JENOPTIK GERMANY

Annual Report 2006

1

Key figures of Jenoptik (continued business divisions) in TEUR

	2006	2005	Change in %
Sales	485,139	410,117	18.3
of which domestic in %	43.2 %	44.1 %	
of which foreign in %	56.8 %	55.9 %	
Laser & Optics	199,198	149,660	33.1
Sensors	153,179	136,049	12.6
Mechatronics	126,976	117,409	8.1
Other *	14,639	13,870	5.5
Value added	213,295	168,125	26.9
Laser & Optics	72,403	57,356	26.2
Sensors	68,604	63,632	7.8
Mechatronics	63,073	58,319	8.2
EBITDA	69,916	57,745	21.1
Laser & Optics	31,794	26,095	21.8
Sensors	22,536	22,848	-1.4
Mechatronics	14,252	11,805	20.7
Other *	1,334	-3,003	144.4
EBIT	38,214	25,057	52.5
Laser & Optics	15,263	13,316	14.6
Sensors	18,108	18,718	-3.3
Mechatronics	10,790	8,366	29.0
Other *	-5,947	-15,343	61.2
EBIT margin (EBIT in % of sales)	7.9 %	6.1 %	
Laser & Optics	7.7 %	8.9 %	
Sensors	11.8 %	13.8 %	
Mechatronics	8.5 %	7.1 %	
Earnings before tax	19,085	8,128	134.8
Earnings after tax	16,138	3,959	307.6
Order intake	482,916	449,525	7.4
Laser & Optics	208,464	143,538	45.2
Sensors	145,299	139,565	4.1
Mechatronics	123,371	159,698	-22.7
Other *	5,782	6,724	-14.0
	31.12.2006	31.12.2005	
Order backlog	438,378	438,727	-0.1
Laser & Optics	66,073	56,289	17.4
Sensors	68,993	73,517	-6.2
Mechatronics	303,312	308,921	-1.8
Other *	0	0	
Employees (incl. trainees)	3,192	2,835	12.6
Laser & Optics	1,254	1,147	9.3
Sensors	1,050	784	33.9
Mechatronics	828	834	-0.7
Other *	60	70	-14.3

* The division "Other" includes holding and real estate.

ALEXANDER VON WITZLEBEN -- CHAIRMAN OF THE EXECUTIVE BOARD

Alexander von Witzleben has been Chairman of the Executive Board of JENOPTIK AG since June 2003, with responsibility for finance, taxes, controlling, group accounting and real estate, investments, data processing, risk management, investor and public relations, corporate governance as well as personnel, as HR Director. (left)

DR. MICHAEL MERTIN -- CHIEF OPERATING OFFICER

Dr. Michael Mertin has been a member of the executive board of JENOPTIK AG since October 1, 2006. As Chief Operating Officer – COO – he is in charge of technology/operational business and responsible for corporate development, research and development, auditing, environmental, compliance and quality management, data protection as well as the central marketing of the Group. (right)

Dear shareholders,

We have reached our goals for 2006, and some we have even surpassed. While our sales rose 18.3 percent to 485.1m euros, operating results soared 52.2 percent to 38.2m euros. Jenoptik's continuing business divisions, which have provided the company with growing sales and earnings figures over the past nine years, profited in 2006 from an excellent economic situation. This was borne out by our order intake, which was up 7.4 percent from fiscal year 2005 to 482.9m euros. I would like to thank our customers for their trust in our products and technologies as well as our employees for all their efforts.

Positive resolutions to a number of matters outside of our operative business also played a role in making 2006 a successful year for Jenoptik. Arbitration proceedings with the Free State of Thuringia were concluded in our favor in early 2007, while the German Federal Supreme Court (Bundesgerichtshof) decided for Jenoptik in the DEWB lawsuit in its ruling of May 8, 2006. Just a few days later, we successfully finalized our sale of M+W Zander. While this constituted a considerable reduction in size for the company, Jenoptik now stands on a stable fundament, well equipped for the future. This is also underscored by our most important balance sheet and financial figures. Net debt, for example, fell strongly from 375m euros at the end of 2005 to only 203m euros. This was also possible in that we continued to part with our non-strategic assets. Our equity ratio rose from 20.8 to 34.2 percent and, after the planned repayment of our fixed-interest bond in autumn 2007, will continue to rise to just under 40 percent. This will bring us closer to our long-term goal of an equity ratio of over 50 percent.

In 2006, we outfitted the new Jenoptik with a new corporate design with a clear reference to our base in Germany, one of the world's foremost regions for high technology. Jena, the site of our headquarters, is itself a globally renowned location for optics and precision mechanics. As for me, I will be leaving Jenoptik in July of this year to begin work with the Haniel Group in Duisburg. I will hand over the chair of the executive board to Dr. Michael Mertin, an experienced manager, who knows the industry quite well through his many years of work in managerial positions at Carl Zeiss. Frank Einhellinger will join the executive board as chief financial officer in July as well. He has accompanied me for over 10 years as the director of finance and controlling, supporting me in my role as chief financial officer. I thank you, dear shareholders, for the trust you have placed in me.

Sincerely,

ALEXANDER VON WITZLEBEN

Honored shareholders,

The foundations have already been laid for Jenoptik's successful future. We will seek to continue along the path already begun towards profitable growth. In 2005 and 2006, the main focus was placed on the group's fundamental reorientation, and the sale of assets that were not essential to operations. And we will continue to develop Jenoptik with great rigor in the years to come. It is our goal to return to our status as a billion-euro company. This is to be achieved through strong organic growth, with further impetus obtained from acquisitions, investments, and long-term cooperations. We especially see potential for future profitable growth to be derived from

- a continued positive economic situation;
- a wide range of approaches to internationalization in Europe, the United States, Asia, and North Africa;
- the further development of our organisation in connection with markets, value creation, and technologies;
- an active portfolio management for the expansion of our core markets, and for a focus on high-growth and high-yield areas of business; and
- the further reduction of activities and assets that no longer correspond to our strategic focus.

With regard to the future development of Jenoptik, we will place our focus in particular on an orientation towards customers and markets, and concentrate our technological potential more and more on concrete uses for our customers. In the coming years, we will seek to sharpen our profile to correspond with these goals, with a long-term effect. We would like you, dear Jenoptik customers, shareholders, employees, and partners, to join us on this journey. And we would like to thank you for your confidence in Jenoptik, both in the past and in the future.

Sincerely,

DR. MICHAEL MERTIN

Jenoptik 2006: Chronicle of a successful year.

January 2006

ROBOT Visual Systems GmbH receives a major international order for stationary traffic monitoring equipment. The units are to be delivered to the Kingdom of Morocco starting in February 2006 in an order valued at approximately 7 million euros.

Intel invests in XTREME technologies GmbH, a joint venture of Jenoptik and USHIO Inc. The investment is tied in with a strategic contract to accelerate the development of extreme ultraviolet (EUV) light sources used in photolithography applications.

February 2006

Those on hand at Jenoptik's New Year's reception contribute some 11,500 euros for Jena's Zentrum für Familie und Alleinerziehende e.V. ("Center for the family and single parents").

ROBOT Visual Systems GmbH receives the first orders for its TraffiTower traffic monitoring system from four German states (Lower Saxony, Bremen, Saxony and Hesse) and from the Gulf state of Qatar. TraffiTower is a modern and efficient alternative to stationary speed and traffic light monitoring systems.

March 2006

Jenoptik's subsidiary Hommelwerke GmbH founds Hommel Telstar Co. Ltd., a production measurement technology enterprise, as a joint venture with a Chinese partner. The new company is based in Shanghai.

At the 16^{th} edition of the German state of Thuringia's youth research competition, "Jugend forscht," 69 young researchers competed to move on to the 41^{st} national competition. Jenoptik has sponsored the finals of the Thuringian state competition since 1991.

JANUARY FEBRUARY MARCH APRIL JUNE

MANUFACTURE AT XTREME TECHNOLOGIES

TRAFFITOWER

16. STATE COMPETITION "YOUTH DOES RESEARCH"

PLASTIC OPTICAL COMPONENTS

JENOPTIK DIODE LAB GMBH

PRODUCTION IN TRIPTIS

April 2006

JENOPTIK Polymer Systems GmbH and two US-based companies, Apollo Optical Systems LLC and RPC Photonics, Inc., plan their future collaboration on a strategic partnership in the design, production, and distribution of plastic optical components and light-shaping microstructured components used to manipulate light.

Jenoptik publishes its financial statements for 2005 with varied results: The negative group result was impacted by the sale of the Clean Systems business division, while the Photonics business division ended fiscal year 2005 with clear growth in sales and income.

May 2006

Jenoptik wins its appeals proceedings before the Federal Supreme Court (Bundesgerichtshof) regarding a case in which a DEWB shareholder claimed that Jenoptik had to take over his shares against payment of a compensation.

The sale of M+W ZANDER Holding AG, and thus of the entire Clean Systems business division, is concluded. The purchase price is paid in return for the transfer of M+W Zander shares to the purchaser.

Jenoptik unites all group companies under one brand name – JENOPTIK JENA is now JENOPTIK GERMANY.

Wahl optoparts GmbH is renamed JENOPTIK Polymer Systems GmbH.

June 2006

Jenoptik opens Europe's largest and most modern production center for plastic optics and optical systems in Triptis, a town in the state of Thuringia.

Jenoptik extends financial support to the youth program of the Carl Zeiss Jena soccer club.

Jenoptik inaugurates a new high-tech plant in Berlin-Adlershof. The plant is to develop and manufacture laser bars, the basis for high-power diode lasers.

Operations commence at a new plant opened by Telstar-Hommel Corp., a Jenoptik subsidiary, in South Korea's Gyeonggi Province, south of Seoul.

July 2006

As part of the German-French Year, Jenoptik sponsors two art projects, a photo series by Christoph Rihs and an audio walk by Janet Cardiff. Both projects explore the twin battles of Jena and Auerstedt of 1806.

Jenoptik celebrates its anniversary, commemorating 15 years of expertise in working with light. Jenoptik presents a space and light show using Jenoptik's high-power lasers at Jena's Ernst Abbe Platz as part of the "Thuringia Day" program.

Jenoptik acquires the French measurement technology company ETAMIC S.A. The merger of Etamic and Hommelwerke GmbH establishes a globally active system provider of production measurement technology for the automotive and automotive supply industries.

August 2006

A total of 41 trainees begin their careers at Jenoptik Group companies. The group now employs some 140 trainees and career academy students in total.

The European Space Agency (ESA) submits an order to develop a pumping source for the laser of a new ATLID system. As part of the earth observation program, the system is to contribute towards a better understanding of the interaction between clouds, radiation, and aerosol processes.

September 2006

Jenoptik concludes a cooperation agreement with Rheinmetall Defence Electronics GmbH (RDE) for laser-based flight simulation systems. RDE is to implement and distribute laser projection systems as the basis for its own AVIOR laser projection system.

Jenoptik welcomes over 100 experts from industry and academia at the fourth Jenoptik Laser Forum.

The MKF-6 multispectral camera turns 30. With the development and production of multispectral cameras for RapidEye satellites, Jena-Optronik, a Jenoptik subsidiary, is able to build on the tradition and experience of the first generation of Jena space technology.

JULY SEPTEMBER OCTOBER NOVEMBER DECEMEBER

ANNIVERSARY:
15 YEARS OF EXPERTISE
IN LIGHT

FOURTH
JENOPTIK LASER FORUM

30 YEARS OF MKF-6

DR. MICHAEL MERTIN

NEW CHILDCARE CENTER
IN JENA-GÖSCHWITZ

LIGHT ART BY
HEINZ MACK

October 2006

As a new member of the Jenoptik executive board, Dr. Michael Mertin is responsible for operative business. He succeeds Norbert Thiel, who, after nine years in the group's management, will turn his attention to new tasks.

Jenoptik and Carl Zeiss Sports Optics GmbH conclude an agreement of cooperation. According to the agreement, Jenoptik is to develop and manufacture digital technology and optoelectronics exclusively for ZEISS binoculars and hunting optics.

The large laser-based projection system forms the core of the Virtual Reality Center that Jenoptik and the Fraunhofer Institute IFF in Magdeburg have worked together to enhance. The two partners will continue to cooperate in the future and plan to add further laser projection applications.

November 2006

Jenoptik and Leaf, a company of the Kodak Graphic Communiations Group, conclude a long-term contract for the production and delivery of a new autofocus medium format camera. Leaf plans to distribute the Jenoptik camera together with its own new digital camera backs, which will combine to provide the basis for the Leaf AFi product line.

Bringing family and career together: Jenoptik inaugurates construction of a childcare center in Jena's Göschwitz industrial area. Jenoptik is to invest 1.9 million euros in the project.

December 2006

Heinz Mack, an artist specialized in light-based art forms, is welcomed for the second time to display his photographs in Jenoptik's tangente exhibition series.

Jenoptik rescinds the sale of its 51 percent share in Sinar AG to Leica Camera AG, as the contractual conditions had not been completed.

Jenoptik and the Ferdinand Braun Institute for High-Frequency Technology welcome numerous visitors to an open house in Berlin-Adlershof, one of 365 locations in the "Germany is the Land of Ideas" campaign.

Jena-Optronik GmbH celebrates its 15th anniversary.

The Jenoptik share.

- We are now a technology group with clear focus, concentrating all our efforts on the expansion of our activities involving the use of light as an industrial tool.
- Our three divisions, Laser and Optics, Sensors, and Mechatronics, are all market and technology leaders in their fields.
- In the future, we will focus further on improving our profitability and operative cash flow.
- We believe that we provide an attractive investment – something that we seek to underscore in this annual report.

Our share price, however, trailed behind the German indexes in 2006. Jenoptik closed 2006 in Xetra trading at 7.50 euros, remaining virtually stable from the end of 2005 (7.60 euros). The share hit its high point for the year at 8.35 euros in May, upon the announcements that the sale of the Clean Systems business division had been completed, and that the Federal Supreme Court (Bundesgerichtshof) had decided in favor of Jenoptik in a case regarding a claim for compensation introduced by a DEWB AG shareholder. This upsurge in the share price was, however, interrupted by a downswing in the overall stock market.

The Jenoptik share price followed this downward trend, reaching its low for the year at 6.30 euros in July 2006. The share recovered somewhat over the last months of the year, although the negative 1.3 percent performance over 2006 lagged behind both the Dax and TecDax indexes.

Both indexes saw considerable increases over 2006. Following a downturn in the market in May 2006 due to the cloudy economic outlook in the United States, the Dax and TecDax were able to rebound strongly in the second half. The Dax rose approximately 21 percent to 6,596.92 points while the TecDax surged nearly 25 percent to 748.32 points for the year.

Following the sideways course taken by the Jenoptik share price over the past year, a clear positive trend has emerged over the first weeks of 2007. During the last days of February the price of the Jenoptik share, however, fell perceptible following the overall trend on the German stock market. On February 28, the share closed at 7.22 euros in Xetra trading.

As of December 31, 2006, Jenoptik’s market capitalization came to some 390.3 million euros, nearly unchanged from the end of 2005 (395.5 million euros). At a daily average of 127,712 shares on all German exchanges, trading volume fell below the figure for the previous year (157,699). Taking into account trading volume and market capitalization in relation to the free float, Jenoptik was 23rd of all 30 TecDax companies as of the end of December 2006. 7

DVFA/SG earnings.

In determining earnings figures in accordance with DVFA, erratic items are deducted from group income. In fiscal year 2006 Jenoptik improved earnings per share to 0.23 euros (2006: minus 0.76 euros per share). The Jenoptik result was basically adjusted for impairments on tangible assets, the release of finance lease and court case costs. 3

Intensive dialogue with the capital market.

The main goal of Jenoptik’s investor relations unit is to provide the capital market with comprehensive, transparent, and up-to-date information on the business development of the Jenoptik Group. The Jenoptik management presented the group at two analyst conferences in Frankfurt, at several bank conferences, both in Germany and abroad, and at road shows in Frankfurt, London, Zurich, and Helsinki.

At the June 2006 "Photonics Days" in Jena, analysts were able to obtain first-hand comprehensive information on Jenoptik's expertise, technologies, and products. Numerous discussions throughout the year also served to maintain contacts with institutional investors and analysts. More than 15 analysts monitored Jenoptik over the past year, publishing research reports and commentaries on the group. An overview of current analyst evaluations can be accessed at the www.jenoptik.de/Investors website.

As often before, the JENOPTIK AG annual report was honored with several awards. The financial report took second place among TecDax companies in the "manager magazin" rankings. Handelsblatt, a German financial daily, gave Jenoptik, together with RWE, the highest possible rating of all 130 annual reports that were evaluated with particular reference to their informational quality.

The Internet is an important source of information, particularly for individual investors. Jenoptik's investor relations web platform was reorganized and expanded in 2006 to include items such as additional key figures and more information concerning corporate governance.

3

DVFA/SG earnings calculation in TEUR

	2006	2005
Earnings after tax	11,700	-69,350
– Adjustment for deferred taxes	-41	5,777
= Adjusted group income	11,659	-63,573
– Erratic items (asset) after taxes [1]	808	21,944
– Erratic items (liabilities) after taxes	0	0
– Other erratic items after taxes [2]	1,929	7,853
= DVFA/SG earnings for entire group	14,396	-33,776
– Third party shares in profits (+)/-losses (–) after taxes	2,682	5,518
= DVFA/SG earnings for shareholders of the parent company	11,714	-39,294
÷ Number of shares used as basis, in thousands [3]	52,028	52,028
= DVFA/SG earnings per share in euros	0.23	-0.76
Adjusted DVFA/SG earnings	13,561	-37,492
Number of potential shares (diluted), in thousands	56,912	56,912
Fully diluted DVFA/SG earnings per share in euros [4]	0.23	-0.76

1 -- In 2006: Impairments tangible assets
In 2005: Depreciation Gebäudetechnik, impairments
2 -- In 2006: Release finance lease, court case costs, result of discontinued business divisions
In 2005: IPO in Singapore, restructuring/realignment M+W Zander
3 -- The number of shares used as basis is adjusted for the number of treasury share amounting to 6,275 shares on annual average.
4 -- Not taking into account the positive effect of dilution.

Annual general meeting.

Over 600 shareholders attended the JENOPTIK AG general meeting in Weimar on June 7, 2006. This represented more than 48 percent of capital with voting rights.
The shareholders approved all proposals of the executive and supervisory boards – including a number of changes to the Jenoptik Articles of Association – with over 99 percent of all votes. Further information on the annual general meeting can be accessed at www.jenoptik.com /Investors/ Annual General Meeting.

Shareholder structure.

No major changes in the shareholder structure transpired over the past fiscal year. As of December 31, 2006, the Free State of Thuringia held 14.8 percent of shares. By late 2005, the state had already declared its intention to sell its shares as part of its 2006/2007 budget. The timing and possible placement of the approximately 7.7 million shares have, however, yet to be determined. Gabriele Wahl-Multerer holds a further 5.83 percent of Jenoptik shares. The JENOPTIK AG free float thus comes to 79.37 percent as of December 31, 2006.

In early 2006, Brandes Investment Partners, L.P. of California announced that it held 5.002 percent in JENOPTIK AG.

As of February 28, 2007, no announcements in accordance with the new German Transparency Directive Implementation Act have been made in the new fiscal year.

Rating of JENOPTIK AG

	Corporate Rating		Bond Rating	
	31.12.06	31.12.05	31.12.06	31.12.05
Standard & Poor's	B+	B	B+	B
Fitch	B	B	B+	B
Moody's	B1	B1	B1	B1

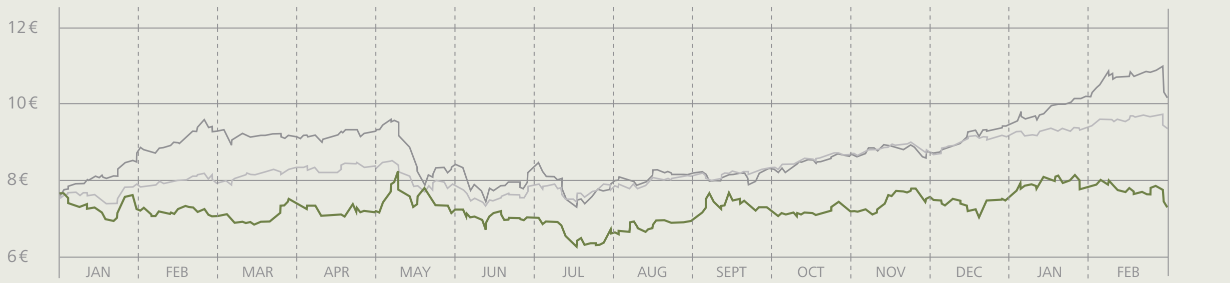
Credit rating agencies

The credit rating agencies Standard & Poor's, Fitch, and Moody's continued to rate Jenoptik and its bond in fiscal year 2006. Standard & Poor's increased its rating from B to B+ (outlook stable) due to the successful sale of the Clean Systems business division and the subsequent improvement of the group's financial profile. Fitch maintained its rating at B, but raised its outlook from "stable" to "positive". This was based on its expectations that Jenoptik will continue to reduce its debt, improve its financial profile, and that the group will continue to grow. Moody's rated Jenoptik in January 2006, without any further changes later in the year. Details on the ratings. -- MANAGEMENT REPORT ON PAGE 91.

Jenoptik: The share

5

Development of the Jenoptik share price (January 2, 2006 – February 28, 2007)



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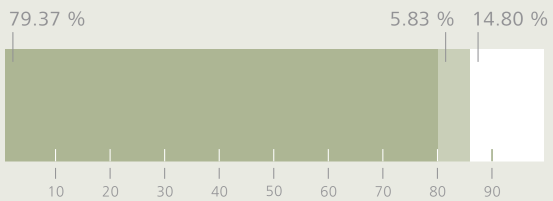
Shareholder structure as of December 31, 2006



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

Included in the TecDAX: since 1st quarter 2003

Also listed in the following indices:
HDAX -- Prime All Share -- Tec All Share
MidCap Market Index -- CDAX

7

Key Jenoptik share figures in euros

	2002	2003	2004	2005	2006
Group earnings per share	0.82	-1.07	0.26	-1.44	0.22
DVFA/SG earnings per share 2	0.17	-0.58	0.30	-0.76	0.23
Diluted DVFA/SG earnings per share 3	–	-0.58	0.31	-0.76	0.23
Highest share price / Lowest share price (Xetra)	23.50/8.90	13.08/7.30	11.90/5.93	9.80/6.77	8.35/6.30
Closing share price (Xetra year-end)	9.22	8.70	7.76	7.60	7.50
Average daily trading volume 1	55,626	104,223	179,754	157,699	127,712
Market capitalization (Xetra year-end)	375.3 million	424.9 million	403.8 million	395.5 million	390.3 million
PER (based on highest share price) / PER (based on lowest share price)	118/44	n. a.	45.77/22.81	n. a.	37.95/28.64
Non-par value bearer shares issued	40.7 million	48.84 million	52.03 million	52.03 million	52.03 million
Bond (closing price, Frankfurt, year-end)	–	107.80	109.90	108.00	106.00
Convertible bond (closing price, Frankfurt, year-end)	–	–	93.00	91.00	93.00

1 -- Source: Deutsche Börse
2 -- The number of shares used as a basis is adjusted for the number of treasury shares amounting to 6,275 on annual average.
3 -- Taking into account the maximum possible number of shares converted (convertible bond) pro rata temporis.

Corporate Governance Report.

JENOPTIK AG structures its policies to adhere to recognized standards for sound and responsible corporate management, and supports the recommendations of the German Corporate Governance Code. The executive and supervisory boards issued their declaration of conformity, in accordance with section 161 of the Stock Corporation Act, in December 2006. This stipulated that, with few exceptions, Jenoptik would implement the recommendations of the code in both its June 2005 and June 2006 versions. The declaration of compliance can be accessed on the JENOPTIK AG homepage at: www.jenoptik.com/Investors/Corporate Governance. In addition to the recommendations of the Corporate Governance Code, Jenoptik has also followed a majority of the suggestions made in the code.

Shareholders and annual general meeting

The shareholders exercise their rights at the Annual General Meeting. Each share guarantees one vote. Over the past fiscal year, requirements for the right to participate in the Annual General Meeting and to exercise voting rights were adapted to the Corporate Integrity and Modernization of the Right to Appeal Act, and thus simplified.

Executive and supervisory boards

The executive and supervisory boards work in close cooperation for the benefit of the company. The executive board provides the supervisory board with regular, comprehensive, and timely reports on all relevant matters concerning the company's future strategic development, planning, and its current situation. One major topic for discussion this past fiscal year was the sale of the Clean Systems Technologies business division and the future focus on the Photonics business division with its three divisions: Laser & Optics, Sensors, and Mechatronics. The supervisory board was involved in all fundamental decisions and served the executive board in an advisory role.

For comprehensive information on the activities of the supervisory board, please consult the supervisory board report. -- P. 15

Both the executive board and the supervisory board saw changes in their membership in 2006. The election of the two new members of the supervisory board, to be selected at the Annual General Meeting, was made on an individual basis. Detailed information on changes in personnel can be viewed in the group management report -- P. 82 and the supervisory board report. -- P. 18

Transparency

Our communications goal is to provide our shareholders and other target groups with all information that is relevant to the capital market in a timely manner. We publish insider information without delay unless the executive board is exempted from this obligation in individual cases. The working group for compliance, which was formed in fiscal year 2005, carries out assessments to identify matters that are subject to ad hoc reporting requirements. This guarantees that potential insider information is treated in accordance with legal regulations. Those whose work puts them in contact with inside information are also included in an insider list.

For the first time, the JENOPTIK AG annual report will be published this year within the recommended 90-day period after the end of the fiscal year. This will serve to provide information in a more timely manner.

Information on directors' dealings as per section 15a of the Securities Trading Act are also published on the Jenoptik website. There were no new reports of members of the executive or supervisory boards acquiring or selling Jenoptik shares in fiscal year 2006.

Accounting and auditing

The consolidated financial statements are created in accordance with the International Financial Reporting Standards (IFRS). The Annual General Meeting again selected the auditing firm KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the auditor for fiscal year 2006. Before recommending the firm, the supervisory board (audit committee) received a declaration of independence from the auditing firm, stating that there were no business, financial, personal or other links between KPMG, its board members and head auditors, and the company being audited and its board members.

Deviations from the recommendations of the code

The JENOPTIK AG executive and supervisory boards support the recommendations of the government commission on the German Corporate Governance Code, as set forth in both the June 2005 and June 2006 versions. The boards adopted their declaration of conformity, in adherence with section 161 of the Stock Corporation Act, in December 2006. The JENOPTIK AG has accordingly followed the recommendations of the German Corporate Governance Code (DCGK) with a few necessary exceptions.

The recommendations of the German Corporate Governance Code (DCGK) in the version of June 12, 2006 are and will be followed with the following exceptions:

1 The reports and documents required by law for the Annual General Meeting will regularly be provided from the time the Annual General Meeting has been duly convened and will be send to the shareholders upon request. The documents will be published on the company's internet site together with the agenda provided that this does not conflict with the legitimate interests of the company, its shareholders or third parties (Point 2.3.1 DCGK).

It should thus remain possible to prevent the general public from obtaining access to certain information in warranted individual cases. Jenoptik could, for example, have a justifiable interest in extending such information to its shareholders but not to its competitors or customers.

2 A deductible for D&O insurance shall be waived (Point 3.8 Paragraph 2 DCGK)

Jenoptik is generally not convinced that the motivation and responsibility of the executive and supervisory boards would be improved through the introduction of a deductible. Such a policy could also lead to difficulties in recruiting members for the supervisory board.

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

It is the view of Jenoptik that the case-by-case treatment of executive board contracts and of the remuneration scheme suffices for the supervisory board to work efficiently.

4 The internet publication of a list of holdings, as recommended in Point 7.1.4. in connection with Point 6.8 DCGK, shall be provided without the inclusion of results for the last fiscal year. Reference shall instead be made to the segment reporting included in the consolidated financial statements.

Jenoptik holds the view that the combination of companies that are not consolidated and fully consolidated subsidiaries with their respective financial figures into one list could indeed lead to misunderstanding.

Since the last declaration of conformity dated December 2005 the recommendations of the German Corporate Governance Code ("DCGK") in the version dated June 2, 2005 ("Code 2005") have been followed with the exceptions stated above as well as the following exceptions:

5 The total amount of the fixed and variable remunerations of the executive board members were published. The figures were not individualized (Point 4.2.4 DCGK).

6 The executive board prepared the consolidated financial statements and group management report for the past fiscal year within the first three month of the fiscal year and published them within the first 120 days of the fiscal year (Point 7.1.2 DCGK).

Remuneration report

Remuneration system of the executive board

The members of the Jenoptik executive board receive payment in two forms – one fixed and the other variable. This is supplemented to a small degree by additional benefits and pension benefits. The variable component of the remuneration scheme corresponds with the personal performance of the executive board member on the basis of a target agreement determined together with the supervisory board, and with the company's success. The variable component is subject to a limit and may not exceed the fixed component. In addition to a company car that can also be used for personal travel, the board members receive no other major benefits.

Further information on the remuneration of the executive and supervisory boards, including the breakdown of remuneration for the individual executive and supervisory board members can be found in the Notes of this annual report. -- P. 152 We view this information as an integral part of the remuneration report and thus of the corporate governance report.

Dear shareholders,

We made considerable progress with the realignment of the Jenoptik Group in fiscal year 2006. In our work, we have focused on accompanying this process in a constructive way.

The members of the supervisory board met six times in fiscal year 2006, including two extraordinary sessions.

The cooperation between the executive board and supervisory board was characterized by an open and trusting atmosphere. The executive board reported, orally and in written form, on all matters relevant to the company regularly, timely, and comprehensively. In addition to the company's overall position and current business development, this included company planning, future strategy, and risk management with information on potential risks. The reports covered the major affiliated companies of the Jenoptik Group, major orders, and larger projects.

In accordance with the law and with the company Articles of Association, the supervisory board fulfilled its tasks in advising the executive board with the administration of the company, and in monitoring the company's management. The supervisory board looked in detail at the company's figures and divergences from the plans and goals that had been set for the company's business. This was explained by the executive board with reference to the relevant written documents. The supervisory board was directly involved in all decisions of fundamental importance for JENOPTIK AG and the Group. As chairman of the supervisory board, I was also in regular contact between meetings with the chairman of the executive board, Alexander von Witzleben, and received information on all important current business events.

Particular topics of discussion.

One major topic for discussion this past fiscal year was the Jenoptik Group's future strategic orientation, in the aftermath of the successful separation of the Clean Systems Technologies business division from the group. The executive board kept us continually informed of progress concerning the contract to sell the shares in M+W Zander. We were assisting closely in the reorganization of Jenoptik into three promising divisions: Laser & Optics, Sensors, and Mechatronics. We discussed possible strategic acquisitions, and approved of the purchase of ETAMIC S.A., a French measurement technology provider.

Other areas of focus for the supervisory board included Jenoptik's case before the German Federal Supreme Court (Bundesgerichtshof), in which the court found in favor of Jenoptik in a case concerning a compensation for a DEWB shareholder, and the gradual sale of DEWB AG shares. Other topics of discussion were: a project of the former Clean Systems Technologies business division in the new technologies area, which had been faced with delays; the sale, and later rescission of the sale, of Jenoptik's 51-percent interest in SINAR AG to Leica Camera AG; and the arbitration proceedings between JENOPTIK MedProjekt GmbH and the Free State of Thuringia.

The supervisory board also decided on the successor to Norbert Thiel, appointing Dr. Michael Mertin as a new member of the executive board responsible for technology and operating business (Chief Operating Officer – COO).

Corporate Governance.

The supervisory board continually followed the development of corporate governance standards, and again released a "corporate governance checklist," adapted to the German Corporate Governance Code in the version of June 12, 2006. At our December 13, 2006 meeting, we on the supervisory board adopted the Jenoptik declaration of conformity for fiscal year 2006, in accordance with section 161 of the Stock Corporation Act. Deviations from these recommendations are explained in the corporate governance section of this report. -- P. 13
The system of remuneration for executive board members is also explained in this section. You can find the breakdown of the total remuneration for each board member in the Notes.
-- NOTES P. 152

Committee activity.

The supervisory board has set up four committees to prepare the decisions of the supervisory board and the topics for discussion in the supervisory board plenary sessions, and in individual cases to make decisions instead of the plenary board. I am the chairman of all committees except for the auditing committee.

The auditing committee convened three times in fiscal year 2006 under the chairmanship of Dr. Klaus Mangold. Its discussions revolved around the audit of the financial statements and consolidated financial statements, the treatment of the detailed interim reports, and the consideration of the regular risk report. The meetings also dealt with the auditor's management letter, the consequences of the aforementioned project in the area of new technologies, a patent dispute with ASYST Technologies, Inc., the treatment of R&D matters at the Jenoptik Group, and the methods used in investment controlling.

One important topic discussed by the personnel committee, which met six times in fiscal year 2006, was the decision on Norbert Thiel's successor. The personnel committee, which is chiefly responsible for the employment contracts of executive board members, prepared the appointment of Dr. Michael Mertin with great care. The committee was also involved with the remuneration system for the executive board and the determination of the bonuses.

The capital market committee met in one session and discussed the development of the Jenoptik share price as well as growth strategies for the Jenoptik Group.

Last year, the mediation committee was again not required to convene in accordance with § 27, para. 3 of the German Co-Determination Law (MitbestG).

Annual and consolidated financial statements.

The German Commercial Code (HGB section 289, para. 4 and section 315 para. 4) requires certain information to be presented in the management report. The executive board has outlined this information and submitted its commentary on the matter. We have examined the executive board's outline and commentary and join the board in its evaluation. A more detailed presentation of this can be found in the management report and the Notes.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, which was selected by the Annual General Meeting, audited the financial statements and consolidated financial statements, including the bookkeeping and early risk detection system, in addition to the 2006 combined management report for JENOPTIK AG and for the Jenoptik Group. The auditors granted their full unqualified approval for the reports.

The audit reports were submitted immediately after their completion, and discussed in detail both within the audit committee and the board as a whole. Representatives of the auditors took part in both meetings, reporting to us in detail on the main points and major results of their audit. They also answered our questions and were available for additional information. Subsequent to its own examination, the supervisory board unanimously approved of the auditors' results and of the financial statements and consolidated financial statements prepared by the executive board. The financial statements of JENOPTIK AG have thus been adopted.

Composition of the executive board and supervisory board.

Norbert Thiel departed from the executive board upon his own request as of 30 September 2006. After nine years in leading managerial positions, he will, as planned, now turn his attention to new tasks outside Jenoptik. The supervisory board appointed Dr. Michael Mertin to be his successor as of October 1, 2006. The supervisory board would like to thank Norbert Thiel for years of collaboration on the expansion and reorganization of the Jenoptik Group.

In the past fiscal year, Birgit Diezel, Dr. Merve Finke von Berg, and Siegfried Joos all left the supervisory board. The Annual General Meeting elected Gabriele Wahl-Multerer to join the supervisory board. Markus Embert and Dieter Schreib were legally appointed to be new employee representatives, following the separation of M+W Zander from the group. We thank the departed members for their dedicated work.

The gratifying development of the Jenoptik Group this past fiscal year would have been inconceivable without the great dedication of all those involved. We would like to take the opportunity to express our heartfelt appreciation to the executive board and each individual who contributed to this success. We also extend our thanks to the shareholders for the trust they put in us and to the employee representatives for their constructive efforts.

JENA, MARCH 2007
ON BEHALF OF THE SUPERVISORY BOARD

PROF. DR. H.C. LOTHAR SPÄTH

02

Light creates value.

Innovations require a pioneering spirit: Using light as an industrial tool opens up a great many opportunities. A mixture of competence and research capacity is needed in order to recognize, develop, and make use of such opportunities. This is the basis of the pioneering spirit that Jenoptik embodies, and which is part of its corporate tradition.

We make unique products and solutions possible. In international competition or in everyday life, our customers – and their customers – are thus afforded advantages, security, knowledge, quality, style, and scope for development.

These pages provide a glimpse into Jenoptik's services – whether in the fields of medical technology, digital image processing, industrial measurement technology, traffic safety technology, material processing, the aerospace industry, or security and military technology.

Growing core competencies.

– Serving demanding markets – Jenoptik is expanding, networking, and strengthening its principal areas of competence.
– Thus custom-made investment goods that closely reflect the latest in research are being created.
– From laser technology to micro-optics trough to highly sensitive sensors Jenoptik develops products which make the company one of the heavy-weights in its markets worldwide.

The Jenoptik Group is a network of highly specialized companies, a network which has become more tightly knit from year to year. Each Jenoptik company's particular fields of competence combine to create numerous products, often in connection with the concept of "using light as a tool." Jenoptik normally provides its customers with custom-made investment goods that closely reflect the latest in research. Jenoptik has made it a systematic practice to help these seeds of competence to grow: Customer requirements, their own developmental initiatives, and companies recently acquired by the Group come together to provide the basis for new products, further areas of expertise, and for growth. Jenoptik's customers can rely on a company that provides solutions to extremely intricate tasks; one that can manufacture complex, technologically intensive products, even in large quantities; one that translates existing knowledge into new developments; and one which provides them with access to state-of-the-art technology.

In the field of laser technology, for example, laser material processing, medical technology, and laser projection have developed into areas of particular specialization. Jenoptik, for instance, specializes in laser systems that can be used to process non-metals. And Jenoptik laser material processing has now forayed into flat-panel production as well: Laser-based processes make it possible for new production technologies to be used in liquid crystal displays (LCD) and in displays based on organic light-emitting diodes (OLEDs). OLEDs are currently seen as an innovative candidate to vie for the display market of tomorrow.

TFT displays – "suitable for chip technology".

The layer that allows words and images to appear on LCD screens is typically 50 nanometers thin, consists of silicon, and is deposited onto a glass substrate only 0.6 millimeters thick. The silicon layer is at first amorphous and thus a poor electrical conductor. This is able to change only when the silicon is melted and than recrystallized: Under the necessary conditions, this leads to a polycrystalline silicon film with a level of conductivity between 100 and 500 times higher than that of an amorphous layer. The layer is used to create microscopic

There are fewer than ten manufacturers in the entire world, known as premium suppliers, that are able to attain the same quality in optical production that we can.

DR. HANS LAUTH ¦ DIRECTOR OF OPTICS, JENOPTIK LASER, OPTIK, SYSTEME GMBH

thin-film transistors (TFT) that act as switches that allow each display pixel to be turned on or off. These high-resolution displays are unsurpassed especially for use in the small displays of mobile devices, whether cell phones or GPS systems.

Jenoptik's laser technology comes in to play when amorphous silicon is transformed into polycrystalline silicon using a green thin-disk laser. The laser beam only heats up the thin silicon layer; the glass substrate is transparent in regard to the laser's wavelength, and is thus not affected.

