



## Annual Report 2007



New structures in place for growth and sustainability

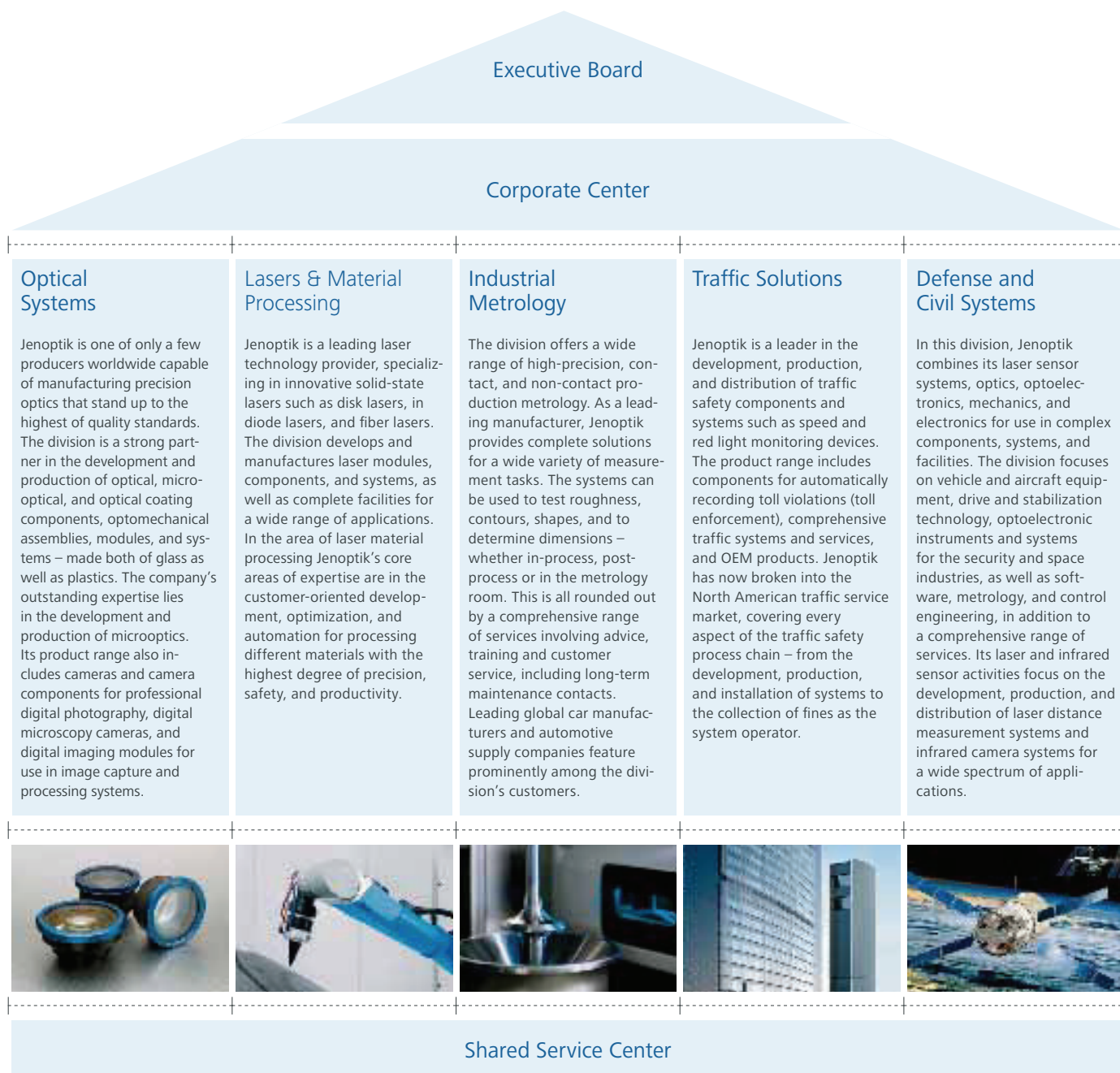
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#### ON THE TITLE: NEW STRUCTURES IN PLACE FOR GROWTH AND SUSTAINABILITY

Complex processes in the economy are often reflected in simple models in the nature. Just as with plants also in companies new structures ensure the adaptation to changing situations – and therefore growth and sustainability.

1 Key figures of Jenoptik (continuing business divisions)

(in million euros)	2007	2006	Change in %
Sales	521.7	485.1	7.5
Domestic	219.7	209.4	4.9
Foreign	302.0	275.7	9.5
EBIT	35.3	38.2	-7.6
EBIT margin (EBIT in % of sales)	6.8	7.9	-1.1
EBITDA	79.1	69.9	13.2
Earnings before tax	0.7	19.1	-96.3
Earnings after tax	-4.6	16.1	-128.6
Cash flow from operating activities	73.8	28.8	156.3
Investments in tangible and intangible assets	40.6	39.8	2.0
Order intake	525.8	482.9	8.9
Order backlog	439.4	438.4	0.2
Employees (as at 31.12. incl. trainees)	3,436	3,192	7.6



Jenoptik specializes in photonics and mechatronics technologies, numbering among the market and technology leaders in a number of areas. An international Group, Jenoptik focuses its activities on its core areas of competence: lasers and optics, optoelectronics, and mechatronics. Our activities are consistently geared toward the needs of our customers. With this in mind, Jenoptik was reorganized as of January 1, 2008 into five market-oriented divisions that have led and will continue to lead to new synergies and strong growth well into the future.

Our customers around the world include, most prominently, companies of the global semiconductor and semiconductor supply industries, the automotive and automotive supply industries, the medical technology trade, security and defense technology companies, aerospace companies, other technology companies, and the public sector.





DR. MICHAEL MERTIN -- CHAIRMAN OF THE EXECUTIVE BOARD/  
CEO. Dr. Michael Mertin has been Chairman of the Executive  
Board of JENOPTIK AG since July 1, 2007. He is responsible  
for the company's complete operating business as well as  
the departments of strategy and innovation management,  
participation and auditing, IT, data protection, communications  
and marketing, quality and processes, and as human resources  
director for personnel.

## Foreword of the Executive Board

*Dear shareholders*

At Jenoptik, 2007 was a year of change. We, the new Executive Board team, have introduced the fundamental strategic changes required for us to reach our goals and thus the shareholder value that you expect: in terms of size – 1 billion euros in sales; dynamics – 10 percent annual growth; and quality – a 10 percent EBIT margin.

We have further defined our core competences in the areas of Lasers & Optics, Optoelectronics, and Mechatronics, with a clear new sense of identity. In certain markets, Jenoptik already numbers among the leaders in technology worldwide. It is, however, no longer our goal just to service technology, but to fulfill our customers' wishes with optimal results. We need to gear our business processes better to meet our customer needs, making better use of the advantages our Group can provide in order to set forth on a sustainable course for success.

This is why we reorganized ourselves in 2007, departing from the small structures of a financial holding company into a company driven by a comprehensive strategy. This was needed after the sale of M+W Zander and our concentration on our core technologies. Since January 1, 2008, we have had a more efficient and clearer cut organizational and managerial structure, allowing us to implement our strategic goals. And JENOPTIK AG now plays a more active role than ever in designing the strategy involved, whether through the cultivation of synergy effects, improving economic efficiency through group-wide initiatives for operating excellence, or the expansion of our global market presence.

The structural changes in 2007 coincided with the complete privatization of Jenoptik. The German Free State of Thuringia sold its shares to ECE Industriebeteiligungen GmbH, based in Vienna, Austria. The new investor, now the largest single JENOPTIK AG shareholder, is dedicated to our strategic reorientation in the middle to long-term. This will strengthen us as we rapidly move forward with this fundamental process of change.

In 2007, Jenoptik saw a 7.5-percent increase in sales to 521.7 million euros. Two major developments precipitated the slight fall in Group earnings to 35.3 million euros: Firstly, our comprehensive analysis of all important areas of business and developmental topics for the Group as a whole had an effect on our earnings. We were, however, able to compensate for this to a large extent, but not completely, with positive income from the sale of non-strategic participations. Secondly, few major orders were received in our Traffic Solutions division as the result of the slow international market. This led to a fall in earnings, which, however, was nearly fully recovered by excellent developments in our Laser & Optics business.

In our analysis of our Group portfolio we discovered, in contrast to earlier evaluations, that it was no longer productive to pursue certain areas of business under the roof of Jenoptik, when taking a hard look at our long-term goals. This resulted, in part, in an increase in the need of impairment in 2007. In the future, the concentration on our 5 divisions will allow us to concentrate strongly, both in terms of our financial and managerial decisions, on growth projects within our comprehensive strategic process.

In 2007, we laid the groundwork for our further development with our new financing culture and structures. A significant increase in cash flow was particularly important, and allowed us in 2007, unlike previous years, to forego additional borrowing in financing all current interest expenses and investments. We were thus able to reduce our net debt despite two new acquisitions. With the redemption of our high-interest bond in 2007, we paid the interest involved for the last time and, despite a required one-off compensation payment, we will profit from this measure in our future interest results. We thus expect our annual results in the next years to return to strongly positive figures which will reflect our operating successes much more clearly, following a net loss in 2007 that resulted from the one-off non-cash effects of the German tax reform.

We will consistently continue the process of strategic realignment and transfer it, partly with a new management team, to our divisions and into the operating business. We are convinced that Jenoptik will be able to meet the challenges mentioned above, and will emerge clearly strengthened from this fundamental process of realignment, with positive effects on our capital market performance, something to be expected by you as shareholders. We have entered into the new fiscal year with several major orders, and our new organizational structure has already begun to show clear improvements in terms of cooperation. Our customers now understand our structures better and have continued to entrust us with their business more and more, as we have seen over the past four successful months.

In the future, you will be able to expect from your Jenoptik Group a high level of economic performance through our technology-based market leadership, a maximum focus on customer needs, and a strong global presence. We, the entire Jenoptik management team and all Jenoptik Group employees, will continue to work hard to make this possible.

Sincerely,



DR. MICHAEL MERTIN  
CHAIRMAN OF THE EXECUTIVE BOARD



FRANK EINHELLINGER  
CHIEF FINANCIAL OFFICER



A professional portrait of Frank Einhellinger, Chief Financial Officer of Jenoptik AG. He is a middle-aged man with short brown hair and a mustache, wearing a dark pinstripe suit, a white shirt, and a yellow tie. He is looking slightly to the right with a gentle smile. In the background, another man with dark hair and a mustache, wearing a grey suit and a red tie, is visible but out of focus. The background is a plain, light color.

FRANK EINHELLINGER -- CHIEF FINANCIAL OFFICER (CFO). Since July 1, 2007, Frank Einhellinger has been the Chief Financial Officer of JENOPTIK AG. He is in charge of the departments of finance and strategic procurement, risk management, legal affairs, investor relations, mergers and acquisitions, real estate, and environmental management.

## Supervisory Board Report



This past fiscal year, the Supervisory Board, in accordance with its legal and statutory rights and obligations, has supervised and advised the Executive Board in its management of the Group. The Executive Board reported, orally and in written form, on all matters relevant to the company regularly, timely, and comprehensively. In addition to the company's overall position and current course of business, this included company planning, the company's strategic reorientation, and risk management with information on potential risks. This information also included the major affiliated companies of the Jenoptik Group. The board looked in detail at the company's key figures and divergences from the plans and goals that had been set for the company's business and which were explained in detail by the Executive Board with reference to the written documents.

Collaboration between the Executive Board and Supervisory Board was characterized by an open and trusting atmosphere. Both Prof. Dr. h. c. Lothar Späth – chairman through June 6, 2007 – and I remained in regular contact between meetings with the chairman of the Executive Board, and received information on all important current business developments.

The members of the Supervisory Board met seven times in fiscal year 2007, of which two were extraordinary sessions, and one the initial session subsequent to the new election of the Supervisory Board by the Annual General Meeting on June 6, 2007.

### Particular topics of discussion.

Fiscal year 2007 was a year focused on the reorientation of the Jenoptik Group and the implementation of the company's strategy for profitable growth.

In summer 2007, the newly reconfigured Supervisory Board convened together with the Executive Board in an extraordinary session to discuss the goal of transforming JENOPTIK AG from a financial holding company into a strategic management company. The new organizational structure will focus more strongly on customers and markets, with greater emphasis placed on financial results. In all subsequent meetings, the Executive Board reported to us in detail on the implementation of the strategy project.

The Supervisory Board also discussed possible strategic acquisitions and approved the purchase of the remaining 75 percent of shares in the U.S. manufacturer of metrology systems for use in production and assembly Detroit Precision Hommel, Inc., and the purchase of Berlin-based EPIGAP Optoelektronik GmbH, which specializes in optoelectronic sensors.

We also approved the founding of JT Optical Engine GmbH & Co. KG, a joint venture with TRUMPF. This allowed Jenoptik and TRUMPF to combine its activities involving innovative laser components.

Other particular matters we discussed and decided included the sale of shares in PVA TePla and other sales of activities no longer relevant to our strategic core areas of expertise.

We also discussed the legal relations between JENOPTIK AG and caverion GmbH (formerly M+W Zander Gebäudetechnik GmbH), as well as the patent dispute with ASYST Technologies, Inc.

The Supervisory Board, furthermore, discussed and named the successor to Alexander von Witzleben, appointing Dr. Ing. Michael Mertin as the new CEO/Chairman of the Executive Board, and director human resources. Frank Einhellinger was also named to the Executive Board as the CFO.

The Supervisory Board also discussed the Executive Board bylaws and the revision of the Supervisory Board bylaws. One member of the Supervisory Board did not participate in the discussions or decisions involving this point of the agenda in order to avoid a possible conflict of interest.

#### Committee activity.

To improve its efficiency, the Supervisory Board has set up five committees to prepare specific topics and decisions of the Supervisory Board, and in certain cases, to make certain decisions on behalf of the plenary board.

The Audit Committee, led by Dr. Klaus Mangold through June 6, 2007, and then by Dr. Daniel von Borries through the end of the year, convened three times in fiscal year 2007. Its discussions revolved around the audit of the financial and consolidated financial statements, the treatment of the detailed interim reports, the consideration of the regular risk reports, and compliance.

The meetings also dealt with the patent dispute with ASYST Technologies, Inc., the financial auditor's management letter, the consequences of the corporate tax reform on JENOPTIK AG's deferred taxes, the Group's contingent liabilities, and the report presented by the head of auditing. The meetings also focused on the introduction of two new Group guidelines: a "Behavioral code for Jenoptik employees" and a Group guideline for "Special operating business."

The Personnel Committee, which was led by Prof. Dr. h. c. Lothar Späth through June 6, 2007, and since then by myself, convened seven times this past fiscal year. The committee discussed the departure of Alexander von Witzleben and the conclusion of his termination agreement, as well as the new composition of the Executive Board. The sessions also addressed the service contracts and pension commitments of the Executive Board members. At the end of the year, the Personnel Committee worked on the remuneration and success goals of the Executive Board members for fiscal year 2008.

The Capital Market Committee, led by Dr. Norbert Schraad, met in two sessions, featuring a discussion on the sale of the shares in PVA TePla AG and a comprehensive discussion on the Group financial structure including possible financial instruments.

Last year, the Mediation Committee was not required to convene in accordance with sect. 27, para. 3 of the German Co-Determination Law (MitbestG). The newly formed Nomination Committee, formed by the shareholder representatives of the Personnel Committee, did not convene in 2007.

#### Corporate Governance.

The Supervisory Board has continually followed the development of corporate governance standards, and has released a new “corporate governance checklist,” adapted to the German Corporate Governance Code in the version of June 14, 2007.

This past fiscal year, the Supervisory Board developed a questionnaire for the regular monitoring of its own activities – in accordance with the recommendation of the Corporate Governance Code. The questionnaire will help monitor future efficiency.

At our December 12, 2007 meeting, we on the Supervisory Board adopted the Jenoptik declaration of conformity in accordance with section 161 of the Stock Corporation Act. Deviations from these recommendations are explained in the corporate governance section of this report (page 28). The system of remuneration for Executive Board members is explained in the Management Report (page 37), and the composition of the total remuneration of each board member in the Notes (page 157).

#### Annual financial and consolidated financial statements

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, which was selected by the Annual General Meeting, audited the financial and consolidated financial statements, including the bookkeeping and early risk recognition systems, in addition to the combined 2007 Management Report for JENOPTIK AG and for the Jenoptik Group. The auditors granted their full unqualified approval.

The Supervisory Board assigned the audit following preparations conducted by the Audit Committee. The auditors submitted their reports immediately after their completion, and discussed them in detail both within the Audit Committee on March 12, 2008 and the board as a whole on March 27, 2007. Auditor representatives took part in both meetings, reporting to us in detail on the focal points and major results of their audit. They also answered our questions and were available for additional information.

Subsequent to its own examination, the Supervisory Board had no reservations and unanimously approved the auditors' results and the financial and consolidated financial statements provided by the Executive Board. The financial statements of JENOPTIK AG were thus adopted.

#### Composition of the Executive Board and Supervisory Board

The Supervisory Board named Dr. Ing. Michael Mertin to succeed Alexander von Witzleben as chairman of the Supervisory Board as of July 1, 2007. Dr. Mertin also began his work as director of human resources. Effective June 30, 2007, Alexander von Witzleben departed from his post at his own request to dedicate himself to new tasks outside of Jenoptik. The Supervisory Board would like to thank him for his many years of meritorious work in shaping the Group. As COO, Dr. Mertin had previously been chiefly responsible for corporate development, operating business, and research and development.

Frank Einhellinger was appointed to the Executive Board as CFO as of July 1, 2007. Einhellinger had previously run the JENOPTIK AG finance/controllers department.

In the past fiscal year, Prof. Dr. h. c. Lothar Späth, Ralf Tänzer, Martin Griebel, Dieter Kröhn, Dr. Klaus Mangold, Werner Schmidt, Dieter Schreib, and Prof. Dr. Hans-Jürgen Warnecke all left the Supervisory Board.

The Supervisory Board has consisted of 12 members since a new election for the board by the Annual General Meeting on June 6, 2007. Prof. Dr. Andreas Tünnermann and Dr. Norbert Schraad were newly elected to the Supervisory Board, and Michael Ebenau and Anita Knop are the new employee representatives. In the Board's initial session following the Annual General Meeting, the members of the Supervisory Board elected me chairman, and Wolfgang Kehr to be deputy chairman.

We would like to thank the departed members for their dedicated work, some of whom have contributed with their efforts over a number of eventful years.

Fiscal year 2007 was another year of renewal at Jenoptik, and all in all a successful one. We would like to thank the Executive Board and all our employees who have contributed to this process. We would also like to extend our appreciation to our shareholders for the trust they placed in us and to the employee representatives for their constructive efforts.

JENA, MARCH 2008  
ON BEHALF OF THE SUPERVISORY BOARD



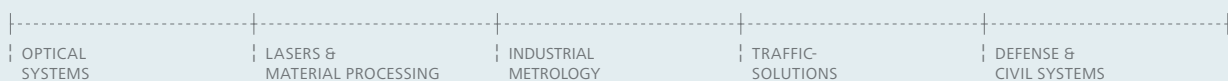
PROF. DIPL.-ING. JÖRG MENNO HARMS  
CHAIRMAN



## People creating value

Our employees have played an impressive role in the growth of Jenoptik over the past years. It is indeed they who make every ounce of our success possible. The following pages provide a glimpse into just how people at Jenoptik work to keep moving ahead. Here you can see them showing “their” products within our five new divisions: Optical Systems, Lasers & Material Processing, Industrial Metrology, Traffic Solutions, and Defense & Civil Systems. All around the world, 3,431 Jenoptik employees ensure that our customers can use our products to make their own success a reality.

JENOPTIK – SPECIALIST FOR PHOTONICS AND MECHATRONIC TECHNOLOGIES.





MIRKO KERL  
INSTRUMENT MECHANIC,  
TRIPTIS, GERMANY

# Optical Systems: Jenoptik.



## Concentrator lenses --

"Using injection molding machines, we are able to produce plastic optical components in the millions. The quality of the instruments used is crucial in this process. If the quality of the machine is right, the quality of the workpiece will be right as well. The machines produce up to eight components a minute. A regular maintenance plan ensures the consistent quality of the molded workpieces, even at high production numbers. As an instrument mechanic, this is my area of responsibility. The optical lenses that we are currently producing will be used for photovoltaic applications. We deliver these components to our customer for use in an optical system to be applied to a semiconductor base. Once within the photovoltaic system, our lenses direct light onto the receptor chip, thus improving its performance."

OPTICAL  
SYSTEMS

LASERS &  
MATERIAL PROCESSING

INDUSTRIAL  
METROLOGY

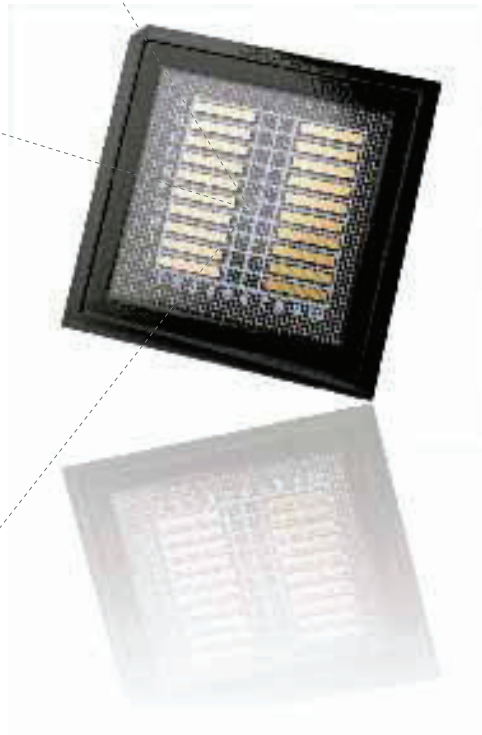
TRAFFIC-  
SOLUTIONS

DEFENSE &  
CIVIL SYSTEMS

JASMIN WAGNER |  
TEAM MANAGER, BERLIN



## Lasers & Material Processing: Jenoptik.



### Diode laser bars --

"As a team manager, it is my responsibility that everything runs smoothly. Ten colleagues work on my team. We divide the 3-inch gallium arsenide wafers, previously produced in another manufacturing phase, into five individual fields, and then divide these into separate bars. A surface of 0.5 square millimeters can later be used to provide a light output of up to 300 watts. We produce, coat, and inspect the diode laser bars that are then sent to Jena for further processing into so-called stacks. These high-power diode lasers – which are the most effective of all laser light sources – are strong enough to solder or harden metals, to weld plastics, and to pump disk lasers for use in medical applications."

OPTICAL  
SYSTEMSLASERS &  
MATERIAL PROCESSINGINDUSTRIAL  
METROLOGYTRAFFIC-  
SOLUTIONSDEFENSE &  
CIVIL SYSTEMS

PHILIPP STEUER  
DESIGN ENGINEER,  
VILLINGEN-SCHWENNINGEN, GERMANY



## Industrial Metrology: Jenoptik.



### HOMMEL nanoscan --

"Our measurement systems are made in serial production and not to customer order. We have already sold the first of our newly developed HOMMEL nanoscan system. We will go into serial production with it in 2008, chiefly supplying the automotive and automotive supply industries as well as metal-processing plants. Using the nanoscan system, our customers can combine surface roughness and contour measurements. The system excels with its large 24-millimeter measurement stroke, with a very fine resolution of 0.6 nanometers. This distinguishes us from the competition. The system is well integrated into production and, with a number of different probe arms and probe tips, it can be used for a wide variety of measurement tasks. As a design engineer, I am active in the development of mechanical and electrical components both for the HOMMEL nanoscan system, and for the other systems of our product range."

OPTICAL  
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JOCHEN SCHÖNFELD |  
DEVELOPMENT ENGINEER,  
MONHEIM (NEAR DÜSSELDORF),  
GERMANY

## Traffic Solutions: Jenoptik.



### MultaRadar CD --

"Our traffic monitoring systems play a crucial role in safeguarding traffic safety – and not only on the streets and roads of Germany. Statistics from around the world have clearly shown that fewer accidents occur when traffic is monitored. Our new MultaRadar CD speed measurement system is currently in the pilot phase. It will go into serial production in 2008. As a development engineer, I am responsible for the entire product – for the camera, sensor, control unit, and for system integration. The portable system (the C is for "compact") measures both speed and distance (D for "distance") and is thus well suited for installation into vehicles. We were the first to provide this type of system using digital cameras. This has clear advantages for our customers: immediate recognition, no more troublesome changes of film, easy archiving and networking, and a better quality of evidence."

OPTICAL  
SYSTEMS

LASERS &  
MATERIAL PROCESSING

INDUSTRIAL  
METROLOGY

TRAFFIC-  
SOLUTIONS

DEFENSE &  
CIVIL SYSTEMS





BETTINA MÖBIUS  
SYSTEMS ENGINEER AND  
PROJECT MANAGER,  
JENA, GERMANY

## Defense and Civil Systems: Jenoptik.



### Rendezvous and docking sensors --

"Our rendezvous and docking sensors use laser light to automatically measure the positioning and distance of unmanned transport vehicles docking at the ISS International Space Station. The sensors have already proven themselves in several Space Shuttle flights. Data is gathered and used by the navigation and control system in order to regulate the approach speed and to correct the vehicle's position. They provide a kind of "parking system in space" for automatic docking procedures. As a systems engineer and project manager, I am responsible for planning and analysis, project coordination, and for explaining the technical solutions to our customers."

OPTICAL  
SYSTEMS

LASERS &  
MATERIAL PROCESSING

INDUSTRIAL  
METROLOGY

TRAFFIC-  
SOLUTIONS

DEFENSE &  
CIVIL SYSTEMS

## Jenoptik 2007: Chronicle

### January 2007

JENOPTIK AG introduces innovative new developments in laser technology and polymer optics at one of the world's foremost photonics technology fairs in San Jose, California.

Jenoptik receives a major traffic safety order for over 10 million euros from Canada. This represents Jenoptik's debut as a service provider on the North American market. Over 200 digital camera systems for red light monitoring are to be delivered and operated over a period of five years.

The Jenoptik New Year's reception raises 13,135 euros for the KLEX children's and youth center in Jena.

### February 2007

Jenoptik MedProjekt GmbH wins an arbitration settlement with the German Free State of Thuringia in a case concerning the university hospital in Jena. JENOPTIK AG is to receive approximately 10 million euros in the case.

Students of Weimar's Bauhaus University present their projects on art in the public sphere at the Jenoptik Gallery and the Jenaer Kunstverein (Jena Art Association) as part of the exhibition "Loose Contact – Illuminating the Public Sphere."

After successfully passing their exams, 21 trainees are employed at Jenoptik companies.

### March 2007

Jenoptik opens its own optics sales office in Israel.

The company produces its 5,555<sup>th</sup> green thin-disk laser – attesting to the great success of the item. The laser, in serial production since 1999, is used by ophthalmic surgeons to reattach retinas, by dermatologists, in material processing, and in laser shows.

JENOPTIK AG supports the annual "Jugend forscht" Thuringia state youth research competition for the 17<sup>th</sup> year. 73 youngsters qualify for the final round.

JANUARY



JENOPTIK'S DEBUT IN THE SERVICE PROVIDING BUSINESS

FEBRUARY



WELL TRAINED AND POISED FOR THE FUTURE

MARCH



DISK LASERS – A SUCCESS IN SERIAL PRODUCTION

APRIL



PRODUCTION AT JENA-OPTRONIK GMBH

MAY



"BEGEGNUNGEN" – WHEN CULTURE ENCOUNTERS TECHNOLOGY

JUNE



THE LATEST PRODUCTS AT THE PARIS AIR SHOW

### April 2007

The Group now holds 100 percent of SINAR AG of Switzerland. Wolfgang Keller is SINAR's new CEO and is responsible for integrating his company closely with the Jenoptik digital imaging unit.

Jenoptik acquires the remaining shares in Detroit Precision Hommel Inc., an American metrology company.

The Jenoptik subsidiary, ESW GmbH, receives an order to upgrade Swiss Army tanks with a digital electromechanical weapon stabilization system.

Jena-Optronik GmbH is the first German company to be named "Supplier of the Year 2006" by Boeing, the American technology company.

### May 2007

Beginning in early May, digital cameras produced by ROBOT Visual Systems GmbH monitor traffic speed in a new Autobahn (expressway) tunnel near Jena. It is the 20<sup>th</sup> stationary Jenoptik digital speed monitoring system to be used in tunnels in the German Free State of Thuringia.

JENOPTIK AG and Jena's University of Applied Sciences co-organize their "BEGEGNUNGEN" ("Encounters") workshop for the sixth time. The university's students are given the opportunity to peer beyond their own subject for an entire day of intensive work on art and culture.

### June 2007

TRUMPF and Jenoptik found a joint venture for new types of laser components. JT Optical Engine, based in Jena, Germany, will develop, produce, and distribute optical engines for fiber lasers.

Lothar Späth departs from the Jenoptik Supervisory Board. The reconstituted board elects Prof. Dipl.-Ing. Jörg Menno Harms to succeed Späth as chairman. Späth ran Jenoptik from 1991 to 2003, after which he took the helm of the Supervisory Board.

The Group presents its latest products and technologies to a large professional audience at the "Paris Air Show" and Munich's "Laser 2007" trade fairs.



## July 2007

Dr. Michael Mertin becomes the new Chairman of the Executive Board (CEO) of JENOPTIK AG as of July 1, succeeding Alexander von Witzleben who joins the Haniel Group. Frank Einhellinger becomes the new Jenoptik CFO.

Jena-Optronik GmbH delivers the last of five multispectral cameras for RapidEye, the satellite-based earth observation system.

JENOPTIK Automatisierungstechnik GmbH receives a multi-million euro order for series systems used in the structuring of thin-film solar cells.

## August 2007

JENOPTIK AG prevails at the U.S. District Court in San Jose, California, in a patent dispute that had carried on for over ten years. The court rejected the claim of Asyst Technologies Inc. for the third time in succession. Asyst has submitted yet another appeal.

The integration of JENOPTIK unique-mode GmbH into JENOPTIK Laserdiode GmbH is complete. This is another step toward consolidating the Group's expertise in fiber coupling.

Jenoptik announces that results for the first half were down considerably from 2006, leading to the company correcting its EBIT projections for the year downward. This came as the result of weak business figures in the Sensors division over the first few months of the year. Interest expenses for the company bond weighed down the financial result.

## September 2007

Jenoptik introduces and launches the distribution of SINAR Hy6, a new medium format camera for professional photographers.

Some 60 specialists of the trade meet at the 5<sup>th</sup> Laser Forum hosted by JENOPTIK Automatisierungstechnik GmbH in Jena. The forum focuses on basic information and current trends involving the laser processing of ceramic substrates.

A modern child daycare center "Saaleknirpse", built with around two million euros of Jenoptik support, opens in Jena. This provided another way for the company to invest in its own ability to compete.

A total of 42 new trainees and career academy students begin their careers at Jenoptik Group locations throughout Germany.

JULY

AUGUST

SEPTEMBER

OCTOBER

NOVEMBER

DECEMBER



CHANGES AT THE TOP OF THE ORGANIZATION



MOVING TOWARD GREATER EXPERTISE IN FIBER COUPLING



THE LAUNCHING OF SINAR HY6



COOPERATIVE AGREEMENT WITH FRIMO VIERSEN



2<sup>nd</sup> "LONG NIGHT OF SCIENCE" IN JENA



OTTO PIENE'S "MOMENTS"

## October 2007

JENOPTIK AG sells its minority share in PVA TePla AG, a listed company. The transaction improved Group liquidity by over 20 million euros, a sum that was used, as planned, to reduce debt. The sale is consistent with the Group's plans to concentrate its activities on its core areas of competence.

Jenoptik Automatisierungstechnik GmbH concludes a long-term contract with FRIMO Viersen GmbH to cooperate on the laser processing of plastics for the automotive industry.

## November 2007

The German Free State of Thuringia sells its 14.8-percent share in Jenoptik to ECE Industriebeteiligungen GmbH of Vienna, which in turn becomes the largest single shareholder of JENOPTIK AG.

As planned, Jenoptik repays its 150-million-euro fixed-interest bond ahead of schedule.

ESW GmbH is to supply some 70 million euros in subsystems and components for the new serially produced Puma infantry fighting vehicle. Production will run through 2020.

Jenoptik participates in the Jena's 2<sup>nd</sup> "Long Night of Science", welcoming some 5,000 guests to its headquarters and its technology center.

## December 2007

In cooperation with the Jenaer Kunstverein (Jena Art Association), Jenoptik opens a double exhibition entitled "Augenblicke" ("Moments") featuring the works of Otto Piene and Elizabeth Goldring Piene.

Jenoptik acquires all shares in the Berlin-based Epigap Optoelektronik GmbH as of December 31. The acquisition is one of the most important in 2007.


ESW GmbH receives a major order for the production of radomes from BAE Systems of the U.K. The order comes to approximately 27 million euros in total.

## The Jenoptik Share


The Jenoptik Group has begun the new year with a new, leaner group and managerial structure. In doing so, we have been gearing the Group to correspond more closely with our customers, markets, and our competitive environment. Our strategic reorientation was and continues to be necessary in order for us to be able to expand our position as a leading optoelectronics company. We will seek to grow profitably and to once again become a billion-euro-group in the middle term.

This past fiscal year, the Jenoptik share continued to underperform in comparison with the German stock indices Dax and TecDax. The share price began the year by rising slightly to 8.23 in January, which was to be the highest closing price for the year in Xetra trade. The share price dropped considerably in August subsequent to the announcement of the company's results for the first half and the ensuing downward correction of the projected operating earnings for the year. In November, the share price followed the overall market trend and reached its low for 2007 at 5.51 euros. By the end of the year, the share had recovered somewhat, closing the year at 6.25 euros, a fall of 19 percent in comparison with the beginning of the fiscal year in January.

In contrast, both the Dax and TecDax rose strongly over the course of 2007. The Dax climbed some 21 percent to 8067.32 points, while the TecDax rose an impressive 28 percent to 974.19 points.

Turbulences on the global financial markets in the first weeks of 2008 caused substantial losses of Dax and TecDax. This development also affected the Jenoptik share. Following the general trend the share price closed at 4.76 euros on February 29. 

The hesitant development of the Jenoptik share was reflected in the market capitalization figure as well, which came to 325.2m euros as of December 28, 2007 (Dec. 31, 2006: 390.3m euros). On average, 139,199 Jenoptik shares were traded every day in 2007, up slightly from the previ-

ous year (2006: 127,712 shares/day). Despite this slight increase, Jenoptik was removed from the TecDax index on September 24, 2007 upon the decision of Deutsche Börse due to its low exchange volume. 

### Open communication with the capital market

The most important task of Jenoptik's investor relations unit is to provide the capital market with transparent information in a proactive and timely manner. This past year, we have continued to inform investors, analysts, and individual investors on the development of the Group, and in particular on our process of strategic reorientation.

As a team, the new Jenoptik Executive Board seized the opportunity to present the Group at two analyst conferences in Frankfurt, bank conferences, and at road shows in Frankfurt, London, Zurich, and New York, as well as in numerous individual discussions. By means of conference calls, investors and analysts were able to receive detailed information on the publication of annual and quarterly results. Investors and analysts also availed themselves of the opportunity to acquire a close first-hand look at our products and technologies in Jena and other locations. Our active dialogue continued throughout the year, making it possible to build up new contacts while working to maintain previous ones.

Investors were also able to keep informed of the latest developments by telephone or e-mail. Important information on the Group, the Jenoptik share, on the Annual General Meeting, and on corporate governance can be

found on the Jenoptik homepage as well. All ad-hoc and press releases, annual and interim reports are rapidly posted to the investor relations pages in both German and English.

Numerous analysts continued to monitor Jenoptik over the past fiscal year, publishing research reports and commentaries on the company. An overview of current analyst evaluations can be accessed at the Jenoptik website [www.jenoptik.com](http://www.jenoptik.com) under Investors.

As often before, the Jenoptik annual report was honored with an award. The report placed first among all TecDax

companies in the 2006 "manager magazin" ranking and tenth among all companies having been rated "very good".

### Adjusted earnings

Jenoptik has adapted the previous DVFA calculation structure in its calculations of adjusted earnings. Put simply, revenue from the sale of shares in PVA TePla AG, impairments, and effects from the early repayment of the high-interest bond were all subtracted from earnings. The calculation does not take into account the negative interest balance from the low-interest restricted cash and high-interest bonds of about 5 to 6 million euros. <sup>3</sup>

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#### Calculation of earnings adjusted for one-off effects (in TEUR)

	2007	2006
Earnings after tax	-4,626	11,700
– Adjustment for deferred taxes	5,658	-41
= Adjusted group income	1,032	11,659
– Erratic items (asset) after taxes <sup>1</sup>	-2,058	808
– Erratic items (liabilities) after taxes <sup>2</sup>	6,341	0
– Other erratic items after taxes <sup>3</sup>	2,326	1,929
= Adjusted earnings for entire Group	7,641	14,396
– Third party shares in profits (+)/-losses (-) after taxes	3,592	2,682
= Adjusted earnings for shareholders of the parent company	4,049	11,714
÷ Number of shares used as basis, in thousands <sup>4</sup>	52,033	52,028
= Adjusted earnings per share in euros	0.08	0.23

1 2007: Sale of PVA TePla shares, Impairments  
2006: Impairments tangible assets

2 2007: Bond repayment

3 2006: Release finance lease, court case costs, result of discontinued business division

4 In 2006 the number of shares used as basis is adjusted for the number of treasury shares amounting to 6,275 on annual average.

### Annual General Meeting

Over 600 shareholders attended the JENOPTIK AG Annual General Meeting in Weimar on June 6, 2007, with nearly 48 percent of voting capital on hand. The agenda included, amongst others, new individual elections for the Supervisory Board, and amendments to the articles of association affecting Supervisory Board remuneration in accordance with the recommendations of the German Corporate Governance Code. The Annual General Meeting approved all proposals with a vast majority.

### Shareholder structure

Late this past fiscal year, the JENOPTIK AG shareholder structure changed considerably. As announced, the German Free State of Thuringia went ahead with the sale of its 14.8-percent interest in the company. This was sold to ECE Industriebeteiligungen GmbH, based in Vienna, which is now the largest single JENOPTIK AG shareholder. ECE expanded its share in JENOPTIK AG to 25.02 percent by the end of February 2008.

Varis Vermögensverwaltung GmbH controls a further 5.33 percent of JENOPTIK AG share. The free float thus totals 69.65 percent. Of this, a large amount is controlled by institutional investors including Templeton Investment, which reported an increase in its share to 7.45 percent in December 2007. Franklin Templeton Investment Management Limited of Edinburgh, Scotland, and Franklin Templeton Investment Funds of Luxembourg reported a reduction in their share to 2.82 and 2.99 percent, respectively, at the end of 2007. <sup>4</sup>

### Rating-of JENOPTIK AG

The credit rating agencies Standard & Poor's (S&P), Fitch, and Moody's continued to rate Jenoptik in fiscal year 2007. Both S&P and Fitch upgraded Jenoptik to reflect the improvement in the company's financial profile due to the repayment of its high-interest bond. Standard&Poors'

increased Jenoptik's rating from B+ to BB- (outlook stable) and Fitch increased it from B to B+ (outlook stable).

Moody's left its rating unchanged at B1. <sup>4</sup>

At our request, Fitch and Moody's have now withdrawn their ratings. Detailed information on our ratings can be found in the Risk Report of the Management Report -- ON P. 91..

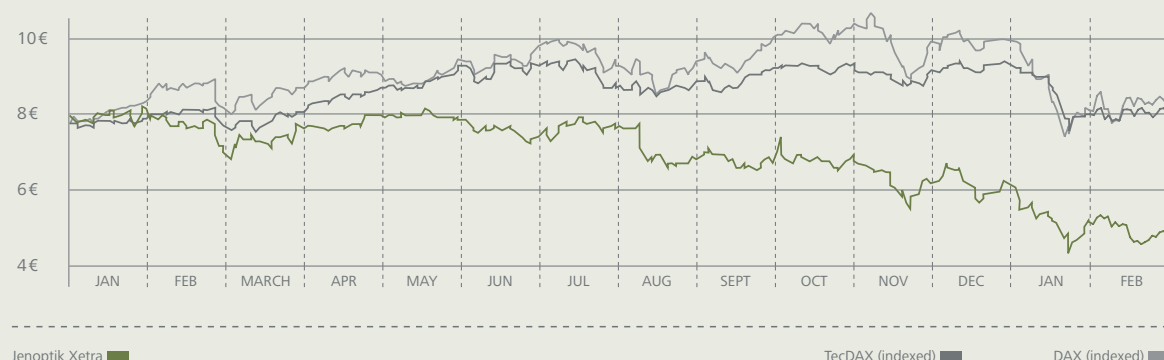
#### Rating of JENOPTIK AG

	31.12.2007	31.12.2006
Standard & Poor's	BB-	B+
Fitch	B+	B
Moody's	B1	B1

## Jenoptik: The share

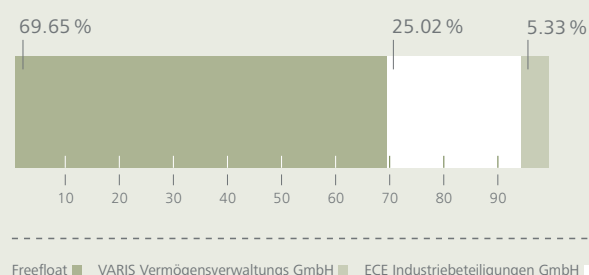
5

Development of the Jenoptik share price (January 2, 2007 – February 29, 2008)



6

Shareholder structure (as of Februar 29, 2008)



Jenoptik share master data

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ISIN DE0006229107 -- WKN 622910  
 Stock symbol: JEN  
 Reuters Xetra JENG.DE -- Reuters Frankfurt: JENG.F

In the following indices noted:  
 Prime All Share -- Tec All Share --  
 CDAX -- Prime Industrial --  
 Prime IG Advanced Industrial Equipment

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Key Jenoptik share figures (in EUR)

	2003	2004	2005	2006	2007
Group earnings per share	-1.07	0.26	-1.44	0.22	-0.16
DVFA/SG earnings per share <sup>2</sup>	-0.58	0.30	-0.76	0.23	0.08 <sup>4</sup>
Diluted DVFA/SG earnings per share <sup>3</sup>	-0.58	0.31	-0.76	0.23	-
Highest share price/Lowest share price (Xetra)	13.08/7.30	11.90/5.93	9.80/6.77	8.35/6.30	8.23/5.51
Closing share price (Xetra year-end)	8.70	7.76	7.60	7.50	6.25
Average daily trading volume <sup>1</sup>	104,223	179,754	157,699	127,712	139,199
Market capitalization (Xetra year-end)	424.9 million	403.8 million	395.5 million	390.3 million	325.2 million
PER (based on highest share price)/PER (based on lowest share price)	n. A.	45.77/22.81	n. A.	37.95/28.64	n. A.
Non-par value bearer shares issued	48.84 million	52.03 million	52.03 million	52.03 million	52.03 million
Bond (closing price, Frankfurt, year-end)	107.80	109.90	108.00	106.00	-
Convertible bond (closing price, Frankfurt, year-end)	-	93.00	91.00	93.00	93.00

<sup>1</sup> Source: Deutsche Börse

<sup>2</sup> The number of shares used as a basis is adjusted for the number of treasury shares amounting to 6,275 on annual average.

2007 – adjusted result

<sup>3</sup> Taking into account the maximum possible number of shares converted (convertible bond) pro rata temporis.

<sup>4</sup> Adjusted result for each share.

## Corporate Governance Report

Jenoptik views responsible management as a major basis for a sustainably positive business performance. Corporate governance is therefore an important aspect of management. Jenoptik structures its policies to adhere to recognized standards, and supports the recommendations of the German Corporate Governance Code. The Executive and Supervisory Boards issued their declaration of conformity, in accordance with section 161 of the Stock Corporation Act (AktG), in December 2007. This stipulated that, with few exceptions, Jenoptik would implement the recommendations of the code in both its June 2006 and June 2007 versions. The current declaration of conformity and those of the past several years can be accessed on the JENOPTIK AG homepage at: [www.jenoptik.com](http://www.jenoptik.com) under Investors/Corporate Governance.

In addition to the recommendations of the Corporate Governance Code, Jenoptik has also followed a majority of the suggestions made in the code.

### Shareholders and annual general meeting

The shareholders exercise their rights, including voting rights, at the Annual General Meeting (AGM). Each share guarantees one vote. We will again provide a proxy to enable shareholders to exercise their voting rights who cannot attend the meeting. Shareholders can access reports and other information for the meeting at the Jenoptik Internet site under Investors/Annual General Meeting. The attendance and voting results will be posted there following the meeting.

We provide regular information on quarterly and annual figures. The dates for these publications as well as for the AGM are provided in a financial calendar both on our Internet site and within our interim and annual reports.

