transferred in accordance with the contract of sale with Springwater Capital in December 2005. During the course of this re-transfer the Jenoptik Pension Trust itself was changed over from its structure under HGB to the standard structure in accordance with IFRS.

The contracts for the management of the group companies are negotiated individually with the Executive Board within a standardized framework. In addition to a fixed salary the variable portion of a Managing Director's salary is normally determined by the annual sales achieved by the group subsidiary. Detailed information on the remuneration system for the Executive Board and the Supervisory Board are contained in the Corporate Governance Report (p. 50) and in the Notes (p. 130).

I.2. CORPORATE MANAGEMENT, TARGETS AND STRATEGY.

With the signing of the contract of sale for M+W ZANDER Holding AG, at the end of 2005 we took the biggest step towards becoming a focused technology group. The sale equates to a strategic reorientation for which we had made intensive preparations over the previous two years. Before that, we had realigned M+W Zander, making it significantly easier to realize a sale. The outcome of this was a further reduction in the stake in M+W Zander Gebäudetechnik GmbH to 25.1 percent at the end of 2005. The company, which operates in a difficult market environment, has in fact been run for the most part by its own management since the end of 2004.

Clear positioning. As a focused technology group our aim is to become more transparent and comprehensible. Over the past two years we have already further expanded the Photonics business division through investments in modern production facilities as well as through acquisitions and shareholdings. Since it is our technological expertise that determines the markets we have made a conscious decision to position ourselves to reflect the core competencies. From 2006 we will be operating our businesses in the following three divisions:

Laser&Optics division: In the laser field Jenoptik concentrates primarily on new effect principles, for example thin-disc lasers and high-performance diode lasers. The main areas of use are in materials processing and medical technology. In the optics area the group develops, manufactures and distributes high-quality optical and coated optical components made both from glass and plastics, as well as opto-mechanical assemblies. The Laser&Optics division primarily develops and manufactures components and subsystems which are then further integrated into systems and facilities by the clients themselves.

The Sensors division combines primarily those group companies which utilize their know-how in all aspects of light and combine these within total systems and facilities. The scope of goods and services includes comprehensive technological solutions for use in traffic monitoring, safety technology, industrial measurement technology, materials processing and the aerospace industry.

The Mechatronics division rounds off the group profile, offering a comprehensive portfolio of support technologies. The range of products and services here covers complex technological components and systems for civil and military applications. The main areas of focus are on the development and production of drive and stabilization systems. With a significant proportion coming from defense technology, this division operates primarily in the public sector markets. It also develops and manufactures complex systems for the aviation industry such as for example lifts, rescue hoists as well as de-icing and control systems.

OUR OBJECTIVES.

By realigning the group we are following clear objectives that we could not achieve with a continuation of the group in the structures that had existed since 2004. In this context, the new Jenoptik will be pursuing the following strategic guidelines: We will focus on areas of business relating to photonic and mechatronic technologies with the aim of being a leading provider in selected market segments. In this context we will be concentrating on industry-related products. Research and consumer markets will not form part of our focus.

We want to increase sales by approx. 10 percent per annum up to 2007. In order to achieve this we will strive for strong organic growth. Additional impetus is to come from acquisitions which –

as in the past – strengthen our technology portfolio as well as our international market presence, should provide an additional boost. Over the long term our aim is to generate sales of around 1 billion euros.

Our objective is to achieve a marked reduction in net debt. We intend to realize this through the repayment of the bond using funds from the sale of M+W Zander as well as through the further reduction in liabilities arising from the finance lease.

We will strive to achieve a shareholders' equity quota of around 50 percent in the long run. The sale of M+W Zander will result in a sharp reduction in the balance sheet total which will fall below one billion euros. Consequently, despite the book loss, the sale will create an increase in the shareholders' equity quota. The intention over the next two years is to further increase this by reducing debt.

The number of employees at Jenoptik excluding M+W Zander is expected to rise to 3,000 over the medium term. In conjunction with the targeted increase in sales and earnings the intention is to take on an additional approx. 300 employees over the medium term, to include those from any possible acquisitions.

We are giving the group an even stronger international focus. We already have a presence in the important key markets. The aim is to further expand these activities. We see enormous potential for our technologies and products particularly in Asia, Eastern Europe and the USA.

We are continuing to expand our position as a technology leader in individual market segments. To this end we are continuing to invest heavily in research and development. Along the photonics chain we will benefit from our knowledge of the up and downstream stage. We will endeavor to enable our subsidiaries to call on the considerable amount of technology know-how within the group, quickly and in an uncomplicated way via various platforms for group-wide cooperation.

STRATEGIC FINANCING MEASURES.

The repayment of the bond as well as smaller acquisitions involving purchase prices in the single figure million euro range are to be realized using the inflow of funds from the sale of M+W ZANDER Holding AG as well as from current cash flows. In addition, JENOPTIK AG has long-term financing instruments at its disposal resulting from the resolutions passed at the 2005 Annual General Meeting. These include, amongst others, the authority to create new authorized capital in the sum of up to 35m euros, representing the issue of approx. 13.4 million non-par value shares as well as to issue bonds with warrants or convertible bonds in the sum of up to 150m euros.

CONTROL SYSTEM AND CONTROL INDICATORS.

Jenoptik assesses the companies in the Photonics business division on the basis of, amongst other things, their result from operating activities. The progress of business for each group company is assessed within a one year period on the basis of the sales, earnings and order book figures submitted, as well as the cash flow, profitability and other data, comparing these with the target figures. Three forecasts are produced during the course of a fiscal year. However, investment and business decisions in the fast moving technology markets require far more criteria than just indicators. This is aided and supported by the operational independence and responsibility of the group companies.

For decisions on acquisitions, investments, new businesses as well as research and development projects, the company management therefore primarily relies on analyses by specialists involved in the process, who have extensive market, competitor and sector know-how. A whole range of various assessment criteria is used, differing in the respective individual case.

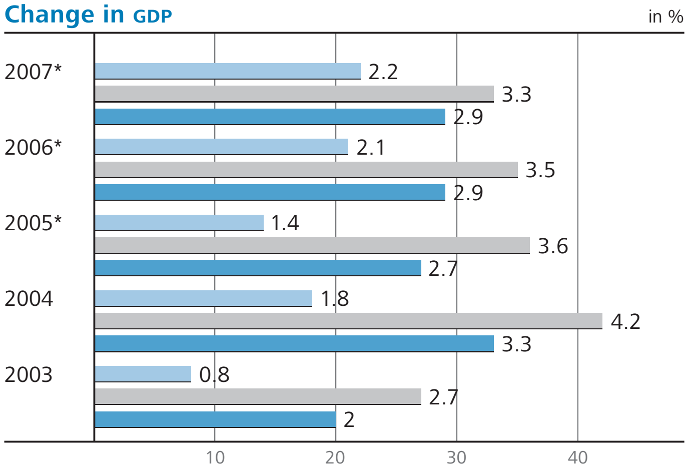
I.3. DEVELOPMENT OF THE ECONOMY AS A WHOLE AND OF THE SECTORS.

DEVELOPMENT OF THE ECONOMY AS A WHOLE.

The growth in the global economy remained relatively robust despite the increases in oil prices. According to the OECD Economic Outlook of December 2005 economic growth within the OECD region was 2.7 percent in 2005 as against 3.3 percent in the previous year. The key factors driving growth were investments in plant and machinery, exports as well as rising personal consumer spending.

There was a noticeable slowdown in the rate of US growth. This was attributable on the one side to weak personal consumer spending and on the other to the hurricanes and their devastating consequences. Nevertheless, according to the OECD in 2005 the US economy nevertheless reported overall growth of 3.6 percent. In the previous year this was still 4.2 percent.

Change in GDP in %



European Union USA OECD members
*projection
Source: OECD Economic Outlook No. 78/2005

China has become the "locomotive" which is driving the global economy. According to figures from the Chinese National Department of Statistics the national economy grew by 9.4 percent, with the gross domestic product (GDP) rising to 2.16 billion US dollars. This made China the world's fourth strongest economy. The upswing was borne by the significant levels of corporate investment. However, increasing importance was also attached to personal consumer spending.

The GDP of Asia's dynamic national economies (excluding Japan) grew on average by 5 percent according to figures from the OECD. According to the Singapore government Singapore's economy recorded growth of 5.7 percent. The OECD forecasts an increase of 2.4 percent for Japan.

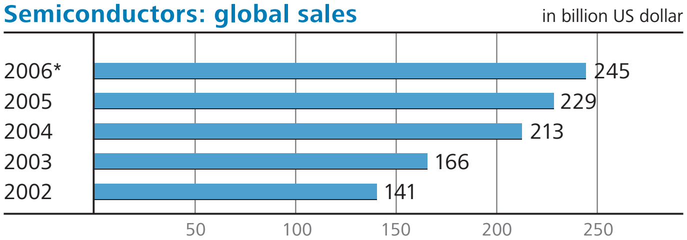
Within the euro region the recovery in economic activity was held back by high oil prices. According to the OECD economic growth in the euro region slowed from just approx. 2 percent in 2004 to 1.4 percent in 2005. Exports, which normally show strong growth also rose by just 3.5 percentage points, in the previous year the figure was still 6.5 percent.

Germany is the world's champion of exporters. Exports by the German economy in 2005 were 6.2 percent higher than in 2004 according to details from the German Federal Government. In addition to weak investment in the construction sector personal consumer spending continued to hold back growth. The OECD forecasts overall growth of just 1.1 percent by the German economy. In line with the slight upturn, corporate investment in plant and machinery also rose in 2005. According to the Federal German Department of Statistics the increase totaled 4 percent. Following the years of stagnation in 2003 and 2004 this does appear to be helping to bring about a mood change. However, this was still insufficient in 2005 to clear the bottleneck of reform.

INDIVIDUAL JENOPTIK MARKETS.

Sales by the worldwide semiconductor manufacturers totaled 229bn US dollars in 2005 according to the Semiconductor Industry Association (SIA) and were therefore up by 6.8 percent compared with the previous year. Demand increased particularly during the second half of the year as the result of strong pre-Christmas trading in consumer products such as mobile phones, digital cameras and MP3 players. Automotive electronics is also making an increasing contribution towards the market growth. The sector has also succeeded in adapting to significant fluctuations in production inventories and rapidly changing market conditions. Investments by the semiconductor manufacturers fell slightly in 2005. The focus of investment remains on Asia but not solely on China. It is not just due to fears about the insufficient protection for their technologies and processes that numerous manufacturers are continuing to invest in other countries of Asia.

Semiconductors: global sales in billion US dollar



*projection

Source: VLSI

The global market for flat panels generated a sales volume of around 70bn US dollars in 2005 according to details from the market research institution Display Search. In this context consumer electronics provided the strongest impetus, in particular the extremely high level of demand for flat panel TV monitors which now have an 80 percent market share. However, the high level of construction of new production facilities in the previous year was not repeated in 2005, with total investment just short of 15bn US dollars.

The Facility Management market gained new impetus in 2005. The sector had already achieved sales in excess of 50bn euros in 2004 and according to a recent study by Lünendonk grew by approx. 8 percent in the year just past. The market is increasingly being defined by service providers who offer integrated services and manage the entire process chain under one roof. This led to a continuation of the trend in large providers forcing smaller companies out of the market.

In 2005 optical technologies once again took on the role of the engine driving economic growth. The European industry organization Photonics 21 estimates that the global market for optical technologies in 2005 was 150bn euros. German companies are amongst the leading global players in this growth market. According to details from the German industrial association Spectaris the sales of these companies in the optical, medical technology and mechatronic industries grew by 5.7 percent to 39.6bn euros in 2005, driven exclusively by exports. The German companies in the photonics business achieved this market leading position thanks in particular to their undiminished innovative capability. In 2005 they invested on average 10 percent of their annual sales in research and development.

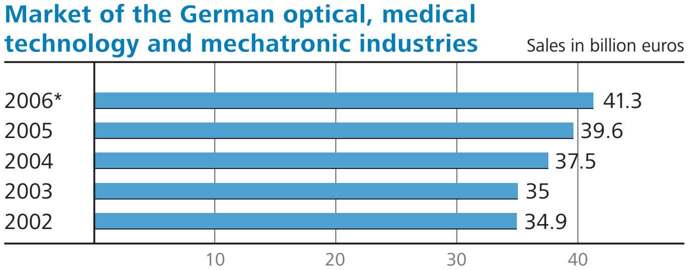
Laser technology is becoming increasingly established in industrial applications although the potential in this field is still a long way from being fully exploited. Nevertheless, with a volume of 5.5bn US dollars compared with approx. 5.4bn US dollars in 2004 the global market remained rather cautious. According to the specialist magazine Laser Focus World the market will be driven by the demand from medical technology as well as materials processing. There has been strong growth in the market for high-performance diode lasers. Growth came from across the full range of applications for this type of laser, an area in which Jenoptik is one of the world's leading manufacturers. In regional terms the main growth market for industrial lasers is China.

The German industry for measurement technology and sensor systems reported further growth. According to data from Spectaris sales in this market increased by 3.6 percent to 15.2bn euros in 2005. Export sales in 2005 rose by 5.8 percent to 7.8bn euros, domestic sales were up by 1.5 percent to 7.4bn euros. According to information from the international market research firm of Research and Markets the mood was highly optimistic in particular in the vehicle sensor systems field.

Automobile production reached a new record high in Germany in 2005 at 5.35 million cars according to details from the Verband der Deutschen Automobilindustrie (VDA). Worldwide, German automotive manufacturers produced 13 million vehicles, accounting for 21 percent of global production. This was attributable to purchase incentives resulting from the launch of numerous new models. Nevertheless, German manufacturers are subject to on-going pressure on costs.

The global market for traffic monitoring systems was put at just under 200m euros in 2005 according to the Jenoptik subsidiary ROBOT Visual Systems GmbH's own estimates. In 2005 the market for traffic monitoring grew by around 5 percent compared with 2004, driven primarily by the Middle Eastern states as well as by the so-called BRIC countries (Brazil, Russia, India, China). The German traffic monitoring market stagnated at a high sales level but, as a result of strict licensing requirements, remains a model for the international market.

Market of the German optical, medical technology and mechatronic industries



*projection

Source: Spectaris

The European aviation industry is characterized by major projects. Measured in terms of new orders for passenger aircraft, 2005 was one of the best years for Airbus: Airline passenger numbers had once again increased, the recession in the aviation industry following the terrorist attacks in the USA in 2001, had passed. The rise in demand, including at Boeing, was the result on the one side of new models, whilst on the other of airlines ordering modern jets with low operating costs.

In the aerospace industry, apart from France, Germany is the European nation with the greatest involvement in aerospace with annual sales of 1.23bn euros in 2005 and a workforce of approx. 4,800. As a result of the ESA Conference of Ministers at the beginning of December 2005 approval was given for a comprehensive program up to 2010, the aim of which was to maintain the international competitiveness of the European aerospace industry. Earth observation, one of Jena-Optronik GmbH's core areas of expertise, is an area of particular importance to Germany and Europe.

The German medical technology sector was one of the growth sectors in 2005. According to Spectaris sales of the German medical technology industry in 2005 are expected to have risen by 9 percent to approx. 14.8bn euros. However, this positive development was borne solely by the strong export sales. In 2005 the German medical technology industry invested 8 percent of sales in research and development.

The market of the electrical engineering and electronics industry in the defense technology area grew by 4 percent in 2005 according to details from the Zentralverband Elektronik- und Elektrotechnik e.V. Following a fall in sales in the sector of more than 18 percent between 2000 and 2004 – a consequence of the strong savings path taken during the era of Rudolf Scharping, a former Defense Minister, the market is showing increasing signs of recovery. One of the reasons for this is the more liberal policy of the coalition government of Christian Democrats and Social Democrats which has led to increasing arms exports. According to current surveys among the member companies of the Fachverbandes Wehrtechnik [Association of Defense Engineering Companies] sales increased by 3 percent in 2005, reaching a total of 1.77bn euros.

GENERAL STATEMENT ON MARKET DEVELOPMENT.

The growth in our key sectors as described above was to the benefit of our operating business in 2005. In particular, the very good order situation – a key indicator for the current fiscal year – gives us reason to be optimistic.

In 2005 the Clean Systems business division delivered key projects, such as e.g. the second AMD chip plant in Dresden, to the client's total satisfaction. The current investments in chip factories and flat-panel production facilities, primarily by manufacturers outside Europe, led to M+W Zander winning larger orders from abroad in 2005. The largest order in M+W Zander's history in the sum of 700m euros came from the Middle East at the end of 2005. The Facility Management business area increased its business as a pan-European provider as demonstrated by a number of new, also transnational orders over recent months.

The progress of business at Photonics reflects the good and in some cases very good state of the key sectors and markets and simultaneously bears out the strategy being pursued by our companies in the respective individual markets. In the photographic traffic safety systems segment, we have grown out of the German market to become the world market leader through the targeted expansion of our foreign business. In 2005 investments in the reliability of high-performance diode lasers helped this technology to achieve the breakthrough, in the automotive industry amongst others. Despite the unchanging European budgets, our aerospace subsidiary Jena-Optronik is becoming firmly established thanks to its commercial commitment, including outside Europe. Plastic optics from Wahl optoparts GmbH are being used in an increasingly widespread range of applications.

II. EARNINGS, FINANCIAL AND ASSET POSITION.

II.1. EARNINGS POSITION AND KEY INDICATORS OF THE GROUP AND BOTH BUSINESS DIVISIONS.

OVERALL GROUP.

Sales of the Jenoptik Group in 2005 totaled 1,914.4m euros (prev. year 2,523.0m euros). On a comparable basis we therefore almost reached the same figure as in the previous year which had included sales of approx. 450m euros from M+W Zander Gebäudetechnik GmbH which was no longer included in consolidation in 2005. At 1,148.1m euros almost 60 percent of group sales came from abroad (prev. year 41 percent). However, these details are only of limited relevance in view of the major projects in facilities engineering at Clean Systems as well as a high proportion of component business at Photonics. The Clean Systems business division (discontinued business division) posted sales of 1,509.5m euros (prev. year

Group sales in million euros

	2005	2004	Change from previous year in %
Sales	1,914.4	2,523.0	–24.1
Domestic	766.3	1,493.6	–48.7
Foreign	1,148.1	1,029.4	11.5

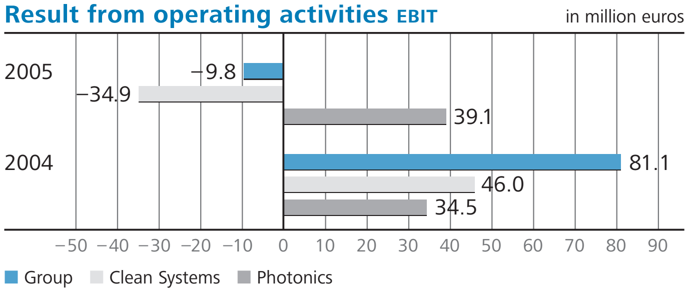
Sales by business division in million euros

	2005	2004	Change from previous year in %
Clean Systems	1,509.5	2,151.5	–29.8
of which Facility Engineering	1,098.7	1,759.1	–37.5
of which Facility Management	417.0	408.0	2.2
Photonics	401.3	359.8	11.5

2,151.5m euros); Photonics achieved sales of 401.3m euros (prev. year 359.8m euros). The sales generated by the continuing business divisions in total (Photonics, JENOPTIK AG and real estate) rose to 424.3m euros (prev. year 392.5m euros) before consolidation.

Group earnings in 2005 were significantly influenced by the sale of the Clean Systems business division which affected all items in the consolidated statement of income. Within the framework of the sales process all group activities were revalued at current market prices. In addition, the project from M+W Zander in the new technologies area had a significant detrimental effect on the group result.

Result from operating activities EBIT in million euros



Earnings before interest, taxes, depreciation and amortization (EBITDA) reached 43.7m euros (prev. year 128.8m euros). With a fall of 85.1m euros the devaluations of the sales process which primarily include depreciations and allowances have less of an impact on the EBITDA than on the group earnings after tax.

Earnings from operating activities (group EBIT) were minus 9.8m euros (prev. year plus 81.1m euros). In this context, a 13.4 percent rise in the Photonics EBIT to 39.1m euros (prev. year 34.5m euros) was offset by a negative EBIT of minus 34.9m euros at Clean Systems (prev. year plus 46.0m euros) which was caused by devaluations and the failed project from the new technologies area of the Clean Systems business division.

The EBIT of the remaining businesses (JENOPTIK AG, real estate as well as consolidation effects) totaled minus 14.1m euros (prev. year plus 0.6m euros). This figure includes the administrative expenses of the holding company (JENOPTIK AG) which remained virtually unchanged at 11.4m euros (prev. year. 11.3m euros) – despite the realignment costs in the sum of approx. 1m euros. The fall was due to the result from real estate which reduced to minus 0.1m euros (prev. year plus 13.5m euros) as the result of lower rental income as well as special depreciation on real estate in conjunction with the reorganization of the group. Unlike in 2005, the result from real estate in the previous year still included 7.6m euros from the long-term general rental agreement that was terminated at the end of 2004. On the other side however, with the resultant fall in liabilities arising from finance lease, interest expenses in the sum of 4.1m euros were no longer incurred.

This is one of the reasons for the 10.7m euros improvement in the group net interest result which came in at minus 22.6m euros (prev. year minus 33.3m euros). This is attributable not only to the cancellation of the finance lease but also to the positive change in an interest hedging transaction and the improved earnings situation of the Jenoptik Pension Trust which is reflected in the net interest result.

The net investment result reduced by 9.7m euros to minus 20.1m euros (prev. year minus 10.4m euros). As part of revaluation of assets within the framework of the sale of M+W Zander the 49 percent stake in M+W Zander Gebäudetechnik was reduced to 25.1 percent and, in the process, written off in full. The resultant loss in the sum of 17.3m euros is included in the result from investments in associated companies (incl. the depreciation on the financial assets). Earnings before tax therefore totaled minus 52.5m euros (prev. year plus 37.4m euros).

Whilst deferred tax expenses fell to 4.2m euros (prev. year 7.2m euros) income taxes increased slightly by 1.5m euros to 12.7m euros (prev. year 11.2m euros). As in the previous year, once again in 2005 foreign group companies and consequently the discontinued business division, accounted for a large proportion of the taxes.

However, for the first time a German company which was sold to the management company in Singapore within the framework of preparing the later cancelled IPO of the electronics division of Clean Systems was also required to pay taxes. The losses arising from the revaluation of Clean Systems assets within the framework of the sale on the one side had no effect on taxes (depreciation on investments) and on the other, increased Jenoptik's tax loss carried forward and resulted in only the partial capitalization of deferred tax claims.

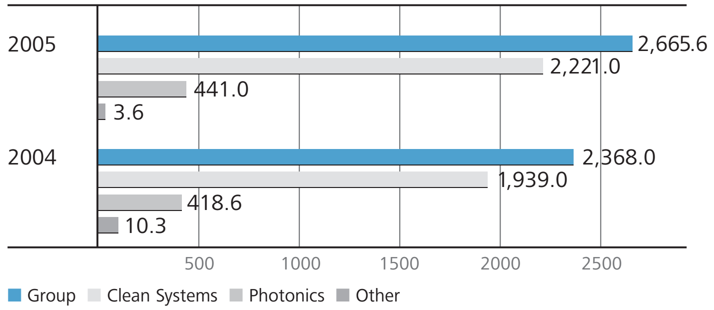
As forecast, the group earnings after tax at minus 69.4m euros were clearly in the red after having reported a profit of 19.0m euros in the previous year. The main reason for this is the negative result from the discontinued business division which generated earnings after tax for the year of minus of 73.3m euros (prev. year plus 7.3m euros).

The continuing business divisions posted positive earnings after tax for the year of 4.0m euros in 2005 (prev. year 11.8m euros). In addition to the special depreciation on real estate and the loss of the positive EBIT contribution from the real estate sold at the end of 2004, the fall is also attributable to costs associated with the sale of Clean Systems. Thanks to a rise of 4.6m euros in the Photonics result and holding costs which remained virtually constant, the 2005 operating result was clearly up on that of the previous year.

2005, the best year for orders. The group order intake totaled 2,665.6m euros (prev. year 2,368m euros of which 464m euros came from Gebäudetechnik) and consequently exceeded the adjusted figure for the previous year by 40 percent. The order for 700m euros received at the end of December 2005 by M+W Zander for the construction of a chip factory in the Middle East had an extremely positive effect on this result. The group order backlog as at December 31, 2005 was 2,702.2m euros (prev. year 1,866.6m euros), an increase of 44.8 percent. As a result of the deconsolidation of M+W Zander Gebäudetechnik GmbH as at December 31, 2004, the order backlog of this company had already been excluded from the 2004 figure.

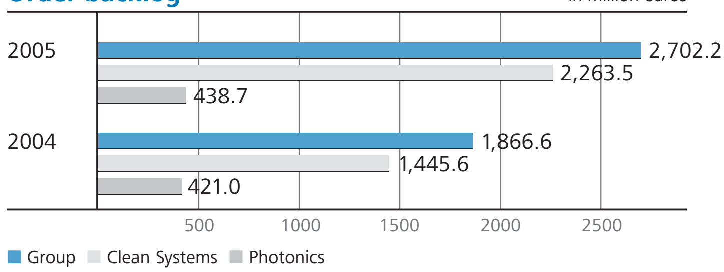
Order intake

in million euros



Order backlog

in million euros



Research and development expenses rose to 34.4m euros (prev. year 31.8m euros). The 8.3 percent increase is attributable solely to the Photonics business division, the R+D costs for Clean Systems fell slightly. In view of the proportionally low R+D costs for M+W Zander, a group-wide R+D quota as a proportion of sales is of little relevance.

R+D expenses of the business divisions

in million euros

	2005	2004	Change from previous year in %
Group	34.4	31.8	8.3
Clean Systems	7.0	8.1	–12.5
Photonics	28.8	25.1	14.7
Other/consolidation	–1.4	–1.4	0

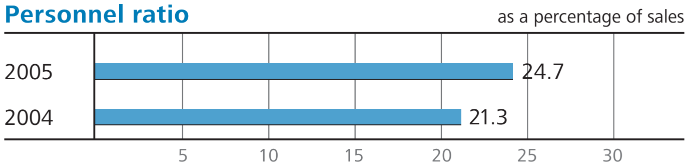
Employees as of December 31 (including trainees)

	Total		Domestic		Foreign	
	2005	2004	**2005**	2004	**2005**	2004
Clean Systems	7,204	6,607	3,790	3,986	3,414	2,621
Photonics	2,765	2,593	2,608	2,495	157	98
Other	70	67	66	62	4	5
Group	10,039	9,267	6,464	6,543	3,575	2,724

With 10,039 employees, at the end of 2005 the Jenoptik Group had a total of 772 more employees than a year ago (prev. year 9,267 employees), significantly above the forecast 400 to 600 increase in the number of personnel. With the acquisition of the majority stake in caatoosee ag the companies included in consolidation also include its Indonesian investment PT Sigma, with 269 employees. The number of employees increased in both business divisions, primarily abroad. At the end of 2005 a total of 3,575 personnel, around 36 percent, were employed outside Germany (prev. year 2,724 or 29.4 percent).

Personnel ratio

as a percentage of sales



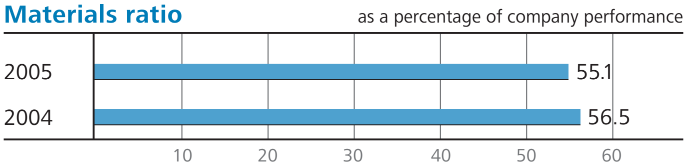
The organization and production cycle are continually adapted to new products and technologies by the Photonics companies. In fiscal year 2005 just past there were no major changes of general importance for the business division as a whole.

In 2005 the further development of the entire M+W Zander Group's organization was determined by the proposed sale. As part of the realignment, in April 2005 M+W ZANDER Holding AG acquired the remaining 30.9 percent of the shares in M+W Zander D.I.B. Facility Management GmbH from EADS. Since M+W ZANDER Holding AG has held 100 percent of the shares in the company with effect from this date, this simplified the ownership structures. The activities of the worldwide facility engineering for the electronics industry had already been combined within M+W Zander Facility Engineering Ltd. in Singapore, in 2004. This took place in preparation for an IPO although this was cancelled in June 2005 due to unfavorable market conditions for initial public offerings. This cancellation had no effect on the operating business which today benefits from being managed from the focal market of Asia.

Quality and environmental management systems have been implemented in numerous Jenoptik companies, which successfully passed their annual audit last year. JENOPTIK Laser, Optik, Systeme GmbH and ESW-Extel Systems Wedel are ISO 14001 certificated. In 2005 the environmental management activities within the Photonics business division were determined by the preparations for the ROHS Directive (Restriction of Certain Hazardous Substances), amongst other things. This European Union Directive will come into force in Germany with effect from July 1, 2006, with the aim of minimizing the amount of waste produced by electrical and electronic equipment at the end of their service lives.

Costs for materials and purchased services totaled 1,076.0m euros (prev. year 1,468.7m euros). The reduction is essentially attributable to the lower volume of sales at M+W Zander within the framework of the Gebäudetechnik deconsolidation at the end of 2004. At 425.9m euros (prev. year 685.7m euros) raw materials, consumables and supplies as well as purchased goods accounted for around 39.6 percent (prev. year 46.7 percent). The cost of materials as a proportion of the company performance, including purchased services and prepayments (total derived from sales, other income and investment result) fell slightly to 73.9 percent (prev. year 74.4 percent). As a result of the proportionally lower share of own value added in major projects, M+W Zander has a higher materials and prepayment quota than Photonics.

Materials ratio as a percentage of company performance



The Jenoptik Group's procurement market is heterogeneous. As a result of the broadly-based product and technology portfolio each of the companies has a range of suppliers, some of whom are highly specialized. It is therefore impossible to centralize or to make general statements on the procurement market, both on a group-wide basis as well as on the Photonic business division. Nevertheless, where synergies offer themselves these are made available. Since 2005 all Photonics companies have had the facility of a database to find out information on the key supplier terms and conditions applicable to other companies. This could enable the number of suppliers to be reduced in future. However, the main aim of this is to cut procurement costs. During the course of a new supplier assessment system (audit) the number of suppliers at Jenoptik Laser, Optik, Systeme has already been reduced slightly in 2005.

The rises in energy prices during 2005, in addition to the rise in overheads had only minimal effect. Since glass manufacture is highly energy intensive the purchase price for the key base material for optics has increased accordingly. However, this is partially offset by long-term contracts concluded with suppliers, entailing binding price arrangements.

Selling expenses of the group as a whole were 19.9 percent lower at 59.1m euros (prev. year 73.8m euros). In both business divisions these costs developed in line with the progress of sales. At Clean Systems, selling expenses were down primarily as a result of savings and the deconsolidation of Gebäudetechnik. Accordingly, the selling expenses quota (selling expenses as a percentage of sales) at 3.1 percent was at approximately the same level as the previous year (prev. year 2.9 percent).

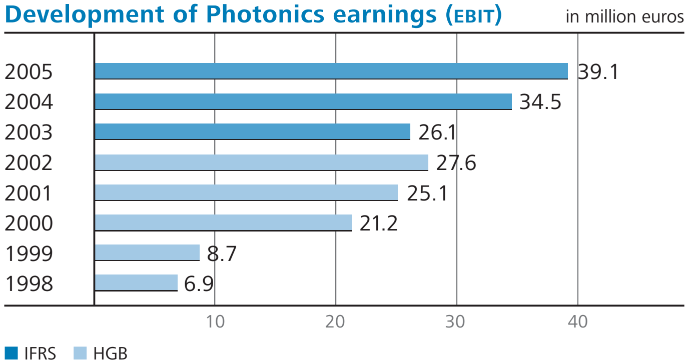
PHOTONICS BUSINESS DIVISION.

Photonics sales, at 401.3m euros, exceeded the target range of 385 to 400 million euros (prev. year 359.8m euros). By comparison with the previous year the figure increased by 11.5 percent through organic growth alone. The smaller participations acquired in 2005 (see p. 34) were consolidated as at December 31, 2005 and are therefore not included in the sales and earnings figures. There was a particularly sharp rise in sales of plastic optics as well as traffic safety systems during 2005. The latter succeeded in particular in attracting new clients from abroad. High-performance diode lasers also achieved a strong rise in sales and earnings. The intensive research and development work over the previous years into the output power and service life of this most efficient of all laser types has paid off, resulting in a leading automotive manufacturer deciding for the very first time in 2005 to use this new technology in its production process.

Foreign sales in 2005 totaled 228.6m euros, representing almost 57 percent of total sales (prev. year 56 percent). In addition to traffic safety systems, industrial measurement technology also posted a rise in foreign sales. The strategy of pursuing the client abroad particularly in North America, Asia and Eastern Europe, was a successful factor here. For example, in 2005 Hommelwerke GmbH strengthened its commitment in the Czech Republic with a new investment. The Hommel investment holding in the USA, Detroit Precision Hommel Inc., also had a successful year that was characterized by rising demand for optical production measurement technology as well as by a major measurement technology order for the world engine of DaimlerChrysler. Hommelwerke GmbH was awarded the order as the Jenoptik subsidiary possesses a comprehensive network of technological know-how locally both in Germany as well as in the USA and Korea.

The sale of precision optical components and systems for the aerospace industry, measurement technology as well as for biomedicine in the USA also developed positively and much better than expected.

Development of Photonics earnings (EBIT) in million euros



Earnings before interest and taxes of the Photonics business division totaled 39.1m euros (prev. year 34.5m euros). Photonics therefore exceeded the figure for the previous year by 13.4 percent and the earnings rose more strongly than sales. The EBIT margin (earnings as a proportion of sales), at 9.7 percent, was therefore slightly higher (prev. year 9.6 percent) and in the upper half of the target range of 9 to 10 percent. Traffic safety systems and plastic optics were the main contributors towards the improvement in the earnings quality.

5.4 percent rise in the Photonics order intake. The order intake in 2005 totaled 441.0m euros (prev. year 418.6m euros). The book-to-bill-rate, the ratio between order intake and sales, was therefore 1.10 (prev. year 1.16). Mechatronics in particular, through ESW-Extel Systems Wedel and Lechmotoren GmbH, the traffic safety systems unit and the US optics subsidiaries all posted a strong rise in new orders.

In 2005 a number of major orders for traffic safety systems came from abroad. Amongst others, the Jenoptik subsidiary ROBOT Visual Systems GmbH equips the Sultanate of Oman nationwide with stationary camera systems and corresponding air-conditioned cabinets for approx. 6 million US dollars.

The JENOPTIK LDT GmbH further strengthened its market position in 2005. The first sales were achieved with the new generation of laser projectors offering SXGA resolution, in other words with improved picture sharpness and color brilliance. Orders for military flight simulators came from, amongst others, Rheinmetall Defence Electronics GmbH and the Federal German Defense Technology and Procurement Ministry. One particularly pleasing development for Jena: the Ernst-Abbe-Stiftung intends to commission a system for fulldome presentation in the Jena Planetarium at the end of 2006 and has therefore commissioned Carl Zeiss Jena and Jenoptik to jointly install this projection technology.

Photonics ended the year 2005 with an order backlog of 438.7m euros, representing a growth of 4.2 percent (prev. year 421.0m euros). This figure includes, amongst others, several long-term and large new order from ESW-Extel Systems Wedel, e.g. a major order in the sum of 50m euros to equip the Eurofighter with a nose radome. However, as the lead company in the consortium the Jenoptik subsidiary passes on part of the order volume to subcontractors within the framework of the local content rules for military contracts. ESW is one of just three companies in Europe which are capable of the mass production of sophisticated radomes for military aircraft. Another major order which also influenced the order backlog was the 11 million euro order for the NYXUS observation system which Jena-Optronik is developing and manufacturing on behalf of the German Army.

At 28.8m euros, research and development expenses at Photonics in 2005 were 14.7 percent up on the level for the previous year (prev. year 25.1m euros). As such, Photonics invested around 7.2 percent of its sales in areas of the future (prev. year 7.0 percent). The R+D costs shown primarily comprise personnel costs for the approx. 500 R+D employees as well as outsourced services and material costs. Investments in tangible assets are minimal as these are essentially limited to laboratories and workstation equipment. R+D expenses were relieved as developments close to the market, particularly new topics started in 2005, were capitalized in the sum of 7.4m euros (prev. year 0.5m euros). This was offset by depreciation arising from the capitalization of developments close to the market in the sum of 1.8m euros (prev. year 1.3m euros).

Development services on behalf of customers which totaled around 16m euros per annum for the major Photonics companies over the past years are shown in the cost of sales. The figure does also not include the R+D intensive companies JENOPTIK Diode Lab GmbH, which develops semiconductor base materials for diode lasers, and the EUV joint venture XTREME technologies GmbH. Both companies are shown in the net investment result. INNOVAVENT GmbH, based in Göttingen, which conducts research into laser applications for industrial use, has been fully consolidated since January 1, 2006. If these research and development services were to be included this would increase the R+D quota of the Photonics business division to clearly above 10 percent.

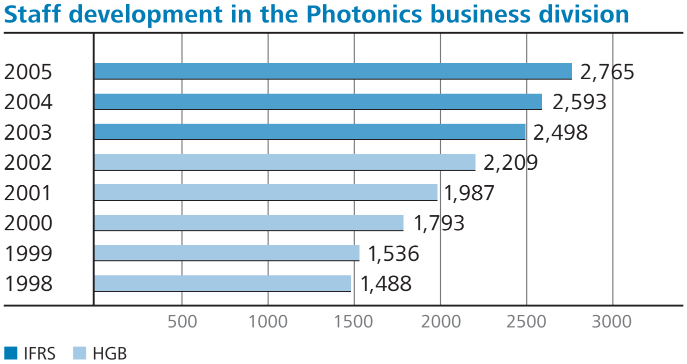
At the beginning of 2006 the development of the EUV beam source received an important backing of the market. Intel Capital, the investment arm of the Intel Corp. for new and promising technologies, is to provide Xtreme technologies with financial support. The primary aim of this is to speed up the development. At present experts predict that the technology will be utilized in the production area from 2009. In the Japanese light specialist USHIO Incorporation (Tokyo), since July 2005 the technology joint venture has had a new shareholder which acquired all the shares from Lambda Physik AG, Göttingen. The remaining 50 percent are still held by JENOPTIK Laser, Optik, Systeme GmbH. USHIO has itself been conducting research into EUV source development since 2002 and can therefore bring its comprehensive know-how to bear.

2005 saw the creation of two research companies in JENOPTIK Instruments GmbH and JENOPTIK Laser Solutions GmbH. This means that new, key areas of the future for the group will be pursued independently of the day-to-day business. In 2005 the 14 employees of Jenoptik Instruments, together with the Jena-based firm of CLONDIAG chip technologies GmbH, developed a system for the simple, fast analysis of bacteria and viruses independently of laboratory facilities and personnel. Jenoptik Instruments, formed at the beginning of 2005 out of Jenoptik Laser, Optik, Systeme, is developing the equipment and is also intended to carry out the subsequent production. New technologies in the field of laser technology will be pursued within Jenoptik Laser Solutions.