This contrasts strongly with the conventional furnace method, in which the glass substrate also increases in temperature. The process is complicated as it requires additional metal layers, while the display substrates need to be kept free of contamination.
Excimer laser annealing (ELA) is another laser process currently in use. In this process, the substrate is treated with a UV excimer laser beam, which operates in a clean, contactless manner suitable to clean room environments. This system requires little energy to melt the silicon due to its short pulses of 50 to 300 nanoseconds in length. The glass substrates remain cold and are not affected by the process. Green thin-disk lasers, however, allow for an entirely new dimension in quality: They make it possible for crystal structures to be lengthened considerably in a single direction, leading to a strong increase in electron mobility to between 200 and 500 square centimeters per volt-second. The electronic qualities of the silicon layer nearly reach those of single-crystalline silicon wafers as they are used in the semiconductor industry. A high frequency of up to 50 kilohertz makes this possible.

The laser system proceeds on a line-by-line basis in this process, which has already been developed for industrial use. Its intensive and very homogenous laser line is 5 microns wide and between 8 and 100 millimeters high. Its high frequency allows for short exposure cycles and a high production throughput rate. This new type of layer has, moreover, led to new ideas. Since the silicon layer is suitable for chip technology, the drive electronics can be placed on the edge of the displays, using the very same TFT technology. Another feasible option is to produce digital memory and processor technology upon the glass substrate. This will make the products lighter, thinner, and more energy-efficient.

Several different Jenoptik companies have been involved in this laser technology for the displays of the future. INNOVAVENT GmbH was responsible for the product's concept and the development of the corresponding optical

system, as well as the beam quality of the subsystems. For this purpose the company cooperates with system integrators and provides technical service for the display manufacturers in Asia.

JENOPTIK Laser, Optik, Systeme GmbH produces both the objectives optimized for this application, and the unique laser source, which currently provides 100 watts, but which can be expanded to 200 watts. JENOPTIK Laserdiode GmbH provides the diode laser modules that pump the solid-state lasers. This long value-added chain culminates in a product already delivered to the developmental units of major display manufacturers in 2006. These companies are currently working on the development and verification of the processes. This is expected to provide the basis for the next generation of production.

The Jenoptik solution has been met with great interest on the part of LCD manufacturers. The technology is indeed suited for the production of OLED displays as well, which are expected to support future display technology. Once the industry is able to stabilize the organic substances of the OLEDs, thus lengthening the displays' lifespans, the Jenoptik laser technology will be set to serve as a standard for the required TFT glass substrates.

A new concept: Breakthrough in EUV performance.
Jenoptik technology is poised to move into the semiconductor industry as well. XTREME technologies GmbH, a joint venture of Jenoptik and the Japan-based Ushio Group, develops light sources within the extreme ultraviolet spectral region (EUV). These light sources will make it possible to produce chip structures of less than 32 nanometers in size – or conductor diameters of a mere 100 atomic lengths. To make this possible, Xtreme puts extreme ultraviolet light to use, a spectral range beyond visible light and towards the soft x-ray segment. Another hurdle was taken last year when EUV gas-discharge produced plasmas sources reached a usable output of 10 watts, thus coming another step closer to an industrial use for EUV technology.

In addition to the plasma generator that emits the EUV rays, the light source equipment includes a high-precision collector mirror, an optical system that forms the EUV rays as needed, guiding them into the lithographic system. The system was developed in cooperation with Carl Zeiss and the Italian-based Media Lario.

In 2006, Xtreme technologies also reaped the fruit of its unusually flexible research: From the very beginning, the company has pursued two avenues simultaneously – laser

Our know-how is in the tools. We polish the injection molds and not the lenses. And this quality shapes our products in the end, which are produced in high quantities using automation – for medical technology, the automotive industry, photo technology and image processing, and illumination and measurement technology.

DIETER KLEY ¦ DIRECTOR OF TOOLING, JENOPTIK POLYMER SYSTEMS GMBH

produced plasmas, and gas-discharge produced plasmas. Both have now been combined into a laser-based gas-discharge EUV source. In this process, a weak laser beam vaporizes a drop of tin and then continues to heat it until it reaches the plasma stage. A gas discharge between two rotating electrodes then heats the plasma to an extreme point, thus strengthening it. This leads to a particularly efficient laser source.

Xtreme researchers are certain that pursuing this principle further will lead to much greater capacities. This would fulfill the minimum power needed for mass semiconductor production.

Several Xtreme sources with an output of up to 3 watts are now being used by semiconductor manufacturers and consortiums to develop new chip production processes. As things now stand, EUV technology will go into the preproduction phase of semiconductor manufacturers by 2010. Xtreme technologies is cooperating with a number of companies in the semiconductor and semiconductor supply industries of Europe, Japan and the United States, with the goal of readying EUV technology for serial production as soon as possible. The company is supported by the German Federal Ministry of Education and Research (BMBF) and the European Union.

Apart from Xtreme, most Jenoptik lasers are diode-pumped solid-state lasers, and specifically thin-disk lasers, which Jenoptik began developing at an early date. In both cases, the lasers are in fact based on two laser sources. The light from the diode lasers excites the laser crystal of the solid-state lasers, which in turn emits laser light. The companies of the Jenoptik diode laser group work on the high-power diode lasers that make this possible. Over the past few years, they have made a splash on the market with particularly reliable and durable high-power diode lasers. Jenoptik Laserdiode is now preparing its product for use in space, in a cooperative project with Jena-Optronik GmbH.

Diode lasers in outer space.

The scientific observation of the earth via satellite would be impossible without reliable high-power lasers. Scientifically relevant information on subjects such as the greenhouse effect, global warming, and the spread of air pollution, can be generated through satellite data. These satellites are equipped with LIDAR laser systems for their tasks. Similar to RADAR, LIDAR carries out measurements, but using light waves.

In LIDAR, a solid-state laser beam is pointed at the target surface. The time that it takes for the light to reflect and return to the source is used by microcomputers to determine the distance. The specific light absorption of different molecules at particular wavelengths can help determine the types of particles under observation, such as aerosols, or to ascertain the local prevalence of gases such as ozone, methane, and carbon dioxide. LIDAR can, however, also be installed in satellites to create contoured images of the earth or other planets.

The solid-state laser that supports LIDAR requires a diode-laser pump source to excite its laser medium. The diode lasers currently used in satellites of ESA, the European Space Agency, however, reflects technical standards of the 1980s, and can be made to run more efficiently, reliably, and productively using today's technological standards.

Jenoptik Laserdiode is now expanding the use of its product for space applications. While industrial lasers can be written off after a certain period of time, lasers in space missions may need to remain in storage for years, to then be reactivated on short notice for subsequent long-term operations in space. The product must also be able to stand up to temperature fluctuations, rocket acceleration, and weightlessness.

Jena-Optronik, which has overall responsibility for the product, validates modules once completed. The modules are subjected to vibration and vacuum tests, and to general simulations of the impact of rocket launches and of space conditions. The product's developmental phase is expected to run through 2009, and the scientific satellites are planned to go into operation beginning in 2013. Both Jenoptik companies will be establishing new standards with this project, and will be able to gain access to new markets.

Jena-Optronik, a company of Jenoptik's Sensors division, already supplies numerous space missions with sensors. This includes attitude control sensors for positioning satellites with reference to the sun and stars, as well as rendezvous and docking sensors for a number of different space missions, such as flights to the International Space Station (ISS). The company's product range continues to comprise instruments such as camera scanners for earth observation satellites as well.

Digital imaging constitutes another Jenoptik core competence, which the company can combine with other areas of expertise in accordance with each customer's needs. Jenoptik's digital imaging range, including an 11-million pixel camera, has meant a competitive advantage for ROBOT Visual Systems GmbH. This advantage is already paying off on the market today.

We have a command of the entire high-power diode laser process chain – starting with wafer structuring. This allows us to harmonize the technologies used for semiconductors, assembly, and further optical processing. That in turn enables us to create better products than the competition, which often does not have a full grasp of all three steps.

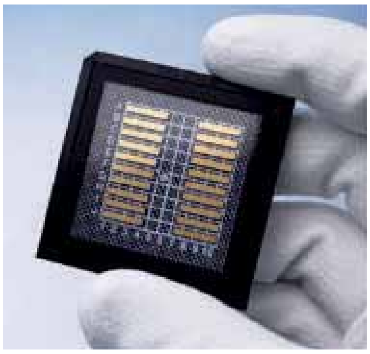
DR. DETLEV WOLFF ¦ DIRECTOR OF MARKETING, JENOPTIK LASERDIODE GMBH

Minutes instead of days: Aspherical lenses at high speed.
Industrial measurement technology, comprehensively provided by Hommel-Etamic, now no longer only works using optics, but also works for optical products such as aspherical lenses, a specialty in optics production at Jenoptik. Aspherical lenses are all-round optical talents. The physical limitations of spherical lenses with curved surfaces lead to imaging errors. Several of these lenses are required to compensate for this weakness. Aspherical lenses, on the other hand, are shaped in a manner that avoids such difficulties. Their unique, less spherical shape, which shifts the angles of refraction, corrects for these errors.

A single aspherical lens can replace several spherical lenses. This is put into action in Jenoptik's high-quality optics and high-performance optics. These elements are used in telescopes, space technology, military applications, laser material processing, optical precision measurement technology, and for lithography for semiconductor production.
High-precision aspherical lenses require a considerable investment of time and technical expertise, as they can only diverge from their planned design by a fraction of a wavelength. The process has yet to be automated and depends on the experience of those involved. Several days are needed for a new lens to be produced in a limited amount. This production costs approximately ten times as much as spherical lens production.

The German Education and Research Ministry's Asphero5 project is quite ambitious in its scope. The "5" in the project stands for its intention to reduce the production time of aspherical lenses to mere minutes, or at least to a duration considerably shorter than is currently the case – all without defective products. In this project, a number of companies have dedicated themselves to the industrial production of high-quality aspherical lenses. This includes Hommel-Etamic and Jenoptik Laser, Optik, Systeme, both Jenoptik subsidiaries, while the coordination is provided by Schneider GmbH & Co. KG, a German optical machinery manufacturer. Carl Zeiss and the Institute of Measurement and Control Engineering of the University of Hanover are also involved in the project.

A polishing and treatment process for aspherical lenses with integrated measurement technology is currently in development. This will reduce set-up times and technological idle periods significantly. The design of the future machines is expected to be completed by mid-2007. Hommel-Etamic specializes in high-precision measurement processes; its Wavecontour® process employs a precision sphere that is driven across the lens surface at a constant



contact pressure. This helps create a profile section in nanometer resolution. The advantage of this contact measurement method over optical methods lies in the fact that the lens surface is not yet reflective during this phase, and thus cannot reflect a measurement beam. Moreover, remnants of the polishing emulsion can still cover the lenses, distorting results. Contact measurement therefore generally promises more precise results.

The task of Jenoptik Laser, Optik, Systeme in the project is to examine the machine in full detail, testing different polishing abrasives or varying the polishing pressure – all with the aim of reducing the need for subsequent treatment. The first complete machine can be expected to be used in production within two to three years. A considerable competitive advantage in the production of aspherical lenses is to be expected as this is the first process of its kind.

Jenoptik, a world leader in optics manufacturing, is thus expanding its production line to include another area of expertise. Jenoptik high-performance optics are used in sectors such as the semiconductor industry. In order to produce semiconductor structures at the nanometer level, utmost precision of the optical system s required to shape and control the laser beam in lithography systems.

For the optics systems, Jenoptik produces interference filters that provide a strictly monochromatic beam, as well as prisms that allow for highly accurate parallel laser beams. Infrared optics as well as complex optical objectives for measurement technology round out Jenoptik's portfolio. The field of microoptics is another relatively recent mainstay at Jenoptik Laser, Optik, Systeme: The diffractive optical elements are based on the principle of diffraction grating, and can form and control laser beams in any way desired.

Jenoptik is now fully specialized in supplying high-end customers – supported by a wide array of materials, coating choices, and the expertise of its employees. Jenoptik – in all its divisions – caters to the most sophisticated of markets, guaranteeing accuracy and reliability for an expanding customer base.

Safety is the top priority when it comes to airplanes. Our aviation technology, used in aircraft such as the Airbus, is always equipped with a strong safety net, and is designed for an extremely long lifespan.

DR. KLAUS STÖLTING ¦ DIRECTOR OF MARKETING, ESW GMBH

03

JENOPTIK AG Group Management Report for fiscal year 2006

If you compare this management report with the one in 1998, you will find that it has grown five-fold. This is, in part, the result of numerous new legal regulations affecting reporting. But we would also like to provide as much information as possible in as much detail as possible. Since last year, for example, a presentation of the company's intangible assets and a more comprehensive segment reporting have been added. We have also used more graphs and tables to illustrate the information, and have integrated more sections into the management report that were not there before. These sections are therefore now subject to examination by our auditor.

FRANK EINHELLINGER – DIRECTOR OF FINANCE/CONTROLLING (FROM JULY 1, 2007 CHIEF FINANCIAL OFFICER), JENOPTIK AG

1 Business and framework conditions

1.1 Group structure and business activity

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

Business areas and organizational structure

The Jenoptik Group is divided into the three divisions Laser & Optics, Sensors and Mechatronics. Since the sale of Jenoptik's shares in M+W ZANDER Holding AG and consequently the entire Clean Systems business division to the venture capital company Springwater Capital in May 2006, the sale of the majority in M+W Zander Gebäudetechnik (today caverion) to the company's management as well as the reduction of the share in DEWB AG to only 11.13 percent, the operating business of the Jenoptik Group essentially comprises the activities of the former Photonics business division.

With the concentration of the operating business the continuing business divisions had already been reorganized into the three above-mentioned divisions at the end of 2005, a structure which is also reflected in the segment reporting of the Jenoptik Group. Jenoptik Holding and real estate have been combined within the non-operational "Other".

As a holding company, JENOPTIK AG directly owns 100 percent of the shares in seven large companies. Each of these management companies (see also Management & Control) is part of one of the Group's divisions according to their technological expertise and product portfolio. The other consolidated operating companies are assigned to them. They also hold other subsidiaries and investments. 40

Products, services and business processes

The companies in the Jenoptik Group develop, manufacture and distribute components, systems and facilities along the photonic chain – from generating (lasers), to shaping (optics), through to measuring (sensors) light. Technologically complex components and systems used in drive and stabilization technology for the defense and civil sectors round off the profile (mechatronics). Our products and services are targeted at the following primary key markets: the semiconductor industry, the medical technology and aerospace industries, traffic safety systems, the market for material processing and industrial measurement technology, digital image processing as well as security and defense technology. 13

We are primarily a supplier of capital goods and as such a partner for industrial companies. In the area of traffic safety systems and defense technology we are also a major supplier to the public sector but do not focus on consumer markets. We supply many of our systems and facilities to customers who themselves operate in the technology sector. Research and development play a key role within our business processes. We custom manufacture for many of our customers and partners, this includes small production runs.

Our product portfolio extends from components (in the optics area in particular) to modules and subsystems (optics and laser technology as well as mechatronics) through to complex systems and facilities (in the areas of sensors and mechatronics). We offer comprehensive total solutions, consisting of system and facility integration, corresponding network and project management, data processing and services primarily for clients in the traffic safety systems and aerospace industries as well as in industrial measurement technology areas.

Laser & Optics division: In the laser field Jenoptik concentrates primarily on new active principles, for example thin-disk and high-power diode lasers. The main areas of use for the components, systems and facilities are in material processing and medical technology. In the optics area we develop, manufacture and distribute high-quality optical components and functional coatings made both from glass and plastic, as well as opto-mechanical assemblies.

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

The Mechatronics division encompasses the range of services covering complex technological components and systems for civil and military applications. The main areas of focus are the development and production of drive and stabilization systems. This division develops and manufactures complex systems for the aviation industry such as for example lifts, rescue hoists as well as de-icing and control systems. 2

Main business locations

The Jenoptik Group has more than 30 locations worldwide (excluding service support centers). Jenoptik's registered offices and central production facilities are in Germany. In addition to its headquarters in the city of Jena, in Germany Jenoptik has major production sites in Monheim near Düsseldorf, Wedel near Hamburg, in Villingen-Schwenningen, in the city of Triptis in the Free State of Thuringia, in the Bavarian city of Altenstadt and in Essen. Outside Germany Jenoptik has production locations in France, Switzerland and the USA. Over and above the production locations the group companies maintain smaller sites worldwide in those countries that occupy a key position for their relevant markets. There is also a global network of dealers and partners. 9

Key sales markets and competitive positions

Light as a tool has a diverse range of potential uses. Jenoptik is therefore not focused purely on one or two key sectors. The markets are instead derived from the potential uses of light in processes or products. Jenoptik is developing new products and technologies together with its customers and as such continually opening up new sales markets. Jenoptik has an extensive presence in those sectors in which the use of light is already replacing conventional technologies. 13

The key sales regions are Europe, North America and Asia. It is not possible to make a general statement regarding the competitive position for the Group as a whole – either in the key markets or in the main sales regions – since Jenoptik does not compete as an overall group but instead is in competition with the respective products and technologies in various usually independent niche markets. Because the products are highly specialized, any statements on global market shares or competitive positions in the three key sales regions are equally of little relevance. In some cases there is also competition between technologies and processes. In each of these markets the Jenoptik group companies are in direct competition with just a few companies worldwide. As a general rule, in the relevant markets the group companies have around 4 to 6 competitors, with the respective Jenoptik company today in most cases being one of the top three.

Economic and legal influencing factors

In general, as a result of having quite a broad presence we are well able in most case to compensate for those cyclical fluctuations which impact on individual sectors. On the economic side we are dependent upon the general climate for capital goods. We do not operate in consumer goods

Jenoptik: The locations

9 Locations of JENOPTIK AG and its shareholdings

markets which are subject to strong seasonal fluctuations. Our products and services are primarily geared towards industry and, in individual branches of business, the public sector. There are no significant legal factors that influence our direct operating business, apart from export conditions relating to the export of defense technology, an area in which Jenoptik is in any event only involved to a minimal extent. Individual products in the defense technology business which Jenoptik supplies to the public sector are also subject to legal influencing factors, for example local content regulations or price clauses.

Management and control

The Jenoptik Group has flat hierarchical structures with a high degree of personal responsibility. The executive board of JENOPTIK AG consists of two members.
Alexander von Witzleben, Chairman of the Executive Board of JENOPTIK AG, is responsible for the areas of finance, taxes, controlling, group accounting and real estate, investments, data processing, risk management, investor and public relations, corporate governance as well as personnel, as HR Director. Dr. Michael Mertin has been a member of the executive board of JENOPTIK AG since October 1, 2006. He essentially took over the duties of Norbert Thiel, who had been a member of the Jenoptik executive board since 2002. As Chief Operating Officer – COO – Dr. Michael Mertin is in charge of the operational business and responsible for corporate development, research and development, auditing, environmental, compliance and quality management, data protection as well as the central marketing of the Jenoptik Group.

The supervisory board of JENOPTIK AG currently comprises 16 members, eight of whom are employee representatives. Prof. Dr. h.c. Lothar Späth has been Chairman of the supervisory board since June 2003. As a result of the

10

Employees at main locations in Germany
(consolidated companies)

	Employees 2006	Employees 2005
Total	2,767	2,674
Jena (Thuringia)	1,193	1,093
Wedel near Hamburg	592	599
Triptis (Thuringia)	201	233
Monheim (NRW)	206	196
Villingen-Schwenningen (BW)	207	213
Altenstadt	126	123
Essen	97	98
Other (Göttingen, Giessen, Eisenach, München, Ratingen, Mülhausen, Hildesheim, other)	145	119

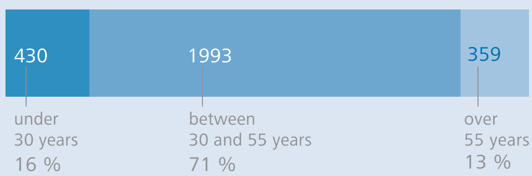
11

Employees at main locations abroad
(consolidated companies)

	Employees 2006	Employees 2005
Total	425	161
USA	177	92
France	127	0
Switzerland	103	46
Other (Austria, Spain)	18	23

12

Demographic structure of employees



amendment to the articles of association passed by the 2006 Annual General Meeting, with effect from the new election period starting in 2007 the supervisory board will comprise 12 members.

-- DETAILED INFORMATION: NOTES, POINT SUPERVISORY BOARD.

Control and profit transfer agreements exist between JENOPTIK AG and most of the key group companies. The holding company provides support for the companies in particular by coordinating and expanding technological synergies, supplying and monitoring financial resources and providing group-wide services and infrastructures. The management of the seven major group companies is subject to the dual-control principle, generally comprising one technical and one commercial managing director. This enables us to create a balance of interests.

Basic features of the remuneration system

The employees of JENOPTIK AG as well as of the consolidated companies JENOPTIK Laser, Optik, Systeme GmbH, JENOPTIK Automatisierungstechnik GmbH, JENOPTIK Instruments GmbH and JENOPTIK Laserdiode GmbH are remunerated in accordance with a group collective wage agreement. This came into force with effect from January 1, 2005 and is valid up to December 2007. All elements of the remuneration were increased in three stages – following a 1.6 percent rise as from January 1, 2005, gross salaries increased by 2 percent at the beginning of the years 2006 and 2007 respectively. The target agreements that previously applied were replaced by a collective wage agreement-based, profit-sharing scheme in the form of one-off payments depending upon the profits earned. In addition, the flexibility of the working time, based on the 38 hour week was further enhanced. Up to 15 percent of the profits earned by the respective group company which remunerates in accordance with the Jenoptik collective wage agreement can be distributed for the profit-related, one-off payments. For the 2005 fiscal year a total of 742 group employees participated in the profit-sharing scheme. The payment in 2006 totaled 1.5 million euros. There is also the option of special rewards for individual performances. The decision in this respect is taken by the manager within the framework of an annual employee review assessment. Employees of the Jenoptik Group with contracts of employment not covered by the collective wage agreement will normally be paid a fixed

CONTINUE ON P. 48

13 Sales by key markets

	2006		2005	
	in million euros	in %	in million euros	in %
Security and defense technology	141.3	29.6	116.7	29.1
Material processing	49.4	10.4	46.4	11.6
Traffic safety technology	47.1	9.9	41.5	10.3
Measurement technology	75.9	15.9	58.9	14.7
Semiconductor industry	43.5	9.1	29.6	7.4
Medical technology	47.8	10.0	45.6	11.4
Aerospace industry	33.7	7.1	37.0	9.2
Digital image processing	38.4	8.0	25.6	6.4
Total	477.1	100.0	401.3	100.0

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

In accordance with the reporting requirements pursuant to § 289 section 4 HGB and § 315 section 4 HGB respectively we provide the following summary:

Provision	Topic	Information or reference
§ 289 (4) 1	Composition of the subscribed capital	The subscribed capital is in the sum of 135,290,000 euros and is divided into 52,034,651 non-par value bearer shares. Further details can be found in the Group Notes under Point 25.
§ 289 (4) 2	Restrictions which affect voting rights or share transfers	There are no restrictions affecting voting rights or the transfer of shares.
§ 289 (4) 3	Direct or indirect investments in the capital	The Free State of Thuringia holds 14.8 percent of the shares in JENOPTIK AG. Further details on the JENOPTIK AG shareholder structure can be found in the Group Notes under Point 25.
§ 289 (4) 4	Holders of shares with special rights	JENOPTIK AG has no shares with special rights.
§ 289 (4) 5	Method for controlling voting rights in the case of employee participation.	There is no employee participation and consequently no control on voting rights.
§ 289 (4) 6	Statutory regulations and provisions in the Articles on the appointment and dismissal of members of the executive board and on amendments to the Articles	The appointment and dismissal of members of the executive board and amendments to the Articles is/are carried out exclusively in accordance with the provisions of the Stock Corporation Act. There are no additional regulations contained in the Articles of JENOPTIK AG.
§ 289 (4) 7	Powers of the executive board to issue and buy back shares	In accordance with the resolutions passed by the 2006 Annual General Meeting the executive board is authorized, up to November 30, 2007, to purchase own non-par value shares, in whole or in part, once or several times, in the theoretic maximum sum of ten percent of the nominal capital for purposes other than for trading in own shares at specific terms. The own shares purchased, together with own shares which the company has already purchased and still owns, must not account for more than ten percent of the nominal capital. The terms are described in the resolutions passed by the 2006 Annual General Meeting, which are publicly available.
§ 289 (4) 8	Main agreements which are subject to the change of control condition as the result of a takeover bid	So-called change-of-control clauses exist for the fixed-interest bond and the convertible bond as well as for two loan agreements. Detailed information of these can be found in the Management Report on page 72.
§ 289 (4) 9	Compensation agreements with the executive board and employees in the event of a takeover bid	Agreements which are covered by the conditions of a change of control and which meet the criterion of materiality exist with one member of the executive board, the details of which are set out in the Group Notes under the point executive board.

salary with an additional bonus granted to reflect their performance over the year. This will be assessed by the respective manager. The profit-sharing scheme does not apply to these employees.

The results of the wage and salary negotiations held in March 2006 apply to those employees covered by the industry-wide wage agreement of the metals and electronics industry. In total some 80 percent of all the 2,767 of the Jenoptik personnel employed in Germany work in companies covered by the collective wage agreement. There are currently no employee option programs. The two option programs which were created in 2000 and 2001 expired in 2005. The options could not be exercised as the Jenoptik share price was significantly below the exercise levels required.

Since 2001 Jenoptik has been offering an employee-funded retirement provision model which is based on a number of pillars: the provident fund, the pension scheme of the metals industry as well as private pension agreements with Allianz. Direct pension guarantees are no longer given except for members of the JENOPTIK AG executive board. Provisions for existing pension liabilities that were taken on with the acquisition of ESW GmbH total approx. 27 million euros. These are combined within the framework of a Contractual Trust Arrangement (CTA) and secured mainly by way of real estate and securities and therefore independently of Jenoptik's operating business.

The contracts for the managing directors of the group companies are negotiated individually with the executive board within a standardized framework. In addition to a fixed salary the variable portion of a managing director's salary is determined by the annual sales, the results from operating activities and the net result achieved by the group subsidiary. Detailed information on the remuneration system for the executive board and the supervisory board are contained in the Notes. -- NOTES, POINT 39

1.2 Corporate management, targets and strategy

As a focused technology group our aim is to occupy a leading position in our defined markets as well as to expand our business in those markets in which we are one of the leading providers.

Strategic guidelines

Since it is our technological expertise that determines our markets, we pursue our operational business and its further development in a way that clearly reflects our core areas of expertise and not on an opportunity-driven basis. We concentrate on industry-related products and our focus does not include research and consumer markets. As a provider of primarily technology-intensive investment goods we focus our efforts on close ties with customers along the entire value-added chain. Where possible, we include our customers within the research and development process. In this context we seek long-term cooperation arrangements with suppliers, partners and customers so that the needs of the market can be incorporated in the best possible way into all the technologies, components and systems that we develop.

In expanding our operational business we ensure that we are able to support the development of new technologies as well as new sales regions in parallel with our day-to-day business. We are continually searching for potential acquisitions, normally small to medium-sized enterprises in which we acquire 100 percent of the shares if possible. The focus in this respect is on supplementing our areas of technological expertise, our value-added chains as well as our presence in the strategically important markets of Europe, Asia and North America. We see Jenoptik as a "company with a civic duty". At our headquarters in Jena as well as all our other locations we are consciously aware of our responsibility which is derived from our entrepreneurial activity. We lend support – within the scope of our capabilities – to science, art and culture as well as to social projects. In this context the focus of our commitment is placed frequently on children and young people.

Actual and the forecast business development

Within the course of the realignment in 2005/2006 we set ourselves clear objectives that we described in detail in the 2005 Management Report. We have made good progress in all our objectives, some of which we have succeeded in achieving more quickly than we had anticipated a year ago. The short-term objectives that we set ourselves for the 2006 fiscal year have been met – in some cases we exceeded our forecasts. Since it was already foreseeable in the 3rd quarter 2006 that sales development was progressing better than had been forecast in spring 2006 thanks to the very good business situation and initial consolidations, the sales targets for 2006 were increased in the autumn. 14

Our long-term objectives

We want to increase sales up to 1 billion euros over the long term. In order to achieve this we will strive for strong organic growth averaging 10 percent per annum. This figure includes smaller acquisitions which expand our technology portfolio or our international market presence. Larger acquisitions can provide an additional boost although these cannot be planned.

Our objective is to further reduce net debt. We will achieve this if we are able to convert the convertible bond issued in 2004 into shareholders' equity in 2009. We also want to further reduce existing liabilities arising from finance lease for assets not required for operating purposes.

We will strive to achieve a shareholders' equity ratio of around 50 percent over the long term. This objective will essentially depend on the extent to which we succeed in further reducing debt and on the scope of the increase in the balance sheet total in conjunction with our growth.

The number of employees at Jenoptik is expected to continue growing. In conjunction with the targeted growth in sales the intention is to increase the number of employees but at a disproportionately lower rate to the rise in sales due to efficiency effects.

We are giving the Group an even stronger international focus. It is impossible to quantify this objective. We already have a presence in the important key markets and continue to see enormous potential particularly in the USA and the high-tech regions of Asia.

14 Actual and forecast business development in million euros

Indicator	As at year end 2006	As at year end 2005	Outlook in Annual Report 2005	Explanations in Notes
Sales continuing business divisions	485.1	410.1	1. 420–450 / 2. > 450	Page 55
Sales Laser & Optics	199.2	147.6	1. 160–170 / 2. 185–195	Page 55
Sales Sensors	153.2	136.1	1. 140–150 / 2. 147–157	Page 55
Sales Mechatronics	126.9	117.2	120–130	Page 55
EBIT before holding costs	44.2	39.1	38–44	from page 55
Net debt	-203.0	-375.5	clear reduction	Page 66
Shareholders' equity ratio	34.3 %	20.8 %	clear increase	Page 71
Employees	3,192	2,835	plus 90–100 (without acquisitions)	Page 60
R+D expenses	33.8	27.4	about 30	Page 58
Capital expenditure (intang. and tang. assets)	39.8	33.6	35-45	Page 67

We will continue to expand our market and technology presence in individual market segments. To this end we are continuing to invest heavily in research and development as well as in opening up markets on the product and customer side. We will endeavor to provide our technology know-how quickly and in an uncomplicated way via various platforms for group-wide cooperation.

Main strategic performance factors

In order to achieve our objectives we have taken a series of strategic measures, in particular for key performance factors such as our product and innovation pipeline, our employees and management as well as for the Group's strategic financing.

In future the focus of the research and development will be on our customers and their needs. In order to assess long-term technology trends Jenoptik can call on a scientific advisory board, a committee of top scientists from the topic areas of key importance to us. -- P. 160

In addition to new technologies which are replacing conventional processes, Jenoptik is continually improving existing products and technologies as well as the quality, supplier and supply processes. We are working, e.g., on initiating industrial applications for the latest laser technologies. In addition to the user-friendly structure of the high-quality laser the emphasis of our developments is on new areas of applications. In the area of optics the properties - of plastic optics in particular – can be exponentially enhanced through coatings. Another focus of the development is on client-specific micro-optics for beam shaping, homogenization, filtering and measurement technology. We intensely continue to develop a beam source for EUV light which is intended to provide for the manufacture of future chip generations. In the Sensors division we focus, among others, on the development of new potential applications for laser sensors, e.g. for traffic safety systems and the aerospace industry.

Jenoptik chooses various forms for the organization of the R+D activities within the Group – depending upon the timeframe as well as the type and importance of the subject of the research. Where possible, major and long-term development projects are separated from the current operating business in order to simplify the monitoring of progress and costs. With long-term topics we also work in conjunction with partners, such as for example in the development of the EUV beam source as part of a joint venture in which Jenoptik holds 50 percent of the share. For smaller to medium-sized research projects we create interdisciplinary teams which can also encompass a number of areas or divisions.

Where possible we include customers at an early stage, particularly when the task involves improving existing products and processes. In this respect we aim for a long-term collaboration arrangement which is also placed on a contractual basis where possible. We also work in close cooperation with the scientific world. Our key partners include the Institute for Applied Physics at the Friedrich-Schiller University of Jena, as well as the Fraunhofer Institute for Laser Technology and the University of Applied Sciences in Aachen and the Technical University of Ilmenau.

In our strategic activities on the personnel side our aim is to be a very attractive employer. We have identified the changing demographic structures and the waning enthusiasm amongst young people for science subjects as one of the central challenges of the future. In this context, Jenoptik puts its faith not only in financial incentive systems but also in particular in creating a pleasant working environment – both within and outside the company. This includes a work/life balance, providing support for children and young people as well as non-financial elements of the remuneration.

The key strategic financing measures include the repayment of the fixed-interest bond which is planned for autumn 2007. This is intended to essentially be realized using the proceeds from the sale of our shares in M+W ZANDER Holding AG. We plan to finance smaller acquisitions involving purchase prices in the single figure million euro range out of current cash flows. A consistent system of working capital management was introduced in autumn 2006. Resolutions passed at the 2005 Annual General Meeting provide Jenoptik with long-term financing instruments. These include, amongst others, the authority to create new authorized capital in the sum of up to 35 million euros, representing the issue of approx. 13.4 million non-par value shares as well as to issue bonds with warrants or convertible bonds in the sum of up to 150 million euros.

Control system and control indicators

Jenoptik assesses the group companies on the basis of, amongst other things, their sales, their result from operating activities as well as the cash flow from their operating activities. The business development for each group company is assessed within a one year period on the basis of the sales, earnings and order book figures submitted, as well as the liquidity, profitability and other indicators, comparing these with the target figures and forecasts during the fiscal year. Cash flow and working capital quota have become increasingly important for company reports and control compared with previous years. In addition, we have expanded our internal reporting system as at January 1, 2007 by adding further quality-related components, particularly from the market and competitor environment.

Three forecasts are produced during the course of a fiscal year. However, investment and business decisions in the fast moving technology markets require far more criteria than just indicators. This is aided and supported by the operational independence and responsibility of the group companies and continual communication with the group top management.

For decisions on acquisitions, investments, new businesses as well as research and development projects, the company management therefore relies on analyses from the group subsidiaries as well as qualified specialists in the areas of mergers & acquisitions, controlling and corporate strategy who have extensive market, competitor and sector know-how. A whole range of additional assessment criteria is applied, adapted to suit the respective individual case.

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

Development of the economy as a whole

In 2006 the global economy reported robust growth. Contrary to expectations neither the temporarily higher energy prices nor the crisis in the Middle East halted the engine driving global economic activity. According to the OECD Economic Outlook of December 2006, the growth rates in the various OECD regions, averaging 3.2 percent, are converging closer together. The key factors in this respect, according to OECD data, in addition to US economic activity, is the continuing expansion in Japan as well as the gradual self-sustaining upturn in the euro region. The non-OECD economies, particularly in the emerging nations of Asia, remained one of the engines driving expansion in 2006.

The US economy, according to the OECD, grew by 3.3 percent in 2006 after reporting a 3.2 percent growth in GDP in 2005. Overall, this is a positive end to the year since the growth rates in the USA during the course of 2006 had already fallen from 5.6 percent in the first quarter to just 2.0 percent in the third quarter as result of the crisis in the US real estate market and surplus capacity in the automotive industry. Lower energy prices and a resultant increase in domestic consumption were the driving factors behind the US economy at the year end.

According to the OECD in 2006 the euro zone grew by 2.6 percent (prev. year 1.5 percent), a stronger rate than had been anticipated and so for the first time since 2000 is back on a strong upward course which has taken place across a broad basis. The good development was the result not only of strong exports but also in particular the pick-up in investment activity and domestic consumption. The strength of the euro against the US dollar failed to halt this trend.

The German economy changed from being the ‘problem child’ to the engine driving economic activity and made a significant contribution towards the new dynamic within the euro region. There is a wide gap between the original forecasts of 1.75 percent growth in GDP and the new figure of 2.7 percent. Germany was the world champion of exporters for the fourth time in succession. Exports rose by 13 percent compared with 2005 according to statements from the Bundesverband des Deutschen Groß- und Außenhandels (BGA) [Federal Association of German Wholesalers and Exporters]. According to experts this is due to the increased competitiveness of German companies, achieved not least as a result of restraint in wages and salaries. In 2006 the export spark also ‘leaped’ across to the domestic economy.

The expansion of the Asian economy continues to be led by China whose economy in 2006 is expected to grow by 10.7 percent, a rate not achieved for eleven years (prev. year 9.4 percent). With a GDP of 2.1 thousand billion euros in 2006 China has since caught up with Germany and in the months ahead is likely to surpass it although the Chinese economy is still viewed as overheating.

The individual Jenoptik markets

The global market for optical technologies in 2006 is put at more than 150 billion euros according to the sector association Spectaris. Spectaris anticipates that sales in the optical, medical technology and mechatronic industries in Germany will increase by more than 10 percent in 2006, to approx. 43.8 billion euros (prev. year 39.6 billion euros). The key factors for the positive balance sheet in 2006 are not only the anticipated double figure rises in exports but also the first return to a positive trend on the domestic front. German companies in the photonics business are carving out their market leader positions thanks in particular to their innovative capability. 16

The global market for lasers reported only modest growth in 2006. After posting a figure of 5.5 billion US dollars in 2005, according to Laser Focus World (LFW) in 2006 it fell short of forecasts, coming in at approx. 5.6 billion US dollars. However, the high level of demand in the area of laser material processing continued unabated, with sales increasing in the year just past by 11 percent to 1.7 billion US dollars. During the course of the initial successes achieved by fiber lasers there was also a rise in the figures for sales and turnover of high-power diode lasers which represent an area in which Jenoptik is one of the world’s leading manufacturers.

The German industry for measurement technology and sensor systems reported a markedly higher growth in the first eleven months of 2006 than in the same period for the previous year. According to data from Spectaris sales rose by 10.3 percent to 16.7 billion euros, following growth of just 3.6 percent to 15.2 billion euros in the previous year. Domestic sales increased in the same period by 6.5 percent to 7.8 billion euros, with exports actually posting a 13.9 percent rise to almost 8.9 billion euros.

The global semiconductor market in 2006 posted slightly stronger growth than anticipated, up by 8.9 percent to 247.7 billion US dollars (prev. year 227.5 billion US dollars) according to details from the Semiconductor Industry Association (SIA). In the opinion of many observers, the cycles of extreme highs and significant falls, previously a characteristic feature of the sector, are now a thing of the past as companies are increasingly avoiding overcapacities. The business was driven primarily by consumer electronics. 2006 was also a good year for equipment manufacturers. The sector association SEMI is talking of a 24 percent growing in the semiconductor equipment manufacturer market, to 40.6 billion US dollars (prev. year 32.9 billion US dollars). 15

The automation sector posted global sales of around 214 billion euros in 2005 according to data from the ZVEI, the trade association of the automation sector. This is a rise of 4 percent compared with 2004. With annual sales of 36 billion euros German manufacturers accounted for some 13 percent of the global market. Sales by German manufacturers increased by 3.4 percent in 2005 and were actually up by a good 9 percent in the first half of 2006. Mechatronics will be one of the focal areas in the future.

