



IMPROVING THE QUALITY OF OUR LIVES

State-of-the-art technology is our contribution

ANNUAL REPORT 2010



CONTENT

2	INFORMATION FOR THE SHAREHOLDERS	121	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
2	Foreword of the Executive Board	121	Details of the Group structure
5	Report of the Supervisory Board	127	Accounting policies
12	Corporate Governance Declaration	138	Historical summary of financial data
	Corporate Governance	140	Segment reporting
19	Improving the quality of our lives – State-of-the-art technology is our contribution	143	Notes to the statement of comprehensive income
30	2010 in review	148	Notes to the balance sheet
32	The Jenoptik share	165	Other notes
35	GROUP MANAGEMENT REPORT	171	Obligatory and supplementary disclosures under HGB
36	Business and framework conditions	172	German Corporate Governance Code
53	Earnings, financial and asset position	172	Executive Board
79	Segment reporting	174	Supervisory Board
89	Report on post-balance sheet events	177	Responsibility statement by management
89	Risk report		
103	Forecast report	178	Auditors' report
115	CONSOLIDATED FINANCIAL STATEMENTS	179	ADDITIONAL INFORMATION
116	Consolidated statement of comprehensive income	180	Executive Management Board
117	Consolidated balance sheet	181	Scientific advisory council
118	Consolidated statement of movements in shareholders' equity	182	Financial glossary
120	Consolidated statement of cash flows	184	Imprint
			Selected subsidiaries
			Key figures of Jenoptik
			Index of key words
			Dates and contacts >> Cover backside

KEY FIGURES OF JENOPTIK

	2010		2009	
(in million euros)	Continuing business divisions	Group	Group	Change in %
Sales	478.8	510.6	473.6	7.8
Domestic	199.1	205.3	202.0	1.6
Foreign	279.7	305.3	271.6	12.4
EBITDA (operative)	57.7	61.8	43.1	43.4
EBITDA	60.1	88.7	23.4	279.1
EBIT (operative)	29.0	31.9	7.8	309.0
EBIT	29.0	56.4	-19.6	++
EBIT margin ¹⁾	6.1 %	11.0 %		
Earnings before tax	15.0	42.5	-34.3	++
Earnings after tax ²⁾	9.0	36.4	-33.9	++
Free cash flow (before income taxes)	31.6	32.9	41.0	-19.8
Investments in tangible and intangible assets	14.5	15.3	14.4	6.3
Order intake	534.6	582.5	432.8	34.6

	31.12.2010	31.12.2009		Change in %
(in million euros)	Group/ Continuing business divisions	Group	Group without Optronik	(compared to previous year without Optronik)
Order backlog	355.4	339.4	304.0	16.9
Employees	2,951	3,268	3,138	-6.0

1) EBIT in % of sales

2) The tax burden of the continuing business divisions includes the taxes related to the discontinued business division.
EBIT, EBITDA and EBIT margin cannot be compared with last year's figures because they do not include Group charges.

KEY FIGURES OF JENOPTIK

	2010		2009	
(in million euros)	Continuing business divisions	Group	Group	Change in %
Sales	478.8	510.6	473.6	7.8
of which Lasers & Optical Systems	188.9	188.9	166.7	13.3
Metrology	113.8	113.8	96.0	18.5
Defense & Civil Systems	173.9	205.8	205.3	0.2
Others ¹⁾	2.2	2.1	5.6	-62.5
EBITDA	60.1	88.7	23.4	279.1
of which Lasers & Optical Systems	24.0	24.0	3.9	515.4
Metrology	12.1	12.1	-8.5	++
Defense & Civil Systems	14.9	19.0	19.6	-3.1
Others ¹⁾	9.1	33.6	8.4	300.0
EBIT	29.0	56.4	-19.6	++
of which Lasers & Optical Systems	13.3	13.3	-16.5	++
Metrology	8.6	8.6	-14.6	++
Defense & Civil Systems	8.6	11.5	12.2	-5.7
Others ¹⁾	-1.5	23.0	-0.7	++
EBIT margin (EBIT in % of sales)	6.1 %	11.0 %		
of which Lasers & Optical Systems	7.0 %	7.0 %		
Metrology	7.6 %	7.6 %		
Defense & Civil Systems	5.0 %	5.6 %	5.9 %	
R + D output	46.1	51.4	51.5	-0.2
of which Lasers & Optical Systems	17.5	17.5	22.0	-20.5
Metrology	12.4	12.4	11.9	4.2
Defense & Civil Systems	16.2	21.5	18.0	19.4
Others ¹⁾	0.0	0.0	-0.4	++
Order intake	534.6	582.5	432.8	34.6
of which Lasers & Optical Systems	230.2	230.2	168.4	36.7
Metrology	137.0	137.0	83.2	64.7
Defense & Civil Systems	163.7	211.6	178.0	18.9
Others ¹⁾	3.7	3.7	3.2	15.6

(in million euros)	31.12.2010	31.12.2009		Change in % (compared to previous year without Optronik)
	Group/ Continuing business divisions	Group	Group without Optronik	
Order backlog	355.4	339.4	304.0	16.9
of which Lasers & Optical Systems	98.8	59.9	59.9	64.9
Metrology	45.1	21.9	21.9	105.9
Defense & Civil Systems	212.6	260.2	224.8	-5.4
Others ¹⁾	-1.1	-2.6	-2.6	57.7
Employees	2,951	3,268	3,138	-6.0
of which Lasers & Optical Systems	1,234	1,284	1,284	-3.9
Metrology	632	769	769	-17.8
Defense & Civil Systems	931	1,077	947	-1.7
Others ¹⁾	154	138	138	11.6

1) "Others" include holding, real estate, consolidation.

EBIT, EBITDA and EBIT margin cannot be compared with last year's figures.

EXECUTIVE BOARD

CORPORATE CENTER

LASERS & MATERIAL PROCESSING

Leading provider of laser technology, specializing in diode lasers and innovative solid-state lasers, e.g. thin-disk and fiber lasers.

The division has control of the entire value-added chain (semiconductor material, laser sources, laser systems, system and automation technology for entire production facilities).

OPTICAL SYSTEMS

Leading global provider of precision optics and optical systems designed to meet the most stringent demands in terms of quality.

The division is design, development and production partner for optical, micro-optical and optical coating components, opto-mechanical assemblies, modules and systems, made of glass, crystals as well as plastics.

INDUSTRIAL METROLOGY

Leading manufacturer of high-precision contact and non-contact metrology systems. The division has many years of expertise in the development of tactile, optical and pneumatic measuring techniques as well as in the realization of customer applications in-process, post-process or in the metrology room.

TRAFFIC SOLUTIONS

One of the leading suppliers of components and systems for greater worldwide road traffic safety. The product portfolio includes speed measurement and red light monitoring systems as well as OEM products and systems for detection of other traffic violations. In the field of service, every aspect of the accompanying process chain is covered.

DEFENSE & CIVIL SYSTEMS

The focus areas are military and civil vehicle, rail and aircraft equipment, drive and stabilization technology and energy systems as well as laser distance and infrared sensor systems. Opto-electronic instruments and systems for the security industry as well as software, measurement and control technology complement the spectrum.



SHARED SERVICES

SELECTED INVESTMENT COMPANIES (as at February 2011)

100 %	ESW GmbH Germany, Wedel	100 %	JENOPTIK North America, Inc. USA, Delaware (Florida)
50 %	HILLOS GmbH Germany, Jena	100 %	JENOPTIK Optical Systems GmbH Germany, Jena
100 %	Hommel-Etamic GmbH Germany, Villingen-Schwenningen	100 %	JENOPTIK Optical Systems, Inc. USA, Jupiter (Florida)
100 %	HOMMEL-ETAMIC America Corp. USA, Rochester Hills (MI)	100 %	JENOPTIK Polymer Systems GmbH Germany, Triptis
100 %	Hommel-Etamic France SA France, Bayeux Cedex	100 %	JENOPTIK Robot GmbH Germany, Monheim
100 %	Hommel-Movomatic Suisse SA Switzerland, Peseux	100 %	JENOPTIK SSC GmbH Germany, Jena
100 %	JENOPTIK Automatisierungstechnik GmbH Germany, Jena	50 %	JT Optical Engine GmbH + Co. KG Germany, Jena
100 %	JENOPTIK Diode Lab GmbH Germany, Berlin	100 %	Lechmotoren GmbH Germany, Altenstadt
66.58 %	JENOPTIK Japan Co. Ltd. ¹⁾ Japan, Yokohama City (Kanagawa)	100 %	Multanova AG Switzerland, Uster
66.60 %	JENOPTIK Korea Corp. Ltd. ¹⁾ Korea, Pyeongtaek	100 %	PHOTONIC SENSE GmbH Germany, Eisenach
100 %	JENOPTIK Laser GmbH Germany, Jena		

The above mentioned investment companies are not necessarily direct shareholdings of JENOPTIK AG.

1) not consolidated

“As an attractive, global high-tech partner creating added value for our customers thanks to rapid and consistent actions, our Jenoptik enjoys sustained financial success.”

DEVELOPED BY THE EXECUTIVE MANAGEMENT BOARD OF THE JENOPTIK GROUP IN MARCH 2008.



DR. MICHAEL MERTIN
Chairman of the Executive Board

FRANK EINHELLINGER
Chief Financial Officer

EXHIBITION IN THE GALLERY
OF JENOPTIK AG:
Hans Peter Reuter
"Was von den Sternen übrigblieb"
("The remains of the stars").

FOREWORD OF THE EXECUTIVE BOARD

Dear shareholders

For Jenoptik, 2010 was a successful fiscal year. The economy in general and the Jenoptik Group's economic segments in particular all recovered much more rapidly than we had previously expected. The significant rise in semiconductor industry demand, which had begun in the 2nd half of 2009, continued at a constant rate or even faster in the course of 2010. We also benefited from the rapid recovery of the automotive industry and connected supplier segments that began in spring 2010.

Thanks to the commitment of our employees, improved processes and an attractive range of products we were able to match rapidly increasing demand. Order intake rose by just under 35 percent to 582.5 million euros, including several major orders, some of which will contribute to sales figures far into the future, and others which have already had their full effect on this past year's figures.

Our sales rose to 510.6 million euros, while the Group's operating profit came to 56.4 million euros. This included positive one-off effects, particularly from the sale of Jena-Optronik GmbH. The purely operational EBIT was 31.9 million euros. It is of particular significance that, in addition to the general economic recovery, this also bore out the efficacy of our optimized cost structures. The restructuring measures implemented in 2009 and the continuation of the Jenoptik Excellence Program could both be seen to pay off handsomely in 2010.

In our sale of Jena-Optronik GmbH, we were able to seize a favorable moment during the consolidation phase of the aerospace market. This type of sale decision must always reflect the careful consideration of opportunities for all parties involved. In this case, Jena-Optronik GmbH's new owners will be able to ensure their further growth better than we could. For us, the revenue from the sale strengthened our financial foundations and will now be available to finance our further growth.

Our net debt was cut in half from the end of 2009, dropping to 79.3 million euros. This was made possible by the sale of our aerospace business, by the capital increase implemented in March 2010, and by the sale of the remaining shares in a non-strategic investment. Thanks to our steadfast working capital management scheme, we were also able to ensure continuously positive cash flows over the past two years.

As you can see, the Jenoptik Group's economic situation has improved on a sustainable basis in 2010. And the details presented in this Annual Report do much to illustrate this. This was also reflected in the rise in the Jenoptik share price over the past several months. And at this juncture, we would like to take the opportunity to thank you for the trust you have placed in Jenoptik.

We would particularly like to thank our employees for their great commitment to the company. In the aftermath of the crisis in 2009, it was quite an achievement to carry out the projects necessary to move Jenoptik forward while meeting the strong increase in demand.

We have made considerable progress in the strategic development of Jenoptik over the past two years, all in the face of challenging economic conditions. And we are quite proud of these achievements. It is, however, important for us to underscore our commitment to working hard on the further development of Jenoptik in the current fiscal year as well. We have not yet reached our medium to long-term corporate goals, and the financial crisis has set us back around two years in this regard. We will, nevertheless, continue to pursue our goal of one billion euros in sales as well as an EBIT margin of between 9 and 10 percent.

Our growth outlook is currently quite favorable, both in terms of our company and in terms of the economy at large. As of early 2011, we are able to report a positive general economic environment, as all our chief segments continue to develop well. And yet, politicians and the participants in the financial, resource, and capital markets remain nervous. The Arab world is currently in a state of political upheaval. It has therefore become all the more difficult to make reasonably certain predictions on the development of the economy and of our markets.

On the whole, however, we can look forward with optimism to the current and following fiscal years. We will continue to work to profit from the German export boom. We will continue further along our internationalization course, especially in North America and Asia, regions of particular importance to us. Numerous projects are also underway in all parts of the company aimed at lasting improvements in our cost structures and our internal processes. This, along with an excellent order intake in 2010, will all serve to support us toward achieving our planned sales goals and toward improving our Group EBIT at an even faster pace than our sales.

Sincerely,



Michael Mertin



Frank Einhellinger

Jena, March 2011

SUPERVISORY BOARD REPORT

Honoured Shareholders,

Jenoptik was able to overcome the strong effects of the global financial and economic crisis in fiscal year 2009 to reemerge with a very successful reporting period 2010. Particular success was attained in terms of the continued strong reduction of the net debt and the general improvement of the Group's earnings and financial position.

During this past fiscal year, the Supervisory Board carefully fulfilled its legally and contractually stipulated tasks, regularly advising the Executive Board in its management of the Group, and continually supervising its activities. The Executive Board involved the Supervisory Board intensively and at an early date in all decisions of fundamental importance to the company. To this end, the Supervisory Board was regularly provided with timely and comprehensive information by the Executive Board, both orally and in written form, on the current economic situation of the company and Group, business developments, risk situation including risk management, relevant compliance matters, and corporate planning and strategy. Business processes of importance to the company were discussed both in committee meetings and in plenary Supervisory Board meetings on the basis of reports provided by the Executive Board. The Group's financial and risk situations, including its risk management, were a particular focus of the Supervisory Board in 2010. The Executive Board provided the Supervisory Board with regular information on divergences in the company's business from its plans and goals, with detailed explanations of such cases. The reporting obligations stipulated in the German Stock Corporation Act (§ 90 AktG) and the German Corporate Governance Code were fulfilled in full.

The Supervisory Board approved of transactions that required its authorization, as submitted with comprehensive information by the Executive Board in accordance with legal regulations, the articles of association, and the Executive Board rules of procedure. This included in particular a 10-percent capital increase, the sale of shares in caverion GmbH and the sale of Jena-Optronik GmbH. The Supervisory Board met in fiscal year 2010 for four regular sessions, attended also by the members of the Executive Board. Two resolutions were passed through circular procedure. No member of the Supervisory Board attended less than half of the meetings, with an average attendance of 94 percent.

The Chairman of the Supervisory Board and the committee chairmen also maintained regular contact with the Executive Board in the times between their plenary or committee meetings. The Chairman of the Supervisory Board was kept particularly up-to-date on the current development and events involving the company's state of business. Each member of the Supervisory Board also received regular detailed monthly reports on the state of the company. The Supervisory Board met with the Executive Board and other representatives of the top management at a separate strategy session in December to discuss the company's strategic positioning with regard to the latest trends, potential areas of growth, and the company's middle-term planning of individual areas of business – all in depth and taking the perspectives of markets, competition, and customers into consideration. The collaboration between the Executive Board and Supervisory Board was characterized by a continually open and trusting atmosphere.

PARTICULAR SUBJECTS DISCUSSED BY THE SUPERVISORY BOARD

The Executive Board reports on the state of business, and the current sales and earnings development in particular, the risk situation, and current financial position were all matters of regular discussion in meetings. The Supervisory Board also repeatedly discussed the Jenoptik Excellence Program, into which have been integrated a large number of cost-cutting and optimization measures group-wide.

At its meeting of March 29, 2010, the Supervisory Board, together with two auditor representatives, worked in particular on the audit of the JENOPTIK AG annual financial statements, the consolidated financial statements, and the management report, group management report, and annual report for fiscal year 2009, and in particular with the corporate governance statement including the corporate governance report. The annual financial statements of JENOPTIK AG and the consolidated financial statements were approved, the annual financial statements were thus adopted. The meeting also focused on passing the agenda for the annual general meeting on June 9, 2010. The Supervisory Board was, moreover, informed in detail on the capital increase measure, which was decided and implemented in March 2010 by the Executive Board and the capital market committee of the Supervisory Board, on the updated group code of conduct, and on the state of the company's real estate portfolio. The Supervisory Board also decided on the key features for assessment of the 2009 target agreement of the Executive Board members.

At its June 8, 2010 meeting, the Supervisory Board reported on the Group's current business and financial position since the conclusion of the 1st quarter. The Supervisory Board adopted its revised and updated rules of procedure and approved changes in the Executive Board rules of procedure as well. The Board also approved the sale of the JENOPTIK AG 15.1-percent interest in the share capital of caverion GmbH, Stuttgart, to YIT GmbH. Following intensive discussion, the Supervisory Board

decided to amend the Executive Board contracts including an adaptation of its remuneration system to the Act on the Appropriateness of Management Board Compensation (Gesetz zur Angemessenheit der Vorstandsvergütung, VorstAG). The Board also decided that it, along with the Executive Board, would be subject to the payment of deductibles on their D & O insurance, effective January 1, 2011, in accordance with the requirements of the German Corporate Governance Code (Point 3.8, para. 3).

In July 2010, the target agreements for the remuneration of the members of the Executive Board were established for fiscal year 2010 through circular procedure. This was done on the basis of revised Executive Board contracts and the recommendations of the personnel committee.

The Executive Board reported, at a September 8, 2010 meeting, on the current Group business and financial position, taking into account the half-year financial statements and the July 31, 2010 monthly report. The Executive Board also informed the Supervisory Board on the completion of the sale of JENOPTIK AG's shares in caverion GmbH and the connected termination of the financing agreement with that company. The Supervisory Board also discussed the changes introduced by the government commission to the German Corporate Governance Code in the version dated May 26, 2010 and the introduction of a secure electronic data room to improve the exchange of information with and among the members of the Supervisory Board.

Through yet another circular procedure in early October 2010, the Supervisory Board agreed to the sale of all JENOPTIK AG shares in Jena-Optronik GmbH to Astrium GmbH. Plans for the sale had already been discussed in detail at the September 8, 2010 meeting.

At its final meeting of the reporting year on December 9, 2010, the Supervisory Board focused on the comprehensive information provided by the Executive Board on the Group business and financial position following the conclusion of the 3rd quarter and on planning for fiscal year 2011. In accordance with the new recommendation of the German Corporate Governance Code (Point 5.4.1 para. 2), the Supervisory Board established specific goals for its own future composition, and, together with the Executive Board and following the examination of a corporate governance checklist, approved the declaration of conformity in accordance with Section 161 of the Stock Corporation Act. The Supervisory Board also evaluated and discussed the results of an efficiency test carried out by the Board using a questionnaire. Upon the recommendation of the Audit Committee and in accordance with the decision of the Annual General Meeting of June 9, 2010, the Board nominated KPMG AG Wirtschaftsprüfungsgesellschaft of Berlin as the auditor and group auditor of the 2010 financial statements and consolidated financial statements. The Executive Board also informed the Supervisory Board of changes in the investment portfolio and of new developments in the risk management and internal control systems.

WORK IN THE COMMITTEES

The Supervisory Board has formed a total of five committees, which, if legally permissible, make decisions on behalf of the plenary board, and which otherwise prepare topics to be discussed at plenary sessions, thus contributing to Board efficiency. The committee chairmen presented the content and results of their committee's meetings in detail at the subsequent plenary meetings of the Supervisory Board. The composition of the individual committees is provided on pages 174/175 of the Annual Report.

The Audit Committee, led by Mag. Heinrich Reimitz, met four times in fiscal year 2010. The meetings were attended by the CFO, and the first of the year's meetings by two auditor representatives as well. In accordance with the legal provisions, at least one independent member of the Audit Committee must be well versed in accounting or auditing. The Committee worked intensively on the evaluation of the annual financial statements and consolidated financial statements, the management and group management reports, and on the discussion of the detailed quarterly and half-year reports before their publication. The Audit Committee continued to focus on the effectiveness and further development of the risk management system, the internal control system, and current topics involving internal audit and compliance. The Audit Committee recommended to the Supervisory Board at its March 2010 meeting that KPMG AG Wirtschaftsprüfungsgesellschaft of Berlin be suggested as the auditor in 2010 to the Annual General Meeting on June 9, 2010. To reach this conclusion, the Committee closely examined the independence and qualifications of the auditor and the other services that the auditor provided the previous fiscal year. In May 2010, the Audit Committee looked closely into the group risk report and the revised group-wide risk management guidelines along with the updated code of conduct and compliance guidelines. Discussions in August 2010 centered again on the new group risk report, establishing points of focus for the auditing of the 2010 consolidated financial statements and the examination of the group auditor's management letter for 2009. In its final meeting of the year in November, the Audit Committee prepared the issuing of the audit mandate to the auditor, including a fee agreement, and submitted its recommendation to the plenary board. The meeting also focused on the results of the examinations by the internal audit and their audit plans for the coming fiscal year as well as the future development of the risk management system.

The Personnel Committee, which met four times this past year, is led by the Supervisory Board Chairman Rudolf Humer. Among other things, the Committee prepares the Supervisory Board's personnel decisions with regard to the employment contracts of the Executive Board members and met four times in the past fiscal year. Particular focus was placed on the Executive Board members' target agreements and the changes to the Executive Board contracts, especially including changes to the remuneration system to comply with the Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung, VorstAG). The Personnel Committee submitted its relevant recommendations to the plenary board.

The Nomination Committee, also led by the Supervisory Board Chairman Rudolf Humer, is composed of the three shareholder representatives on the Personnel Committee. Its task is to submit recommendations to the Supervisory Board for suitable nominations to be made to the Annual General Meeting. No meetings were held in 2010 as there were no reasons to meet.

The Capital Market Committee led by Dr. Lothar Meyer met three times in fiscal year 2010, twice as a telephone conference. The Capital Market Committee approved of measures to implement a capital increase and the connected change in the JENOPTIK AG Articles of Association, thus carrying out the powers granted it by the Supervisory Board with regard to capital increases in connection with the utilization of the authorized capital.

The Mediation Committee formed in accordance with Sect. 27, para. 3 MitbestG did not need to convene in the past fiscal year.

CORPORATE GOVERNANCE

The Supervisory Board again continually focused on the fundamentals of good corporate governance in 2010, delving intensively into the continuing changes to and the implementation of the German Corporate Governance Code at its September 8 and December 9, 2010 meetings. The Executive Board reports, on behalf of the Supervisory Board as well, on JENOPTIK AG corporate governance in its corporate governance report and its corporate governance declaration, all in accordance with Point 3.10 of the German Corporate Governance Code. This can be seen from page 12 of this Annual Report. Information on the principles of and changes in the Executive Board remuneration system can be viewed in the management report (from page 40) and the individual remuneration of the Supervisory Board and Executive Board members in the Notes (on pages 161/162 and from page 172).

Pursuant to the requirements of the German Corporate Governance Code, the Supervisory Board examined and approved of the efficiency of its own activities this past fiscal year. At its December 9, 2010 meeting, the Supervisory Board and the Executive Board decided to issue a declaration of conformity in accordance with the Stock Corporation Act (§ 161 AktG) with only one exception. As of January 1, 2011, JENOPTIK AG has fulfilled without exception all recommendations of the German Corporate Governance Code. The declaration of conformity including the reasoning for exceptions has been made permanently available to shareholders on the company website.

This past fiscal year, there were no conflicts of interest of Executive Board or Supervisory Board members that needed to be communicated to the Supervisory Board and reported to the Annual General Meeting.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

KMPG AG Wirtschaftsprüfungsgesellschaft, Berlin, audited the financial statements and the management report of JENOPTIK AG in accordance with HGB regulations, and the consolidated financial statements and management report, which were prepared in accordance with § 315a HGB and followed International Financial Reporting Standards (IFRS) accounting standards and which were submitted by the Executive Board. The auditors each gave their unqualified approval. At its December 9, 2010 meeting, the Supervisory Board gave the order for the audit in accordance with the resolution of the Annual General Meeting of June 9, 2010.

The auditor undertook the audit in accordance with the German principles of correct auditing established by the Institut der Wirtschaftsprüfer (IDW) as well as in accordance with the International Standards on Auditing (ISA). The audit reports were immediately sent out upon completion and intensively and comprehensively discussed along with the documents supplied by the Executive Board, both by the Audit Committee at its March 8, 2011 meeting and the plenary board's meeting on March 23, 2011. At both meetings, the auditor reported on the chief results of his audit and was available for questions and further information. The Audit Committee chairman provided the plenary board with a comprehensive report on the Audit Committee's examination of the annual and consolidated financial statements.

Following the conclusive results of the initial evaluation on the part of the Audit Committee, as well as the Supervisory Board's own evaluation and discussion, the Supervisory Board had no reservations concerning the results of the audit at its March 23, 2011 meeting and approved the annual and consolidated financial statements submitted by the Executive Board. The annual financial statements were thus adopted in accordance with Sect. 172, para. 1 of the Stock Corporation Act (AktG).

COMPOSITION OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

The Executive Board remained unchanged in fiscal year 2010.

Effective November 30, 2010, the longstanding group works council chairman Günther Reissmann, the senior member of the Supervisory Board, left the Board as he entered retirement age and thus ended his active work with JENOPTIK AG. Upon the recommendation of the group works council, Dieter Kröhn was appointed by court order of the Jena District Court as member of the Supervisory Board through the end of the current Board's term of office. The Supervisory Board expresses its appreciation to Günther Reissmann for his great efforts and contributions to the company and his commitment since its founding and for his 18 years of continual and committed membership on the Board.

With the completion of the sale of all shares in Jena-Optronik GmbH, Anita Knop left her position as an employee representative on the Supervisory Board. Christel Knobloch was also appointed by court order of the Jena District Court as member of the Supervisory Board through the end of the current board's term of office. The Supervisory Board thanks Anita Knop for her excellent work and commitment to the company over the past years.

At the December 8, 2010 meeting, Michael Ebenau was appointed to succeed Wolfgang Kehr as the deputy chairman of the Supervisory Board, effective January 1, 2011. Wolfgang Kehr left his office as he entered retirement age and thus ended his active tenure at IG Metall, effective December 31, 2010. The Supervisory Board thanks Wolfgang Kehr for his great commitment as the deputy chairman of the Supervisory Board since June 6, 2008. He will continue to serve as a JENOPTIK AG Supervisory Board member.

We would also like to thank the members of the Executive Board, all employees, and employee representatives for their great personal efforts, just as we would like to extend our appreciation to our shareholders for the trust they have placed in us.

Jena, March 2011

On behalf of the Supervisory Board



Rudolf Humer
Chairman

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE DECLARATION

In this statement, the Executive Board submits its report – in sections I and II.1 also on behalf of the Supervisory Board – in accordance with Point 3.10 of the German Corporate Governance Code in the version dated May 26, 2010, and in accordance with Sect. 289a of the German HGB (German Commercial Code).

I. Declaration of conformity

It is the view of JENOPTIK AG management that a responsible, values-oriented, and sustainably successful corporate policy provides a major foundation for the long-term positive development of the Group as a whole. Jenoptik's sound corporate governance has indeed contributed significantly to overcoming the palpable ramifications of the global economic crisis for the company.

Jenoptik structures its policies to adhere to recognized standards, and supports the recommendations of the German Corporate Governance Code ("Code"). The Executive and Supervisory Boards issued their joint declaration of conformity, in adherence with Section 161 of the Stock Corporation Act on December 9, 2010, which is available on a permanent basis along with those of the past several years at www.jenoptik.com under Investors/Corporate Governance. Since January 1, 2011 Jenoptik has, for the first time, fully adhered to the recommendations of the German Corporate Governance Code in the version dated May 26, 2010. Jenoptik had previously followed the recommendations with one exception. Jenoptik has thus implemented the adaptations to the Code of the past year. In addition to the recommendations of the Code, Jenoptik has also followed a majority of the other suggestions made in the Code.

Jenoptik is convinced that transparent corporate management serves to boost trust in the Group on the part of investors, business partners, employees, and the general public. This includes the appropriate treatment of risks. We view our compliance with both external and internal guidelines as a basis for responsible action and as a major aspect of our business.

DECLARATION OF CONFORMITY BY THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD OF JENOPTIK AG IN FISCAL YEAR 2010 CONCERNING THE CORPORATE GOVERNANCE CODE PURSUANT TO SECT. 161 GERMAN STOCK CORPORATION ACT (AKTG)

Under Sect. 161 of the German Stock Corporation Act (AktG) the Executive Board and the Supervisory Board of a stock-listed company are required to issue an annual declaration that the recommendations of the Government Commission on the German Corporate Governance Code as published by the Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) have been and are complied with or to advise which recommendations have not been or are not applied and why not.

The JENOPTIK AG Executive and Supervisory Boards support the recommendations of the "Government Commission on the German Corporate Governance Code" and state that pursuant to Sect. 161 German Stock Corporation Act:

- I. The recommendations of the "Government Commission on the German Corporate Governance Code" in the version dated May 26, 2010 will be followed in full from January 1, 2011.
- II. Since the last declaration of conformity dated December 2009 the recommendations of the "Government Commission on the German Corporate Governance Code" have been followed and will be followed until December 31, 2010 with the following exception:
 1. A deductible for D & O insurance for members of the Supervisory Boards is waived (Point 3.8 Paragraph 3 of the German Corporate Governance Code).

Explanation of deviation to Point II.

The Supervisory Board was of the opinion that the motivation and responsibility of the Supervisory Board members would not be improved through the introduction of a deductible. After

discussing this topic again the Supervisory Board decided in the meeting on June 8, 2010 that the Supervisory Board will have a deductible in accordance with Point 3.8 Paragraph 3 of the German Corporate Governance Code with effect from January 1, 2011. Therefore, all recommendations of the Government Commission on the German Corporate Governance Code will be followed with effect from January 1, 2011.

II. Details on management practices

1. CORPORATE GOVERNANCE REPORT

Shareholders and Annual General Meeting

JENOPTIK AG shareholders exercise their rights at the Annual General Meeting, which takes place at least once a year. Each share is accorded one vote. Shareholders can either participate directly in the Annual General Meeting or can do so by proxy, for which they can either authorize a person of their choice or a proxy nominated by the company acting on their instructions. All documents and information on the Annual General Meeting will be made available on our Internet page (www.jenoptik.com) under Investors/Annual General Meeting for viewing or download. This includes the agenda with proposed resolutions and the explanation of participation requirements, reports and documents necessary for the resolutions, information on shareholder rights, and any shareholder counter-motions or voting recommendations to be published. The presence and voting results will subsequently be published on this page.

Risk management

Jenoptik also views its responsible treatment of the risks and opportunities that arise from business activity as part of its good corporate governance. Jenoptik has a group-wide risk management system that includes all companies, within Germany and internationally, of which Jenoptik controls more than 50 percent. The current risk management system was examined for its effectiveness this past fiscal year, and was optimized and developed further with the help of external consulting. The Executive Board regularly informs both the Audit Commit-

tee and the Supervisory Board of current opportunities and risks and their development. Further detailed information on risk management including the significant characteristics of the internal control and risk management system with a view to the financial reporting process are explained in the risk report of the Annual Report beginning from page 89.

Transparency

Jenoptik provides investors and the general public with comprehensive and up-to-date information which directly relate to the company and are significant in the evaluation of its development. The annual and quarterly reports also provide comprehensive information on the Group's earnings, financial and asset position. Soon after the publication of the reports, telephone conferences are held with journalists, analysts, and investors. In addition to the annual balance sheet press conference, analyst conferences are also held for the annual and half-year financial figures. Press releases also cover important events and current developments.

In accordance with law, inside information is published immediately inasmuch as the Executive Board is not, in individual cases, exempted from this obligation. The Capital Market working group evaluates, both regularly and for specific concerns, individual circumstances with regard to their ad-hoc relevance in order to ensure that potential inside information is treated in accordance with the law. All ad-hoc releases and press releases as well as the quarterly and annual reports are available in German and English on the company's Internet site under Investors/Reports and Presentations. Comprehensive information is also presented on the website on Jenoptik shares and the Group as a whole.

There is a group guideline on upholding the statutes of the Securities Trading Act and major obligations and responsibilities on the part of board members and employees concerning inside information, ad-hoc publicity, market manipulation and directors' dealings. People who are authorized to have access to inside information are included in an insider list.

Information on major changes to the shareholder structure are provided at www.jenoptik.com under Investors/Share/Voting rights announcements, whenever it comes to our attention that someone has reached, surpassed, or fallen below 3, 5, 10, 15, 20, 25, 30, 50, or 75 percent of all JENOPTIK AG voting rights, whether due to purchases, sales, or other events. In fiscal year 2010, Jenoptik received two such reports from UniCredit Bank AG, Germany, and Templeton Investment Counsel LLC., USA. In addition, we received announcements of VARIS Vermögensverwaltungs GmbH, Ms. Wahl-Multerer and ZOOM Immobilien GmbH relating to transactions in 2010.

Board member share deals

Share deals on the part of Executive and Supervisory Board members (directors' dealings) in accordance with Section 15a WpHG (German Securities Trading Act) are published at www.jenoptik.com under Investors/Corporate Governance/Directors' Dealings.

As of December 31, 2010, the total of all Jenoptik shares held by the Executive and Supervisory Board members, whether directly or indirectly, came to more than 1 percent of all shares issued by the company. The two Executive Board members combined for 1,036 shares while the Supervisory Board members held 3,729,473 shares in total, including 2,773,066 shares indirectly held by Gabriele Wahl-Multerer as the sole shareholder of Zoom Immobilien GmbH (as legal successor to VARIS Vermögensverwaltungs GmbH), and 675,000 shares held directly and indirectly by Rudolf Humer.

Accounting and auditing

The consolidated financial statements and all interim consolidated financial statements are compiled in accordance with International Financial Reporting Standards (IFRS). The annual financial statements are compiled in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch, HGB). The consolidated financial statements and the annual financial statements including the management reports

are examined by auditors. Before they are published, they are also examined by the Audit Committee and the Supervisory Board, and comprehensively discussed with the Executive Board. On June 9, 2010, the Annual General Meeting selected KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin to be the auditor for fiscal year 2010. The company agreed with the auditors that they would inform the Supervisory Board Chairman of any grounds for bias or disqualification as well as of all important events and findings that emerge during the audit. This includes occasions when the auditors should discover facts that point to inaccuracies in the declaration of conformity submitted by the Executive Board and Supervisory Board in accordance with Sect. 161 AktG (German Stock Corporation Act).

Prior to submitting the proposal for election to the Annual General Meeting, the Supervisory Board received a declaration of independence from the auditing firm, stating that there were no business, financial, personal or other relationships between KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, its board members and head auditors, and the company and their board members. KPMG AG also reported in its declaration of independence on the degree to which it provided Jenoptik with other services over the past fiscal year, especially in the field of consulting, and which services have been contractually agreed for the following year. It was also established that none of the auditors involved in the audit had exceeded the seven-year overall limit for the authorization of issuing unqualified audit certificates.

Executive and Supervisory Boards

The knowledge, talent, and relevant experience necessary in carrying out the tasks involved are all taken into account in the composition of the Supervisory Board, as well as board diversity and an adequate number of independent members. Two women are currently on the Supervisory Board and at least four members have considerable international experience. The broad mix of backgrounds ensures a diversity of expertise as well on the Supervisory Board.

The JENOPTIK AG Supervisory Board announced the following goals for its future composition at its December 9, 2010 meeting, in accordance with the new recommendation of Point 5.4.1 of the German Corporate Governance Code and taking into account the object of the company, its size, and the international orientation of the Jenoptik Group. The Supervisory Board will then ensure that it continues to maintain a membership that particularly fulfills the needs of an international world, whether in terms of having a different citizenship or experience in other countries. The Board will also make sure that its members do not have conflicts of interests involving a consultancy position or board membership with customers, suppliers, creditors, or other JENOPTIK AG business partners. In cases of major and non-temporary conflicts of interest, especially when it comes to responsibility in companies that are in direct competition with JENOPTIK AG or a group company, the Supervisory Board will normally refrain from such a nomination. The Supervisory Board will also work to ensure that it has at least two women. Candidates will also not be nominated who have already turned 70 by the time of the election. The Supervisory Board will recommend candidates to the Annual General Meeting who are particularly outstanding and fulfill the criteria of expertise and personal integrity. The current composition of the Supervisory Board already corresponds with this vision, and is to remain so into the future. Further information on the Executive Board and Supervisory Board and on their approaches to management can be found under point III of the Corporate Governance Statement.

Remuneration Report

The remuneration report describes the basic principles of the remuneration system for the Executive Board. It is part of the Group Management Report beginning on page 40 of this Annual Report. Information on compensatory agreements with Executive Board members should it come to a change of control can be viewed on page 42.

In accordance with the recommendations of the German Corporate Governance Code, information is to be published on the individual remuneration of members of the Executive Board and Supervisory Board, which can be found in the Notes from page 172. We view this information as an integral part of the remuneration report and thus also of the corporate governance report.

2. OTHER CORPORATE MANAGEMENT PRACTICES

Over the past few years, JENOPTIK AG has increasingly developed from a financial holding company to a company that views itself as a "strategic architect". Jenoptik's operative business is divided into segments, divisions, and business units. The work of JENOPTIK AG lies, in particular, in defining, implementing, and monitoring overarching processes as well as the development and implementation of corporate strategy. The Executive Board is supported in its strategic decisions by the Executive Management Board, which includes both the Executive Board members and the heads of the five divisions alongside the head of HR, Supply Chain Management & Shared Service Center of JENOPTIK AG. The division heads continually provide up-to-date and comprehensive information on events in their divisions that are relevant to the Group as a whole, particularly within the framework of the monthly meetings of the divisions with the Executive Board and selected JENOPTIK AG department leaders. This past fiscal year also once again saw central management meetings which numerous group managers attended along with the Executive Management Board. In addition there was an exchange among those involved in the innovation process, including employees of the R & D departments and from the product management, production, as well as distribution and marketing areas. Group-wide projects are supported by the central project office which monitors the development of 97 projects at present in a process developed for this. The rolling strategy process involves regular strategy meetings with the divisions, which form a basis, focused on

the markets and competition, for divisional planning for the next year and in the middle term. The individual steps in terms of planning and strategy are discussed with the divisions at certain predetermined points in time, with the results noted and activities planned. These are presented for approval to the Executive Board at autumn strategy and planning meetings.

Jenoptik regularly supports a number of charitable projects, organizations, and initiatives in order to bolster the development of the regions in which the Group is active. The company is involved in cultural, academic, educational, and sportive pursuits, and in social and charitable programs. Further information on these efforts can be found on pages 67 and 77.

Jenoptik views the pursuit of sustainable economic and social activity while observing prevailing legislature as a top priority and a part of its corporate culture. This entails trust, respect, honesty, and integrity in all dealings with employees, business partners, shareholders, and the general public. Jenoptik views compliance with the law, articles of association, internal rules, and voluntary obligations all as part of its compliance policy. The code of conduct for the entire Group was thoroughly revised and brought up-to-date in 2010 to be a guidepost for everyone, whether the Executive Board, Supervisory Board, managers, or employees all throughout the enterprise. The code of conduct provides minimum standards and serves as a point of orientation for ethical and legal challenges in the daily work of all involved, particularly in conflict situations. Every employee has received a code of conduct in German, English, or French (as suits the employee best). Compliance is monitored by the internal audit, and violations are investigated and their causes eliminated in the interest of company and all its employees. Any employee who wishes to lodge a personal complaint or who wishes to make a note of circumstances indicative of violations of laws or of the code of conduct can

turn to his or her supervisor, to the heads of internal audit or central HR department, or to the works council. The code of conduct can be viewed at www.jenoptik.com under Investor Relations/Corporate Governance.

In addition to these general guidelines on ensuring that all employees act in a legally compliant manner, Jenoptik has developed a specific system of values through its own internal group guidelines with regard to all important company processes. This system is continually being reexamined, expanded, and brought up-to-date. Risk-optimized training units were also conducted in certain compliance risk areas for group managers. These programs are to be expanded in the future and extended to a larger group of Jenoptik staff. A compliance board was also created this past fiscal year to link together the Group's other monitoring functions. The new JENOPTIK AG board included representatives from the financial department, internal audit, the legal department, and investor relations. Other staff with compliance responsibilities are also included such as export control and data protection officers at regular intervals. The compliance board meets several times a year and discusses compliance topics that emerge in day-to-day affairs as well as potential in optimizing Jenoptik current compliance systems.

III. Operating principles of the Executive Board and Supervisory Board

JENOPTIK AG is a stock corporation under German law and thus features a dual management system in which the Executive Board runs the company on its own responsibility in the interests of and thus in accordance with the corporate policy of the company. The Supervisory Board advises and monitors the Executive Board in its leadership of the company.

The members of the JENOPTIK AG Executive Board are appointed by the Supervisory Board. The Executive Board is currently composed of two members who share a common responsibility for the entire management of the Group and decide on primary matters of Group corporate policy, its management and supervision, corporate strategy and annual and longer-term planning. The members of the Executive Board work together in a collegial manner and continually inform each other of important measures and events in their assigned areas. Executive Board meetings take place at least once a month. More information on the areas covered by the individual members of the Executive Board can be found in the Management Report on page 40.

The rules of procedure issued to govern cooperation within the Executive Board were revised in 2010 to be adopted by both the Executive Board and Supervisory Board. This involved, in particular, revising and bringing up-to-date regulations on the operating principles and decision-making processes of the Executive Board as well as a regulation on the avoidance and resolution of conflicts of interest. The Executive Board is to continually inform the Supervisory Board in a timely and comprehensive manner, and in both written and spoken communication, on all matters relevant to the current development of the Group's business and financial position. This includes its effects on employment, investment plans, corporate planning, the company's strategic positioning and further development as well as its risk situation and management including compliance. Certain Executive Board decisions of particular importance, such as corporate planning decisions or expansion to new areas of business, require the approval of the Supervisory Board. They are also specified in the Executive Board rules of procedure. Further information on the cooperation between the Executive Board and the Supervisory Board can be found in the Supervisory Board Report beginning on page 5 of this Annual Report.

The Supervisory Board of JENOPTIK AG consists of twelve members, with six members elected by the shareholders in the annual general meeting and six nominated by employees in accordance with the Codetermination Act. All members are elected for the same period of time, ending with the conclusion of the Annual General Meeting in 2012, which will decide on the formal approval of the actions of fiscal year 2011. In fiscal year 2010, two employee representatives left the Board and were replaced by two new court-appointed Supervisory Board members until the end of the other Board members' terms. The Chairman of the Supervisory Board and his deputy were elected from the Board members in accordance with the relevant legislation (Sect. 27 para. 1 and 2 MitbestG). No former members of the Executive Board are now on the Supervisory Board.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, presides over its meetings, and represents the body externally. The Chairman maintains regular contact with the Executive Board, and its Chairman in particular, who provides the Supervisory Board Chairman with immediate information on important events. If a Supervisory Board vote results in a tie the Supervisory Board Chairman receives a double vote in a subsequent ballot. The Supervisory Board Chairman also chairs the Personnel, Mediation, and Nomination Committees.

The Supervisory Board meets at least four times a year. Extraordinary meetings are called for major events. The Board carries out a comprehensive formal investigation of its efficiency at least once every two years and discusses the results of the investigation at a meeting. Suggestions by members on ways to improve the work of the Supervisory Board and its committees are always welcome and are often implemented immediately. This past fiscal year, the Supervisory Board was able to confirm the efficiency of its work and of its committees in a self-evaluation.

The Supervisory Board also revised its rules of procedure in fiscal year 2010, which govern important aspects of its work as a body, adapting, in particular, the rules on decision-making to modern forms of communication. The obligations for the Executive Board to report to the Supervisory Board were also defined more clearly in line with the Stock Corporation Act and the German Corporate Governance Code.

The Supervisory Board formed five committees (Personnel, Audit, Capital Market, Nomination, and Mediation Committees) to make its work more efficient. The committees are made up of equal numbers of shareholder and employee representatives, except for the Nomination Committee, which is made up only of shareholder representatives. Specifics on the composition of the committees in fiscal year 2010 can be found in the Notes on pages 174/175. The expertise of the candidates is taken into account in the formation of the committees. Inasmuch as it was legally permissible, the decision-making process for certain individual matters was transferred to the individual committees. The committees prepare resolutions for the plenum and topics to be taken up by the Supervisory Board. In the subsequent Supervisory Board meeting, the committee chairpersons report to the full Board in detail on the content and results of the committee meetings.

The Audit Committee meets at least four times each year. Its discussions revolve in particular around matters concerning accounting and auditing, the effectiveness of the risk management system and the internal control system including internal audit and compliance. In accordance with the Stock Corporation Act, the committee must have at least one independent member who is well versed in accounting or auditing.

The Personnel Committee meets at least once a year and prepares, among other things, the personnel decisions of the Supervisory Board with a view to the Executive Board remuneration system and target agreements.

The Nomination Committee, which is tasked with the preparation of the nomination of candidates to be elected by the Annual General Meeting to the Supervisory Board, meets only when necessary, as does the Mediation Committee, which is charged with tasks in accordance with Sect. 31 of the Codetermination Act.

The Capital Market Committee, which grapples with capital market topics affecting the company, including the planning and implementation of possible capital measures, also only meets when necessary.

Further information on the Supervisory Board, its committees, and their operating principles in fiscal year 2010 can be found in the Supervisory Board Report published from page 7 of the Annual Report.

JENOPTIK AG has taken on D & O insurance for all its Executive Board and Supervisory Board members, with both Boards agreeing to an appropriate deductible pegged at 10 percent of any liability but capped at a maximum of one and a half times the fixed annual remuneration of each insured board member. This was to begin on January 1, 2011.

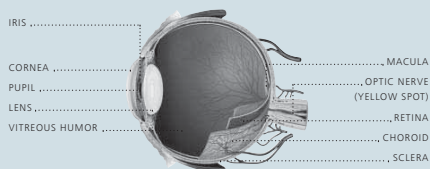
Improving the quality of our lives:

JENOPTIK TECHNOLOGY FOR TODAY AND TOMORROW.

Our focus lies on technology.
While our scope remains as broad as
Humanity and the world we inhabit.
Our focus lies on health and safety,
Mobility and communications,
On more power and less emissions,
And on progress and sustainability.
We place our focus on our lives today,
And those of our children tomorrow.

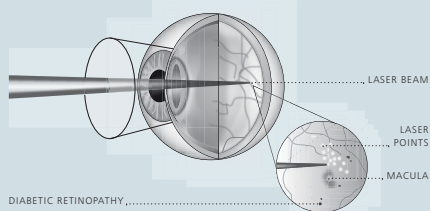
The following examples from our five divisions speak to
the great importance of these values – even in economic terms.

20	LASERS & MATERIAL PROCESSING
22	OPTICAL SYSTEMS
24	INDUSTRIAL METROLOGY
26	TRAFFIC SOLUTIONS
28	DEFENSE & CIVIL SYSTEMS



ONE OF OUR MOST IMPORTANT SENSORY ORGANS

Our eyes are absolutely perfect in their construction. They are in fact so perfect that the slightest of "production errors" can have a considerable effect on our vision. Retinal vascular disorders can be more complicated than congenital visual disability; and diabetic retinopathy is in fact a widespread illness that, as one might gather, affects diabetics at various stages of their illness.



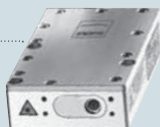
JENOPTIK MEDICAL LASERS –

A POPULAR PRODUCT WITH A SOLID FUTURE

The number of diabetes patients is on the rise in wealthy countries, and with it the number of retinopathy patients. Only laser therapy can halt the progressive destruction to the retina to prevent patients from going blind. Using short, focused laser flashes, the damaged retinal vessels are "welded" shut to prevent further vascularization. Over in just a few minutes, this gentle treatment ensures that people can maintain their acuity and eyesight. Jenoptik lasers, considered to be the most durable in the trade, have already been installed over 11,000 times to make this all possible. The company received a 16-million-dollar order for these lasers in 2010.

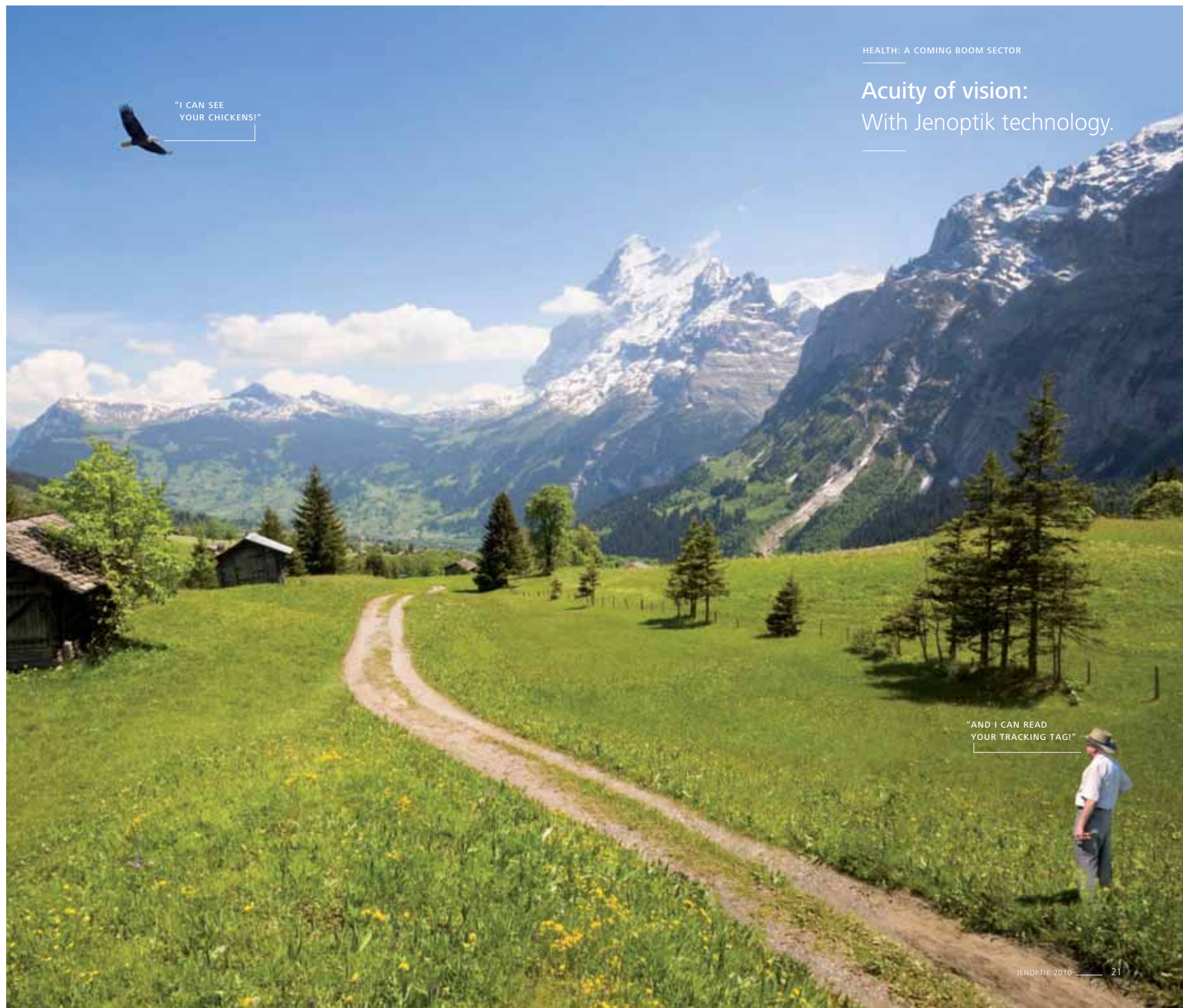
DIODE-PUMPED THIN-DISC LASERS

JenLas® D2.mini



JenLas® D2.mini. NOW SMALLER AND BETTER THAN EVER

Diode-pumped thin-disc lasers generate a precise laser beam. And their green light is particularly useful and effective for medical purposes and for use in this gentle treatment. The new JenLas® D2.mini is a further improvement on our successful lasers for medical applications, with greater precision and more power than ever. The lasers have also grown much lighter, with its casing now 3.5 times smaller in volume. This frees up new space for the makers of medical instruments to work with – and new room for patients to be treated.