### Executive and Supervisory boards

The Executive and Supervisory boards work in close cooperation for the best interests of the company.

The Supervisory Board was involved in all fundamental decisions and served the Executive Board in an advisory role. The Executive Board provided the Supervisory Board with regular, comprehensive, and timely information on all relevant matters concerning the company's planning, business development, risk situation, risk management, and compliance. Over the past fiscal year, discussions focused on the Jenoptik Group's new divisional structure, which took effect as of January 1, 2008.

For further information on the activities of the Supervisory Board, please consult the Supervisory Board Report. **FROM P. 6.**

Bylaws regulate the work of the Executive Board, especially the department responsibilities of the individual board members, matters to be considered by the board as a whole, and the type of majority needed to make board decisions.

The membership of the Executive Board changed in the course of 2007. As of December 31, 2007, the Jenoptik Executive Board was composed of two members: Chairman (CEO) Dr. Michael Mertin, and CFO Frank Einhellinger.

The terms of the members of the Supervisory Board expired with the Annual General Meeting on June 6, 2007. Six shareholder representatives were elected in an individual election as stipulated by the Corporate Governance Code. Dr. Lothar Meyer was appointed by court order to the Supervisory Board as of January 25, 2008, his term will however be limited until the next JENOPTIK AG Annual General Meeting in June 2008. In 2007, employee representatives to the Supervisory Board were elected in compliance with German employee codetermination regulations (Mitbestimmungsrecht). No former members of the Executive Board currently belong to the Supervisory Board. The Supervisory Board maintains an adequate number of independent members. A new Nomination Committee was formed, which is composed



solely of shareholder representatives, to recommend suitable candidates to the Supervisory Board for its recommendations to the Annual General Meeting.

Detailed information on changes in Executive Board and Supervisory Board membership can be viewed in the Group Management Report (p. 36) and the Supervisory Board Report of this Annual Report (p. 6).

The JENOPTIK AG shareholdings of all members of the Executive Board and Supervisory Board came to over 1 percent of shares issued by the Group as of December 31, 2007. Both Executive Board members hold 36 shares together, while the Supervisory Board members together hold 2,775,553 shares.

### Transparency

Our communications goal is to provide our shareholders and other target groups with all information of which directly relate to the company and are of major importance for the evaluation of its development in a timely manner. We publish inside information without delay unless the Executive Board is exempted from the disclosure in an individual case. All ad-hoc and press releases are published to the company Internet site.

The working group for compliance, which was formed in fiscal year 2005, examines the ad-hoc relevance of particular cases. This guarantees that potential inside information is treated in accordance with legal regulations. Those whose work puts them in contact with inside information are included in an insider directory.

Information on directors' dealings as per section 15a of the German Securities Trading Act (WpHG) is also published on the Jenoptik website. We have received one report in fiscal year 2007: Gabriele Wahl-Multerer of the Supervisory Board transferred 2,773,006 shares to Varis Vermögensverwaltung

GmbH, of which she is the managing director. Details of this transaction can be accessed at [www.jenoptik.com](http://www.jenoptik.com) under /Investors/Corporate Governance/Directors' Dealings.

We, furthermore, immediately announce any information that comes to our attention when someone has reached, surpassed, or fallen below 3, 5, 10, 15, 20, 25, 30, 50, or 75 percent of all voting rights, whether due to purchases, sales, or other events.

### Accounting and auditing

The consolidated financial statements are created in accordance with the International Financial Reporting Standards (IFRS). The Annual General Meeting again selected the auditing firm KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the auditor for fiscal year 2007, which has audited the consolidated financial statements. Before recommending the firm, the Supervisory Board (Audit Committee) received a declaration of independence from the auditing firm, stating that there were no business, financial, personal or other links between KPMG, its executive bodies and head auditors on the one hand, and the company being audited and their executive bodies on the other hand.

### Remuneration Report

Information on the remuneration of the Executive Board and the Supervisory Board is included in the Group Management Report. This information can be found in the Annual Report **ON PAGE 157**. Individual disclosures of remuneration for the Executive and Supervisory Board members can be found in the Notes of this Annual Report **ON PAGE 161**. We view this information as an integral part of the Remuneration Report and thus of the Corporate Governance Report.

#### Deviations from the recommendations of the code.

The JENOPTIK AG Executive and Supervisory Boards support the recommendations of the government commission on the German Corporate Governance Code, as set forth in both the June 2006 and June 2007 versions. The boards submitted their declaration of compliance, in adherence with Section 161 of the Stock Corporation Act, in December 2007. The JENOPTIK AG has accordingly followed the recommendations of the German Corporate Governance Code (DCGK) with a few well-founded exceptions.

The JENOPTIK AG Executive and Supervisory Boards support the recommendations of the government commission on the German Corporate Governance Code, as set forth in the version of June 14, 2007, and state pursuant to § 161 of the Stock Corporation Act:

The recommendations of the German Corporate Governance Code (DCGK) in the version dated June 14, 2007 will be followed with the following exceptions:

1. The reports and documents required by law for the Annual General Meeting will be provided regularly, as from the time the Annual General Meeting has been duly convened, and will be sent 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 (DCGK 2.3.1).

It should thus remain possible to prevent the general public from obtaining access to certain information in warranted individual cases. This can, for example, be the case if JENOPTIK AG has a justifiable interest in extending such information to its shareholders but not to its competitors or customers.

2. A deductible for the directors and officers (D&O) liability insurance shall be waived (DCGK 3.8 para. 2).

The members of the Supervisory Board are fundamentally opposed to the view 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 to the Supervisory Board.

3. The Personnel Committee of the Supervisory Board, which is responsible for Executive Board contracts, shall consult the plenary of the Supervisory Board with regard to the Board's remuneration scheme if the plenary wishes this or when the committee deems it necessary for a specific reason (DCGK 4.2.2. para. 1).

It is the view of Jenoptik that the case-by-case treatment of Executive Board contracts and of the remuneration scheme suffices for the Supervisory Board to work efficiently.

Since the last declaration of compliance issued in December 2006, the recommendations of the German Corporate Governance Code in the version of June 12, 2006 have been followed with the aforementioned exceptions.

The Executive Board and Supervisory Board regard the recommendations of the German Corporate Governance Code as solid guidelines for exemplary entrepreneurial activity. In business life, however, there will be situations in which these stipulations prove to be too inflexible or unnecessarily restrict well-established business practice. In such cases there may be deviations from the recommendations of the code, contrary to the current annual declaration pursuant to § 161 AktG, which will be published in the next declaration pursuant to § 161 Stock Corporation Act at the latest.

## JENOPTIK AG Group Management Report for fiscal year 2007

“For the last time, our 2007 report covers the company’s old structures – Lasers & Optics, Sensors, and Mechatronics. In our outlook for fiscal years 2008 and 2009, the figures provided already reflect our new, more market-oriented structure, which the Jenoptik Group launched to begin 2008. The business figures for the old and new segments are not comparable since they are based on different configurations of our operating business. That’s why we have added important figures for comparison in brackets within our forecast report. Explanations of our comprehensive strategic restructuring loom large in wide sections of the management report – these changes are important factors in the Group’s development in 2007 and 2008.”

FRANK EINHELLINGER, CFO, JENOPTIK AG

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# 1 Business and framework conditions


## 1.1 Group structure and business activity

Jenoptik specializes in photonic and mechatronic technologies and concentrates on its core areas of expertise: lasers/optics, optoelectronics and mechatronics.

### Business areas and organizational structure

With effect from January 1, 2008 the entire operating business was combined within five divisions:

- Optical Systems
- Lasers & Material Processing
- Industrial Metrology
- Traffic Solutions
- Defense & Civil Systems..

These five divisions are organized into the Laser & Optical Systems, Metrology and Defense & Civil Systems segments and so from 2008 will meet the requirements for the system of segment reporting. 

The new organization should enable us to improve the efficiency of our speed-to-market for products and technologies, to the significant benefit of our customers. This will also create the conditions required to intensify the Group's further strategic development over and beyond the boundaries of the individual companies who previously operated on

a self-contained basis. JENOPTIK AG will thus be turned into a strategic holding company. These changes had become necessary following the sale of M+W Zander and as a result of the strong growth in the technology business. A financial holding company, in its previous form, is no longer an adequate vehicle for taking the focused Group forward.

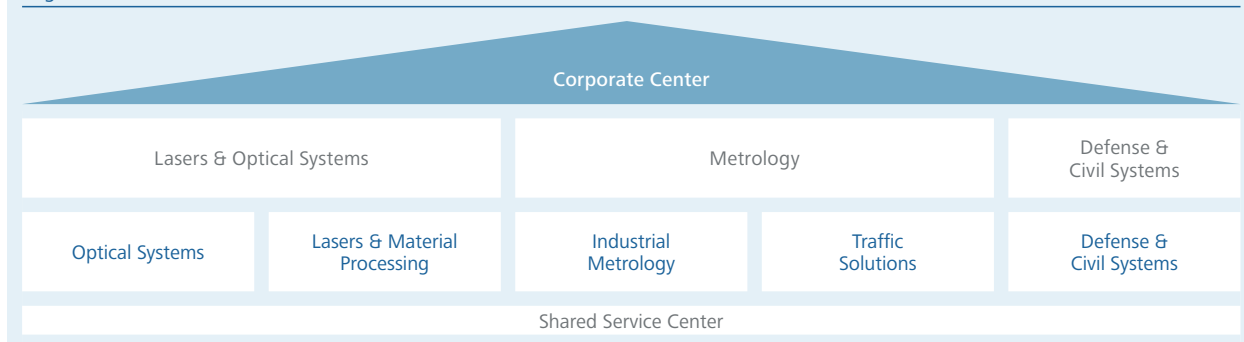
The strategic realignment, comprehensive preparations for which had been made in the 2<sup>nd</sup> half year 2007, is described in detail in the Management Report -- ON P. 40.

For fiscal year 2007 the segment reporting in both the Management Report and the Notes will reflect the old structure for the very last time (Lasers & Optics | Sensors | Mechatronics). Consequently forecasts on the level of the new segments for the year 2008 can not be compared with the divisional business figures for the year 2007. Jenoptik Holding and the real estate are combined under "Other".

### Products, services and business processes

Jenoptik develops, manufactures and distributes optical, optoelectronic and mechatronic system solutions and facilities, as well as components and modules. It is primarily a supplier of capital goods and consequently a partner for industrial companies. In the Traffic Solutions and Defense & Civil Systems divisions we are also a major supplier to the public sector but do not focus on consumer markets.

### Organizational structure



We supply many of our systems and facilities to customers who themselves operate in the technology sector. Research and development play a key role within our business processes. We custom manufacture for many of our clients and partners; this includes small production runs.

Our product portfolio extends from complex systems, industrial facilities and integrated production lines, to modules and subsystems, through to components. Comprehensive total solutions or operator models, which consist of system and facility integration, the corresponding network and project management, data processing and services, are successfully placed on the market by the Jenoptik Group.

Our **Optical Systems** division makes us one of the few manufacturers in the world to produce precision optics designed to satisfy the highest standards of quality. The division is a development and production partner for optical, micro-optical, opto-electronical and coating components, opto-mechanical assemblies, modules and systems made both from glass as well as plastic. Our outstanding expertise in this area lies in the development and manufacture of micro optics for beam shaping, as used in the semiconductor industry and for laser material processing. The portfolio also includes cameras and camera components for the world of professional digital photography, digital microscopy cameras

as well as digital imaging modules for integration within image capture and processing systems.

In the **Lasers & Material Processing** division we are one of the leading providers of laser technology, specializing primarily in innovative solid state lasers such as for example thin-disk lasers, as well as in diode and fiber lasers. We develop, manufacture and market laser modules and components, laser systems as well as complete facilities for material processing. Jenoptik has expertise along the entire added value chain – from semiconductor material to laser source and laser system, through to system and automation technology for complete facilities which enable laser processes to be utilized in order to meet a wide range of customer requirements.

In **Industrial Metrology** Jenoptik is a leading manufacturer and system provider for high-precision, contact and non-contact production metrology. The range of services covers total solutions for a wide range of measurement tasks such as roughness, contour and shape testing as well as calculating dimensions – both during (in-process) and after (post-process) the manufacturing process or in the metrology room. The product range is rounded off by a comprehensive service offering which includes advice, training and after-sales service, plus long-term maintenance agreements.

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#### Sales by key markets

(in million euros)	2007		2006	
Security and defense technology	28.6 %	146.8	29.6 %	141.3
Industrial metrology	21.1 %	108.4	15.9 %	75.9
Material processing	10.6 %	54.6	10.4 %	49.4
Medical technology	9.9 %	50.9	10.0 %	47.8
Semiconductor industry	9.5 %	48.9	9.1 %	43.5
Digital imaging	7.6 %	39.1	8.0 %	38.4
Traffic safety systems	7.5 %	38.0	9.9 %	47.1
Civil aviation/aerospace	5.2 %	26.4	7.1 %	33.7

## Jenoptik: The main business locations

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### Germany



### Europe



### America und Asia



In the **Traffic Solutions** division, we are a leader in the development, manufacture and distribution of components and systems that increase road traffic safety worldwide. This includes speed and red light monitoring systems as well as components for automatically recording drivers who fail to pay tolls or make the wrong payments, as well as comprehensive systems and services for every aspect of road traffic (for example for monitoring entrances, exits and transit areas as well as for identifying stolen vehicles) plus OEM products. Since its entry into the Traffic Service Providing business in North America in 2006 the Jenoptik Group has covered every aspect of the entire process chain in the traffic safety systems area – from system development, production and installation of the monitoring infrastructure, to image recording and their automatic processing, through to dispatching the fine notices and collecting the fines as the system operator.

In the **Defense & Civil Systems** division Jenoptik combines laser sensors, optics, optoelectronics, mechanics and electronics to create complex components, systems and facilities. The main areas of focus in this respect are on vehicle and aircraft equipment, drive and stabilization technology, energy systems plus optoelectronic instruments and systems for applications in the security and space industry, as well as software, measurement and control technology. In the area of laser and infra-red sensors the emphasis is on the

development, manufacture and marketing of laser distance measurement equipment as well as on infra-red camera systems designed to meet a wide range of applications.

#### Jenoptik: The main business locations

The Jenoptik Group has more than 250 locations in 70 countries worldwide. Jenoptik's headquarters and main focus of production are/is in Germany. In addition to the headquarters in the city of Jena, Jenoptik has other major business locations in Wedel near Hamburg, Monheim near Düsseldorf, Villingen-Schwenningen, Triptis and Eisenach in Thuringia, Berlin, Altenstadt (Bavaria), Essen and Göttingen. Outside Germany Jenoptik is represented through production locations in France, Switzerland and the USA as well as to a smaller extent in Russia, China, South Korea and Spain. Over and above the production locations the Group maintains locations in those countries that occupy a key position for the operating business. It also has a worldwide network of dealers and partners. <sup>[11]</sup> <sup>[12]</sup> <sup>[13]</sup>

#### Key sales markets and position in the competition

Our key markets mainly include the global semiconductor and semiconductor manufacturing industry, the automotive and automotive supplier industry, the medical technology, security and defense technology and aerospace industries as well as technology companies, the public sector and to an increasing extent, the solar industry. <sup>[10]</sup>

<sup>[12]</sup>

#### Employees in Germany by major locations

(as at 31.12. incl. trainees)	2007	2006		2007	2006
Group	2,904	2,767			
Jena	1,233	1,193	Triptis	198	201
Wedel	577	592	Altenstadt	136	126
Monheim	222	206	Essen	99	97
Villingen-Schwenningen	210	207	Other*	229	145

\* Other: Göttingen, Gießen, Eisenach, Munich, Ratingen, Mülhausen, Hildesheim and other



The key sales regions are Europe, North America and Asia. It is not possible to make a general statement regarding the Group's overall position in the competition – either in the key markets or in the main sales regions – since Jenoptik is not active on the market as an overall group but instead with the respective products and technologies in the respective various markets and regions.

#### Economic and legal influencing factors

In general, as a result of having quite a broad presence, we are well able in most cases to compensate for those cyclical fluctuations which impact on individual sectors. On the economic side we are dependent upon the general climate for capital goods. We do not operate in consumer goods markets which are subject to strong seasonal fluctuations. Our products and services are primarily geared towards industry and, in individual branches of business, the public sector. There are export conditions relating to the export of defense technology, an area in which Jenoptik is in any event only involved to a minimal extent. Individual products and services in the defense technology business and for the public sector are also subject to legal influencing factors, for example local content regulations or price clauses.

#### Management & control

The Supervisory Board of JENOPTIK AG was adapted to meet the new corporate structure and size and since the

new elections in June 2007 now only comprises 12 members (previously 16), six of which are employee representatives. Since June 2007 Prof. Dipl.-Ing. Jörg Menno Harms, CEO of Menno Harms GmbH - International Management Services, Stuttgart, has been Chairman of the Supervisory Board. At the beginning of 2008 Jenoptik had also announced a change on the Supervisory Board: with effect from January 25, 2008 Dr. Lothar Meyer was appointed a new member of the JENOPTIK AG Supervisory Board. He succeeds Dr. Daniel von Borries, who had resigned from his post to pursue new duties. Detailed information is contained in the Notes, Point Supervisory Board, -- P. 158.

The Jenoptik Executive Board comprises two members: Dr. Michael Mertin, Chairman of the JENOPTIK AG Executive Board, is responsible for the entire operating business as well as the areas of strategy and innovations, participations and auditing, IT, data protection, communication and marketing, quality and processes and personnel as HR Director. The experienced manager joined JENOPTIK AG in October 2006 as member of the Executive Board, responsible for technology/operating business and took over as Chairman of the Executive Board from Alexander von Witzleben who joined the Haniel Group on July 1, 2007. Since July 1, 2007 Frank Einhellinger has been the JENOPTIK AG Chief Financial Officer. In his role he is responsible for the areas of finances and strategic procurement, risk management, legal affairs,

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#### Employees abroad by major locations

(as at 31.12. incl. trainees)	2007	2006
Group	532	425
USA	254	177
France	141	127
Switzerland	115	103
Other*	22	18

\* Other: Spain, Austria

-- Additional locations in those countries that occupy a key position for the operating business.

investor relations, mergers and acquisitions, real estate as well as environmental management within the Jenoptik Group. Frank Einhellinger actually joined the Jenoptik Group in 1996 and since 1998 has held management positions in the finance area.

The management structure of the Group was streamlined with effect from January 1, 2008 – in line with the new organizational structure. Each of the five divisions within which the entire operating business is combined has a Head of Division who is responsible for the management of the operating business within the division, the development of the division including the cross-sectional functions, with responsibility for the results and, with the division's strategic orientation, responsibility for the target markets, product strategies, R+D roadmaps, growth initiatives and monitoring the competition. Since January 1, 2008 the strategic decisions of the Group as a whole have been taken by an Executive Management Board, comprising the Executive Board of JENOPTIK AG, the five Heads of Divisions as well as the Head of Strategy & Innovation Management and the Head of HR. -- See also Forecast Report, P. 92. <sup>14b</sup>

#### Basic features of the remuneration system

A collective wage agreement covers approx. 900 employees at the Jena location and around 50 at the Gießen site. This agreement was concluded in February 2008 with retrospective effect from January 1, 2008 for two years. All elements of the remuneration will be increased in two stages – in the first stage by 4.1 percent from March 1, 2008 and then by a further 2.4 percent with effect from March 1, 2009. Collective profit sharing scheme exists in the form of one-off payments linked to profits. Over and above this, special payments can be made to reward individual performance. In addition to financial incentive systems, Jenoptik puts the emphasis on creating a pleasant working environment – both within and outside the company, such as for example creating a favorable work/life balance.

For those Group employees covered by the collective wage agreement of the metal and electronics industry, the outcome of the wage and salary negotiations dated May 2007 apply. A total of 75 percent of all 2,904 personnel employed in Germany work on the basis of a collective wage agreement. There are no employee option programs.

14b

#### Executive Management Board

**Dr. Michael Mertin**

Chairman of the Executive Board of JENOPTIK AG

**Frank Einhellinger**

Chief Financial Officer of JENOPTIK AG

**Dr. Stefan Stenzel**

Head of Strategy and Innovation Management of JENOPTIK AG

**Markus Olbert**

Head of HR and Director of the Shared Service Center of JENOPTIK AG

**Dr. Dirk-Michael Rothweiler**

Head of Optical Systems division

**Dr. Thomas Fehn**

Head of Lasers & Material Processing division

**Christian Sommermeyer**

Head of Industrial Metrology division

**Bernhard Dohmann**

Head of Traffic Solutions division

**Wilhelm Hardich**

Head of Defense & Civil Systems division

Since 2001 Jenoptik has offered an employee-funded retirement provision model which is based on the three 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 except for members of the JENOPTIK AG Executive Board. Provisions for existing pension liabilities that were taken on with the acquisition of ESW GmbH total approx. 28 million euros and are combined within the framework of a Contractual Trust Arrangement (CTA) which is secured mainly by way of real estate assets and securities and therefore independently of Jenoptik's operating business.

The remuneration system for the Jenoptik Management is currently being revised. Variable elements of the remuneration for the Heads of Divisions and the top management are calculated on the basis of the results and cash flow of the division and/or the Group as a whole, and on individually agreed strategic and personal targets. This basis for calculating the variable elements of the remuneration, redefined in 2007, will be carried out to the second Group management level in 2008.

The remuneration for the Executive Board comprises a fixed and a variable element. Following the changes on the Executive Board an agreement on fixed bonuses came into

force for Dr. Michael Mertin and Frank Einhellinger in 2007. Fringe benefits and pension guarantees are also provided. From 2008 the variable element of the remuneration will be determined in accordance with the personal performance of the Executive Board member, based on a target agreement concluded with the Chairman of the Supervisory Board as well as in accordance with the success of the company, with the basis for calculation in this respect being the Group earnings before tax, the share price and strategic targets. In addition to each member being provided with a company car that can also be used for private purposes, there are no other significant fringe benefits. In 2007 occupational retirement provision agreements were concluded for both members of the Executive Board. The retirement guarantee is based on a retirement concept which is backed by a life reinsurance policy.

Further details on the remuneration for the Executive Board and Supervisory Board, including the individual itemization of the remuneration for the members of the Executive Board and Supervisory Board, can be found in the Notes to the Annual Report. We regard this information and the above details on the remuneration system as an element of the Remuneration and consequently the Corporate Governance Report, which can be found **FROM PAGE 28** of this Annual Report.

### Supplementary details in accordance with the Directive on Takeover Bids Implementation Act

In accordance with the reporting requirements pursuant to § 289 section 4 HGB (German Commercial Code) and/or § 315 section 4 HGB we provide the following summary:

Regulation	Subject	Information or reference
§ 289 (4) 1	Composition of the subscribed capital	The subscribed capital is in the sum of TEUR 135,290 which is divided into 52,034,651 no-par value bearer shares. Further details can be found in the Group Notes under Point 25.
§ 289 (4) 2	Restrictions which affect voting rights or the transfer of shares	There are no restrictions relating to voting rights or the transfer of shares.
§ 289 (4) 3	Direct or indirect participations in the share capital	ECE Industriebeteiligungen GmbH, Vienna, announced on February 25, 2008, that it holds 25.02 percent of the shares in JENOPTIK AG. Further details on the JENOPTIK AG shareholder structure can be found in the Group Notes under Point 25. ECE European City Estates AG, Hinterbrühl, and Humer Privatstiftung, Vienna, have an indirect participation through ECE Industriebeteiligungen GmbH.
§ 289 (4) 4	Holders of shares with special rights	JENOPTIK AG has no shares with special rights.
§ 289 (4) 5	Method for controlling voting rights for employee shareholdings.	There are no employee shareholdings and so also no control on voting rights.
§ 289 (4) 6	Statutory regulations and provisions in the Articles relating to the appointment and dismissal of Executive Board members and changes to the Articles	The appointment and dismissal of Executive Board members as well as changes to the Articles are carried out exclusively in accordance with the Stock Corporation Act provisions. There are no additional rules contained in the Articles of JENOPTIK AG.
§ 289 (4) 7	Authority of the Executive Board to issue and buy back shares	Under the resolutions passed by the 2007 Annual General Meeting the Executive Board is authorized, up to November 30, 2008, to purchase its own no-par value shares under specific terms and conditions, once of several times, in whole or in part, in the theoretic maximum amount of 10 percent of the nominal capital for purposes other than trading in its own shares. The company's own shares purchased, together with own shares which the company has already purchased and still owns, may not account for more than ten percent of the nominal capital. The terms and conditions are described in the resolutions of the 2007 Annual General Meeting which are available to the general public.
§ 289 (4) 8	Key agreements which are subject to the proviso of a change of control as the result of a takeover bid	So-called change-of-control clauses apply to the convertible bond, the borrower's note as well as two credit agreements. Detailed information on these can be found in the Management Report -- ON P. 68.
§ 289 (4) 9	Compensation agreements with the Executive Board and employees in the event of a takeover bid	Agreements covered by the conditions of a change of control and which meet the criteria of material relevance have been concluded with both members of the Executive Board and are explained in detail in the Group Notes under the point Executive Board.

## 1.2 Corporate management, targets and strategy

The Jenoptik Group's aim is to become more market and client-oriented and to achieve profitable growth. A comprehensive strategic realignment was initiated in 2007, producing a leaner organizational and management structure which created the basis for the necessary improvements in performance since 2008.

### Strategic guidelines

Jenoptik is aligning itself to be more market and client-driven and positioning itself along its core areas of expertise in the fields of lasers/optics, optoelectronics and mechatronics.

The new divisional organization, together with a group-wide Shared Service Center, will provide for a more targeted development of synergies than had previously been possible in the old organizational structure comprising limited companies which operated as self-contained units. By pursuing a policy of active portfolio management we are focusing the Group and in this way creating the opportunities for profitable growth. In addition to the preparations for the new organizational and management structure, in 2007 we therefore continued to dispose of activities which no longer form part of the strategic topics.

Jenoptik wants to service market segments which are of a sufficient size and by generating a disproportionately high

level of growth, carve out and/or expand more rapidly a leading position. This will be achieved primarily by expanding the company's international presence and intensifying its worldwide distribution. We will secure sustainable added value through profitability, innovation and by having a uniform market presence as Jenoptik.

As a company with an international orientation Jenoptik pursues a policy of respect for, acceptance and tolerance of cultural differences, both internally and externally. Qualified personnel are encouraged and employed. Jenoptik is an attractive and family friendly employer that acts in a socially responsible manner.

In order to guide the Group towards achieving its strategic objectives JENOPTIK AG is being developed from purely a financial holding company into a strategic architect. The increasingly more focused portfolio will now enable the company to take a more active approach to the management of its growth opportunities. The personnel resources as well as the processes required to this end will be developed and expanded within the framework of the realignment. All projects undertaken as part of the realignment, which have already been defined and in some cases already commenced, will in future be guided by the following five value levers which will determine the areas upon which the Group's further development will focus over the next three to five years: <sup>15)</sup>

15)

### Value levers

- Organic growth: through market development, market penetration and product innovations;
- Market and customer orientation: approach through the expansion of the distribution and marketing activities;
- Internationalization: through a systematic development of the foreign markets, particularly in North America and Asia;



### Our long-term objectives

**Value growth.** Jenoptik's long-term objective is to once again become a billion euro group. Our target is to achieve average growth of 10 percent per annum – including smaller acquisitions that will expand the technology and product portfolio as well as the Group's international market presence. This should then enable the Group to markedly increase its EBIT margin to 9 to 10 percent.

We have already achieved a marked increase in the cash flow in 2007 through the various measures that we introduced. We need an increased cash flow in order to finance and ensure our future growth – including the necessary investments in both intangible and tangible assets as well as smaller acquisitions.

We also want to further reduce our net debt by reducing liabilities from finance lease through the sale of real estate which is not required for operating purposes.

By pursuing a policy of active personnel management which will be significantly expanded over the years ahead, we provide a challenge and stimulus for our employees and management. The number of employees in the Jenoptik Group is expected to continue increasing in line with our growth but at a disproportionately lower rate to the rise in business expansion.

We will focus the international presentation of the Jenoptik Group even stronger on the high-growth regions. Those markets in which we will be able to expand our strong market position as Jenoptik Group in the short term – based on existing customer relations – will play a major part in this process. We want to tighten our presence in the key markets of Europe, Asia and North America and significantly expand our direct local presence.

### Main strategic performance factors

Along our five value levers of growth, customer orientation, internationalization, employees and management, together with operational excellence, we have developed a project map, on which we are now working consistently at all levels of the Group. These projects primarily involve subjects relating to the strategic further development of the operating business, improvement in our innovative capability and all processes from the viewpoint of customer orientation, the further expansion of our strategic work on HR, the strengthening of the Jenoptik brand, as well as cost savings.

For the strategic further development a rolling strategy process was introduced in 2007 on the Group level in which growth options are being formulated and translated into concrete projects. From 2008 this process will regularly be conducted on the divisional level.

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#### -- Continuation -- Value levers

- Employees & management: by challenging and encouraging employees and managers through strict performance management
- Operational excellence: by examining all the company's processes in order to improve them and generate cost savings

In order to improve the innovative capability a group-wide, standardized innovation management process will be introduced in 2008. This will be geared towards current best-practice examples in the industry, promoting a systematic gathering of innovative ideas and enabling all development projects to be assessed in accordance with a profile of requirements applicable throughout Jenoptik. A group of top managers, the so-called innovation boards, will carry out regular reviews to determine whether the individual projects are to be continued or ceased. The key criteria will be earnings and market potential, technological feasibility as well as a detailed risk assessment of the innovation project allowing for both a clear increase in the efficiency of decisions and an optimized risk profile of the portfolio.

The focus of the development work within the Jenoptik Group is on new products and technologies and/or the further development of existing products and technologies. We see innovations as including new business models for example in the way we offer these with the service providing business in the area of traffic safety systems.

In our strategic activities on the personnel side our positioning as a highly attractive employer and gaining the loyalty of our employees to the company, are two of the key aspects. The challenge for the future will be the changing

demographic structures as well as the waning enthusiasm amongst young people for science subjects. A central HR Department, including an HR marketing area, was established in 2007 within the Group, the task of this department being to develop a modern system of HR management in order to provide support for the company's future success. Whereas in 2007 the focus was on personnel recruitment, together with the implementation of a group-wide application management system (MANAGEMENT REPORT P. 58), the subjects of personnel development in 2008 and personnel support in 2009 will be at the heart of the strategic activities on the personnel.

One of the key strategic financing parameters is the cash flow which, since 2007, has been included within the Group's control system and as a benchmark for variable elements of the remuneration for the top management. The target in 2007 was to achieve a significant increase in the cash flow in comparison with the previous years. This we succeeded in doing, together with the reduction in short-term debt. The resolutions passed at the 2005 annual general meeting also provide us with long-term financing instruments which include for example the authorization to create new authorized capital in the amount of up to 35 million euros as well as to issue option and convertible bonds for up to 150 million euros.

#### Strategic performance factors

- Strategic further development of the operating business
- Improvement of the innovative capability and all processes
- Continued establishment of strategic HR activities
- Strengthening of the Jenoptik brand
- Cost savings
- Cash flow as one of the key strategic financing parameters

### Control system and control indicators

The control system is currently being adapted to meet the requirements of the new organizational structure. During the course of the fiscal year three forecasts will be produced. The segments together with the divisions will be assessed monthly on the basis of data provided on sales, operating result, order book situation, cash flow development, capital expenditure volumes as well as other liquidity and profitability details in comparison with the planning and forecasts during the course of one year. Quality-related factors such as projects, the competitive situation as well as other early warning indicators will be discussed on a monthly basis on the divisional level. Personal performance meetings will be held every three months in order to assess strategic targets and the business development of the segment and its divisions as well as of the individual business units – consequently down to the third level of organization. Strategic decisions for the Group as a whole will be taken by the Executive Management Board that will meet four times a year and hold extraordinary meetings to deal with special and important events.

## 1.3 Development of the economy as a whole and of the sectors

### Development of the economy as a whole

In 2007 the global economy reported an overall continuation of its course of growth, although we are seeing a slowdown in current economy activity. According to the OECD Economic Outlook of December 2007 the average growth in GDP in the various OECD regions was 2.7 percent, down on the figure of 3.1 percent for 2006. In addition to the cooling in the US residential property markets, which is having a dampening effect on growth, the turbulences on the financial markets resulting from the sub-prime crisis in the USA are another contributory factor. In this context the continuing high energy and raw material prices are in general prompting a pick-up in the pace of inflation, with the upturn in the euro region proving to be the most stable. The dynamic expansion of the non-OECD national economies, particularly those in the Asian region, also contributed to the growth.

The OECD expects the US economy to show overall growth of 2.2 percent for 2007 compared with 2.9 percent in the previous year. One noticeable factor in this respect is the sharp drop in growth during the fourth quarter which showed just 0.6 percent – compared with 4.9 percent in the third quarter. Forecasts were for growth of 1.2 percent. In

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### Change in Gross Domestic Product (in percent)

	2005	2006	2007*	2008*	2009*
OECD countries	2.6	3.1	2.7	2.3	2.4
USA	3.1	2.9	2.2	2.0	2.2
European Union	1.6	2.9	2.6	1.9	2.0

Source: OECD economic outlook no. 82 /2007

\* Projections

addition to rising energy prices one of the main causes was a sharp fall in housebuilding together with lower investment in inventories. This was offset by support coming from private consumer spending and investment in assets.

By contrast, the euro zone is turning into a growth driver with an expected rise of 2.6 percent (2006: 2.9 percent) for 2007, the highest growth rate in the three major OECD regions. Despite the weak US dollar growth is being driven by strong exports, particularly in regions of the dynamic non-OECD economies. Cautious private consumer spending as well as the reduction in private housebuilding activity had an increasingly dampening effect on economic activity during the course of the year. Although the OECD believes that the high point in the economic cycle has passed it does anticipate a continuation of the expansion course – albeit at a slower rate. [16]

Germany also had a positive impact on the development of the euro zone in 2007, reporting average growth of 2.6 percent compared with the previous 3.1 percent. There were however periods of volatility during the course of the year: in the first quarter the high level of construction activity thanks to the mild weather compensated for the falls in private consumer spending, for fiscal reasons, although it picked up in the second quarter before exports and investment in equipment became the primary impetus for growth in the second half of the year. Germany was able to claim its fifth successive

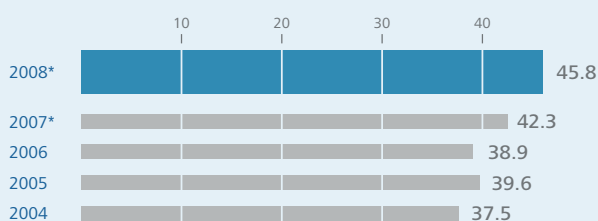
title as the world champion of exporters and according to the Federal Department of Statistics posted an overall 8.5 percent rise in exports over 2006. Investment in equipment increased by 8.4 percent. High levels of capacity utilization prompted companies to invest in the expansion of their capacities.

In 2007 Japan also continued its longest economic upturn of the postwar era. As such, the OECD expects to see growth of 1.9 percent as against 2.2 percent in the previous year, helped not only by strong exports but also private consumer spending.

The Asian non-OECD economies made a significant contribution towards the expansive development of the global economy. China for example grows at over 11.5 percent to now 2.2 billion euros GDP. For the very first time China overtook the USA in exports, taking the number two spot behind Germany. India as the second, relevant, aspiring Asian economic power is also recording dynamic growth of approx. 9 percent. However, measures aimed at a more restrictive monetary policy and more stable budget situation hold out the prospect of more moderate development. Russia and Brazil, the remaining members of the so-called BRIC states, also continued to post solid growth. The economic dynamic of Russia in particular is being helped by private consumer spending and the good budget situation thanks to higher energy prices.

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#### Market of the German optical, medical technology and mechatronic industries (in billion euros)



Source: Spectaris

\* Projection

-- High level of innovation activity is securing the competitiveness and supporting growth of these sectors.

### Development of the individual Jenoptik sectors

In 2007, according to the forecasts by SPECTARIS, the industry association for optical, medical and mechatronic technologies, the global market for **optical technologies** continued along its dynamic path of growth to a total volume of 250 billion euros. According to estimates by SPECTARIS German companies in this sector generated sales of approx. 20 billion euros. The **laser and optical components** industry in particular, according to SPECTARIS the largest segment, accounting for approx. 9 billion euros, once again achieved double figure growth rates of 12 percent. The high level of innovation activity – the R&D ratio was approx. 10 percent – is securing the competitiveness of these sectors, as demonstrated by the impressive 63 percent export share (corresponding to 5.7 billion euros). <sup>[17]</sup>

In 2007, according to Laser Focus World (LFW), the global market for laser technology once again posted a more dynamic rate of growth than in the previous years, increasing to a volume of 6.9 billion US dollars compared with 5.6 billion US dollars in the previous year. In this context, the stable Asian and European markets were able to extensively compensate for the slowdown in North America, particularly in the industrial equipment area. Laser materials processing, which increased sales in 2007 to almost 2.2 billion US dollars, up by more than 30 percent compared to the previous year, remained the dominant and most dynamic area of

application. By contrast, the market segment for high-power diode lasers, an area in which the Jenoptik Group also operates, reported only a 1.4 percent growth with a total volume of 290 million US dollars. Only high-power laser diodes as pump sources for fiber lasers, in the wake of the 40 percent sales growth of fiber lasers worldwide and the consequent increasing use of this type of laser, posted a 4.7 percent higher growth. <sup>[18]</sup>

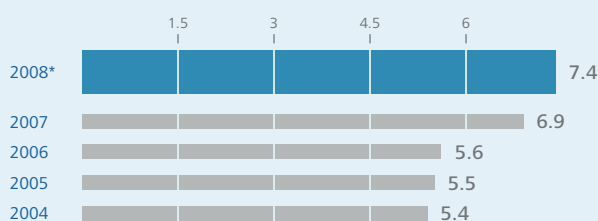
In the industrial **metrology and sensors** segment German companies once again succeeded in posting sustainable increases in sales in 2007 to over 12 billion euros. Exports accounted for 58 percent, putting them significantly ahead of imports at 2 billion euros.

One of the main areas of application is in automobile production. The development of the sector is therefore also at least partially dependent upon the general trends in this area.

The global **semiconductor market** can look back over its sixth successive year of growth. In this context, the estimates range from 255 billion US dollars (+ 3.2 percent) according to the Semiconductor Industry Association (SIA), up to approx. 270 billion US dollars according to Gartner (+2.9 percent) and iSuppli (+4.1 percent). However, the concerns about the cyclical nature of the sector with over-

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**Lasers: global sales (in billion US dollars)**



Source: Lasers Focus World

\* Projection

- More dynamic growth than in the previous years.
- Stable Asian and European markets compensate for the slowdown in the USA.



capacities and sharp falls appeared to be re-emerging at the end of 2007, as shown by the fall in the fourth quarter and particularly in December 2007. In 2007 growth was again driven by consumer electronics and, according to the SIA, in particular by the increasing sales of Notebooks and mobile phones. <sup>19)</sup>

According to the members of the sector association SEMI, in 2007 equipment manufacturers posted another overall increase in sales of nearly 3 percent to 41.7 billion US dollars – a marked slowdown compared with the 23 percent growth in the previous year.

The automation technology sector recorded a double figure increase in sales for the year 2007, driven by high levels of investment in equipment. The sector association ZVEI therefore forecasts that the German market alone will generate sales of 31.8 billion euros, a rise of 12.9 percent.

In 2007 the German automobile manufacturers enjoyed their fifth successive record export levels according to the calculations by the sector association, the Verband der deutschen Automobilhersteller (VDA) with 4.3 million cars (+10 percent). However, the regional picture varies: whilst the USA, as the world's largest automobile market, suffered a 2.5 percent fall, Europe posted a small rise of 1.1 percent to nearly 16 million cars – attributable to the Eastern

European markets – not to mention the dynamic growth of the markets in the Asian emerging countries and Russia. By contrast, German domestic demand showed a weak trend, due amongst other things to the advance purchase effects prompted by the increase in Value Added Tax as of January 1, 2007.

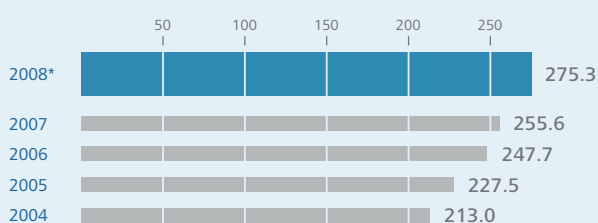
At the same time however, automotive suppliers in particular are coming under increased pressure as significant relocation of production to low wage countries is putting markedly increased downward pressure on prices.

The global market for traffic monitoring systems posted only slight growth also in 2007. The current market dynamic continues to be characterized by the technology switch-over from analog to digital systems and the increased trend towards comprehensive operator models. There are also signs of a convergence between toll and monitoring systems. Time and again the ensuing, increasing complexity of projects is resulting in protracted tendering procedures which – unlike in the past – are also increasingly of a national nature.

Intensive efforts are being made worldwide to bring about a marked reduction in the number of deaths on the road. Forecasts says that in the year 2020 traffic accidents will be third most common cause of death. As such, the EU has

19)

## Semiconductor: global sales (in billion US dollars)



Source: VLSI and SIA

\* Projection

-- Sixth successive year of growth.  
-- Consumer electronics is driving.

initiated a program to reduce the number of traffic accident victims by 50 percent by 2010. The aim is to achieve this through the use of speed monitoring, which is increasingly being converted from checks at specific points to checks over longer sections of road. This will require increased technological efforts since every vehicle will have to be individually identified and tracked.

Global air traffic also reported stable growth of 5 percent in the past year. The two major aircraft manufacturers Boeing and Airbus benefited from this trend with 1,413 and 1,341 orders respectively. The first A380 was delivered in September 2007. Jenoptik is supplying the trolley lift and other components for this aircraft.

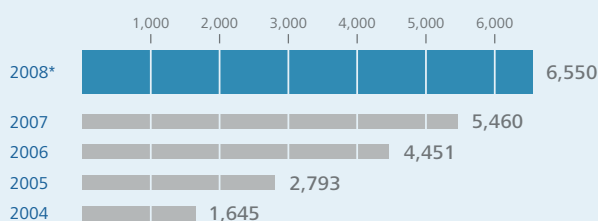
In the space industry the trend towards increasing activity continued in 2007: the number of missions, 68, was the highest since the year 2000. In this context, with 10 missions, China emerged as the clear number three nation in space travel behind Russia and the USA but ahead of Europe (5 missions). However, the ESA is continuing to consistently implement the program agreed in 2005 in order to promote science in space travel. With the launch of the ISS research module "Columbus" on February 7, 2008 a permanent "European" presence in space has been established. This milestone will be reflected in a further increase in the number of missions, e.g. for supply purposes.

As a result of the ageing population structures in many countries throughout the world, **medical technology** remains an expanding growth market. Observers in the sector expect to see double figure growth rates and put the global market volume at between 250 and 300 billion US dollars. German companies in the sector, which according to SPECTARIS have a good 10 percent of the world market share, are prominent thanks not only to the high proportion of exports at 64 percent but also their exceptional innovative capability.

Renewable energy sources, particularly the **solar industry**, experienced a real boom in 2007. The world market grew by 50 percent to 15.2 billion euros, one of the most important markets being Germany with a global market share of approx. 50 percent. According to information from the sector association for the solar industry (BSW) German manufacturers posted sales of 5.5 billion euros, representing a 23 percent increase over 2006, giving them a 36 percent share of the global market. Exports account for 38 percent. At present 93 percent of solar cells are still manufactured using silicon wafers although there are signs of a pick-up in the pace of change in technology towards more effective, more efficient thin-film cells. Capital expenditure totaling 1.5 billion euros will secure a solid business foundation for solar plant equipment manufacturers. <sup>[20]</sup>

[20]

#### Sales of the German photovoltaic industry (in million euros)



Source: BSW-Solar

\* Projection: about 20 percent

- Renewable energy sources experienced boom.
- World market for the solar industry grew by 50 percent.
- Germany is one of the most important markets.

The German security and defense technology industry is going through a period of fundamental structural change – despite the long-term growth trend of 37 percent over the last 10 years which has basically remained intact: different threat scenarios following the end of the Cold War are changing the needs of government clients, needs which can only be increasingly fulfilled through wide-ranging cooperation arrangements of the manufacturers as well as outside financiers. According to forecasts by the renowned Sipri Institute in Stockholm, the market volume in 2006 totaled 1.2 billion US dollars, with Germany occupying the number three spot amongst weapons exporters.

Support for this is coming from plans by the EU to simplify the export of armaments within the EU. The European Commission presented a corresponding proposal at the end of 2007.

On the German domestic market, against the background of an increased number of international deployments, the parliament approved a project worth almost 3 billion euros for 400 Puma infantry fighting tanks in which the Jenoptik subsidiary ESW GmbH is also involved as a subsystem supplier.