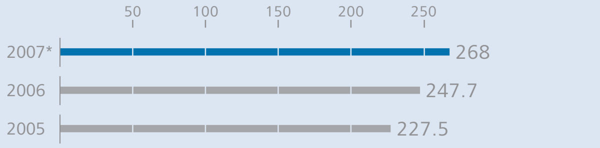
In 2006 the German automotive sector was the export world champion. According to the calculations by the sector association the Verband der Deutschen Automobilindustrie (VDA) it succeeded in growing exports by around 3 percent compared with 2005, to just under 3.9 million vehicles. Domestic automobile production reached 5.4 million, almost a new record (prev. year 5.35 million). According to experts the upturn in new vehicle registrations in Germany, particularly at the end of 2006, is attributable to the increase in value added tax and consequently to purchases brought forward before the date of the increase. One bitter pill is an increasingly difficult environment for the supplier industry. Whilst the major German automotive suppliers are still able to assert their positions in the market despite the growing downward pressure on prices, supplier companies in the USA were getting into difficulties.

In the year just past the market for traffic monitoring systems grew by a further approx. 5 percent compared with 2005. According to its own information the Jenoptik subsidiary ROBOT Visual Systems GmbH successfully won almost every significant, international major project and was consequently able to further expand its global market position. The strongest growth markets in 2006 were Italy, Morocco and the Netherlands. The German traffic monitoring market continues to stagnate at a high sales level but, as a result of strict licensing requirements, remains a model for the international market. The growth in passenger numbers recorded by the international airlines slowed slightly last year at 5.9 percent (prev. year plus 7.6 percent) to 4.2 billion passengers according to information from the International Air Transport Association (IATA). Following a good 2005 reports by the European aircraft manufacturer Airbus were one of the influencing factors for the aviation industry in 2006. Having been the front runner for four years, with 790 orders Airbus has fallen behind its US competitor Boeing (1,044) according to the 2006 sales figures. Airbus did however keep its nose in front in terms of deliveries.

The German aerospace industry is once again looking ahead to the future with optimism. According to information from the BDLI with sales up by 10.3 percent to 1.36 billion euros and a 3.5 percent increase in the number of employees to 5,350, the German areospace sector saw the start of a turnaround in 2005. This trend will be supported by the strategy initiated by the federal government in 2006 which provides for total investment of 3.65 billion euros in research and innovations in the German aerospace sector

15

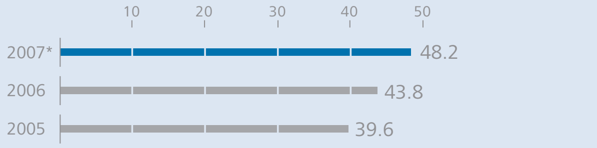
Semiconductor market – global sales in billion US dollar



Source: VLSI and SIA * projection

16

Market of the German optical, medical technology and mechatronic industries – Sales in billion euros



Source: Spectaris * projection

up to 2009. Forecasts assume that growth will continue to rise slightly in 2006 and beyond. Germany was awarded the management role for key ESA projects, including amongst others in the field of earth observation.

According to a study by the DIW Berlin the global market for medical technology is estimated at around 200 billion euros. German companies in the sector, according to Spectaris, will generate sales growth of 11 percent to 16.3 billion euros in 2006 (prev. year 14.8 billion euros). However, as a result of the downward pressure on costs in the German healthcare system this will once again primarily come from exports which are expected to rise by 16 percent to approx. 10.6 billion euros. Because of pressure on prices and budgetary restrictions the forecast for the domestic market shows a minimal rise of around 3 percent to 5.7 billion euros.

The German security and defense technology industry has recovered following fundamental and lengthy restructuring, as a result of which the number of people employed in the sector fell from 400,000 in 1990 to 80,000 in 2005. The major system providers expect additional sales to come from the defense business. In 2006 the European Commission pressed ahead with its plans to open up the European market for defense goods which is valued at over 80 billion euros and up to now has been highly fragmented. Cross-border invitations to tender are expected to boost the competitiveness of the armaments industry and relieve the burden on public finances through greater efficiency.

1.4 General statement on the market conditions

The global economy and Jenoptik's key sales regions and sectors reported positive development in 2006. As such, for example, the positive trend amongst semiconductor manufacturers was accompanied by an increase in our high-performance optic business which is geared in particular towards this sector. In the area of traffic safety systems, in line with the market trend, we succeeded in winning major orders particularly abroad. In the aerospace industry the improved situation is reflected in particular in new programs such as for example the satellite-supported environmental and security system GMES for future earth observation data. With its multi-spectral earth observation instruments and its know-how in the field of data analysis, Jena-Optronik GmbH is well established in this area. The positive trend in the global economy and in the key sectors has continued as at the date this Management Report was compiled. The increase in value added tax in Germany has not had any direct, significant consequences for us as an investment goods provider.

Informations on the whole Group

Including the discontinued business divisions which were sold in May 2006, sales in 2006 totaled 1,002.2 million euros (prev. year 1,914.4 million euros). The result from operating activities came in at 49.1 million euros (prev. year minus 9.8 million euros), earnings after tax at 16.5 million euros (prev. year minus 69.4 million euros). The cash flow from current business activities totaled 58.6 million euros (prev. year 31.7 million euros). The discontinued business division is no longer included in the balance sheet data, the order backlog or the number of employees as at December 31, 2006.

The figures for the whole Group, shown in the Notes, include M+W Zander up to the date of the sale on May 16, 2006. However, the figures for M+W Zander and consequently the figures for the whole Group have less relevance for the economic situation than the figures for the continuing business divisions. For this reason – unless specified otherwise - all the figures below, including the comparison figures for the previous year, relate to the continuing business divisions. In this report therefore the term Jenoptik also refers purely to the continuing business divisions.

2 Earnings, financial and asset position

2.1 Earnings position

Development of sales and results

In 2006 we increased **sales** by 18.3 percent to 485.1 million euros (prev. year 410.1 million euros). The development of sales was determined by three main factors

- good economic development in our target sectors,
- competitive advantages in individual part markets,
- initial consolidation of acquisitions and smaller R+D project companies.

Strong organic growth, particularly in the Laser & Optics division, accounted for more than 50 percent or approx. 43 million euros of the total 75.0 million euros increase in sales over 2005. The organic growth did not include the sales and increases in sales of those R+D project companies that were consolidated for the first time in 2006 as a result of their growth and which consequently contributed to the Group's rise in sales. Amongst the acquisitions, the initial consolidation of the French measurement technology specialist ETAMIC S.A. as of October 2006 made a significant contribution in the sum of 7.6 million euros towards the sales increase in the Sensors division. As at the 3rd quarter 2006 there had already been indications of the strong rise in sales over and above the original forecast figures. We had consequently already raised the sales target of between 420 and 450 million euros to over 450 million euros during the course of the year. 17

The sales growth was particularly strong in the Laser & Optics division. The Sensor Systems division posted an increase in sales which included ETAMIC S.A. which had been consolidated for the first time in 2006, with the Mechatronics division also posting a marked rise.
-- DETAILED INFORMATION FROM PAGE 76 18

Other areas generated sales of 14.6 million euros (prev. year 13.9 million euros). This essentially covers rental sales with third parties and non-consolidated companies as well as sales by the holding company.

Jenoptik achieved 56.8 percent or 275.7 million euros in sales abroad (prev. year 55.9 percent or 229.1 million euros). Once again the key export region was Europe, followed by the USA and Asia.

Jenoptik's **result from operating activities** (EBIT) increased by 52.2 percent to 38.2 million euros (prev. year 25.1 million euros). This corresponds to an EBIT margin, the ratio between EBIT and sales, of 7.9 percent (prev. year 6.1 percent). Earnings before interest, taxes, depreciation and amortization (EBITDA) reached 69.9 million euros (prev. year 57.7 million euros) and were therefore up by 21.1 percent on the figure for the previous year. The EBITDA margin was 14.4 percent (prev. year 14.1 percent). The increase in the EBITDA was lower than that in the EBIT since the EBIT had

17 **Sales continued business division** in TEUR

	2006	2005	Changes from previous year
Continued busin. division	485,139	410,117	18.3 %
of which domestic	209,439	180,969	15.7 %
foreign	275,700	229,148	20.3 %

Sales by divisions in TEUR 18

	2006	2005	Changes from previous year
Continued busin. division	485,139	410,117	18.3 %
of which Laser & Optics	199,198	149,660	33.1 %
Sensors	153,179	136,049	12.6 %
Mechatronics	126,976	117,409	8.1 %
Other	5,786	6,999	- 17.3 %

been reduced by markedly higher, one-off value reductions (so-called impairments) in the previous year.

The three operating divisions together produced earnings from operating activities in the sum of 44.2 million euros (prev. year 39.1 million euros); these consequently came in at the upper end of the target range of between 38 and 44 million euros. With an increase of 13.0 percent the growth in operating earnings was slightly below the strong rise in sales. This was the result of the initial consolidation of Etamic, other acquisitions and the R+D project companies without or with a still negative contribution to earnings. Newly consolidated companies or those which had not been included in the previous year, produced a negative contribution to the EBIT of 0.9 million euros in 2006, consequently the organic increase in earnings was even slightly higher than is shown by the comparison figures above. The initial consolidation of the smaller R+D project companies was carried out primarily in the research-intensive Laser & Optics division. In addition, in 2006 we pressed ahead massively with the expansion of the Sensors business in North America in anticipation of a major order which led to an increase in the selling expenses. We have since been awarded this order for more than 10 million euros which will be converted into sales and earnings over the subsequent years.

-- DETAILED INFORMATION FROM PAGE 79 19

19 **Result from operating activities** in TEUR

	2006	2005	Changes from previous year
Continued busin. division	38,214	25,057	52.5 %
of which Laser & Optics	15,263	13,316	14.6 %
Sensors	18,108	18,718	-3.3 %
Mechatronics	10,790	8,366	29.0 %
Other	-5,947	-15,343	-61.2 %

The results from operating activities of "Other" totaled minus 5.9 million euros. The real estate business contributed plus 4.9 million euros to this result (prev. year minus 6.2 million euros), influenced by a positive one-off effect in the sum of approx. 1.2 million euros. Real estate income in the previous year was hit by impairments in the sum of 6.1 million euros – also in connection with the sale of M+W Zander. The administrative expenses of the holding company, at minus 9.7 million euros (prev. year minus 10.1 million euros), are reflected in the result of Other.

Over and above the one-off effect mentioned above, in 2006 one-off earnings, mainly arising from the termination of the finance lease for a large property and one-off expenses, mainly provisions for future attorney costs for the legal dispute with Asyst, essentially offset each other. To this extent the result from operating activities for the year 2006 was sustainable.

The net interest result in the sum of minus 14.2 million euros (prev. year minus 11.6 million euros) was influenced by the difference between the interest expenses for the bond and the interest income from the proceeds from the sale of M+W Zander which were deposited for the repayment of the bond in the 2007 fiscal year. The difference in interest is around 6 percentage points. The interest expenses for the bond, at around 12 million euros, accounted for some 43 percent of the total interest expenses in 2006 in the sum of 28.1 million euros (prev. year 18.3 million euros). Interest income doubled to 13.9 million euros (prev. year 6.7 million euros). However, the key factor in this rise was one-off interest income arising from the transactions connected with the sale of M+W Zander. Total interest income resulting from the sale, most of which arose in the 1st half-year 2006, was approx. 4.4 million euros. The provision of guarantees for M+W Zander produced additional earnings from guarantees in the sum of 1.0 million euros which enhanced the group net interest result.

The net investment result improved slightly to minus 5.0 million euros (prev. year minus 5.4 million euros). The main contributor here was the result posted by the research-intensive companies JENOPTIK Diode Lab GmbH and XTREME technologies GmbH. By contrast to the previous year, since the 2006 half-year financial statements DEWB AG has no longer been shown as an associated company but as a financial investment since JENOPTIK AG now only holds 11.13 percent of the shares.

Reflecting **the net financial result** (net interest plus net investment result) in the sum of minus 19.1 million euros (prev. year minus 16.9 million euros) earnings before tax totaled 19.1 million euros and therefore more than doubled compared with the figure in the previous year (prev. year 8.1 million euros).

Income taxes totaled 1.8 million euros (prev. year 1.3 million euros) and were incurred primarily in the foreign subsidiaries. The JENOPTIK AG tax loss carried forward applies for most of the German companies. At 16.1 million euros **earnings after tax** increased more than four-fold compared with the previous year (prev. year 4.0 million euros).

Jenoptik order book situation

The order intake, at 482.9 million euros (prev. year 449.5 million euros) posted a marked increase of 7.4 percent and with a rise of 33.4 million euros showed a more dynamic development than had been anticipated at the beginning of 2006. The order intake for the year 2005 had been influenced by a major order for the Mechatronics division valued at more than 50 million euros, as well as a 10 million euro order for the Sensors division which can not be repeated every year. However, the Laser & Optics division alone was able to compensate for this figure of approx. 60 million euros. With a book-to-bill rate of 0.98 (prev. year 1.09) the levels of order intakes and sales were almost the same. 20

The order backlog, at 438.4 million euros, was at the same level as in the previous year (prev. year 438.7 million euros). The high order intake, strong sales growth, currency conversion effects and order backlogs of the newly added companies were balanced out. Around half of the order backlog will result in sales in the current 2007 fiscal year. 21

Development of key items in the statement of income

The key items in the statement of income essentially paralleled the growth in sales posted by Jenoptik in 2006.

Cost of sales totaled 333.9 million euros (prev. year 285.4 million euros), which led to a slightly improved cost of sales quota of 68.8 percent compared with the previous year (prev. year 69.6 percent). As a result of increases in efficiency

20

Order intake in TEUR

	2006	2005	Changes from previous year
Continued busin. division	482,916	449,525	7.4 %
of which Laser & Optics	208,464	143,538	45.2 %
Sensors	145,299	139,565	4.1 %
Mechatronics	123,371	159,698	-22.7 %
Other	5,782	6,724	-14.0 %

21

Order backlog in TEUR

	2006	2005	Changes from previous year
Continued busin. division	438,378	438,727	-0.1 %
of which Laser & Optics	66,073	56,289	17.4 %
Sensors	68,993	73,517	-6.2 %
Mechatronics	303,312	308,921	-1.8 %
Other	0	0	–

in the course of the growth the cost of sales increased at a proportionally lower rate and was consequently also able to more than compensate for the lower-margin, newly consolidated companies. The gross margin also rose accordingly (gross result as a difference between sales and cost of sales in percent of sales) from 30.4 to 31.2 percent.

Selling expenses rose by 10.3 million euros to 48.0 million euros (prev. year 37.7 million euros; plus 27.3 percent) and therefore at a stronger rate than sales. The selling expenses quota consequently increased to 9.9 percent of sales (prev. year 9.2 percent). The reason for this, in addition to the growth in sales, is primarily Jenoptik's growth strategy which is geared towards a stronger international orientation. Marketing activities, at 5.0 million euros, accounted for around 10 percent of selling expenses, a slight fall compared with the previous year (prev. year 5.3 million euros; 14 percent).

General administrative expenses came in at 37.3 million euros (prev. year 33.3 million euros; plus 12.0 percent). At 7.7 percent of sales they developed at a disproportionately lower rate to the expansion of business (prev. year 8.1 percent). The absolute increase in the sum of 4.0 million euros is essentially attributable to the new companies. The general administrative expenses include the costs of the holding company of 9.7 million euros which were once again reduced slightly by comparison with the previous year (prev. year 10.1 million euros).

Research and development expenses totaled 33.8 million euros in 2006 and were therefore up by 23.4 percent over the previous year (prev. year 27.4 million euros). The main reason for the 6.4 million euro increase are the newly consolidated, research-intensive project companies. Despite the marked increase in sales the R+D quota, at 7.0 percent, exceeded the previous year's figure of 6.7 percent.

-- OTHER OPERATING INCOME: NOTES POINT 6

2.2 Development of the key performance factors for Jenoptik

Research and Development

The increase in R+D expenses by 23.4 percent to 33.8 million euros, in addition to the expansion of our research activities, is due mainly to the initial consolidation of smaller R+D project companies. These, together with other major R+D subjects, form part of the Laser & Optics division, the most research intensive, accounting for 52 percent of all R+D expenses.

As a result of the above-mentioned initial consolidations there was also an increase in the number of employees in research and development. As at December 31, 2006 641 and so 20.1 percent of Jenoptik's employees were engaged in R+D (prev. year 548 employees). 271 and so 42.3 percent of all R+D employees work in the Laser & Optics division (prev. year 239 employees or 43.6 percent). 22

The R+D expenses mainly comprise the personnel costs as well as third party services and material costs. Fixed investments are comparably low as these are essentially limited to laboratories and workplace equipment.

The R+D expenses among others do not include the development intensive activities of XTREME technologies GmbH or of JENOPTIK Diode Lab GmbH. In addition, developments on behalf of our customers are shown under cost of sales and developments close to the market are capitalised. Including customer-related research and the capitalisation adjusted for depreciation together totaling 20.7 million euros, Jenoptik's R+D quota in 2006 was 11.2 percent (prev. year 12.1 percent). 23

Research work on behalf of our customers totaled 16.0 million euros (prev. year 16.4 million euros). Amongst others, these also include for example EADS/Airbus.

A new addition in 2006 was Carl Zeiss Sports Optics GmbH, with whom a long-term cooperation agreement for the joint development of new products was signed in autumn 2006. Jenoptik develops digital technology and opto-electronics for ZEISS binoculars and sports optics on an exclusive basis and will also be manufacturing these items. The new comprehensive agreement follows on from a development and manufacture order for a ZEISS riflescope in 2005.

Close to the market development costs that were capitalised totaled 7.6 million euros in 2006 (prev. year 7.4 million euros) and were the result of major development projects commenced in 2004 and 2005, for example the medium format camera Hy6 or the JAS and JSS aerial and satellite photo cameras respectively. The depreciation arising from the capitalisation of development costs close to the market totaled 2.9 million euros in 2006 (prev. year 1.6 million euros). This increase is attributable to the successful market launch of development projects, primarily from the area of laser technology, which on the one side gave rise to depreciation but on the other also produced contributions to sales and earnings.
In addition to the digital camera for traffic safety technology, the R+D results and products which contributed to the business in 2006 – as announced in the 2005 Annual Report – include, for example the further improved high-power diode lasers as well as the optical-contactless wave measurement system Contour.

The proportion of inter-divisional research activities covering a number of divisions increased over the last two years. As a result of the targeted integration between the divisions several inter-divisional projects have been started up such as for example the development of high-power diode lasers for applications under space conditions, as well as the use of in-process measurement technology in the manufacture of industrial optics. The products contributing towards the success in 2006 include, amongst others, the high resolution digital camera specially developed in Jena for use in traffic safety systems.

Jenoptik draws on research services and know-how both from its own resources as well as from collaboration with partners, scientific institutions as well as through buying in research services. In 2006 the number of patents registered for technology innovations (excluding registered patterns and registered designs as well as trademarks), 46 in total, was markedly up on the figure for 2005 (prev. year 31 patents). The Laser & Optics division accounted for the majority of the patent registrations, at 72 percent resp. 33.

R+D employees by division

	2006	2005	Change from previous year
Continued busin. division	641	548	17.0 %
of which Laser & Optics	271	239	13.4 %
Sensors	207	172	20.3 %
Mechatronics	163	137	19.0 %
Other	0	0	–

R+D services* by division in TEUR

	2006	2005	Change from previous year
Continued busin. division	54,552	49,596	10.0 %
of which Laser & Optics	26,571	23,471	13.2 %
Sensors	15,386	14,154	8.7 %
Mechatronics	15,166	14,061	7.9 %
Other	0	0	–

* (Sum of R/D expenses, capitalised development costs minus depreciation and developments on behalf of customers)

The purchasing of research services in the total sum of 11.1 million euros (prev. year 12.2 million euros) includes externally purchased R+D services, outsourced R+D services, the purchase of patents and licenses as well as the costs for the use of third party patents and licenses.

Intensive contacts with scientific institutions are maintained with most of the research projects. -- P. 50. The current projects which are being driven forwards for example together with Fraunhofer Institute for Applied Optics and Precision Mechanics, Jena, include both the capture of earth observation images as well as the development of components for more efficient laser systems as well as of processes for new coating technologies in the field of optics. Other projects are not specified primarily for competition reasons.

The proportion of public funding for research projects (states, federal government, EU), at 3.1 million euros, is rather low (prev. year 2.6 million euros). A large proportion of these funds were paid for joint projects in which Jenoptik places partial orders with state or semi state-owned research institutions as stipulated by the providers of these funds.

In the 2006 fiscal year Jenoptik also made a contribution towards a further focusing of the perception of optical technologies on the political level and towards improving the conditions for companies in the optical industry for attracting public funding. The European technology platform Photonics21, founded in December 2005 and whose chairman is Alexander von Witzleben, the chairman of the Jenoptik executive board, achieved significant successes in 2006, the first year of its existence. As such, the optical technologies were firmly incorporated within the 7th EU Research Framework Program and a new "Photonics" unit was set up in the EU Commission. In addition, the EU funds specially provided for optical technologies were significantly increased.

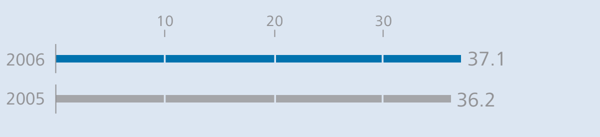
-- A MULTI-PERIOD REVIEW OF RESEARCH AND DEVELOPMENT, P. 124

Employees and Management

With 3,192 employees, as at December 31, 2006 Jenoptik had 357 more employees in its continuing business divisions than at the end of 2005. The increase of 12.6 percent in total is primarily the result of the additional 299 employees from initial consolidations. With the 58 new appointments resulting from strong organic growth, the way was led by the Laser & Optics division in particular. Temporary bottlenecks, particularly at the year end, were bridged by the group companies using temporary employees, a total of 231 of whom were employed as at December 31, 2006 (December 31, 2005: 107 temporary employees). A large proportion of the new appointments in 2006 came from these temporary employees.

13.3 percent of the Jenoptik employees worked abroad (prev. year 5.7 percent). The sharp increase of 264 to a total of 425 employees who now work outside Germany (prev. year 161) is attributable not only to the firm of MEMS Optical Inc., USA, acquired in January 2006 but also to ETAMIC S.A. which, in addition to its headquarters in Bayeux in France, has major sites in Switzerland and the USA. 25

24 Personnel ratio as a percentage of company performance *



* Continued business division

Personnel expenses totaled 180.1 million euros (prev. year 148.4 million euros). This is an increase of 21.4 percent and consequently roughly proportional to the growth in sales. The personnel intensity, the ratio between personnel expenses and sales, accordingly remained virtually constant at 37.1 percent (prev. year 36.2 percent). 24

In 2006 we invested around 1.2 million euros in **providing qualifications and further training** (excluding initial education) for our employees. 1,472 employees, almost half of those employed, gained further qualifications in 2006. In addition to language courses and, for example, sales training, Jenoptik prepares its management and trainees for future tasks in the company through trainee and executive training. In 2006 a total of 64 current and future executives took part in this training.

Vocational training qualifications were achieved by a total of 117 young people as at December 31, 2006 (December 31, 2005: 122). This figure does not include the trainees abroad. The proportion of trainees as a total of all employees in the domestic companies was 4.2 percent (prev. year 4.6 percent). In the commercial-technical trades/professions Jenoptik primarily provides training for mechatronic technicians, industrial mechanics and IT specialists. The number of new trainee appointments, at nearly 40, increased by 33.3 percent in 2006 compared with the previous year (prev. year 30). At the Jena site in 2006 a special program offering four additional trainee positions exceeding the current demand in order to cushion the anticipated fall in pupil numbers and consequently the number of applicants for trainee positions from 2009.

In 2006 a total of 141 young people passed **a practical training course or their diploma work** at Jenoptik, ten more than in 2005. This is an area to which JENOPTIK Laser, Optik, Systeme GmbH and Jena-Optronik GmbH have made a special commitment at the Jena site. These two companies accounted for clearly more than half of all the practical trainees and diploma students in the fiscal year just past.

The fluctuation rate, the ratio between new appointments and departures according to defined and generally applicable criteria, was approx. 2 in 2006 and therefore remained almost constant by comparison with 2005 (prev. year 1.9). The level of absences through sickness fell from 2.9 percent in 2005 to 2.7 percent in 2006. The Group has a balanced demographic structure. 12

In the management of the Jenoptik Group, Dr. Michael Mertin was appointed the new COO with effect from October 1, 2006, succeeding Norbert Thiel who left the Jenoptik Group after nine years of holding senior positions, four of which as member of the executive board. -- P. 45. Dr. Michael Mertin had held various senior positions in the Zeiss Group since 1996. Before starting his professional career at Zeiss he gained his degree in physics at the RWTH Aachen and subsequently his doctorate of engineering in the field of laser materials processing and surface technology at the Fraunhofer Institute for Laser Technology, Aachen.

25 **Employees** as of December 31 (including trainees)

	Total		Domestic		Foreign	
	2006	2005	2006	2005	2006	2005
Continued business division	3,192	2,835	2,767	2,674	425	161
of which Laser & Optics	1,254	1,147	1,089	1,024	165	123
Sensors	1,050	784	803	764	247	20
Mechatronics	828	834	815	820	13	14
Other	60	70	60	66	0	4

With effect from December 1, 2006 Markus Olbert took over as head of the central HR department at JENOPTIK AG. In this newly created post he will be responsible for the group-wide HR management, focusing on strategic HR topics. At the beginning of 2006 changes were made in the management and on the group operational management level at JENOPTIK Laser, Optik, Systeme GmbH as well as JENOPTIK Polymer Systems GmbH.

-- FOR FURTHER INFORMATION, P. 76

In 2006 Jenoptik started up specific projects as part of the competition to be an attractive employer for the best new 'brains'. In addition to the training over and beyond the current requirements which is included with 0.2 million euros in the personnel costs, work was also started on the construction of a child daycare center at the Jena site. The childcare support starting from September 2007, the content and duration of which exceeds the standard offering of child daycare centers, will be provided by a local partner with whom Jenoptik already has a working relationship stretching back several years. The new facility is intended to further enhance the work/life balance. The amount of the investment for the child daycare center, excluding the costs for the site provided by JENOPTIK AG, is approx. 1.9 million euros.

Over and beyond these offerings Jenoptik combines its sponsoring activities within the Thuringia region with HR work. As a result, also in 2006 interested employees were given the opportunity to enjoy art and culture at special rates, for example the first part of the trilogy "Der Ring des Nibelungen", sponsored by Jenoptik, at the German National Theatre in Weimar.

Organization and production cycle

With the opening of the new production sites in May 2006 significant changes were made to the organization and production cycle, in particular for the production of polymer-based optical components and systems as well as for high-power diode lasers. Four locations were combined under one roof in the new Jenoptik Polymer Systems building, considerably simplifying production. Optics design, injection molding, state-of-the-art coating systems, the assembly technologies for the integration of the optics within complete assemblies and systems, as well as the assembly and packaging technology that was only added in October 2005 – in other words the entire production process chain – are now housed under one roof.

In 2006 we also successfully added a key quality component to the value-added chain for high-power diode lasers with a new plant in Berlin-Adlershof. With the new semiconductor plant Jenoptik now has an operating base in the immediate vicinity of the technology partner Ferdinand-Braun-Institut für Höchstfrequenztechnik (ultra high frequency technology) and since autumn 2006 has been carrying out the development and series production of laser bars which form the basis for the high-power diode lasers assembled in Jena.

In addition, the companies are continually adapting their organization and production cycle to new products and technologies as well as to the market conditions. Production at the Hillos GmbH joint venture, which manufactures laser distance and positioning equipment on behalf of Hilti, was significantly expanded. The traffic safety systems area also expanded and reorganized its production capacities as a result of the strong growth. With a new organization structure Jena-Optronik likewise increased the focus of its activities on the needs of its clients and the market.

-- MORE DETAILED INFORMATION, P. 80

Procurement

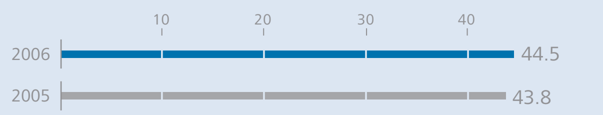
As a result of the broad product and technology portfolio each of the companies has numerous suppliers, some of which themselves are highly specialized. The suppliers for our manufacture of products for the defense and security technology and the aerospace industries are subject to particularly stringent requirements.

The verification of supplier conformity with RoHS was one of the key tasks in the 2nd half-year 2005 and 1st half-year 2006. A database installed in 2005 which covers all areas of business and is currently being expanded, provides information on the key supplier terms and conditions. It is also used to secure so-called second sources, an essential strategic challenge of procurement management for providers of technologically complex products.

Increases in the prices of raw materials, for example metals and glass, had virtually no impact or no impact at all on costs and prices as a result of our special requirements for particularly high grade materials and primarily because of our high value added, as well as the fact that our products are manufactured in small to medium unit volumes. Once again, the further rises in energy prices had only a minimal effect in 2006 apart from a rise in overheads. Since glass manufacture is an energy-intensive process purchase prices continued to rise accordingly. However, these were partially offset by the long-term supplier agreements and price maintenance.

Cost of materials and purchased services rose by 22.9 percent to 227.1 million euros (prev. year 184.8 million euros), essentially attributable to the growth in sales. At 174.7 million euros raw materials, consumables and supplies accounted for around 76.9 percent (prev. year 147.6 million euros; 79.9 percent) with the cost of purchased services making up the balance. The materials ratio, including purchased services and on-account payments as a proportion of the company performance remained virtually constant at 52.0 percent (prev. year 52.4 percent).

26 Materials ratio as a percentage of company performance *



* Continued business division

The net value added increased to 213.3 million euros (prev. year 168.1 million euros) primarily as a result of the strong growth in sales. However, at 26.9 percent the increase was markedly higher than the rise in sales. The value added ratio (net value added as a percentage of the company performance) therefore increased from 39.8 percent to 41.8 percent. 27

The increase in the value added ratio, with the materials ratio including purchased services and on-account payments remaining virtually constant, is essentially attributable to a reduction in depreciation. In the previous year impairments had reduced earnings and consequently also the net value added.

Personnel costs at 180.1 million euros (prev. year 148.4 million euros) which essentially increased proportionally to sales, accounted for the predominant portion on the distribution side of the value added. However, its share of the value added reduced from 88.3 percent to 84.4 percent in favor of the net result of the Group. The company's resp. shareholders' portion increased by almost the same extent from 2.4 percent in the previous year to 7.6 percent, tripling in the process. 28

Quality and environmental management

Quality and environmental management systems are implemented in numerous Jenoptik companies. In addition to other group companies, JENOPTIK Laser, Optik, Systeme GmbH (Laser & Optics division) and ESW GmbH (Mechatronics division) have their quality management systems reviewed annually in accordance with ISO 9001. The two largest Jenoptik companies can also point to the certification of their environmental management system under ISO 14001. JENOPTIK Laser, Optik, Systeme GmbH issues an annual environmental report.

Jena-Optronik GmbH (Sensors division) has been certificated in accordance with ISO 9100 since 2006. This is a special quality management system for the aerospace industry which demands, amongst other things, continuous records along a product's entire supply chain, as well as initial sample tests and risk assessment. There is also a requirement for configuration management processes which ensure an appropriate level of efficiency for each product throughout the entire lifecycle, as well as for emergency concepts in the event of faults being discovered in products which have already been supplied. For the first audit, conducted in September 2006, Bureau Veritas awarded Jena-Optronik a higher-than-average result, with 96 percent of all possible points; the company was able to immediately incorporate and implement the few recommendations from the auditing body.

JENOPTIK Polymer Systems GmbH (Laser & Optics division) is not only ISO 9001 but also ISO 13485 certificated and consequently fulfils the strict requirement for the continuous transparency of all processes for the medical technology industry.

The focus of the environmental management in 2006 was on the EU Directives RoHS 2002/95/EU and WEEE 2002/96/EU which have been implemented within the Electrical and Electronic Equipment Act in Germany. The Jenoptik companies have in each case taken personal responsibility for structuring their entire product lifecycles to conform to the legal requirements. JENOPTIK Laser, Optik, Systeme GmbH for example had stipulated early on that new products would be developed and designed to conform to RoHS without exception. Contracts with suppliers were amended accordingly for existing products. In addition, components or materials were required to be replaced. Existing inventories of materials that do not conform to RoHS were reassessed or reduced within the stipulated period; that also included updating the data in the SAP materials master list.

27 Creation of value added

	2006		2005	
	in million euros	in %	in million euros	in %
Company performance (sales, income, investment result)	510.4	100.0	422.1	100.0
./. Purchased goods and services (material)	227.1	44.5	184.8	43.8
./. Purchased goods and services (other)	38.3	7.5	36.5	8.6
./. Depreciation	31.7	6.2	32.7	7.7
Net value added	213.3	41.8	168.1	39.8

28 Distribution of value added

	2006		2005	
	in million euros	in %	in million euros	in %
Employees (personnel expenses)	180.1	84.3	148.4	88.2
Public sector (taxes)	2.9	1.4	4.2	2.5
Creditors (interests)	14.2	6.7	11.6	6.9
Companies, shareholders	16.1	7.6	4.0	2.4
Net value added	213.3	100.0	168.1	100.0

At JENOPTIK Polymer Systems GmbH in 2006 environmental aspects were more permanently incorporated than in the past thanks to the new company building. The plant will be supplied with heat via its own biomass heating plant, reducing CO_2 emissions by 25 percent and sulfur dioxide emissions by 97 percent compared with the previous system which used heating oil. Furthermore, the heating consumption was significantly reduced by combining four locations with one building. A rainwater collection plant will also supply the entire building with the so-called gray water. The volume supplied will be 2,000 cubic meters per annum.

2.3 Financial situation

The most important task of Jenoptik's financial management is to ensure adequate cover for the financial requirements of the subsidiaries both for their operating business and their investments. The financial management of the Jenoptik Group is organized on a centralized basis with the aim of utilizing synergy effects derived from the increased financing volume and consequently on the one side to secure the financing at favorable terms whilst at the same time taking advantage of all the financing opportunities available to a listed company.

Financing Analysis

The proportion of non-current financial liabilities (loans, bonds, finance lease) of the Jenoptik Group's financing, was 78.1 percent (December 31, 2005: 84.1 percent). The financing structure of the Jenoptik Group therefore remains orientated towards the long-term. Non-current financial liabilities as at the end of 2006 totaled 281.7 million euros (Dec. 31, 2005: 324.7 million euros). This figure includes the bond in the sum of 145.5 million euros (nominal 150 million euros) and a remaining term of just under four years, as well as the convertible bond in the sum of 59.3 million euros (nominal 62.1 million euros) with a remaining term of two and a half years. The maturity dates of the remaining finance lease in the sum of 23.7 million euros (December 31, 2005: 69.9 million euros) are spread over a period of around 20 years. A large proportion of the non-current bank loans are also mortgage loans with a term of up to 20 years, a large percentage of which have been taken up by a separate real estate limited partnership company which is assigned to JENOPTIK AG 100 percent in terms of volumes but not in terms of liability. 29

The leverage ratio, the ratio between debt capital and shareholders' equity, improved slightly from 1.90 to 1.88 after making full adjustment for all the effects arising from the sale of M+W Zander. This is attributable to the reduction in the finance lease, amongst other things. Excluding adjustments the leverage improved from 3.8 in the previous year to 1.92 as at December 31, 2006, essentially as a result of the sale of M+W Zander.

The net cash position as at the end of 2006 was minus 64.6 million euros (December 31, 2005: minus 50.8 million euros). This figure did not include the restricted cash and cash equivalents as at December 31, 2006 in the sum of

Interest-bearing liabilities in million euros

	2006	2005
current	78.8	61.6
– Bonds (CP)	11.4	7.5
– Bank liabilities	65.8	50.5
– Bills of exchange	0.0	3.6
– Liabilities from finance leases	1.6	0.0
non-current	281.7	324.7
– Bonds	204.8	202.3
– Bank liabilities	53.2	52.4
– Liabilities from finance leases	23.7	69.9

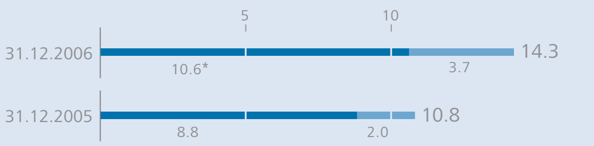
29

143.2 million euros (Dec. 31, 2005: 0) as these funds cannot be utilized within 90 days for the repayment of current debts. The total cash and cash equivalents including current securities increased slightly to 14.3 million euros (Dec. 31, 2005: 10.8 million euros). This was offset in total by 78.8 million euros in current liabilities with a term of less than 12 months (Dec. 31, 2005: 61.6 million euros). The figure does not include current liabilities which are attributable to the operating business such as trade accounts payable, liabilities from on-account payments received and from PoC (Percent of Completion, the statement of sales and earnings for large projects, reflecting their level of completion). The increase in current financial liabilities is mainly the result of higher bank loans which were used to repay the majority of the liabilities to the minority shareholders of M+W Zander. In addition, a payment in advance was made at the time of the above-mentioned termination of a large proportion of the finance lease. The proceeds from the sale of M+W Zander were not apportioned to the net cash position due to their restricted availability. 30

The significantly more important net debt by contrast, defined as being the total financial liabilities including bonds, loans, bills of exchange and liabilities arising from finance lease, less cash and cash equivalents and securities, reduced markedly, as forecast, by 45.9 percent to 203.0 million euros (Dec. 31, 2005: 375.5 million euros). The reduction in the net debt in comparison with the previous year is mainly attributable to the reduction in the non-current liabilities arising from the finance lease in the total sum of 46.2 million euros (less the current financial resources applied for this purpose). The payment of the purchase price for M+W Zander by Springwater Capital also had a positive effect. The financial liabilities do not include an existing liability arising from the liquidation of the agreement with the minority shareholders of M+W Zander which matures in November 2007. Adding this item would give a net debt of 218.1 million euros. It was not previously included in the calculation since as at September 30, 2006 this item was offset by a claim against the buyer of M+W Zander for the same amount which was paid in advance at the end of 2006. 31

Off-balance sheet financing instruments are used by Jenoptik primarily for new buildings which are normally leased. Partners with whom Jenoptik is working together in this area include LEG Landesentwicklungsgesellschaft Nordrhein-Westfalen. The total of all future expenses arising from leasing contracts in force as at December 31, 2006, in addition to buildings also for vehicles, copiers and other items, was in the sum of 46.2 million euros (prev. year 50.0 million euros), some of which however are spread over a period of more than 10 years. This figure essentially includes building leases on the basis of rental agreements

30 **Cash and cash equivalents** in million euros



Cash in hand/Credit balances Current securities

* without restricted cash

31 **Net debt** in million euros

	2006	2005
Securities	3.7	2.0
Cash and cash equivalents	153.8	8.8
Non-current financial liabilities	281.7	324.7
Current liabilities	78.8	61.6
	-203.0	-375.5

running over several years. No other significant off-balance sheet financing instruments are currently used.