Sharp rise in the number of employees at Photonics. In 2005 a total of 2,765 personnel were employed – 172 more than a year ago (December 31, 2004: 2,593 employees). The total rise of 6.6 percent was the result both of organic growth as well as smaller acquisitions which accounted for an increase of around 100 employees. With a total of 46 employees the Swiss based firm of SINAR AG is the most crucial. The proportion of Photonics employees employed abroad increased accordingly to 5.7 percent (prev. year 3.8 percent). There was a slight rise in the number of trainees to 122 (prev. year 118), giving a trainee quota of 4.4 percent (prev. year 4.6 percent).

The main contributors to the organic growth in the number of employees were Wahl optoparts with an additional 51 employees (12 of which are at the new Mülhausen site in Baden-Württemberg), Robot Visual Systems with an additional 23 employees as well as Jena-Optronik with 11 new appointments. Nevertheless, the capacities during the course of the year were overstretched, the working hour accounts filled. Temporary staff helped when there was a temporary shortage of personnel. The proportion of temporary staff on average during the year was approx. 3 percent. In parallel with this use was made of the overtime option in the flexible internal collective wage agreement, which allows fluctuations of plus/minus six hours in the standard 38 hour working week as well as the establishment of working time accounts.

Staff development in the Photonics business division



Selling expenses rose to 36.4m euros (prev. year 33.2m euros). The rise of 9.6 percent, due primarily to the increased sales, was slightly lower than the rise in sales. Selling expenses as a percentage of sales (selling expenses quota) accordingly fell slightly to 9.1 percent (prev. year 9.2 percent). In view of the technology-intensive nature of the business the Photonics companies rely on long-term customer relationships. Marketing expenses accounted for approximately 10 percent of the total Photonics selling expenses.

Investments in tangible and intangible assets within the Photonics business division totaled 30.8m euros in 2005 (prev. year 18.5m euros). At 19.3m euros (prev. year 14.4m euros) tangible assets accounted for the largest share of the investments. A large proportion of the investments in tangible assets are applied right across the Photonics areas. The investment focus was on expansion and replacement investments in facilities and machines. The two new production sites currently being created in Triptis and Berlin are not included in the figures.

The plastic optics business area, e.g. invested in facilities for the new activities of composite and bonding technology as well as in the new Mühlhausen site. JENOPTIK Laser, Optik. Systeme GmbH expanded its optic coating facilities, Jena-Optronik GmbH its production and assembly as well as the inspection and testing facilities for position control sensors. The new company, PHOTONIC SENSE GmbH, benefited from being part of the Jenoptik Group by having its capacity clearly expanded through investment in new crystal growing facilities.

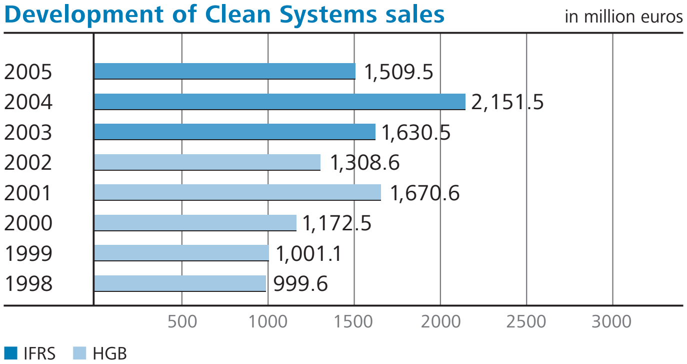
Investments in intangible assets at Photonic in the sum 11.5m euros (prev. year 4.2m euros) essentially include the capitalization of started or completed development projects, primarily in the Jena-based companies.

CLEAN SYSTEMS BUSINESS DIVISION.

Sales of the M+W Zander Group reached 1,509.5m euros and so came in at the lower end of the forecast range of between 1.5 and 1.7bn euros (prev. year 2.15bn euros, of which about 450m euros came from Gebäudetechnik). 60.9 percent of the M+W Zander Group's total sales were derived from abroad (prev. year 38.5 percent). This sharp rise in the proportion of foreign sales is the result on the one side of the deconsolidation of Gebäudetechnik whose sales are predominantly generated in Germany and, secondly of the investment boom in the semiconductor sector which is becoming increasingly more apparent, particularly in Asia.

At 1,098.7m euros, sales in the Facility Engineering business area were somewhat down on the level for the previous year, adjusted by the figure for Gebäudetechnik (prev. year 1,759.1m euros, of which around 450m euros from Gebäudetechnik). Since the sales generated by Gebäudetechnik in the sum of around 450m euros in the previous year were predominantly generated in Germany, in particular the share of foreign sales in this area increased to 76.6 percent (prev. year 42.6 percent). The AMD chip plant Fab36 in Dresden is one of the largest projects billed in Germany and was handed over by M+W Zander in October 2005. M+W Zander, as the general contractor, was also responsible for the completion on time of the associated energy supply center.

Development of Clean Systems sales in million euros



The Facility Management business area posted sales in the sum of 417.0m euros (prev. year 408.0m euros). The increase was 2.2 percent despite the sale of D.I.B. PersonalDienste GmbH which recorded sales of around 10m euros in 2004 and which, in 2005, was only included on a proportional basis up to September. In addition, a foreign unit with sales of around 25m euros was transferred to Facility Engineering. Therefore, organic growth of Facility Management was about 10 percent. In previous years M+W Zander D.I.B. Facility Management GmbH had concentrated on expanding its international business, primarily in Europe. Large multinational companies are increasingly moving towards awarding transnational orders to one service provider. Throughout Europe M+W Zander Facility Management now serves an area of more than ten million square meters.

Earnings before interest and taxes at Clean Systems totaled minus 34.9m euros (prev. year plus 46.0m euros). The figure includes a loss as well as value adjustments for the project with delays from the new technologies area in the total sum of approx. 57m euros. This adjustment, in addition to other receivable adjustments, was one of the special subjects defined in the M+W Zander contract of sale. The costs in the sum of 4.6m euros for the cancelled IPO had a further detrimental effect on the result.

The above-mentioned effects determined the EBIT of the Facility Engineering business area which came in at minus 33.3m euros (prev. year plus 32.5m euros). At 15.1m euros the Facility Management business area posted an EBIT at the same very good level as in the previous year (prev. year 15.3m euros). The EBIT margin of Facility Management was 3.6 percent and so slightly above the anticipated target range of between 3.0 and 3.5 percent.

The net investment result of minus 14.7m euros (prev. year plus 0.4m euros) includes the loss from the reduction of the share in and the full depreciation on Gebäudetechnik in the sum of 17.3m euros. Income taxes totaled 11.4m euros and were incurred primarily in the foreign subsidiaries of Clean Systems. Earnings after tax fell to minus 73.3m euros (prev. year plus 7.3m euros).

The largest single order in the company's history in the sum of around 700m euros was awarded to M+W Zander at the end of 2005. This order for a chip factory in the Middle East made a significant contribution towards the new record order intake and order backlog. The order intake at the M+W Zander Group reached 2,221.0m euros (prev. year 1,939.0m euros of which 464m euros from Gebäudetechnik). Further orders for example in the sum of 130m euros came from Infineon Technologies AG for a semiconductor plant in the Kulim High Tech Park in Malaysia as well as from AU Optronics, a key client in the flat panel market. These and additional orders produced the adjusted 58.4 percent increase in the Facility Engineering order intake, to 1,768.6m euros (prev. year 1,580.3m euros of which 464m euros from Gebäudetechnik).

Transnational major orders for the European sites of an international telecom provider and a manufacturer of construction machinery were the main contributors to the 22.4 percent growth in the Facility Management order intake, to 452.4m euros (prev. year 369.5m euros). A number of important major orders were extended, e.g. by ALSTOM (Schweiz) AG.

The order backlog of the M+W Zander Group at the end of 2005 was 2,263.5m euros (prev. year 1,445.6m euros). The large order for approx. 700m euros which was awarded in December and is included in full in the order backlog, was the main contributor to this 56.6 percent growth in comparison with 2004. As a result, the order backlog of the Facility Engineering business area doubled to 1,618.7m euros (prev. year 834.2m euros). The order backlog of M+W Zander Gebäudetechnik GmbH had already been excluded from the 2004 order backlog.

The order backlog in the Facility Management business area rose by 5.5 percent to 644.9m euros (prev. year 611.5m euros) as new orders are mostly awarded on a long-term basis over several years.

With 7,204 employees M+W Zander reported an increase in its personnel numbers in 2005 (December 31, 2004: 6,607 employees). The total increase of 597 was derived from 531 employees in the Facility Management business area, with the Facility Engineering business area recording an increase of 66 personnel.

At the end of 2005 the Facility Engineering business area therefore employed a total of 3,484 personnel (December 31, 2004: 3,418 employees). The approx. 1,650 employees of M+W Zander Gebäudetechnik GmbH as at the end of 2005 had already been excluded from these figures in 2004. The increase was primarily the result of the full consolidation of caatoosee ag with 287 employees (excluding those of Teraport GmbH added by M+W Zander) 269 of whom are employed at the Indonesian subsidiary PT Sigma. With a total of 2,062 employees, at the end of 2005 Facility Engineering for the first time employed more personnel abroad than in Germany (December 31, 2004: 1,661).

As in the previous years, there was further organic growth in the number of employees in Facility Management. Despite the sale of M+W Zander PersonalDienste GmbH, with around 90 employees, to the VRG Group, the Oldenburg-based IT service provider, on balance Facility Management added a total of 531 employees. The total number of personnel consequently rose to 3,720 (December 31, 2004: 3,189 employees). As in previous years the growth in personnel numbers came primarily from new appointments in the rapidly expanding foreign companies. In 2005 Facility Management was awarded two new, major transnational orders which made a significant contribution towards the sharp rise in personnel numbers. The number of Facility Management employees abroad consequently increased from 960 in December 2004 to 1,352 as at the end of 2005.

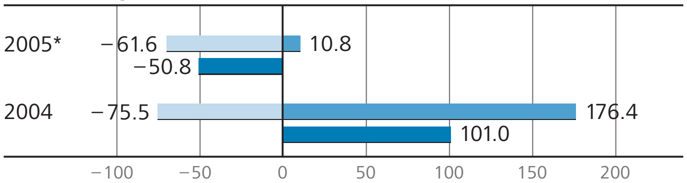
II.2. FINANCIAL POSITION OF THE GROUP.

The main objective of Jenoptik's financial management is to secure sufficient funds to meet the financial requirements of the group companies for their operational business as well as for investments. The financial management of the Jenoptik Group is organized on a centralized basis with the aim of utilizing synergy effects derived from the increased financing volume and consequently, on the one side, of securing the financing at favorable terms and, on the other, of making full use of all the financing options available to a listed company.

FINANCING ANALYSIS.

The proportion of non-current financial liabilities (credits, bonds, finance lease) of the Jenoptik Group's financing totaled 84.1 percent (prev. year 81.8 percent). The financing structure of the Jenoptik Group therefore remains oriented towards the long-term. Non-current financial liabilities as at the end of 2005 came to a total of 324.7m euros (December 31, 2004: 339.8m euros). This figure includes the bond with a nominal value of 150m euros and a remaining term of just under 5 years as well as the convertible bond in the nominal sum of 62.1m euros and a remaining term of three and a half years. The due dates for the finance lease are spread over a period of around 20 years. A large proportion of the long-term bank loans are mortgage loans which also have a duration of up to 21 years.

Financial position in million euros



Current financial liabilities
Cash and cash equivalents incl. restricted cash and short-term securities
Net cash

*without Clean Systems, without purchase price Clean Systems

The leverage ratio, the ratio between debt and shareholders' equity, excluding the liabilities held for sale, improved to 1.79 (prev. year 3.21). This is attributable to the reduction in the balance sheet total achieved on the sale. If the liabilities held for sale were to be taken into account for the last time then as a result of the net loss in 2005, this would give a markedly weaker figure of 3.80 with roughly the same balance sheet total as in the previous year.

Total cash and cash equivalents in the sum of 8.8m euros (December 31, 2004: 175.0m euros, including restricted cash) and short-term securities in the sum of 2.0m euros (December 31, 2004: 1.4m euros) fell to 10.8m euros (December 31, 2004: 176.4m euros) taking into account the reclassification in accordance with IFRS 5. The contra item in the form of short-term bank loans in the sum of 50.5m euros (December 31, 2004: 38.8m euros), short-term promissory notes of 0 (December 31, 2004: 35.0m euros) and a commercial paper in the sum of 7.5m euros (December 31, 2004: 0), bills of exchange in the sum of 0 (December 31, 2004: 0.4m euros) and current liabilities arising from finance lease of 3.6m euros (December 31, 2004: 1.3m euros) therefore fell from 75.5m euros at the end of 2004, to 61.6m euros now.

Excluding other current realizable assets and other current and non-current liabilities, the net cash position deteriorated from plus 101.0m euros in the previous year to minus 50.8m euros. In addition to the acquisition of the remaining share in M+W Zander D.I.B. Facility Management by Clean Systems in 2005, this is attributable primarily to the reclassification of Clean Systems in accordance with IFRS 5. As such, cash in hand plus bank credit balances in the total sum of 114.6m euros and short-term securities of 2.4m euros are now shown under assets held for sale. These are offset by the liabilities held for sale with 21.2m euros in short-term bank liabilities and 1.1m euros in bills of exchange.

Creation of value added

	2005		2004	
	in million euros	in %	in million euros	in %
Company performance (sales, income, investment result)	1,951.7	100.0	2,598.6	100.0
./. Purchased goods and services (material)	1,076.0	55.1	1,468.7	56.5
./. Purchased goods and services (other)	365.5	18.7	464.5	17.9
./. Depreciation*	53.5	2.7	47.0	1.8
Net value added	456.6	23.5	618.4	23.8

*less appreciation prev. year without financial assets – because included in investment result

Distribution of value added

	2005		2004	
	in million euros	in %	in million euros	in %
Employees (personnel expenses)	472.6	103.5	536.7	86.8
Public sector (taxes)	16.9	3.7	18.4	3.0
Creditors (interests)	36.5	8.0	44.2	7.2
Companies, shareholders	–69.4	–15.2	19.1	3.1
Net value added	456.6	100.0	618.4	100.0

The net debt of the Jenoptik Group (financial liabilities including bonds, credits, bills of exchange and liabilities arising from finance lease, less cash and cash equivalents and securities) increased as at December 31, 2005 to 375.5m euros (December 31, 2004: 238.8m euros). Including the Clean Systems business division the net debt as at December 31, 2005, was significantly lower at 338.4m euros.

The marked increase in the net debt by comparison with the previous year is mainly attributable to the following factors:

- the acquisition of the remaining shares in M+W Zander D.I.B. Facility Management GmbH,
- an increase in the working capital of the Photonics business divisions,
- tax payments financed on an interim basis using short-term liabilities,
- the financing of the losses in the course of the year.

The net value added for the group as a whole fell to 456.6m euros (prev. year 618.4m euros) as the result of the lower sales volume at Clean Systems and the deconsolidation of Gebäudetechnik at the end of 2004. Sales and net value added fell in approximately the same ratio, consequently the value added quota (net value added as a percentage of sales) at 23.5 percent, reflected virtually the same level as in the previous year (prev. year 23.8 percent).

In the Photonics business division the net value added increased by 6.9 percent to 178.0m euros (prev. year 166.5m euros) as the result of the growth in sales. For this reason the clearest change also came from prepayments for materials which rose to 182.3m euros (prev. year 155.8m euros).

Capital expenditure, disinvestments and depreciation

in million euros

	2005	2004	Change from previous year in %
Capital expenditure	52.7	48.1	9.5
of which intangible assets	16.1	10.0	60.5
of which tangible assets	36.6	38.1	–3.9
Disinvestment	7.6	100.5	–92.4
of which intangible assets	3.5	0.8	335.1
of which tangible assets	4.1	99.7	–95.9
Net capital expenditure			
(Capital expenditure less disinvestments)	45.1	–52.4	–186.0
Depreciation	53.5	47.7	12.3
of which intangible assets	11.5	11.5	0
of which tangible assets	42.0	36.2	16.1

Capital investments* by business division

in million euros

	2005	2004	Change from previous year in %
Clean Systems	19.1	17.6	8.1
Photonics	30.8	18.5	66.0

* intangible and tangible assets investments

ANALYSIS OF INVESTMENTS.

In 2005 the Jenoptik Group invested a total of 52.7m euros (prev. year 48.1m euros) in intangible and tangible assets. Investments consequently exceeded the target range of 35 to 45m euros. As a direct comparison with the previous year investments rose by 9.5 percent. The increase is due on the one side to the increase in investments in business and office equipment and on the other side to the capitalization of development costs at Photonics. Total investments were offset by depreciations in the total sum of 53.5m euros (prev. year 47.7m euros).

Investments in intangible assets in 2005 came to a total of 16.1m euros (prev. year 10.0m euros). The above-mentioned capitalized development costs in the Photonics business division came to 7.4m euros (prev. year 0.5m euros) and are primarily attributable to a number of newly commenced development projects. Investments in patents, licenses and similar rights, at 7.7m euros, were slightly above the level for the previous year (prev. year 7.1m euros). Depreciation on intangible assets, at 11.5m euros, remained at the same level for the previous year.

Total investments in tangible assets (Capex) including investment properties, at 36.6m euros in 2005, were 3.9 percent down on the level for the previous year (prev. year 38.1m euros). The investments were spread between the following:

- real estate in the form of land and buildings, excluding investment properties: 3.6m euros (prev. year 8.6m euros; minus 58.1 percent),
- investment properties: 0.6m euros (prev. year 2.7m euros; minus 77.8 percent),
- technical plant and machinery: 7.8m euros (prev. year 7.6m euros; plus 2.6 percent),
- other equipment, factory and office equipment: 20.3m euros (prev. year 16.8m euros; plus 20.8 percent),
- on-account payments and work in construction: 4.3m euros (prev. year 2.4m euros; plus 79.2 percent).

There was a marked fall in investments in real estate and investment properties. This is mainly attributable to the cancellation of a general rental agreement and consequently to a large proportion of the finance lease at the end of 2004. Investments in real estate also exclude the two new production buildings in Triptis and Berlin-Adlershof which are rented.

The Photonics business division accounted for 52.7 percent of the investments in tangible assets (prev. year 37.8 percent) and the Clean Systems business division for 39.6 percent (prev. year 31.5 percent). In addition to expansion investment, mainly in the Photonics business division, the lion's share of the investments was the result of rationalization, modernization and replacement investment. The holding company and the real estate funds accounted for 7.7 percent of the investments in tangible assets (prev. year 30.7 percent).

Total investments were offset by depreciation in the sum of 42.0m euros (prev. year 36.2m euros).

Financial assets fell from 120.6 euros at the end of 2004 to 73.0m euros. In accordance with IFRS 5 57.0m euros in financial assets of the Clean Systems business division are shown as assets held for sale. The largest single item in the reclassification, at 47.1m euros, remains the stake in the Fab 36 of AMD, which is held in the form of shares and loans.

At 12.4m euros, investments in financial assets showed a marked fall compared with the previous year (prev. year 67.9m euros) although this was primarily characterized by the shareholder loan being made available to the shareholding in the AMD Fab36.

CASH FLOW ANALYSIS.

The cash flow from operating activities fell to 31.7m euros (prev. year 100.8m euros). In addition to the marked reduction in the setting up of provisions at 8.5m euros (prev. year 31.9m euros), this is due mainly to the 89.9 m euro fall in the earnings before tax (prev. year 37.4m euros). Earnings before tax in 2004 included receipts from the disposal of fixed assets of 38.2m euros, which were adjusted in the net cash from operating activities. At 17.7m euros the value reduction applied to Gebäudetechnik was included as the largest item in other expenses affecting cash and remained at approximately the same level as in the previous year (prev. year 17.9m euros). The increase in the working capital, at 5.8m euros, was included in the net cash as a result of the growth in sales in the Photonics business division. In the previous year the burden was significantly higher at 24.6m euros.

The net cash used in investing activities totaled minus 58.1m euros (prev. year minus 15.2m euros). Payments for investments in intangible assets increased to 14.7m euros (prev. year 10.0m euros) as a result of higher capitalized development costs, payments for investments in tangible assets, at 36.0m euros, were at the same level as the previous year (prev. year 36.9m euros). Receipts from disposals of financial assets fell in 2005 to 10.6m euros (prev. year 95.8m euros). In the previous year these were characterized by the sale of the shares in SC300 Beteiligungs GmbH & Co. KG. Payments for the acquisition of consolidated companies were characterized by the acquisition of the remaining shares in M+W Zander D.I.B. Facility Management GmbH.

The net cash from financing activities rose from minus 45.9m euros in the previous year to plus 1.0m euros. Receipts arising from the issue of bonds and loans in the sum of 120.6m euros (prev. year 101.9m euros) were offset by repayments of bonds and loans in the sum of 81.1m euros (prev. year 109.5m euros), with a large proportion of these receipts and payments resulting from restructuring.

II.3. ASSET POSITION OF THE GROUP.

ANALYSIS OF THE ASSET STRUCTURE.

In the individual items of the 2005 consolidated balance sheet the assets and liabilities of the Clean Systems business division have been reclassified in accordance with IFRS 5 under the items "held for sale". Consequently, the reduction in the individual balance sheet items – unless specified otherwise – is primarily attributable to this reclassification. For this reason it was decided in some cases not to show a comparison with the balance sheet items as at December 31, 2004 within the explanatory notes below. The emphasis is on the composition of the balance sheet items and their main features excluding Clean Systems.

The balance sheet total was reduced from 1,555.0m euros as at end 2004 by 46.7m euros to 1,508.3m euros as at December 31, 2005. The assets and liabilities held for sale are purely reclassifications and therefore included further in the balance sheet total. The balance sheet total will only show a marked reduction on the deconsolidation after the contract closing.

Non-current assets totaled 454.9m euros and were therefore lower by 181.3m euros (December 31, 2004: 636.2m euros). Intangible assets accounted for 16.9 percent of the figure, tangible assets including real estate held as financial investments 49.0 percent, financial assets including shares in associated companies 19.7 percent and deferred taxes approx. 12.5 percent.

Intangible assets fell by 22.4m euros to 76.7m euros (December 31, 2004: 99.1m euros). As in the previous year goodwill formed the largest part at 62.1 percent (December 31, 2004: 67.7 percent). This increased significantly in 2005 as the result of the consolidation of caatoosee ag as well as the acquisition of the 29.1 percent stake in M+W Zander D.I.B. Facility Management GmbH but these, due to the reclassification in accordance with IFRS 5, as at December 31, 2005 are no longer shown under intangible assets but under assets held for sale. The rise in intangible assets resulting from the capitalization of development costs (see p. 23) is attributable to the Photonics business division.

Tangible assets reduced to 222.7m euros (December 31, 2004: 294.1m euros), including investment properties. At 65.3 percent, real estate and real estate held as financial investments accounted for the largest share of tangible assets (prev. year 71.2 percent). Technical plant and machinery as well as other equipment and business and office equipment represent 27.8 percent of the tangible assets (prev. year 27.8 percent). Real estate assets, including land, came to 98.4m euros (prev. year 146.4m euros). The real estate utilized by the Jenoptik companies themselves are mainly combined within two real estate funds in which Jenoptik holds 100 percent respectively of the shares in the limited partnership. The real estate held as financial investments is essentially real estate which Jenoptik classified as "finance lease" on the basis of current general rental agreements.

Shares in associated companies in the sum of 16.7m euros, include DEWB AG and XTREME technologies GmbH.

As at end 2005 financial assets totaled 73.0m euros (December 31, 2004: 120.6m euros). Participating interests, the largest item at 26.4m euros, include, amongst others, the shares in PVA TePla AG as well as in Krämer Scientific Instruments GmbH, newly acquired in 2005. Other large items of financial assets are, amongst others, two securities funds totaling 23.3m euros.

There was a particularly sharp drop in loans to participations from 61.5m euros to 2.7m euros as the shareholder loan to the Fab 36 shareholding, at approx. 47.1m euros, is now shown under assets held for sale. (see p.30)

Other non-current assets fell by 8.1m euros to 8.8m euros (December 31, 2004: 16.9m euros). Deferred taxes totaled 57.0m euros and are consequently 14.8m euros lower than as at the end of 2004 (December 31, 2004: 71.8m euros).

The working capital is balanced out during the course of the reclassification under IFRS 5 as it is no longer influenced by the standard projects in the Clean Systems sector for which settlement is frequently carried out at the year end. Defined as the total customer receivables and inventories, less trade accounts payable and on-account payments received, as at December 31, 2005 the figure totaled 166.3m euros.

Current assets were 279.6m euros (December 31, 2004: 918.9m euros) and consequently down by 639.3m euros in comparison with the end of 2004. This sharp fall is the result of the reclassification of the high level of receivables at Clean Systems to assets held for sale. Receivables arising from the operating activities alone reduced by 358.6m euros to just 81.0m euros (December 31, 2004: 439.6m euros). Inventories fell by a smaller figure since, by contrast to the Photonics area, in the facility engineering project business inventory levels play a proportionally minor role only. Inventories fell by 41.0m euros to 143.2m euros (December 31, 2004: 184.2m euros).

Cash and cash equivalents totaled 8.8m euros (December 31, 2004: 145.1m euros). The 136.3m euro reduction was primarily the result of the fact that cash on hand and bank balances of the Clean Systems business division are reclassified.

Restricted cash reduced by 30m euros to zero. This cash was restricted as it secured a bank loan to DEWB AG that was repaid by DEWB in 2005. The resultant cash released was mainly used to repay bank loans.

Shareholders' equity fell by 54.7m euros to 314.3m euros (December 31, 2004: 369.0m euros). In this respect, the high net loss for the year had a negative impact. The appreciation in the value of PVA TePla AG had a positive effect. As result of the fall in the shareholders' equity the shareholders' equity quota was reduced from 23.7 percent at the end of 2004 to 20.8 percent, with an approximately equal balance sheet total.

Non-current liabilities fell by 83.4m euros to 369.2m euros (December 31, 2004: 452.6m euros). The sale of M+W Zander had a particularly marked effect on the pension liabilities which are now shown in the balance sheet at just 6.9m euros (December 31, 2004: 56.3m euros). Additional pension commitments for employees and existing pensioners of ESW-Extel Systems Wedel are combined in the Jenoptik Pension Trust and covered by assets held exclusively for pension purposes, so-called planned assets.

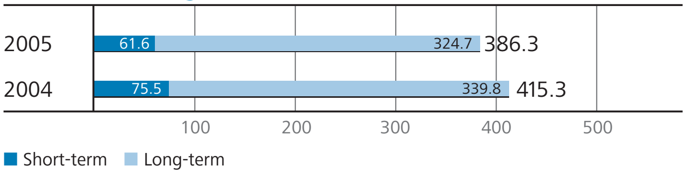
Non-current liabilities in the sum of 343.8m euros were 30.0m euros lower than one year ago (December 31, 2004: 373.8m euros). 202.3 m euros of this, or 58.8 percent, applied to two bonds; the convertible bond in the nominal sum of 62.1m euros and the high-yield bond in the nominal sum of 150.0m euros.

Non-current liabilities to banks totaled 52.4m euros (December 31, 2004: 71.3m euros), representing a fall of 18.9m euros. 44.6m euros came from a very long-term mortgage loan used to refinance a real estate fund. Non-current liabilities arising from finance lease remained virtually unchanged at 69.9m euros (December 31, 2004: 68.5m euros). Other non-current liabilities, at 19.2m euros, fell sharply below the previous year's level (December 31, 2004: 34.0m euros) after receivables from and liabilities to the Jenoptik Pension Trust were offset against each other.

Current liabilities were 540.6m euros lower at 192.9m euros (December 31, 2004: 733.5m euros), 61.6m euros of which were current financial liabilities. The commercial paper program which gives Jenoptik short-term financing freedom of up to 100m euros, depending upon market conditions, was reactivated, taking up the minimal sum of 7.5m euros (December 31, 2004: 0). Current liabilities to banks fell by 23.3m euros to 50.5m euros (December 31, 2004: 73.8m euros). Liabilities arising from bills of exchange were no longer shown.

Interest-bearing liabilities

in million euros



Liabilities arising from the operating activities, at 389.8m euros, reduced to just 58.0m euros (December 31, 2004: 447.8m euros). The main reason for the sharp fall in all current liability items is the IFRS 5 reclassification of the liabilities of Clean Systems. As a result of the project business trade accounts payable have sharply increased at the year end due to the construction deadlines in the facility engineering business.

The balance sheet items of the Clean Systems business division reclassified in accordance with IFRS 5 totaled 773.8m euros for assets held for sale. These include, amongst others, the investment in the AMD Fab 36 as well as the cash on hand and bank balances in the sum of 114.6m euros.

631.8m euros is shown as liabilities held for sale. In addition to 87.9m euros in pension liabilities, this figure includes, amongst others, the non-current liability for the refinancing of the AMD Fab36 investment. At 233.0m euros, trade accounts payable are a key item on the liabilities side. The standard procedure of settlement dates coming at the year end means that these liabilities are very high.

EXPLANATION OF CORPORATE ACQUISITIONS.

In fiscal year 2005, in the Photonics business division, new companies were acquired primarily by JENOPTIK Laser, Optik, Systeme GmbH.

With PHOTONIC SENSE GmbH, Eisenach, by acquiring an almost 51 percent stake in April 2005, Jenoptik Laser, Optik, Systeme gained access in particular to the raw materials germanium and silicon which are important for optics production. The germanium and silicon crystals are grown by Photonic Sense in crystal growing systems in accordance with a new technology and then processed further to create plane optics, lenses and mirrors.

Since September 2005, SINAR AG has been providing a boost to the digital imaging business of Jenoptik Laser, Optik, Systeme, which acquired 51 percent of the shares in the traditional Swiss company. In Jenoptik as a majority shareholder, Sinar has a partner with a strong technology and finance base in the area of digital imaging. In Autumn 2004 Jenoptik and Sinar had already combined their areas of expertise in the field of professional digital photography in the form of a partnership arrangement.

Photonic Sense and Sinar were fully consolidated as at December 31, 2005.

With the acquisition of the 33 percent stake in Krämer Scientific Instruments GmbH (KSI), Herborn, JENOPTIK Laser, Optik, Systeme GmbH strengthened its expertise in industrial measurement technology. KSI develops, manufactures and sells, through its sales company SAM TEC GmbH, ultrasound microscopes to the international end user market in research and industry.

A minimal quantity of asset deals involving very small volumes continued to be transacted. These supplemented the capacities of individual group companies.

GENERAL STATEMENT ON THE ECONOMIC SITUATION.

The facts and figures of the Jenoptik Group set out above show that through the separation and reorientation we have made a clean break, which has proven to be the right course of action. The results of sales, earnings and the order situation for the Photonics business division are very good in every respect.

What we did not foresee at the beginning of 2005 are the delays in a new technologies project in the Facility Engineering business area, resulting from technological problems, which had a significant detrimental effect on us in the year just past and to which the losses shown at M+W Zander are partially attributable. Since the buyer of the Clean Systems business division had not taken over this project risk as part of the purchase, extensive devaluations were applied affecting the result at Clean Systems and the group as a whole. The question as to whether we will continue this area of business, which could have produced lucrative follow-up orders if this business had been successful, is currently under review.

The change in the balance sheet items is mainly attributable to the reclassification in accordance with IFRS 5. The presentation of the asset position shows that the Jenoptik balance sheet will be significantly reduced following the closing of the sale contract. The high net debt will be offset by the payment of the purchase price on the contract closing. This should significantly reduce the net debt in 2006.

III. REPORT ON POST-BALANCE SHEET EVENTS.

There were no events of special importance occurring after the end of the fiscal year. We do however assume that, once all the closing conditions have been met (see p. 9) the closing of the sale contract with the transfer of the shares to M+W ZANDER Holding AG, as well as the payment of the purchase price should take place within a few weeks after the consolidated financial statements have been produced.

IV. RISK AND OPPORTUNITIES REPORT & FUTURE DEVELOPMENT OF THE GROUP.

Since the Jenoptik Group will consist solely of the existing Photonics business division once the contract closing for the sale of M+W ZANDER Holding AG has been completed, the following risk and opportunities report, plus the forecast report for fiscal years 2006 and 2007 – unless specified otherwise – relate to the Jenoptik Group excluding M+W Zander. The details below on the development of the group are given on the basis of the assumptions, applicable in Spring 2006, regarding the development of economic activity and of the sectors as well as on the plans according to current knowledge.

IV.1. RISK AND OPPORTUNITIES REPORT.

Jenoptik endeavors to exploit opportunities and limit risks. A risk manual, that is applicable throughout the group, defines the approach to risks.

RISK MANAGEMENT SYSTEM.

The risk-opportunities report is a key element of the Jenoptik early warning system, in addition to the group-wide risk committee, the network of risk officers in the subsidiaries, together with Internal Auditing which uses the key instrument of the Jenaudit. The subsidiaries submit periodic reports on all risks and opportunities on the business division level where these exceed 0.5m euros, on the JENOPTIK AG level where these exceed the 1 million euro mark.

If a new risk arises between the reporting periods or there is a fundamental change to an existing risk (for this purpose the minimum thresholds are 50 percent higher than the minimum thresholds for the periodic reporting) an ad-hoc risk report must be produced and forwarded for the attention of the risk officer as well as the group Executive Board. This guarantees a fast response and ensures that a full and up-to-date overview of the key opportunities and risks is maintained within the group at all times. These minimum thresholds were set relatively low in order to encompass as many individual risks as possible where these could have a noticeable, detrimental effect on the group on an accumulated basis. Since the risk report was introduced it has been shown that a more consistent approach has been taken to smaller risks. The report also contains details on the probability of occurrence, the maximum and realistic level of the risk, possible countermeasures and the name of the employee who is responsible for the risk and/or the countermeasures and who monitors the development of the risk position. The individual reports are collated into a group risk-opportunities report and submitted to the Executive Board and Supervisory Board.

Jenaudit – a central component of the risk management. The audit is conducted by an external auditor and in most cases is in the form of a so-called Jenaudit. An interdisciplinary team is established, each one auditing a separate group subsidiary. In this context, it is not just deficiencies or errors that are identified but, based on the experience of the team members, opportunities brought to the attention of the respective Company Management. This approach has since been widely accepted. Since 2003 so-called “follow-ups” have been established in order not only to identify deficiencies and improvements but also to push through implementation. In these follow-ups the level of implementation is reviewed and details reported to the respective Company Management and Jenoptik Executive Board. In 2005 seven subsidiaries were subject to a Jenaudit, with a follow-up being conducted in a further seven.

Payment flows in foreign currencies are normally recorded as a risk item and included in a monthly report for the attention of group controlling. Both the risk positions arising from the mass-production business (prices in foreign currencies are defined for a specific period on the basis of price lists) as well as the risks arising from the project business (prices in foreign currencies are only fixed on the basis of current exchange rates during the offer and negotiation phase) are reported to the group by the companies as a gross or net currency exposure. The hedging for foreign currency transactions is fundamentally carried out via the treasury department of JENOPTIK AG. Deviations from this rule are set out in the group foreign currency guidelines. A monthly compulsory report is sent to group controlling for hedging transactions which are concluded externally. This ensures that all current foreign currency positions and consequently the potential foreign currency risk are continually monitored on the group level.

For the purpose of defining an annual currency hedging strategy and the system of risk evaluation, the treasury department analyses the net risk position per currency based on the familiar scenarios such as "most likely" (anticipated development of the currency), risk potential (double volatility per currency) and shock (greatest fluctuation over the last five years) and from this determines the instruments, the maximum permitted loss limit as well as the position limit for the next year. The adherence to these limits is ascertained in a risk report which is produced as at the end of each quarter.

The interest risk management system covers all the interest-bearing and interest sensitive assets and liabilities of both JENOPTIK AG as well as the group companies. Here again, the companies send monthly reports on their positions to group controlling. A cash flow plan that shows the financing and investment requirements for each month of the forthcoming twelve months illustrates the demand for new financing or new investment. Forecasts of the potential market levels and fluctuations in results over the next twelve months are drawn up using an analysis of the market risk. Historic fluctuations are the key factor here. Based on this analysis, conducted on a quarterly basis, specific strategy proposals are produced on the structure or adaptation of the financial portfolio for the attention of the Executive Board. So for example, suggestions are made regarding the conclusion of corresponding interest hedging transactions for variable interest positions if the anticipated change in the interest result were to have a significant impact on the change in the net result for the year. Interest hedging transactions, both for asset as well as liability items, are in most cases concluded only at JENOPTIK AG. Exceptions required express approval.

An investment committee and a real estate committee provide group-wide support for larger Jenoptik investment and disinvestment projects. Consequently – in addition to a regular flow of information for the attention of the Executive Board – the most extensive expertise available within the company is brought together both for planned investments as well as disinvestments. The members of the committees which meet as required – at least however on a quarterly basis – include, in addition to permanent members of Jenoptik Holding, the managing directors of the group company which is planning an investment or disinvestments.

INDIVIDUAL RISKS.

The sale of the Clean Systems business division will create both opportunities and risks over the coming years resulting from Jenoptik retaining individual topics and projects, from standard guarantees during the course of the sale, as well as from agreements to provide guarantees.

This sale will bring about a comprehensive change and improvement in the risk profile of the Jenoptik Group. Above all, this will remove the high level of dependency upon the cyclical semiconductor industry (in 2005 this sector accounted for approx. 45 percent of the M+W Zander sales and approx. 7 percent of the Photonics sales). In addition, there will also be a reduction in the risks arising from new high-volume, long-term agreements involving a large proportion of subcontractor services, as well as in the costing and performance risks.

The contract closing with Springwater Capital is subject to a number of provisos, i.e. the closing conditions (see p. 9). In principle, the risk here is of one or more of the conditions not being fulfilled by the parties to the agreement and consequently the sale not being able to be completed. However, in view of the negotiated framework this risk is very minimal. Should the sale fail to proceed then the group would initially continue to exist in its original form.

Opportunities and risks are derived from a few defined projects of M+W Zander which will remain with Jenoptik. The total risk arising from this – excluding the project with delays in the new technologies area – is put at the mid, single-figure million euro range. Jenoptik has also issued the standard guarantees for sales of large parts of companies, for example ensuring the accuracy of the prepared balance sheets, the tax return submitted or that the licenses required for the operation of the business have been issued. The purchaser could fundamentally acquire future claims against JENOPTIK AG arising from these guarantees. These risks are offset by the opportunities derived from variable purchase claims of a similar amount.

The project with delays in the new technologies area, which had a significant effect on the 2005 result and to which reference has been made on a number of occasions, is currently under review. The delays arose as the result of technological risks with a subcontracted supplier. The decision as to whether to continue with the project or to terminate it can entail costs either way in the case of a negative development for which the value adjustments and provisions set aside are insufficient and these could have a detrimental effect on the future results. Since the negotiations being held at present with the customers regarding the completion of the facility are still continuing, there is currently some uncertainty with regard to forecasting the level of additional costs required to bring the project to a conclusion.