### Summary | General statement on the framework conditions

We have changed the company over to an organizational and management structure that better reflects the nature of our operating business, our markets and the size of the company than the old organization which had a total of 33 individual companies which essentially operated as autarkical units. The five divisions, each with a Head of Division, are closely integrated on the group level via the Executive Management Board. For the Jenoptik Group the move away from the limited company structures, divided into small units, means a fundamental strategic change in the cooperation between the operating areas, in the management philosophy and corporate culture. We have acted within a tight timeframe in preparing for and implementing our plans so that we can take overall advantage of the generally good economic climate.

We believe that the new structure is vital for enabling us to achieve our long-term objectives, objectives to which we will be adhering. In addition to sales and results of the operating activities we have included the cash flow, a strategically important financial indicator, within the Jenoptik management's system of controls and incentives. Additional operating and quality-related Key Performance Indicators (KPI's) are to follow.

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### Actual and forecast course of business (in million euros)

Indicator	as at year end 2006 *	Outlook Annual Report 2006	as at year end 2007	Explanation see Page
Sales	485.1	510–535	521.7	49
Laser & Optics	199.2	200–210 (anticipated to be higher)	219.2	72
Sensors	153.2	180–190 (anticipated to be lower)	162.4	75
Mechatronics	127.0	120–130	134.6	78
Group EBIT margin (EBIT absolute)	7.9 % / 38.2	7,5–8 % (32–36 before one-off effects)	6.8 % / 35.3	50

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\* only continuing business divisions \*\* Figures in brackets: Forecast 2007 during the year

## 2 Earnings, financial and asset position

### Actual and forecast course of business

Our targets for the year 2007 were set out in comprehensive detail in the 2006 Annual Report. As a result of the difficult market conditions in the traffic safety technology business we were forced to adjust our earnings forecasts in mid 2007. The falls were only partially offset by a very strong Laser & Optics business. <sup>21b</sup>

All other projects that we had undertaken for 2007 were successfully realized in 2007. These include:

- a marked increase in the cash flow from operating activities compared with 2006 -- EXPLANATION P.64
- a reduction in net debt over 2006  
-- EXPLANATION P. 62
- the early repayment of the high interest bond as planned  
-- EXPLANATION P. 68
- a financing structure adapted to the requirements of the new Jenoptik and reduction in current liabilities  
-- EXPLANATION P. 61
- a shareholders' equity ratio of around 40 percent  
-- EXPLANATION P. 67
- the further reduction in non-strategic business activities and disposal of assets not required for operating purposes -- EXPLANATION P. 50f

During the course of the year we conducted a review of all activities and decided to discontinue some of those since we are either not the best owners of these or the anticipated earnings do not meet our future objectives.

As a result of the anticipated one-off effects from these disposals which mainly impacted on the result from operating activities but also on the financial result level, we were only able to issue an earnings projection which excluded special effects on the level of the Group operating result in the 2<sup>nd</sup> half-year and as at the end of the 3<sup>rd</sup> quarter 2007. As at the year end we succeeded in meeting the top range of the bandwidth between 32 and 36 million euros forecast in August 2007.

### 2.1 Earnings position

#### Development of sales

In the fiscal year just past Jenoptik increased sales by 7.5 percent. Sales totaled 521.7 million euros, representing an overall increase of 36.6 million euros compared to the previous year (prev. year 485.1 million euros). The share of sales abroad posted a further rise to a total of 302.0 million euros (prev. year 275.7 million euros) thus accounting for 57.9 percent of total sales (prev. year 56.8 percent). Europe remained the key export region. <sup>22b</sup>

<sup>21b</sup>

-- Continuation -- Actual and forecast course of business (in million euros)

Indicator	as at year end 2006 *	Outlook Annual Report 2006	as at year end 2007	Explanation see Page
Cash flow from operating activities	28.8	positive	73.8	64
Shareholders' equity ratio	34.3 %	Approx. 40 %	40.3 %	67
Employees	3,192	Approx 3.300 excluding additional acquisition	3,436	56 ff
R+D expenditure	33.8	37	39.0**	54 ff
Capital expenditure	39.8	36–44	40.6	63 f

\* only continuing business divisions \*\* of which approx. 3 million euros through special depreciation affecting R+D

The Laser & Optics division developed better than forecast with sales organically up by 10.0 percent to 219.2 million euros. The 6.0 percent growth in Sensors division sales to 162.4 million euros is attributable to Detroit Precision Hommel which was consolidated for the first time as at April 2, 2007 and the sales of the Etamic Group which were fully included in the figures for the first time in 2007. The absence of contributions to sales by the Traffic Safety Technology unit was noticeable in this respect. However, the 6 percent rise in sales by the Mechatronics division to 134.6 million euros can be attributed to organic growth.

Sales in the sum of 5.5 million euros from the non-operating Other areas (Jenoptik Holding and real estate) are mainly the result of rental sales with third parties (prev. year 5.7 million euros). <sup>[23]</sup>

### Development of the results

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 13.2 percent to 79.1 million euros (prev. year 69.9 million euros). This is primarily attributable to income from the sale of financial assets, whereas part of the one-off expenses offsetting this in form of depreciations did not reduce the EBITDA. The operating EBITDA (adjusted for one-off effects) amounted to 68.7 million euros.

In the 2007 fiscal year the Jenoptik Group posted a consolidated result from operating activities of 35.3 million euros (prev. year 38.2 million euros). This figure includes several one-off effects arising from the revision of the Group portfolio, these balanced each other out to a significant extent. The sale of the shares in PVA TePla in Autumn 2007 had a positive effect on the results whilst the ending and disposal of various business activities plus value adjustments produced negative effects. In the 2<sup>nd</sup> half-year the new Executive Board team had conducted an analysis and assessment of Jenoptik's complete business portfolio based on current information. As a result of this process the future earnings prospects for some initiatives were revised downwards and taken into account in the consolidated financial statements through corresponding value adjustments to R+D topics, inventories and receivables. The decision to relinquish some business activities led to high value adjustments.

The expenses resulting from revision, sales or the ending of business activities, which arose in particular in the Laser & Optics division, totaled 24.1 million euros, of which 21.3 million euros in Other operating expenses and 2.9 million euros in value adjustments on R+D topics which are included in R+D expenses. The largest position in Other operating expenses of 21.3 million euros result from the depreciation on intangible assets of 6.0 million euros, from

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### Sales (in million euros)

	2007	2006	Changes in %
Group	521.7	485.1	7.5
Domestic	219.7	209.4	4.9
Foreign	302.0	275.7	9.5

### Sales by divisions (in million euros)

	2007	2006	Changes in %
Group	521.7	485.1	7.5
of which Laser & Optics	219.2	199.2	10.0
Sensors	162.4	153.2	6.0
Mechatronics	134.6	127.0	6.0
Other	5.5	5.7	-3.5

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the depreciation on current assets of 5.3 million euros and from the addition to provisions of 4.9 million euros (detailed figures in Other operating expenses -- NOTES, POINT 7 and R+D expenses -- NOTES, POINT 3).

The positive one-off effects of 24.1 million euros, resulting from the focusing of the group portfolio, roughly equated to the level of negative one-off effects. Income from the disposal of financial assets was 22.1 million euros. The remaining 2 million euros resulted from the sale of rights -- NOTES, POINT 6.

For comparability purposes the EBIT information on the divisions provided below for the year 2007 was shown excluding one-off effects.

The very positive development of sales and increases in efficiency achieved in the Laser & Optics division led to a marked, disproportionately high increase in the results of more than 50 percent to over 23 million euros. The total growth in sales of 8.0 million euros almost entirely offset the falls in the results of the Sensors division in the sum of approx. 9 million euros. In the Sensors division the fall in results posted in particular by traffic safety technology impacted on the figures since the year 2007 saw virtually no invitations to tender being issued for major international orders. This area had also invested heavily in the development of the US market. As expected, the contribution to earnings by the

Mechatronics division at almost 11 million euros -- following a leap in results of nearly 30 percent in fiscal year 2006 -- remained at the same level as in the previous year. More detailed explanatory notes on the development of sales and results by the three operating divisions can be found in the segment reporting -- FROM P. 72. <sup>24)</sup>

Other areas posted an EBIT of minus 7.6 million euros (prev. year minus 6.0 million euros). The reduction is primarily attributable to the positive effects of real estate in the previous year of around 2 million euros. After posting a figure of 4.9 million euros in 2006 the positive contribution to earnings by real estate reduced to 3.1 million euros in 2007. The holding company costs, at 10.5 million euros, were at virtually the same level as in the previous year (prev. year 9.7 million euros).

The investment result came in at minus 7.1 million euros (prev. year minus 5.0 million euros). This was influenced by XTREME technologies GmbH. In addition, JT Optical Engine, the company established in Summer 2007 by Jenoptik and Trumpf for the development of optical engines for fiber lasers, has been shown at-equity in the investment result since July 1, 2007. With the relinquishing of the majority holding, since July 1, 2007 Zenteris GmbH has also been included in the investment result. Jenoptik still holds a 24.9 percent stake in the company. By contrast, JENOPTIK Diode

24)

#### Result from operating activities (in million euros)

	2007	2006	Changes in %
Group	35.3	38.2	-7.6
of which Laser & Optics	23.3	15.3	52.3
Sensors	8.7	18.1	-51.9
Mechatronics	10.9	10.8	0.9
Other	-7.6	-6.0	-26.7

-- Earnings increase of the Laser & Optics division nearly offset the falls in the results of the Sensors division.

Lab GmbH, which has been fully consolidated since January 1, 2007, is no longer included in the investment result.

The net interest result was affected for the last time by the high interest bond which was repaid early and in full in November 2007 essentially utilizing the cash generated from the sale of M+W Zander. For this reason the net interest result of minus 27.5 million euros (prev. year minus 14.2 million euros) also includes expenses in the sum of 9.6 million euros in connection with the early repayment. The difference between interest income from the restricted cash and interest costs arising from the interest for the high interest bond is approx. minus 5.8 million euros. In future this difference in interest will be avoided thanks to the early repayment of the bond. This will significantly improve the net interest result over the years ahead. This positive effect on the net interest result will clearly more than compensate for the one-off compensation for early repayment arising in 2007.

Interest expenses totaling 35.7 million euros (prev. year 28.1 million euros) were offset by interest income in the sum of 8.1 million euros (prev. year 13.9 million euros). The interest income primarily consisted of the interest for the restricted cash. The high figure for the previous year was the result of interest income associated with the sale of M+W Zander.

Earnings before tax were only just above the line at 0.7 million euros (prev. year 19.1 million euros) as a result of the negative financial result of 34.6 million euros (prev. year minus 19.1 million euros).

Income taxes, at 1.0 million euros, were incurred primarily for foreign subsidiaries. On the domestic side, the tax losses carried forward for the Jenoptik Group, which had to be adjusted however in 2007 as a result of the German tax reforms, impacted on the figures and produced a one-off deferred tax expense. In view of the lower domestic tax rate, in future there will be a reduction not only in the taxes to be paid but also in the taxes saved by the Jenoptik tax losses carried forward. This will lead to lower valuations in the balance sheet for the sum of tax losses carried forward and differences between IFRS and tax balance sheet valuations. The non-cash deferred tax expense therefore totaled 4.4 million euros in 2007.

Earnings after tax accordingly totaled minus 4.6 million euros compared with 16.1 million euros in 2006.

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## Order intake (in million euros)

	2007	2006	Changes in %
Group	525.8	482.9	8.9
of which Laser & Optics	230.8	208.5	10.7
Sensors	162.2	145.3	11.6
Mechatronics	124.9	123.4	1.2
Other	7.9	5.7	38.6

## Order backlog (in million euros)

	2007	2006	Changes in %
Group	439.4	438.4	0.2
of which Laser & Optics	78.9	66.1	19.4
Sensors	71.5	69.0	3.6
Mechatronics	289.0	303.3	-4.7
Other	0	0	

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### Order book situation

The Jenoptik Group achieved an increase in the order intake of 8.9 percent despite weakness in the Sensors' business. Order intakes rose to 525.8 million euros (prev. year 482.9 million euros), with activities in the Laser & Optics division showing the strongest organic growth at almost 10.7 percent. The order intake of the Sensors division which had been weak during the course of the year also picked up as at the year end. Order intake in the double digit million range could be booked for satellite sensors. The book-to-bill rate, the ratio between the Group order intake and sales, was 1.00 (prev. year 1.00). More detailed explanations on major orders of strategic importance can be found in the segment reporting in the Group Management Report

-- FROM P. 72. [25](#)

The order backlog as at December 31, 2007 totaled 439.4 million euros and was therefore at the same level as in the previous year (as at Dec. 31, 2006: 438.4 million euros). Whilst the Laser & Optics division, with its strong order book levels, has shorter cycles, the order backlog from the long-term, large volume mechatronics business, also accounted for nearly 70 percent of the total order backlog in 2007. However, the contributions to sales from this backlog will already extend through to the year 2016. Around 55 percent of the order backlog shown as at December 31, 2007 will result in sales in the current 2008 fiscal year. [26](#)

### Development of key items in the statement of income

Cost of sales increased by 8.4 percent to 361.8 million euros (prev. year 333.9 million euros) and were therefore at a slightly higher rate to the growth in sales. The increase is attributable not only to the expansion of sales but to initially consolidated companies which have not yet achieved the levels of margins realized elsewhere by Jenoptik. The markedly lower share of sales posted by traffic safety technology compared with the previous year also had an impact. The gross profit at 159.9 million euros reflected a gross margin of 30.6 percent (prev. year 31.2 percent). [27](#)

Research and development expenses, at 39.0 million euros, were 15.4 percent higher than in the previous year (prev. year 33.8 million euros). However, this increase was only to a lesser extent attributable to an expansion of the development themes. More detailed information on research and development can be found in the Management Report -- FROM P. 54.

Selling expenses, at 49.3 million euros, remained virtually constant (prev. year 48.0 million euros) despite the 7.5 percent increase in sales. In addition to its own presence (P. 34) Jenoptik maintains a comprehensive global network of dealers. Approx. 10 percent of the selling expenses were marketing costs. Laser 2007 and the Paris Air Show, two of the most important trade fairs for the Group, staged alternately every two years, took place in 2007.

### Key items in the statement of income (in million euros)

	2007	2006	Change in %
Cost of sales	361.8	333.9	8.4
R+D expenses	39.0	33.8	15.4
Selling expenses	49.3	48.0	2.7
Administrative expenses	42.9	37.3	15.0
Other operating income	45.2	30.2	49.7
Other operating expenses	38.5	24.2	59.1

General administrative expenses rose by 15.0 percent to 42.9 million euros (prev. year 37.3 million euros). This disproportionately high increase is also attributable to those companies which were newly consolidated or included in full for the first time in 2007 and which almost exclusively have higher general administrative expenses, measured against sales, than the other operating group companies. The figure also includes one-off effects, for example the relocation costs of the laser processing systems area into the building which had been renovated after the fire in 2006.

Other operating income in the sum of 45.2 million euros (prev. year 30.2 million euros) includes, amongst other things, the income from the sale of the PVA TePla shares as well as other income from the adjustment to the portfolio. In addition, the normal amount of other operating income was derived from passing on charges for services and expenses or from development funds.

Other operating expenses in the sum of 38.5 million euros (prev. year 24.2 million euros) were significantly determined by the analysis and evaluation of the group portfolio as described above. The key items included so-called impairments to subsidiaries or investments which were either sold in 2007 or will be sold or ended in 2008. We have also applied

depreciation to capitalized, intangible assets, in particular capitalized development costs, the market success of which we view as critical for the future or which we will no longer be continuing in the future. The minimal figure for the consulting costs for the Group's reorganization as well as for the restructuring costs incurred in 2007 is also included under this item.

## 2.2 Development of the key performance factors

### Research and Development

For Jenoptik as a technology group, research and development is a fundamental element of the corporate activities. In the 2<sup>nd</sup> half of the fiscal year just passed all the key development projects for the whole Group were analyzed in terms of their sales and earnings potential, customer benefits and future market opportunities as well as technological risks. The value adjustments and one-off depreciation as well as initial consolidations led to a disproportionately high increase in the Group R+D expenses to 39.0 million euros (prev. year 33.8 million euros). -- EARNINGS DEVELOPMENT, P. 50FF AND NOTES, POINT 3

#### R+D employees by division

	2007	2006	Changes in %
Group	609	641	-5.0
of which Laser & Optics	238	271	-12.2
Sensorik	214	207	3.4
Mechatronics	157	163	-3.7
Other	0	0	

#### R+D services\* by division (in million euros)

	2007	2006	Changes in %
Group	53.2	54.6	-2.6
of which Laser & Optics	30.6	26.6	15.0
Sensors	14.6	15.4	-5.2
Mechatronics	12.7	15.2	-16.4
Other	-4.7	-2.6	80.8

\* Total of R+D expenses, capitalized development costs minus depreciation and developments on behalf of customers

At 53.8 percent the development-intensive Laser & Optics division accounted for the largest share of R+D expenses (prev. year 52.0 percent) although this also gave rise to the greatest need for adaptation within the framework of the value adjustments. The R+D quota, the ratio between development expenses (excluding developments on behalf of customers and adjusted capitalization) and sales, totaled 7.5 percent (prev. year 7.0 percent). <sup>[28]</sup> <sup>[29]</sup>

R+D expenses comprise primarily personnel costs as well as third party services and material costs as well as depreciation on capitalized development themes. Investments in tangible assets are comparably low as these are essentially limited to laboratories and workplace equipment. This figure did not include the associated companies XTREME technologies GmbH and JT Optical Engine which were shown at-equity in the investment result. Developments on behalf of customers and the capitalization of close-to-the-market developments are also excluded.

Developments on behalf of customers are shown under costs of sales. These development costs totaled around 16.1 million euros in 2007 (prev. year 16.0 million euros). About half of this sum comes from the Mechatronics division, which is pursuing long-term development projects, in particular in the military technology field.

Capitalized, close to the market development costs which are also excluded from the R+D expenses, totaled 5.2 million euros in 2007 (prev. year 7.6 million euros). The reduction is the result of updated assessments based on the new divisional structure. Following the comprehensive analysis of all the Group's key R+D projects and the resultant necessary value adjustments, depreciation on the capitalization of close to the market development costs showed a one-off increase to 7.1 million euros (prev. year 2.9 million euros). However, this item also includes effects from the market launch of development projects which, based on current assessments, will make a contribution to sales in the future.

Including research on behalf of customers and the capitalization adjusted by depreciation on development costs in the total sum of 53.2 million euros, the R+D ratio was 10.2 percent (prev. year 11.2 percent).

Jenoptik draws on research service and know-how both from its own resources as well as from collaboration with partners, scientific institutions as well as through buying in research services. In 2007 the purchase of research services totaled 4.8 million euros (prev. year 11.1 million euros). In addition to the purchase and the costs for the use of patents and licenses, this figure also includes externally purchased and outsourced R+D services. Contacts with scientific institutions are maintained in particular with the

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#### Membership of Jenoptik in committees and associations (selection)

- |   |  |
|---|--|
| -- BDI Unterausschuss Verteidigungswirtschaft   | -- Max-Planck-Gesellschaft zur Förderung der Wissenschaften e.V. |
| -- Bundesverband der Deutschen Luft- und Raumfahrtindustrie e.V. (BDLI)                                   | -- Optonet e.V.  |
| -- Deutscher Industrieverband für optische, medizinische und mechatronische Technologien e.V. „Spectaris“ | -- Photoindustrie-Verband e.V.                                   |
| -- Europäische Technologieplattform Photonics 21  | -- Semiconductor Equipment Materials International               |
| -- International Society for Optical Engineering (SPIE)   | -- Verband Deutscher Maschinen- und Anlagenbau e.V. (VDMA)       |
| -- IVAM Fachverband für Mikrotechnik  | -- Stifterverband für die Deutsche Wissenschaft                  |
|   | -- Verein Deutscher Ingenieure (VDI)                             |
|   | -- ZVEI Zentralverband Elektrotechnik und Elektronikindustrie    |

Friedrich-Schiller University Jena, the Fachhochschule Jena (Institute of Technology), the Technical University Ilmenau, the Institute for Photonic Technologies and the Fraunhofer Institute for Applied Optics and Precision Mechanics in Jena as well as with the Rheinisch-Westphälische Technische Hochschule Aachen (RWTH) and the Fraunhofer Institute für Werkstoff- und Strahltechnik (IWS) in Dresden. The focus of the collaboration is on the subjects of laser technology, optics and image processing. For competition reasons no details are provided of specific projects.

The proportion of public funds for research projects (states, federal government, EU), at 3.1 million euros, is comparatively low and remained precisely at the same figure as in the previous year. A large proportion of these funds were paid for joint projects in which Jenoptik places partial orders with state or semi state-owned research institutions – as stipulated by the guidelines for the funds.

The Scientific Advisory Board gives Jenoptik access to a body of top scientists in areas of key importance to us, providing support for assessing long-term technological trends – p.164. Through its membership of numerous technology-oriented organizations Jenoptik is lending support both to the perception and image of optical technologies plus others of relevance to the Group and is also widely represented on committees which identify technological and political trends. [30]

## Employees & Management

The number of employees increased further in 2007. As at December 31, 2007 the Jenoptik Group had a total of 3,436 employees, therefore a rise of 244 compared with the qualifying date in the previous year (as at Dec. 31, 2006: 3,192). The 7.6 percent increase was the result both of new appointments as well as acquisitions and initial consolidations which together accounted for 136 of the 244 new employees. 49 employees were added with the acquisition of EPIGAP Optoelektronik GmbH as at December 31, 2007 and 53 with the acquisition of the remaining 75 percent of the shares in and consequently the initial consolidation of Detroit Precision Hommel in the USA.

The proportion of the Jenoptik Group employees working abroad consequently also increased to 532 (as at Dec. 31, 2006: 425), now representing 15.5 percent of the total (prev. year 13.3 percent). New appointments were made particularly in the Laser & Optics division, some of which had also been recruited from amongst the temporary employees. Temporary bottlenecks were bridged through the use of temporary personnel. As at December 31, 2007 the Jenoptik Group employed 195 temporary staff, slightly fewer than one year ago (prev. year 231 temporary staff). [31]

[31]

### Employees as at December 31, (incl. trainees)

	Total		Domestic		Foreign	
	2007	2006	2007	2006	2007	2006
Group	3,436	3,192	2,904	2,767	532	425
of which Laser & Optics	1,371	1,254	1,200	1,089	171	165
Sensors	1,173	1,050	829	803	344	247
Mechatronics	829	828	812	815	17	13
Others	63	60	63	60	0	0



Personnel expenses totaled 192.3 million euros (prev. year 180.1 million euros), and increased at 6.8 percent and thus at a slightly proportionately lower rate to the growth in sales. The personnel ratio, the ratio between personnel expenses and sales, consequently reduced slightly to 36.9 percent (prev. year 37.1 percent). <sup>[32]</sup>

As in 2006 once again approx. 1.2 million euros were invested in providing employee qualifications and further training (excluding initial training). Approx. 1,500 employees, consequently slightly more than in the previous year, pursued qualification training, mostly in language courses and sales training. The Jenoptik Junior Leadership Program (J2LP), which provides support and encouragement for young employees, was also continued. Training in personal, social and method-related skills and expertise as well as management know-how is provided in eight modules. Ten participants attended the second course and were awarded their certificates in February 2008.

**Change Management.** The implementation of the new organizational structure is accompanied by a centrally guided change process which started in August with events for the employees at the sites and a central communication adapted to the target groups. Within the framework of the change process the Jenoptik Management Conference took place for the first time in December 2007. 70 representa-

tives of Jenoptik's management were invited. With plenary sessions and working groups the senior managers were prepared for the new divisional organization and united as a management body.

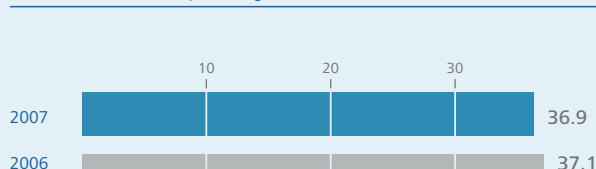
132 trainees completed Group vocational training courses, 12.8 percent more than in 2006 (prev. year 117 trainees). This figure does not include the trainees abroad. Training is provided primarily for mechatronic technicians, precision optics technicians, industrial mechanics and IT specialists as well as specialists in industrial business management. The number of new trainee appointments increased in 2007 to 43 (prev. year 40). A special program offering another 5 additional trainee positions over and above the current demand (prev. year 4 positions) has been operating at the Jena site since 2006. This is intended to partially cushion the anticipated fall in pupil numbers, particularly in Thuringia, from the year 2008. <sup>[33]</sup>

A total of 160 young people took internships or carried out their diploma work at Jenoptik in 2007, another rise in this figure (prev. year 141). In view of the close vicinity of University and Fachhochschule this is an attractive facility, particularly at the Jena site.

All the quality-related personnel work in the fiscal year 2007 was incorporated into the strategic HR Department of the

<sup>[32]</sup>

**Personnel ratio (as a percentage of sales)**



**Trainees (excl. foreign)**

	2007	2006
Group	132	117
New appointments	43	40
of which above demand	5	4

<sup>[33]</sup>

holding company. In the previous years many HR matters were dealt with in the individual Jenoptik companies or on an external basis. This includes HR marketing, recruitment and support. A group-wide system of HR marketing was integrated into the newly established strategic HR department in 2007 and participated in numerous university events. The activities at trade fairs and events for newcomers to these careers were significantly expanded during the 2<sup>nd</sup> half-year 2007. The company also invested in a career portal and a central Applicant Management System which has been online since January 2008 and in the first few weeks led to a significant rise in the number of unsolicited applications and average number of applicants per job advertised – compared with the period in the previous year.

Jenoptik has established itself as an attractive employer at the Jena site with the opening of a child daycare center which will be available predominantly for the children of Jenoptik employees. With opening hours of 6 a.m. to 8 p.m. and an attractive concept for child development, including bilingual language teaching, Jenoptik aims to make it easier for its employees to combine family and career. Over and above this offering Jenoptik combines sponsorship activities with HR work. Interested employees have the opportunity to enjoy cultural and sporting events at concessionary rates.

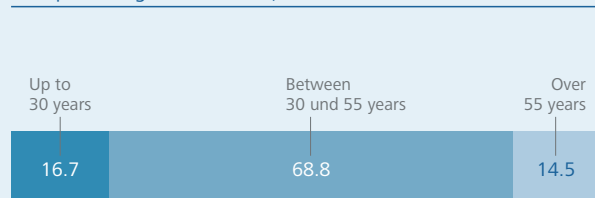
The fluctuation rate, the ratio between new appointments and departures according to defined and generally applicable criteria, was approx. 2 percent in 2007 and so remained constant in comparison to 2006.

The Jenoptik Group has a balanced employee structure from the age aspect. 77 employees throughout the Group took advantage of part-time models for older personnel (prev. year 95 employees), half of these being in the active phase. <sup>[34]</sup>

In July 2007 there was a change in the Group management team. Dr. Michael Mertin succeeded Alexander von Witzleben as Chairman of the JENOPTIK AG Executive Board. Frank Einhellinger has been Chief Financial Office of JENOPTIK AG since July 1, 2007. He joined the Jenoptik Group in 1996 and since 1998 has held various management positions in the Group's finance area (MANAGEMENT REPORT P. 36). In 2007 there were several changes on the 2<sup>nd</sup> management level, some of these resulting from the preparations for the new organizational structure with effect from January 1, 2008. Comprehensive preparations were made for the establishment of the Executive Management Board (EMB), the Group's strategic management committee from 2008. The members of the EMB were appointed in mid 2007 and have prepared comprehensively for their tasks. -- Forecast Report P. 92.

[34]

#### Group-wide age structure (in percent)



#### Certification in the Group (selection)

ISO 9001:2000	Certification of quality management processes
ISO 14001	Certification of the environmental management systems
ISO 9100	Certification of quality management processes in particular for the aerospace sector
ISO 13485	Certification of comprehensive management systems to design and manufacture medical products

[35]

### Organization and production cycle

The Group's new organizational structure, comprising five divisions and three segments, requires and provides for a comprehensive adaptation of many of the processes throughout the company to be introduced on a gradual basis starting from the year 2008.

The "operational excellence" value lever is already being implemented in a number of divisions via specific projects. In this context the Industrial Metrology division introduced a number of comprehensive organizational innovations in 2007: the "quattro S" program, in which S stands for Standard, Solution, Specials and Systems, had already been started at the end of 2006. The aim of the project is to take better account of the differing requirements of the standard and project business – both with regard to the internal processes as well as the customers. Following an analysis phase the organization was restructured for the respective business model at the Villingen-Schwenningen site. Internal procedures were clearly separated according to the various requirements of both business models and each of the procedures optimized.

During the course of the integration of Hommelwerke and Etamic, acquired in 2006, to create the global system provider for industrial production metrology, a detailed profile was drawn up for all the locations worldwide and the core

areas of expertise in the worldwide group were determined. The focus of the integration activities in 2007 was on the amalgamation of Hommelwerke and the Etamic companies, in particular of those areas that are close to the customer such as distribution, service and marketing. In the USA the relocation of the facilities at the Plymouth site to Rochester (both near Detroit) was completed in November 2007. In this context the Rochester site provided for the integration of the facilities without the need for any extensive additional investment.

The business processes in the polymer-based optics and optoelectronic systems business units have been systematically adapted since 2007 to meet the strong growth of the past years. Following an analysis of the weaknesses in current processes Jenoptik Polymer Systems initially concentrated on the potential for improvement in the closeness to the customer, with a significant contribution to value. Amongst other things, by the end of 2007 a 15 percent reduction was achieved in the throughput times for producing offers.

As of August 1, Jenoptik started to implement the SAP Global Trade Services (SAP GTS) module for international trading processes. In 2007 numerous companies and in February 2008 ROBOT Visual Systems GmbH were connected to this module. SAP GTS is used to monitor national and international trading processes. This ensures that the constantly

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### Creation of value added

	2007		2006	
	in million euros	in %	in million euros	in %
Company performance (sales, income, investment result)	560.4	100.0	510.4	100.0
./. purchased goods and services (material)	252.2	45.0	227.1	44.5
./. purchased goods and services (other)	43.2	7.7	38.3	7.5
./. depreciation	43.8	7.8	31.7	6.2
<b>Net value added</b>	<b>221.2</b>	<b>39.5</b>	<b>213.3</b>	<b>41.8</b>

changing international legal provisions relating to current sanctions/export regulations are observed.

### Quality and environmental management

Quality and environmental management systems are implemented in the companies of the Jenoptik divisions. Companies such as JENOPTIK Laser, Optik, Systeme GmbH (Optical Systems division) and ESW GmbH (Defense & Civil Systems division) have their quality management systems reviewed annually in accordance with ISO 9001. The two companies are also certificated under ISO 14001 for their environmental management systems and successfully passed the annual review audit in the year 2007. Since April 2007 the US American optics subsidiary, Coastal Optical Inc., has been certificated in accordance with ISO 9001:2000.

Jena-Optronik GmbH and ESW GmbH (Defense & Civil Systems division) are certificated in accordance with ISO 9100. This is a special quality management system for the aerospace industry. In addition to ISO 9001 Jenoptik Polymer Systems (Optical Systems division) fulfils the requirement for continuous records in respect of all processes for the medical technology industry, with certification in accordance with ISO 13485. <sup>[35]</sup>

### Procurement

The aim – where possible – is to pool the broad range of suppliers of the previous years. In the Jenoptik Group's Shared Service Center overlapping processes will be combined, offering both potential for cost reductions and – whilst retaining costs at the same level – potential for increasing performance and/or quality. This Center started work on January 1, 2008 on the subjects of centralized purchasing (without operative purchase for production) and centralized IT for the Jena and Triptis sites. The main task of the purchasing is to realize potentials for cost reduction by pooling procurement volumes. In 2007 increases in prices of raw materials could partially be cushioned due to existing long-term framework contracts with suppliers.

The cost of materials & purchased services rose by 11.1 percent to 252.2 million euros (prev. year 227.1 million euros) and accounted for approx. 45 percent (prev. year 44.5 percent) of the company performance. The increase is essentially due to the growth in sales. Raw materials, consumables and supplies accounted for approx. 207.4 million euros (prev. year 174.7 million euros). The balance corresponds to the value of the purchased services and prepayments to the company performance which consequently reduced over the previous year.

[37]

### Distribution of value added

	2007		2006	
	in million euros	in %	in million euros	in %
Employees (personnel expenses)	192.3	87.0	180.1	84.3
./. Public sector (taxes)	5.4	2.4	2.9	1.4
./. Creditors (interest)	28.1	12.7	14.2	6.7
./. Companies, shareholders	–4.6	–2.1	16.1	7.6
<b>Net value added</b>	<b>221.2</b>	<b>100.0</b>	<b>213.3</b>	<b>100.0</b>

Net added value grew by 3.7 percent to 221.2 million euros and consequently at a disproportionately lower rate to the growth in sales (prev. year 213.3 million euros). The reasons for this are the marked increase compared with 2006 in depreciation on intangible assets and tangible assets as a result of impairments. The added value quota was accordingly reduced from 41.8 percent in the previous year to 39.5 percent.

On the distribution side of the value added, 87.0 percent (prev. year 84.3 percent) was attributable to personnel expenses which posted a 6.8 percent increase to 192.3 million euros (prev. year 180.1 million euros) at a slightly disproportionately lower rate to the growth in sales. <sup>[36]</sup> <sup>[37]</sup>

## 2.3 Financial situation

Jenoptik's financial management meets the financial requirements of the operating business and the capital expenditure. The financial management is organized on a centralized basis via JENOPTIK AG in order on the one side to secure the financing at favorable terms whilst at the same time taking advantage of all the financing opportunities available to a listed company.

### Financing analysis

The financing structure of the Jenoptik Group has gone through a fundamental change with the repayment of the high interest bond in November 2007, mainly using the restricted cash. In addition, more than 30 million euros in current bank liabilities were offloaded through the take-up of borrowers' notes. The Group's financing basis was therefore adapted to meet the requirements of the strategic realignment and the new business model following the sale of M+W Zander.

The proportion of non-current financial liabilities (loans, bonds, finance lease) of the financing for the Jenoptik Group, at 77.9 percent remained virtually unchanged (Dec. 31, 2006: 78.1 percent). Non-current financial liabilities as at the end of 2007 totaled 161.8 million euros (Dec. 31, 2006: 281.7 million euros, of which 145.5 million euros the bond) and therefore reduced by 42.6 percent. As at December 31, 2007 they essentially comprised the convertible bond in the sum of 60.9 million euros (nominal 62.1 million euros) with a remaining period of eighteen months, the borrowers' notes issued in December 2007 in the total sum of 30.0 million euros with a remaining period of 3 to 5 years, as well as the finance lease in the sum of 24.8 million euros with a remaining period of up to 19 years. A large

<sup>[38]</sup>

#### Elements of interest-bearing liabilities (in million euros)

	2007	2006		2007	2006
Current	45.9	78.8	Non-current	161.8	281.7
Bonds (CP)	0	11.4	Bonds	60.9	204.8
Bank liabilities	43.8	65.8	Bank liabilities	76.1	53.2
Bills of exchange	0	0	Finance lease liabilities	24.8	23.7
Finance lease liabilities	2.1	1.6			

proportion of the non-current bank loans totaling 46.1 million euros (without borrowers' note) are mortgage loans. These were taken up by a separate real estate company for which JENOPTIK AG has no direct liability in respect of the loans but which is being fully consolidated as a result of its commercial content. <sup>[38]</sup>

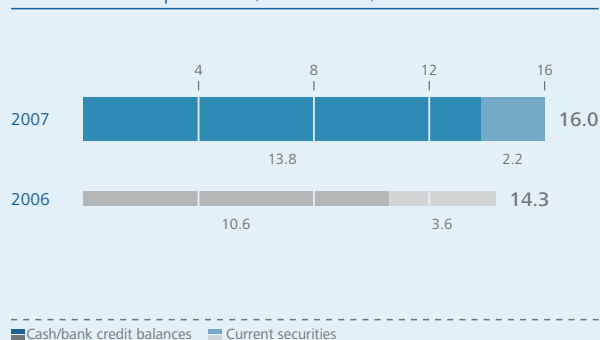
The leverage ratio, the ratio of borrowings (416.4 million euros) and shareholders' equity (280.9 million euros), improved significantly as at December 31, 2007 to 1.48 as a result of the bond repayment (prev. year 1.88 with total adjustment for all the effects arising from the sale of M+W Zander).

The net cash position, at minus 29.9 million euros, improved considerably over 2006 (Dec. 31, 2006: minus 64.6 million euros). Both positions can be compared since the restricted cash in the sum of 143.2 million euros had not been included in the previous year's figure. The net cash position is derived from the total cash and cash equivalents including current securities in the sum of 16.0 million euros (Dec. 31, 2006: 14.3 million euros) less the financial liabilities in the sum of 45.9 million euros with a period of less than 12 months (Dec. 31, 2006: 78.8 million euros). This position does not include current liabilities associated with the operating business, such as for example trade accounts payable or on-account payments received. Jenoptik had

used some of the borrowers' notes to repay current financial liabilities, consequently, in addition to the marked improvement in the cash flow in 2007, these have reduced markedly compared with the previous year -- ALSO P.65. <sup>[39]</sup>

Net debt was further reduced in 2007 despite two acquisitions. This figure comprises the total financial liabilities including bonds, bills of exchange and liabilities from the finance lease, less cash and cash equivalents and securities. As forecast, net debt fell below the 200 million euro mark to 191.7 million euros (Dec. 31, 2006: 203.0 million euros), down by 11.3 million euros in total terms. The funds received from the sale of the PVA TePla shares were used mainly to repay the liability to the M+W Zander minority shareholders which became due in November 2007, as well as for the compensation for early repayment which had been required when repaying the high interest bond. The two acquisitions -- P.65 were financed from current cash flows. The early repayment of the high interest bond itself only had a minor impact on the net debt (with the exception of the compensation for early repayment) since the bond was essentially repaid using apportionable means of restricted cash and both positions were already included in the net debt. This settlement and the positive cash flow reduced gross debt which fell by 42.4 percent from 360.5 million euros to 207.7 million euros. <sup>[40]</sup>

Cash and cash equivalents (in million euros)



Net debt and gross debt (in million euros)

	2007	2006
Non-current financial liabilities	161.8	281.7
Current financial liabilities	45.9	78.8
<b>Gross debt</b>	<b>207.7</b>	<b>360.5</b>
minus securities	2.2	3.7
minus cash	13.8	153.8
<b>Net debt</b>	<b>191.7</b>	<b>203.0</b>



Off-balance sheet financing instruments are used by Jenoptik for new buildings which are normally leased. One of the partners is LEG Landesentwicklungsgesellschaft, North Rhine Westphalia. The sum of all future expenses arising from rental agreements, in addition to buildings also for vehicles, copiers and miscellaneous, totaled 47.1 million euros as at December 31, 2007 (prev. year 46.2 million euros). Some of these future rental costs are spread over periods of up to ten years and essentially entail rentals for buildings based on long-term rental agreements. No other significant off-balance sheet financing instruments are utilized.

#### Analysis of capital expenditure

Total investment in intangible and tangible assets increased slightly in 2007 by 2.0 percent. The Group invested 40.6 million euros (prev. year 39.8 million euros) with investments in tangible assets accounting for the majority at 31.5 million euros (prev. year 27.3 million euros). The investment was offset by regular depreciation in the sum of 32.7 million euros (prev. year 30.2 million euros). Impairments (value adjustments) totaled 11.0 million euros (prev. year 1.5 million euros) essentially as a result of the Group's realignment and ending of individual topics. <sup>41)</sup>

Investments in intangible assets totaled 9.1 million euros (prev. year 12.5 million euros), 5.2 million euros of which was the result of capitalized development costs (prev. year

7.6 million euros). Regular depreciation on intangible assets totaling 7.4 million euros was slightly above the figure for the previous year (prev. year 7.0 million euros). Value adjustments to intangible assets totaled 8.9 million euros (prev. year 0.2 million euros) associated primarily with the adjustment of the Group portfolio, with special attention also being paid to R+D topics.

Investments in tangible assets, at 31.5 million euros, increased by 15.4 percent over the figure for the previous year (prev. year 27.3 million euros). The key items of investments in tangible assets were technical equipment as part of the Service Providing order for traffic safety systems in North America, the completion of the new production facility for base materials for high-power diode lasers in Berlin as well as the new child daycare center at the Jena site. -- DETAILED ITEMIZATION IN THE NOTES UNDER POINT 14. <sup>42)</sup>

Capital expenditure in real estate, at 5.4 million euros, remained at a similar level to the previous year (prev. year 4.8 million euros). The focus was on final technical installations in the new production building for high-power laser bars. The remaining capital expenditure in real estate was primarily the result of rationalization, modernization and replacement investment, in addition to the child daycare center mentioned above.

<sup>41)</sup>

#### Capital expenditure by division\* (in million euros)

	2007	2006	Changes in %
Group	40.6	39.8	2.0
of which Laser & Optics	21.1	22.5	-6.2
Sensors	11.0	7.7	42.9
Mechatronics	4.0	2.6	53.8
Other	4.5	7.0	-35.7

\* Intangible assets and tangible assets

Regular depreciation on tangible assets and investment properties rose by 2.1 million euros or 9.1 percent, to 25.3 million euros (prev. year 23.2 million euros). Value adjustments (impairments) totaled 2.1 million euros (prev. year 1.3 million euros).

Financial assets (including shares in associated companies) were reduced by disinvestments which were roughly similar to the figure for 2006. These totaled 29.1 million euros (prev. year 33.3 million euros) and were characterized by the continuing concentration on the core business and disposal of non-strategic investments. Following the reduction in the shareholding in DEWB AG which had been the main feature of the financial asset disinvestments in the previous year, the fall in 2007 is essentially due to the sale of all shares in PVA TePla AG, the sale of the shares in KSI GmbH and repayment of loans. Disinvestments were offset by capital expenditure on financial assets in the sum of 8.6 million euros (prev. year 14.5 million euros). These were attributable, amongst other things, to loans to affiliated companies and investments.

#### Analysis of cash flows

The cash flow has been a permanent control parameter in the financial assessment system of the operating business since the beginning of 2007. Active management of the assets required for operating purposes showed clear successes in 2007. <sup>[43]</sup>

Since the statement of cash flows published in the previous year also includes the discontinued business division, for the purpose of better comparison additional details were given on the statement of cash flows for the continuing business division.

The cash flow from operating activities, at 73.8 million euros, increased by 156 percent compared with the figure for the previous year, a rise of more than two and a half times (prev. year 28.8 million euros). This was the result primarily of improvements in the working capital. A system of active working capital management has been a permanent element of the company's system of controls since the beginning of 2007. The first results of this can also be seen in connection with a new management incentive system which includes the cash flow as a basis for calculation. This is clearly reflected in the increase in the working capital in 2006 affecting cash and which, at 32.3 million euros, significantly reduced the cash flow. On the other side, in the 2007 fiscal year the Group reported a cash-positive reduction of 14.8 million euros in the working capital. This figure includes the settlement for a long-term project with the corresponding cash inflow. This improvement in the working capital clearly more than compensated for the slightly lower operating result before working capital changes. The figure totaled 59.2 million euros (prev. year 68.0 million euros) and was characterized, in addition to the lower result, by

42

#### Capital expenditure, disinvestments and depreciation\* (in million euros)

	2007	2006	Changes in %
Capital expenditure	40.6	39.8	2.0
intangible assets	9.1	12.5	-27.2
tangible assets	31.5	27.3	15.4
Disinvestments	2.7	26.1	-89.7
intangible assets	0	0.7	-100
tangible assets	2.7	25.4	-89.4
Net capital expenditure (capital expenditure less disinvestments)	37.9	13.7	176.6

the adjustment to the increased impairments in 2007 of 11.4 million euros (prev. year 1.5 million euros) and interests in 2007 during the course of the repayment of the high interest bond in the sum of 27.5 million euros (prev. year 14.2 million euros). However, the profits derived from the disposal of assets in the sum of 21.1 million euros (prev. year 0.7 million euros) were also deducted when calculating the cash flow.

With the cash flow from operating activities generated investments in intangible assets, tangible assets as well as in the financial assets could be made without the need to take up additional loans.

The cash flow from investing activities totaled minus 5.2 million euros (prev. year 160.0 million euros). This figure essentially includes the payments for capital expenditure in intangible assets in the sum of 10.0 million euros (prev. year 13.1 million euros) and for tangible assets in the sum of 25.9 million euros (prev. year 26.8 million euros). The purchase prices paid for EPIGAP Optoelektronik GmbH and Detroit Precision Hommel can be seen in the payments for the acquisition of consolidated companies. The receipts from disposals of financial assets mainly include the sale of PVA TePla shares. In the previous year the cash flow from investment activities was characterized by the receipts from

the liquidation of the two securities funds, the partial sales of DEWB shares and in particular by the payments arising from the sale of M+W Zander.