Analysis of capital expenditure

In 2006 the Jenoptik Group invested a total of 39.8 million euros in intangible assets and tangible assets, a figure that was consequently within the forecast range of between 35 and 45 million euros. The comparable total investment in the previous year was 33.6 million euros. The increase of 18.5 percent was mainly due to a larger volume of investment in the Laser & Optics and Sensors divisions.

The total investment was offset by depreciation in the sum of 31.7 million euros (prev. year 32.7 million euros).

32 33 34

Investments in intangible assets totaled 12.5 million euros in 2006 (prev. year 11.5 million euros) and were therefore at approximately the same level as in the previous year both in total terms as well as in terms of the individual items.

The newly capitalised development costs came in at 7.6 million euros (prev. year 7.4 million euros) -- P. 59. 3.9 million euros (prev. year 3.9 million euros) were invested in patents, licenses and similar rights. As expected, depreciation on intangible assets at 7.2 million euros was markedly up on the figure for the previous year (prev. year 5.5 million euros) as new product developments were launched on the market, consequently triggering the depreciation cycle whilst on the other hand contributing towards sales and earnings.

Investments in tangible assets, including real estate held as investment properties, totaled 27.3 million euros, representing a rise of 23.5 percent above the level in the previous year (prev. year 22.1 million euros). The main items of investments in tangible assets were technical equipment and machines at 9.6 million euros (prev. year 6.6 million euros; plus 45.5 percent), other equipment, factory and office equipment at 8.0 million euros (prev. year 7.5 million euros; plus 6.7 percent) as well as on-account payments and work in progress at 4.0 million euros (prev. year 4.2 million euros. minus 4.8 percent).

-- DETAILED SPECIFICATION, NOTES, POINT 14

Capital expenditure, disinvestments and depreciation* in TEUR

32

	2006	2005	Change from previous year
Capital expenditure	39,828	33,610	18.5 %
– intangible assets	12,523	11,495	8.9 %
– tangible assets	27,305	22,115	23.5 %
Disinvestment	26,156	2,756	849.1 %
– intangible assets	752	1,803	-58.3 %
– tangible assets	25,404	953	2,565.7 %
Net capital expenditure (Capital expenditure less disinvestments)	13,672	30,854	55.7 %
Depreciation	31,702	32,688	-3.0 %
– intangible assets	7,167	5,535	29.5 %
– tangible assets	24,535	27,153	-9.6 %

* intangible assets and tangible assets

At 46.5 percent the Laser & Optics business division accounted for the largest share of the investments in tangible assets. Investments in technical equipment and machines as well as in other equipment and business and office equipment increased. In the Laser & Optics division the new plant for plastic optics was equipped with some new machinery. The Group also invested heavily in the area of high-performance optics. Because of the high value added the production of optics relies more strongly on state-of-the-art machinery than other areas.

Investments in real estate in the sum of 4.8 million euros (prev. year 3.2 million euros) do not include two new plants which were leased -- FROM P. 76. The increase was the result of the development of a plot of land, amongst other things. In addition to expansion investment primarily in the Laser & Optics division, the larger share of the investments resulted from rationalization, modernization and replacement investment.

Total investments in tangible assets were offset by depreciation in the sum of 24.5 million euros (prev. year 27.2 million euros).

Financial assets (including shares in associated companies) were markedly reduced by disinvestments from 89.7 million euros as at December 31, 2005 to 56.4 million euros as at the end of 2006. The reason for this sharp fall of 33.3 million euros, or 37.1 percent, is the sale of shares in the Jena-based DEWB AG as well as the sale of two securities funds in the first half of 2006. By contrast to the previous year DEWB AG is no longer shown as an associated company but as a financial investment since JENOPTIK AG now only holds 11.13 percent of the shares.

Investments in financial assets, at 14.5 million euros, significantly exceeded the additions in the previous year (prev. year 9.3 million euros). The key factor was the investments in loans to affiliated non-consolidated companies, e.g. JENOPTIK Diode Lab GmbH, which was consolidated as of January 1, 2007.

Analysis of Cash Flows

The cash flow from current business activities of the continuing business divisions in 2006 totaled 28.8 million euros. The figure for the previous year in the sum of 31.7 million euros shown in the 2005 Annual Report still included the discontinued business division and the liquidation of a secured loan together in the total sum of minus 4.0 million euros. With a previous year's figure in the sum of 35.7 million euros, adjusted for these two effects, the cash flow from current business activities in 2006 was down by 6.9 million euros or 19.3 percent.

33

Capital expenditure by division* in million euros

	2006	2005	Changes from previous year
of which Laser & Optics	22.5	19.0	18.4 %
Sensors	7.7	6.6	16.7 %
Mechatronics	2.6	5.2	-50.0 %
Other	7.1	2.8	153.6 %

* intangible assets and tangible assets

34

Depreciation by division* in million euros

	2006	2005	Changes from previous year
Laser & Optics	16.5	12.8	28.9 %
Sensors	4.4	4.1	7.3 %
Mechatronics	3.5	3,4	2.9 %
Other	7.3	12.4	-41.1 %

* intangible assets and tangible assets

The main reason for the fall is the expansion of the working capital of the continuing business divisions carried out in 2006. The working capital was increased during both comparison periods, however the increase in the working capital, affecting cash flows, in the sum of 32.3 million euros (prev. year 19.1 million euros) was markedly higher in 2006 as a result of the sharp increase in sales of 18.3 percent (prev. year 10.0 percent). The cash flow from current business activities reduced as a result by 13.2 million euros as against the previous year. This was partially offset by the earnings before tax posted by the continuing business divisions which more than doubled to 19.1 million euros (prev. year 8.1 million euros) as well as by the slight increase in depreciation and impairments in the total sum of 36.5 million euros (prev. year 34.1 million euros). Payments for income tax, at 2.2 million euros, remained virtually at the same level as in the previous year (prev. year 2.1 million euros).

The cash flow from investment activities was 160.0 million euros and was influenced by the sale of the discontinued business division as well as two consolidated securities funds. This produced the majority of the receipts from the sale of consolidated companies in the total sum of 157.5 million euros. Receipts from disposals of financial assets in the total sum of 22.2 million euros was influenced by the sale of the DEWB shares. These were offset by smaller investments in financial assets in the sum of 9.4 million euros and payments for the acquisition of consolidated companies in the sum of 9.3 million euros. The latter include in particular the acquisition of Etamic, MEMS Optical and the remaining shares in Photonic Sense. Payments for investments in tangible assets in the sum of 26.8 million euros were offset by receipts from disposals of tangible assets (disinvestments) at almost the identical level of 25.6 million euros. In this context, the largest disinvestment was the sale of a building in the center of Jena.

-- ANALYSIS OF CAPITAL EXPENDITURE, P. 67

The cash flow from financing activities was minus 43.9 million euros (prev. year 42.4 million euros). Repayments of bonds and loans (loan repayments) in this context exceeded the receipts from the issue of bonds and loans (loan increase) by 9.1 million euros. In addition, 23.7 million euros were paid in interest to Jenoptik's lenders. Interest payments were therefore 4.4 million euros below the interest expenses shown in the statement of income. This is mainly attributable to the interest charged on the high yield bond and the convertible bond which did not affect cash flows.

-- NOTES, POINT 33

2.4 Asset position

The balance sheet items as of December 31, 2005 and December 31, 2006 provide for extensive comparison as a result of the recategorization of the assets and liabilities of the Clean Systems business division to the items "held for sale" in 2005. The explanations of the individual items below makes reference to the main exceptions to this.

Analysis of the assets structure

As shown in the Notes to the accounting policies, the fair values of the assets and liabilities are stated in accordance with IFRS 3 for enterprise values. Intangible and tangible assets, including investment properties (real estate which is predominantly leased to third parties) are shown at their acquisition and production costs in accordance with IAS 38 and IAS 40 respectively. Financial instruments in accordance with IAS 32 and 39, in particular securities available for sale, are shown at their fair values.

The balance sheet total of the Jenoptik Group was reduced markedly to 873.7 million euros (Dec. 31, 2005: 1,508.3 million euros). The total reduction in the sum of 634.6 million euros or 42.1 percent, primarily results from the sale of M+W Zander, the balance sheet items of which, with the exception of minority interests, were shown in the previous year as "held for sale" and now stand at zero. Receivables, liabilities and provisions which still exist from the sale are included in the corresponding balance sheet items.

Non-current assets were reduced by 8.4 percent to 416.9 million euros at the end of 2006 (Dec. 31, 2005: 454.9 million euros). 35

The 37.9 million euro fall was due to disinvestments in tangible and financial assets. By contrast, intangible assets increased by 12.8 million euros to 89.5 million euros (Dec. 31, 2005: 76.7 million euros; plus 16.7 percent). As in 2005, the largest item here was the goodwill at 53.0 million euros, which increased by 5.4 million euros as a result of the acquisitions made in 2006. -- P. 68

At 204.7 million euros, tangible assets were down by 18.0 million euros (Dec. 31, 2005: 222.7 million euros). The termination of the finance lease for a large property in the center of Jena and its subsequent sale led to a marked fall of 23.4 million euros in investment properties, to 34.6 million euros (Dec. 31, 2005: 58.0 million euros). Other tangible asset items rose slightly by 5.5 million euros or 3.3 percent. This is mainly attributable to newly consolidated companies who increased tangible assets by 5.1 million euros. The organic growth in 2006 was therefore achieved essentially without the addition of further tangible assets. The largest item of tangible assets, at 89.0 million euros (prev. year 87.5 million euros; plus 1.7 percent), is buildings, including buildings on third party sites, followed by technical equipment and machines in the sum of 41.5 million euros (prev. year 41.1 million euros; plus 1.0 percent).

Financial assets fell by 33.3 million euros to 56.4 million euros (Dec. 31, 2005: 89.7 million euros; minus 37.1 percent) mainly as a result of the reduction in the number of shares held in DEWB AG and of the sale of two securities funds. -- DETAILED EXPANATIONS, P. 68

Current assets increased sharply by 177.1 million euros to 456.7 million euros (Dec. 31, 2005: 279.6 million euros; plus 63.3 percent). This is mainly due to the sale of M+W Zander which generated restricted cash and cash equivalents in the sum of 143.2 million euros (Dec. 31, 2005: 0 million euros). Excluding these, current assets grew by just 34.0 million euros to 313.5 million euros, corresponding to

35 Structure of non-current assets in million euros

	2006		2005		Changes from previous year
Intangible assets	89.5	21.5 %	76.7	16.9 %	16.7 %
Tangible assets	204.7	49.1 %	222.7	49.0 %	-8.1 %
Financial assets	56.4	13.5 %	89.7	19.7 %	-37.1 %
Other non-current assets	11.2	2.7 %	8.8	1.9 %	27.3 %
Deferred tax assets	55.1	13.2 %	57.0	12.5 %	-3.3 %
Total	416.9		454.9		-8.4 %

a rise of 12.1 percent. This was attributable on the one side to the newly consolidated companies and on the other to the growth-related increase in inventories and trade accounts receivable.

Other assets fell significantly by 14.8 million euros to 13.9 million euros (Dec. 31, 2005: 28.7 million euros; minus 51.6 percent). The main reason for this was the restructuring of the Jenoptik Pension Trust during the course of the sale of M+W Zander which led to a shift between current and non-current assets, amongst other things.

Operating assets increased essentially at the same rate as the growth in business. Inventories therefore rose by 18.3 million euros to 161.5 million euros (Dec. 31, 2005: 143.2 million euros; plus 12.8 percent) and receivables from operating activities by 22.8 million euros to 103.8 million euros (Dec. 31, 2005: 81.0 million euros; plus 28.1 percent). Trade accounts receivable accounted for 88.9 percent or 92.3 million euros (Dec. 31, 2005: 77.4 million euros; plus 19.3 percent) with the balance coming from PoC claims (Percent of Completion; -- P. 66). The latter posted a marked increase to 11.5 million euros (Dec. 31, 2005: 3.6 million euros. plus 219.4 percent) attributable mainly to major projects in the aerospace business.

The increase in receivables and inventories is also attributable to the newly consolidated companies. As a result of the initial consolidation as at October 1, 2006 the current assets of Etamic were incorporated into the Jenoptik balance sheet in full as at December 31, 2006, the sales by contrast only in the 4th quarter.

The working capital, defined as the total receivables from operating activities and inventories, less trade accounts payable and on-account payments received, increased by 32.0 million euros to 198.3 million euros (Dec. 31, 2005: 166.3 million euros; plus 19.2 percent) as a result of the organic growth and acquisitions. The working capital quota (working capital as a proportion of sales) remained virtually constant at 40.9 percent (prev. year 40.6 percent).

Shareholders' equity, including minority interests, fell to 299.4 million euros (Dec. 31, 2005: 314.3 million euros). The positive effects on the shareholders' equity, in particular of the 2006 net profit and the appreciation in the value of the PVA TePla shares were eclipsed by the fall in minority interests. These reduced by 20.3 million euros to 22.5 million euros (Dec. 31, 2005: 42.9 million euros) essentially caused by the departure of the M+W Zander minority shareholders as a result of the sale of M+W Zander. By contrast, the shareholders' equity of the Jenoptik shareholders increased by 5.4 million euros to 276.8 million euros (Dec. 31, 2005: 271.4 million euros). The shareholders' equity ratio increased to 34.3 percent (Dec. 31, 2005: 20.8 percent) as a result of the fall in the balance sheet total. 36

Non-current liabilities reduced to 333.2 million euros (Dec. 31, 2005: 369.2 million euros; minus 9.8 percent). Here again the 36.0 million euro reduction primarily results from the successful settlement of the finance lease for a property in Jena.

Whilst pension liabilities remained almost constant at 6.3 million euros (Dec. 31, 2005: 6.9 million euros) and other non-current provisions increased to 22.3 million euros (Dec. 31, 2005: 15.3 million euros; plus 45.8 percent) non-current liabilities were reduced sharply to 301.6 million euros (Dec. 31, 2005: 343.8 million euros; minus 12.3 percent). The fall in the total sum of 42.2 million euros is mainly due to the reduction in non-current liabilities arising from the finance lease which were down by 66.1 percent from 69.9 million euros to 23.7 million euros.

There were only minimal changes to other non-current liabilities, such as the bonds in the sum of 204.8 million euros (plus 2.4 million euros compared with the previous year as the result of interest accrued), non-current loans at 53.2 million euros (minus 0.8 million euros as against the previous year due to redemption) as well as other non-current liabilities in the sum of 20.0 million euros.

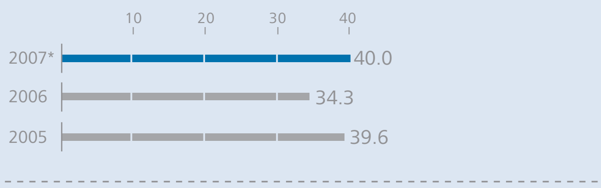
Clauses which take effect in the event of a change of control in the shareholder structure of JENOPTIK AG exist for key items of the non-current financing with a total nominal volume of more than 230 million euros. These include the fixed interest-bearing bond, the convertible bond as well as two JENOPTIK AG loan agreements. For these JENOPTIK AG loan agreements which serve to provide the finance for the current working capital requirement and which take the form of credit lines totaling 10 million euros and 12.5 million euros, the respective bank has the right to extraordinary termination in the event of a change of control in the JENOPTIK AG shareholder structure. In the event of a change of control the bondholders of the fixed interest bond issued in 2003 are entitled to require that JENOPTIK AG buy back all or some of the papers held by them at a cash purchase price of 101 percent plus accumulated and unpaid interest. With the convertible bond, in the event of a change of control, if any conversion rights are exercised or shares delivered, the conversion price will be adjusted (subject to any other stipulated adjustment) through being multiplied by the following factors: if converted on a date between July 23, 2006 (inclusive) and July 23, 2007 (excluded) by the factor of 0.8712 and if converted on a date between July 23, 2007 (inclusive) and July 23, 2008 (excluded) by the factor of 0.9356. Under the conditions of the fixed interest bond and the convertible bond a change of control applies in accordance with defined criteria which are explained in detail in the bond terms and conditions, details of which are available to the general public.

Current liabilities totaled 241.1 million euros as at the end of 2006 (Dec. 31, 2005: 192.9 million euros; plus 25.0 percent) and were consequently up by 48.2 million euros. This was the result not only of increased operating liabilities as a result of the business expansion but also essentially of the financing of the withdrawal by the minority shareholders of M+W Zander and the settlement of the above-mentioned finance lease. 37

Current financial liabilities accordingly increased to 78.8 million euros (Dec. 31, 2005: 61.6 million euros), 65.8 million euros of which are current bank liabilities (Dec. 31, 2005: 50.5 million euros). Another item are the commercial papers which give Jenoptik a short-term financing framework of up to 100 million euros depending upon market conditions. This option was utilized at the end of 2006 in the sum of 11.4 million euros (Dec. 31, 2005: 7.5 million euros. plus 52.0 percent).

Liabilities from operating activities increased from 58.0 million euros to 66.9 million euros as a result of the growth. Whilst liabilities arising from on-account payments received fell slightly to 26.0 million euros (Dec. 31, 2005: 30.1 million euros. minus 13.6 percent), trade accounts payable, including liabilities arising from PoC increased sharply by 13.1 million euros to 40.9 million euros (Dec. 31, 2005: 27.8 million euros; plus 45.3 percent).

Equity ratio in % 36



* Forecast

Other current liabilities which rose to 42.7 million euros (Dec. 31, 2005: 31.1 million euros. plus 37.3 percent) include a residual liability to the minority shareholders of M+W Zander in the sum of 15.1 million euros which will become payable at the end of 2007. The claim against the purchaser Springwater in roughly the same amount was paid early in December 2006.

Explanation of purchases and sales of companies

The sale of M+W Zander in May 2006 led to a fundamental change in the Jenoptik Group. The effect of this change extended far beyond the key indicators in the statement of income and balance sheet, also impacting on the risk and opportunity situation. Since an agreement had been concluded back in November 2005 with the purchaser, the venture capital company Springwater Capital, we refer to the detailed explanations of the sale and its effects contained in our 2005 Annual Report. The main consequences of the implementation of the agreement in 2006 were the reduction in the balance sheet total, -- P. 70, the increase in restricted cash and cash equivalents as a result of the payment of the purchase price and the bank credits as a result of the paying out the minority shareholders with a simultaneous reduction in the shareholders' equity by the amount of their minority interest as well as a reduction in the risk positions. -- P. 88

In order to concentrate all our resources on the expansion of the core business in the future, further non-strategic investments and real estate were sold in 2006. The sale of additional shares in DEWB AG and the termination of the finance lease for a property not used by the Group itself are to be seen in this context. The finance lease is reflected in the change in non-current assets and non-current liabilities. The balance sheet item 'shares in associated companies' was reduced as a result of the sale of the DEWB shares. The remaining shares in DEWB AG were recategorized under participating interests which consequently reported a slight rise. The above-mentioned effects are also explained in the analysis of the asset structure. -- FROM P. 69

The core business of the Jenoptik Group was strengthened in 2006 through acquisitions in parallel with the above-mentioned sales. The largest acquisition in 2006 was the French measurement technology company ETAMIC S.A. The strategic fit with our existing areas of expertise, as well as the effects on the 2006 key indicators for the Sensors division are described in detail in the segment reporting -- FROM P. 78. The acquisition gave rise to a total of approx. 17.3 million euros in non-current and current assets in the balance sheet. Non-current and current liabilities increased by approx. 10.4 million euros. The impact of other acquisitions was markedly lower.

Financial liabilities by due date in million euros

	up to 1 year	1 - 5 years	more than 5 years	31.12.2006
Bonds	11.4	204.8	0.0	216.2
Bank liabilities	65.8	9.6	43.6	119.0
Liabilities from finance leases	1.6	4.6	19.1	25.4
Total	78.8	219.0	62.7	360.5

Assets and liabilities not included in the balance sheet

The value of the Jenoptik brand is one of Jenoptik's key assets not included in the balance sheet. Calculations by semion® brand broker gmbh estimate that the brand value of Jenoptik is around 93 million euros, therefore making it one of the top 50 main German brands. The brand value has reduced by 5 percent over the previous year. However, in the ranking of the 50 most valuable brands in Germany Jenoptik rose from 45th in the previous year to 42nd in the year just past. In this context the concentration on the core business of photonics is seen as strengthening the brand over the long term.

In order to improve the orientation of the future activities towards enhancing the brand value, a process of repositioning was commenced in parallel with the sale of M+W Zander. The core of the brand was extracted and condensed in the new, only slightly modified logo. The darker blue stands for value, the word Jena was replaced by Germany. This is a clear commitment to Germany as a place to do business and the corresponding associations with quality. A new corporate design has been in place since May 2006. The group companies have been and will be combined under the uniform Jenoptik brand umbrella on a step-by-step basis.

A dual brand was created for companies with well known names and trademarks in their own markets, this dual brand clearly identifying them as part of the Jenoptik Group without having to dispense with their own proven name in the market. This applies for example to Jena-Optronik and ESW GmbH in the aerospace market as well as the security and defense technology market. ESW took advantage of the reorganization to significantly shorten its name and since October 2006 has been operating under the name of ESW GmbH (formerly ESW-EXTEL Systems Wedel Gesellschaft für Ausrüstung mbH). Wahl optoparts has also been operating under the name of JENOPTIK Polymer Systems GmbH since 2006.

We see the total costs in the sum of 0.7 million euros for JENOPTIK AG in 2006 as an investment in the future since the brand presence is being raised and given a stronger link to products and technologies of the Jenoptik Group.

Off-balance sheet financing instruments were explained in detail in the Management Report -- P. 66 as well as in the Notes under -- POINT 34.

Intangible assets not included in the balance sheet

From our viewpoint intangible assets are created on the basis of know-how, contacts and trust. It is impossible to give a description which does not contain any subjective perceptions. As far as possible, key indicators will be used below for the purpose of assessing our intangible assets. No overall or individual calculation of the asset values has been carried out. Our success is determined by the success of our customers. A relationship of mutual trust is required for technology intensive products and systems which can often only be created in collaboration with the customer. We see our knowledge of customer needs as well as our long standing working relationship with many of our key customers over many years as our most important intangible asset. This is reflected for example in the fact that we have orders totaling around 200 million euros that extend beyond 2007.

We also include our employees' know-how and years of experience as well as their willingness and loyalty to the company as part of the intangible assets. This can be seen for example in our low fluctuation rate of 2 percent. -- P. 61

Our technology intensive business is based mainly on the success of our product and technology development. We view our know-how in research and development as well as in processes and projects, accumulated over many years, as an important intangible asset that cannot be quantified.

This also includes our numerous formal and informal contacts with universities and research institutions. -- P. 50

We are supported in this context by our headquarters being located in Jena, a city that enjoys an excellent reputation not only amongst scientists but customers as well. We have a long history of tradition in the precision mechanics-optical industry in Jena, a tradition which is passed from generation to generation here as a type of "cultural inheritance". We are consciously aware of this fact and help to promote the city from the scientific, cultural and social aspects. Our sponsorship activities at the Jena location totaled 0.2 million euros in 2006 and we see this as an investment in our location and our employees.

2.5 General statement on the economic situation

Both the figures contained in the statement of income as well as the key indicators in the balance sheet in 2006 provide the very first proof of the strength of performance of the new Jenoptik. Taking into account the key data on the former Photonics business division (today essentially the continuing business) we succeeded in posting a marked increase in sales and earnings for the 9th year in succession. Since 1998, the year of the stock market flotation, up to 2006, based on the former Photonics business division, we have therefore achieved annual average growth (CAGR) of 14.8 percent on the sales side and 30.4 percent on the earnings side. We have met and in some cases exceeded our forecasts for 2006. Through the clear reduction in net debt as well as the sale of real estate assets not used for our own purpose, we have strengthened Jenoptik especially for the long term.

3 Segment Reporting

3.1 Laser & Optics

The Laser & Optics division was the growth driver at Jenoptik in 2006. Sales increased by 33.1 percent to 199.2 million euros (prev. year 149.7 million euros) and consequently grew at a stronger rate than had been expected. The sales forecast in spring 2006 of between 160 and 170 million euros was raised in November 2006 to between 185 and 195 million euros and the division has exceeded even this figure. The proportion of sales generated abroad rose slightly to 67.6 percent (prev. year 65.9 percent).

Approximately 25 million euros of the 49.5 million euros total increase in sales came from organic growth. This rise was driven by high-power diode lasers as well as high-performance and micro-optics for manufacturers in the semiconductor industry. Plastic optoelectronic components and systems also posted a high level of sales – despite the relocation of the entire company and the simultaneous switch to new product generations. Companies in which majority shareholdings were taken at the end of 2005 and the beginning of 2006 and then consolidated, such as SINAR AG as well as MEMS Optical Inc, contributed to the increase.

The result from operating activities increased from 13.3 million euros in the previous year to 15.3 million euros, a rise of 15.0 percent. As a result of their increasing importance smaller R+D project companies were consolidated for the first time. Since it is the nature of these companies to still show a clearly negative result, the growth in earnings by the division did not keep pace with the growth in sales.

The good economic development as well as the market acceptance of the products is demonstrated in particular in the order intake of the Laser & Optics division. This rose by 45.3 percent to 208.5 million euros (prev. year 143.5 million euros). This was driven by export demand, reflecting the sector trend. Despite the enormous growth in sales the book-to-bill rate was 1.04 (prev. year 0.96). The division's order backlog totaled 66.1 million euros (prev. year 56.3 million euros).

R+D expenses excluding customer order developments, at 17.6 million euros, are the largest item in the division's statement of income after the cost of sales (prev. year 13.1 million euros). The sharp rise of 4.5 million euros or 34.4 percent is essentially due to the completion and consolidation of several mature research topics. The increase in other items, such as selling expenses to 17.2 million euros (prev. year 10.9 million euros) and general administrative expenses to 12.1 million euros (prev. year 9.9 million euros), are also primarily attributable to the initial consolidations and strong organic business expansion.

With 1,254 employees the Laser & Optics division has the highest number of personnel in all three Jenoptik divisions and with 107 employees also posted the largest increase in 2006 (December 31, 2005: 1,147 employees). Approximately half of this increase came from the initial consolidations, including the 30 employees from the acquisition of MEMS Optical Inc. There were changes in the management at JENOPTIK Laser, Optik, Systeme GmbH where Dr. Hans-Jürgen Kahlert has been in charge of the laser activities since January 2006 as the third managing director. At JENOPTIK Polymer Systems GmbH Gabriele Wahl-Multerer handed over the management of the business to a new management team in January 2006.

The focus of investments was on the new plant in Triptis, amongst others. The building itself is leased, approx. 2.0 million euros was invested in new machinery and equipment as well as factory and office equipment. This accounts for approx. 15 percent of the investments in tangible assets by the Laser & Optics division in 2006. The entire production process chain is combined under one roof in the new building and can be carried out efficiently.

Stringent quality requirements that we meet with sterile rooms are a prerequisite for growing business in the medical technology area. Series production of customer-specific modules for image sensors, light detection as well as lighting units was also started up. This assembly and packaging technology is extremely important for the plastic optical module and subsystem value-added chain. Jenoptik is now able not only to mass produce plastic optics but to also manufacture high-quality, complex opto-electronic systems on a customer-specific basis.

The main reasons for our direct involvement in St. Petersburg were the access to special laser technologies and know-how as well as advantages on the cost side. In 2006 we invested in approx. 300 square meters of production area, including clean room facilities. 11 employees manufacture laser modules which are integrated in Jena into components and systems for civil and military applications.

The Jena-based company unique-mode ag, in which we acquired a 100 percent stake in 2006, is another addition to the high-power diode laser area. The company's 15 employees mainly develop, manufacture and market diode laser systems with micro-optic beam shaping for use in the areas of medical, printing and measurement technology, micro-materials processing as well as for pumping solid state lasers.

The micro-optics business was strengthened in 2006 with the acquisition of the US firm MEMS Optical Inc. It now has an expanded distribution network with the addition of the USA as well as manufacturing sites in Germany and the USA which specialize in various technologies. The division can therefore offer the full product range of micro-optics. Customers in North America now have direct access to all the micro-optic products. Customers in Europe are serviced from Jena and consequently benefit from improved accessibility and shorter production times.

The strategy of strong partnerships and cooperation arrangements, which provides for large unit quantities and/or market access, was also successfully continued in 2006. In terms of market access 2006 was a successful year for laser display technology. Rheinmetall Defence Electronics GmbH (RDE) and Jenoptik expanded their longstanding cooperation in August 2006 by concluding a cooperation agreement for laser-based flight simulation systems. RDE now uses the Jenoptik laser projection systems as the basis for its AVIOR simulation system which is to be developed for the civil flight simulation market.

The long-term cooperation arrangement between Jenoptik and the Fraunhofer Institute for Plant Operation and Automation in Magdeburg is aimed at very different customers. October 2006 saw the opening of the Virtual Development and Training Center (VDTC) of the Fraunhofer Institute. It recreates industrial environments such as virtual models of complex machinery and facilities close to reality, with the laser technology providing for a three-dimensional effect.

New products and technologies of the Laser & Optics division were showcased by Jenoptik in 2006 at the leading trade fairs Photonics West in San José (California) and Optatec in Frankfurt/Main. The star of Photokina in Cologne and consequently the winner of the ´most prominent innovation´ prize was the new Hy6 mid-format camera. A long-term agreement on mid-format cameras was concluded with Leaf, a Kodak Group company. The sale of Jenoptik's 51 percent shareholding in Sinar to Leica Camera AG failed to materialize. It had been agreed and announced shortly before Photokina at the end of September 2006 subject to contractual conditions. Since the conditions were not met in full the sale was withdrawn. This did not affect other business relationships which Jenoptik has with Leica Camera AG. -- INFORMATION ON THE OUTLOOK, FROM P. 92.

3.2 Sensors

As announced beforehand, in the fiscal year just past the Sensors division focused on the further internationalization of the business which impacted on the division's sales and earnings. Sales increased by 12.6 percent over the previous year from 136.0 million euros to 153.2 million euros in 2006. Here again, the original forecasts of between 140 and 150 million euros had been raised during the course of the year by 7 million euros to between 147 and 157 million euros as a result of the acquisition of ETAMIC S.A. The 2006 sales figure therefore includes for the first time, on a proportional basis, the company which was consolidated as at October 1, 2006 with 7.6 million euros. In addition to the organic growth in industrial measurement technology and traffic safety systems abroad, Etamic is another reason for the slight increase in sales generated abroad by the Sensors division, which accounted for 63.3 percent of the figure (prev. year 62.5 percent).

The result from operating activities, at 18.1 million euros, was just below the figure for the previous year (prev. year 18.7 million euros). In addition to Etamic, with a disproportionately low contribution to earnings as had been anticipated, this was also due to costs incurred for development of the market in North America where we invested heavily in 2006 in expanding our local presence in anticipation of a major order which was subsequently received in January 2007.

The order intake of the Sensors division, at 145.3 million euros, repeated the level achieved in the previous year (prev. year 139.6 million euros). In 2005 the order intake was influenced by a major order in the area of security systems with a volume of more than 10 million euros. The book-to-bill rate of the Sensors division was 0.92 (prev. year 1.00) primarily as a result of the project-related business in the aerospace area. This is also reflected in the order backlog of 69.0 million euros (prev. year 73.5 million euros).

R+D expenses of the Sensors division (excluding customer order-related developments) remained almost constant at 13.0 million euros and consequently at 8.5 percent of sales (prev. year 12.6 million euros). The key projects included Jena-Optronik's NYXUS observation platform as well as the aerial and satellite cameras. NYXUS is being introduced within the German armed forces as an advanced reconnaissance instrument and will be further developed to provide the modular equipment for the "infantry soldier of the future". There was intensive collaboration with the Laser & Optics division both in the area of measurement technology as well as in development projects from the aerospace technology area.

-- FURTHER KEY INDICATORS IN THE NOTES, FROM P. 120.

The increase in employee numbers of 266 to 1,050 (Dec. 31, 2005: 784 employees) primarily resulted from the acquisition of Etamic. Etamic has 247 employees, 91 percent of whom work outside Germany. Jena-Optronik increased its number of personnel at the Jena location in particular as the result of organic growth.

Capital expenditure for tangible and intangible assets totaled 7.7 million euros in 2006. These were offset by depreciation in the sum of 4.3 million euros. Investments in tangible assets, were dominated by those for laser cutting systems. JENOPTIK Automatisierungstechnik GmbH presented JENOPTIK-VOTAN™ C BIM, an innovative concept for a laser cutting system which moves precisely and quickly around workpieces thanks to a new beam guidance concept.

Jenoptik's industrial measurement technology business can look back on one of its most eventful years. It was boosted significantly in terms of size through the acquisition of the French measurement technology specialist Etamic, enabling it to climb to the number two position in the world in the area of dimensional production measurement technology. Hommel-Etamic is now represented worldwide in the key industrialized nations through its own subsidiaries or investment holdings. Both businesses ideally complement each other in terms of technology, products and distribution: whereas our core areas of expertise lie in tactile and contactless-optical process and final inspection measurement systems, the emphasis at Etamic is on contactless-pneumatic post-process and tactile in-process measurement technology. In 2005 Etamic's approx. 250 employees generated sales of almost 30 million euros. Its clients include in particular the leading French automobile manufacturers. Together, the Jenoptik Group now covers all the standard technologies in the field of industrial measurement technology (tactile, optical and pneumatic). In addition, Jenoptik is able to offer the corresponding, necessary measurement technology for the wide range of production processes in the automobile and automotive supplier industry – on the upstream, in-process and downstream side. From spring 2007 the new name will reflect the amalgamation under the Jenoptik umbrella brand.

In 2006 the presence in the industrial measurement technology area in Asia also significantly expanded. Sales generated in Asia have risen sharply over recent years as a result of the growth achieved by the Asian automobile manufacturers. In spring 2006, Hommelwerke GmbH founded, together with its Korean partner, Hommel Telstar Co. Ltd. with registered offices in Shanghai. In addition to improved after-sales and distribution small systems will be manufactured locally for the Chinese market. The company has 16 employees and is also represented through two sales offices in Beijing and Chongqing. In May 2006 the Telstar Hommel Corporation, a provider of complete production and assembly measurement technology for automobile construction and mechanical engineering in South Korea, moved to its new corporate offices in a special economic development zone for high technology where key customers are also based. We have held 33.3 percent of the shares in the company since 2004.

In the area of traffic safety systems we are seeing a continuation of the trend towards large national or regional orders. This is an area in which the Jenoptik subsidiary ROBOT Visual Systems GmbH benefits from digital technology, an important competitive advantage. When regions or countries decide on the new technology they frequently switch over entirely to this technology and do not simply buy new equipment. The advantage of digital technology is the smooth and fast onward transmission of the recorded data whilst maintaining the same photographic quality in comparison with wet film technology. Robot has met the needs of this change in technology and the strong growth over recent years through restructuring and expansion of its production facilities. Another storey was added to the headquarters in Monheim.

The markets of the Middle East and Asia remain the most important export markets outside Europe. In 2006 Robot founded a joint venture in China. Robot´s order from Canada announced in January 2007 was one of its most important major orders for the development of the North American market. Robot will supply digital camera systems for traffic monitoring. The order, for well in excess of 10 million euros and part of which is apportioned to 2006, will run for five years and includes an option for an extension by a further five years. This consequently gives the Jenoptik subsidiary the very first comprehensive order that also provides for the system operation, including maintenance and after-sales service. The contract came from several major Canadian cities that had already begun a joint traffic monitoring program seven years ago and which are switching to digital technology.

The familiar roadside boxes for traffic monitoring were given a facelift in 2006. With the new TraffiTower Robot offers a modern and functional alternative. A new concept for stationary traffic monitoring which neatly blends in with modern traffic spaces, was developed in conjunction with a designer. The first orders were received from the domestic and foreign markets in 2006.

In the aerospace technology area 2006 was characterized, amongst other things, by carrying out the RapidEye major order. The development of the satellite and airborne camera systems JSS (Jena Spaceborne Scanner) and JAS (Jena Airborne Scanner) has been fully or extensively completed. The market position was continually expanded in the area of position control sensors. The satellite manufacturer Boeing nominated the Jena-based company for the "Supplier of the Year 2006" award. A long-term agreement for position control sensors was concluded with another American customer. Jenoptik technology was also successful in various space missions. Software from Jena is being used in the first of three MetOp (Meteorological Operational) satellites of the European Space Agency, ESA, and the European meteorological organization EUMETSAT.

As a result of the strong growth over recent years Jena -Optronik GmbH underwent a program of reorganization. The corporate structure is now divided into the Space Instruments, Position Control Sensors, Aerial Cameras and Military Instruments areas and consequently reflects the value-added chain particularly in the development and production process. The new structure will enable Jena-Optronik GmbH to meet its customers' requirements on a more flexible and targeted basis.

-- INFORMATION ON THE OUTLOOK, P. 96

3.3 Mechatronics

At 127.0 million euros the Mechatronics division increased sales by 8.1 percent (prev. year 117.4 million euros). The result from operating activities rose to 10.8 million euros (prev. year 8.4 million euros) representing growth of nearly 29 percent. The increase in the result is primarily attributable to the rise in sales achieved in particular with higher margin products.

The order intake of the Mechatronics division which mainly covers the security and defense technology business and which, because of the long-term and project-related character, is by nature subject to strong fluctuations, as anticipated did not repeat the high level achieved in the previous year. Although 123.4 million euros corresponds to a 22.7 percent fall compared with the previous year, the book-to-bill rate of 0.97 (prev. year 1.36) is almost balanced out. The order intake for 2005 in the sum of 159.7 million euros was characterized by the major order for the Eurofighter radome valued at more than 50 million euros.

The order backlog in the sum of 303.3 million euros was just below the previous year's high level (prev. year 308.9 million euros). The long-term nature of the defense technology business is clearly shown in comparison with both the other divisions, each of which showed just one third of the order backlog reported by the Mechatronics division. Orders in the Mechatronics division often run for periods of ten years and more as a result of the platforms on which ESW operates, particularly with drive, stabilization and energy supply systems. The lead times for new projects and platforms are correspondingly long.