Jenoptik will continue to provide M+W Zander with guarantee lines in the sum of 150 million (excluding Gebäudetechnik) also once the sale has completed. This figure includes the guarantees that were previously utilized (in particular contract performance guarantees and warranty guarantees). The guarantee framework will be gradually reduced over a timeframe of five years. However, giving regard to the historic, empirical figures, the risk arising from the guarantees for M+W Zander is minimal. For example, during the years 1999 to 2005 the volume of guarantees “called” averaged approx. 0.2 percent. Furthermore, M+W Zander has an obligation to repay Jenoptik should a guarantee be called.

Jenoptik is providing guarantee lines for M+W Zander Gebäudetechnik GmbH in the sum of 180m euros, although only 135.4m euros of this was utilized as at December 31, 2005. As a result of the further reduction in the shareholding in M+W Zander Gebäudetechnik GmbH there has been a significant reduction in the volume of guarantees and these have consequently also been adjusted to reflect the company’s new business model.

As a general rule the risk of contract performance guarantees is minimal since it is standard practice to show the entire contract value as the guarantee volume even if the project is already well advanced.

Macroeconomic risks. Jenoptik's sales are mainly generated with investment goods. These are subject to macroeconomic fluctuations, albeit with a time delay. Jenoptik estimates that if growth in the global economy is 0.5 percentage points below the forecast figure, the EBIT margin in the Photonics business division could come in at around 1.0 to 1.5 percentage points lower if no counter measures are taken.

Sector risks. Jenoptik's business in the Photonics business division is broadly based. There is no major dependency upon any one specific sector (see p. 10). For this reason, although Jenoptik's business does entail numerous sector risks, in each case the individual effect on sales and earnings will remain in the low, single-figure million euro range. The three largest sectors (automotive industry, traffic safety and defense technology) which are relatively independent of each other, account for approximately 50 percent of total sales. In our view, the likelihood of these three or of all Jenoptik's target sectors simultaneously collapsing or experiencing a strong economic downturn without any causal events outside our control, such as war, natural disasters and pandemics, is minimal.

Fluctuations within individual sectors can affect customers' solvency. Jenoptik counters this risk in major projects through on-account payments from customers and through payment agreements which reflect the progress of the project and the costs. In 2005 on-account payments as a percentage of the Photonics gross inventories was 28.5 percent (prev. year 27.8 percent).

On-account payment as a percentage of gross inventories

in %

	2005	2004
Clean Systems	–	93.3
Photonics	28.5	27.8
Group	28.3	81.8

In 2005 approx. 30 percent of the Photonics sales came from the public sector. In recent years there has been a growing trend of the public sector significantly extending the payment periods or permanently reducing the ratio of on-account payments due to a lack of funds and on-going budget cuts. Liquid assets are therefore increasingly being tied-up in current assets.

Corporate strategy risks are derived from the strong growth planned by Jenoptik – without M+W Zander – for the coming years. Growth is expected to come from within, primarily as the result of more intensive research and development as well as through acquisitions, cooperations and the continuing process of internationalization.

Jenoptik counters the risk of paying too much for corporate acquisitions or investments by carrying out a detailed due diligence which, in the past, more frequently resulted in a decision against rather than in favor of a purchase. As such, in 2005 Jenoptik examined some 25 companies with a view to a possible acquisition or investment for the Photonics business division, only a few of which resulted in a positive decision in 2005. The due diligence procedure within the group is structured on a staged basis. The assessment by the specialists from the group company wishing to make a corporate acquisition or an investment is followed by a highly detailed examination by the investment committee established in 2004.

Jenoptik has defined an expansion of its international business as a main growth path for the future. This is to be achieved both by way of foreign acquisitions as well as by entering the respective market and expanding the international presence of the group companies. In addition to the acquisition risks already described above, a foreign investment also entails risks arising from cultural and language barriers. These are countered – where possible – by Jenoptik initially entering a new market through investments and joint ventures. Wherever possible responsibility for the foreign management lies with the local management team. In 2005 an international module was added to the employee management program.

We operate in markets which are subject to rapid technological change. The risk of developing products not taken up by the market is offset by enormous opportunities derived from leading edge technology products which possess unique selling points. In order to exploit these opportunities and at the same time minimize the risk of mistaken developments, where possible development work is normally carried out in close coordination with the client. Each R+D project has a project plan which is supported by a team of highly qualified employees. In addition, the Scientific Advisory Council is a high-quality committee that provides support for the monitoring of long-term technology trends. Due to the high technological requirements and the business in the constantly changing markets, the risk of mistaken developments which could lead to the loss of planned sales and depreciation on capitalized development costs can be reduced, although not eliminated entirely.

The risks arising from long-term orders have been significantly reduced with the sale of M+W Zander. Risks arising from very long-term orders in the safety technology area as a result of potential inflation, are reduced through price escalation clauses.

Financial risks primarily result from orders denominated in foreign currencies, from the group's financing activity as well as from options for the acquisition of shareholdings.

Jenoptik uses exchange rate hedging instruments for all orders in foreign currencies, primarily currency forward transactions as well as currency options. The amount of outstanding currency forward transactions secured totaled 43.7m euros (prev. year 55.3m euros). The exchange rate between the US dollar and the euro rose in 2005 from 1.35690 US $/euro at the beginning of January 2005 to 1.18445 US $/euro on December 31, 2005. This will enable us to hedge future orders on the basis of the stronger dollar which in turn will lead to a more favorable price structure for our projects and products in the dollar-based market.

The issue of a seven year bond in Autumn 2003 and a five year convertible bond in Summer 2004 at fixed interest rates in each case, has markedly reduced the risk of changes in short-term interest rates. Furthermore, use was made of interest hedging instruments such as interest caps and interest swaps. With the interest swaps that are used by Jenoptik a defined variable interest rate is paid on a specific capital sum. In return, Jenoptik receives a specific fixed interest rate on the same capital sum. In 2005, thanks to an interest swap, the risk of changing interest rates was limited for real estate loans financed at variable rates. An interest cap in the sum of 6.0m euros will protect Jenoptik against marked increases in interest rates up to 2008.

Put options, which Jenoptik has granted primarily for the acquisition of shares of minority shareholders could reduce cash resources or sources of financing. In most cases however there is no direct risk to the earnings as new shares are normally acquired. However, with terms that are already fixed today, there is both the risk and the opportunity that the future value of the shareholding might deviate from the option agreement in a negative or positive direction on the date the option is exercised. In 2005 the outstanding put options were significantly reduced: the put option for the 30 percent minority stake in M+W Zander D.I.B. Facility Management GmbH was cancelled with the acquisition of these shares in Spring 2005. The put option for the 27.11 percent stake in M+W ZANDER Holding AG held by the family shareholders will also be cancelled with the sale of the company in 2006. Other put options for shares in companies exist to a minimal extent only. On the real estate side there are put options for silent investors who are motivated by tax reasons, although these can not be exercised any earlier than from or after 2011.

Legal risks. Three private shareholders of DEWB AG have filed a lawsuit against JENOPTIK AG. The aim of this lawsuit is the purchase of the plaintiffs' shares by Jenoptik at a price of 26.51 euros plus interest. The amount of the compensation was set at 26.98 euros in October 2005 by the Superior Court of Frankfurt/Main in the form of a final order in the appraisal proceedings which had lasted more than twelve years.

With the acquisition of DEWB AG from Hermann Voith Beteiligungen GmbH in 1997 the existing liabilities in connection with a controlling and profit transfer agreement concluded in 1993, also passed to Jenoptik. The plaintiffs state that they are entitled to compensation without having to prove that they were among those shareholders, or can attribute their shares to those shareholders who held minority shareholdings on the date the controlling and profit transfer agreement ended and had still not received any compensation for their shares (approx. 0.7 percent of the DEWB shares issued on this date). The Landgericht Gera (district court) rejected the claim at the beginning of 2003. One plaintiff appealed against this ruling. The Oberlandesgericht Jena (superior court) subsequently ruled in favor of the plaintiff. Jenoptik appealed to the Bundesgerichtshof (federal supreme court) (BGH). In a press release published at the beginning of February 2006 the II. Zivilsenat refused the preconditions for a rejection of the appeal (no fundamental relevance of the case and correct decision by the appeal court) and announced the date for a hearing as May 8, 2006.

The current lawsuit relates directly to the total sum of 0.3m euros. In case Jenoptik should lose the action before the BGH then the risk resulting from possible copying it is impossible to estimate reliably. Following the conclusion of the appraisal proceedings on the amount of the compensation in October 2005, within the statutory period of two months following the announcement, approx. 2,750 persons registered with JENOPTIK AG asserting that they were entitled to compensation for a total of approx. 5.9 million shares in DEWB AG. Legal disputes were made pending in respect of approx. 150,000 shares.

In the legal proceedings between Asyst Technologies Inc. and Jenoptik the court of the first instance has already ruled in favor of Jenoptik several times on the question of alleged patent infringement. In respect of one patent the competent federal court in Washington, DC, confirmed the legal view of Jenoptik in March 2005 and rejected the claim filed for alleged patent infringement by Asyst. In respect of one other patent the legal dispute was remitted to the initial court for formal reasons at the beginning of 2005 and will be dealt with again.

JENOPTIK medProjekt GmbH (medProjekt), a 33 percent investment of JENOPTIK AG, has built a university clinic in Jena for the Free State of Thuringia involving a total order volume of approx. 160m euros. As a result of outstanding claims due to medProjekt arbitration court proceedings are currently underway between this company and the Free State of Thuringia. The Free State of Thuringia is filing its own claims against medProjekt. JENOPTIK AG has given a guarantee in favor of medProjekt to the Free State of Thuringia in the sum of just under 19m euros in the form of a contract performance guarantee. Approximately half of the guarantees are covered by sub-guarantees of subcontracted suppliers. JENOPTIK AG also has loan claims against medProjekt. Depending upon the outcome of the arbitration court proceedings, now expected in 2006, there is now a risk to Jenoptik's results of between 0 and 3m euros if the loan granted can not be repaid in full by medProjekt to Jenoptik.

There are no other known legal risks which could have a material effect on the asset and earnings situation of the group.

Personnel risks. Jenoptik relies on highly qualified employees. In this context it competes with other major companies as well as numerous medium-sized, small and start-up companies for the best personnel. The organic growth in the fiscal year just past as well as the target growth for the subsequent years will lead to an increased demand for new personnel. In addition, there is the need for new employees to compensate for the fluctuation rate which was 1.49 percent in the Photonics business division in 2004 and in fact just 0.49 percent in the 1st half year 2005. However, since the number of school leavers in the new federal states in particular will simultaneously start to show a dramatic fall from as early as the year 2008, from then on there is the risk in particular of being unable to fill vacant positions and trainee placements with suitable candidates. Jenoptik is taking various measures to counter this problem by permanently improving its attraction as a potential employer. With effect from 2006 Jenoptik will also be creating additional trainee positions, independently of the direct demand from the group companies.

Risks from the real estate assets. Real estate assets are subject to the fluctuations in the rental market, creating the risk of the need for extraordinary depreciation. Significant portions of Jenoptik's real estate are already rented to non-group companies, in some cases on a long-term basis. Rental levels and the level of occupancy could impact on Jenoptik's earnings situation, particularly over the medium term. It is very difficult to forecast potential impairments, although none are expected in 2006.

There is no single IT system throughout the Photonics business division, with the exception of a group-wide Intranet which does not incorporate the internal accounting or distribution systems. A complete failure by one IT system would therefore only have a detrimental impact on parts of the group. Since Jenoptik sells exclusively investment goods, distribution would only be indirectly affected by a complete system failure, unlike in the case of companies who sell a significant proportion of their products via the Internet. The operators of SAP R/3 guarantee Photonics an availability level in excess of 98 percent. In 2005 100 percent availability was achieved. The data lines are designed on a redundant basis, the energy supply is secured through uninterrupted power supplies for fluctuations in electricity and an emergency electricity back-up unit. It is impossible to assess the probability and extent of damage caused by viruses and hackers. Jenoptik uses modern firewalls and applies strict security provisions, amongst other things, to protect itself.

Environmental risks exist to a minimal extent as a result of the so-called ROHS Directive which will come into force in Germany with effect from July 1, 2006 (see p. 20). In addition to products and processes the production equipment must also conform to ROHS, in other words it must not contain any of the defined harmful materials. A minimal level of risk would arise if warehouse inventories can not be reduced prior to the qualifying date, if products can no longer be economically manufactured under the new conditions or if new equipment has to be procured. Jenoptik countered these potential problems by making early and intensive preparation for the new directive, through the intensive examination of purchased services, products and processes.

ASSESSMENT OF THE RISK SITUATION BY THE MANAGEMENT.

The key risks for the Jenoptik Group include the M+W Zander project with delays, as well as the appeal proceedings pending before the Bundesgerichtshof relating to the compensation claim from a DEWB shareholder. It is impossible to put a precise figure on the risk arising from these two items. However, in the worst case scenario for Jenoptik, in the case of both risks, this would have a very strong impact on the group result and liquidity.

With regard to the BGH appeal proceedings the Jenoptik Executive Board continues to asume that there is a more than 50 percent likelihood of winning these legal proceedings. Negotiations are currently under way regarding the continuation of the project with delays, so here again no statement can yet be made on the probability of occurrence.

Over and above these two risk items the risk profile of the Jenoptik Group predominantly comprises those risks which are inseparably associated with our business activities.

RATING OF THE COMPANY.

In the first half of 2005 the two rating agencies Fitch and Standard & Poor's (S&P) lowered their rating for Jenoptik from "B+" to "B". The reasons stated for this included in particular the uncertainty about the further strategic development of the Jenoptik Group during the course of the planned separation of the Clean Systems business division, as well as the investment in caatoosee ag. The Moody's rating remained unchanged at "B1". Following the announcement of the signing of the contract for the sale of M+W Zander to Springwater Capital in December 2005, all three agencies left their ratings unchanged. The concentration on the Photonics business division as well as the planned reduction in the debt using funds generated by the sale, were viewed as positive. Jenoptik sees this as an opportunity for an improvement in the future rating once the sale has been completed.

In addition to the financial indicators and strategic aspects of the corporate development, the assessments by the rating agencies also reflect factors such as the size of a company and key indicators for the sector. Since Jenoptik is considered a small company by international comparison, the group receives a lower rating compared with major groups with comparable structures.

IV.2. FORECAST REPORT.

ORIENTATION OF THE GROUP OVER THE NEXT TWO FISCAL YEARS.

From the current viewpoint there are no plans for fundamental changes in the business policy for the years 2006 and 2007 and beyond. Once the sale of M+W Zander has been completed additional activities and assets which no longer form part of Jenoptik's strategic focus resp. are not part of the assets required for operational purposes, will be gradually reduced.

Jenoptik aims to primarily develop future sales markets abroad. In addition to acquisitions and investments this is to be achieved in particular through cooperation arrangements with companies based in the foreign markets as well as through the expansion of its international sales network.

The acquisition of MEMS Optical Systems Inc. at the beginning of 2006 represents the addition of another US American company to the group in the Laser&Optics division. MEMS Optical possesses know-how in the development and manufacture of micro-optic components and structures, providing an addition to the binary optics area. Using a patented process, the so-called gray shade lithography, the company manufactures any molded shapes in miniaturized form at its own plant with 27 employees.

At the beginning of 2006 the plastic optics area entered the US market through a strategic partnership with the two US American companies from Rochester. The intention is to jointly develop and manufacture optical products and light-shaping, microstructured components made of plastic for use in the medical, defense and automotive industries and to achieve a higher level of acceptance in the US market. This will strengthen Jenoptik's presence in Rochester, one of the most important optical technology clusters in the USA.

In order to exploit the growth potential offered by the Chinese market, the activities in the laser area in particular will be intensified here. The Jenoptik Group will be exhibiting at the "Laser. World of Photonics China" for the very first time in Shanghai in March 2006.

An increased foreign commitment of the Sensors division is to be continued in the traffic safety systems, industrial measurement technology and aerospace technology markets. After a 15 year presence in the Chinese market sales in the area of industrial measurement technology rose sharply here in 2005. In order to cope with the increased volume of business and to grow it further, Hommelwerke GmbH formed a joint venture company in China at the beginning of 2006. In addition to Hommelwerke GmbH, which has a 50 percent stake in the company, the company's own local management as well as the shareholding TELSTAR-HOMMEL Co., Ltd., which was founded eighteen months ago in South Korea, also have a stake. The industrial measurement technology business now has a direct presence in another important center for the international automotive industry. For years now Hommelwerke GmbH has been pursuing its strategy of following its clients abroad.

The traffic safety technology unit has been reporting growth for several years, particularly abroad. Robot Visual Systems expects to see a continuation of the rise in its export business and intends to target those markets in which it has had very little or no representation at all, with its new digital camera technology in particular. In preparation for this, amongst other things, in spring 2005 Robot Visual Systems set up its own subsidiary in the Netherlands.

The Sensor division for the aerospace industry expects to develop new sales markets in particular for its new JAS aerial digital scanner and the JSS multi-spectral camera range.

In the process technology area the two new production facilities for plastic optics and base materials for laser diodes, which Jenoptik will be officially opening in May this year, represent important steps forward. The largest center for plastic optics Europe-wide is currently being built in Triptis. The new building combines three Wahl optoparts production sites and as such will bring about a marked increase in production efficiency. This will also be helped by new systems and machinery for which investment totaling an additional approx. 2m euros is planned.

In the high-performance optics area the production processes and organization are to be further improved and expanded at the Jena site as a result of the high level of capacity utilization. The corresponding project studies began at the end of 2005.

At the new JENOPTIK Diode Lab GmbH factory in Berlin-Adlershof, from Autumn 2006 gallium-arsenide wafers (GaAs) will be structured in a typical semiconductor manufacturing process for subsequent further processing in Jena to create high-performance diode lasers. The process for the industrial manufacture of these bars was developed by Jenoptik in collaboration with the Ferdinand-Braun-Institut für Höchstfrequenztechnik based in Berlin-Adlershof. A superb base material is absolutely vital for durable and reliable high-performance diode lasers.

Robot Visual Systems will be carrying out a comprehensive reorganization of its production facilities at the Monheim site near Düsseldorf, as a result, amongst other things, of the new digital camera technology and strong sales growth. To accompany this it is intended to establish a flexibly timed system of manufacture with integrated test processes.

Countless new products and technologies are expected to make a significant contribution towards the commercial success of the Jenoptik subsidiaries as early as 2006 and 2007. In January this year JENOPTIK Laserdiode GmbH succeeded for the very first time in exceeding the half a kilowatt output power barrier per bar thanks to enhancements in the optical properties of the base material and an improvement in the mounting technology. Testing the limits of output power is a necessary requirement for test purposes. The aim is to more than double the current standard output of diode lasers from today 40 watts to 60 watts by the end of 2007, whilst increasing reliability.

The Jena-based firm of unique m.o.d.e. AG has been part of the Jenoptik Group since the beginning of 2006. The company develops, manufactures and markets micro-optical systems worldwide, in particular diode laser systems with micro-optic beam shaping for medical technology, print technology, measurement technology, micro-materials processing applications as well as for pumping solid state lasers and is consequently providing a boost for the high-performance diode laser area.

Using the example of a CMOS camera Wahl optoparts gave the first presentation of the combination of plastic optics with electronic image correction at the sector forum of the International Society for Optical Engineering within the framework of the Photonics West in January in San Jose, USA. In future, more complex photonic solutions are likely to be one of the main growth drivers in the Laser&Optics division. These solutions integrate components and assemble them to create a subsystem. As such, last year Wahl optoparts invested in the new area of mounting and connecting technology. Interfaces between sensor module and optical system suppliers, which affect quality, are no longer required, consequently significantly shortening the supply chain.

From 2006 Wahl optoparts will also be supplying large quantities of low-cost plastic lenses for the solar panel sector. The innovative panels (solar modules connected together) deliver a significantly higher energy yield than conventional panels on a non-optic basis. This technology will open up the opportunity for the sector to achieve potential savings in the base material which is both cost-intensive and becoming increasingly rare.

The optical, contactless shaft measurement systems CONTOUR 300 and 500 provided an addition to the Hommelwerke GmbH product range. Thanks to a new, higher resolution sensor system, the robust equipment is able to carry out reliable measurement of difficult surfaces. This will enable Hommelwerke GmbH to meet the market requirements for flexible measurement systems which offer a comprehensive range of uses. The optical shaft measurement systems are actually expected to make a significant contribution to sales and results in the industrial measurement area in 2006. In order to concentrate on its core business of optical, contactless and tactile measurement equipment, measuring machines and systems, in 2006 Hommelwerke GmbH will also discontinue individual, smaller business activities which today no longer form part of the focus of the company's further market and product development.

FUTURE GENERAL ECONOMIC CONDITIONS FOR THE ECONOMY AS A WHOLE AND FOR THE INDIVIDUAL JENOPTIK SECTORS.

In 2006 and 2007, the global economy is expected to grow at a relatively consistent rate of 3 percent per annum according to forecasts by the OECD. Although it is assumed that global economic activity will become less dependent upon rising energy costs since oil consumption will stagnate, global economic growth could react sensitively to a further increase in the price of oil, e.g. to 70 US dollars per barrel. The spread of bird flu is named as another risk factor.

The OECD forecasts a robust growth rate of 3.5 percent in 2006 for the USA. Private consumer spending is expected to show a further rise thanks to the boom in the home property market and rises in real incomes. For 2007 the OECD forecasts a slight slowdown in growth to 3.3 percent.

Economic growth of 9.4 percent in 2006 is forecast for China, currently the world's fastest growing national economy. In addition to China the other "BRIC countries" Brazil, Russia and India, will gain further influence.

Economic growth in the Asiatic region is expected to continue – despite high risks. Alongside the extremely positive development in China, the Japanese economy is also expected to gain further impetus and rise by 2 percent. According to the OECD the economy of the Asiatic region as a whole (excluding Japan) is also expected to show further growth in 2006. However, it will face numerous risks such as bird flu, the danger of terrorist attacks and the migration of industry to China, where production costs are low.

Economic growth in the euro region in 2006 is expected to slowly start picking up again. The OECD forecasts growth of 2 percent supported by rising domestic demand. However, economic activity in the euro region remains "fragile". A combination of negative shocks, such as further oil price rises, the continued rise in the value of the euro as well as increasing interest rates could have a serious impact on the upturn.

For Germany, the OECD expects to see a continuation of the upturn in economic activity and forecasts a growth rate of 1.75 percent for 2006. Economic institutes expect the continuing high level of exports to provide further strong impetuses. According to estimates from the German Federal Government, investments in 2006 are anticipated to rise by 5 percent in real terms and to give a further boost to the domestic economy in particular. Experts see the "pull" effect from the planned increase in value added tax in 2007 to have a not inconsiderable impact, one of the main reasons for an anticipated slowdown in the growth rate to the 1.25 percent forecast by the IMF.

The enormous potential of optical technologies, with a global market of around 150bn euros, is based on the numerous areas of application which themselves represent markets of the future. These include, amongst others, nanotechnology or medical technology. The establishment of the Photonics 21 technology platform in December 2005 for the first time brings the optical industry together on the European level. The aim of the platform is to secure and further build on Europe's leading position in this field. A sharp increase in EU development funding for research projects should also contribute towards achieving this objective, the aim of these projects being to help provide a significant boost for optical technologies in Europe.

The optical industry in Germany is expected to further expand its role on the global market up to 2010. Spectaris forecasts a 25 percent global market share as a result of the continuing high export quota. Lasers and optical components, forecast to see growth of around 10 percent per annum, will be of key importance, offering exceptionally high potential.

For the global laser market Laser Focus World forecasts an 8 percent rise in 2006, to a market volume of 5.9bn US dollars. The market for laser materials processing in particular is enjoying uninterrupted growth. Laser Focus World expects China above all to record a double-figure rise. Although at the end of 2005 China was still importing more lasers and optoelectronic equipment than it exported, the Chinese industry is making intensive efforts to catch up, particularly in respect of leading-edge technologies.

The growth trend in the measurement technology and sensor systems sector will also continue in 2006. According to data from the market research institute Research and Markets, the vehicle sensor systems area in particular is enjoying a boom. Growth factors in this context primarily include the legislation on environment and safety from the German Federal Government, the pressure for further cost savings and consumer demand for new sensor technologies.

Growth in the global semiconductor market is expected to continue its revival in 2006. SIA anticipates a 7.9 percent rise in sales volumes to 246bn US dollars. 2007 is expected to show a further increase in sales of 10.5 percent and 13.9 percent in fact for 2008. According to the market research institute Gartner this will also give a lift to corporate investment. According to a study of Gartner spending on investment goods in chip production in 2006 is likely to increase by 8.4 percent to 36.4bn dollars globally. This will lead to increased demand for high-performance optics for the manufacturing process.

The German automotive industry sees exports remaining stable in 2006. According to details from the VDA, exports of German makes actually rose in January 2006 by 8 percent. The VDA also forecasts a further increase due to improved consumer sentiment, with new vehicle registrations in Germany expected to rise to a total of 3.37 million. As a result of the planned increase in value added tax in 2007 the VDA forecasts a leap in demand particularly during the last quarter of 2006. Sector experts also anticipate a pick-up in the automobile market for the European market as a whole, whilst by contrast the US automotive market is expected to show falling sales.

On the traffic monitoring market ROBOT Visual Systems GmbH sees potential for a further increase in the market volume over the coming years, primarily as a result of new markets being opened up and the gradual upgrading from the conventional wet film technology to digital imaging.

The aviation industry is booming – in particular for the two major manufacturers Airbus and Boeing. For 2006 Airbus plans to build more than 400 aircraft, approx. 30 more than in 2005. The investment bank CSFB predicts that by 2007 Airbus and Boeing will increase their production by 40 to 50 percent compared with the level in 2004. At the same time, the manufacturers are also expanding their development departments, increasing the number of new models in the pipeline. The industry itself forecasts very high growth numbers: Airbus predicts that the number of passenger planes will double from 10,000 today to approx. 21,000 by 2023.

In the European aerospace market the satellite construction and launching, ground stations and service areas expect total volumes to reach 29bn euros. Europe and Germany in particular, has a key role in earth observation. The national budget of the German Federal Government has remained at a consistent level for many years and will continue to do so in 2006. Jena-Optronik is responding to this situation by concentrating on commercial and international projects.

In the medical technology market laser technology is expected to become increasingly important. It is used in particular in cosmetic surgery, for electrolysis, in dental and ophthalmic medicine. In future, the German medical technology area will generally remain heavily dependent upon exports. The domestic policy reforms in the healthcare market are causing uncertainty and concern and a fall in domestic demand which has led to an investment bottleneck that Spectaris puts at between 10 and 15bn euros.

The upturn of the electronics and electrical engineering industry market in the defense technology area is expected to continue in 2006. One of the reasons for this is the more liberal policy of the coalition government of Christian Democrats and Social Democrats which might lead to a continuation of rising arms exports. For the years 2006 and 2007 the Zentralverband der Elektrotechnik und Elektronikindustrie (ZVEI) expects to see growth of 3 resp. 6 percent in the electronics and electrical engineering industry in the defense technology area, to 2.04m euros in 2007.

ANTICIPATED BUSINESS SITUATION AND FORECAST DEVELOPMENT OF THE KEY INDICATORS.

Sales of the Jenoptik Group in 2006 – excluding the Clean Systems business division which is still included up to completion of the sale – are expected to lie between 420 and 450m euros. The increase in sales in 2006 is accordingly expected to be between 6 and 11 percent. This sales growth may also be higher thanks to acquisitions. The order backlog as at December 31, 2005 in the sum of 438.7m euros, which includes sales for 2007 and beyond, already covers 51 percent of the planned sales for the whole of 2006 (prev. year 48 percent). Up to the year 2007 the group is aiming to increase sales by 10 percent annually. The growth in sales is expected to come from all three of the group's Photonics divisions.

Sales in the Laser&Optics division should total between 160 and 170m euros in 2006 (2005: 147.6m euros). The main growth drivers will include high-performance diode lasers, laser display technology and the high-performance and binary optics area of JENOPTIK Laser, Optik, Systeme GmbH.

The Sensors division plans to achieve a sales volume of 140 to 150m euros in 2006 (2005: 136.1m euros). Here, the areas of traffic safety technology, sensor systems for the aerospace industry and the safety industry in particular will be striving to achieve strong sales growth.

Sales of the Mechatronics division are forecast to reach between 120 and 130m euros (2005: 117.2m euros) in 2006, with the growth coming primarily from the series components business for the Airbus A380.

Jenoptik aiming to achieve the same quality of earnings in the Photonics business division as that of previous years. This means a forecast result from operating activities of between 9 and 10 percent of sales. The operating result of Photonics in 2006 should therefore lie between 38 and 44m euros before holding costs. Until the contract closing for the sale of the Clean Systems business division, which is expected to take place in the 1st half 2006, M+W Zander will be included in the group figures for the current fiscal year 2006 on a proportional basis. As a result of the additional opportunities and risks taken on with the contract closing, the possibility of further effects on the results in the 2006 fiscal year due to the sale cannot be ruled out.

The order intake for the Mechatronics division in 2005 was characterized by a long-term major order for the 2nd tranche of the radome for the Eurofighter in the sum of more than 50m euros. Since Jenoptik does not expect any comparable major order for 2006, the order intake for the Mechatronics division will be markedly down on the figure for 2005. The Laser&Optics division anticipates an increase in its order intake. In this area the strong order intake level of the previous months continued in the first weeks of the current year. However, the growth will not be sufficient to fill the gap in the Mechatronics division so we anticipate a slight overall reduction in the order intake for 2006 as a whole.

However, since the effect on sales of the major order of ESW-Extel Systems Wedel mentioned above will continue through to the year 2010, the forecast lower order intake for 2006 is no indicator for the anticipated sales in 2007. The portion of the order intake affecting sales in 2007 is instead expected to continue increasing in 2006 and lead to further sales growth. We foresee the continuing process of internationalization, new technologies and products as well as a higher level of system integration in particular having positive effects in this respect.

Research and development expenses in 2006 will probably show a further slight rise to approx. 30m euros. The R+D quota is expected to remain at around 7 percent as a result of the increased sales. New research projects which the group will be tackling in the three divisions in 2006 and 2007 are not being published for competitive reasons.

The personnel requirements of the Photonics companies is continuing to show strong growth in line with the corresponding development in the divisions and the course of business in 2006. The total number of personnel employed in the Jenoptik Group in 2006 – excluding acquisitions – is expected to rise by 90 to 100. Jenoptik Laser, Optik, Systeme, Robot Visual Systems and Jena-Optronik in particular expect to take on additional personnel. 37 highly qualified, new employees are to move into the new production building for semiconductor components of Jenoptik Diode Lab in Berlin-Adlershof.

The focus of the new appointments will be on Germany. However, the number of employees abroad is also expected to increase by 40 to 50 during the course of new activities, particularly in Asia and North America. 27 of these have resulted from the acquisition of the US company MEMS Optical Systems in January 2006.

Over and above current requirements four additional trainees will receive training from Jenoptik at the Jena site in anticipation of the falling numbers of school leavers from 2008 in Thuringia. A corresponding program designed to alleviate the consequences of the demographic change was approved in 2005.

ANTICIPATED FINANCIAL POSITION.

For its financing, in addition to cash on hand and bank balances in the sum of 8.8m euros, Jenoptik had unutilized credit lines in the sum of 41.1m euros at its disposal as at the qualifying date December 31, 2005. The commercial paper program was only utilized to a very minimal extent, at 7.5m euros and, if necessary, could be extended to the maximum sum of 100m euros depending upon the market conditions. There are however no plans to do this. The liquidity reserves in fixed assets, which could be converted into liquid assets at short notice and at no significant costs, total approx. 50m euros.

Jenoptik will access the correspondingly available financing instruments for the purpose of financing acquisitions: smaller acquisitions are to be purchased from current cash flows. For larger acquisitions that exceed the single figure million euro range there is a comprehensive range of financing instruments available resulting from resolutions passed at the 2005 Annual General Meeting (see p. 13). It is planned to use the funds from the sale of M+W Zander for the premature repayment of the high yield bond which is due for final repayment in Autumn 2010. In return a call option is available at the price of just under 104 in November 2007.

Investments in tangible assets and intangible assets (excluding acquisitions) are expected to total between 35 and 45m euros and consequently to slightly exceed the comparable level for 2005. Machinery and facilities will account for the largest share, amongst others the equipment for two new production sites in Triptis and Berlin-Adlershof, as well as for production at Robot Visual Systems and in the optics area of Jenoptik Laser, Optik, Systeme.

The future dividend policy is expected to be aligned with the reorientation of the Group towards a focused high technology company. By having a permanently sharper profile as a high technology company, profits are expected to be reinvested primarily into the expansion of the technology and product portfolio and thus for the further growth of the group.

GENERAL STATEMENT ON THE ANTICIPATED DEVELOPMENT OF THE GROUP.

Strong growth over the coming years is forecast for photonic technologies. Policy decision-makers have increasingly recognized the potential. Initiatives for driving forward these technologies and for creating a network between the players on the European, national and local level support this. Germany occupies a global leader position in photonic technologies; Jena is seen as the heart of optical technologies in Germany.

We believe that in future we will be able to derive greater than average benefit from the very positive development in the sector as well as from the political support and our geographic location. Following the strategic reorientation of the group we will be better positioned to exploit the opportunities created by these excellent general conditions since in future we will be able to concentrate our financial resources and management capacities solely on the Photonics business division.

Over the next one to two years we will gradually reduce subsequent topics resulting on the one side from the sale of M+W Zander and on the other originating from the group's development. This includes, amongst other things, the further sell-off of real estate not used for our own purposes, as well as the sale of non-strategic investments. Independently of this our core business is expected to grow profitably and at a higher-than-average rate – organically and through acquisitions where suitable opportunities arise.

Jena, March 17, 2006

The Executive Board

Alexander von Witzleben
Norbert Thiel

Corporate Governance.

JENOPTIK AG aligns its policies with recognized standards for responsible corporate management and supports the recommendations of the German Corporate Governance Code in its June 2005 version. In December 2005, the executive board and the supervisory board agreed on a declaration of compliance in accordance with section 161 of the Stock Corporation Act, with which Jenoptik is now compliant with a few exceptions. The declaration of compliance is available on the JENOPTIK AG homepage at www.jenoptik.com / Investors / Corporate Governance.

Executive and supervisory boards. The executive and supervisory boards work closely together for the benefit of the entire group. The executive board keeps the supervisory board informed of all important matters concerning strategic development and company planning – regularly, comprehensively, and in a timely manner. Over the past fiscal year this featured in particular the sale of the Clean Systems business division and the company's concentration on the Photonics business division. The supervisory board was included in on all fundamental decisions and continually provided the executive board with guidance.
Comprehensive information on the activities of the supervisory board can be found in the supervisory board report (see p. 136).

Information on changes in the executive and supervisory boards in the course of fiscal year 2005 can be found in the group management report of this annual report (see p. 8).

Remuneration of the executive and supervisory boards. The members of the Jenoptik executive board receive payment in two forms – one fixed and the other variable. The variable sum primarily reflects the results of the business division for which the member of the board is responsible in accordance with the company rules of procedure. For the chairman of the executive board, this sum reflects the results of the entire group. The variable payment may represent a maximum 50 percent of the total remuneration, and thus is not permitted to exceed the fixed payment.

The members of the executive board also held JENOPTIK AG share options in accordance with the 2000 stock option plan as a further component of their remuneration scheme. These options expired in autumn 2005 as the stock option conditions were never met. New options have not been issued. In addition to a company car that can also be used for personal travel, the board members received no major additional benefits. New pension benefits are not planned for the members of the executive board in addition to their currently existing benefits.

The supervisory board received a fixed remuneration of 100,000 euros in total payment for its activities in fiscal year 2005, as determined in the articles of association. This payment is divided among the individual members of the supervisory board. No additional performance-related payment was available due to the lack of dividends paid in fiscal year 2004.

Further information on the remuneration of the executive and supervisory boards can be found in the appendix of the 2005 annual report on pages 130 and 133. We view this information as an integral part of the corporate governance report.

Transparency. Jenoptik publishes all of its ad hoc and press releases, financial reports, information of the annual general meetings, and concerning corporate governance on its website in order to keep its shareholders up-to-date. Information on directors' dealings as per section 15a of the Securities Trading Act (Wertpapierhandelsgesetz) are also published on the Jenoptik website.

In fiscal year 2005, Prof. Jörg Menno Harms of the JENOPTIK AG supervisory board acquired 1,300 Jenoptik shares (December 21, 2005).

For the sake of better transparency, Jenoptik also introduced new group guidelines to ensure the pursuance of Securities Trading Act regulations. The guidelines include the primary obligations of board members and employees of the Jenoptik Group concerning insider regulations, ad hoc publicity, and directors' dealings, in addition to specifying areas of responsibility.

In autumn 2005, Jenoptik stock option programs and similar securities-based motivational systems ceased to exist subsequent to the final option exercise periods of the plans begun in 2000 and 2001.

Accounting and auditing. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). The auditing firm KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft was selected by the annual general meeting as the balance auditor for fiscal year 2005. Before recommending the firm, the supervisory board (auditing committee) received a declaration of independence from the auditing firm, stating that there were no employment, financial, personal or other links between the auditing firm, its board members and head auditors, and the company being audited and their board members.

Departures from the recommendations of the code. JENOPTIK AG executive and supervisory boards have complied with the recommendations of the German Corporate Governance Code (DCGK) with a few justifiable exceptions. These exceptions and their reasons are as follows:

1. The reports and documents required by law for the Annual General Meeting will regularly be provided from the time the Annual General Meeting has been duly convened and will be send to the shareholders upon request. The documents will be published on the company's internet site together with the agenda provided that this does not conflict with the legitimate interests of the company, its shareholders or third parties (Point 2.3.1 DCGK).
It will therefore be possible in individual, well-founded cases to prevent certain information from being universally accessible. In some cases, for example, Jenoptik could have a well-founded interest in allowing its shareholders, but not its competitors or customers, access to such information.

2. A deductible for D&O insurance shall be waived (Point 3.8 Paragraph 2 DCGK). Jenoptik is not convinced that the motivation and responsibility of the executive and supervisory boards would be improved through the introduction of a deductible. Such a policy could also lead to difficulties in recruiting members for the supervisory board.

3. The personnel committee of the supervisory board, responsible for executive board contracts, shall consult the plenary of the supervisory board in regard to the board's remuneration scheme if the plenary wishes this or when the committee deems it necessary for a specific reason (Point 4.2.2 Paragraph 1 DCGK).
It is the view of Jenoptik that this suffices for the supervisory board to work efficiently.

4. Again the total amount of the fixed and variable remunerations of the executive board members will be published. The figures will not be individualized (Point 4.2.4 DCGK).
Due to the relatively small size of the board, the disclosure of the total amount provides sufficient transparency. The motivational effect of the variable pay is, furthermore, not important for the individual members of the board, but for the board as a whole.