HEALTH: A COMING BOOM SECTOR

Acuity of vision:
With Jenoptik technology.

"AND I CAN READ
YOUR TRACKING TAG!"

STAYING MOBILE EVERYWHERE YOU GO

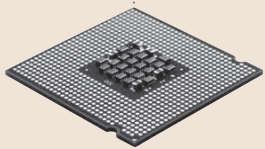
A NEW GENERATION
OF INTERNET-CAPABLE
MOBILE PHONES



NEW MOBILE PHONES WITH NEAR-PC POWER

The first cellphones were large, thick, and heavy, and could only be used to make phone calls. Today's smartphones, by contrast, are lean and versatile. There is seemingly no end to what they can do, whether photos, videos, e-mail, navigation, social networking, or making payments. And the sky's the limit.

CELLPHONE CHIPS

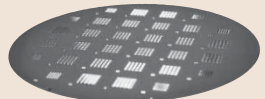


MILLION COMPONENTS ON A SINGLE CHIP SMALLER THAN A FINGERNAIL

This transformation from monofunctionality to complete multitasking power was made possible through the development and serial production of increasingly powerful generations of chips, which now even offer features provided by personal computer chips.

MICRO OPTIC

FOR USE IN SEMI-
CONDUCTOR PRODUCTION
EQUIPMENT



TOP PERFORMANCE THROUGH TOP PRECISION

The production of these high-performance chips requires optical and micro-optical systems of the greatest precision. Manufacturers of semiconductor production equipment therefore opt for Jenoptik technology so that they can be best equipped to meet rising global demand for powerful microchips.

DIGITAL TECHNOLOGY: A COMING BOOM SECTOR

Producing powerful chips: With Jenoptik technology.



"I NEVER THOUGHT
WE WOULD EVER
GET SO CLOSE!"

"WHY DON'T YOU
SEND ME AN E-MAIL?"

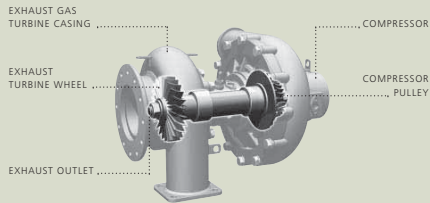
15 TO 20 PERCENT LESS CO₂

CO₂ EMISSIONS GAUGE



REDUCING CO₂ – WITH TURBOCHARGERS

One of the most environmentally friendly motor designs to date has literally been created out of thin air. Turbochargers are used to drive more air to the motor, pumping more oxygen into the combustion chamber with every compression stroke. This leads to a much improved and much cleaner combustion process, better performance and handling, and reduced CO₂ emissions and fuel use – all for the good of people and nature alike.

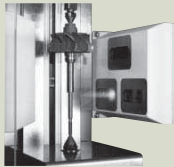


THE FUTURE OF MOTOR CONSTRUCTION

Only turbo technology will allow us to attain our ambitious emissions goals without compromising on performance. Experts therefore project 10 to 15 percent annual growth in turbochargers. While the automotive industry currently uses around 15 million units a year, this is expected to rise to 35 million by 2015.

OPTICAL SHAFT MEASUREMENT

HOMMEL-ETAMIC
OPTICLINE C314



RELIABLE PRODUCTION AT TOP ACCURACY

Turbochargers are high-precision motor components that need to stand up to extreme thermal and mechanical stress for years on end. These needs can therefore only be met with the highest in material and production standards. That is in fact why the world's leaders in turbocharger production have all come to embrace our optical shaft measurement systems. These systems measure and test form and position tolerances in every significant production step. They provide our customers with a solid foundation for production with the greatest of measurement accuracy, and save them time and production costs through their unique measurement speed.

RESOURCE EFFICIENCY: A COMING BOOM SECTOR

Ambitious emissions goals are possible:
With Jenoptik technology.

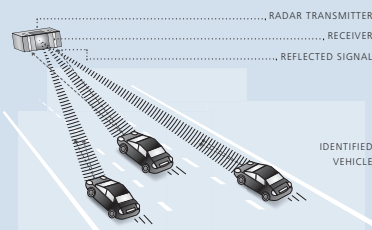
"I HAVE THE STRANGE
FEELING THAT NATURE WANTS
TO TELL US SOMETHING..."

"COULD IT JUST BE: 'THANKS'?"



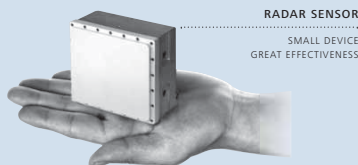
KEEPING PEOPLE SAFE

1.3 million people die in traffic worldwide each year. And excessive speed is the most common cause of accidents in Europe, accounting for around a third of all fatal accidents in the European Union, and as much as 40 percent in Germany. This can be prevented best using stationary speed measurement systems. Long-term studies and practice have shown that permanent monitoring leads to dramatically improved driving and a significant drop in accidents.



HOW CAN AS MANY VEHICLES AS POSSIBLE BE MONITORED ACROSS AS MANY LANES AS POSSIBLE OVER THE LONGEST POSSIBLE STRETCH, ALL AT THE SAME TIME?

The answer to this question is by using our new 3D tracking radar system. The system allows for up to 32 vehicles to be identified without error across up to four lanes, beginning at a distance of 100 meters – and all at the same time and with complete accuracy.



THE ADVANTAGES ARE OBVIOUS.

Our 3D radar used to monitor speed and traffic lights is anchored in the experience gathered from over 20,000 Jenoptik systems installed to make traffic safer in 80 countries around the world. Our innovation excels in its performance, accuracy, and flexibility in a wide range of applications. This small radar sensor, the size of a cigarette box, can be installed without requiring constructions on the road surface, unlike systems that use induction loops or piezoelectric sensors. We are virtually paving the way for a standard of traffic monitoring without having to modify existing road infrastructure.

SAFETY: A COMING BOOM SECTOR

New dimensions in safety: With Jenoptik technology.

"RADAR CONTROL? I HOPE..."

"...THEY DIDN'T..."

"...GET ME..."

"...BUT THE OTHER GUY!"

CONTROL CONSOLE IN THE TRAIN DRIVER CAB

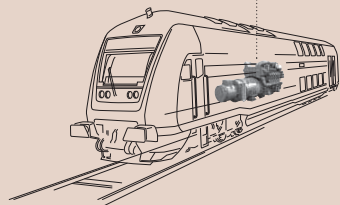


ENERGY MAKES THE TRAIN GO ROUND

Modern local and long-distance trains alike rely entirely on reliable energy supply to power each and every important system on board whether drive control or climate control.

HEART OF THE MACHINE ROOM

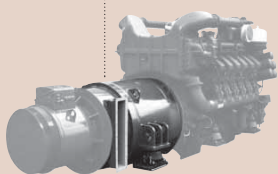
DIESEL-ELECTRIC DRIVE



ALL SYSTEMS GO

Diesel-electric power lies at the heart of modern rolling stock, with electrical power provided through a generator system. This does not only provide the power for propulsion but also on-board electricity supply, so that neither the wheels nor the air conditioning comes to a halt.

TRACTION GENERATOR



EFFICIENCY, DURABILITY AND RELIABILITY CANNOT BE LEFT TO CHANCE

Designed and certified for railway use, our generators excel in their great efficiency, durability, and reliability. Our product range runs from 50 kW to 3,000 kW and can efficiently transform engine power into electricity both for use in propulsion and to power on-board systems ensuring optimal handling and highest travel comfort.

INFRASTRUCTURE: A COMING BOOM SECTOR

More energy on board:
With Jenoptik technology.



"A CARAVAN AT 160 KILO-
METERS AN HOUR? COULD
IT BE A MIRAGE?"

"NOT IF THEY HAVE
THE RIGHT GENERATORS!"

2010 IN REVIEW

Jenoptik begins the year by consolidating its entire U.S. optics business under the umbrella of JENOPTIK Optical Systems Inc. With its new structure, Jenoptik will be better able to expand within the North American market from its headquarters in Jupiter, Florida.

Jenoptik sells its 10,000th JenLas® D2.x green thin-disk laser at the Photonics West trade fair in San Francisco. More than 1,000 of the systems have been manufactured each year in Jena since production began. And, for the first time, Jenoptik has come out with a new version of the successful product, which was received with great interest.

JANUARY



10,000TH THIN-DISK LASER SOLD.

The Traffic Solutions division joins the Jenoptik umbrella brand as of the beginning of February. The division delivers its new TraffiSection® traffic monitoring system, which measures the average speed of a vehicle, to Austria, Switzerland, and Kuwait for about 4 million euros.

Jenoptik RGB lasers, known as WhiteLight lasers, are employed at the Vancouver Winter Olympics.

Even before its official opening in March, Jenoptik begins to receive orders for laser processing systems via its new laser application center in South Korea. The center allows potential customers in Asia to test Jenoptik systems on site.

FEBRUARY



LASER APPLICATION CENTER IN SOUTH KOREA OPENED.

The Jenoptik Lasers & Material Processing division receives a major order to deliver medical lasers worth 16 million U.S. dollars to American customers over the next three years.

The Traffic Solutions division receives a major order for over 12 million euros for systems to be delivered and installed before the end of 2010.

Jenoptik raises over 22 million euros in a capital increase which are to be used to expand the company's core business and international presence.

MARCH



ANOTHER MAJOR ORDER FOR TRAFFIC SOLUTIONS.

COOPERATION WITH LEICA EXPANDED.



JULY

The Optical Systems division receives the "Preferred Supplier Award" from Leica Camera AG. The award is a reflection both of its strong current production and the rapid expansion of its production capacities in response to the high demand for the "old-school" Leica M9 camera. Jenoptik provides the main electronic components for the device.

Jenoptik's Industrial Metrology division produces its 1000th HOMMEL-ETAMIC opticline CONTOUR optical shaft measuring system some ten years after the first generation of the product family went into production. Jenoptik is the global market leader in this field of technology.

MAJOR ORDER FOR EUROFIGHTER RADOMES.



AUGUST

A total of 34 new Career Academy students begin their career training at Jenoptik sites around Germany.

The Defense & Civil Systems division receives a major 20-million-euro order for radomes to be used in the production of Eurofighter aircraft. Along with other major orders, this contributed to a divisional record in order intake that continued throughout the year.

NEW LASER SYSTEMS FOR PHOTOVOLTAICS INDUSTRY.



SEPTEMBER

Jenoptik presents new laser systems for crystalline photovoltaics at the PVSEC trade fair in Valencia, to complement the company's laser processing systems for thin-film technology. There is particular demand for the modular system for use in a variety of production processes.

Another major order for the Defense & Civil Systems division: Jenoptik receives a 23-million-dollar order from the U.S. government for power generators. The units are slated for use in a Patriot missile defense system to protect the infrastructure of an Arab country. Delivery is to follow from 2011.

The Optical Systems division unveils optoelectronics components and modules for innovative lighting applications at the Light+Building trade fair in Frankfurt. Jenoptik also presents an innovative new LED streetlight together with Lumenova, Jenoptik's partner in the project.

Jenoptik donates the 14,800 euros collected at its New Year's reception to a daycare center in Triptis, Thuringia, Germany, the location of the company's Optoelectronic Systems business unit.

APRIL



INNOVATIVE LIGHT APPLICATIONS PRESENTED.

Jenoptik expands its capacity in China, with a new Industrial Metrology division building in Shanghai to combine planning, production, and sales alongside an application and training center all in one place. The new site is also available for use by other divisions.

The Industrial Metrology division unveils a flexible and modern internal test sensor, which can be used in fully automatic drilling processes.

The Traffic Solutions division's TraffiStar system records speeding vehicles in an Autobahn tunnel near Berlin using the Black Flash technology developed by Jenoptik.

MAY



FOR FLEXIBLE USE – THE NEW INTERNAL TEST SENSOR.

Jenoptik teams up with Dräger to present two new thermal imaging cameras for use by fire fighters and rescue services. The Dräger camera is built around a Jenoptik infrared module that is in serial production in Jena.

The JenLas® D2 mini green diode-pumped thin-disk laser goes into serial production. Considerably more compact than its predecessor, the new laser also provides a greatly improved beam quality.

Jenoptik sells its minority share in caverion GmbH to the Finnish building and technology group YIT. Jenoptik, which will continue to focus more closely on its core business, received a high double-digit million euro sum in the deal.

JUNE



NEW THERMAL IMAGING CAMERA ON THE MARKET.

FIRST PRIZE FOR TRAFFIC SAFETY PROJECT.



OCTOBER

Jenoptik produces its first laser processing systems for use in 3D metal processing. The flexible three-dimensional laser cutting and welding of metals will allow Jenoptik to meet any particularly complex individual needs of its customers.

Jenoptik supports a traffic safety project in Weimar. A speed indicator installed at a pedestrian crossing there will provide increased safety for children. The project is awarded first prize by the European Transport Safety Council in its "Roads to Respect" campaign.

PRESENCE IN JAPAN EXPANDED.



NOVEMBER

Jenoptik is now present in Japan with a majority shareholding. Kantum Electronics will also continue to participate in the company, following on many years of close and successful partnership with Jenoptik. Previously specialized in the distribution of high-power diode lasers, the Japanese unit will now be open to all Jenoptik divisions.

The Defense & Civil Systems division will supply 40 ground power units and 25 frequency converters to a passenger airline for the airport infrastructure of a Middle Eastern country, beginning in 2011. The contract comes to 5 million euros.

JENOPTIK SELLS SPACE BUSINESS.



DECEMBER

Jenoptik successfully concludes the sale of its space business. Astrium, an EADS subsidiary, acquires all shares in Jena-Optronik GmbH. Activities in the areas of security and defense technology and in aerial cameras, however, remain with Jenoptik. The resulting cash inflow reduces the net debt significantly to below 80 million euros. With the sale, Jenoptik is able to give a more detailed EBIT forecast for 2010.

THE JENOPTIK SHARE

The Jenoptik Group developed well from a business perspective in 2010, with sales and earnings both rising considerably. This was bolstered both by the overall economic recovery and by the Group's own cost cutting measures and process improvements. Net debt was strongly reduced to 79.3 million euros through a capital increase measure in spring 2010, the sale of shares in caverion GmbH and the sale of Jena-Optronik GmbH as well as an active working capital management scheme. The resulting funds are being used to expand the operative business and to be more active in the international arena, as ways of continuing sustainable growth into 2011 as well.

The world's economy recovered in 2010, with positive company news boosting the development of capital markets. The euro crisis, concerns about state debt, and worries about further economic development all, however, led to a certain amount of turbulence and to dips in share prices. The German stock market performed quite well on the whole, especially in the 4th quarter. The Dax, the chief German stock index, rose by around 14 percent for the year from 6,048.30 to 6,914.19 points, while the TecDax index rose only just under 2 percent from 834.46 to 850.67 points.

DEVELOPMENT OF THE JENOPTIK SHARE PRICE

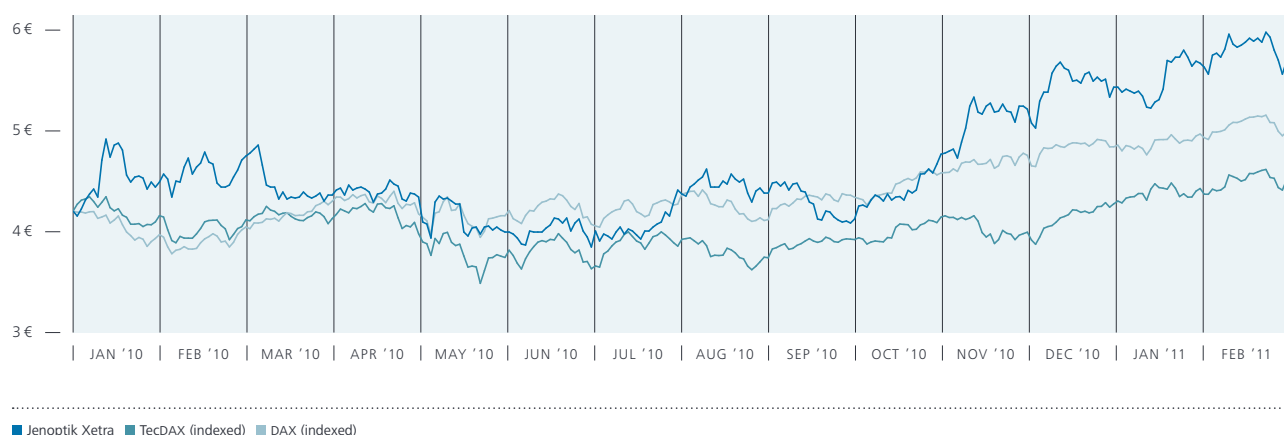
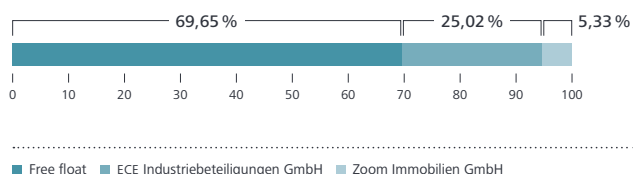
In 2010, Jenoptik shares were up over 28 percent, thus outpacing both Dax and TecDax, but undergoing considerable movement throughout the year. After rising strongly to begin the year, a first drop came following the capital increase measures in March 2010. The Jenoptik share price then followed the general trend on the capital market through the middle of year, closing Xetra trading on July 1, 2010 at its lowest point for year, 3.85 euros. A strong rise in price followed a rise in the forecasts for fiscal year 2010 in early August. The sale of Jena-Optronik GmbH and the considerable reduction in net debt gave the share price another boost over the last few months of the year, peaking at 5.70 on December 8, 2010, and closing the year at 5.40 euros in Xetra trading. ^[1]

The share continued its upward trend also at the beginning of 2011. On February 18, 2011 the share reached its highest Xetra closing price over the last 14 months at 6.00 euros and closed trading in February at 5.77 euros.

The positive development of the Jenoptik share in 2010 was reflected both in terms of market capitalization and stock exchange turnover. On the basis of approximately 57 million shares issued, market capitalization came to roughly 309.1 million euros as of December 30, 2010 (30.12.2009: approx. 197.2m euros at approx. 52m shares issued). An average of 174,627 Jenoptik shares were traded each day on all German exchanges, a clear increase from the 147,065 shares traded on average in 2009. Over 80 percent of this turnover occurred in Xetra trading. According to the criteria of stock exchange turnover and market capitalization in relation to free float (30.12.2010 Jenoptik 220.2m euros as reported by the Deutsche Börse), Jenoptik came in 24th of all 30 TecDax companies as of December 30, 2010, and 27th in stock exchange turnover. ^[4]

CAPITAL INCREASE SUCCESSFULLY IMPLEMENTED

Jenoptik introduced a 10-percent capital increase on March 10, 2010 with some 5.2 million shares issued to institutional investors via an accelerated bookbuilding process to the exclusion of the subscription rights of shareholders. The issued capital thereby rose to 148,819,099.00 euros, divided into 57,238,115 no-par value bearer shares. The emission price was set at 4.25 euros and the proceeds came to approximately 22 million euros. This will be used to finance major traffic safety orders, to expand Jenoptik's global presence and that of its laser business in Asia and North America in particular, and also for smaller acquisitions that will serve to increase the Group's profitability. The Group's product portfolio and value-added chain are also to be solidified in the process.

1 JENOPTIK SHARE DEVELOPMENT (January 4, 2010 through February 28, 2011)**2 SHAREHOLDER STRUCTURE** (as of December 31, 2010)**JENOPTIK SHARE INFORMATION**

ISIN DE0006229107 ... WKN 622910 ... Ticker symbol JEN
Reuters Xetra JENG.DE ... Bloomberg JEN GR

Listed in the following indexes: TecDax ... HDax ... Prime All Share
DAXsector All Industrial ... Dax International Mid 100 ... CDax
DAXsubsector Advanced Industrial Equipment ... DAXsubsector All
Advanced Industrial Equipment Technology All Share ... MDICAP MKT

4 JENOPTIK SHARE KEY FIGURES (in EUR)

	2006	2007	2008	2009	2010
Group earnings per share	0.22	-0.16	0.23	-0.73	0.65
Highest share price/Lowest share price (Xetra)	8.35/6.30	8.23/5.51	6.07/3.44	6.19/2.83	5.70/3.85
Closing share price (Xetra year-end)	7.50	6.25	5.00	3.79	5.40
Average daily trading volume ¹⁾	127,712	139,199	160,866	147,065	174,627
Market capitalization (Xetra year-end)	390.3m	325.2m	260.2m	197.2m	309.1m
PER (based on highest share price)/ PER (based on lowest share price)	37.95/28.64	n. a.	26.39/14.96	n. a.	8.77/5.92
Non-par value bearer shares issued	52.03m	52.03m	52.03m	52.03m	57.24m
Bond (closing price, Frankfurt, year-end)	106.00	—	—	—	—
Convertible bond (closing price, Frankfurt, year-end)	93.00	93.00	92.00	—	—

1) Source: Deutsche Börse

INTENSIVE COMMUNICATIONS WITH THE CAPITAL MARKET

It is of great importance to Jenoptik to ensure transparent, open, and reliable communications with capital market participants. We thus provide comprehensive and up-to-date information on the development of the Jenoptik Group and seek out an active dialogue in the process. Over the past year, Jenoptik management, in cooperation with investor relations, presented the Group at two analyst conferences in Frankfurt, various bank conferences both within Germany and internationally, and at road shows in Frankfurt, London, Zurich, Vienna, Brussels, Amsterdam, and in various cities in the United States and Canada. We also explained our financial figures and strategy to institutional investors, analysts, and journalists in telephone conferences following the publication of annual and quarterly figures and in individual conversations. A number of investors also used the opportunity to visit Jenoptik production sites in Jena and Wedel, Germany. Comprehensive and up-to-date information on the Jenoptik share and the development of the Jenoptik Group on the company website www.jenoptik.com under "Investors", all to make things easier for analysts, institutional and individual investors and interested parties alike.

Ten analysts continued to follow the development of the Jenoptik Group in 2010, publishing regular research reports and commentaries on the company's development and current events. Berenberg Bank initiated their coverage of Jenoptik in January 2011 and set their recommendation to "buy". HSBC followed also with a "buy" recommendation in February. An overview of current analyst evaluations can be accessed at www.jenoptik.com by following the links to Investors/Share.

ANNUAL GENERAL MEETING

Some 300 shareholders attended the JENOPTIK AG Annual General Meeting in Weimar on June 9, 2010, representing over 50 percent of the voting capital. The agenda included among

other things the creation of authorized capital and several amendments to the Articles of Association. The Annual General Meeting approved all resolutions proposed by the Executive and Supervisory Boards by a clear majority.

All documents and information including the voting results following the Annual General Meeting are made available for shareholders on our Internet page www.jenoptik.com under Investors/Annual General Meeting. The next Annual General Meeting is scheduled for June 8, 2011.

SHAREHOLDER STRUCTURE

There have been no major changes in the Jenoptik shareholder structure over the past fiscal year. As of December 31, 2010, Jenoptik's free float came to 69.65 percent, while the largest individual shareholder was ECE Industriebeteiligungen GmbH of Vienna, which reported a 25.02-percent share in early 2008. ZOOM Immobilien GmbH of Munich (legal successor to VARIS Vermögensverwaltungs GmbH) holds 4.84 percent of Jenoptik. A large portion of the free float shares continues to be held by institutional investors. JENOPTIK AG has no treasury shares. Jenoptik received voting rights announcements from UniCredit Bank AG of Munich in March 2010 and from Templeton Investment Counsel, LLC of Fort Lauderdale, Florida in September 2010. ⁽²⁾

ANALYST RECOMMENDATIONS (as of February 28, 2011)

(5)

10 x buy	1 x outperform	2 x hold
----------	----------------	----------

JENOPTIK GROUP MANAGEMENT REPORT

FOR FISCAL YEAR 2010

The structure of the Management Report has been maintained, while the size has been extended again in comparison with last year.

Statements, among other things, in the Risk Report and Segment Reporting, have been expanded.

The Segment Reporting now also includes information on capital expenditure and marketing. Information on environment and sustainability include data on the media consumption, recorded for the first time, of the German locations.

36	BUSINESS AND FRAMEWORK CONDITIONS
53	EARNINGS, FINANCIAL AND ASSET POSITION
79	SEGMENT REPORTING
89	REPORT ON POST-BALANCE SHEET EVENTS
89	RISK REPORT
103	FORECAST REPORT

1 BUSINESS AND FRAMEWORK CONDITIONS

Note. The reporting, both in the Management Report and the Notes, is carried out on the basis of the Lasers & Optical Systems (Lasers & Material Processing and Optical Systems divisions) and Metrology (Industrial Metrology & Traffic Solutions divisions) segments as well as the Defense & Civil Systems segment, which corresponds to the division of the same name. Except for information on earnings from operating activities in the segments (segment EBIT) and earnings from operating activities in the segments before interest, taxes and depreciation and amortization (segment EBITDA), all figures given can be compared with those for 2009, as both these figures have been shown after Group charges since 2010. Figures for the previous year have been accordingly adjusted and therefore diverge from the segment EBIT information published a year ago. The Jenoptik holding company plus real estate (others), special topics and consolidation effects (adjustments) are categorized under "Other".

1.1 Group structure and business activity

BUSINESS AREAS AND ORGANIZATIONAL STRUCTURE

As an integrated optoelectronics group, Jenoptik operates in five divisions:

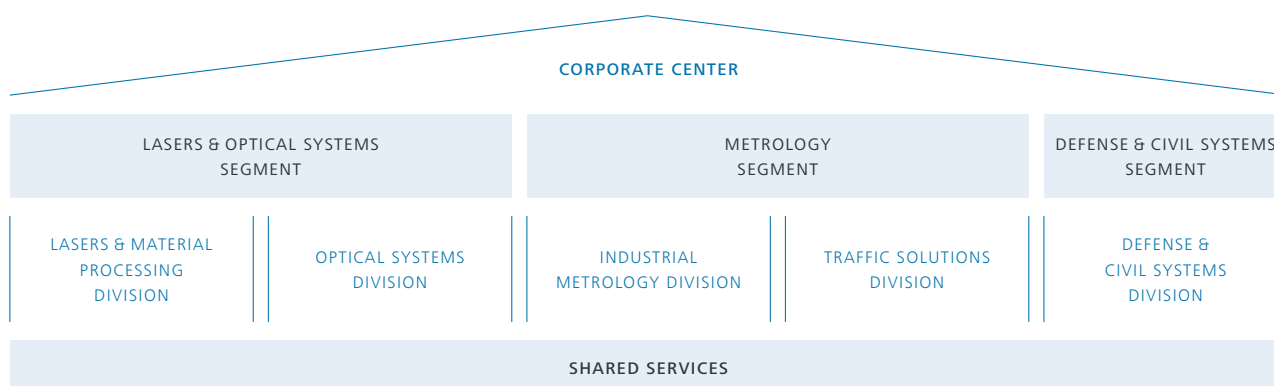
- Lasers & Material Processing,
- Optical Systems,
- Industrial Metrology,
- Traffic Solutions,
- Defense & Civil Systems

Group-wide processes are combined within the Shared Service Center. These include information technology, operational HR management, the purchase of materials and services for multiple divisions, real estate management, the areas of security, technical services as well as health and safety at work and environmental protection. The Corporate Center covers the central areas and is integrated within the holding company JENOPTIK AG. 6

PRODUCTS, SERVICES AND BUSINESS PROCESSES

Jenoptik 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 either directly or indirectly via system integrators. We do not focus on consumer markets. We supply many of our systems and facilities to customers who are themselves based in the technology sector. Key importance is

6 ORGANIZATIONAL STRUCTURE



attached to research and development within our business processes. We carry out custom development and manufacture for many of our customers and partners.

Our product portfolio ranges from complex systems, industrial facilities and production lines through to modules and sub-systems down to individual components. The Jenoptik Group also successfully markets comprehensive total solutions and/or operator models consisting of system and facility integration and their corresponding networking, as well as project management, data processing and after-sales service.

In the **Lasers & Material Processing** division, we have expertise along the entire added value chain for laser material processing and are a leading supplier – from individual components to complex systems. In the area of Lasers, Jenoptik specializes in high-quality semiconductor material, reliable diode lasers and innovative solid-state lasers, such as thin-disk and fiber lasers. The Group is also acknowledged worldwide as a leader in quality for high-power diode lasers. In the field of laser processing systems, we develop systems that are integrated into production facilities for our customers as part of their process optimization and automation. These systems are used for processing plastics, metals, semiconductor materials and solar cells using both thin-film and wafer technology with maximum efficiency, precision and safety.

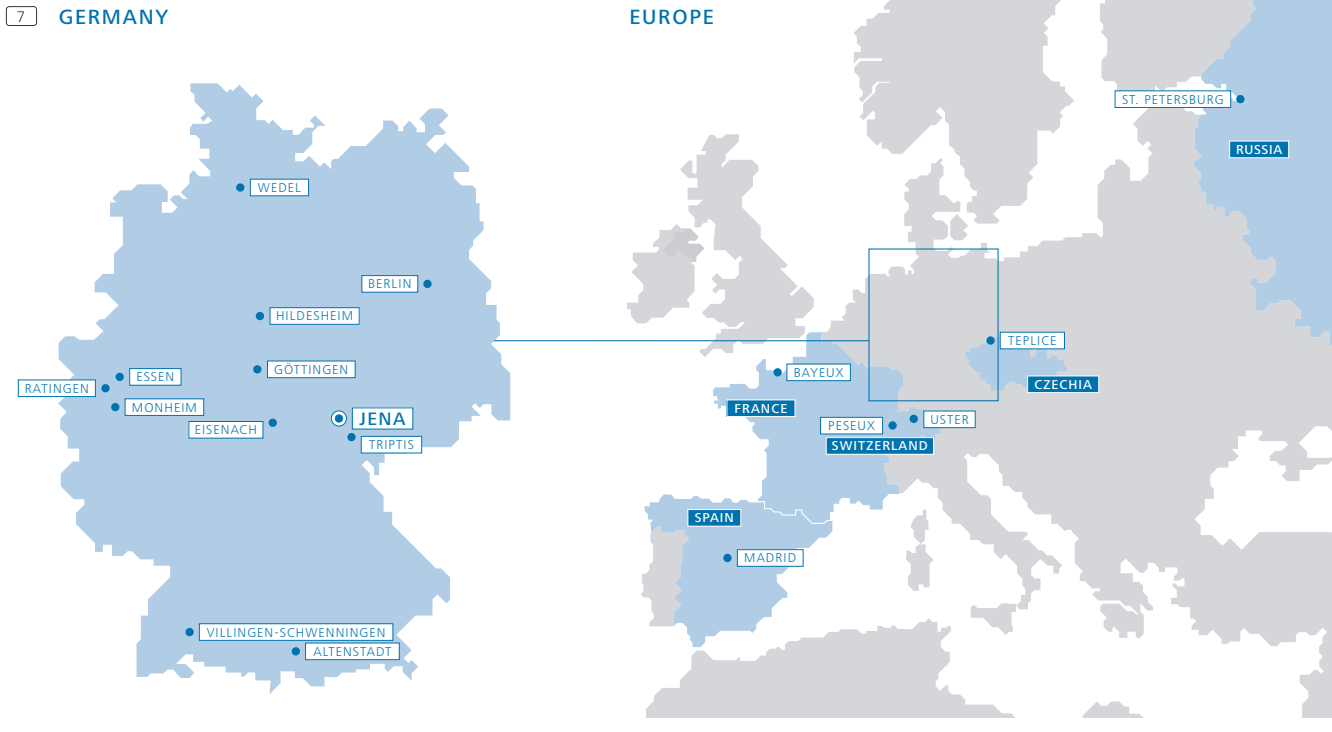
Our **Optical Systems** division makes us one of the few manufacturers in the world to produce precision optics and systems designed to meet the most stringent quality standards. In addition to supplying optomechanical and optoelectronic systems, modules and assemblies, the division is a development and production partner for optical, micro-optic and coated optical components made of optical glass, infrared materials and plastics. Our outstanding expertise lies in the development and manufacture of micro-optics for beam shaping used in the semiconductor industry as well as for laser material processing. The portfolio also includes components and systems for life sciences, lighting & energy applications, system solutions and modules for digital image capture and analysis as well as cameras for digital microscopy.

In the field of **Industrial Metrology**, Jenoptik is one of the leading manufacturers of and system providers for high-precision, contact and non-contact production metrology. The range of products covers total solutions for a wide range of measurement tasks such as roughness, contour and shape testing, as well as for determining dimensions in every phase of the manufacturing process and in the metrology room. The product range is rounded off by a comprehensive service offering such as advice, training and after-sales service, including long-term maintenance agreements.

In the **Traffic Solutions** division, Jenoptik develops, manufactures and markets components and systems that increase road traffic safety throughout the world. The product portfolio, which is based on the proven Robot technology, includes comprehensive systems for all aspects of road traffic, such as speed and red light monitoring systems as well as OEM (Original Equipment Manufacturer) products and systems for detecting traffic violations. In the services area, the Jenoptik division covers every aspect of the support process chain – from system development, construction and installation of the monitoring infrastructure, to capturing images of infringements and their automatic processing, through to issuing the citations and collecting the fines as the system operator.

The **Defense & Civil Systems** division focuses on the areas of military and commercial vehicle, rail and aircraft equipment, drive and stabilization technology as well as energy systems. The product range also includes optoelectronic instruments and systems for the security industry as well as software, measurement and control technology. In the laser and infrared sensor systems field the focus is on the development, manufacture and marketing of laser distance measurement equipment as well as infrared camera systems designed to meet a wide range of applications.

JENOPTIK: THE KEY LOCATIONS



KEY LOCATIONS

The Jenoptik Group is represented in 70 countries worldwide, in 20 of these through its own companies, investment holdings or a direct local presence. Jenoptik's headquarters and main focus of production are in Germany. In addition to the headquarters in Jena, other major locations include Wedel near Hamburg, Monheim near Düsseldorf, Villingen-Schwenningen, Triptis and Eisenach in Thuringia, Berlin, Altenstadt (Bavaria) and Essen. Outside Germany, Jenoptik is represented for example by locations in the USA, France, Switzerland, Spain and Russia as well as in the growth regions of India, China and South Korea. 7 8

Over and above its production facilities, the Jenoptik Group has sites in those countries that occupy a key position for the operational business. It also has a global network of dealers and partners.

KEY SALES MARKETS AND COMPETITIVE POSITIONS

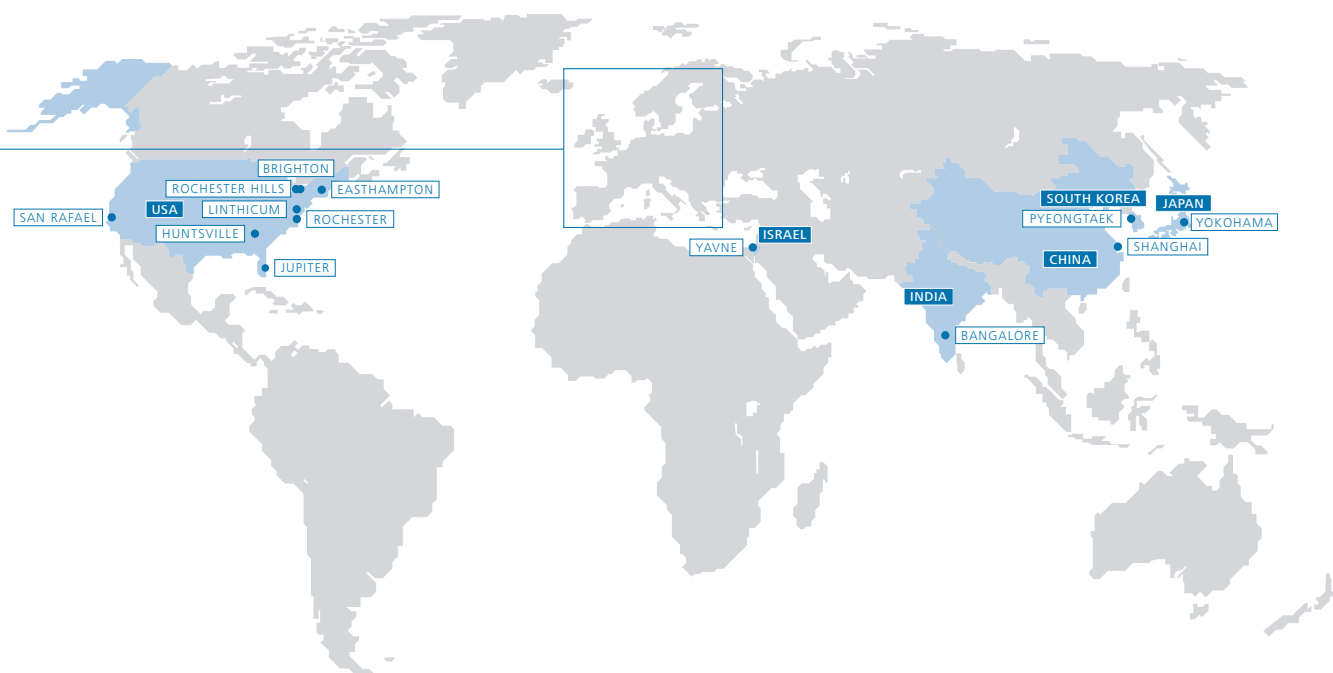
Our key markets mainly include the security and defense technology industry, the machine construction and automotive market, the aviation industry, the market for traffic safety systems, the medical technology industry as well as the semiconductor and photovoltaics industry.

The key sales regions are Europe, North America and Asia. It is not possible to give a general statement regarding the Group's overall competitive position – either in the key markets or the main sales regions – since Jenoptik competes with the respective products and technologies in various markets and regions.

ECONOMIC AND LEGAL INFLUENCING FACTORS

As a result of having a broad presence, we are better able to cope with cyclical fluctuations that impact on individual sectors than those companies which operate in just one or a few markets. On the economic side, we are dependent upon the invest-

8 AMERICA AND ASIA



ment climate in the wider sense. Jenoptik's most stable market is traditionally defense & security technology. The semiconductor equipment market is the most cyclical market. We do not operate in consumer goods markets, some of which are subject to strong seasonal fluctuations.

Our products and services are primarily aimed at industry and, in individual areas, public sector customers. There are export regulations governing the export of certain high-tech products as well as components in the defense technology field. However, Jenoptik exports these products only to a minimal extent. The largest share of these is supplied to NATO partners in Europe and to Switzerland. Individual products and services in the defense technology field and for the public sector are also subject to legal influencing factors such as the International Traffic in Arms Regulations (ITAR), local content regulations or price clauses.

MANAGEMENT & CONTROL

The Supervisory Board of JENOPTIK AG comprises 12 members, six of whom are employee representatives. Since June 2008, Rudolf Humer, entrepreneur, Hinterbrühl (Austria), has been the Chairman of the Supervisory Board. The Supervisory Board of JENOPTIK AG saw the following changes in 2010: as at November 30, 2010, the longstanding Group chairman of the works council and its longest serving member, Günther Reißmann, stepped down from the Supervisory Board, having reached the retirement age for active service at JENOPTIK AG. At the suggestion of the Group works council, Dieter Kröhn was appointed a member of the Supervisory Board until the end of the current Supervisory Board's term of office by order of the Jena district court. With the completion of the sale of all shares in Jena-Optronik GmbH, the office of Anita Knop as employee representative on the Supervisory Board ceased to exist. Christel Knobloch was appointed a member of the Supervisory Board, also until the end of the current Supervisory Board's term of

office, by order of the Jena district court. With effect from January 1, 2011, Michael Ebenau was elected as the deputy chairman of the Supervisory Board. Wolfgang Kehr stepped down from his position as Deputy Chairman of the Supervisory Board as of December 31, 2010, having reached the retirement age for active service at IG-Metall. He will continue to observe his mandate as member of the Supervisory Board at JENOPTIK AG.

The Jenoptik Executive Board comprises two members:

Dr. Michael Mertin, Chairman of the JENOPTIK AG Executive Board and Frank Einhellinger, Chief Financial Officer of JENOPTIK AG. The Chairman is responsible for the entire operating business as well as the areas of legal affairs, strategy, business development & innovation management, communication & marketing, quality processes, purchasing & supply chain management, auditing, supervision of official bodies, corporate governance, data protection, IT, Shared Service Center and for personnel as HR Director.

The CFO is responsible for the areas of accounting & controlling, taxes, treasury, risk management, security, strategic real estate portfolio, investor relations and health and safety at work and environmental protection.

The leadership structure of the Group corresponds to the Group structure. Each of the five divisions, within which the entire operating business is integrated, has a Head of Division who is responsible for the management of the operating business within the division, the structure of the organization including the cross-divisional functions, and has responsibility for the results and, with the division's strategic orientation, for the target markets, product strategies, R + D roadmaps, growth initiatives and monitoring of competition. The strategic decisions of the Group as a whole are taken by the eight-strong Executive Management Board, comprising the Executive Board of JENOPTIK AG, the five Heads of Division, and the Head of HR, Supply Chain Management & Shared Service Center.

BASIC FEATURES OF THE REMUNERATION SYSTEM

An **in-house collective wage agreement** forms the basis of remuneration for approx. 800 employees and trainees at the Jena site. Since January 1, 2010, a new form of the in-house collective wage agreement had been in force and provided for a rise in employee remuneration in two stages: an increase by 1 percent as of October 1, 2010, with a further 0.5 percent as of January 1, 2011. The new collective wage agreement also ruled out compulsory redundancies in its area of validity in 2010 and included the taking-on of trainees following successful completion of vocational training until at least December 31, 2010, insofar as no personal grounds dictated otherwise. In 2010, the collective wage agreement regulating general working conditions, wages and salaries as well as education within the framework of vocational training was terminated by the IG Metall union to March 31, 2011. Negotiations for these will take place in 2011.

In addition, the collective wage agreement includes a profit-sharing scheme for the employees, comprised of a Group component and a division component. The Group component represents a pro rate distribution of the annual Group earnings before tax (EBT) per employee. The division component represents a pro rata distribution on the basis of a basic amount totaling half of an employee's monthly remuneration. This basis is dependent on the proportional degree of achieving the budgeted division's earnings before interest and taxes (EBIT) compared with the division's earnings before interest and taxes (EBIT) actually achieved at the end of the year. The distribution is capped and will not be made below a minimum EBIT.

For employees in the Group to whom the **regional collective wage agreement** for the metal and electrical industry applies, a one-off payment for full-time employees of 320 euros gross was granted in 2010 for the period from May 1, 2010 to March 31, 2011, half of which was due with wage and salary payments in May, and the other half in December 2010. This

one-off payment was granted proportionally to part-time employees and trainees. As at April 1, 2011, gross salaries and wages will be increased by 2.7 percent.

At the Monheim site, employees with an employment contract from July 1, 2010 at the payment date received a one-off payment of 500 euros gross. As at September 1, 2010, gross basic salaries and wages were increased by 1.5 percent. There will be a further increase of 2 percent from July 1, 2011, which will be reduced to 1 percent unless at least 50 percent of the target earnings for 2011 are reached.

Jenoptik has also been offering an employee-funded retirement provision model since 2001. This model is based on a three-pillar concept comprising the provident fund, the pension scheme of the metals industry as well as private pension agreements with Allianz Lebensversicherung AG. No direct pension guarantees are given by Jenoptik. Existing pension liabilities for ESW GmbH have been taken on and combined and secured within the framework of a Contractual Trust Arrangement (CTA). More information on this can be found in the Notes under point 27.

The [remuneration system for the Jenoptik management](#) is based on variable elements of remuneration in line with the result and free cash flow of the division and, in part, the Group as a whole. In addition, individual strategic and personal targets are agreed. The target agreements for employees of JENOPTIK AG (holding) include a subdivision into personal and Group targets. The Group targets are guided by the result and the free cash flow of the Group as a whole.

[Remuneration for the Executive Board.](#) The Supervisory Board, following preparation by the Personnel Committee, is responsible for the composition of the individual remuneration for the Executive Board members. To ensure full compliance with the new statutory guidelines in accordance with the Act on the Appropriateness of Management Board Remuneration (VorstAG), the details of remuneration arrangements were

again reviewed and adjusted in fiscal year 2010. The criteria of appropriate Executive Board remuneration are based in particular on the work tasks of Executive Board members, their personal achievements, the economic situation, success and the company's future prospects. A remuneration benchmark in comparison with industry peers is also considered. The remuneration of the Jenoptik Executive Board comprises a non-performance related and a performance related component. The non-performance related components include the fixed amount, supplementary benefits as well as the pension commitments. The performance related elements of remuneration consist of a bonus and a share-based Long Term Incentive component (LTI) based on virtual shares. These serve as long-term performance incentives and support sustained corporate development.

[Fixed salary.](#) Non-performance related basic remuneration is paid pro rata monthly. As of January 1, 2011, the fixed salary for the board members has been increased.

[Variable remuneration.](#) Members of the Executive Board are entitled to a variable remuneration, part of which is granted in cash and part in form of virtual shares. These are based on personal target agreements which are to be concluded in the first quarter of each calendar year and in which strategic targets for the Group as a whole and corporate success are manifested. The basis for calculation are the Group EBIT, the operating free cash flow, the Group net income, targets relating to the capital market and share price, strategic targets and operational targets for the year in question and the long-term as well as an individual performance assessment. Each of the individual targets is capped. In addition, the sum of the individual targets, on which the variable bonus is based, have an overall cap.

The share of the variable remuneration to be paid in cash becomes due on finalization of the respective annual financial statements of JENOPTIK AG and the subsequent audit of the consolidated financial statements by the Supervisory Board.

A further part of the variable remuneration, which was agreed for the first time for fiscal year 2009, consists of a Long Term Incentive component in form of virtual shares as share-based part of the remuneration. If the criteria stipulated in the target agreement for issuing the virtual shares are met allocation of the shares is made on the basis of the success with which targets have been achieved. Shares issued may be paid out after expiry of the fourth subsequent year on the basis of the average closing price of the share in XETRA trading at the Frankfurt Stock Exchange over the course of the full fourth year following.

Supplementary benefits exist in the form of occupational indemnity insurance, accident insurance and payments for an occupational pension scheme. This is based on a pension fund reinsured by a life insurance. In addition, private use of a company car is included.

In the event of a **change of control** of JENOPTIK AG, a change of control clause becomes effective for both members of the Executive Board from an acquisition of at least 30 percent of the voting rights in JENOPTIK AG, providing them with the right to give notice within a specific timeframe following transfer of control. An Executive Board member who provides notice of termination is entitled to the payment of compensation calculated according to the following formula: multiplier x (annual remuneration / 12). The multiplier is 36. If there are fewer than 36 months between the date of termination and the standard end of contract term, the multiplier is reduced to the number of remaining months between the standard end of contract date and the date of termination. The annual remuneration comprises the annual salary, the variable elements of remuneration including the LTI calculated as an average

value and a taxable payment in kind for private use of the company car. Both members of the Executive Board will also receive a contractually vested right to their benefits if they continue to pay their contributions until the standard termination of each of their contracts of service (up to a maximum of three years).

If the contract of service with Dr. Mertin is not extended beyond the end of its standard term, he will be entitled to **bridge payments** of 80 percent of one twelfth of his annual remuneration for a period of twelve months following standard termination of the contract. The annual remuneration is determined by the same rules governing compensation payments in the event of a change of control. Income from the employed and/or self-employed work of the Executive Board member, in particular as a member of a managing or supervisory body to another company, as well as possible compensation for restraint of competition will be taken into account in the bridge payment. Bridge payments will not be paid if the non-renewal of the contract of service is founded on serious breaches of duty by the Executive Board member, the employment is terminated by extraordinary termination or the Executive Board member rejects a renewal of the contract for services on the same, or equivalent or improved terms.

Specific details on Executive Board and Supervisory Board remuneration, including the individual itemization of the remuneration for members of the Executive Board and Supervisory Board, can be found in the Notes under the point Executive Board, the point Supervisory Board under point 30, IRFS 2. We regard this information and the above details on the remuneration system as part of the Remuneration Report and consequently of the Corporate Governance Report of this Annual Report.

SUPPLEMENTARY DETAILS IN ACCORDANCE WITH THE TAKEOVER DIRECTIVE IMPLEMENTATION ACT

Reporting on Section 289 Para. 4, Section 315 Para. 4 HGB (German Commercial Code)

1. Composition of the subscribed capital

As of the balance sheet date on December 31, 2010, the subscribed capital amounted to 148,819,000 euros (prev. year 135,290,000 euros). It is divided into 57,238,115 (prev. year 52,034,651) no-par value bearer shares. Each share in the nominal capital is therefore worth 2.60 euros.

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

2. Restrictions affecting voting rights or the transfer of shares

There are no known restrictions affecting voting rights or the transfer of shares.

3. Direct or indirect participations in the share capital exceeding 10 percent of the voting rights

On February 25, 2008, JENOPTIK AG was informed that ECE Industriebeteiligungen GmbH, Vienna, holds 25.02 percent of the voting rights in JENOPTIK AG and that ECE European City Estates GmbH, Hinterbrühl, and the Humer Private Foundation, Vienna, are indirect shareholders via ECE Industriebeteiligungen GmbH.

4. Holders of shares with special rights conferring powers of control

JENOPTIK AG has no shares with special rights.

5. Form of controlling voting rights if employees own shares and do not directly exercise their control rights

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

6. Statutory regulations and provisions of the Articles of Association relating to the appointment and dismissal of Executive Board members and changes to the Articles of Association

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

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

In accordance with Sect. 179 Para. 1 Clause 1 of the Stock Corporation Act, changes to the content of the Articles of Association

tion are passed by the Annual General Meeting. However, changes to the Articles of Association concerning only their formulation can be passed by the Supervisory Board in accordance with Sect. 179 Para. 1 Clause 2 of the Stock Corporation Act and Sect. 28 of the Articles of Association. This also includes the corresponding modification of Sect. 4 Para. 5 of the Articles of Association on utilization of the authorized capital. In accordance with Sect. 24 Para. 1 of the Articles of Association, resolutions at the Annual General Meeting require a simple majority of votes cast unless the law provides otherwise. In cases in which the law requires a majority of the nominal capital represented for a resolution to be passed, a simple majority of the nominal capital represented is sufficient, unless the law provides otherwise.

7. Authority of the Executive Board to issue and buy back shares

The Executive Board is authorized until May 30, 2015, with the consent of the Supervisory Board, to increase the nominal capital of the company by up to 35,000,000 euros through one or several issues of new, no-par value bearer shares against cash and/or non-cash contributions ("Authorized Capital 2010").

The new shares may be acquired by one or several credit institutions, under the obligation to offer them to shareholders (indirect subscription right). The Executive Board is authorized, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders

- (a) for fractional amounts;
- (b) in the event of capital increases against non-cash contributions, particularly also in the context of corporate mergers or for the acquisition of companies, parts of companies or participations in companies;
- (c) in the event of capital increases against cash contributions, to the extent that the portion of the nominal capital attributable to the new shares, taking into account resolutions at the Annual General Meeting and/or the utilization of other authorizations to exclude the subscription right in direct or indirect application of Sect. 186 Para. 3 Clause 4 of the Stock Corporation Act since the time of such authorization becoming effective, does neither exceed a total of 10 percent of the nominal capital as of the date of registering such

authorized capital, nor exceed a total of 10 percent of the nominal capital in existence as of the date of issue of the new shares, and the issue price of new shares does not fall significantly below the stock exchange price;

- (d) for the issue to employees of the company and in companies in which Jenoptik has a majority participation. The Executive Board, with the consent of the Supervisory Board, decides on the details of the issue of new shares, in particular their conditions and the content of rights of the new shares.

The nominal capital of the company is conditionally increased by up to 23,400,000 euros by issuing up to 9,000,000 new no-par value bearer shares (Conditional Capital 2009). The conditional capital increase will only be executed to the extent that

- the creditors/owner of option certificates or conversion rights issued by the company or a domestic or foreign incorporated company in which the company has a direct or indirect majority stake, pursuant to the resolution of the Annual General Meeting on June 3, 2009 to May 30, 2014 exercise their options or conversion rights, and/or
- the creditors of the issued convertible bonds obliged to exercise their conversion rights which were issued by the company or a domestic or foreign incorporated company in which the company has a direct or indirect majority stake, on the basis of the resolution of the Annual General Meeting on June 3, 2009, fulfill their conversion rights by May 30, 2014,
- and neither own shares are used, nor is payment made in cash. The new shares participate in profits from the start of the fiscal year in which, at the time of their issue, no resolution by the Annual General Meeting on the appropriation of profits has been reached. The Executive Board is authorized to set further details regarding the issue and terms of the convertible bonds and option bonds and the execution of the conditional increase in capital.