The cash flow from financing activities was minus 208.1 million euros (prev. year minus 43.9 million euros). This is characterized by the repayment of the high interest bond, the repayment of the commercial paper and the interest paid. <sup>43)</sup>

## 2.4 Asset position

As a result of the assets and liabilities of M+W Zander, now sold, having been recategorized in 2006 to the items "available for sale", the balance sheet items for 2006 and 2007 can be compared.

The effects arising from the repayment of the high interest bond are clearly reflected both in the financial result of the income statement as well as in the financial and balance sheet analysis as at December 31, 2007. The repayment of the high interest bond was one of the main reasons for the numerous significant changes in the individual indicators and items within the asset structure.

42)

### -- Continuation -- Capital expenditure, disinvestments and depreciation\* (in million euros)

	2007	2006	Changes in %
Depreciation/impairment	43.8	31.7	38.2
intangible assets	16.3	7.2	126.4
tangible assets	27.5	24.5	12.2

\* Intangible assets and tangible assets

### Analysis of the asset structure

As shown in the Notes to the accounting and valuation methods, the fair values of the assets and liabilities are stated in accordance with IFRS 3 for enterprise values.

Intangible and tangible assets, including investment properties (real estate which is predominantly leased to the third parties) are shown at their acquisition and production costs in accordance with IAS 38 and IAS 40 respectively. Financial instruments in accordance with IAS 32 and 39, in particular securities available for sale, are shown at their fair values.

The balance sheet total of the Jenoptik Group was reduced markedly by 176.4 million euros to 697.3 million euros (Dec. 31, 2006: 873.7 million euros). The main reason for the reduction is the repayment of the high interest bond in the sum of 150 million euros for which the restricted cash was essentially used. In addition, the balance sheet total was reduced by the sale of the shares in PVA TePla, the repayment of liabilities to the M+W Zander minority shareholders and the reduction in the financial liabilities resulting from of the improvement in the cash flow.

The fall in non-current assets is mainly attributable to the reduction in the financial assets. They reduced to 387.7 million euros (Dec. 31, 2006: 416.9 million euros).

There were few significant changes in intangible assets and tangible assets which are included in non-current assets. Goodwill increased by 6.2 million euros to 59.2 million euros (Dec. 31, 2006: 53.0 million euros) due to the two acquisitions -- p. 70. The largest item of tangible assets, at 87.9 million euros (Dec. 31, 2006: 89.0 million euros) remain buildings, followed by technical equipment and machinery which, at 48.1 million euros, rose by 6.6 million euros (Dec 31, 2006: 41.5 million euros). This increase is due mainly to the new production facility in Berlin for diode laser bars. <sup>[44]</sup>

Financial assets fell by 31.6 million euros to 24.8 million euros (Dec. 31, 2006: 56.4 million euros), due, amongst other things, to the sale of shares in PVA TePla, KSI, impairments within the framework of the Group reorganization and the consolidation of JENOPTIK Diodelab GmbH as at January 1, 2007. -- DETAILED EXPLANATION IN THE NOTES UNDER POINT 18

43

### Cash flows (in million euros)

	2007	2006 (continuing BD*)
Cash flow from/used in operating activities	73.8	28.8
investing activities	-5.2	160.0
financing activities	-208.1	-43.9

\* Since the statement of cash flows published in the previous year also includes the discontinued business division, for the purpose of better comparison additional details were given on the statement of cash flows for the continuing business division.

- Cash flow from operating activities two and a half times as high as in the previous year.
- Investments made without the need to take up additional loans.

Current assets reduced sharply. As at December 31, 2007 these totaled just 309.6 million euros (Dec. 31, 2006: 456.7 million euros). This reduction is the result of the loss of the restricted cash which – in accordance with the terms of the bond – was used for the early repayment of the high interest bond. Cash and cash equivalents rose slightly to 13.8 million euros (Dec. 31, 2006: 10.6 million euros).

Under current assets associated with the operating business, inventories rose by 12.6 million euros to 174.1 million euros (Dec. 31, 2006: 161.5 million euros) not only in line with the expansion of business but also through the initial consolidation of JENOPTIK Diode Lab GmbH and as a result of the acquisitions. By contrast, receivables from operating business activities posted a fall – despite the above-mentioned initial consolidations. These receivables reduced by 8.4 million euros to 95.4 million euros (Dec. 31, 2006: 103.8 million euros) attributable mainly to a more active management of receivables as well as the settlement and payment of a so-called Percent of Completion (PoC) receivable in connection with a long-term production order.

The working capital, defined as the total receivables from operating activities and inventories, less trade accounts payable, liabilities arising from PoC and on-account payments received, fell by 8.6 million euros to 189.7 million euros

(Dec. 31, 2006: 198.3 million euros) as a result of the active working capital management and above-mentioned PoC receivable. This fall was achieved despite the three new consolidated companies and the expansion of business in 2007. The working capital quota, working capital as a proportion of sales, reduced by 4.5 percentage points to 36.4 percent (prev. year 40.9 percent).

Shareholders' equity, including minority interests, fell by 18.5 million euros to 280.9 million euros (Dec. 31, 2006: 299.4 million euros). The income from the sale of the shares in PVA TePla increased the shareholders' equity only partially as the increases in the share prices up to December 31, 2006 had already been included in the financial statements for the previous year without affecting results and increasing the shareholders' equity. The costs arising from other share sales and impairments resulting from the Group restructuring accordingly reduced the Group shareholders' equity. The earnings after tax, which were just in the red as a result of the deferred tax expense, as well as currency effects resulting from the weak dollar, also had a reducing effect.

The shareholders' equity ratio, the shareholders' equity as a proportion of the balance sheet total, increased by contrast to 40.3 percent (Dec. 31, 2006: 34.3 percent). The effect of the reduction in the balance sheet total, mainly attributable

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#### Structure of non-current assets (in million euros)

	2007		2006		Changes in %
Intangible assets	88.3	22.8 %	89.5	21.5 %	- 1.3
Tangible assets incl. investment properties	211.9	54.6 %	204.7	49.1 %	3.5
Financial assets	24.8	6.4 %	56.4	13.5 %	- 56.0
Other non-current assets	10.8	2.8 %	11.2	2.7 %	- 3.6
Deferred taxes	51.9	13.4 %	55.1	13.2 %	- 5.8
<b>Total</b>	<b>387.7</b>	<b>100.0 %</b>	<b>416.9</b>	<b>100.0 %</b>	<b>- 7.0</b>

to the repayment of the high interest bond as well as to the sale of assets not required for operating purposes, more than compensated for the reduction in the shareholders' equity. <sup>[45]</sup>

Non-current liabilities reduced sharply by 124.4 million euros to 208.8 million euros (Dec. 31, 2006: 333.2 million euros). As announced, Jenoptik had repaid the high interest bond in the sum of 150 million euros early as at November 15, 2007. The existing call option at the price of 103.938 was used for this purpose, corresponding to a repayment sum of nearly 156 million euros. As planned, in particular funds (restricted cash) from the sale of M+W Zander were used for the repayment. The bond had been issued in 2003 with a term of seven years with the option for termination after four years. The direct one-off cost of 9.6 million euros arising from the repayment was shown in the financial result in 2007 -- p. 52. Borrowers' notes in the total sum of 30 million euros were taken up in December 2007 for the purpose of repaying current bank loans.

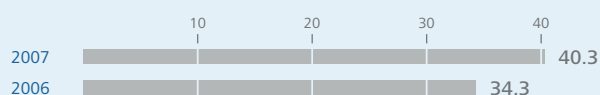
Pension liabilities remained constant at 6.4 million euros. Other non-current provisions, at 22.0 million euros, also remained at the same level as the previous year (Dec. 31, 2006: 22.3 million euros).

Non-current financial liabilities therefore reduced to 161.8 million euros (Dec. 31, 2006: 281.7 million euros) as the result of the repayment of the high interest bond. In non-current bonds the convertible bond of 60.9 million euros is left (Dec. 31, 2006: 204.8 million euros). By contrast, there was a sharp increase in non-current liabilities to banks. In December 2007, Jenoptik succeeded in placing borrowers' notes for the total sum of 30.0 million euros despite difficult market conditions for financing. These borrowers' notes in the sum of 5 million euros and 25 million euros with a term of three and five years respectively, complemented the Group's medium-term financing and are clearly more suited to the new Group with regard to terms, conditions and structure. In addition, the take-up of the borrowers' notes was used to repay current bank liabilities which reduced sharply accordingly.

Clauses which take effect in the event of a change of control in the shareholder structure of JENOPTIK AG exist for financing items with a total nominal value of 134.7 million euros. These include the convertible bond, the borrowers' notes as well as two loan agreements. The above-mentioned JENOPTIK AG loan agreements which are used for financing current working capital and are arranged as credit lines in the sum of 10 million euros and 12.5 million euros,

<sup>[45]</sup>

#### Shareholders' equity ratio (in percent)



-- Shareholders' equity ratio increased to 40.3 percent.

-- Balance sheet total reduced as a result of the bond repayment.

can be exceptionally terminated by the corresponding bank in the event of a change in the control of the JENOPTIK AG shareholder structure. In the case of the borrowers' notes the lenders are entitled to exceptional termination of the loans in the amount of their investment. A change of control applies if at any given point in time one or several persons acting in concert, with the exception of the main shareholders at the time the contract is concluded, indirectly or directly hold more than 50 percent of the outstanding nominal capital or voting rights. In the case of the convertible bond, should there be a change of control the conversion price (subject to any other stipulated adjustment) will be adjusted by being multiplied by a predefined factor in the event of any conversion rights being exercised or shares being delivered. For a conversion date up to (but not including) July 23, 2008, the factor will be 0.9356. Under the conditions of the convertible bond a change of control applies in accordance with defined criteria which are explained in detail in the terms and conditions of the bond which are available in the public domain. -- FURTHER INFORMATION IN ACCORDANCE WITH §289 SECTION 4 ON CHANGE OF CONTROL CLAUSES ARE AVAILABLE IN THE MANAGEMENT REPORT ON P. 39

Current liabilities reduced by 33.5 million euros to 207.6 million euros (Dec. 31, 2006: 241.1 million euros). Using resources raised from the borrowers' notes issued at the end of 2007, Jenoptik repaid current financial liabilities as at

the 2007 year end which fell as a result by 32.9 million euros to 45.9 million euros (Dec. 31, 2006:

78.8 million euros). In this context the liabilities from the commercial paper were reduced to zero (Dec. 31, 2006: 11.4 million euros) and current liabilities to banks by 22.0 million euros to 43.8 million euros (Dec. 31, 2006: 65.8 million euros).

Liabilities from operating activities increased by 12.9 million euros to 79.8 million euros (Dec. 31, 2006: 66.9 million euros) due to the growth in sales. Liabilities arising from on-account payments received remained virtually unchanged. The increase is attributable to higher trade accounts payable and PoC (Percent of Completion) liabilities. The rise in trade accounts payable is not attributable to any marked change in payment behavior but primarily to the newly consolidated companies and expansion of business. The increase in PoC liabilities resulted from on-account payments for longer-term projects in the aerospace technology business.

Other current liabilities posted a marked reduction of 10.7 million euros to 32.0 million euros (Dec. 31, 2006: 42.7 million euros). The previous year's figure included the remaining liability to the minority shareholders of M+W Zander in the sum of 15.1 million euros which was repaid in November 2007. <sup>46)</sup>

46)

#### Financial liabilities by due date (in million euros)

	Up to 1 year		1 – 5 years		Over 5 years		Dec. 31, 2007	
	2007	2006	2007	2006	2007	2006	2007	2006
Bonds	0	11.4	60.9	204.8	0	0	60.9	216.2
Liabilities to banks	43.8	65.8	33.6	9.6	42.4	43.6	119.8	119.0
Liabilities from finance lease	2.1	1.6	4.6	4.6	20.2	19.1	26.9	25.3
<b>Total</b>	<b>45.9</b>	<b>78.8</b>	<b>99.1</b>	<b>219.0</b>	<b>62.6</b>	<b>62.7</b>	<b>207.6</b>	<b>360.5</b>



### Explanation of purchases and sales of companies

In the 2007 fiscal year the Jenoptik Group made two major acquisitions: Jenoptik purchased the remaining 75 percent of the shares in the US American company Detroit Precision Hommel, Inc., with registered offices in Rochester Hills near Detroit. With effect from April 2, 2007 Jenoptik has held 100 percent of the shares in the company. In the year 2002 Hommelwerke GmbH invested its US activities in what was then Detroit Precision Tool Co. and since that time has held a 25 percent stake in the company. The remaining shares which have now been acquired were in private hands. The strategic objective and the impact on the key indicators of the Sensors division in 2007 are described in detail in the Segment Reporting **ON P. 77FF**. The acquisition led to an increase in balance sheet assets (including goodwill) in the sum of approx. 5.9 million euros and balance sheet non-current and current liabilities in the sum of approx. 2.9 million euros.

The impact of the EPIGAP Optoelektronik GmbH acquisition on the balance sheet position was much less significant. This acquisition as at December 31, 2007, which is described in detail in the Segment Reporting on the Laser & Optics division **ON P. 75**, resulted in the takeover of assets in the sum of approx. 9.3 million euros and liabilities in the sum of approx. 1.0 million euros.

The purchase of the remaining 49 percent of the shares in SINAR AG, Feuerthalen (Switzerland), which had already been fully consolidated before and was therefore included in the balance sheet items, did not affect the consolidated balance sheet. Apart from the effects arising from the sale of the PVA-TePla shares and, to a lesser extent, from the sale of the KSI shares, there were no disinvestments which had a significant impact on the consolidated balance sheet during the course of 2007.

### Assets and liabilities not included in the balance sheet

One of the main assets not included in the balance sheet is the value of the Jenoptik brand. semion brand broker gmbh assessed the value of the brand at 91 million euros (prev. year 93 million euros). The Jenoptik brand is one of the top 50 German brands, occupying the 40<sup>th</sup> spot in the semion brand broker gmbh rankings (prev. year 42<sup>nd</sup>). The reduction in the brand value compared with the previous year is attributed to the strategic realignment which is still ongoing. Over the long term experts believe that concentrating on the technology business will have positive consequences for the brand value.

Off-balance sheet financing instruments were explained in detail **ON P. 63** of the Management Report as well as in the Notes under **POINT 34**.

### Intangible assets not included in the balance sheet

It is impossible to give a description of intangible assets that does not contain any subjective perceptions. From our viewpoint intangible assets are created on the basis of know-how, contacts and trust. As far as possible, key indicators are used below for the purpose of assessing our intangible assets. No overall or individual calculation of the asset values has been carried out.

Our success is determined by the success of our customers. A relationship of mutual trust is needed for technology-intensive products and systems which can often only be created in collaboration with the customer. We see our knowledge of customer needs as well as our longstanding working relationship with many of our key customers as our most important intangible asset. This is reflected for example in the fact that we have orders totaling nearly 200 million euros that extend beyond 2008.

We also include our employees' know-how and years of experience, as well as their willingness and loyalty to the company, as part of the intangible assets. This can be seen for example in our low fluctuation rate of 2 percent.

Our technology intensive business is based primarily on the success of our product and technology development. We view the research and development, process and project know-how, accumulated over many years, as an important intangible asset that cannot be quantified. This also includes our numerous formal and informal contacts with universities and research institutions. We are helped in this respect by the fact that our headquarters are located in Jena, a city that enjoys an excellent reputation not only amongst scientists but customers as well. We have a long history of tradition in the precision mechanics-optical industry in Jena, a tradition which is passed from generation to generation here as a type of "cultural inheritance". We are consciously aware of this fact and play our part in promoting the city from the scientific, cultural and social aspects. Once again in 2007 our sponsorship activities at the Jena location totaled 0.2 million euros (prev. year 0.2 million euros) which we see as an investment in our location and our employees. This figure does not include the approx. 2 million euros in construction costs for the child daycare center in Jena-Göschwitz which is used to 70 percent of the parents working at Jenoptik -- ALSO P. 58.

#### Summary | General statement on the economic situation

With a 7.5 percent increase in sales, in 2007 we were unable to achieve an appropriate increase in the Group EBIT. This was mainly attributable to the poor international market conditions in the traffic safety systems business. However, the Laser & Optics division, which is continuing to generate profitable growth, was able to almost compensate for the falls in the results. Business development in the Mechatronics division showed a stable trend.

A comprehensive analysis of all the key areas of business and the development topics throughout the Group had marked consequences, as a result of which we were forced to apply value adjustments in the double figure million range. We have already withdrawn from a number of areas in 2007. The disposal and/or termination of other topics is expected to take place in the 1<sup>st</sup> quarter of the year 2008. The forecast effects have been incorporated within the 2007 consolidated financial statements. The resultant, necessary value adjustments were mainly offset by the positive contribution to the results from the sale of assets not needed for operation.

We successfully achieved our financial targets in 2007. The marked increase in the cash flow is of particular importance. By contrast to previous years, it enabled us to finance all the current interest expenses and investments without the need to take up any further loans. So despite the two acquisitions we achieved a marked reduction in net debt. The repayment of the high interest bond incurred a one-off compensation for early repayment although this will be more than recouped through savings in the net interest result over the coming years. In connection with this our balance sheet total was reduced to a level appropriate for our volume of business and with a shareholders' equity ratio that simultaneously increased to 40.3 percent.

### 3 Segment reporting

The segment reporting for the year 2007 reflects the old Laser & Optics, Sensors and Mechatronics divisions to which the JENOPTIK AG subsidiaries had been assigned. The new organizational structure with the five divisions grouped into three segments will form the basis of the reporting from the year 2008 and therefore will be used for the first time in the report on the 1<sup>st</sup> quarter 2008. The figures based on the new structure are given in the Forecast Report **FROM P. 92**. The details based on the old divisions for the year 2007 cannot be compared with the forecast details based on the new segments for the year 2008 – despite the similar names in some areas – since the operating business is based on a different structure.

The details on the operating result of the divisions in the explanations below were adjusted for one-off effects so these can be compared with the figures for the previous year.

-- DETAILED EXPLANATIONS OF ONE-OFF EFFECTS CAN BE FOUND ON P. 50F AND DETAILS IN THE NOTES

#### 3.1 Laser & Optics

##### Development of sales and results

The Laser & Optics division can once again look back over a basically very good fiscal year. The division posted another marked increase in sales of 20.0 million euros to 219.2 million euros in 2007, a rise of 10.0 percent (prev. year 199.2 million euros). The original forecasts for the division from the beginning of 2007 – that sales would consolidate at the same high level – were therefore exceeded once again. The performance was helped by a continuing very positive market environment for laser technology and optical products. 47

The foreign sales of the division totaled 67.8 percent, the same level as in the previous year (prev. year 67.6 percent). Growth by the division was generated entirely through its

internal resources, with the increase in sales coming both from proven products, for example the high-performance optics for semiconductor equipment, high-power diode lasers or polymer optics, as well as from newer business units such as optoelectronic systems.

At 52.3 percent the result from operating activities increased at a markedly stronger rate than sales to 23.3 million euros (prev. year 15.3 million euros). The strong effect on results is attributable both to the expansion of sales as well as to increases in efficiency. The disproportionately high growth in results came primarily from the positive, above-mentioned activities in the development of sales.

##### Order book situation

The good market environment was reflected in the order book situation which continued the upturn from the previous year, particularly in the 1<sup>st</sup> and 2<sup>nd</sup> quarter 2007 and then rose sharply again at the end of the year. The order intake for the division increased in 2007 to 230.8 million euros and was therefore a clear 10.7 percent up on the already high level in the previous year (prev. year 208.5 million euros). The book-to-bill rate was 1.06 (prev. year 1.04). Optics, micro-optics and polymer optics plus laser technology remained the engine driving development. The order backlog as at December 31, 2007 was 78.9 million euros, a 19.4 percent increase over 2006 (Dec. 31, 2006: 66.1 million euros). In 2008 approx. 90 percent of the order backlog will result in sales.

##### Research & development

R+D expenses of the division, at 21.0 million euros, accounted for 53.8 percent of the figure for the Group as a whole (prev. year 17.6 million euros). There was a cut back or disposal of individual R+D activities particularly in this division – as described in the Management Report – consequently leading to value adjustments which were mainly responsible for the rise in R+D expenses.

The figure for the division's R+D expenses does not include JT Optical Engine GmbH + Co. KG which is shown in the investment result at-equity. The foundation for this key R+D project was laid in 2007: in conjunction with Trumpf Jenoptik amalgamated the activities in the field of innovative laser components and subsystems for fiber lasers. JT Optical Engine, with headquarters in Jena and more than 20 employees, develops modules, so-called optical engines for fiber lasers which it will be manufacturing. The optical engine, together with pump diodes, control unit and beam management, is a key component in fiber laser systems. The working example of a fiber laser was completed at the end of 2007. In this context JT Optical Engine GmbH will initially concentrate on the low-power range below one kilowatt, primarily for use in material processing and medical technology.

### Products and technologies

2007 saw the market launch of numerous products and technologies. Jenoptik presented an overview of these at the key headline trade fairs: at the Laser 2007 which is held every two years in Munich and at Photonics West in the USA, the world's most important platform for the latest trends in the sector, staged annually in January.

Jenoptik showcased the latest developments particularly from the fields of laser technology and polymer optics/op-

toelectronics. The JenLas® epidot disk laser, with a wavelength of 532 nanometers (green laser light) was premiered in January 2007. An output power of up to 4.0 Watts provides for smaller structures for ablating and marking new materials and expanded the range of possible applications. The company also presented an innovative polymer-based camera module suitable for use, amongst other things, in medical technology and industrial sensors as well as silicon lenses for use in LED lighting applications.

The quality of the semiconductor material, the basis for high-power diode lasers, was further enhanced. The switchover to the company's own high-efficiency diode laser bars made by JENOPTIK Diode Lab GmbH in Berlin was completed at the end of 2007. A high bar quality, combined with new assembly technologies, leads to an increase in output powers. Jenoptik possesses in-house expertise along the entire high-power diode laser process chain – from the unassembled diode laser bars through to ready-assembled diode lasers with beam shaping, vertical and horizontal diode laser stacks plus fiber-coupled diode laser modules.

The JenLas.®ASAMA disk laser was developed specially for the annealing of thin layers (LCD and OLED flat screen monitors) and for the activation of dopings (high-performance transistors, semiconductor industry) in semiconductor films.

-- ALSO P. 93

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### Laser & Optics at a glance (in million euros)

	2007	2006	Changes in %
Sales	219.2	199.2	10.0
EBIT	23.3	15.3	52.3
Order intake	230.8	208.5	10.7
Order backlog	78.9	66.1	19.4
Employees	1,371	1,254	9.3

- Very good fiscal year in positive market environment.
- Growth generated through internal resources.
- Disproportionately high earnings growth.

In 2007 three key new products were launched in the digital imaging area. The new Hy6 medium format camera was followed in autumn by the high resolution VarioCAM® HighRes thermographic camera with an image resolution of up to 1.2 megapixels. It was designed for use in the demanding applications within the field of scientific research and development as well as for use in the industrial environment. The camera delivers high resolution images with real time capability, increased measurement precision and optimum user-friendliness. With a resolution of up to 3 megapixels plus extremely fine color grading the new microscopy camera with CMOS technology delivers superb digital images, particularly for bright contrast methods. The comprehensive know-how in the field of digital imaging is one of Jenoptik's strategic cross-sectional areas of expertise and is incorporated into numerous Jenoptik products, including those for use in traffic safety systems, aerospace technology and security technology (aerial photo and satellite cameras including data processing and analysis), infra-red technology (thermographic inspection) as well as in scientific applications (microscopy cameras).

#### Employees & management

As at December 31, 2007 the Laser & Optics division employed a total of 1,371 personnel and, as such, posted the sharpest increase in employee numbers within the Group (prev. year 1,254 employees). In addition to new appointments resulting from the expansion of business, 49 employees were added at the end of the year with the acquisition of EPIGAP Optoelektronik GmbH. 171, and thus 12.5 percent of the division's employees work abroad. The focus is on the USA with a comprehensive range of optical activities, including full stage local production, mainly for the US American military, space and research industries. For the very first time own employees are present in Israel where a new sales office opened in March 2007 which simultaneously provides access to this market for other Jenoptik areas. In Israel Jenoptik today supplies customers from the

semiconductor equipment manufacturing industry as well as the optical inspection and printing machine industries. The aim of the direct local presence is to provide more direct support for existing customers and, in particular, to attract new customers. In this context particular importance is attached to the areas of medical technology as well as security and defense technology in which optical components and subsystems are used.

2007 saw numerous changes in the management of the division – partly resulting from the Group's strategic realignment. With the new divisional structure Dr. Dirk Michael Rothweiler has been responsible for the Group's entire optics business and Dr. Thomas Fehn for the entire laser business since January 1, 2008 -- **Forecast Report P. 92**. There were also changes on the 2<sup>nd</sup> management level in 2007, for example changes in the management of the polymer optics area, the optics area, diode laser activities as well as the digital imaging area, with most of the appointments being made from within the Group. The Imaging Systems profit center of JENOPTIK Laser, Optik, Systeme GmbH and the Jenoptik subsidiary SINAR AG, which previously operated separately, were combined into a Digital Imaging business unit.

#### Capital expenditure

The division's capital expenditure totaled 21.1 million euros (prev. year 22.5 million euros) and so remained at the same level as in the previous year. The key items were expenditure on equipment in order to round off the manufacturing of diode laser bars in Berlin, plus capital expenditure on expansion and replacement throughout the division. A new optics production site was opened in the USA in December 2007, doubling in size to 3,530 square meters. There was significant expansion in particular of the production capacities as well as in the equipment for assembly and precision manufacture and quality control for aspheres. The administrative and commercial areas, previously housed in two

separate buildings, are now combined in the new building. 0.3 million euros was invested in the equipment, whilst the building itself has been leased.

### Acquisitions

In addition to the acquisition of the Berlin-based EPIGAP Optoelektronik GmbH at the end of 2007, the focus of activities in the Laser & Optics division in 2007 was on the integration of the companies that had been acquired in the previous years.

With the acquisition of 100 percent of the shares in the Berlin-based firm of Epigap with effect from December 31, 2007, Jenoptik expanded its activities in the field of optoelectronic sensors. The acquisition will enable the comprehensive expertise in optics and the semiconductor know-how to be combined, completing the technology chain for optoelectronic systems. Epigap specializes in the development and manufacture of photodiodes (with selective sensitivity for a spectral range from 150nm up to 2600nm), LED (Light Emitting Diodes) chips and components as well as optoelectronic modules and sensor elements. Synergies exist in particular with the optoelectronic systems based in Triptis. In 2006 Jenoptik had invested heavily here in assembly and packaging technology in order to add a key technology step in the existing polymer optic process chain. Whilst Epigap will benefit from Jenoptik's international presence, particularly in North America, as well as from strategic partnerships, Jenoptik will gain access to product, technology and manufacturing know-how. The LED and PD chips which are developed and manufactured to customer specifications will now be further processed on a joint basis to create optical systems which will be marketed worldwide.

In spring 2007 Jenoptik acquired the remaining 49 percent of the shares in the company, with a history of tradition and 50 employees and headquarters in the Swiss town of Feuerthalen. The objective of the full takeover of SINAR AG

was to combine the business more closely with the digital imaging activities based in Jena.

The integration of unique-mode, acquired in 2006, was completed in 2007. The company has now been merged with the laser diode area and the production, development and sales structures amalgamated within the same area.

## 3.2 Sensors

### Development of sales & results

During the course of the year the Sensors division was the Group's "problem child" since anticipated major orders either failed to materialize or had been delayed for the longer term. However, as at the 2007 year end it succeeded in posting another rise in business. Sales of the Sensors division increased by 6 percent to 162.4 million euros (prev. year 153.2 million euros). Foreign sales accounted for 62.3 percent and were at almost the same level as in the previous year. The growth in sales was attributable solely to contributions from industrial metrology which had either not been included or not fully included in the previous year. The sales generated in 2007 by the Etamic Group acquired in 2006, were therefore included in full for the first time (prev. year on a proportional basis since October 1, 2006) and the sales of Detroit Precision Hommel, initially consolidated in 2007, since April 2, 2007 (prev. year 0). <sup>[48]</sup>

The division's result from operating activities remained sharply below the figure for the previous year. At 8.7 million euros it was 9.4 million euros below the previous year's very high level in absolute terms (prev. year 18.1 million euros). The main reason for the sharp fall in the results was a weak international market environment for traffic safety systems and the delayed placing of orders also in the aerospace technology area. The contribution to results from industrial metrology, which primarily concentrated on amalgamat-

ing the global activities with Etamic acquired in 2006, was within expectations.

#### Order book situation

As with sales and results the sluggish development of business during the year by two of the division's key individual areas was also reflected in the order book situation. Although the order intakes rose by 11.6 percent to 162.2 million euros (prev. year 145.3 million euros), the increase here as well was mainly due to the contributions from the two new metrology companies whose order intakes had previously not been included. As at the year end there was a sharp rise in the division's order intake, with orders in the double figure million euro range, including the largest order in the company's history in the area of aerospace technology. At the end of 2007 Jenoptik agreed a long-term supply contract with the Mitsubishi Electric Corporation for Guidance, Navigation & Control sensors in the double figure million range, part of this order having already been included in the order intake for 2007. The book-to-bill rate for the Sensors division was 0.99 (prev. year 0.92). The order book situation in the industrial metrology area showed a very positive trend as it was able to increasingly benefit from the worldwide integration and presence of its activities. The order backlog of the Sensors division, at 71.5 million euros, was at virtually the same level as the previous year (prev. year 69.0 million euros). The previous year's figure had already included the Etamic Group in full but not Detroit Precision Hommel which was fully consolidated in 2007.

#### Research & development

The R+D expenses of the division totaled 13.0 million euros and were therefore precisely at the same level as in the previous year.

Key projects in 2007 in the area of industrial metrology, were amongst others the further development and expansion of the product portfolio. New developments in the

aerospace area for earth observation were based essentially on the results from the RapidEye project. The METimage multi-spectral imaging radiometer is being developed for future meteorology and environmental satellites. The German Aerospace Center (DLR) and the German Meteorological Service support the instrument concept as a national contribution to EUMETSAT, the successor system to EPS. The focus of the activities in traffic safety systems, in addition to new measurement technologies and improvements in existing products, is primarily on the comprehensive innovation of the business model. Preparations are being made to expand the entry into the international Service Providing business. In the area of industrial metrology several new measurement systems are at the start phase of their product lifecycle and/or will be going into series production at the beginning of 2008.

#### Products & technologies

In the field of laser processing systems in 2007 Jenoptik's laser welding process for plastics progressed to the series production ready stage. This process welds sophisticated micro-system technology modules for use in the pharmaceutical, diagnostic and medical technology areas on a fully automated basis and to individual customer needs. An innovative laser separation technology for substrate ceramics was developed in-house and patented. Heating by using a laser beam creates surface tension on the material, providing for a defined separation. The contactless process produces absolutely crack-free edges – a particular advantage in the further processing of high-tech products. The first two systems were sold to Asia. This division also made a successful entry into the solar market in 2007, an area in which Jenoptik offers machines for selective processing step in the production of thin-film solar cells in which photoactive semiconductors are applied to a substrate as thin films. In the production process these films are structured several times using the JENOPTIK VOTAN G systems and thus electrically connected into a module.



In the industrial metrology area, in addition to the continuing amalgamation of the Group's worldwide activities, several new systems and machines were simultaneously successfully launched on the market in 2007: the IPS-10 internal testing sensor for the automatic detection of surface defects of drill holes filled another gap in the automation process. For some years now Hommel-Etamic has been working on the automatic testing of the surfaces of motor components e.g. cylinder drill holes, a problematical process particularly in view of the ever shorter cycle times. In the IPS 10 a 360° viewing lens which is placed inside the drill hole provides a picture of the internal surface of the drill hole. The HOMMEL nanoscan provides an addition to the product program for roughness and contour measurement, providing for a high-precision in-process testing of the surface roughness while simultaneously measuring contours. The HOMMEL shaft-scan, a new generation of products, offers fast and precise measurement of crankshafts and camshafts.

In the field of aerospace technology Jena-Optronik effected delivery of its fifth RapidEye camera, successfully completing a major order received in 2004. The five multi-spectral cameras are the heart of a private sector, satellite-aided earth observation system, delivering needle-sharp, multi-spectral and high-resolution images from space. The entire earth observation instrument family of products was premiered at the leading headline trade fair for aviation and aerospace

at Le Bourget/Paris in June 2007. For the very first time Jenoptik showcased a model of the METimage radiometer for future meteorological and environmental satellites. The excellent work as a supplier to the international aerospace industry was recognized by Boeing Satellite Systems with the "Supplier of the Year 2006" award for the autonomous ASTRO 15 star sensor. Boeing honored customer satisfaction and the high quality of the products.

Traffic safety systems can look back over a differentiated year. For example, the division made a successful entry into the Service Providing business with a major order from North America – an important milestone in the strategic development of this business. At the beginning of 2007 ROBOT Visual Systems GmbH, a Jenoptik subsidiary in the Sensors division, won a major international order well in excess of 10 million euros. The order is for a period of five years and includes an extension option for a further five years. At least 220 TrafficStar SR 520 monitoring systems will initially be installed. With this red traffic light monitoring is switching over from wet film to digital technology. The SR 520 system is one of the most advanced and compact traffic monitoring systems in the world and is based on the digital camera system with 11 megapixel color CCD developed in Jena.

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## Sensors at a glance (in million euros)

	2007	2006	Changes in %
Sales	162.4	153.2	6.0
EBIT	8.7	18.1	-51.9
Order intake	162.2	145.3	11.6
Order backlog	71.5	69.0	3.6
Employees	1,173	1,050	11.7

- Improved business situation at the end of the year.
- Sales increase results from acquisitions.
- Earnings clearly below the previous year.

2007 saw the absence of major international orders for the equipment business. By contrast, the domestic business reported stable development. Following the work on the Thuringia Walddautobahn (highway) in spring 2007 Robot also installed the latest digital monitoring system in the new A4 tunnel near Jena.

Finland awarded a major contract abroad where the Jenoptik subsidiary Robot is continuing to expand its market cover there. In 2008 and 2009 Robot will be supplying 200 external housings and 20 TraffiStar SR520 units for use in stationary systems, plus six mobile MultaRadar C radar systems. There is an option for a further 200 external housings plus 20 units and six mobile radar systems for 2010.

#### Employees & management

The number of employees in the Sensors division increased to 1,173 as at December 31, 2007 (Dec. 31, 2006: 1,050). The sharp increase of 11.7 percent or 123 employees in total within the three group divisions is primarily the result of the new employees being added during the course of the acquisition of the US activities and initial consolidations and as a result of the Etamic acquisition in the area of industrial metrology. With these activities abroad, the proportion of employees working abroad in what is by far the most international of the Group's divisions is now 29.3 percent (prev. year 23.5 percent).

#### Capital expenditure

In the fiscal year just past the Sensors division invested 11.0 million euros in intangible and tangible assets, therefore approx. 42.9 percent more than in the previous year (prev. year 7.7 million euros). The focus of the capital expenditure was on the new facilities for traffic monitoring in North America as part of the Service Providing which will remain with Jenoptik and therefore count as capital expenditure. The capital expenditure was offset by depreciation in the sum of 5.5 million euros (prev. year 4.3 million euros).

#### Acquisitions

As in the Laser & Optics division the spotlight in 2007 was on the amalgamation of activities acquired in previous years. Particular importance is attached to the formation of the worldwide operating total service provider for industrial metrology created out of the Hommelwerke companies and the French/Swiss Etamic/Movomatic Group. Since spring 2007 the company has been operating under the name of Hommel-Etamic. In the USA the amalgamation of the two companies Detroit Precision Hommel, Inc., Detroit and Etamic Corp., Plymouth to just one location in Detroit was finished at the year end. In order to prepare for this, with effect from April 2, 2007 Jenoptik acquired the remaining 75 percent in the US American company Detroit Precision Hommel, Inc., with headquarters in Rochester Hills near Detroit. There were no other major acquisitions in the Sensors division in 2007.

### 3.3 Mechatronics

#### Development of sales and results

The Mechatronics division can look back over a good fiscal year, the results of which were in line with expectations. The long-term business, which is dominated by military orders, is less cyclical and has long lead-in times for developments which subsequently contribute to sales and results over a period of several years. 49

Sales of the Mechatronics division in 2007 totaled 134.6 million euros, representing a 6.0 percent increase over 2006 (prev. year 127.0 million euros). The operating result reflected this and, at 10.9 million euros, was also slightly up on the high level of results in the previous year (prev. year 10.8 million euros). In 2006 the division had achieved a leap in results of nearly 30 percent thanks to an improved sales mix.

### Order book situation

The order intake of the Mechatronics division benefited from a major order for radomes in December and posted a slight increase as against the previous year. The order intake totaled 124.9 million euros, slightly up on 2006 (prev. year 123.4 million euros). The book-to-bill rate was 0.93 (prev. year 0.97). The major order for radomes valued at around 27 million euros came at the end of December from BAE Systems, Great Britain. The new order is within the framework of the Eurofighter production and extends the capacity utilization of the production line through to the year 2016. Jenoptik is the preferred supplier for radomes for military aircraft of international consortia and manufacturers and in this respect is one of three companies in Europe with the ability to manufacture these sophisticated key components for military aircraft on a large scale.

An order for 13 million euros was issued by the Swiss technology and armaments company RUAG for the upgrading of the standard Pz 87 Leo battle tank of the Swiss Army. Originally fitted with a hydraulic weapons slaving system, the battle tank is being upgraded by the addition of a state-of-the-art digital, electromechanical weapons stabilization system that meets the latest requirements. From the year 2007 to the year 2011 ESW GmbH will be fitting out a total of 148 of these vehicles. The order also covers training equipment as well as logistics and spare parts.

The order backlog fell slightly despite the long-term, major order since long-term major orders from previous years are now being executed. The figure for the order backlog, at 289.0 million euros, was approx. 4.7 percent down compared with the end of 2006 (Dec. 31, 2006: 303.3 million euros).

### Research & development

The R+D expenses of the Mechatronics division, at 4.4 million euros (prev. year 5.8 million euros) are comparatively low compared with the other two divisions since they are dominated to a significant extent by developments on behalf of customers and are therefore not included in R+D expenses but in cost of sales.

The developments of the components and subsystems for the Puma infantry fighting vehicle have been completed and over the years ahead will generate sales in the sum of approx. 70 million euros. This area has shaped development work over the past years. Since the Federal German Parliament gave the green light in November 2007 for the modern infantry fighting vehicle for the German Army, the order for large scale production is expected to be issued during the current fiscal year. Systems and components, from energy supply to stabilization, were developed in close cooperation with the project partners Krauss-Maffei Wegmann GmbH & Co. KG, Rheinmetall Landsysteme GmbH, MTU

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### Mechatronics (in million euros)

	2007	2006	Changes in %
Sales	134.6	127.0	6.0
EBIT	10.9	10.8	0.9
Order intake	124.9	123.4	1.2
Order backlog	289.0	303.3	-4.7
Employees	829	828	0.1

-- Good fiscal year in line with expectations.

-- Key figures slightly higher.

Friedrichshafen as well as with PSM GmbH, Kassel which has overall responsibility for the project. Specifically, these developments were the turret weapons stabilization, onboard power supply with starter/generator, converters with power management, the drive system for air-conditioning unit as well as fan motors and dust blowers.

### Products & technologies

Deliveries for the A380 picked up in 2007 after the planned start date had been delayed. The production facilities for the trolley lift and various other components are working at full capacity, the adjusted consignment deliveries are running to schedule. Through its existing product range ESW is participating in the invitation to tender process for the A350 program.

The latest addition to the electrical onboard system product portfolio was presented by ESW GmbH at the International Paris Air Show in Le Bourget: the combination of diesel combustion engine and flywheel generator is the result of collaboration with the firm of Göbler-Hirth Motoren KG. Thanks to the optimum integration of generator and converter into the combustion engine the saving in space and the weight advantage over conventional systems is tremendous and represents a load gain. There are plans for the system to be used in Unmanned Aerial Vehicles (UAVs). In conjunction with its partner Göbler-Hirth Motoren KG, ESW GmbH is now in a position to provide the entire electrical power supply for UAVs.

The contract for the maintenance of the Japanese AWACS rotodomes was simultaneously signed at the Paris Air Show. In 2006 Boeing Corp. had awarded ESW GmbH its official status as service provider for the AWACS rotodomes worldwide. With ESW already having been awarded a contract over several years to provide the maintenance and repair of AWACS rotodomes on the reconnaissance aircraft under NATO control, this qualification status created the conditions required to expand this service offering to a significant number of AWACS aircraft operated by key partner countries.

ESW has proven its ability to manufacture small, powerful APUs – Auxiliary Power Units with numerous installations on military vehicles. In 2007 for the very first time the concept was transferred to a bus that will operate on the roads in Venezuela. The electrically-powered vehicle, supplied from a fixed overhead rail, will be equipped with Jenoptik technology which cuts in if the power supply is interrupted. The bus needs a relatively significant amount of power because the area in which these buses will be operating in future includes a number of steep inclines.

Since 2006 there has been a significant pick-up in the tilting technology business, particularly in Asia. The tilting technology train in Korea, known as the TTX, which was completed last year, began its trial runs in March 2007 and could go into regular operation as early as from the year 2010 – and so earlier than had been planned. ESW's tilting technology for rail systems which operates on an electromechanical and not hydraulic basis has been in successful use on European tracks for years. The first maintenance cycles had already commenced in 2006.

## 4 Report on post-balance sheet events

### Employees & Management | Capital expenditure | Acquisitions

The number of employees in the Mechatronics division remained constant at 829 (Dec. 31, 2006: 828). With 17 employees, just 2.1 percent work abroad.

In 2007 the division invested 4.0 million euros (prev. year 2.6 million euros) in intangible and tangible assets. This is offset by depreciation in the sum of 3.3 million euros (prev. year 3.5 million euros). The division invested primarily in machinery and systems for the production of the A380 components and subsystems which went into large scale production in 2007. There were no acquisitions in the 2007 fiscal year.

On February 25, 2008 ECE Industriebeteiligungen GmbH, Vienna, informed that it holds 25.02 percent of the shares in JENOPTIK AG. There were no other events of special importance occurring after the end of the fiscal year 2007.

## 5 Opportunities and risk report

Jenoptik endeavors to exploit opportunities and limit risks. However, these both go closely hand-in-hand with commercial activities. The current system of reporting on opportunities and risks, in addition to the network of risk officers in the subsidiaries, together with Internal Auditing which uses the key instrument of the Jenaudit, is an important, integral part of the early warning system.

### 5.1 Opportunities-risk management system

Since 2006 the opportunities-risk report has taken account on the one side of the reduction in the size of the Group and, on the other, the focus on the operating business. The risk report and the risk management system are currently being adapted to meet the requirements of the Group's new divisional structure.

#### Opportunities-risk report

The divisions periodically report on all risks and opportunities that exceed 1 million euros; on the company level the minimum threshold for reporting was lower in some cases in 2007; risks on the overall Group or JENOPTIK AG level are also recorded for amounts exceeding 1 million euros. If a new risk or new opportunity arises between the reporting periods, or if there is a fundamental change to a statement in the report (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 both to the risk officer as well as the Group Executive Board. This guarantees a fast response and ensures a full and up-to-date overview of the key opportunities and risks at all times. These minimum thresholds were set relatively low in order to encompass as many individual topics as possible which could have a noticeable detrimental effect on or produce a positive development for the Group on an accumulated basis. A risk manual which covers all areas of the Group

defines the procedure for dealing with the topics covered in the reporting.

The report contains details on the probability of occurrence, the maximum and realistic level, associated measures as well as on the employee who monitors the development of the corresponding topic, whether this is a risk or an opportunity. The individual reports are collated into a Group risk-opportunities report and submitted to the Executive Board and Supervisory Board. The report contains a strategic and an operative opportunity-risk matrix. The possible level and probability of a risk and the changes of this figure during the course of time are shown in this matrix. The opportunities and risks arising from changes in currency and interest rates are recorded in separate reports.

We operate in markets which are subject to rapid technological change. The risk of developing products which are not taken up by the market is offset by opportunities derived from leading edge technological products that possess unique selling points. In order to exploit these opportunities to the full and to minimize the risk of mistaken developments, R+D projects are carried out where possible in close coordination with the customer. Regular impairment tests, in particular of the R+D topics, are made on a quarterly basis. The teams have an interdisciplinary structure. Group-wide standards for innovation management are to be further improved. This is the task of a group-wide innovation management department. In addition, the scientific advisory council is a high-quality committee that provides support for the monitoring and evaluation of long-term technology trends.