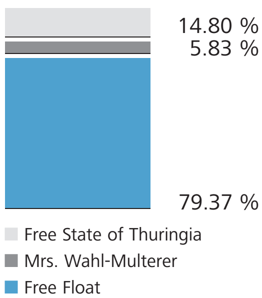
5. During the first three months of each fiscal year, the executive board shall prepare the financial statements and management report as well as the consolidated financial statements and group management report for the previous fiscal year, and shall publish them in a separate annual report within the first 120 days of the fiscal year (Point 7.1.2 DCGK). JENOPTIK AG will not publish the 2005 annual report until April 11, 2006, 11 days later than recommended by the code. In addition to the sale of the Clean Systems business division and the related first-time application of IFRS 5, the main reason for the delay is the additional time and effort necessitated by the accounting processes of the group's foreign-based subsidiaries.

6. The internet publication of a list of holdings, as recommended in Point 7.1.4. in connection with Point 6.8 DCGK, shall be provided without the inclusion of results for the past fiscal year. Reference shall instead be made to the segment reporting included in the consolidated financial statements. Jenoptik is of the view that the combination of companies partially owned by Jenoptik and fully consolidated subsidiaries with their respective financial figures into one list could indeed lead to misunderstandings.

The Jenoptik share.

Jenoptik is now planning to channel its full efforts into the high-growth Photonics business division, focusing on using light as an industrial tool. We are optimistic that this will provide us with an excellent basis for the future. In its Laser & Optics, Sensors, and Mechatronics divisions Jenoptik holds leading market and technology positions.

Shareholder structure as of December 31, 2005



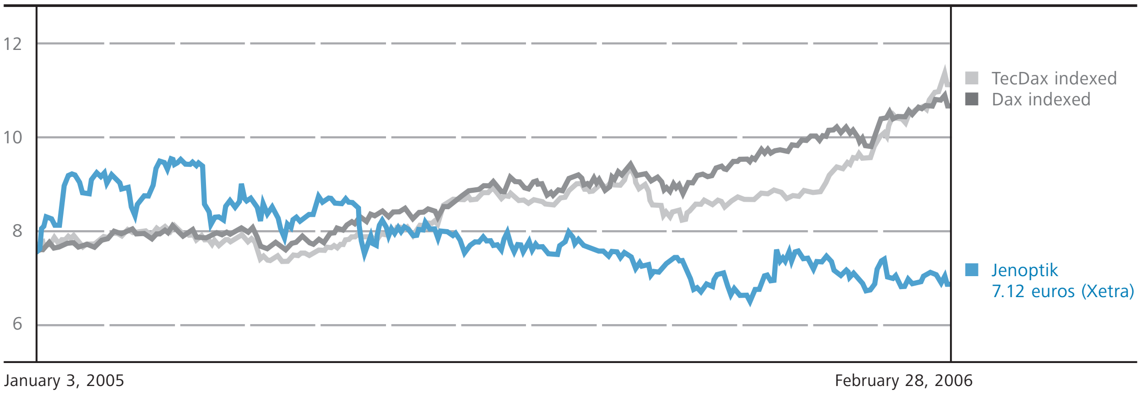
The Jenoptik share ended 2005 up slightly. The share price was boosted by the signing of the contract for the sale of the Clean Systems business division to Springwater Capital in mid-December – an important milestone towards the reorganization of the Jenoptik Group. Analysts and investors followed the group's strategic moves throughout 2005 with great interest, cautiously awaiting, however, when and how the reorganization was to be implemented.

The Jenoptik share price was therefore unable to keep pace with the positive trend of the German stock market, and fell behind the major indices, Dax and TecDax. According to capital market participants the ruling of the Oberlandesgericht Jena (Jena Higher Regional Court) regarding the compensation claim of a DEWB shareholder also had an effect. JENOPTIK AG has submitted an appeal to the German Federal Supreme Court against this judgement, the hearing will take place on May 8, 2006.

Stock markets on the rise. The positive development of individual companies and a growing positive shift in economic expectations for the future contributed towards a solid advance on the German stock market in 2005 despite rising crude oil prices. The German Dax index rose roughly 27 percent to 5408.26 while the German technology index, TecDax, rose over 14 percent to finish the year at 596.47. Solar energy shares played a particularly large role in this increase.

The Jenoptik share fell slightly in 2005, beginning the year at 7.80 euros on January 3. During the strong first quarter, the share reached its closing high for the year at 9.80 euros on March 4. Beginning in late May, however, the Jenoptik share lagged behind the Dax and TecDax indices, reaching an annual low of 6.77 euros at the end of November before recovering somewhat over the last few weeks of the year. The Jenoptik share was not, however, able to recover all the ground lost in the

Development of the Jenoptik share price in euros



Jenoptik share master data:
ISIN DE0006229107
WKN 6220910
Stock symbol JEN
Reuters Xetra JENG.DE
Reuters Frankfurt JENG.F

Included in the TecDax:
since 1st quarter 2003

Also listed in the following indices:
HDax
Prime All Share
Tec All Share
Mid Cap Market Index
CDax

course of the year, closing at 7.60 euros on December 30, 2005, for a decrease of some 2.5 percent over the year as a whole. In the first weeks of 2006 the share price decreased slightly to 7.12 euros on February 28.

Jenoptik's market capitalization came to approx. 395.46m euros as of December 31, 2005, some 10m euros less than at the beginning of the year.

Trading volume on all German stock exchanges fell from an average 179,754 shares a day in 2004 to 157,699. Jenoptik came in 18th of 30 among TecDax companies in market capitalization and trading volume.

DVFA/SG earnings. In determining earnings figures in accordance with DVFA, erratic items are deducted from the net profit. Jenoptik's earnings after tax were mainly adjusted for the depreciation on M+W Zander Gebäudetechnik, impairments and the costs of the IPO of M+W Zander Facility Engineering in Singapore that had been planned to take place as well as for the restructuring/realignment of M+W Zander.

Continuous and open lines of communication. The chief aim of Jenoptik's investor relations work is to provide the capital market with comprehensive and up-to-date information. In 2005, Jenoptik management represented the group at two analyst conferences and at a number of bank conferences within Germany and abroad. Numerous analysts and institutional investors also visited Jenoptik in Jena in their quest for information. As in previous years, some 20 analysts filed research reports on Jenoptik over the past year.

[1] Source: Deutsche Börse
[2] The number of shares used as a basis is adjusted for the number of treasury shares amounting to about 6,000 (2004: 9,000) and for 884,000 new shares (capital increase against contribution in kind) on annual average.
[3] Taking into account the maximum possible number of shares converted (convertible bond) pro rata temporis.

Key Jenoptik share figures

in euros

	2005	2004
Group earnings per share	– 1.44	0.26
DVFA/SG earnings per share [2]	– 0.76	0.30
Diluted DVFA/SG earnings per share [3]	– 0.76	0.31
Highest share price / Lowest share price (Xetra)	9.80/6.77	11.90 / 5.93
Closing share price (Xetra, year-end)	7.60	7.76
Average daily trading volume [1]	157,699 shares	179,754 shares
Market capitalization (Xetra, year-end)	395.5 million	403.8 million
PER (based on highest share price) / PER (based on lowest share price)	n. a.	45.77 / 22.81
Non-par value bearer shares issued	52.03 million	52.03 million
Bond (closing price, Frankfurt, year-end)	108.00	109.90
Convertible bond (closing price, Frankfurt, year-end)	91.00	93.00

Over the past year, Jenoptik expanded its investor relations internet site, which now includes further information on the group's two business divisions and the JENOPTIK AG bonds, and a considerably expanded figure overview.

The group's annual and quarterly interim reports are another important way to inform its shareholders. Jenoptik's 2004 annual report took third prize in the "manager magazine" annual survey, once again numbering among the best in the TecDax segment.

Strategy approved. Over 600 shareholders representing more than 45 percent of voting capital attended JENOPTIK AG's annual general meeting in Weimar on June 7, 2005. The shareholders approved all nine proposals of the executive and supervisory boards, including the strategy of separating M+W Zander from the Jenoptik Group, which was carried by a strong majority. The executive board was also authorized to create a new authorized capital of 35m euros and/or to issue up to 150m euros in option and convertible bonds (see p. 116).

DVFA/SG earnings calculation

in TEUR

	2005	2004
Earnings after tax	– 69,350	19,049
– Adjustment for deferred taxes	5,777	0
= Adjusted group income	– 63,573	19,049
– Erratic items (asset) after taxes [1]	21,944	–24,312
– Erratic items (liabilities) after taxes	0	0
– Other erratic items after taxes [2]	7,853	26,503
= DVFA/SG earnings for entire group	–33,776	21,240
– Third party shares in profits(+)–/losses(–)	5,518	6,227
= DVFA/SG earnings for shareholders of the parent company	–39,294	15,013
/ Number of shares used as basis, in thousands [3]	52,028	49,715
= DVFA/SG earnings per share (euros)	–0.76	0.30
Adjusted DVFA/SG earnings	–37,492	15,898
Number of potential shares (diluted) in thousands	56,912	51,869
Fully diluted DVFA/SG earnings per share in euros	–0.76 [4]	0.31

[1] In 2005: Depreciation Gebäudetechnik, impairments
In 2004: Sale of SC300, sale of project building Singapore

[2] In 2005: IPO in Singapore, restructuring/realignment of M+W Zander
In 2004: Deconsolidation and restructuring of Technical Facility Systems unit

[3] See point [2], table page 56

[4] Without taking into account the positive effect from dilution

Shareholder structure faces reshuffling. In October 2005, the Free State of Thuringia announced its plan to sell 14.8 percent of JENOPTIK AG shares, although no decision has been made as of yet on the timeframe and the modality of the transfer of the approximately 7.7m shares. The Free State of Thuringia, Jenoptik's home state, plans this sale as part of its privatization strategy. From its founding in 1991 to its IPO on the Frankfurt Stock Exchange in 1998 the Free State of Thuringia was the sole owner of the technology group. Thuringia has gradually been reducing its share in the company to 14.8 percent.

Currently 79.37 percent of JENOPTIK AG shares are in free float, a large portion of which is held by institutional investors. Brandes Investment Partners, L.P. of California/USA announced that it held 5.002 percent of JENOPTIK AG in early 2006.

The three leading rating agencies, Fitch, Moody's und Standard & Poor's (S&P) have all rated JENOPTIK AG and its bond issued in 2003 over the past year. Fitch and S&P lowered their rating of Jenoptik to B following the publication of the 2004 group report, while Moody's left its rating unchanged at B1.

Rating of JENOPTIK AG

31.12.2005	Corporate Rating	Bond Rating
S&P	B	B
Moody's	B1	B1
Fitch	B	B

Focus on optics: Jenoptik expands its unique expertise.

Jenoptik has mastered the fundamentals of its trade, while it continues to systematically expand and increase its expertise in order to remain a technological leader. This underlying strategy has been the basis for the organic and sustained growth that the Photonics business division has enjoyed for years. Research and development, with all its inherent strategic implications, rests in the hands of the individual companies, with more than 500 employees involved in R+D activities in the Photonics business division.

Infrared components – hard as diamonds. Infrared optics provides a case in point. Over the past several years, JENOPTIK Laser, Optik, Systeme GmbH has expanded in this area, improving not only its equipment, but its technical know-how as well. In order to produce optics which can conduct, bundle and image invisible thermal radiation, the company has a comprehensive range of top-standard production processes at its disposal.

This technology chain was further extended over the past year with a six-figure investment in a plant for diamond-like carbon coating, a process in which ion radiation is used to produce an especially robust coating made of diamond-like carbon. Since September 2005, the company has used this process to create anti-reflection coatings able to withstand extreme forces, such as the mechanical pressure and sandstorms to which military vehicles and their infrared lenses are typically subject.

This has placed Jenoptik among a handful of companies worldwide that have mastered this technology. Its market standing has thus improved dramatically, the positive effects of which were already reflected in last year's sales figures. The fact that Jenoptik is equipped with a wide variety of coating technologies, covering the spectrum from ultraviolet to infrared, gives it a distinct competitive advantage.

Aspheric lenses. Physically-induced faults occur in the reproduction of spherical lenses, i.e., those with a curved surface. Aspherical lenses correct these errors internally thanks to their unique shape. In order to measure and optimize these lenses, diffractive optical arrays are used in both the visible and infrared ranges, also known as CGHs (Computer Generated Holograms), another area in which Jenoptik specializes.

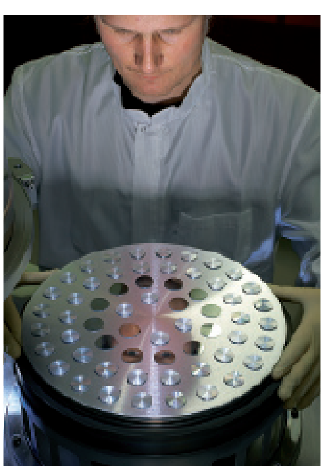
Jenoptik is also one of the few companies in the world that have mastered the aspherical lens – even within the infrared spectrum. The single point diamond turning process introduced last year allows for the cost-efficient production of aspheres for the infrared spectrum. These can be additionally outfitted with diffractive structures, making it possible to correct optical imaging internally within an optical element, while reducing the number of components needed to conduct infrared waves through the optical path of a lens. One good example for this is Jenoptik's high resolution VarioCAM infrared camera, in which aspherical lenses were used for an optimal lens design. The system has since been simplified, becoming both more efficient, easier to use and lighter. And this integrated functionality creates more cost-effective optical systems as well, whereas infrared materials are generally quite cost-intensive.

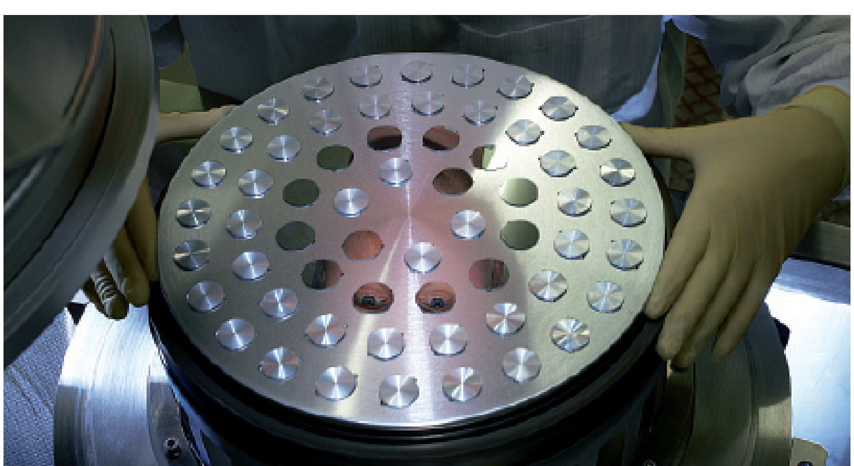
Space travel: Jena-Optronik and earth observation. Jenoptik even has the expertise for simulating the sun at Jena-Optronik GmbH, the group's subsidiary for all things aerospace. The company has equipped numerous space missions with a variety of instruments and systems. Testing them in space-like conditions, however, requires both comprehensive know how of the employees and complex testing facilities. Over the past years Jena-Optronik has adapted its testing facilities to market requirements, so that now series production of aerospace instruments is possible.

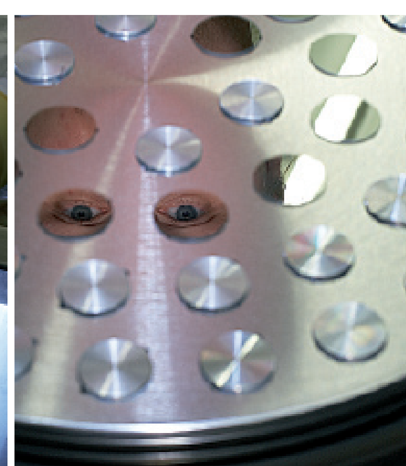
You can find position control sensors there among other items being tested and readied for outer space. The sensors ensure an exact positioning of satellites in the orbit. Four thermal vacuum chambers have been set up at the facility as well. Within its vacuum chambers, Jena-Optronik can now test its products to ensure that they are up to the task of space travel during their life time of up to 20 years.

In addition to position control sensors, the company has established its name worldwide for its earth observation instruments. These include the offspring of the MKF-6 multi-spectral camera, which was developed by Carl Zeiss in Jena almost 30 years ago, such as the Jena Spaceborne Scanner product range (JSS). The instruments are equipped with state-of-the-art triple reflex lenses as well as a digital recorder, and CCD photography elements, which scan the surface of the earth line by line, following the "pushbroom" principle.

In 2007, with the help of the JSS 56, the German company RapidEye AG will establish a commercial geoinformation service (GIS) comprised of five satellites which are equipped with instruments able to depict every point on the earth within 48 hours. The cameras will function in the visible and close infrared ranges, providing data of interest to the areas of agriculture and carto-









graphy. Potential users will include agricultural insurers who need to forecast or report damages, institutions such as the EU, companies which trade in agricultural commodities, and farm corporations that rely on precision crop management. One technological challenge faced by the developers at Jena-Optronik was to create a system small enough that it would fit onto a small satellite platform. And they succeeded, with front optics, focal plane, and on-board data processing all down to an unparalleled size.

The developers from Jena are also working on METimage, an imaging radiometer which provides spectral channels in the medium and thermal infrared range. With the support of the German Aerospace Center and the German Meteorological Service it is to be integrated as a German contribution into European meteorological and environmental satellites.

The Jena Airborne Scanner (JAS) 150 also descends from a proud lineage going back to the MSK-4, an airplane-mounted version of the MKF-6 multi-spectral camera, also some 30 years old. A new prototype of a digital scanner was introduced last year. In addition, the system provides the highest resolution in the airborne camera market segment. Its integrated data evaluation software, JenaStereo, can be used to evaluate the acquired data and display multispectral, three dimensional terrain models. Potential uses for the data include urban planning, harvest control and flood prediction.

A December 2005 decision of the Council of Ministers of the European Space Agency (ESA) was of special significance for Jena-Optronik. As a result, Germany remains Europe's second most important space nation following France. The special area of expertise is the earth observation for which Germany will take the lead with 31 percent: Here Jena-Optronik will participate with its opto-electronics system solutions.

Electromechanics: 170 kilowatt Puma tanks. Another Jenoptik company has also strongly benefited from political decisions. When the Bundestag committed itself to the building of the new PUMA infantry fighting vehicle, this meant a surge of new contracts for ESW-Extel Systems Wedel. ESW equips helicopters, as well as military vehicles, ships and aircraft with a variety of systems. The new tank, with state-of-the-art mine protection for its crew, carries many parts that bear the signature of this Jenoptik company which is located in Wedel, South of Hamburg.

A case in point is the energy production system installed by ESW, making these the first infantry fighting vehicle with 170 kilowatts of electrical power. This combines a number of different functions, such as the starter and the generator with the control electronics. In addition, they have provided a high-performance fan for cooling the diesel motor, as well as a vehicle power supply, and a drive for the heater/air conditioner and dust blower. In a first step, 410 Puma vehicles will be produced, they will be the first to be produced in series with starter generator.

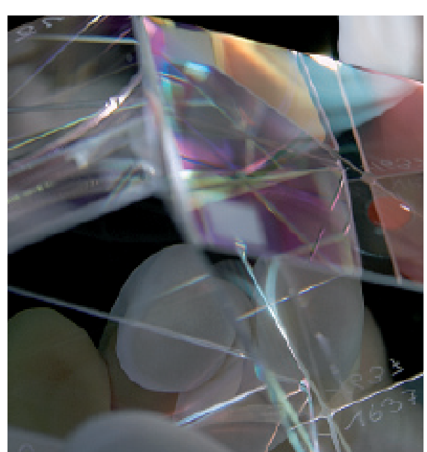
The components are modular in design and can be adapted for use in higher performance classes. They can then form the basis of widely divergent future applications, such as hybrid and electric military vehicle engines. This would allow for a conversion from diesel to electric engines, significantly reducing vehicle noise in stealth mode.

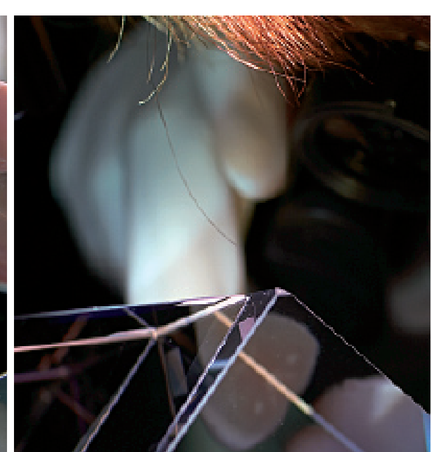
Traffic monitoring: revolutionary radar. Another technological leap forward has been taken in the area of traffic monitoring. After their breakthrough in the area of digital photographic monitoring, the developers at ROBOT Visual Systems GmbH have now moved on to revolutionize radar. Soon even unmanned radar traps will be able to identify traffic violators reliably. This technique is referred to as non-invasive monitoring, as the standard practice of embedding sensors in the road surface can then be fully avoided. This is made possible in that the radar not only measures the speed of each passing vehicle, but the intervening distance as well. This provides definitive proof as to which lane the vehicle was in, proof which had not been possible with previous radar systems. In order to ensure admissible evidence, either sensors were installed within the road surface at great time and expense, or traffic officers were required to man nearby radar stations.

The new method has undergone a two-year developmental phase, and it will be presented to a professional audience for the first time at the Intertraffic international traffic safety trade fair in April 2006. Within this year, the Physikalisch-Technische Bundesanstalt (Federal Physical-Technical Institute) in Braunschweig will determine whether the new technology can be permitted for use on German roads. Robot Visual Systems believes that the new radar technique will find an international market, especially in light of the demand for non-invasive solutions. In Germany, road surface sensors and manned radar stations will then be a thing of the past.

Preparations are already underway for the next step in radar technology. Traffic violations at intersections with traffic signals will also be able to be detected by radar. Not only will radar be able to measure the speed and distance of the vehicle, but its angle with respect to the radar device as well. Using this method, vehicles can be tracked over a long distance and their movements can be continually compared with other data, such as traffic light phase periods. This will, in combination with other data, allow for conclusive evidence for traffic light violations. The technology, which is currently in the developmental phase and is scheduled for a May 2007 market launch, will significantly simplify traffic police work.

The chip production of the future: setting new records. The 50 members of the XTREME technologies GmbH development team in Göttingen and Jena is researching a gas-discharge plasma source for the extreme ultraviolet (EUV) spectrum. Since starting up in 2000, the company has been moving step-by-step toward creating the chip production of the future. Ultraviolet wavelengths will soon be too short to meet the demand for ever smaller chips. Therefore, the transition to the extreme ultraviolet spectrum, which approaches weak x-ray radiation, is projected for 2009.



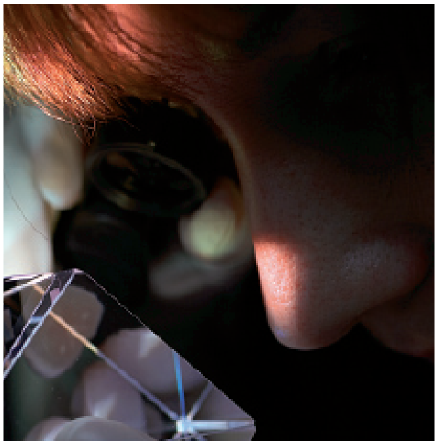


Technological advancements stand and fall with the light source. Laser and gas-discharge produced plasma sources are the specialties of Xtreme technologies, and in 2005, as in the previous four years, the company again manufactured the most efficient light sources available. This was indeed proven under laboratory conditions when a gas-discharge produced plasma source briefly produced 800 watts of power. This was the highest output power ever recorded anywhere at 13.5 nanometers worldwide, and is closing in on the amount of power deemed necessary for industrial production.

If the Semiconductor Roadmap, the semiconductor industry's collective plan for the future, proves correct, EUV will go into mass production starting in 2009 – an ambitious goal, and one toward which XTREME technologies GmbH is relentlessly striving. In 2005, Intel, along with the International SEMATECH semiconductor consortium, put the first microexposure tools into operation for evaluation purposes – tools which had been purchased from the British firm Exitech and were equipped with EUV sources from Xtreme technologies.

Xtreme technologies, a 50-percent Jenoptik joint venture, has now become not only the technological leader, but also the world's largest supplier of EUV sources and EUV metrology. The Japanese firm, USHIO Inc., which is also conducting research in gas-discharge produced plasma sources, acquired the other half of the company from Lambda Physik AG in July 2005. The metrological expertise of JENOPTIK Mikrotechnik GmbH was also integrated into the company in 2005, which Xtreme technologies can now offer together with its EUV source.

Diode lasers: in touch with the latest in science. Using diode lasers to create solid industrial laser sources – that is the mission of JENOPTIK Laserdiode GmbH. And the company raised the bar even higher last year. For the first time ever, a test with high-power diode lasers broke the 500-watt mark.



Normal results are in the 40 to 60 watt range, but following the Jenoptik company's latest achievements, laser sources with more than twice that power should be ready for the market by the end of 2007.

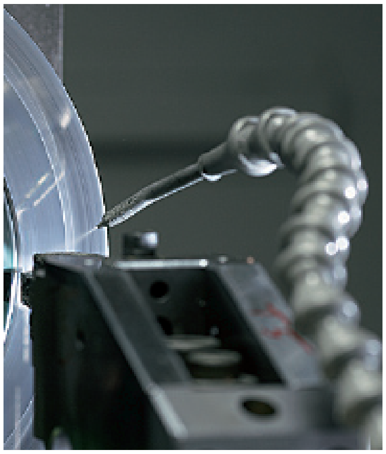
Diode lasers are the most efficient source of artificial light. High-performance diode lasers are used to pump thin-disk lasers such as those produced by JENOPTIK Laser, Optik, Systems GmbH. They are used in materials processing, such as metal soldering and hardening, and plastics welding, but can be employed for medicinal purposes as well, such as permanent depilation. The applications are diverse, and the laser's performance range allows it to be adapted for a wide variety of needs.

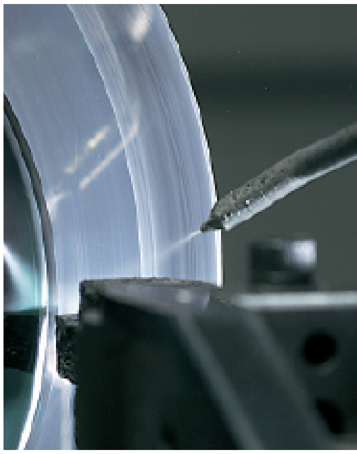
Jenoptik Laserdiode exceeded its targeted growth goal for the past year, boosted by the market recognition of the reliability and efficiency of Jena-made high-performance diode lasers. This was made possible in part by the work of Jenoptik researchers in increasing the effectiveness of their high performance diode lasers by 60 percent – a very strong argument indeed for potential customers. This makes laser tools more efficient at the same level of electrical power and heat, resulting in an excellent performance-to-price-ratio that is bound to attract a whole new customer segment.

To achieve this goal, Jenoptik has optimized its entire process chain, starting with the raw materials. Similar to microchips, diode lasers can be produced cost-effectively in large quantities on semiconductor wafers. This task has in fact remained within the group to be carried out by JENOPTIK Diode Lab GmbH in Berlin-Adlershof, which emerged in February 2002 as a spin-off of the close collaboration between Jenoptik and the Ferdinand Braun Institute for High Frequency Technology.

In the manufacturing process, bars are created on gallium-arsenide wafers (GaAs), which have numerous single emitter stripes. These bars are trimmed to a high degree of efficiency – requiring a careful balance of various physical properties, which in some cases work in opposition to each other. The company is the global leader in the field, thanks in part to its close cooperation with the neighboring Ferdinand Braun Institute for High Frequency Technology. Research results, such as improved efficiency, are turned over directly to the company, and help to continually improve the bars as well as the production process.

Once back in Jena, the bars are mounted on heat-sinks, which allow the excess heat to dissipate. Several of these submounts can then be arranged in stacks – an art in itself. In the end, the tool's performance is not only determined by the semiconductor material of the bars, but by the mounting and stacking craftsmanship as well. The company's expertise in design and mounting went a long way in making it possible to put the increased effectiveness of the high-performance diode laser bars to practical use in products.





Jenoptik Laserdiode had spent several years laying the groundwork for this technology. The technology formerly used to cool off excessive heat presented a problem too complex for rough industrial environments – until the company came up with its much simpler solution. The testing processes followed, which have become an integral part of the production process over the past few years, and are especially important for the recording and analysis of all relevant data. The number of customer complaints has since dropped drastically, and Jenoptik Laserdiode is now known throughout the industry for its especially reliable diode laser sources.

Final products can always be refined further: Depending on the applications involved, light can now be directed to a specific location through a lens or by attachment to an optical waveguide fiber, another procedure now on offer by the Jenoptik company. And at the beginning of the production chain a new facility is under construction; JENOPTIK Diode Lab GmbH is spending 14 million euros on a semiconductor factory right next door to the Ferdinand Braun Institute for High Frequency Technology. This will ensure that Jenoptik high-power diode lasers are continually in touch with the latest scientific breakthroughs.

A network of competence.

Jenoptik's Photonics companies were able to buck the economic trend in 2005 and maintain the size of their staffs, with the number of Photonics employees even rising in certain segments. By the end of 2005, the total number of Photonics employees increased by 172 to 2,765 (see management report p. 24).

The rise in the number of Photonics employees is reflected both in the number of job vacancies and training positions on offer. Open positions have increased considerably since 2003 with highly specialized experts in particular demand. Compared with an average of 43 vacant Jenoptik positions in 2004, that were advertised by Kempfer & Kolakovic Personalmanagement GmbH on behalf of Jenoptik companies, an average of 66 positions were on offer in 2005. Vacancies are usually filled within six to ten weeks, although the process can take longer in certain situations. Job vacancies at Jenoptik are to be found at www.jenoptik.com "Careers".

122 apprentices were employed by Photonics companies as of December 31, 2005, most of whom were learning technical trades such as precision optics, mechatronics, and applied computer science. 32 trainee contracts were signed in 2005, including three trainees who are participating in the Career Academy study program. In addition to positions that meet the changing needs of the individual companies, four additional trainee positions were created in 2006 through a new initiative. This is a move to meet recruitment needs that are expected to begin to increase by 2009 as demographers predict dwindling numbers of school graduates entering the job market (see management report p. 48).

In 2005, 31 trainees completed their programs with Photonics companies in Jena alone, 25 of whom were contracted by Jenoptik. Five trainees combined their work with their engineering studies at Fachhochschule Jena (University of Applied Sciences) a combined program scheduled for completion in only five years.

Jenoptik's subsidiary, JENOPTIK Automatisierungstechnik GmbH, is playing an active role in raising students' interest in their future careers at an early age. The company is now working together with Jena's Anger-Gymnasium (high school), helping the school to focus on practical subjects, while keeping an eye out for future talent. This partnership is part of the KURS 21 initiative, a cooperation network made up of schools and companies throughout Thuringia.

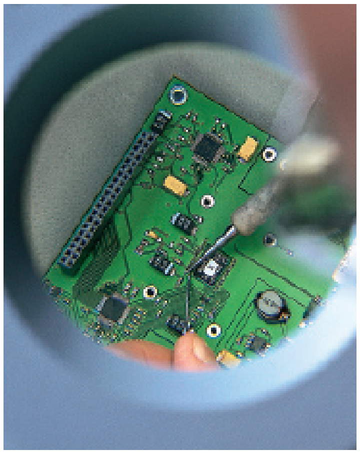
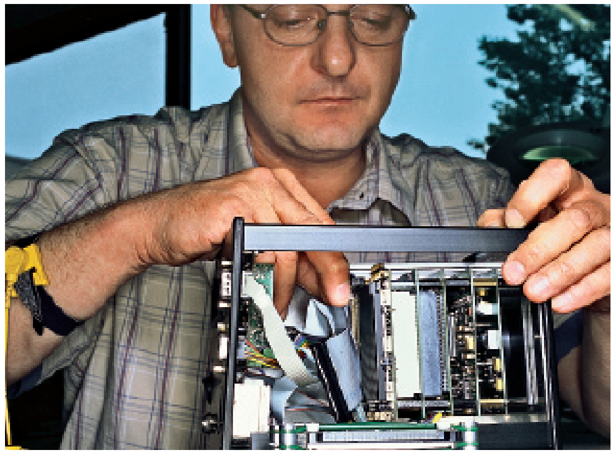
Jenoptik also works closely together with universities throughout Thuringia to recruit qualified graduates (see p. 72/73). An applicant pool for use by all of the group's companies has also been created to help. If qualified and enthusiastic applicants cannot find a position right away, they can submit their information to the group intranet system to be contacted at a later date. Another pool, available to all of the group's departments while upholding data secrecy standards, has also been introduced for those interested in internships and practical training within the group.

Providing leadership for growth. The sustainable internal growth also affected personnel decisions within the Jenoptik Group. In 2005, the group focused its personnel development on boosting its leadership skills up through the highest levels of management, in a move that will benefit all Photonics companies. New recruits took part in a newly implemented program for young professionals.

Jenoptik began to introduce changes in its managerial culture in 2004, starting a new program geared towards top managerial staff in the Photonics business division. While participants reflect on their own leadership qualities in the first module of the program, the second module is dedicated to brushing up and expanding on managerial techniques. In the third part of the program, the participants focus on team leadership, followed by a fourth module entitled "successful business abroad".

The Jenoptik Junior Leadership Program (J2LP) kicked off 2005 with a workshop for new recruits. The program is composed of eight modules designed to boost personal, social, organizational and management skills. Topics include self-monitoring as employees, managers and within the company as well as managing change, and networking. The program was developed by the group human resources development department together with the managing directors of the Photonics companies and potential participants. Eleven new recruits from the Photonics business division take part in the program.

The individual Jenoptik companies are also strongly involved in personnel development, recognizing employee potential at various levels of the company hierarchy. The individual companies also commit significant funding to offer their employees courses for their further development.

One goal in 2006 is the further integration of programs involving the recognition of employee potential, managerial programs, and job placement schemes in another step towards an integrative and all-encompassing personnel development program.

Clean Systems soon to depart. The Clean Systems business division is preparing for a time of great change. While Jenoptik devotes its resources to its core fields of competence, the highly specialized facility engineering division is in the process of departing from the group. This includes more than 7.200 employees, who will, upon the division's departure, work for Springwater Capital (SWC) of Geneva and London.

29 trainees and four Career Academy students began their programs in the business division in 2005, including technical drafting, construction mechanics, and plant fitting. For the first time, this year's graduates of the technical drafting program attained an additional qualification in supply engineering within their normal training period, allowing them to pursue further university studies. The Stuttgart Chamber of Commerce granted a 6,000-euro scholarship to one particularly successful graduate in technical drafting, allowing him to travel abroad for further career training. A leadership workshop like the one set up in the Photonics business division was also established to prepare employees for leadership roles.

In 2005, Jenoptik decided to embark on a new era in company history, a change that will affect many employees directly. The executive board would like to thank all our employees who have worked hard to guarantee the successful development of the Jenoptik Group, as well as the works committees, who have served the company and its employees as a constructive and balancing force during this period of intense change.

With its new corporate profile, Jenoptik is reaffirming its identity as a technology company, drawing strength from its great tradition in the field. Jenoptik is also committed to its home in Jena, with the center of its activity in Jena-Göschwitz.

Jena's top production site. Jenoptik's heart beats in Göschwitz, an area to the south of Jena's city center, below the medieval ruins of Lobdeburg Castle. This section of Jena with excellent Autobahn access and a well-connected train station is home to the largest industrial area in Jena, in fact one of the largest in Eastern Germany. Its success is reflected in its popularity: Nearly all of its surfaces are fully occupied by over 160 companies with over 5,000 employees, more than before the political turnaround in East Germany.

Yet nobody could have foreseen this trend in the early 1990s, when the production facilities of the state-owned East German Zeiss Works collapsed after the end of the communist era. The area was, however, reconstructed between 1991 and 1995, resulting in a modern industrial and commercial complex. Just like Jenoptik itself, the Göschwitz area has continued to grow gradually, along with many of its resident companies.

Now after ten years, seven Jenoptik companies benefit from their location in Göschwitz, the largest of which is JENOPTIK Laser, Optik, Systeme GmbH with over 550 employees. The other companies on the site include JENOPTIK Automatisierungstechnik GmbH, Jena-Optronik GmbH, JENOPTIK Laserdiode GmbH, JENOPTIK LDT GmbH, JENOPTIK Instruments GmbH, and HILLOS GmbH, a joint venture together with Hilti AG.

Over 1,000 salaried Jenoptik employees are active in Göschwitz, and Jenoptik companies based outside of Jena maintain additional offices in Göschwitz in order to profit from the concentration of know-how in the area. Around 60 employees work for these companies in Göschwitz, including Hommelwerke GmbH of Villingen-Schwenningen in Southwest Germany, and ROBOT Visual Systems GmbH from Mohnheim near Düsseldorf.

Clusters and networks – Lothar Späth's vision for Jenoptik has become reality. Jena has acquired a reputation as a technological melting pot, with a broad spectrum of highly specialized industrial companies and related institutes of Jena's Friedrich Schiller University, and the Fraunhofer and Max Plank Societies all gathered together in a small area. Cooperation between science and industry formed the cradle of the optics industry in Jena, and continues to power the region's growth to this day.

Jenoptik now has plans to make the area even more attractive in the future. Therefore, the group is planning to invest in a children's facility which will be managed by the Jenaer Familienzentrum e.V. from 2008. In addition, a new canteen is to replace the old facility in Göschwitz.

Göschwitz industrial area. It was clear from the beginning of Jenoptik's acquisition of the former Zeiss production facilities in Göschwitz that some 40 percent of the previously existing infrastructure could not be renovated. Buildings used by Jenoptik itself were reconstructed piece by piece, and other office and production areas were rented and sold once they were completely refurbished.
This resulted in a total of 257,000 square meters in useable surface area. Today, around 5,000 employees work in Göschwitz for some 160 companies from a wide variety of industries, but chiefly high-tech firms, in facilities covering 335,000 square meters in surface area.
Jenoptik invested around 100 million euros to make all this possible. The company's most important investments in its own infrastructure there include a cleanroom facility, the Jenoptik technology center, and a new optics production building which has been up and running since 2000.

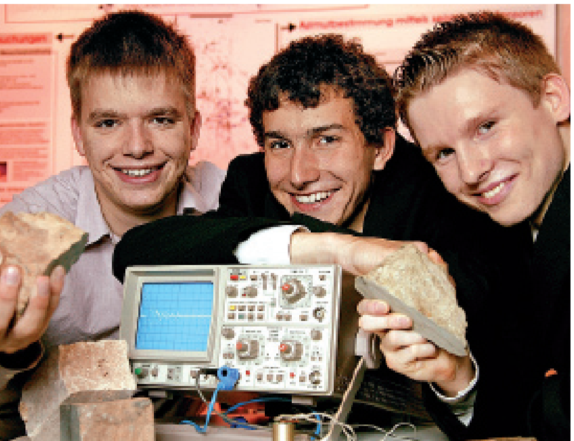
Following in Ernst Abbe's footsteps.