Under a resolution passed by the Annual General Meeting on June 9, 2010, the Executive Board is authorized to purchase own no-par value bearer shares not exceeding a proportion of 10 percent of the nominal capital for purposes other than trading in its own shares until May 31, 2015. The treasury shares

purchased, together with shares that the company has already purchased and still owns (including shares to be attributed in accordance with Sect. 71a et seq. of the Stock Corporation Act), may not account for more than ten percent of the capital stock. The authorization may be exercised in whole or in part, on a one-off or repeat basis, for one or more purposes by the company or by its Group companies or by third parties for its or their account. At the decision of the Executive Board, acquisition is by purchase on the stock exchange or by means of a public offer. Further details regarding the buyback of shares are given in the publicly-accessible invitation to the General Meeting 2010 on our website at www.jenoptik.com, in the category Investors/Annual General Meeting.

8. Key agreements for the event of a change of control resulting from a takeover bid

There are clauses which apply in the event of a change of control in the shareholder structure of JENOPTIK AG as the result of a takeover bid in respect of a joint venture agreement and of various financing agreements with a utilized total volume of approx. 91.4 million euros.

The conditions for the acceptance of a change of control differ in the respective loan agreements. In any event, contracts with a total volume used of 89.1 million euros provide the lender with a special right of termination should the threshold of 30 percent for the submission of a takeover bid under Sect. 29 Para. 2, Sect. 35 Para. 1, Para. 2 of the WpÜG (Securities Acquisition and Takeover Act) be reached, in some cases however once a shareholding in excess of 25 percent is reached.

Four further financing agreements of which 2.3 million euros had been used as of December 31, 2010, only entail a disclosure obligation to the bank on the part of JENOPTIK AG in the event of a change of control. If this notification leads to an increase in the assessment of the risk by the bank then, two of these financing agreements entitle the bank to request the deposit of security collaterals or that the existing collaterals be increased.

For the debenture loan with a total sum of 4 million euros, the lenders have the right to special termination of the loan in the

amount corresponding to their share of the loan. However, a change of control only applies if one or more persons acting in concert, with the exception of the existing main shareholders on the date the contract is concluded, acquire more than 50 percent of the outstanding nominal capital or voting rights directly or indirectly at any time.

There is a framework agreement with one joint venture partner which grants Jenoptik direct access to a comprehensive basis of patents, technological know-how and components that the partner possesses in the field of fiber laser development and manufacture and which contains the special agreements described below: insofar as a change of control in a competitor of the joint venture partner takes place within a specific period, Jenoptik's right of use is limited to the manufacture and distribution of the product portfolio manufactured with the help of the rights of use granted at the date on which the change of control takes effect. The right granted to Jenoptik for a specific period to purchase components expires at the end of a transitional period.

9. Compensation agreements by the company with Executive Board members or employees in the event of a takeover bid

Agreements which are covered by the conditions of a change of control and meet the criteria of material relevance have been concluded with both members of the Executive Board in the event that they terminate their contract of service as a result of a change of control through acquisition of at least 30 percent of voting rights by a third party. The compensation agreements contained within the contracts of service include payment of the contracts for the regular remaining contract period and compensation for the bonus calculated as an average value. The compensation is limited to a maximum of three annual salaries. In addition, in the event of voluntary resignation due to a change of control, both members of the Executive Board will receive a contractually vested right to their benefits if they continue to pay their contributions until the regular end of each of their contracts for services (but for a maximum of three years). There are no similar agreements with employees of the company.

1.2 Corporate management, targets and strategy

Jenoptik takes a consistent market and customer oriented approach. As a technology-based company, we place customer benefit at the heart of our products and solutions. Technology is not an end in itself. By pursuing a policy of active portfolio management, we are focusing the Group on attractive markets and by so doing are improving the opportunities for profitable growth. Having withdrawn from activities which no longer form part of the strategic core themes in the fiscal year 2008, the focus in 2009 was on managing the global financial and economic crisis. At the same time, we have pressed ahead with our internationalization and optimized our processes. Both topics were a focus of the Group's long-term strategic development also in 2010.

STRATEGIC GUIDELINES

All strategic measures and projects are geared towards the five value levers that have defined the areas of the Group's further development since 2007: ^[10]

Organic growth: Based on a clear market focus, developments of new products and technologies and further developments of existing ones are the focus of the development work in the Jenoptik Group. Innovations also include new business models, e. g. those we offer in the traffic safety area. The focus of this value lever is our rolling strategy process and the group-wide uniformly structured innovation management, which systematically guides the best ideas to commercial success in a multi-stage process.

Market and customer-oriented approach: The divisional organization introduced in 2008 is proving its worth. We operate as an integrated and major specialist for our customers' corresponding matters. This was underpinned by the introduction of the global, uniform umbrella brand at the beginning of January 2009; a uniform website went online in March 2010. We are working hard on positioning our brand in such a way that it

^[10] VALUE LEVERS

- **ORGANIC GROWTH** through market development, market penetration and product innovations.
 - **MARKET AND CUSTOMER-ORIENTED APPROACH** by expanding distribution and marketing activities and focusing internal processes on customers and markets.
 - **INTERNATIONALIZATION** by systematically developing foreign markets, particularly in North America and Asia.
 - **EMPLOYEES & MANAGEMENT** by challenging and encouraging employees and managers through a holistic system of performance management.
 - **OPERATIONAL EXCELLENCE** by examining all the company's processes in order to improve them and generate cost savings.
-

meets the requirements of the divisions' various business activities while simultaneously conveying a clear image of the Jenoptik brand. The introduction of standardized customer relationship management programs began in 2010.

Internationalization: The divisions utilize existing structures in the corresponding country for new internationalization projects. If Jenoptik does not currently have an active presence in the target market, the new structures are established in such a way that they can also be used by other divisions in future. Our presence in the key core markets is being coordinated simultaneously across all divisions. In 2010, we primarily strengthened our global footprint in Asia. A new laser application center was opened in Korea, together with our longstanding partner we established a joint venture company with a Jenoptik majority interest in Japan and in China we consolidated our presence in new premises.

Employees & management: Our positioning as an attractive employer and the loyalty of our employees to the company are key aspects of our strategic personnel work. In coming years, personnel development and support will form the strategic areas of focus for the work of the HR department. In our aim to attract new employees, the demographic change and the waning enthusiasm amongst young people for careers in scientific fields pose challenges that we will have to tackle over the long-term. In the last two years, Jenoptik has established itself as an attractive employer brand in the rankings for the first time.

Operational excellence: The Jenoptik Excellence Program (JEP) started in February 2009 and represents a sustainable contribution to reducing costs and optimizing processes. In 2010, these objectives were pursued in a total of 37 projects. In the current

year, the focus remains on process harmonization and implementation of lean concepts. Where tasks and processes are the same across all divisions and can be structured more efficiently through amalgamation, they are integrated within the Shared Service Center. This enables the divisions to concentrate on their core tasks; synergy effects can be achieved throughout the Group both in terms of cost optimization as well as enhancing quality.

CONTROL SYSTEM AND CONTROL INDICATORS

The control system of the Group corresponds to the organizational structure. Four forecasts are produced during the course of a fiscal year. The segments and the divisions are subject to a monthly assessment based on the data provided on sales, EBIT, order book situation, working capital, development of cash flow, investment volume as well as other liquidity and profitability figures, by comparison with the targets and forecasts during the course of one year. Quality-related factors such as customer relationships, projects, the situation regarding competitors as well as other early warning indicators are also discussed on a monthly basis on the business unit level.

Strategy meetings are also held between the Executive Board and Heads of Division twice a year, in particular to assess strategic targets and the business development of the segments, the divisions as well as the individual business units – i.e. down to the third level of organization. Strategic decisions for the Group as a whole are taken by the Executive Management Board (EMB see page 180), which met five times in 2010 and also holds extraordinary meetings to deal with special and important events. All Group projects are monitored and evaluated on a monthly basis in a project management tool.

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

DEVELOPMENT OF THE ECONOMY AS A WHOLE

After the record decline in 2009, the **global economy** recovered strongly in 2010, even if the level of the years prior to the crisis was not regained. According to the current economic outlook by the International Monetary Fund (IMF), economic output in 2010 increased by 4.8 percent. Growth in OECD industrialized countries was at 2.8 percent, following a decline of 3.4 percent in 2009. The economic recovery in the first half-year 2010 was followed by a slight slowdown at the end of the year. The reasons for this are a tailing-off of stimuli from government economic programs as well as more moderate growth rates in emerging Asian and Latin American markets. The rise in prices for raw materials is a risk factor for the global economy: according to the Hamburg Institute of International Economics, the commodity price index rose by around 30 percent in 2010 due to heavy demand in the context of the economic recovery and the squeeze on available resources.

According to OECD forecasts, the **US economy** remained just under the average of OECD countries with a rise in economic output of 2.7 percent. Although economic momentum has again increased since the 3rd quarter of 2010, economic recovery

remained moderate in the USA as a whole, mainly as a result of high public debt and unemployment as well as the still vulnerable real estate sector.

The course of economic development in the **euro area** was heterogeneous in 2010. A rise in economic output within the euro area by an estimated 1.7 percent was cancelled out as a whole by high public debt in a number of member states. As a result, the euro area continues to remain behind the USA and Japan. ^[11]

In 2010 **Germany** recorded its strongest economic growth since reunification. With a rise in gross domestic product (GDP) calculated by the OECD at 3.5 percent, Germany is Europe's economic driver. However, following a fall in GDP by 4.7 percent in 2009, 2010 was primarily characterized by catch-up effects. Exports were first and foremost responsible for the upswing, with increasing consumer spending also playing a role toward the end of the year. In the second half of the year, the recovery weakened somewhat following a strong 1st half-year. According to the Federal Statistical Office, capital expenditure on equipment rose by 9.4 percent in 2010, exports by 14.2 percent. In November the number of unemployed people fell to under three million for the first time in 19 years. In terms of annual average, the unemployment rate in Germany was 7.7 percent, compared with 8.2 percent in the previous year.

^[11] CHANGE IN GROSS DOMESTIC PRODUCT (in percent)

	2008	2009	2010 ¹⁾	2011 ¹⁾	2012 ¹⁾
OECD countries	0.3	-3.4	2.8	2.3	2.8
USA	0.0	-2.6	2.7	2.2	3.1
Euro area	0.3	-4.1	1.7	1.7	2.0

Source: OECD Economic Outlook No. 88/2010 | 1) 2010 – 2012 = forecasts

Japan's similarly export-driven economy saw no sustainable upswing in 2010. The OECD estimates GDP growth of 3.7 percent in 2010 as a result of catch-up effects following the decline of 5.2 percent in 2009. The upward revaluation of the yen to the USA dollar and deflation particularly dampened the economic recovery. In addition, in 2010 Japan lost its status as the second-largest national economy in the world after the USA to China.

Outside the OECD area, China was primarily seen as a trendsetter. According to OECD estimates, the Chinese economy grew by 10.5 percent in 2010. This high rate of growth was primarily the result of government economic stimulus programs, very high levels of lending and strong domestic demand. The People's Republic was also Germany's most important supplier in 2010 – almost ten percent of German imports came from China.

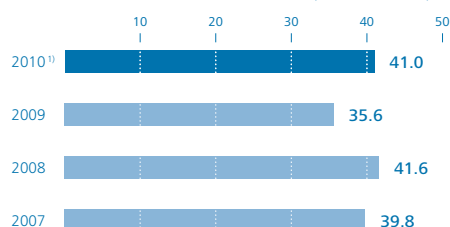
India is showing similarly high rates of growth to China. For 2010, the OECD forecast an increase in economic output of 9.1 percent, this being primarily due to domestic demand. A further driver of growth in the world economy was Brazil. With an increase in GDP of 7.5 percent calculated by the OECD, Brazil was a trailblazer among Latin American emerging markets and thereby overcame the economic stagnation of 2009 (minus 0.2 percent). Of the so-called BRIC countries (Brazil, Russia, India, China), only Russia was unable to keep up with the pace of economic recovery: following a fall in GDP of 7.9 percent in 2009, Russian GDP was estimated by the OECD to grow by 3.7 percent in 2010.

DEVELOPMENT OF THE INDIVIDUAL JENOPTIK SECTORS

In the past year the optical technologies sector has overcome the slump of 2009. Since the all-time low in the 1st quarter of 2009, the Spectaris world market index for optical technologies rose in every following quarter and achieved an all-time high with 201.8 points in the 3rd quarter of 2010. Based on this good development, the Spectaris professional association forecast total sales of 21.2 billion euros in 2010, which corresponds to an increase of 15.2 percent over the previous year. [12]

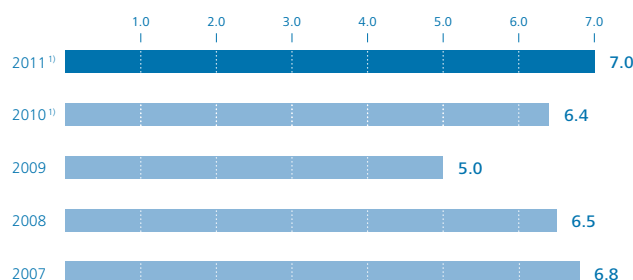
The global market for laser technologies recovered strongly in 2010. According to the market assessment by Laser Focus World (LFW), total sales in the global laser market rose by approx. 27 percent to 6.4 billion US dollars, thereby almost offsetting the decline of the past two years. The laser material processing sector reported an increase in sales of around 20 percent in 2010, resulting in global sales of industrial lasers of 2.2 billion US dollars. The reasons for this growth, according to LFW, are the high demand for industrial lasers in China and the increasing success of diode-pumped solid state and fiber lasers, in particular in the automotive and automotive supplier industry. However, according to an analysis by LFW, the market for medical lasers remained below the sector average and rose by 7 percent to 432 million US dollars in 2010. In the military lasers sector, sales in 2010 came to 188.9 million US dollars, almost 16 percent more than in 2009. [13]

[12] MARKET FOR THE GERMAN OPTICAL, MEDICAL AND MECHATRONIC INDUSTRY (in billion euros)



Source: Sector Report 2010, September 2010 | 1) Forecast: plus 15 percent on 2009

LASERS: GLOBAL SALES (in billion US dollars)



Source: Laser Focus World, January 2011 | 1) 2010 – 2011 = forecast

The **semiconductor industry** was one of the first sectors to overcome the recession. According to figures from the Semiconductor Industry Association (SIA), the sector ended the year 2010 with record sales. In comparison with 2009, global sales rose by 31.8 percent to 298.3 billion US dollars. According to the SIA, this was primarily due to semiconductor technology being used in ever-increasing numbers of electronic devices. 2010 was the strongest year to date for **semiconductor suppliers**, in which, according to analysts at Gartner, sales came to a total of 38.4 billion US dollars. This represents an increase of 131 percent compared to 2009 (16.6 billion US dollars). ^[14]

In 2010, the **photovoltaic** market experienced an unexpectedly strong boom. According to the market researchers at iSuppli, new solar collectors with a total output of 16 gigawatts were installed around the world in 2010. Benefitting from government solar subsidies, Germany saw new installations with over 7 gigawatts in 2010, as estimated by the German Solar Industry Association. This approximately amounts to a doubling of 2009 figures. Sales of **photovoltaic equipment suppliers** rose accordingly to 10.7 billion US dollars according to the market research company Solarbuzz. However, there is strong pressure on prices and Europe is beginning to play a smaller role. Suppliers from China, Taiwan and South East Asia accounted for 85 percent of sales from the manufacture of crystalline silicon modules and 50 percent of sales for thin-film modules in 2010. According to figures in the "Solar Photovoltaic Technology"

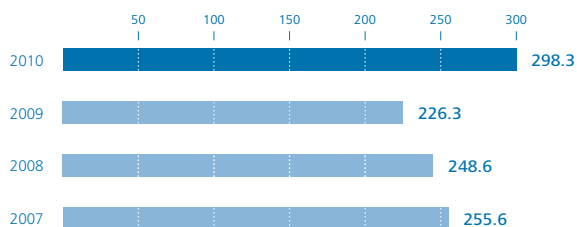
report, the market share of thin-film technologies was only around 20 percent in 2010. As silicon prices fell in 2010 to around one tenth of their level two years ago, crystalline manufacturers were able to reduce their module prices.

According to AMA Association for Sensor Technology, **sensor technology and metrology** are on an upward trend. Since the sales trough in the 2nd quarter of 2009, sales have been increasing steadily. The year 2010 began very strongly with 25 percent growth in the 1st quarter compared with the previous quarter, albeit based on a low starting level. As a whole, the AMA calculated a full-year increase in sales of 37 percent for 2010. However, this recovery takes place with some delay – some branches of industry, such as suppliers for mechanical engineering, are still lagging behind the trend.

Since the end of 2009, the **medical technology sector** has also been on a clear upward trend. After a decline in total sales by 4.3 percent to 18.3 billion euros in 2009, the first half-year 2010 primarily saw a rally in foreign business. Exports to Asia, in particular, rose by 30 percent according to the Spectaris professional association. As a whole, Spectaris is expecting an increase in sales of just under 10 percent to 20 billion euros in 2010.

In 2010, the German **machine and plant construction industry** managed a rapid about-face following the record decline

^[14] SEMICONDUCTOR: GLOBAL SALES (in billion US dollars)



Source: SIA, January 2011

caused by the crisis in 2009. In May and June 2010, the growth rates in incoming orders were more than 60 percent above those for the same period in the previous year. The German Engineering Federation (VDMA) therefore steadily raised its forecast during the course of the year from an initial "break-even" and now expects growth in mechanical production of 8.8 percent in 2010. The sector's annual sales rose from 161 billion to 174 billion euros. Key stimuli came from abroad, particularly China, India and Brazil. At the end of 2010, a strong order increase could again be reported, in both domestic and foreign business. According to the VDMA, orders in the sector were 36 percent higher in 2010 than the previous year.

The global **automotive market** recovered faster than expected in 2010. With 61.7 million vehicles, 12 percent more were sold globally than in 2009, as the German Association of the Automotive Industry (VDA) reported. There were new registrations for 2.92 million passenger vehicles in Germany. Following the ending of government subsidies, the figures are slowly settling down again to a normal level. German suppliers primarily recovered as a result of strong demand from abroad. Foreign orders increased by a fifth in 2010, and exports also rose by almost a quarter to approx. 4.2 passenger vehicles. German manufacturers also set a positive trend on the North American light vehicles market: according to the VDA, they sold 11.6 million vehicles in 2010, 11 percent more than in the previous year. However, the peak figures from the years prior to the cri-

sis have not yet been regained. In the automotive components industry, the feared consolidation failed to materialize according to auditor Deloitte, but pressure on prices further increased, especially for volume-based suppliers.

The **traffic monitoring** sector continued to show positive performance in 2010. The saturated markets, primarily in Western Europe and North America, are still focused on upgrading to new technologies. New markets are primarily opening up in the sector in emerging markets, which are increasingly focused on major projects facilitated by national programs.

The international **aviation industry** also recovered more strongly than initially expected in 2010. Although the International Air Transport Association (IATA) originally expected annual losses of 2.8 billion US dollars, by September 2010 it was forecasting net profits of 8.9 billion US dollars. This forecast was then increased again to 15.1 billion US dollars net profit for 2010 and total sales of 565 billion US dollars. According to the IATA, this was primarily due to an exceptionally strong 3rd quarter 2010 as well as growth in passenger airlines business. For aircraft manufacturers, 2010 was a very successful year: Airbus recorded 510 deliveries and, with 574 orders, more than twice as many as 2009 (271). The EADS subsidiary therefore left its competitor Boeing, with 530 orders and 462 deliveries on its books, trailing behind again.

In the area of **security and defense technology**, 2010 was again marked by stable development. According to the Stockholm International Peace Research Institute Sipri, the global economic crisis had no immediate impact on armaments expenditure, predominantly the subject of long-term plans and projects. Global military spending in 2009 rose to 1.6 billion US dollars according to Sipri, 6 percent higher than in 2008 and almost 50 percent higher than in 2000. The USA was a primary driver of this development: its share of global military spending in 2009, according to Sipri, was 43 percent, followed by China with 6.6 percent. For 2010, the analysts at Frost & Sullivan estimated a slight drop in global military spending to 3.5 percent.

SUMMARY | GENERAL STATEMENT ON THE FRAMEWORK CONDITIONS

In 2010, the economy as a whole and the sectors of the Jenoptik Group recovered more quickly than we originally anticipated. The sharply rising demand from the semiconductor industry since the 2nd half-year 2009 proved sustainable in the course of 2010 and further improved. We have also seen a rapid recovery in the automotive industry, and with it the supplier industry, since spring 2010.

The economic upswing showed that being able to increase production quickly is important to meet rising demand. Committed employees, flexibility, efficient processes, technological capability, products that meet customer requirements, market proximity and solid financial resources are key requirements for managing fluctuations in the business environment, now and in the future.

Against the backdrop of a challenging economic environment, we have made real progress in the strategic development of Jenoptik over the last two years. We have reduced our costs and improved our processes. As the statements below on the earnings, finance and asset position show, we have not yet attained our objectives and must continue to work consistently on the relevant issues to achieve our targets for the medium and long term.

2 EARNINGS, FINANCIAL AND ASSET SITUATION

ACTUAL AND FORECAST COURSE OF BUSINESS

All forecasts for the 2010 fiscal year were met, some even exceeded. In early 2010, there was still considerable uncertainty surrounding forecasts, particularly with regard to the further economic development. It was difficult to assess to what extent any recovery in specific sectors would arise or continue in 2010. There was also uncertainty about the degree to which all cost reduction targets for 2010 could be achieved. In March 2010, we had initially forecast sales of between 475 and 500 million euros with a Group EBIT of between 15 and 25 million euros. Due to a faster than anticipated recovery in the automotive and automotive supplier industries, in particular, and the persistent high level of demand from the semiconductor industry, we were able to put more precise figures on our forecasts and raise them in August 2010. From August 2010, we had forecast sales of around 500 million euros with a Group EBIT of at least 25 million euros. With the completion of the sale of Jena-Optronik GmbH at the beginning of December 2010, our forecast for the Group EBIT was again revised

upwards to approx. 50 million euros, including one-off effects primarily resulting from the sale of Jena-Optronik GmbH. ^[15]

In addition to sales and EBIT key indicators, we also reported on the planned development of additional key indicators, both in quantitative and some in qualitative form. These include the number of employees, R + D output, net debt, statements on the anticipated cash flow and investments. Here again we successfully achieved and in some cases exceeded our targets for the year 2010.

On the subject of forecasting quality, according to a study published by the German investor journal Nebenwertjournal in mid January 2011, Jenoptik was placed amongst the top 24 companies. The study evaluated the forecasting quality for the 2010 fiscal year based on the third quarter figures.

The comparison between the actual and forecast course of business is based on the figures for the whole Group, including

^[15] ACTUAL AND FORECAST COURSE OF BUSINESS (in million euros)

Parameter	Status as at end 2009	Forecast March 2010 as against 2009	Change in forecast during year	Status as at end 2010	Explanation on page
Sales	473.6	475–500	approx. 500 (9.8.2010)	510.6	54
Lasers & Optical Systems	166.7	Slight increase	Stronger growth	188.9	79
Metrology	96.0	Stable	Slight increase	113.8	83
Defense & Civil Systems	205.3	Stable at previous year's level	Stable	205.8	86
Group EBIT	7.8 ¹⁾	15–25	Minimum 25 (9.8.2010) Including one-off effects of approx. 50m euros (6.12.2010)	31.9 ¹⁾ 56.4 ²⁾	55
Investment result	–4.3	No details		–2.0	56
Interest result	–10.4	Weaker		–12.0	56
Cash flow from operating activities	53.3	Marked double digit million euro amount		43.4	71
Net debt	159.5	No details	Lower (23.6.2010)	79.3	69
Employees	3.268	approx. 3,000		2.951	61
F + E costs	51.5	Previous year's level		51.4	59
Capex	14.4	Situation-related as per development of business		15.3	70

1) Before one-off effects
2) After one-off effects

Jena-Optronik GmbH. All forecasts published at the beginning of and in mid 2010 included Jena-Optronik GmbH. The sale of Jena-Optronik GmbH to Astrium GmbH was completed on December 3, 2010. The company was deconsolidated as at November 30, 2010, consequently – unless stated otherwise – the figures for Jena-Optronik GmbH are included in the details below up to this date. As at December 31, 2010, Jena-Optronik GmbH is no longer included in the key indicators relating to the balance sheet date, e. g. balance sheet data, order backlog and number of employees.

2.1 Earnings situation

DEVELOPMENT OF SALES

At 510.6 million euros, the Jenoptik Group posted a 7.8 percent increase in sales in 2010 (prev. year 473.6 million euros). 59.8 percent, or 305.3 million euros were generated abroad (prev. year 57.3 percent or 271.6 million euros). In addition to the European Union, North America, where Jenoptik also has its own optical production capacities, was one of the key sales regions. The growth in the foreign share of sales compared with the previous year was the result of a change in the sales mix. The share of sales generated with the semiconductor industry whose market recovery continued and picked up pace in 2010 was at 12.9 percent or 65.7 million euros in absolute terms including photovoltaics significantly higher than in 2009 (prev. year 7.3 percent or 34.8 million euros in absolute terms). Jenoptik supplies the semiconductor industry almost exclusively abroad. One of Jenoptik's largest markets is security and defense technology, which accounted for approx. 24 percent of total sales in 2010 (prev. year 28.4 percent). At 122.5 million euros, the sales volume in absolute terms came in below the level for the previous year (prev. year 134.5 million euros). Sales in the sum of 31.9 million euros generated by Jena-Optronik GmbH which was sold in December 2010 are included up to November 30, 2010. The adjusted figure for Group sales 2010 was 478.7 million euros. ^[16] ^[17]

^[16] SALES BY TARGET MARKET

Markets (in million euros and % of total sales)	2010		2009	
Aviation and aerospace/traffic	134.9	26.4 %	116.0	24.5 %
Security and defense technology	122.5	24.0 %	134.5	28.4 %
Automotive/machine construction	107.5	21.1 %	96.8	20.4 %
Semiconductor industry/photovoltaics	65.7	12.9 %	34.7	7.3 %
Medical technology	32.8	6.4 %	45.4	9.6 %
Other/consolidation/real estate	47.2	9.2 %	46.2	9.8 %
Total	510.6	100 %	473.6	100 %

The growth in sales was attributable to the Lasers & Optical Systems and Metrology segments and came primarily from the semiconductor industry, the automotive and automotive supplier industry as well as traffic safety. Whilst the demand from the semiconductor industry had already risen in 2009 and in the full year 2010 resulted in a markedly higher level of sales, the automotive industry started recovering from early 2010 and contributed to a marked rise in sales in the Metrology segment, particularly in the 2nd half-year. This segment's sales in the 3rd quarter were positively influenced by the settlement of a major order in the Traffic Solutions division. The Defense & Civil Systems segment reported stable sales. The sales of 2.1 million euros from non-operational Other (Jenoptik Holding, real estate and consolidation) mainly comprised rental sales with third parties (prev. year 5.6 million euros). The reduction compared with the previous year was not the result of lower rental sales but higher sales between the segments which are deducted here in the form of consolidation. More information on the development of sales by the segments can be found in the Segment Reporting from page 79. ^[18]

DEVELOPMENT OF EARNINGS

Including all one-off effects, the Jenoptik Group posted a **group operating result** in the sum of 56.4 million euros in 2010 (prev. year minus 19.6 million euros). This figure includes one-off effects, primarily arising from the sale of Jena-Optronik GmbH in December 2010 to Astrium GmbH, an EADS Group company,

as well as from the sale of the 15 percent stake in caverion GmbH to the Finnish YIT Group. The Group EBIT, including the contributions to the operating result from Jena-Optronik GmbH in the sum of 2.9 million euros, came in at 31.9 million euros (prev. year 7.8 million euros). The group operating result excluding the operating earnings contribution from Jena-Optronik was 29.0 million euros. ^[19]

All three segments of the Jenoptik Group contributed towards the positive development of the operating result. The Lasers & Optical Systems segment reported a leap in earnings mainly due to the growth in sales from the semiconductor industry. The diode and medical lasers as well as laser processing systems for the automotive industry also made positive contributions to earnings. Jenoptik achieved the turnaround in the Metrology segment where in the 2nd half-year the earnings of the Industrial Metrology moved back into positive territory quicker than had been anticipated, with the division consequently posting a small positive result on a year-on-year basis. In the Traffic Solutions division, a major order issued at the beginning of the year and accounted for in full in the 3rd quarter 2010 made a special contribution to the improvement in earnings. In the Defense & Civil Systems segment, the segment EBIT reflected the development in sales and was virtually at the same level as in the previous year. For detailed information on the development of the results of the segments see the Segment Reporting from page 79.

^[17] SALES (in million euros)

	2010	2009	Change in %
Group	510.6	473.6	7.8
Domestic	205.3	202.0	1.6
Foreign	305.3	271.6	12.4

SALES BY SEGMENT (in million euros)

	2010	2009	Change in %
Group	510.6	473.6	7.8
Lasers & Optical Systems	188.9	166.7	13.3
Metrology	113.8	96.0	18.5
Defense & Civil Systems	205.8	205.3	0.2
Other	2.1	5.6	-62.5

^[18]

Group earnings before interest, taxes, depreciation and amortization (EBITDA) came in at 88.7 million euros (prev. year 23.4 million euros). After adjustment for one-off effects, in particular those arising from proceeds of sales, the group operating EBITDA totaled 61.8 million euros (prev. year 43.1 million euros before one-off effects, in particular arising from restructuring). The Group EBITDA excluding Jena-Optronik GmbH totaled 57.7 million euros. [20]

In 2010 the financial result improved slightly to minus 13.9 million euros (prev. year minus 14.7 million euros). The key item in the investment result which improved from minus 4.3 million euros to minus 2.0 million euros is JT Optical Engine GmbH & Co KG, a joint venture with Trumpf. The investment result also includes, in particular, write-downs on financial assets and dividend payments by minority investment holdings. As expected, the interest result was down slightly due to the figure in the previous year being characterized by a higher proportion of current liabilities at low interest rates prior to the changeover of the group financing in autumn 2009. In 2010 interest expenses in the sum of 13.7 million euros (prev. year 13.1 million euros) are offset by interest income in the sum of 1.8 million euros (prev. year 2.7 million euros).

As a result of the marked improvement in the Group operating result and an improved financial result, in 2010 Jenoptik posted earnings before tax of 42.5 million euros (prev. year minus 34.3 million euros).

Income taxes totaled 1.3 million euros (prev. year 0.2 million euros) in 2010. These were incurred primarily on the domestic side, with Jenoptik in Germany benefiting from the existing losses carried forward of JENOPTIK AG in the total sum of 430 million euros which can be utilized annually for 60 percent of the taxable income. Deferred taxes totaled 4.7 million euros (prev. year minus 0.7 million euros). In 2010 the effective overall Group tax quota was therefore 14.2 percent. Jenoptik posted overall earnings after tax in the sum of 36.5 million euros (prev. year minus 33.9 million euros) in 2010.

The share of external shareholders in earnings totaled minus 0.1 million euros (prev. year 4.0 million euros), net profit therefore reached 36.6 million euros. Earnings per share based on the weighted number of 56.3 million shares were 65 cents (prev. year minus 73 cents/with 52.0 million shares issued) since the capital increase in 2010 took place during the course of the year.

ORDER BOOK SITUATION

In 2010, Jenoptik succeeded in increasing its order intake by 34.6 percent to 582.5 million euros (prev. year 432.8 million euros). Contributory factors were the positive economic development in the overall economy and key target sectors, the attractive portfolio of services plus a series of major orders. The book-to-bill rate (the ratio between order intake and sales for the fiscal year) was 1.1. The order intake includes order intakes

[19] EBIT (in million euros)

	2010	2009	Change in %
Group	56.4	-19.6	++
Lasers & Optical Systems	13.3	-16.5	++
Metrology	8.6	-14.6	++
Defense & Civil Systems	11.5	12.2	-5.7
Other	23.0	-0.7	++

EBITDA (in million euros)

	2010	2009	Change in %
Group	61.8	43.1	43.4
Lasers & Optical Systems	24.0	15.5	54.8
Metrology	12.1	-0.3	++
Defense & Civil Systems	19.0	21.3	-10.8
Other	6.7	6.6	1.5

[20]

of Jena-Optronik; after adjustment this gives a 2010 order intake for the Jenoptik Group of 534.6 million euros. ^[21]

All three segments achieved double figure percentage increases in their order intakes. The Lasers & Optical Systems segment saw the high demand from the semiconductor industry maintained. The medical lasers business reported one of the largest orders in the company's history at nearly 12 million euros. In the Metrology segment, a rapid recovery in demand from the automotive industry in the Industrial Metrology division, as well as a major foreign order in the Traffic Solutions division for 12 million euros, led to a marked increase in orders compared with 2009. The Defense & Civil Systems segment posted an 18.9 percent rise in its order intake with the help of several major orders in the fiscal year just past. More detailed information on the order intakes of the segments can be found in the Segment Reporting from page 79.

At the end of 2010, the Jenoptik Group reported an **order backlog** of 355.4 million euros (prev. year 339.4 million euros). By contrast to the order intake, the order backlog of Jena-Optronik GmbH was no longer included as at December 31, 2010 due to the balance sheet date. In the previous year this figure was 35.4 million euros. Around 65 percent of the order backlog will result in sales in the current 2011 fiscal year. Some of the remaining 35 percent will extend to the year 2017 mainly due to the very long-term orders in the Defense & Civil Systems segment. ^[22]

DEVELOPMENT OF KEY ITEMS IN THE STATEMENT OF INCOME

The items in the statement of income essentially increased – reflecting the expansion of business in 2010 – albeit generally at a lower rate in proportion to the increase in sales. The figures for Jena-Optronik GmbH are included on a proportional basis up to its deconsolidation on November 30, 2010. ^[23]

^[21] ORDER INTAKE (in million euros)

	2010	2009	Change in %	2010 Book-to-Bill-Ratio
Group	582.5	432.8	34.6	1.14
Lasers & Optical Systems	230.2	168.4	36.7	1.22
Metrology	137.0	83.2	64.7	1.20
Defense & Civil Systems	211.6	178.0	18.9	1.03
Other	3.7	3.2	15.6	n. a.

^[22] ORDER BACKLOG (in million euros)

	2010	2009	Change in %
Group	355.4	339.4	4.7
Lasers & Optical Systems	98.8	59.9	64.9
Metrology	45.1	21.9	105.9
Defense & Civil Systems	212.6	260.2	-18.3 ¹⁾
Other	-1.1	-2.6	57.7

¹⁾ due to the sale of Jena-Optronik GmbH

Cost of sales rose by 2.5 percent to 353.4 million euros in accordance with the growth in sales. However, this rise was at a markedly lower rate in proportion to the 7.8 percent increase in sales. The cost reduction measures as well as the measures within the framework of the Jenoptik Excellence Program had a positive effect in 2010. The cost of sales also included costs arising from developments directly on behalf of customers in the total sum of 22.1 million euros, which reduced R + D expenses (prev. year 21.9 million euros).

The gross profit rose to 157.2 million euros (prev. year 128.7 million euros), reflecting the increase in sales and the proportionately lower rise in the cost of sales. The **gross margin** accordingly rose sharply to 30.8 percent (prev. year 27.2 percent); this was also attributable to a change in the sales mix.

The overall R + D output remained at the same level as the previous year, whilst R + D expenses were lower. For detailed information on R + D, we refer to page 59 of the Management Report.

Selling expenses increased in comparison with 2009 to 54.4 million euros (prev. year 51.3 million euros) and consequently accounted for 10.7 percent of sales. The expansion of international distribution is one of the Jenoptik Group's strategic projects. This has been consistently pursued since 2009 and as

expected, is reflected in an increase in selling expenses. Higher commissions for dealers also contributed to a rise in selling expenses since the growth in sales was mainly attributable to the higher exports. Marketing accounted for around 7 percent of the selling expenses (prev. year 9 percent or approx. 4.6 million euros).

There was also an increase in the **general administrative expenses**, which totaled 38.1 million euros in 2010 (prev. year 36.5 million euros). Some short-time working in 2009 and profit sharing by the employees for the 2010 fiscal year contributed towards the rise in administrative costs.

Other operating income came in at 47.8 million euros (prev. year 23.1 million euros). This figure includes the income from the sale of the caverion shareholding and of Jena-Optronik GmbH. Currency gains in the sum of 8.1 million euros plus other operating income from passing on costs and services as well as income from subsidies are also included in the figure.

Other operating expenses totaled 26.1 million euros (prev. year 51.0 million euros). They are characterized by currency losses in the sum of 6.8 million euros and also include depreciation on assets in the sum of 5.5 million euros as well as expenses for reorganization and restructuring totaling 2.3 million euros (prev. year 27.4 million euros). Details of other operating income and expenses are shown in the Notes under points 6 and 7.

23 KEY ITEMS IN THE STATEMENT OF INCOME (in million euros)

	2010	2009	Change in %
Cost of sales	353.4	344.9	2.5
R + D expenses	30.0	32.6	-8.0
Selling expenses	54.4	51.3	6.0
Administrative expenses	38.1	36.5	4.4
Other operating income	47.8	23.1	106.9
of which sale of Jena-Optronik GmbH	24.5	–	
Other operating expenses	26.1	51.0	-48.8
of which one-off effects	2.3	27.4	-91.6

2.2 Development of the key performance factors

RESEARCH & DEVELOPMENT

As a technology group, Jenoptik sees Research & Development (R + D) as an important element in its future entrepreneurial capability, so this area is accorded a high level of importance. The focus of the developments is on the requirements of the customers for whom technology is becoming the lever for earning power.

Within the framework of central innovation management, development projects in the Jenoptik Group pass through a multistage process during which they are subject to milestone assessments. The Innovation Days in autumn form the highlight of each and every R + D fiscal year. In 2010, 3 projects out of a total 11 candidates were nominated for the Jenoptik Innovation Award. The winning project was the miniaturized green thin-disk laser. 2010 innovations are listed in the Segment Reporting from page 79 of this report together with descriptions of some.

The overall **R + D output** of the Jenoptik Group, including developments on behalf of customers plus capitalization adjusted for write-downs, totaled 51.4 million euros (prev. year 51.5 million euros). The **R + D ratio** based on the development costs was 10.0 percent (prev. year 11.0 percent) with development costs remaining the same and sales higher. ^[24]

In 2010 **R + D expenses** totaled 30.0 million euros, consequently were 8.0 percent lower than in 2009 (prev. year 32.6 million euros). This figure no longer includes the R + D expenses of the mid format camera business which was discontinued in 2009. The Group R + D ratio (based on the R + D expenses) reduced to 5.9 percent, reflecting the increased sales volume (prev. year 6.9 percent). ^[25]

The **number of R + D employees** fell by comparison with the previous year to 312 (prev. year 491). The reason for this is on the one hand the sale of Jena-Optronik GmbH and to a lesser extent the reduction in the number of employees from 2009 as well as the reassignment of R + D departments into others in conjunction with the overall optimization of the processes in the Group, consequently no direct comparison can be made with the previous year.

The **R + D expenses** primarily comprise personnel costs, purchased services and material costs as well as depreciation on capitalized development themes. Investments in tangible assets are comparatively minimal as these are essentially limited to the laboratories and the workstation equipment. The R + D expenses do not include the associated company JT Optical Engine which was included at equity in the investment result. The figure also excludes the costs to be directly apportioned to customer orders which are shown under cost of sales. These totaled 22.1 million euros in 2010 (prev. year 21.9 million euros).

^[24] **R + D OUTPUT¹⁾ BY SEGMENT** (in million euros)

	2010	2009	Change in %
Group	51.4	51.5	−0.2
Lasers & Optical Systems	17.5	22.0	−20.5
Metrology	12.4	11.9	4.2
Defense & Civil Systems	21.5 ²⁾	18.0	19.4
Other	0.0	−0.4	100 ¹⁾

1) Total derived from R + D expenses and order-related developments, capitalized development costs less write-down

2) 16.3 million euros without Jena-Optronik GmbH

R + D EXPENSES BY SEGMENT

	2010	2009	Change in %
Group	30.0	32.6	−8.0
Lasers & Optical Systems	12.6	15.7	−19.7
Metrology	8.5	8.3	2.4
Defense & Civil Systems	9.0	9.0	0
Other	−0.1	−0.4	75.0

^[25]

The capitalized development costs were at the same level as in the previous year, totaling 4.9 million euros (prev. year 5.5 million euros). The write-down on the capitalization of development close to the market, including impairments, totaled 1.4 million euros (prev. year 9.4 million euros). The high figure in the previous year was the result of write-downs in connection with the relinquishment of a business.

Jenoptik acquires research services and know-how both from its own resources as well as through cooperation with partners, scientific institutions and buy-ins. In 2010, a total of 68 patents were registered group-wide, significantly more than in 2009 (prev. year 53). This does not include designs and utility patents and trademarks.

The Jenoptik Group's key R+D partners, in addition to the Friedrich-Schiller University and the Jena Institute of Applied Sciences, include the Fraunhofer Institute for Applied Optics and Precision Mechanics (IOF) Jena, the Leibnitz Ferdinand-Braun-Institute, Berlin, the Technical University Ilmenau, the Institute for Photonics Technologies Jena, the Rheinisch-Westfälische Technical University RWTH Aachen as well as the Fraunhofer Institute for Laser Technology (ILT) also in Aachen.

Public subsidies from the states, federal government or the EU for research projects totaled 3.1 million euros (prev. year 2.1 million euros) in 2010, with joint projects accounting for a significant portion of this. Within the framework of joint projects, Jenoptik passes on individual orders to state or semi state-owned research institutions or other companies in accordance with the corresponding funding guidelines.

In 2010, the Scientific Advisory Board of the Jenoptik Group met once. It discusses important technology matters and long-term trends and comprises representatives from scientific institutions. The names of the members of the Scientific Advisory Board are shown on page 181.

Jenoptik lends intensive support to the perception and image of the technologies relevant to it and is actively involved in numerous sector and technology-oriented organizations. In 2010, the memberships were pooled at the overall group level. [26]

[26] JENOPTIK'S MEMBERSHIP OF COMMITTEES AND ORGANIZATIONS (selection)

- Bundesverband der Deutschen Luft- und Raumfahrtindustrie e.V. (BDLI)
 - CDU Wirtschaftsrat e.V.
 - Deutscher Industrieverband für optische, medizinische und mechatronische Technologien e.V. (SPECTARIS)
 - Deutsches Institut für Normung e.V.
 - European Optical Society
 - Europäische Technologieplattform Photonics 21
 - International Society for Optical Engineering (SPIE)
 - Max-Planck-Gesellschaft zur Förderung der Wissenschaften e.V.
 - Optonet e.V./CoOptics
 - Semiconductor Equipment Materials International
 - Verband Deutscher Maschinen- und Anlagenbau e.V. (VDMA)
 - Stifterverband für Deutsche Wissenschaft
 - Verein Deutscher Ingenieure (VDI)
 - Zentralverband Elektrotechnik und Elektronikindustrie (ZVEI)
-

EMPLOYEES & MANAGEMENT

The number of **Jenoptik employees** reduced to 2,951 (31.12.2009: 3,268) as at the year end. The reduction of 317 or 9.7 percent of the workforce is mainly attributable to the personnel measures introduced in 2009 and to the sale of Jena-Optronik GmbH with its 128 employees. As at the balance sheet date of December 31, 2010, Jenoptik employed a total of 316 personnel abroad (31.12.2009: 416). Here again, the reduction compared with the previous year is attributable to the personnel measures introduced in 2009. [27]

The interim employment companies set up in Germany as part of the measures to reduce the number of personnel were closed at the end of 2010. During this period, training measures were initiated and implemented for the employees. These measures included, for example, further training in the area of quality management, EDP or training activities on specific subjects.

In order to make up for the dynamics and volatilities in the order situation, a limited number of agency personnel were again hired in 2010, mainly in the Optical Systems and Defense & Civil Systems divisions. At the end of 2010, the Group employed a total of 90 agency personnel. In addition, employees were transferred within and between the divisions to enable employees from the Group to carry out work in

other divisions where they were able to make up for the shortages of personnel. [28]

There was only partial short-time working in 2010 and this was mostly for a limited period only. The Optical Systems division and the SSC plus, up to October 2010, the Industrial Metrology division utilized short-time working. [29]

Personnel expenses in 2010 totaled 186.2 million euros (wages, salaries, social security contributions, costs for retirement provision and restructuring costs) and were therefore down on the level in the previous year (prev. year 187.3 million euros). In 2009, the figure included subsidies from short-time allowances. Adjusted for costs for the personnel-related measures totaling 10.4 million euros, personnel expenses amounted to 193.1 million euros. In the fiscal year just past, personnel expenses were reduced as a result of the fall in the number of employees. This was partially offset by increased profit-sharing and higher wages under collective agreements. [30]

Sales per employee increased markedly to 174.4 TEUR per employee (prev. year 147.7 TEUR per employee) reflecting the rise in sales and a simultaneous reduction in the number of employees. The personnel intensity, the ratio between personnel expenses and sales, fell accordingly to 36.5 percent (prev. year 38.6 percent).

[27] EMPLOYEES AS AT DECEMBER 31, (incl. trainees)

	Total			Domestic		Foreign	
	2010	2009	Change in %	2010	2009	2010	2009
Group	2,951	3,268	-9.7	2,635	2,852	316	416
Lasers & Optical Systems	1,234	1,284	-3.9	1,106	1,171	128	113
Metrology	632	769	-17.8	454	481	178	288
Defense & Civil Systems	931	1,077	-13.6	921	1,062	10	15
Other	154	138	11.6	154	138	0	0

The **employee structure** in the Jenoptik Group showed a balanced picture in terms of age distribution. In Germany, 84 employees (prev. year 105 employees) took advantage of the partial retirement models, with approx. 60 percent of these employees still being active (prev. year around 70 percent). The proportion of women in the Group in Germany is 27.1 percent and therefore at the same level as the previous year (prev. year 27.2 percent). The sickness quota as at December 31, 2010 was 3.73 percent (prev. year 3.61 percent). ^[31]

In 2010, Jenoptik invested 1.4 million euros in employee **education and further training** (prev. year 1.2 million euros), with 1,303 employees benefitting from this (prev. year 1,369). The focus of the further training activities in 2010 was also on the subject of project management. A total of 166 employees and managers received training. The main area of training was in the Lasers & Optical Systems segment as well as the Corporate Center. In-depth knowledge of the management of complex projects was taught, with a direct reference to the company being created by working on current projects. The project management training is intended to underpin a professional project management system and promote clear structures in the project organization so the Group can continue to respond quickly and in a structured way to market and customer requirements.

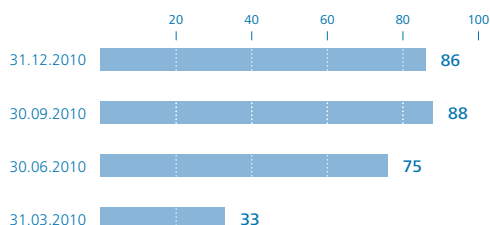
In 2011, further themes will be added to the personnel development measures on the group level. One focal area in this respect

will be Lean Management. Individual personnel development measures will also be carried out on the management and employee levels. Further development on a target group-driven basis will be continued on a consistent basis in 2011 and is intended to be underpinned by Group platforms and succession planning.

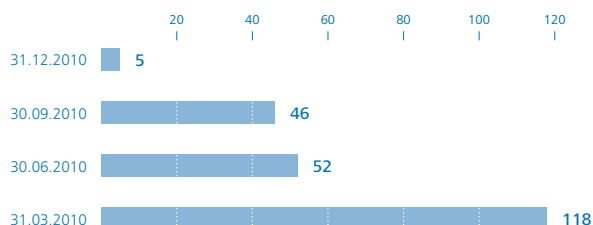
Junior management. The Jenoptik Junior Leadership Program (J²LP) is an important building block in personnel development and is used for the targeted development and promotion of potential leaders from among the Group's own ranks. In 2010, 16 3rd generation participants successfully completed the program. In 2011, a total of 17 participants from two additional generations will complete the program. The J²LP will also be continued in 2011: the 6th and 7th generations will be starting the program, involving a total of 21 participants. The aims are to provide uniform preparation for the junior leaders on their further career path, to develop a management structure within the company and to promote networking.

Training. At the beginning of the training year in August 2010, 30 new personnel started their training at the Group's German sites. As at December 31, 2010, a total of 128 young people (prev. year 137) were undergoing training throughout the Group. Training is provided primarily in the commercial and technical professions such as electronics engineers, micro technology and precision optic technicians as well as commercial personnel. In spring and summer 2010, 32 trainees and four students of the Career Academy successfully completed their training.

^[28] TEMPORARY POSTS WITHIN THE GROUP (in Germany)



SHORT-TIME WORKING WITHIN THE GROUP (in Germany) ^[29]



In Thuringia, the junior leaders received training in the optical, precision mechanic, electronic and commercial professions in conjunction with the Jena-based Training Center. In addition to Schott JENAer Glas GmbH and Carl Zeiss, Jena GmbH Jenoptik is the third shareholder in the Jena-based training facility. In addition to 13 trainees, two students from the Career Academy began their training.

In order to secure the next generation of academic personnel, Jenoptik not only awards internships but also provides graduate theses in the technical and commercial areas. The network meetings in Thuringia, which have been held every six months since 2008, give the approx. 25 trainees and postgraduates at the Thuringian locations the opportunity to meet together and share experiences.

Recruitment. In order to attract potential technical and management personnel at an early stage, Jenoptik also works closely together with selected universities. The Group's placements among the top employers are a reflection of its positive presence. For example, in the trendence barometer of graduates, the Group ranked 82nd in the engineering sciences area, and in the European rankings by the Universum Study Survey and the Wirtschaftswoche magazine 46th for natural sciences and 117th for the engineering sciences. Within the area of recruitment, Jenoptik's main focus of attention is on academics from the natural and engineering sciences, economics and on

good skilled workers. It also is increasingly looking for applicants with profiles from the and for the international environment. In this context, the USA and Asia play a particularly key role.

Employees attach ever-increasing importance to the subject of **work-life balance**. This requires a very good and flexible system of childcare, something which is guaranteed at the Jena location by a childcare center close to the plant. Promoting healthy and active employees is also important to Jenoptik. Various platforms, such as e.g. the Healthcare Day in Jena have been started up for this purpose.

ORGANIZATION & PRODUCTION CYCLE

The divisions are responsible for the organization and production cycle. Processes and organization therefore reflect the requirements of the respective division and are heterogeneous. It was therefore decided not to issue any group-wide statements of a sufficiently relevant nature for the Group Management Report as it would only be possible to give sample projects and themes. A few of these can be found in the Segment Reporting from page 79.

Within the framework of the Jenoptik Excellence Program, a number of production processes in the Group were also optimized in 2010; these include the optics manufacturing at the Jena site. In 2010, preparations were also made for a group-

30 COMPOSITION OF THE PERSONNEL EXPENSES (in million euros)

	2010	in %
Wages and salaries	158.1	85.0
Social security contributions and costs for retirement provision and support	28.1	15.0
Total	186.2	100.0

AGE STRUCTURE (in percent)

	2010	2009
Over the age of 55	19.1	17.2
30 to 55	65.5	68.8
Below the age of 30	15.4	14.0

31

wide project designed to harmonize the business process landscape. This goes hand in hand with the objective of creating a more standardized ERP system to support these processes. The business process cycle and the way in which this is depicted currently vary in the segments as well as in individual areas of the segments and run on various ERP systems. The objective is to standardize the basic processes and the way they are depicted in an SAP system which is adapted to all areas of Jenoptik but which does allow individual freedom for the detailed requirements of the areas. The project commenced in February 2011. First of all a comprehensive analysis is being conducted of the process landscape. The teams will define current process requirements and so-called target processes. An experienced IT service provider, IDS-Scheer, will assist with the project which is to be completed in 2013.