#### Auditing, committees & meetings

The internal auditing is conducted by an external auditor and in 2007 took the form of so-called Jenaudits. The teams have an interdisciplinary structure, comprising at least one external auditor and employees from other Jenoptik companies, with each team respectively auditing one Group sub-

subsidiary or one area. In this context it is not just deficiencies or errors that are identified but, based on the experiences of the team members, recommendations which are also addressed. From the viewpoint of effective implementation of the recommendations which have been issued, so-called follow-up audits were also carried out, the findings of which are reported to the corresponding management level and the Jenoptik Executive Board. In 2007 eight Jenaudits and two follow-up audits were conducted.

An investment committee for participations provides group-wide support for larger Jenoptik investment and disinvestment projects. The members of the committee, who meet as required, include, in addition to permanent members of Jenoptik Holding, the persons responsible for the operating area which is planning an investment or disinvestment. With the establishment of a group-wide Mergers & Acquisitions Department there was a change in the committee's profile of tasks in 2007. As such, the tasks of the committee were focused more intensively on the evaluation of the M&A processes and the monitoring of the integration processes.

The formats of the meetings changed in 2007. In addition to the monthly meeting of the Executive Board, the Executive Board holds a *jour fixe* meeting every 14 days with the technical departments of the Corporate Center and a monthly Holding meeting with an increased number of participants. Further information on meeting formats within the framework of the new organizational structure can be found in the Forecast Report -- ON P. 92.

#### Currency and interest risk management system

Payment flows in foreign currencies are normally recorded as a risk-opportunity item and included in a monthly report for the attention of group Controlling. Both the positions arising from the series production business (prices in foreign currencies are defined for a specific period on the basis of

price lists) as well as the opportunities and risks arising from the projects business (prices in foreign currencies are only fixed on the basis of current exchange rates during the offer or 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 JENOPTIK AG Treasury Department. 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.

In order to define an annual currency hedging strategy and the system of analyzing on risks, the Treasury Management 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 which instruments are to be used, the maximum permitted loss limit as well as the position limit for the currency hedging for the next year (value-at-risk forecast). The adherence to these limits is ascertained in a risk report which is produced at the end of each quarter.

The interest risk management system covers all the interest-bearing and interest-sensitive asset and liability items 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 the current fiscal year, as well as a rolling, one-month preview highlight the demand for new financing or new investment. Forecasts of the potential market values and fluctuations in results for the next year are drawn up using an analysis of the market risk. Historic fluctuations are the key here. Based on this quarterly analysis, 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 would be made regarding the conclusion of corresponding interest hedging transactions for variable interest positions if the anticipated change in the interest result might 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 essentially only concluded at JENOPTIK AG. Exceptions to this rule require express approval.

## 5.2 Individual risks

Jenoptik's risk profile improved further in 2007. The improvement in the financial profile following the repayment of the high interest bond, as well as the termination of research and development topics with a higher than average risk potential, contributed towards a reduction in the overall risk. In addition, in 2007 the Group succeeded in further reducing risks arising from the existing contractual obligation to issue guarantees. An initial deteriorating market situation in the Sensors division up to the 3<sup>rd</sup> quarter, eased slightly as at the year end.

### General economic risks and individual sector risks

Jenoptik primarily generates its sales through capital goods. There is consequently a time delay in the effect of fluctuations in the overall economic activity. Jenoptik estimates that if the global economy grows at a rate 0.5 percentage points lower than forecast, the Group EBIT margin could fall by approx. 0.7 to 1.2 percentage points – if no countermeasures are taken.

It is virtually impossible to forecast how the subprime crisis, which spread from the US American finance market in the 2<sup>nd</sup> half year 2007 will affect development in 2008 (– see p. 94 ff.). The result of the crisis is an increase in loan and credit rates plus restrictions in the refinancing options available to all companies. Jenoptik's liquidity funding has been

secured through the placement of the borrower's notes, the positive cash flow and available lines of credit spread between a number of banks without any one bank having a dominant position. With a tightening of the general conditions in the financial markets which could then also impact on the development of the global economy and our target sectors, it is impossible to forecast the impact on the Jenoptik Group.

**Cyclical nature of key individual markets.** Jenoptik's business is not heavily dependent upon any one specific sector. Consequently, although the Jenoptik business does go hand in hand with numerous risks in the various sectors, the individual effect of these on the result in each case remains in the low, single figure million range. The three largest target markets (defense technology, industrial metrology and material processing) which are essentially independent of each other, accounted for nearly 60 percent of total sales in 2007. The probability of these three or all of Jenoptik's target sectors simultaneously collapsing or experiencing a sharp economic downturn without any causal events beyond our control – for example a dramatic collapse in the global economy, wars, natural disasters and pandemics – are considered minimal in our opinion. However, a general recession in the USA with the corresponding, resultant consequences for development in Europe and Asia could markedly increase market risks between which there is virtually no correlation.

Fluctuations within individual sectors can affect customer solvency. In the case of larger projects Jenoptik counters this risk through on-account payments and payment agreements which reflect the progress of the project and the costs. In 2007 the public sector accounted for approx. 30 percent of sales. Over recent years there has been an increasing trend in the public sector towards significantly extending its payment periods or permanently reducing the proportion of on-account payments as a result of shortage of funds and

permanent reductions in budgets. As a result, liquid assets are being increasingly tied up in current assets.

### Corporate strategy risks

Corporate strategy risks are primarily derived from the strong growth which Jenoptik plans for the coming years. The aim is to generate growth both organically – in particular through new products, technologies and business models – as well as via acquisitions, cooperation arrangements and further internationalization. These areas of focus also give rise to the following main corporate strategy risks:

**Success of key research projects.** As a result of the high level of technological requirements and the fact that our business is in 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 through the measures described above, but it can neither be eliminated nor quantified on a relevant basis.

As a result of the compulsory capitalization of own development costs when predefined criteria are met in accordance with IAS 38, there has been a marked increase in the risks of potential mistaken developments affecting the balance sheet. Mistaken developments therefore not only threaten to impact on sales and earnings but also represent a risk of impairment. However, a technology company can never completely rule out the possibility of developments failing to succeed in the market. The total collapse of an individual major R+D topic can lead to losses in the single-figure million euro range. In 2007 all the larger development projects were examined and reviewed and any resultant impairments taken into account in the 2007 consolidated financial statements.

Risks and opportunities also arise to equal extent from registrations of our own and third party patents. This can result in unscheduled expenses or income from license purchases and sales as well as unscheduled delays in sales, both on the positive and negative side, as well as litigation as a result of patent infringements.

**Acquisition risks** are countered by Jenoptik conducting a detailed due diligence which in the past more frequently led to a decision not to proceed with an acquisition. For example, in 2007 Jenoptik examined two dozen companies as possible acquisitions or investments, only a few of which resulted in a positive decision. The Group's review process is structured on a staged basis. The assessment by the operating area wishing to acquire a company or an investment is followed by a detailed examination and support for the acquisition and subsequent integration process by Central Mergers & Acquisitions management. The acquisition processes are also regularly reviewed and improved by the group-wide Investment Committee.

**Put options** for the acquisition of shareholdings of minority shareholders, could reduce cash resources or sources of financing. In most cases however there is no direct risk to earnings as new shareholdings are normally acquired. However, with terms that are already fixed, there is both a risk as well as an 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. Put options on operating shareholdings are frequently an integral part of an acquisition process, there are however currently no put options at present. On the real estate side there are put options for silent investors who are motivated by tax reasons, although these options can not be exercised any earlier than from or after 2011.

The expansion of the international business is a key growth path. The aim is to achieve this expansion through acquisitions abroad, moving into new markets, as well as through expansion and simultaneously local streamlining of the direct international presence. In addition to the acquisition risks described above, there are additional risks arising from cultural and language barriers when investing abroad. Where possible, Jenoptik counters this risk by entering into a market with local partners or a local management.

The risk arising from changes in the market position primarily exists as the result of changes or leaps in technology, the development of a "second source" by key clients as well as massive market penetration by competitors. In each of its core markets Jenoptik is in competition with a handful of companies worldwide. Although Jenoptik views the risk of all its rivals simultaneously launching new products and technologies onto the market as minimal – as with the sector risks – the change in market position in one or more core markets could lead to falls in sales and earnings.

The takeover risk for the Group as a whole is dependent upon the share price. Approx. 70 percent of Jenoptik's shares are held in free float. On February 25, 2008 ECE Industriebeteiligungen GmbH, Vienna announced that it held 25.02 percent of the shares. According to its own statements ECE has invested for the medium to long-term, consequently reducing the takeover risk. This is offset by the affect of the share price which has fallen since December 2007.

**Personnel risks.** Jenoptik depends 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 over the last year, together with the target growth for the subsequent years, will lead to an increased demand for new personnel although this is expected to be at a dis-

proportionately lower rate to the expansion of sales. There is also the need to compensate for the fluctuation rate which was approx. 2 percent in 2007. Taking into account the target organic growth, the fluctuation as well as departures for retirement reasons, the demand for personnel over the coming years will be at a similar high level to that of previous years. However, since the number of school leavers will simultaneously begin falling dramatically from the year 2008, particularly in the new federal states, there will be a risk in future of being unable to fill vacancies and trainee positions with suitable applicants. Jenoptik is countering this situation through various measures in order to permanently improve its attraction as a potential employer. A central HR management, which includes HR marketing, started in 2007 on profiling Jenoptik as an attractive employer both for future employees and trainees as well as for those currently working in the Jenoptik Group. (→ P. 56FF)

**Risks arising from the development of the organization** are derived from the required adjustments to the organizational and management structure. These were necessary in order to provide for more direct control of growth in the future. The opportunities for greater corporate success than with the old organizational and management structures into small units are offset by far more minimal risks in the transitional phase of the organization. We are countering these risks with the help of an active change management process. (→ FORECAST REPORT P. 92).

There is significant dependency upon individual customers in some operating areas. On the overall group level the order intake from the three largest customers accounted for approx 18 percent of the overall Group order intake. The three main customers accounted for 14 percent of sales. We counter the potential risk of a breakdown in business relations through Key-Account-Management. In addition, some customer relationships are also based on long-term supply contracts, which are also in part based on special de-

developments, countering the risk of a breakdown in business relationships.

**Dependency upon individual suppliers** applies primarily in the procurement of special components or development orders issued by Jenoptik which do not lead to the required results. Thanks to Jenoptik's product mix the risk to sales and results for the Group as a whole in the event of delivery bottlenecks on the part of a key supplier is generally low. However, in individual cases supplier problems can lead to a standstill in production, loss of sales, loss of reputation, penalties, damages and the loss of follow-up orders and consequently to losses of income significantly disproportionately higher to the loss of sales. Countermeasures designed to reduce the dependency upon individual suppliers include the development of second sources, active interface management in the case of outsourced developments, as well as the in-sourcing of strategic key components.

**Long-term orders**, with stable costing bases and future capacity utilization, provide a good level of certainty for forecasts. Risks are derived in particular from the normal high volume of the orders, long-term costings, investments in pre-services and – in the case of very long-term orders – as a result of inflation. Jenoptik counters these risks through rolling forecasts, price escalation clauses and on-account payments.

In order to prevent cases of **product liability** the companies of the Jenoptik Group operate in accordance with current national and international regulations and laws and have implemented stringent measures for quality assurance. The remaining risk is assessed as low and is to a large extent covered through business and product liability insurances of Jenoptik, which as an international insurance arrangement cover all national and international shareholdings of Jenoptik and therefore also the special requirements of the US American subsidiaries.

Export risk arise as a result of economic restrictions to certain nations, institutions, individuals and companies and for Jenoptik as supplier of defense goods regarding the obtainment of export licenses for products which are subject to authorization. Jenoptik counters this risk by comprehensive examinations and the group-wide introduction of the SAP Global Trade Services (SAP GTS) module which started in 2007. In the process of transferring the business processes into SAP GTS all existing purchase, distribution and financial activities are scanned one time and then constantly monitored in order to allow for an early recognition of export risks.

#### Financial risks

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.

**Group's liquidity risk and capital market position.** The risk of liquidity bottlenecks has been significantly reduced through the take-up of the borrower's notes, the full repayment of the commercial paper, available bank lines of credit in the sum of approx. 70 million euros which are also shared between several banks without any one bank being in a dominant position and a positive cash flow. However, the latest development in the share price which fell by more than 19 percent during the course of 2007, makes the Group's provision of liquidity via the capital market a less attractive alternative at the current time. The quantitative effects of the liquidity risk are shown in the Notes under **POINT 34.**

**Foreign currency risk of the Group.** Jenoptik uses exchange rate hedging instruments for virtually all orders in foreign currencies, primarily forward currency transactions and currency options. The amount of outstanding forward currency transactions secured totaled 57.1 million euros (prev. year 59.6 million euros).

The exchange rate between the US dollar and the euro weakened from 1.317 US\$/€ on December 31, 2006, to 1.472 US\$/€ on December 31, 2007. Orders for the year 2007 and future order intakes based on the now weaker US dollar will therefore produce lower margins in euros insofar as the dollar weakness is not fully translated into price increases. There may also be further competitive competition with companies manufacturing within the dollar region who are able to export more cheaply to the euro region on the basis of the more favorable currency exchange conditions. These effects can only be partially offset through currency-related purchases of materials and raw materials at lower prices within the dollar region or purchases of goods which are primarily billed in dollars. The quantitative effects of the foreign currency risk are shown in the Notes under **POINT 34**.

The risk of short-term changes in interest rates has only changed slightly with the switchover to medium-term financing. A large proportion of the Group's debt continues to be based on fixed interest rates. Some of the borrowings at variable interest rates are secured through interest hedging transactions. However, interest expenses will be markedly lower than in the previous years as the medium-term interest rate terms have improved significantly from the switchover as the result of the repayment of the high interest bond, despite a general increase in interest rate levels. The five year convertible bond has a fixed interest rate and runs up to July 2009. Interest hedging instruments such as interest caps and interest swaps continue to be used. A defined variable interest rate is paid on a specific capital sum for the interest swaps used by Jenoptik. In return, Jenoptik receives a specific fixed interest of the same capital sum. In 2006 an interest swap was used to limit the change in the interest rate on the financial investment of the restricted cash and this expired on repayment of the high interest bond. The quantitative effects of the interest risk are shown in the Notes under -- **POINT 34**.

Jenoptik counters **credit risks** (default risks for receivables and loans) with comprehensive credit assessments and for larger projects – with agreements of on-account payments which are agreed and recorded in advance. In general, credit risks then only exist for the outstanding amount. In 2007 the on-account payment quota in the Jenoptik Group was 28.2 percent (prev. year 25.1 percent). The quantitative effects of the credit risk are shown in the Notes under **POINT 34**.

#### Risks arising from the sale of shareholdings and legal risks

The risks arising from the sale of shareholdings, in particular from the sale of M+W Zander, have reduced further in 2007. Opportunities and risks arising from the sale of the Clean Systems business division resulted from individual topics and projects remaining with Jenoptik, from standard guarantees during the course of the sale as well as from agreements to provide guarantees. Jenoptik also issued the standard guarantees for sales of large shareholdings, for example guaranteeing the accuracy of the financial statements, the tax returns submitted or for the existence of the necessary licenses for the operation of the business. In principle, these guarantee assurances could give rise to future claims by the purchaser against JENOPTIK AG. However, as time progresses the risk potential is significantly reduced. For example, the standard warranty period has already expired. However, it is virtually impossible to give an assessment of those risks which could be derived from the ongoing audit by the fiscal authorities which is currently being conducted and extends over a period of four years.

**Provision of guarantees.** The revolving guarantee framework granted during the sale of M+W Zander could be terminated prematurely in 2007. Existing old guarantees which have since reduced further to 7.6 million euros (as at February 15, 2007: 9.5 million euros) are expected to be returned over the next two years due to the expiry of warranty periods and in accordance with the progress of the projects.

There are no indications that these guarantees will give rise to greater risks. There is also a guarantee in the sum of 46.8 million euros for the AMD project in Dresden, which is categorized by Jenoptik as low-risk. The business upon which this guarantee is based has now reduced to just 17.8 million euros as at the 2007 year end as a result of continual redemption payments by the customer. Providing the project continues to proceed on schedule the guarantee will expire in 2010.

The guarantee framework provided for caverion GmbH (formerly M+W Zander Gebäudetechnik GmbH), in which Jenoptik has a 15.1 percent shareholding, was successfully reduced further to 150 million euros. It was utilized at 117.0 million euros as at December 31, 2007.

The budgeted liquidity facility was further significantly reduced from the original 41.1 million euros to 15.9 million euros. However, since the spin-off of caverion at the end of 2005 this budgeted liquidity facility has only rarely been utilized and only then for the short term up to a maximum volume of 3 million euros. In addition, caverion's business situation improved markedly in 2007, the risks entailed by Jenoptik were consequently significantly reduced in 2007.

As a general rule the risk arising from guarantees, taking account of historical empirical figures, can be categorized as quite low. For example, over the last five years on average just 0.3 percent of guarantees have been utilized. Furthermore both the M+W Zander investments as well as caverion have a liability to repay Jenoptik if a guarantee is "drawn".

**Legal risks.** In 2007 there was movement in the patent dispute with the US American company Asyst Technologies, Inc., which has been litigious for more than ten years. Contrary to a jury recommendation made at the beginning of February 2007 to award damages of approx. 57.6 million euros plus interest against Jenoptik due to alleged patent

infringements, the Court of the First Instance, the US District Court in San José, rejected the claim for the third consecutive time in August 2007. The defeated plaintiff has again filed an appeal with the Court of Appeals for the Federal Circuit in Washington. At this point in time it is impossible to predict when a ruling will be issued.

In the event that the Court of Appeals should overturn the decision of the US District Court in San José in favor of the plaintiff, including with regard to ordering new proceedings, in his grounds for the decision dated August 3, 2007 the presiding judge held out the prospect of at least renegotiating the question regarding the amount of damages. To this end either new proceedings would be ordered or the damages recommended by the jury reduced to the amount that could be evidenced by the plaintiff, taking into account the legal requirements. For this eventuality Jenoptik has already filed alternatively an application in the opening proceedings to request a reduction in damages requested by the plaintiff according to the so-called "maximum recovery rule" down to a single figure million euro amount based on the actual product sales.

The technology in question relates to a business segment that Jenoptik abandoned in 1999. Provisions for the expected attorney costs have been made. Provisions for the rejected claims for damages have not been set aside since, in the opinion of both Jenoptik and our US American litigation attorneys, Asyst's claims are unfounded both in terms of their grounds as well as the amount itself since the patent is invalid and should not have been issued.

With regard to a similar patent the Court of Appeals upheld Jenoptik's legal opinion in the same legal dispute at the beginning of 2005 and rejected Asyst's claim of infringement of patent.

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

#### Other risks

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

There is no single IT system throughout the Group, with the exception of a group-wide Intranet which does not incorporate the internal accounting or distribution systems. A total failure by one IT system would therefore only impact on parts of the Group. Since Jenoptik exclusively sells capital goods, distribution would only be affected by a total 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 availability in excess of 98 percent. In 2007 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 rules, amongst other things, in order to protect itself.

Environmental risks exist to a partial extent resulting from the use of materials and substances which are required for production processes and may be harmful to health or cause damage to the environment. There are minimal risks arising from the so-called ROHS Directive which came into

force in Germany on July 1, 2006. Risks which are currently viewed as minimal also exist arising from new environmental legislation which has been and will be implemented such as the Environmental Pollution Act dated May 14, 2007 and the new European Chemicals Ordinance (REACH) dated December 30, 2006.

### 5.3 Opportunities

The main opportunities of the Jenoptik Group go hand-in-hand with the risks mentioned above. From our viewpoint they are also associated with the intangible assets mentioned in the financial report. Opportunities for the Jenoptik Group, over and above the general opportunities offered by commercial activity, are essentially derived from

- the continuing process of internationalization the still minimal extent of which could provide for a disproportionately high level of growth,
- our location, long history of tradition and brand,
- our new package of measures designed to achieve our medium-term objectives,
- our intensive research and development which in future will be organized according to industry standards applicable throughout the Group, as well as
- our excellent employee base.

The further development will be based on our new organizational and management structure which in future will provide for a more targeted market and customer-driven approach by the whole Group. The strategic realignment increases our opportunities as it tackles topics which had either been previously ignored throughout the Group or only dealt with to a minimal extent. Further information on selected key examples of the strategic project roadmap can be found on -- P. 40FF IN THE FORECAST REPORT, P. 92FF.



### General statement on the opportunities-risk situation and rating

From the overall viewpoint we consider our ratio between opportunities and risks as correspondingly appropriate to our company. We are currently adapting the opportunity and risk management system to the new organizational structure. With the exception of the legal risks, the risks arising from the sale of M+W Zander and the corporate structure based on small units which applied up to the end of 2007, in our opinion Jenoptik generally operates within an opportunity-risk profile which is typical for our company and inextricably linked with commercial activity.

The rating agencies considered the overall risk of the Jenoptik Group to be lower than it was in 2006. In the fiscal year just past the rating agencies Standard&Poor's, Fitch and Moody's provided ratings for Jenoptik. In July 2007 Standard&Poor's lifted its rating from B+ to BB- (outlook stable). The reason given for this by Standard&Poor's was the anticipated sharp improvement of the financial profile resulting from the repayment of the high interest bond which subsequently took place in November.

Jenoptik is also expected to benefit in future from the growth prospects in its markets and to be capable of increasing its profitability step by step. The rating agency also sees potential for improvement in a further reduction of debt through an improved free cash flow. As a result of the improved financial profile, Fitch raised its rating from B to B+ (outlook stable). Only Moody's left its rating unchanged at B1. At our request Fitch and Moody's have withdrawn their rating since, in our opinion, following the repayment of the high interest bond there is no further need for a corporate rating from three agencies. Consequently, Standard&Poor's BB- rating is currently the only one being used. <sup>50)</sup>

In addition to the key financial indicators and strategic aspects of the corporate development, factors such as the size of the company and key indicators for the sector are also reflected in the assessments by the ratings agencies. Since by international comparison Jenoptik is classed as a small or medium-sized company with a rating, we receive a lower rating compared with large groups with comparable structures.

50)

#### Rating (Corporate Rating)

	end 2007	31.12.2006	31.12.2005	31.12.2004	31.12.2003
Standard&Poor's	BB-	B+	B	B+	BB-
Fitch	B+	B	B	B+	BB
Moody's	B1	B1	B1	B1	Ba3

## 6 Forecast report

### 6.1 Future development of the Jenoptik Group

#### Orientation of the Group over the next two years

The focus of Jenoptik's further development will be on

- concentrating on areas of business with strong growth and earnings
- the consistent orientation of the Group as a whole towards markets and customers
- further internationalization
- our employees and management, as well as
- increasing the operational excellence.

The new organizational structure which we implemented as from January 1, 2008 (– **MANAGEMENT REPORT P. 32FF**) is the basic requirement to reach our goals. In connection with these new appointments were made to several management positions in the Group's first and second management level in the second half of 2007. Dr. Dirk Michael Rothweiler has been Head of the Jenoptik Group's Optical Systems division since January 1, 2008 and therefore responsible for the worldwide optical activities, completing Jenoptik's top management team. The Executive Management Board under the lead of the Executive Board is the top management committee of the Group. It will meet 4 times a year and devote itself primarily to interdivisional decisions. <sup>[14]</sup>

In parallel with the preparations for the new organization, within the framework of a comprehensive strategy process, we took advantage of the year 2007 to define future potentials systematically and to carry this over into concrete projects along our five value levers. The roadmap currently shows numerous projects, which will be executed – on both the overall Group level and in the divisions – by the end of 2008. These include, amongst others, the operationalization of the rolling strategy process on the level of the divisions and the introduction of a group-wide innovation manage-

ment with standard structures – initiatives which did not previously exist at Jenoptik.

The rolling strategy process initiated at group level in 2007 will be carried over to the divisions in 2008. Within this process those projects which show the most promising growth prospects for the future will be systematically identified and importance attached to them according to their yield potential and risk structure and the strategic targets of the divisions will be coordinated with the Group strategy. The aim is to therefore be more consistent than in the past in concentrating the company's resources on the most promising initiatives in a balanced portfolio. This process will be supplemented by a group-wide project management which will ensure transparency regarding the status of the individual initiatives at all times.

A group-wide innovation management system is to be implemented from the 2<sup>nd</sup> half-year 2008. From the first idea through to the successful market launch the innovation process will be incorporated within standardized group structures. We will be implementing the stage-gate process, which is standard practice with innovations and has been adapted to meet Jenoptik's needs.

The structural realignment of Jenoptik goes hand-in-hand with a comprehensive cultural change for all employees and members of the management team which will receive support over the next two years through a comprehensive change management process. Following the kick-off event for the whole Group at the end of December 2007 the process is currently being implemented in the divisions on a step-by-step basis. The Defense & Civil Systems division began its first change event in January this year. The plan is for all the kick-off events to have taken place by May in all the divisions, enabling the process to subsequently be expanded to all areas in the divisions. This focus is on the new self image to be one Jenoptik.

### Future sales markets and products

We continue to see future sales markets as primarily being abroad. The aim of the continuing process of internationalization is to establish a local presence. As such, at the beginning of 2008 the Industrial Metrology division plans to continue expanding the market position in the Indian market, a market of the future for the automobile and automotive supplier industry. The Traffic Solutions division plans to use its new service providing business model to develop new sales markets worldwide, markets that were unable to be targeted in the past purely through the conventional equipment business. The Lasers & Material Processing division will be significantly expanding its activities in Asia, an important location for the global semiconductor and flat panel industry.

In 2008 and 2009 the intention is to optimize existing foreign activities – in addition to the integration of the worldwide industrial metrology business taking place in 2008, in connection with the acquisition of Etamic with its international orientation – throughout the entire Group. The aim is to harmonize through central coordination the location policy of which the individual company previously pursued independently of each other.

At Jenoptik, new products & technologies make a continuing contribution towards sales and results. In this context, due to the nature of their business, the most innovative divisions are Optical Systems and Lasers & Material Processing. For both divisions the headline trade fair for photonic technologies, Photonics West, which is held annually in January, represents an important start to the year. In January 2008, amongst other things, the divisions presented a new femto second laser, the JenLas® D2.fs, which was developed specially for the areas of medical technology and micro material processing, plus the new process for thermal laser beam separation which creates worldwide unique selling points for the Lasers & Material Processing division in the

separation of brittle materials such as glass or ceramics. This provides for contactless separation without any particle abrasion and increases the process speed by up to 300 percent. The Lasers & Material Processing division has fixed its sights in 2008 on the photovoltaic market with series solutions for the manufacture of thin film solar cells. Through its laser processing systems business unit, this division is on the way to becoming a supplier for series solutions in the structuring and edge deletion process for the manufacture of solar cells. Increasing importance is also being attached to the flat panel industry. The ASAMA disk laser was developed for annealing crystalline films on flat display glass and will be launched on the market in 2008.

The “optical engine” is expected to go into mass production for the 300 Watt continuous wave fiber laser and be available to customers from mid 2008. By contrast to diode-pumped solid-state lasers the special outstanding features of the fiber laser are the beneficial price-performance ratio, compact design and excellent beam profile. The aim first and foremost is to supply the actual parent companies (in other words Jenoptik and Trumpf) which will equip processing machines with fiber lasers. In addition to the optical engines there are plans for the external distribution of fiber lasers as laser beam sources which are used for example in the manufacture of solar cells as well as in laser marking, micro and macro material processing.

In 2007 the Micro Optics and Optoelectrical Systems business units achieved advances in high-performance micro optics for consumer products which they showcased for the first time at Photonics West 2008. The business units jointly developed micro optics made from plastic which have the same excellent properties as products made from glass or quartz glass. Thanks to an improvement in the ultramodern injection molding technology and the use of high-precision micro optic templates Jenoptik expanded its market leader position in the field of micro optic technology.

Under the JENCOLOR brand name Jenoptik offers color sensor modules for integration into optical systems which are customized to meet measurement task and solutions specific to individual customer requirements. A clear expansion of the business in this area is expected during 2008 within the framework of the technology know-how acquired with EPIGAP Optoelektronik GmbH -- P. 75.

In 2008 the polymer-based optics / optoelectronic systems business unit will continue to improve the operational excellence. Following a thorough analysis of all processes in the company the interfaces between departments and fields will be optimized in 2008. Here the business unit sees a decisive lever to improve the financial operative results. In addition to a reduction in throughput times for producing offers the second step will be focused on the reduction of the reject and reclamation rates. A self worker test and a measurement station are to be implemented directly in the production process. The program is being executed and supported by all employees who are involved both in the analysis as well as the implementation.

In 2007 the focus of activities in the Industrial Metrology and Traffic Solutions divisions was on the further development of existing products. With numerous new product launches Industrial Metrology is expected to contribute towards the business results from 2008. These products include the HOMMEL nanoscan and roundscan for form and roughness testing for tactile measurements respectively, a new machine concept for measuring crankshafts and camshafts and for the automated measurement of smaller workpieces in the optical measurement technology area, as well as a new pneumatic test gauge for rapid and precise

measurement of roundness, radial run-out and concentricity on the valve seat of a cylinder head.

The Industrial Metrology division will continue to optimize the business processes. The "quattro S" project which was implemented at the main site in Villingen-Schwenningen -- **MANAGEMENT REPORT P. 59** -- is to be expanded step by step to all locations worldwide in 2008 and 2009.

In the Traffic Solutions division the emphasis will remain on the expansion of the new Service Providing business area. This area is expected to generate the first sales in the single figure million euro range in 2008, resulting from the major order awarded in North America at the beginning of 2007 as the systems have already been commissioned into operation on a step-by-step basis since autumn 2007. More orders are once again expected from abroad for the equipment business, the fitting and installation of traffic monitoring systems excluding the subsequent operation of these systems.

In 2008 the Defense & Civil Systems division will focus on growing together and constellating the Jena-based newly added companies and units: Jena-Optronik, laser & infrared sensors and Hillos. Since these already today partly supply similar customers and the product portfolio includes complementing technologies the main focus will be on defining the added value that can be achieved with cooperation and determination. In the production area in 2008 the focus will be on ramping-up the manufacture of the lift systems, components and subsystems for the A380. Series production level is planned for the year 2009.

## 6.2 Future economic framework conditions

### Future development of the economy as a whole

The fears of a downturn in global economic activity, expressed as early as at the end of the year 2006 following a long period of record growth, did not fully materialize in 2007. At the same time, it is impossible at present to foresee to what extent the financial market turbulences will have a direct and indirect impact in 2008 and 2009. The current growth rates forecast by the OECD, at 2.3 percent (2008) resp. 2.4 percent (2009) are therefore also clearly below the average levels achieved from 1995 to 2006. This view of a negative trend is shared: as such, the UN is warning of the risk of a stagnating global economy and the World Bank has reduced its forecasts for 2008 from 3.6 to 3.3 percent.

The price of crude oil rose above 100 US dollars for the first time at the beginning of 2008. The OECD expects to see an annual level around the 90 US dollar mark compared with 65 US dollars previously. The OECD sees additional risks in the indirect consequences of the financial market crisis, which cannot be predicted at present, which will be reflected in increased financing costs and more restrictive access to liquidity.

Since the subprime crisis emanated in the USA the outlook for the US economy has been particularly dim. Although the Federal Reserve Bank has been attempting to counter a restrictive lending policy at an early stage through a marked reduction in interest rate levels since the middle of the past year, it is however unclear as to whether this can compensate for the risks for private consumer spending and house-building. The OECD forecasts overall growth of 2.0 percent for the USA in 2008 and 2.2 percent in 2009.

According to the OECD the euro zone will not be able to escape this trend, with forecast growth rates of 1.9 percent

(2008) and/or 2.0 percent (2009). The development of consumer spending and the real estate markets are primarily responsible for this slowdown in economic growth. Providing the effects of the financial crisis are kept within limits and there is a continuation of the positive trends in employment numbers, the OECD experts anticipate a renewed pick-up in growth from mid 2008.

With the closing at the end of 2007 of the production gap caused by the dynamic growth in exports over previous years, the German economy is forecast to post a fall in growth rates to 1.8 percent (2008) or 1.6 percent (2009). The German Federal Government has also adjusted its own growth forecast to this level and sees the main risks as being high crude oil prices and the real estate crisis. A number of industry and sector associations also see the increasing skill shortages as a growth limiting factor. There is a shortage in particular of engineers and technical skilled workers in the dynamic sectors of the German machine and plant construction industry.

According to the OECD forecasts the Japanese economy will also remain below the two other major OECD economic regions in terms of their growth dynamic, over the coming years. As part of the general trend it forecasts a growth in real GDP for 2008 initially at 1.6 percent, before expecting to rise slightly in 2009 to 1.9 percent.

The BRIC states are forecast to continue offering prospects of dynamic growth over the years ahead. In China growth should be reduced slightly in 2008 and 2009. The OECD sees the reason in the increase in prices and wages as having a detrimental effect on competitiveness, and in rising imports. The main driving forces of the Chinese economy – export and a good earnings situation – are seen as intact by the OECD.

In the opinion of the OECD experts the efforts aimed at consolidating the fiscal and monetary aspects of the domestic budget in India will bear fruit in 2008 and 2009 and lead to a weakening of domestic demand in particular and of overall economic growth in general, to a forecast 8.4 percent (2009). However, a reduction in the capital inflows as a result of pressure to revalue the Indian currency as the result of inflationary tendencies, is seen as a risk.

Growth in the Russian economy will weaken over the coming years – caused by raw material prices stagnating at a high level – even if government structural programs were to help intensively in the development of new sectors. The question as to whether this will lead to distortions in the markets and competition which, for their part, will dampen entrepreneurial activity and therefore the economic dynamic, remains unanswered.

#### Future development of the individual Jenoptik sectors

According to the shared opinion of the BMBF and the sector association SPECTARIS, **optical technologies** will continue their existing path of growth, with an annual rate of increase of between 8 and 10 percent. In this context, diode-based lighting technologies – LEDs and OLEDs – are emerging as a new growth driver. Annual rates of increase of up to 30 percent through to the year 2011 are forecast for this segment not least as a result of the introduction of the LED-based headlight in the automotive area– even if these increases are starting from a very low base.

According to the forecasts of the experts at Laser Focus World, the global market for **laser technology** will also continue to grow. However, within the course of the anticipated, temporary cooling in the semiconductor market, which has already been dealt with above, this dynamic will reduce slightly and fluctuate around a good 7 percent level, at 7.4 billion euros. At the same time however the emerging markets are expected to expand their technolo-

gy and product base and, as such, lay the foundation for future growth.

Despite the anticipated weakening the high-power diode laser segment, as pump sources, has the capacity to show significant growth of 20 percent. This is attributable, amongst other things, to the ongoing replacement of traditional laser sources with diode-pumped fiber lasers.

Despite the continuing, solid demand for consumer electronics, PCs and mobile phones – with forecast increases in demand of between 10 and 15 percent for the coming years– memory chip manufacturers in the **semiconductor market** in particular expect the new year to get off to a difficult start. It is unlikely that this will not have consequences for the suppliers, for which Gartner and SEMI both predict a slight fall to a good 40 and 41 billion US dollars respectively before high, single figure growth for the remainder of the decade would appear to be back on the agenda.

On the basis of the global chip market, according to the Semiconductor Industry Association, sales are expected to grow by 7.7 percent to 275.3 billion US dollars.

According to the sector association ZVEI, over the years ahead **automation technology** manufacturers expect to see a continuation of the robust growth trend achieved in the past. The Verband der deutschen Maschinen- und Anlagenbauer (VDMA) also forecasts a continuation of the 5 percent dynamic growth and bases its optimism for 2008 in particular on the high level of order backlogs, the good order intake levels as well as underlying optimism about economic activity.

For 2008 **automobile** experts expect the European market to overtake the US American market for the very first time as the world's largest market. In this context, the sector association VDA anticipates a sales volume for Europe as a whole of 16 million vehicles whilst the US market will fall

below the 16 million figure. Germany is expected to post a slight increase in the market to at least 3.2 million vehicles. However, even with these forecasts the experts see risks in the uncertainty about economic development as well as the continuing high oil prices.

The experts of B&D-Forecast expect the emerging markets of China, Russia and India to post strong growth. In China alone sales in 2008 will increase by 16 percent to 5.9 million vehicles. One of the particular challenges for manufacturers and suppliers will be the launch of low-priced vehicles with basic technology in these markets. With prices below 10,000 euros per vehicle this market will consequently also post particularly dynamic growth of 24 percent or 16 million vehicles in 2020.

Against the background of developments in the automobile industry measurement technology and sensor systems are increasingly operating within an area of contradiction: on the one side, a general expansion in the volumes for the areas of application resulting from emerging markets, particularly in Asia and Eastern Europe, whilst on the other side the increasing widening of this consumer market into low-priced products and more complex and therefore more test-intensive premium brands. Although the climate debate has extended to the whole market it is currently very difficult to predict whether the increased requirements for precision in order to meet the CO<sub>2</sub> targets will lead to greater use of measurement technology or whether there will be a general fall in this business as a result of the rapid growth in less complex low-priced products.

The trend towards intelligent and integrated traffic monitoring will continue to increase over the years ahead. In this respect, increasing importance will be attached to greater integration of the measurement systems. This is illustrated by the online transmission of traffic data as a result of digital photographic systems which are being increasingly used

on roads. It is difficult to predict the long-term potential as well as the penetration levels of satellite-aided systems for continual speed monitoring.

According to general estimates by experts at IATA and ICAO air traffic will continue to increase at rates around 5 percent per annum. However, this is another sector in which the growth forecasts contain uncertainties with regard to the turbulences on the financial markets as well as the potential terror risks. Following the years of record orders in 2006 and 2007 the major aircraft manufacturers do not expect another record year in 2008. They do however expect a further rise in aircraft deliveries of approx. 10 percent. The maiden flight of the first Boeing 787 aircraft, manufactured for the most part using carbon fiber materials is eagerly anticipated, since this launch had to be delayed several times in 2007. This will be seen as a test of the new technology and production processes.

The installation of the Columbus module is likely to mean for the European space travel that the ISS space station has been established as a major international project. Complements and a continuous traffic of the supply modules stabilize the demand. In the first half of 2008 the first ATV unmanned transport vehicle will be sent to supply the ISS. Jenoptik sensors make the fully automated approach and docking possible. At the end of 2008 at the conference of the ESA Council of Ministers important guidelines for European aerospace activities in the coming years will be decided.

The growth prospects for manufacturers in the medical technology field are good: demographic changes and rising prosperity, as well as increasing access to medical provision by an ever greater number of people will ensure sales growth. Experts predict annual rates of increase of between 8 and 10 percent – coupled with a marked rise in profits. It must however also be stated that the pressure on margins



is becoming greater in more mature segments. Within this type of competitive environment significant importance will be attached to the companies' internationalization in order to expand its markets.

2008 is expected to be another boom year in the solar industry – including outside the “traditional” locations: increases in global sales of between 20 and 30 percent are forecast by the Bundesverband der Solarwirtschaft (BSW) which consequently anticipates a significant increase in the share of exports, to 50 percent in the year 2010 – with the long-term target being 70 percent. In the “World Energy Outlook 2006” the International Energy Agency (IEA) develops a conservative reference scenario with a global market volume of 23 billion euros in the year 2030 whilst forecasts from Greenpeace and the European Photonics Industry Association (EPIA) actually predict figures of up to 170 billion euros per annum. Significant capital expenditure will also be made to the extent that Germany is developing into the global lead market. In future, growth will come primarily from the production of thin film solar cells.

The defense and security technology business continues to report stable development – even though the framework conditions have altered: smaller and more flexible units, high standard of personal protection and, last but not least, spatial flexibility are the requirements of the future. Special

mention should be made here of the Airbus-EADS A400M program which can guarantee the global range of troop transportation. Modern locating and communication technology is therefore expected to be one of the growth areas despite stagnating budgets on defense spending.

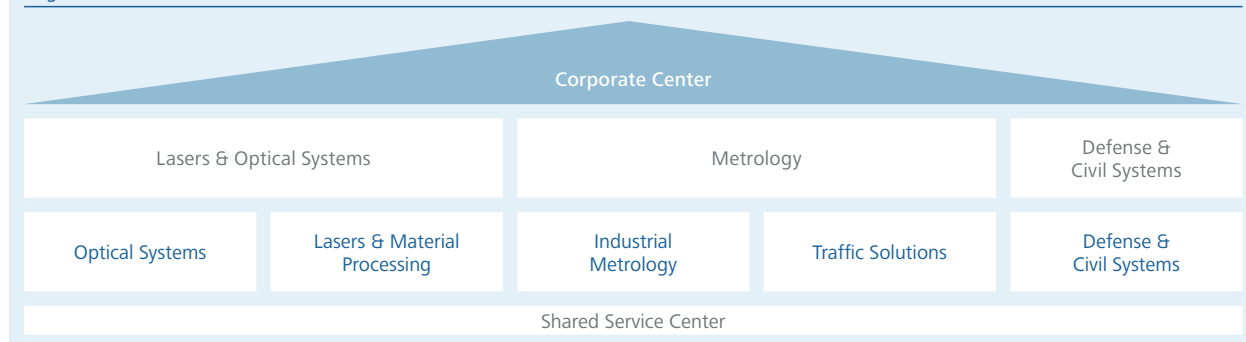
### 6.3 Future development of the business situation

The reporting on the future development of the business situation for the years 2008 and 2009 will be conducted on the basis of the new organizational structure. The targets specified apply for the new segments to be covered by the reporting from the year 2008. <sup>[51]</sup>

These cannot be compared with the key indicators for the three old divisions which were covered by the reporting for the year 2007. Rough comparison details for the year 2007 for the three new segments are enclosed in brackets with some of the forecasts. Comparison figures for the year 2007 based on the new segment reporting will be produced together with the reporting for the 1<sup>st</sup> quarter 2008 and the subsequent quarters, as well as for the 2008 consolidated financial statements.

[51]

#### Organizational structure



All the details below on sales and results targets are subject to there being no significant deterioration in the economic situation over the next two years. Current statements relating to the future development of the economy as a whole are affected by significant risk factors, however their consequences for the future development of the economic situation cannot be predicted at the present time. -- P. 84 FF

#### Anticipated development of key indicators

The Jenoptik Group is keeping to its long-term growth target of 1 billion euros in sales with a quality of earnings between 9 and 10 percent. Sales are expected to grow by an average 10 percent per annum, including smaller acquisitions. In the fiscal year just past we posted a 7.5 percent rise in sales and in the year 2006, a figure of 18 percent. [52]

Sales are expected to increase further in 2008 and – excluding acquisitions – clearly exceed the 550 million euro mark. In 2009 this is expected to exceed the 600 million euro mark. All three segments plan to grow sales over the next two years. As such, sales in the Laser & Optical Systems segment are expected to come in at between 220 and 240 million euros (prev. year approx. 218 million euros). In the Metrology segment, following a slow year for Traffic Solutions and strong anorganic growth in Industrial Metrology in 2006, the target for an organic increase in sales is between

125 and 140 million euros (prev. year approx.

117 million euros). The Defense & Civil Systems segment plans to generate sales of between 185 and 200 million euros (prev. year approx. 181 million euros).

Once again the Group operating result is expected to increase to between 37 and 40 million euros. A marked reduction in the capitalization of development costs compared with the years 2006 and 2007 has already been taken into account. In the Metrology segment the weak 2007 fiscal year for the Traffic Solutions division will continue to have a partial impact on the earnings situation in 2008 which will still be unable to repeat the quality of earnings achieved in the year 2006 and before. Here, as in the year 2007, in particular the winning of major orders will affect the quality of earnings and thus the achieving of Group targets. We expect the strategic reorientation to produce increased earnings from 2009.

In 2008 there are plans to dispose of real estate which is not required for operating purposes and which should lead to a further reduction in net debt. From 2009 the positive contribution to the EBIT from real estate will therefore reduce, although this should be offset on the financial results level by savings in interest of a similar amount.

[52]

#### Targets 2008 (in million euros)

	Actual 2007	Target 2008
Sales (Group)	522	more than 550
Lasers & Optical Systems	218	220 to 240
Metrology	117	125 to 140
Defense & Civil Systems	181	185 to 200
EBIT (Group)	35	37 to 40

The increase in earnings before tax in 2008 will be significantly disproportionately higher than the operating result. In addition to the rise in the operating result we anticipate a marked reduction in interest expenses and subsequently an 11 to 14 million euro improvement in the interest result. The early repayment of the high interest bond in November of the past fiscal year by using the restricted cash will mean that the interest balance of high interests paid and interests received of approx. 6 million euros will no longer apply in 2008 or the subsequent years. In the year 2007 this still applied for the first ten months, producing an interest burden of approx. 5 million euros. In addition, the interest result in 2007 included 9.6 million euros in costs arising from the early repayment. The overall, marked increase in interest rates in the euro zone will have a slightly offsetting impact on Jenoptik's interest result.