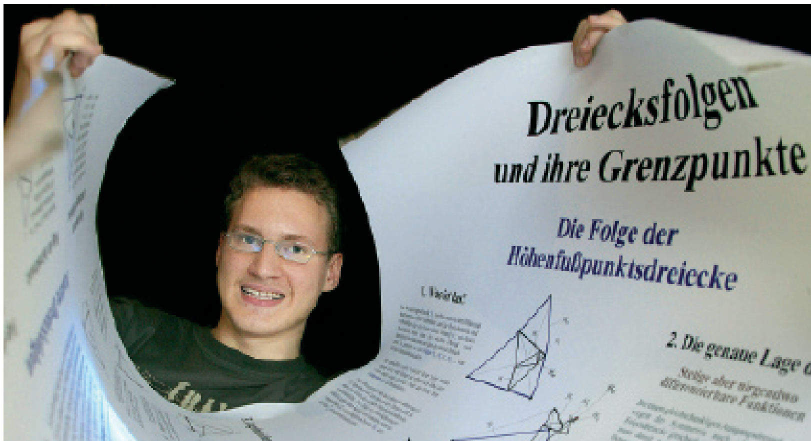
Economic success can prove to be quite a magnet. And Jenoptik exerts its own gravitational pull, especially in the vicinity of Jena. Following in the footsteps of Ernst Abbe, founder of the city's optical industry, the company is active towards systematically linking industry and research in the area, with a commitment to social action and the local community.

Ernst Abbe (1840–1905). Ernst Abbe's contributions to Jena were not only as a scientist and an entrepreneur; he was also the initiator of sociopolitical reforms in the German city. Abbe began a foundation in the 1890s that used the assets and future earnings of the Carl Zeiss company to support Jena's Friedrich Schiller University as well as other scientific, social, and cultural causes.

Jenoptik focused on the legacy of Ernst Abbe in 2005, marking the 100th anniversary of the death of the innovative industrialist who, together with Carl Zeiss, founded Jena's optical industry. This was also occasion for Jenoptik to grant its first two-year doctoral scholarship for optics and optoelectronics. A selection committee chose the physicist Alexander Szameit, postgraduate at the Friedrich Schiller University's Faculty for Physics and Astronomy, which has long maintained close ties with the company. Jenoptik is active in inviting students to its premises, and provides funding for projects such as workshops to encourage girls to study physics, and public lectures on Saturdays.

All Jena university students were welcome to take part in an academic competition on the subject of Ernst Abbe's work as an industrial reformer. The works submitted were to focus on Ernst Abbe's innovative ideas that were used as a model for the later welfare state and to analyze their effects to date. Jenoptik initiated the competition; three students received awards for their submissions. The Friedrich Schiller University also received Jenoptik support to maintain the legacy of its own name-





sake. Part of Friedrich Schiller's old garden house, owned by the university, has now regained its full splendor thanks to a Jenoptik grant. Jenoptik also maintains close ties with Fachhochschule Jena (University of Applied Sciences) and the Technical University of Ilmenau, benefiting everyone involved: Jenoptik's local engagement pays off in an increase in innovation and technological competence throughout the whole region.

Jenoptik also supports the "Jugend forscht" youth research competition of the Free State of Thuringia. The contest celebrated its 15th anniversary under Jenoptik sponsorship in 2005. This year, four award winners from Thuringia were also successful at the federal competition, such as Jewgeni Strekalowski from Weimar who took first prize in the category of mathematics/computer science.

Jenoptik hosted a broad spectrum of guests in November. Jena's "Science Night" 2005, also dedicated to Ernst Abbe, provided an opportunity for curious visitors to glimpse behind the scenes at Jenoptik. Experts offered guests information on a wide range of technologies from star sensors and thermographic cameras to nanotechnology. A Jenoptik WhiteLight laser beamed pictures and information on the Science Night in over 16 million colors, and Jenoptik green thin-disk lasers pointed the way to the most popular Science Night locations.

Auguste Rodin (1840–1917).
In 1905, Jena's university celebrated the 100th anniversary of Friedrich Schiller's death, which served as an excellent occasion to present the sculptor Auguste Rodin with an honorary doctorate of the university's Philosophical Faculty.
In autumn 2005, the 100th anniversary of the honorary doctorate was the perfect occasion for an expansive exhibition of over 150 of Rodin's works in Jena, which were brought to Jena from all over the world. Jenoptik was not only the event's sponsor, but was also directly involved as a co-host of the exhibition.

Jena paid homage to one of Ernst Abbe's greatest contemporaries. The city, in cooperation with Jenoptik, dedicated two exhibitions to Auguste Rodin. This also provided a good occasion for Jenoptik to meet up with students of Jena's technical college (Fachhochschule). In the project "Meetings – culture – technology – economy" they explored Rodin's work as an example in analyzing the human image throughout history. The "Rodin fever" that broke out in Jena meshed well with Jenoptik's cultural activities, dedicated to innovative work and the use of light in art. With the impressionist use of light and shadow in his works, Rodin was able to provide his figures with an inimitable vivacity that remains relevant for artists today.

Light is of central importance to Jenoptik – and to the world of art, in which it can symbolize wisdom. Both of these are reflected in the artwork of Carsten Nicolai, whose "syn chron" exhibition was shown at Berlin's New National Gallery from February 25 to April 3, 2005. Nicolai's work features light sculptures and related sounds. Jenoptik WhiteLight lasers were provided at no cost for the light projections at the exhibition. With continued Jenoptik support, the project was on display later in the year in Switzerland and Japan.

Projects in 2006. After Jenoptik's support of the arts in 2005 focused on the work of Auguste Rodin, the company will play host to two new projects in its own "tangente" art exhibition series in 2006. The first of these will feature the small-scale infrared painting of Katrin Gassmann from nearby Erfurt. Her "Heat Bridges" series was in fact directly inspired by Jenoptik, as Katrin Gassmann used Jenoptik's own VarioCAM thermographic camera for her work. Future tangente exhibitions will feature a “viewing school” for children, helping them to develop their skills of observation and to work on new concepts in their own artistic activity.

Following other successful joint projects, Jenoptik will provide financial support for the German National Theatre in nearby Weimar with their production of the multipart “Ring des Nibelungen”.

Another project in planning for 2006 will feature the work of the Canadian artist Janet Cardiff, for which she has already been awarded the Botho Graef Prize of the City of Jena. Jenoptik will provide financial support for the “Audiowalk Jena Cospeda” which, through the use of a discman and earphones, will bring the various historical sites of the area to life marking the 200th anniversary of the twin battle of Jena-Auerstedt between Napoleon’s forces and the Prussian army.

When it comes to social involvement, Jenoptik puts special emphasis on local and regional affairs. This includes its annual new year’s fundraising drive, which was dedicated to the Jena-based children’s aid foundation Kinderhilfestiftung Jena e.V this year. In total, 11,000 euros was collected for work with chronically ill and handicapped children in Thuringia.

Over the past years, Jenoptik has also supported Special Olympics Thüringen e.V., which is dedicated to the athletic development of the mentally handicapped. In late 2005 and early 2006, the organization was particularly involved in preparing for the Special Olympics World Winter Games in Nagano, Japan, with long-distance skiers from Thuringia qualifying for the competition.

Jenoptik has also been active in finding athletic applications for its laser technology, such as the LDM 300C-Sport laser measurement system. This system measures the movements of track-and-field athletes, which are then analyzed and depicted with computer graphics. The unit is able to measure distances and speeds without gaps and with great precision. This past year, Jenoptik provided two of these systems for use in the 5th European Under-23 Athletics Championships in Erfurt.

Jena played host in 2005 to the cultural sponsoring workgroup, an initiative of the cultural affairs committee of the Federation of German Industries (BDI). During the program, which was dedicated to the content and concepts of goal-oriented cultural sponsorship, Jenoptik presented its own sponsoring concept. Its aim is to put the company’s corporate resources to clearly defined uses, geared towards establishing and maintaining the dependable, focused partnership that characterizes Jenoptik’s public engagement.

Consolidated Financial Statements of JENOPTIK AG as at December 31, 2005.

CONSOLIDATED STATEMENT OF INCOME.

in TEUR	Note No.	Continuing business divisions	Discontinued business divisions	Group 2005	Continuing business divisions	Discontinued business divisions	Group 2004
Sales*	1	410,117	1,504,266	1,914,383	377,086	2,145,869	2,522,955
Cost of sales	2	285,356	1,437,281	1,722,637	257,509	1,972,425	2,229,934
Gross profit		124,761	66,985	191,746	119,577	173,444	293,021
Research and development expenses	3	27,396	7,049	34,445	23,735	8,056	31,791
Selling expenses	4	37,655	21,447	59,102	33,764	40,013	73,777
General administrative expenses	5	33,330	61,409	94,739	32,498	76,058	108,556
Other operating income	6	17,293	26,208	43,501	22,625	52,438	75,063
Other operating expenses	7	18,616	38,144	56,760	17,080	55,755	72,835
Result from operating activities		25,057	–34,856	–9,799	35,125	46,000	81,125
of which Photonics		39,127	–	–	34,517	–	–
of which other		–14,070	–	–	608	–	–
Result from investments in associated companies**	8	–3,022	–14,637	–17,659	–6,612	535	–6,077
Result from other investments	8	–2,331	–92	–2,423	–4,227	–98	–4,325
Interest income	9	6,706	7,145	13,851	7,854	3,078	10,932
Interest expenses	9	18,282	18,176	36,458	22,040	22,189	44,229
Financial result		–16,929	–25,760	–42,689	–25,025	–18,674	–43,699
Earnings before tax		8,128	–60,616	–52,488	10,100	27,326	37,426
Income taxes	10	1,269	11,383	12,652	–2,336	13,512	11,176
Deferred taxes	10	2,900	1,340	4,240	642	6,559	7,201
Earnings after tax		3,959	–73,339	–69,380	11,794	7,255	19,049
Minority interests' share of profit / loss	11	1,777	3,741	5,518	2,363	3,864	6,227
Net profit		2,182	–77,080	–74,898	9,431	3,391	12,822
Earnings per share in euros	12	0.04	–1.48	–1.44	0.19	0.07	0.26
Earnings per share (diluted) in euros		0.04	–1.48	–1.44	0.19	0.07	0.26

* after consolidation
** including depreciation on associated companies

CONSOLIDATED BALANCE SHEET.

ASSETS

ASSETS in TEUR	Note No.	31.12.2005	31.12.2004	Change
A. Non-current assets		454,881	636,181	–181,300
Intangible assets	13	76,675	99,113	–22,438
Tangible assets	14	164,713	230,935	–66,222
Investments properties	15	58,004	63,201	–5,197
Shares in associated companies	17	16,680	33,523	–16,843
Financial assets	18	72,988	120,647	–47,659
Other non-current assets	19	8,786	16,924	–8,138
Deferred tax assets	20	57,035	71,838	–14,803
B. Current assets		279,557	918,861	–639,304
Inventories	21	143,244	184,179	–40,935
Current accounts receivable and other assets	22	125,517	558,269	–432,752
Securities	23	1,950	1,367	583
Restricted cash	24	0	30,000	–30,000
Cash and cash equivalents	24	8,846	145,046	–136,200
C. Non-current asset held for sale	25	773,817	0	773,817
Total assets		1,508,255	1,555,042	–46,787

SHAREHOLDERS' EQUITY AND LIABILITIES

SHAREHOLDERS' EQUITY AND LIABILITIES in TEUR	Note No.	31.12.2005	31.12.2004	Change
A. Shareholders' equity	26	314,327	369,007	–54,680
Subscribed capital		135,290	135,290	0
Capital reserve		186,727	186,727	0
Other reserves		–50,572	14,029	–64,601
Own shares		–48	–48	0
Minority interests	27	42,930	33,009	9,921
B. Non-current liabilities		369,198	452,564	–83,366
Pension provisions	28	6,921	56,314	–49,393
Other non-current provisions	30	15,284	20,654	–5,370
Non-current financial liabilities	31	324,697	339,796	–15,099
Other non-current liabilities	32	19,151	33,958	–14,807
Deferred tax liabilities	20	3,145	1,842	1,303
C. Current liabilities		192,913	733,471	–540,558
Tax provisions	29	1,652	15,175	–13,523
Other current provisions	30	25,982	67,879	–41,897
Current financial liabilities	31	61,606	75,462	–13,856
Other current liabilities	33	103,673	574,955	–471,282
D. Non-current liabilities held for sale	25	631,817	0	631,817
Total shareholders' equity and liabilities		1,508,255	1,555,042	–46,787

CONSOLIDATED STATEMENT OF MOVEMENTS IN SHAREHOLDERS' EQUITY.

in TEUR	Subscribed capital	Capital reserve
Balance as at 31.12.2003	**126,984**	**167,629**
Valuation of financial instruments	0	0
Currency differences	0	0
Changes in value recorded in shareholders' equity	0	0
Earnings after tax	0	0
Sum of earnings after tax and changes in value not effecting income	0	0
Issue of new shares	8,306	14,139
Convertible bond	0	4,906
Sale of own shares	0	53
Dividends paid	0	0
Change in consolidated companies	0	0
Other changes	0	0
Balance as at 31.12.2004	**135,290**	**186,727**
Valuation of financial instruments	0	0
Currency differences	0	0
Changes in value recorded in shareholders' equity	0	0
Earnings after tax	0	0
Sum of earnings after tax and changes in value not effecting income	0	0
Dividends paid	0	0
Change in consolidated companies	0	0
Other changes	0	0
Balance as at 31.12.2005	**135,290**	**186,727**

Reserves						
Cumulated profit	Fair value measurement	Hedging	Cumulative currency differences	Own shares	Minority Interests	Total
32,835	**1,290**	**3,683**	**– 8,451**	**– 599**	**36,393**	**359,764**
0	– 13,431	2,822	0	0	0	– 10,609
1,894	0	0	– 3,020	0	– 308	– 1,434
1,894	– 13,431	2,822	– 3,020	0	– 308	– 12,043
12,822	0	0	0	0	6,227	19,049
14,716	– 13,431	2,822	– 3,020	0	5,919	7,006
0	0	0	0	0	0	22,445
0	0	0	0	0	0	4,906
0	0	0	0	541	0	594
0	0	0	0	0	– 8,164	– 8,164
– 2,371	0	0	– 304	0	– 1,129	– 3,804
– 13,740	0	0	0	10	–10	– 13,740
31,440	**– 12,141**	**6,505**	**– 11,775**	**– 48**	**33,009**	**369,007**
0	8,518	– 3,310	0	0	0	5,208
– 2,129	0	0	7,218	0	2,068	7,157
– 2,129	8,518	– 3,310	7,218	0	2,068	12,365
– 74,898	0	0	0	0	5,518	– 69,380
	0					
– 77,027	8,518	– 3,310	7,218	0	7,586	– 57,015
0	0	0	0	0	– 7,333	– 7,333
0	0	0	0	0	14,631	14,631
0	0	0	0	0	– 4,963	– 4,963
– 45,587	– 3,623	3,195	– 4,557	– 48	42,930	314,327

CONSOLIDATED STATEMENT OF CASH FLOWS.

in TEUR	2005	2004
Earnings before tax	–52,488	37,426
Interest	22,607	33,297
Depreciation / write-up	47,817	50,591
Impairment	7,244	645
Loss (2004 profit) on disposal of fixed assets	1,974	–38,187
Other non-cash expenses / income	17,121	20,872
Operating profit / loss before working capital changes	44,275	104,644
Increase / decrease in provisions	8,513	31,948
Increase / decrease in working capital	–5,847	–24,600
Increase / decrease in other assets and liabilities	–354	–3,711
Net cash from operating activities before income tax	46,587	108,281
Income taxes paid	–14,891	–7,524
Net cash from operating activities	31,696	100,757
Receipts from disposal of intangible assets	2,620	447
Payments for investments in intangible assets	–14,705	–10,002
Receipts from disposal of tangible assets	2,669	9,400
Payments for investments in tangible assets	–35,999	–36,950
Receipts from disposal of financial assets	10,631	95,821
Payments for investments in financial assets	–9,435	–65,325
Payments for the sale of consolidated companies	–832	–16,622
Payments for acquisition of consolidated companies	–24,088	–2,640
Interest received	11,039	10,639
Net cash used in investing activities	–58,100	–15,232
Receipts from contributions to equity	0	4,906
Receipts from sale of own shares	0	546
Payments for purchase of own shares	0	–58
Dividend payments to shareholders	–7,333	–8,164
Receipts from issue of bonds and loans	120,638	101,868
Repayments of bonds and loans	–81,052	–109,470
Repayments for (2004 receipts from) finance leases	–1,480	735
Change in group financing	3,935	–346
Interest paid	–33,706	–35,974
Net cash from / used in financing activities	1,002	–45,957
Change in cash and cash equivalents	–25,402	39,568
Foreign currency translation changes in cash and cash equivalents	3,821	–1,342
Cash and cash equivalents at the beginning of the period	145,046	106,820
Cash and cash equivalents at the end of the period	123,465	145,046

Notes to the consolidated financial statements for fiscal year 2005.

DETAILS OF THE GROUP STRUCTURE.

Parent company. The parent company is JENOPTIK AG, Jena, entered in the Jena commercial register in department B under number 200146. JENOPTIK AG is listed on the German stock exchange (Deutsche Börse) in Frankfurt and included in the TecDax.

In the financial year 2005 JENOPTIK AG operated in the Photonics Technologies and Clean Systems Technologies business divisions.

In the Photonics business division Jenoptik dominates the photonic chain – from generation to the application of light as an industrial tool.

The companies within the Clean Systems business division specialise in planning, constructing and operating complex production systems for highly technological industries.

You can find detailed information on the business divisions in the management report on page 8.

Non-current assets and liabilities held for sale. On 18 December 2005 the group concluded a sales agreement for the sale of its 72.89 % holding in M+W ZANDER Holding AG which contains the whole of the business activities of the business division Clean Systems.

The sale will not be completed until 2006 since, due to various contractual conditions, the possibility of control over M+W ZANDER Holding AG will not be transferred until this point in time.

The Clean Systems business division is disclosed as assets and liabilities held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Measurement is at the lower of book value and fair value less costs to sell.

Accounting policies. The consolidated financial statements of JENOPTIK AG for 2005 were prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) valid at the balance sheet date as they have to be applied in the European Union.

Additionally, JENOPTIK AG has applied early IFRS 6 "Exploration for and Evaluation of Mineral Resources", published by the IASB in December 2004, the changes to IFRS 6, which were approved by the IASB in June 2005, as well as IFRIC 6 "Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic equipment".

Furthermore, the IASB has issued the following standards, interpretations and changes to existing standards which are not yet obligatory. Early adoption of these standards has not been made.

IFRS 7 "Financial Instruments: Disclosures".
The IASB published IFRS 7 in August 2005. In this standard the disclosures on financial instruments which, until now, were set out in IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and in IAS 32 "Financial Instruments: Disclosure and Presentation" have been summarised. Within this standard individual disclosures have been changed or extended. IFRS 7 has to be applied to fiscal years which begin on or after 1 January 2007.

The standard, which has to be applied by all companies, will lead to extended disclosures on financial instruments for JENOPTIK AG.

IFRIC 4 "Determining whether an Arrangement contains a Lease".
In December 2004 the IASB issued the interpretation IFRIC 4. This interpretation deals with the issues regarding how to determine whether an arrangement is or contains a lease or how to determine when a new evaluation is required. Additionally, it shows how leasing payments can be separated from payments for other services which are set out in the same agreement.

The interpretation shall apply to fiscal years which begin on or after 1 January 2006. The transition rule allows the option of the interpretation being applied retrospectively or to apply it to those arrangements which exist at the beginning of the earliest period for which comparative information is presented in the financial statements.

JENOPTIK AG expects no effects from first-time application in 2006 on the qualification of individual contracts as finance lease contracts with the consequent capitalisation of the leased items and corresponding liabilities.

IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

The IASB issued the interpretation IFRIC 5 in December 2004. This interpretation deals with the accounting for interests in funds in which companies with an obligation to be discontinued or restored collect assets either alone or with other companies with such an obligation in order to finance from fund assets costs to be incurred later.

IFRIC 5 shall apply to fiscal years which begin on or after 1 January 2006.

The interpretation will have no effect on the consolidated financial statements of JENOPTIK AG.

IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies".

The IASB issued the interpretation IFRIC 7 in November 2005. This interpretation includes rules on the application of IAS 29 "Financial Reporting in Hyperinflationary Economies" if the functional currency of a company is classified as hyperinflationary for the first time.

IFRIC 7 shall apply to fiscal years which begin on or after 1 March 2006.

The interpretation has no effect on the future consolidated financial statements of JENOPTIK AG since none of the companies included in the consolidated financial statements have a functional currency representing the currency of a hyperinflationary country nor is this expected.

IFRIC 8 "Scope of IFRS 2".

In January 2006 IASB published the interpretation IFRIC 8, which gives an opinion on the scope of application of IFRS 2. IFRS 2 "Share-based Payment" shall be applied to business transactions within which the company receives goods or services in return for share-based remuneration. Under IFRIC 8 IFRS 2 shall also be applied if the company cannot clearly identify the goods or services received.

IFRIC 8 shall apply to fiscal years which begin on or after 1 May 2006.

The interpretation has no effect on the future consolidated financial statements of JENOPTIK AG since none of the companies included in the consolidated financial statements have performed such business transactions nor will they do so in the foreseeable future.

Change in IAS 1 "Presentation of Financial Statements" – Capital Disclosures.

In August 2005 the IASB announced an amendment to IAS 1 in connection with the issue of IFRS 7 "Financial Instruments: Disclosures". According to this, information shall be published in the financial statements which enables their reader to evaluate the objectives, methods and processes for capital management.

The amendment to IAS 1 shall apply to fiscal years which begin on or after 1 January 2007.

The first-time application of this amendment to IAS 1 by JENOPTIK AG will lead to extended disclosures in the notes to the financial statements in the fiscal year 2007.

Amendment to IAS 19 "Employee Benefits" – recording of actuarial gains and losses, group plans and disclosures to the notes to the financial statements.
IASB issued an amendment to IAS 19 in December 2004. The amendment relates to the following aspects:

- Addition to the alternative treatment methods for recording actuarial gains and losses with the option of recording the amounts arising in the reporting period to equity without impacting income.
- Obligation to record receivables or liabilities in income in accordance with the contractual agreements for group plans which, as a consequence of inadequate information, are accounted for as defined contribution plans.
- Presentation of defined benefit plans in a risk group of several companies under joint control and
- Amendment of disclosures in the notes to the financial statements on defined benefit pension plans.

The amendments to IAS 19 – where not optional – shall be applied to fiscal years beginning on or after 1 January 2006.

The first-time application of this amendment to IAS 19 by JENOPTIK AG in the fiscal year 2006 is expected only to lead to changes in the disclosures in the notes to the financial statements on defined benefit pension plans within the group.

Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" – Cash Flow Hedge Accounting of Forecast Intra-group Transactions.
In April 2005 the IASB issued an amendment to IAS 39 with regard to cash flow hedge accounting of forecast intra-group transactions. The amendment to IAS 39 enables companies to designate the currency risk from an intra-group transaction with a high probability of occurrence in the future in the consolidated financial statements as a hedged primary transaction as part of a cash flow hedge, to the extent that the transaction is in a currency other than that of the functional currency of the company that processes the transaction and to the extent that the currency risk has an effect on the group result.

The amendment to IAS 39 shall apply to fiscal years which begin on or after 1 January 2006.

The first-time application of this amendment to IAS 39 in the fiscal year 2006 is not expected to have any effect on the consolidated financial statements of JENOPTIK AG.

Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" – conditions for applying the fair value option.
In June 2005 the IASB issued an amendment to IAS 39 regarding application of the fair value option. With this rule the classification of financial assets adopted by the EU in the measurement category "Measured at fair value with changes in fair value recognised in profit or loss" is restricted and for financial liabilities permitted under certain circumstances.

The amendment to IAS 39 shall apply to fiscal years which begin on or after 1 January 2006.

This amendment to IAS 39 is not expected to have an effect on the consolidated financial statements of JENOPTIK AG for the fiscal year 2006 since it is currently not intended that the fair value option be used in designating financial instruments.

Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" – Financial Guarantee Contracts.
In August 2005 the IASB issued an amendment to IAS 39 and IFRS 4 with regard to financial guarantee contracts. According to the new rule financial guarantees are within the scope of IAS 39 to the extent that it is not previously explicitly expressed that these guarantees should be treated as insurance contracts. Additionally, measurement of financial guarantees is dealt with in IAS 39.

The amendments to IAS 39 and IFRS 4 shall be applied to fiscal years beginning on or after 1 January 2006.

These amendments to IAS 39 and IFRS 4 are not expected to lead to any effects on the consolidated financial statements of JENOPTIK AG on their first-time application in the fiscal year 2006.

The financial reporting for the fiscal year 2005 presents a true and fair view of the net assets, financial position and results of operations of the Jenoptik Group.

The consolidated financial statements are prepared in Euro. Unless noted elsewhere all amounts are in thousands of Euro (TEUR). The statement of income is prepared on a cost of sales basis.

The fiscal year of JENOPTIK AG and its subsidiaries is the calendar year except for XTREME technologies GmbH, Jena (XTREME). This company, whose fiscal year end is 30 September, prepares interim financial statements for twelve months to the 31 December each year for consolidation purposes.

The preparation of the consolidated financial statements in compliance with IFRS requires assumptions to be made for certain items which may have an effect on the amounts in the balance sheet or statement of income of the group and on the disclosure of contingent assets and liabilities.

Companies included in consolidation. All material entities in which JENOPTIK AG exercises indirect or direct control ("control concept") are included in the consolidated financial statements. Control as defined in IAS 27 "Consolidated and Separate Financial Statements" exists where the Jenoptik Group governs the financial and operating policies of an entity so as to obtain benefits from its activities. Inclusion in the consolidated financial statements is from the point at which control over the company is possible in accordance with the "Control Concept". It ends when this is no longer possible. In addition to JENOPTIK AG the consolidated financial statements include 37 (2004 33) domestic and 62 (2004 46) foreign companies fully consolidated. These include two investment funds (special funds). 23 entities (2004 11), of which there are no material new acquisitions, were consolidated for the first time in the fiscal year 2005. The main company here is caatoosee ag and its 7 subsidiaries.

The joint venture companies HILLOS GmbH, Jena and Meissner-Baran Ltd., Israel, Jerusalem are each included proportionally at 50 % in the consolidated financial statements in accordance with IAS 31 "Interests in Joint Ventures".

In accordance with IAS 28 "Investments in Associates" four domestic associated companies and one foreign company are accounted for using the equity method. For investments recognised at equity the acquisition costs are increased or decreased annually by the appropriate changes in equity relevant to Jenoptik. All other investments are accounted for at fair value in accordance with IAS 39. If no reliable fair value can be determined then measurement is at cost.

JENOPTIK AG did not consolidate 61 (2004 50) subsidiaries. These primarily include off-the-shelf companies. The effect of the non-consolidated companies on the net assets, financial position and operating results of the group is immaterial; their sales amount to 1.1 % of group sales, their result 1.0% of the group result and their equity 0.0 % of group equity. These are disclosed under financial assets as shares in affiliated companies.

The Jenoptik Group has transferred certain properties into limited partnerships (Kommanditgesellschaften) as part of so-called sale-and-leaseback-transactions which are not consolidated under HGB. The property funds Saaleaue Immobilien Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Jena (SAALEAUE) and LEUTRA SAALE Gewerbegrundstücksgesellschaft mbH & Co. Vermietungs KG, Jena (LEUTRA SAALE) are included in the IFRS consolidated financial statements under IAS 27 in connection with SIC-12 "Consolidation-Special Purpose Entities".

The composition of the Jenoptik Group can be seen from the following table:

Number of companies	2005	2004
JENOPTIK AG and fully-consolidated subsidiaries		
Domestic	38	33
Foreign	62	46
Subsidiaries measured at acquisition cost		
Domestic	30	26
Foreign	31	24
Associated companies		
Domestic	4	4
Foreign	1	0
Proportionally consolidated companies		
Domestic	1	1
Foreign	1	2
	168	136

The list of JENOPTIK AG investments is held by the Commercial Register at the Jena District Court (HRB 200146). The material subsidiaries included in the consolidated financial statements are attached as an appendix to the notes to the financial statements.

As a result of the proportional consolidation of joint ventures the following amounts are included in the consolidated financial statements:

in TEUR	2005	2004
Non-current assets	1,234	1,752
Current assets	7,438	8,875
Shareholders' equity	5,509	4,797
Non-current liabilities	15	46
Current liabilities	3,148	5,784
Sales	15,085	19,404
Gross profit	2,000	2,702
Result from operating activities	1,298	1,757
Earnings before tax	1,105	1,709
Earnings after tax	673	1,109

The companies accounted for at equity in the consolidated financial statements show the following amounts at the year end 31 December 2005:

in TEUR	2005	2004
Non-current assets	76,774	61,776
Current assets	64,540	184,869
Shareholders' equity	27,576	32,964
Non-current liabilities	58,741	54,911
Current liabilities	54,997	158,770
Sales	115,230	4,388
Gross profit	6,473	–3,338
Result from operating activities	–3,399	–6,262
Earnings before tax	–1,027	–5,710
Earnings after tax	–477	–6,074

The discontinued business division Clean Systems has been included at the appropriate amounts in the figures above.

Those companies exempted from publication of their financial statements in accordance with § 264 (3) or § 264b HGB are disclosed within obligatory disclosures and supplementary information under HGB.

Company acquisitions and disposals. Company acquisitions are accounted for in accordance with the purchase method. As part of the allocation of the purchase price all assets and liabilities as well as certain contingent liabilities are measured at market value. Furthermore, identifiable intangible assets are capitalised. The remaining difference is capitalised as goodwill and not amortised systematically but subject to an annual impairment test.

Under the purchase contract dated 9 September 2005 51 % of the shares in SINAR AG, Switzerland, Feuerthalen were purchased. Furthermore, 50.93 % of Photonic Sense GmbH, Eisenach was purchased on 24 March 2005.

In the fiscal year 2005 no further material acquisitions were made by JENOPTIK AG.

Under the notarised purchase agreement dated 13 April 2005 M+W ZANDER Holding AG acquired 100 % of the shares in FmElo Beteiligungs- und Verwaltungs GmbH, registered in Ottobrunn and which, in turn, holds 30.9 % of the shares in M+W Zander D.I.B. Facility Management GmbH in Nürnberg. Thus M+W ZANDER Holding AG now holds 100 %, both directly and indirectly, of the shares in M+W Zander D.I.B. Facility Management GmbH.

M+W Zander Facility Engineering GmbH held 99.61 % of Teraport GmbH, Stuttgart as at 31 December 2004. With effect from 1 May 2005 the shares in Teraport GmbH were brought into caatoosee ag, registered in Leonberg, by way of contribution in kind in exchange for share rights. M+W Zander Facility Engineering GmbH thus holds 51.61 % of the shares in caatoosee ag.

The shares in M+W Zander PersonalDienste GmbH were sold under the purchase agreement dated 18 August 2005 to VRG-Vereinigte Rechen-Zentren GmbH, registered in Oldenburg The deconsolidation profit of TEUR 136 is included in the group result.

Under the purchase agreement dated 22 December 2005 M+W ZANDER Holding AG sold a further 23.9 % in M+W Zander Gebäudetechnik GmbH. Thus, M+W ZANDER Holding AG still holds 25.1 % of the shares in M+W Zander Gebäudetechnik GmbH.

Consolidation methods. The assets and liabilities of the domestic and foreign companies included in the consolidated financial statements are subject to the uniform accounting policies applicable to the Jenoptik Group. For the companies measured using the equity method the same accounting policies are applied for determining proportional equity.

At the time of acquisition capital consolidation is performed by offsetting the investment book values with the proportional, newly valued equity of the subsidiaries at the time of acquisition. The assets and liabilities of the subsidiaries are accounted for at fair values, furthermore contingent liabilities are provided for. A positive difference arising does not directly represent goodwill to be accounted for. The difference is first analysed into identifiable intangible assets. Any remaining amount represents the goodwill.

The silent reserves and charges realised are accounted for in the subsequent consolidation in accordance with the corresponding assets and liabilities, depreciated and/or released. Goodwill capitalised is not amortised but subject to an annual impairment test in accordance with IFRS 3 "Business Combinations". Negative goodwill is charged directly to the statement of income. Those write-ups or write-downs on shares in group companies accounted for in single entity financial statements are reversed again in the consolidated financial statements.

The determination of goodwill as part of the first valuation at equity is carried out in the same way as the initial consolidation of subsidiaries as part of the full consolidation.

Receivables and payables, as well as expenditure and income between consolidated companies, are eliminated. Intra-group trade transactions are performed based on market prices and on transfer prices that are determined based on the "dealing at arm's length" principle. Profits on intra-group transactions included in inventories have been eliminated. Consolidation entries which have an effect on income are subject to deferred taxation, whereby deferred tax assets and deferred tax liabilities are offset where the payment period and taxation authority are the same.

Foreign currency translation. In single entity financial statements of group companies prepared in local currency monetary items in foreign currency (liquid funds, receivables, liabilities) are valued at the balance sheet date rate. Foreign exchange differences are taken to the statement of income. Non-cash items in foreign currency are measured at acquisition costs which result from historical rates.

Translation of financial statements of operations included in the consolidation, prepared in foreign currency, is performed based on the concept of functional currency in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" using the modified balance sheet date rate method. Since our subsidiaries conduct their operations financially, commercially, and organisationally independently the functional currency is identical with the relevant country currency of the company. Exceptions to this are two Israeli and two Chinese companies which prepare their financial statements in USD and a holding company in Singapore which reports in Euro.

Assets and liabilities are consequently translated at the balance sheet date rate and expenses and income at the average rate for the year. The difference arising on foreign currency translation is offset against equity as a special currency translation reserve with no effect on income.

Foreign exchange differences resulting from translation in the previous year within the Jenoptik Group are disclosed in the currency translation reserve with no effect on income.

Accounting in accordance with the rules of IAS 29 “Financial Reporting in Hyperinflationary Economies” is not necessary since there are no material subsidiaries located in highly inflationary countries within the Jenoptik Group.

The major rates used for translation can be seen from the following table:

		Average annual rate		Balance sheet date rate	
	1 EUR =	2005	2004	2005	2004
USA	USD	1.22296	1.24025	1.17970	1.36210
Singapore	SGD	2.03129	2.11785	1.96280	2.22620
Gr. Britain	GBP	0.68368	0.69174	0.68530	0.70505
Switzerland	CHF	1.55162	1.54518	1.55510	1.54290
Hungary	HUF	–	248.03746	–	245.97000
China	CNY	10.10026	10.72124	9.52040	11.26220
Brazil	BRL	2.86463	3.64548	2.7515	3.61620
Russia	RUB	34.93710	35.84430	33.92000	37.78800
Poland	PLZ	4.01760	4.45900	3.86000	4.08450

ACCOUNTING POLICIES.

Accounting policies are applied uniformly within the Jenoptik Group.

Goodwill. The exemption provisions of IFRS 1 “First-time Adoption of International Financial Reporting Standards” have been applied to all business combinations before the date of transition to IFRS. In accordance with previous accounting policies (§ 301 HGB) goodwill was offset against capital reserves in equity. In the first IFRS financial statements goodwill was adopted at net book value on the basis of the simplifications in IFRS 1. Goodwill offset against reserves was not capitalised.

The rules of IFRS 3 are applied to all business combinations after the date of transition.

Goodwill in accordance with IFRS 3 represents the positive difference between the acquisition costs for a business combination and the newly valued assets and liabilities acquired, including contingent liabilities, which remains after the purchase price has been allocated and, thus, the intangible assets identified. In terms of their values, the assets and liabilities identified as part of this purchase price calculation are not measured at their book values to date but at their fair values.

Goodwill is recognised as an asset and tested at least annually at a specified time for impairment. Impairment losses are recorded immediately in the income statement as expenses and are not reversed in subsequent periods.

Negative goodwill on capital consolidation is credited to the income statement immediately in accordance with IFRS 3. The credits are included in other operating income.

Intangible assets. Intangible assets acquired for a consideration, mainly software, patents, customer relationships, are capitalised at acquisition costs. Intangible assets with a finite useful life are amortised straight-line over their useful economic lives. Useful lives are between three and ten years. The group reviews its intangible assets with finite useful lives as to whether they are impaired (see section "Impairment of tangible and intangible fixed assets").

Intangible assets with indefinite useful lives are reviewed at least once a year for impairment.

Development costs are capitalised if a newly developed product or process can be clearly separately identified, is technically feasible and is intended either for internal use or sale. Furthermore, in order to capitalise the development costs it should be reasonably certain that these are covered by future financial inflows. Capitalised development costs are amortised over the expected sales period of the products. Research costs shall be recognised as operating expenses in accordance with IAS 38 "Intangible assets". Acquisition or production costs include all costs directly attributable to the development process and appropriate portions of the general overheads related to development. Where the recognition criteria as an asset are not met the costs are treated as an expense in the year they are incurred. Financing costs are not capitalised.

Tangible assets. Tangible assets are carried at historical acquisition or production cost less accumulated straight-line depreciation. The depreciation method reflects the expected course of future economic use. Where necessary amortised acquisition or production costs are reduced by impairment losses. Government grants are deducted from acquisition or production costs in accordance with IAS 20 "Accounting for Government Grants" (see section "Government Grants"). Production costs are based on directly attributable costs and proportional material and production overheads including depreciation.

There were no revaluations of assets in accordance with the option in IAS 16 "Property, Plant and Equipment".

Borrowing costs are treated directly as expenses as set out in IAS 23 "Borrowing Costs".

Tangible asset repair costs are always expensed. Subsequent purchase costs are capitalised for components of tangible assets which are renewed at regular intervals and fulfil the recognition criteria of IAS 16.

Depreciation is mainly based on the following useful lives:

	Useful life
Buildings	25 – 40 years
Technical equipment and machines	4 – 20 years
Other equipment, factory and office equipment	3 – 10 years

If assets are no longer used, sold or abandoned the profit or loss from the difference between the sales proceeds and the net book value is recorded in other operating income or other operating expenses.

Minor-value assets are fully depreciated in their year of acquisition.

Impairment of tangible and intangible fixed assets. For tangible and intangible assets belonging to the Jenoptik Group which have finite useful lives, an assessment is made at each year end whether the appropriate assets are showing any indications of impairment in accordance with IAS 36 "Impairment of Assets".

If there are such indications the recoverable amount of the asset is calculated in order to determine the relevant impairment loss.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties.

Value in use is determined on the basis of the present value of the future cash flows expected. This is based on an appropriate interest rate before tax which reflects the risks of the assets which have not yet been accounted for in the estimated future cash flows.