QUALITY MANAGEMENT

Nearly all the companies in the Jenoptik segments are ISO 9001 certificated. The Jenoptik companies JENOPTIK Optical Systems GmbH, JENOPTIK Polymer Systems GmbH as well as ESW GmbH are ISO 14001 qualified at the Wedel, Essen and Jena site. All passed their review audits in 2010. JENOPTIK Polymer Systems GmbH is also certificated in accordance with the medical technology standards (ISO 13485) as well as the quality management standard for automobile construction (ISO/TS 16949) and therefore meets the stringent requirements in both the health-care and automotive areas. In addition to the re-certification in Germany, companies abroad also successfully passed their certi-

fication audits in 2010. The Israeli joint venture JENOPTIK Opti-Sys Ltd. was awarded its ISO 9001:2008 certification in June 2010 and meets the requirements for the manufacture of medical devices in accordance with ISO 13485:2003. In addition, the Massachusetts site of JENOPTIK Optical Systems Inc. was successfully re-certificated in accordance with ISO 9001:2008. In the Metrology segment, JENOPTIK Robot GmbH has been audited and certificated for the applications and implementation of the requirements under data protection legislation in accordance with the Federal German Data Protection Act. All certifications are renewed annually through the review audit which was successfully passed by all areas in 2010. The Industrial Metrology division was one of the first providers to gain accreditation from DAkkS, the legal successor to the German Calibration Office (DKD) which in future is to be the sole German accreditation agency. In the Defense & Civil Systems segment, ESW GmbH is certificated in accordance with EN 9100, a special quality management system for the aviation and defense industry. This certification was also successfully acquired in 2010 for the ESW Jena site. ^[32]

In 2010, there were no significant new guidelines on the European and/or federal German level that require adaptation of the quality and environmental management systems. All European-wide standards, as well as the stringent requirements of the federal German government, were met by the companies in the Jenoptik segments in 2010.

^[32] CERTIFICATION IN THE GROUP (selection)

ISO 9001	Certification of quality management processes
ISO 9100	Certification of quality management processes specially for the aviation and aerospace industry
ISO 13485	Certification of over-arching management systems for the design and manufacture of medical products
ISO 14001	Certification for the environmental management system
ISO/TS 16949	Certification for the automotive industry
Six-Sigma-method	a statistic based quality management operation

ENVIRONMENTAL MANAGEMENT & SUSTAINABILITY

In 2010, investments in the **environment** were made primarily in the Defense & Civil Systems segment. At the Wedel site, around 75,000 euros were spent on replacing the refrigeration plant and climate-damaging refrigerants replaced with more environmentally friendly materials. This process of replacement will continue in 2011. The construction of a new production hall to meet the stringent requirements of the nature conservation and environmental legislation is being carried out at the segment's Altenstadt site.

In the area of environmental management, a CO₂ lifecycle assessment was conducted for the first time in 2010 for all the German sites. An analysis was carried out of the media consumption levels (electricity, district heating, gas, heating oil, wooden pellets) for all Jenoptik sites. The CO₂ emissions in Germany calculated for the full year 2009 totaled 19,916 tons. As expected, this produced an uneven picture for the segments overall due to the varying media compositions, differing production cycles and an energy mix which varied from location to location. ^[33]

As described in the 2009 Annual Report, work was begun on the energy evaluation of all Jenoptik's own real estate in Germany. A total of 35 buildings were inspected, assessed and fitted with corresponding energy certificates. The preliminary results set out in the 2009 report for two buildings in Jena

which recorded very good results were verified on a German-wide basis during the course of the year. The Jenoptik buildings achieved good to very good results regarding energy consumption. On average they were 75 percent below the standard value of the energy saving regulations for modernized old buildings. The best building achieved just approx. 50 percent of the reference value of 100 percent. Reports containing concrete proposals for energy efficiency are currently being drawn up for each building. On the basis of these reports, Jenoptik will produce a cost-benefit analysis for each building in 2011 and define corresponding measures aimed at reducing the energy consumption of each building. Total costs of around 100,000 euros for the whole project were incurred in the 2010 fiscal year.

Sustainability. Many of Jenoptik's products contribute towards the increased sustainability of business activity, make more efficient use of resources and satisfy the need for greater mobility and security. They help to ensure high quality medical care and enable new production processes to be implemented (see page 66).

^[33] ENERGY CONSUMPTION BY THE JENOPTIK SITES IN GERMANY IN 2009

	2009 ¹⁾
Electricity	33,174 MWh
Gas	10,791 MWh
Wood pellets	616 MWh
District heating	7,632 MWh
Heating oil	1,190 MWh
Water	55,000 cbm

¹⁾ As a result of the figures for the year 2009 being collated for the first time in 2010 there are as yet no figures available for the previous year.

Field of growth: Resource efficiency

With an efficiency level of up to 70 percent, diode lasers are amongst the most efficient artificial light sources in the world.

Various laser applications provide for new, efficient and durable production methods in various sectors.

Thermographic cameras and modules help to optimize the thermal properties of buildings.

LEDs with new concepts for beam guidance and color control are reducing the energy and maintenance costs for lighting systems on a sustainable basis.

High precision metrology for improved combustion engines is helping to reduce fuel consumption and harmful emissions.

Electrical energy and drive systems for vehicles and trains provide for optimized energy management given the continuing increasing demand for energy in vehicles.

Jenoptik products

Jenoptik modules, individual lasers and stacks in the JOLD series with varying wavelengths, designs and types of cooling.

Jenoptik laser processing systems of the JENOPTIK-VOTAN™ product series for the automotive, photovoltaics, electronics, packaging and metal processing industries.

Jenoptik VarioCAM® high resolution thermographic camera and IR-TCM infrared thermographic camera module.

Jenoptik high-speed and high-power chips, point source chips and monolithic display chips.

Products in the Hommel-Etamic and Hommel-Movomatic series for tactile, optical and pneumatic measurement.

The Jenoptik product range includes electrical systems such as high voltage on-board power systems with outputs of between 20 and 500 Kilowatts, as well as on-board power and starter generators.

Field of growth: Infrastructure

The worldwide growing need for mobility calls for comprehensive concepts and systems for safe road traffic. Metrology from Jenoptik is helping to avoid accidents and the resultant economic and environmental consequential costs.

Jenoptik products

Mobile and stationary systems of the TraffiStar. Multiradar. TraffiPatrol brands.

Field of growth: Security

Monitoring sensors and sensor systems provide for secure borders and industrial processes.

Mobile generators provide power supplies to military defense systems for protecting national infrastructures.

Jenoptik products

Jenoptik observation platforms of the NYXUS product family, night-vision equipment and thermal imaging sensors as well as laser medium and long distance rangefinder equipment from the DLEM. ELM and LRF product family.

Power generators and generators.

Field of growth: Health

Lasers are facilitating new and gentle medical and aesthetic procedures, e.g. in the areas of ophthalmology, dermatology and surgery.

Fast, efficient and low cost optical analysis processes simplify home and fast diagnosis, such as e.g. blood sugar level readings.

Metrology ensures the quality of medical devices.

Jenoptik products

Jenoptik solid state lasers from the JenLas® D2.X and JenLas® fiber product family.

Optoelectronic individual and system components in large unit quantities (more than 100 million units) for decentralized and mobile, rapid diagnostics.

Tactile, optical and pneumatic metrology from the Hommel-Etamic product series.

Field of growth: Digital world

Optical systems are used in plants for the manufacture of new chip generations and new semiconductor production processes.

Digital microscopy cameras are used in industry, medicine and science.

Leading camera manufacturers use Jenoptik digital imaging modules.

Jenoptik products

System solutions individually tailored to client requirements for various stages in the semiconductor production process.

Jenoptik CCD and DMOS imaging modules and the ProgRes® microscopy camera

Jenoptik is a Preferred Supplier for the Leica M9.

There are already basic principles in place for environmentally-friendly and sustainable products on the product development process level which meet the stringent German and EU-wide requirements. The task of promoting product and process-integrated environmental protection is an integral part of the group-wide environmental guideline that was expanded in 2009.

Jenoptik also carries out numerous activities to ensure the sustainable design of the working and location environment, including work-life balance, education and further training, junior leadership development, support for children and young people from socially disadvantaged families as well as commitment to other social, scientific and cultural aspects. More detailed information can be found in the Management Report under Employees & management (page 60) as well as under Assets and liabilities not included in the balance sheet (page 76).

According to the SD-KPI Standard 2010-2014, the following three sustainability key indicators were defined for Jenoptik as a company in the "Electronic Equipment, Instruments & Components" sector:

- Proportion of products with "Design for Environment" or Eco label
- Energy and greenhouse gas efficiency of the production/products
- Audit coverage for ILO work standards within the company and in the supplier chain

In the Jenoptik Group, these key indicators are not included in the company's controlling nor have they previously been determined.

PROCUREMENT

As in 2009, purchasing activities were the central, group-wide project within the Jenoptik Excellence Program in 2010. The focus was primarily on the further strengthening of interdivisional strategic purchasing. To this end, on the one hand, the controlling through the addition of group-wide key indicators was expanded; on the other, the post of Group Central Purchasing Director was filled.

The process of Jenoptik's strategic realignment and the associated consolidation of the Group activities are also continually reflected in the close cooperation between the divisions' purchasing departments. A key basis for this – the group-wide standardization of the material groups – was successfully created in 2010. Using the international standard eCl@ss, the materials used in the Group were reclassified and now follow a standardized numerical system. With the exception of one division which will switch over to the new system during the first half-year 2011, all the German companies now operate with the same standard. It is planned to expand this to foreign companies and this has already been achieved in part. This standardization of the material classification now gives Jenoptik a tool as the basis for further improving qualitative and quantitative aspects of purchasing.

In addition to these over-arching measures, the comprehensive operational measures which had already begun in 2009 were also continued in 2010. These included the closer interlinking with the activities to the benefit of the inventory management as well as the improvement in the process landscape and interfaces of purchasing with other areas in the organization.

The Group offset increases in raw material prices through savings resulting from improvements in procurement management, for example through changes in suppliers, outsourcing and design-to-cost measures. Overall, delivery times for some materials were significantly extended in 2010. Jenoptik countered this in close coordination with customers through longer term planning.

Costs of materials & purchased services rose by 8.5 percent to 224.2 million euros reflecting the growth in sales (prev. year 206.6 million euros) and therefore accounted for 40.3 percent of the company performance (prev. year 41.9 percent). Raw materials, consumables and supplies accounted for 163.4 million euros (prev. year 157.2 million euros). The balance of 60.8 million euros corresponds to the level of purchased services and prepayments which also increased by comparison with the previous year (prev. year 49.4 million euros).

Compared with the previous year, the net added value increased by 76.9 million euros to 240.7 million euros.

The net added value, adjusted in 2010 for the income generated through the sale of Jena-Optronik GmbH and in 2009 by reorganization and restructuring costs, rose sharply to 216.2 million euros (prev. year 186.6 million euros) as a result of the growth in sales. With a higher company performance, the strong rise, particularly in the net added value, led to an increase in the added value quota to 40.6 percent (prev. year 37.9 percent). ^[34]

On the distribution side of the added value, personnel expenses accounted for 77.4 percent (prev. year 114.4 percent). As a result of the positive Group result, the share of personnel expenses as a proportion of the added value was lower, although total personnel expenses remained at virtually the same level. ^[35]

^[34] CREATION OF THE ADDED VALUE

	2010		2009	
	in million euros	in %	in million euros	in %
Company performance (sales, income, investment result)	556.6	100.0	492.8	100.0
./. Prepayments (materials)	224.2	40.3	206.6	41.9
./. Prepayments (others)	59.4	10.7	79.4	16.1
./. Depreciation	32.3	5.8	43.0	8.8
Net added value	240.7	43.2	163.8	33.2

^[35] DISTRIBUTION OF THE ADDED VALUE

	2010		2009	
	in million euros	in %	in million euros	in %
Employees (personnel expenses)	186.2	77.4	187.3	114.4
Public sector (taxes)	6.0	2.5	-0.4	-0.3
Creditors (interest)	12.1	5.0	10.8	6.6
Companies, shareholders	36.4	15.1	-33.9	-20.7
Net added value	240.7	100.0	163.8	100.0

2.3 Financial position

The entire planning, controlling and monitoring of how financial resources are utilized is one of the key tasks of Jenoptik's financial management. In addition to a marked reduction in net debt, focus in the 2010 fiscal year was on the continuing stabilization of and improvement in the Jenoptik Group's liquidity situation. In addition to positive cash flows from the active working capital management, the funds raised from the increase in capital, together with liquidity inflows from the sales of shareholdings in caverion GmbH and of Jena-Optronik GmbH, made a significant contribution towards the success achieved in reducing financial liabilities and halving net debt overall in 2010.

FINANCING ANALYSIS

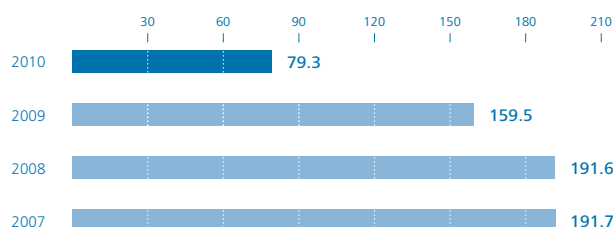
Financing structure. In the 2010 fiscal year, the Jenoptik financing structure was again primarily oriented toward the medium and long term. Financial liabilities were reduced by more than 15 percent in total compared with the previous year to 145.3 million euros (31.12.2009: 171.8 million euros) as a result of redemption payments. As at December 31, 2010 non-current financial liabilities, at 125.9 million euros, accounted for 86.6 percent of the total financial liabilities. A free liquidity framework in the form of credit lines and loans yet unused in the sum of approx. 84 million euros (excluding cash in hand) secured the Group's supply of liquidity.

Non-current financial liabilities (bonds, loans and finance lease) of the Group reduced as a result of redemption payments and conversion of repayment installments becoming due in 2011 to current financial liabilities, to 125.9 million euros since the start of the year (31.12.2009: 158.2 million euros). These essentially comprised non-current bank loans in the total sum of 123.2 million euros as well as a small portion of finance lease in the sum of 2.7 million euros. Non-current bank loans include mortgage loans to the Jenoptik real estate funds in the sum of von 43.1 million euros.

With financial liabilities reduced overall, the proportion of **current financial liabilities** increased slightly as a result of the repayment installments for non-current loans becoming due in 2011 which were correspondingly reclassified from non-current to current financial liabilities. As at the year-end 2010 current financial liabilities totaled 19.5 million euros, and thus less than 14 percent of the total financial liabilities (31.12.2009: 13.5 million euros).

The **debt to equity ratio**, as the ratio between borrowings (346.4 million euros) and shareholders' equity (282.5 million euros), improved in 2010 to 1.23 (31.12.2009: 1.53). The reason for this is a 17.7 percent rise in group shareholders' equity as the result of a positive net income for the year and the capital increase in March 2010 (31.12.2009: 240.0 million euros), with borrowings having fallen by 5.6 percent (31.12.2009: 367.1 million euros).

36 NET DEBT DEVELOPMENT (in million euros)



37 NET AND GROSS DEBT (in million euros)

	2010	2009
Non-current financial liabilities	125.9	158.2
Current financial liabilities	19.5	13.6
Gross debt	145.4	171.8
less securities	0.8	1.1
less cash and cash equivalents	65.3	11.2
Net debt	79.3	159.5

Total cash and cash equivalents, including current securities with a value of 66.1 million euros (31.12.2009: 12.3 million euros), less current financial liabilities in the sum of 19.5 million euros (31.12.2009: 13.6 million euros) produced a marked improvement in the **net cash position** of the Jenoptik Group compared with the previous year, to 46.6 million euros (31.12.2009: minus 1.3 million euros). This is mainly attributable to the positive cash flows in 2010 as well as the increase in cash and cash equivalents resulting from the cash inflows arising from the capital increase as well as the sales of shares in Jena-Optronik GmbH and caverion GmbH.

Following a significant reduction in **net debt** in the 2009 fiscal year and a further reduction in the 1st half-year 2010, Jenoptik Group net debt reported a further significant fall as at the year-end 2010. This was mainly due to the cash inflow in the high single figure million euro range following completion of the sale of the minority shareholding in caverion GmbH in the 3rd quarter as well as the active working capital management. However, the largest reduction in net debt was achieved through the cash inflow arising from the sale of Jena-Optronik GmbH in the 4th quarter 2010. [36] [37]

As at the end of the 2010 fiscal year, Jenoptik Group net debt, halved by comparison with the previous year to 79.3 million euros (31.12.2009: 159.5 million euros). It is defined as the total

derived from financial liabilities including bonds, loans, bills of exchange and finance lease, less cash and cash equivalents and securities. Positive cash flows from operating activities helped enable investments and capital costs to be fully offset. [36]

The gross debt, as the total derived from non-current and current financial liabilities, also reported a significant fall to 145.4 million euros (31.12.2009: 171.8 million euros). [37]

ANALYSIS OF CAPITAL EXPENDITURE

At 15.4 million euros, investments in intangible and tangible assets were up slightly on the figure for the previous year (prev. year 14.4 million euros). 13.3 million euros and consequently the largest portion, was invested in tangible assets, particularly in technical equipment and machinery as well as business and office equipment. In this context a process of consistent investment management is continually applied throughout the Group. Once again, there was only minimal capitalization of development costs. [38] [39]

Investments were offset by scheduled depreciation and amortization in the sum of 25.3 million euros (prev. year: 28.6 million euros). Allowances, at 7.0 million euros, were markedly down on the level for the previous year (prev. year: 14.4 million euros) as 2009 was characterized by negative one-off effects due to the economic crisis.

[38] CAPITAL EXPENDITURE, DISINVESTMENTS AND DEPRECIATION (Intangible assets and tangible assets, in million euros)

	2010	2009	Change in %
Capital expenditure	15.4	14.4	6.9
Intangible assets	2.1	3.8	-44.7
Tangible assets	13.3	10.6	25.5
Disinvestments	1.7	3.0	-43.3
Intangible assets	-0.3	0.2	-250.0
Tangible assets	2.0	2.8	-28.6
Net capital expenditure (capital expenditure less disinvestments)	13.7	11.4	19.3
Depreciation/amortization/impairment	32.3	43.0	-24.9
Intangible assets	7.8	15.5	-49.7
Tangible assets	24.5	27.5	-10.9

At 2.1 million euros, **investments in intangible assets** were nearly 45 percent down on the level for the previous year (prev. year 3.8 million euros). Of this figure, 0.5 million euros was the result of capitalized development costs (prev. year: 1.1 million euros) which, in addition to capitalized patents, trademarks and software, were the reason for the reduction.

Scheduled **amortization on intangible assets** was lower than in the previous year at 4.8 million euros (prev. year: 6.2 million euros), with value adjustments to intangible assets, at 3.0 million euros, significantly reduced compared with 2009 (prev. year: 9.3 million euros). The high value adjustments in the previous year were attributable to the restructuring measures, primarily the withdrawal from the mid format camera business.

In the 2010 fiscal year **investments in tangible assets and investment properties** totaled 13.3 million euros and therefore accounted for more than two thirds of total capital expenditure. The rise compared with the previous year (prev. year: 10.6 million euros) is due to increased investment in technical equipment and machinery. At 9.7 million euros, business and office equipment plus technical equipment and machinery accounted for the majority of the capital expenditure on tangible assets (prev. year: 8.0 million euros).

Scheduled **depreciation on tangible assets** and investment properties totaled 20.6 million euros and therefore exceeded the level of capital expenditure on tangible assets. At 3.9 million euros, **allowances**, which the Jenoptik Group applies as a result of the annual value impairment tests, were down on the figure for the previous year (prev. year: 5.0 million euros). Here again the reasons for the high figure in the previous year were the restructuring measures and locational reorganization carried out in 2009.

The **financial assets** of the Jenoptik Group, at 16.8 million euros, reported a slight fall compared with the figure for the previous year (31.12.2009: 19.2 million euros).

ANALYSIS OF CASH FLOWS

In the liquidity analysis the cash flows in the year 2010 and those of the previous year can be compared in full. The result before working capital changes increased significantly compared with the previous year to 60.3 million euros (prev. year: 24.2 million euros) thanks to the positive earnings before tax. In this context, the positive effects derived from the sale of Jena-Optronik GmbH have already been excluded. In 2010, the Jenoptik Group succeeded once again in meeting all capital expenditure and capital costs entirely out of current cash flows. ^[40]

^[39] CAPITAL EXPENDITURE BY SEGMENT (Intangible assets and tangible assets, in million euros)

	2010	2009	Change in %
Group	15.4	14.4	6.9
Lasers & Optical Systems	6.3	4.2	50.8
Metrology	2.3	2.6	-11.5
Defense & Civil Systems	5.0	5.4	-7.4
Other	1.8	2.2	-18.2

Cash flow from operating activities, at 43.7 million euros, was down slightly on the figure for the same period in the previous year (prev. year 53.3 million euros). The reduction is attributable among other things to the payments made in the 1st half-year 2010 in connection with the personnel measures carried out in 2009. There was also an increase in the working capital necessitated by the recovery in the operating business. However, thanks to the active working capital management, this increase was markedly lower in proportion to sales and was due to a significant extent to the sales-related rise in trade accounts receivable. The Group succeeded in reducing inventories despite the increase in sales. The increase in earnings before tax also had a positive effect. The cash flow from operating activities enabled the company to invest in intangible assets as well as tangible and financial assets without having to take out additional loans.

Cash flow from investing activities, at 30.3 million euros, exceeded the level in the previous year (prev. year minus 12.5 million euros). This figure includes payments for capital expenditure on tangible assets in the sum of 13.2 million euros (prev. year: 10.3 million euros). Investment in intangible assets totaled 2.1 million euros (prev. year: 3.8 million euros). However, the cash flow from investing activities was influenced mainly by the cash inflow from the sale of the shares in caverion GmbH and Jena-Optronik GmbH. The payments in connection with the acquisition of the remaining shares in the laser diode business from the previous minority shareholder reduced the cash flow

from investing activities in the 1st quarter 2010. The business is now once again 100 percent back in Jenoptik hands.

The **free cash flow**, the difference resulting from the cash flow from operating activities before taxes in the sum of 45.0 million euros, less the cash flow from operational investing activities (capex) in the sum of minus 12.1 million euros, is 32.9 million euros (prev. year 41.0 million euros). The reduction is mainly attributable to the significant reduction in working capital in 2009 due to the fall in sales (increase in sales in 2010) and the payment of the personnel restructuring costs for which provision had been made in 2009, which reduced the cash flow in 2010, particularly in the first half-year. The Jenoptik Group generated a significant portion of the free cash flow of 29.9 million euros in the 2nd half-year 2010.

Cash flow from financing activities was minus 20.4 million euros (prev. year minus 42.0 million euros). The main contributory factors here were the proceeds from the 10 percent capital increase in March 2010 in the sum of just under 22 million euros which are included under receipts from allocations to equity. Repayments of bonds and loans, at 49.6 million euros, were lower than for the same period in the previous year, as in 2009 the convertible bond was refinanced and some of the debenture loans were repaid (prev. year minus 112.0 million euros). The reduction in the net debt in 2010 primarily affected cash in hand and had therefore no impact on the cash flow from financing activities.

40 CASH FLOW (in million euros)

	2010	2009
Cash flow from operating activities before changes in working capital	60.3	24.2
Cash flow from operating activities	43.7	53.3
Cash flow from investing activities	30.3	-12.5
Cash flow from financing activities	-20.4	-42.0

2.4 Asset position

All the shares in Jena-Optronik GmbH were sold in the 2010 fiscal year and the company was deconsolidated with effect from November 30, 2010. The assets and liabilities of this company are therefore no longer included in the balance sheet items as at December 31, 2010. For this reason, the balance sheet items as at December 31, 2010 only provide for limited comparison with those as at December 31, 2009, with the figures for the previous year shown below in brackets still including the figures for Jena-Optronik GmbH.

ANALYSIS OF THE ASSET STRUCTURE

The accounting and valuation policies applied for purchases of companies, intangible and tangible assets including investment properties (real estate which is primarily leased to third parties) as well as financial instruments, in particular securities held for sale, are explained from page 128 of the Notes to the Annual Report.

The sale of Jena-Optronik GmbH was executed on December 3, 2010.

Despite this sale, in the 2010 fiscal year just past the **balance sheet total** of the Jenoptik Group increased to 628.9 million euros (31.12.2009: 607.1 million euros). The 21.8 million euro rise is mainly attributable to an increase in cash and cash equivalents as well as the rise in shareholders' equity.

Non-current assets were down by 26.2 million euros to 310.7 million euros (31.12.2009: 336.9 million euros). The main reduction was in tangible and intangible assets, investment properties and financial assets. This was due on the one hand to the sale of Jena-Optronik GmbH and on the other to disinvestments, depreciation/amortization and allowances which exceeded the volume of investment. ^[41]

At 56.2 million euros, goodwill was the largest item under intangible assets (31.12.2009: 59.1 million euros).

Tangible assets were lower as a result both of the sale of Jena-Optronik GmbH as well as the fact that the volume of investment was below the level of depreciation, particularly in the real estate area. Tangible assets fell by 12.7 million euros to 139.4 million euros (31.12.2009: 152.1 million euros). There were reductions particularly in buildings, including buildings on third party land, other equipment, business and office equipment as well as technical equipment and machinery.

Financial assets, including shares in associated companies, reduced to 16.8 million euros (31.12.2009: 19.2 million euros).

Current assets rose by 48.0 million euros to 318.2 million euros (31.12.2009: 270.2 million euros). This is mainly attributable to the 54.1 million euro rise in cash and cash equivalents to 65.3 million euros (31.12.2009: 11.2 million euros).

^[41] COMPOSITION OF THE NON-CURRENT ASSETS (in million euros)

	2010		2009		Change in %
Intangible assets	72.4	23.2 %	78.0	23.1 %	-7.2
Tangible assets incl. investment properties	161.5	51.7 %	176.6	52.4 %	-8.6
Financial assets	16.8	5.4 %	19.2	5.7 %	-12.5
Other non-current assets	9.1	2.9 %	11.0	3.3 %	-17.3
Deferred tax assets	50.9	16.8 %	52.1	15.5 %	-2.3
Total	310.7	100.0 %	336.9	100.0 %	-7.8

Current assets also no longer include the inventories, receivables and other assets of Jena-Optronik GmbH as at December 31, 2010. As a result, this left receivables and other assets at the same level as the previous year, whilst inventories actually showed a slight fall despite the increased volume of sales. However, this was also a reflection of the active receivables and inventory management which continued in 2010 as one of the objectives of the Jenoptik Excellence Program that has been implemented throughout the Group. Inventories as at December 31, 2010 totaled 148.8 million euros (31.12.2009: 154.7 million euros), receivables and other assets 103.3 million euros (31.12.2009: 103.2 million euros).

The **working capital**, defined as the total derived from trade accounts receivable and inventories, less trade accounts payable, liabilities arising from PoC and on-account payments received, remained virtually unchanged at 164.6 million euros (31.12.2009: 166.4 million euros) despite the growth in sales, resulting both from the active working capital management as well as the fact that Jena-Optronik GmbH was no longer included in the figures as at December 31, 2010. The working capital quota, the ratio between working capital and sales, improved to a purely mathematical 32.2 percent (prev. year 35.1 percent) as a result of the increase in sales. Excluding the contributions to sales from Jena Optronik GmbH, the working capital quota was 34.4 percent (prev. year 36.4 percent), with contributions coming from all three segments.

The **shareholders' equity**, including minority holdings, rose by 42.5 million euros to 282.5 million euros (31.12.2009: 240.0 million euros). This was helped by the proceeds of the capital increase as well as the profit reported for 2010. At the beginning of March 2010, Jenoptik carried out a 10 percent capital increase which raised approx. 22 million euros for the Group. This is to be used for growth in the core business plus the continuing process of internationalization. Detailed information can be found in the Notes, point 25.

Since the balance sheet total as at December 31, 2010 increased at a lower rate in proportion to the shareholders' equity, the **shareholders' equity ratio**, as the ratio between shareholders' equity and balance sheet total, reported a significant improvement from 39.5 percent at the end 2009 to the new figure 44.9 percent. ^[42]

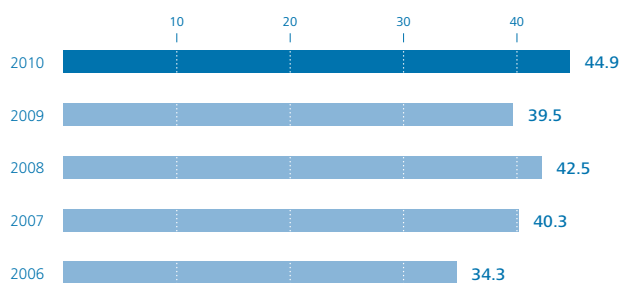
Non-current liabilities reduced by 40.5 million euros to 165.3 million euros (31.12.2009: 205.8 million euros). This was mainly attributable to a fall in non-current liabilities to banks, down to 123.2 million euros (31.12.2009: 154.4 million euros) as the result of the early repayments of bank loans and the reclassification of installments due in just under 12 months to current financial liabilities. Other non-current liabilities reduced to 11.7 million euros (31.12.2009: 20.1 million euros). This was due to the reclassification of one non-current liability to current provisions after a silent shareholder in one of the real estate

^[42] CASH AND CASH EQUIVALENTS (in million euros)

	2010	2009
Cash/credit bank balances	65.3	11.2
Current securities	0.8	1.1

SHAREHOLDERS' EQUITY RATIO (in percent)

^[43]



funds had given notice of his decision to sell his shareholding. Pension commitments and other non-current provisions showed virtually no change.

Clauses that take effect in the event of a change of control in the shareholder structure of JENOPTIK AG as the result of a takeover bid exist in one agreement that relates to certain rights of use, as well as for various financing agreements, including one debenture loan with a utilized volume of 91.4 million euros. Detailed information can be found in the Management Report under Basic features of the remuneration system from page 40 as well as under Supplementary details in accordance with the Directive on Takeover Bids Implementation Act from page 43.

Current liabilities rose by 19.7 million euros to 181.0 million euros (31.12.2009: 161.3 million euros). Contributions to the increase came from the reclassifications of non-current to current liabilities resp. provisions. This was also reflected in the increase in current financial liabilities to 19.5 million euros (31.12.2009: 13.6 million euros). Other current provisions also increased to 61.9 million euros (31.12.2009: 40.6 million euros) as a result of the reclassification of a non-current liability and the growth in business volume.

By contrast, **liabilities from operating activities** were reduced to 59.3 million euros (31.12.2009: 69.0 million euros) mainly as a

result of the sale of Jena-Optronik GmbH. The PoC liabilities fell to 0 million euros (31.12.2009: 6.6 million euros). Reduced trade accounts payable in the sum of 31.6 million euros (31.12.2009: 38.5 million euros) were offset by increased liabilities arising from on-account payments received in the sum of 27.7 million euros (31.12.2009: 23.8 million euros).

Liabilities to investment holdings fell from 3.3 million euros at the end of 2009 to 0.6 million euros as at December 31, 2010. Other non-current liabilities increased to 35.7 million euros (31.12.2009: 30.2. million euros).

EXPLANATION OF PURCHASES AND SALES OF COMPANIES

In the 2010 fiscal year just past, the Jenoptik Group continued, as planned, with its strategic focus and process of internationalization.

During the course of the consolidation in the European aerospace business, Jenoptik sold all its shares in its subsidiary Jena-Optronik GmbH, which had operated the Group's aerospace business, to Astrium GmbH. After approval was received from the relevant anti-trust authorities at the end of November 2010, the sale was executed on December 3, 2010. The deconsolidation of Jena-Optronik GmbH took effect from November 30, 2010, consequently only a small proportion of the contributions to sales and earnings were not included in the 2010

44 FINANCIAL LIABILITIES BY DUE DATE (in million euros)

	Up to 1 year		1 – 5 years		Over 5 years		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Liabilities to banks	18.5	12.5	83.7	113.9	39.4	40.5	141.7	166.9
Liabilities from finance lease	1.0	1.1	1.7	2.5	1.0	1.3	3.7	4.9
Total	19.5	13.6	85.4	116.4	40.4	41.8	145.4	171.8

full year. In 2010, the aerospace business contributed 31.9 million euros to sales and 2.9 million euros to the Jenoptik Group EBIT. The cash inflow from the sale made an important contribution towards the significant reduction in the net debt of the Jenoptik Group, down to 79.3 million euros. All 128 employees of Jena-Optronik were taken on by Astrium GmbH.

With the sale of its 15.1 percent minority holding in caverion GmbH to the Finnish listed construction and technology group YIT in the 2nd quarter 2010, the Jenoptik Group continued to focus on its core business. The transaction was successfully completed in the 3rd quarter 2010 with Jenoptik receiving a net cash inflow in the upper single figure million euro range. In addition, existing receivables and liabilities were cancelled. As expected, the Group was able to generate a non-operating income. With the completion of the sale in the 3rd quarter 2010, Jenoptik was released from all guarantees issued to or for caverion by way of a corresponding cross guarantee of the YIT Group as well as from other financing obligations.

ASSETS AND LIABILITIES NOT INCLUDED IN THE BALANCE SHEET

The main assets not included in the balance sheet include the value of the Jenoptik brand. The firm of semion brand broker gmbh calculated a total brand value of 85 million euros in November 2010 (prev. year 87 million euros). The Jenoptik brand is therefore one of the 50 leading German brands and occupies the number 39 spot in the rankings (previous year 40).

In the 2010 fiscal year just past, Jenoptik continued to implement its umbrella brand strategy. A uniform umbrella brand has enabled the Group to operate on a more unified basis since January 2009 and to be represented as a single entity in dealings with customers, business partners and the wider public. The new, globally uniform logo reflects the Group's global convergence. On February 1, 2010, ROBOT Visual Systems GmbH changed its name to JENOPTIK Robot GmbH and consequently also completed the switch to the uniform umbrella brand used throughout the Group. This was accompanied by a change in the company's external presence under the Jenoptik brand. The Robot brand will be continued as a so-called ingredient brand.

Information on contingent liabilities not included in the balance sheet can be found in the Notes under point 36.

Intangible assets not included in the balance sheet were not valued as a whole or on an individual basis also in the 2010 fiscal year.

Our success is based on the success of our customers. Technology-intensive products and systems can often only be created in collaboration with the client. This calls for mutual trust and knowledge of the customers' needs, so we see the

long-term collaboration with many of our key clients as the main intangible asset. This is also reflected in the orders totaling around 123.6 million euros that extend beyond the year 2011 (prev. year 120 million euros).

We also consider our employees' know-how and experience gained over many years, as well as their commitment and loyalty to the company, to be one of the intangible assets. We believe that this is borne out by the low fluctuation rate of 2.5 percent (prev. year 4.3 percent).

The success of our product and technology developments is crucial to our technology intensive business. We see the know-how that we have accumulated over many years in the field of research and development, as well as in respect of processes and projects, as another important intangible asset. We believe that other intangible assets include our numerous partnerships, formal and informal contacts with suppliers and business partners worldwide, as well as with universities, institutes of applied science and research institutions. We are helped in this respect by our primary location in Jena which enjoys an excellent reputation amongst both scientists and clients as an "Optical Valley". We are conscious of this and are keen to promote the scientific, cultural and social aspects of the location. Our sponsorship activities at the Jena site are focused on the development of and training for young people and on making our location more attractive. In 2010, these activities totaled approx. 0.1 million euros (prev. year 0.1 million euros).

SUMMARY | GENERAL STATEMENT ON THE ECONOMIC SITUATION

In 2010, the economic situation of the Jenoptik Group showed a sustained improvement, as can be seen from the statements on the earnings, finance and asset position. With a moderate rise in sales, we recorded a significant increase in the Group operating result – in terms of both pure operating profit as well as inclusive of one-off effects. The increase in operative earnings is a consequence of both the rise in sales and especially of improved cost structures. The restructuring measures implemented in 2009 and the continuation of the Jenoptik Excellence Program had an impact in 2010.

Positive one-off effects in the Group operating results were primarily attributable to the sale of Jena-Optronik GmbH. Here, we took advantage of the time window of a consolidating space market. Decisions to sell of this kind are made after weighing up the opportunities for all participants. For Jena-Optronik GmbH, the new owner will be better able to ensure growth than we could have. At the same time, we generated revenues, which boosted our financial basis and are now available to finance growth. The loss of sales and earnings contributions is expected to be offset as early as 2011.

Together with the capital increase in March 2010, the sale of minority interests in caverion GmbH and ongoing consistent working capital management, the sale was a key factor in halving our net debt, which now stands at only 79.3 million euros.

A key contribution was also made by our consistently positive cash flow, which despite an expansion of business and payment of settlements, for which provisions had been made within the framework of restructuring measures, was again in the mid double-digit million euro range. We are on a solid financial footing.

A sharp rise in order intake in the fiscal year 2010 will play its part in the success of the company in the current fiscal year and beyond. It proves the right orientation of our research & development and that our products and services are in demand internationally. Several major orders we received in 2010, some of which will run for many years, are testament to the trust our customers place in us now and in the future.

3 SEGMENT REPORTING

Our segment reports are prepared in accordance with IFRS 8 "Business Segments". The reporting is carried out on the basis of the group internal organization and management structure as well as the internal reporting structure. The Executive Board evaluates the financial information which provides a basis for decision-making. The basic principles of valuation and accounting for the segments are the same as those described for the Group as a whole in the Basic principles of accounting in the Notes on page 121.

The reports are presented with reference to the Lasers & Optical Systems, Metrology and Defense & Civil Systems segments. With the exception of the segment operating result, referred to below as the segment EBIT, all information can be compared with the figures published in the previous year as Jenoptik has been showing these after the Group charge since 2010. In this report, the comparison figures for the year 2009 were adjusted.

3.1 Lasers & Optical Systems segment

The segment comprises the Lasers & Material Processing and Optical Systems divisions. The segment reported increases in all its key indicators in 2010.

SALES, EARNINGS AND ORDER BOOK SITUATION

Sales of the segment, at 188.9 million euros, came in 13.3 percent higher than in the previous year (prev. year 166.7 million euros). The 22.2 million euro net increase in sales is primarily attributable to the strong demand from the semiconductor industry. This had already begun in the 2nd half-year 2009 and continued in 2010, with the resultant increase in sales for the year as a whole from this sector by the Optics and MicroOptics business units of the Optical Systems division. The Lasers & Material Processing division posted a positive performance in sales of diode lasers and solid state lasers. In the Laser Processing Systems business unit, the segment benefited from increasing demand for laser processing systems for the automotive industry. By contrast, sales of laser processing systems for photovoltaics remained below expectations.

Jenoptik generated approx. 70 percent of the segment sales abroad (prev. year 69 percent), similar to the level in the previous year. There was a marked increase in sales by the segment's US optical sites in the USA, where in 2010 Jenoptik invested heavily in production facilities, among others for the

45 LASERS & OPTICAL SYSTEMS SEGMENT AT A GLANCE (in million euros)

	2010	2009	Change in %
Sale	188.9	166.7	13.3
EBIT	13.3	-16.5 ¹⁾	++
Order intake	230.2	168.4	36.7
Order backlog	98.8	59.9	64.9
Employees	1,234	1,284	-3.9

1) after one-off effects

manufacture of diamond-turned infrared optics which already achieved a marked contribution to sales in the 2nd half-year 2010.

The **segment EBIT** reached 13.3 million euros compared with minus 0.7 million euros in the previous year (minus 16.5 million euros including one-off effects in the previous year). The increase was the result of the growth in sales as well as cost saving and efficiency measures which are carried out in 2009 and 2010 mainly in the production of optics and lasers. The increased share of added value as a result of the increasing systems business in the Optical Systems division also had a positive effect on results.

The segment posted a 36.7 percent rise in its **order intake** to 230.2 million euros (prev. year 168.4 million euros), resulting from the continuing high level of demand from the semiconductor industry as well as for medical and diode lasers. The figure includes a major order for medical lasers from a US customer which will extend over three years and, at nearly 12 million euros, was one of the largest orders for laser systems in the company's history. There was increased demand for laser processing systems from the automotive industry. The demand from the photovoltaics industry, in particular for the manufacture of thin-film solar cells, remained below expectations. This was offset by Jenoptik with the launch of new modular laser processing systems for crystalline photovoltaics. Demand rose as at the end of the year, particularly for modular systems.

The segment recorded a book-to-bill ratio of 1.22 (prev. year 1.01). The **order backlog** increased accordingly in net terms by 38.9 million euros to 98.8 million euros (31.12.2009: 59.9 million euros) and accounted for 47 percent of the sales in the current fiscal year.

INFORMATION ON OTHER KEY INDICATORS

The segment **R + D expenses**, at 12.6 million euros, were nearly 20 percent lower than in the previous year (prev. year 15.7 million euros). The reduction is essentially the result of the relinquishment of the mid format camera business that had still been included in the figures for the 1st half-year 2009, as well as from the reduction in employees, including some in R + D in 2009. The R + D output was 17.5 million euros (prev. year 22.0 million euros)

Key development projects in the Optical Systems division are carried out jointly with the customers, primarily from the semiconductor industry. Developments in the Lasers business unit are focused on diode lasers for direct applications, miniaturized designs and the further development of manufacture for efficient mass production. The 2010 Jenoptik Innovation Award went to the diode-pumped green JenLas® D2.mini thin-disk laser. Its compact design provides for new applications mainly in the medical and entertainment area. With an improved beam quality, the size of the housing was reduced by more than a factor of 3. The advantages it offers are efficient mass production and easy integration into various types of equipment. The new compact laser went into mass production in Jena in June 2010.

Employees & management. As at December 31, 2010, the Lasers & Optical Systems segment employed a total of 1,234 persons and therefore 50 or 3.9 percent fewer than at the end of 2009 (31.12.2009: 1,284 employees). The segment employed a total of 128 persons abroad (prev. year 113). In order to meet the demands of our ongoing internationalization, employees were hired abroad, among others in management and sales. In the Optics and Optoelectronics business units, the Optical Systems division focused its training activities on basic training in project management. A total of 110 employees took part in the three-day training sessions. In addition, 29 employees qualified as certified project management specialists (GPM – Deutsche Gesellschaft für Projektmanagement e.V.) in the Optical Systems and Lasers & Material Process-

ing divisions. The Jenoptik Junior Leadership Program (J²LP) was successfully completed by ten participants, and six further participants started the program.

Production & organization. Within the framework of the Jenoptik Excellence Program, internal processes were optimized in virtually all of the segment's manufacturing areas. Diode lasers have been manufactured at the Jena site in accordance with the principles of lean production since the end of 2009. In the Micro Optics business unit, training on the Six Sigma method began in 2010. In the Optics business unit, the entire production was restructured in 2010 without interrupting work and now follows the manufacturing process for optics, with optimized procedures and utilization of space. Parts of the optics production at the Giessen site that was closed in 2009/2010 were also integrated.

The corporate structure of the segment was also streamlined and adapted to the group structure in the 1st half-year 2010. In order to make even better use of the synergies in the USA in future, all US optics companies were amalgamated within JENOPTIK Optical Systems Inc. with effect from January 1, 2010. With a total of 128 employees as at December 31, 2010, the company is headquartered in the USA at Jupiter (Florida). Other locations are Easthampton (Massachusetts), Huntsville (Alabama) and Rochester Hills (Michigan). On April 1, 2010, the Berlin-based EPIGAP Optoelektronik GmbH was merged with JENOPTIK Polymer Systems GmbH. Triptis, with retrospective effect from January 1, 2010. In May 2010, the limited company structures were adapted in Germany. The Laser Technology business area of the former JENOPTIK Laser, Optik, Systeme GmbH and JENOPTIK Laserdiode GmbH merged to form JENOPTIK Laser GmbH. The former JENOPTIK Laser, Optik, Systeme GmbH therefore operates exclusively in the area of optics and optoelectronics and since then has traded under the name of JENOPTIK Optical Systems GmbH.

Capital expenditure of the Lasers & Optical Systems segment totaled 6.2 million euros (prev. year 4.2 million euros). The increase is due on the one hand to the expansion of the production sites in the USA and on the other to capital expenditure

in new machinery and systems in connection with the restructuring of optics production at Jena.

Marketing. In addition to the new Internet portal that went 'live' for the whole of the Jenoptik Group in March 2010, the Optoelectronic Systems business unit opened an online shop in October 2010. It will be used for marketing standard products such as LEDs, chips and photo diodes. In addition, a customer relationship management system was introduced in the Optical Systems division in 2010. In 2010, the segment showcased itself at numerous trade fairs at home and abroad. ^[46]

PRODUCTS & TECHNOLOGIES

The segment presents new products, technologies and production processes each year in January at the sector's key trade fair, "Photonics West", in San Francisco. The **Lasers & Material Processing division** showcased the full value-added chain for OEM laser beam sources – from semiconductor material, single lasers, diode laser stacks, fiber-coupled modules to thin-disk and fiber lasers. In addition to laser bars with new wavelengths that are particularly suitable for applications e.g. in the print industry, the division launched a new diode laser module with integrated qcw stack that was developed for industrial, military and medical applications. In addition to direct applications, Jenoptik concentrates on the further development of and improvement in the pumping properties of its laser bars and diode lasers, in particular for fiber laser pumping. It also pre-

SELECTED TRADE FAIRS IN 2010

January	Photonics West, San Francisco, USA
March	Technologies Hi-Tech, Tel Aviv, Israel
March	Laser World of Photonics China, Shanghai, China
April	Light+Building, Frankfurt/Main, Germany
June	Optatec, Frankfurt/Main, Germany
July	Semicon West, San Francisco, USA
September	PVSEC Valencia, Spain
October	Euroblech, Hannover, Germany
November	ComPaMed, Düsseldorf, Germany

sented the new optical isolator product line for high power lasers as well as the new and more powerful infrared thin-disk laser for photovoltaics and micro materials processing. In mid 2010, Jenoptik presented new laser processing systems for the manufacture of crystalline solar cells at the photovoltaics trade fair PVSEC in Valencia, Spain. The modular laser processing systems which allow the integration of various handling processes attracted a great deal of interest. In addition, in 2010 the range was expanded by the addition of laser processing systems for 3D metal processing. New machine concepts for metal processing provide in particular for cutting and welding to meet complex and individual requirements.

The **Optical Systems division** is a full service provider and development partner for complex system solutions. Within the division the integration of competencies ranging from classical optics, polymer optics, micro-optics, optoelectronic systems, digital image processing to hardware and software allow for innovative customer-tailored solutions. The new products showcased at Photonics West included LED displays for mobile devices with a marked reduction in energy consumption and a hundredfold higher luminosity. The division also presented optical precision components, OEM imaging modules and light modulators. New processes for diffractive and refractive structures for calcium fluoride (CaF_2) from the Micro Optics business unit are aimed specially at the semiconductor industry which is particularly important regarding optical systems and components in the division. The developments in the Optoelectronic Systems business unit are reflecting the market trend towards small, compact modules and systems. In this context, the advantages lie not just in miniaturization but also in weight reduction. To meet the increasing demand, Jenoptik presented innovative free-form surfaces and micro lens arrays in 2010. The use of plastic also allows for low cost manufacture, making the use of these components attractive for various markets, among others automotive & mobility, lighting, health care and life sciences as well as sensor systems. The Digital Imaging business unit was expanding its ProgRes® CCD range of microscopy

cameras by adding the so-called *SpeedXT^{core}* technology with rapid live image and a correspondingly enhanced operating process for the user. Thanks to the live image speed, which has been increased by 2 to 3 times and combined with high resolution, the preparation can be sharpened and positioned with even greater ease and the focusing time reduced.

INTERNATIONALIZATION

In 2010, the segment expanded its international presence primarily for the laser business in Asia and optics production in the USA. The new Laser Application Center in South Korea opened in March 2010. This will enable customers and potential customers to locally test lasers and laser applications and further develop their processes in conjunction with Jenoptik engineers. A significant amount has been invested in this Center, approx. 3.4 million euros – mainly in 2009. In conjunction with the longstanding partner Kantum Electronics Co. Ltd, Jenoptik expanded its presence in Japan in November 2010. Since then, the previous joint venture between Jenoptik and Kantum, JENOPTIK Laserdiode Japan Co., which primarily specialized in the sale of diode lasers, has been trading as JENOPTIK Japan Co. Ltd. Both the Laser Application Center in Korea as well as the Japanese Jenoptik company are available to assist all of the Group segments. The Optics business in particular, which up to now has only had a minimal presence in Asia, aims to markedly expand its local activities from 2011.

The sale of lasers in the USA has been intensified in addition to the capital expenditure and streamlining of the optics organization. The collaboration with the longstanding partner RPMC Lasers Inc. was expanded in November 2010. In addition to the sale of high power diode lasers and semiconductor materials, RPMC is now also an exclusive partner for solid state lasers and at the same time was appointed “Exclusive Distributor in North America” for all Jenoptik laser beam sources. This means that Jenoptik now offers the North American market the entire technology chain – from standard products through to special versions designed to customer specifications.

ACQUISITIONS, COOPERATION ARRANGEMENTS & OTHER KEY EVENTS

There were no acquisitions in the Lasers & Optical Systems segment in 2010. Jenoptik is a partner in various cooperation arrangements, development projects and initiatives. A new addition in 2010 was the Berlin-based initiative "WideBaSe", which is aimed at the development, manufacture and sale of materials based on wide bandgap semiconductors. Jenoptik is one of ten companies participating in this initiative. The Thuringia-based joint project CoLight that develops and tests LED-based intelligent and energy-efficient lighting systems was also presented in March 2010. The Jenoptik Optoelectronic Systems business unit is involved in this project.

In January 2010, the Digital Imaging business unit of the Optical Systems division was appointed preferred supplier to Leica Camera AG. The longstanding partners also agreed to expand their collaboration to other projects. Jenoptik was awarded the preferred supplier status as a result of the excellent production and rapid ramp-up of production capacities for components for the LEICA M9 rangefinder camera. As a result of the camera's market success, Jenoptik supplied four times the volume of the originally planned number of units in 2010.

3.2 Metrology Segment

The Metrology segment comprises the Industrial Metrology and Traffic Solutions divisions. After the sharp fall in sales and results in 2009, the segment succeeded in recovering faster than had been anticipated in 2010.

SALES, EARNINGS AND ORDER BOOK SITUATION

Sales of the segment totaled 113.8 million euros (prev. year 96.0 million euros). The 18.5 percent increase or 17.8 million euros in net terms came from both divisions. The Industrial Metrology division benefited from a faster and strong recovery in the automotive industry which has been investing more heavily in production equipment since the beginning of 2010. This was already reflected in the sales of the division in the 2nd half-year 2010. In the 1st quarter 2010, the Traffic Solutions division was awarded a major order for more than 12 million euros. This was settled in full in the 3rd quarter 2010 and is one of the reasons for the rise in the foreign share of sales to approx. 66 percent (prev. year 61 percent).

For Jenoptik, the segment EBIT benefitted from the comprehensive measures aimed at reducing costs in the previous year and came in at 8.6 million euros compared with a minus of 6.2 million euros in 2009 (minus 14.6 million euros including one-off effects in the previous year). Contrary to original expectations, the EBIT of the Industrial Metrology division recorded

47 METROLOGY SEGMENT AT A GLANCE (in million euros)

	2010	2009	Change in %
Sales	113.8	96.0	18.5
EBIT	8.6	-14.6 ¹⁾	++
Order intake	137.0	83.2	64.7
Order backlog	45.1	21.9	105.9
Employees	632	769	-17.8

1) after one-off effects

a very good development, posting a marked positive result and consequently exceeded the target of achieving the break-even on a month by month basis at the end of the year. As with the sales, the major order in the Traffic Solutions division was also reflected in a marked increase in the EBIT in the 2nd half-year. The EBIT of Traffic Solutions also benefited from location improvements in the previous year, particularly abroad.

The segment posted a 64.7 percent increase in its **order intake**, or 53.8 million euros in net terms, to 137.0 million euros (prev. year 83.2 million euros). This was due to the rapid recovery in demand from the automotive industry since spring 2010, as well as the abovementioned major order for the Traffic Solutions division. The Traffic Solutions division was also awarded an order for a new concept in speed monitoring at the beginning of 2010. TraffiSection® monitors the average speeds of road traffic users over a specific section. The system, which offers the option of combining mobile and stationary units, was sold to Switzerland, to Austria and an Arabian country and has consequently successfully positioned itself in the market within a short space of time. The total order volume was approx. 4.0 million euros.