On the basis of the marked increase in earnings before tax we expect to see a significantly lower tax quota than in the previous year. In the fiscal year just past a one-off non-cash expense arising from the German tax reforms was recorded. In view of the utilization of Jenoptik's tax losses carried forward and the differences between the IFRS and fiscal expenses, we expect that Jenoptik will only have to pay minimal income taxes. The level of the deferred taxes will be dependent upon earnings before tax achieved.

On the order book side we can look back to a positive end to the year 2007 and a good start to 2008. In the first weeks of the current fiscal year we recorded a number of order intakes in the single and double figure million euro range right across our divisions. Since order intakes in the double figure million euro range are mainly achievable in the Defense & Civil Systems and Traffic Safety Systems divisions, although these cannot be predicted with sufficient probability, durable statements cannot be given on the level of the order intake and consequently of the anticipated order backlog. However, since the Defense & Civil Systems division

in particular benefits from long-term orders, at the start of the year approx. 43 percent of the anticipated Group sales for the year 2008 have already been recorded in the Group order backlog (prev. year 43 percent).

Research & development remains one of the foundations to our market success. R+D expenses (excluding research & development on behalf of customers and capitalization) are expected to total between 37 and 40 million euros in 2008. This figure does not include JT Optical Engine which was founded in 2007 with Trumpf and is shown at-equity in the investment result. The planned introduction of a group-wide innovation management system with standard structures planned for 2008 should enable innovation topics to be identified in a more targeted way in future and allow processes to be structured in a more efficient manner than in the past on the basis of a management system adapted for Jenoptik.

The number of employees is expected to rise further but at a disproportionately lower rate to the targeted expansion of sales. On balance we expect 120 to 170 new appointments for 2008 – excluding acquisitions. The emphasis will be placed on further investments in the strategic work on human resources in 2008. Following the introduction in 2007 of a central Application Management System which started up on January 1, 2008, the focus in the current fiscal year will be on personnel development. At the same time, an incentive system for the 1st and 2nd management levels in the divisions to be applicable throughout the Group will be drawn up and introduced during the course of 2008.

In the area of environmental and quality management the task in 2008 will be to implement the European Community Ordinance on reforming the European Law on Chemicals (REACH – Registration, Evaluation, Authorization and Restriction of Chemicals). The ordinance, which came into force on July 1, 2007 takes into account not only the material

properties of the chemicals but also their applications and relates not just to their initial placement on the market but also to the entire value added chain. To this end all chemical materials must be registered and evaluated within Jenoptik's companies. The same requirement must be placed on the supplier side. In addition, checks must be carried out to determine whether the chemicals being used entail a particularly high hazard potential and so require compulsory licensing under the new law. Separate registration is required in these cases. The Industrial Metrology division plans an external certification of the environmental management systems. JENOPTIK Laser, Optik, Systeme GmbH will focus on preparing and executing comprehensive repetition audits for the environmental management.

The SAP-GTS module for international trading processes will be introduced in additional areas of the Group in 2008. It will ensure that major international business processes of the Group will be constantly monitored.

#### Anticipated financial situation

For financing purposes, in addition to cash in hand and bank credit balances in the sum of 16.0 million euros as of December 31, 2007 and current securities, the Group also has non-utilized lines of credit in the sum of nearly 100 million euros at its disposal. The commercial paper program that opens up short-term financial flexibility in the sum of 100 million euros, depending on the market conditions, had not been utilized as at December 31, 2007 and is intended to generally be used only to a minimal extent. The financing of the business expansion as well as smaller acquisitions and current borrowing costs should primarily be provided from the current cash flow and, if needs be, through the utilization of the above-mentioned lines of credit. Jenoptik can make use of the financing instruments resulting from the resolutions passed at the 2007 Annual General Meeting, for financing larger acquisitions.

Following the fundamental changeover of the medium-term financing to the borrowers notes in 2007, there are no plans for major changes to the financing structure during the current 2008 fiscal year as there are no medium or long-term financial liabilities becoming due for payment. However, long-term mortgage loans and liabilities arising from the finance lease for real estate are to be repaid in 2008 and consequently the Group's net debt further reduced. We expect a reduction in the double figure million euro range in this item.

Net debt is to be further reduced and should remain clearly below the 200 million euro mark in 2008. It is planned to pay capital expenditure and interests out of current cash flows. In addition, the sale of real estate not needed for operation is to further reduce net debt in 2008. The precise amount will also be dependent upon the further development of the German real estate market as the sale of the real estate not required for operating purposes should only take place providing the sales prices come within our expectations. JENOPTIK AG does not plan to distribute a dividend for the 2007 fiscal year.

Capital expenditure on tangible and intangible assets in 2008 is expected once again to total between 36 and 44 million euros and consequently remain at the same level as in the previous years. This figure includes the expansion of the service providing business. The investments in traffic monitoring will be capitalized into items of tangible assets for a period of five years. The Optical Systems and Lasers & Material Processing divisions are development and investment intensive and will therefore account for the largest share of the capital expenditure.

#### Summary I General statement on the future development

Through the strategic realignment, accompanied by a more streamlined management structure and the impetus of a change in corporate cultural throughout the Group, we are

creating the conditions required for intrinsic and sustainable growth. In parallel with this we took advantage of 2007, as part of a comprehensive strategy process, to systematically define the future potential and convert it into specific projects along our five value levers.

We see our innovative products as offering potential for growth, particularly abroad. The areas of focus in the sector-related development of the market will be on the photovoltaics and flat panel industry, amongst others, as well as on the service providing segment of the Traffic Solutions division. The prospects for these and other sectors in which we operate, are positive. The general economic situation makes it currently almost impossible to present reliable forecasts – particularly against the background of the sub-prime crisis and continually rising raw material prices. Our forecasts for business figures for 2008 and part of 2009 therefore assume that there will not be any significant deterioration in the overall economic climate.

We anticipate marked increases in sales for 2008 and 2009, accompanied by an improvement in the results from operating activities. The impact of the Group's strategic realignment that we will be pursuing consistently in 2008, is expected to produce increasing earnings from the year 2009.

The positive effects of a consistent realignment of the Group portfolio plus the financing structure which has been adapted to suit our size and business activity, will actually start to be felt in 2008 in terms of the interest result, earnings before tax and consolidated net profit for the year as well as in the balance sheet itself. Our long-term target is to generate sales of one billion euros with an EBIT margin of between 9 and 10 percent through dynamic growth averaging 10 percent per annum.

Jena, March 11, 2008



Dr. Michael Mertin  
Chairman of the Executive Board



Frank Einhellinger  
Member of the Executive Board

## Consolidated financial statements and notes of JENOPTIK AG for fiscal year 2007

“This year’s Group Notes cover the IFRS 7 reporting standard for the first time. This also entails a restructuring of the risk report, which is now provided in much greater detail. Just like the management report, the segment reporting included in the notes is reflecting the old structures for the last time.”

PETRA STAPPENBECK, DIRECTOR OF FINANCE/CONTROLLING, JENOPTIK AG

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# Consolidated Financial Statements of JENOPTIK AG

## Consolidated Statement of Income

in TEUR	Note No.	Group 01.01.–31.12. 2007	Continuing business divisions 01.01.–31.12. 2006	Discontinued business divisions 01.01.–31.12. 2006	Group 01.01.–31.12. 2006
Sales	1	521,687	485,139	517,049	1,002,188
Cost of sales	2	361,817	333,887	468,098	801,985
Gross profit		159,870	151,252	48,951	200,203
Research and development expenses	3	38,990	33,840	997	34,837
Selling expenses	4	49,274	47,982	7,654	55,636
General administrative expenses	5	42,900	37,252	18,430	55,682
Other operating income	6	45,170	30,206	6,107	36,313
Other operating expenses	7	38,547	24,170	17,042	41,212
Result from operating activities		35,329	38,214	10,935	49,149
Result from investments in associated companies	8	–5,331	–814	923	109
Result from other investments	8	–1,742	–4,161	–3,011	–7,172
Interest income	9	8,148	13,932	1,862	15,794
Interest expenses	9	35,667	28,086	6,188	34,274
Financial result		–34,592	–19,129	–6,414	–25,543
Earnings before tax		737	19,085	4,521	23,606
Income taxes	10	952	1,813	3,551	5,364
Deferred taxes	10	4,411	1,134	593	1,727
Earnings after tax		–4,626	16,138	377	16,515
Minority interests' share of profit/loss	11	3,592	2,682	2,133	4,815
Net profit		–8,218	13,456	–1,756	11,700
Earnings per share in euros	12	–0.16	0.26	–0.04	0.22
Earnings per share (diluted) in euros		–0.16	0.26	–0.04	0.22



## Consolidated Balance Sheet

Assets in TEUR	Note No.	31.12.2007	31.12.2006	Change
Non-current assets		387,711	416,934	-29,223
Intangible assets	13	88,314	89,490	-1,176
Tangible assets	14	175,873	170,178	5,695
Investment properties	15	35,992	34,553	1,439
Shares in associated companies	17	847	1,396	-549
Financial assets	18	23,931	55,035	-31,104
Other non-current assets	19	10,821	11,163	-342
Deferred tax assets	20	51,933	55,119	-3,186
Current assets		309,615	456,725	-147,110
Inventories	21	174,099	161,494	12,605
Current accounts receivable and other assets	22	119,502	137,753	-18,251
Securities	23	2,222	3,638	-1,416
Cash and cash equivalents	24	13,792	10,640	3,152
Restricted cash	24	0	143,200	-143,200
Total assets		697,326	873,659	-176,333
Shareholders' equity and liabilities in TEUR	Note No.	31.12.2007	31.12.2006	Change
Shareholders' equity	25	280,924	299,364	-18,440
Subscribed capital		135,290	135,290	0
Capital reserve		186,726	186,726	0
Other reserves		-62,726	-45,190	-17,536
Own shares		0	-47	47
Minority interests	26	21,634	22,585	-951
Non-current liabilities		208,788	333,198	-124,410
Pension provisions	27	6,404	6,361	43
Other non-current provisions	29	22,046	22,340	-294
Non-current financial liabilities	30	161,755	281,679	-119,924
Other non-current liabilities	31	15,195	19,953	-4,758
Deferred tax liabilities	20	3,388	2,865	523
Current liabilities		207,614	241,097	-33,483
Tax provisions	28	1,085	1,218	-133
Other current provisions	29	39,907	41,066	-1,159
Current financial liabilities	30	45,918	78,829	-32,911
Other current liabilities	32	120,704	119,984	720
Total shareholders' equity and liabilities		697,326	873,659	-176,333

## Consolidated Statement of Movements in Shareholders' Equity

in TEUR	Subscribed Capital	Capital reserve	
Balance as at 01.01.2006	135,290	186,727	
Valuation of financial instruments			
Currency differences			
Changes in value recorded in shareholders' equity			
Earnings after tax			
Sum of earnings after tax and changes in value not impacting income			
Dividends paid			
Change in consolidated companies			
Other changes		- 1	
Balance as at 31.12.2006	135,290	186,726	
Valuation of financial instruments			
Currency differences			
Changes in value recorded in shareholders' equity			
Earnings after tax			
Sum of earnings after tax and changes in value not impacting income			
Dividends paid			
Change in consolidated companies			
Other changes			
Balance as at 31.12.2007	135,290	186,726	

	Cumulated profit	Fair value measurement	Hedging	Cumulative currency differences	Own shares	Minority interests	Total
	-45,587	-3,623	3,195	-4,557	-48	42,930	314,327
		12,766	763			-53	13,476
	532			3,153		-1,112	2,573
	532	12,766	763	3,153	0	-1,165	16,049
	11,700					4,815	16,515
	12,232	12,766	763	3,153	0	3,650	32,564
						-3,412	-3,412
	-23,268					-20,564	-43,832
	-264				1	-19	-283
	-56,887	9,143	3,958	-1,404	-47	22,585	299,364
		-9,149	2,271				-6,878
	-276			-1,995		-22	-2,293
	-276	-9,149	2,271	-1,995	0	-22	-9,171
	-8,218					3,592	-4,626
	-8,494	-9,149	2,271	-1,995	0	3,570	-13,797
						-3,604	-3,604
						-917	-917
	-169				47		-122
	-65,550	-6	6,229	-3,399	0	21,634	280,924

## Consolidated Statement of Cash Flows

in TEUR	Group 01.01. – 31.12. 2007	Contin. BU 01.01. – 31.12. 2006	Group* 01.01. – 31.12. 2006
Earnings before tax	737	19,085	23,606
Interest	27,519	14,154	18,480
Depreciation/write-up	34,533	35,094	35,094
Impairment	11,438	1,485	1,485
Profit on disposal of fixed assets	–21,094	–679	–665
Other non-cash expenses/income	6,073	–1,145	–2,068
Operating profit/loss before working capital changes	59,206	67,994	75,932
Increase/decrease in provisions	–1,542	3,655	–10,025
Increase/decrease in working capital	14,838	–32,313	3,242
Increase/decrease in other assets and liabilities	2,387	–8,293	–1,714
Cash flow from/used in operating activities before income taxes	74,889	31,043	67,435
Income taxes paid	–1,084	–2,205	–8,847
Cash flow from/used in operating activities	73,805	28,838	58,588
Receipts from disposal of intangible assets	356	661	761
Payments for investments in intangible assets	–9,963	–12,991	–12,991
Receipts from disposal of tangible assets	2,956	25,642	25,743
Payments for investments in tangible assets	–25,861	–26,843	–30,486
Receipts from disposal of financial assets	34,423	22,244	24,816
Payments for investments in financial assets	–4,582	–9,361	–10,614
Payments for the sale of consolidated companies	0	157,512	20,064
Payments for acquisition of consolidated companies	–10,031	–9,315	–9,315
Interest received	7,501	12,452	14,986
Cash flow from/used in investing activities	–5,201	160,001	22,964
Dividend payments to shareholders	–3,590	–3,412	–3,412
Receipts from issue of bonds and loans	31,119	22,983	40,986
Repayments of bonds and loans	–207,503	–32,127	–36,680
Repayments for finance leases	–2,528	–13,426	–13,560
Change in group financing	5,168	5,700	–8,497
Interest paid	–30,774	–23,664	–27,137
Cash flow from/used in financing activities	–208,108	–43,946	–48,300
Change in cash and cash equivalents	–139,504	144,893	33,252
Foreign currency translation changes in cash and cash equivalents	–544	101	–2,877
Cash and cash equivalents at the beginning of the period	153,840**	8,846	123,465
Cash and cash equivalents at the end of the period	13,792	153,840	153,840**

\* including discontinued business division \*\* including restricted cash of TEUR 143,200

# Notes to the consolidated financial statements for the fiscal year 2007

## 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.

### Accounting policies

The consolidated financial statements of JENOPTIK AG for 2007 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.

### IFRS 7 "Financial Instruments: Disclosures" and IAS 1 "Presentation of Financial Statements – Capital Disclosures"

IFRS 7, published in August 2005, and the change in IAS 1 were applied for the first time in the fiscal year 2007. Both standards have to be applied for fiscal years beginning on or after 1 January 2007. IFRS 7 sets out obligatory disclosures in the notes to the financial statements in order that the significance of financial instruments for net assets, financial position and results and the nature or scope of the risks resulting from the financial instruments can be better evaluated. IAS 1 sets out the basis for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The revision to IAS 1 relates to the extension of the disclosures with regard to objectives and methods and processes of capital management. IFRS 7 and the revision to IAS 1 led to extended disclosures in the notes to the financial statements in the consolidated financial statements for the year ended December 31, 2007.

### IFRIC 7 "Applying the Reinstatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"

The Interpretation IFRIC 7 had to be applied for the first time in the fiscal year 2007. IFRIC 7 was published in November 2005 and shall be applied to fiscal years beginning on or after March 1, 2006. This interpretation includes rules on the application of IAS 29 if the functional currency of a company is classified as hyperinflationary for the first time. The consolidated financial statements of

JENOPTIK AG do not include any companies with hyperinflationary functional currencies and, therefore this Interpretation is not applied in the consolidated financial statements.

### IFRIC 8 "Scope of IFRS 2"

In January 2006 the Interpretation IFRIC 8 was published and is applicable to fiscal years beginning on or after May 1, 2006. IFRIC 8 has no effect in the consolidated financial statements of JENOPTIK AG since there are no share-based transactions in which goods or services received cannot be clearly identifiable.

### IFRIC 9 "Reassessment of Embedded Derivatives"

In March 2006 IFRIC 9 was issued and was to be applied for the first time in the fiscal year 2007. IFRIC 9 regulates the question of when and under which circumstances a reassessment of the underlying contract is necessary. There are no embedded derivatives within the Group.

### IFRIC 10 "Interim Financial Reporting and Impairment"

Additionally, the Interpretation IFRIC 10 had to be applied for the first time in the fiscal year 2007. IFRIC 10 was issued in July 2006 and is applicable to fiscal years beginning on or after November 1, 2006. IFRIC 10 stipulates that impairment in connection with goodwill and certain financial assets recorded in the interim financial statements and for which impairment may not be reversed in accordance with IAS 36 and IAS 39, may not be reversed in subsequent interim financial statements or in annual or group financial statements. In the interim financial statements of JENOPTIK AG no relevant impairment has been made.

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

### IFRS 8 "Segment Reporting"

The IASB published IFRS 8 in November 2006. The standard sets out in particular the use of the "management approach" with regard to the identification and measurement of segments.

IFRS 8 is obligatory for fiscal years which begin on or after January 1, 2009. It may be applied earlier.

The initial application of this standard by JENOPTIK AG will lead to changes in information disclosed in segment reporting.

#### IFRIC 11 "IFRS 2 Group and Treasury Share Transactions"

In November 2006 the IASB published the Interpretation IFRIC 11. IFRIC 11 addresses how to account for share-based payments within a group, what the consequences are for employees transferring within a group and how share-based payments are to be treated where the company issues its own shares or has to acquire shares from a third-party.

The interpretation shall apply to fiscal years beginning on or after March 1, 2007. Earlier application is recommended. This interpretation is not expected to have any effect on the future consolidated financial statements of JENOPTIK AG.

#### IFRIC 12 "Service Concession Agreements"

In November 2006 the IASB issued Interpretation IFRIC 12. The focus of the Interpretation is on accounting for service agreements by companies, contracted by district corporations, who supply public services such as roads, airports, prisons or energy supply infrastructure. The control of assets remains in public hands but the private sector operator is responsible under contract for construction activities as well as for operating and maintaining the public sector infrastructure.

The following Standards and Interpretations had not yet been adopted by the EU as at 31.12.2007.

IFRIC 12 deals with the question of how companies should account for the rights and obligations arising from such contractual arrangements.

The Interpretation shall apply to fiscal years beginning on or after January 1, 2008. It may be applied earlier. It is not expected that IFRIC 12 will have an effect on the future consolidated financial statements of JENOPTIK AG.

#### IFRIC 13 "Customer Loyalty Programmes"

In June 2007 the Interpretation IFRIC 13 "Customer Loyalty Programmes" was issued. IFRIC 13 devotes itself to the accounting of entities that grant customers premium credits ("Loyalty points" or

flight miles) or participate in such programmes in another way. In particular it explains how these entities should account for their obligation to provide free or discounted goods or services (points) if and when the customers redeem the points. The Interpretation shall be applied for fiscal years beginning on or after July 1, 2008 and is not expected to have any effect on the accounting and measurement of the Group. The Interpretation has not yet been adopted by the EU.

#### IAS 23 "Borrowing Costs"

In March 2007 the IASB issued the revised Standard IAS 23. In accordance with it borrowing costs which can be directly allocable to the purchase, construction or production of a qualifying asset shall be recognised in the balance sheet. The currently existing option to immediately expense borrowing costs will be removed. The revised standard shall apply to fiscal years beginning on or after January 1, 2009. The effects of the application of this Interpretation on the future consolidated financial statements of JENOPTIK AG cannot be conclusively determined.

#### IFRIC 14 "The Limit on Defined Benefit Assets, Minimum Funding Requirements and their Interaction"

In July 2007 the IASB issued the Interpretation IFRIC 14. The Interpretation gives guidance on how to assess the limit in IAS 19 "Employee Benefits" on the amount of the surplus that can be recognised as an asset. It also explains how the pension assets or liabilities from defined benefit plans may be affected when there is a statutory or contractual minimum funding requirement. As a result it is ensured that entities recognise an asset in relation to plan surpluses on a consistent basis. The Interpretation shall apply to fiscal years beginning on or after January 1, 2008. It may be applied earlier. It is not expected that IFRIC 14 will have an effect on the future consolidated financial statements of JENOPTIK AG.

#### IAS 1 "Presentation of the financial statements: Revised Version"

In September 2007 the IASB issued a revised version of the Standard IAS 1, which is aimed at improving users' ability to analyse and compare information given in financial statements. The revised standard shall apply to fiscal years beginning on or after January 1, 2009. It may be applied earlier. The first-time application of the Standard will not have any material effects on the presentation of the consolidated financial statements.

The financial reporting for the fiscal year 2007 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 three associated companies. These companies have each prepared interim financial statements for twelve months as at December 31.

In order to improve clarity of presentation individual items are summarized in the statement of income and balance sheet. The analysis of these items is disclosed in the notes.

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.

Assumptions and estimates mainly relate to the determination of economic useful lives, the estimation of the net realisable value of inventories, accounting and measurement of provisions and to the realisation of future tax credits. The actual values may deviate in individual cases from the assumptions and estimates made.

#### 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 possibility exists to govern 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.

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

Number of companies		
	2007	2006
JENOPTIK AG and fully-consolidated subsidiaries		
Domestic	19	20
Foreign	10	8
Associated companies		
Domestic	3	1
Foreign	0	0
Proportionally consolidated companies		
Domestic	1	1
Foreign	0	0
	33	30

Compared to the prior year the companies consolidated changed as follows:

On December 31, 2007 100 percent of the shares were purchased in EPIGAP Optoelektronik GmbH (EPIGAP), Berlin and it was included in the consolidated financial statement.

Furthermore, three companies were included in the consolidated financial statements for the first time in the fiscal year. This includes the conversion of an operating unit into a legally independent entity.

Additionally, Somicronic GmbH was consolidated for the first time as at January 1, 2007. As at April 2, 2007 the shares in Detroit Precision Hommel, Inc., Rochester Hills not held by Jenoptik until now were purchased and included in the consolidated financial statements since this date. In the second quarter 2007 Somicronic GmbH merged with Hommel-Etamic France SA and Detroit Precision Hommel, Inc. merged with HOMMEL-ETAMIC America Corp.

In the first quarter of 2007 ETAMIC GmbH, Ratingen, merged with Hommel-Etamic GmbH, Villingen-Schwenningen. The company JENOPTIK unique-mode GmbH, Jena, merged on January 1, 2007 with JENOPTIK Laser, Optik, Systeme GmbH, Jena.



On June 30, 2007 the majority shares were sold in a company which is now accounted for as an associate at equity. Furthermore, shares were purchased in an entity which has been included in the consolidated financial statements as an associate since July 1, 2007.

The joint venture HILLOS GmbH, Jena is included in the consolidated financial statements proportionally at 50 percent in accordance with IAS 31 "Interests in Joint Ventures".

In accordance with IAS 28 "Investments in Associates" three domestic associated companies are accounted for using the equity method. Jenoptik has no significant influence on the financial and operating policy of these entities. 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 acquisition cost.

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 SAALAEUE Immobilien Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Jena (SAALAEUE) and LEUTRA SAALAEUE Gewerbegrundstücksgesellschaft mbH & Co. KG, Grünwald, (LEUTRA SAALAEUE) are consolidated in the IFRS consolidated financial statements under IAS 27 in connection with SIC-12 "Consolidation-Special Purpose Entities".

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.

Additions are shown from the point at which first-time consolidation is performed, disposals represent a deconsolidation as at June 30, 2007.

The following subsequent effects result overall from the change in the companies consolidated:

in TEUR	Additions	Disposals	Total
Non-current assets	16,573	-4,708	11,865
Current assets	14,961	-2,022	12,939
Non-current liabilities	1,023	-931	92
Current liabilities	17,587	-4,335	13,252

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

in TEUR	2007	2006
Non-current assets	1,875	2,016
Current assets	5,102	3,961
Non-current liabilities	10	12
Current liabilities	2,759	2,115
Income	16,558	13,983
Expenses	16,201	13,585

The companies accounted for at equity in the consolidated financial statements show the following proportional values at the year end December 31, 2007:

in TEUR	2007	2006
Non-current assets	3,919	2,828
Current assets	4,408	4,988
Non-current liabilities	2,458	2,280
Current liabilities	4,868	4,140
Income	4,032	3,292
Expenses	8,475	5,059

Those companies exempt 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

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.

In the fiscal year 100 % of the shares were purchased in EPIGAP as well as the shares in Detroit Precision Hommel, Inc., Rochester Hills not held by Jenoptik until now.

By purchasing EPIGAP the Group is following its objective of expanding the process chain for the development and production of semi-conductor chips in order to continue their integration in optoelectronic components and systems.

The purchase of the remaining 75 % of the shares in Detroit Precision Hommel, Inc. resulted in preparation for the merger of the US American locations of the Metrology Group.

The following table shows the carrying amounts and fair values of the assets and liabilities purchased at the time of acquisition.

in TEUR	IFRS- carrying amount prepurchase	Adjust- ments	Fair values
Intangible assets	0	1,909	1,909
Tangible assets	1,476	0	1,476
Inventories	2,767	0	2,767
Receivables and other assets	3,063	0	3,063
Cash and cash equivalents	593	0	593
Non-current liabilities	326	698	1,024
Current liabilities	3,635	0	3,635
Purchased net assets	3,938	1,211	5,149

The purchase price for both companies amounted to TEUR 12,364. Of this TEUR 10,810 was paid in 2007 and TEUR 1,558 was already paid in previous years.

The goodwill shown represents the other economic benefits which did not lead to separate recognition in accordance with the criteria for intangible assets.

Since EPIGAP was not purchased until December 31, 2007 there were no effects on the income statement. If EPIGAP had been included in the consolidation since January 1, 2007 it would have contributed EUR 4.7 million to Group sales and EUR 0.4 million to the earnings before tax. The contribution to profits by Detroit Precision Hommel, Inc. cannot be reliably determined as a result of its merger during the year.

The purchase prices paid less the fair values of the net assets acquired reflect the goodwill of TEUR 7,219 for the companies purchased.

#### Consolidation methods

The assets and liabilities of the domestic and foreign companies either fully or partially 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 carrying 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 carried forward 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.

The consolidation methods applied have not changed in comparison to the prior year.

#### Foreign currency translation

Translation of financial statements of companies 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.

Assets and liabilities are consequently translated at the balance sheet date rate and expenses and income, for practical reasons, 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. In the fiscal year 2007 these amounted to TEUR 2,293 (2006 TEUR 2,573) disclosed in equity.

Goodwill arising from the capital consolidation of foreign companies is translated at the rates prevailing at the time of purchase.

If Group companies are no longer included in the consolidation then the relevant foreign exchange difference is released to the statement of income.

In the separate financial statements of consolidated companies prepared in local currency receivables and liabilities are translated at the balance sheet date rate in accordance with IAS 21. Foreign exchange differences are recorded impacting income in other

operating expenses and other operating income. In the fiscal year 2007 foreign exchange differences amounted to gains of TEUR 5,822 (2006 TEUR 3,759) and losses of TEUR 7,356 (2006 TEUR 4,829).

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

	1EUR=	Average annual rate		Balance sheet date rate	
		2007	2006	2007	2006
USA	USD	1.38562	1.28924	1.47210	1.31700
Switzerland	CHF	1.64973	1.59227	1.65470	1.60690

## Accounting policies

Accounting policies are applied uniformly and consistently within the Jenoptik Group.

Financial statements prepared in accordance with country-specific requirements are adjusted to conform with the uniform Group accounting principles where they do not comply with IFRS and the measurement differences are material.

#### 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.

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 carrying values to date but at their fair values.

Goodwill is recognised as an asset and tested at least annually at a specific time for impairment or whenever there is an indication of impairment in the cash-generating unit. Impairment losses are recorded immediately in the statement of income as expenses and are not reversed in subsequent periods.

Negative goodwill on capital consolidation is credited to other operating income in the statement of income 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").

For intangible assets with an indefinite useful life an impairment test is performed at least annually and the value adjusted to reflect future expectations as required.

Internally generated intangible assets are capitalised if the recognition criteria of IAS 38 "Intangible Assets" are met. Manufacturing costs comprise all directly attributable costs.

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. Amortisation is included in the research and development costs. Research costs shall be recognised as operating expenses in accordance with IAS 38.

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.

Scheduled 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 show 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 amount of relevant impairment loss.

An impairment test is performed on individual assets or on a cash-generating unit.

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 use of the asset 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 carrying 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 carrying amount 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 statement of income.

#### Leasing

Leased tangible assets fulfil the conditions for finance leasing in accordance with IAS 17 "Leases" 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 comprise land and buildings held to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes or for sale in the ordinary course of business.

In accordance with IAS 40 investment properties are recognised at amortised acquisition or production costs. The fair value of these properties is additionally disclosed in the notes. It is determined using the discounted cash flow model. 11.6 percent of the fair values were supported by an external expert valuation.

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 are 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 fluctuations.

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 payables 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 Group financial statements, classified as "available for sale" and valued in subsequent periods at fair value.

Changes in value of "financial assets 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.

Non-current non-interest bearing and low-interest bearing loans are accounted for at present value. Where there are objective substantial indications of impairment then impairment losses are accounted for.

#### Securities

Securities belong to the category “financial assets available for sale” and are measured at fair value. The valuation is accounted for neutrally, also under consideration of deferred taxes, within equity until disposal. On disposal of the securities, or where permanent impairment occurs, the cumulative gains and losses accounted for until now directly in equity are recorded in the statement of income for the current period. 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 cost. All recognisable bad debt risks are accounted for in the form of provisions.

Non-current, non-interest bearing or low-interest bearing material receivables are discounted.

#### 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 leasing 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 instrument. 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 paid is written back to the carrying 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. The fair values were determined on the basis of the market conditions existing at the balance sheet date – interest rates, exchange rates, goods prices – and the following measurement methods.

Derivative financial instruments are not used for speculative purposes. The use of derivative financial instruments is subject to a Group manual authorised by the Executive Board which represents a written fixed guideline with regard to the treatment of derivative financial instruments. In order to secure risks from currency and interest fluctuations the Group uses cash flow hedges.

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. Currency derivatives which can clearly be allocated to future cash flows from foreign currency transaction and fulfil the conditions of IAS 39 with regard to documentation and effectiveness are hedged directly by banks. The task of our central interest management (Group Treasury) is to monitor and optimise this interest rate fluctuation risk.

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 statement of income immediately. With regard to the hedged risk with effect from commencement of the hedge, the underlying transaction should also be taken to the statement of income.

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. The reclassifications from equity to the income statement are performed in the period where the underlying primary transaction becomes effective. Changes in value from financial instruments classified as non-effective are recorded directly in the statement of income.

#### 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 the 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 based on the internationally common balance sheet oriented 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 timing differences between the measurement of assets and liabilities in the balance sheet and for tax purposes.

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. The effects of tax rate changes on deferred taxes are recorded in the reporting period in which the legislation for the tax rate change is concluded.

Deferred tax assets on balance sheet differences and on tax loss carry forwards are only recognised if the realisation of these tax benefits is probable.

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.

#### 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 percent (2006 2.75 percent) for salary development, 1.75 percent to 2.0 percent (2006 1.75 percent) for pension development and a discount factor of 5.5 percent (2006 4.5 percent).

The mortality probabilities are determined from the Heubeck tables "Richttafeln 2005 G". Actuarial gains and losses which exceed the range of 10.0 percent of the higher of the scope of the commitment 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 option in accordance with IAS 19.93A to fully record actuarial gains and losses and offset them against retained earnings has not been utilised.

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 and is independent of the appropriate term of the commitment. Provisions for warranties are established at the time of sale of the relevant goods or provision of the appropriate services. The amount of the provision is based in the historic development of

warranties and the observation of all future potential warranty cases weighted according to their probability of occurrence. These lie within a range of 5.0 to 6.0 percent.

The settlement amount also comprises expected cost increases.

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

Provisions and accrued expenses are measured at experience values from the past under consideration of the conditions at the balance sheet date.

#### 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 the thus 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. They are not recorded in the balance sheet but explained in the notes to the financial statements.

#### 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, a price agreed or determined and it can be assumed that this will be paid. Sales include the consideration invoiced to customers for goods and services – reduced for deductions, conventional penalties and discounts.

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 includes the costs incurred in generating sales. This item also includes the cost of warranty provisions. Amortisation and depreciation on intangible assets and property, plant and equipment are recognised as they arise and included in manufacturing, selling or administrative expenses. 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 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.

The offsetting of income and expenses is thus 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 divisions and other units

01.01.–31.12.2007

in TEUR (previous year's figures in brackets)	Laser & Optics	Sensors	Mechatronics	Other	Adjustments	Group*
Sales	219,227 (199,198)	162,417 (153,179)	134,584 (126,976)	16,588 (14,639)	– 11,129 (– 8,853)	521,687 (485,139)
of which Germany	70,563 (64,481)	61,183 (56,271)	82,461 (82,901)	16,588 (14,639)	– 11,129 (– 8,853)	219,666 (209,439)
European Union	71,836 (64,495)	38,506 (36,483)	42,019 (38,101)	0 (0)	0 (0)	152,361 (139,079)
Other European	23,543 (18,535)	7,687 (3,619)	1,150 (825)	0 (0)	0 (0)	32,380 (22,979)
NAFTA	31,679 (34,996)	26,951 (23,409)	3,602 (3,117)	0 (0)	0 (0)	62,232 (61,522)
South East Asia/Pacific	8,774 (6,292)	21,976 (23,964)	4,790 (1,805)	0 (0)	0 (0)	35,540 (32,061)
Other	12,832 (10,399)	6,114 (9,433)	562 (227)	0 (0)	0 (0)	19,508 (20,059)
Sales with other business divisions	2,374 (2,057)	110 (242)	48 (14)	8,597 (6,540)	– 11,129 (– 8,853)	(0) (0)
Operating result (EBIT) before one-off effects**	23,346	8,721	10,909	– 7,522	– 91	35,363
Operating result (EBIT) after one-off effects	6,133 (15,263)	5,342 (18,108)	10,909 (10,790)	13,036 (– 5,947)	– 91 (0)	35,329 (38,214)
Earnings before interest, taxes, depreciation and amortisation (EBITDA) before one-off effects**	40,253	14,244	14,231	84	– 91	68,721
Earnings before interest, taxes, depreciation and amortisation (EBITDA) after one-off effects**	31,756 (31,794)	12,556 (22,536)	14,231 (14,252)	20,642 (1,334)	– 91 (0)	79,094 (69,916)
Result from investments in associated companies	– 5,331 (– 1,767)	0 (0)	0 (0)	0 (953)	0 (0)	– 5,331 (– 814)
Result from other investments	– 1,094 (– 3,215)	– 168 (261)	158 (80)	– 638 (– 1,287)	0 (0)	– 1,742 (– 4,161)
Earnings after tax before profit/loss adoption after one-off effects	– 3,705 (5,703)	2,381 (17,645)	7,086 (9,910)	– 10,323 (– 17,120)	– 65 (0)	– 4,626 (16,138)
Segment expenses	204,886 (193,950)	158,771 (139,591)	129,396 (120,345)	52,031 (36,517)	– 13,556 (– 13,272)	531,528 (477,131)
Research and development expenses	20,982 (17,606)	12,978 (12,989)	4,352 (5,815)	2,870 (0)	– 2,192 (– 2,570)	38,990 (33,840)
Cash flow from/used in operating activities *	38,248 (21,984)	30,933 (12,716)	14,472 (6,830)	– 9,848 (– 12,692)	0 (0)	73,805 (28,838)
Total assets	197,461 (172,695)	126,414 (122,485)	168,266 (161,866)	295,529 (472,784)	– 142,277 (– 111,290)	645,393 (818,540)
Segment liabilities	104,693 (98,361)	79,970 (76,688)	120,114 (118,344)	247,188 (401,722)	– 166,997 (– 150,293)	384,968 (544,822)
Tangible assets, investment properties and intangible assets	119,235 (107,989)	32,271 (22,821)	27,490 (26,971)	121,183 (136,440)	0 (0)	300,179 (294,221)
Investments excluding company acquisitions	21,100 (22,455)	10,976 (7,670)	4,030 (2,579)	4,508 (7,124)	0 (0)	40,614 (39,828)
Depreciation and amortisation	16,907 (16,531)	5,523 (4,265)	3,322 (3,462)	6,974 (5,959)	0 (0)	32,726 (30,217)
Impairments before one-off effects**	0	0	0	632	0	632
Impairments after one-off effects	8,716 (0)	1,691 (163)	0 (0)	632 (1,322)	0 (0)	11,039 (1,485)
Employees (annual average) (without trainees)	1,260 (1,183)	1,097 (816)	798 (790)	60 (60)	0 (0)	3,215 (2,849)

\* previous year's figures include only continuing business divisions \*\*for reasons of comparison and in accord. with Management Reporting

## Key figures by regions

in TEUR	Laser & Optics		Sensors		Mechatronics	
	2007	2006	2007	2006	2007	2006
Sales	219,227	199,198	162,417	153,179	134,584	126,976
of which domestic*	70,563	64,481	61,183	56,271	82,461	82,901
foreign*	148,664	134,717	101,234	96,908	52,123	44,075
Operating result (EBIT) before one-off effects***	23,346	15,263	8,721	18,108	10,909	10,790
of which domestic**	23,086	14,047	11,412	19,574	9,846	9,763
foreign**	260	1,216	-2,691	-1,466	1,063	1,027
Operating result (EBIT) after one-off effects	6,133	15,263	5,342	18,108	10,909	10,790
of which domestic after one-off effects**	5,873	14,047	8,033	19,574	9,846	9,763
foreign**	260	1,216	-2,691	-1,466	1,063	1,027
Investments in tangible assets, investment properties and intangible assets	21,100	22,455	10,976	7,670	4,030	2,579
of which domestic**	19,025	20,731	7,154	7,178	3,715	2,439
foreign**	2,075	1,724	3,822	492	315	140
Depreciation on tangible assets, investment properties and intangible assets	16,907	16,531	5,523	4,265	3,322	3,462
of which domestic**	16,059	15,340	4,312	4,021	3,206	3,328
foreign**	848	1,191	1,211	244	116	134
Segment assets	197,461	172,695	126,414	122,485	168,266	161,866
of which domestic**	179,208	153,033	86,608	94,813	162,872	156,157
foreign**	18,253	19,662	39,806	27,672	5,394	5,709

\* by location of the customer    \*\* by location of the companies    \*\*\* for reasons of comparison and in accord. with Management Reporting

The presentation of segments is in accordance with IAS 14 "Segment Reporting".

The segmental information is subject to the same disclosure and measurement methods as the consolidated financial statements.

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 Board and Supervisory Board. The business activities are classified into the divisions of Laser & Optics, Sensors and Mechatronics and Other.

The Laser unit primarily concentrates on the working principles of e.g. disk and high-power diode lasers which are principally used in materials processing and in medical technology. In the Optics division high-quality optical components and modules made of glass and synthetics as well as opto-mechanical systems are developed, produced and distributed. The Sensors division deals with technological solutions for application in traffic monitoring, security technology, industrial measurement technology and in the aviation and aerospace industries. The Mechatronics division focuses on the development and production of driving and stabilising systems as well as complex systems for the aviation industry. JENOPTIK AG, the property companies and other non-strategic companies are included in Other.

The secondary reporting format is based on geographical aspects. The business relationships between companies within the divisions 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.

Segment assets include the assets of the individual segments less income tax claims.

Segment expenses are expenses resulting from the operating activities of a segment that are directly attributable to a segment and that can be allocated on a reasonable basis to the segment. These include expenses relating to sales to external customers and expenses relating to transactions with other segments of the same entity.

In the fiscal year there were positive and negative special effects which amount to minus TEUR 34 in total. For better comparability in the segment reporting the operating result of the segments is shown before and after special effects.

The share of associates of TEUR 847 is allocated to the Laser & Optics segment.