Very close contact with industry is maintained by, amongst others, the Dr. Michael Mertin, member of the Jenoptik executive board, who has been a member of the Defense Industry Committee of the Bundesverband der Deutschen

Industrie e.V. (BDI) since autumn 2006. The Committee, formed in 2000, combines the defense technology and armaments policy interests of the German industry, giving it unified representation on both the national and international stage in dealings with the political decision-makers and the general public.

The number of employees in the Mechatronics division remained virtually constant at 828 (December 31, 2005: 834). -- ADDITIONAL INDICATORS IN THE NOTES, P. 120

Investments in the division's tangible and intangible assets totaled 2.6 million euros in 2006. These were offset by depreciation in the sum of 3.5 million euros.

The delays in the A380 jumbo airliner are affecting the Mechatronics division, albeit not severely. ESW GmbH generates approx. 70 percent of its sales with military customers. Civil aviation accounts for 10 percent of total sales although Airbus here is its most important customer. In addition to various other components ESW supplies the trolley-lift for the onboard catering for the A380. Development advance performances from the A380 project will now be refunded later than planned. The company was able to compensate for the delayed sales through other projects in 2006. ESW is participating in the tendering process for the new A350 program within the framework of the existing product range.

An exclusive contract from Eurocopter was awarded to ESW GmbH at the beginning of December 2006. This provides for fixed orders for an additional 170 radomes for the NH90 transport helicopter, including a long-term agreement for an unlimited number of radomes. The previous contract related to the supply of over 180 radomes and has now been significantly expanded with the new agreement concluded. ESW GmbH is one of three companies throughout Europe capable of manufacturing and maintaining sophisticated radomes for military aircraft, e.g. for the Eurofighter.

In January 2006 ESW received the official certifcation from Boeing to service the non-NATO AWACS rotodomes worldwide. Since the company has already had a contract for the maintenance and repair of AWACS rotodomes for the reconnaissance aircraft under NATO control for a number of years now, this created the conditions to enable all the world's AWACS fleets to utilize the service facilities in Wedel, including those aircraft of non-NATO countries. In addition to a company of the Boeing Corp. in Oklahoma, USA, ESW is the only company worldwide to have been certificated to carry out repair and new paintwork.

In the area of military land vehicles ESW's focus is on the electrical system capability. Its package covers power generation/engine systems (the core of which is a starter/generator), onboard power supply, vehicle equipment such as electrical fans and air-conditioning motors as well as the comprehensive weapon stabilization system. ESW is also a leader in auxiliary power units, APUs. As such, thanks to its excellent performance characteristics, it successfully won an order from the British Defense Ministry for APUs in competition with five British rivals. Starting from mid 2007 it will supply 466 systems plus a circulation reserve.

ESW provides systems from power supply through to stabilization for the PUMA armored personnel carrier, five prototypes of which are currently in the trial and certification stage. ESW was awarded the order to produce the series-ready gun and turret drive for the Swiss 87 battle tank. In addition, production is under way for the Leopard battle tank for Greece and Spain as well as the PzH 2000 armoured howitzer for Italy.

ESW's tilting technology for rail systems which operates on an electromechanical and not a hydraulic basis has been in successful use on European rail tracks for a number of years. The company has now made the successful move to Korea: in 2006 the South Korean research institute KRRI showcased the first prototype of the TTX train equipped with ESW tilting technology, after a six-year period of development. It is intended to conduct trial runs from approx. April 2007 on Korea's normal rail network. From the outset ESW incorporated its expertise, as the world's leader in tilting technology, into the development of the train system, work on which began in 2000. Existing trains fitted with ESW tilting technology are now coming up to their first maintenance cycles, e.g. trains operated by the British firm of Virgin Trains. The ESW maintenance contract covers 53 trains. Two additional maintenance cycles are planned up to March 2012; similar orders are also starting up with Deutsche Bahn AG. -- INFORMATION ON THE OUTLOOK, FROM P. 92

3.4 General Statement on the development of the segments

All three divisions reported positive development in 2006. The engine driving growth was the Laser & Optics division which reported double figure growth rates in sales and earnings. With new orders and cooperation arrangements, it also succeeded in positioning itself as one of the leading providers of optical and laser systems in 2006. The research and development activities in this area are correspondingly intensive. In 2006 the Sensors division focused on opening up the international markets for our systems and facilities. This was reflected in the increased sales. The costs of the market development had a clear impact on earnings. However, with an EBIT margin of just under 12 percent the division remained the most profitable of the three. In the Mechatronics division the growth in sales came primarily from activities in strong margin areas so the increase in earnings here was significantly greater than that of sales.

4 Report on post-balance sheet events

Changes in personnel on the executive board of JENOPTIK AG will take place with effect from July 1, 2007. At its extraordinary meeting on February 23, 2007 the Supervisory Board gave its unanimous approval to the termination of the executive board contract of Mr. Alexander von Witzleben and appointed new personnel to the executive board. Alexander von Witzleben, who has been chairman of the JENOPTIK AG executive board since June 19, 2003, will be leaving the company in summer 2007. His contract, which ran up to December 31, 2009, is being prematurely terminated as at June 30, 2007. The supervisory board appointed Dr. Michael Mertin as chairman of the executive board of JENOPTIK AG and HR director with effect from July 1, 2007. The experienced, former Zeiss manager has been a member of the executive board/the COO of JENOPTIK AG since October 2006 --SEE P. 45. Frank Einhellinger was appointed CFO (Chief Financial Officer) also with effect from July 1, 2007. As Head of Financing/Controlling at JENOPTIK AG he is currently responsible for the areas of finance/treasury, taxes, controlling and accounting. The amendments to Dr. Michael Mertin's contract, which originally runs up to September 30, 2011, as well as the contract with Frank Einhellinger are currently being negotiated and had not been finalized by the editorial closing date for the Annual Report. There were no other events of special importance occurring after the end of the 2006 fiscal year.

5 Opportunities and risk report

In our opinion the opportunities for the Jenoptik Group have increased with the reorganization and concentration on technologies and products relating to all aspects of light as a tool. The risks have been reduced. A presentation of these is given in the Risk and Opportunities Report below. The following details, relating both to the opportunities and risks as well those in the forecast report on the future development of Jenoptik are given on the basis of the assumptions regarding the development of economic activity and of the individual sectors and the plans, valid in spring 2007, based on the status of knowledge on this date.

5.1 Opportunity-risk management system

Jenoptik endeavors to exploit opportunities and limit risks. However, both go closely hand in hand with entrepreneurial activities. Jenoptik has comprehensive management systems and instruments at its disposal both for recognizing and exploiting opportunities as well as for recognizing and reducing risks.

In addition to the group-wide risk committee, the network of risk officers in the subsidiaries together with Internal Auditing which uses the key instrument of the Jenaudit, the ongoing reporting on opportunities and risks is an important integral part of the early warning system. Regular management meetings, flat hierarchies as well as an uncomplicated style of communication based on trust, also help in identifying opportunities and risks.

Opportunities-risk report

The opportunities-risk report was fully updated in 2006 and the content of the report expanded. The weighting of opportunities and risks has been adjusted and the way in which these are presented has been optimized. The report consequently not only takes account of the reduction in the size of the Group but also of the new focus on the operating business of the former Photonics business division.

When the report was updated attention was also paid to giving greater consideration to long-term, strategic aspects than was the case in previous years.

The divisions periodically report on all risks and opportunities that exceed 1 million euros; on the company level the minimum threshold for reporting is lower in some cases, risks on the overall group or JENOPTIK AG level are also recorded for amounts exceeding 1 million euros. If a new risk or new opportunity arises between the reporting periods or if there is a fundamental change to a statement in the report (for this purpose the minimum thresholds are 50 percent higher than the minimum thresholds for the periodic reporting) an ad-hoc risk report must be produced and forwarded for the attention both of the risk officer as well as the Group executive board. This guarantees a fast response and ensures that a full and up-to-date overview of the key opportunities and risks is maintained at all times. These minimum thresholds were set relatively low in order to encompass as many individual topics as possible which could have a noticeable, detrimental effect on or produce a positive development for the Group on an accumulated basis. A risk manual which covers all areas of the Group defines the procedure for dealing with the topics covered in the reporting.

With the introduction of lower minimum thresholds it has shown that even minor topics are dealt with on a more consistent basis in the report. The report also contains details on the probability of occurrence, the maximum and realistic level of the risk, concomitant measures as well as on the employee who is responsible for monitoring the development of the corresponding topic, whether this be a risk or an opportunity. The individual reports are collated into a Group risk-opportunities report and submitted to the executive board and supervisory board. The opportunities and risks arising from changes in currency and interest rates are recorded in separate reports.

Auditing, committees and meetings

The audit is conducted by an external auditor and in most cases is in the form of a so-called Jenaudit. A Jenaudit team has an interdisciplinary structure and comprises at least one external auditor together with employees from other Jenoptik companies, with each team auditing one group subsidiary. In this context, it is not just deficiencies or errors that are identified but, based on the experience of the team members, opportunities that are brought to the attention of the respective company management. This approach has since become widely accepted. Since 2003 so-called "follow-ups" have been used in order not only to establish the deficiencies and improvements which have been identified but also to push through implementation. In these follow-ups the level of implementation is reviewed and details reported to the respective company management and the Jenoptik executive board. In 2006 4 subsidiaries were subject to a Jenaudit, with a follow-up report being conducted in a further 3 companies in order to implement the recommendations arising from the Jenaudit.

An investment committee for participations provides group-wide support for larger Jenoptik investment and disinvestment projects. Consequently – in addition to a regular flow of information to the executive board – the maximum possible expertise available within the company is brought together both for planned investments as well as disinvestments. The members of the committees, who meet as required, include, in addition to permanent members of Jenoptik Holding, the managing directors of the group company which is planning an investment or disinvestment.

The regular meetings, in addition to the monthly meeting of the executive board, which was attended by the managing directors of the major Jenoptik companies on an expanded basis every three months, include the monthly meeting of the technical departments as well as the management meetings at which all of the group executives meet once or twice a year over a period of several days, away from the day-to-day business, to discuss strategic topics.

Currency and interest risk management system

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

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

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

5.2 Individual risks

The sale of M+W Zander has made a fundamental improvement to the group's risk profile. In particular, the strong dependence upon the cyclical semiconductor industry, which only accounted for around 9 percent of total sales in 2006, no longer applies. In addition, there has been a reduction in the risks arising from long-term agreements with high volumes and a high proportion of subcontractor services, as well as in the costing and performance risks. As a result of the successfully concluded sale of the Clean Systems business division and the associated improvement in the finance and risk profile, Standard&Poor's upgraded the rating from B to B+ (outlook stable). Unless expressly stated otherwise the explanations of the individual risks set out below refer to the Group's continuing business divisions.

General economic risks and individual sector risks

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

Jenoptik's business is broadly based. There is no significant dependence upon one specific sector. 13 For this reason although Jenoptik's business does entail numerous sector-related risks, their individual effect on earnings will in each case remain in the low single figure million range. In 2006 the three largest sectors (defense technology, industrial measurement technology and material processing) which are essentially independent of each other, accounted for approx. 55 percent of total sales. We view the likelihood of these three or all of the sectors served by Jenoptik simultaneously collapsing or experiencing a sharp economic downturn, excluding any causal events beyond our control, such as war, natural disasters and pandemics, as minimal.

Fluctuations within individual sectors can affect customers' solvency. With larger projects Jenoptik counters this risk through on-account payments and payment agreements which reflect the progress of the project and the costs.

In 2006 the public sector accounted for approx. 40.0 percent of sales. Over recent years there has been an increasing trend in the public sector of significantly extending its payment periods or permanently reducing the proportion of on-account payments as a result of shortage of funds and permanent reductions in budgets. As a result, liquid assets are being increasingly tied up in current assets.

Risks arising from very long-term orders in the security and defense technology business as a result of potential inflation, are alleviated through price escalator clauses.

Corporate strategy risks

Corporate strategy risks are primarily derived from the strong growth planned by Jenoptik for the coming years. The aim is to generate growth both organically, in particular as the result of intensive research and development, as well as via acquisitions, cooperation arrangements and further internationalization. Growth requires additional personnel, particularly those with high level qualifications. The following were therefore identified as the main corporate strategy risks:

- risks arising from acquisitions and purchase of investments
- risks arising from internationalization
- risks arising from research and development
- risks from competitors
- personnel risks
- risks arising from the organization development.

Jenoptik counters the risk arising from acquisitions and purchases of investments by carrying out a detailed due diligence which in the past more frequently resulted in a negative rather than a positive decision. As such, in 2006 Jenoptik examined a total of some 20 companies with regard to a possible acquisition or investment, only a few of which resulted in a positive decision. The due diligence procedure within the Group is structured on a staged basis. The assessment by the group company wishing to acquire a company or an investment is followed by a thorough examination by the investment committee that was set up in 2004. -- P. 84 A central mergers & acquisition management was established on the overall group level at the end of 2006.

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

Risks arising from research and development. We operate in markets that are subject to rapid technological change. The risk of developing products which are not taken up by the market is offset by opportunities derived from leading edge technological products that possess unique selling points. In order to exploit these opportunities and minimize the risks of mistaken developments, development work is carried out where possible in close coordination with the customer. Each R+D project has a project plan which is supported by a team of highly qualified employees. In addition, the scientific advisory council is a high-quality committee that provides support for the monitoring and evaluation of long-term technology trends. Due to the high technological requirements and the business in the constantly changing markets, the risk of mistaken developments which could lead to the loss of planned sales and depreciation on capitalised development costs can be reduced through the measures described above, but it can neither be eliminated nor quantified on a relevant basis.

As a result of the compulsory capitalisation of own development costs when pre-defined criteria are met in accordance with IAS 38, there has been a marked increase in the risks of potential mistaken developments affecting the balance sheet. Consequently, mistaken developments can not only threaten to impact on sales and earnings but also entail a risk of impairment to the capitalised development costs. The total collapse of an individual major research and development topic, which in most cases is organizationally separated in an independent company, can lead to the liquidation of that company and a loss in the single figure million euro range.

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

The risk arising from a situation of fiercer competition which would seriously weaken the market and customer position, is considered by Jenoptik as being minimal. There are virtually no competitors that can be directly compared with the profile of the Jenoptik Group. In the respective core areas of expertise Jenoptik competes in each case with a handful of companies worldwide. The risk of all our competitors simultaneously coming to the market with new products and technologies, is viewed by Jenoptik – as with the sector risks – as minimal.

Personnel risks. Jenoptik relies on highly-qualified employees. In this context it competes with other major companies as well as numerous medium-sized, small and start-up companies for the best personnel. The organic growth in 2006 as well as the target growth for the subsequent years will lead to an increased demand for new personnel. In addition, there is the need for new employees to compensate for the fluctuation rate which was approx. 2 percent in 2006. After taking into account the target organic growth, the fluctuation as well as departures for retirement reasons, the demand for personnel over the coming years will clearly exceed that of previous years. However, since the number of school leavers will simultaneously begin falling dramatically from the year 2008, particularly in the new federal states, there will be a risk in future of our being unable to fill vacancies and trainee positions with suitable applicants. This situation is being countered by Jenoptik through various measures in order to permanently improve its attraction as a potential employer. Furthermore, since 2006 Jenoptik has been creating additional trainee positions independently of the immediate demand from the group companies.

Risks arising from the development of the organization are derived from the strong growth over recent years and the subsequent adjustments to the structures in order to control this active growth. The reorganization has enabled us to open up the opportunity for Jenoptik to concentrate all its resources on the growth of the continuing business divisions. However, any resultant adjustments to the organization and controlling instruments not only entail opportunities for continued future growth but also risks in the transitional phase which we are countering through comprehensive planning and communication processes.

Financial Risks

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

Jenoptik uses exchange rate hedging instruments for virtually all orders in foreign currencies, primarily forward currency transactions as well as currency options. The amount of outstanding forward currency transactions secured totaled 59.6 million euros (prev. year 43.7 million euros).

The exchange rate between the US dollar and the euro weakened from 1.1797 US $/€ on December 31, 2005 to 1.3170 US $/€ December 31, 2006. Orders in 2006 and future order intakes based on what is now a weaker US dollar consequently show lower margins in euros unless the weakness of the dollar is offset fully through price increases. A further steady weakness in the US dollar rate to 1.40 US $/€ euro up to December 31, 2007 would have a detrimental effect on Jenoptik's earnings of between 2 and 3 million euros, a strengthening up to 1.20 US $/€ represents an opportunity to generate approximately the same amount.

The risk of changes in short-term interest rates has been markedly reduced by the issue of a seven year bond in autumn 2003 and a five year convertible bond in summer 2004, each at fixed interest rates. We will continue to make use of interest hedging instruments such as interest caps and interest swaps. With the interest swaps used by Jenoptik a defined variable interest rate is paid on a specific capital sum. In return, Jenoptik receives a specific fixed interest rate on the same capital sum. In 2006, thanks to an interest swap, the risk of changes in interest rates of the investment of restricted cash and cash equivalents was limited. An interest cap in the sum of 6.0 million euros will protect Jenoptik against marked increases in interest rates up to 2008. Fluctuations of one percent in interest rates would have a short-term positive effect (interest reduction) or negative effect (increase in interest) of around 1 million euros on the Group's interest result. Over the long-term, once all current long-term credits and interest hedging have/has expired, a change in interest rates in the amount mentioned above would have an effect on the result of approx. 0.8 million euros.

Put options, which Jenoptik has granted primarily for the acquisition of shares of minority shareholders, could reduce cash resources or sources of financing. In most cases however there is no direct risk to the earnings as new shares in companies are normally acquired. However, with terms that are already fixed today, there is both the risk and the opportunity that the future value of the shareholding might deviate from the option agreement in a negative or positive direction on the date the option is exercised. The put option for the 27.11 percent stake in M+W ZANDER Holding AG held by the family shareholders was cancelled in parallel with the sale of the company in 2006. There is only a minimal amount of other put options on parts of operating companies. On the real estate side there are put options for silent investors who are motivated by tax reasons, although these options cannot be exercised any earlier than from or after 2011.

Risks arising from the sale of shareholdings and legal risks

The risks arising from the sale of shareholdings, particularly from the sale of M+W Zander, have significantly reduced in 2007. Opportunities and risks arising from the sale of the Clean Systems business division resulted from individual topics and projects being retained at Jenoptik, from other standard guarantees during the course of the sale, from agreements to provide guarantees as well as from the payment of the final installment of the purchase price as at October 31, 2007, in the sum of approx. 15 million euros plus interest. Jenoptik also issued the standard guarantees for sales of large shareholdings, such as for example guaranteeing the accuracy of the financial statements, the tax returns issued or the existence of the necessary licenses for the operation of the business. In principle, these guarantee assurances could give rise in future to claims by the purchaser against JENOPTIK AG.

Today, nearly one year after the contract closing, the extent of the fluctuations in opportunities and risks on earnings resulting from projects retained at Jenoptik, is in the mid, single-figure-million-euro range. The risk arising from the payment of the final installment of the purchase price in the sum of 15 million euros was cancelled by the early payment by the purchaser in December 2006. In return, Jenoptik accepted a discount of approx. 1.5 million euros. At the same time, the guarantee framework in the sum of 150 million euros which had been originally assured, was cancelled and the original agreement to gradually reduce the guarantee framework over a period of five years was replaced by a new agreement. The revolving guarantee framework was cancelled entirely so since February 15, 2007 all that remains is old guarantees in the total sum of 9.5 million euros which will expire in accordance with the corresponding progress of the projects and warranty periods. The agreement excludes an AMD project with a guarantee in the sum of 46.8 million euros which Jenoptik categorizes as low-risk. The risk arising from the guarantees for M+W Zander, taking account of the empirical values, is minimal. As such, during the years 1999 to 2005 the amount of the guarantees "drawn" averaged around 0.2 percent. In addition, M+W Zander has an obligation to make repayment to Jenoptik if a guarantee is utilized.

For M+W Zander Gebäudetechnik GmbH, a majority stake in which had already been sold to the management at the end of 2004, Jenoptik provides a guarantee framework in the sum of 180 million euros (originally 250 million euros). However, only 143.7 million euros of this figure had been utilized as at December 31, 2006. As a general rule the risk from contract performance guarantees is minimal since the total order value is normally shown as the guarantee volume, even if the project is already well advanced. In the case of larger projects, guarantees are also often provided by the subcontractors. The demand cash flow line was reduced to 30.1 million euros and is expected to be markedly further reduced in 2007. As at December 31, 2006 this line was used in the sum of 7.7 million euros.

Legal risks. With the victory in the Federal Supreme Court in May 2006 the risk arising from the claim by a DEWB shareholder for a compensation payment, as described in detail in the 2005 Annual Report, has been cancelled in full. The risk arising from the legal dispute between JENOPTIK MedProjekt GmbH and the Free State of Thuringia, described in the same section, has also been cancelled in full with the payment in the sum of more than 10 million euros by the Free State of Thuringia at the beginning of February 2007.

The patent dispute with the US American company Asyst Technologies Inc. before the United States District Court in San José, which has been litigious for over ten years, entered a new phase at the beginning of February 2007 following a jury recommendation against Jenoptik. To the surprise of Jenoptik, based on the previous status of the proceedings in the patent litigation the jury recommended that the judge decide in favor of Asyst and award Asyst damages in the amount of approximately 57.6 million euros. The judge's decision, which will end the first instance, is not expected until the 2nd quarter 2007 at the earliest and will not be legally binding. Should the judge follow the jury's recommendation in full or in substantial part thereof, Jenoptik will appeal the decision before the Court of Appeals for the Federal Circuit in Washington. The appeals process can last several years. Jenoptik and its counsel in the United States are of the opinion that the grounds for as well as the amount of Asyst's claim for damages are unfounded since the patent was invalid and should not have been issued. On several previous occasions during this dispute there were decisions in favor of Jenoptik. The case, which now only pertains to the second of two patents in dispute, was remanded to the trial court again at the beginning of 2005. The first instance has now heard this dispute for the third time. At the beginning of 2005 in the same proceedings regarding a similar patent, the appellate court had confirmed Jenoptik's contentions and rejected Asyst's claim of patent infringement. The technology in question relates to a business segment that Jenoptik abandoned in 1999. Provisions have been set aside for the anticipated costs of the proceedings.

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

Other risks

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

There is no single IT system throughout the Group, with the exception of a group-wide Intranet which does not incorporate the internal accounting or distribution systems. A complete failure by one IT system would therefore only have a detrimental impact on parts of the group. Since Jenoptik exclusively sells capital goods, distribution would only be indirectly affected by a complete system failure, unlike in the case of companies who sell a significant portion of their products via the Internet. The operators of SAP R/3 guarantee availability in excess of 98 percent. In 2006 99.6 percent availability was achieved. The data lines are designed on a redundant basis, the energy supply is secured through uninterrupted power supplies for fluctuations in electricity and an emergency electricity back-up unit. It is impossible to assess the probability and extent of damage caused by viruses and hackers. Jenoptik uses modern firewalls and applies strict security rules, amongst other things, to protect itself.

Environmental risks exist to a partial extent resulting from the use of materials and substances which are required for production processes and may be harmful to health or cause damage to the environment. To deal with this problem JENOPTIK Laser, Optik, Systeme GmbH has been investing since 2002, at the Jena site in particular, in a new chemicals warehouse as well as additional hazardous materials cabinets in the production departments. All substances and materials used are listed and graded.

5.3 Opportunities

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

- the continuing process of internationalization, the currently still minimal extent of which could provide for a disproportionately high level of growth,
- our organizational and management structure which is geared towards the fast-moving technology markets,
- our location, long history of tradition and brand which boosts confidence to tackle demanding projects and
- the measures that we introduced early on in order to meet the strategic challenges of the future and some of which we had already taken at a very early stage.

Our main opportunities are however derived from our intensive research and development. The EUV beam source as well as the processing of silicon structures in the manufacture process of flat screen monitors are two major areas of development that we have already been pursuing for several years now and which offer significant potential for sales and earnings, providing these developments are successfully established in the market and the current forecast change in production process technology is actually realized. For competitive reasons we do not wish to give any further detailed information on the potential offered by these technologies. In addition we are pursuing the development of products and technologies which, in our current assessment, offer promise for the future. -- P. 50

5.4 General statement on the opportunities-risk situation and rating

From the overall viewpoint we consider our ratio between opportunities and risks as correspondingly appropriate to our company. In our assessment we have installed a risk and opportunity management system that reflects this ratio as well as the size of our company and its organization and ensures that we will be able to identify our opportunities to the maximum effect whilst simultaneously minimizing the above-mentioned risks. We have recognized the central, long-term challenges and already initiated corresponding coutermeasures in good time. With the exception of the legal risks and the risks arising from the sale of M+W Zander we operate within a risk-opportunity profile which is typical for our company and inextricably linked with commercial activity. It is also our opinion that we can improve our rating as soon as the restricted cash and cash equivalents can be used to repay debt.

In the 2006 fiscal year the rating agencies Standard&Poor's, Fitch and Moody's also rated Jenoptik and its bond. All three agencies began issuing their ratings in 2003. This was prompted by the issue of the bond.

Following the closing of the sale of the Clean Systems business division Standard&Poor's increased its rating from B to B+ (outlook stable). Potential for improvement is seen in a further reduction in debt and an improvement in the cash flow. Fitch maintained its B rating for Jenoptik but raised the outlook from "stable" to "positive". The rating agency expects Jenoptik to further reduce its debt, thus further improving the financial profile, and the group to continue growing. Other positive factors for the rating, according to Fitch, are an increase in profitability and the strengthening of the positions in the key market. Moody's had already rated Jenoptik in January 2006 and left the rating unchanged. The sale of M+W Zander which had been planned at that time and the relatively stable growth in the remaining businesses, as well as their profitability, were all seen as positive. 38

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

38 Rating

	Corporate Rating				Bond Rating			
	31.12.06	31.12.05	31.12.04	31.12.03	31.12.06	31.12.05	31.12.04	31.12.03
Standard & Poor's	B+	B	B+	BB-	B+	B	B+	BB-
Fitch	B	B	B+	BB	B+	B	B+	BB
Moody's	B1	B1	B1	Ba3	B1	B1	B1	Ba3

6 Forecast report

6.1 Future development of the Jenoptik Group

Orientation of the Group over the next two fiscal years

With the main focus in 2005 and 2006 having been on the fundamental realignment of Jenoptik and the sale of assets not required for operating purposes, the aim now is to pursue the consistent further development of the Group. The emphasis will be on the orientation of the organization and processes towards customers and markets and consequently towards improving the market presence. Our aim is to further increase the Group's strategic and operational expertise, to drive forward the active portfolio management for the expansion of the core markets as well as the focusing on areas of business offering strong growth and earnings. Within the framework of this process we will in future also reduce activities and assets which no longer form part of the strategic focus or are no longer required for operational purposes.

We want to develop future sales markets primarily abroad. In addition to further appropriate acquisitions, investments or cooperation arrangements, this is also intended to be achieved through organic growth. This includes new distribution concepts for our systems and facilities, as was achieved for example at the beginning of 2007 for the very first time in the traffic safety systems area in the North American market, -- P. 79, and which we intend to further develop for the Sensors division over and beyond this order. The Laser & Optics division will focus primarily on new markets in the Middle East as well as in Asia.

Without wishing to rule out future acquisitions, the emphasis in 2007 as well as 2008 will be on the further integration of the acquisitions and investments already made. The largest project in this respect is the merger of Hommelwerke and Etamic worldwide in order to gain synergies from the excellent compatibility of the partners and to attract new customers through advantages in terms of technology, costs, production and presence. In this context, the emphasis will be both on the integration along the value-added chain as well as on the supporting functions. In autumn 2006 we also started „Quattro S" in the industrial measurement technology area, a program which is intended to create the framework for a more streamlined and more efficient collaboration between development, production and distribution. In the traffic safety systems area the optimization of all processes, in particular in production and quality assurance, will also be continued in 2007 and 2008.

New product and technologies are also expected to make a contribution to sales and earnings over the next two years. The examples below are exemplary for a significant additional number of products and technologies. However, as a result of the problem in distinguishing between new products and those which have simply been improved, we do not wish to place any figures on the contribution to sales and earnings from new products.

The quality of the semiconductor material, the basis for high-power diode lasers, has been further enhanced. In conjunction with a new assembly technology this led to a further increase in output powers. Jenoptik's own production of the base material for diode lasers, key to our claim of providing quality, was started up in autumn 2006 at the new plant in Berlin-Adlershof.

The innovative air-cooled thin-disk laser product family was also further improved. The JenLas® epidot thin-disk laser, with a wavelength of 532 nanometers (green laser light) was showcased for the first time at Photonics West in January 2007. It enables finer structures to be created for the ablation and marking of new materials and consequently opens up new potential customer groups, for example from the semiconductor, solar and plastics industries.

In order to expand our position as a leading provider of laser systems for ophthalmology, we presented a new short-pulse laser to our customers at the beginning of 2007. The ultra short-pulse laser enables us to market systems for the so-called LASIK process with what is with 200 kHz currently the highest repetition rate on the market. The lasers will be launched at the LASER 2007 trade fair in Munich. In the past, with the previous methods used for laser vision correction on the lens itself, it was the use of the mechanical micro keratome that was the source of most complications caused by inflammations on the cutting surfaces of the horny layer. The new Femto-second-laser-pulses cut with unknown precision and no heat is applied to the tissue. In addition, the treatment time can be shortened thanks to the high repetition rate of the Jenoptik laser.

The short-pulse laser's high stability and long useful life are made possible thanks to innovative micro-optics. The range of micro-optic products from Jena was expanded with the market launch of transmission gratings made of quartz glass and reflection gratings made of dielectric layer systems for compressing laser pulses. In comparison with the standard gratings with a metal coating the increased diffraction efficiency and damage thresholds set the new gratings apart.

In the plastic systems area a new polymer-based camera module was presented at the beginning of 2007. It is suitable for use, amongst other things, in the areas of medical technology and industrial sensor systems. The distinguishing features of the module are its extremely compact design and the combination of image sensor system and an innovative, LED-based illumination unit within a minimum space. The new development was successful thanks to years of expertise in optics, integrated with the activities of the relatively new area of assembly and packaging technology. -- P. 77

The laser Ceilometer developed by Jenoptik in 2005 and 2006 measures atmospheric parameters such as cloud height, visibility ranges and height of the planetary boundary layer as well as, for the first time, cloud layers and cirrus clouds at greater height. The measurements are carried out with an optoelectronic laser sensor using the LIDAR method and combining state-of-the-art technologies from the areas of laser technology, optics and sensors. Used by the German meteorological office in Potsdam at the end of 2006 for trial purposes, an additional 60 devices have now been ordered for delivery in 2007.

The new generation of the VarioCAM® thermal camera was also launched at the beginning of 2007. With 768 x 576 or 1,280 x 960 infrared pixels, it offers a level of resolution never before achieved. Selected detectors and high-aperture precision optics provide for needle sharp thermal image data. Areas of application include preventative maintenance, diagnostics of buildings, medicine, thermal optimization of assemblies and components, non-destructive materials testing, process monitoring and automation as well as quality assurance.

In the area of digital camera technology for professional photographers the new Hy6 mid format camera will go into series production starting from the 2nd quarter 2007. A large number of orders have already been received as at the beginning of 2007.

In the traffic safety systems area, in 2006 Robot Visual Systems not only added the TraffiTower but also a system for the radar-based speed display to its product range. TraffiDisplay records the speed and immediately shows it on an LED display – a quick entry route to increased traffic safety for the customers.

In the Mechatronics division new developments are following the trend towards medium and smaller sized vehicles for defense technology such as the protected vehicle system Gefas, the future project for an innovative, modular designed electrical-powered range of vehicles. ESW is working on this project together with the systems company Rheinmetall, MTU and other partners.

Future general economic conditions for the economy as a whole and for the individual Jenoptik sectors

According to economists the global economy is expected to cool down slightly in 2007 following four years of record growth. It should however achieve a soft landing with forecast growth of 4.3 percent but from 2008 the global economy will pick up again according to forecasts e.g. by experts at the Deutsche Bank. In addition to the uncertainty about US economic development, experts see risks in oil prices which are difficult to forecast, although these could stagnate in 2007 as a result of the mild winter in Europe and the USA. Experts are also concerned by the foreign exchange market, in particular the dollar which had already fallen by nearly seven percent in value against the currencies of its main trading partners in 2006. The OECD also sees risks in the continuing absence of global equilibrium between the balances of payments of various regions and the danger of increasing protectionist tendencies.

Future US economic activity is also seen as an uncertainty factor. Rarely has there been so much divergence between forecasts. In the opinion of US economists the key factors will be the development of oil prices and the real estate sector. The OECD expects US GDP in 2007 and 2008 to grow by 2.4 and 2.7 percent respectively (2006: 3.3 percent).

For the Euro zone OECD experts forecast a robust growth of 2.2 percent in GDP for 2007 and 2.3 percent for 2008. Since Europe partially succeeded in decoupling itself from the USA in the year just past, there are good opportunities for taking over the position of the leading growth economy – if it were not for the Treasury departments. Tax increases in Germany, Italy and Portugal could slow down consumption – at least in the short term – and consequently threaten the upturn.

In the euro region Germany is currently the main driving force. Although according to forecasts by the OECD the economy is expected to experience a temporary slowdown in 2006 as a result of the increase in value-added tax from 16 to 19 percent, it should then quickly return to its growth path. Although 2007 as a whole will not be quite as vibrant as 2006, economists and institutions currently forecast growth of between 0.9 and 2.1 percent, boosted by dynamic investment in plant and machinery and strong export demand, helped by what is expected to be stable consumer conditions.

For Asia the majority of analysts continue to forecast strong growth rates and a strong rise in the global weighting of the emerging Asian countries. By 2015 one in every three products exported will come from this region. The figure is currently approx. 28 percent. The OECD anticipates that China's economy will continue to grow at annual rates in excess of 10 percent over the next two years. The stock market crash on February 27, 2007 dampened the mood, albeit only temporarily. However, some experts still see a risk factor in the Chinese economy. India is the region's second growth driver. The current upturn phase in the Japanese economy has turned into a self-sustaining expansion, the key driving forces of which are private domestic demand as well as corporate investment. The OECD forecasts growth in GDP of 2.0 percent for 2007 and 2008 respectively.

According to the sector association Spectaris, after recording double figure growth in 2006 German manufacturers of optical technologies expect to increase sales by approx. 10 percent per annum over the coming five years. The importance of the photonics industry can be seen in the impact it has on other sectors such as the automobile industry, medical technology or the information and communications sector. Whilst the photonics technologies directly employ around 200,000 people in Europe according to details from the technology platform Photonics21, a further 2 million jobs in the processing industry depend upon the result of research in and practical applications of the sector.

Following a period of consolidation the market for laser technologies, according to estimates by Laser Focus World, expects worldwide sales growth of 8 percent in 2007, a figure which would put it above the 6 billion US dollar mark for the very first time. Up to the year 2010 Optech Consulting expects the global market for industrial laser systems to grow by an average of 13 percent per annum. The laser macro processing business is expected to increase by almost ten percent per annum, with the market for laser systems for micro processing which are used primarily in the area of electronics and semiconductors, actually achieving a good 20 percent rise.

The measurement technology and sensor systems sector is forecast to record global annual growth of between 5 and 10 percent over the medium term. The Fachverband für Sensorik (Technical Association for Sensor Systems) AMA predicts growth of between approx. 8 and 12 percent for Germany. Once again the engine for this growth and the technology driver is expected to be the automotive sector together with its suppliers who will be driven to produce innovations as the result of a whole range of new emission standards. For the German sensor systems sector, AMA sees in an export study markets such as Japan and China offering significant potential which has not yet been exploited.

The prospects for growth for the global semiconductor market are differentiated: after posting a 9 percent sales increase in 2006 the US sector association SIA anticipates an increase of 10 percent worldwide to just under 274 billion US dollars, whilst VLSI Research predicts a 5.2 percent growth. Sales by the equipment manufacturers are expected to "pause for breath" with figures forecast to be only slightly above those for 2006. However, full order books by the major manufacturers such as ASML contradict this expectation. The global equipment association SEMI sees growth potential of 4.0 percent to 42.1 billion US dollars for the equipment manufacturers, followed then by double figure growth for 2008. The forecast is that sales will break through the 50 billion US dollar barrier in 2009.

According to estimates by ZVEI, the automation trade association, the global market for automation technology is expected to grow by between 6 and 8 percent per annum over the long term. However, in the established markets the growth rates will tend to converge with those of the buyer industries. There will be a simultaneous shift in global market shares. As a result, growth in Eastern Europe, India and China will clearly exceed that in Western Europe. In addition to traditional applications such as machine and plant construction or vehicle technology, automation solutions will also increasingly become markedly cheaper for end user-related areas.

The first January figures confirm a feared dip in sales for the domestic German automotive sector in spring 2007 after purchases had been brought forward at the end of 2006. Exports, as the key pillar of the German automotive industry, are however expected to remain the 'driving force'. According to the VDA the target is to repeat the 2006 figures. Exports were up by 2.5 percent to nearly 3.9 million vehicles. The challenge for the US manufacturers is to quickly satisfy the customers' desire for smaller vehicles as energy prices increased. In the opinion of top managers in the sector the winners will be Chinese, Indian and other Asian brands.

On the global traffic monitoring market the Jenoptik subsidiary ROBOT Visual Systems GmbH sees digital camera technology offering further growth potential over the coming years. The 11 million pixel camera developed in conjunction with JENOPTIK Laser, Optik, Systeme GmbH represents a milestone for future lead in the market.

In the aviation industry Airbus and Boeing agree on the forecast for the next 20 years: both anticipate demand for new aircraft with more than 100 seats, valued at 2.6 thousand billion dollars. In this respect, the Americans expect a supply of 27,200 new aircraft worldwide, with the Europeans forecasting around 22,600 worldwide. The reasons for the imminent boom are the increasing integration between national economies, the race by the emerging nations to catch up as well as the catch-up demand on the part of US airlines. According to estimates by the Federal Association of the German Aerospace Industry, worldwide air traffic is expected to increase by around 5 percent per annum over the coming years. According to Airbus rapid growth is anticipated to come in particular from the so-called BRIC states.