The book-to-bill ratio increased to 1.20 compared with 0.87 in the previous year. The segment posted a correspondingly positive **order backlog**. This more than doubled to 45.1 million euros (31.12.2009: 21.9 million euros) although the major order for Traffic Solutions had already been settled and was therefore no longer included in the order backlog.

INFORMATION ON OTHER KEY INDICATORS

The segment **R + D expenses** totaled 8.6 million euros and therefore showed a slight increase over the previous year (prev. year 8.3 million euros). The R + D output, which includes developments on behalf of customers, totaled 12.4 million euros (prev. year 11.9 million euros). The central development themes in the Industrial Metrology division continue to be systems that combine various measurement technologies, the expansion of

the range of small mobile devices as well as the standardization of the system software. In the Traffic Solutions division, the focus of the developments is on three-dimensional recording with laser and radar technologies.

Employees & management. In 2010, there was a reduction in the number of employees in the Metrology segment – from 769 at the end of 2009 to 632 as at December 31, 2010. This is primarily attributable to the Industrial Metrology division. 178, or approx. 28 percent, of the employees in the segment worked abroad (prev. year 288 or approx. 37 percent). 100 employees in the Industrial Metrology division were still on short-time working at the beginning of 2010, but this figure had fallen to zero by the end of the year. Nine participants successfully completed the Jenoptik Junior Leadership Program (J²LP).

Production & organization. Comprehensive restructuring of the locations in the Industrial Metrology division were primarily carried out back in 2009. Structures existing in parallel were amalgamated in Germany. In the 2010 fiscal year, the differing requirements of the two business models in the area of distribution were taken into account with the organizational separation of project and standard business. The optimization of the production processes in the Traffic Solutions division was con-

SELECTED TRADE FAIRS IN 2010

48

March:	Control France, Paris, France
March:	Intertraffic, Amsterdam, the Netherlands
May:	Control, Stuttgart, Germany
August:	Control, Shanghai, China
September:	IMTS, Chicago, USA
November:	Roadex Raillex, Abu Dhabi

tinued. As a result of the major orders with relatively short delivery times, increased demands were placed on the production throughput. The division takes account of this through the increasing standardization of the product range.

In 2010 the segment's **capital expenditure** totaled 2.3 million euros (prev. year 2.6 million euros). The Traffic Solutions division invested in, among other things, new vehicles for traffic monitoring. Together with the systems for Traffic Service Providing which are installed into them, these are loaned to local authorities over a predefined period and therefore remain the property of the division.

Marketing. The Traffic Solutions division completed the change-over to the Jenoptik umbrella brand which has been standardized throughout the Group with effect from February 1, 2010. The Industrial Metrology division also invested in its international web presence. In addition to the new website within the framework of the standardized Internet presence on a group-wide basis, the division showcased itself with regional Internet sites in China and for the French-speaking region. The segment also presented its range of services at numerous domestic and foreign trade fairs. ^[48]

PRODUCTS & TECHNOLOGY

The segment presented new products and technologies at the two leading headline trade fairs, Control for the Industrial Metrology division and Intertraffic for the Traffic Solutions division.

In 2010, the **Industrial Metrology division** launched a number of new products. The internal test sensor was developed for the optical surface inspection of cylindrical bores and is suitable for use in fully-automated, 100 percent parts inspection. The 360° panoramic lens does not require the workpiece or the sensor system to be rotated and thanks to its very short image capture time of 5 to 7 seconds a complete cylindrical bore can be fully inspected for damage. One new addition in the area of optical shaft measurement systems is a solution specially

designed for small crankshafts or larger gear shafts. Jenoptik has been manufacturing optical shaft measurement systems for around ten years with its opticlone CONTOUR product family. The 1,000th system left the Jena production site in summer 2010. With a diameter of just 0.612 mm, the newly launched air spindle is specially designed for the pneumatic, contactless measurement of very small bores, for example those used on injection parts. Jenoptik has also launched a new generation of analysis software for roughness and contour measurement.

The product highlight of the **Traffic Solutions division** was the 3D Tracking Radar launched in 2010. This innovative sensor system for recording speeding vehicles and red light infringements monitors a number of vehicles simultaneously. Using a precise lane assignment it offers optimum analysis rates and indisputable evidence. Thanks to the further development it is now possible to simultaneously record and track up to 32 objectives on various lanes. It also operates on a "non-invasive" basis, which means that no sensors have to be installed in the road. This significantly minimizes the installation costs as well as the follow-up costs. The presentation of the product in Switzerland in autumn 2010 generated significant international interest not only among specialists but also by the general media. In 2010, the Traffic Solutions division also launched a new camera technology. The so-called SmartCamera® IV is the integration of two special cameras in a compact housing. Combining them provides e.g. for video monitoring with continuous number plate recognition as well as photographic recording of the infringement within one compact unit.

INTERNATIONALIZATION

In the fiscal year just past, the Metrology segment extensively broadened its international presence. The new site in China was officially opened in May 2010. Project planning, production, sales as well as an application and training center for the Industrial Metrology division are all now located under one roof in an area covering approx. 1,500 square meters. The new building in the Shanghai Pudong Industrial Zone significantly expanded the production capacities and the Service Center.

Customers can test and receive training on the measurement equipment in a training and demonstration room. The amalgamation of the division's existing activities with AES Auto Equipment Co. Ltd. acquired in 2009 has therefore now been completed. Other Group divisions can also access the know-how in procurement as well as the assembly capacities.

The division benefited from its presence in key markets for the automotive industry, i.e. in addition to China also in India, by winning orders for totally equipping motor plants at various locations with production metrology. For example, in autumn 2010 the division successfully completed the delivery of state-of-the-art metrology for a total of three General Motors plants in Thailand, India and Uzbekistan, including a corresponding after-sales concept.

ACQUISITIONS, COOPERATION ARRANGEMENTS & OTHER KEY EVENTS

There were no acquisitions in the Metrology segment in 2010. There are cooperation arrangements in place with numerous partners and institutions. In Traffic Solutions, a sponsorship project in Weimar, supported by Jenoptik, took 1st prize within the framework of the campaign entitled "Roads to Respect" staged by the European Road Traffic Safety Council.

3.3 Defense & Civil Systems Segment

In the Defense & Civil Systems segment, the sale of Jena-Optronik GmbH took place on December 3, 2010. The company was deconsolidated with effect from November 30, 2010. The figures for the segment include Jena-Optronik up to the date of deconsolidation – unless stipulated otherwise.

SALES, EARNINGS AND ORDER BOOK SITUATION

The Defense & Civil Systems segment posted sales of 205.8 million euros, virtually the same level as in the previous year (prev. year 205.3 million euros). The figure includes sales of 31.9 million euros of Jena-Optronik GmbH, which was subsequently sold. Consequently, the sales for 2010 after adjustment for the sale totaled 173.9 million euros. Foreign sales were 47.6 million euros.

The segment EBIT, at 11.5 million euros, was down slightly on the previous year (prev. year 12.2 million euros) as the result of a change in the sales mix. The aerospace business, which has since been sold, made a contribution to earnings of 2.9 million euros so after adjustment for the sale, the segment EBIT was 8.6 million euros. The one-off effects arising from the sale are included in the Group EBIT and were not shown on the divisional level.

49 DEFENSE & CIVIL SYSTEMS AT A GLANCE (in million euros)

	2010	2009	Change in %
Sales	205.8	205.3	0.2
EBIT	11.5	12.2	–5.7
Order intake	211.6	178.0	18.9
Order backlog ¹⁾	212.6	260.2	–18.3
Employees ¹⁾	931	1,077	–13.6

¹⁾ Jena-Optronik GmbH is no longer included in the order backlog or number of employees as at December 31, 2010.

Thanks to a number of large, long-term orders, the segment reported a record **order intake** in the total sum of 211.6 million euros compared with 178.0 million euros for the same period in the previous year, an increase of 18.9 percent. The figure includes the major order valued at approx. 20 million euros for radomes for the Eurofighter to which Jenoptik is the consortium leader. Jenoptik is also supplier of the power generators for the Patriot missile defense system. In this area, the segment won an order worth around 23 million US dollars from the USA in August 2010. In addition, the segment will be supplying airport ground generators as well as frequency transformers to a scheduled airline based in the Middle East for the airport infrastructure, with a total order value of 5 million euros. The partial order for the PUMA armored fighting vehicle received at the beginning of the current 2011 fiscal year and valued at nearly 40 million euros is not included in the order intake for the fiscal year just past. Jenoptik anticipates another partial order valued at nearly 30 million euros during the course of 2011. Jenoptik's total share in the new armored fighting vehicle project for the German Army will be approx. 70 million euros.

INFORMATION ON OTHER KEY INDICATORS

The **R + D expenses** remained unchanged at 9.0 million euros (prev. year 9.0 million euros). Key development projects extend over the long term and are carried out mainly in conjunction with cooperation partners. In the defense area details cannot be given for security policy reasons and as a result of the very long term planning. This applies both to the energy and stabilization systems areas as well as to optical information systems and sensors. As a result of the high proportion of customer financed development services in this segment, the R + D output, at 21.5 million euros, was correspondingly high in relation to the R + D expenses (prev. year 18.0 million euros). The segment will continue with the intense pursuit of the development project 'transparent protection'. The transparent composite armor for use in armored vehicles that still guarantees visibility following ballistic threats is to be launched on the market step by step in 2011.

Employees & management. The number of employees in the Defense & Civil Systems segment reduced by 146 to 931 (31.12.2009: 1,077 employees). Ten of these employees worked abroad. The number of employees has primarily fallen as a result of the sale of the space business. With the sale of Jena-Optronik GmbH, 128 employees left the Group. The Jenoptik Junior Leadership Program (J²LP) was successfully completed by two participants, and two further participants started the program.

Production & organization. In 2010 the segment's product development processes (PDP) were analyzed and optimized as part of the Jenoptik Excellence Program. The objective is to standardize, significantly shorten and increase the efficiency of the process. Employees involved in the product development process received comprehensive training. It will be implemented during the course of the current fiscal year at all the segment's locations in accordance with the formulated requirements and processes.

Production at the Altenstadt site has been optimized since 2009. In connection with the new process organization of the production and a substantially increased demand for larger power units, work on the construction of the new production hall began at the end of 2010 and is expected to be completed at the end of 2011. The new construction will be the seg-

SELECTED TRADE FAIRS IN 2010

June:	Eurosatory, Paris, France
June:	Interschutz, Leipzig, Germany
September:	Innotrans, Berlin, Germany
October:	AUSA, Washington D.C., USA

ment's most important investment project in 2011, with smaller parts of this already included in the segment's **capital expenditure** in the 2010 fiscal year. Total investment in 2010 was 5.0 million euros (prev. year 5.4 million euros).

Marketing. In 2010, the segment participated in a number of primarily international trade fairs. The segment showcased on a joint stand at Eurosatory, the key headline trade fair for defense and security which is held every two years in Paris. The Internet site, which combines the segment's entire range on one site within the framework of the Group portal, was also completely updated. 50

PRODUCTS & TECHNOLOGIES

The focus of the presentation at Eurosatory was on compact solutions for power supplies in military land vehicles, including, among other things, a 120 KW starter generator which is simultaneously able to supply external high consumption units. Also on show was the model for a machine set for the 17 KW APU for use in various, mainly armored vehicles. In addition to the electronic system components, the segment also included optronic observation equipment, such as the NYXUS.

At the Interschutz trade fair in June in Leipzig, the segment presented together with Dräger the first thermal imaging cameras from its Optical Information & Sensors area. The camera was jointly developed by the two companies as part of a cooperation agreement. The new infrared camera module went into mass production in Jena. It is an integral part of the new thermal imaging cameras from Dräger, with the target market being fire fighters as well as search and rescue organizations.

In March 2010, Jenoptik launched a new thermographic camera, the VarioTHERM® InSb, which has been specially designed for industry and research institutes. The camera covers a temperature range from minus 40 to plus 2,000 degrees and also

operates on a spectral-selective basis. This means that, using special filters, the camera can take readings of certain materials (e.g. glass, flames or plastic) or "look through" them without having to make allowance for them in the readings. This, for example, allows to take readings in kilns through a glass window.

The laser rangefinder equipment product line was also expanded. The new measurement equipment is able to deliver reliable results even on poorly reflective surfaces over large distances and is therefore suitable for a markedly greater number of applications. In the past, measurements on poorly reflective surfaces could only be taken over short distances.

INTERNATIONALIZATION

The product portfolio of the Defense & Civil Systems segment is in international demand as a result of its technological capability. Over recent years, it has successfully gained a foothold on international platforms through a number of its components and subsystems. The international sale of the Optical Information & Sensors area is being intensified, making increasing use of the existing infrastructure of the other segments. The focus of the segment's internationalization is on the US American market.

ACQUISITIONS, COOPERATION ARRANGEMENTS & OTHER KEY EVENTS

The segment made no acquisitions in 2010. The sale of Jena-Optronik GmbH has been explained on a number of occasions within the framework of the Management Report (see page 76, Purchases and sales of companies). Within the framework of the reporting during the course of 2011, the key indicators of the whole Group as well as of the Defense & Civil Systems segment will be adjusted for the sale of Jena-Optronik GmbH and shown on a comparable basis.

4 REPORT ON POST-BALANCE SHEET EVENTS

There were no events of significant importance occurring after the balance sheet date of December 31, 2010.

5 RISK REPORT

5.1 Risk Policy

Commercial business activities require a sustained and responsible approach to weighing up opportunities and risks. As a Group with global operations in various areas of business, Jenoptik sees the exploitation of business opportunities and the simultaneous control of the associated risks as one of the basic principles of responsible corporate management. This is the only way to secure the continued survival of the company and to systematically and sustainably create added value for the Group. In this context, the Jenoptik corporate strategy forms the basis for the Group's risk policy.

OPPORTUNITY AND RISK MANAGEMENT SYSTEM

At Jenoptik, opportunity and risk management are closely interlinked and are essentially derived from the strategies and targets of the individual business units.

In this context, opportunities are identified and analyzed within the opportunities and risk management system. Responsibility for the management of opportunities lies with the operational units in collaboration with Strategy & Business Development central department and is an integral component of the group-wide planning and control systems. Specific potential relating to the individual divisions and business units is the subject of regular discussion through highly detailed market and competitor analyses, while not forgetting the associated risks when making decisions. Opportunities are explained in more detail in the Forecast Report from page 103.

The objective of the risk management is to take a more conscious and consequently more controlled approach to opportunities and risks within the company. By setting group-wide guidelines, the Executive Board ensures that effective and systematic risk management is in place. Jenoptik understands risk management as being the totality of all risk-related activities and measures which help to ensure that the corporate objectives are achieved. The process for determining areas of risk,

identifying risks and the subsequent analysis, assessment and limiting of the risks through planning, control and monitoring systems is continually reviewed and updated. All domestic and foreign companies in which JENOPTIK AG has an investment holding of more than 50 percent are subject to a group-wide risk management system comprising the following elements:

- a risk manual specific to the company's requirements
- Risk Officers within the Group as well as in the individual business units (risk units)
- standardized risk profiles specific to the individual business units
- a general, group-wide reporting structure
- a regular, uniform system of risk reporting on the Group and subordinate levels.

DEALING WITH RISKS

Since the Jenoptik Group has various operational areas of business, a general [risk pattern](#) provides a tool for highlighting potential risks in an organized way. Taking the risk pattern into account, the areas of risk must be determined as part of a [risk inventory](#) to be conducted each year ([risk screening](#)), depicting the material risks for the company. Checklists, introduced in 2010, are used as an aid for the annual risk inventory, with these checklists being subsequently reviewed by the risk officers. Within the framework of a [risk analysis](#), the risk officers of the risk units regularly assess all the risks identified on the forecast dates in terms of their probability of occurrence and impact on the results. The results of the risk identification and analysis – where these exceed certain thresholds – are included in the [risk report](#) which is sent several times a year to the Group's risk officer. Taking into account the potential aggregation of risks, the risk report summarizes the individual reports into a Group risk report for the attention of the Executive Board. Measures which are highlighted must be implemented by specifically named individuals responsible, with a deadline being set. If the first time a risk with a specific minimum impact on the results and minimum probability of occurrence arises is between the reporting dates, or if an existing

known risk changes to the same extent, then the Group risk officer and the Executive Board must be informed immediately and an [ad-hoc risk report](#) produced.

In addition to the monthly meetings of the Executive Board, strategy and results meetings as well as conference calls act as group-wide committees for the purpose of identifying, analyzing and dealing with opportunities and risks. In these Executive Board and management jointly discuss relevant opportunities and risks as well as their consequences for the company in conjunction with the heads of the Finance as well as Strategy & Business Development departments. The Executive Management Board, as an expanded management committee of the Group, met five times in 2010. The Jenoptik Executive Board consults and, in conjunction with the heads of the five divisions and the Head of Human Resources, Supply Chain Management & Shared Service Center takes decisions on key, general, strategic and operational group matters. A group-wide, uniformly structured innovation and investment controlling system also guarantees that by conducting a critical evaluation of new development projects, including carrying out a risk assessment, only the best ideas are pursued through to commercial success on a systematic basis.

MONITORING AND FURTHER DEVELOPMENT OF THE RISK MANAGEMENT SYSTEM

In addition to the obligation of the Executive Board to take appropriate measures in order to promptly identify any developments that jeopardize the company's existence, another requirement is the establishment of the monitoring system and a regular review of its efficiency and effectiveness. This task is assumed by the Risk Committee in accordance with the Risk Manual.

The [Group Risk Committee](#) comprises the Executive Board, the Group Risk Officer and the Heads of Legal Affairs, Internal Audit as well as the Commercial Management and meets at

least once a year. The risk early warning system is also assessed by the auditors as part of the audit in order to ensure that the system is appropriate for the prompt recording, evaluating and communicating of all risks which have the potential to jeopardize the company's existence.

Jenoptik has a control system that comprises both internal as well as external processes. Through targeted controls on various process levels, the system identifies potential gaps in the monitoring and initiates the corresponding countermeasures. A regular review of the method ensures and improves the effectiveness of the way in which risks are identified and analyzed. The tasks of Jenoptik's control system are carried out by the Internal Control System (ICS) and the Internal Audit.

The [Internal Control System](#) is an essential element of the Jenoptik risk management system and covers the totality of all measures, basic principles and processes in order to achieve the corporate and control targets. In addition to the compliance with laws and guidelines, this includes in particular the security and efficiency of the business processes as well as the reliability of the financial reporting. By consistently applying basic principles of and instructions on risk policy in the form of group and divisional guidelines, a large proportion of risks can be prevented or their impact at least reduced.

ESSENTIAL FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE GROUP ACCOUNTING PROCESS (SECT. 315 PARA. 2 NO. 5 HGB (GERMAN COMMERCIAL CODE))

The internal control system relating to the accounting is embedded within the company-wide risk management system as part of the Jenoptik Group's overall Internal Control System (ICS). It covers measures, basic principles and processes for ensuring the effectiveness, efficiency and compliance of the group accounting. In this context, the aim is to create consolidated financial statements that conform to the regulations. Jenoptik ensures this is adequately achieved with the help of

implemented controls and process-independent monitoring measures. Guidelines govern uniform accounting and valuation principles for the accounting and reporting in accordance with IFRS and ensure the process of preparing the consolidated financial statements. In this context, new regulations and changes to existing rules are analyzed promptly and, if necessary, implemented within the guidelines and accounting processes.

The Finance department has technical responsibility for preparing the consolidated financial statements. Clear responsibilities with separation of functions preserving the double-check principle are the characteristic features of the financial reporting process in the Jenoptik Group. Additional monitoring tasks are performed by specific group functions, such as e.g. the Central Tax department. Binding requirements in terms of content and timing reduce the risk of inconsistent accounting practices within the individual Group companies. All employees involved in the accounting process receive regular training. The financial systems are protected from misuse through access restrictions. Centralized control and regular backup of the IT systems reduce the risk of data loss.

The IFRS reporting packages used by the companies are transferred to a consolidation system for the purpose of producing the Jenoptik consolidated financial statements. Technical system controls verify the transmitted financial statement data and individual annual financial statements of the companies included in the consolidation. A formalized interrogation of information relevant for consolidation purposes also ensures that Group internal transactions are eliminated. All the consolidation processes required for producing the consolidated financial statements are documented. In 2011, the group-wide standardized consolidation tool "SAP Business Objects Financial Consolidation" is being introduced in order to further simplify the processes. The processes, systems and controls implemented by Jenoptik do however already currently provide sufficient certainty of a reliable Group accounting process that meets the requirements of the IFRS and HGB and conforms to

the statutory requirements. Independent auditors audit the annual financial statements of those companies which are subject to statutory auditing. KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, audits the Jenoptik consolidated financial statements. Reports on relevant questions regarding the Internal Control System are regularly sent to the Audit Committee of the Supervisory Board. The Internal Audit is permanently incorporated within the Internal Control and Risk Management System through process-independent audit activities.

The independent [Internal Audit department](#) is headed by the Audit Officer of the Executive Board and carried out in the form of so-called Jenaudits. The functionality of the Internal Control System is examined by interdisciplinary teams with support from employees from all areas of the Group. One of the key elements in this respect is the proper adherence to and implementation of the guidelines to be applied. Any deficits identified as well as recommendations for potential improvements are reported directly to those responsible in the audited units as well as to the Executive Board. The categorization of the findings ensures that in case of serious violations the Executive Board and if necessary the Chairman of the Supervisory Board are informed immediately and directly. Where necessary, the Internal Audit department is supported by an external auditor. In addition, current special topics can be tackled promptly in so-called ad-hoc or special Jenaudits. The audited unit in each case submits a subsequent implementation report stating which of the notified recommendations have been implemented by a given date. Follow-up audits are then carried out, during which the implementation of the recommendations is reviewed and a report on the results of these sent to the corresponding management and the Jenoptik Executive Board. The Internal Audit department reports at least once a year to the Audit Committee of the Supervisory Board on its key findings during the period which has elapsed since the last report. In 2010, four Jenaudits and six follow-up audits plus one special Jenaudit were conducted.

RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS

The coordination of the Group financing requirements and securing the cash flow are key tasks of Group Treasury. The aim of the financial risk management is to limit financial risks arising from changes in market prices, exchange rates and interest rates through operational and finance-oriented activities. In this context, derivative financial instruments are used exclusively for the purpose of hedging underlying transactions and are only concluded with banks with good credit rating.

[Currency-related risks](#) arise as a result of the Group's international activities. A foreign currency guideline regulates the permitted hedging instruments and permissible deviations. The risks are identified by Group Treasury and controlled with the help of appropriate measures. As a fundamental rule, all Group companies must inform the Treasury department of foreign currency positions on the day they arise so that these can be hedged. Detailed information on this can be found in the Notes on pages 165 to 169 under point 35.

[Liquidity risks](#) are identified early with the help of liquidity planning and systematically minimized on a group-wide basis. In order to improve the liquidity forecasts, the liquidity planning was expanded in 2010 by the addition of a monthly rolling liquidity forecast which provides important financial information during the course of the year in the event of special deviations and after the balance sheet date.

As a result of fluctuations in market interest rates, the Jenoptik Group is primarily exposed to [interest rate risks](#) in respect of medium and long-term, interest-bearing financial assets and liabilities. All Group assets and liabilities which are sensitive to interest rates are recorded and analyzed in the interest risk management system. Details on how the Group deals with interest rate risks are summarized in the "Interest Policy" guideline. Further details can be found in the Group Notes under point 35.

5.2 Individual Risks

The development of the Jenoptik risk profile is influenced both by the general economic situation as well as the internal situation within the company. The corporate risks determined as significant by the risk management system are set out below. Other, currently unknown risks or those currently deemed to be insignificant might also have a detrimental effect on the Group's development of business.

GENERAL ECONOMIC AND SECTOR RISKS

Jenoptik maintains business relationships in more than seventy countries and generated 59.8 percent of its sales abroad in 2010. The development of the global economy, in particular of the European economy, therefore has a significant impact on the growth of the Group. Since products and services are primarily geared towards industry and public sector clients, there is normally a time lag before economic fluctuations have an impact.

In comparison to the general economic environment in 2009, which was characterized in particular by the financial and economic crisis and, as a result, by a sharp fall in the business climate together with reduced spending on investment, the economic activity and economic indicators improved and stabilized fiscal year 2010. However, in view of the high levels of debt in the public sector, e.g. in European countries and the USA, the consequences of their consolidation as well as the loss of numerous programs aimed at stimulating economic activity, there is no certainty about the scope and sustainability of the recovery. Uncertainties and differences of opinion regarding the development in the international currency and financial markets therefore still remain and there is the risk of a partial return to weaker economic growth in 2011.

Market risks: As a result of Jenoptik's presence in various markets, the Group is better able to compensate for sector risks and cyclical fluctuations in the individual markets. Therefore, although the Group business is subject to a range of **sector risks**, there is conversely no significant dependency upon one single sector. In 2010, the three largest and essentially independent target markets of aviation and aerospace/traffic, security and defense technology, as well as machine construction/automotive accounted for approx. 71 percent of Jenoptik's total sales. Jenoptik generated approx. 13 percent of Group total sales with companies in the semiconductor and photovoltaics industry. In the past, the risk had been considered as rather minimal that the markets served by the Group experience a simultaneous, strong collapse without any causal events over which Jenoptik has no influence, such as e.g. a dramatic collapse in the global economy, wars, natural disasters or pandemics. However, 2009 showed that a worldwide recession affecting nearly all sectors can significantly increase market risks which have virtually no correlation between them.

The 2010 fiscal year was characterized by a positive development resp. continuing high levels of demand from the semiconductor industry which primarily determined the course of business of the Optical Systems division in the Lasers & Optical Systems segment. However, in the highly cyclical semiconductor market there is the risk of a fall in demand in the 2nd half of 2011. In the Lasers & Material Processing division, a cautious approach to investment in systems construction (thin-film solar area), the planned reduction in grants for solar systems as well as significant downward pressure on prices in the photovoltaics industry could have a negative impact on business activity. However, new applications in the area of crystalline photovoltaics also offer new opportunities. In 2010, a pick-up in the overall market and a recovery in demand from the automotive industry, faster than originally anticipated, accelerated the turnaround in the Metrology segment. In 2011 Jenoptik expects a continuation of the recovery in this segment, although it may

also be accompanied by increasing downward pressure on prices. Within this segment, the Traffic Solutions division operates in what is primarily a stable market in Europe, whilst international major projects with long lead times and decision making processes are becoming an increasing feature of the non-European markets. This can lead to fluctuations in the order book situation, sales and earnings. The development in the Defense & Civil Systems segment remained stable in 2010. However, in the area of defense technology, Jenoptik is being increasingly exposed to the risk of delays in sales with a corresponding negative impact on earnings as a result of budget restrictions.

Jenoptik operates in a fast-moving technological environment in which fierce competition in terms of pressure on prices and margins, consolidation as well as product and service quality are the characteristic features. In each of our core markets, we compete with a handful of companies worldwide. However, the current situation of the global economy and the economic outlook for markets such as Europe, North America and Asia have led to a significant mixing-up of the competitive environment. The risk of a large percentage of our competitors simultaneously launching new products and technologies on the market and, as a result of this, the risk of Jenoptik suffering significant falls in sales and earnings, is however currently considered minimal. Thanks to customer loyalty programs and the increased presence as a system integrator with an higher share of value added, Jenoptik is facing up to the trend of primary customers towards "second sourcing" and conversely also sees opportunities for new customer relationships as a "first or second source". A few sectors in which Jenoptik operates are going through processes of consolidation which could lead to our competitors becoming stronger as well as to a change in our relative market position and therefore to the risk of impairments regarding the value of individual investment holdings and goodwill. These factors, in combination with others, can together have a negative impact on the financial, asset and earnings situation.

As a result of the Jenoptik Group's sound market position, the risk of losses of market shares in the current environment of consolidating markets is offset by the same level of opportunities for improving our own market position. Jenoptik is consistently countering these risks through sustainable reduction in fixed costs, a continuing process of internationalization and the development of new national markets, as well as a strengthening of those areas of business offering higher than average growth potential.

CORPORATE STRATEGY RISKS

The Jenoptik Group is exposed to corporate strategy risks primarily in conjunction with the future growth of the Jenoptik Group. The Group can capture market shares both organically through growth, the launch of new products and business models as well as inorganically through acquisitions and cooperation arrangements, mainly in connection with the continuing process of internationalization. The associated risks, including the product risks, can have a negative impact on the financial, asset and earnings situation of Jenoptik. The rolling strategy process, which is closely interlinked with the medium-term financial planning process, and the innovation management with corresponding roadmaps ensure that potential risks and opportunities which could have a medium to long-term effect can also be identified early and managed.

Mistakes in the assessment of future developments can also give rise to a significant corporate strategy risk. In addition, alternative technologies from competitors could represent a risk of their products replacing Jenoptik's products. In addition to a change in the market position, this may also result in lost sales and amortization of capitalized development costs. Jenoptik is intensifying its own development services through research cooperation arrangements with industrial partners and universities. Long-term customer relationships enable developments to be created in close coordination with the customers. However, the failure of individual product developments to achieve market success in technology companies can never be fully ruled

out, giving rise to potential losses in the single figure million euro range resulting from the termination of individual major R + D topics. Jenoptik does however consider the possibility of significant detrimental effects on the earnings, financial and asset situation as unlikely. In order to limit this risk, Jenoptik conducts thorough checks to determine whether the criteria for compulsory capitalization do actually apply. Although the measures of our risk management system described in Chapter 5.1 do reduce the risk of mistaken assessments, they cannot either eliminate this risk in full or place precise figures on it. Group-wide, targeted innovation management and ongoing market analyses in conjunction with continuous research and development further limit the risk of bad investment and technology decisions. Linking strategy processes with staged innovation processes and R + D roadmapping ensures that cancellation risks are minimized. New development projects are assessed according to a list of criteria which apply throughout the Group, with the result that only the best ideas continue to be pursued through to commercial success. In addition to the earnings and market potentials, the crucial factors are the technological feasibility and a risk assessment.

Patent applications, filed both by the Group itself and third parties, entail risks for Jenoptik through potential litigation as a result of patent infringements or unplanned costs for the purchase of licenses, although these are offset by opportunities for revenues from potential licensing to third parties. Because of the legal situation, particularly in the USA, claims of patent violations involving significant claims for damages in some cases can never be ruled out. However, there is at present only minimal risk arising from current operations.

The Group's continuing process of internationalization is accompanied by acquisitions, cooperation arrangements and a focus on the core business. Jenoptik counters **acquisition risks** arising from the integration of personnel, processes and products as well as potentially higher debt levels and long-term assets, including goodwill, through a detailed due diligence which in the past more frequently led to a decision to decline a

purchase rather than to go ahead with one. In a staged verification process, the Strategy & Business Development department conducts a market screening based on the growth and respective business area strategy. Legal questions are dealt with by the Legal department – consulting external lawyers as required. Potential acquisition projects are then discussed with and evaluated by the Executive Board and divisional management. Jenoptik places high requirements group-wide on any acquisition or investment decision.

Entry into new national markets entails **international business risks**, such as e. g. legal risks. Jenoptik therefore prefers to work together with local partners or local management, utilizing existing Group structures and resources. As a longstanding partner who has been representing Jenoptik successfully in the Korean market since 2004, Telstar-Hommel for example holds 33.3 percent of the JENOPTIK Korea Corp. which was formed in summer 2009. Since November 2010 Jenoptik has also had a presence in Japan as a majority shareholder with almost two thirds of the shares in the joint venture JENOPTIK Japan Co., Ltd., with the longstanding partner Kantum Electronics holding approx. one third of the shares. We are presently aware that increased **risks associated with the political situation** in currently major sales and production countries exist in the Middle East and North African region, which may lead to, among other things, orders being delayed or not materializing.

As a supplier of defense technology goods Jenoptik is subject to **export risks** due to trading restrictions. The Group assesses these risks as minimal and regularly counters them by conducting comprehensive checks and obtaining export licenses for those products which are subject to approval. In order to further optimize the group-wide coordination and monitoring of adherence to the export control regulations, an export control guideline which is applicable throughout the Group has been in use since August 2010. By scanning and permanently monitoring all the existing purchasing, sales and finance-related activities in the SAP module SAP Global Trade Services, export risks within the Jenoptik Group can be identified early and eliminated.

The risks arising from the sale of parts of companies, in particular from the sale of M+W Zander, reduced further in 2010. In addition, Jenoptik has issued the standard guarantees for sales of larger parts of companies such as e.g. Jena-Optronik GmbH or of the minority shareholding in caverion GmbH, amongst other things relating to the accuracy of the tax returns submitted or to the effect that necessary approvals, patents and licenses for the operation of the business have been obtained. In principle, claims by the purchaser on the basis of these guarantees may arise in future.

The risk of potential sales losses resulting from the uniform 'Jenoptik' umbrella brand launched throughout the Group in 2009 has not arisen. The pace of the global convergence under one global, uniform logo has picked up. Targeted information campaigns and the continuation, for example of the ROBOT brand as a so-called ingredient brand, guarantee that customers continue to find established names on the traffic monitoring systems.

Information risks. In conjunction with confidential information on future strategies, technologies or product developments, there is the risk of this information becoming accessible in the public domain in error and, as a result, reducing the level of future sales and seriously jeopardizing our market position. The Group therefore operates safety mechanisms, e.g. the issue of special cryptographic hardware, the encryption of e-mails and data files, network separation as well as military security standards and guidelines for the internal treatment of sensitive data. (See IT risks).

PERFORMANCE RISKS

As a result of its presence in various markets, Jenoptik is only heavily dependent upon individual customers or suppliers in a few operating areas. Jenoptik generally has a broad customer base and is not dependent upon any single client for its survival. In 2010, the three largest customers accounted for 16 percent of sales and 13 percent of the order intake on the overall Group level. On a group basis, there is consequently no

concentration of default risks on individual key customers. However, dependence on individual customers may be higher for individual group companies. Jenoptik counters the potential client creditworthiness risk through consistent accounts receivables management and the management of key customers. Since many customer orders are based on long-term supply agreements, some of which are based on special developments, the risk of the termination of a business relationship is further reduced.

There is dependency upon suppliers in a few individual areas for the procurement of special components and the risk of development contracts issued by Jenoptik not leading to the required results. Thanks to the Jenoptik product mix, the risk of falls in sales and earnings due to delivery bottlenecks with a key supplier is generally low. In extreme cases, supplier problems can lead to a shutdown in production, lost sales, significantly higher procurement prices, lost reputation, contractual penalties, compensation or a loss of follow-up orders and result in a negative impact on the earnings of individual group companies. In order to reduce the dependency on individual suppliers, successful countermeasures include, in addition to active interface management for third party developments, the in-sourcing of strategic key components as well as the development of "second sources".

The measures introduced in 2010 further qualify the supplier portfolio and reduce the dependency risk. (See Management Report page 67)

Procurement risks. Jenoptik does not anticipate any significant price increases in the procurement area, although prices in individual areas may increase, as did partly e.g. the prices for electronic components or synthetic quartz in 2010. This excludes procurements in connection with energy such as fuels and raw materials. Germanium is of particular importance to Jenoptik as a raw material. The primary consumer is the Optical Systems division. Whilst the prices for this raw material remained relatively stable up to October, they increased rapidly thereafter (from 800 \$/kg to 1,350 \$/kg).

As a result of the sharp pickup in economic activity in 2010 and the associated fact that suppliers were operating at full capacity, re-supply times had significantly lengthened.

Long-term orders with periods of up to ten years or more are found primarily in the Defense & Civil Systems segment and to a lesser extent in Service Providing in the Traffic Solutions division. Whilst stable costing bases and the future capacity utilization offer the Group good forecasting certainty in these cases, this is offset by risks arising from what are normally high order volumes, the associated long-term costings, advance payments for investments and possibly inflation and currency risks. Jenoptik reduces these risks with the help of escalator clauses, on-account payments, currency hedging (see financial risks) and rolling forecasts. However, these risks cannot be totally eliminated through hedging instruments, particularly in the case of framework agreements that do not stipulate any binding purchase quantities by the customer at the end of the agreement but by contrast do require fixed costings and earmarked resources. In conjunction with anticipated budget reductions by public sector customers, Jenoptik will in future be faced with the risk of time delays on orders or these orders extending over a longer timeframe. Additional warehouse risks are minimized and capital tie-ups reduced through continual improvement in the procurement, throughput and sales processes. In future, Jenoptik will also benefit to a greater extent from economies of scale as a result of purchasing processes being increasingly centralized on a group-wide basis.

In order to avoid **product liability cases**, the Group employs stringent quality assurance measures and also operates in accordance with the pertinent national and international rules and laws. A business and product liability insurance policy essentially covers the residual risk, categorized by the Group as low, and covers virtually all group companies using a global coverage concept. The US subsidiaries of the Jenoptik Group also have local insurance. The special requirements in individual countries are therefore taken into account.

FINANCIAL RISKS

Jenoptik operates a centralized financial management system. As an integral part of this, the Treasury department is responsible for the control and monitoring of the currency, interest and liquidity risks based on guidelines applicable throughout the Group. The key objective is to ensure the necessary liquidity at all times.

Liquidity risks. The financial flexibility and permanent solvency of the Group is ensured at all times on the basis of a multi-year financial plan and monthly rolling cash flow plan. As a result of the capital increase in March 2010, the sale of the minority holding in caverion GmbH, the sale of Jena-Optronik GmbH and reduction in net debt associated with these activities, the liquidity risks for the Jenoptik Group reduced sharply in 2010. Thanks to a positive cash flow and liquidity framework in the form of credit lines and loans yet unused totaling approx. 84 million euros as at December 31, 2010, the Group's liquidity supply is secured from the current viewpoint. In addition, cash pooling improves the liquidity supply to the individual companies, thus limiting their liquidity risk. This risk is further reduced by having the credit lines spread between a number of banks without any one individual bank being dominant. Nearly about 51 percent of the gross financial liabilities at the end of 2010 are linked to financial indicators, so-called financial covenants. In principle, if these covenants are breached there is the risk of the banks being able to prematurely call in the underlying loans. However, in view of the markedly lower net debt as at December 31, 2010 and our expectation of a continuing, positive development of business in 2011, a breach of the current applicable financial covenants appears unlikely. The quantitative effects of the liquidity risk can be found in the Notes under point 35.

Currency risks: Jenoptik's balance sheet and group currency is the euro; this is also the accounting currency for a large proportion of sales. Approx. 8 percent of Group sales in the 2010 fiscal year were processed in US dollars, only a small percentage in other national currencies.

Jenoptik uses exchange rate hedging instruments, primarily forward exchange contracts and currency options, to hedge virtually all orders in foreign currencies and in this way reduces the effects of fluctuations in exchange rates on earnings and cash flow. In order to counter exchange rate risks, derivative financial instruments are used exclusively for hedging the operational underlying business as well as financial transactions required for operating purposes. In this context, all payment flows in foreign currencies are recorded as a risk item. In order to hedge the foreign currency transactions and define the annual currency hedging strategy, the expected development of the currency, the risk potential as well as a shock scenario are then analyzed in order to ascertain the maximum permitted loss risk.

As at December 31, 2010, the amount of outstanding forward exchange contracts hedged totaled 42.9 million euros (prev. year 36.3 million euros). Future, as yet undetermined US dollar cash flows for contracts yet to be concluded can only be hedged to a limited extent in the form of cash flow hedges. If the underlying business is subsequently not concluded then this entails an additional currency risk. It is also not possible to hedge against the risk of competitors with added value in other currency zones suddenly being able to submit offers at lower cost following currency fluctuations. This could have a detrimental effect on the asset, financial and earnings situation of Jenoptik.

Since Jenoptik tends to have a higher level of income than expenditure in US dollars, the Group benefits from a strong US dollar. During the course of 2010, the euro lost ground against the US dollar which, at the end of the year, was at 1.3362 EUR/USD, below the level for the previous year (31.12.2009: 1.4406 EUR/USD). Up to February 2011, the US dollar showed a continuing upward trend (22.02.2011: 1.3665 EUR/USD). In the event of a stronger US dollar, future order intakes could lead to higher euro margins unless the positive exchange rate effects are passed on in full in the form of price reductions.

Conversely, a weaker US dollar would have a negative effect on Jenoptik's margins. The quantitative effects of the currency risk are explained in the Notes under point 35.

There are [interest rate fluctuation risks](#) for short-term as well as long-term loans with short fixed-interest rates if rising interests impact on the interest rate of these loans and lead to increased interest expenses. In order to hedge against the risk arising from fluctuating interest rates on income statement as well as cash flows, interest rate hedging instruments such as interest caps and interest swaps are used for borrowings which involve variable interest rates. Despite the partial interest rate hedging and fixed interest rates, rising interest rates would increase Jenoptik's interest expenses. In the case of long-term, fixed interest rate loans, early repayment entails the risk of early redemption penalties. This situation can arise in particular if real estate encumbered with land charges is sold or if the cash in hand on which low interest is paid is used in order to reduce gross debt and the future interest burden. The quantitative effects of the interest rate risk in 2010 are shown in the Notes under point 35.

[Default risks.](#) Jenoptik counters the default risk arising from receivables and loans by conducting comprehensive creditworthiness checks, pursuing a consistent approach to receivables management and agreements on on-account payments concluded in advance for larger projects. In these cases, credit risks normally only apply to any balance of the receivable, consequently reducing any impact on the balance sheet. The quantitative effects of the credit risk are explained in the Notes under point 35.

In addition to the refinancing of the purchase price, [risks arising from put options](#) primarily exist if the specified purchase price exceeds the market value of the asset to be purchased. With the exception of the real estate funds below, there are currently no put options against Jenoptik for the acquisition of parts of companies from operational minority shareholders which could reduce cash assets or financing sources if exercised.

As described in the 2009 Annual Report, Jenoptik has three real estate funds in the real estate area. With each fund the corresponding silent shareholder has an exit opportunity (put option) which can be exercised no earlier than 2011, in some cases not until later.

In the 3rd quarter 2010, the silent shareholder in the first fund announced his intention to exit from the real estate company as at March 31, 2011. If the real estate company is unable to refinance the silent investor's claims in connection with his exit, Jenoptik would have an indirect obligation to refinance this amount. There is consequently the risk for Jenoptik of a potential net cash outflow as at the end of the 1st quarter 2011, the amount of which is currently under discussion and has not yet been definitively calculated. However, the risk of deteriorating balance sheet ratios can be further limited and the amount to be refinanced further reduced through planned sales of real estate not required for operating purposes, or by attracting new investors. The other two still existing exit opportunities for silent shareholders allow for an exit as at the end of 2011 or 2014. The effect of the abovementioned exit options affecting cash flow has not yet been clearly determined for Jenoptik and at maximum will be a low, double-digit million euro sum.

Risks arising from guarantees. With the sale of the minority holding in caverion GmbH (formerly M+W Zander Gebäude-technik GmbH) and the successful conclusion of the transaction in the 3rd quarter 2010, the risks to the Jenoptik Group arising from sureties and guarantees have sharply reduced. With the conclusion of the sale, the financing agreement existing between Jenoptik and caverion was terminated and Jenoptik released from all existing guarantee obligations directly or through corresponding cross guarantee from the YIT Group. As a result, approx. 90 percent of the Group guarantee and cash lines issued in favor of third parties no longer apply.

In 2010, all guarantees still existing in connection with M+W Zander expired in full or were reduced. The risk arising from guarantees for other companies, in particular for non-consolidated investment holdings, was also successfully further

reduced as at the end of 2010. In total, about 70 percent of the risks arising from guarantees in the sum of 12.4 million euros are secured through cross guarantees from other companies. Taking into account historic empirical values, these risks are therefore fundamentally to be categorized as low. The level of utilization over the last five years was on average approx. 0.02 percent per annum. In addition, there is an obligation on the part of the primary debtor to reimburse Jenoptik for any guarantee take-up. Detailed information can be found in the Notes on under point 36.

The Group has only minimum exposure to **securities risks** in view of the low level of its own securities and an overall mixed portfolio structure.

PERSONNEL RISKS

For Jenoptik, qualified and motivated employees are a key factor for success in an increasingly dynamic market environment. As a technology company, the procurement and retention of know-how is a particularly key element for success. The main personnel risks therefore include a shortage of qualified personnel, the result in particular of the difficulty in filling national and international key positions, as well as a lack of performance on the part of employees.

There is a medium to long-term personnel risk arising in particular from the drop in the number of high school and university graduates and the associated shortage of trainees. Jenoptik is countering this risk with a centralized personnel management system in which the areas of HR marketing, recruitment, training and HR development use group-wide programs and activities to make the Group sustainably more attractive as an employer.

In the area of HR marketing, the risk is being countered by target group-oriented event and communication concepts. This has enabled Jenoptik over recent years to successfully enhance its image as an employer amongst the relevant target groups. In order to guarantee the quality and attraction of the training for school leavers, Jenoptik as a company is working on long-

term training concepts within the framework of the Jenaer Bildungszentrum gGmbH – Schott, Zeiss, Jenoptik. With the help of high quality, future-oriented training for technical personnel and close collaboration with universities and student networks, the Group is investing in the training and long-term commitment of its own trainees. The objective is to motivate technical and management personnel through comprehensive training and development activities combined with performance-related pay and to secure the Group's commercial success. In this context, the Group's international orientation is becoming increasingly significant.

In order to avoid personnel risks, work on developing a personnel controlling system for the Group was commenced in 2010. Central HR key indicators were defined and have been collated. These indicators are reported to the Executive Board for the Group and to the Heads of the Divisions for the corresponding divisions. The objective is to quickly identify the HR relevant risks by regularly collating the indicators and being able to initiate corresponding countermeasures.

In 2011, HR controlling is due to develop the basis for a strategic HR planning concept which is more focused on the needs and strategies of the divisions and their markets, products and technologies. This should secure long-term HR planning that not only takes account of the demographic trend but also forms the basis for structured and future-oriented employee training.

IT RISKS

The operation of computer-aided business processes and the use of systems for the general interchange of information, controlling and financial accounting as well as other IT applications in the Group give rise to basic information technology risks if the functionality of these systems is no longer guaranteed. In

order to handle IT-aided business processes as securely as possible, the Jenoptik's central IT department conducts continual reviews of the Group's information technologies and updates the systems as required. The process of transitioning to a state-of-the-art Group IT infrastructure in the area of security, availability and scalability continued in 2010. In this context, top priority is given to data security as well as the design of the IT systems and their infrastructure on a redundant basis. An e-mail archiving system that complies with the statutory requirements, ERP systems and technical drawings, a centralized and duplicated computer center as well as hierarchical data backup strategies and data storage are all intended to avoid in full the risk of data loss in the future. An increasing number of applications and data volumes are being gradually migrated over to this centralized structure in order to guarantee the necessary security. In 2010, the Group introduced a redundant corporate network and a central computer center within which the critical applications of the local companies will be gradually consolidated over the next few years. There is however currently still a risk that in the event of a total failure the central computer center could shut down, making disaster recovery more difficult. The local computer centers for the respective locations will also continue being modernized and centralized. By using state-of-the-art and ultra-secure technologies, Jenoptik systematically and continually protects itself against damage caused by viruses and hackers. Strict security regulations such as encryption, token authentication and network separation ensure, for example, that military classified data is kept secure. A Group Security Manager also ensures data secrecy at all times. In conjunction with the Jenoptik Group's Data Protection Officers, the processing of personal data is guaranteed to be carried out in accordance with the regulations of the German Data Protection Act. The employees are further sensitized to the need for information security through training programs and information events.

OTHER RISKS

Potential **risks arising from changes in legislation** can also not be ruled out entirely and exist for Jenoptik in the sense that, for example, a change in the opportunities for utilizing losses carried forward would impact on the Group's earnings situation.

A Compliance Board was set up in 2010 in order to reduce potential **compliance risks** arising from the adherence to applicable law, corporate guidelines and regulatory standards recognized by the company. Although it is impossible to totally rule out any serious breaches by individual employees which have a significant influence on the earnings, financial and asset situation, we believe these are unlikely.

Risks arising from legal disputes exist in respect of a claim for compensation before a court of arbitration, since a customer of M+W Zander has been claiming since December 2008 that a settlement concluded in 2006 with M+W Zander was invalid. M+W Zander is rejecting this claim and asserting counter-claims. Should the decision go against Jenoptik, there is the risk of M+W Zander or its buyer asserting claims against Jenoptik. However, we view the risk of failure as low. If the counterclaims of M+W Zander are upheld, there is the chance of Jenoptik being able to file a claim for payment. We are not aware of any other litigation-related risks that could have a significant impact on the asset and earnings situation of the Group, apart from those dealt with in this risk report, or we believe that these are very unlikely.

It is very difficult to forecast the **impairment risk** for Jenoptik's **real estate assets** which are not required for operating purposes. These are held as a financial investment and are subject to the fluctuations in the rental market, particularly if follow-up rentals cannot be procured or these are not procured at the same high rates. The buildings are subject to an annual impairment test using the discounted cash flow method, which can lead to an immediate requirement for value adjustment to individual buildings should there be a change in the rental situations. In this context, should individual properties be sold, it is

impossible to totally rule out the risk of our being unable to achieve the book value or the value ascertained using the abovementioned method. This would result in a negative effect on earnings with a simultaneous cash inflow (reduction in net debt). There are plans for the sale of real estate not required for operating purposes in 2011, although this is dependent upon the market situation. When successful, the Group could offset the cash outflow resulting from the exit by the silent shareholder from the real estate fund and the negative consequences for the earnings situation resulting from the loss of the positive contribution to the EBIT or EBITDA by the property could be compensated to a significant extent by future savings in interest expenses and lower depreciation.

There is also a **risk of impairment** in the event of a permanent reduction in the value of minority investment holdings as well as the capitalized **goodwill** of consolidated companies. As the underlying corporate valuation is subject to a bandwidth of varying factors, such as e. g. the development of the market, impairment test are regularly carried out.

Risks arising from the development of the organization are derived from the necessary adjustments in the corporate and management structure. Changes are only carried out if these provide for improved control of the medium-term growth and enable the company to achieve greater success. At this point in time there are currently no significant risks that Jenoptik would normally counter through an active change management process.

Any **takeover risk** for the Group as a whole is dependent upon the share price amongst other things. Since around 70 percent of the Jenoptik shares are held in free-float and, according to its own statements, ECE Industriebeteiligungen GmbH, which has held 25.02 percent of the Group since February 2008, is investing for the medium term, we currently view this risk as low. However, as a result of the reduction in net debt and the continuing focus on the core business, this risk has in principle increased slightly. By pursuing active Investor Relations Man-

agement, Jenoptik addresses a broad investor base and endeavors to provide transparent information for the whole capital market in order to continually further reduce this risk.

The monitoring, coordination and assessment of **environmental risks** comes under the responsibility of the Group Environmental Protection Officer. There were no key changes in environmentally relevant systems and processes in 2010. Consequently there have also been no changes in the environmental risks of the Jenoptik Group against the previous year. Jenoptik is subject to environmental risks in part as the result of the use of materials and substances which are harmful to health and the environment, such as those used e.g. for existing production processes in the manufacture of optics. General attention is paid to conformity with the so-called RoHS Directive and adherence to the European REACH Chemicals Ordinance. Environmental management systems which have been introduced provide additional safety at the Jena, Triptis and Wedel locations in accordance with international standards. An environmental liability and environmental damage insurance policy concluded for the Group includes environmental risks and provides cover against all the abovementioned risks, from storage, to production, through to disposal. The financial risk arising from environmental damage is therefore categorized as low.