If the recoverable amount of an asset is estimated as lower than its book value it is then written down to the recoverable amount. Impairment losses are recorded immediately as expenses.

Where there is a reversal of impairment in a subsequent period the book value of the asset is adjusted to reflect the recoverable amount determined. The maximum limit for reversal of an impairment loss is determined as the carrying amount of the acquisition or production costs which would have been determined had no impairment loss been recognised in previous periods. The impairment loss reversal is recorded immediately in the income statement.

Leasing. Leased tangible assets fulfil the conditions for finance leases in accordance with IAS 17 if all the significant risks and rewards related to ownership are transferred to the relevant group company. All other leasing contracts are classified as operating leases.

Finance lease.
Under finance lease the relevant assets are capitalised at the inception of the lease at the lower of the fair value of the assets and the present value of the minimum lease payments. These assets are depreciated straight-line for the shorter of their useful economic lives or term of the leasing agreement if the purchase of the leased asset is not probable at the end of the leasing period. The payment liabilities from future leasing instalments are discounted and accordingly recognised as liabilities.

Operating lease.
Rental income from operating lease agreements is written off straight line to the income statement in accordance with the term of the appropriate lease. Any discounts received and receivable as incentives to enter into a leasing contract are also apportioned on a straight-line basis over the term of the lease.

Investment properties. Investment properties are recognised at amortised acquisition or production costs. The fair value of these properties is additionally disclosed. It is determined using the discounted cash flow model. The method is partially confirmed by valuation reports by an external expert.

Straight-line depreciation is based on useful economic lives of 25 to 40 years.

Impairment losses on investment property are accounted for in accordance with IAS 36 if the value in use or fair value less disposal costs for the relevant asset is below its carrying value. Where the reasons for accounting for an impairment loss in previous years are no longer relevant then an appropriate impairment loss reversal is accounted for.

Tangible assets rented under finance lease are capitalised at the lower of fair values and the present values of the leasing rates and depreciated over the shorter of expected useful lives and the leasing term.

Financial instruments. Financial instruments are contracts that give rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. In accordance with IAS 32 these include, on the one hand, original financial instruments such as trade accounts receivable and trade accounts payable or financial receivables and financial payables. On the other hand, they also include derivative financial instruments which are used to hedge risks from exchange rate and interest rate risks.

Financial assets and financial liabilities are recognised in the group balance sheet from the point at which the group becomes a contractual party to the financial instrument. Financial assets are capitalised on their settlement date.

Financial instruments are measured depending on their classification in the categories "Receivables and loans" (at amortised cost) and "available-for-sale" (at fair value).

The amortised cost of a financial asset or liability is the amount at which

- a financial asset or financial liability is initially recognised,
- less potential repayments of capital and
- less any impairment losses or provisions for non-payment as well as
- less accumulated allocation of any difference between the original amount and the repayment amount (for example discount) when finally due. The discount is apportioned using the effective interest method over the term of the financial asset or financial liability.

For current receivables and current liabilities the amortised costs generally represent nominal value or repayment value.

The fair value is generally the market or stock exchange value. If there is no active market the fair value is determined using financial mathematical methods, e.g. by discounting estimated future cash flows at the market interest rate or by applying recognised option price models and checked by confirmation from the banks who deal with the transactions.

Primary financial instruments.

Shares in companies. Initial recognition is at acquisition cost including transaction costs.

For the Jenoptik Group all shares in subsidiaries and investments in quoted public limited companies which are not fully consolidated, partially consolidated or accounted for at equity are included in the consolidated financial statements, classified as "available for sale" and valued in subsequent periods at fair value.

Changes in value of "capital investments available for sale" are recorded directly in equity.

Shares in unquoted subsidiaries and investments qualify as "financial assets available for sale". However, they are principally stated at acquisition cost since there is no active market for these companies and their fair values cannot be reliably determined with a reasonable amount of effort. Where there are indications of lower fair values these are applied.

Loans. Loans relate to the amounts lent by the Jenoptik Group which, in accordance with IAS 39, have to be valued at amortised cost.

Securities. Securities belong to the category "available for sale" and are measured at fair value. This valuation is neutral within equity until disposal. Initial valuation is at cost on the settlement date and corresponds with fair value.

Trade accounts receivable. Trade receivables do not attract interest due to their short-term nature and are measured at nominal value less an adequate amount estimated for bad debts.

Other receivables and assets. Other receivables and assets are measured at amortised acquisition costs. All recognisable bad debt risks are accounted for in the form of provisions.

Cash and cash equivalents. Cash and cash equivalents are cash balances, cheques and immediately accessible bank balances at financial institutions the original maturity of which is up to three months and which are measured at nominal value.

Restricted cash. Restricted cash is separately disclosed.

Financial liabilities and equity instruments. Financial liabilities are measured at amortised cost applying the effective interest method. Financial liabilities not accounted for like this are those which have an effect on income being measured at fair value. This type of financial liability does not currently exist.

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Bank liabilities. Bank loans attracting interest and overdrafts are accounted for at the amounts received less directly allocable issuing costs. Finance costs, including repayment or capital repayment of payable premiums, are accounted for in accordance with the accruals principle applying the effective interest method and increase the book value of the instrument where they are not repaid at the time they arise.

Liabilities. Liabilities which do not represent the primary transaction in a permissible hedging transaction and are not held for trading are measured at amortised cost in the balance sheet. Differences between the historical acquisition costs and the redemption amount are accounted for using the effective interest method.

Liabilities from finance lease agreements are stated at the net present value of the minimum lease payments.

Convertible bonds. Convertible bonds are regarded as combined financial instruments which comprise of a borrowing and an equity element. The valuation of the borrowing element on the date of issue is based on discounted future cash flows at a reasonable interest rate normal for the market. The interest rate is based on interest rates of comparable, non-convertible debt instruments. The interest expense of the external capital component is determined using this interest rate. The issue costs are accounted for in the cash flows in the determination of external capital components. The difference between the amount determined above and the actual interest received is written back to the book value of the convertible bond.

The difference between the income from issuing the convertible bond and the fair value of the borrowings component represents the embedded option to convert the liability into equity of the group. The value of this option represents the equity component.

Derivative financial instruments.

Within the Jenoptik Group derivative financial instruments are used as hedges to control risks from interest and currency fluctuations. They serve to reduce the volatility in results from interest and currency risks.

Derivative financial instruments are not used for speculative purposes. The use of derivative financial instruments is subject to a group manual authorised by the Board which represents a written fixed guideline with regard to the treatment of derivative financial instruments.

The objective of a fair value hedge is to neutralise the market value changes in assets and liabilities with the market value changes of the hedging transaction in the other direction. A profit or loss arising from the market value changes of a hedging transaction should be taken to the income statement immediately. With regard to the hedged risk with effect from commencement of the hedge, the underlying transaction should also be taken to the income statement.

Cash-flow hedging is described as the process of fixing future variable cash flows. As part of cash-flow hedging the Jenoptik Group hedges currency risks. Changes in the fair value of derivative financial instruments hedging a cash flow risk are documented. If hedging relationships are classified as effective the changes in fair value are directly recorded in equity. Changes in value from financial instruments classified as non-effective are recorded directly in the income statement.

Inventories. Inventories are stated at the lower of acquisition or production cost and net realisable value.

Production cost includes production-related full costs determined on the basis of normal utilisation of capital. In addition to direct costs they include a share of material and production overheads as well as depreciation of assets used in production to the extent that these are attributable to the production process. In particular those costs are accounted for which are incurred under the specific production cost centres. Administration costs are accounted for if they can be allocated to production. Borrowing costs are not capitalised as a part of acquisition or production costs in accordance with IAS 23. Where amounts are lower at the balance sheet date due to decreased prices in the sales market, these should be applied. Similar items in inventories are principally valued using the average method. If the reasons for previously devaluing inventories no longer exist and the net realisable value thus rises, the increases in value are recorded as decreases in the cost of materials in the appropriate period in which the increases in value take place.

The net realisable value is the estimated selling price less the expected costs of completion and costs arising up to sale.

On-account payments received. On-account payments received from customers are accounted for under liabilities unless they are for construction contracts.

Construction contracts. Sales and profit from construction contracts are recorded according to their stage of completion in accordance with IAS 11 “Construction Contracts” (percentage of completion method). The stage of completion results from the proportion of contract costs incurred for work performed to date until the end of the fiscal year to the estimated total contract costs at the year end (cost to cost method). Losses on construction contracts shall be fully recognised immediately in the fiscal year in which the losses are identified irrespective of the stage of completion of contract activity.

Construction contracts which are measured using the percentage of completion method are disclosed as assets or liabilities from construction contracts depending on the amount of progress billings demanded. These are measured at production cost plus proportional profit in relation to the stage of completion reached. Where the cumulative contract result (contract costs plus contract result) is higher than the amount of progress billings received the balance for contracts in progress is disclosed as an asset under receivables due from construction contracts. If a negative balance remains after deducting the progress payments received then this is disclosed as a liability under payables from long-term construction contracts. Expected losses on contracts are accounted for through deductions or provisions and are determined under consideration of recognisable risks.

Deferred taxes. The accounting for deferred taxes is in accordance with IAS 12 "Income Taxes". Deferred taxes are calculated according to the liability method. Deferred tax assets and deferred tax liabilities are disclosed as separate items in the balance sheet in order to account for the future tax effect of temporary differences between the measurement of assets and liabilities in the balance sheet and for tax purposes.

For tax loss carry forwards deferred tax assets are only recognised if their realisation is probable in the near future. Deferred tax assets and liabilities are accounted for at the amount of the expected tax charge or tax credit in subsequent fiscal years based on the tax rate valid at the point of realisation.

Deferred tax assets are only accounted for at the amount expected to be realised within a reasonable period of time.

Deferred tax assets and deferred tax liabilities are offset where the tax authority and term are identical. In accordance with the rules of IAS 12 deferred tax assets and liabilities are not discounted.

Assets and liabilities held for sale. Assets and liabilities held for sale are measured at the lower of their book value or fair value less selling expenses.

Provisions for pensions and similar obligations. Pensions and similar obligations include the pension commitments of the group from defined benefit and defined contribution pension plans. For defined benefit pension plans pension obligations are determined in accordance with IAS 19 "Employee Benefits", applying the so-called "projected unit credit method". Annual actuarial reports are obtained for this. The calculation is based on trend assumptions of 2.75 % (2004 2.75 %) for salary development, of 1.75 % (2004 1.75 %) for pension development and a discount rate of 4.25 % (2004 5.0 %). The mortality probabilities are determined from the Heubeck tables "Richttafeln 2005 G" as issued on 29 July 2005. One major difference compared to the Heubeck tables used up until now is the supplement of or rather conversion to a year of birth related generation table. This means that certain probabilities such as for mortality, reduction of earning capacity or frequency of marriage are not only gradually determined on the basis of age and sex but also according to year of birth.

Actuarial gains and losses which exceed the range of 10.0 % of the higher of the defined benefit obligation and fair value of the plan assets should be allocated over the average remaining service period. The service cost is disclosed under personnel expenses, the interest portion of the addition to the provision under the financial result.

The defined contribution pension systems (e.g. direct insurance) offset the obligatory contributions directly as cost. Provisions for pensions are not set up for these as Jenoptik is not subject to an extra obligation in addition to the premium payment.

Tax provisions. Tax provisions include obligations from current taxes on income. Deferred taxes are disclosed as separate items in the balance sheet and statement of income.

Tax provisions for trade tax and corporation tax or comparable taxes on income are based on the expected taxable income of the companies included in the consolidation less payments made on account. Other taxes to be assessed are accounted for accordingly.

Other provisions and accrued expenses. In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" provisions are recognised where there is a current obligation to a third-party as a result of a past event which will probably lead to an outflow of resources and the amount of which can be reliably estimated. This means that the probability of occurrence of a present obligation is higher than that of its non-occurrence. Other provisions and accrued expenses are only recognised if there is a legal or constructive obligation to a third-party.

Provisions and accrued expenses which do not already lead to an outflow of resources in the subsequent year are measured at their discounted settlement amount at the balance sheet date where the interest effect is material. Discounting is based on pre-tax interest rates which reflect the current market expectations with regard to interest effects and those risks specific to the liability. The settlement amount comprises expected cost increases.

Provisions and other accrued expenses are not offset against reimbursement claims.

Government grants. IAS 20 differentiates between capital grants for long-term assets and income-related grants.

IAS 20 basically provides for the treatment of grants to impact income in the correct period.

For long-term assets in the Jenoptik Group grants are deducted from acquisition costs. By deducting grants from acquisition costs the depreciation volume is determined on the basis of lower acquisition costs.

Contingent liabilities. Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Jenoptik Group. Furthermore, present obligations can represent contingent liabilities if the probability of an outflow of resources is not sufficient to recognise a provision and/or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are measured at the level of the scope of the liability at the balance sheet date.

Statement of Income. Income from the sale of goods is recorded in the statement of income as soon as all material rewards and risks of ownership have been transferred to the purchaser.

Income from services is recorded depending on the stage of completion of the contract at the balance sheet date. The stage of completion of the contract is measured based on the services provided. Income is only recorded when it is sufficiently probable that the company receives the economic benefit from the contract. Otherwise, income is only recorded to the degree that the costs incurred are recoverable.

Cost of sales include the costs incurred in generating sales. This item also includes the cost of warranty provisions. Research and development costs not qualifying for capitalisation as well as write-downs against development costs are also disclosed under development expenses.

In addition to personnel and non-personnel costs as well as selling function depreciation and amortisation, selling expenses include mailing, advertising, sales promotion, market research and customer service costs. General administrative expenses include personnel and non-personnel costs as well as depreciation and amortisation relating to the administration function.

Income from release of provisions is, in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, offset against the expense items in which the provisions were originally set up. Thus, reversals of provisions are recognised in the relevant functional costs in which the provisions were also recorded.

Offsetting of income and expenses is transparent since material amounts are separately disclosed.

Other taxes are included in other operating expenses. Dividend income is recorded at the time it legally arises.

KEY FIGURES BY BUSINESS DIVISION AND OTHER AREAS 2005.

(previous year's figures in brackets)

in TEUR	Continuing business divisions	of which Photonics Technologies	of which other	Discontinued business divisions Clean Systems	of which Facility Management	of which Facility Engineering*	Adjustments	Group**
Sales	424,250 (392,472)	401,304 (359,798)	22,946 (32,674)	1,509,456 (2,151,506)	416,990 (407,969)	1,098,737 (1,759,117)	– 19,323 (– 21,023)	1,914,383 (2,522,955)
of which Germany	194,988 (189,736)	172,657 (158,323)	22,331 (31,413)	590,473 (1,324,098)	338,115 (324,376)	257,124 (1,008,889)	– 19,209 (– 20,196)	766,252 (1,493,638)
European Union	119,733 (104,274)	119,118 (103,012)	615 (1,262)	293,306 (257,382)	42,049 (49,687)	252,617 (214,107)	– 114 (– 827)	412,925 (360,829)
Other European	25,614 (21,959)	25,614 (21,959)	0 (0)	41,720 (52,035)	36,681 (33,712)	5,039 (18,324)	0 (0)	67,334 (73,994)
NAFTA	45,250 (43,531)	45,250 (43,531)	0 (0)	134,787 (80,593)	145 (194)	134,787 (80,399)	0 (0)	180,037 (124,124)
South East Asia/Pacific	23,666 (21,796)	23,666 (21,796)	0 (0)	384,315 (416,955)	0 (0)	384,315 (416,955)	0 (0)	407,981 (438,751)
Other	14,999 (11,177)	14,999 (11,177)	0 (0)	64,855 (20,443)	0 (0)	64,855 (20,443)	0 (0)	79,854 (31,620)
Sales with other business divisions	14,133 (15,385)	163 (850)	13,970 (14,535)	5,190 (5,638)	5,170 (148)	20 (5,490)	– 19,323 (– 21,023)	0 (0)
Operating result (EBIT)	25,057 (35,125)	39,127 (34,517)	– 14,070 (608)	– 34,856 (46,000)	15,090 (15,312)	– 33,307 (32,539)	0 (0)	– 9,799 (81,125)
Earnings before taxes, depreciation, interest, amortisation (EBITDA)	57,745 (62,776)	59,475 (53,411)	– 1,730 (9,365)	– 14,007 (67,980	20,089 (20,310)	– 17,457 (49,172)	0 (– 1,996)	43,738 (128,760)
Result from investments in associated companies	– 3,022 (– 6,612)	– 1,900 (– 1,928)	– 1,122 (– 4,684)	– 14,637 (535)	0 (0)	2,655 (535)	0 (0)	17,659 (– 6,077)
Earnings after tax before profit / loss adoption	3,959 (11,794)	28,398 (26,142)	– 24,439 (– 14,348)	– 73,339 (7,255)	12,935 (12,662)	– 34,251 (– 8,259)	0 (0)	– 69,380 (19,049)
Research and development expenses	28,838 (25,210)	28,777 (25,089)	61 (121)	7,049 (8,056)	0 (0)	6,484 (8,060)	– 1,442 (– 1,475)	34,445 (31,791)
Net cash from/used in operating activities	65,727 (20,105)	33,351 (42,522)	32,376 (– 22,417)	– 34,031 (80,652)	– –	– –	– –	31,696 (100,757)
Total assets	976,139 (933,539)	393,794 (343,973)	582,345 (589,566)	747,117 (812,350)	132,076 (122,233)	615,041 (690,117)	– 298,736 (– 262,685)	1,424,520 (1,483,204)
Segment liabilities	483,778 (480,997)	233,519 (202,041)	250,259 (278,956)	757,085 (733,478)	121.133 (102.329)	637,670 (631,149)	– 151,874 (– 115,191)	1,088,989 (1,099,284)
Tangible and intangible assets	292,947 (286,765)	131,817 (112,117)	161,130 (174,648)	138,576 (84,390)	11,379 (11,750)	127,197 (72,640)	6,445 (22,094)	437,968 (393,249)
Investments excluding company acquisitions	33,609 (35,540)	30,776 (18,536)	2,833 (17,004)	19,077 (17,645)	4,871 (3,637)	14,206 (14,008)	0 (– 5,058)	52,686 (48,127)
Depreciation and amortisation	32,688 (26,630)	20,348 (18,472)	12,340 (8,158)	20,849 (20,722)	4,999 (4,680)	15,850 (16,042)	0 (– 363)	53,537 (46,989)
Employees (annual average)	2,621 (2,492)	2,551 (2,429)	70 (63)	6,865 (7,560)	3,513 (3,089)	3,352 (4,471)	0 (0)	9,486 (10,052)

* Consolidation effects in the balance sheet were allocated to Facility Engineering.
** including reclassifications Clean Systems business division in accord. with IFRS 5.

KEY FIGURES BY REGION.

in TEUR	Continuing business divisions 2005	Continuing business divisions 2004	of which Photonics Technologies 2005	of which Photonics Technologies 2004	of which other 2005	of which other 2004	Discontinued business divisions Clean Systems 2005	Discontinued business divisions Clean Systems 2004
Sales	424,250	392,472	401,304	359,798	22,946	32,674	1,509,456	2,151,506
of which domestic*	194,988	189,736	172,657	158,323	22,331	31,413	590,473	1,324,098
of which foreign*	229,262	202,736	228,647	201,475	615	1,261	918,983	827,408
Operating result (EBIT)	25,057	35,125	39,127	34,517	–14,070	608	–34,856	46,000
of which domestic**	22,629	33,851	36,819	33,088	–14,190	763	–56,725	19,950
of which foreign**	2,428	1,274	2,308	1,429	120	–155	21,869	26,050
Investments in tangible and intangible assets	33,609	35,540	30,776	18,536	2,833	17,004	19,077	17,645
of which domestic**	32,488	35,010	29,658	18,082	2,830	16,928	13,407	12,802
davon Ausland**	1,121	530	1,118	454	3	76	5,670	4,843
Net assets	976,139	933,539	393,794	343,973	582,345	589,566	747,117	812,350
of which domestic**	953,381	917,958	371,608	329,059	581,773	588,899	412,263	489,738
of which foreign**	22,758	15,581	22,186	14,914	572	667	334,854	322,612

*by location of the customer
**by location of the companies

SEGMENT REPORTING.

Segmentation is performed on the basis of risks and opportunities, recognition is based on the internal organisational and management structure as well as on internal reporting to the executive and supervisory boards. In accordance with this the Jenoptik Group is segmented into the primary segments of the continuing business divisions and the discontinued business division Clean Systems. The continuing business divisions are split into Photonics and Other. Other includes JENOPTIK AG and the property companies SAALEAUE and LEUTRA SAALE. The Clean Systems business division is, due to its size, sub-divided into the business areas Facility Engineering and Facility Management. The secondary reporting format is based on geographical aspects. The business relationships between companies within the segments of the Jenoptik Group are based on prices which would also be agreed with third-parties.

Segment liabilities include non-current and current liabilities less deferred taxes, tax provisions and finance lease liabilities.

Total assets includes the assets of the individual segments less claims for taxes on income.

HISTORICAL SUMMARY OF FINANCIAL DATA.

	HGB						
in EUR millions	1997*	1998	1999	2000	2001	2002	2003
Fixed assets	428.8	348.1	284.4	269.2	344.0	361.2	487.9
Intangible assets	7.3	13.2	15.3	15.0	12.7	27.2	29.7
Tangible assets	346.3	191.4	99.4	111.4	125.8	133.6	140.5
Financial assets	75.2	143.5	169.7	142.8	205.5	200.4	317.7
Current assets	660.6	732.2	686.4	772.4	832.8	893.5	946.7
Net inventories	223.7	204.7	161.6	114.6	170.4	141.5	246.7
of which on-account payments received	283.1	266.7	139.3	557.1	365.8	507.6	400.2
Receivables and other assets	357.8	469.4	394.1	473.1	485.0	617.0	562.7
Liquid funds and short-term securities	79.1	58.1	130.7	184.7	177.4	135.0	137.3
Prepaid and deferred expenses and other	5.1	4.8	2.2	6.9	5.3	2.4	10.0
Shareholders' equity	294.6	375.9	401.9	463.1	487.8	430.6	396.9
Subscribed capital	76.7	94.6	96.2	96.2	105.8	105.8	127.0
Capital reserves	164.7	218.3	222.0	219.2	177.2	129.9	121.5
Revenue reserves	15.6	19.1	54.0	97.9	168.7	183.6	179.0
Minority interests	11.9	12.4	11.3	9.7	7.6	– 3.2	4.0
Unappropriated earnings / losses	25.7	31.5	18.4	40.1	28.5	14.5	– 34.6
External funds	799.7	708.3	570.6	585.1	694.2	826.3	1,046.4
Accruals	169.6	220.0	184.3	253.9	334.9	327.3	413.3
Liabilities	630.1	488.3	386.3	331.2	359.3	499.0	633.1
of which financial liabilities**)	358.5	229.9	110.2	55.8	81.3	204.8	263.7
of which trade accounts payable	199.9	186.0	226.8	225.3	183.6	164.2	185.7
of which other and miscellaneous liabilities	71.7	72.4	49.3	50.1	94.4	130.0	183.7
Deferred income	0.2	0.9	0.5	0.3	0.1	0.3	1.2
Total assets	1,094.5	1,085.1	973.0	1,048.5	1,182.1	1,257.2	1,444.5
Change compared to prior year							
Fixed assets	29.8 %	– 18.8 %	– 18.3 %	– 5.3 %	27.8 %	5.0 %	35.1 %
Current assets	43.4 %	10.8 %	– 6.3 %	12.5 %	7.8 %	7.3 %	6.0 %
Shareholders' equity	13.6 %	27.6 %	6.9 %	15.2 %	5.3 %	– 11.7 %	– 7.8 %
External funds	49.6 %	– 11.4 %	– 19.4 %	2.5 %	18.6 %	19.0 %	26.6 %
Share of total assets							
Fixed assets (asset ratio)	39.2 %	32.1 %	29.2 %	25.7 %	29.1 %	28.7 %	33.8 %
Current asset	60.4 %	67.5 %	70.5 %	73.7 %	70.5 %	71.1 %	65.5 %
Shareholders' equity (equity ratio)	26.9 %	34.6 %	41.3 %	44.2 %	41.3 %	34.3 %	27.5 %
Debt capital (debt capital ratio)	73.1 %	65.3 %	58.6 %	55.8 %	58.7 %	65.7 %	72.4 %
Dividends		14.2	18.4	25.3	28.1	14.2	
per share		0.38	0.50	0.70	0.70	0.35	
in % of subscribed capital		15.0 %	19.1 %	26.3 %	26.6 %	13.4 %	
Return on dividend based on year-end price 31.12.			3.0 %	2.2 %	3.3 %	3.8 %	
Net financial liabilities***)	279.4	171.8	– 20.5	– 128.9	– 96.1	69.8	126.4
in % of adjusted total assets	27.7 %	16.9 %	– 2.5 %	– 15.2 %	– 9.7 %	6.4 %	9.9 %

HISTORICAL SUMMARY OF FINANCIAL DATA.

	IFRS			
in EUR millions	2002	2003	2004	2005
Non-current assets	625.1	775.6	636.2	454.9
Intangible assets	29.3	92.9	99.1	76.7
Tangible assets	242.7	252.2	231.0	164.7
Investment properties	115.8	145.1	63.2	58.0
Financial assets	139.0	167.2	120.7	73.0
Shares in associated companies	13.7	18.2	33.5	16.7
Other non-current assets	3.0	10.9	16.9	8.8
Deferred tax assets	81.6	89.1	71.8	57.0
Current assets	1,005.9	982.0	918.8	279.6
Inventories	295.3	270.8	184.2	143.3
Accounts receivable and other assets	577.8	564.4	558.2	125.5
Securities	3.1	4.2	1.4	2.0
Cash and cash equivalents	129.7	142.6	175.0	8.8
Assets held for sale				773.8
Shareholders' equity	351.8	359.8	369.0	314.3
of which subscribed capital	105.8	127.0	135.3	135.3
Non-current liabilities	428.2	603.0	452.6	369.2
Pension provisions	50.8	59.7	56.3	6.9
Other non-current provisions	24.0	5.8	20.7	15.3
Non-current financial liabilities	313.2	462.0	339.8	324.7
Other non-current liabilities	34.9	58.2	34.0	19.2
Deferred tax liabilities	5.3	17.3	1.8	3.1
Current liabilities	851.0	794.8	733.4	193.0
Tax provisions	9.9	11.8	15.2	1.7
Other current provisions	57.1	87.2	67.8	26.0
Current financial liabilities	147.8	57.4	75.5	61.6
Other current liabilities	636.2	638.4	574.9	103.7
Liabilities held for sale				631.8
Total assets	1,631.0	1,757.6	1,555.0	1,508.3
Change compared to prior year				
Non-current assets		24.1 %	– 18.0 %	– 28.5 %
Current assets		– 2.4 %	– 6.4 %	– 69.6 %
Shareholders' equity		2.3 %	2.6 %	– 14.8 %
Non-current liabilities		40.8 %	– 24.9 %	– 18.4 %
Current liabilities		– 6.6 %	– 7.7 %	– 73.7 %
Share of total assets				
Non-current assets (asset ratio)	38.3 %	44.1 %	40.9 %	30.2 %
Current assets	61.7 %	55.9 %	59.1 %	18.5 %
Shareholders' equity (equity ratio)	21.6 %	20.5 %	23.7 %	20.8 %
Debt capital (debt capital ratio)	78.4 %	79.5 %	76.3 %	37.3 %
Dividends	14.2	0.0	0.0	0.0
per share	0.35	0.00	0.00	0.00
in % of subscribed capital	13.4 %	0.0 %	0.0 %	0.0 %
Return on dividend based on year-end price 31. 12.	3.8 %	0.0 %	0.0 %	0.0 %
Net financial liabilities*)		372.6	238.9	375.5
in % of adjusted total assets		24.5 %	18.7 %	26.4 %

Notes to HGB.

*) Including ESW since October 1, 1997.
**) Liabilities to banks, bills of exchange and bonds.
***) Financial liabilities less liquid funds and short-term securities.

Notes to IFRS.

*) Financial liabilities less cash and securities held as investments.

HISTORICAL SUMMARY OF FINANCIAL DATA.

	HGB						
in EUR millions	1997*	1998	1999	2000	2001	2002	2003
Sales	1,275.8	1,597.9	1,395.9	1,572.3	2,001.5	1,584.5	1,982.2
Export share	72.9 %	41.4 %	60.3 %	57.8 %	51.8 %	42.9 %	38.1 %
Gross profit	213.4	265.1	191.3	231.4	246.5	194.7	197.8
in % of sales	16.7 %	16.6 %	13.7 %	14.7 %	12.3 %	12.3 %	10.0 %
EBITDA 1)	69.7	107.0	85.3	102.5	132.6	95.3	45.1
in % of sales	5.5 %	6.7 %	6.1 %	6.5 %	6.6 %	6.0 %	2.3 %
Operating income (EBIT) 2)	29.8	54.3	55.0	82.5	109.1	64.8	7.9
in % of sales	2.3 %	3.4 %	3.9 %	5.2 %	5.5 %	4.1 %	0.4 %
Earnings before tax	34.0	30.8	40.0	96.5	107.5	46.3	– 19.6
in % of sales	2.7 %	1.9 %	2.9 %	6.1 %	5.4 %	2.9 %	– 1.0 %
Net income/loss	27.3	22.2	33.3	86.6	88.3	40.3	– 25.8
in % of sales	2.1 %	1.4 %	2.4 %	5.5 %	4.4 %	2.5 %	– 1.3 %
Cash flow 3)	87.3	102.0	106.0	192.5	204.2	44.2	98.6
Change compared to prior year							
Sales	47.4 %	25.2 %	– 12.6 %	12.6 %	27.3 %	– 20.8 %	25.1 %
Gross profit	27.6 %	24.2 %	– 27.8 %	21.0 %	6.5 %	– 21.0 %	1.6 %
EBITDA	29.8 %	53.5 %	– 20.3 %	20.2 %	29.4 %	– 28.1 %	– 52.7 %
Operating income (EBIT)	17.8 %	82.2 %	1.3 %	50.0 %	32.2 %	– 40.6 %	– 87.8 %
Net income/loss	160.0 %	– 18.7 %	50.0 %	160.1 %	2.0 %	– 54.4 %	– 164.0 %
Employees (average)	6,423	8,523	6,668	5,664	6,683	8,786	10,065
Personnel expenses (incl. pensions)	260.1	358.1	301.2	303.2	351.9	427.0	494.7
Personnel ratio (in % of sales)	20.4 %	22.4 %	21.6 %	19.3 %	17.6 %	26.9 %	25.0 %
Sales per employee (in TEUR)	198.6	187.5	209.3	277.6	299.5	180.3	196.9
Cost of materials (incl. purchased services)	907.9	835.1	946.3	900.9	1,258.3	879.3	1,207.3
Materials ratio (in % of sales)	71.2 %	52.3 %	67.8 %	57.3 %	62.9 %	55.5 %	60.9 %
Research and development expenses	32.6	36.4	29.2	22.5	28.2	29.5	31.4
in % of sales	2.6 %	2.3 %	2.1 %	1.4 %	1.4 %	1.9 %	1.6 %
Net value added	302.6	404.3	349.5	398.6	460.7	476.1	481.0
in % of company performance 4)	21.7 %	23.5 %	22.8 %	24.8 %	22.2 %	28.4 %	23.6 %
of which shareholders, company share (net income)	9.0 %	5.5 %	9.5 %	21.7 %	19.2 %	8.5 %	– 5.4 %
Return on sales after interest and tax	2.1 %	1.4 %	2.4 %	5.5 %	4.4 %	2.5 %	– 1.3 %
Total turnover of assets	1.17	1.47	1.43	1.50	1.70	1.26	1.37
Total return on capital after interest and tax	2.5 %	2.1 %	3.4 %	8.3 %	7.5 %	3.2 %	– 1.8 %
Return on shareholders' equity after tax (at balance sheet date)	9.3 %	5.9 %	8.3 %	18.7 %	18.1 %	9.4 %	– 6.5 %
Adjusted equity ratio 5)	28.5 %	35.8 %	46.7 %	52.8 %	47.9 %	36.8 %	28.7 %
Fixed assets financed by shareholders' equity	68.7 %	108.0 %	141.3 %	172.0 %	141.8 %	119.2 %	81.4 %
Fixed assets and inventories financed by shareholders' equity and long-term external funds	56.0 %	82.9 %	101.2 %	134.3 %	106.3 %	99.2 %	83.2 %
Asset cover 6)	439.9 %	494.7 %	1,199.7 %	1,022.1 %	785.5 %	590.7 %	538.5 %
Inventory turnover (at balance sheet date)	2.5	3.4	4.6	2.3	3.7	2.4	3.1

HISTORICAL SUMMARY OF FINANCIAL DATA.

	IFRS		
in EUR millions	2003	2004	2005
Sales	1,922.0	2,523.0	1,914.4
Gross profit	204.2	293.0	191.7
in % of sales	10.6 %	11.6 %	10.0 %
EBITDA[1]	50.9	128.8	43.7
in % of sales	2.6 %	5.1 %	2.3 %
Result from operating activities [2]	9.0	81.1	–9.8
in % of sales	0.5 %	3.2 %	–0.5 %
Earnings before tax	–43.3	37.4	–52.5
in % of sales	–2.3 %	1.5 %	–2.7 %
Earnings after tax	–45.9	19.0	–69.4
in % of sales	–2.4 %	0.8 %	–3.6 %
Net cash from/used in operating activities [3]	64.4	100.8	31.7
Change compared to prior year			
Sales	–	31.3 %	–24.1 %
Gross profit	–	43.5 %	–34.6 %
EBITDA	–	153.0 %	–66.1 %
Result from operating activities	–	801.1 %	–112.1 %
Earnings after tax	–	–141.5 %	–464.3 %
Employees (average)	10,049	10,052	9,486
Personnel expenses (incl. pensions)	500.0	536.7	472.6
Personnel ratio (in % of sales)	26.0 %	21.3 %	24.7 %
Sales per employee (in TEUR)	191.3	251.0	201.8
Cost of materials (incl. purchased services)	1,217.3	1,468.7	1,076.0
Materials ratio (in % of sales)	62.3 %	56.6 %	55.4 %
Research and development expenses	28.4	31.8	34.4
in % of sales	1.5 %	1.3 %	1.8 %
Net value added	494.4	618.4	456.6
in % of company performance [4]	25.3 %	23.8 %	23.5 %
of which shareholders, company share	–9.3 %	3.1 %	–15.2 %
Return on sales after interest and tax	0.5 %	3.2 %	–0.5 %
Total turnover of assets	1.09	1.62	1.27
Total return on capital after interest and tax	0.5 %	5.2 %	–0.6 %
Return on shareholders' equity before tax (as at balance sheet date)	–12.0 %	10.1 %	–16.7 %
Adjusted equity ratio [5]	17.6 %	21.1 %	16.7 %
Non-current assets financed by shareholders' equity	46.4 %	58.0 %	69.1 %
Non-current assets financed by shareholders' equity and long-term external funds	113.7 %	120.3 %	142.0 %
Asset cover [6]	142.7 %	159.7 %	190.8 %
Ratio of on-account payments [7]	76.6 %	81.8 %	28.3 %

Notes to HGB.

*) Including ESW since October 1, 1997.

Definitions:

1) EBIT before depreciation / write-ups on tangible and intangible assets.

2) Operating income before interest and net investment result; in 2003 before costs of capital measures.

3) Net income + changes in accruals + depreciation / write-ups, each excl. effects from first-time consolidation and deconsolidation.

4) Company performance = sales plus other operating income and net investment result.

5) Shareholders' equity less intangible assets / total assets less intangible assets and liquid funds incl. short-term securities.

6) Shareholders' equity / tangible assets excl. property => ratio of plant, machinery, equipment financed by shareholders' equity.

Notes to IFRS.

Definitions:

1) EBIT before depreciation / write-ups on tangible and intangible assets

2) Operating income before interest and net investment result; in 2003 before costs of capital measures

3) Earnings after tax + changes in accruals + depreciation / write-ups, each excl. effects from first-time consolidation and deconsolidation

4) Company performance = sales plus other operating income and net investment result

5) Shareholders' equity less intangible assets / total assets less intangible assets, cash and cash equivalents and securities

6) Shareholders' equity / tangible assets excl. property => ratio of plant, machinery, equipment financed by shareholders' equity

7) Ratio of on-account payments = on-account payments received / gross inventories plus receivables from long-term order production incl. profit share

Notes to the statement of income.

The fiscal year 2005 was characterised by positive business development, particularly for the continuing business division of Photonics. In this division sales rose by TEUR 41,506 or 11.5 %. The result from operating activities rose by TEUR 4,610 or 13.4 %.

The statement of income completely includes the discontinued business division Clean Systems. In the fiscal year 2005 comprehensive provisions were made, in particular for the project with deadline delays from the new technologies area.

The Clean Systems business division does not include the M+W Zander Gebäudetechnik business area since this has been included at equity since 31 December 2004.

The segment reporting includes an analysis of sales by business division and region.

1 Sales. Sales decreased overall by TEUR 608,572 or 24.12 % to TEUR 1,914,383 compared to 2004. Of these TEUR 1,504,266 (2004 TEUR 2,145,869) relates to the Clean Systems business division. When adjusted for sales from the business area M+W Zander Gebäudetechnik the sales of the Clean Systems business division have fallen by TEUR 178,644.

Sales on the Photonics business division climbed from TEUR 359,798 to TEUR 401,304 or 11.5 %.

Sales include revenue from construction contracts amounting to TEUR 462,407.

2 Cost of sales. Cost of sales includes the costs incurred in generating sales. This item also includes provisions made for transactions dependent on sales.

Cost of sales decreased overall by TEUR 507,297 or 22.75 % to TEUR 1,722,637 compared to 2004. Of these TEUR 1,437,281 (2004 TEUR 1,972,425) relate to the Clean Systems business division. Amended for the cost of sales included in the prior year for the business area M+W Zander Gebäudetechnik, the cost of sales of the Clean Systems business division fell by TEUR 87,582 to TEUR 1,437,281.

Cost of sales includes expenses for valuation deductions amounting to TEUR 6,647.

3 Research and development expenses. Research and development expenses include all expenses allocable to research and development activities. Research and development expenses increased overall by TEUR 2,654 or 8.35 % to TEUR 34,445 compared to 2004. In the Clean Systems business division these fell by TEUR 1,007 to TEUR 7,049.

In the Photonics business division the research and development costs rose by TEUR 3,688 or by 14.7 %.

Research and development expenses include valuation allowances amounting to TEUR 461.

4 Selling expenses. Selling expenses mainly comprise marketing costs, sales commissions, publicity work and advertising. Selling expenses decreased overall by TEUR 14,675 or 19.89 % to TEUR 59,102 compared to 2004. The movement is mainly due to the decrease of TEUR 18,566 to TEUR 21,447 from the Clean Systems business division.

The selling expenses in the Photonics business division increased by TEUR 3,192 or 9.6 %.