## Historical summary of financial data in accord. with HGB (1)

in million EUR	1997*	1998	1999	2000	2001	2002	2003
<b>Fixed assets</b>	<b>428.8</b>	<b>348.1</b>	<b>284.4</b>	<b>269.2</b>	<b>344.0</b>	<b>361.2</b>	<b>487.9</b>
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
<b>Current assets</b>	<b>660.6</b>	<b>732.2</b>	<b>686.4</b>	<b>772.4</b>	<b>832.8</b>	<b>893.5</b>	<b>946.7</b>
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
<b>Shareholders' equity</b>	<b>294.6</b>	<b>375.9</b>	<b>401.9</b>	<b>463.1</b>	<b>487.8</b>	<b>430.6</b>	<b>396.9</b>
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
Goodwill from purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Debt capital</b>	<b>799.7</b>	<b>708.3</b>	<b>570.6</b>	<b>585.1</b>	<b>694.2</b>	<b>826.3</b>	<b>1,046.4</b>
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 <sup>1)</sup>	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
<b>Total assets</b>	<b>1,094.5</b>	<b>1,085.1</b>	<b>973.0</b>	<b>1,048.5</b>	<b>1,182.1</b>	<b>1,257.2</b>	<b>1,444.5</b>
<b>Change compared to prior year</b>							
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 %
Debt capital	49.6 %	-11.4 %	-19.4 %	2.5 %	18.6 %	19.0 %	26.6 %
<b>Share of total assets</b>							
Fixed assets (asset ratio)	39.2 %	32.1 %	29.2 %	25.7 %	29.1 %	28.7 %	33.8 %
Current assets	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 %
<b>Dividends</b>		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 %	

\* Including ESW GmbH since October 1, 1997    1) Liabilities to banks, bills of exchange and bonds



## Historical summary of financial data in accord. with IFRS (1)

in million EUR	2002	2003	2004	2005	2006*	2007
<b>Non-current assets</b>	<b>625.1</b>	<b>775.6</b>	<b>636.2</b>	<b>454.9</b>	<b>417.0</b>	<b>387.7</b>
Intangible assets	29.3	92.9	99.1	76.7	89.5	88.3
Tangible assets	242.7	252.2	231.0	164.7	170.2	175.9
Investment properties	115.8	145.1	63.2	58.0	34.6	36.0
Financial assets	139.0	167.2	120.7	73.0	55.0	24.0
Shares in associated companies	13.7	18.2	33.5	16.7	1.4	0.8
Other non-current assets	3.0	10.9	16.9	8.8	11.2	10.8
Deferred tax assets	81.6	89.1	71.8	57.0	55.1	51.9
<b>Current assets</b>	<b>1,005.9</b>	<b>982.0</b>	<b>918.8</b>	<b>279.6</b>	<b>456.7</b>	<b>309.6</b>
Inventories	295.3	270.8	184.2	143.3	161.5	174.1
Accounts receivable and other assets	577.8	564.4	558.2	125.5	137.8	119.5
Securities held as current investments	3.1	4.2	1.4	2.0	3.6	2.2
Cash and cash equivalents	129.7	142.6	175.0	8.8	153.8	13.8
<b>Assets held for sale</b>				<b>773.8</b>	<b>0.0</b>	<b>0.0</b>
<b>Shareholders' equity</b>	<b>351.8</b>	<b>359.8</b>	<b>369.0</b>	<b>314.3</b>	<b>299.4</b>	<b>280.9</b>
of which subscribed capital	105.8	127.0	135.3	135.3	135.3	135.3
<b>Non-current liabilities</b>	<b>428.2</b>	<b>603.0</b>	<b>452.6</b>	<b>369.2</b>	<b>333.2</b>	<b>208.8</b>
Pension provisions	50.8	59.7	56.3	6.9	6.4	6.4
Other non-current provisions	24.0	5.8	20.7	15.3	22.3	22.1
Non-current financial liabilities	313.2	462.0	339.8	324.7	281.6	161.7
Other non-current liabilities	34.9	58.2	34.0	19.2	20.0	15.2
Deferred tax liabilities	5.3	17.3	1.8	3.1	2.9	3.4
<b>Current liabilities</b>	<b>851.0</b>	<b>794.8</b>	<b>733.4</b>	<b>193.0</b>	<b>241.1</b>	<b>207.6</b>
Tax provisions	9.9	11.8	15.2	1.7	1.2	1.1
Other current provisions	57.1	87.2	67.8	26.0	41.1	39.9
Current financial liabilities	147.8	57.4	75.5	61.6	78.8	45.9
Other current liabilities	636.2	638.4	574.9	103.7	120.0	120.7
<b>Liabilities held for sale</b>				<b>631.8</b>	<b>0.0</b>	<b>0.0</b>
<b>Total assets</b>	<b>1,631.0</b>	<b>1,757.6</b>	<b>1,555.0</b>	<b>1,508.3</b>	<b>873.7</b>	<b>697.3</b>
<b>Change compared to prior year</b>						
Non-current assets		24.1 %	-18.0 %	-28.5 %	-8.3 %	-7.0 %
Current assets		-2.4 %	-6.4 %	-69.6 %	63.4 %	-32.2 %
Shareholders' equity		2.3 %	2.6 %	-14.8 %	-4.7 %	-6.2 %
Non-current liabilities		40.8 %	-24.9 %	-18.4 %	-9.8 %	-37.5 %
Current liabilities		-6.6 %	-7.7 %	-73.7 %	24.9 %	-13.6 %
<b>Share of total assets</b>						
Non-current assets (asset ratio)	38.3 %	44.1 %	40.9 %	30.2 %	47.7 %	55.6 %
Current assets	61.7 %	55.9 %	59.1 %	18.5 %	52.3 %	44.4 %
Shareholders' equity (equity ratio)	21.6 %	20.5 %	23.7 %	20.8 %	34.3 %	40.3 %
Debt capital (debt capital ratio)	78.4 %	79.5 %	76.3 %	37.3 %	65.7 %	59.7 %
<b>Dividends</b>	<b>14.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
per share	0.35	0.00	0.00	0.00	0.00	0.00
in % of subscribed capital	13.4 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Return on dividend based on year-end price 31.12.	3.8 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net financial liabilities<sup>1)</sup></b>		<b>372.6</b>	<b>238.9</b>	<b>375.5</b>	<b>203.0</b>	<b>191.6</b>
in % of adjusted total assets		24.5 %	18.7 %	26.4 %	32.4 %	32.3 %

\* Continuing business divisions 1) Financial liabilities less cash and securities held as investments

## Historical summary of financial data in accord. with HGB (2)

in million EUR	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 <sup>1)</sup>	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) <sup>2)</sup>	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 %
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 <sup>3)</sup>	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	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 <sup>4)</sup>	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 <sup>5)</sup>	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 debt capital	56.0 %	82.9 %	101.2 %	134.3 %	106.3 %	99.2 %	83.2 %
Asset cover <sup>6)</sup>	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
Net financial liabilities <sup>7)</sup>	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 %

\* including ESW since October 1, 1997

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 7) Financial liabilities less liquid funds and securities held as current investments

## Historical summary of financial data in accord. with HGB (2)

	2003	2004	2005	2005*	2006	2007
in million EUR				adjusted		
Sales	1,922.0	2,523.0	1,914.4	410.1	485.1	521.7
Gross profit	204.2	293.0	191.7	124.8	151.3	159.9
in % of sales	10.6 %	11.6 %	10.0 %	30.4 %	31.2 %	30.6 %
EBITDA <sup>1)</sup>	50.9	128.8	43.7	57.7	69.9	79.1
in % of sales	2.6 %	5.1 %	2.3 %	14.1 %	14.4 %	15.2 %
Result from operating activities <sup>2)</sup>	9.0	81.1	-9.8	25.1	38.2	35.3
in % of sales	0.5 %	3.2 %	-0.5 %	6.1 %	7.9 %	6.8 %
Earnings before tax	-43.3	37.4	-52.5	8.1	19.1	0.7
in % of sales	-2.3 %	1.5 %	-2.7 %	2.0 %	3.9 %	0.1 %
Earnings after tax	-45.9	19.0	-69.4	4.0	16.1	-4.6
in % of sales	-2.4 %	0.8 %	-3.6 %	1.0 %	3.3 %	-0.9 %
Cash flow from/used in operating activities <sup>3)</sup>	64.4	100.8	31.7	65.7	28.8	73.8
Change compared to prior year						
Sales		31.3 %	-24.1 %		18.3 %	7.5 %
Gross profit		43.5 %	-34.6 %		21.2 %	5.7 %
EBITDA		153.0 %	-66.1 %		21.1 %	13.2 %
Result from operating activities		801.1 %	-112.1 %		52.5 %	-7.6 %
Earnings after tax		-141.5 %	-464.3 %		307.6 %	-128.5 %
Employees (average)	10,049	10,052	9,486	2,621	2,849	3,215
Personnel expenses (incl. pensions)	500.0	536.7	472.6	148.4	180.1	192.3
Personnel ratio (in % of sales)	26.0 %	21.3 %	24.7 %	36.2 %	37.1 %	36.9 %
Sales per employee (in TEUR)	191.3	251.0	201.8	156.5	170.3	162.3
Cost of materials (incl. purchased services)	1,217.3	1,468.7	1,076.0	184.8	227.1	252.2
Materials ratio (in % company performance)	62.3 %	56.6 %	55.4 %	43.8 %	44.5 %	45.1 %
Research and development expenses	28.4	31.8	34.4	27.4	33.8	39.0
in % of sales	1.5 %	1.3 %	1.8 %	6.7 %	7.0 %	7.5 %
Net value added	494.4	618.4	456.6	168.1	213.3	221.2
in % of company performance <sup>4)</sup>	25.3 %	23.8 %	23.5 %	39.8 %	41.8 %	39.5 %
of which shareholders, company share	-9.3 %	3.1 %	-15.2 %	2.4 %	7.6 %	-2.1 %
Return on sales before interest and tax	0.5 %	3.2 %	-0.5 %	6.1 %	7.9 %	6.8 %
Total turnover of assets	1.09	1.62	1.27		0.56	0.75
Total return on capital before interest and tax	0.5 %	5.2 %	-0.6 %		4.4 %	5.1 %
Return on shareholders' equity before tax (at balance sheet date)	-12.0 %	10.1 %	-16.7 %		6.4 %	0.2 %
Adjusted equity ratio <sup>5)</sup>	17.6 %	21.1 %	16.7 %		33.5 %	32.5 %
Non-current assets financed by shareholders' equity	46.4 %	58.0 %	69.1 %		71.8 %	72.5 %
Asset cover <sup>6)</sup>	142.7 %	159.7 %	190.8 %		175.9 %	159.7 %

\* Continuing business divisions

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

## Notes to the statement of income

The following explanations only relate to the continuing business divisions in 2006 for comparative purposes.

### 1 Sales

Sales increased overall by TEUR 36,548 or 7.5 % to TEUR 521,687 compared to 2006.

Detailed disclosures on revenues by division and region are shown in the segment reporting.

### 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 increased overall by TEUR 27,930 or 8.4 % to TEUR 361,817 compared to 2006.

Cost of sales includes impairment losses on tangible assets amounting to TEUR 632 (2006 TEUR 1,322).

### 3 Research and development expenses

Research and development expenses include all expenses allocable to research and development. Research and development expenses increased overall by TEUR 5,150 or 15.2 % to TEUR 38,990 compared to 2006.

Research and development expenses include impairment losses amounting to TEUR 2,870 (2006 TEUR 163).

### 4 Selling expenses

Selling expenses mainly comprise marketing costs, sales commissions, publicity work and advertising. Selling expenses increased overall by TEUR 1,292 or 2.7 % to TEUR 49,274 compared to 2006.

### 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 increased overall by TEUR 5,648 or 15.2 % to TEUR 42,900 compared to 2006. The increase is mainly related to the newly consolidated companies.

Furthermore, general administrative expenses include auditors' fees, year-end audit fees of TEUR 654 (2006 TEUR 675), other confirmation services of TEUR 22 (2006 TEUR 30) and fees for other services of the auditor amounting to TEUR 2 (2006 TEUR 93).

### 6 Other operating income

in TEUR	2007	2006
Income from sale or discontinuation of business operations	24,104	0
of which income from disposal of financial assets	22,104	0
of which income from sale of rights	2,000	0
Income from exchange rate gains	5,822	3,759
Income from services, transfers and rental	5,080	5,760
Income from government grants	3,060	3,068
Income from the release of provisions and accrued expenses	2,842	1,431
Income from the disposal of fixed assets	978	1,617
Income from the release of allowances	334	646
Income from damages claims/ insurance services	329	2,564
Income from the issue of licenses	213	747
Income from the premature release of finance lease liabilities	0	6,194
Income from the release of accruals for interim profits	1,239	1,420
Rental credit real estate	0	1,238
Miscellaneous	1,169	1,762
	45,170	30,206

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.

#### 7 Other operating expenses

in TEUR	2007	2006
Expense of adjustment from disposal or discontinuation of business operations	21,268	0
of which		
impairment intangible assets	6,019	0
increase to provisions	4,933	0
write-down receivables	3,655	0
write-downs inventories	1,693	0
impairment tangible assets	1,518	0
expense of deconsolidation	1,438	0
other	2,012	0
Exchange losses	7,356	4,829
Amortisation of intangible assets on initial consolidation	2,099	1,726
Increase in allowances	1,479	2,187
Increase in provisions and accrued expenses	1,125	1,765
Costs of services and rentals	673	3,482
Losses on disposal of assets	547	938
Other taxes	406	541
Court and litigation fees	100	4,481
Expenses of deconsolidation	0	1,240
Expenses of fire damage	0	1,572
Miscellaneous	3,494	1,409
	38,547	24,170

During the fiscal year expenses amounting to TEUR 21,268 arose as a consequence of discontinuing or selling business operations. Further explanations to these expenses are shown under the relevant balance sheet item.

Additions to allowances are only included under other operating expenses if these are outside of the ordinary activities of the relevant company.

#### 8 Net investment result

in TEUR	2007	2006
Income on investments	-61	-2,660
Income on investments in associates	-5,331	-814
Write-downs on financial assets and non-current asset securities	-1,681	-1,501
	-7,073	-4,975

The income from investments in associates includes the income attributable to the Group from XTREME technologies GmbH (XTREME) for the period from January 1, 2007 to December 31, 2007 and from JT Optical Engine GmbH + Co, KG as well as from Zenteris GmbH for the period from July 1, 2007 to December 31, 2007.

## | 9 | Net interest result

in TEUR	2007	2006
Interest income in connection with the sale of the discontinued business division	0	4,373
Interest income from restricted cash	4,494	2,583
Income from securities and financial asset loans	482	1,140
Other interest and similar income	3,172	5,836
<b>Total interest income</b>	<b>8,148</b>	<b>13,932</b>
Interest portion of bonds (cash effective)	11,893	13,366
Premature compensation bond	5,907	0
Discounting of bonds (non-cash)	6,082	2,424
Interest portion of leasing rate for finance lease	1,525	1,734
Interest expense in connection with the sale of the discontinued business division	727	872
Interest portion swap	43	607
Interest portion on increase to pension provisions less interest on plan assets	959	409
Other interest and similar expenses	8,531	8,674
<b>Total interest expense</b>	<b>35,667</b>	<b>28,086</b>
<b>Net interest result</b>	<b>-27,519</b>	<b>-14,154</b>

In 2007 the item discounting of bonds includes TEUR 3,673 from the release of the discount in connection with repayment of the high-interest rate bond.

## | 10 | Income taxes

The tax expense which relates to the result of the ordinary activities is classified according to its origin as follows:

in TEUR	2007	2006
Income taxes		
Domestic	144	955
Foreign	808	858
<b>Total</b>	<b>952</b>	<b>1,813</b>
Deferred tax expense and income		
Domestic	4,176	1,639
Foreign	235	-505
<b>Total</b>	<b>4,411</b>	<b>1,134</b>
<b>Total taxes income</b>	<b>5,363</b>	<b>2,947</b>

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 current income taxes for the Jenoptik Group is subject to the tax rates applicable at the balance sheet date.

Deferred taxes are calculated at the relevant national income tax rates. For domestic companies the corporation tax rate for the fiscal year 2007 amounted to 25 percent (2006 25 percent) plus solidarity levy of 5.5 percent (2006 5.5 percent) of the corporation tax charge. Accounting for the effective trade tax rate of 12.53 percent (2006 12.53 percent) in 2007 the total tax rate used for calculating deferred taxes amounted to 38.91 percent (2006 38.91 percent). As a result of the Corporation Tax Reform Law the overall tax rate is reduced from 2008 to 28.6 percent. This results from the reduction of the corporation tax rate from 25 percent to 15 percent as well as an increase in the trade tax charge from 12.53 percent to 12.78 percent. The reduction in the tax rate was already accounted for in the determination of deferred tax for domestic companies. This resulted in a deferred tax expense of TEUR 14,587.

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.

Current taxes on income include a tax credit of TEUR 21 (2006 expense TEUR 132) for current taxes of prior periods.

The deferred tax expense includes a deferred tax credit of TEUR 2,450 (2006 TEUR 2,604) based on the development of timing differences.

At the balance sheet date the Jenoptik Group has unused tax losses carried forward of approx. EUR 495 million (31.12.2006 EUR 475 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 2007 and from tax losses carried forward of newly

consolidated companies. Losses of EUR 485 million (31.12.2006 EUR 467 million) can be carried forward for an unlimited period of time. After accounting for a reduction for planning uncertainties as well as for all known positive and negative influencing factors on the future tax results of the Jenoptik Group, it is expected that tax losses carried forward of approx. EUR 127 million (31.12.2006 EUR 91 million) will be utilised. With regard to these usable losses a deferred tax asset has been accounted for amounting to EUR 45 million (31.12.2006 EUR 35 million). Of this EUR 24 million (31.12.2006 EUR 11 million) relates to trade tax loss carry forwards. With regard to the remaining losses carried forward of EUR 368 million (31.12.2006 EUR 384 million) no deferred tax asset has been accounted for. Furthermore, no deferred tax asset has been accounted for for deductible timing differences of EUR 54 million (31.12.2006 EUR 19 million).

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.

in TEUR	Deferred tax assets		Deferred tax liabilities	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Intangible assets	623	684	4,292	7,138
Tangible assets	2,561	2,413	2,881	4,434
Financial assets	10,047	12,734	0	0
Inventories	1,176	1,023	930	1,072
Accounts receivable and other assets	507	261	2,443	2,778
Provisions and accrued expenses	6,906	10,098	4	33
Liabilities	11,441	16,569	542	589
Consolidation	0	-2,032	3,226	1,923
Tax losses carried forward	44,564	35,730	0	0
Gross value	77,825	77,480	14,318	17,967
(of which long-term)	(73,736)	(73,294)	(11,359)	(14,680)
Allowances	-14,962	-7,259	0	0
Offsetting	-10,930	-15,102	-10,930	-15,102
Balance sheet amount	51,933	55,119	3,388	2,865

The following table shows the tax reconciliation of the expected tax expense for the relevant fiscal year to the actual tax expense disclosed. In order to calculate the expected tax charge/income the tax rate valid for the fiscal year 2007 of 38.91 % (2006 38.91 %) was multiplied by the IFRS earnings before tax.

in TEUR	2007	2006
Earnings before tax	737	19,085
Income tax rate Jenoptik Group	38.91 %	38.91 %
Expected tax expense	287	7,426
Tax impact of the following effects led to a difference between actual and expected tax expense:		
Non-deductible expenses and tax-free income	-6,699	-13,810
Changes in allowances against deferred taxes and the non-recognition of deferred taxes	-2,792	-4,210
Permanent differences	473	14,260
Effects of tax rate differences 2007	-205	-256
Effects of tax rate changes	14,587	-42
Taxes from previous years	-287	-285
Other tax effects	-1	-136
Total adjustments	5,076	-4,479
Actual tax expense	5,363	2,947

#### 11 Minority interest share of profit/loss

The minority interest share of Group profits/losses amounted to TEUR 3,592 (2006 TEUR 2,682) and mainly relates to the property companies.

#### 12 Earnings per share

The earnings per share represent the profit/loss attributable to the shareholders divided by the weighted average number of shares outstanding of 52,033,430 (2006 52,028,376). A dilution of the earnings per share can arise from so-called potential shares. 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 share assuming all options are exercised. The diluted earnings per share are higher than the undiluted earnings per share and have, thus, been adjusted in accordance with IAS 33 to the lower amount.

	2007	2006
Net profit/loss in TEUR	-8,218	13,456
Weighted average outstanding shares	52,033,430	52,028,376
Earnings per share in euro	-0.16	0.26
Dilutive effects	2,215	1,847
Weighted average of outstanding shares (diluted)	56,916,849	56,911,795
Earnings per share (diluted) in euro	-0.16	0.26



## Notes to the balance sheet

## | 13 | Intangible assets

in TEUR	Development costs	Patents, trademarks, software, customer relations	Goodwill	Other intangible assets	Total
Purchase and manufacturing cost Balance as at 01.01.2007	20,096	42,763	60,347	1,325	124,531
	(12,973)	(35,464)	(55,005)	(541)	(103,983)
Currency differences	-20	-226	-254	-6	-506
	(-9)	(9)	(-192)	(-1)	(-193)
Change in consolidated companies	-1,996	-1,305	8,173	-1	4,871
	(129)	(3,858)	(5,534)	(21)	(9,542)
Additions	5,182	2,120	0	1,784	9,086
	(7,616)	(3,897)	(0)	(1,010)	(12,523)
Disposals	2,746	171	2,327	51	5,295
	(288)	(526)	(0)	(520)	(1,334)
Reclassifications (+/-)	0	247	0	-152	95
	(-325)	(61)	(0)	(274)	(10)
Balance as at 31.12.2007	20,516	43,428	65,939	2,899	132,782
	(20,096)	(42,763)	(60,347)	(1,325)	(124,531)
Depreciation Balance as at 01.01.2007	5,242	22,454	7,345	0	35,041
	(2,373)	(17,551)	(7,384)	(0)	(27,308)
Currency differences	-2	-69	-35	0	-106
	(0)	(5)	(-39)	(0)	(-34)
Change in consolidated companies	0	-1,300	0	0	-1,300
	(41)	(1,139)	(0)	(0)	(1,180)
Additions	2,544	4,833	1	7	7,385
	(2,755)	(4,249)	(0)	(0)	(7,004)
Impairment	4,528	2,586	1,775	0	8,889
	(163)	(0)	(0)	(0)	(163)
Disposals	2,956	152	2,326	7	5,441
	(90)	(492)	(0)	(0)	(582)
Reclassifications (+/-)	0	0	0	0	0
	(0)	(2)	(0)	(0)	(2)
Balance as at 31.12.2007	9,356	28,352	6,760	0	44,468
	(5,242)	(22,454)	(7,345)	(0)	(35,041)
Net book value as at 31.12.2007	11,160	15,076	59,179	2,899	88,314
	(14,854)	(20,309)	(53,002)	(1,325)	(89,490)

(The amounts in brackets relate to the prior year)

Additions to development costs of TEUR 5,182 relate primarily to development costs in the Laser & Optics division. Impairment losses of TEUR 4,528 were accounted for within development costs since the ability of the company to sell capitalised development costs can no longer be assumed.

Of the impairment loss of TEUR 8,889 in total TEUR 2,870 is accounted for in development costs and TEUR 6,019 in other operating expenses. Of this TEUR 2,586 relates to a reassessment of the useful life of capitalised customer relations.

Apart from goodwill there are no intangible assets with an undefined useful life.

There are no restrictions on use of intangible assets.

Existing goodwill results almost exclusively from company acquisitions since January 1, 2003.

Goodwill recognised mainly relates to goodwill of JENOPTIK Polymer Systems GmbH, Triptis amounting to TEUR 31,435, of Lechmotoren GmbH of TEUR 7,920 and of Photonic Sense GmbH amounting to TEUR 4,914.

The relevant cash generating unit to which goodwill is allocated represents the subsidiary. 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 annual impairment test is based on cash flow projections over a planning period of 5 years. After this a perpetual annuity is assumed which is discounted at an interest rate of between 10 and 12 percent annually. In the fiscal year 2007 this impairment test led to an impairment loss on goodwill of TEUR 1,775. 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.

During the fiscal year goodwill increased primarily as the result of the acquisition of shares in EPIGAP as well as the purchase of the remaining shares in Detroit Precision Hommel, Inc., Rochester Hills. As part of the purchase price allocation of EPIGAP Optoelektronik GmbH hidden reserves of TEUR 294 were capitalised in customer lists as intangible assets. The remaining goodwill of TEUR 5,711 was capitalised.

Changes in the companies included in the consolidation were mainly affected by the disposal of a company that was development intensive, the majority of the shares in which were sold as part of the new orientation of the Group.

#### 14 Tangible assets

Of the impairment losses amounting to TEUR 2,150 TEUR 632 were recognised in cost of sales and TEUR 1,518 in other operating expenses. These impairment losses result from extraordinary depreciation due to lack of economic usefulness.

Restrictions on use of tangible assets amount to TEUR 62 (31.12.2006 TEUR 62). Tangible assets on order amount to TEUR 6,790.

An investment grant of TEUR 4,550 (31.12.2006 TEUR 5,241) was deducted from the acquisition costs of tangible assets.

Land and buildings of the Group of TEUR 97,264 (31.12.2006 TEUR 100,433) include in particular the production and administration buildings in Jena, Triptis, Villingen-Schwenningen and Altenstadt.

## Tangible assets

in TEUR	Land, buildings	Technical equipment and machines	Other equipment, factory and office equipment	Assets under construction	Total
Purchase and manufacturing cost Balance as at 01.01.2007	130,286	109,638	71,605	4,948	316,477
	(124,370)	(93,531)	(63,299)	(4,436)	(285,636)
Currency differences	-415	-1,417	-274	-6	-2,112
	(41)	(-615)	(-78)	(-15)	(-667)
Change in consolidated companies	579	6,211	2,534	223	9,547
	(4,420)	(8,022)	(2,280)	(0)	(14,722)
Additions	3,292	14,489	8,052	3,577	29,410
	(4,828)	(9,627)	(7,973)	(3,955)	(26,383)
Disposals	1,930	2,238	3,512	66	7,746
	(1,063)	(2,767)	(3,275)	(144)	(7,249)
Reclassifications (+/-)	-103	1,407	1,070	-2,766	-392
	(-2,310)	(1,840)	(1,406)	(-3,284)	(-2,348)
Balance as at 31.12.2007	131,709	128,090	79,475	5,910	345,184
	(130,286)	(109,638)	(71,605)	(4,948)	(316,477)
Depreciation Balance as at 01.01.2007	29,853	68,138	48,308	0	146,299
	(25,968)	(52,436)	(42,519)	(0)	(120,923)
Currency differences	-80	-1,042	-196	0	-1,318
	(6)	(-292)	(-30)	(0)	(-316)
Change in consolidated companies	128	1,184	1,429	0	2,741
	(1,657)	(6,699)	(1,360)	(0)	(9,716)
Additions	3,980	12,462	7,923	0	24,365
	(3,324)	(11,057)	(7,292)	(0)	(21,673)
Impairment	664	848	638	0	2,150
	(24)	(0)	(0)	(0)	(24)
Disposals	100	1,621	3,205	0	4,926
	(122)	(1,712)	(2,881)	(0)	(4,715)
Reclassifications (+/-)	0	0	0	0	0
	(-1,004)	(-50)	(48)	(0)	(-1,006)
Balance as at 31.12.2007	34,445	79,969	54,897	0	169,311
	(29,853)	(68,138)	(48,308)	(0)	(146,299)
Net book value at 31.12.2007	97,264	48,121	24,578	5,910	175,873
	(100,433)	(41,500)	(23,297)	(4,948)	(170,178)

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(The amounts in brackets relate to the prior year)

## | 15 | Investment properties

in TEUR	Investment properties
Purchase and manufacturing cost	
Balance as at 01.01.2007	50,903
	(80,821)
Additions	2,118
	(922)
Disposals	0
	(33,178)
Reclassifications (+/-)	297
	(2,338)
Balance as at 31.12.2007	53,318
	(50,903)
Depreciation	
Balance as at 01.01.2007	16,350
	(22,817)
Additions	976
	(1,540)
Impairment	0
	(1,298)
Disposals	0
	(10,309)
Reclassifications (+/-)	0
	(1,004)
Balance as at 31.12.2007	17,326
	(16,350)
Net book value as at 31.12.2007	35,992
	(34,553)
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(The amounts in brackets relate to the prior year)	

The investment properties held as at December 31, 2007 mainly consist of a building complex in the town centre of Jena which was sold to third-party property fund. 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.

The addition in 2007 is mainly from the new construction of a children's nursery which is rented externally. The disposals in 2006 reflect the sale of a building complex in the town centre of Jena.

The valuation of investment properties is at amortised cost amounting to TEUR 35,992 (31.12.2006 TEUR 34,553). No impairment losses had to be accounted for in the past fiscal year (2006 TEUR 1,298).

The fair value is principally 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. A valuation report is available for individual cases. The fair value of the investment properties thus calculated amounts to TEUR 42,609 (31.12.2006 TEUR 39,252).

Rental income from investment properties held at each year end amounted to TEUR 3,240 (2006 TEUR 3,491).

The direct operating costs for the rented areas of the properties accounted for at each year end amounted to TEUR 1,844 (2006 TEUR 1,871) and for non-rented areas amounted to TEUR 190 (2006 TEUR 226).

## | 16 | Leasing

## Finance lease

The Group as lessee. The assets which are used under finance leases are included in capitalised property, plant and equipment at TEUR 14,961 (31.12.2006 TEUR 12,985), their purchase and manufacturing costs amount to TEUR 28,972 (31.12.2006 TEUR 25,013) at the balance sheet date.

These assets primarily consist of investment properties with a net book value of TEUR 6,942 (31.12.2006 TEUR 7,457) and purchase and manufacturing costs of TEUR 15,137 (31.12.2006 TEUR 15,300).

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 percent and 8.994 percent.

In the fiscal year lease payments amounting to TEUR 4,100 (2006 TEUR 5,334) have been charged against income. The decrease mainly relates to the sale of a building complex in the town centre of Jena. This building complex fulfilled the criteria of IAS 17 "Leases" until its sale in 2006.

Leasing payments due in the future can be seen in the following table:

in TEUR	Up to 1 year	1–5 years	More than 5 years	Total
Minimum lease payments	4,039	10,048	30,280	44,367
Interest portion included in payments	1,685	5,668	10,054	17,406
Present value	2,354	4,380	20,226	26,961

The present value of the minimum lease payments amounts to TEUR 26,961 (2006 TEUR 25,391).

#### Operating leasing

**The Group as lessee.** In the fiscal year lease payments amounting to TEUR 7,480 (2006 TEUR 7,313) 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	Up to 1 year	1–5 years	More than 5 years	Total
Minimum lease payments from operating leases	7,575	22,972	16,531	47,078

**The Group lessor.** Income from leasing tangible assets during the fiscal year amounted to TEUR 5,390 (2006 TEUR 6,497).

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

in TEUR	Up to 1 year	1–5 years	More than 5 years	Total
Minimum lease payments from operating leases	5,307	20,147	4,751	30,205

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 has not been included in the calculation.

#### 17 Share in associated companies

The balance of TEUR 847 (31.12.2006 TEUR 1,396) includes shares in JT Optical Engine GmbH + Co. KG. The prior year comparative includes shares in XTREME. The share of losses of associated companies not recognised amounts to TEUR 369.

#### 18 Financial assets

in TEUR	31.12.07	31.12.06
Shares in non-consolidated affiliated companies	2,368	4,791
Participating interests	11,031	32,400
Loans to non-consolidated affiliated companies and participating interests	4,926	11,846
Non-current securities	1,751	1,512
Other loans	3,855	4,486
	23,931	55,035

The decline in shares in non-consolidated affiliated companies results from the first-time inclusion of two companies in the group of consolidated companies during the current year. The change in participating interests results from the sale of shares in PVA Tepla AG as well the shares in KSI GmbH. Furthermore, a further 75 percent of the shares in a US American company were taken over and this has been fully consolidated since the second quarter.

Loans to non-consolidated affiliated companies amount to TEUR 4,926 (31.12.2006 TEUR 11,846). The prior year comparatives includes a non-current loan to JENOPTIK Diode Lab GmbH, Berlin for TEUR 7,000 which was consolidated for the first time as at January 1, 2007 and therefore, no longer included in participating interests.

During the fiscal year write-downs of TEUR 2,257 (2006 TEUR 1,501) were accounted for against financial assets.

#### 19 Other non-current assets

Other non-current assets include:

in TEUR	31.12.07	31.12.06
Surplus amount from pension obligations	5,140	6,343
Derivatives	3,326	3,048
Reinsurance coverage	1,227	1,154
Miscellaneous	779	618
Receivables due from non-consolidated affiliated companies	349	0
	10,821	11,163

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.

#### 20 Deferred taxes

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

#### 21 Inventories

in TEUR	31.12.07	31.12.06
Raw materials and supplies	56,358	52,466
Work in progress	99,037	91,323
Finished goods and merchandise	18,704	17,662
Property held for disposal	0	43
	174,099	161,494

Inventories increased by TEUR 12,605 compared to the prior year.

The fair value of inventories represents carrying value. During the fiscal year write-downs to net realisable value of TEUR 32,203 (2006 TEUR 24,833) were accounted for. Of these TEUR 30,610 related to cost of sales and TEUR 1,693 related to other operating expenses. Reversals of previously written down assets amounted to TEUR 349 (2006 TEUR 186).

#### 22 Current accounts receivable and other assets

in TEUR	31.12.07	31.12.06
Trade accounts receivable	93,715	92,248
Receivables from non-consolidated affiliated companies	4,325	8,305
Receivables from participating interests	3,105	11,732
Receivables from construction contracts	1,673	11,530
Other current assets	16,684	13,938
	119,502	137,753

Current receivables and other assets decreased compared to the prior year by TEUR 18,251. The fair values of trade accounts receivable correspond with their carrying values.

Receivables from participating interests include receivables from associated companies of TEUR 324 and from joint ventures of TEUR 30.

As the result of the completion of a long-term construction contract and its related invoicing and payment receivables from long-term construction contracts decreased.

Receivables from long-term construction contracts less payments received on account amounting to TEUR 1,673 (31.12.2006 TEUR 11,530) 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 amounting to TEUR 1,441 (31.12.2006 TEUR 1,222), for long-term construction contracts disclosed under receivables or liabilities from long-term construction contracts amounts to TEUR 10,797 (31.12.2006 TEUR 27,728). During the fiscal year total payments on account amounting to TEUR 17,138 (31.12.2006 TEUR 16,681) were offset against receivables or liabilities from long-term construction contracts.

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.

The following table shows the changes in allowances against trade accounts receivable:

in TEUR	2007	2006
Allowances at the beginning of the year	10,287	10,362
Additions	3,010	607
Utilisation	583	595
Release	703	144
Currency differences	139	57
Allowances at the end of the year	12,150	10,287

Other current assets include:

in TEUR	31.12.07	31.12.06
Other receivables from tax authorities	4,977	2,939
Derivatives	4,519	2,831
Accruals	2,688	1,609
Interest receivable	6	1,595
Subsidies receivable	344	1,034
Creditors with debit balances	443	815
Loans to third parties	225	238
Other current assets	3,482	2,877
	16,684	13,938

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	31.12.07	31.12.06
Fair value	2,222	3,638

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

#### 24 Cash and cash equivalents and restricted cash

in TEUR	31.12.07	31.12.06
Cheques, cash in hand, credit balances and funds due at any time	13,792	10,640
Restricted cash	0	143,200
	13,792	153,840

Restricted cash was used primarily for repayment of the high-interest bond in November of this year.

**| 25 | 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 bearer shares.

ECE Industriebeteiligungen GmbH, Vienna, announced in February 2008 that is held 25.02 percent of the voting rights in JENOPTIK AG. VARIS Vermögensverwaltungs GmbH, Munich, (held via Mrs Wahl-Multerer) announced in August 2007 it held a share of 5.33 percent. Thus, free float in JENOPTIK AG as at December 31, 2007 amounts to 69.65 percent. Furthermore, JENOPTIK AG received voting rights announcements from further companies and from the Free State of Thüringen during the past fiscal year. According to these Franklin Templeton Investments Funds owns 2.99 percent, Templeton Investment Counsel LLC 7.45 percent, Franklin Templeton Investment Management Limited 2.82 percent and the Free State of Thüringen 0 percent of the voting rights.

**Authorised capital**

By resolution of the annual general meeting on June 7, 2005 the Executive Board was authorised, with the approval of the Supervisory Board by May 30, 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 with 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 percent 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**

Basic 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 30.

Furthermore, nominal capital is conditionally increased in connection with the convertible bond by up to TEUR 23,400 through the issue of up to 9,000,000 new no-par value bearer shares. Where own shares are not used the conditional capital 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.

The new shares participate in the profits for the fiscal year for 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 December 31, 2002.

Movements in deferred taxes not impacting income increased reserves by TEUR 111 (2006 TEUR 305) in the fiscal year 2007. Furthermore, changes in the value of securities available for sale to be accounted for without impacting income amounting to minus TEUR 9,149 (2006 TEUR 12,724) 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 2,382 (2006 TEUR 1,110).

**Own shares**

On resolution of the annual general meeting on June 6, 2007 the Executive Board was authorised to purchase own shares under certain conditions by November 30, 2008, either once, several times or in parts, at a calculated maximum of 10 percent of nominal capital for purposes other than to deal in own shares. The purchased own shares together with own shares already purchased and still held by the company may not exceed 10 percent of nominal capital. The conditions are described in the publicly available resolutions of the annual general meeting 2007.



Own shares amounting to TEUR 47 (6,271 individual shares) were sold in 2007 (current balance: 4 no-par value shares).

#### | 26 | Minority interests

Minority interests in shareholders' equity mainly relate to the property companies LEUTRA SAALE and SAALEAUE as well as to JENOPTIK Laserdiode GmbH, Jena.

#### | 27 | 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.

The Group's benefit commitment covers approximately 889 persons entitled, comprising 571 active employees, 52 former employees and 266 pensioners and widows.

In the years 2001 to 2002 parts of the pension were transferred to the Pension Trust by way of cumulative assumption of liabilities. As part of the sale of the discontinued business division pensions were transferred to a new CTA model.

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

The following analyses include the discontinued business division in the prior year.

Pension provisions:

in TEUR	31.12.07	31.12.06
Present value of funded obligations	27,069	30,125
Present value of unfunded obligations	6,387	6,935
Fair value of plan assets	-30,046	-29,322
Present value of net obligation	3,410	7,738
Actuarial gains/losses not accounted for	-2,146	-7,720
Net liability recorded in the balance sheet	1,264	18
of which disclosed as other asset	5,140	6,343
disclosed as pension obligation	6,404	6,361
disclosed as liability held for sale	0	0

Change in defined benefit obligation (DBO):

in TEUR	31.12.07	31.12.06
DBO as at 01.01.	37,060	140,646
Current service cost for fiscal year	650	702
Interest cost	1,660	1,609
Termination and curtailment of plans	0	0
Actuarial gains and losses	-4,624	-16,159
Transfers	0	0
Divestments	0	-87,926
Pension payments	-1,290	-1,812
DBO as at 31.12.	33,456	37,060

Net expense recognised in the consolidated statement of income:

in TEUR	31.12.07	31.12.06
Current service cost	650	702
Interest cost	1,660	1,609
Expected return on plan assets	-1,200	-1,200
Offsetting of actuarial gains and losses	501	338
Effects of curtailments and settlements	0	0
Costs of claims purchased in the fiscal year	0	0
<b>Total expense</b>	<b>1,611</b>	<b>1,449</b>

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.

Changes in plan assets:

in TEUR	31.12.07	31.12.06
Plan assets as at 01.01.	29,322	24,679
Expected return on plan assets	1,200	1,200
Actuarial gains/losses	449	-3,098
Employer contributions (funding)	0	7,334
Employees own amounts	0	0
Acquisitions	0	0
Transfers	0	0
Pension payments	-925	-793
<b>Plan assets as at 31.12.</b>	<b>30,046</b>	<b>29,322</b>

A transfer of funds to plan assets is not planned for the fiscal year 2008.

Portfolio structure of plan assets:

In percent	31.12.07	31.12.06
Shares and participations (available for sale)	35	34
Loans (loans and receivables)	56	61
Funds	9	5
<b>Total</b>	<b>100</b>	<b>100</b>

Actuarial assumptions:

In percent	31.12.07	31.12.06
Discount rate as at 31.12.	5.50	4.50
Return on plan assets	4.09	4.10
Future salary increases	2.75	2.75
Future pension increases	1.75 to 2.0	1.75

The planned return on plan assets is determined based on a uniform method and reflects the expected return on the whole portfolio. The assumptions for the expected return orientate themselves toward the portfolio structure, the long-term actual asset income of the past as well as the long-term returns expected in the future. The actual return on plan assets in the fiscal year 2007 amounted to TEUR 1,649 (2006 TEUR -1,898).

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 percent of the higher of the pension commitment, or the fair value of plan assets at the beginning of the fiscal year.

Historical information:

in TEUR	31.12.07	31.12.06
Present value of defined benefit obligation	33,456	37,060
Fair value of plan assets	-30,046	-29,322
Plan deficit (surplus)	3,410	7,738
Experience adjustments of the obligation	-134	-101
Experience adjustments of the net assets	-4,490	-3,098

The experience adjustments result from the difference between previous actuarial assumptions and what has actually occurred.

## | 28 | Tax provisions

Taxes are described in detail under note 10.

## | 29 | Other provisions and accrued expenses

The development of other provisions and accrued expenses is as follows:

in TEUR	Personnel	Potential losses	Warranties	Legal and court case costs	Obligation from sale of property	Protection and licence fees	Price audit risks	Miscellaneous	Total
Balance as at 01.01.2007	18,020	17,704	9,676	4,980	4,253	3,695	714	4,364	63,406
Currency differences	-36	0	-21	-5	0	0	0	-25	-87
Change in companies consolidated	127	0	155	94	0	0	0	26	402
Increases	14,446	1,780	2,837	4,338	0	125	57	3,808	27,391
Compound interest	-28	207	0	90	118	0	4	2	393
Utilisation	12,716	4,426	2,629	1,870	526	117	42	1,556	23,882
Release	641	408	1,016	78	347	2,078	44	1,058	5,670
Balance as at 31.12.2007	19,172	14,857	9,002	7,549	3,498	1,625	689	5,561	61,953

Material items within personnel provisions are part-time early retirement of TEUR 5,658 (31.12.2006 TEUR 6.657) and long-term service awards of TEUR 1,251 (31.12.2006 TEUR 1,268). Additionally, personnel provisions include performance premiums, profit sharing, severance payments and similar obligations.

The provision for potential losses mainly relates to potential risks on the sale of the business division discontinued in 2006.

The legal and court case costs mainly relate to lawyers fees for the case of Asyst which is described in detail in the management report under point 5 Report on opportunities and risks.

Miscellaneous provisions and accrued expenses include contract penalties of TEUR 2,565 (31.12.2006 TEUR 1,622). Furthermore, miscellaneous provisions relate to many recognisable specific risks and uncertain obligations which are accounted for at the probable amount required to settle them.

The expected cash flows of other provisions and accrued expenses are as follows:

in TEUR	Up to 1 year	1 – 5 years	More than 5 years	31.12.07
Personnel provisions	13,625	5,449	98	19,172
Potential losses on pending transactions	10,340	4,517	0	14,857
Warranty provisions	7,605	1,397	0	9,002
Legal and court case costs	2,749	4,800	0	7,549
Obligation on property sale	0	3,498	0	3,498
Trademark and licence fees	125	1,500	0	1,625
Price audit risks	15	674	0	689
Miscellaneous provisions	5,448	111	2	5,561
	39,907	21,946	100	61,953

### 30 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	31.12.07
Bonds	0	60,854	0	60,854
	(11,400)	(204,772)	(0)	(216,172)
	43,797	33,635	42,426	119,858
Bank liabilities	(65,768)	(9,585)	(43,592)	(118,945)
Liabilities from finance lease	2,121	4,614	20,226	26,961
	(1,661)	(4,613)	(19,117)	(25,391)
	45,918	99,103	62,652	207,673
	(78,829)	(218,970)	(62,709)	(360,508)

(The amounts in brackets relate to the prior year)

On November 15, 2007 the high-interest bond was repaid prematurely at an already agreed repurchase price of 103.94 percent. The high-interest bond was issued on November 6, 2003 with a nominal volume of TEUR 150,000. The payment amount was 98.678 percent of the nominal volume. Including accounting for transaction costs the effective interest rate amounts to 8.834 %. The fixed-interest security originally has a term of 7 years and attracted interest at a nominal interest rate of 7.875 percent. As a result of the premature repayment in 2007 there was an early compensation payment of TEUR 5,907.

With effect from July 23, 2004 a convertible bond was issued amounting to TEUR 62,100. The term of the convertible bond 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 September 1, 2004 until July 9, 2009 at a conversion price of EUR 12.7165. The interest coupon amounts to 2.5 percent and is due annually. The repayment value at the end of the term (July 23, 2009) amounts to TEUR 63,333. Repayment of the convertible bond 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 bond can be cancelled at any time by JENOPTIK AG from August 23, 2007 if the share price of JENOPTIK AG exceeds 135 percent of the conversion price for a period of at least 20 of the 30 consecutive stock exchange trading days before the day of the announcement of the repayment. A premature repayment of the convertible bond can only be made through shares.

The division of the convertible bond into equity and borrowing components will 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 percent. The equity component is the resulting differences between the nominal volume of the convertible bond 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 cost applying the effective interest method. The equity components remain unchanged.

For the current bank liabilities amounting to TEUR 43,797 interest has been agreed at a range from between 4.35 percent to 4.67 percent. Included in non-current liabilities is a property loan amounting to TEUR 43,916 with an interest rate of 5.25 percent. Furthermore, it includes 3 debenture loans.

With the objective of minimising the effects of risks of changing interest rates and in order to stabilise the general conditions for taking up credit, the current credit liabilities of the commercial paper were redeemed. Refinancing is secured in the medium term by the new adoption of three debenture loans, whereby the debenture loans for TEUR 17,000 is a fixed-interest loan and has a term of five years, whereas the debenture loans for TEUR 8,000 and TEUR 5,000 attract interest variable at the 3-month EURIBOR rate plus a credit margin of 1.75 percent and have terms of five and three years. The debenture loans were paid out at an issue rate of 99.325 percent.

Of the bank liabilities disclosed in the balance sheet TEUR 44,526 (31.12.2006 TEUR 45,938) is secured by mortgage.

As at December 31, 2007 the Group has access to credit lines amounting to TEUR 148,079, whereby TEUR 97,888 is not utilised.

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

### 31 Other non-current liabilities

Other non-current liabilities comprise:

in TEUR	31.12.07	31.12.06
Non-current accruals	13,151	14,522
Derivatives	744	2,054
Miscellaneous non-current liabilities	1,300	3,377
	15,195	19,953

The non-current accruals include interim profits on properties amounting to TEUR 12,389 (31.12.2006 TEUR 13,627) which are allocated on a straight-line basis over the remaining term of the leasing contract.

### 32 Other current liabilities

This item includes:

in TEUR	31.12.07	31.12.06
Trade accounts payable	44,849	40,433
Liabilities from on account payments received	26,930	26,010
Liabilities from construction contracts	8,014	483
Liabilities to participating interests	5,628	3,262
Liabilities to non-consolidated affiliated companies	3,276	7,076
Miscellaneous current liabilities	32,007	42,720
	120,704	119,984

The increase in liabilities from construction contracts mainly results from the on account payment received for a construction contract.

Normal market interest rates have been agreed to liabilities to non-consolidated affiliated and associated companies. Liabilities to participating interests include liabilities to associated companies amounting to TEUR 3,451 and to joint ventures amounting to TEUR 2,153.

Miscellaneous current liabilities comprise the following:

in TEUR	31.12.07	31.12.06
Other liabilities from taxes	8,071	4,814
Liabilities to employees	7,954	7,639
Purchase price liabilities	2,263	2,178
Accruals	2,147	1,749
Financial liabilities to third parties	1,507	16,580
Derivatives	747	1,219
Liabilities to employees' accident insurance	1,137	1,086
Other liabilities for social security	988	909
Interest liabilities from financial liabilities	845	2,307
Miscellaneous liabilities	6,348	4,239
	32,007	42,720

Financial liabilities to third parties relate to the repayment of a remaining debt to a minority shareholder of M+W ZANDER Holding AG amounting to TEUR 15,073.

Liabilities to employees comprise primarily holiday entitlements and flexi-time credits.

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

### 33 Group cash flow statement

The cash and cash equivalents in the cash flow statement include liquid funds disclosed in the balance sheet amounting to TEUR 13,792. Cash and cash equivalents in the prior year included restricted cash of TEUR 143,200.

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 based on earnings before tax. Earnings before tax are adjusted for non-cash expenses and income. Cash flow from operating activities is calculated after accounting for changes in working capital.

Since the prior year disclosures included cash flows in connection with the discontinued business division, for better comparability the prior year comparatives have been expanded by the cash flow of the continuing business areas. The following explanations relate to continuing areas.

Cash flow from operating activities rose to TEUR 73,805 (2006 TEUR 28,838). This improvement mainly results from a reduction in working capital by TEUR 47,151 and in other assets and liabilities of TEUR 10,680.

Cash flow from investing activities amounts to TEUR -5,201 (2006 TEUR 160,001). The prior year includes receipts from the disposal of the discontinued business division amounting to TEUR 157,512.

Cash flows from business acquisitions amount to TEUR 771.