SUMMARY | GENERAL STATEMENT ON THE RISK SITUATION

Jenoptik is aware of its own opportunity and risk profile and considers this to be appropriate for the company and the current framework conditions. The assessment of the overall risk to the Group is conducted on the basis of the risk management system in combination with the planning, control and monitoring systems used. As a result of our broad presence in the market, we see ourselves as being subject to an overall lower risk from the economic situation in respect to the Group's economic development compared with companies which are strongly focused on specific areas. The financial risks, in particular the risks arising from guarantees, reduced significantly in 2010 as a result of the sale of the minority shareholding in caverion GmbH. The capital increase in March 2010 and the further reduction in net debt through positive cash flows and the sale of Jena-Optronik GmbH in December 2010 have also sharply reduced the liquidity risks for the Jenoptik Group. With the anticipated positive development of sales and earnings, we do not currently see any risks that could jeopardize the continued existence of the company or which in interaction with other risks could lead to a long-term, negative impact on the asset, financial and earnings situation of Jenoptik. With the exception of the economic risks as well as the risks and opportunities arising from a disproportionately high real estate portfolio which is to be reduced in 2011, Jenoptik generally operates within a risk profile which is typical for our company and is inherent in entrepreneurial activities. In addition to our risk management system, the measures highlighted in the report are making a key contribution towards enabling us to exploit future opportunities and successfully meet the challenges arising from potential risks in 2011.

6 FORECAST REPORT

6.1 Future development of the economy as a whole and of the sectors

FUTURE DEVELOPMENT OF THE ECONOMY AS A WHOLE

The growth dynamic of the [global economy](#) slowed slightly at the end of 2010. Although the global upturn is expected to continue in 2011, it will be at a noticeably slower pace. The reasons for this given by the OECD are the ending of the programs aimed at stimulating the economy as well as a slow-down in manufacturing and trading momentum. The OECD anticipates global growth of 4.2 percent for 2011, with growth in the OECD states of 2.3 percent. Forecasts for 2012 see the return to a pickup in the pace of development with global growth of 4.6 percent and 2.8 percent in the OECD states.

Economic growth in the [USA](#) is expected to continue in 2011, but at a more moderate current forecast rate of 2.2 percent. The OECD predicts growth of 3.1 percent for 2012. The continuing theme on the agenda will be the high level of sovereign debt. Programs of cutbacks are intended to combat this problem. This could have negative consequences for economic development.

As a result of the high level of sovereign debt, the upturn in the [euro zone](#) is also only expected to be moderate according to the International Monetary Fund (IMF) and the pace of the pick-up uneven. Growth, particularly in Greece, the Irish Republic and Italy will be far below the average for the euro zone which the OECD forecasts at 1.7 percent. For 2012, the GDP of the euro zone is predicted to grow by 2.0 percent. In addition to the currency tensions, the high level of sovereign debt remains the greatest risk to the economy. Expanded cost cutting packages could dampen down economic activity.

As a result of the sustained recovery in the [Germany economy](#) in 2010, the OECD recently raised its growth forecast for 2011 to 2.5 percent. Nevertheless, according to the Bundesbank, the 1st quarter 2011 is showing signs of a cooling in the economy caused by the weaker demand for industrial goods. In the second half of 2011, GDP could get back to the pre-crisis level in the opinion of the Hamburg Global Economic Institute. The OECD expects continuing, solid growth of 2.2 percent for 2012. According to the Federation of German Wholesale, Foreign Trade and Services (BGA), the German export industry is likely to report a record year as the value of exported goods in 2011 should exceed one trillion euros for the first time. The investment climate also remains favorable: capital expenditure on equipment in 2011 will rise by 8 percent according to the German Ministry of Trade and it expects the number of unemployed on average to remain below the 3 million level at 2.94 million in 2011.

The economic recovery in [Japan](#) is very sluggish. According to the IMF, the Japanese economy will continue to perform below its potential in 2011. The OECD estimates that global economic growth in 2011 will be just 1.7 percent and is expected to slow further in 2012 to 1.3 percent.

According to forecasts, [China](#) will continue to record the highest economic growth in the world over the next two years – with the OECD forecasting 9.7 percent for 2011 and 2012 respectively. Nevertheless, China will endeavor to put the brakes on the upturn and therefore head off any overheating, particularly in the level of lending and in the real estate market.

The OECD predicts that [India](#) will also remain one of the driving forces for the global economic recovery over the coming years. Whilst estimated to be 8.2 percent and slightly weaker than in 2010, economic growth in 2011 is expected to rise again in 2012 to 8.5 percent. According to forecasts by the OECD, [Brazil's](#) economy will expand by 4.3 percent in 2011 and 5 percent in 2012. [Russia](#) is not expected to return to the growth rates in the pre-crisis years over the next two years.

FUTURE DEVELOPMENT OF THE JENOPTIK SECTORS

In many cases, there is a link between the forecasts for developments in the individual sectors and the development of the economy as a whole. As illustrated, there is uncertainty here both with regard to the global economy as well as for individual nations and regions, particularly as a result of the high level of sovereign debt, volatile financial markets and rising raw material prices. The sector organizations and experts are basing their sector forecasts on the assumptions – unless specified otherwise – that the economic recovery in the global economy will continue and that there will be no fundamental currency, sovereign country or financial crises.

The global market for **optical technologies** is expected to grow at an annual rate of approx. 10 percent up to 2015 according to an analysis by DZ BANK AG. The total market volume is therefore anticipated to rise from 300 billion US dollars in 2010 to nearly 530 billion US dollars in 2015. However, the recovery is predicted to continue at differing growth rates in the individual sub-segments. According to DZ BANK AG, the lighting sector in particular is expected to achieve faster growth as a result of the increased use of LEDs, especially in the automotive area.

The upward trend in the global **laser market** is also forecast to continue in 2011. The analysts of Laser Focus World (LFW) expect to see sales grow by 10.8 percent to 7.05 billion US dollars. For the laser materials processing sector, the LFW forecasts growth from 2.2 billion US dollars in 2010 to 2.5 billion US dollars in 2011, exceeding the level of sales in 2008. The markets for medical and military lasers are also expected to expand further in 2011, by 13 percent and 9 percent respectively.

With record sales, 2010 was the strongest year so far for the **semiconductor equipment manufacturers**. The analysts' firm of Gartner expects to see stagnation in 2011 at the high level of

2010 and consequently anticipates sales of approx. 38 billion US dollars. From 2012, the sector should then start to grow again at an anticipated rate of approx. 12.1 percent. Gartner forecasts growth of 4.6 percent for 2011, to 314 billion US dollars, whilst the sector association SIA is anticipating a rise of 6 percent in 2011 and 3.4 percent in 2012.

The developments in Germany and Asia will set the trend for the **photovoltaics** sector in 2011. As a result of the boom in Asia, the number of solar systems installed worldwide is expected to rise by nearly 40 percent to 22.2 Gigawatts according to the market research conducted by iSupply in 2011 – despite the reductions in grants in Germany, France and Spain. The photovoltaic equipment manufacturers are looking at a strong growth year ahead. The market research institute Solarbuzz expects production capacities in 2011 to rise worldwide by an anticipated 60 percent. Sales by the equipment manufacturers should increase to 11.7 billion US dollars, primarily as a result of the high demand from Asian manufacturers. However, Solarbuzz sees overcapacity in the supply of crystalline silicon modules in the first half-year 2011. In addition, the plans for expansion by the thin-film manufacturers lack precise detail. By contrast, German manufacturers of photovoltaic systems are optimistic and based on a VDMA survey expect to see sales increase by 19 percent for 2011.

There is continuing optimism in the **medical technology sector**. The market will grow in the long term, helped by the aging population in the industrialized nations and rising prosperity in the emerging countries. The Electromedical Technology Association of the German Electrical and Electronic Manufacturers' Association (ZVEI) predicts marked single figure growth for 2011 in Germany but does point to correction effects in Germany as the economic development support program II comes to an end.

In German **machine and plant construction**, the German Engineering Federation (VDMA) anticipates moderate but steady growth. Production is expected to rise by approx. 10 percent in 2011. However, this will still leave the sector 9 percent below the record level in 2008. According to details from the sector association ZVEI, the electronics industry is also likely to continue its recovery. After recording an increase in sales of 14 percent to 165 billion euros in 2010, the ZVEI forecasts a 7 percent increase in production to 175 billion euros in 2011.

The Verband der Automobilindustrie (VDA) expects a good 2011 for the German **automobile construction industry** and its suppliers. New vehicle registrations in Germany are put at 3.1 million units according to the organization, compared with 2.9 million in 2010. The continuing dynamic demand from abroad should ensure another year of record German exports of around 4.4. million vehicles. The key trends in the sector are hybridization, electric drives and the switch of market focus towards emerging countries. Suppliers run the risk of insolvencies as a delayed effect of the crisis which has now actually been overcome.

Traffic solutions. Traffic accidents cause significant economic damage worldwide. According to information from the World Health Organization (WHO), each year 1.3 million people die on the world's roads. According to calculations by the Federal Institute for Road Transport, in Germany alone road traffic accidents caused economic losses of 31 billion euros in 2008. The Commission for Global Road Traffic Safety estimates that every US dollar invested in traffic safety can save up to 20 US dollars in accident costs.

The strong economic upturn in the international **aviation sector** will take a pause in 2011 according to the International Air Transport Association IATA. Although the IATA raised its profits forecast for 2011 from 5.3 billion US dollars to 9.1 billion US dollars, there will be regional variations in the growth levels. Whilst the Asiatic-Pacific region is expected to report the highest profit levels, the market for internal European flights will remain weak. The main reasons for this are the euro debt crisis, a comparatively slow level of economic growth, government programs of cutbacks as well as the higher levels of taxation in Europe. Rising oil prices are also seen as a risk. In the global aircraft market, the manufacturers Airbus and Boeing see a global demand for at least 26,000 aircraft over the next 20 years. This corresponds to an average growth rate of 4.8 percent per annum. The high level of demand is being created in particular by dynamic growth in China, India and Latin America. The trend toward more fuel saving models is also increasing the optimism within the sector.

In the **security and defense technology** market, the trend toward steadily increasing military expenditure will continue. Following an anticipated slight reduction in growth to 3.5 percent in 2010, the experts of Frost & Sullivan expect stable sales in 2011 and a return to continual global growth for 2012. There will be spending on upgrading, particularly in Asia and the Middle East. With exports to these regions, the arms industry could compensate for the pressure to produce savings in the Western European states. In Germany, the military budget is expected to be reduced by 8.3 billion euros by 2013, with France and Great Britain planning cutbacks of 5 billion euros and 5.5 billion euros respectively. The USA is also looking to make savings in projects and troop strengths in the sum of 78 billion US dollars over the next five years.

6.2 Future development of the Jenoptik Group

The Jenoptik Group is keeping to its medium to long-term growth targets. Sales, including acquisitions, are expected to rise to 1 billion euros and the EBIT margin is forecast to come to between 9 and 10 percent. However, there has been a delay of two years due to the economic and financial crisis.

Growth and the improvement in profitability rest on two pillars:

1. good sales conditions for the Jenoptik product range over the long term and
2. the further development of Jenoptik on the basis of the five value levers, complemented by acquisitions that round off the product range and/or regional presence.

We see good sales conditions for Jenoptik products in the long term on account of our comprehensive product and technology portfolio directed at attractive growth industries. Optoelectronics, our core area of expertise, is a cross-sectional technology. It makes possible new applications that meet important future challenges and are therefore among the long-term growth areas. An overview of Jenoptik products can be found in the Management Report on page 66.

FURTHER DEVELOPMENT OF JENOPTIK

The further development of Jenoptik will take place on the basis of the five value levers which have been our strategic guidelines since 2007. The strategic restructuring and the measures to overcome the economic and financial crisis are having an impact, as the results for 2010 have shown.

We still see potential for the years ahead resulting from both the measures already implemented in the Group and the new process improvements along the value levers. With increasing operational excellence, cost savings are expected to continue in absolute terms or relative to the development of sales. In the coming years, increases in efficiency and with them rises in profits are also expected to increasingly result from sales

growth accompanied by a lower proportional rate of development in cost of sales and fixed costs. As a result, earnings are expected to increase more sharply than sales, and the profit margin will increase progressively.

This ties in with the core tasks and objectives of future development along the five value levers:

Organic growth: All growth options have been defined, steadily developed and evaluated in the divisions and therefore for the Group as a whole. In future, support is to be provided by intensified business development. Medium-term areas of focus for development in the segments are summarized from page 107. Jenoptik is also very closely monitoring the environment with regard to potential acquisitions. The aim of each acquisition is to open up new markets or increase profitability through the use of synergies. At the same time, the product range should be increased and thus the value chain and/or international presence be rounded off.

Market and customer-orientation: Processes that are responsive to customers and markets are to be further created and expanded from development through to distribution. As far as possible, customers are involved as early as the initial development stages. The new product development processes established in two divisions in 2010 will start to take effect from 2011. Management of the product portfolio will be intensified in all divisions to even better reflect the real requirements of the market and customers in new products. The systems business, with which we are establishing ourselves as a long-term partner, will continue to be developed. In addition, sales expertise and presence are at the heart of coming activities and will be continuously expanded across all divisions, and especially abroad. We are continually working on a clear and unmistakable brand profile for the Group as a whole.

Internationalization: Strong potential for growth exists particularly on foreign markets for Jenoptik. At the present time, we are not yet sufficiently represented in all our key sales regions. The development of our activities, in particular in Asia and the

USA, is continuing. Here, we are making sure to achieve a majority presence, in part together with local partners. In addition to application centers in which our technology-intensive systems are demonstrated on site, we develop products and business models tailored to region-specific requirements and strengthen our international presence with excellent service and support. However, Germany and the USA will remain our centers of production for the foreseeable future.

Employees & management: The steady training and development of employees continue to be a key element of strategic HR work and were underpinned with the main subject of project management and the intensive continuation of the junior management program in 2010. Further key training programs, which will bring together and network employees on a range of platforms, are planned for 2011. This also applies to managers, for whom HR development measures at the individual or general level will continue to be carried out in 2011. These measures are underpinned with potential analyses to ensure demand-oriented development is possible. One of the focal areas of strategic HR work in 2010 was implementing central HR controlling. This forms the basis of strategic and forward-looking HR planning, and its establishment will be advanced intensively in 2011. To record personnel data optimally in the future, interfaces will be improved and processes defined with the help of a project.

Operational excellence: This, still the most important value lever, runs through every area of the Group. The Jenoptik Excellence Program is entering its third year and is expected to become a "permanent improvement process" at division level. Numerous ongoing and future projects in the Group continue to focus on the subjects of lean operation and administration, purchasing and supply chain management and shared services. One of the key subjects for the next two years is harmonizing the ERP systems for enterprise resource planning as the foundation for comparable and clearly structured processes.

FUTURE DEVELOPMENT IN THE SEGMENTS

For the future development in our segments, we assume that the global economy and the markets will continue to recover from the financial and economic crisis, but that the pace of growth in 2010 cannot be maintained in all sectors in the coming years, as this growth was also relative to the low level of the crisis year 2009.

In the **Lasers & Optical Systems segment**, we expect growth in the coming years, both from an expansion of the systems business and the concentration on key customers as well as from new products, applications and further internationalization.

The Lasers & Material Processing division is one of the world's few suppliers to offer a complete technology chain and can thus optimize primarily critical interfaces in module and system integration. Here the division attaches importance to an appropriate price-quality ratio. The areas of focus are cost-optimized production and energy-efficient solutions for the customer. Medical technology and material processing are the priority in the Lasers business unit. Beyond direct applications, the division is concentrating on the further development and improvement of the pump properties of their laser and diode bars, in particular for pumping fiber lasers. A new and more powerful infrared thin-disk laser for photovoltaics and micromaterial processing was also launched on the market and will be integrated into the new laser processing systems for crystalline photovoltaics. In the field of thin-film photovoltaics, Jenoptik is working hard on internal processes in order to regain its target margins in the light of competition in which price is a central factor. Laser processing systems for three-dimensional metal working, which are expected to lead to initial sales and earnings in 2011, were also new in 2010. For its continuing internationalization, the division will focus on North America and Asia in the medium and long term. Direct distribution and application centers, in particular, are due to be expanded.

The Optical Systems division is a total provider from optical components all the way to integrated optoelectronic systems. Depending on customer requirements, it draws on its comprehensive development and production expertise and is thus in a position to supply tailor-made systems. The development of the semiconductor industry will continue to be of key importance to its business development. Following the upswing in 2010, sustained strong demand is expected for the first half-year 2011. The division's dependence on this sector of industry is due to diminish in the following years. To this, the expansion of the systems business, new applications and markets that were opened up in 2009 and 2010 and will in future contribute to the growth of the division, will also make a contribution. These include, among others, lighting and security technology, sensor technology for the automotive industry as well as the market for laser material processing. On the international stage, the division continues its focus on its strategically most important foreign market, the USA, where it is present with its own production capacities, which were considerably expanded in 2010. Asia is also at the heart of the division's internationalization. Here, it makes use of the existing infrastructures of other divisions.

In the [Metrology segment](#), a strong recovery in business was seen in 2010 and will remain steady in the medium term. Here, it is important that Jenoptik continues to expand its good current market position both in industrial metrology and in traffic safety. The Industrial Metrology division is particularly subject to strong competitive pressure in the context of consolidating markets.

In the Industrial Metrology division, we assume that the market environment will continue to recover in 2011 and that pre-crisis levels will probably again be reached in 2013 or possibly as early as 2012, earlier than originally expected. The division focuses on production metrology for the automotive industry and has the edge on the competition with its complete range of measuring technologies, a broad international presence and market leadership in the field of optical shaft measurement technology. Alongside the USA, which is increasingly focusing on gas-saving and low-emission engine technologies, the divi-

sion is strongly represented in Asia and thus in the region that will show the strongest market growth in future. The capacities that were adjusted in 2009, the optimized site concept and the organizational splitting up of project and standard business already resulted in improved cost structures and a return to profitability in 2010. In terms of products, Jenoptik continues to concentrate on flexible measurement technologies and systems, which combine various technologies and/or different measurement tasks, as well as on optical and in-process metrology.

The Traffic Safety division is well-placed internationally. It operates in a market increasingly defined by major international projects and therefore by long lead times. The trend on major projects is toward a combination of equipment business and service providing. This can lead to fluctuations in the order book situation. The division seeks to counter this with a flexible system of production and the standardization in its product portfolio. The objective remains to win larger projects over the years ahead, primarily in non-European foreign markets. The division's broad international presence will be primarily expanded in important key markets with its own structures. In addition to established products, Jenoptik also focuses on new technologies and concepts, for example 3D radar technology or the identification of average speeds over a defined section of road.

The [Defense & Civil Systems segment](#) is benefitting from a largely stable environment and is characterized by long-term orders with long lead times. Obligations to make savings and recently adopted economy measures could lead to projects that have already been awarded being extended over a longer period of time. The scope and implementation of the economy measures in public defense budgets, which were discussed and in part adopted in almost all Western-style countries in 2010, could influence the development of the segment. In the medium term, the objective is to increasingly address foreign markets. The initial focus here will be the US market. In addition, markets not dependent on national budgets are due to be opened up for security products. The fields of energy and sensor systems are the priority here.

6.3 Future development of the business situation

Jenoptik is keeping to its long-term targets. However, the financial and economic crisis has resulted in a delay in attaining them. The measures implemented also in connection with the crisis will take the Jenoptik Group forward.

LONG-TERM TARGETS

Sustainable growth. In the long term, the objective is for Group sales to increase to one billion euros. This is to be achieved through organic growth and acquisitions that will increase the Group's profitability and reasonably expand the product portfolio as well as its international market presence. The Group EBIT margin is expected to improve to between 9 to 10 percent in the medium term.

Focus on cash flows: Organic growth and the investment required for this is to be achieved primarily with the Group's own financial resources. Consequently, positive cash flows from operating activities and positive free cash flows are key objectives of the Jenoptik management. This was possible even in the crisis year 2009 and also in the growth year 2010, contributing to a considerable reduction in net debt. Measures focusing on cash flows such as active inventory, receivables and capital expenditure management will continue to be pursued.

In the **expansion of international business**, high-growth regions are at the center of our activities. To the extent possible, internationalization is being achieved via direct presence which all areas of the Group can use. The objective remains the continued expansion of Jenoptik's market position, particularly in North America and Asia. Other markets will be opened up as per the requirements of the operating business areas.

HR management: We encourage and challenge our employees and management, focusing on training, international management structures, increasing flexibility, clear career paths, an incentive system geared toward the Group targets and expertise in change processes.

ANTICIPATED DEVELOPMENT OF KEY INDICATORS IN 2011 AND 2012

For 2011 and 2012 as a whole, we assume that the Jenoptik Group will be able to further increase sales and earnings. The fiscal year 2009, with its sharp decline, and the year 2010, with its welcome corrections, were influenced by the financial and economic crisis and the following upswing. For 2011 and 2012, we continue to assume a positive development of business.

Against this backdrop, the information provided below is given on the prerequisite that the economic situation develops in line with the economic forecasts given under Point 6.1. and does not significantly worsen. All of the following statements on the future development of the business situation have been made on the basis of current information.

Information on expected financial results and comparisons relate to the key operating indicators achieved in 2010, excluding one-off effects. In contrast to the long-term sales targets, possible acquisitions are not taken into account in the forecasts. In the actual figures for 2010, the loss of sales amounting to 31.9 million euros and the positive contribution to earnings amounting to 2.9 million euros by Jena-Optronik GmbH must be taken into account.

The **planning assumptions** for our three segments as at the beginning of March 2011 are as follows:

Lasers & Optical Systems segment:

- In the Lasers & Material Processing division, we expect continuing high demand for our lasers, for both direct applications in defense, medical technology and especially in material processing as well as for diode lasers used as pump sources. The positive development for lasers used in medical technology is expected to continue with the division aiming at expanding its market shares. In Laser Processing Systems, we particularly see opportunities in the field of crystalline photovoltaics and metal working. We anticipate growing demand abroad, in particular from the Asian market. Presence in Asia and the USA is to be expanded in order to be able to offer customers better local support.
- In the Optical Systems division, we expect continuing high demand from the semiconductor industry in the 1st half-year, which may slow somewhat during the 2nd half-year. Stimuli for new business outside the semiconductor industry are primarily expected from abroad. Our strategy of establishing ourselves as a long-term system partner and working closely together with key customers is due to increasingly translate into sales and results from 2011.

Metrology segment:

- The Industrial Metrology division is expecting a sustained recovery of the automobile market, which may mean a return to pre-crisis levels of 2007/2008 as early as 2012/2013 and thus earlier than anticipated. A boost to sales is primarily expected from the above-average growth in the BRIC countries. In the USA, the division intends to profit from the growing trend toward low-consumption motorization.

- In the Traffic Safety division, we assume that we will again succeed in acquiring important major international orders. As a whole, we see a continuing positive market sentiment both nationally and internationally, as it is the goal all over the world to minimize the number of accidents and fatalities and reduce the high costs resulting from these. We see opportunities over the competition in our complete technology range and leading position in the equipment business. Risks are primarily present on politically-motivated major projects to the effect that the decision-making processes can be delayed.

Defense & Civil Systems segment:

- Despite shrinking defense budgets, we continue to expect stable development as there is relatively high planning security on account of long-term contract awards. For 2011 and 2012, we continue to assume a stable course of business, in which foreign orders will account for a somewhat greater share than in previous years.

The Jenoptik Excellence Program is being continued throughout the Group. However, it is increasingly losing its project nature and becoming a part of constant internal process improvements. The central project office will continue to monitor the individual measures. In 2011, the program is due to result in further cost savings in the mid-single-digit million euro range. After the saving and liquidity effects of 2009 and 2010, which chiefly came from short-term effects in purchasing management felt quickly, the proportion of cost savings from more efficient processes as a whole and in particular from production is continuing to rise in the course of the program. In 2011 and 2012, the implementation of lean principles and the standardization of processes in all areas of the Group will remain the priority.

Anticipated business position. On the basis of the given assumptions and planning as well as the expected cost savings, sales and Group EBIT are expected to rise further in the next two years, with EBIT increasing more sharply than sales. In addition to the expected and sustained general recovery in the economy and a continuing high level of demand for German machinery and systems, our market-based business development is driven by

- high demand from the semiconductor industry and our increasing share of added value here,
- the recovery of the automotive market, which is happening faster than expected,
- the trend toward greater traffic safety, particularly in emerging countries and the Middle East,
- a recovery in thin-film photovoltaics and the expected growth in demand for processing machines for crystalline photovoltaics,
- sustained high demand and new applications in medical technology, as well as
- the increasing need for security, whether in the political or personal environment.

Strategically, we are benefiting from our considerably expanded international market presence, our portfolio focused on profitable core markets and improved cost structures.

The lost sales from Jena-Optronik GmbH are expected to be offset in the fiscal year 2011. Group sales will then come to at least 510 million euros (2010 sales without Jena-Optronik: 478.8 million euros). Sales are also due to continue growing organically in 2012. Contributions will come from all the three segments:

Lasers & Optical Systems segment: Double-digit annual percentage growth in sales is the target of the Lasers & Material Processing division. Following subdued development in 2010, the Laser Processing Systems business unit started the year with a considerably higher order backlog than in the previous year following increasing numbers of incoming orders since the 4th quarter 2010. After a considerable jump in sales in the Optical Systems division with an increase of over 20 percent, we assume a further rise in sales despite an expected slight slow-

51 TARGETS OF THE GROUP AND SEGMENTS (in million euros)

	Actual 2010	Target/Trend 2011	Trend 2012 compared with 2011
Group sales	479 ¹⁾	at least 510	slightly rising
Lasers & Optical Systems segment	189	> 195	rising
Metrology segment	114	> 120	slightly rising
Defense & Civil Systems segment	174 ¹⁾	> 180	stable
Group EBIT	29 ¹⁾	> 35	rising
Group order intake	535 ¹⁾	slightly rising	slightly rising
Net debt	79	stable	slightly falling
Free cash flow	33	stable	slightly rising
Equity ratio	44.9 %	slightly rising	slightly rising
Balance sheet total	629	> 590	slightly rising
Employees	2,951	approx. 3,050	slightly rising
Capital expenditure	15	approx. 30	slightly rising
Interest result	-12	-12	slightly rising

1) continuing business divisions

down in the semiconductor industry for the 2nd half-year 2011. Sales growth is expected to come from an increase in our added value, the acquisition of new customers, new applications and new markets.

Metrology segment. In the Industrial Metrology division, the end of the automobile crisis was primarily reflected in the sales for the 2nd half-year 2010. In light of sustained high demand, Jenoptik expects sales growth in this division of 10 percent or slightly above. Following a project-related boost to sales in 2010, the Traffic Solutions division is expecting to maintain or slightly improve its level of sales. A condition of this is that the division succeeds again in winning a major international contract in the 1st half-year 2011.

Despite cuts in defense budgets, the **Defense & Civil Systems segment** is expected – adjusted for the divested space business – to develop stably through growth in civil markets and strong demand for energy systems.

In fiscal year 2011 Jenoptik plans to increase its Group EBIT by at least 20 percent and thereby further raise the quality of its earnings. The Group EBIT will come to over 35 million euros and grow at a faster rate than sales (EBIT 2010 without Jena-Optronik: 29.0 million euros). The improvement in EBIT is also expected to come from all three segments in 2011. In addition to the positive development of the market, in both 2011 and 2012, the largest earnings effects are due to come from the ongoing cost-saving measures and more efficient processes.

On account of the long-term financing structure, interest expenses will remain largely unchanged in 2011 and only appreciably fall as a result of repayments from 2012. The lower net debt has a disproportionately low impact on the interest

income as a result of a low credit interest rate. There are no plans to increase the interest income through short-term, high-risk investments. In addition to acquisitions and capital expenditure, the free liquidity is also to be used to repay long-term loans, but due to prepayment penalties, this will only start to reduce interest from 2012. Furthermore, earnings from guarantees will drop as a result of the discontinuance of lines of guarantee to the benefit of caverion GmbH, in which Jenoptik sold its share in 2010.

The order backlog of the Group as of December 31, 2010 already accounts for approx. 45 percent of sales for the current fiscal year 2011. Adjusted for the sale of Jena-Optronik GmbH, the Jenoptik management is again expecting a rise in order intake for 2011. A more detailed forecast is not possible due to the increasing significance of major orders.

The number of employees is expected to rise slightly to approx. 3,050 in the current fiscal year. This emerging upward trend is also due to continue in the coming year. Personnel expenses are in future expected to develop at a disproportionately lower rate than the expansion of business.

Anticipated financial position. The Group financing is secured by free credit lines as well as cash and bank credit balances. Active inventory and receivables management will be steadily pursued in the coming years, so that positive cash flows should again be in the double-digit million euro range despite the expansion of business. Despite the increase in capital expenditure and planned growth, the operating free cash flow is expected to again be positive.

With regard to financing, parts of medium to long-term loans will become due in 2011 and will be repaid out of current cash flows as well as, in smaller part, refinanced.

Approx. 43 million euros of long-term financial liabilities are real estate loans. For 2011, the sale of real estate that is not required for operating purposes and is held in separate real estate companies is planned. Silent investors hold shares in the real estate companies. The cash inflow from the sale of real estate is to be used to repay existing financing arrangements, including the financing of the exit of part of the silent investors. In the case of a sale, the long-term and short-term liabilities fall with a simultaneous decline in real estate assets, which is predominantly shown in the form of investment properties on the balance sheet. EBIT shortfalls as a result of lost rental income will in part be offset by a reduction in interest expenses. As a result, the impact on the net profit will be minor.

Not accounting for any acquisitions, net debt is expected to fall further in the medium term from 2012. Fluctuations in connection with the disposal of real estate not required for operating purposes and the exit of silent investors are, however, possible both in the course of the year or also between individual years.

Due to the 2009 net loss at JENOPTIK AG, which could be offset in 2010 through withdrawal from capital reserve, a net profit of 0 million euros is shown on the annual financial statements 2010 of JENOPTIK AG. For this reason, no **dividends** can be distributed for the fiscal year 2010. The target for 2011/2012 is to create the prerequisites to be able to pay a dividend.

Regarding the future policy on dividends, the Jenoptik management is of the opinion that a solid base of equity is of key importance for sustainable growth. This is seen against the background of the remaining gross debt of 145.4 million euros and the result of both the experience of the recent financial and economic crisis, which weakened the equity positions of many companies, and the technology environment in which Jenoptik specifically operates. In addition, the sale of the space business, which is currently shown as a cash balance, opens up the possibility of acquisitions.

In addition to the liquidation of existing finance arrangements, a future dividend will in particular also depend on the extent to which Jenoptik's liquidity can be usefully invested in growth and acquisitions and, in the process, the high loss carried forward can be used effectively. Every year, the Executive Board and Supervisory Board will re-examine whether the payment of a dividend to Jenoptik shareholders is possible and value-enhancing.

The level of capital expenditure in 2011 will be considerably higher than in the last two years. This will be continuously accompanied by intensive investment controlling and is directly related to new capital expenditure for specific orders. In total, the volume of capital expenditure is expected to be approx. 30 million euros in 2011, compared with approx. 15 million euros in 2010. This includes larger projects, such as the construction of a production facility for the Defense & Civil Systems division at the Altenstadt (Bavaria) site. Production capacities will continue to be expanded in 2011 and beyond, among others in the Lasers & Material Processing division.

6.4 Opportunities

Company-specific opportunities for Jenoptik result from the product portfolio, which builds on our core area of expertise, optoelectronics. Jenoptik thus operates in a technology environment that enables new applications and has high entry barriers. With its presence on a wide range of markets, Jenoptik can also cope better with economic fluctuations than companies operating in just one market. In addition, opportunities arise from

- internationalization, which we are primarily advancing in Asia and North America,
- our highly skilled employees in all locations,
- the importance we attach to our key customers and our close cooperation with them,
- the gradual entry into the systems business and the consequent increase in our added value,
- our uniform global brand and
- developments, cooperation agreements and partnerships within the markets as well as our own intensive target-oriented research and development.

GENERAL STATEMENT ON FUTURE DEVELOPMENT

We see a positive economic environment at the beginning of 2011. Nevertheless, the political world as well as market participants on the financial, commodities and capital markets are nervous. In addition, there are at present political upheavals in the Arabian world. Market information is increasingly leading to erratic reactions with a short-term focus. This makes reliable forecasts on the development of our markets more difficult than in previous years. As a whole, however, we look to the economic development of the coming 24 months with optimism. Jenoptik particularly intends to profit from the German export boom and the ongoing internal improvements in cost structures and processes.

The Jenoptik management is keeping to its medium-term to long-term corporate targets. The objective is sales of one billion euros with an EBIT margin of between 9 and 10 percent. The financial and economic crisis has delayed this development but also helped to optimize structures and processes more quickly than in boom periods. The prospects for growth are good, with regard to both the economic conditions and the corporate basis. A key objective is to increase profitability sustainably. At the same time, Jenoptik today works on a solid financial basis: net debt is at 79.3 million euros and has approximately halved since the end of 2009; the Group is continuously generating positive cash flows.

This positive overall development is expected to continue in the next two years. We are confident of being able to achieve our planned growth in sales and increase Group EBIT at higher rates than sales.

Jena, March 10, 2011



Michael Mertin
Chairman of the Executive Board



Frank Einhellinger
Member of the Executive Board

JENOPTIK CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

FOR FISCAL YEAR 2010

The size and structure of the Notes are equivalent to last year's Notes. Information on the share-based payment in accordance with IFRS 2 has been included. To allow for a better comparability, Jena-Optronik GmbH, sold in December 2010, is presented separately in the Statement of Comprehensive Income in accordance with IFRS 5, as "Discontinued Operations" in each case.

CONSOLIDATED FINANCIAL STATEMENTS

116	STATEMENT OF COMPREHENSIVE INCOME
117	BALANCE SHEET
118	STATEMENT OF MOVEMENTS IN SHAREHOLDERS' EQUITY
120	STATEMENT OF CASH FLOWS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

121	DETAILS OF THE GROUP STRUCTURE
128	ACCOUNTING POLICIES
138	HISTORICAL SUMMARY OF FINANCIAL DATA
140	SEGMENT REPORTING
143	NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME
148	NOTES TO THE BALANCE SHEET
165	OTHER NOTES
171	OBLIGATORY AND SUPPLEMENTARY DISCLOSURES UNDER HGB
172	GERMAN CORPORATE GOVERNANCE CODE
172	EXECUTIVE BOARD
174	SUPERVISORY BOARD

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

in TEUR	Note No.	Continuing business divisions	Discontinued business division	Group 1.1. – 31.12. 2010	Continuing business divisions	Discontinued business division	Group 1.1. – 31.12. 2009
Sales	1	478,750	31,897	510,647	441,338	32,271	473,609
Cost of sales	2	328,569	24,833	353,402	320,078	24,844	344,922
Gross profit		150,181	7,064	157,245	121,260	7,427	128,687
Research and development expenses	3	28,088	1,946	30,034	30,811	1,791	32,602
Selling expenses	4	53,746	665	54,411	50,420	901	51,321
General administrative expenses	5	36,494	1,561	38,055	34,789	1,672	36,461
Other operating income	6	22,524	25,230	47,754	22,796	261	23,057
Other operating expenses	7	25,347	742	26,089	49,781	1,231	51,012 ²⁾
EBIT		29,030	27,380¹⁾	56,410	-21,745	2,093	-19,652
Result from investments in associates and joint ventures	8	-1,523	0	-1,523	-1,799	0	-1,799
Result from other investments	8	-446	0	-446	-2,494	0	-2,494
Interest income	9	1,701	65	1,766	2,718	14	2,732
Interest expenses	9	13,713	19	13,732	13,078	24	13,102
Financial result		-13,981	46	-13,935	-14,653	-10	-14,663
Earnings before tax		15,049	27,426	42,475	-36,398	2,083	-34,315
Income taxes	10	1,312	0	1,312	216	0	216
Deferred taxes	10	4,720	0	4,720	-979	303	-676
Earnings after tax		9,017	27,426	36,443	-35,635	1,780	-33,855
Minority interest share of profit/loss	11	-139	0	-139	4,072	0	4,072
Net profit		9,156	27,426	36,582	-39,707	1,780	-37,927
Earnings per share in euros	12	0.16	0.49	0.65	-0.76	0.03	-0.73
Earnings per share (diluted) in euros		0.16	0.49	0.65	-0.76	0.03	-0.73

Consolidated Statement of Recognized Income and Expense

Earnings after tax	36,443	-33,855
Difference arising on foreign currency translation	1,776	-508
Financial assets available for sale	2,206	94
Cash flow hedge	-5,159	-2,990
Deferred taxes	1,021	847
Total income and expense recognized in shareholders' equity	-156	-2,557
of which attributable to:		
Minority interests	0	-4
Shareholders	-156	-2,553

1) operative EBIT of discontinued bus. div. 2.879 TEUR 2) of which 27.427 TEUR expenses for reorganization and restructuring (2010: 2,267 TEUR)

Consolidated Balance Sheet

Assets in TEUR	Note No.	31.12.2010	31.12.2009	Change
Non-current assets		310,665	336,874	-26,209
Intangible assets	13	72,380	77,949	-5,569
Tangible assets	14	139,405	152,143	-12,738
Investment properties	15	22,080	24,450	-2,370
Shares in associates and joint ventures	17	246	261	-15
Financial assets	18	16,579	18,938	-2,359
Other non-current assets	19	9,080	11,037	-1,957
Deferred tax assets	20	50,895	52,096	-1,201
Current assets		318,190	270,216	47,974
Inventories	21	148,797	154,665	-5,868
Current accounts receivable and other assets	22	103,308	103,240	68
Securities held as current investments	23	750	1,110	-360
Cash and cash equivalents	24	65,335	11,201	54,134
Total assets		628,855	607,090	21,765

Shareholders' equity and liabilities in TEUR	Note No.	31.12.2010	31.12.2009	Change
Shareholders' equity	25	282,487	239,989	42,498
Subscribed capital		148,819	135,290	13,529
Capital reserve		194,286	186,137	8,149
Other reserves		-60,936	-81,895	20,959
Minority interests	26	318	457	-139
Non-current liabilities		165,315	205,760	-40,445
Pension provisions	27	6,443	6,417	26
Other non-current provisions	29	17,631	18,544	-913
Non-current financial liabilities	31	125,856	158,218	-32,362
Other non-current liabilities	32	11,681	20,116	-8,435
Deferred tax liabilities	20	3,704	2,465	1,239
Current liabilities		181,053	161,341	19,712
Tax provisions	28	2,361	2,587	-226
Other current provisions	29	61,895	40,592	21,303
Current financial liabilities	31	19,486	13,532	5,954
Other current liabilities	33	97,311	104,630	-7,319
Total shareholders' equity and liabilities		628,855	607,090	21,765

Consolidated Statement of Movements in Shareholders' Equity

in TEUR	Subscribed capital	Capital reserve	
Balance as at 1.1.2009	135,290	186,137	
Valuation of financial instruments			
Currency differences			
Earnings after tax			
Dividends paid			
Other changes			
Balance as at 31.12.2009	135,290	186,137	
Balance as at 1.1.2010	135,290	186,137	
Valuation of financial instruments			
Currency differences			
Earnings after tax	13,529	8,149	
Dividends paid			
Other changes			
Balance as at 31.12.2010	148,819	194,286	

	Cumulated profit	Financial assets available for sale	Cash flow hedge	Cumulative currency differences	Minority interests	Total
	-53,776	-1,888	6,552	-1,395	21,917	292,837
		98	-2,143		-4	-2,049
	84			-592		-508
	-37,927				4,072	-33,855
					-4,131	-4,131
	9,092				-21,397	-12,305
	-82,527	-1,790	4,409	-1,987	457	239,989
	-82,527	-1,790	4,409	-1,987	457	239,989
		2,206	-4,138			-1,932
	-433			2,209		1,776
						21,678
	36,582				-139	36,443
	-15,467					-15,467
	-61,845	416	271	222	318	282,487

Consolidated Statement of Cash Flows

in TEUR	1.1.–31.12. 2010	1.1.–31.12. 2009
Earnings before tax	42,475	–34,314
Interest	11,966	10,370
Depreciation/write-up	26,832	29,402
Impairment	6,696	16,631
Loss/profit on disposal of fixed assets	–29,407	132
Other non-cash expenses/income	1,785	1,947
Operating profit/loss before working capital changes	60,347	24,168
Increase/decrease in provisions	–1,960	3,399
Increase/decrease in working capital	–4,967	34,018
Increase/decrease in other assets and liabilities	–8,448	–7,744
Cash flow from/used in operating activities before income taxes	44,972	53,841
Income taxes paid	–1,231	–554
Cash flow from/used in operating activities	43,741	53,287
Receipts from disposal of intangible assets	61	135
Payments for investments in intangible assets	–2,075	–3,760
Receipts from disposal of tangible assets	3,143	1,139
Payments for investments in tangible assets	–13,190	–10,307
Receipts from disposal of financial assets	8,639	3,022
Payments for investments in financial assets	–2,884	–4,347
Receipts from acquisition of consolidated companies	38,849	–795
Payments for acquisition of consolidated companies	–4,000	–336
Interest received	1,766	2,734
Cash flow from/used in investing activities	30,309	–12,515
Receipts from allocations to equity	21,678	0
Dividend payments to minority shareholders	0	–4,131
Receipts from issue of bonds and loans	24,111	84,720
Repayments of bonds and loans	–49,583	–112,026
Repayments for finance leases	–1,218	–770
Change in group financing	–4,292	798
Interest paid	–11,104	–10,557
Cash flow from/used in financing activities	–20,408	–41,966
Change in cash and cash equivalents	53,642	–1,194
Foreign currency translation changes in cash and cash equivalents	492	–128
Cash and cash equivalents at the beginning of the period	11,201	12,523
Cash and cash equivalents at the end of the period	65,335	11,201

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR 2010

Details of the Group structure

PARENT COMPANY

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

ACCOUNTING POLICIES

The consolidated financial statements of JENOPTIK AG for 2010 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. The following IFRS are applied for the first time in the consolidated financial statements:

IAS 27 "Consolidated and Separate Financial Statements" and IFRS 3 "Business Combinations". In January 2008 the IASB approved the amendment of IAS 27 "Consolidated and Separate Financial Statements" and of IFRS 3 "Business Combinations". The principal changes to IAS 27 include accounting for transactions whereby the entity continues to maintain control as well as for transactions which do not lead to a loss of control. These shall be treated as equity transactions with no impact on income. Remaining interests shall be measured at fair value at the date when control is lost. Thus, where there are minority interests negative balances may be disclosed. This means that losses will be allocated in the future, without limitation, according to interests held. Major changes to IFRS 3 are to the measurement of minority interests, recording of step acquisitions and the treatment of conditional purchase price elements and acquisition-related costs. Minority interests can either be measured at fair value (full goodwill method) or at the proportional fair value of the identifiable net assets. For a business combination achieved in stages re-measurement should be at fair value of the interests held at the date of transfer of control and any gains and losses recognised. Any adjustment to conditional purchase price components which were disclosed

as liabilities at the time of acquisition shall, in future, be recognised as profits or losses. Acquisition-related costs are disclosed as expenses when they are incurred. The revised standards shall apply to financial years beginning on or after July 1, 2009. The first-time adoption of this change has no material impact on the consolidated financial statements of JENOPTIK AG.

IAS 39 "Financial Instruments: Recognition and Measurement". In July 2008 the IASB approved the amendment of IAS 39. The amendments clarify how, when accounting for hedging transactions, to treat the inflation component of financial instruments and option contracts which are used as hedging instruments. The revised standard shall apply to financial years beginning on or after July 1, 2009. The first-time adoption of this change has no material impact on the consolidated financial statements of JENOPTIK AG.

IFRS 1 "First-time Adoption of International Financial Reporting Standards". In November 2008 the IASB published a new version of IFRS 1. In the amended version the standard was basically restructured without changing its content. Essentially the rules on exemption of other standards have been transferred from the main section to various appendices.

Furthermore, the IASB announced a further amendment to IFRS 1 in July 2009. Through these amendments exemption rules are taken up for companies in the oil and gas industries with regard to the fully retrospective application of the IFRS to the related oil and gas assets. At the same time, companies with existing leasing contracts are exempted from the new evaluation of contracts in accordance with IFRIC 4 "Determining whether an Arrangement contains a Lease". This applies to the extent that this evaluation was made at an earlier point in time according to comparable national accounting regulations.

The revised standard shall apply to financial years beginning on or after January 1, 2010. Based on the fact that the Jenoptik Group is not a first-time user of IFRS as defined in IFRS 1, the amendments in IFRS 1 have no effect on the consolidated financial statements of JENOPTIK AG.

IFRS 2 “Share-based Payment”. In June 2009 the IASB published an amendment to IFRS 2. The amendment clarifies the accounting method for the provision of goods and services by employees or suppliers for which another company within the group has a settlement obligation. The revised standard shall apply to financial years beginning on or after January 1, 2010. The first-time adoption of the new version of IFRS 2 has no effect on the consolidated financial statements of JEOPTIK AG.

IFRIC 15 “Agreements for the Construction of Real Estate”. In July 2008 the interpretation IFRIC 15 “Agreements for the Construction of Real Estate” was issued. IFRIC 15 clarifies when agreements for the construction of real estate fall under the rules of IAS 11 “Construction Contracts” or under those of IAS 18 “Revenue”. Additionally, IFRIC 15 includes rules determining when revenue should be recognised for agreements for the construction of real estate falling under the provisions of IAS 18. The Interpretation shall be applied for financial years beginning on or after January 1, 2010. The first-time adoption of this change has no material effect on the consolidated financial statements of JENOPTIK AG.

IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”. In July 2008 the interpretation IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” was issued. IFRIC 16 clarifies what should be regarded as a risk in hedging the net investment in a foreign operation and where, within the Group the hedging instrument for reducing the risk may be held. The Interpretation shall be applied for financial years beginning on or after July 1, 2009. The first-time adoption of this change has no material effect on the consolidated financial statements of JENOPTIK AG.

IFRIC 17 “Distributions of Non-Cash Assets to Owners”. In November 2008 the Interpretation IFRIC 17 “Distributions of Non-Cash Assets to Owners” was issued. IFRIC 17 clarifies and explains how distributions of non-cash assets to owners should be accounted for. Under the same interpretation the amendments in IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” and in IAS 10 “Events After the Reporting Period” resulting from IFRIC 17 were also adopted. The Interpretation shall be applied for financial years beginning on or after November 1, 2009. The first-time adoption of this change has no material effect on the consolidated financial statements of JENOPTIK AG.

IFRIC 18 “Transfers of Assets from Customers”. The Interpretation IFRIC 18 “Transfers of Assets from Customers” was issued in January 2009. IFRIC 18 clarifies and explains how to account for the transfer of property, plant or equipment or receipt of funds for the construction or acquisition of property, plant and equipment from a customer. Under the same pronouncement changes resulting from IFRIC 18 were adopted in IFRS 1. The Interpretation shall be applied for financial years beginning on or after November 1, 2009. The first-time adoption of this change has no material effect on the consolidated financial statements of JENOPTIK AG.

The following standards adopted by the European Union have not been applied early:

IAS 24 “Related Party Disclosures”. In November 2009 the IASB approved the amendment of IAS 24. The amendment provides a partial exemption from the disclosure requirements for government-related entities. Furthermore, the amendment clarifies the definition of a related party. The revised standard is effective for financial years beginning on or after January 1, 2011 and is not expected to have any effect on the accounting and measurement of the Group.

IFRS 32 (2009) "Financial Instruments: Presentation". The IASB issued an amendment to IAS 32 "Financial Instruments: Presentation" in October 2009. According to this subscription rights, options and option certificates for the purchase of equity instruments which are denominated in a currency other than the functional currency of the issuer and are issued to existing shareholders of the entity, shall be classified as equity by the issuer. This applies to the extent the subscription rights are issued at a fixed currency amount. The revised standard shall apply to financial years beginning on or after February 1, 2010. According to the current evaluation the first-time adoption of the revised IAS 32 will not have any effects on the consolidated financial statements of JENOPTIK AG.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IFRS 7 "Financial Instruments: Disclosures". In January 2010 the IASB announced an amendment to IFRS 1 and to IFRS 7. According to this first-time users are offered an exemption to the provision of comparative figures for the measurement at fair value and for liquidity risk. IFRS 7 intends this exemption option for comparative periods ending before December 31, 2009. The revised standards shall apply to financial years beginning on or after July 1, 2010. Based on the fact that the Jenoptik Group is not a first-time user of IFRS as defined in IFRS 1, the amendments in IFRS 1 and in IFRS 7 will have no effect on the consolidated financial statements of JENOPTIK AG.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments". The IASB published Interpretation IFRIC 19 in November 2009. This outlines the requirements of the IFRS for the accounting treatment if an entity settles a financial liability partially or in full by issuing shares or other equity instruments. According to this, the equity instruments issued for settlement

are part of the consideration paid for the financial liability and are to be measured at fair value. A resulting difference between the carrying value of the financial liability being extinguished and the first-time measurement of the issued equity instrument shall be recorded to income. The Interpretation shall be applied for financial years beginning on or after July 1, 2010. According to current assessment, the first-time adoption of IFRIC 19 will have no material effect on the consolidated financial statements of JENOPTIK AG.

The financial reporting for the fiscal year 2010 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 comprehensive income is prepared on the cost of sales basis.

The fiscal year of JENOPTIK AG and its subsidiaries included in the consolidated financial statements is the calendar year with the exception of 1 associate and/or joint venture. In deviation to their fiscal years ending on June 30, these companies have each prepared interim financial statements for the twelve months ended December 31 for consolidation purposes.

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

ESTIMATES

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 comprehensive income of the Group and on the disclosure of contingent assets and liabilities. All assumptions and estimates are made to the best of our knowledge and belief, in order to present a true and fair view of the net assets, financial position and results of operations of the Group.

The underlying assumptions and estimates are reviewed on an ongoing basis. As part of this the preparer of the consolidated financial statements has certain discretionary scope. This relates predominantly to the following areas:

- the evaluation of impairment of goodwill,
- the measurement of intangible assets, tangible assets and investment properties,
- the recognition and measurement of provisions for pensions and similar obligations,
- the recognition and measurement of other provisions and
- the utilization of future tax relief.

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 consolidated financial statements of JENOPTIK AG include 23 (2009 28) fully-consolidated subsidiaries. Of these 15 (2009 18) are domestic and 8 (2009 10) are foreign. 34 subsidiaries, of which 19 are non-operating companies, with no material influence on the net assets, financial situation and results, are not consolidated. Their operating results amount to 0.5 percent of the Group operating result. In the current fiscal year 1 associated entity was deconsolidated (2009 1) and is no longer included in the consolidated financial statements. Companies included in the consolidation of the Jenoptik Group include 2 (2009 2) joint ventures accounted for at equity or proportionally.

The joint venture HILLOS GmbH, Jena is included in the consolidated financial statements proportionally at a share of 50 percent in accordance with IAS 31. The joint venture JT Optical Engine GmbH+Co. KG is measured at equity. Thereby, the acquisition costs are increased or decreased annually by the appropriate change 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.

In June 2010 the minority interest in caverion GmbH, Stuttgart of 15.1 percent was sold to the Finnish YIT Group.

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

In the fiscal year 2010 the Space Technology business unit was discontinued. In this connection Jena-Optronik GmbH was deconsolidated (see section Discontinued business division).

The Jenoptik Group transferred certain parts of its property to limited partnerships as part of so-called sale and leaseback transactions. The property funds SAALAE Immobilien Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Jena (SAALAE) and LEUTRA SAALAE Gewerbegrundstücksgesellschaft mbH & Co. KG, Grünwald, (LEUTRA SAALAE) 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 consolidated financial statements.

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

in TEUR	2010	2009
Non-current assets	2,232	2,225
Current assets	7,486	5,436
Non-current liabilities	33	21
Current liabilities	4,651	2,853
Income	13,871	9,438
Expenses	13,624	9,418

The company accounted for at equity in the consolidated financial statements shows the following proportional values as at December 31, 2010:

in TEUR	2010	2009
Non-current assets	358	532
Current assets	690	269
Non-current liabilities	0	0
Current liabilities	308	454
Income	2,306	724
Expenses	1,827	2,377

Those companies which have taken advantage of the exemption provisions of § 264 (3) or § 264b HGB are disclosed within the obligatory disclosures and supplementary information under HGB.

DISCONTINUED BUSINESS DIVISION

After approval by the Antitrust Authorities at the end of November the sale of Jena-Optronik GmbH to Astrium GmbH was concluded on December 3, 2010. The deconsolidation of Jena-Optronik GmbH was performed in the Jenoptik Group as at November 30, 2010. Unless otherwise disclosed, Jena-Optronik is included proportionally in the following notes up to the deconsolidation date.