5 General administrative expenses. General administrative expenses include personnel and non-personnel costs as well as depreciation and amortisation relating to the administration function. General administrative expenses decreased by TEUR 13,817 or 12.73 % to TEUR 94,739 compared to 2004.

In the Clean Systems business division general administrative expenses fell by TEUR 14,649 to TEUR 61,409.

Furthermore, general administrative expenses include auditors' fees, year-end audit fees of TEUR 1,355, other confirmation services of TEUR 33 and fees for other services of the auditor amounting to TEUR 54.

6 Other operating income.

in TEUR	2005	2004
Income from services, transfers and rental	9,435	3,740
Income from service, offsetting and renting to the facilities management business area (2004 consolidated)	6,671	0
Income from exchange gains	9,295	8,748
Income from disposal of fixed assets	4,044	39,875
Income from government grants	3,386	4,786
Income from release of allowances	2,010	2,179
Income from the release of accruals for interim profits	1,239	1,239
Income from damages claims	976	1,301
Income from the release of provisions and accrued expenses	55	193
Income from the early payment of finance lease liabilities	0	3,212
Miscellaneous	6,390	9,790
	43,501	75,063

Income from exchange rate gains mainly includes gains on exchange rate fluctuations on foreign exchange receivables and payables between transaction date and payment date and exchange gains from the balance sheet date rate valuation. Exchange losses from these transactions are disclosed under other operating expenses.

Other operating income of TEUR 17,293 relates to the continuing business divisions in the fiscal year 2005. TEUR 26,208 relates to the Clean Systems business division. The change compared to the prior year of TEUR 31,562 results at an amount of TEUR 26,230 from the Clean Systems business division.

The corresponding expenses to the income from services, transfers and rental to the facilities management area are included in the functional costs.

Income from the disposal of fixed assets in the prior year includes income from the sale of the interest in SC300 Beteiligungs GmbH, Stuttgart of TEUR 30,752 as well as income of TEUR 5,579 from the sale of a building in Singapore.

Income from the release of provisions and accrued expenses is allocated to other operating income where the provisions were set up in prior periods against other operating expenses.

7 Other operating expenses.

in TEUR	2005	2004
Increase in allowances	13,252	12,853
Costs of services and rental	8,471	3,828
Exchange losses	8,059	12,075
Losses on disposals of fixed assets	6,570	1,687
IPO costs Singapore	4,569	0
Other personnel expenses	4,067	2,637
Restructuring costs	3,176	14,096
Increase to provisions and accrued expenses	1,653	2,292
Legal and litigation costs	1,366	0
Other taxes	1,208	1,045
Amortisation of intangible assets on first-time consolidation	1,024	0
Loss on deconsolidation of the facilities management business area	0	17,892
Loss on valuation of derivatives	0	1,212
Miscellaneous	3,345	3,218
	56,760	72,835

Additions to allowances are only included under other operating expenses if these are outside of the ordinary activities of the relevant company. In the fiscal year 2005 these primarily relate to the Clean Systems business division.

Other operating expenses decreased by TEUR 16,075 to TEUR 56,760 compared to 2004. Of this change TEUR 17,611 relates to the Clean Systems business division.

Research and development expenses include valuation allowances amounting to TEUR 136.

8 Result from investments.

in TEUR	2005	2004
Result from investments	– 451	– 723
Result from investments in associated companies	– 17,659	– 6,077
Write-downs on financial assets and non-current securities	– 1,972	– 3,602
	– 20,082	– 10,402

The result from investments in associated companies mainly results from the loss of M+W Zander Gebäudetechnik GmbH including the impairment on this amounting to TEUR 17,292. Furthermore, this includes the results of Fab36 Beteiligungs GmbH & Co. KG (Fab36), of XTRME and of Deutsche Effecten- und Wechsel-Beteiligungsgesellschaft AG (DEWB).

9 Net interest income / expense.

in TEUR	2005	2004
Income from financial asset securities and loans	4,644	5,143
Other interest and similar income	9,207	5,789
Other interest and similar expenses		
Interest portion in loans (cash)	13,366	12,546
Discounting of loans (non-cash)	2,270	1,570
Interest portion of leasing rate for finance leasing	4,425	8,802
Interest portion of increase to pension provisions less interest on plan assets	2,343	3,891
Interest portion swap	1,425	2,073
Interest on promissory note	1,112	1,711
Other interest and similar expenses	11,517	13,636
	– 22,607	– 33,297

10 Income taxes.

Income taxes comprise the current taxes (paid or owed) on income in the individual countries as well as the deferred taxes. The calculation of the actual tax expense for the Jenoptik Group is subject to the tax rates applicable or announced at the balance sheet date.

Deferred taxes are calculated at the relevant national income tax rates. For domestic companies as at 31 December 2005 a corporation tax rate of 25 % (31.12.2004 25 %) plus solidarity levy of 5.5 % on the corporation tax liability charged and an effective trade tax rate of 12.53 % (31.12.2004 12.53%) were applied for calculating deferred taxes. Accounting for the solidarity levy and trade tax on income a tax rate of 38.91 % (2004 38.91 %) was determined for the calculation of deferred taxes for domestic companies.

For foreign companies the calculation of deferred taxes is based on the tax rates applicable in each specific country.

Deferred taxes are accounted for as tax expenses or income in the statement of income unless they relate to items included in equity which do not impact income in which case they are also accounted for as part of equity with no impact on income.

According to their origin income taxes are classified as follows:

in TEUR	2005	2004
Taxes on income		
Clean Systems Technologies	11,383	13,512
Photonics Technologies	1,269	675
JENOPTIK AG (Holding)	0	– 3,011
Total	12,652	11,176
(of which out-of-period)	(688)	(– 3,022)
Deferred taxes		
On timing differences	15,958	14,175
(of which out-of-period)	(– 404)	(0)
On losses carried forward	– 11,718	– 6,974
Total	4,240	7,201
Income taxes	16,892	18,377

At the balance sheet date the Jenoptik Group has unused tax losses carried forward of approx. EUR 589 million (31 December 2004 EUR 428 million) which can be set off against future profits. The increase in tax losses carried forward is due to the current loss of the fiscal year 2005 and to the newly consolidated companies. Within the immediate future it is expected that losses carried forward of EUR 99 million (31.12.2004 EUR 88 million) will be utilised. With regard to these losses a deferred tax asset has been accounted for amounting to EUR 39 million (31.12.2004 EUR 34 million). With regard to the remaining losses carried forward of EUR 490 million (31.12.2004 EUR 340 million) no deferred tax asset has been accounted for. Losses of EUR 549 million can be carried forward for an unlimited period of time.

The following deferred tax assets and liabilities have arisen from recognition and measurement differences on individual balance sheet items and on tax losses carried forward.

	Deferred tax assets		Deferred tax liabilities	
in TEUR	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Intangible assets	1,598	2,608	5,794	4,143
Tangible assets	3,030	1,462	14,143	15,154
Financial assets	15,506	22,679	347	238
Inventories	659	513	958	1,712
Accounts receivable and other assets	4,058	2,000	13,532	9,487
Provisions	20,260	13,099	99	4,615
Liabilities	36,388	46,132	1,751	5,186
Gross value	81,499	88,493	36,624	40,535
(of which long-term)	(65,517)	(69,722)	(21,427)	(22,754)
Allowances	–15,494	–14,687	0	0
Offsetting	–32,955	–46,959	–32,955	–46,959
Consolidation	11,155	11,438	13,071	8,266
Tax losses carried forward	39,530	33,553	0	0
Sub-total	83,735	71,838	16,740	1,842
Assets and liabilities held for sale	–26,700	0	–13,595	0
Balance sheet amount	57,035	71,838	3,145	1,842

The following table shows the tax reconciliation of the expected tax expense/income for the relevant fiscal year to the actual tax expense/income disclosed. In order to calculate the expected tax charge/income the tax rate valid for the fiscal year 2005 of 38.91 % (2004 38.91 %) was multiplied by the IFRS result before tax.

in TEUR	2005	2004
Earnings before tax	–52,488	37,426
Expected tax expense/income at 38.91 %	–20,423	14,562
Changes in expected tax expense:		
Non-deductible expenses and tax-free income	–1,715	23,073
Changes in allowances against deferred taxes	32,416	–10,337
Permanent differences	9,834	–524
Effects of tax rate differences	–4,141	–2,975
Effects of tax rate changes	–979	–326
Taxes from previous years	124	–3,727
Exchange differences	1,365	–587
Other tax effects	411	–782
Current tax expense	16,892	18,377

11 **Minority interest share of profit/loss.** The minority interest share of group profits/losses amounted to TEUR 5,518 (2004 TEUR 6,227). Of this TEUR 3,741 (2004 TEUR 3,864) relates to the Clean Systems business division. The other interests in results mainly relate to the property companies.

12 **Earnings per share.** Earnings per share represent the profit/loss attributable to shareholders divided by the weighted average number of shares outstanding.

In calculating the diluted earnings per share the dilution effects are accounted for in determining the weighted average of outstanding shares. The weighted average of outstanding shares is adjusted for the effect of the options granted in the convertible bond assuming all options are exercised.

	31.12.2005	31.12.2004
Shareholders' earnings in TEUR	–74,898	12,822
Weighted average outstanding shares	52,028,475	49,715,761
Earnings per share in Euro	–1.44	+0.26
Dilutive effects	1,802	885
Weighted average outstanding shares (diluted)	56,911,894	51,869,817
Earnings per share (diluted) in Euro	–1.44	+0.26

Notes to the Balance Sheet.

Since the assets and liabilities of the Clean Systems business division held for sale are disclosed separately in the balance sheet in accordance with IFRS 5 all development tables show individual movements including the Clean Systems business division. The disposal is shown in each case in the line "Reclassifications under IFRS 5".

13 Intangible assets.

in TEUR	Development costs	Patents, trademarks, software, customer relations	Goodwill	On-account payments for intangible assets	Total
Purchase and manufacturing cost, balance as at 01.01.2005	**5,317**	**51,516**	**81,484**	**3,433**	**141,750**
Currency differences	0	135	270	0	405
Change in consolidated companies	0	5,104	36,819	0	41,923
Additions	7,389	7,721	480	464	16,054
Disposals	695	6,679	151	150	7,675
Reclassifications (+/–)	2,577	454	0	–2,944	87
Reclassification under IFRS 5	–1,615	–22,787	–63,897	–262	–88,561
Balance as at 31.12.2005	**12,973**	**35,464**	**55,005**	**541**	**103,983**
Amortisation, balance as at 01.01.2005	**1,487**	**26,733**	**14,417**	**0**	**42,637**
Currency differences	0	53	50	0	103
Change in consolidated companies	0	1,215	0	0	1,215
Additions	1,834	8,555	0	0	10,389
Impairment	461	537	136	0	1,134
Disposals	223	3,820	151	0	4,194
Reclassification under IFRS 5	–1,186	–15,722	–7,068	0	–23,976
Balance as at 31.12.2005	**2,373**	**17,551**	**7,384**	**0**	**27,308**
Net book value as at 31.12.2005	**10,600**	**17,913**	**47,621**	**541**	**76,675**
Net book value of reclassifications	**429**	**7,065**	**56,829**	**262**	**64,585**
Net book value as at 31.12.2004	**3,830**	**24,783**	**67,067**	**3,433**	**99,113**

Apart from goodwill there are no intangible assets with an undefined useful life. There are no restrictions on use of intangible assets.

As part of the opening balance sheet the goodwill offset against reserves under HGB before 1 January 2003 was not reversed in accordance with the simplification option in IFRS 1. Thus, existing goodwill results almost exclusively from company acquisitions since 1 January 2003.

Goodwill capitalised relates mainly to goodwill from the purchase of DRAGEBA Wohnbaugesellschaft mbH, Triptis with its subsidiary WAHL optoparts GmbH, Triptis (WAHL) in December 2003 amounting to TEUR 31,380.

The cash generating unit to which goodwill is allocated represents the subsidiary WAHL. For this cash generating unit an impairment test is carried out annually to determine whether there is any potential loss in value in goodwill which is not amortised ordinarily. The recoverable amount which is to be compared with the cash generating unit as part of the impairment test is determined by the value in use. The value in use is based on a risk-adjusted, market-oriented interest rate.

The additions to goodwill during the current fiscal year mainly relate to the goodwill on acquisition of the remaining 30.9 % of the shares in M+W Zander D.I.B. Facility Management GmbH and in caatoosee ag.

14 Tangible assets.

in TEUR	Land, buildings	Technical equipment and machines	Other equipment, factory and office equipment	On-account payments and construction in progress	Total
Purchase and manufacturing cost, balance as at 01.01.2005	**183,741**	**85,195**	**122,732**	**3,000**	**394,668**
Currency differences	726	1,736	1,575	23	4,060
Change in consolidated companies	1,382	13,921	4,437	260	20,000
Additions	3,649	7,790	20,269	4,293	36,001
Disposals	780	2,545	17,452	393	21,170
Reclassifications (+/–)	–1,576	1,458	1,556	–2,380	–942
Reclassification under IFRS 5	–62,772	–14,024	–69,818	–367	–146,981
Balance as at 31. 12. 2005	**124,370**	**93,531**	**63,299**	**4,436**	**285,636**
Depreciation, balance as at 01. 01. 2005	**37,356**	**45,641**	**80,475**	**261**	**163,733**
Currency differences	146	972	784	0	1,902
Change in consolidated companies	235	6,516	3,250	0	10,001
Additions	4,809	10,593	18,667	0	34,069
Impairment	1,316	0	0	0	1,316
Disposals	45	1,882	14,866	261	17,054
Reclassifications (+/–)	–670	0	616	0	–54
Reclassification under IFRS 5	–17,179	–9,404	–46,407	0	–72,990
Balance as at 31. 12. 2005	**25,968**	**52,436**	**42,519**	**0**	**120,923**
Net book value as at 31. 12. 2005	**98,402**	**41,095**	**20,780**	**4,436**	**164,713**
Net book value of reclassifications	**45,593**	**4,620**	**23,411**	**367**	**73,991**
Net book value as at 31. 12. 2004	**146,385**	**39,554**	**42,257**	**2,739**	**230,935**

Restrictions on disposal of fixed assets amount to TEUR 257.

A grant amounting to TEUR 3,954 was deducted from the acquisition costs of tangible assets.

The reclassifications of land and buildings mainly relate to the company buildings of the M+W Zander Group, particularly in Stuttgart and Nürnberg, used for own purposes. The land and buildings remaining in the group amounting to TEUR 98,402 in particular include the production and administration buildings of JENOPTIK AG and of the Photonics business division in Jena, Triptis, Monheim, Villingen-Schwenningen and Altenstadt.

15 Investment properties.

in TEUR	
Purchase and manufacturing cost	
Balance as at 01.01.2005	**79,335**
Additions	631
Reclassifications (+/–)	855
Balance as at 31.12.2005	**80,821**
Depreciation, balance as at 01.01.2005	**16,134**
Additions	1,835
Impairment	4,794
Reclassifications (+/–)	54
Balance as at 31.12.2005	**22,817**
Net book value as at 31.12.2005	**58,004**
Net book value as at 31.12.2004	**63,201**

The investment properties held at 31 December 2005 mainly represent two building complexes in the town centre of Jena which were sold to third-party property funds between 1995 and 1997. Jenoptik is the main tenant of these properties and sub-lets them to third parties. Since these fulfil the criteria of IAS 17 "Leases" the investment properties are shown as finance leases.

Additionally, former production and administration buildings which are now let to third parties are classified as investment properties.

The valuation of investment properties is at amortised cost amounting to TEUR 58,004 (31.12.2004 TEUR 63,201). This includes impairment losses of TEUR 4,794 which are accounted for in order to reduce the amortised cost to lower fair value.

The fair value is determined based on the discounted cash flow method. Under this method the net rentals (excluding energy costs) are determined and discounted over the total remaining useful lives. The interest rate applied represents a normal market interest rate accounting for an inflation deduction and risk premium. The fair value of the investment properties calculated amounts to TEUR 61,213 (31.12.2004 TEUR 65,078).

Rental income from investment properties at each fiscal year end amounted to TEUR 5,255 in the year under review (2004 TEUR 5,171).

In the prior year this included rental income from properties sold at the end of 2004 amounting to TEUR 4,431.

The direct operating costs for the rented space of the properties capitalised at each year end amounted to TEUR 6,377 (2004 TEUR 6,439) and for non-rented space TEUR 158 (2004 TEUR 116).

16 Leasing.

Finance lease.

The group as lessee. The assets which are used under finance leases are included in capitalised tangible assets at TEUR 35,600 (31.12.2004 TEUR 34,590), their purchase and manufacturing costs amount to TEUR 54,587 (31.12.2004 TEUR 51,384) at the balance sheet date.

These assets primarily consist of investment properties with a net book value of TEUR 28,056 (31.12.2004 TEUR 30,377) and purchase and manufacturing costs of TEUR 43,833 (31.12.2004 TEUR 43,833).

For the buildings the present value of the minimum lease payments covers the main acquisition costs or legal ownership will be transferred at the end of the leasing term.

For buildings and equipment under finance leases purchase options mainly exist which should be exercised. The borderline loan interest rates on which the contracts are based vary, depending on market position and timing of the inception of the lease, between 5.968 % and 8.994 %.

In the fiscal year lease payments amounting to TEUR 7,153 (2004 TEUR 12,625) have been charged against income.

Leasing payments due in the future, excluding the Clean Systems business division, can be seen in the following table:

in TEUR	up to 1 year	1–5 years	more than 5 years	Total
Minimum lease payments	4,985	9,930	128,524	143,439
Interest portion included in payments	1,379	4,804	63,720	69,903
Present value	3,606	5,126	64,804	73,536

The present value of minimum lease payments amounts to TEUR 73,536 (2004 TEUR 69,734).

Operating lease.

The group as lessee. Lease payments in the continuing business division amounting to TEUR 6,643 (2004 TEUR 26,864) have been charged against income.

As at the balance sheet date the group has open commitments from non-cancellable operating leases which are due as follows:

in TEUR	Minimum lease payments from operating leases
up to 1 year	6,556
1–5 years	21,101
more than 5 years	22,361
Total	50,018

The group as lessor. Income from leasing fixed assets in the continuing business division during the fiscal year amounted to TEUR 7,352 (2004 TEUR 11,876).

At the balance sheet date the following minimum lease payments are agreed between the group and lessees:

in TEUR	Minimum lease payments from operating leases
up to 1year	6,569
1–5 years	25,940
more than 5 years	5,793
Total	38,302

Rental income with no specified term is included as the amount of rental income until the earliest possible date for cancellation. Probable sub-letting of space or extension options on rental contracts have not been included in the calculation.

17 Shares in associated companies. The balance of TEUR 16,680 (31.12.2004 TEUR 33,523) includes shares in DEWB and Xtreme. The shares held in Fab36 and those held in M+W Zander Gebäudetechnik GmbH within the Clean Systems business division amount to TEUR 3,205 and are included in non-current assets held for sale.

18 Financial assets.

in TEUR	Shares in affiliated companies	Loans to affiliated companies and participations	Participating interests	Long-term securities	Other loans	Total
Purchase costs, balance as at 01.01.2005	**31,630**	**65,267**	**26,793**	**36,329**	**49,150**	209,169
Currency differences	0	– 6	3	0	0	– 3
Additions	529	6,823	3,375	1,285	408	12,420
Disposals	2,066	13,039	857	0	2,117	18,079
Reclassifications (+/–)	40	– 2,500	– 40	0	0	– 2,500
Reclassification under IFRS 5	– 12,011	– 49,855	– 8,100	– 14,612	– 75	– 84,653
Balance as at 31.12.2005	**18,122**	**6,690**	**21,174**	**23,002**	**47,366**	116,354
Depreciation, balance as at 01.01.2005	**24,233**	**3,808**	**6,691**	**12,097**	**41,693**	88,522
Additions	0	600	395	0	722	1,717
Disposals	0	1,723	446	0	0	2,169
Market valuation	84	0	8,430	– 178	8,763	17,099
Reclassifications (+/–)	66	0	– 66	0	0	0
Reclassification under IFRS 5	– 11,575	0	– 3,413	– 12,617	0	– 27,605
Balance as at 31.12.2005	**12,640**	**2,685**	**– 5,269**	**– 342**	**33,652**	43,366
Net book value as at 31.12.2005	**5,482**	**4,005**	**26,443**	**23,344**	13,714	72,988
Net book value of reclassifications	**436**	**49,855**	**4,687**	**1,995**	75	57,048
Net book value as at 31.12.2004	**7,397**	**61,459**	**20,102**	**24,232**	**7,457**	120,647

Of the reclassifications of loans amounting to TEUR 49,855 TEUR 47,119 relates to a loan to Fab36 which participated in financing the AMD Chip factory in Dresden.

The disposals of loans to participations includes the offsetting and capital repayment of loans receivable from DEWB AG amounting to TEUR 8,079. The additions to participating interests principally include the acquisition of shares in Krämer Scientific Instruments GmbH. The market valuation of participating interests of TEUR 8,430 relates to the positive share price development of PVA Tepla AG. The positive market valuation of other loans of TEUR 8,763 mainly relates to the retransfer of pensions as part of the sale process of the Clean Systems business division.

Furthermore, non-current securities include the securities of both consolidated special funds amounting to TEUR 23,344 (31.12.2004 TEUR 22,238). The special funds have a long-term investment strategy and mainly hold fixed interest securities.

All securities are available for sale in accordance with IAS 39.

19 **Other non-current assets.** Other non-current assets include:

in TEUR	31.12.2005	31.12.2004
Receivables due from non-consolidated, affiliated companies	3,600	0
Derivatives	2,904	8,165
Reinsurance coverage	1,767	2,322
Receivable from sale of building	0	5,322
Miscellaneous	515	1,115
	8,786	16,924

Receivables due from non-consolidated, affiliated companies relate to a long-term receivable from JENOPTIK Diode Lab GmbH, Berlin.

The derivatives relate to forward exchange contracts which provide long-term protection against risks. The whole item of derivative financial instruments is described in more detail in note 34.

The receivable from the sale of a building shown in the prior year was not paid in the financial year 2005 and is included in the item assets held for sale.

20 **Deferred taxes.** The development of the balance sheet item of deferred taxes is described under note 10.

21 **Inventories.**

in TEUR	31.12.2005	31.12.2004
Raw materials and supplies	35,260	44,615
Work in progress	87,044	116,271
Finished goods and merchandise	13,208	15,752
Property held for disposal	91	91
On-account payments	7,641	7,450
	143,244	184,179

Inventories decreased by TEUR 40,935 compared to the prior year. In the prior year inventories included TEUR 55,698 from the Clean Systems business division.

The fair value of inventories represents book value. Write-downs, in terms of gross value, amounted to TEUR 22,140 (2004 TEUR 18,496). From this the net realisable value amounted to TEUR 143,244 (31.12.2004 TEUR 184,179). Write-ups of previously written down assets amounted to TEUR 150 (2004 TEUR 290).

22 **Current accounts receivable and other assets.**

in TEUR	31.12.2005	31.12.2004
Trade accounts receivable	77,429	316,097
Receivables due from participating interests	8,557	45,888
Receivables due from non-consolidated, affiliated companies	7,233	20,262
Receivables due from construction contracts	3,568	123,473
Other current assets	28,730	52,549
	125,517	558,269

Current receivables and other assets decreased compared to the prior year by TEUR 432,752. The prior year included Clean Systems business division receivables amounting to TEUR 461,147.

The fair values of trade accounts receivable correspond with their book values. Allowances of TEUR 9,937 (2004 TEUR 15,091) were accounted for.

Receivables due from long-term construction contracts less payments received on account amounting to TEUR 3,568 (31.12.2004 TEUR 123,473) include customer-specific construction contracts with asset balances where manufacturing costs incurred, including profit portions, exceed payments received on account. The total of asset and liability balances of manufacturing costs, including profit portions, for construction contracts disclosed under receivables or payables from long-term construction contracts amounts to TEUR 19,442 (31.12.2004 TEUR 571,694). During the fiscal year payments on account amounting to TEUR 15,951 (31.12.2004 TEUR 545,157) in total were offset against receivables or liabilities from long-term construction contacts.

Contract income amounts to TEUR 727,670 (2004 TEUR 475,818).

For those other current assets disclosed there are no material ownership or availability restrictions. Bad debts are accounted for using allowances. Other current receivables are predominately not subject to interest.

Other current assets include:

in TEUR	31.12.2005	31.12.2004
Amounts due from JENOPTIK-Vermögensverwaltungsgesellschaft mbH	13,464	0
Other receivables from tax authorities	3,514	15,561
Prepayments	2,824	5,893
Subsidies receivable	1,273	1,726
Derivatives	1,086	3,249
Loans to third parties	255	3,217
Creditors with debtor balances	217	1,415
Insurance receivables	82	6,504
Compensation receivables	0	4,326
Other current assets	6,015	10,658
	28,730	52,549

Under the sales transaction of the Clean Systems business division this sub-group, together with the pension liabilities originally transferred to the JENOPTIK Pension Trust e. V. (Pension Trust), will be sold. However, the assets of the Pension Trust will not be sold. Therefore, a receivable of TEUR 13,464 arose for JENOPTIK AG from the Pension Trust at the balance sheet date 31.12.2005 from the retransfer of the pensions.

The following positive fair values arise from derivative financial instruments:

in TEUR	31.12.2005	31.12.2004
Transactions to hedge against		
Exchange rate risks from future payment flows (Cash flow hedges): Forward exchange contracts, long-term	2,904	8,165
Exchange rate risks from future payment flows (Cash flow hedges): Forward exchange contracts, short-term	1,082	1,445
Forward exchange contracts without hedge accounting, short-term	0	597
Investment risks: Share options	0	1,191
Interest caps	4	16
Total short-term	1,086	3,249
Total	3,990	11,414

The whole item of derivative financial instruments is described in more detail in note 34.

23 Securities held as current investments. Securities available for sale

in TEUR	31.12.2005	31.12.2004
Fair value	1,950	1,367

Securities held as current investments mainly consist of money market funds.

24 Cash and cash equivalents and restricted cash.

in TEUR	31.12.2005	31.12.2004
Cheques, cash in hand, bank balances and funds due any time	8,846	145,046
Restricted cash	0	30,000
	8,846	175,046

Prior year restricted cash of TEUR 30,000 related to securities for a bank loan granted to one of the JENOPTIK AG companies consolidated at equity. This restriction was removed during the fiscal year 2005. Cash in hand, bank balances of discontinuing operations in the sum of TEUR 114,619 were reclassified into non-current assets held for sale.

25 Non-current assets and liabilities held for sale. Assets and liabilities held for sale represent a disposal group which corresponds with the Clean Systems business division.

Assets and liabilities held for sale comprise the following balance sheet items:

in TEUR	31.12.2005
Intangible assets	64,585
Tangible assets	73,991
Financial assets	60,253
Other non-current assets	6,856
Deferred taxes	26,700
Inventories	51,367
Accounts receivable and other assets	373,001
Securities	2,445
Cash	114,619
Assets held for sale	773,817
Pension obligations	– 87,926
Non-current liabilities	– 68,868
Deferred tax liabilities	– 13,595
Current liabilities	– 461,428
Liabilities held for sale	631,817
Net item	142,000
Minority interests	18,867

Measurement is at the lower of book value and fair value less costs to sell.

The expected sales price less costs to sell is higher than the book value of the assets and liabilities belonging to the disposal group. Consequently, after accounting for impairment losses in accordance with the appropriate standards there is no additional requirement to reduce value under IFRS 5.

The cumulative income and expenses of all securities available for sale, currency differences and deferred taxes included in equity of the business division being discontinued amounted to TEUR 17,350.

26 Shareholders' equity. The development of JENOPTIK AG's equity is shown in the statement of development of shareholders' equity.

Subscribed capital.
Subscribed capital amounts to TEUR 135,290 and is divided into 52,034,651 no-par value bearer shares.

The Federal State of Thüringen holds 14.80 % of the shares in JENOPTIK AG at 31 December 2005 and Mrs Wahl-Multerer holds 5.83 %. Free float in JENOPTIK AG amounted to 79.37 % at the balance sheet date.

In January 2006 JENOPTIK AG was informed by Brandes Investment Partners, L.P., San Diego, USA that it had exceeded the limit of 5 % of the voting rights in JENOPTIK AG. Brandes Investment Partners, L.P. holds 5.002 % of the voting rights.

Authorised capital.
By resolution of the annual general meeting on 7 June 2005 the executive board was authorised, with the approval of the supervisory board by 30 May 2010, to increase the nominal capital of the company by up to TEUR 35,000 through one or several issues of new no-par value bearer shares in exchange for cash and/or non-cash contributions. The executive board is authorised, with the approval of the supervisory board, to exclude the subscription rights of shareholders in certain cases. The exclusion applies to fractional amounts, for capital increases through non-cash contributions for purchasing companies and participating interests, for capital increases in exchange for cash contributions for the purpose of issuing shares to employees of JENOPTIK AG or of affiliated companies as well as for cash capital increases, where the proportion of new shares, including the exercise of other entitlements to exclude rights, does not

exceed 10 % of the nominal capital in existence at the time of filing the authorised capital and, the issue price of the new shares is not materially below the stock exchange price.

Conditional capital.

Nominal capital of up to TEUR 10,582, divided into 4,070,000 shares, is conditionally increased. The conditional increase will only be carried out if the owners of the subscription rights exercise these and the company does not grant its own shares to fulfil the subscription rights or as part of the existing authorisation increases nominal capital in exchange for a contribution.

Furthermore, nominal capital is conditionally increased in connection with the convertible bond by up to TEUR 31,200 through the issue of up to 12,000,000 new no-par value bearer shares. Where own shares are not used the conditional increase will only be carried out where the holder or owner of option certificates or conversion rights exercise their options or conversion rights and/or the holders obliged to convert fulfil their duty to convert. Further details regarding convertible bonds are given under note 31.

The new shares participate in the profits for the fiscal year in which, at the time the conversion right is exercised, a profit distribution resolution has not yet been drafted by the annual general meeting.

Reserves.

Reserves comprise the results generated in the past and not distributed by companies included in the consolidated financial statements. Additionally, reserves include the adjustments recorded from the first-time application of IFRS and the differences on capital consolidation which were offset against reserves up to 31 December 2002.

Movements in deferred taxes not impacting income increased reserves by TEUR 2,067 (2004 TEUR –686) in the fiscal year 2005.

Furthermore, changes in the value of securities available for sale to be accounted for without impacting income amounting to TEUR 8,554 (2004 TEUR 13,431) are included in reserves. Likewise, the effective part of the change in value of derivatives for hedging cash flows to be recorded with no impact on income as part of hedge accounting is also included and amounts to TEUR –5,413 (2004 TEUR 2,822).

Own shares.

Own shares amounting to TEUR 48 (6,275 shares) are deducted from equity.

27 Minority interests. Minority interests in shareholders' equity mainly relate to the property companies LEUTRA SAALE and SAALEAUE as well as the minority interests in M+W ZANDER Holding AG.

28 Provisions for pensions and similar obligations. Provisions for pensions are set up on the basis of provision plans for commitments for old-age, invalidity and death cover. The cover by the group varies depending on the legal, tax and economic situation of each country and depends, as a rule, on the length of service and the salary of the employee. Pension provision within the group is based on both defined contribution and defined benefit plans. Under defined contribution plans the company pays contributions on the basis of statutory or contractual conditions or on a voluntary basis to state or private pension plans.

Once the contribution has been paid there are no further obligations for the company.

Most pension plans are based on defined benefit plans whereby these are distinguished between provision-based and externally financed pension plans.

Pension provisions for the benefit obligations are determined in accordance with the projected unit credit method, which is common internationally, in accordance with IAS 19. Under this method future commitments are valued at the balance sheet date according to proportional benefits earned. As part of this valuation trend assumptions are considered for the relevant values which affect the amount of the benefit. For all benefit systems actuarial calculations are required.

In the years 2001 and 2002 material pensions were transferred to Pension Trust by way of cumulative assumption of liabilities.

The plan assets held in the Pension Trust are offset against the pension commitments in accordance with IAS 19.

The change in the individual items has been strongly influenced by the sale of the Clean Systems business division and is, therefore, only comparable to a limited extent to the prior year.

Pension provisions:

in TEUR	31.12.2005	31.12.2004
Present value of funded obligations	30,246	69,105
Present value of unfunded obligations	110,400	54,310
Fair value of plan assets	–24,679	–58,180
Present value of net liability	115,967	65,235
Actuarial gains/losses not accounted for	–21,120	–8,921
Net liability recorded in the balance sheet	94,847	56,314
of which disclosed as pension obligations	6,921	56,314
of which in liabilities held for sale	87,926	0

Change in net liability recognised in the balance sheet:

in TEUR	31.12.2005	31.12.2004
Net liability on 01.01.	56,314	59,694
Net expense recognised in the consolidated statement of income	3,805	7,033
Transfers	37,265	–7,119
Pension payments	–2,537	–3,294
Net liability on 31.12.	94,847	56,314

Net expense recognised in the consolidated statement of income:

in TEUR	31.12.2005	31.12.2004
Current service cost	1,963	3,061
Interest cost	5,774	6,166
Expected return on plan assets	–3,431	–2,275
Offsetting of actuarial gains/losses	29	0
Losses/gains on curtailments and settlements	–530	0
Cost of claims purchased in the fiscal year	0	81
Total expense	3,805	7,033

Actual returns on plan assets:

in TEUR	31.12.2005	31.12.2004
Actual returns	4,474	–1,832

Actuarial assumptions:

in %	31.12.2005	31.12.2004
Discount rate as at 31.12.	4.25	5.00
Return on plan assets	5.90	3.79
Future salary increases	2.75	2.75
Future pension increases	1.75	1.75

Actuarial gains or losses result from changes in balances and differences in current trends (e.g. salary increases, pension increases) compared to the calculation assumptions. In accordance with IAS 19 this amount is recorded over the future average remaining service lives of the employees and recognised as income or expense if, at the beginning of the fiscal year the net cumulative unrecognised actuarial gains or losses exceed 10 % of the higher of the pension commitment, or the fair value of plan assets at the beginning of the fiscal year.

The above amounts are included in the personnel costs of the functional areas; interest costs on obligations are included in other net interest under note 9.

29 **Tax provisions.** Taxes are described in detail under note 10.

30 **Other provisions and accrued expenses.** The development of other provisions and accrued expenses is as follows:

in TEUR	Personnel	Warranties	Potential losses	Legal and court case costs	Obligation from sale of property	Compensation claims	Industrial rights and licence fees	Miscellaneous	Total
Balance as at 01.01.2005	**34,386**	**14,671**	**8,199**	**4,562**	**4,903**	**4,326**	**0**	**17,486**	88,533
Currency differences	373	1,151	67	48	0	0	0	207	1,846
Change in companies consolidated	535	664	99	419	0	0	0	3,506	5,223
Increases	22,297	12,388	15,789	1,501	0	0	669	7,098	59,742
Compound interest	25	4	42	64	70	0	– 68	– 49	88
Utilisation	17,288	9,494	4,744	2,478	131	0	0	8,422	42,557
Release	2,426	955	741	387	0	1,626	0	2,827	8,962
Reclassifications (+/–)	1,314	0	127	0	0	0	2,278	– 3,719	0
Reclassification under IFRS 5	– 24,035	– 9,456	– 18,084	– 1,655	0	– 2,700	0	– 6,716	– 62,646
Balance as at 31.12.2005	**15,181**	**8,973**	**754**	**2,074**	**4,842**	**0**	**2,879**	**6,564**	41,267

Personnel provisions include in particular long-term service awards, part-time early retirement, performance premiums, profit-sharing schemes, severance payments and similar obligations.

The legal and court case costs mainly relate to the cases of Asyst and DEWB which are described in detail in the group management report.

Miscellaneous provisions and accrued expenses relate to numerous recognisable specific risks and uncertain obligations which are accounted for at the probable amount required to settle them.

The expected payment terms of other provisions and accrued expenses are as follows:

in TEUR	up to 1 year	1–5 years	more than 5 years	31.12.2005
Personnel provisions	9,512	5,555	114	15,181
Warranty provisions	8,486	487	0	8,973
Possible losses on open transactions	533	221	0	754
Legal and court case costs	1,789	285	0	2,074
Obligation from property sales	0	0	4,842	4,842
Trademark and licence costs	0	2,879	0	2,879
Miscellaneous provisions and accrued expenses	5,663	892	9	6,564
	25,983	10,319	4,965	41,267

31 Financial liabilities. Details of current and non-current financial liabilities can be seen in the following table:

in TEUR	Up to 1 year	1–5 years	More than 5 years	31.12.2005
Bonds	7,500	202,348	0	209,848
(31.12.2004)	(0)	(56,436)	(143,642)	(200,078)
Bank liabilities	50,503	7,399	45,017	102,919
(31.12.2004)	(73,818)	(10,832)	(60,430)	(145,080)
Liabilities on bills of exchange	0	0	0	0
(31.12.2004)	(366)	(0)	(0)	(366)
Liabilities from finance leases	3,603	5,153	64,780	73,536
(31.12.2004)	(1,278)	(4,220)	(64,236)	(69,734)
Total	**61,606**	**214,900**	**109,797**	**386,303**
(31.12.2004)	**(75,462)**	**(71,488)**	**(268,308)**	**(415,258)**

Of the bank liabilities disclosed in the balance sheet TEUR 45,278 are secured by mortgage.

Bonds comprise the following:

	Nominal volume (in EUR million)	Weighted average remaining term (in years)	Weighted average effective interest (in %)
Senior Note	150.0	5.9	8.834
Convertible Note	62.1	4.6	5.775

The fixed interest security ("Senior Note") was issued on 6 November 2003 with a nominal volume of TEUR 150,000. The payment amount was 98.678 % of the nominal volume. This fixed interest security has a term of 7 years and attracts interest at a nominal rate of 7.875 % until it matures on 15 November 2010. Accounting for transaction costs the effective interest rate amounts to 8.834 %. Before 15 November 2006 JENOPTIK AG may repurchase up to 35 % of the bond volume, for a repurchase price already agreed, using funds from carrying out one or several capital increases for cash. Furthermore, as from 15 November 2007 JENOPTIK AG can repay part of or the whole bond early at a repurchase price already agreed.

With effect from 23 July 2004 a convertible note was issued amounting to TEUR 62,100. The term of the convertible note amounts to 5 years in units of TEUR 10 each. The conversion right into shares of JENOPTIK AG can be exercised under certain conditions from 1 September 2004 until 9 July 2009 at a conversion price of EUR 12.7165. The interest coupon amounts to 2.5 % and is due annually, starting from 23 July 2005. The repayment value at the end of the term (23 July 2009) amounts to TEUR 63,333. Repayment of the convertible note can be made at a share price of EUR 7.63 per share as opted by the company (so-called soft mandatory) using up to 4,883,419 shares. Only any remaining value (at share prices below EUR 12.7165 per share) has to be paid in cash. The convertible note can be cancelled at any time by JENOPTIK AG from 23 August 2007 if the share price of JENOPTIK AG exceeds 135 % of the conversion price for a period of 20 of 30 consecutive stock exchange trading days before the day of the announcement of the repayment. A premature repayment of the convertible note can only be made through shares.