The numerous successful missions by the international space industry in 2006 make it optimistic for 2007. Whilst the US administration has cut back on the major research program planned for the ISS, significant efforts are being made on an international level to stabilize the situation. This opens up opportunities for European and Japanese technologies. The decision of the US space policy to press ahead with manned flights to the Moon and later to Mars, also opens up opportunities for Jenoptik's technology. The ESA's Mars Express probe is also continuing to supply spectacular images of the surface of Mars thanks to leading-edge technology from Jena. The approval of a European Space Policy (ESP) is planned for 2007 under Germany's Presidency of the EU Council, this is expected to provide a further impetus for the sector. In particular the GMES program and a new generation of weather satellites, fundamental decisions on which are due to be taken in 2007, also offer the opportunity for Jenoptik to expand its market positions.

Medical technology is an important part of the global growth market that is the healthcare industry but which, in Germany, is suffering from a health policy which is still failing to give adequate direction. The sector association Spectaris now puts the figure for the backlog of investment in German hospitals and medical practices at up to 30 billion euros. In a report on the outlook up to 2010 the Federal Ministry for Education and Research also forecasts continued lower-than-average growth in the German medical technology market of 4.1 percent per annum. By contrast, according to details from the Federal German Medical Technology Association the forecast annual growth rates of the world's largest medical technology market, the USA, is 6.6 percent. Medical technology in general however is a highly innovative sector in which more than half of sales are generated with products no more than three years old and in which approx. 7 percent of sales is reinvested in research and development.

The defense technology market is subject to the powerful influence of the general political climate. The sector is influenced in particular by the strategy of the United States, the largest armaments market in the world by far. However, now that the Democrats dominate the US Congress experts are predicting cuts in spending which could impact in particular on long-term armaments projects. Nevertheless, European providers are continuing to strive for expansion in the North American business.

On the product side the trend in military land vehicles, an important area of ESW GmbH, is seeing a general move away from heavy equipment. In this area there are virtually no plans for any new developments in the future. It is possible however to envisage upgrades for existing vehicles which may also affect weapon stabilization. The tendency is towards medium-sized and smaller vehicles that offer air transport capability and flexible use.

6.2 Future development of the business situation

Forecast development of the key indicators

Sales, including smaller acquisitions, are expected to grow by an average approx. 10 percent per annum. In the 2006 fiscal year just past we achieved 18.3 percent growth and consequently far exceeded the target figure thanks also to the good fundamental economic climate. Our sales target for 2007 is between 510 and 535 million euros, with the figure for the year 2008 expected to exceed the 550 million euro mark. All three group divisions are expected to contribute towards the growth in sales.

After posting a 33.1 percent leap in sales in 2006, the Laser & Optics division plans to consolidate sales at the same high level and consequently post a figure of between 200 and 210 million euros in 2007. Growth is expected to pick up in 2008, with forecast sales in excess of 220 million euros. In 2007 the full inclusion of Etamic sales for the first time will be clearly reflected in the Sensors division. The growth in this division, at 180 to 190 million euros, is accordingly anticipated to show the strongest rise in 2007. Sales will continue to increase in 2008 dependent upon the economic situation although the leap in sales in 2006/2007, partially the result of acquisitions, will not be able to be repeated to the same extent in 2008 purely on the basis of organic growth. The target will then be to break through the 200 million euro barrier. Thanks to long-term orders the Mechatronics division is better placed to forecast future sales than the other two divisions. Sales in 2007 are expected to come in at between 120 and 130 million euros. For 2008 the aim will be to generate sales in excess of 130 million euros. 39

In terms of the result from operating activities we are aiming for an EBIT margin of between 7.5 and 8 percent for the whole Group. In addition to the sales of roughly 30 million euros of the former ETAMIC S.A., which will probably provide a lower earnings contribution as well as integration costs this target margin can also be attributed to the start-up of smaller R+D project companies. Furthermore, EBIT contributions of real estate will reduce as a result of sales already made or intended to be made. In the medium term the intention is to increase the EBIT margin to between 9 and 10 percent. However, at this point in time we do not yet wish to forecast whether we will actually achieve this target in 2008. We see future potential for an improvement

39 **2007 and 2008 targets** in million euros

	Actual 2006	2007 target	2008 target
Group sales	485	510 – 535	> 550
Sales Laser & Optics	199	200 – 210	> 220
Sales Sensor Systems	153	180 – 190	> 200
Sales Mechatronics	127	120 – 130	> 130
Group EBIT margin	7.9 %	7.5 to 8 %	> 8 %
Shareholders' equity ratio	34 %	abt. 40 %	abt. 40 %
Employees	3,192	abt. 3,300	abt. 3,400
R+D expenses	34	37	38
Capital expenditure	40	36 – 44	similar

in the quality of earnings, resulting from the effects of scale and experience gained, from active control of the portfolio, the successful integration of acquisitions, the market launch of new products and continuing internationalization.

In terms of interest result we expect the final interest expenses for the bond and its repurchase to have a markedly negative effect on the net profit for the year in 2007. Whilst in 2007 a negative interest balance will arise between interest expenses for the bond and interest income for the restricted cash and cash equivalents, deposited in a separate account, of 6 percentage points, once the bond has been repaid the interest situation will ease markedly in 2008.

In terms of the order book situation we intend to benefit from the continuing good economic activity, particularly within the European region. -- FROM P. 94 As in the previous years there is also the potential for major orders coming from the security and defense technology industry as well as the aerospace industry over the next years. Since the order volumes for these individual orders can be in the double figure million euro range, we cannot give serious forecasts for order intakes and order backlogs. We do however believe that with a Jenoptik Group clearly oriented towards customers and markets in the future, we will be able to achieve order intakes markedly up on the figure for 2006.

Research and development remains our foundation stone for success in the market and with customers. R+D expenses, excluding order-related developments and capitalisation, are expected to rise slightly over the next two years to between 36 and 38 million euros, including companies newly consolidated as at January 1, 2007. With new major R+D projects, details of which we do not wish to give for competitive reasons, as well as further developments of existing products, we have clearly defined our R+D roadmap for the year 2007 and beyond. A new innovations manager is intended to coordinate the research activities on the overall group level in future, to distribute available resources efficiently and to develop resources which have not yet been utilized, for example government development funding.

The number of employees is expected to rise further in 2007 and 2008. Excluding acquisitions we anticipate an increase through organic growth of between 150 and 200 employees, to approx. 3,400. In this context we have reported in detail on -- P. 60 on the strategic challenges and our active, long-term measures. The child daycare center in Jena's industrial park Göschwitz should be completed in summer 2007. The first children are expected to take up their places in September 2007.

Environmental and quality management will remain a central challenge for the Jenoptik Group over the years ahead. As such, Jena-Optronik GmbH intends to participate in the Ecoprofit Project from 2008. In this project a number of companies in one region are working jointly together with regional cooperation partners on the careful use of resources such as energy or operating resources. The intention is to establish an environmental management system in 2009. The aim will then be to have this system verified in accordance with ISO 14001. JENOPTIK Polymer Systems GmbH also plans to obtain certification in accordance with environmental criteria in 2007. Quality processes and their continual improvement are at the heart of the production and process developments within the industrial measurement technology and traffic safety systems areas.

Anticipated financial position

For its financing, in addition to cash on hand and bank balances in the sum of 10.6 million euros, Jenoptik had current securities in the sum of 3.6 million euros – primarily money market funds – as well as unutilized lines of credit in the sum of 47.0 million euros at its disposal as at December 31, 2006. The commercial paper program was only utilized to the sum of 13.5 million euros as at February 20, 2007 and, if necessary, this could be extended to the maximum sum of 100 million euros depending upon the market conditions. There are however no plans to do this. The liquidity reserves in the fixed assets which could be converted into liquid assets within one year without extensive costs and without any significant impact on the current operating business, total approx. 20 to 25 million euros.

Jenoptik will access the correspondingly available and appropriate financing instrument for the purpose of financing acquisitions: smaller acquisitions are to be financed out of current cash flows and the available cash flow sources. For larger acquisitions Jenoptik has at its disposal on the one side the funds arising from the sale of M+W Zander in the sum of 143.2 million euros, shown as restricted cash on hand/bank credit balances, although the aim is to use these funds primarily to repay the bond. Secondly, Jenoptik can avail itself of the financing instruments resulting from the resolutions passed by the 2005 Annual General Meeting.

In May 2007 Jenoptik has an obligation to make a buyback offer at the price of 100 to the bondholders of the high yield bond in the amount arising from the sale of the discontinued business division and which has not yet been reinvested by this date. In view of the high nominal interest rate on the bond and the price of the high interest bond steadily remaining above 100 in 2006, we assume that the bondholders will not accept our compulsory offer. Should they take up this offer this would nevertheless result in a marked improvement on the interest side resulting from saving the difference in interest between interest paid and interest received, utilizing the restricted balance. It is however more likely that our offer will be rejected and consequently our obligation to ring fence the money in a trustee account will no longer apply. Should this be the case the amount of Jenoptik's cash flow freedom will be considerably widened in the short term from June 2007.

As already announced we plan to use these freed-up funds for the early repayment of the high yield bond which has a final maturity date of autumn 2010. For this, in November 2007 there will be a call option at the price of just under 104, representing a repayment amount of just under 156 million euros. If repayment will be made in this way the net debt will initially increase slightly as a result of the compensation for early repayment. The gross debt (net debt excluding liquid assets) by contrast will be markedly lower, the balance sheet total will reduce further by approx. 140 to 150 million euros, accompanied by a further increase in the shareholders' equity ratio to nearly 40 percent.

In November 2007 a Jenoptik liability to the minority shareholders of M+W Zander will become due in the sum of 15 million euros. A purchase price claim, in the same amount and originally with the same due date, was settled early at the end of 2006, reducing the debt. The payment which is due has been taken into account in our financial planning for the year 2007.

We will provide the liquidity required to fully redeem the high yield bond (minus the 143.2 million euros already existing today) and the residual payment to the minority shareholders of the discontinued business division through the use of the operating cash flow and credit lines. As a result of the continuing attractive level of interest we are currently looking at new financing instruments in order to put our debt on a long-term footing following the repayment of the high interest bond. We will select appropriate financing instruments dependent upon the respective market conditions. There are no plans for any major switching of the financing for 2008 since there are neither any medium nor long-term financial liabilities due in 2008. The planned positive cash flow from current business activities is to be used to finance the further growth and repay current debts.

By pursuing active working capital management the working capital quota is expected to fall over the next two years and the operating cash flows to increase accordingly. Over recent years the working capital had increased in parallel with the growth in sales and as such significantly reduced the cash flow. Since 2006 both key indicators have become new central elements of the reporting system within the Group.

Investments in tangible assets and intangible assets (excluding additions arising from initial consolidation) are expected to total between 36 and 44 million euros and consequently be at approximately the same level as in the fiscal year just past. This figures also includes the expansion of the service provision business for traffic safety systems as part of the major order awarded in North America. The traffic monitoring systems will be operated over a period of 5 years by a (consolidated) Jenoptik operator company in accordance with the terms of the contract and therefore capitalised under tangible assets. Other investments will primarily comprise rationalization and replacement investment in the development and investment-intensive Laser & Optics division. There are also plans for smaller expansion investments in the Mechatronics division which will secure additional future sales from the service area. The volume of investment for 2008 is expected to be at a similar level, with changes being dependent in particular upon the further development of the market and any new orders received.

The future policy on dividends is intended to reflect the positioning of the Group as a high-tech company. Profits are to be reinvested in the expansion of the technology and product portfolio. As a growth company we plan to further increase the shareholders' equity ratio to reflect the level in comparable and competitor companies.

6.3 General statement on the future development

Opportunities for our future development will be derived from a continuing, positive development in the economic environment and our sectors -- P. 94. At this point in time we do not foresee any major weakening in the growth dynamic, the only divergence is seen in the 2007 forecasts for the semiconductor industry. The broad diversification of our product, customer and market portfolio increases the likelihood of achieving sustainable growth within a positive overall economic climate. Additional growth opportunities are derived from the well-stocked technology pipeline which will enable us to launch a series of new products over the coming years. In the medium term, further impetuses for profitable growth will come from the consistent application of our diverse approaches towards internationalization in Europe, the USA, Asia as well as North Africa. In order to counter any potential corporate strategy risks we have taken specific measures which are explained on -- P. 86 . Providing we implement these successfully and on a sustainable basis we see an increase in our economic performance opportunities over the long term. Our overriding objective is to increasingly convert our technological potential into specific customer benefits. Against this background we will be focussing our activities on the consistent orientation of the company towards our customers and markets, an area in which we will be continually sharpening our profile over the years ahead.

JENA, MARCH 7, 2007

ALEXANDER VON WITZLEBEN

Dr. Michael Mertin

DR. MICHAEL MERTIN

04

Consolidated financial statements, notes to the consolidated financial statements

The segment reporting in the notes to the consolidated financial statements has been completely reorganized, and has now been set up in accordance with our three divisions. We reported on our discontinued business division for the last time in 2006. Although we sold it already in May 2006, we had to report on its figures for the entire year in accordance with the IFRS 5 accounting rules. We have adjusted all of the figures, for those of the discontinued business division, even for the previous year, for the sake of better comparability.

PETRA STAPPENBECK – DIRECTOR OF GROUP ACCOUNTING, JENOPTIK AG

Consolidated Financial Statements of JENOPTIK AG as at December 31, 2006

Consolidated Statement of Income

in TEUR	Note No.	Continuing business divisions	Discontinued business divisions	Group 01.01.-31.12. 2006	Continuing business divisions	Discontinued business divisions	Group 01.01.-31.12. 2005
Sales *	1	485,139	517,049	1,002,188	410,117	1,504,266	1,914,383
Cost of sales	2	333,887	468,098	801,985	285,356	1,437,281	1,722,637
Gross profit		151,252	48,951	200,203	124,761	66,985	191,746
Research and development expenses	3	33,840	997	34,837	27,396	7,049	34,445
Selling expenses	4	47,982	7,654	55,636	37,655	21,447	59,102
General administrative expenses	5	37,252	18,430	55,682	33,330	61,409	94,739
Other operating income	6	30,206	6,107	36,313	17,293	26,208	43,501
Other operating expenses	7	24,170	17,042	41,212	18,616	38,144	56,760
Result from operating activities		38,214	10,935	49,149	25,057	-34,856	-9,799
Result from investments in associated companies	8	-814	923	109	-3,022	-14,637	-17,659
Result from other investments	8	-4,161	-3,011	-7,172	-2,331	-92	-2,423
Interest income	9	13,932	1,862	15,794	6,706	7,145	13,851
Interest expenses	9	28,086	6,188	34,274	18,282	18,176	36,458
Financial result		-19,129	-6,414	-25,543	-16,929	-25,760	-42,689
Earnings before tax		19,085	4,521	23,606	8,128	-60,616	-52,488
Income taxes	10	1,813	3,551	5,364	1,269	11,383	12,652
Deferred taxes	10	1,134	593	1,727	2,900	1,340	4,240
Earnings after tax		16,138	377	16,515	3,959	-73,339	-69,380
Minority interests' share of profit/loss	11	2,682	2,133	4,815	1,777	3,741	5,518
Net profit		13,456	-1,756	11,700	2,182	-77,080	-74,898
Earnings per share in euros	12	0.26	-0.04	0.22	0.04	-1.48	-1.44
Earnings per share (diluted) in euros		0.26	-0.04	0.22	0.04	-1.48	-1.44

* after consolidation

Consolidated Balance Sheet

Assets in TEUR	Note No.	31.12.2006	31.12.2005	Change
Non-current assets		416,934	454,881	-37,947
Intangible assets	13	89,490	76,675	12,815
Tangible assets	14	170,178	164,713	5,465
Investment properties	15	34,553	58,004	-23,451
Shares in associated companies	17	1,396	16,680	-15,284
Financial assets	18	55,035	72,988	-17,953
Other non-current assets	19	11,163	8,786	2,377
Deferred tax assets	20	55,119	57,035	-1,916
Current assets		456,725	279,557	177,168
Inventories	21	161,494	143,244	18,250
Current accounts receivable and other assets	22	137,753	125,517	12,236
Securities	23	3,638	1,950	1,688
Restricted cash	24	143,200	0	143,200
Cash and cash equivalents	24	10,640	8,846	1,794
Non-current assets held for sale		0	773,817	-773,817
Total assets		873,659	1,508,255	-634,596

Shareholders' equity and liabilities in TEUR	Note No.	31.12.2006	31.12.2005	Change
Shareholders' equity	25	299,364	314,327	-14,963
Subscribed capital		135,290	135,290	0
Capital reserve		186,726	186,727	-1
Other reserves		-45,190	-50,572	5,382
Own shares		-47	-48	1
Minority interests	26	22,585	42,930	-20,345
Non-current liabilities		333,198	369,198	-36,000
Pension provisions	27	6,361	6,921	-560
Other non-current provisions	29	22,340	15,284	7,056
Non-current financial liabilities	30	281,679	324,697	-43,018
Other non-current liabilities	31	19,953	19,151	802
Deferred tax liabilities	20	2,865	3,145	-280
Current liabilities		241,097	192,913	48,184
Tax provisions	28	1,218	1,652	-434
Other current provisions	29	41,066	25,982	15,084
Current financial liabilities	30	78,829	61,606	17,223
Other current liabilities	32	119,984	103,673	16,311
Non-current liabilities held for sale		0	631,817	-631,817
Total shareholders' equity and liabilities		873,659	1,508,255	-634,596

Consolidated statement of movements in shareholders' equity

in TEUR	Subscribed Capital	Capital reserve
Balance as at 01.01.2005	135,290	186,727
Valuation of financial instruments	--	--
Currency differences	--	--
Changes in value recorded in shareholders' equity	--	--
Earnings after tax	--	--
Sum of earnings after tax and changes in value not impacting income	--	--
Dividends paid	--	--
Change in consolidated companies	--	--
Other changes	--	--
Balance as at 31.12.2005	135,290	186,727
Valuation of financial instruments	--	--
Currency differences	--	--
Changes in value recorded in shareholders' equity	--	--
Earnings after tax	--	--
Sum of earnings after tax and changes in value not impacting income	--	--
Dividends paid	--	--
Change in consolidated companies	--	--
Other changes	--	- 1
Balance as at 31.12.2006	135,290	186,726

	Reserves						
	Cumulated profit	Fair value measurement	Hedging	Cumulative currency differences	Own shares	Minority Interests	Total
	31,440	-12,141	6,505	-11,775	-48	33,009	369,007
	--	8,518	-3,310	--	--	--	5,208
	-2,129	--	--	7,218	--	2,068	7,157
	-2,129	8,518	-3,310	7,218	--	2,068	12,365
	-74,898	--	--	--	--	5,518	-69,380
	-77,027	8,518	-3,310	7,218	--	7,586	-57,015
	--	--	--	--	--	-7,333	-7,333
	--	--	--	--	--	14,631	14,631
	--	--	--	--	--	-4,963	-4,963
	-45,587	-3,623	3,195	-4,557	-48	42,930	314,327
	--	12,766	763	--	--	-53	13,476
	532	--	--	3,153	--	-1,112	2,573
	532	12,766	763	3,153	--	-1,165	16,049
	11,700	--	--	--	--	4,815	16,515
	12,232	12,766	763	3,153	--	3,650	32,564
	--	--	--	--	--	-3,412	-3,412
	-23,268	--	--	--	--	-20,564	-43,832
	-264	--	--	--	1	-19	-283
	-56,887	9,143	3,958	-1,404	-47	22,585	299,364

Consolidated statement of cash flows

in TEUR	01.01.-31.12. 2006	01.01.-31.12. 2005	Change
Earnings before tax	23,606	-52,488	76,094
Interest	18,480	22,607	-4,127
Depreciation/write-up	35,094	47,817	-12,723
Impairment	1,485	7,244	-5,759
Profit (2005 loss) on disposal of fixed asssets	-665	1,974	-2,639
Other non-cash expenses/income	-2,068	17,121	-19,189
Operating profit/loss before working capital changes	75,932	44,275	31,657
Increase/decrease in provisions	-10,025	8,513	-18,538
Increase/decrease in working capital	3,242	-5,847	9,089
Increase/decrease in other assets and liabilities	-1,714	-354	-1,360
Cash flow from/used in operating activities before income taxes	67,435	46,587	20,848
Income taxes paid	-8,847	-14,891	6,044
Cash flow from/used in operating activities	58,588	31,696	26,892
Receipts from disposal of intangible assets	761	2,620	-1,859
Payments for investments in intangible assets	-12,991	-14,705	1,714
Receipts from disposal of tangible assets	25,743	2,669	23,074
Payments for investments in tangible assets	-30,486	-35,999	5,513
Receipts from disposal of financial assets	24,816	10,631	14,185
Payments for investments in financial assets	-10,614	-9,435	-1,179
Payments for the sale of consolidated companies	20,064	-832	20,896
Payments for acquisition of consolidated companies	-9,315	-24,088	14,773
Interest received	14,986	11,039	3,947
Cash flow from/used in investing activities	22,964	-58,100	81,064
Dividend payments to shareholders	-3,412	-7,333	3,921
Receipts from issue of bonds and loans	40,986	120,638	-79,652
Repayments of bonds and loans	-36,680	-81,052	44,372
Repayments for finance leases	-13,560	-1,480	-12,080
Change in group financing	-8,497	3,935	-12,432
Interest paid	-27,137	-33,706	6,569
Cash flow from/used in financing activities	-48,300	1,002	-49,302
Change in cash and cash equivalents	33,252	-25,402	58,654
Foreign currency translation changes in cash and cash equivalents	-2,877	3,821	-6,698
Cash and cash equivalents at the beginning of the period	123,465	145,046	-21,581
Cash and cash equivalents at the end of the period	153,840	123,465	30,375

Further explanation see Point 33.

Notes to the consolidated financial statements for the fiscal year 2006

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.

New orientation of the Group. With these financial statements the Jenoptik Group is publishing the first annual financial statements after selling the Clean Systems business division (referred to below as discontinued business division).
The sale of the discontinued business division was concluded in the 2nd quarter on payment of the purchase price on May 16, 2006. Consequently, the income and expenses included in the statement of income up to this point in time were separately disclosed in the column "discontinued business division".
In the consolidated balance sheet in the prior year the discontinued business division was included in the assets and liabilities held for sale.
Where there is no explicit note the information in the notes relates to the continuing business divisions. The prior year information was adjusted in order to increase the transparency and comparability of reporting.
After the new orientation of the Group JENOPTIK AG is now concentrating on the Laser & Optics, Sensors and Mechatronics business divisions. Detailed information on these divisions can be found in the management report.

Accounting policies. The consolidated financial statements of JENOPTIK AG for 2006 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.

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

IFRS 8 "Operating Segments"

The IASB published IFRS 8 "Operating Segments" in November 2006. The standard sets out in particular the use of the „management approach" with regard to the identification and measurement of segments. IFRS is obligatory for financial years which begin on or after January 1, 2009. It may be applied earlier.
The initial application of this standard by JENOPTIK AG will lead to changes in information in segment reporting.

IFRIC 9 "Reassessment of Embedded Derivatives"

In March 2006 the IASB issued the interpretation IFRIC 9. This interpretation deals with the speciality of accounting for embedded derivatives in accordance with IAS 39. According to the requirements set out in IAS 39.11 it should be assessed whether the embedded derivative should be separated from the host contract and presented in accordance with the accounting rules for derivative financial instruments. The interpretation IFRIC 9 shall apply to fiscal years which begin on or after June 1, 2006. JENOPTIK AG does not expect any effect on the consolidated financial statements on first-time application in the fiscal year 2007.

IFRIC 10 "Interim Financial Reporting and Impairment"

The IASB issued the interpretation IFRIC 10 in July 2006. The interpretation deals with the connection between the rules of IAS 34 "Interim Reporting" and the rules of recording impairment in connection with goodwill (in IAS 36) and in connection with certain financial assets (in IAS 39). IFRIC 10 shall apply to fiscal years which begin on or after November 1, 2006. The effects of the application of this interpretation on the future consolidated financial statements of JENOPTIK AG cannot be conclusively determined.

IFRIC 11 "Group and Treasury Share Transactions"

In November 2006 the IASB issued the interpretation IFRIC 11. IFRIC addresses how to account for share-based payments within a group, what the consequences are for employees transferring within a group and how share-based payments are to be treated where the company issues its own shares or has to purchase shares from a third-party. The interpretation shall apply to fiscal years which begin on or after March 1, 2007. Earlier application is recommended. This interpretation is not expected to have any effect on the future consolidated financial statements of JENOPTIK AG.

IFRIC 12 "Service Concession Arrangements"

In November 2006 the IASB issued the interpretation IFRIC 12. The focus of the interpretation is on accounting for service agreements by companies, contracted by district corporations, who supply public services such as roads, airports, prisons or energy supply infrastructure. The control of assets remains in public hands but the private sector operator is responsible under contract for construction activities as well as for operating and maintaining the public sector infrastructure. IFRIC 12 deals with the question of how companies should account for the rights and obligations arising from such contractual arrangements. The interpretation shall apply to fiscal years which begin on or after January 1, 2008. It may be applied earlier. It is not expected that IFRIC 12 will have an effect on the future consolidated financial statements of JENOPTIK AG.

The financial reporting for the fiscal year 2006 presents a true and fair view of the net assets, financial position and results of operations of the Jenoptik Group.

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

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

In order to improve clarity of presentation individual items are summarized in the statement of income and balance sheet. The analysis of these items is disclosed in the notes.
The preparation of the consolidated financial statements in compliance with IFRS requires assumptions to be made for certain items which may have an effect on the amounts in the balance sheet or statement of income of the Group and on the disclosure of contingent assets and liabilities.

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

Companies included in consolidation. All material entities in which JENOPTIK AG exercises indirect or direct control (“control concept”) are included in the consolidated financial statements. Control, as defined in IAS 27 “Consolidated and Separate Financial Statements”, exists where the possibility exists to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Inclusion in the consolidated financial statements is from the point at which control over the company is possible in accordance with the “control concept”. It ends when this is no longer possible.

The companies included in the consolidation changed materially in the fiscal year due to the sale of the discontinued business division. The composition of the Jenoptik Group can be seen from the following table. The 2005 published column includes the discontinued business division.

Number of companies	2006	2005 adjusted	2005 published
JENOPTIK AG and fully consolidated subsidiaries			
Domestic	20	20	38
Foreign	8	7	62
Subsidiaries measured at acquisition costs			
Domestic	19	20	30
Foreign	13	7	31
Associated companies			
Domestic	1	2	4
Foreign	0	0	1
Proportionally consolidated companies			
Domestic	1	1	1
Foreign	0	0	1
	62	57	168

Compared to the prior year the companies consolidated in the continuing business divisions changed as follows:

First-time consolidation. During the fiscal year four subsidiaries were purchased, two further subsidiaries were included for the first time in the consolidated financial statements.

Deconsolidation. Two security funds (special funds) were sold at the beginning of the fiscal year. In addition to these special funds two further companies were deconsolidated since they had extensively discontinued their business.

Mergers. As at January 1 JENOPTIK Mikrotechnik GmbH merged with JENOPTIK Laser, Optik, Systeme GmbH, Jena.

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

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

JENOPTIK AG does not consolidate 32 subsidiaries. These primarily include off-the-shelf companies. The influence of non-consolidated companies on the net assets, financial position and results of operations of the Group is not significant. These are disclosed under financial assets as shares in affiliated companies.

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

Additions are shown from the point at which the initial consolidation is performed, disposals represent the amounts as at December 31, 2005.

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

in TEUR	Additions	Disposals	Total
Non-current assets	8,439	-23,397	-14,958
Current assets	17,601	-3,042	14,559
Non-current liabilities	3,089	-212	2,877
Current liabilities	11,784	-168	11,616

The statement of income 2006 includes sales amounting to 31,884 TEUR from companies that were not included in the prior year. These companies contributed -909 TEUR to the result from operating activities and -2,224 TEUR to the annual result.

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

in TEUR	2006	2005 adjusted
Non-current assets	2,016	1,175
Current assets	3,961	5,374
Non-current liabilities	12	13
Current liabilities	2,115	3,084
Income	13,983	13,858
Expenses	13,585	13,182

The companies accounted for using the equity method in the consolidated financial statements show the following proportional values at the year end December 31, 2006:

in TEUR	2006	2005 adjusted
Non-current assets	2,828	17,476
Current assets	4,988	11,931
Non-current liabilities	2,280	2,482
Current liabilities	4,140	10,838
Income	3,292	16,708
Expenses	5,059	18,239

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

Company acquisitions

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

Under the purchase agreement dated July 17, 2006 100 percent of the French measurement technology group ETAMIC was purchased. In addition to ETAMIC S. A., Bayeux this includes subsidiaries in the USA and Germany as well as a branch in Switzerland. With the acquisition the Group has continued to expand its market and technological positions as one of the leading suppliers of industrial measurement technology. The closing conditions were fulfilled on October 2, 2006 at which point the first-time consolidation was performed.
The purchase price amounted to 7,474 TEUR. This was financed from restricted cash.

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

in TEUR	2006
Non-current assets	3,337
Current assets (Including funds adopted of 1,077 TEUR)	13,979
Non-current liabilities	180
Current liabilities	10,161
Purchased net assets	6,975

After measurement at the market values a remaining goodwill of 499 TEUR was capitalised. The ETAMIC Group has been included in the current fiscal year with sales of 7,632 TEUR and a result from operating activities of 259 TEUR.

Furthermore, during the fiscal year 2,918 TEUR was paid for the purchase of shares or remaining shares in two companies.

Consolidation methods

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

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

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

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

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

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

Foreign currency translation

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

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

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

Foreign exchange differences resulting from translation in the previous year within the Jenoptik Group are disclosed in the currency translation reserve with no effect on income. In the fiscal year 2006 these amounted to 2,573 TEUR (2005 7,157 TEUR) disclosed in equity.
Goodwill arising from the capital consolidation of foreign companies is translated at the rates prevailing at the time of purchase.

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

In the separate financial statements of consolidated companies prepared in local currency receivables and liabilities are translated at the balance sheet date rate in accordance with IAS 21. Foreign exchange differences are recorded impacting income in other operating expenses and other operating income. In the fiscal year 2006 foreign exchange differences amounted to gains of 3,759 TEUR (2005 3,516 TEUR) and losses of 4,829 TEUR (2005 3,372 TEUR).

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

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

		Average annual rate		Balance sheet date rate	
	1 EUR =	2006	2005	2006	2005
USA	USD	1.28924	1.22296	1.3170	1.17970
Gr. Britain	GBP	0.68530	0.68368	0.68530	0.68530
Switzerland	CHF	1.59227	1.55162	1.60690	1.55510

Accounting policies

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

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

Goodwill

The exemption provisions of IFRS 1 "First-time Adoption of International Financial Reporting Standards" have been applied to all business combinations before the date of transition to IFRS.

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

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

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

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

Intangible assets

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

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

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

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

Tangible assets

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

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

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

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

Depreciation is mainly based on the following useful lives:

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

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

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

Impairment of tangible and intangible fixed assets

For tangible and intangible assets belonging to the Jenoptik Group which have finite useful lives, an assessment is made at each year end whether the appropriate assets show any indications of impairment in accordance with IAS 36 "Impairment of Assets".
If there are such indications, the recoverable amount of the asset is calculated in order to determine the amount of relevant impairment loss.

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

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

The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties.
Value in use is determined on the basis of the present value of the future cash flows expected. This is based on an appropriate interest rate before tax which reflects the risks of the assets which have not yet been accounted for in the estimated future cash flows.

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

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

Leasing

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

Finance lease

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

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

Investment properties
Investment properties comprise land and buildings held to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes or for sale in the ordinary course of business.

In accordance with IAS 40 investment properties are recognised at amortised acquisition or production costs. The fair value of these properties is additionally disclosed in the notes. It is determined using the discounted cash flow model. The method is partially confirmed by valuation reports by external experts.
Straight-line depreciation is based on useful economic lives of 25 to 40 years.

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

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

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

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

Financial instruments are measured depending on their classification in the categories “Receivables and loans” (at amortised costs) and “Available-for-sale” (at fair value).

The amortised costs of a financial asset or liability is the amount at which
- a financial asset or financial liability is initially recognised
- less potential repayments of capital and
- less any impairment losses or provisions for non-payment as well as
- less accumulated allocation of any difference

between the original amount and the repayment amount (for example discount) when finally due. The discount is apportioned using the effective interest method over the term of the financial asset or financial liability.

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

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

Primary financial instruments

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

For the Jenoptik Group all shares in subsidiaries and investments in quoted public limited companies which are not fully consolidated, partially consolidated or accounted for at equity are included in the Group financial statements, classified as "available for sale" and valued in subsequent periods at fair value. Changes in value of "financial assets available for sale" are recorded directly in equity. Shares in unquoted subsidiaries and investments qualify as "financial assets available for sale". However, they are principally stated at acquisition costs since there is no active market for these companies and their fair values cannot be reliably determined with a reasonable amount of effort. Where there are indications of lower fair values these are applied.

Loans

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

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. This valuation is recorded directly in equity with no impact on profit or loss, also under consideration of deferred taxes. On disposal of the securities, or where permanent impairment occurs, the cumulative gains and losses accounted for until now directly in equity are recorded in the statement of income for the current period. Initial valuation is at acquisition costs on the settlement date and corresponds with fair value.

Trade accounts receivable

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

Other receivables and assets

Other receivables and assets are measured at amortised costs.
All recognisable bad debt risks are accounted for in the form of provisions.
Non-current, non-interest bearing or low-interest bearing material receivables are discounted.

Cash and cash equivalents

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

Restricted cash

Restricted cash is separately disclosed.

Financial liabilities and equity instruments

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

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

Bank liabilities

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

Liabilities

Liabilities which do not represent the primary transaction in a permissible hedging transaction and are not held for trading are measured at amortised costs in the balance sheet. Differences between the historical acquisition costs and the redemption amount are accounted for using the effective interest method. Liabilities from finance lease agreements are stated at the net present value of the minimum lease payments.

Convertible bonds

Convertible bonds are regarded as combined financial instruments which comprise of a borrowing and an equity element. The valuation of the borrowing element on the date of issue is based on discounted future cash flows at a reasonable interest rate normal for the market. The interest rate is based on interest rates of comparable, non-convertible debt instrument. The interest expense of the debt capital component is determined using this interest rate. The issue costs are accounted for in the cash flows in the determination of debt capital components. The difference between the amount determined above and the actual interest paid is written back to the carrying value of the convertible bond.
The difference between the income from issuing the convertible bond and the fair value of the borrowings component represents the embedded option to convert the liability into equity of the Group. The value of this option represents the equity component.

Derivative financial instruments

Within the Jenoptik Group derivative financial instruments are used as hedges to control risks from interest and currency fluctuations. They serve to reduce the volatility in results from interest and currency risks.
Derivative financial instruments are not used for speculative purposes. The use of derivative financial instruments is subject to a Group manual authorised by the executive board which represents a written fixed guideline with regard to the treatment of derivative financial instruments.

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

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

Inventories

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

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

On-account payments received

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

Construction contracts

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

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

Deferred taxes

The accounting for deferred taxes is in accordance with IAS 12 “Income Taxes”. Deferred taxes are calculated based on the internationally common balance sheet oriented liability method. Deferred tax assets and deferred tax liabilities are disclosed as separate items in the balance sheet in order to account for the future tax effect of timing differences between the measurement of assets and liabilities in the balance sheet and for tax purposes.

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

Deferred tax assets are only accounted for at the amount expected to be realised within a reasonable period of time. Deferred tax assets and deferred tax liabilities are offset where the tax authority and term are identical. In accordance with the rules of IAS 12 deferred tax assets and liabilities are not discounted.

Assets and liabilities held for sale

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

Provisions for pensions and similar obligations

Pensions and similar obligations include the pension commitments of the Group from defined benefit and defined contribution pension plans. For defined benefit pension plans pension obligations are determined in accordance with IAS 19 “Employee Benefits”, applying the so-called “projected unit credit method”. Annual actuarial reports are obtained for this. The calculation is based on trend assumptions of 2.75 percent (2005 2.75 percent) for salary development, of 1.75 percent (2005 1.75 percent) for pension development and a discount rate of 4.5 percent (2005 4.25 percent).

The mortality probabilities are determined from the Heubeck tables “Richttafeln 2005 G“ as issued on July 29, 2005. Actuarial gains and losses which exceed the range of 10.0 percent of the higher of the scope of the commitment and fair value of the plan assets should be allocated over the average remaining service period. The service cost is disclosed under personnel expenses, the interest portion of the addition to the provision under the financial result.

The option in accordance with IAS 19.93A to fully record actuarial gains and losses and offset them against retained earnings has not been utilised. The defined contribution pension systems (e.g. direct insurance) offset the obligatory contributions directly as cost. Provisions for pensions are not set up for these as Jenoptik is not subject to an extra obligation in addition to the premium payment.

Tax provisions

Tax provisions include obligations from current taxes on income.

Deferred taxes are disclosed as separate items in the balance sheet and statement of income.

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

Other provisions and accrued expenses

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

Provisions and accrued expenses which do not already lead to an outflow of resources in the subsequent year are measured at their discounted settlement amount at the balance sheet date where the interest effect is material. Discounting is based on pre-tax interest rates which reflect the current market expectations with regard to interest effects and those risks specific to the liability and is independent of the appropriate term of the commitment. Provisions for warranties are established at the time of sale of the relevant goods or provision of the appropriate services. The amount of the provision is based in the historic development of warranties and the observation of all future potential warranty cases weighted according to their probability of occurrence.

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.

Government grants

IAS 20 differentiates between capital grants for long-term assets and income-related grants. IAS 20 basically provides for the treatment of grants to impact income in the correct period.

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

Contingent liabilities

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

Statement of Income

Income from the sale of goods is recorded in the statement of income as soon as all material rewards and risks of ownership have been transferred to the purchaser, a price agreed or determined and it can be assumed that this will be paid. Sales include the consideration invoiced to customers for goods and services – reduced for deductions, conventional penalties and discounts.

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

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

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

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

The offsetting of income and expenses is thus transparent since material amounts are separately disclosed.