The following changes in companies consolidated resulted from the deconsolidations:

in TEUR	Disposals 2010
Non-current assets	2,881
Current assets	28,169
Non-current liabilities	2,099
Current liabilities	18,413

The operating result of the company amounted to TEUR 2,879 for January to November 2010. Through the sale a deconsolidation gain of TEUR 24,501 was generated in the Jenoptik Group. The deconsolidation result also includes allowances for research and development topics and tangible assets as well as provisions and costs of the sale which arose in connection with the discontinuation of the business division.

In connection with the sale of Jena-Optronik GmbH an overall tax expense of EUR 4.6 million arose which mainly relates to deferred taxes. Dependent on the tax subject characteristic this has to be allocated to the head of the tax group, JENOPTIK AG, and thus to the continuing business divisions.

COMPANY ACQUISITIONS

In the current fiscal year there were no material company acquisitions.

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. 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 analyzed into identifiable intangible assets. Any remaining amount represents the goodwill.

The silent reserves and charges realized are accounted for in the subsequent consolidation in accordance with the corresponding assets and liabilities, depreciated and/or released. Goodwill capitalized is not amortized but subject to an annual impairment test in accordance with IFRS 3. Negative goodwill is charged directly to other operating 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 at equity valuation 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 organizationally 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.

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 income statement.

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 2010 foreign exchange gains amounted to TEUR 8,079 (2009 TEUR 7,716) and foreign currency losses amounted to TEUR 6,820 (2009 TEUR 7,994).

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	
		2010	2009	31.12.2010	31.12.2009
USA	USD	1.3170	1.3826	1.3362	1.4406
Switzerland	CHF	1.3572	1.4997	1.2504	1.4836

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 to the uniform Group accounting principles, where they do not comply with IFRS and the measurement differences are material.

GOODWILL

For all business combinations prior to the conversion to IFRS the exemption provisions of IFRS 1 have been applied.

The rules of IFRS 3 are applied to all business combinations after the date of transition. The Jenoptik Group does not use the option under IFRS 3 (revised) to apply the full goodwill method and only the goodwill allocated to the majority shareholding is increased.

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 certain 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 allocation 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 comprehensive income as expenses and are not reversed in subsequent periods.

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

INTANGIBLE ASSETS

Intangible assets acquired for a consideration, mainly software, patents, customer relationships, are capitalized at acquisition costs. Intangible assets with a finite useful life are amortized 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 assets").

For intangible assets with an infinite useful life an impairment test is performed at least annually and their value adjusted to reflect future expectations as appropriate.

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

Development expenses are capitalized 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 capitalize the development expenses it should be reasonably certain that these are covered by future financial inflows. Capitalized development expenses are amortised over the expected sales period of the products. Amortization is included in the research and development expenses. Research costs shall be recognized 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.

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 amortized 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. In accordance with IAS 23 borrowing costs which are incurred on acquisition or manufacture of a qualified asset are capitalized at acquisition and manufacturing costs.

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

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

Depreciation is mainly based on the following useful lives:

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

If tangible 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 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".

An impairment test is performed on individual assets or on a cash-generating unit (CGU). A CGU represents as a rule the organizational structure. Where there are changes to organizational structure within the Group, e.g. through mergers or spin-offs, the CGU is newly defined appropriately.

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

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

Value in use is determined on the basis of the present value of the future cash flows expected. This is based on a market-relevant interest rate before tax which reflects the risks of the use of the assets which have not yet been accounted for in the estimated future cash flows. If the recoverable amount of an asset is estimated as lower than its 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 value of the asset is adjusted to reflect the recoverable amount determined. The maximum limit for reversal of an impairment loss is determined as the carrying value of the acquisition or production costs which would have been determined had no impairment loss been recognized in previous periods. The impairment loss reversal is recorded immediately in the statement of income.

LEASING

Leased tangible assets fulfill 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 LEASING

As lessee under finance leasing the Group capitalizes the relevant assets 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 installments are discounted and accordingly recognized as liabilities.

If the Group is the lessor the net investment in the lease is capitalized as a receivable. Finance income is recognized in the appropriate period in the income statement ensuring a constant periodic rate of return on the net investment.

OPERATING LEASING

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" these are recognized at amortized acquisition or production costs. The fair value of these properties is additionally disclosed in the notes to the financial statements. It is determined using the discounted cash flow model. In exceptional cases the fair value was 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 have fallen 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.

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 recognized in the Group balance sheet from the point at which the Group becomes a contractual party to the financial instrument. Financial assets are capitalized on their settlement date.

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

The amortized cost of a financial asset or liability is the amount at which the financial asset or financial liability is initially recognized:

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

For current receivables and current payables the amortized costs generally represent the 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 recognized 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 stock corporation 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. Where impairment is of a permanent nature this is recorded in income.

Shares in unquoted subsidiaries and investments also 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 amortized 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 measurement 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 comprehensive 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 allowances estimated for bad debts.

OTHER RECEIVABLES AND ASSETS

Other receivables and assets are measured at amortized cost. All recognizable bad debt risks are accounted for in the form of write-downs.

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 amortized 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 represents 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 amortized 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.

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 guideline authorized 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 mainly 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 fulfill the conditions of IAS 39 with regard to documentation and effectiveness, are hedged directly by banks.

The objective of a fair value hedge is to neutralize 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 comprehensive 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 reclassification from equity to the statement of comprehensive income is performed in the period where the underlying primary transaction impacts income. Changes in value from financial instruments classified as non-effective are recorded directly in the statement of comprehensive income.

The task of the central Group Treasury is also to monitor and optimize interest rate fluctuation risk. In this connection interest caps and interest swaps are used on an individual basis.

INVENTORIES

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

Production cost includes production-related full costs determined on the basis of normal utilization of capacity. 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 centers. Administration costs are accounted for if they can be allocated to production. 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 realizable 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 realizable 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 (cost to cost method). Losses on construction contracts shall be fully recognized 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 on-account 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 recognizable 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 realization. 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 carried forward are only recognized if the realization 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 (2009 2.75 percent) for salary development, of 2.0 percent (2009 1.75 to 2.0 percent) for pension development and a discount rate of 4.65 percent (2009 5.15 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 utilized.

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 the Jenoptik Group 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 in the statement of comprehensive 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 recognized 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 recognized 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 which are dependent on 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.

The settlement amount 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.

SHARE-BASED PAYMENTS

The long-term-incentive-components (LTI) for members of the Executive Board of JENOPTIK AG were accounted for as share-based remuneration with cash compensation. At the balance sheet date a non-current liability was set up amounting to the fair value of the payment obligation. The share programme is allocated based on the annual target agreement. Changes in fair value are recorded in the statement of income.

GOVERNMENT GRANTS

IAS 20 differentiates between capital grants for non-current assets and income-related grants.

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

For non-current 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 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 recognize 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 COMPREHENSIVE INCOME

Income from the sale of goods is recorded in the statement of comprehensive 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. Amortization and depreciation on intangible assets and tangible assets are recognized as they arise and included in manufacturing cost, selling or administrative expenses. Research and development expenses not qualifying for capitalization 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 amortization 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 recognized in the relevant functional costs in which the provisions were also recorded.

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

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

in million EUR	2004	2005	2006 ¹⁾	2007	2008	2009	2010
Non-current assets	636.2	454.9	417.0	387.7	376.3	336.9	310.7
Intangible assets	99.1	76.7	89.5	88.3	88.9	78.0	72.4
Tangible assets	231.0	164.7	170.2	175.9	170.5	152.1	139.4
Investment properties	63.2	58.0	34.6	36.0	34.8	24.5	22.1
Financial assets	120.7	73.0	55.0	24.0	18.8	18.9	16.6
Shares in associated companies	33.5	16.7	1.4	0.8	1.3	0.3	0.2
Other non-current assets	16.9	8.8	11.2	10.8	10.6	11.0	9.1
Deferred tax assets	71.8	57.0	55.1	51.9	51.4	52.1	50.9
Current assets	918.8	279.6	456.7	309.6	312.8	270.2	318.2
Inventories	184.2	143.3	161.5	174.1	179.5	154.7	148.8
Accounts receivable and other assets	558.2	125.5	137.8	119.5	118.8	103.2	103.3
Securities held as current investments	1.4	2.0	3.6	2.2	2.0	1.1	0.8
Cash and cash equivalents	175.0	8.8	153.8	13.8	12.5	11.2	65.3
Assets held for sale	0.0	773.8	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	369.0	314.3	299.4	280.9	292.8	240.0	282.5
of which subscribed capital	135.3	135.3	135.3	135.3	135.3	135.3	148.8
Non-current liabilities	452.6	369.2	333.2	208.8	133.1	205.8	165.3
Pension provisions	56.3	6.9	6.4	6.4	6.4	6.4	6.4
Other non-current provisions	20.7	15.3	22.3	22.1	18.4	18.6	17.6
Non-current financial liabilities	339.8	324.7	281.6	161.7	92.4	158.2	125.9
Other non-current liabilities	34.0	19.2	20.0	15.2	13.0	20.1	11.7
Deferred tax liabilities	1.8	3.1	2.9	3.4	2.9	2.5	3.7
Current liabilities	733.4	193.0	241.1	207.6	263.2	161.3	181.1
Tax provisions	15.2	1.7	1.2	1.1	2.9	2.6	2.4
Other current provisions	67.8	26.0	41.1	39.9	35.8	40.6	61.9
Current financial liabilities	75.5	61.6	78.8	45.9	113.7	13.6	19.5
Other current financial liabilities	574.9	103.7	120.0	120.7	110.8	104.5	97.3
Liabilities held for sale	0.0	631.8	0.0	0.0	0.0	0.0	0.0
Total assets	1,555.0	1,508.3	873.7	697.3	689.1	607.1	628.9
Change compared to prior year							
Non-current assets	-18.0 %	-28.5 %	-8.3 %	-7.0 %	-2.9 %	-10.5 %	-7.8 %
Current assets	-6.4 %	-69.6 %	63.4 %	-32.2 %	1.0 %	-13.6 %	17.8 %
Shareholders' equity	2.6 %	-14.8 %	-4.7 %	-6.2 %	4.2 %	-18.0 %	17.7 %
Non-current liabilities	-24.9 %	-18.4 %	-9.8 %	-37.5 %	-36.3 %	54.6 %	-19.7 %
Current liabilities	-7.7 %	-73.7 %	24.9 %	-13.6 %	26.8 %	-38.7 %	12.3 %
Share of total assets							
Non-current assets (asset ratio)	40.9 %	30.2 %	47.7 %	55.6 %	54.6 %	55.5 %	49.4 %
Current assets	59.1 %	18.5 %	52.3 %	44.4 %	45.4 %	44.5 %	50.6 %
Shareholders' equity (equity ratio)	23.7 %	20.8 %	34.3 %	40.3 %	42.5 %	39.5 %	44.9 %
Debt capital (debt capital ratio)	76.3 %	37.3 %	65.7 %	59.7 %	57.5 %	60.5 %	55.1 %
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0
per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
in % of subscribed capital	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Return on dividend based on year-end price 31.12.	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net financial liabilities²⁾	238.9	375.5	203.0	191.6	191.6	159.5	79.3
in % of adjusted total assets ³⁾	18.7 %	26.4 %	32.4 %	32.3 %	32.7 %	30.9 %	16.2 %

1) Continuing business divisions 2) Financial liabilities less cash and securities 3) Balance sheet total less intangible assets and cash including securities held as current investment

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

in million EUR	2004	2005	2005 ¹⁾ adjusted	2006	2007	2008	2009	2010 ²⁾
Sales	2,523.0	1,914.4	410.1	485.1	521.7	548.3	473.6	510.6
Gross profit	293.0	191.7	124.8	151.3	159.9	161.9	128.7	157.2
in % of sales	11.6 %	10.0 %	30.4 %	31.2 %	30.6 %	29.5 %	27.2 %	30.8 %
EBITDA ³⁾	128.8	43.7	57.7	69.9	79.1	67.5	23.3	88.7
in % of sales	5.1 %	2.3 %	14.1 %	14.4 %	15.2 %	12.3 %	4.9 %	17.4 %
EBIT ⁴⁾	81.1	-9.8	25.1	38.2	35.3	37.1	-19.7	56.4
in % of sales	3.2 %	-0.5 %	6.1 %	7.9 %	6.8 %	6.8 %	-4.2 %	11.0 %
Earnings before tax	37.4	-52.5	8.1	19.1	0.7	20.2	-34.3	42.5
in % of sales	1.5 %	-2.7 %	2.0 %	3.9 %	0.1 %	3.7 %	-7.2 %	8.3 %
Earnings after tax	19.0	-69.4	4.0	16.1	-4.6	16.6	-33.9	36.4
in % of sales	0.8 %	-3.6 %	1.0 %	3.3 %	-0.9 %	3.0 %	-7.2 %	7.1 %
Cash flow from/used in operat. activities ⁵⁾	100.8	31.7	65.7	28.8	73.8	46.5	53.3	43.7
Free cash flow (before income taxes)	71.2	1.2		17.5	42.4	27.9	41.0	32.9
Change compared to prior year								
Sales	31.3 %	-24.1 %		18.3 %	7.5 %	5.1 %	-13.6 %	7.8 %
Gross profit	43.5 %	-34.6 %		21.2 %	5.7 %	1.3 %	-20.5 %	22.1 %
EBITDA	153.0 %	-66.1 %		21.1 %	13.2 %	-14.7 %	-65.5 %	280.7 %
Result from operating activities	801.1 %	-112.1 %		52.5 %	-7.6 %	5.1 %	-153.1 %	++
Earnings after tax	-141.5 %	-464.3 %		307.6 %	-128.5 %	460.9 %	-304.2 %	++
Employees (average)	10,052	9,486	2,621	2,849	3,215	3,292	3,206	2,928
Personnel expenses (incl. pensions)	536.7	472.6	148.4	180.1	192.3	194.7	187.3	186.3
Personnel ratio (in % of sales)	21.3 %	24.7 %	36.2 %	37.1 %	36.9 %	35.5 %	39.5 %	36.5 %
Sales per employee (in TEUR)	251.0	201.8	156.5	170.3	162.3	166.6	147.7	174.4
Cost of materials (incl. purchased services)	1,468.7	1,076.0	184.8	227.1	252.2	252.5	206.6	224.2
Materials ratio (in % company performance)	56.6 %	55.4 %	43.8 %	44.5 %	45.1 %	44.7 %	41.9 %	40.3 %
Research and development expenses	31.8	34.4	27.4	33.8	39.0	34.1	32.6	30.0
in % of sales	1.3 %	1.8 %	6.7 %	7.0 %	7.5 %	6.2 %	6.9 %	5.9 %
Net value added	618.4	456.6	168.1	213.3	221.2	226.7	163.8	240.7
in % of company performance ⁶⁾	23.8 %	23.5 %	39.8 %	41.8 %	39.5 %	40.1 %	33.2 %	43.2 %
of which shareholders, company share	3.1 %	-15.2 %	2.4 %	7.6 %	-2.1 %	7.3 %	-20.7 %	15.1 %
Return on sales based on EBIT	3.2 %	-0.5 %	6.1 %	7.9 %	6.8 %	6.8 %	-4.2 %	11.0 %
Total turnover of assets	1.62	1.27		0.56	0.75	0.80	0.78	0.81
Total return on capital based on EBIT	5.2 %	-0.6 %		4.4 %	5.1 %	5.4 %	-3.2 %	9.0 %
Return on shareholders' equity before tax (at balance sheet date)	10.1 %	-16.7 %		6.4 %	0.2 %	6.9 %	-14.3 %	15.0 %
Adjusted equity ratio ⁷⁾	21.1 %	16.7 %		33.5 %	32.5 %	34.8 %	31.3 %	42.8 %
Non-current assets financed by shareholders' equity	58.0 %	69.1 %		71.8 %	72.5 %	77.8 %	71.2 %	90.9 %
Asset cover ⁸⁾	159.7 %	190.8 %		175.9 %	159.7 %	171.7 %	157.8 %	202.6 %

1) Continuing business divisions

2) Group including discontinued business division

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

4) Operating income before interest and net investment result

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

6) Company performance = sales plus other operating income and net investment result and income from securities

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

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

Segment reporting

The presentation of segments is in accordance with IFRS 8 "Operating Segments".

IFRS 8 follows the management approach. Accordingly the external reporting is based on the Group internal organizational and management structure as well as on the internal reporting structure to the chief operating decision maker. The Executive Board analyzes the financial information which serves as a decision basis for the allocation of resources and for measuring profitability. The accounting policies for the segments are the same as those for the Group described under accounting principles. An important management indicator within the company is the free cash flow.

For the fiscal year 2010 segment reporting is on the segments Lasers & Optical Systems, Metrology, Defense & Civil Systems and Other.

Business activities can be analyzed into five divisions and three segments. Segmentation of the business divisions is oriented towards the internal divisional structure, whereby the Lasers & Material Processing and Optical Systems divisions are combined to form the Laser & Optical Systems segment and the Industrial Metrology and Traffic Solutions divisions are combined to form the Metrology segment. The Defense & Civil Systems segment represents the division with the same name.

The Lasers & Optical System segment offers the complete value-added chain of laser material processing from the component through to complete systems. The Optical Systems division within the Lasers & Optical Systems segment offers opto-mechanical & opto-electronical assemblies, modules and systems and is development and production partner for optical, micro-optical and optical coating components – made of optical glass, infra-red materials and of plastics.

In the Metrology segment, the division Industrial Metrology is known as a manufacturer and systems provider for high-precision, contact and non-contact production metrology. The Traffic Solutions division develops, produces and sells components and systems for traffic security.

The main focus of the Defense & Civil Systems segment is on the areas of road vehicle, train and aircraft equipment, mechanical and stabilization technology, energy systems and opto-electronic systems.

JENOPTIK AG, JENOPTIK SSC GmbH, the property companies and other non-strategic companies are included in the segment Other. It also includes the sale proceeds from the discontinuance of the business division amounting to TEUR 24,501.

The item Adjustments includes the consolidation of the business relationships between the segments as well as certain reconciliation and reclassification issues.

The business relationships between companies within the divisions of the Jenoptik Group are based on prices which would also be agreed with third-parties.

Order intake relates to the estimated volume of sales for the contracts taken on after income reductions under consideration of changes in the contract value. Notices of intention are not included in the order intake.

The research and development item consists of the development expenses within customer contracts, capitalized development expenses and depreciation on them as well as research and development expenses.

Free cash flow is calculated from cash flow from operating activities (before income taxes) less investments in intangible assets and tangible assets plus disinvestments.

Information by Segment

in TEUR	Lasers & Optical Systems	Metrology	Defense & Civil Systems	of which discontinued bus. div. ¹⁾	Other	Adjustments	Group
Sales	188,943 (166,749)	113,805 (95,973)	205,843 (205,272)	31,897 (32,271)	24,444 (23,820)	-22,388 (-18,205)	510,647 (473,609)
of which Germany	56,503 (52,014)	38,192 (37,222)	107,840 (106,787)	6,209 (6,279)	24,441 (23,817)	-21,707 (-17,831)	205,269 (202,009)
European Union	56,301 (47,604)	18,790 (21,036)	45,729 (62,242)	10,139 (16,801)	0 (0)	0 (0)	120,820 (130,882)
Other Europe	4,233 (4,881)	4,615 (6,108)	24,693 (17,079)	1,426 (9)	3 (0)	-3 (0)	33,541 (28,068)
NAFTA	39,393 (39,343)	17,230 (14,587)	14,467 (9,304)	5,899 (3,783)	0 (3)	-678 (-374)	70,412 (62,863)
South East Asia/Pacific	19,747 (16,579)	15,138 (11,171)	11,645 (8,486)	8,224 (5,399)	0 (0)	0 (0)	46,530 (36,236)
Other	12,766 (6,328)	19,840 (5,849)	1,469 (1,374)	0 (0)	0 (0)	0 (0)	34,075 (13,551)
Sales with other business divisions	3,566 (1,102)	10 (12)	1,195 (1,760)	0 (0)	17,617 (15,332)	-22,388 (-18,206)	0 (0)
EBITDA ²⁾	24,027	12,070	18,960	4,077	33,642	-5	88,694
EBITDA before reorganization and restructuring ³⁾	(13,471)	(-1,625)	(19,492)	(3,589)	(11,744)	(-44)	(43,038)
EBIT	13,327	8,588	11,533	2,879	22,967	-5	56,410
EBIT before reorganization and restructuring ³⁾	(-704)	(-6,202)	(12,142)	(2,093)	(2,583)	(-44)	(7,775)
EBIT after reorganization and restructuring	(-16,509)	(-14,615)	(12,142)	(2,093)	(-626)	(-44)	(-19,652)
Result from investments in associates and joint venture	-1,523 (-1,799)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	-1,523 (-1,799)
Result from other investments	-1,526 (-1,587)	-420 (-529)	170 (247)	0 (0)	1,330 (-625)	0 (0)	-446 (-2,494)
Earnings after tax before profit/loss transfer	9,533 (-21,622)	8,008 (-16,444)	9,235 (9,171)	2,905 (1,780)	9,671 (-4,930)	-4 (-30)	36,443 (-33,855)
Research and development expenses	12,581 (15,660)	8,560 (8,297)	8,962 (9,013)	1,946 (1,791)	278 (0)	-347 (-368)	30,034 (32,602)
Research and development output	17,534 (22,017)	12,432 (11,855)	21,522 (17,974)	5,259 (1,675)	278 (0)	-347 (-368)	51,419 (51,478)
Free cash flow (before income taxes)	24,911 (17,644)	2,520 (6,659)	15,527 (17,755)	1,361 (3,513)	-10,047 (-1,010)	0 (0)	32,911 (41,048)
Working capital	43,287 (44,394)	35,812 (31,612)	91,030 (96,301)	0 (7,453)	-5,432 (-5,804)	-65 (-63)	164,632 (166,440)
Order intake	230,198 (168,358)	136,992 (83,234)	211,620 (178,039)	47,911 (40,022)	24,444 (16,411)	-20,760 (-13,206)	582,494 (432,836)
Tangible assets, investment properties and intangible assets	88,540 (92,590)	15,490 (17,040)	32,226 (38,066)	0 (4,280)	97,609 (106,846)	0 (0)	233,865 (254,542)
Investments excluding company acquisitions	6,241 (4,169)	2,331 (2,548)	4,991 (5,419)	811 (944)	1,769 (2,216)	0 (0)	15,332 (14,352)
Depreciation and amortization	10,365 (12,262)	3,482 (3,945)	6,251 (7,132)	1,198 (1,496)	5,213 (5,248)	0 (0)	25,311 (28,587)
Impairments	335 (8,164)	0 (2,124)	1,176 (218)	0 (0)	5,462 (3,913)	0 (0)	6,973 (14,419)
Employees (annual average) (without trainees)	1,181 (1,281)	621 (762)	976 (1,029)	128 (126)	150 (134)	0 (0)	2,928 (3,206)

EBIT = operating result EBITDA = Earnings before interest, taxes, depreciation and amortization

1) bus. div. = business division

2) Group EBITDA adjusted for one-off effects amounts to TEUR 61.831

3) Figure published in the prev. year cannot be compared as it did not include Group charges (The amounts in brackets relate to the prior year)

Working capital comprises inventories, trade accounts receivable and receivables from construction contracts less trade accounts payable, liabilities from construction contracts and on account payments received.

Non-current assets comprise intangible assets and tangible assets.

There were no relationships with individual customers whose share of sales is material relative to Group sales.

The share in joint ventures amounting to TEUR 246 (2009 TEUR 261) is entirely attributable to the Lasers & Optical Systems segment. The joint venture company accounted for proportionally in the consolidation is included in the Defense & Civil Systems segment.

Reconcillation of segment information

Reconcillation of free cash flows

in TEUR	2010	2009
Cash flow from/used in operating activities before income taxes	44,972	53,841
Investments in intangible and tangible assets	– 15,265	– 14,067
Receipts from operative disposals of intangible and tangible assets	3,204	1,274
Free-cash flow (before income taxes)	32,911	41,048

Information by region

in TEUR	31.12.2010 ¹⁾	31.12.2009 ¹⁾
Group	233,865	254,855
of which Germany ²⁾	223,252	241,663
European Union ²⁾	1,939	4,999
Other Europe ²⁾	116	82
NAFTA ²⁾	8,558	8,111

1) non-current assets

2) by location of the companies

Notes to the comprehensive statement of income

1 SALES

Sales increased overall by TEUR 37,038 or 7.8 percent to TEUR 510,647 compared to 2009.

Detailed disclosures on sales by segment 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 8,480 or 2.5 percent to TEUR 353,402 compared to 2009. Cost of sales rose less than proportionally compared to sales.

Cost of sales includes impairment losses on intangible and tangible assets amounting to TEUR 257 (2009 TEUR 192).

3 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses include all expenses allocable to research and development. Research and development costs paid for by customers are not included in the research and development expenses.

Research and development expenses decreased overall by TEUR 2,568 or 7.9 percent to TEUR 30,034 compared to 2009. The reason for the decline was that the prior year included research and development expenses for the mid format camera business unit which was discontinued. Research and development expenses do not contain any write-downs (2009 TEUR 1.514).

4 SELLING EXPENSES

Selling expenses mainly comprise marketing costs, sales commissions, publicity work and advertising. Selling expenses increased overall by TEUR 3,090 or 6.0 percent to TEUR 54,411 compared to 2009.

5 GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses include personnel and non-personnel costs as well as depreciation and amortization relating to the administration function. General administrative expenses rose by TEUR 1,594 or 4.4 percent to TEUR 38,055 compared to 2009.

Furthermore, general administrative expenses include audit fees, year-end audit fees of TEUR 649 (2009 TEUR 630), out of period fees for year-end audit of TEUR 154 (2009 TEUR 0), fees for other auditor services of TEUR 26 (2009 TEUR 39), fees for other advisory services of TEUR 78 (2009 TEUR 32) and no tax fees (2009 TEUR 1).

6 OTHER OPERATING INCOME

in TEUR	2010	2009
Income from a discontinuation of business division	24,501	0
Income from exchange gains	8,079	7,716
Income from sale of shares	4,629	0
Income from government grants	3,124	2,079
Income from release of allowances/provisions	2,103	2,070
Income from services, transfers and rental	1,662	5,793
Income from disposal of fixed assets	627	320
Income from issue of licenses	412	296
Income from compensation/insurance payments	412	278
Miscellaneous	2,205	3,266
Income from the release of accrual for interim profits	0	1,239
Total	47,754	23,057

In the fiscal year 2010 other operating income amounted to TEUR 47,754. This is mainly due from the discontinuation of a business division amounting to TEUR 24,501.

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.

Under income from services, transfers and rental offsetting was possible in the current fiscal year between other operating income and expenses which led to a reduction in income and in expenditure.

7 OTHER OPERATING EXPENSES

in TEUR	2010	2009
Exchange losses	6,820	7,994
Costs of services and rental	3,674	6,956
Impairment of goodwill	2,884	2,031
Impairment losses tangible assets/investment properties	2,656	682
Expenses of reorganization and restructuring	2,267	27,427
Expenses for location integration	1,742	0
Amortization of intangible assets on first-time consolidation	1,621	1,647
Expenses for consulting services	1,484	0
Losses on disposal of fixed assets	288	453
Expenses of SAP implementation	228	0
Increases/reversals of provisions and allowances	164	1,504
Other taxes	160	325
Miscellaneous	2,101	1,993
Total	26,089	51,012

Additions to allowances are only included under other operating expenses if these are outside of the ordinary activities of the relevant company.

Other operating expenses fell compared to the prior year by TEUR 24,923 to TEUR 26,089. The prior year included expenses for reorganization and restructuring amounting to TEUR 27,427.

Under expenses from services and rental offsetting was possible in the current fiscal year between other operating income and expenses which led to a reduction in income and in expenditure.

8 NET INVESTMENT RESULT

in TEUR	2010	2009
Result from investments	2,962	540
Results from investments in associates and joint ventures	-1,523	-1,799
Write-downs on financial assets and on non-current asset securities	-3,408	-3,034
Total	-1,969	-4,293

The write-downs on financial assets and on non-current asset securities primarily relate to write-downs against loans to investments.

9 NET INTEREST RESULT

in TEUR	2010	2009
Guarantee income	386	641
Income from securities and financial asset loans	142	465
Other interest and similar income	1,238	670
Interest income on release/repurchase of convertible bond	0	956
Total interest income	1,766	2,732
Interest portion on increase to pension provisions less interest on plan assets	1,520	727
Interest portion of leasing installments for finance leases	356	441
Interest expenses on debenture loan (impacting cash)	193	1,859
Other interest and similar expenses	11,663	8,830
Interest portion from loans	0	1,245
Total interest expenses	13,732	13,102
Net interest result	-11,966	-10,370

The net interest result worsened by TEUR 1,596 to minus TEUR 11,966 (2009 minus TEUR 10,370). A major reason for this was the inclusion in the year 2009 of a one-off income from the release of the convertible bond (TEUR 956) which is not matched by a relevant item in 2010. Furthermore, the interest level has increased due to a financial structure geared to the long-term. The prior year was still dominated by the high use of current but also lower interest-bearing current account credits.

Through the changed financial structure of JENOPTIK AG the interest expense on debenture loans fell significantly to TEUR 193 (2009 TEUR 1,859). Loans were not issued in 2010 and, thus, no expense has been incurred (2009 TEUR 1,245).

The item interest expense from the increase in pension provision includes actuarial losses included in the statement of comprehensive income, amounting to TEUR 846 (2009 TEUR 0).

The interest portion of the leasing installments for finance leasing amounts to TEUR 356 (2009 TEUR 441).

10 INCOME TAXES

Income taxes comprise the current taxes (paid or owed) on income in the individual countries as well as the deferred taxes. The calculation of the current tax expense 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 2010 amounted to 15 percent (2009 15 percent) plus solidarity levy of 5.5 percent (2009 5.5 percent) of the corporation tax charge. Accounting for the effective trade tax rate of 12.78 percent (2009 12.78 percent) in 2010 the overall tax rate used for calculating deferred taxes amounted to 28.6 percent (2009 28.6 percent).

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

Deferred taxes are included in the statement of comprehensive income as tax income or tax expense unless they relate to items not impacting income, which are accounted for directly in equity. In this case the deferred taxes are also accounted for through equity having no impact on income.

The tax expense which relates to the result of the ordinary activities is classified according to its origin as follows:

in TEUR	2010	2009
Current income taxes		
Domestic	1,392	-181
Foreign	-80	397
Total	1,312	216
Deferred tax expense and income		
Domestic	4,137	-706
Foreign	583	30
Total	4,720	-676
Total income taxes	6,032	-460

Current income taxes include a tax credit of TEUR 515 (2009 income TEUR 285) for current taxes of prior financial periods. The deferred tax expense and income include a credit from a previous year of TEUR 238 (2009 credit TEUR 573).

The deferred tax expense and income include an expense of TEUR 47 (2009 income TEUR 3,533) based on the development of timing differences.

At the balance sheet date the Jenoptik Group has unused tax losses carried forward of approx. EUR 472 million (2009 EUR 492 million) which can be set off against future profits. The reduction in tax losses carried forward amounting to EUR 20 million results from profit offsetting, restructuring transactions as well as external tax reviews. Of these losses

EUR 455 million (2009 EUR 478 million) can be carried forward for an unlimited period of time. After accounting for all currently 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 104 million (2009 EUR 122 million) will be utilized. With regard to these utilizable losses carried forward, a deferred tax asset has been accounted for amounting to EUR 38 million (2009 EUR 43 million). Of this, EUR 21 million (2009 EUR 23 million) relate to trade tax losses carried forward. The lower deferred tax asset on the losses carried forward arises on the one hand from the utilization of losses carried forward and, on the other hand, deferred tax assets were released in connection with business units discon-

tinued. As part of this process the deferred tax expense from the release of deferred tax assets is, depending on the tax subject characteristic, allocated to the tax group head and, thus to the continuing business divisions. With regard to the remaining losses carried forward of EUR 368 million (2009 EUR 370 million) no deferred tax asset has been accounted for. Furthermore, no deferred tax asset has been accounted for deductible timing differences of EUR 47 million (2009 EUR 48 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	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Intangible assets	689	679	3,633	4,425
Tangible assets	3,692	3,968	3,381	1,130
Financial assets	12,574	11,709	1,416	783
Inventories	1,672	1,769	101	153
Accounts receivable and other assets	4,674	4,648	1,504	3,621
Provisions and accrued expenses	10,535	6,742	1	62
Liabilities	1,333	3,630	2,093	2,229
Tax losses carried forward, interest carried forward and tax credits	38,027	43,473	0	0
Gross value	73,196	76,618	12,129	12,403
(of which long-term)	(56,536)	(66,518)	(8,954)	(6,990)
Allowances	-13,876	-14,584	0	0
Offsetting	-8,425	-9,938	-8,425	-9,938
Balance sheet amount	50,895	52,096	3,704	2,465

in TEUR	2010	2009
Earnings before tax	42,475	-34,315
Income tax rate Jenoptik Group	28.6 %	28.6 %
Expected tax expense	12,148	-9,814
Tax impact of the following effects led to a difference between actual and expected tax expense:		
Non-deductible expenses and tax-free income	-7,621	1,111
Changes in allowances against deferred taxes and the non-recognition of deferred taxes	2,645	7,852
Permanent differences	-532	1,288
Effects of tax rate differences in 2010	394	135
Effects of tax rate changes	23	39
Taxes from previous years	-792	-858
Other tax effects	-233	-213
Total adjustments	-6,116	9,354
Actual tax expense	6,032	-460

The table above 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 the Group tax rate valid for the fiscal year 2010 of 28.6 percent (2009 28.6 percent) was multiplied by the earnings before tax.

11 MINORITY INTEREST SHARE OF PROFIT / LOSS

The minority interest share of Group results amounts to minus TEUR 139 (2009 TEUR 4,072) and relates to the minority shares in a consolidated company.

12 EARNINGS PER SHARE

The earnings per share represents the earnings attributable to shareholders divided by the weighted average number of shares outstanding of 56,254,446 (2009 52,034,651).

	2010	2009
Earnings attributable to shareholders in TEUR	36,582	-37,927
Weighted average of outstanding shares	56,254,446	52,034,651
Earnings per share in euro	0.65	-0.73

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	18,956	42,295	65,857	3,211	130,319
Balance as at 1.1.2010	(25,634)	(42,702)	(64,917)	(1,709)	(134,962)
Currencies	22 (-2)	186 (-65)	193 (-91)	-4 (0)	397 (-158)
Companies included in consolidation	0 (-1,491)	-1,394 (-74)	-235 (1,031)	-3 (0)	-1,632 (-534)
Additions	481 (1,056)	888 (848)	0 (0)	706 (1,856)	2,075 (3,760)
Disposals	0 (6,241)	925 (1,450)	86 (0)	71 (65)	1,082 (7,756)
Reclassifications (+/-)	286 (0)	1,594 (334)	0 (0)	-1,880 (-289)	0 (45)
Balance as at 31.12.2010	19,745 (18,956)	42,644 (42,295)	65,729 (65,857)	1,959 (3,211)	130,077 (130,319)
Depreciation Balance as at 1.1.2010	13,501 (11,829)	32,067 (29,331)	6,802 (4,771)	0 (102)	52,370 (46,033)
Currencies	22 (-2)	58 (-19)	0 (0)	0 (0)	80 (-21)
Companies included in consolidation	0 (-1,491)	-1,244 (-74)	0 (0)	0 (0)	-1,244 (-1,565)
Additions	1,226 (2,579)	3,545 (3,598)	1 (0)	0 (0)	4,772 (6,177)
Impairment	161 (6,816)	15 (463)	2,884 (2,031)	0 (0)	3,060 (9,310)
Disposals	0 (6,230)	1,172 (1,358)	169 (0)	0 (0)	1,341 (7,588)
Reclassifications (+/-)	-68 (0)	68 (126)	0 (0)	0 (-102)	0 (24)
Balance as at 31.12.2010	14,842 (13,501)	33,337 (32,067)	9,518 (6,802)	0 (0)	57,697 (52,370)
Net book value as at 31.12.2010	4,903 (5,455)	9,307 (10,228)	56,211 (59,055)	1,959 (3,211)	72,380 (77,949)

(The amounts in brackets relate to the prior year)

The changes in the companies consolidated relate to the disposal of the intangible assets of the discontinued business division.

Apart from goodwill there are no intangible assets with an infinite useful life.

There are no restrictions on use of intangible assets.

Existing goodwill results almost exclusively from company acquisitions since January 1, 2003.

The impairment test is carried out at the level of the cash generating unit (CGU) which benefits from the synergies of the relevant business combination and is the lowest level at which goodwill is monitored for internal company management. During the fiscal year 2010 a new CGU bearing goodwill arose due to the merger of EPIGAP Optoelektronik GmbH with JENOPTIK Polymer Systems GmbH. JENOPTIK Polymer Systems GmbH and the Digital Imaging business unit of JENOPTIK Optical Systems GmbH are part of this CGU.

If the carrying amount of a CGU is higher than its recoverable amount then the allocated goodwill should be written down in accordance with the impairment amount. The impairment test is based on the recoverable amount, i. e., the higher of its fair value less costs to sell and its value in use.

Jenoptik determines the value in use based on the discounted cash flow method. The basis for this is the 5-year business forecast as approved by management. This accounts for the experience of the past and is based on the management's best estimate of the future development. A perpetuity is assumed which is derived individually by management for each CGU from the fifth forecast year.

The discount rate used, amounting to 7.84 percent (2009 8.26 percent), has been taken from a current capital cost study for companies within the HDAX. It represents the weighted average capital costs of the Jenoptik Group before taxes.

As a result of the impairment test impairment losses of TEUR 2,884 (2009 TEUR 2,031) were accounted for in the fiscal year 2010. The impairment relates exclusively to the CGU Photonic Sense. This impairment adjustment was made since the business forecast does not expect further impairment. The impairment losses were accounted for as other operating expenses in the statement of comprehensive income. The recoverable amount from impairment testing is smaller than the carrying value of the CGU and, therefore the goodwill allocated to the CGU is adjusted for in full. An additional impairment loss was not required.

Goodwill amounts to TEUR 54,090 as at December 31, 2010. Of this TEUR 38,068 relate to CGU Optoelectronic Systems, TEUR 7,920 relate to CGU Lechmotoren, TEUR 3,071 relates to the Laser CGU and TEUR 2,660 to the CGU Metrology. Thus 80 percent of goodwill relates to Lasers & Optical Systems, 15 percent to Defense & Civil Systems and 5 percent to Metrology.

For all group companies and CGUs to which goodwill is allocated as at December 31, 2010 a sensitivity analysis was carried out. Even a reduction in cash flows of 15 percent and a simultaneous increase in the discount rate by 3 percent to 10.84 percent would not lead to a lower recoverable amount than carrying amount.

14 TANGIBLE ASSETS

in TEUR	Land, buildings	Technical equipment and machines	Other equipment, factory and office equipment	Assets under construction	Total
Purchase and manufacturing cost	132,637	136,330	84,961	2,968	356,896
Balance as at 1.1.2010	(134,142)	(133,035)	(82,753)	(6,554)	(356,484)
Currencies	457	1,086	292	0	1,835
	(-169)	(-448)	(-108)	(0)	(-725)
Companies included in consolidation	0	-1,310	-9,592	-182	-11,084
	(0)	(-355)	(-79)	(0)	(-434)
Additions	548	5,558	4,167	2,984	13,257
	(851)	(3,553)	(4,459)	(1,729)	(10,592)
Disposals	2,749	4,199	2,652	157	9,757
	(2,217)	(2,405)	(2,771)	(1,583)	(8,976)
Reclassifications (+/-)	-1,681	1,610	578	-2,453	-1,946
	(30)	(2,950)	(707)	(-3,732)	(-45)
Balance as at 31.12.2010	129,212	139,075	77,754	3,160	349,201
	(132,637)	(136,330)	(84,961)	(2,968)	(356,896)
Depreciation	42,884	98,027	63,842	0	204,753
Balance as at 1.1.2010	(38,507)	(88,487)	(59,001)	(0)	(185,995)
Currencies	167	870	241	0	1,278
	(-67)	(-351)	(-90)	(0)	(-508)
Companies included in consolidation	0	-902	-7,718	0	-8,620
	(0)	(-355)	(-79)	(0)	(-434)
Additions	3,922	9,681	6,374	0	19,977
	(4,400)	(9,729)	(7,504)	(0)	(21,633)
Impairment	152	333	1,096	0	1,581
	(1,860)	(2,334)	(47)	(0)	(4,241)
Disposals	2,143	3,351	3,121	0	8,615
	(1,816)	(1,817)	(2,517)	(0)	(6,150)
Reclassifications (+/-)	-465	-119	26	0	-558
	(0)	(0)	(-24)	(0)	(-24)
Balance as at 31.12.2010	44,517	104,539	60,740	0	209,796
	(42,884)	(98,027)	(63,842)	(0)	(204,753)
Net book value as at 31.12.2010	84,695	34,536	17,014	3,160	139,405
	(89,753)	(38,303)	(21,119)	(2,968)	(152,143)

(The amounts in brackets relate to the prior year)

Of impairment losses of TEUR 1,581 (2009 TEUR 4,241) TEUR 257 (2009 TEUR 192) were recorded in cost of sales and of TEUR 1,324 (2009 TEUR 4,801) in other operating expenses. These result from extraordinary depreciation due to lack of economic usefulness.

Restrictions on use of tangible assets amount to TEUR 50 (2009 TEUR 445). Tangible assets order commitments amount to TEUR 4,788 (2009 TEUR 709).

A grant amounting to TEUR 316 was deducted from the acquisition costs of tangible assets.

Group land and buildings amount to TEUR 84,695 (2009 TEUR 89,753) and mainly include the production and administration buildings in Jena, Triptis, Villingen-Schwenningen and in Altenstadt.

15 INVESTMENT PROPERTIES

in TEUR	Investment properties
Purchase and manufacturing cost	35,212
Balance as at 1.1.2010	(52,657)
Companies included in consolidation	15
	(-17,445)
Additions	0
	(0)
Disposals	987
	(0)
Reclassifications	1,946
	(0)
Balance as at 31.12.2010	36,186
	(35,212)
Depreciation	10,762
Balance as at 1.1.2010	(17,863)
Companies included in consolidation	15
	(-8,746)
Additions	562
	(777)
Impairment	2,332
	(868)
Disposals	123
	(0)
Reclassifications	558
	(0)
Balance as at 31.12.2010	14,106
	(10,762)
Net book value as at 31.12.2010	22,080
	(24,450)

(The amounts in brackets relate to the prior year)

Investment properties held at December 31, 2010 primarily include a property fund to which mainly properties located in the industrial area of Jena-Göschwitz belong. This property fund has been included in the consolidated financial statements in accordance with IAS 27 in conjunction with SIC-12.

During the fiscal year 2010 reclassifications were carried out from tangible assets to investment properties since the relevant properties now fulfill the criteria of IAS 40. The purchase and manufacturing costs of the reclassified properties amount to TEUR 1,946 (2009 TEUR 0).

The measurement of investment properties is at amortized cost amounting to TEUR 22,080 (2009 TEUR 24,450). During the fiscal year write-downs of TEUR 2,332 (2009 TEUR 868) were accounted for. Current expert valuation reports are available for the individual properties. For the remaining properties fair value (where there is a lack of current market data) is principally determined based on the discounted cash flow method. Under this method the net rentals are determined and discounted over the total remaining useful lives. The interest rates applied represent normal market interest rates accounting for an inflation deduction and risk premium. The fair value of the investment properties thus calculated amounts to TEUR 24,166 (2009 TEUR 29,878).

Rental income from investment properties held at the year end amounted to TEUR 2,162 (2009 TEUR 2,302).

The direct operating costs for the rented areas of the properties and equipment included in the financial statements at the relevant year end amounted to TEUR 3,088 (2009 TEUR 1,644) for the fiscal year and for non-rented areas they amounted to TEUR 388 (2009 TEUR 105). The increase in direct operating costs is mainly due to the impairment losses recorded.

16 LEASING**FINANCE LEASING****The Group as lessee**

Finance leases primarily include technical equipment and machinery. These are mainly rental purchase contracts or contracts with purchase options which are due to 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 5.4 percent and 9.5 percent.

The assets which are used under finance leases are included in capitalized tangible assets at TEUR 4,528 (2009 TEUR 5,760). Their purchase and manufacturing costs amount to TEUR 9,884 (2009 TEUR 10,293) at the balance sheet date.

In the fiscal year 2010 lease payments amounting to TEUR 1,404 (2009 TEUR 1,506) have been charged against income.

Leasing payments due in the future can be seen from the following table:

in TEUR	Up to 1 year	1–5 years	More than 5 years	Total
Minimum lease payments	1,253	2,361	1,094	4,708
Interest portion included in payments	282	656	112	1,050
Present value	971	1,705	982	3,658

The discounted cash flow from the minimum lease payments amounts to TEUR 3,658 (2009 TEUR 4,876).

The Group as lessor

Two Group companies have concluded finance leasing contracts under which they are lessor.

Firstly, a laser-annealing machine was leased to an American company. The lease has a term of 45 months, commencing in April 2009. The contract partner has a purchase option. Until the option is adopted, legal ownership remains with JENOPTIK Automatisierungstechnik GmbH, Jena. The leasing installments are not allocated evenly over the term. In the fiscal year 2010 write-downs of TEUR 112 (2009 TEUR 0) were made against leasing receivables.

Furthermore, digital speed measuring equipment has been delivered to Lithuania. The leasing contracts underlying this have a term of 76 and 83 months, commencing in August and December 2009. The customer has a purchase option at the end of the term. Until this time legal ownership remains with JENOPTIK Robot GmbH, Monheim am Rhein.

For the finance leasing transactions described, amounts due from finance leasing of TEUR 3,272 (2009 TEUR 3,433) will be accounted for in the current fiscal year. Outstanding minimum lease payments and present values are as follows:

in TEUR	Up to 1 year	1–5 years	More than 5 years	Total
Minimum lease payments	926	2,760	431	4,117
Interest portion included in payments	78	600	167	845
Present value	848	2,160	264	3,272

Unrealized finance income amounts to TEUR 813 (2009 TEUR 999).

OPERATING LEASING

The Group as lessee

Operating leasing mainly consists of rental income for trade properties as well as for office and data processing equipment.

In the fiscal year lease payments amounting to TEUR 8,500 (2009 TEUR 7,443) 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	7,942	21,250	32,728	61,920

The minimum lease payments due in more than 5 years include a long-term rental agreement concluded in 2010 for office and production space.

THE GROUP AS LESSOR

Within operating leases the Group rents out trade properties. Income from leasing tangible assets during the fiscal year amounted to TEUR 4,318 (2009 TEUR 4,470).

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	4,337	15,547	3,428	23,312

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

17 SHARES IN ASSOCIATES AND JOINT VENTURES

The balance of TEUR 246 (2009 TEUR 261) consists of shares in JT Optical Engine GmbH + Co. KG.

18 FINANCIAL ASSETS

in TEUR	31.12.2010	31.12.2009
Shares in non-consolidated affiliated companies	3,404	4,168
Investments	4,948	5,204
Loans to non-consolidated affiliated companies and investments	4,875	5,994
Non-current securities	1,799	1,612
Other loans	1,553	1,960
Total	16,579	18,938

During the fiscal year write-downs of TEUR 899 (2009 TEUR 3,034) were accounted for.

19 OTHER NON-CURRENT ASSETS

Other non-current assets include:

in TEUR	31.12.2010	31.12.2009
Surplus amount from pension obligation	3,870	5,452
Reinsurance coverage	1,481	1,399
Derivatives	499	869
Miscellaneous	3,230	3,317
Total	9,080	11,037

Miscellaneous includes amounts due from leasing contracts amounting to TEUR 2,453 (2009 TEUR 2,579).

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 35.

20 DEFERRED TAXES

The development of the balance sheet item of deferred taxes is described under Note 10.

21 INVENTORIES

in TEUR	31.12.2010	31.12.2009
Raw materials, consumables and supplies	52,267	56,809
Work in progress	83,858	81,822
Finished goods and merchandise	12,672	16,034
Total	148,797	154,665

Inventories decreased by TEUR 5,868 compared to the prior year.

The fair value of inventories is represented by their carrying value. At the fiscal year end cumulative write-downs of TEUR 27,826 (2009 TEUR 28,890) were accounted for against the net realizable value. Reversals of previously written down assets amounted to TEUR 579 (2009 TEUR 400).

For the credit lines of a subsidiary amounting to TEUR 30,000 in total, of which TEUR 4,693 (2009 TEUR 17,710) had been taken up as at December 31, 2010, securities in the way of globally assigned trade receivables and inventories of the company have been assigned or pledged as security generally until there is sufficient cover of the bank liabilities. As at December 31, 2010 these receivables amounted to TEUR 23,931 (2009 TEUR 21,902). Additionally, inventories of TEUR 70,919 (2009 TEUR 79,279) were pledged as security for the credit lines.

22 CURRENT ACCOUNTS RECEIVABLE AND OTHER ASSETS

in TEUR	31.12.2010	31.12.2009
Trade accounts receivable	75,119	70,873
Receivables from non-consolidated affiliated companies	4,893	4,195
Receivables from investment companies	998	1,869
Other assets	22,298	16,378
Receivables from construction contracts	0	9,925
Total	103,308	103,240

Trade accounts receivable rose compared to the prior year by TEUR 4,246 as a result of increased sales. The fair values of trade accounts receivable correspond with their carrying values.

Receivables from participating interests include receivables from joint ventures of TEUR 266 (2009 TEUR 355).

At the balance sheet date there are no receivables from long-term construction contracts (31.12.2009 TEUR 9,925). This is mainly explained by the deconsolidation of Jena-Optronik GmbH.

There are no further restrictions to access for other assets in addition to those outlined under Note 21.

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	2010	2009
Allowances at the beginning of the fiscal year	7,466	13,904
Additions	1,716	5,126
Utilization	871	2,771
Release/write-off	3,531	8,801
Currencies	7	8
Allowances at the end of the fiscal year	4,787	7,466

The ageing structure of trade accounts receivable is as follows:

in TEUR	31.12.2010	31.12.2009
Carrying values	75,119	70,873
of which neither overdue nor provided for	56,873	51,309
Overdue but not provided for	18,246	19,564
of which less than 30 days	12,712	13,169
of which between 30 and 60 days	1,957	3,047
of which more than 60 days	3,577	3,348

There was a further significant decline in overdue receivables not provided for compared to the prior year. On December 31, 2010 these receivables amounted to TEUR 18,246 (2009 TEUR 19,564). Overdue receivables not provided for are principally due from public contractors, the automotive industry and its suppliers. There was no need to make allowance for these at the balance sheet date because the receipt of payment is expected at the amounts shown above.

Other current assets include:

in TEUR	31.12.2010	31.12.2009
Receivables from fixed deposit balances	9,000	0
Other receivables from tax authorities	4,640	4,734
Receivables from pension trust	2,364	1,665
Accruals	2,177	2,507
Derivatives	1,737	4,797
Subsidies receivable	928	754
Creditors with debit balances	363	147
Other current assets	1,089	704
Third-party loans	0	1,070
Total	22,298	16,378

The whole item of derivative financial instruments is described in more detail in Note 35.

23 SECURITIES HELD AS CURRENT INVESTMENTS

Securities available for sale

in TEUR	31.12.2010	31.12.2009
Fair value	750	1,110

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

24 CASH AND CASH EQUIVALENTS

in TEUR	31.12.2010	31.12.2009
Cheques, cash in hand, credit bank balances and funds due at any time < 3 months	65,335	11,201

The level of cash equivalents increased mainly due to the cash receipt in December 2010 for the sale of the discontinued business division.

25 SHAREHOLDERS' EQUITY

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

SUBSCRIBED CAPITAL

The capital markets committee authorized by the Supervisory Board of JENOPTIK AG, agreed to the proposal of the Executive Board by resolution dated March 10, 2010, that the nominal capital of the company, under exclusion of subscription rights of the shareholders, be increased by a partial use of "authorized capital 2009" by EUR 13,529,006.40 by issuing 5,203,464 new no-par value bearer shares with a calculated share of nominal capital of EUR 2.60 per share against cash contributions. The 5,203,464 new no-par value bearer shares were successfully placed at a placement price of EUR 4.25 per share. EUR 1.65 per share was accounted for as premium in the capital reserve. The capital increase was filed in the commercial register on March 11, 2010. The nominal capital of the company now amounts to EUR 148,819,099.00 and is allocated to 57,238,115 bearer shares.