Cash flow from financing activities amounts to TEUR -208,108 (2006 TEUR -43,946). This results from the repayment of the high-interest bond, repayment of the commercial paper and interest paid.

## Other notes

### | 34 | Financial instruments

#### Risks

As part of its operating activities JENOPTIK AG is exposed to credit risks, liquidity risks and market risks within the financial area.

Market risks relate principally to interest rate and exchange rate fluctuation risks.

Details information on risk management and monitoring of risks is given in the management report under point 5, Report on opportunities and risks.

The following comments relate exclusively to the quantitative effects of the risks in the financial year.

The risks described above have an effect on the following financial assets and liabilities:

in TEUR	Market values 31.12.07	Market values 31.12.06
Financial assets	165,128	355,086
Cash and cash equivalents	13,792	153,840
Financial assets available for sale	17,372	42,341
Loans and receivables	126,111	153,021
Derivatives with hedge relationships	7,853	5,884
Financial liabilities	328,300	482,546
Trade accounts payable	44,849	40,433
Bonds and loans	60,854	216,172
Liabilities to banks and other financial obligations	119,858	118,945
Liabilities from finance lease	26,961	25,391
Other non-derivative financial liabilities	74,287	78,332
Fair value options	723	2,281
Derivatives with hedge relationship	768	992

The carrying values of the financial assets and liabilities represent their market values.

The risk of credit or default is the risk that a customer or contracting partner of JENOPTIK AG does not meet their contractual obligations. From this results the danger, on one hand, that financial instruments suffer impairment related to creditworthiness and, on the other hand, the danger of partial or full default of contractually agreed payments.

Credit risks exist mainly for trade receivables which are accounted for by setting up allowances. JENOPTIK AG is exposed marginally to default risks from other financial assets which primarily consist of cash and cash equivalents, loans and derivatives. The maximum risk of default is equal to the carrying values of the financial assets at the balance sheet date of TEUR 165,128 (31.12.2006 TEUR 355,086). The gross amount of trade receivables before allowances amounts to TEUR 105,865 (31.12.2006 TEUR 102,535). The allowances accounted for in the fiscal year are described in note 22.

The ageing structure of receivables is as follows:

in TEUR	Trade accounts receivable	
	2007	2006
Carrying amounts	93,715	92,248
Of which neither overdue nor provided for	52,326	53,738
Overdue but not provided for	41,389	38,510
Of which less than 30 days	28,322	25,138
between 30 and 60 days	4,132	4,791
more than 60 days	8,935	8,581

The overdue but not provided for receivables mainly relate to receivables from public contractors as well as the automobile industry.

As a result of past experience payment is expected of the above amount.

The liquidity risk represents the risk that JENOPTIK AG cannot meet its payment obligations on the basis of lack of financial funds.

A liquidity forecast based on a fixed period of time in the future, credit lines available to the Jenoptik Group but not fully utilised and the commercial paper programmes ensure that liquidity is available at all times.

The following overview shows the cash flows from the interest and capital repayments of financial liabilities.

in TEUR	Carrying amounts	Cash outflow			
		Total	Up to 1 year	1 – 5 years	Over 5 years
Variable-interest bonds	0	0	0	0	0
	(11,400)	(11,400)	(11,400)	(0)	(0)
Fixed-interest bonds	60,854	65,206	1,553	63,653	0
	(204,772)	(229,900)	(166,247)	(63,653)	(0)
Variable-interest bank liabilities	56,797	64,107	47,207	16,900	0
	(65,768)	(69,692)	(64,417)	(5,275)	(0)
Fixed-interest bank liabilities	63,061	72,719	3,740	26,753	42,226
	(53,177)	(65,590)	(2,794)	(20,570)	(42,226)
Variable-interest liabilities from finance lease	26,961	28,808	1,424	7,248	20,136
	(25,391)	(25,590)	(1,414)	(6,005)	(18,171)
	207,673	230,840	53,924	114,554	62,362
	(360,508)	(402,172)	(246,272)	(95,503)	(60,397)

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(The amounts in brackets relate to the prior year)

Bank liabilities and finance lease liabilities are assumed to be repaid in the year 2013.

Cash outflows for variable-interest bank liabilities are based on an interest rate in 2007 of 6 percent (2006 5.5 percent).

Further details are described under note 30 financial liabilities.

JENOPTIK AG is primarily exposed to interest rate fluctuation risks in the area of medium-term and long-term interest-bearing assets and liabilities due to fluctuations in market interest rates. This risk is met by concluding hedging transactions depending on the market situation.

in TEUR	Carrying amounts	
	31.12.07	31.12.06
Interest-bearing financial assets	22,583	170,172
of which variable interest	13,792	153,840
fixed interest	8,791	16,332
Interest-bearing financial liabilities	207,673	360,508
of which variable interest	83,758	102,559
fixed interest	123,915	257,949

With a fluctuation in the market interest rate as at December 31, 2007 over a range of 100 base points an opportunity loss or gain of TEUR 88 (31.12.2006 TEUR 163) would result.



For financial liabilities with the same range an opportunity loss or gain of TEUR 1,239 (31.12.2006 TEUR 2,579) would result. A change of 100 base points in the variable interest-bearing financial assets would have an impact of TEUR 138 (31.12.2006 TEUR 154) and for variable interest-bearing financial liabilities it would have an impact of TEUR 838 (31.12.2006 TEUR 103).

JENOPTIK AG meets the risks with the following interest hedges.

As at December 31, 2007 interest hedge transactions with a nominal value of TEUR 41,356 (31.12.2006 TEUR 194,702) were accounted for.

in TEUR	Nominal volumes		Market values	
	31.12.07	31.12.06	31.12.07	31.12.06
Interest cap	2,000	4,000	8	5
Interest swap 1	39,356	40,702	-723	-1,673
Interest swap 2	0	150,000	0	-608

#### Interest cap

Interest caps are to minimise the risk of variable interest charges on loans.

The following interest cap is capitalised:

Interest cap                    TEUR 2,000 (31.12.2006 TEUR 4,000)  
Term                            March 31, 2004 - December 31, 2008  
Maximum interest rate    4.00 percent p.a.

The fair value and carrying value of the Cap as at December 31, 2007 amounted to TEUR 8 (31.12.2006 TEUR 5).

The market values of the derivative volumes are determined using marking to market data at the balance sheet date.

#### Interest swap

Interest swap 1                TEUR 39,356  
(fixed interest payer)        (31.12.2006 TEUR 40,702)  
Term                            December 30, 2004 - December 30, 2009  
Fixed interest rate            5.65 percent p.a.

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 December 30, 2004 at a level of 5.65 percent for five years.

The fair value and the carrying value of the cap as at December 31, 2007 amounted to TEUR -723 (31.12.2006 TEUR -1,673).

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.

With the repurchase of our high-interest bond with a nominal amount of TEUR 150,000 on November 15, 2007 an interest swap for TEUR 150,000 also ended.

This amount mainly reduces the volume of interest hedging transactions concluded as at December 31, 2007.

**Currency rate risks** arise from the fluctuation in the financial assets and liabilities denoted in foreign currency.

In order to hedge currency risk forward exchange contracts and foreign exchange options are used.

These transactions relate to the hedging of major cash flows in foreign currency from the operating business (in particular sales and materials purchases).

Of the sales and purchases of the Group invoiced in foreign currency 96 percent were hedged as at December 31, 2007.

The market value of forward exchange contracts depends on the forward exchange contracts rates. Currency options are accounted for at their market price or on the basis of an estimated value determined based on an option price model.

The following positive fair values arise from derivative financial instruments:

in TEUR	31.12.07	31.12.06
Transactions to hedge against		
Currency risks from future cash flows (Cash flow hedges):		
Forward exchange contracts, long-term	3,326	3,048
Currency risks from future cash flows (Cash flow hedges):		
Forward exchange contracts, short-term	4,519	2,831
Interest cap	8	5
Total short-term	4,527	2,836
<b>Total</b>	<b>7,853</b>	<b>5,884</b>

The following negative fair values arise from derivative financial instruments:

in TEUR	31.12.07	31.12.06
Transactions to hedge against		
Currency risks from future cash flows (Cash flow hedges):		
Forward exchange contracts, long-term	21	381
Swaps, long-term	723	1,673
Transactions to hedge against		
Currency risks from future cash flows (Cash flow hedges):		
Forward exchange contracts, short-term	747	611
Swaps, short-term	0	608
<b>Total</b>	<b>1,491</b>	<b>3,273</b>

Currency hedging transactions were also concluded in 2007 to hedge underlying transactions and were accounted for as cash flow hedges.

in TEUR	Nominal volumes	
	31.12.07	31.12.06
Cash flow hedge	57,551	60,585
Forward exchange contracts	57,078	59,625
Exchange option contracts	473	960

Forward exchange contracts hedge foreign currency risks of TEUR 29,774 with a timeframe of until the end of 2008. Foreign currency risks of TEUR 27,304 are hedged with a timeframe of until April 2012. The exchange option contracts are due in 2008.

Forward currency transactions are analysed by currency sales and purchases as follows:

in TEUR	31.12.07	31.12.06
Forward exchange contracts		
USD/EUR sale	37,631	39,749
USD/EUR purchase	1,257	1,782
GBP/EUR sale	16,648	17,060
GBP/EUR purchase	540	561
CAD/EUR sale	471	473
JPY/EUR sale	531	512
	<b>57,078</b>	<b>60,137</b>

The hedging of the underlying transactions 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.

As at December 31, 2007 the fair values of the Group forward exchange contracts amounted to TEUR 7,077 (31.12.2006 TEUR 4,887). 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.

Furthermore JENOTPIK AG concluded zero-cost options amounting to TUSD 620 (31.12.2006 TUSD 1,320) to hedge the underlying transactions.

The put USD/call EUR options with a nominal value amounting to TEUR 473 showed a negative market value of TEUR 27 as at the balance sheet date December 31, 2007, whereas the call USD/put EUR options with a nominal value of TEUR 445 generate a positive market value of TEUR 3 and, thus, the net amount of TEUR -24 is disclosed and recorded in the Group.

The main foreign currency transactions within the Jenoptik Group relate to the US Dollar. A sensitivity analysis relating to the US Dollar is as follows for the current fiscal year.

in TUSD	31.12.07
Financial assets	15,138
Financial liabilities	2,039
Foreign currency risk from balance sheet items	13,099
Foreign currency risk from pending transactions	37,016
Transaction related foreign currency item	50,115
Item hedged economically by derivatives	43,708
Net position	6,407

A change in the US Dollar exchange rate as at the balance sheet date of 5 percent would have a positive or negative impact of TEUR 218 in the income statement.

Net gains from loans and receivables include interest amounting to TEUR 8,148 (31.12.2006 TEUR 13,932) as well as income from the reversal of allowances amounting to TEUR 334 (31.12.2006 TEUR 646). Net losses for financial liabilities include interest expenses amounting to TEUR 34,708 (31.12.2006 TEUR 27,677).

Of those assets available for sale in the current fiscal year TEUR 22,104 have been accounted for in the income statement and of this TEUR 9,609 has already been recorded neutrally in equity. In the prior year income from the sale of assets available for sale of TEUR 196 were realised in the income statement.

### | 35 | Commitments and contingent liabilities

Compared to the prior year the volume of guarantees has decreased as expected and amounted to TEUR 229,438 (31.12.2006 TEUR 247,235) as at December 31, 2007.

in TEUR	31.12.07	31.12.06
Liabilities for guarantees	229,438	247,235
of which M+Z Zander investments	54,317	56,212
operative guarantees and lines	141,846	138,950
letter of comfort Hermes	20,000	20,000
other companies	13,275	32,073
Other contingent liabilities	0	111
	229,438	247,346

The guarantee facility of TEUR 33,000 (31.12.2006 TEUR 150,000) granted as part of the sale of the M+W Zander Group was not prolonged further in the fiscal year 2007. The guarantees from this still in existence as at December 31, 2007 are expected to be returned in the following 2 to 3 years. In addition to old guarantees amounting to TEUR 7,567 (31.12.2006 TEUR 9,462) these guarantees include a special guarantee of TEUR 46,750 for an AMD project in Dresden, which is secured by options from AMD. This guarantee has effectively been reduced by repayment of AMD as at December 31, 2007 to TEUR 17,856 (31.12.2006 TEUR 35,502).

Furthermore a guarantee facility exists for caverion GmbH (formerly M+W Zander Gebäudetechnik GmbH) as part of a financing commitment of TEUR 150,000 (31.12.2006 TEUR 180,000), which was backed up using lines and surety facilities as at December 31, 2007 totalling a maximum of TEUR 141,846 (31.12.2006 TEUR 138,950). The actual utilisation of the guarantee facilities amounted to TEUR 116,965 (31.12.2006 TEUR 123,726) as at December 31, 2007 plus the separately disclosed letter of comfort of TEUR 20,000 (31.12.2006 TEUR 20,000). The high requirement for guarantees is overall due to the improved contract situation of caverion GmbH. The reduction of the financing obligation was agreed based on the increased credit-worthiness of caverion GmbH, which enables the company step by step to receive its own lines with banks and credit insurers which are not secured by Jenoptik. Furthermore, as part of the financing commitment a budgeted liquidity facility of TEUR 30,100 was reduced to TEUR 15,900 which had not been taken up as at December 31, 2007.

Guarantees for other companies relate to guarantees in favour of DEWB AG which were reduced by 50 percent of TEUR 10,000 at the end of 2006 to TEUR 5,000 as at December 31, 2007. Additionally there are warrantee guarantees in connection with the clinic 2000 Jena amounting to TEUR 5,500 (31.12.2006 TEUR 8,100) which are partially secured by the guarantee of a co-shareholder.

#### **| 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 48,499 (31.12.2006 TEUR 48,275).

#### **| 37 |** Legal disputes

JENOPTIK AG and its group companies are involved in several legal and arbitration cases.

For more information on pending legal disputes which may have significant influence on the economic position of the Group, 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 higher than 50 percent. Adequate insurance coverage exists.

#### **| 38 |** Post balance sheet events

The Executive Board authorised the financial statements on March 11, 2008 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 and in Executive 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 1,288 in total.

Remuneration of members of the Supervisory and Executive Boards comprises entirely short-term payments to employees.

Detailed disclosures on this are given in the Corporate Governance Report and in the notes on the Executive and Supervisory Boards.

At the balance sheet date there were amounts receivable from Mrs Wahl-Multerer amounting to EUR 0.5 million. These relate to the purchase of the company JENOPTIK Polymer Systems GmbH, Triptis, and are subject to interest at normal market conditions.

## 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 1) "Exempt Consolidated Financial Statements under § 315a HGB" issued by the German Accounting Standards Committee (GASC). In order to achieve comparability 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 exempt 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
- Hommel-Etamic GmbH, Villingen-Schwenningen
- JENOPTIK Automatisierungstechnik GmbH, Jena
- ESW GmbH, Wedel
- JENOPTIK Laser, Optik, Systeme GmbH, Jena
- JENOPTIK Laserdiode GmbH, Jena
- Lechmotoren GmbH, Altenstadt
- JENOPTIK Polymer Systems GmbH, Triptis
- Jena-Optronik GmbH, Jena
- JENOPTIK Diode Lab GmbH, Berlin
- Innovavent GmbH, Göttingen

### Supplementary disclosures under § 314 HGB

Number of employees The average number of employees is analysed as follows:

	31.12.07	31.12.06
Blue-collar workers	992	869
White-collar workers	2,223	1,980
Trainees	117	111
	3,332	2,960

In proportionally consolidated companies an average of 36 (2006 36) employees were employed in 2007.

### Cost of materials and personnel expenses

in TEUR	31.12.07	31.12.06
<b>Cost of materials</b>		
Raw materials, consumables, supplies and purchased merchandise	207,377	174,705
Cost of purchased services	44,779	52,396
	252,156	227,101
<b>Personnel expenses</b>		
Wages and salaries	162,374	151,105
Social security and pension costs	29,930	28,951
	192,304	180,056

## 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 2007:

	Additional appointments at:
Dr. Michael Mertin Executive Board member, since July 1, 2007, Chairman of the Executive Board of JENOPTIK AG	None
Frank Einhellinger Member of the Executive Board of JENOPTIK AG (since July 1, 2008)	None
Alexander von Witzleben Chairman and member of the Executive Board of JENOPTIK AG (until June 30, 2007)	-- Analytik Jena AG (SB Chair) -- caverion GmbH (SB Chair) -- Feintool International Holding AG, Lyss (CCb member) -- Kaefer Isoliertechnik GmbH & Co.KG (CCb member) -- PVA TePla AG (SB Chair) -- TAKKT AG (SB dep. Chair) -- VERBIO AG (SB dep. Chair) (each as at June 30, 2007)

Remuneration of active members of the Executive Board of JENOPTIK AG in 2007 amounted to TEUR 1,171.6.

Figures in TEUR	Remuneration for 2007			Total
	Fixed	Variable	Supplementary	
Dr. Michael Mertin (Chairman from 01.07.2007)	330.0	300.0	16.6	646.6
Frank Einhellinger (Member of the Executive Board from 01.07.2007)	110.0	100.0	2.4	212.4
Alexander von Witzleben (Chair of the Executive Board until 30.06.2007)	250.0	50.0	12.6	312.6
<b>Total</b>	<b>690.0</b>	<b>450.0</b>	<b>31.6</b>	<b>1,171.6</b>

After the change in Executive Board Dr. Mertin and Mr Frank Einhellinger will receive a fixed bonus for the year 2007. The variable portion of remuneration is based on the personal performance of the board member from 2008 on the basis of an agreement concluded with the Supervisory Board and on the basis of the success of the company. The basis of measurement for this are the group earnings before tax, the development of the share value as well as strategic objectives. In 2007 contracts for company pension schemes were concluded with both board members. The pension commitment is based on a benevolent fund reinsured by a life insurance. It is a defined contribution pension as part of a benevolent fund. In 2007 the expense for this benevolent fund amounted to TEUR 240 for Dr. Mertin and TEUR 66 for Mr Einhellinger. This represents the present value of the obligation as at December 31, 2007.

In addition to a company car, supplementary benefits for Mr Mertin include the temporary adoption of rental costs for an apartment in Jena at a normal market price. In the case of a change in control of JENOPTIK AG, a change of control clause becomes effective for both members of the Executive Board for purchases of at least 30 percent of the voting rights of JENOPTIK AG, which grants them the chance to give their notice with payment of their contract for the remaining term of office and payment of their bonus at an average amount over the last two years within a certain period after control has been transferred.

The shares privately purchased by the members of the Executive Board amounted to 36 at the year end and are held by Mr Frank Einhellinger. Dr. Michael Mertin does not hold any shares in JENOPTIK AG. There were no purchases or sales of shares by the Executive Board in the year 2007.

Pension payments amounting to TEUR 300 were made for former Executive Board members. Pension provision (defined benefit obligation) for former Executive Board members amounted to TEUR 4,153 as at December 31, 2007. The interest cost for these existing provisions recorded in 2007 amounted to TEUR 227.

## Supervisory Board

The following ladies and gentlemen were appointed members to the Supervisory Board during the fiscal year 2007:

	Additional appointments at:
Prof. Dipl.-Ing. Jörg Menno Harms Director of Menno Harms GmbH – International Management Services, Stuttgart (Chairman since June 6, 2007)	-- CA Leuze GmbH & Co. KG (Ccb member) -- Groz Beckert KG (SB dep. Chair) -- Heraeus Holding GmbH (SB member) -- Hewlett-Packard GmbH (SB Chair) -- Management Partner GmbH (Ccb member)
Prof. Dr. h.c. Lothar Späth Former Minister President, Vice Chairman Europe, Merrill Lynch, Gerlingen (Chairman and member up to June 6, 2007)	-- Herrenknecht AG (SB Chair) -- Verlagsgruppe Georg von Holtzbrinck GmbH (SB Chair) (each as per June 6, 2007)
Wolfgang Kehr* Regional manager Working Area Tariff Policy IG Metall-Bezirk Frankfurt/ Main, Frankfurt am Main (Vice Chairman since June 6, 2007)	None
Ralf Tänzer* Former 1 <sup>st</sup> Commissioner of IG Metall-Administration Office Jena- Saalfeld, Jena (Vice Chairman until June 6, 2007)	None (as at June 6, 2007)
Dr. Daniel von Borries Executive Board member of ERGO Versicherungsgruppe AG, Düsseldorf (until December 31, 2007)	-- MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH (SB member) -- GFKL Financial Services AG (SB member) -- KarstadtQuelle Bank AG (SB member) -- KarstadtQuelle Krankenversicherungs AG (Chair of SB [ig]) -- KarstadtQuelle Lebensversicherungs AG (Chair of SB [ig]) -- KarstadtQuelle Versicherungs AG (Chair of SB [ig]) -- Mediclin AG (SB member) -- Victoria Volksbanken AG (SB member) -- Österreichische Volksbanken AG, Wien (SB member) -- Vorsorge Lebensversicherungs AG (SB member)
Michael Ebenau* Second representative of the administration office of IG Metall Jena-Saalfeld, Jena (since June 6, 2007)	None
Markus Embert* Dipl.-Ing. for electrotechnology at ESW GmbH, Hamburg	None

Abbreviations: SB Supervisory Board Ccb. Comparable controlling body ig Internal group appointment dep. Vices \*Employee representative



	Additional appointments at:
Martin Griebel* Dipl.-Ing. for electrotechnology/electronics, JENOPTIK Automatisierungstechnik GmbH, Jena (until June 6, 2007)	None (as at June 6, 2007)
Thomas Klippstein* Project manager development for JENOPTIK Laser, Optik, Systeme GmbH, Jena	None
Anita Knop* Dipl.-Ing., Software developer at Jena-Optronik GmbH, Jena (since June 6, 2007)	None
Dieter Kröhn* Electro mechanic at ESW GmbH, Essen (until June 6, 2007)	None (as at June 6, 2007)
Prof. Dr. Dr. h.c. mult. Johann Löhn President of the Steinbeis- Hochschule, Stuttgart	-- M&A Consultants AG (SB Chair) -- Primion Technology AG (SB Chair)
Dr. Klaus Mangold Executive Advisor to the Chairman of DaimlerChrysler AG, Stuttgart (until June 6, 2007)	-- 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) -- Rothschild GmbH (SB Chair) -- Drees & Sommer AG (SB member) (each as at June 6, 2007)
Günther Reißmann* Chairman of the Group Works' Council of JENOPTIK AG, Jena	None
Werner Schmidt Chairman of the Executive Board of Bayerischen Landesbank - Girozentrale, Munich (until June 6, 2007)	-- Deka-Bank Deutsche Girozentrale AdöR (Ccb member) -- Deutsche Kreditbank AG (SB [ig] member) -- Deutsche Lufthansa AG (SB member) -- Drees & Sommer AG (SB dep. Chair) -- Herrenknecht AG (SB dep. Chair) -- Hypo Alpe-Adria Bank International AG, Klagenfurt (SB [ig] Chair) -- Landesbank Saar Girozentrale AdöR (Ccb [ig] dep. Chair) -- LB (Swiss) Privatbank AG, Zürich (Ccb [ig] Chair) -- Banque LBLux S.A. Luxemburg (Ccb [ig] Chair) -- Wieland-Werke AG (SB member) -- MKB Magyar Külkereskedelmi Bank rt. Budapest (SB [ig] Chair) (each as at June 6, 2007)
Abbreviations: SB Supervisory Board Ccb. Comparable controlling body ig Internal group appointment dep. Vices *Employee representative	

Dr. Norbert Schraad Member of the Executive Board of the Landesbank Hessen Thüringen Girozentrale Anstalt des öffentlichen Rechts, Bad Soden (since June 6, 2007)	Additional appointments at: -- authentos GmbH (SB member) -- Bundesdruckerei GmbH (SB member) -- Hannover Leasing GmbH & Co. KG (Ccb [ig] member) -- Helaba Dublin Landesbank Hessen-Thüringen International, Dublin (Ccb [ig] member) -- Helaba International Finance plc, Dublin (Ccb [ig] member)
Dieter Schreib* Electro-technician of Hommel-Etamic GmbH, Tübingen (until June 6, 2007)	None (as at June 6, 2007)
Prof. Dr. rer. nat. habil., Diplom-Physiker (Degree in physics) Andreas Tünnermann Director of the Institute for Applied Physics and Professor for Applied Physics at the Friedrich-Schiller-University Jena and Head of the Instituts of the Fraunhofer Institute for Applied Optics and Fine Mechanics, Weimar (since June 6, 2007)	-- BioCentive GmbH (SB Chair)
Gabriele Wahl-Multerer Diplom-Kauffrau (Degree in business administration), entrepreneur, Munich	None
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., Weil der Stadt (until June 6, 2007)	-- 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) (each as at June 6, 2007)

On resolution by the Jena District Court with effect from January 25, 2008, on retirement of Dr. Daniel Borries, the following was appointed member to the Supervisory Board for the period until the next ordinary general meeting of JENOPTIK AG:

Dr. Lothar Meyer Former Executive Board member of ERGO Versicherungsgruppe AG, Bergisch-Gladbach (since January 25, 2008)	-- Bayerische Hypo- und Vereinsbank AG (SB member)
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 Abbreviations: SB Supervisory Board Ccb. Comparable controlling body ig Internal group appointment dep. Vices \* Employee representative

At the end of the fiscal year 2007 the total ownership of all Supervisory Board members amounted to 2,775,553 shares of JENOPTIK AG. Total remuneration of the Supervisory Board amounted to the fixed remuneration in the fiscal year 2007 stipulated by the Articles valid up until 06.06.2007 plus a lump-sum meeting fee as a reimbursed expense and VAT refundable. The fixed amount of TEUR 100 per fiscal year was distributed accounting for the chair and vice chair of the Supervisory Board and the chair and members of the committees among the members of the Supervisory Board as follows: a performance-related bonus was not paid due to there being no dividend distribution for the fiscal year 2006.

Prof. Dr. h.c. Lothar Späth (chairman and member until 06.06.2007) Euro 10,912.41, Prof. Dipl.-Ing. Jörg Menno Harms (chairman from 06.06.2007): Euro 8,072.75; Ralf Tänzer (vice chairman and member up to 06.06.2007) Euro 4,461.61; Wolfgang Kehr (vice chairman from 06.06.2007) Euro 5,751.72, Dr. Daniel von Borries Euro 7,148.95; Michael Ebenau (since 06.06.2007): Euro 3,600.00; Michael Embert (since 01.06.06): Euro 5,151.72; Martin Griebel (until 06.06.2007): Euro 4,519.05; Thomas Klippstein: Euro 10,146.27; Anita Knop (since 06.06.2007): Euro 4,284.00; Dieter Kröhn (until 06.06.2007): Euro 4,519.05; Prof. Dr. Johann Löhn Euro 7,080.68; Dr. Klaus Mangold (until 06.06.2007): Euro 5,306.15; Günther Reißmann: Euro 7,044.82; Werner Schmidt (until 06.06.2007): Euro 5,615.08; Dr. Norbert Schrad (since 06.06.2007): Euro 5,712.00; Dieter Schreib (until 06.06.2007): Euro 3,573.04; Prof. Dr. Andreas Tünnermann (since 06.06.2007): Euro 2,400.00; Gabriele Wahl-Multerer (since 07.06.2006): Euro 6,266.08; Prof. Dr. Ing. Dr. h.c. mult. Hans-Jürgen Warnecke: Euro 4,488.05.

The fixed remuneration of the Supervisory Board was paid in retrospect (in 2007 for the fiscal year 2006) and for Supervisory Board members who have left in the fiscal year 2007, for the time up to their leaving.

## Responsibility statement by management

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Management Report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the fiscal year."

Jena, March 11, 2008



Dr. Michael Mertin  
Chairman of the Executive Board



Frank Einhellinger  
Executive Board member

## Auditor's Report

We have audited the consolidated financial statements prepared by 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, 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (and supplementary provisions of the shareholder agreement/articles of incorporation) 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 [Handelsgesetzbuch „German Commercial Code“] 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 IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (and supplementary provisions of the shareholder agreement/articles of incorporation) 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 12, 2008

KPMG DEUTSCHE TREUHAND-GESELLSCHAFT  
AKTIENGESELLSCHAFT  
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

DR. KRONNER  
AUDITOR

NEUMANN  
AUDITOR

## Additional information

## Executive Management Board (as at January 2008)

**Dr. Michael Mertin**

Chairman of the Executive Board of JENOPTIK AG

**Frank Einhellinger**

Chief Financial Officer of JENOPTIK AG

**Bernhard Dohmann,**

Head of Traffic Solutions division

**Dr. Thomas Fehn**

Head of Lasers & Material Processing division

**Wilhelm Hardich**

Head of Defense & Civil Systems division

**Markus Olbert**

Head of HR and Director of the Shared Service Center  
JENOPTIK AG

**Dr. Dirk Michael Rothweiler**

Head of Optical Systems division.

**Christian Sommermeyer**

Head of Industrial Metrology division

**Dr. Stefan Stenzel**

Head of Strategy and Innovation Management  
of JENOPTIK AG

## Scientific Advisory Council (as at December 2007)

**Dr. Michael Mertin**

JENOPTIK AG, Jena, Chairman.

**Prof. Dr. Bernd Wilhelmi**

JENOPTIK AG, Jena, Vice chairman

**Prof. Dr. Hartmut Bartelt**

Institut für Physikalische Hochtechnologie e.V., Jena.

**Prof. Dr. Karlheinz Brandenburg**

Technische Universität Ilmenau,  
Fakultät Elektrotechnik.

**Prof. Dr. Gerhard Fettweis**

Technische Universität Dresden,  
Fakultät für Elektrotechnik,  
Mannesmann Mobilfunk Stiftungslehrstuhl.

**Prof. Dr. Wolfgang Karthe**

Fraunhofer Institut für angewandte Optik und  
Feinmechanik, Jena.

**Prof. Dr. Johann Löhn**

Steinbeis-Hochschule Berlin.

**Prof. Dr. rer. nat. habil. Jürgen Petzold**

Technische Universität Ilmenau,  
Fakultät für Elektrotechnik und Informationstechnik,  
Institut für Elektrische Energiewandlungen und  
Automatisierung.

**Prof. Dr. Wolfgang Probst**

Essingen.

**Prof. Dr. Roland Sauerbrey**

Forschungszentrum Rossendorf, Dresden.

**Prof. Dr. Michael Schenk**

Fraunhofer Institut für Fabrikbetrieb und -automatisierung,  
Magdeburg.

**Prof. Dr. Ing. Ernst Schmachtenberg**

Universität Erlangen-Nürnberg,  
Lehrstuhl für Kunststofftechnik.

**Prof. Dr. Hartwig Steffenhagen**

RWTH Aachen.

**Judon Stoeldraijer**

ASML, La Veldhofen, 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**

Hermisdorfer Institut für Technische Keramik e.V.,  
Hermisdorf.

## Financial glossary A–Z

### | A |

**Accruals** -- Balance sheet liabilities that include future payments and reductions in value as expenses for the accounting period. The exact amount and/or time of payment for these items are not yet determined by the balance sheet date, but their occurrence is quite certain.

**Accruals and deferrals** -- Payments made or received during the accounting period, but which go into effect after the balance date.

**Affiliated companies** -- JENOPTIK AG and all its subsidiaries, whether or not they are included in the consolidated financial statements.

**Asset ratio** -- Figure used in the analysis of the asset structure which describes the ratio of non-current assets to total assets.

**Associated companies** -- Companies not completely or majority owned by the parent company, but upon which the parent company exercises significant influence (with an ownership interest of more than 20 percent).

**At-equity evaluation** -- The evaluation of an interest in an affiliated company reflecting the company's shareholders' equity and annual earnings proportionate to the interest held.

### | B |

**Book-to-bill ratio** -- Order intake to sales for a fiscal year. A ratio of over 1.00 indicates that order intake surpassed sales for the fiscal year, likely leading to an increase in order backlog. This is usually also a good indicator of a future rise in sales.

**Borrowed capital** -- Capital that a company receives as a credit to finance fixed and current assets.

### | C |

**Cap.** -- In a contractual agreement of this sort, the purchaser pays for a guaranteed interest rate cap for an agreed period of time. If the market interest rate rises above the cap on the specified interest determination dates for the next interest period, the cap seller must pay the difference.

**Capital expenditure** -- Expenditure on items required for production purposes over a period of more than a year, such as buildings, machinery and computer programs. Capital expenditure is subject to depreciation throughout its useful life.

**Cash flow** -- A corporate analysis figure that sheds light on the yield and financial strength of the company which indicates the amount of liquid funds the company has at its disposal within a specific period of time as a result of its economic turnover.

**Commercial papers** -- Money market papers with a term of between 7 and 270 days. They are placed on the money market mostly by companies with a very good credit rating. The terms of these debt instruments can be determined flexibly to meet the needs of the companies. Interest payments proceed through the calculation of a loan discount.

**Consolidation** -- The incorporation of partial accounts into a total account, such as the incorporation of the individual balance sheets of group companies into a group balance sheet.

**Consolidation of assets and liabilities** -- Adjustments necessary in consolidated financial statements that offset all group-internal receivables and payables – not only the positions included in the balance sheet.

**Consolidation of equity** -- Equity relationships between companies within a group are consolidated as a part of the overall consolidation process. This entails offsetting the book value of the investment in the subsidiary against the shareholders' equity of the subsidiary.

**Consolidation of income and expenses** -- Only expenses and income arising from transactions with third parties outside the group may be included in the consolidated income statement. Therefore income and expense items which arise from the group-internal supply of goods and services need to be offset against each other in the consolidated financial statements.

**Consolidated companies** -- Companies included in a group's consolidated statement.

**Corporate governance (code)** -- This code determines the guidelines for the transparent management and supervision of a company. The recommendations of the Corporate Governance Code provide for transparency and increase trust in responsible management. The recommendations protect the shareholders in particular.

### | D |

**Debt** -- This includes all long-term and short-term interest-bearing third-party capital, includ-

ing bonds, participatory capital, bank loans and loans from social welfare funds.

**Deferred taxes** -- Temporary tax expense differences between individual or consolidated group accounts in accordance with commercial law and tax returns. This figure is a measure of the relationship between company results and tax expenses.

**Depreciation** -- Capital expenditure is subject to depreciation throughout its entire useful life, with the purchase price being amortized over a period of time.

**Derivatives** -- Derivatives are derived financial instruments dependent on the price development of the underlying assets (e.g. shares, interest rates, currencies, or goods). The basic forms are futures and options.

**Disinvestment** -- The effect of depreciation surpassing replacement investment (e.g. to maintain production machinery).

**Due diligence** -- Due diligence is the intensive investigation and evaluation by external experts of the financial, legal and commercial situation of a company including risks and prospects. This analysis is a prerequisite in, e.g., the preparation process for IPOs, the acquisition or sale of companies or company segments, the granting of credits and for capital increases.

**DVFA/SG earnings** -- Earnings calculated according to a method developed by the Deutsche Vereinigung für Finanzanalyse und Anlagenberatung (DVFA) in cooperation with the Schmalenbach-Gesellschaft (SG). Erratic items, which make comparisons with other companies difficult, are deducted from the net income.

### | E |

**EBIT** -- Earnings before interest and taxes.

**EBITDA** -- Earnings before interest, taxes, depreciation and amortization.

**Elimination of group-internal profits and losses** -- For the purposes of the consolidation process, group-internal profits and losses arising from the delivery of goods or services between group companies are not considered valid until the asset in question departs from the group. The elimination of group-internal profits and losses is made possible through the evaluation



of deliveries and services according to uniform group acquisition and production costs.

**Equity ratio** -- Ratio used in capital structure analysis depicting the ratio of the shareholders' equity in the total capital (shareholders' equity divided by the balance sheet total).

## F

**Free float** -- Scattered company shares held by a large number of different investors.

**Financial liabilities** -- This includes all current and non-current interest-bearing external finances, e.g. bonds, bank liabilities, and leasing liabilities.

## G

**Goodwill** -- The purchase price of a newly acquired company minus its shareholders' equity (assets minus liabilities).

## H

**Hedging** -- Through hedging, extant securities can be protected against negative price trends though the purchase or sale of derivatives (futures, options, swaps).

## I

**IFRS/IAS** -- (International Financial Reporting Standards.) These internationally valid accounting standards ensure the comparability of consolidated financial statements and, through their particular transparency, satisfy the information requirements. The sections of the IFRS are known as the IAS (International Accounting Standards), while the newer sections are referred to as IFRS.

## J

**Joint venture** -- Economic cooperation between companies, usually limited in time and scope which is run by the partner companies together.

## L

**Loan discount** -- The difference between the amount of a loan to be repaid and the amount received when the loan was granted.

## M

**Market capitalization** -- Number of shares multiplied by share price.

**Minority interests** -- Interests in Jenoptik Group companies that are not majority-owned by JENOPTIK AG or the group companies. They are included in the earnings and net assets of the subsidiary company.

## O

**Option** -- The right to purchase (call option) or sell (put option) the underlying of an option (e.g. securities or currencies) at a previously agreed price (exercise price) at a specific time or within a specific period of time. (Kaufoption/Call) oder an ihn zu verkaufen (Verkaufsoption/Put).

## P

**Percentage-of-completion method** -- A procedure in accordance with IAS 11, which computes sales revenue, order costs, and order results deriving from partial payments on a long-term customer-specific contract or similar services in accordance with the degree to which the project is completed. This method is also valid when the order has not yet been fully completed although the customer has paid the invoice.

**Prepaid and deferred expenses** -- Payments which are made or received in advance in the period under report but concern a period after the balance sheet date.

**Projected-unit-credit method** -- A method used to evaluate pension obligations in accordance with IAS 19, which includes the expected future increase of salaries and pensions in addition to the pension benefits secured before the cut-off date.

**Purchase price allocation** -- The method of dividing the purchase price of a newly acquired company among its assets and liabilities.

## R

**Rating** -- Ratings are used to assess the credit worthiness of a company. They evaluate to what extent the company is able to meet its financial commitments of paying interests and making repayments. Specific features of the company and the industry as well as country-specific risks are included in the evaluation. The rating provides for transparency and thus increases the comparability for investors and creditors regarding the financial position.

**Return on sales** -- Earnings after tax divided by sales.

**Return on equity** -- Ratio of earnings after tax and capital employed.

**R+D ratio** -- R+D expenditure as a percentage of sales.

**Revenue reserves** -- Reserves that are accumulated from undistributed profits.

## S

**Shareholders' equity** -- The capital contributed by a company's owners (shareholders) that is gradually accumulated within the company in the form of reserves. It is available for use by the company in the long term.

**Swap** -- An agreement between two companies to exchange cash flows. In the case of an interest swap, fixed interest payments are swapped for floating payments for a nominal fee.

## V

**Value added** -- The growth in value that is created through company operations, in addition

to goods and services purchased from outside the company. Value added is then distributed as labor costs, taxes, interest, profits and dividends.

## Imprint

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**Editor** -- JENOPTIK AG, Public Relations, 07739 Jena

**Layout** -- Strichpunkt, Stuttgart

**Print** -- Druckhaus Gera

**Images** -- JENOPTIK AG, Title: Masterfile

In case of differences of opinion the German text shall prevail.

40 Selected subsidiaries affiliated companies (as at February 2008)

100 % Coastal Optical Systems, Inc. <sup>2</sup> USA, West Palm Beach (FL)	75 % JENOPTIK Laserdiode GmbH <sup>2</sup> Germany, Jena
75 % Electroop S.A. <sup>5</sup> Spain, Madrid	100 % JENOPTIK LDT GmbH <sup>2</sup> Germany, Jena
100 % EPIGAP Optoelektronik GmbH <sup>4</sup> Germany, Berlin	100 % JENOPTIK Polymer Systems GmbH <sup>1</sup> Germany, Triptis
100 % ESW GmbH <sup>1</sup> Germany, Wedel	87 % JENOPTIK Surface Inspection GmbH <sup>2</sup> Germany, München
50 % HILLOS GmbH <sup>2</sup> Germany, Jena	50 % JT Optical Engine GmbH + Co. KG <sup>2</sup> Germany, Jena
100 % HOMMEL-ETAMIC America Corp. <sup>3</sup> USA, Rochester Hills (MI)	100 % LECHMOTOREN GmbH <sup>5</sup> Germany, Altenstadt
100 % Hommel-Etamic France SA <sup>3</sup> France, Bayeux Cedex	100 % Liebmman Optical Company Inc. <sup>2</sup> USA, Easthampton, (MA)
100 % Hommel-Etamic GmbH <sup>1</sup> Germany, Villingen-Schwenningen	100 % MEMS Optical, Inc. <sup>2</sup> USA, Delaware
100 % Hommel-Movomatic Suisse SA <sup>3</sup> Switzerland, Peseux	100 % Multanova AG <sup>6</sup> Switzerland, Uster
100 % Innovaent GmbH <sup>2</sup> Germany, Göttingen	100 % PHOTONIC SENSE GmbH <sup>2</sup> Germany, Eisenach
100 % Jena-Optronik GmbH <sup>1</sup> Germany, Jena	100 % ROBOT Visual Sytems GmbH <sup>1</sup> Germany, Monheim am Rhein
100 % JENOPTIK Automatisierungstechnik GmbH <sup>1</sup> Germany, Jena	100 % SINAR AG <sup>2</sup> Switzerland, Feuerthalen
100 % JENOPTIK Diode Lab GmbH <sup>7</sup> Germany, Berlin	100 % Traffipax Inc. <sup>6</sup> USA, Linthicum (MD)
100 % JENOPTIK Laser, Optik, Systeme GmbH <sup>1</sup> Germany, Jena	50 % XTREME technologies GmbH <sup>2</sup> Germany, Jena

1 -- Subsidiary of JENOPTIK AG  
2 -- Subsidiary of JENOPTIK Laser, Optik, Systeme GmbH  
3 -- Subsidiary of Hommel-Etamic GmbH  
4 -- Subsidiary of JENOPTIK Polymer Systems GmbH

5 -- Subsidiary of ESW GmbH  
6 -- Subsidiary of ROBOT Visual Sytems GmbH  
7 -- Subsidiary of JENOPTIK Laserdiode GmbH

# Key figures of Jenoptik (continuing business divisions)

(in million euros)	2007	2006	Change in %
<b>Sales</b>	<b>521.7</b>	<b>485.1</b>	<b>7.5</b>
Laser & Optics	219.2	199.2	10.0
Sensors	162.4	153.2	6.0
Mechatronics	134.6	127.0	6.0
Other	5.5	5.7	-3.5
<b>EBIT (before one-off effects)</b>	<b>35.4</b>	<b>38.2</b>	<b>-7.3</b>
Laser & Optics	23.3	15.3	52.3
Sensors	8.7	18.1	-51.9
Mechatronics	10.9	10.8	0.9
Other	-7.6	-6.0	-26.7
<b>EBIT margin (EBIT in % of sales)</b>	<b>6.8</b>	<b>7.9</b>	<b>-1.1</b>
Laser & Optics	10.6	7.7	2.9
Sensors	5.4	11.8	-6.4
Mechatronics	8.1	8.5	-0.4
<b>EBITDA (before one-off effects)</b>	<b>68.7</b>	<b>69.9</b>	<b>-1.7</b>
Laser & Optics	40.3	31.8	26.7
Sensors	14.2	22.5	-36.9
Mechatronics	14.2	14.3	-0.7
Other	0	1.3	-100.0
<b>Cash flow from operating activities</b>	<b>73.8</b>	<b>28.8</b>	<b>156.3</b>
Laser & Optics	38.2	22.0	73.6
Sensors	30.9	12.7	143.3
Mechatronics	14.5	6.8	113.2
Other	-9.8	-12.7	22.8
<b>Order intake</b>	<b>525.8</b>	<b>482.9</b>	<b>8.9</b>
Laser & Optics	230.8	208.5	10.7
Sensors	162.2	145.3	11.6
Mechatronics	124.9	123.4	1.2
Other	7.9	5.7	38.6
<b>Order backlog</b>	<b>439.4</b>	<b>438.4</b>	<b>0.2</b>
Laser & Optics	78.9	66.1	19.4
Sensors	71.5	69.0	3.6
Mechatronics	289.0	303.3	-4.7
Other	0	0	
<b>Employees (as at 31.12. incl. trainees)</b>	<b>3,436</b>	<b>3,192</b>	<b>7.6</b>
Laser & Optics	1,371	1,254	9.3
Sensors	1,173	1,050	11.7
Mechatronics	829	828	0.1
Other	63	60	5.0

\* The division "Other" includes holding and real estate.

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#### Dates 2008

- March 28, 2008  
Publication of the Annual Report  
2007
- May 8, 2008  
Publication of the Interim Report  
1<sup>st</sup> quarter 2008
- June 5, 2008  
General Meeting of JENOPTIK AG 2008
- August 13, 2008  
Publication of the  
Semi Annual Report 2008
- November 11, 2008  
Publication of the Interim Report  
3<sup>rd</sup> quarter 2008

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