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

Segment reporting 2006

Key figures by division

in TEUR (previous year's figures in brackets)	Laser & Optics	Sensors	Mechatronics	Other	Adjustments	Continuing business divisions
Sales	199,198 (149,660)	153,179 (136,049)	126,976 (117,409)	14,639 (13,870)	-8,853 (-6,871)	485,139 (410,117)
Germany	64,481 (50,959)	56,271 (50,968)	82,901 (72,544)	14,639 (13,255)	-8,853 (-6,757)	209,439 (180,969)
European Union	64,495 (49,224)	36,483 (32,310)	38,101 (37,584)	0 (615)	0 (-114)	139,079 (119,619)
Other European	18,535 (19,841)	3,619 (5,337)	825 (436)	0 (0)	0 (0)	22,979 (25,614)
NAFTA	34,996 (19,490)	23,409 (21,909)	3,117 (3,851)	0 (0)	0 (0)	61,522 (45,250)
South East Asia/Pacific	6,292 (3,091)	23,964 (18,216)	1,805 (2,359)	0 (0)	0 (0)	32,061 (23,666)
Other	10,399 (7,055)	9,433 (7,309)	227 (635)	0 (0)	0 (0)	20,059 (14,999)
Sales with other business divisions	2,057 (1,690)	242 (259)	14 (28)	6,540 (4,894)	-8,853 (-6,871)	0 (0)
Operating result (EBIT)	15,263 (13,316)	18,108 (18,718)	10,790 (8,366)	-5,947 (-15,343)	0 (0)	38,214 (25,057)
Earnings before interest, taxes, depreciation, amortisation (EBITDA)	31,794 (26,095)	22,536 (22,848)	14,252 (11,805)	1,334 (-3,003)	0 (0)	69,916 (57,745)
Result from investments in associated companies	-1,767 (-1,900)	0 (0)	0 (0)	953 (-1,122)	0 (0)	-814 (-3,022)
Result from other investments	-3,215 (-1,761)	261 (383)	80 (189)	-1,287 (-1,142)	0 (0)	-4,161 (-2,331)
Earnings after tax before profit/ loss adoption	5,703 (5,390)	17,645 (18,880)	9,910 (5,401)	-17,120 (-25,712)	0 (0)	16,138 (3,959)
Segment expenses	193,950 (144,182)	139,591 (119,141)	120,345 (112,137)	36,517 (39,786)	-13,272 (-12,893)	477,131 (402,353)
Research and development expenses	17,606 (13,122)	12,989 (12,615)	5,815 (3,749)	0 (61)	-2,570 (-2,151)	33,840 (27,396)
Net cash from/used in operating activities *	21,984 --	12,716 --	6,830 --	-12,692 --	0 --	28,838 (65,727)
Total assets	172,695 (155,365)	122,485 (97,952)	161,866 (147,136)	472,784 (588,830)	-111,290 (-13,144)	818,540 (976,139)
Segment liabilities	98,361 (75,722)	76,688 (52,495)	118,344 (105,515)	401,722 (484,655)	-150,293 (-234,609)	544,822 (483,778)
Tangible and intangible assets	107,989 (93,300)	22,821 (17,109)	26,971 (27,853)	136,440 (161,130)	0 (0)	294,221 (299,392)
Investments excluding company acquisitions	22,455 (18,984)	7,670 (6,625)	2,579 (5,167)	7,124 (2,833)	0 (0)	39,828 (33,609)
Depreciation and amortisation	16,531 (12,779)	4,265 (4,130)	3,462 (3,439)	5,959 (6,230)	0 (0)	30,217 (26,578)
Impairment	0 (0)	163 (0)	0 (0)	1,322 (6,110)	0 (0)	1,485 (6,110)
Employees (annual average) (without trainees)	1,183 (1,008)	816 (737)	790 (806)	60 (70)	0 (0)	2,849 (2,621)

* Previous year's figures can not be determined due to the restructuring

Key figures by regions

in TEUR	Laser & Optics 2006	Laser & Optics 2005	Sensors 2006	Sensors 2005	Mechatronics 2006	Mechatronics 2005
Sales	199,198	149,660	153,179	136,049	126,976	117,409
of which domestic *	64,481	50,959	56,271	50,968	82,901	72,544
foreign *	134,717	98,701	96,908	85,081	44,075	44,865
Operating result (EBIT)	15,263	13,316	18,108	18,718	10,790	8,366
of which domestic **	14,047	11,907	19,574	18,721	9,763	7,464
foreign **	1,216	1,409	-1,466	-3	1,027	902
Investments in tangible and intangible assets	22,455	18,984	7,670	6,625	2,579	5,167
of which domestic **	20,731	18,153	7,178	6,384	2,439	5,121
foreign **	1,724	831	492	241	140	46
Depreciation and amortisation in tangible and intangible assets	16,531	12,779	4,265	4,130	3,462	3,439
of which domestic **	15,340	12,352	4,021	4,068	3,328	3,294
foreign **	1,191	427	244	62	134	145
Net assets	172,695	155,365	122,485	97,952	161,866	147,136
of which domestic **	153,033	140,383	94,813	96,093	156,157	141,791
foreign **	19,662	14,982	27,672	1,859	5,709	5,345

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

As a consequence of the sale of the discontinued business division the weighting of the business, measured by share of Group sales, proportion of EBIT and of net assets has changed. In agreement with IAS 14 the presentation of the segments of the prior year has been aligned to the new structure of the Group.

The segmental information is subject to the same disclosure and measurement methods as the consolidated financial statements. Segmentation is performed on the basis of risks and opportunities; recognition is based on the internal organisational and management structure as well as on internal reporting to the executive board and supervisory board. According to this the Jenoptik Group still only shows the continuing business divisions in the primary reporting format and thus, there is a change in presentation compared to the prior year.
With the strategic new orientation of the Group the Photonics business division was restructured. The business activities are classified into the divisions of Laser & Optics, Sensors and Mechatronics and Other.

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

The secondary reporting format is based on geographical aspects. The business relationships between companies within the divisions of the Jenoptik Group are based on prices which would also be agreed with third-parties.

Segment liabilities include non-current and current liabilities less deferred taxes, tax provisions and finance lease liabilities. Segment assets includes the assets of the individual segments less income tax claims.
Segment expenses are expenses resulting from the operating activities of a segment that are directly attributable to a segment and that can be allocated on a reasonable basis to the segment. These include expenses relating to sales to external customers and expenses relating to transactions with other segments of the same entity.

Historical summary of financial data

in EUR millions	HGB						
	1997*	1998	1999	2000	2001	2002	2003
Fixed assets	428.8	348.1	284.4	269.2	344.0	361.2	487.9
Intangible assets	7.3	13.2	15.3	15.0	12.7	27.2	29.7
Tangible assets	346.3	191.4	99.4	111.4	125.8	133.6	140.5
Financial assets	75.2	143.5	169.7	142.8	205.5	200.4	317.7
Current assets	660.6	732.2	686.4	772.4	832.8	893.5	946.7
Net inventories	223.7	204.7	161.6	114.6	170.4	141.5	246.7
of which on-account payments received	283.1	266.7	139.3	557.1	365.8	507.6	400.2
Receivables and other assets	357.8	469.4	394.1	473.1	485.0	617.0	562.7
Liquid funds and short-term securities	79.1	58.1	130.7	184.7	177.4	135.0	137.3
Prepaid and deferred expenses and other	5.1	4.8	2.2	6.9	5.3	2.4	10.0
Shareholders' equity	294.6	375.9	401.9	463.1	487.8	430.6	396.9
Subscribed capital	76.7	94.6	96.2	96.2	105.8	105.8	127.0
Capital reserves	164.7	218.3	222.0	219.2	177.2	129.9	121.5
Revenue reserves	15.6	19.1	54.0	97.9	168.7	183.6	179.0
Minority interests	11.9	12.4	11.3	9.7	7.6	-3.2	4.0
Unappropriated earnings/losses	25.7	31.5	18.4	40.1	28.5	14.5	-34.6
Goodwill from purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt capital	799.7	708.3	570.6	585.1	694.2	826.3	1,046.4
Accruals	169.6	220.0	184.3	253.9	334.9	327.3	413.3
Liabilities	630.1	488.3	386.3	331.2	359.3	499.0	633.1
of which financial liabilities **)	358.5	229.9	110.2	55.8	81.3	204.8	263.7
of which trade accounts payable	199.9	186.0	226.8	225.3	183.6	164.2	185.7
of which other and miscellaneous liabilities	71.7	72.4	49.3	50.1	94.4	130.0	183.7
Deferred income	0.2	0.9	0.5	0.3	0.1	0.3	1.2
Total assets	1,094.5	1,085.1	973.0	1,048.5	1,182.1	1,257.2	1,444.5
Change compared to prior year							
Fixed assets	29.8 %	-18.8 %	-18.3 %	-5.3 %	27.8 %	5.0 %	35.1 %
Current assets	43.4 %	10.8 %	-6.3 %	12.5 %	7.8 %	7.3 %	6.0 %
Shareholders' equity	13.6 %	27.6 %	6.9 %	15.2 %	5.3 %	-11.7 %	-7.8 %
Debt capital	49.6 %	-11.4 %	-19.4 %	2.5 %	18.6 %	19.0 %	26.6 %
Share of total assets							
Fixed assets (asset ratio)	39.2 %	32.1 %	29.2 %	25.7 %	29.1 %	28.7 %	33.8 %
Current assets	60.4 %	67.5 %	70.5 %	73.7 %	70.5 %	71.1 %	65.5 %
Shareholders' equity (equity ratio)	26.9 %	34.6 %	41.3 %	44.2 %	41.3 %	34.3 %	27.5 %
Debt capital (debt capital ratio)	73.1 %	65.3 %	58.6 %	55.8 %	58.7 %	65.7 %	72.4 %
Dividends		14.2	18.4	25.3	28.1	14.2	
per share		0.38	0.50	0.70	0.70	0.35	
in % of subscribed capital		15.0 %	19.1 %	26.3 %	26.6 %	13.4 %	
Return on dividend based on year-end price 31.12.			3.0 %	2.2 %	3.3 %	3.8 %	

* Including ESW GmbH since Oktober 1, 1997

** Liabilities to banks, bills of exchange and bonds

Historical summary of financial data

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

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

Historical summary of financial data

in EUR millions	HGB						
	1997*	1998	1999	2000	2001	2002	2003
Sales	1,275.8	1,597.9	1,395.9	1,572.3	2,001.5	1,584.5	1,982.2
Export share	72.9 %	41.4 %	60.3 %	57.8 %	51.8 %	42.9 %	38.1 %
Gross profit	213.4	265.1	191.3	231.4	246.5	194.7	197.8
in % of sales	16.7 %	16.6 %	13.7 %	14.7 %	12.3 %	12.3 %	10.0 %
EBITDA 1)	69.7	107.0	85.3	102.5	132.6	95.3	45.1
in % of sales	5.5 %	6.7 %	6.1 %	6.5 %	6.6 %	6.0 %	2.3 %
Operating income (EBIT) 2)	29.8	54.3	55.0	82.5	109.1	64.8	7.9
in % of sales	2.3 %	3.4 %	3.9 %	5.2 %	5.5 %	4.1 %	0.4 %
Net income/loss	27.3	22.2	33.3	86.6	88.3	40.3	-25.8
in % of sales	2.1 %	1.4 %	2.4 %	5.5 %	4.4 %	2.5 %	-1.3 %
Cash flow 3)	87.3	102.0	106.0	192.5	204.2	44.2	98.6
Change compared to prior year							
Sales	47.4 %	25.2 %	-12.6 %	12.6 %	27.3 %	-20.8 %	25.1 %
Gross profit	27.6 %	24.2 %	-27.8 %	21.0 %	6.5 %	-21.0 %	1.6 %
EBITDA	29.8 %	53.5 %	-20.3 %	20.2 %	29.4 %	-28.1 %	-52.7 %
Operating income (EBIT)	17.8 %	82.2 %	1.3 %	50.0 %	32.2 %	-40.6 %	-87.8 %
Net income	160.0 %	-18.7 %	50.0 %	160.1 %	2.0 %	-54.4 %	-164.0 %
Employees (average)	6,423	8,523	6,668	5,664	6,683	8,786	10,065
Personnel expenses (incl. pensions)	260.1	358.1	301.2	303.2	351.9	427.0	494.7
Personnel ratio (in % of sales)	20.4 %	22.4 %	21.6 %	19.3 %	17.6 %	26.9 %	25.0 %
Sales per employee (in TEUR)	198.6	187.5	209.3	277.6	299.5	180.3	196.9
Cost of materials (incl. purchased services)	907.9	835.1	946.3	900.9	1,258.3	879.3	1,207.3
Materials ratio (in % of sales)	71.2 %	52.3 %	67.8 %	57.3 %	62.9 %	55.5 %	60.9 %
Research and development expenses	32.6	36.4	29.2	22.5	28.2	29.5	31.4
in % of sales	2.6 %	2.3 %	2.1 %	1.4 %	1.4 %	1.9 %	1.6 %
Net value added	302.6	404.3	349.5	398.6	460.7	476.1	481.0
in % of company performance 4)	21.7 %	23.5 %	22.8 %	24.8 %	22.2 %	28.4 %	23.6 %
of which shareholders, company share (net income)	9.0 %	5.5 %	9.5 %	21.7 %	19.2 %	8.5 %	-5.4 %
Return on sales after interest and tax	2.1 %	1.4 %	2.4 %	5.5 %	4.4 %	2.5 %	-1.3 %
Total turnover of assets	1.17	1.47	1.43	1.50	1.70	1.26	1.37
Total return on capital after interest and tax	2.5 %	2.1 %	3.4 %	8.3 %	7.5 %	3.2 %	-1.8 %
Return on shareholders' equity after tax (at balance sheet date)	9.3 %	5.9 %	8.3 %	18.7 %	18.1 %	9.4 %	-6.5 %
Adjusted equity ratio 5)	28.5 %	35.8 %	46.7 %	52.8 %	47.9 %	36.8 %	28.7 %
Fixed assets financed by shareholders' equity	68.7 %	108.0 %	141.3 %	172.0 %	141.8 %	119.2 %	81.4 %
Fixed assets and inventories financed by shareholders' equity and long-term debt capital	56.0 %	82.9 %	101.2 %	134.3 %	106.3 %	99.2 %	83.2 %
Asset cover 6)	439.9 %	494.7 %	1,199.7 %	1,022.1 %	785.5 %	590.7 %	538.5 %
Inventory turnover (at balance sheet date)	2.5	3.4	4.6	2.3	3.7	2.4	3.1
Net financial liabilities 7)	279.4	171.8	-20.5	-128.9	-96.1	69.8	126.4
in % of adjusted total assets	27.7 %	16.9 %	-2.5 %	-15.2 %	-9.7 %	6.4 %	9.9 %

* including ESW since October 1, 1997

1) EBIT before depreciation/write-ups on tangible and intangible assets
2) Operating income before interest and net investment result; in 2003 before costs of capital measures
3) Net income + changes in accruals + depreciation/write-ups, each excl. effects from first-time consolidation and deconsolidation
4) Company performance = sales plus other operating income and net investment result
5) Shareholders' equity less intangible assets/total assets less intangible assets and liquid funds incl. short-term securities
6) Shareholders' equity/tangible assets excl. property => ratio of plant, machinery, equipment financed by shareholders' equity
7) Financial liabilities less liquid funds and securities held as current investments

Historical summary of financial data

in EUR millions	IFRS				
	2003	2004	2005	2005*	2006*
Sales	1,922.0	2,523.0	1,914.4	410.1	485.1
Gross profit	204.2	293.0	191.7	124.8	151.3
in % of sales	10.6 %	11.6 %	10.0 %	30.4 %	31.2 %
EBITDA [1]	50.9	128.8	43.7	57.7	69.9
in % of sales	2.6 %	5.1 %	2.3 %	14.1 %	14.4 %
Result from operating activities [2]	9.0	81.1	-9.8	25.1	38.2
in % of sales	0.5 %	3.2 %	-0.5 %	6.1 %	7.9 %
Earnings before tax	-43.3	37.4	-52.5	8.1	19.1
in % of sales	-2.3 %	1.5 %	- 2.7 %	2.0 %	3.9 %
Earnings after tax	-45.9	19.0	-69.4	4.0	16.1
in % of sales	-2.4 %	0.8 %	-3.6 %	1.0 %	3.3 %
Net cash from/used in operating activities [3]	64.4	100.8	31.7	65.7	28.8
Change compared to prior year					
Sales		31.3 %	-24.1 %		18.3 %
Gross profit		43.5 %	-34.6 %		21.2 %
EBITDA		153.0 %	-66.1 %		21.1 %
Result from operating activities		801.1 %	-112.1 %		52.5 %
Earnings after tax		-141.5 %	-464.3 %		307.6 %
Employees (average)	10,049	10,052	9,486	2,621	2,849
Personnel expenses (incl. pensions)	500.0	536.7	472.6	148.4	180.1
Personnel ratio (in % of sales)	26.0 %	21.3 %	24.7 %	36.2 %	37.1 %
Sales per employee (in TEUR)	191.3	251.0	201.8	156.5	170.3
Cost of materials (incl. purchased services)	1,217.3	1.468,7	1,076.0	184.8	227.1
Materials ratio (in % company performance)	62.3 %	56.6 %	55.4 %	43.8 %	44.5 %
Research and development expenses	28.4	31.8	34.4	27.4	33.8
in % of sales	1.5 %	1.3 %	1.8 %	6.7 %	7.0 %
Net value added	494.4	618.4	456.6	168.1	213.3
in % of company performance [4]	25.3 %	23.8 %	23.5 %	39.8 %	41.8 %
of which shareholders, company share	-9.3 %	3.1 %	-15.2 %	2.4 %	7.6 %
Return on sales before interest and tax	0.5 %	3.2 %	-0.5 %	6.1 %	7.9 %
Total turnover of assets	1.09	1.62	1.27		0.56
Total return on capital before interest and tax	0.5 %	5.2 %	-0.6 %		4.4 %
Return on shareholders' equity before tax (at balance sheet date)	-12.0 %	10.1 %	-16.7 %		6.4 %
Adjusted equity ratio [5]	17.6 %	21.1 %	16.7 %		33.5 %
Non-current assets financed by shareholders' equity	46.4 %	58.0 %	69.1 %		71.8 %
Non-current assets financed by shareholders' equity and long-term debt capital	113.7 %	120.3 %	142.0 %		140.9 %
Asset cover [6]	142.7 %	159.7 %	190.8 %		175.9 %
Ratio of on-account payments [7]	76.6 %	81.8 %	28.3 %	28.3 %	22.5 %

* Continuing business divisions

1) EBIT before depreciation/write-ups on tangible and intangible assets
2) Operating income before interest and net investment result; in 2003 before costs of capital measures
3) Earnings after tax + changes in accruals + depreciation/write-ups, each excl. effects from first-time consolidation and deconsolidation
4) Company performance = sales plus other operating income and net investment result
5) Shareholders´ equity less intangible assets/total assets less intangible assets, cash and cash equivalents and securities held as investments
6) Shareholders´ equity/tangible assets excl. property => ratio of plant, machinery, equipment financed by shareholder´s equity
7) Ratio of on-account payments = on-account payments received/gross inventories plus receivables from long-term order production incl. profit share

Notes to the statement of income

The following information relates exclusively to the continuing business divisions. The prior year figures have been adjusted to provide better comparability.

¦ 1 ¦ Sales

Sales increased overall by 75,022 TEUR or 18.3 percent to 485,139 TEUR compared to 2005.

Sales include revenue from construction contracts amounting to 9,651 TEUR (2005 14,509 TEUR).

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

¦ 2 ¦ Cost of sales

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

Cost of sales increased overall by 48,531 TEUR or 17.0 percent to 333,887 TEUR compared to 2005.
Cost of sales include impairment losses amounting to 1,322 TEUR (2005 6,110 TEUR).

¦ 3 ¦ Research and development expenses

Research and development expenses include all expenses allocable to research and development activities. Research and development expenses increased overall by 6,444 TEUR or 23.5 percent to 33,840 TEUR compared to 2005.
Research and development expenses include impairment losses amounting to 163 TEUR (2005 0 TEUR).

¦ 4 ¦ Selling expenses

Selling expenses mainly comprise marketing costs, sales commissions, publicity work and advertising. Selling expenses increased overall by 10,327 TEUR or 27.4 percent to 47,982 TEUR compared to 2005.

¦ 5 ¦ General administrative expenses

General administrative expenses include personnel and non-personnel costs as well as depreciation and amortisation relating to the administration function.

General administrative expenses increased overall by 3,922 TEUR or 11.8 percent to 37,252 TEUR compared to 2005.

Furthermore, general administrative expenses include auditors' fees, year-end audit fees of 675 TEUR (2005 1,355 TEUR, of which continuing business divisions 765 TEUR), other confirmation services of 30 TEUR (2005 33 TEUR, of which continuing business divisions 23 TEUR) and fees for other auditor services amounting to 93 TEUR (2005 54 TEUR, of which continuing business divisions 35 TEUR).

¦ 6 ¦ Other operating income

in TEUR	2006	2005 adjusted
Income from the premature release of finance lease liabilities	6,194	0
Income from services, transfers and rental	5,760	5,367
Income from exchange gains	3,759	3,516
Income from government grants	3,068	2,584
Income from damages claims/ insurance services	2,564	483
Income from the disposal of fixed assets	1,617	909
Income from the release of provisions and accrued expenses	1,431	55
Income from the release of accruals for interim profits	1,420	1,239
Rental credit prior year	1,238	0
Income from the issue of licences	747	355
Income from the release of allowances	646	190
Miscellaneous	1,762	2,595
	30,206	17,293

Income from the premature release of finance lease liabilities is matched by expenses in cost of sales amounting to 253 TEUR, other operating expenses amounting to 665 TEUR and administrative expenses.

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.

Income from damages claims/insurance services includes income from compensation of expenses for fire damage (see point 7).

¦ 7 ¦ Other operating expenses

in TEUR	2006	2005 adjusted
Exchange losses	4,829	3,372
Legal and litigation costs	4,481	0
Costs of services and rental	3,482	2,921
Additions to allowances	2,187	859
Increase in provisions and accrued expenses	1,765	691
Amortisation on intangible assets on first-time consolidation	1,726	1,024
Expenses from fire damage	1,572	0
Expenses of deconsolidation	1,240	0
Losses on disposal of fixed assets	938	3,932
Other taxes	541	341
Expenses of consolidation with discontinued business division	0	4,917
Miscellaneous	1,409	559
	24,170	18,616

Additions to allowances are only included under other operating expenses if these are outside of the ordinary activities of the relevant company.

The expenses from fire damage result from a fire in an office and production building in Jena. These expenses are compensated by income from insurance services in other operating income.

The expenses on deconsolidation relate to companies from continuing business divisions and are, thus, not connected with the sale of the discontinued business division.

¦ 8 ¦ Net investment income/expense

in TEUR	2006	2005 adjusted
Result from investments	-2,660	-680
Result from investments in associated companies	-814	-3,022
Write-downs on financial assets and non-current asset securities	-1,501	-1,651
	-4,975	-5,353

The result from investments in associated companies includes the result of XTREME and of Deutsche Effecten- und Wechsel-Beteiligungsgesellschaft AG (DEWB) attributable to the Group up to their deconsolidation.

¦ 9 ¦ Net interest income/expense

in TEUR	2006	2005 adjusted
Interest income in connection with the sale of the discontinued business division	4,373	0
Interest income from restricted cash	2,583	0
Income from securities and financial asset loans	1,140	4,548
Other interest and similar income	5,836	2,158
Total interest income	13,932	6,706
Interest portion of bonds (cash effective)	13,366	13,366
Discounting of bonds (non-cash)	2,424	2,270
Interest portion of leasing rate for finance lease	1,734	4,322
Interest expense in connection with the sale of the discontinued business division	872	0
Interest portion swap	607	1,425
Interest portion on increase to pension provisions less interest on plan assets	409	262
Other interest and similar expenses	8,674	5,698
Total interest expense	28,086	27,343
Interest on consolidation effects compared to discontinued business division	0	-9,061
Net interest result	-14,154	-11,576

¦ 10 ¦ Income taxes

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

Deferred taxes are calculated at the relevant national income tax rates. For domestic companies as at December 31, 2006 a corporation tax rate of 25 percent (2005 25 percent) plus solidarity levy of 5.5 percent on the corporation tax liability charged (2005 5.5 percent) and an effective trade tax rate of 12.53 percent (2005 12.53 percent) are applied. A tax rate of 38.91 percent (2005 38.91 percent) was thus determined for the calculation of deferred taxes for domestic companies.

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

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

The tax expense which relates to the result of the ordinary activities of the continuing business divisions is classified according to origin as follows:

in TEUR	2006	2005 adjusted
Taxes on income		
Domestic	955	436
Foreign	858	833
Total	1,813	1,269
(of which out-of-period)	(132)	(41)
Deferred tax expense and income		
On timing differences	2,604	13,000
(of which out-of-period)	(-345)	(-52)
On losses carried forward	-1,470	-10,100
Total	1,134	2,900
Total taxes on income	2,947	4,169

Current taxes on income include tax expenses amounting to 132 TEUR (2005 41 TEUR) which relate to subsequent assessments or reimbursements from prior periods. Deferred tax income of 42 TEUR (2005 0 TEUR) is the result of tax rate changes.

At the balance sheet date the Jenoptik Group has unused tax losses carried forward of approx. 475 million EUR (December 31, 2005 458 million EUR) which can be offset against future profits. The increase in tax losses carried forward is due to the current loss of the fiscal year 2006 and from tax losses carried forward of newly consolidated companies. Within the imminent planning period it is expected that losses carried forward of 91 million EUR (December 31, 2005 86 million EUR) will be utilised. With regard to these losses a deferred tax asset has been accounted for amounting to 35 million EUR (December 31, 2005 34 million EUR). With regard to the remaining losses carried forward of 384 million EUR (December 31, 2005 372 million EUR) no deferred tax asset has been accounted for. Losses of 467 TEUR (December 31, 2005 452 million EUR) can be carried forward for an unlimited period of time.

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

	Deferred tax assets		Deferred tax liabilities	
in TEUR	31.12.2006	31.12.2005 adjusted	31.12.2006	31.12.2005 adjusted
Intangible assets	684	1,334	7,138	5,470
Tangible assets	2,413	2,404	4,434	12,685
Financial assets	12,734	14,163	0	179
Inventories	1,023	531	1,072	845
Accounts receivable and other assets	261	151	2,778	2,253
Provisions and accrued expenses	10,098	5,546	33	25
Liabilities	16,569	34,992	589	619
Gross value	43,782	59,121	16,044	22,076
(of which long-term)	(39,596)	(54,504)	(12,757)	(19,464)
Allowances	-7,259	-14,779	0	0
Offsetting	-15,102	-22,023	-15,102	-22,023
Consolidation	-2,032	426	1,923	3,092
Deferred taxes on timing differences	19,389	22,745	2,865	3,145
Deferred taxes on losses carried forward	35,730	34,290	0	0
Balance sheet amount	55,119	57,035	2,865	3,145

The following table shows the tax reconciliation of the expected tax expense for the relevant fiscal year to the actual tax expense disclosed. In order to calculate the expected tax charge/income the tax rate valid for the fiscal year 2006 of 38.91 percent (2005 38.91 percent) was multiplied by the IFRS result before tax.

in TEUR	2006	2005 adjusted
Earnings before tax	19,085	8,128
Income tax rate Jenoptik Group	38.91 %	38.91 %
Expected tax expense	7,426	3,163
Tax impact of the following effects led to a difference between actual and expected tax expense:		
Non-deductible expenses and tax-free income	-13,810	-15,934
Changes in allowances against deferred taxes and the non-recognition of deferred taxes	-4,210	30,230
Permanent differences	14,260	-13,155
Effects of tax rate differences	-256	-246
Effects of tax rate changes	-42	0
Taxes from previous years	-285	-11
Other tax effects	-136	122
Total adjustments	-4,479	1,006
Actual tax expense	2,947	4,169

11 Minority interest share of profit/loss

The minority interest share of Group profits/losses amounted to 2,682 TEUR (2005 1,777 TEUR) and mainly relates to the property companies.

12 Earnings per share

The earnings per share represent the profit/loss attributable to the shareholders divided by the weighted average number of shares outstanding of 52,028,376 (2005 52,028,475). A dilution of the earnings per share can arise from so-called potential shares. In calculating the diluted earnings per share the dilution effects are accounted for in determining the weighted average of outstanding shares. The weighted average of outstanding shares is adjusted for the effect of the options granted in the convertible bond assuming all options are exercised. The diluted earnings per share are higher than the undiluted earnings per share and have, thus, been adjusted in accordance with IAS 33 to the lower amount.

	2006	2005 adjusted
Net profit in TEUR	13,456	1,777
Weighted average of outstanding shares	52,028,376	52,028,475
Earnings per share in euro	0.26	0.04
Dilutive effects in TEUR	1,847	1,802
Weighted average of outstanding shares (diluted)	56,911,795	56,911,894
Earnings per share (diluted) in euro	0.26	0.04

Notes to the balance sheet

13 Intangible assets

in TEUR (amounts in brackets relate to the prior year)	Development costs	Patents, trademarks, software, customer relations	Goodwill	On-account payments for intangible assets	Total
Purchase and manufacturing costs	12,973	35,464	55,005	541	103,983
Balance as at 01.01.2006	(5,317)	(51,516)	(81,484)	(3,433)	(141,750)
Currency differences	-9	9	-192	-1	-193
	(0)	(135)	(270)	(0)	(405)
Change in consolidated companies	129	3,858	5,534	21	9,542
	(0)	(5,104)	(36,819)	(0)	(41,923)
Additions	7,616	3,897	0	1,010	12,523
	(7,389)	(7,721)	(480)	(464)	(16,054)
Disposals	288	526	0	520	1,334
	(695)	(6,679)	(151)	(150)	(7,675)
Reclassifications (+/-)	-325	61	0	274	10
	(2,577)	(454)	(0)	(-2,944)	(87)
Reclassification under IFRS 5	0	0	0	0	0
	(-1,615)	(-22,787)	(-63,897)	(-262)	(-88,561)
Balance as at 31.12.2006	20,096	42,763	60,347	1,325	124,531
	(12,973)	(35,464)	(55,005)	(541)	(103,983)
Depreciation	2,373	17,551	7,384	0	27,308
Balance as at 01.01.2006	(1,487)	(26,733)	(14,417)	(0)	(42,637)
Currency differences	0	5	-39	0	-34
	(0)	(53)	(50)	(0)	(103)
Change in consolidated companies	41	1,139	0	0	1,180
	(0)	(1,215)	(0)	(0)	(1,215)
Additions	2,755	4,249	0	0	7,004
	(1,834)	(8,555)	(0)	(0)	(10,389)
Impairment	163	0	0	0	163
	(461)	(537)	(136)	(0)	(1,134)
Disposals	90	492	0	0	582
	(223)	(3,820)	(151)	(0)	(4,194)
Reclassifications (+/-)	0	2	0	0	2
	(0)	(0)	(0)	(0)	(0)
Reclassification under IFRS 5	0	0	0	0	0
	(-1,186)	(-15,722)	(-7,068)	(0)	(-23,976)
Balance as at 31.12.2006	5,242	22,454	7,345	0	35,041
	(2,373)	(17,551)	(7,384)	(0)	(27,308)
Net book value	14,854	20,309	53,002	1,325	89,490
as at 31.12.2006	(10,600)	(17,913)	(47,621)	(541)	(76,675)

Apart from goodwill there are no intangible assets with an undefined useful life.

There are no restrictions on use of intangible assets.

Existing goodwill results almost exclusively from company acquisitions since January 1, 2003.

Goodwill capitalised relates mainly to goodwill on the purchase of DRAGEBA Wohnbaugesellschaft mbH, Triptis as of December 2003 with its subsidiary JENOPTIK Polymer Systems GmbH, Triptis (formerly: WAHL optoparts GmbH, Triptis) amounting to 31,380 TEUR. The cash generating unit to which goodwill is allocated represents the subsidiary. For this cash generating unit an impairment test is carried out annually to determine whether there is any potential loss in value in goodwill which is not amortised ordinarily. The recoverable amount which is to be compared with the cash generating unit as part of the impairment test is determined by the value in use. The value in use is based on a risk-adjusted, market-oriented interest rate.

During the current fiscal year goodwill primarily increased due to the purchase of the remaining shares in Photonic Sense GmbH, Eisenach, as well as the first-time inclusion of two companies registered in Jena. As part of the purchase price allocation of ETAMIC S.A. hidden reserves of 1,000 TEUR were capitalised in customer lists. The remaining goodwill of 499 TEUR was capitalised.

¦ **14** ¦ Tangible assets

Restrictions on use of tangible assets amount to 62 TEUR (2005 257 TEUR).

An investment grant of 5,241 TEUR (2005 3,958 TEUR) was deducted from the acquisition costs of tangible assets.

Group land and buildings amount to 100,433 TEUR (2005 98,402 TEUR) and mainly include the production and administration buildings in Jena, Triptis, Villingen-Schwenningen and Altenstadt.

Tangible assets

in TEUR (the amounts in brackets relate to the prior year)	Land, buildings	Technical equipment and machines	Other equipment, factory and office equipment	On-account payments and construction in progress	Total
Purchase and manufacturing cost Balance as at 01.01.2006	124,370 (183,741)	93,531 (85,195)	63,299 (122,732)	4,436 (3,000)	285,636 (394,668)
Currency differences	41 (726)	-615 (1,736)	-78 (1,575)	-15 (23)	-667 (4,060)
Change in consolidated companies	4,420 (1,382)	8,022 (13,921)	2,280 (4,437)	0 (260)	14,722 (20,000)
Additions	4,828 (3,649)	9,627 (7,790)	7,973 (20,269)	3,955 (4,293)	26,383 (36,001)
Disposals	1,063 (780)	2,767 (2,545)	3,275 (17,452)	144 (393)	7,249 (21,170)
Reclassifications (+/-)	-2,310 (-1,576)	1,840 (1,458)	1,406 (1,556)	-3,284 (-2,380)	-2,348 (-942)
Reclassification under IFRS 5	0 (-62,772)	0 (-14,024)	0 (-69,818)	0 (-367)	0 (-146,981)
Balance as at 31.12.2006	130,286 (124,370)	109,638 (93,531)	71,605 (63,299)	4,948 (4,436)	316,477 (285,636)
Depreciation Balance as at 01.01.2006	25,968 (37,356)	52,436 (45,641)	42,519 (80,475)	0 (261)	120,923 (163,733)
Currency differences	6 (146)	-292 (972)	-30 (784)	0 (0)	-316 (1,902)
Change in consolidated companies	1,657 (235)	6,699 (6,516)	1,360 (3,250)	0 (0)	9,716 (10,001)
Additions	3,324 (4,809)	11,057 (10,593)	7,292 (18,667)	0 (0)	21,673 (34,069)
Impairment	24 (1,316)	0 (0)	0 (0)	0 (0)	24 (1,316)
Disposals	122 (45)	1,712 (1,882)	2,881 (14,866)	0 (261)	4,715 (17,054)
Reclassifications (+/-)	-1,004 (-670)	-50 (0)	48 (616)	0 (0)	-1,006 (-54)
Reclassification under IFRS 5	0 (-17,179)	0 (-9,404)	0 (-46,407)	0 (0)	0 (-72,990)
Balance as at 31.12.2006	29,853 (25,968)	68,138 (52,436)	48,308 (42,519)	0 (0)	146,299 (120,923)
Net book value as at 31.12.2006	100,433 (98,402)	41,500 (41,095)	23,297 (20,780)	4,948 (4,436)	170,178 (164,713)

¦ 15 ¦ Investment properties

in TEUR	2006	2005
Purchase and manufacturing costs Balance as at 01.01.2006	80,821	79,335
Additions	922	631
Disposals	33,178	0
Reclassifications (+/-)	2,338	855
Balance as at 31.12.2006	50,903	80,821
Depreciation Balance as at 01.01.2006	22,817	16,134
Additions	1,540	1,835
Impairment	1,298	4,794
Disposals	10,309	0
Reclassifications (+/-)	1,004	54
Balance as at 31.12.2006	16,350	22,817
Net book value as at 31.12.2006	34,553	58,004

The investment properties held at December 31, 2006 mainly consist of a building complex in the town centre of Jena which was sold to third-party property fund. Jenoptik is the main tenant of these properties and sub-lets them to third parties. Since these fulfil the criteria of IAS 17 “Leases” the investment properties are shown as finance leases.

In the prior year a further building complex in the town centre of Jena was included in investment properties. This was sold in the fiscal year 2006 and has been shown in disposals.

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

The valuation of investment properties is at amortised costs amounting to 34,553 TEUR (2005 58,004 TEUR). This includes impairment losses of 1,298 TEUR (2005 4,794 TEUR) which are accounted for in order to reduce the amortised costs to lower fair value.

The fair value is principally determined based on the discounted cash flow method. Under this method the net rentals (excluding energy costs) are determined and discounted over the total remaining useful lives. The interest rate applied represents a normal market interest rate accounting for an inflation deduction and risk premium. A valuation report is available for individual cases. The fair value of the investment properties thus calculated amounts to 39,252 TEUR (2005 61,213 TEUR).
Rental income from investment properties held at each year end amounted to 3,491 TEUR (2005 5,255 TEUR).

The direct operating costs for the rented areas of the properties accounted for at each year end amounted to 1,871 TEUR (2005 6,377 TEUR) and for non-rented areas amounted to 226 TEUR (2005 158 TEUR).

¦ 16 ¦ Leasing

Finance lease

The Group as lessee. The assets which are used under finance leases are included in capitalised tangible assets at 12,985 TEUR (2005 35,600 TEUR), their purchase and manufacturing costs amount to 25,013 TEUR (2005 54,587 TEUR) at the balance sheet date.

These assets primarily consist of investment properties with a net book value of 7,457 TEUR (2005 28,056 TEUR) and purchase and manufacturing costs of 15,300 TEUR (2005 43,833 TEUR).
For the buildings the present value of the minimum lease payments covers the main acquisition costs or legal ownership will be transferred at the end of the leasing term.

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

In the fiscal year lease payments amounting to 5,334 TEUR (2005 7,153 TEUR) have been charged against income.

Leasing payments due in the future can be seen in the following table:

in TEUR	up to 1 year	1–5 years	more than 5 years	Total
Minimum lease payments	3,189	9,617	29,715	42,521
Interest portion included in payments	1,528	5,004	10,598	17,130
Present value	1,661	4,613	19,117	25,391

Cash flow from investing activities amounts to 25,391 TEUR (2005 73,536 TEUR).

Operating lease

The Group as lessee. In the fiscal year lease payments amounting to 7,313 TEUR (2005 6,643 TEUR) 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	6,880	20,954	18,342	46,176

The Group as lessor. Income from leasing fixed assets during the fiscal year amounted to 6,497 TEUR (2005 7,352 TEUR).

As at the balance sheet date the following minimum lease payments are agreed between the Group and lessees:

in TEUR	up to 1 year	1–5 years	more than 5 years	Total
Minimum lease payments from operating leases	5,110	20,147	4,939	30,196

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

¦ 17 ¦ Shares in associated companies

The balance of 1,396 TEUR (2005 16,680 TEUR) includes shares in XTREME. The prior year comparative figure includes the shares in DEWB.

Since, during the year, the proportion of shares in DEWB decreased to 6.93 percent (the proportion amounts to 11.13 percent including the Pension Trust) due to sales. The changes in value have now been recorded neutrally in equity as available for sale and have been included in participations.