ECE Industriebeteiligungen GmbH, Vienna, announced in February 2008 that it held 25.02 percent of the voting rights in JENOPTIK AG. Ms. Gabriele Wahl-Multerer, Munich, communicated to the company on March 3, 2011 that she had dropped below the threshold of 5 percent of voting rights in JENOPTIK AG on April 23, 2010. After this Ms. Gabriele Wahl-Multerer held 4.96 percent of the voting rights (2,843,066 voting rights) at April 23, 2010. Of these 4.96 percent (2,843,066 voting rights) were due to her in accordance with § 22 (1) para. 1 No. 1 WpHG (Securities Trading Act) via VARIS Vermögensverwaltungs GmbH. ZOOM Immobilien GmbH, Munich, communicated to the company on March 3, 2011 that it had exceeded the threshold of 3 percent of voting rights in JENOPTIK AG on September 3, 2010. ZOOM Immobilien GmbH now has a right to 4.84 percent of the voting rights (2,773,066 voting rights). The exceeding of the threshold of 3 percent arose through the merger of VARIS Vermögensverwaltungs GmbH with ZOOM Immobilien GmbH.

Templeton Investment Counsel LLC., Fort Lauderdale, USA, communicated to the company that it had exceeded the threshold of 3 percent of the voting rights in JENOPTIK AG on September 13, 2010. Templeton Investment Counsel LLC. holds 3.11 percent of the voting rights (1,780,218 bearer shares). All these voting rights are allocated to Templeton Investment Counsel LLC. in accordance with § 22 (1) para. 1 No. 6 WpHG (Securities Trading Act).

Voting rights announcements of the last few years and shareholders no longer active are also published on our website under www.jenoptik.com in the area of Investors/Share/Voting rights announcements.

AUTHORIZED CAPITAL

By resolution of the Annual General Meeting on June 9, 2010 the resolution "authorized capital 2009", which was limited until May 30, 2014, was cancelled and redrafted as follows: The Executive Board is authorized, with the approval of the Supervisory Board, to increase the nominal capital of the company by up to TEUR 35,000 up to May 30, 2015 through one or several issues of new no-par value bearer shares in exchange for cash and/or non-cash contributions ("authorized capital 2010"). The new shares can be adopted by one or several banks under the obligation of offering them to shareholders (indirect subscription right). The Executive Board is authorized, with the approval of the Supervisory Board, to preclude the subscription rights of shareholders in certain cases. Preclusion is possible for fractional amounts, for capital increases in exchange for non-cash contributions, also in particular as part of business combinations or for the purchase of companies, parts of companies or investments in companies, for capital increases in exchange for cash contributions to the extent that the share of nominal capital attributable to the new shares, under consideration of Annual General Meeting resolutions or the use of other authorizations to preclude the subscription rights under the direct or corresponding application of § 186 (3) para. 4 AktG (Stock Corporation Act) since this authorization became effective, neither exceeds a total of ten of one hundred (=10 percent) of the nominal capital in existence at the

time of filing this authorized capital, nor exceeds a total of ten of one hundred (=10 percent) of the nominal capital in existence at the time of issue of the new shares and the issue price of the new shares is not materially lower than the stock exchange price, as well as for the issue to employees of JENOPTIK AG and of companies with a majority affiliation with it.

The Executive Board, under approval by the Supervisory Board, decides on the details of the issue of the new shares, in particular on their conditions as well as on the content of the rights of the new shares.

CONDITIONAL CAPITAL

By resolution of the Annual General Meeting on June 3, 2009 the nominal capital of the company is conditionally increased by up to TEUR 23,400 through the issue of up to 9,000,000 new no-par value bearer shares (conditional capital 2009). The conditional capital increase will only be executed to the extent that the creditors or owners of the option certificates or conversion rights, which were issued by the company or a domestic or foreign company in which the company holds a direct or indirect majority holding, on the basis of an authorization resolution of the Annual General Meeting dated June 3, 2009 by May 30, 2014, exercises their option or conversion rights and/or – the creditors obliged to convert the issued convertible bonds, which were issued by the company or a domestic or foreign company in which the company holds a direct or indirect majority holding, by May 30, 2014, based on the resolution of the Annual General Meeting dated June 3, 2009, fulfill their right to conversion and own shares are not utilized nor fulfillment made in cash.

The new shares participate in profits from the beginning of the fiscal year for which, at the time of their issue, there is not yet a resolution by the Annual General Meeting for the appropriation of profit. The Executive Board is empowered to determine further details of the issue and terms of the convertible and/or option bonds and of the implementation of the conditional capital increase.

RESERVES

Reserves comprise the results generated in the past by companies included in the consolidated financial statements and not distributed. 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.

Furthermore, changes in the value of securities available for sale to be accounted for without impacting income amounting to TEUR 962 (2009 TEUR 98) 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 minus TEUR 2,515 (2009 minus TEUR 2,143).

Movements in deferred taxes not impacting income increased reserves by TEUR 1,021 (2009 TEUR 847) in the fiscal year 2010. Furthermore, TEUR 11,452 were reclassified from equity to other liabilities. This reclassification relates to the release of minority interests in 2009 which resulted in an increase of the shareholders' equity in the amount of TEUR 9,002 in the previous year.

OWN SHARES

On resolution of the Annual General Meeting on June 9, 2010 the Executive Board was authorized to purchase own bearer shares by May 31, 2015 at a calculated maximum of ten from one hundred of nominal capital (= 10 percent) 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 (including shares allocated under § 71a ff. Stock Corporation Act) may not exceed 10 percent of nominal capital of the company. The authorization can be exercised either completely or in partial amounts, once or several times in pursuing one or several permitted purposes by the company or also by the Group companies or for its own or on behalf of third-parties. A purchase is carried out as selected by the Executive Board as a purchase via the stock exchange or using a public purchase bid. Further details of re-purchase of own

shares are described in the publicly available invitation to the Annual General Meeting 2010 on our Internet page under www.jenoptik.com in the areas of Investors/Annual General Meeting. The authorization of the Executive Board to purchase own shares by November 30, 2010, resolved by the Annual General Meeting dated June 3, 2009, was replaced with the new resolution at its effective date.

26 MINORITY INTERESTS

The minority interests in shareholders' equity relate to a foreign company.

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 and 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 884 persons entitled, comprising 476 active employees, 73 former employees and 335 pensioners and widows.

In the years 2001 to 2002 parts of the pensions were transferred to the JENOPTIK Pension Trust e.V. by way of cumulative assumption of liabilities.

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

Pension provisions:

in TEUR	31.12.2010	31.12.2009
Present value of funded obligations	32,487	29,795
Present value of unfunded obligations	7,305	6,726
Fair value of plan assets	-25,678	-25,711
Present value of net obligation	14,114	10,810
Unrecorded actuarial losses	-11,541	-9,844
Net liability recorded in the balance sheet	2,573	966
of which disclosed as other asset	3,870	5,451
of which disclosed as pension obligation	6,443	6,417

Change in defined benefit obligation (DBO):

in TEUR	2010	2009
DBO as at 1.1.	36,520	32,324
Current service cost for fiscal year	470	426
Interest cost	1,874	1,927
Termination and curtailment of plans	0	0
Actuarial losses	2,508	3,392
Transfers	0	0
Disinvestments	0	0
Pension payments	-1,580	-1,549
DBO as at 31.12.	39,792	36,520

Net expense recognized in the consolidated income statement:

in TEUR	2010	2009
Current service cost	470	426
Interest cost	1,874	1,927
Expected return on plan assets	-1,200	-1,200
Offsetting of actuarial gains and losses	846	0
Effects of curtailments and settlements	0	0
Costs of claims purchased in the fiscal year	0	0
Total expense	1,990	1,153

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	2010	2009
Plan assets as at 1.1.	25,711	27,990
Expected return on plan assets	1,200	1,200
Actuarial losses	-36	-3,730
Employer contributions (funding)	0	1,365
Employees own amounts	0	0
Acquisitions	0	0
Transfers	0	0
Pension payments	-1,198	-1,114
Plan assets as at 31.12.	25,678	25,711

In the fiscal year 2010 there were no additions to plan assets.

Portfolio structure of plan assets:

in percent	31.12.2010	31.12.2009
Shares and investments (available for sale)	28	30
Loans (loans and receivables)	53	57
Funds	19	13
Total	100	100

Actuarial assumptions:

in percent	31.12.2010	31.12.2009
Discount rate	4.65	5.15
Return on plan assets	4.67	4.29
Future salary increases	2.75	2.75
Future pension increases	2.0	1.75 to 2.0

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 2010 amounted to TEUR 1,165.

Actuarial gains or losses result from changes in balances and differences in actual 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 recognized as income or expense if, at the beginning of the fiscal year the net cumulative unrecognized 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	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Present value of the defined benefit obligation	39,792	36,520	32,324	33,456	37,060
Fair value of plan assets	-25,678	-25,711	-27,990	-30,046	-29,322
Plan deficit	14,114	10,810	4,334	3,410	7,738
Experience adjustments of the obligation	-19	-132	-38	-134	-101
Experience adjustments of the plan assets	2,526	3,524	-1,988	-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	Provision from sale	Potential losses	Warranty obligations	Obligations from property sales	Restructuring	Trademark and license fees	Miscellaneous	Total
Balance as at 1.1.2010	12,587	416	17,000	8,567	2,743	10,818	1,662	5,343	59,136
Currencies	24	0	78	11	0	42	0	22	177
Companies included in consolidation	-968	0	0	-282	0	0	0	-1,588	-2,838
Increases	12,551	11,422	11,580	9,112	0	2,434	0	5,790	52,889
Compound interest	140	0	262	-89	208	0	0	-3	518
Utilization	6,635	55	625	4,540	347	9,322	23	1,459	23,006
Release	427	1,429	2,380	891	447	532	0	1,244	7,350
Reclassifications	0	6,799	-10,071	0	3,272	0	0	0	0
Balance as at 31.12.2010	17,272	17,153	15,844	11,888	5,429	3,440	1,639	6,861	79,526

Material items within personnel provisions are part-time early retirement of TEUR 5,983 (2009 TEUR 6,228) and long-term service awards of TEUR 1,694 (2009 TEUR 1,450). Additionally, personnel provisions include performance premiums, profit sharing and similar obligations.

The provisions from sale include expenses and accruals from sale of discontinued business divisions and contractual commitments and legal and consulting costs in connection with these. These include a reclassified amount of TEUR 6,799 from pending losses, since these relate to past disposals.

The provisions for property sales include risks in connection with the property assets, including obligations for the payment of maintenance expenses and for adoption of rental guarantees.

The provision set up in the prior year of TEUR 9,322 for restructuring was utilized in the current fiscal year. This included costs of location transfers, compensation for employees as well as costs of cancelling contract relationships. In 2010 a new restructuring provision was set up in accordance with IAS 37.

The provision for trademark and license fees still, as in the prior year, relates to risks in connection with potential patent infringements.

The provision for pending losses relates moreover to a joint financing obligation.

With the notice of an atypical silent shareholder of a property company in fiscal 2010, which is part of the plan assets, the risk exists for JENOPTIK AG that it will be subject to claims from a joint financing obligation granted.

The provision for warranty obligations includes expenses for specific as well as for general warranty cases.

Miscellaneous provisions include price audit risks amounting to TEUR 420 (2009 TEUR 433). Furthermore, they include provisions for potential contract penalties and compensation claims.

Miscellaneous provisions additionally relate to many recognizable specific risks and uncertain obligations which are accounted for at the probable amount required to settle them. Detailed information on these can be found in the management report under Note 5 Risk Report.

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	31.12.2010
Personnel	11,068	5,634	570	17,272
Provision from sale	14,553	2,600	0	17,153
Pending losses	15,844	0	0	15,844
Warranty obligations	9,430	2,458	0	11,888
Obligation on property sales	1,700	2,955	774	5,429
Restructuring	3,440	0	0	3,440
Trademark and license fees	0	1,639	0	1,639
Miscellaneous	5,860	988	13	6,861
Total	61,895	16,274	1,357	79,526

30 IFRS 2 – SHARE-BASED PAYMENT

At December 31, 2010 the Jenoptik Group held share-based payment instruments in the form of virtual shares for both active Executive Board members.

The virtual shares are measured as share-based remuneration instruments with cash compensation at their relevant fair values at the balance sheet date. The virtual shares will be paid out at the end of their 4-year contractually fixed term.

In fiscal year 2010 the following effects in connection with the share-based payments impacted on the statement of comprehensive income and the balance sheet:

in TEUR	Statement of comprehensive income		Balance sheet	
	2010	2009	2010	2009
Virtual shares	–482	–140	622	140

The basis of measurement for determining fair value is the share price of JENOPTIK AG. In 2010 the Supervisory Board granted the Executive Board virtual shares with a total volume of 51,000 shares for the year 2009. The virtual shares allocated for the fiscal year 2009 were recorded at the balance sheet date 2010 at their fair value of EUR 5.40 per virtual share and recorded in provisions.

On February 8, 2011 the personnel committee made a recommendation to the Supervisory Board that virtual shares with a total volume of 64,154 be allocated to the Executive Board members as part of their variable remuneration for the fiscal year 2010. The Supervisory Board still has to decide on the final allocation. The virtual shares allocated for the fiscal year 2010 were measured at the balance sheet date 2010 at their fair value of EUR 5.40 per virtual share and recorded in provisions.

Development of the virtual shares of the Executive Board:

Dr. Michael Mertin	Number 2010	Number 2009
01.01.	30,000 ¹⁾	0
	42,222 ²⁾	
Granted	(provisional)	30,000 ²⁾
Paid out	—	—
31.12.	72,222	30,000

Frank Einhellinger	Number 2010	Number 2009
01.01.	21,000 ¹⁾	0
	21,932 ²⁾	
Granted	(provisional)	21,000 ²⁾
Paid out	—	—
31.12.	42,932	21,000

1) Remaining term 3 years 2) Remaining term 4 years

The information disclosed in the table does not represent a cash remuneration but personnel expense in accordance with IFRS 2. With regard to all further information we refer to the remuneration report in the management report on page 40.

31 FINANCIAL LIABILITIES

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

in TEUR	Up to 1 year	1–5 years	More than 5 years	31.12.2010
Bank liabilities	18,515 (12,478)	83,714 (113,893)	39,455 (40,503)	141,684 (166,874)
Liabilities from finance leases	971 (1,054)	1,705 (2,478)	982 (1,344)	3,658 (4,876)
Total	19,486 (13,532)	85,419 (116,371)	40,437 (41,847)	145,342 (171,750)

(The amounts in brackets relate to the prior year)

The current fiscal year was characterized by the further stabilizing and improvement of the liquidity situation within the Group. After in 2009 borrowings were primarily converted to long-term financing, in the fiscal year 2010 the financial liabilities decreased and the cash balances increased and, thus net debt was reduced further.

For the current financial liabilities from current account facilities, and the current portion of long-term loans amounting to TEUR 18,515, interest rates have been agreed ranging from 2.09 percent to 8.05 percent.

Non-current liabilities to banks include property loans of TEUR 43,055 in addition to capital repayment loans and working capital loans. Financial covenants have been determined for TEUR 72,125 of the non-current bank loans.

Of the bank liabilities disclosed in the balance sheet TEUR 43,105 (2009 TEUR 43,821) are secured by mortgages.

As at December 31, 2010 the Group has access to credit facilities amounting to TEUR 88,129, of which TEUR 71,712 remained unused and more than TEUR 12,000 had not yet been drawn upon.

The liabilities from finance leases of TEUR 3,658 represent the discounted payments for factory/office fixtures and fittings.

Detailed information regarding hedging of existing interest risks is given under Note 35.

32 OTHER NON-CURRENT LIABILITIES

Other non-current liabilities comprise:

in TEUR	31.12.2010	31.12.2009
Cancellable financial instruments	9,568	9,007
Derivatives	471	12
Other non-current liabilities	1,642	1,165
Non-current accruals	0	9,932
Total	11,681	20,116

In previous years the Jenoptik Group had formed two property companies in the legal form of a GmbH & Co. KG, in which atypical silent shareholders held shares. The atypical shareholders were granted extraordinary rights of notice at each of December 31, 2011 and at December 31, 2014. The property companies were included fully in the consolidated financial statements in accordance with IAS 27 in connection with SIC 12. For the Jenoptik Group the extraordinary right of notice represents a conditional purchase price obligation which is accounted for at the present value of the expected compensation payments. Any necessary measurement adjustments to the conditional purchase price obligations will be recorded against equity without any impact on income. In accordance with expected utilization this item is presented in non-current or current liabilities.

The non-current accruals in the prior year included interim profits from a sale and lease back transaction amounting to TEUR 9,911. On notice being served by the silent shareholder of the property company in the current fiscal year, the accrual was reversed.

Further information on derivatives can be found under Note 35 Financial Instruments.

33 OTHER CURRENT LIABILITIES

This item includes:

in TEUR	31.12.2010	31.12.2009
Trade accounts payable	31,632	38,541
Liabilities from on-account payments received	27,652	23,848
Liabilities to non-consolidated affiliated companies	1,722	2,136
Liabilities to investment interests	596	3,271
Miscellaneous current liabilities	35,709	30,200
Liabilities from construction contracts	0	6,634
Total	97,311	104,630

Liabilities from trade payables declined in the fiscal year by TEUR 6,909, on the other hand liabilities from on account payments rose by TEUR 3,804.

As a result of the deconsolidation of the Jena-Optronik GmbH there are no non-current liabilities from construction contracts (2009 TEUR 6,634) anymore.

Normal market interest rates have been agreed for liabilities to non-consolidated affiliated and associated companies. Liabilities to investment interests include liabilities to joint ventures of TEUR 419 (2009 TEUR 3,132).

Miscellaneous current liabilities comprise the following:

in TEUR	31.12.2010	31.12.2009
Cancellable financial instruments	11,388	0
Liabilities to employees	7,769	6,402
Other liabilities from taxes	5,951	5,551
Purchase price liabilities	2,175	6,175
Derivatives	982	907
Accruals	911	2,137
Liabilities to employees' accident insurance	899	874
Other liabilities for social security	523	1,184
Finance interest liabilities from financial obligations	442	455
Miscellaneous liabilities	4,669	6,515
Total	35,709	30,200

In the current fiscal year the potential serviceable minority interest at the amount of the discounted present value of the property company LEUTRA SAALE Gewerbegrundstücksgesellschaft mbH & Co KG, consolidated in accordance with IAS 27 in connection with SIC 12, was reclassified from non-current to current liabilities. The existing put option of the atypical silent shareholder cannot be exercised until 2011.

Liabilities to employees include holiday entitlements and flexi-time credits.

The reduction in purchase price liabilities resulted from the payment of the purchase price for the acquisition of the remaining shares in JENOPTIK Laserdiode GmbH in the previous year.

The whole item of Financial Instruments is described in more detail in Note 35.

34 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 65,335 (31.12.2009 TEUR 11,201). Cash and cash equivalents are defined as cash balances and credit bank accounts with a term of less than 3 months.

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 required 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 effective and are eliminated. Cash flow from operating activities is indirectly derived based on the earnings before tax. The 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. The payments include the discontinued business division in accordance with IFRS 5 up to its deconsolidation on November 30, 2010.

Cash flow from operating activities fell by TEUR 9,546 to TEUR 43,741 (31.12.2009 TEUR 53,287). This mainly resulted from a cash increase in working capital of TEUR 4,967 and the utilization of restructuring provisions in 2010 from the measures in 2009. The discontinued business division generated an operating cash flow of TEUR 2,172 (2009 TEUR 4,457).

Cash flow from investing activities amounted to TEUR 30,309 (2009 minus TEUR 12,515) and is affected in particular by the sale of Jena-Optronik GmbH and the minority shares in caverion GmbH. This includes the discontinued business unit amounting to TEUR minus 794 (31.12.2009 TEUR minus 944).

The cash flow from financing activities amounted to minus TEUR 20,408 (2009 minus TEUR 41,966) and resulted mainly from the repayment of capital on bank loans. The payments from changes in group financing include payments between non-consolidated companies, investments and payments to atypical silent shareholders of property companies. Cash flow from investing activities for the discontinued business division amounts to TEUR minus 1,397 (2009 TEUR minus 3,512).

More information on the cash flow statement can be found under Note 2.3 Financial position in the Management Report.

Other notes

35 FINANCIAL INSTRUMENTS

RISKS

As part of its operating activities the Jenoptik Group 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.

More detailed information on risk management and monitoring of risks is given in the Management Report under Note 5 Risk Report. Further information with regard to notes in capital management are included in the Management Report under Note 2.3 Financial position.

The following comments relate exclusively to the possible quantitative effects of the risks in the fiscal year.

The risks described above have an effect on the following financial assets and liabilities. The carrying values of the financial assets and liabilities represent their market values. According to the fair value hierarchy under IFRS 7 prices relating to identical assets or liabilities in active markets are allocated to level 1 quoted prices:

in TEUR	Market values 31.12.2010	Market values 31.12.2009
Financial assets	188,617	139,959
Cash and cash equivalents	65,335	11,201
Financial assets available for sale	10,901	12,094
Receivables from finance leasing	2,453	2,579
Loans and receivables	107,692	108,534
Derivatives with hedging relationships	2,236	5,551
Financial liabilities	253,423	276,392
Trade accounts payable	31,632	38,541
Liabilities to banks and other financial obligations	141,684	166,874
Liabilities from finance leasing	3,658	4,876
Other non-derivative financial liabilities	74,996	65,182
Derivatives with hedging relationships	1,453	919

The following table shows the fair value hierarchies which exist for the financial assets and liabilities that are measured at fair value:

in TEUR	Market values 31.12.2010	Level 1	Level 2	Level 3
Financial assets				
Financial assets available for sale	10,901	10,901	0	0
Derivatives with hedging relationships	2,236	2,236	0	0
Financial liabilities				
Derivatives with hedging relationships	1,453	1,453	0	0

Level 1 represents fair values that are always available as quoted market prices.

The explanations of the changes in fair values are included within the relevant comments to the balance sheet items.

The **risk of credit or default** is the risk that a customer or contracting partner of the Jenoptik Group does not meet his contractual obligations. From this results the danger, on one hand, that financial instruments suffer impairment related to credit-worthiness and, on the other hand, the danger of partial or full default of contractually agreed payments.

Credit risks are mainly inherent in trade receivables. These are accounted for by setting up allowances. The Jenoptik Group 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 188,617 (2009 TEUR 139,959). The gross amount of trade accounts receivable before allowances amounts to TEUR 79,906 (2009 TEUR 78,339). The allowances accounted for in the fiscal year and the ageing of receivables are both described in Note 22.

The **liquidity risk** of the Group is that the Group is potentially unable to meet its financial commitments. This can, for example, be due to inadequate availability of cash and cash equivalents, capital repayment of financial liabilities, payment of suppliers and obligations from finance leasing. In order to guarantee liquidity and financial flexibility, credit lines and cash availability are planned using a 5-year financial plan and a rolling monthly 5-month liquidity forecast. The focus is still on liquidity risk even one year after the financial crisis and is limited by an effective cash and working capital management as well as by credit facilities yet unused. In the fiscal year 2010 the liquidity risk was further reduced by numerous measures and net debt was improved further.

The following overview shows the cash flows from the interest and capital repayments of financial liabilities:

in TEUR	Carrying values	Cash outflow			
		Total	Up to 1 year	1–5 years	Over 5 years
Variable interest bank liabilities	70,548 (79,374)	76,709 (88,286)	16,365 (10,759)	60,344 (77,527)	0 (0)
Fixed interest bank liabilities	71,136 (87,500)	86,918 (124,580)	9,979 (11,441)	37,484 (60,318)	39,455 (52,821)
Variable interest liabilities from finance lease	3,658 (4,876)	3,658 (4,876)	971 (1,054)	1,705 (2,478)	982 (1,344)
Total	145,342 (171,750)	167,285 (217,742)	27,315 (23,254)	99,533 (140,323)	40,437 (54,165)

(The amounts in brackets relate to the prior year)

Cash outflows for variable-interest bank liabilities are based on an interest rate of 4.3 percent (2009 4.0 percent). Fixed interest liabilities are charged interest at rates of between 4.0 percent and 8.0 percent.

Further details are described under Note 31.

JENOPTIK AG is primarily exposed to **interest rate fluctuation risks** in the area of medium-term and long-term interest-bearing financial 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 values	
	31.12.2010	31.12.2009
Interest-bearing financial assets	71,763	19,155
of which variable interest	65,335	11,201
of which fixed interest	6,428	7,954
Interest-bearing financial liabilities	145,342	171,750
of which variable interest	74,206	84,250
of which fixed interest	71,136	87,500

With a fluctuation in the market interest rate as at December 31, 2010 over a range of 100 base points an opportunity loss or gain of TEUR 64 (2009 TEUR 80) would result for the fixed-interest financial assets.

For financial liabilities within the same range an opportunity loss or gain of TEUR 711 (2009 TEUR 875) would result.

A change of 100 base points in the variable-interest financial assets would have an impact of TEUR 653 (2009 TEUR 112) and for variable-interest financial liabilities it would have an impact of TEUR 742 (2009 TEUR 843).

JENOPTIK AG meets the risks with the following interest hedges.

in TEUR	Nominal volumes		Market values	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Interest cap	20,000	20,000	4	115

In 2009 JENOPTIK AG concluded a financing package of medium and long-term loans of which TEUR 65,000 attract variable interest. For part of these loans JENOPTIK AG concluded an interest hedging instrument in 2009 in the form of an interest cap with the following parameters:

Interest cap	TEUR 20,000 (2009 TEUR 20,000)
Term	March 31, 2009 to March 30, 2012
Maximum interest rate	2.45 %
Reference interest rate	3-month Euribor

Under the interest cap liabilities of TEUR 20,000 are secured against the 3-month-Euribor rising above 2.45 percent for three years. Since there is no highly effective hedging relationship to our loan financing the derivative is separately disclosed and measured. As at December 31, 2010 the market value of the derivative amounts to TEUR 4 (2009 TEUR 115). The change in market value is accounted for in income.

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 are used. In the fiscal year 2010 forward exchange contracts with a nominal value of TEUR 42,920 were used in order to hedge and document the underlying transactions as cash flow hedges. Also in the prior year only forward exchange contracts were concluded and accounted for as cash flow hedges. Their total volume in the prior year amounted to TEUR 36,347.

These transactions relate to the exchange rate hedging of major cash flows in foreign currency from the operating business (in particular sales and materials purchases).

The following positive market values arise from derivative financial instruments:

in TEUR	31.12.2010	31.12.2009
Transactions to hedge against		
Currency risks from future cash flows (Cash flow hedges): Forward exchange contracts, non-current	495	754
Currency risks from future cash flows (Cash flow hedges): Forward exchange contracts, current	1,737	4,797
Interest cap	4	115
Total	2,236	5,666

The following negative market values arise from derivative financial instruments:

in TEUR	31.12.2010	31.12.2009
Transactions to hedge against		
Currency risks from future cash flows (Cash flow hedges): Forward exchange contracts, non-current	471	12
Currency risks from future cash flows (Cash flow hedges): Forward exchange contracts, current	982	907
Total	1,453	919

The market values shown above were calculated and confirmed by the banks.

Net gains arose from income on release of allowances amounting to TEUR 535 (2009 TEUR 1,127). In the current fiscal year net losses for financial instruments amounting to TEUR 3,166 were realized.

Foreign currency risks of TEUR 24,475 for a time frame of until the end of the year 2011 are hedged by forward exchange contracts. Foreign currency risks of TEUR 18,445 for a time frame of until 2013 are hedged.

Forward currency transactions are analyzed by currency sales and purchases as follows:

in TEUR	31.12.2010	31.12.2009
Forward exchange contracts		
USD/EUR-sale	41,757	28,515
USD/EUR-purchase	356	403
GBP/EUR-sale	578	6,309
GBP/EUR-purchase	0	801
CAD/EUR-sale	229	319

The underlying transactions mainly relate to the sales of products. The risk hedged is always the currency risk.

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.

The main foreign currency transactions within the Jenoptik Group relate to the US Dollar.

Consistent management of foreign currency resulted in underlying transactions being almost completely hedged and the risk position declining again.

The table shows the net foreign currency risk position in USD:

in TUSD	31.12.2010	31.12.2009
Financial assets	17,426	16,975
Financial liabilities	1,788	2,288
Foreign currency risk from balance sheet items	15,638	14,687
Foreign currency risk from pending transactions	40,828	21,111
Transaction-related foreign currency item	56,466	35,798
Items hedged economically by derivatives	54,114	35,320
Net position	2,352	478

A sensitivity analysis relative to the US Dollar led to the following result:

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 88 and a change of 10 percent a positive or negative impact of TEUR 178 on the statement of comprehensive income.

36 COMMITMENTS AND CONTINGENT LIABILITIES

Compared to the prior year the volume of guarantees has decreased significantly as expected and only amounted to TEUR 12,390 as at December 31, 2010 (2009 TEUR 103,664), whereby 70 percent are secured by cross-guarantees.

in TEUR	31.12.2010	31.12.2009
Guarantees and line for caverion GmbH	4,058	94,990
Other companies	8,332	8,424
M + W Zander Group	0	250
Liabilities from guarantees	12,390	103,664

The guaranteed still existing as at December 31, 2010 for the company sold, caverion GmbH, amounting to TEUR 4,058 (2009 TEUR 94,990), have been cross-guaranteed to JENOPTIK AG by the new owner of caverion GmbH. Furthermore, there is no longer a financial commitment for surety lines (2009 TEUR 130,000). Thus, there is no longer a risk for JENOPTIK AG from the adoption of guarantees for caverion GmbH.

The largest item of guarantees consisted of the warranty guarantees for other companies in connection with the Clinic 2000 Jena amounting to TEUR 5,500 (2009 TEUR 5,500), the partial release from liability of which is still outstanding by the Free State of Thuringia. Potential claims from guarantees of only TEUR 481 (2009 TEUR 527) exist with regard to Jenoptik.

The loan security granted to OLPE Jena GmbH, Jena was extended at the amount of TEUR 600 (2009 TEUR 1,000) and will continue to be reduced gradually.

Guarantees for Jena-Optronik GmbH sold at the end of 2010 amounted as at December 31, 2010 still to TEUR 870 and are cross-guaranteed in full to JENOPTIK AG by the new owner of Jena-Optronik GmbH.

There are no longer any guarantees as at December 31, 2010 (2009 TEUR 250) for M+W Zander Group.

37 OTHER FINANCIAL COMMITMENTS

Financial commitments from rental and leasing contracts are described in Note 16.

In addition to order commitments for tangible assets there are further order commitments amounting to TEUR 38,093 (2009 TEUR 24,120).

38 LEGAL DISPUTES

JENOPTIK AG and its Group companies are involved in several court or 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 on page 101.

For any potential charges from court or arbitration cases adequate provisions have been accounted for in the relevant Group company 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.

39 POST BALANCE SHEET EVENTS

The Executive Board authorized the financial statements on March 10, 2011 for approval by the Supervisory Board. There were no events of significant importance occurring after the balance sheet date of December 31, 2010.

40 RELATED PARTY DISCLOSURES ACCORDING TO IAS 24

Related parties are defined in IAS 24 "Related Party Disclosures" 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.

Currently, in accordance with the announcement in line with § 21 WpHG (Securities Trading Act) ECE Industriebeteiligungen GmbH, Austria holds 25.02 percent in the Jenoptik Group. The other shares are held in free float. In the fiscal year there are no trade or other relationships with ECE European City Estates GmbH.

Analysis of the relationships to related parties in the fiscal year 2010:

in TEUR	Total	of which with	
		Non-consolidated companies	Joint ventures
Sales	6,877	6,869	8
Purchased services	4,253	2,413	1,840
Receivables from operations	4,286	4,119	167
Liabilities from operations	778	705	73
Loans	1,726	726	1,000

The purchased services from associated companies amounting to TEUR 1,840 include research and development services of TEUR 1,508.

Furthermore, there are guarantees to related companies amounting to TEUR 6,862 of which TEUR 3,037 is secured through cross-guarantees.

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 has relationships as part of its normal operating activities. All transactions with these companies are conducted under conditions which are normal between unrelated parties.

Detailed information on the Executive Board and Supervisory Board is set out in the section on Executive Board and Supervisory Board.

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 have utilized the simplifications of § 264 (3) or § 264b HGB:

- SAALAEUE Immobilien Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Jena
- LEUTRA SAALAE Gewergrundstücksgesellschaft mbH & Co. Vermietungs KG, Jena
- JENOPTIK Robot GmbH, Monheim am Rhein
- HOMMEL Etamic GmbH, Villingen-Schwenningen
- JENOPTIK Automatisierungstechnik GmbH, Jena
- ESW GmbH, Wedel
- JENOPTIK Optical Systems GmbH, Jena
- JENOPTIK Diode Lab GmbH, Berlin
- JENOPTIK Laser GmbH, Jena
- Lechmotoren GmbH, Altenstadt
- JENOPTIK Polymer Systems GmbH, Triptis
- JENOPTIK SSC GmbH, Jena
- JORENT Techno GmbH, Jena
- Innovavent GmbH, Göttingen

SUPPLEMENTARY DISCLOSURES UNDER § 314 HGB

NUMBER OF EMPLOYEES

The average number of employees is analyzed as follows:

	2010	2009
Employees	2,928	3,206
Trainees	120	127
Total	3,048	3,333

An average of 34 (2009 35) employees were employed in proportionally consolidated companies in 2010.

COST OF MATERIALS AND PERSONNEL EXPENSES

in TEUR	2010	2009
Cost of materials		
Raw materials, consumables, supplies and purchased merchandise	163,368	157,164
Cost of purchased services	60,811	49,446
Total	224,179	206,610
Personnel expenses		
Wages and salaries	158,115	158,274
Social security and pension costs	28,148	29,035
Total	186,263	187,309

German Corporate Governance Codex

On December 9, 2010 the Executive and Supervisory Boards of JENOPTIK AG submitted the statement on conformity with the recommendations of the government commission on the German Corporate Governance Code in the version dated May 26, 2010 in accordance with § 161 AktG (German Public Companies Act). The statement is made permanently available to the shareholders on the Internet page of JENOPTIK AG under [www.jenoptik.com/Investors/Corporate Governance](http://www.jenoptik.com/Investors/Corporate%20Governance). The statement is also viewable in the business office of JENOPTIK AG (Carl-Zeiß-Straße 1, 07743 Jena) .

Executive Board

The following gentlemen were appointed members to the Executive Board during the fiscal year 2010:

	Additional appointments at:
Dr. Michael Mertin Chairman of the Executive Board of JENOPTIK AG	CoOptics GmbH (SB member)
Frank Einhellinger Member of the Executive Board of JENOPTIK AG	None

Remuneration and benefits of the active members of the Executive Board of JENOPTIK AG in 2010 are expected to amount to TEUR 1,676 without other services and LTI programme.

in TEUR	Remuneration for 2010		
	Fixed	Variable (without LTI) ¹⁾	Total
Dr. Michael Mertin (Chairman of the Executive Board)	490	610	1,100
Frank Einhellinger (Member of the Executive Board)	320	256	576
Total	810	866	1,676

1) LTI=Long-term incentive component

The fixed remuneration of the Executive Board members has been paid at the above amounts to Dr. Mertin since January 1, 2009 and to Mr. Einhellinger since July 1, 2009. From January 1, 2011 fixed remuneration is increased by TEUR 20 for Dr. Mertin and by TEUR 13 for Mr. Einhellinger.

According to the Executive Board service contracts changed in the fiscal year 2010, the variable amount of remuneration is dependent on the achievement of objectives in accordance with a target agreement concluded between JENOPTIK AG, represented by the Supervisory Board, and the relevant Executive Board member. The target agreement is to be based on permanent corporate development.

The assessment bases for this are the Group EBIT, operating cash flow, the consolidated financial statements, capital market and share-relevant, as well as strategic and operating targets for the appropriate year as well as of a long-term nature and an individual assessment of performance, each linked to caps for targets not being met or being exceeded. Additionally, for the total of the individual targets, to which the variable remuneration is linked, there is an overall cap. The actual level of the variable remuneration depends on the achievement of the objectives in accordance with the target agreement.

The target computation for variable remuneration in 2010 is performed retrospectively. This is agreed in advance with the Personnel Committee, however still requires approval by the full Supervisory Board and is, thus, not yet final.

One part of the variable remuneration is in the form of virtual shares based on the Long-Term Incentive Component (LTI) which has existed since 2009 and was newly structured in 2010 according to the legal specifications of the Act on the Appropriateness of Management Board Compensation.

The allocation of the virtual shares is conducted as part of the determination of achievement of targets. A payment is not made, however, until the end of the fourth subsequent year after allocation on the basis of the average closing price of the

share in XETRA trading (or a comparable subsequent system) on the Frankfurt Stock Exchange. The subsequent year is the calendar year that follows the year in which the target agreement was concluded. This means, for the case of granting of virtual shares as part of the target agreement for the year 2010, that the allocation of the virtual shares as part of the determination of the target achievement will be in the year 2011 and the payment of the cash value of the virtual shares – the amount of which is calculated on the basis of the average price of the share in 2014, will be at the beginning of the year 2015. After agreement with the Personnel Committee the allocation for the fiscal year 2010, subject to approval by the Supervisory Board, is to amount to 42,222 virtual shares for Dr. Mertin and 21,932 virtual shares for Mr. Einhellinger.

Supplementary benefits for Dr. Mertin amount to TEUR 44.5 (2009 TEUR 42.5), for Mr. Einhellinger TEUR 22.7 (2009 TEUR 22.8). In addition to a company car, supplementary benefits include the adoption of the costs of professional indemnity insurance as well as of accident insurance.

In 2007 contracts for company pension schemes were concluded with both Board members. The pension commitment is based on a pension fund reinsured by a life insurance. It is a defined contribution pension as part of a benevolent fund. In 2010 the expense for the benevolent fund amounted to TEUR 240 for Dr. Mertin and TEUR 66 for Mr. Einhellinger.

The shares privately purchased by the members of the Executive Board amounted to 1,036 at the year end and are held by Mr. Frank Einhellinger. Dr. Michael Mertin does not hold any shares in JENOPTIK AG.

Pension payments amounting to TEUR 293 were made to former Executive Board members. Pension provision (defined benefit obligation) for former Executive Board members amounted to TEUR 3,668 as at the balance sheet date December 31, 2010. The interest cost recorded in 2010 for these existing provisions amounted to TEUR 207.

Supervisory Board

The following ladies and gentlemen were appointed members to the Supervisory Board during the fiscal year 2010

	Additional appointments at:
<hr/> RUDOLF HUMER Entrepreneur Member of: Personnel Committee (Chairman) Mediation Committee (Chairman) Nomination Committee (Chairman)	<hr/> <ul style="list-style-type: none"> • Bauman AG, Austria (Ccb member) • Bauman Anteilsverwaltung AG, Austria (Ccb member) • Ühinenud Farmid AS, Estonia (Ccb Chair) <hr/>
<hr/> WOLFGANG KEHR¹⁾ Trade Union secretary at IG Metall, Bezirk Frankfurt/Main Member of: Personnel Committee Mediation Committee	<hr/> None
<hr/> MICHAEL EBENAU¹⁾ Second authorized representative of IG Metall Jena-Saalfeld and second authorized representative of IG Metall Gera Member of: Audit Committee Personnel Committee (from 9.12.2010) Mediation Committee (from 9.12.2010)	<hr/> None
<hr/> MARKUS EMBERT¹⁾ Dipl.-Ing. in electrical engineering at ESW GmbH Member of: Capital Market Committee	<hr/> None
<hr/> CHRISTIAN HUMER Chairman of the Executive Board of ECE European City Estates GmbH, Austria Member of: Personnel Committee Nomination Committee	<hr/> <ul style="list-style-type: none"> • Ühinenud Farmid AS, Estonia (Ccb member) <hr/>
<hr/> THOMAS KLIPPSTEIN¹⁾ Chairman of Group Works' Council of Jenoptik Member of: Personnel Committee Audit Committee	<hr/> None
<hr/> CHRISTEL KNOBLOCH¹⁾ Process coordinator at JENOPTIK Automatisierungstechnik GmbH (from 6.12.2010) Member of: Capital Market Committee (from 9.12.2010)	<hr/> None

Abbreviations: SB – Supervisory Board Ccb. – Comparable controlling body ig – Internal group appointment Dep. – Deputy ¹⁾ Employee representative

	Additional appointments at:
<p>ANITA KNOP ¹⁾ Dipl.-Ing. Information Technology at Jena-Optronik GmbH (until 3.12.2010)</p> <p>Member of: Capital Market Committee</p>	None
<p>DIETER KRÖHN ¹⁾ Production planner of ESW GmbH (from 3.12.2010)</p> <p>Member of: Capital Market Committee (from 9.12.2010)</p>	None
<p>DR. LOTHAR MEYER Former Chairman of the Executive Board ERGO Versicherungsgruppe AG</p> <p>Member of: Audit Committee Capital Market Committee (Chairman)</p>	<ul style="list-style-type: none"> • UniCredit Bank AG (SB member) • ERGO Versicherungsgruppe AG (SB member)
<p>GÜNTHER REISSMANN ¹⁾ Chairman of the Group Works' Council of Jenoptik (until 10.6.2010), Chairman of Works' Council of JENOPTIK AG (until 30.11.2010)</p> <p>Member of: Personnel Committee Mediation Committee Capital Market Committee</p>	None
<p>HEINRICH REIMITZ Member of the Executive Board of ECE European City Estates GmbH, Austria</p> <p>Member of: Audit Committee (Chairman) Capital Market Committee</p>	<ul style="list-style-type: none"> • Ühinenu Farmid AS, Estonia (Ccb member)
<p>PROF. DR. RER. NAT. HABIL., DIPL.-PHYSIKER ANDREAS TÜNNERMANN Director of the Institute for Applied Physics and Professor for Applied Physics at the Friedrich-Schiller-University and Head of the Fraunhofer Institute for Applied Optics and Fine Mechanics, Jena</p> <p>Member of: Personnel Committee Mediation Committee Nomination Committee</p>	<ul style="list-style-type: none"> • BioCentive GmbH (SB Chair) • CoOptics GmbH (SB member)
<p>GABRIELE WAHL-MULTERER Dipl.-Kaufrau, entrepreneur</p> <p>Member of: Capital Market Committee</p>	None

Abbreviations: SB – Supervisory Board Ccb. – Comparable controlling body ig – Internal group appointment Dep. – Deputy ¹⁾ Employee representative

The remuneration of the Supervisory Board consists of a fixed and a profit-related component and is set out in § 19 of the articles of association of JENOPTIK AG newly drawn up under Annual General Meeting resolution dated June 9, 2010. This remuneration rule sets out, as part of total remuneration, a fixed annual payment of TEUR 15. The Chairman of the Supervisory Board receives twice this amount and the Deputy Chair one and a half times this amount. Additionally, each member of a committee receives remuneration of TEUR 5. The committee chairman receives twice this amount. The fixed remuneration is payable at the end of the fiscal year.

In addition, each Supervisory Board member receives an annual, profit-related payment amounting to TEUR 7.5, to the extent that the Group earnings before tax exceed the value of 10 percent of Group equity at the end of the fiscal year. The annual profit-related remuneration increases to TEUR 15 to the extent that the Group earnings before tax exceed 15 percent of Group equity. The Chairman of the Supervisory Board receives twice this amount and the Deputy Chair one and a half times this amount. The approved consolidated financial statements form the basis for determining the earnings before tax and equity. The annual profit-related remuneration shall be paid after the ordinary Annual General Meeting which decides on approval of Supervisory Board actions for the past fiscal year, i. e., usually after the Annual General Meeting of the following fiscal year. Since the Group earnings before tax for 2009 did not reach the above-mentioned value, in 2010 no profit-related remuneration was paid for the fiscal year 2009.

Supervisory Board members who have only belonged to the Supervisory Board or a committee for part of the fiscal year receive time-apportioned remuneration.

For participation at a meeting, members of the Supervisory Board also receive an attendance fee of TEUR 0.6. Expenses of a member of the Supervisory Board in connection with the exercise of his office are reimbursed against evidence in accordance with the generally applicable legal provisions for this; to the extent that these are in direct connection with attendance of a Supervisory Board or committee meeting. However this only applies if they exceed the amount of TEUR 0.6.

JENOPTIK AG additionally reimburses Supervisory Board members any value added tax incurred on their remuneration.

In the fiscal year 2010 TEUR 342 was provided for the fixed remuneration of the Supervisory Board and TEUR 101 for variable remuneration. Jenoptik has not paid any other fees or benefits for personally provided services (in particular consulting and agency services) to the members of the Supervisory Board.

At the end of the fiscal year 2010 total shares or related financial instruments held directly or indirectly by all Supervisory Board members amounted to 3,729,473. These include 2,773,066 shares held by Ms. Wahl-Multerer as sole shareholders of ZOOM Immobilien GmbH (as legal successor of VARIS Vermögensverwaltungs GmbH) and 675,000 shares held directly and indirectly by Mr. Rudolf Humer.

In accordance with this remuneration system members of the Supervisory Board received the following total remuneration payments in the fiscal year 2010:

in TEUR	Total remuneration	of which		Value added tax ¹⁾
		Fixed annual remuneration 2009	Attendance fees 2010	
Rudolf Humer (Chairman)	44.8	40.0	4.8	0.0
Wolfgang Kehr (Dep. Chairman until 31.12.2010)	38.4	32.7	5.7	6.1
Michael Ebenau (Dep. Chairman from 1.1.2011)	29.5	23.8	5.7	4.7
Markus Embert	26.7	23.8	2.9	4.3
Christian Humer	24.8	20.0	4.8	0.0
Thomas Klippstein	37.6	29.7	7.9	6.0
Christel Knobloch (since 6.12.2010)	0.6	0.0	0.6	0.0
Anita Knop (until 3.12.2010)	26.7	23.8	2.9	4.3
Dieter Kröhn (since 3.12.2010)	0.6	0.0	0.6	0.0
Dr. Lothar Meyer	41.4	35.7	5.7	6.6
Günther Reißmann (until 30.11.2010)	34.7	29.7	5.0	5.5
Heinrich Reimitz	35.4	30.0	5.4	0.0
Prof. Dr. rer. nat. habil. Andreas Tünnermann	28.8	23.8	5.0	4.6
Gabriele Wahl-Multerer	26.7	23.8	2.9	4.3
Total	396.7	336.8	59.9	46.4

1) Included in fixed remuneration and attendance fees; the gentlemen Rudolf and Christian Humer and Mr. Heinrich Reimitz have a limited tax liability in Germany due to their place of residence being abroad and thus no value added tax was incurred on their remuneration but rather withholding tax in accordance with § 50 a (1) NO. 4 EStG (Income Taxes Act) was paid on the fixed remuneration.

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 10, 2011



Michael Mertin
Chairman of the Executive Board



Frank Einhellinger
Executive Board Member

AUDITORS' REPORT

We have audited the consolidated financial statements prepared by JENOPTIK Aktiengesellschaft, Jena, comprising the consolidated statement of comprehensive income, the balance sheet, 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, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 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 IFRS, 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 10, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

DR. KRONNER
Auditor

NEUMANN
Auditor

ADDITIONAL INFORMATION

180	EXECUTIVE MANAGEMENT BOARD
181	SCIENTIFIC ADVISORY COUNCIL
182	FINANCIAL GLOSSARY
184	IMPRINT

EXECUTIVE MANAGEMENT BOARD

(AS AT JANUARY 2011)

DR. MICHAEL MERTIN
Chairman of the Executive Board

WILHELM HARDICH
Head of Defense & Civil Systems division

FRANK EINHELLINGER
Member of the Executive Board

MELANIE JAKLIN
Head of HR, Supply Chain Management & Shared Service Center

BERNHARD DOHMANN
Head of Traffic Solutions division

DR. DIRK MICHAEL ROTHWEILER
Head of Optical Systems division

DR. THOMAS FEHN
Head of Lasers & Material Processing division

VOLKMAR HAUSER
Head of Industrial Metrology division

SCIENTIFIC ADVISORY COUNCIL

(AS AT JANUARY 2011)

DR. MICHAEL MERTIN

JENOPTIK AG, Jena, Chairman

PROF. DR. RER. NAT. JÜRGEN POPP

IPHT Institut für Photonische Technologien e.V., Jena

PROF. DR. HARTMUT BARTELT

IPHT Institut für Photonische Technologien e.V., Jena

PROF. DR. ROLAND SAUERBREY

Forschungszentrum Rossendorf, Dresden

PROF. DR. KARLHEINZ BRANDENBURG

Technische Universität Ilmenau,
Fakultät Elektrotechnik/Institut für Medientechnik

PROF. DR. MICHAEL SCHENK

IFF Fraunhofer Institut für Fabrikbetrieb und -automatisierung, Magdeburg

PROF. DR. GERHARD FETTWEIS

Technische Universität Dresden,
Fakultät für Elektrotechnik,
Mannesmann Mobilfunk Stiftungslehrstuhl

PROF. DR. HARTWIG STEFFENHAGEN

Rheinisch-Westfälische Technische Hochschule (RWTH), Aachen

PROF. DR. JOHANN LÖHN

Steinbeis-Hochschule Berlin

PROF. DR. GÜNTHER TRÄNKLE

Ferdinand-Braun-Institut, Leibniz-Institut für Höchstfrequenztechnik, Berlin

PROF. DR. ANDREAS TÜNNERMANN

IOF Fraunhofer Institut für angewandte Optik und Feinmechanik, Jena

PROF. DR. RER. NAT. HABIL. JÜRGEN PETZOLD

Technische Universität Ilmenau,
Fakultät für Elektrotechnik und Informationstechnik,
Institut für Elektrische Energiewandlungen und Automatisierung

PROF. DR. BERND WILHELMI

Jena

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 refer to a period 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 earnings 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 financial 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, including 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.

DISAGIO: The difference between the amount of a loan to be repaid and the amount received when the loan was granted.

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.

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.

F

FREE CASH FLOW: The free cash flow is the cash flow available. The amount of the free cash flow is regarded by financing institutions as an indicator for the ability to repay credits and is therefore often used as basis to calculate the financing capacity.

The free cash flow is calculated taking the cash flow from operating activities (before income taxes and interests) less investments from operating activities plus disinvestments.

FREE FLOAT: Scattered company shares held by a large number of different investors.

FINANCIAL LIABILITIES: These include 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, existing 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.

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.

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

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.

SHAREHOLDERS' 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).

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.

T

TREASURING: Management of finances – a major task of the corporate finance area. The aim of Treasuring and its control instruments is to optimize liquidity and profitability of the company.

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.

W

WORKING CAPITAL: Sum of inventories and receivables from operating activities less trade accounts payable, PoC (percentage of completion) liabilities and on-account payments received.

IMPRINT

EDITOR

JENOPTIK AG, Public Relations, 07739 Jena

LAYOUT

Hilger & Boie Design, Wiesbaden

PRINT

Druckhaus Gera GmbH, Gera

IMAGES

Corbis (p. 23), Fotolia (p. 24, p. 25), Getty Images (p. 20/21, p. 22/23, p. 24/25, p. 28/29), Hilger & Boie Design (p. 20, p. 26/27, p. 28), iStockphoto (p. 20, p. 22, p. 24, p. 25, p. 26), medicalpicture (p. 20), panthermedia (p. 26), picture alliance (p. 28), plainpicture (Titel), Torsten Proß (p. 2), additional pictures: JENOPTIK AG

The contents of this publication address men and women equally.
For better readability, the masculine forms are used normally.

In case of differences of opinion the German text shall prevail.

DATES 2011

MARCH 24, 2011

Publication of the
Annual Report 2010

MAY 13, 2011

Publication of the Interim Report
1st quarter 2011

JUNE 8, 2011

General Meeting of JENOPTIK AG 2011

MAY 13, 2011

Publication of the Semi Annual Report 2011

NOVEMBER 9, 2011

Publication of the Interim Report
3rd quarter 2011

INVESTOR RELATIONS

Katrin Fleischer

Phone + 49 3641 65-2290

Fax + 49 3641 65-2804

E-mail: ir@jenoptik.com

PUBLIC RELATIONS

Katrin Lauterbach

Phone + 49 3641 65-2255

Fax + 49 3641 65-2484

E-mail: pr@jenoptik.com

www.jenoptik.com