The division of the convertible note into equity and borrowing components was be made on the issue date. The market value of the borrowing component was determined by discounting the cash flows applying an interest rate common to the market for a fixed interest bond without conversion options of 5.775 %. The equity component is the resulting differences between the nominal volume of the convertible note and the market value of the borrowing component. The equity component amounting to TEUR 4,907 and transaction costs of TEUR 1,430 are included in equity.

In the subsequent periods borrowings components are accounted for at amortised acquisition costs applying the effective interest method. The equity components remain unchanged.

As at 31 December 2005 the group had access to credit lines amounting to TEUR 135,156, whereby TEUR 41,115 is not utilised. Additionally, the Clean Systems business division has access to credit lines amounting to TEUR 25,795, whereby TEUR 13,100 is not utilised.

Normal market interest rates have been agreed for liabilities to affiliated and associated companies.

Detailed information regarding hedging of existing interest risks is given under note 34.

32 Other non-current liabilities. Other non-current liabilities comprise:

in TEUR	31.12.2005	31.12.2004
Non-current accruals	15,980	17,376
Liabilities due to JENOPTIK Vermögens-verwaltungsgesellschaft	0	15,738
Derivatives	33	145
Miscellaneous non-current liabilities	3,138	699
	19,151	33,958

The non-current accruals include interim profits on properties amounting to TEUR 14,866 (31.12.2004 TEUR 16,105) which are allocated on a straight-line basis over the remaining term of the original leasing contract.

33 Other current liabilities. This item includes:

in TEUR	31.12.2005	31.12.2004
Liabilities from on-account payments received	30,109	72,808
Trade accounts payable	27,780	278,019
Liabilities to participating interests	11,745	17,892
Liabilities to affiliated companies	2,888	9,803
Payables from construction contracts	77	96,936
Miscellaneous current liabilities	31,074	99,497
	103,673	574,955

Other current liabilities decreased by TEUR 471,282 compared to the prior year. This includes TEUR 471,537 from the discontinued Clean Systems business division.

Miscellaneous current liabilities comprise the following:

in TEUR	31.12.2005	31.12.2004
Other liabilities from taxes	7,497	41,426
Derivatives	4,252	5,695
Other liabilities from social security	3,428	7,732
Interest liabilities from financial liabilities	2,288	2,807
Accruals	1,697	3,116
Financial liabilities to third parties	1,613	4,639
Liabilities to employees	4,292	9,167
Liabilities to employees' accident insurance	961	2,356
Purchase price liabilities	0	4,255
Liabilities due to JENOPTIK Vermögens-verwaltungsgesellschaft	0	4,240
Other liabilities for insurance premiums	0	2,430
Miscellaneous liabilities	5,046	11,634
	31,074	99,497

Liabilities to employees include in particular holiday entitlements and accrued overtime.

In the prior year other miscellaneous current liabilities included TEUR 62,410 from the business division Clean Systems.

The following negative fair values arise from derivative financial instruments:

in TEUR	**31.12.2005**	31.12.2004
Transactions to hedge against		
Exchange rate risks from future cash flows (Cash flow hedges): Forward exchange contracts, long-term	33	145
Exchange rate risks from future cash flows (Cash flow hedges): Forward exchange contracts, short-term.	549	221
Forward exchange contracts without hedge accounting	0	1
Swaps	3,703	4,671
Options	0	802
Total short-term	4,252	5,695
Total	**4,285**	**5,840**

The whole item of derivative financial instruments is described in more detail in note 34.

Group cash flow statement. The cash and cash equivalents include the liquid funds disclosed in the balance sheet amounting to TEUR 8,846 and liquid funds amounting to TEUR 114,619 from the discontinued Clean Systems business division.
The cash flow statement provides information on cash flows, separately for cash flows from operating activities, from investing activities and from financing activities. Changes in balance sheet items used in the development of the cash flow statement are not directly derivable from the balance sheet since effects of foreign currency exchange and changes in companies consolidated are non-cash and are eliminated. Cash flow from operating activities is indirectly derived starting from the result before tax. The result before tax is adjusted for non-cash expenses (mainly depreciation and amortisation) and income. Cash flow from operating activities is calculated after accounting for changes in working capital.

Cash flow from operating activities decreased by 68.5 % to TEUR 31,696 (2004 TEUR 100,757). The primary reason for this is the lower increase in provisions of TEUR 8,513 (2004 TEUR 31,948) and the decrease in earnings before tax of TEUR 89,914 which, compared to the previous year, changed dramatically with regard to their composition. In order to derive net cash from operating activities losses on disposal of fixed assets are added and profits subtracted. In the prior year earnings before tax include profits on disposal of fixed assets of TEUR 38,187, in the current year losses of TEUR 1,974. Whereas in the prior year there were almost no impairment losses, in 2005 these lowered earnings by TEUR 7,244 and have been adjusted for accordingly. Impairment losses mainly relate to property. The largest item in non-cash expenses for both years is the impairment loss in the facility management area which, at TEUR 17,892 in 2004 and at TEUR 17,659 in 2005 was included at a similar level in both years. Furthermore, the non-cash portions of the “at equity” results are accounted for here. The components of working capital, which reduced cash flow of the prior year by TEUR 24,600, decreased to TEUR 5,847. The composition is mainly due to the organic growth of the Photonics business division which led to higher receivables and balances in sub-divisions. Net cash from operating activities for the discontinued Clean Systems business division amounts to TEUR –34,031.

Net cash from investing activities amounts to TEUR –58,100 (2004 TEUR –15,232). Whereas payments for investments in intangible assets rose by TEUR 4,703 to TEUR 14,705 due to higher capitalised development expenses from the Photonics business division, payments for investments in tangible assets remained almost constant at TEUR 35,999 (2004 TEUR 36,950, –2.6 %). Cash receipts on the disposal of financial assets, which fell from TEUR 95,821 to TEUR 10,631, mainly include receipts from the sale of SC300 in 2004.

The largest individual item in the current year was a capital repayment instalment of the shareholders’ loan by Fab36. This is matched by significantly lower payments for investments in financial assets of TEUR 9,435 (2004 TEUR 65,325). In the prior year this included the issue of a shareholder loan to Fab36 which, as part of a financing structure, invested in the new AMD chip factory in Dresden. Cash flows on disposal of consolidated companies are negative where the cash and bank credit balances disposed of were higher than sales proceeds. In addition to a smaller disposal in 2005 in the prior year this particularly related to the Gebäudetechnik unit. Payments for the purchase of consolidated companies mainly include those for the purchase of all minority interests in M+W Zander D.I.B. Facility Management GmbH. The addition of cash and bank balances as part of the first-time consolidation of caatoosee ag reduced payments for the acquisition of consolidated companies. Net cash from investing activities for the discontinued Clean Systems business division amounts to TEUR –30,132.

In addition to cash outflows from dividend payments and from the repayment of bonds, financing activities include income from the granting of bonds as well as changes in other financial activities. Net cash from financing activities rose from TEUR – 45,957 to TEUR 1,002. Cash inflows from the granting of bonds and loans amounted to TEUR 120,638 (2004 TEUR 101,868). These are matched by repayment of loans and credits of TEUR 81,052 (2004 TEUR 109,470). It also includes full repayment of the bond loan of TEUR 35,000. A large proportion of credit taken up or capital repayment relates to reorganisation. Net cash from financing activities for the discontinued Clean Systems business division amounts to TEUR 43,385.

Cash and cash equivalents, which includes cash and bank balances, fell from TEUR 145,046 to TEUR123,465. Of this TEUR 25,402 relates to cash changes which are counteracted by exchange rate differences of TEUR 3,821, in particular due to the high US Dollar rate.

OTHER NOTES.

34 Financial instruments.

Hedging policy and risks.
As part of its operating activities and in its financing activities the Jenoptik Group is exposed in particular to exchange rate and interest rate fluctuations. The company's policy is to eliminate or reduce these risks by entering into hedging transactions. All hedging measures are coordinated and performed centrally by the group treasury.

Hedging guidelines. Guidelines exist for the foreign currency and interest hedging policies across the group which are based on the minimum requirements for performance of trading transactions by the banks as issued by the Federal Office for Monitoring Financial Services.

Large national and international banks whose credit standing is constantly checked by leading rating agencies, act as partners for entering into hedging transactions.

Currency risk. In order to hedge against currency risk forward exchange contracts, foreign exchange options and combined interest and currency swaps are used. These transactions relate to the hedging of major cash flows in foreign currency from the operating business (in particular sales).

The Jenoptik Group hedges planned sales and material purchases in foreign currency on a net basis using forward exchange contracts and currency options, depending on estimation of the market. Hedging in the fiscal year 2005 mainly covered the US Dollar and British Pound.

Interest risk. An interest risk, i.e. potential fluctuations in the value of a financial instrument based on changes in market interest rates, is a threat above all for medium and long-term fixed interest receivables and liabilities. In order to hedge interest swaps, interest caps, combined interest / currency swaps and interest contracts are entered into depending on the market situation. If financial funds are passed on to subsidiaries within the Jenoptik Group these are structured in line with refinancing.

Liquidity risk. A liquidity forecast based on a fixed period of time in the future, credit lines available but not fully utilised within the Jenoptik Group and availability of constant issue programmes worldwide ensure that liquidity is always available.

Default risk. Default risk for financial assets is inherent in the danger of the default of a partner and, therefore, as a maximum at the amount of the positive fair values due to the relevant contracting party. The risk from the primary financial instrument is covered by the allowance for bad debts Since derivative financial instruments are only taken up with large banks and, as part of risk management, limits are set for each contracting party the actual default risk is low.

Derivative financial instruments.

Currency derivatives. At the balance sheet date the value of outstanding forward exchange contract transactions entered into by the group amounted to:

in TEUR	31.12.2005	31.12.2004
Forward currency contracts:		
USD/EUR-sale	41,875	50,990
USD/EUR-purchase	1,206	1,662
GBP/EUR-sale	169	193
GBP/EUR-purchase	491	668
EUR/SGD-sale	0	1,797
	43,741	55,310

The hedging of each underlying transaction is performed by a cash flow hedge (securing the fluctuations in future payment flows). The underlying transactions mainly relate to the sales of products. The risk hedged is always the currency risk.

The agreements serve to hedge significant currency exchange rate risks in the years 2006 and 2007 and are renewed as necessary.

At 31 December 2005 the fair values of the group currency derivatives amounted to TEUR 3,396 (31.12.2004 TEUR 9,838) These amounts are based on market values confirmed by banks.

Since these are for the purpose of hedging cash flow and are assessed as effective the change in fair value is accounted for in equity.

Options.

Currency option transactions. In order to hedge the basic transactions of the company Hommelwerke GmbH JENOPTIK AG has taken out zero cost options amounting to TUSD 3,500.

The Put USD/call EUR options with a nominal value amounting to TEUR 2,714 showed a negative market value of TEUR 19 at the balance sheet date whereas the call USD/put EUR options with a nominal value of TEUR 2,874 generated a positive market value of TEUR 113 and thus the net amount of TEUR 94 is disclosed and recorded.

Interest swap.

Interest swap 1 (fixed interest payer)	TEUR 42,047 (31.12.2004 TEUR 43,393)
Term	30 December 2004 – 30 December 2009
Fixed interest rate	5.65 %

The interest swap was purchased in order to maintain a future interest risk from the payment of leasing instalments with a variable externally financed portion from 30 December 2004 at a level of 5.65 % for five years.

The fair value of the swaps at 31 December 2005 amounts to TEUR –3,703 (31.12.2004 TEUR –4,657).

The interest swap has, after the premature release of finance leasing KORBEN no effective hedging connection with an underlying transaction and, therefore, impacts income. Currently this interest swap is being used to reduce the interest risks of other variable financing transactions.

Interest caps. Interest caps are to minimise the risk of variable interest charges on loans.

The following interest cap is capitalised:

Interest cap	TEUR 6,000 (31.12.2004 TEUR 8,000)
Term	31 March 2004 – 31 December 2008
Maximum interest rate	4.00 %

The fair value and the book value of the cap at 31 December 2005 amounted to TEUR 4 (31.12.2004 TEUR 14).

The market values of the derivative volumes are determined using market data at the balance sheet date.

35 Commitments and contingent liabilities. Since part of the guarantees will be transferred to JENOPTIK AG in 2006 the guarantees are presented including the discontinued Clean Systems business division.

in TEUR	31.12.2005	31.12.2004
Liabilities from guarantees	189,142	185,489
Other contingent liabilities	2,010	10,454
	191,152	195,943

Of the guarantees TEUR 20,000 relate to a guarantee for the associated company DEWB. Furthermore, a guarantee of TEUR 19,999 exists for warranty contracts for the Jena clinic and for a letter of comfort for investments of TEUR 10,151 by Jenoptik Diode Lab GmbH.

Furthermore, the associated group M+W Zander Gebäudetechnik uses a surety limit of TEUR 180,000 as part of a financing commitment, of which TEUR 135,440 (31.12.2004 TEUR 91,292) was utilised in total at the balance sheet date. The sureties relate mainly to contract fulfilment, warranty and on-account payment guarantees. There are no guarantees for loans for the Gebäudetechnik group.

36 Other financial commitments. Financial commitments from rental and leasing contracts are described in note 16.

Additionally, there are commitments from orders amounting to TEUR 37,049 (31.12.2004 TEUR 31,314).

37 Legal disputes. JENOPTIK AG or one of its group companies are involved in several court or arbitration cases which might have a substantial influence on the economic position of the group.

For more information on pending legal disputes we refer to the section “Legal risks” in the group management report.

For any potential charges from court or arbitration cases adequate provisions have been accounted for in the relevant group companies for litigation risks and litigation costs where these are for events before the balance sheet date and the probability of an outflow of economic resources is estimated by the legal representatives of the company as being more than 50 %. Adequate insurance coverage exists.

38 **Post balance sheet events.** The executive board authorised the financial statements on 17 March 2006 for approval by the supervisory board.

39 **Related party disclosures according to IAS 24.** Related parties are defined in IAS 24 as entities or people which/who control or are controlled by the Jenoptik Group to the extent that these are not already included in the consolidated financial statements as consolidated companies. Control exists if a shareholder holds more than half of the voting rights in JENOPTIK AG or on the basis of the constitutional conditions or contractual agreement has the possibility to direct the financial and business policies of the management of the Jenoptik Group.

All business transactions with non-consolidated subsidiaries, joint ventures and associated companies are undertaken under normal market conditions.

Members of the executive board and supervisory board of JENOPTIK AG are members in supervisory boards in other companies with which JENOPTIK AG has relationships as part of its normal operating activities. All transactions with these companies are conducted under conditions which are normal between unrelated parties.

Remuneration of members of the supervisory and executive boards amounts to TEUR 2,019 in total.

Remuneration of members of the supervisory and executive boards comprises entirely of short-term benefits due to employees.

Detailed disclosures on this are given in the Corporate Governance Report and in the notes on the executive and supervisory boards.

OBLIGATORY AND SUPPLEMENTARY DISCLOSURES UNDER HGB.

Obligatory disclosures under § 315a HGB and § 264 (3) or § 264b HGB.

The consolidated financial statements of JENOPTIK AG have been prepared in accordance with § 315a HGB in line with the rules of the IASB with an exemption from preparation of consolidated financial statements under HGB. At the same time the consolidated financial statements and group management report are in line with the European Union Directive on Consolidated Accounting (83/349/EWG), whereby this directive has been interpreted accordingly in compliance with Standard No. 1 (GAS I) "Exempt Consolidated Financial Statements under § 315a HGB" issued by the German Accounting Standards Committee (GASC). In order to maintain equivalence with consolidated financial statements prepared in accordance with the German Commercial Code all disclosures and information required by HGB, and which are in addition to the obligatory disclosures necessary for IFRS, are published.

Due to their inclusion in the consolidated financial statements of JENOPTIK AG the following fully consolidated affiliated German companies are exempted from the duty to publish annual financial statements in accordance with § 264 (3) or § 264b HGB:

- SAALEAUE Immobilien Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Jena
- LEUTRA SAALE Gewerbegrundstücksgesellschaft mbH & Co. Vermietungs KG, Jena
- ROBOT Visual Systems GmbH, Monheim am Rhein
- Hommelwerke GmbH, Villingen-Schwenningen
- JENOPTIK Automatisierungstechnik GmbH, Jena
- ESW-EXTEL Systems Wedel Gesellschaft für Ausrüstung mbH, Wedel
- JENOPTIK Laser, Optik, Systeme GmbH, Jena
- Lechmotoren GmbH, Altenstadt
- WAHL optoparts GmbH, Triptis
- Jena-Optronik GmbH, Jena
- JENOPTIK Mikrotechnik GmbH, Jena
- M+W ZANDER Holding AG, Stuttgart

Material accounting differences between HGB and IFRS.
The accounting and consolidation methods adopted under IFRS differ materially from HGB requirements in the following points:

Goodwill. As part of the purchase price allocation to be performed under IFRS 3 goodwill to be capitalised represents the remaining difference after all identifiable assets and liabilities, including contingent liabilities, have been valued at market value. Goodwill is not amortised but is subject to an annual impairment test. Under HGB goodwill may be offset against reserves. JENOPTIK AG utilised this option until 31 December 2002.

Fixed assets. In accordance with IAS 38 development costs are capitalised on fulfilment of the criteria listed. Under HGB internally generated intangible assets cannot be capitalised.

In accordance with IFRS both intangible and tangible assets are amortised/depreciated over the useful economic life in accordance with its usage. The application of tax-motivated useful lives is not permitted if these do not represent economic useful lives.

Investment properties are accounted for in accordance with IAS 40 “Investment Properties”. These are recognised at their acquisition costs. For the subsequent valuation IAS 40 permits a valuation at fair value or at acquisition costs. The Jenoptik Group performs the subsequent valuation based on amortised cost.

Impairment is systematically identified in accordance with IAS 36. It is ensured that the book value of an asset does not exceed its recoverable amount. The recoverable amount is the higher value comparing value in use and fair value less selling costs.

Furthermore, the depreciation method, useful lives and remaining value are checked under IAS 16.

Depreciation is based on the useful economic lives of the relevant assets.

Leasing. In accordance with IAS 17 leased assets are to be accounted for by the person who has the majority of the opportunities and rewards from the leased asset. Due to a lack of relevant rules in German accounting requirements, as a rule, the leasing pronouncements from the tax authorities are used in the commercial code consolidated financial statements and these are different from the rules of IAS 17 with regard to the classification of leasing relationships.

Profit realisation. In accordance with IAS 11 sales and results are realised for long-term contracts in accordance with the progress of the project, if project progress can be determined reliably (“percentage of completion” method). Under HGB sales and results cannot be realised until the contract has been fulfilled.

Derivatives and hedging. Derivatives are financial instruments in accordance with IAS 39 to be classified as financial instruments available for trading and valued at market value except for hedge accounting. Changes in value should be recognised in the income statement. If derivates serve to hedge cash flows as part of a cash flow hedge and fulfil the conditions for hedge accounting, then the effective portion of the change in value is recorded neutrally in equity. Under HGB derivatives are, as open transactions, not accounted for.

Shareholders’ equity. Under IFRS own shares are offset against shareholder’s equity and are not capitalised as assets as in HGB.

The equity component of the convertible note is disclosed as an increase in capital. The borrowings component is included in the balance sheet as a liability at discounted market value.

Pension provisions. Under IAS 19 pension provisions are valued applying the projected unit credit method which, contrary to the partial projected unit credit method under § 6a EStG (Income Taxes Act), accounts for expected future increases in pensions and salaries. Furthermore, according to IFRS and contrary to HGB a normal market interest rate should be applied and adjusted annually as appropriate.

Additionally, pension provisions will be offset by plan assets in accordance with IAS 19.

Provisions and accrued expenses. Provisions are set up in accordance with IAS 37 if the probability of an outflow of funds is over 50 % and the value can be estimated reliably. A provision will then only be made if an external obligation exists. Expense provisions are therefore not permitted under IFRS. Furthermore, medium and long-term provisions are discounted under IFRS if the effect of discounting is material.

Grants. Grants (as a rule investment grants) are deducted from acquisition costs and reduce future depreciation. In the HGB financial statements to date the option to account for grants as expenses immediately in the income statement was exercised.

Deferred taxes. Deferred taxes are calculated on the basis of the balance sheet oriented liability method in accordance with IAS 12. Deferred tax assets are accounted for on tax losses carried forward to the extent that it is expected that these will be utilised.

Companies included in consolidation. Under IFRS the companies consolidated are determined by the "control" concept. In accordance with IAS 27 "Consolidated and Separate Financial Statements" in connection with SIC-12 a consolidation of so-called purpose enterprises is to be performed if a controlling influence can be exercised from an economic point of view. Under HGB the legal requirements are most important.

Supplementary disclosures under § 314 HGB.

Number of employees. The average number of employees is analysed as follows:

	31.12.2005	31.12.2004
Blue-collar workers	2,348	2,417
White-collar workers	7,138	7,635
Trainees	219	268
	9,705	10,320

Of these employees 6,977 belong to the discontinued Clean Systems business division.

In proportionally consolidated companies an average of 40 (2004 31) employees were employed.

Cost of materials and personnel expenses.

in TEUR	31.12.2005	31.12.2004
Cost of materials		
Raw materials, consumables, supplies and purchased merchandise	425,915	685,724
Cost of purchased services	650,070	782,991
	1,075,985	1,468,715
Personnel expenses		
Wages and salaries	402,838	448,969
Social security and pension costs	69,785	87,733
	472,623	536,702

GERMAN CORPORATE GOVERNANCE CODE.

The executive and supervisory boards of JENOPTIK AG declare themselves in agreement with the German Corporate Governance Code in accordance with § 161 AktG (German Public Companies Law). The declaration has been made permanently available to shareholders via the Internet pages of JENOPTIK AG. Furthermore, the declaration is available for viewing at JENOPTIK AG.

EXECUTIVE BOARD.

The following gentlemen were appointed members to the executive board during the fiscal year 2005:

	Additional appointments at:
Alexander von Witzleben Chairman of the executive board of JENOPTIK AG	■ Analytik Jena AG (SB Chair) ■ Deutsche Effecten- und Wechsel-Beteiligungsgesellschaft AG (SB Chair) ■ Carl Zeiss Meditec AG (SB dep. Chair) ■ Feintool International Holding AG, Lyss (CCb) ■ Kaefer Isoliertechnik GmbH & Co. KG (CCb) ■ M+W ZANDER Holding AG (SB [ig] Chair) ■ PVA TePla AG (SB Chair)
Jürgen Gießmann Dep. Chairman of JENOPTIK AG until 30. 11. 2005 Chairman of M+W ZANDER Holding AG	■ MEISSNER-BARAN Ltd., Jerusalem (CCb [ig] member until 31. 03. 2005) ■ M+W ZANDER US Operations Inc., Plano (CCb [ig] member until 31. 07. 2005) ■ M+W Zander Gebäudetechnik GmbH (SB [ig] Chair since 01. 09. 2005) ■ PT Sigma Cipta Caraka, Jakarta, Indonesia (CCb [ig] Chair since 01. 07. 2005) ■ M+W Zander Facility Engineering PTE Ltd., Singapore (CCb [ig] Chair since 01. 04. 2005) ■ Teraport GmbH (SB [ig] Chair until 30. 09. 2005) ■ M+W Zander D.I.B. Facility Management GmbH (SB [ig] Chair) ■ LSMW GmbH Total Life Science Solutions (SB [ig] member) ■ caatoosee ag (SB [ig] Chair since 10. 02. 2005)
Norbert Thiel Executive board member of JENOPTIK AG	■ M+W ZANDER Holding AG (SB [ig] member)

The personnel costs of the executive board for the current fiscal year amounted to TEUR 1,919. This amount includes a fixed salary of TEUR 1,239. Furthermore, a provision was set up for bonus obligations and compensation payments amounting to TEUR 680. During the fiscal year bonuses for the fiscal year 2004 of TEUR 564 were also paid out.

For former executive board members pension payments of TEUR 226 were made during the fiscal year. The pension provision for former executive board members amounts to TEUR 3,797 at the balance sheet date.

At the end of the fiscal year the total number of shares held by the executive board amounted to 14,950. There were no purchases and sales of shares by the executive board.

Abbreviations

SB	Supervisory board
CCb	Comparable controlling body
ig	Internal group appointment
*	Employee representative

SUPERVISORY BOARD.

The following ladies and gentlemen were appointed members to the executive board during the fiscal year 2005:

	Additional appointments at:
Prof. Dr. h. c. Lothar Späth Former Minister President, Vice Chairman Europe, Merrill Lynch, Gerlingen (Chairman).	■ BIZERBA GmbH & Co. KG (SB Chair) ■ Herrenknecht AG (SB Chair) ■ JC Decaux S.A., Paris (CCb member) ■ Verlagsgruppe Georg von Holtzbrinck GmbH (SB member)
Ralf Tänzer* Former 1st commissioner of IG Metall-Verwaltungsstelle Jena-Saalfeld, Jena. (Vice Chairman).	■ Carl Zeiss Jena GmbH (SB member) ■ Stahlwerk Thüringen GmbH (SB member until 31. 03. 2005)
Dr. Daniel von Borries Executive board member of ERGO Versicherungsgruppe AG (Member since 10. 10. 2005).	■ Forst Ebnath AG (SB [ig] Chair until May 2005) ■ Ideenkapital AG (SB [ig] Chair) ■ Ideenkapital Media Finance AG (SB [ig] member until 31. 08. 2005) ■ Jet Holdings Ltd. (CCb [ig] member) ■ MEAG Munich Ergo Kapitalanlagegesellschaft mbH (SB [ig] member) ■ BHS tabletop AG (SB member) ■ GFKL Financial Services AG (SB member) ■ KarstadtQuelle Bank AG (SB member) ■ Mediclin AG (SB member) ■ Internationales Immobilieninstitut GmbH (SB member) ■ Victoria Volksbanken AG (SB member)
Birgit Diezel Finance Minister of the Free State of Thuringia, Erfurt.	None
Dr. Merve Finke von Berg* Signatory and head of the legal department, insurances and internal audit of M+W ZANDER Holding AG, Stuttgart.	None
Martin Griebel* Dipl.-Ing. for electronics / electrical engineering, JENOPTIK Automatisierungstechnik GmbH, Jena.	None
Prof. Dipl.-Ing. Jörg Menno Harms Director of Menno Harms GmbH – International Management Services, Stuttgart.	■ CA Leuze GmbH & Co. KG (CCb member) ■ Dürr AG (SB member) ■ Groz Beckert KG (SB vice chair) ■ Heraeus Holding GmbH (SB member) ■ Hewlett-Packard GmbH (SB Chair) ■ Württembergische Hypothekenbank AG (SB member) ■ Management Partner GmbH Stuttgart (CCb member)

	Additional appointments at:
Dr. Franz Wilhelm Hopp Former member of the board of ERGO Versicherungsgruppe AG, Düsseldorf (Member until 30.09.2005).	■ Frankfurter Volksbank eG (CCb member) ■ HSBC Trinkaus & Burkhardt KG aA (CCb member) ■ MEAG Munich ERGO Kapitalanlagegesellschaft mbH (SB member) ■ Österreichische Volksbanken-AG, Wien (CCb member)
Siegfried Joos* Member of the Workers' Council of M+W Zander Facility Engineering GmbH, Stuttgart.	None
Wolfgang Kehr* Regional manager Working Area Tariff policy IG Metall-Bezirk Frankfurt/Main.	None
Thomas Klippstein* Product manager of JENOPTIK Laser, Optik, Systeme GmbH, Jena.	None
Dieter Kröhn* Electro mechanic at ESW-EXTEL Systems Wedel Gesellschaft für Ausrüstung mbH, Wedel.	None
Prof. Dr. Dr. h.c. mult. Johann Löhn President of the Steinbeis-Hochschule, Berlin.	■ Deutsche Effecten- und Wechsel-Beteiligungsgesellschaft AG (SB member) ■ M & A Consultants AG (SB Chair) ■ Primion Technology AG (SB Chair) ■ Zeppelin GmbH (SB member)
Dr. Klaus Mangold Executive Advisor to the Chairman of DaimlerChrysler AG, Stuttgart.	■ Chubb Corporation, Warren (CCb member) ■ Leipziger Messe GmbH (SB member) ■ Magna International, Inc., Toronto (CCb member) ■ METRO AG (SB member) ■ Universitäts-Klinikum Freiburg (CCb member) ■ Drees & Sommer AG (SB member)
Günther Reißmann* Chairman of the company works' council of JENOPTIK AG, Jena.	None

	Additional appointments at:
Werner Schmidt Chairman of the executive board of Bayerische Landesbank Girozentrale, Munich.	■ Deka-Bank Deutsche Girozentrale AdöR (CCb member) ■ Deutsche Kreditbank AG (SB [ig] member) ■ Deutsche Lufthansa AG (SB member) ■ Drees & Sommer AG (SB vice chair) ■ Herrenknecht AG (SB vice chair) ■ Landesbank Saar Girozentrale AdöR (CCb [ig] vice chair) ■ LB (SWISS) Privatbank AG, Zürich (CCb [ig] chair) ■ Banque LBLux S.A. Luxemburg (CCb member) ■ Wieland-Werke AG (SB member) ■ MKB Magyar Külkereskedelmi Bank rt. Budapest (SB Chair)
Prof. em. Dr. Ing. Prof. h. c. mult. Dr. h. c. mult. Dr.-Ing. E. h. Hans-Jürgen Warnecke Former President and Honorary senator for the Fraunhofer Gesellschaft zur Förderung der angewandten Forschung e.V., Munich.	■ IMIG AG (SB Chair) ■ IQvolution AG (SB member) ■ Siempelkamp AG (SB member) ■ Holding E.A. Kirchheim GmbH & Co. KG (SB member) ■ WANDERER-WERKE AG (SB Chair) ■ Wegner AG, Altstätten, Schweiz (SB member)

At the end of the fiscal year 2005 all supervisory board members held 2,793 shares. The total remuneration of the supervisory board for the fiscal year 2005 represented the fixed remuneration of TEUR 100 as set out in the constitution. One performance-related bonus was not paid due to their being no dividend distribution for the fiscal year 2004. The amount of TEUR 100 was distributed accounting for the chairman and vice chairman of the supervisory board and the chairman and members of the committees among the members of the supervisory board as follows: Prof. Dr. h.c. Lothar Späth (chairman) EUR 12,428.61; Ralf Tänzer (vice chairman): EUR 9,071.47; Birgit Diezel: EUR 5,714.28; Dr. Merve Finke von Berg: EUR 4,714.28; Martin Griebel: EUR 5,714.28; Prof. Dipl.-Ing. Jörg Menno Harms: EUR 5,714.28; Dr. Franz Wilhelm Hopp: EUR 7,214.28; Siegfried Joos: EUR 5,714.28; Wolfgang Kehr: EUR 4,714.28; Thomas Klippstein: EUR 6,714.28; Dieter Kröhn: EUR 4,714.28; Prof. Dr. Dr. h.c. mult. Johann Löhn: EUR 4,714.28; Dr. Klaus Mangold: EUR 5,714.28; Günther Reißmann: EUR 6,714.28; Werner Schmidt: EUR 5,714.28; Prof. Dr. Ing. Dr. h.c. mult. Hans-Jürgen Warnecke: EUR 4,714.28. The annual remuneration of supervisory board members is paid subsequently (in 2005 for the fiscal year 2004).

On 21 December 2005 Mr Jörg Menno Harms purchased 1,300 Jenoptik shares for a price of EUR 7.75.

Jena, 17 March 2006

Alexander von Witzleben
Chairman of the executive board

Norbert Thiel
Executive board member

Auditors' report.

We have audited the consolidated financial statements prepared by the JENOPTIK Aktiengesellschaft, Jena, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations. In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Berlin, March 17, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Schindler
Auditor

Dr. Kronner
Auditor

Scientific advisory council.

(as at December 2005).

Norbert Thiel
JENOPTIK AG, Jena, Chairman.

Prof. Dr. Bernd Wilhelmi
Jena, Vice chairman.

Prof. Dr. Hartmut Bartelt
Institut für Physikalische Hochtechnologie e.V., Jena.

Prof. Dr. Karlheinz Brandenburg
Fakultät für Elektrotechnik, Technische Universität Ilmenau.

Prof. Dr. Herwig Brunner
Fraunhofer Institut für Grenzflächen- und Bioverfahrenstechnik, Stuttgart.

Prof. Dr. Gerhard Fettweis
Fakultät für Elektrotechnik, Mannesmann Mobilfunk Stiftungslehrstuhl, Technische Universität Dresden.

Prof. Dr. Albert Hinnen
CLONDIAG Chip Technologies GmbH, Jena.

Prof. Dr. Bernd Höfflinger
Institut für Mikroelektronik, Universität Stuttgart.

Prof. Dr. Wolfgang Karthe
Fraunhofer Institut für Angewandte Optik und Feinmechanik, Jena.

Prof. Dr. Johann Löhn
Steinbeis-Stiftung, Berlin.

Prof. Dr. Jürgen Petzoldt
Fakultät für Elektrotechnik und Informationstechnik, Institut für Elektrische Energiewandlungen und Automatisierung, Technische Universität Ilmenau.

Prof. Dr. Wolfgang Probst
Essingen.

Prof. Dr. Claus Razim
Salzburg.

Prof. Dr. Roland Sauerbrey
Institut für Optik und Quantenelektronik, Friedrich-Schiller-Universität Jena.

Prof. Dr. Michael Schenk
Fraunhofer Institut für Fabrikbetrieb und -automatisierung, Magdeburg.

Prof. Dr. R. Dieter Schraft
Fraunhofer Institut für Produktionstechnik und Automatisierung, Stuttgart.

Judon Stoeldraijer
ASML, La Veldhoven, Niederlande.

Prof. Dr. Günther Tränkle
Ferdinand-Braun-Institut für Höchstfrequenztechnik, Berlin.

Prof. Dr. Andreas Tünnermann
Fraunhofer Institut für Angewandte Optik und Feinmechanik, Jena.

Dr. Bärbel Voigtsberger
Hermsdorfer Institut für Technische Keramik e.V., Hermsdorf.

Supervisory Board Report.

Dear Shareholders,

The past fiscal year 2005 was characterized by the company's ongoing reorganization process. Pursuing this goal also played an important role in the work of the Jenoptik supervisory board.

In fiscal year 2005, the supervisory board met six times including two extraordinary meetings.

In accordance with the supervisory board's tasks as stipulated by law and by the company's articles of association, the board continually monitored and provided regular advice to company management. The supervisory board was directly involved in all decisions of fundamental importance to the company. The executive board in turn provided regular, comprehensive, and up-to-date information. On the basis of written and oral reports the company's business and standing, including key Jenoptik Group affiliates as well as major orders and projects were discussed. Company figures, deviations from original plans and goals and the reasons for such moves were all treated in detail by the supervisory board and explained by the executive board. Between meetings, the chairman of the supervisory board maintained regular contact with the chairman of the executive board receiving important information on all major company business events.

Items of particular interest to the supervisory board's plenary meetings included the acquisitions of Krämer Scientific Instruments GmbH, SINAR AG, and PHOTONIC SENSE GmbH. The board discussed in depth the ruling of the OLG Jena (Jena Higher Regional Court) in December 2004 concerning the compensation for a DEWB shareholder, and the decision's potential repercussions. The board, however, focused its efforts on the implementation of the strategy to separate the Clean Systems Technologies business division from the Jenoptik Group, and the group's subsequent reorientation.

The supervisory board already began discussing future corporate development and the group's reorientation at its April meeting, combining with the executive board to recommend that the annual general meeting approve the change in strategy and authorize the connected restructuring measures. At an extraordinary meeting in July 2005, the supervisory and executive boards discussed further steps in implementing the resolutions of the annual general meeting which had approved by a vast majority of votes the separation of M+W Zander from the group. The supervisory board has subsequently kept itself informed of the bids tendered for the company and negotiations with potential buyers. The supervisory board advised and supervised the executive board throughout the entire process, and after thorough discussion unanimously approved of the sale at a December 2005 extraordinary meeting.

At its December 12, 2005 meeting, the supervisory board adopted its declaration of conformity in accordance with section 161 of the German Stock Law. The supervisory board continually followed changes in corporate governance standards and monitored the compliance with the government committee's recommendations using the revised corporate governance checklist of June 2, 2005. Deviations from these recommendations are explained in the "Corporate Governance" section of this report (see page 50). The system of remuneration for executive board members is also explained in the section.

The supervisory board has set up four committees to prepare the decisions of the supervisory board and the topics for discussion in the supervisory board plenary sessions, and in individual cases to make decisions instead of the plenary board. The chairman of the supervisory board is the chairman of all committees except for the audit committee.

The audit committee, which met three times in 2005, focused on the auditing of the financial statements and the consolidated financial statements, detailed interim reports, and the monitoring of the group's risk management system and the examination of the regular group risk report. The personnel committee, which is in particular responsible for the contracts of the executive board members, met three times in the course of the year to work primarily on the remuneration and bonus system for the executive board. The committee also discussed the departure of Jürgen Gießmann from the executive board in the process of separating M+W Zander from the group as well as the organization of the executive board. The capital market committee met only once this past fiscal year. The mediation committee was not required to convene in fiscal year 2005 in accordance with § 27, para. 3 of the German Codetermination Law (MitbestG).

The auditor appointed by the annual general meeting, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, audited the financial statements and the consolidated financial statements including the group accounting and early risk detection systems in addition to the combined management report for JENOPTIK AG and for the Jenoptik Group. The auditors submitted their unqualified approval. The audit results were sent to all supervisory board members at an early date and were discussed thoroughly both in the audit committee in full plenary session. The auditors took part in the meetings with both bodies reporting fully on the main points and results of the audit. The auditors were available to the supervisory board for questions and further information. After completing its own audit, the supervisory board approved the auditor's findings and authorized the financial statements and the consolidated financial statements submitted by the executive board; the financial statements of JENOPTIK AG have thus been confirmed.

One change affected the supervisory board team in fiscal year 2005: Upon his retirement from active service, Dr. Franz Wilhelm Hopp resigned from the supervisory board. The supervisory board would like to thank Dr. Hopp for his years of valuable work. Dr. Daniel von Borries was appointed to replace Dr. Hopp on the board.

The supervisory board would like to express its appreciation to the executive board and all Jenoptik employees for the results achieved in the past fiscal year and particularly for their successful efforts towards restructuring the Jenoptik Group. The supervisory board would also like to thank Jürgen Giessmann for his significant contributions towards the growth of the Jenoptik Group and for many years of invaluable service on the executive board of JENOPTIK AG from which he resigned at the end of 2005. Our thanks also go out to the shareholders for their trust in us and the to the employee representatives for their constructive cooperation.

Jena, April 2006
On behalf of the supervisory board

Prof. Dr. h.c. Lothar Späth
Chairman