¦ 18 ¦ Financial assets

in TEUR	31.12.2006	31.12.2005
Shares in non-consolidated affiliated companies	4,791	5,482
Participating interests	32,400	26,443
Loans to non-consolidated affiliated companies and participations	11,846	4,005
Long-term securities	1,512	23,344
Other loans	4,486	13,714
Net book value	55,035	72,988

The shares in non-consolidated affiliated companies include the shares of several subsidiaries which are not material in terms of size and are, therefore, not consolidated.

The shares in PVA Tepla AG form a significant part of participations and these have been classified as available for sale and the change in valuation during the fiscal year of 3,272 TEUR included in equity.

The remaining shares in DEWB continue to be disclosed in participating interests. These were reclassified from associated companies during the fiscal year and the change in value included in equity amounts to 592 TEUR.

Loans to non-consolidated affiliated companies amount to 11,846 TEUR (2005 4,005 TEUR). Additions to loans to non-consolidated affiliated companies include a long term loan to JENOPTIK Diode Lab GmbH, Berlin of 7,000 TEUR. Of this
3,600 TEUR was already included in non-current assets and has now been reclassified to financial assets during the current year.

Disposals of long-term securities relates to securities from both of the special funds consolidated to date.

During the fiscal year write-downs of 1,501 TEUR were accounted for against financial assets.

19 Other non-current assets

Other non-current assets include:

in TEUR	31.12.2006	31.12.2005
Surplus amount from funded pension obligations	6,343	0
Derivatives	3,048	2,904
Reinsurance coverage	1,154	1,767
Miscellaneous	618	515
Receivables due from non-consolidated, affiliated companies	0	3,600
	11,163	8,786

The surplus amount from funded pension obligations was shown in the prior year under other short-term assets.
The derivatives relate to forward exchange contracts which provide long-term protection against risks. The whole item of derivative financial instruments is described in more detail in note 34.

20 Deferred taxes

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

21 Inventories

in TEUR	31.12.2006	31.12.2005
Raw materials and supplies	46,669	35,260
Work in progress	91,323	87,044
Finished goods and merchandise	17,662	13,208
Property held for disposal	43	91
On-account payments	5,797	7,641
	161,494	143,244

Inventories increased by 18,250 TEUR compared to the prior year. The fair value of inventories represents book value. Write-downs, in terms of gross value, amounted to 24,833 TEUR (2005 22,140 TEUR). As a result the net realisable value amounted to 161,494 TEUR (2005 143,244 TEUR). Reversals of previously written down assets amounted to 186 TEUR (2005 150 TEUR).

¦ 22 ¦ Current accounts receivable and other assets

in TEUR	31.12.2006	31.12.2005
Trade accounts receivable	92,248	77,429
Receivables from participating interests	11,732	8,557
Receivables from non-consolidated affiliated companies	8,305	7,233
Receivables from construction contracts	11,530	3,568
Other current assets	13,938	28,730
	137,753	125,517

Current accounts receivables and other assets increased compared to the prior year by 12,236 TEUR. The fair values of trade accounts receivable correspond with their book values. Allowances of 10,287 TEUR (2005 9,937 TEUR) were accounted for.
The increase in trade accounts receivable and in receivables from construction contracts result from a rise in sales.

Receivables from long-term construction contracts less payments received on account amounting to 11,530 TEUR (2005 3,568 TEUR) include customer-specific construction contracts with asset balances where manufacturing costs incurred, including profit portions, exceed payments received on account. The total of asset and liability balances of manufacturing costs, including profit portions, for construction contracts disclosed under receivables or liabilities from long-term construction contracts amounts to 27,728 TEUR (2005 19,442 TEUR). During the fiscal year total payments on account amounting to 16,681 TEUR (2005 15,951 TEUR) were offset against receivables or liabilities from long-term construction contacts.

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

Other current assets include:

in TEUR	31.12.2006	31.12.2005
Other receivables from tax authorities	2,939	3,514
Derivatives	2,831	1,086
Accruals	1,609	2,824
Interest receivable	1,595	507
Subsidies receivable	1,034	1,273
Creditors with debtor balances	815	217
Loans to third parties	238	255
Other current assets	2,877	5,508
Amounts due from Jenoptik Vermögensverwaltungs-gesellschaft mbH	0	13,464
Insurance receivables	0	82
	13,938	28,730

The receivable due from Jenoptik Vermögensverwaltungsgesellschaft mbH last year amounting to 13,464 TEUR was partially transferred as part of the adjustment to the new Contractual Trust Agreement Model (CTA). The remaining amount from this was repaid or written down. The surplus amount exceeding pensions of 6,343 TEUR is now disclosed under non-current assets.

The following positive fair values arise from derivative financial instruments:

in TEUR	31.12.2006	31.12.2005
Transactions to hedge against		
Exchange rate risks from future cash flows (Cash flow hedges): Forward exchange contracts, long-term	3,048	2,904
Exchange rate risks from future cash flows (Cash flow hedges): Forward exchange contracts, short-term	2,831	1,082
Interest caps	5	4
Total short-term	2,836	1,086
Total	5,884	3,990

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

¦ 23 ¦ Securities held as current investments

Securities available for sale

in TEUR	31.12.2006	31.12.2005
Fair value	3,638	1,950

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

¦ 24 ¦ Cash and cash equivalents and restricted cash

in TEUR	31.12.2006	31.12.2005
Cheques, cash in hand, credit balances and funds due on demand	10,640	8,846
Restricted cash	143,200	0
	153,840	8,846

Restricted cash is related to the high yield bond.

¦ 25 ¦ Shareholders' equity

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

Subscribed capital

Subscribed capital amounts to 135,290 TEUR and is divided into 52,034,651 bearer shares.
The Federal State of Thüringen holds 14.80 percent of the shares in JENOPTIK AG at December 31, 2006 and Mrs Wahl-Multerer holds a further 5.83 percent. Free float in JENOPTIK AG amounted to 79.37 percent at the balance sheet date.
In January 2006 JENOPTIK AG was informed by Brandes Investment Partners, L.P., San Diego, USA that it had exceeded the limit of 5 percent of the voting rights in JENOPTIK AG. Brandes Investment Partners, L.P. holds 5.002 percent of the voting rights.

Authorised capital

By resolution of the annual general meeting on June 7, 2005 the executive board was authorised, with the approval of the supervisory board, to increase the nominal capital of the company by up to 35,000 TEUR through one or several issues of new no-par value bearer shares in exchange for cash and/or non-cash contributions by May 30, 2010. The executive board is authorised, with the approval of the supervisory board, to exclude the subscription rights of shareholders in certain cases. The exclusion applies to fractional amounts, for capital increases through non-cash contributions for purchasing companies and participating interests, for capital increases in exchange for cash contributions for the purpose of issuing shares to employees of JENOPTIK AG or with affiliated companies as well as for cash capital increases, where the proportion of new shares, including the exercise of other entitlements to exclude subscription rights, does not exceed 10 percent of the nominal capital in existence at the time of filing the authorised capital and, the issue price of the new shares is not materially below the stock exchange price.

Conditional capital

Nominal capital is conditionally increased in connection with the convertible bond by up to 31,200 TEUR through the issue of up to 12,000,000 new no-par value bearer shares. Where own shares are not used the conditional increase will only be carried out where the holder or owner of option certificates or conversion rights exercise their options or conversion rights and/or the holders obliged to convert fulfil their duty to convert. Further details regarding convertible bonds are given under note 30.

Furthermore, nominal capital is conditionally increased in connection with the convertible bond by up to 23,400 TEUR through the issue of up to 9,000,000 new no-par value bearer shares. Where own shares are not used the conditional increase will only be carried out where the holder or owner of option certificates or conversion rights exercise their options or conversion rights and/or the holders obliged to convert fulfil their duty to convert.

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

Reserves

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

Movements in deferred taxes not impacting income increased reserves by -305 TEUR (2005 2,067 TEUR) in the fiscal year 2006.

Furthermore, changes in the value of securities available for sale to be accounted for without impacting income amounting to 12,724 TEUR (2005 8,554 TEUR) 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 1,110 TEUR (2005 -5,413 TEUR).

Own shares

Own shares amounting to 47 TEUR (6,275 shares) are deducted from equity.

¦ 26 ¦ Minority interests

Minority interests in shareholders’ equity mainly relate to the property companies LEUTRA SAALE and SAALEAUE as well as to JENOPTIK Laserdiode GmbH, Jena.

¦ 27 ¦ Provisions for pensions and similar obligations

JENOPTIK AG applied the changes in IAS 19 “Employee Benefits” – recording of actuarial gains and losses, common plans and disclosures – for the first time in the fiscal year 2006. These changes to IAS 19, which the IASB published in December 2004, are obligatory for fiscal years which begin on or after January 1, 2006. First-time application of these changes in IAS 19 results in more detailed disclosure in JENOPTIK AG on defined benefit Group pension plans.

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

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

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

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

The Group's benefit commitment covers approximately 898 persons entitled, comprising 620 active employees, 50 former employees and 228 pensioners and widows.

In the years 2001 to 2002 parts of the pensions were transferred to the Pension Trust by way of cumulative assumption of liabilities. As part of the sale of the discontinued business division pensions were transferred to a new CTA model.

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

The following analyses include the discontinued business division in the prior year.

Pension provisions:

in TEUR	31.12.2006	31.12.2005
Present value of funded obligations	30,125	30,246
Present value of unfunded obligations	6,935	110,400
Fair value of plan assets	-29,322	-24,679
Present value of net liability	7,738	115,967
Actuarial gains/losses not accounted for	-7,720	-21,120
Net liability recorded in the balance sheet	18	94,847
of which disclosed as other asset	6,343	0
of which disclosed as pension obligations	6,361	6,921
of which in liabilities held for sale	0	87,926

Change in defined benefit obligation (DBO):

in TEUR	31.12.2006	31.12.2005
DBO as at 01.01.	140,646	123,415
Current service cost for fiscal year	702	1,963
Interest expense	1,609	5,774
Termination and curtailment of plans	0	-530
Unrecognised actuarial gains/losses	-16,159	16,702
Transfers	0	-1,931
Divestments	-87,926	0
Pension payments	-1,812	-4,746
DBO as at 31.12.	37,060	140,646

Net expense recognised in the consolidated statement of income:

in TEUR	31.12.2006	31.12.2005
Current service cost	702	1,963
Interest expense	1,609	5,774
Expected return on plan assets	-1,200	-3,431
Offsetting of actuarial gains/losses	338	29
Losses/gains on curtailments and settlements	0	-530
Cost of claims purchased in the fiscal year	0	0
Total expense	1,449	3,805

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

Changes in plan assets:

in TEUR	31.12.2006	31.12.2005
Plan assets as at 01.01.	24,679	58,179
Expected return on plan assets	1,200	3,431
Actuarial gains/losses	-3,098	4,474
Employer amounts (funding)	7,334	0
Own amounts employees	0	0
Acquisitions	0	0
Transfers	0	-39,196
Pension payments	-793	-2,209
Plan assets as at 31.12.	29,322	24,679

A transfer of funds to plan assets is not planned for the fiscal year 2007.

Portfolio structure of plan assets:

in percent	31.12.2006	31.12.2005
Shares and participations	34	38
Loans	61	57
Funds	5	5
Total	100	100

Actuarial assumptions:

in percent	31.12.2006	31.12.2005
Discount rate as at 31.12.	4.50	4.25
Return on plan assets	4.10	5.90
Future salary increases	2.75	2.75
Future pension increases	1.75	1.75

The planned return on plan assets is determined based on a uniform method and reflects the expected return on the whole portfolio. The assumptions for the expected return orientate themselves toward the portfolio structure, the long-term actual asset income of the past as well as the long-term returns expected in the future. The actual return on plan assets in the fiscal year 2006 amounted to 1,898 TEUR (2005 7,905 TEUR).

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

Historical information:

in TEUR	31.12.2006	31.12.2005
Present value of defined benefit obligation	37,060	140,646
Fair value of plan assets	-29,322	-24,679
Plan deficit (surplus)	7,738	115,967
Experience adjustments of the obligation	-101	-117
Experience adjustments of plan assets	-3,098	4,474

The experience adjustments result from the difference between previous actuarial assumptions and what has actually occurred.

¦ 28 ¦ Tax provisions

Taxes are described in detail under note 10.

¦ 29 ¦ Other provisions and accrued expenses

The development of other provisions and accrued expenses is as follows:

in TEUR	Personnel	Potential losses	Warranties	Legal and court case costs	Obligation from sale of property	Protection and licence fee	Price audit risks	Miscel-laneous	Total
Balance as at 01.01.2006	15,181	754	8,973	2,074	4,842	2,879	0	6,564	41,267
Currency differences	-23	0	-21	-1	0	0	0	-23	-68
Changes in companies consolidated	67	0	101	1	0	0	0	140	309
Increases	13,520	17,495	3,773	4,331	0	897	104	2,473	42,593
Accrued interest	-142	34	0	65	73	-81	0	18	-33
Utilisation	10,588	521	2,356	1,068	0	101	190	2,581	17,405
Release	267	58	794	422	662	0	8	1,046	3,257
Reclassifications (+/-)	272	0	0	0	0	101	808	-1,181	0
Balance as at 31.12.2006	18,020	17,704	9,676	4,980	4,253	3,695	714	4,364	63,406

Material items within personnel provisions are part-time early retirement of 6,657 TEUR (2005 6,530 TEUR) and long-term service awards of 1,268 TEUR (2005 1,277 TEUR). Additionally, personnel provisions include performance premiums, profit sharing, severance payments and similar obligations.

The provision for potential losses mainly relates to potential risks on the sale of the discontinuing business division.

The legal and court case costs mainly relate to the case of Asyst which is described in detail in the Group management report.

Miscellaneous provisions and accrued expenses include contract penalties of 1,622 TEUR (2005 2,508 TEUR).
Furthermore, miscellaneous provisions relate to many recognisable specific risks and uncertain obligations which are accounted for at the probable amount required to settle them.

The expected cash flows of other provisions and accrued expenses are as follows:

in TEUR	up to 1 year	1–5 years	more than 5 years	31.12.2006
Personnel provisions	11,884	5,892	244	18,020
Potential losses on pending transactions	13,529	831	3,344	17,704
Warranty provisions	8,550	1,126	0	9,676
Legal and court case costs	2,780	2,200	0	4,980
Obligation from property sales	0	4,253	0	4,253
Trademark and licence cost	101	3,594	0	3,695
Price audit risks	16	698	0	714
Miscellaneous provisions and accrued expenses	4,206	136	22	4,364
	41,066	18,730	3,610	63,406

30 Financial liabilities

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

in TEUR (the amounts in brackets relate to the prior year)	up to 1 year	1–5 years	more than 5 years	31.12.2006
Bonds	11,400 (7,500)	204,772 (202,348)	0 (0)	216,172 (209,848)
Bank liabilities	65,768 (50,503)	9,585 (7,399)	43,592 (45,017)	118,945 (102,919)
Liabilities from finance leases	1,661 (3,603)	4,613 (5,153)	19,117 (64,780)	25,391 (73,536)
Total	78,829 (61,606)	218,970 (214,900)	62,709 (109,797)	360,508 (386,303)

The book values of the bonds are classified as a fixed interest security “Senior Note” amounting to 145,467 TEUR, a short-term “Convertible Note” amounting to 59,305 TEUR and as short-term “Commercial Papers” amounting to 11,400 TEUR.

Long-term bonds comprise the following:

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

The fixed interest security was issued on November 6, 2003 with a nominal volume of 150,000 TEUR. The payment amount was 98.678 percent of the nominal volume. This fixed interest security has a term of 7 years and attracts interest at a nominal rate of 7.875 percent until it matures on November 15, 2010. Including accounting for transaction costs the effective interest rate amounts to 8.834 percent. Furthermore, as from November 15, 2007 JENOPTIK AG can repay part or the entire bond early at a repurchase price already agreed.

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

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

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

For the short-term bank liabilities amounting to 65,768 TEUR interest has been agreed at a range of between 4.35 percent to 4.67 percent. For long-term bank liabilities amounting to 53,177 TEUR interest rates have been agreed at a range between 4.681 percent and 6.25 percent. Included in this is a property loan amounting to 44,649 TEUR with an interest rate of 5.25 percent.

Of the bank liabilities disclosed in the balance sheet 45,938 TEUR (December 31, 2005 45,278 TEUR) is secured by mortgage.

As at December 31, 2006 the Group has access to credit lines amounting to 137,803 TEUR, whereby 47,046 TEUR was not utilised.
Detailed information regarding hedging of existing interest risks is given under note 34.

¦ 31 ¦ Other non-current liabilities

Other non-current liabilities comprise:

in TEUR	31.12.2006	31.12.2005
Non-current accruals	14,522	15,980
Derivatives	2,054	33
Miscellaneous non-current liabilities	3,377	3,138
	19,953	19,151

The non-current accruals include interim profits on properties amounting to 13,627 TEUR (2005 14,866 TEUR) which are allocated on a straight-line basis over the remaining term of the leasing contract.

¦ 32 ¦ Other current liabilities

This item includes:

in TEUR	31.12.2006	31.12.2005
Liabilities from on-account payments received	26,010	30,109
Trade accounts payable	40,433	27,780
Liabilities to participating interests	3,262	11,745
Liabilities to non-consolidated, affiliated companies	7,076	2,888
Liabilities from construction contracts	483	77
Miscellaneous current liabilities	42,720	31,074
	119,984	103,673

Other current liabilities increased by 16,311 TEUR compared to the prior year.

Normal market interest rates have been agreed to liabilities to non-consolidated affiliated and associated companies.

Miscellaneous current liabilities comprise the following:

in TEUR	31.12.2006	31.12.2005
Financial liabilities to third parties	16,580	1,613
Liabilities to employees	7,639	4,292
Other liabilities from taxes	4,814	7,497
Interest liabilities from financial liabilities	2,307	2,288
Purchase price liabilities	2,178	0
Accruals	1,749	1,697
Derivatives	1,219	4,252
Liabilities to employees' accident insurance	1,086	961
Other liabilities from social security	909	3,428
Miscellaneous liabilities	4,239	5,046
	42,720	31,074

Financial liabilities to third parties relate to a remaining debt to minority shareholders of M+W ZANDER Holding AG amounting to 15,073 TEUR. Liabilities to employees comprise primarily holiday entitlements and flexi-time credits.

The following negative fair values arise from derivative financial instruments:

in TEUR	31.12.2006	31.12.2005
Transactions to hedge against		
Exchange rate risks from future cash flows (Cash flow hedges): Forward exchange contracts, long-term	381	33
Swaps, long-term	1,673	0
Transactions to hedge against		
Exchange rate risks from future cash flows (Cash flow hedges): Forward exchange contracts, short-term	611	549
Swaps, short-term	608	3,703
Total	3,273	4,285

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

¦ 33 ¦ Group cash flow statement

Cash flows for the discontinued business division are included in the cash flow statement until deconsolidation in accordance with IFRS 5. Below we comment on the allocation of the cash flows between the continuing and discontinued business divisions.

The cash and cash equivalents in the cash flow statement include the liquid funds disclosed in the balance sheet amounting to 10,640 TEUR and restricted cash amounting to 143,200 TEUR. In the prior year cash and cash equivalents included liquid funds of 114,619 TEUR which related to the discontinued business division.

The cash flow statement provides information on cash flows, separately for cash flows from operating activities, from investing activities and from financing activities. Changes in balance sheet items used in the development of the cash flow statement are not directly derivable from the balance sheet since effects of foreign currency exchange and changes in companies consolidated are non-cash and are eliminated. Cash flow from operating activities is indirectly derived based on the earnings before tax. The earnings before tax is adjusted for non-cash expenses and income. Cash flow from operating activities is calculated after accounting for changes in working capital.

Cash flow from operating activities rose to 58,588 TEUR (2005 31,696 TEUR). Of this 28,838 TEUR (2005 65,727 TEUR) relates to continuing business divisions. The prior year includes the release of restricted cash of 30,000 TEUR. The operative result before working capital movements increased in the continuing business divisions to 67,994 TEUR (2005 56,453 TEUR). As a result of the expansion of working capital cash flow has decreased by 32,313 TEUR (2005 19,106 TEUR).
Cash flow from operating activities for the discontinued business division amounts to 29,750 TEUR (2005 -34,031 TEUR).

Cash flow from investing activities amounts to 22,964 TEUR (2005 -58,100 TEUR). Of this 160,001 TEUR (2005 -27,968 TEUR) relates to the continuing business divisions which mainly result from the receipts from disposals of consolidated companies amounting to 157,512 TEUR.
Cash flow from investing activities for the discontinued business division amounts to -137,037 TEUR (2005 -30,132 TEUR).

Cash flow from financing activities amounts to -48,300 TEUR (2005 1,002 TEUR). This mainly arises from the lower net take-up of loans compared to the prior year amounting to 35,280 TEUR. This includes the continuing business divisions at -43,946 TEUR (2005 -42,383 TEUR). Cash flow from financing activities for the discontinued business division amounts to -4,354 TEUR.

Other notes

¦ 34 ¦ Financial instruments

Hedging policy and risks

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

Hedging guidelines. Guidelines exist for the foreign currency and interest hedging policies across the Group which are based on the minimum requirements for performance of trading transactions by the banks as issued by the Federal Office for Monitoring Financial Services.
National and international banks whose credit standing is constantly checked by leading rating agencies, act as partners for entering into hedging transactions.

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

The Jenoptik Group hedges planned sales and material purchases in foreign currency on a net basis using forward exchange contracts and currency options, depending on estimation of the market. Hedging in the fiscal year 2006 mainly covered the US Dollar and British Pound.

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

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

Default risk. Default risk (creditworthiness risk) for derivative financial assets is theoretically inherent in the danger of default of a contract partner and, therefore, as a maximum at the amount of the positive current values due to the relevant contracting party as at December 31, 2006 of 5,884 TEUR (2005 3,990 TEUR). The risk from primary financial instruments is covered by the allowance for bad debts. Since derivative financial instruments are only taken up with banks with first-class creditworthiness and, as part of risk management and limits are set for each contracting party, the actual risk of default is low.

Derivative financial instruments

At December 31, 2006 the value of outstanding forward exchange contract transactions entered into in the Jenoptik Group amounted to 255,287 TEUR (2005 94,662 TEUR).

These are analysed as follows:

Currency hedging transactions	60,585 TEUR
	(2005 46,615 TEUR)
Interest hedging transactions	194,702 TEUR
	(2005 48,047 TEUR)

The increase in interest hedging transactions mainly relates to an interest swap with a nominal value of 150,000 TEUR which, in combination with a variable rate of interest on the investment of restricted bank credit balances, should lead to an overall fixed rate of interest on credit balances.

Hedging of currency

For the first time positive and negative market values are shown separately in the table:

	Nominal volumes		Market values	
in TEUR	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Cash-flow-hedge				
Forward currency contracts	59,625	43,741	4,887	3,396
Currency option transactions	960	2.874	0	94

Forward currency transactions are analysed by currency sales and purchases as follows:

in TEUR	31.12.2006	31.12.2005
Forward currency contracts:		
USD/EUR-sale	39,749	41,875
USD/EUR-purchase	1,782	1,206
GBP/EUR-sale	17,060	169
GBP/EUR-purchase	561	491
CAD/EUR-sale	473	0
	59,625	43,741

Forward currency contracts

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

Forward exchange contracts hedge foreign currency risks of 24,551 TEUR with a timeframe of until end of 2007. Foreign currency risks of 35,074 TEUR with a timeframe of until May 2011 are hedged.

As at December 31, 2006 the fair values of the Group forward exchange contracts amounted to 4,887 TEUR (2005 3,396 TEUR). These amounts are based on market values confirmed by banks. Since these are for the purpose of hedging cash flow and are assessed as effective the change in fair value is accounted for in equity.

Currency option contracts

In order to hedge the underlying transactions of the companies Hommelwerke GmbH and Jena-Optronik GmbH, JENOPTIK AG has taken up zero-cost options amounting to 1,320 TUSD (December 31, 2005 3,500 TUSD).

The Put USD/call EUR options with a nominal value amounting to 515 TEUR showed a negative market value of 2 TEUR at the balance sheet date December 31, 2006, whereas the call USD/put EUR options with a nominal value of 445 TEUR generate a positive market value of 2 TEUR and, thus, the net amount of 0 TEUR is disclosed and recorded in the Group.

Hedging of interest

	Nominal volumes		Market values	
in TEUR	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Interest cap	4,000	6,000	5	4
Interest swap 1	40,702	42,047	-1,673	-3,703
Interest swap 2	150,000	0	-608	0

Interest cap. Interest caps are to minimise the risk of variable interest charges on loans.
The following interest cap is capitalised:

Interest cap	4,000 TEUR (2005 6,000 TEUR)
Term	March 31, 2004 – December 31, 2008
Maximum interest rate	4.00 percent p.a.

The fair value and carrying value of the cap as at December 31, 2006 amounted to 5 TEUR (2005 4 TEUR).

The market values of the derivative volumes are determined using marking to market data at the balance sheet date.

Interest swaps

Interest swap 1 (fixed interest payer)	40,702 TEUR (December 31, 2005 42,047 TEUR)
Term	December 30, 2004 – December 30, 2009
Fixed interest rate	5.65 percent p.a.

The interest swap was purchased in order to maintain a future interest risk from the payment of leasing instalments with a variable externally financed portion from December 30, 2004 at a level of 5.65 percent for five years.

The fair value and the carrying value of the swap as at December 31, 2006 amounted to -1,673 TEUR (2005 -3,703 TEUR).

The interest swap has, after the premature release of finance lease KORBEN, no effective hedging connection with an underlying transaction and, therefore, impacts income. Currently this interest swap is being used to reduce the interest risks of other variable financing transactions.

Interest swap 2 (variable)	150,000 TEUR
Term	July 7, 2006 – November 15, 2007
Interest rate	EONIA + 4.34 percent p.a.

The interest swap was purchased in order to improve the fixed interest level of 7.875 percent p.a. by an interest swap into a variable daily interest rate for the period until the planned repurchase of the bond in November 2007.

The fair value and carrying value of the swap as at December 31, 2006 amounted to -608 TEUR.

The swap serves to commercially hedge various items and is recorded in the income statement.

¦ 35 ¦ Commitments and contingent liabilities

In the prior year the discontinued business division was still a consolidated group of companies (except for M+W Zander Gebäudetechnik Group). Thus, intra-group guarantees from JENOPTIK AG in favour of the discontinued business division still consolidated were not disclosed as external guarantees. These intra-group guarantees, which still amounted to 147,688 TEUR as at December 31, 2005, are now disclosed for the first time as guarantees external to the Group on sale of the discontinued business division.

in TEUR	31.12.2006	31.12.2005
Liabilities from guarantees	247,235	189,142
of which discontinued business division (intra-group)	56,212 0	(0) (147,688)
of which M+W Zander Gebäudetechnik Group	158,950	137,994
of which other companies	32,073	51,148
Other contingent liabilities	111	2,010
	247,346	191,152

After it became possible in November 2006 to reduce a guarantee facility of 150 million euros granted for 3 years (and 100 million euros for 2 years) on sale of the discontinued business division to 33 million euros (plus a special guarantee), this reduced guarantee already expires on February 15, 2007. Subsequently, guarantees for the discontinued business division will be reduced step by step over several years to zero each time a guarantee is returned or expires. In addition to old guarantees amounting to 9,462 TEUR, the guarantees still in existence represent a special guarantee amounting to 46,750 TEUR for an AMD project in Dresden which is secured through options by AMD. This guarantee has been effectively reduced now to 35,502 TEUR through repayments by AMD.

Furthermore, M+W Zander Gebäudetechnik, the majority of which was already sold in 2005, uses a guarantee facility of 180,000 TEUR which, however, was only secured by lines and surety facilities totalling 158,950 TEUR (2005 137,994 TEUR) as at December 31, 2006. The actual utilisation of the surety facilities amounted to 143,726 TEUR (2005 135,440 TEUR) as at December 31, 2006. The increase is due to the improved level of contracts for facilities management. Furthermore, as part of the financial commitment a budgeted liquidity facility of 30,100 TEUR has been provided of which 7,684 TEUR was being utilised at the balance sheet date.

Guarantees for other companies relate to guarantees in favour of DEWB AG, which were reduced by 50 percent of 20,000 TEUR at the end of 2005 to 10,000 TEUR at the end of 2006. Additionally, guarantees in connection with the Klinikum Jena (Jena Clinic) amounting to 8,100 TEUR (2005 19,999 TEUR) are disclosed as well as letters of comfort for investments by JENOPTIK Diode Lab GmbH amounting to 10,151 TEUR (2005 10,151 TEUR).

¦ 36 ¦ Other financial commitments

Financial commitments from rental and leasing contracts are described in note 16.

Additionally, there are commitments from orders amounting to 48,275 TEUR (2005 37,049 TEUR).

¦ 37 ¦ 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.

For any potential charges from court or arbitration cases adequate provisions have been accounted for in the relevant Group companies for litigation risks and litigation costs where these are for events before the balance sheet date and the probability of an outflow of economic resources is estimated by the legal representatives of the company as being higher than 50 percent. Adequate insurance coverage exists.

¦ 38 ¦ Post balance sheet events

There will be personnel changes in the executive board of JENOPTIK AG as at July 1, 2007. Mr Alexander von Witzleben will leave the company as of June 30, 2007. Dr. Michael Mertin will become the new chairman of the executive board and Mr Frank Einhellinger financial director.

The executive board authorised the financial statements on March 7, 2007 for approval by the supervisory board.

¦ 39 ¦ Related party disclosures according to IAS 24

Related parties are defined in IAS 24 as entities or people which/who control or are controlled by the Jenoptik Group to the extent that these are not already included in the consolidated financial statements as consolidated companies. Control exists if a shareholder holds more than half of the voting rights in JENOPTIK AG or on the basis of the constitutional conditions or contractual agreement has the possibility to direct the financial and business policies of the management of the Jenoptik Group.

All business transactions with non-consolidated subsidiaries, joint ventures and associated companies are undertaken under normal market conditions.

Members of the executive board and supervisory board of JENOPTIK AG are members in supervisory boards and in executive boards in other companies with which JENOPTIK AG has relationships as part of its normal operating activities. All transactions with these companies are conducted under conditions which are normal between unrelated parties.

Remuneration of members of the supervisory and executive boards amounts to 1,314 TEUR in total.
Remuneration of members of the supervisory and executive boards comprises entirely short-term payments to employees. Detailed disclosures on this are given in the Corporate Governance Report and in the notes on the executive and supervisory boards.

At the balance sheet date there were amounts receivable from Mrs Wahl-Multerer amounting to 0.5 million euros. These relate to the purchase of the company JENOPTIK Polymer Systems GmbH, Triptis, (formerly WAHL optoparts GmbH) and are subject to interest at normal market conditions.

Obligatory and supplementary disclosures under HGB

Obligatory disclosures under §315a HGB and § 264 (3) or § 264b HGB

The consolidated financial statements of JENOPTIK AG have been prepared in accordance with § 315a HGB in line with the rules of the IASB with an exemption from preparation of consolidated financial statements under HGB. At the same time the consolidated financial statements and Group management report are in line with the European Union Directive on Consolidated Accounting (83/349/EWG), whereby this directive has been interpreted accordingly in compliance with Standard No. 1 (GAS 1) “Exempt Consolidated Financial Statements under § 315a HGB” issued by the German Accounting Standards Committee (GASC). In order to achieve comparability with consolidated financial statements prepared in accordance with the German Commercial Code all disclosures and information required by HGB, and which are in addition to the obligatory disclosures necessary for IFRS, are published.

Due to their inclusion in the consolidated financial statements of JENOPTIK AG the following fully consolidated affiliated German companies are exempt from the duty to publish annual financial statements in accordance with § 264 (3) or § 264b HGB.

- SAALEAUE Immobilien Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Jena
- LEUTRA SAALE Gewerbegrundstücksgesellschaft mbH & Co. Vermietungs KG, Jena
- ROBOT Visual Systems GmbH, Monheim am Rhein
- Hommelwerke GmbH, Villingen-Schwenningen
- JENOPTIK Automatisierungstechnik GmbH, Jena
- ESW GmbH, Wedel
- JENOPTIK Laser, Optik, Systeme GmbH, Jena
- Lechmotoren GmbH, Altenstadt
- JENOPTIK Polymer Systems GmbH, Triptis
- Jena-Optronik GmbH, Jena
- Innovavent GmbH, Göttingen
- JENOPTIK Instruments GmbH, Jena

Supplementary disclosures under § 314 HGB

Number of employees
The average number of employees is analysed as follows:

in TEUR	31.12.2006	31.12.2005 adjusted
Blue-collar workers	869	818
White-collar workers	1,980	1,803
Trainees	111	107
	2,960	2,728

In proportionally consolidated companies an average of 36 (2005 38) employees were employed in 2006.

Cost of materials and personnel expenses

in TEUR	31.12.2006	31.12.2005 adjusted
Cost of materials		
Raw materials, consumables, supplies and purchased merchandise	174,705	147,627
Cost of purchased services	52,396	37,129
	227,101	184,756
Personnel expenses		
Wages and salaries	151,105	125,388
Social security and pension costs	28,951	23,033
	180,056	148,421

German Corporate Governance Code

The executive and supervisory boards of JENOPTIK AG declare themselves in agreement with the German Corporate Governance Codex in accordance with § 161 AktG (German Public Companies Law). The declaration has been made permanently available to shareholders via the Internet pages of JENOPTIK AG. Furthermore, the declaration is available for viewing at JENOPTIK AG.

Executive board

The following gentlemen were appointed members to the executive board during the fiscal year 2006:

	Additional appointments at:
Alexander von Witzleben Chairman of the executive board of JENOPTIK AG	– Analytik Jena AG (SB Chair) – Deutsche Effecten- und Wechsel- Beteiligungsgesellschaft AG (SB Chair until 30.12.2006) – Carl Zeiss Meditec AG (SB dep. Chair) – Feintool International Holding AG, Lyss (CCb member) – Kaefer Isoliertechnik GmbH & Co. KG (CCb member) – M+W Zander Gebäudetechnik GmbH (SB Chair since 20.02.2006) – M+W ZANDER Holding AG (SB [ig] Chair until 16.05.2006) – PVA TePla AG (SB Chair) – VERBIO AG (SB dep. Chair since 23.08.2006)
Dr. Michael Mertin Executive board member of JENOPTIK AG (since 01.10.2006)	None
Norbert Thiel Executive board member of JENOPTIK AG (until 30.09.2006)	– M+W ZANDER Holding AG (SB [ig] Chair until 16.05.2006)

Remuneration of active members of the executive board of JENOPTIK AG in 2006 amounted to 1,214.2 TEUR in total.

in TEUR	Remuneration for 2006 Fixed	Variable	Supplementary benefits	Total	Pensions Remuneration recorded 2006*	Present value of pension commitment
Alexander von Witzleben (Chairman of the executive board)	450.0	100.0	35.4	585.4	41.4	326.8
Dr. Michael Mertin (from 01.10.2006)	75.0	75.0	4.3	154.3	0	0
Norbert Thiel (until 30.09.2006)	248.0	210.0	16.5	474.5	0	0
Total	773.0	385.0	56.2	1,214.2	41.4	326.8

* for service costs and interest

The Chairman's variable salary component results solely from the target agreement concluded with the Chairman of the supervisory board for the successful sale of the discontinued business division. Based on the measurement criteria of the result of the whole Group no variable salary component was paid to the Chairman of the executive board in 2006 for 2005.

For Dr. Michael Mertin the agreement of an annual fixed bonus for the years 2006 and 2007 is applicable and this forms the basis of the payment of a salary component in 2006 which is proportionally variable. A separate pension contract is due to be concluded in 2007. In addition to a company car, supplementary benefits include the partial adoption of rental costs for an apartment in Jena at a normal market price. In the case of a change in control of JENOPTIK AG, a change of control clause becomes effective for Dr. Michael Mertin on the purchase of at least 30 percent of the voting rights in JENOPTIK AG, which grants him the chance to give his notice with payment of his contract for the remaining term of office and payment of his bonus at an average amount over the last two years within a certain period after control has been transferred.

Mr Norbert Thiel left the executive board of JENOPTIK AG with effect from October 1, 2006. In addition to the variable salary component for 2005 of 142 TEUR, which was based on the result of the Photonics business division, the bonus for 2006 was paid out on a pro rata basis up to September 30, 2006. Mr Norbert Thiel received his contractually agreed benefits up to the end of his service agreement as at June 30, 2007. A provision of 176 TEUR was made for this.

The shares privately purchased by the members of the executive board amounted to 14,950 at the year end and are held by Mr Alexander von Witzleben. Mr Norbert Thiel and Dr. Michael Mertin hold no shares in JENOPTIK AG. There were no purchases and sales of shares by the executive board in 2006. The share options of Jenoptik executive board members expired in the autumn of 2005, new share options have not been issued in the meantime.

The remuneration of former members of the executive board amounted to 88 TEUR in 2006, pension payments to former members of the executive board amounted to 204 TEUR. Pension provision (Defined Benefit Obligation) for former executive board members amounted to 4,283 TEUR as at December 31, 2006. The interest expense for these existing provisions recorded in 2006 amounted to 182 TEUR.

Supervisory board

The following ladies and gentlemen were appointed members to the executive board during the fiscal year 2006:

	Additional appointments at:
Prof. Dr. h.c. Lothar Späth Former Minister President, Vice Chairman Europe, Merrill Lynch, Gerlingen (Chairman)	– BIZERBA GmbH & Co. KG (SB Chair until 15.12.2006) – Herrenknecht AG (SB Chair) – JC Decaux S.A., Paris (CCb member until 10.05.2006) – Verlagsgruppe Georg von Holtzbrinck GmbH (SB Chair)
Ralf Tänzer* Former 1st commissioner of IG Metall-Verwaltungsstelle Jena-Saalfeld, Jena (Vice Chairman)	– Carl Zeiss Jena GmbH (SB member)
Dr. Daniel von Borries Executive board member of ERGO Versicherungsgruppe AG	– Ideenkapital AG (SB [ig] Chair) – Jet Holdings Ltd. (CCb [ig] member until 06.03.2006) – MEAG Munich Ergo Kapitalanlagegesellschaft mbH (SB member) – BHS tabletop AG (SB member) – GFKL Financial Services AG (SB member) – KarstadtQuelle Bank AG (SB member) – Mediclin AG (SB member) – Internationales Immobilieninstitut GmbH (SB member) – Victoria Volksbanken AG (SB member) – Österreichische Volksbanken AG, Vienna (SB member since May 2006)
Birgit Diezel Finance Minister of the Free State of Thuringia, Erfurt (until 20.04.2006)	none
Markus Embert* Dipl.-Ing. for electronics of ESW GmbH (since 01.06.2006)	none
Dr. Merve Finke von Berg* Signatory and head of the legal department, insurances and internal audit of M+W ZANDER Holding AG, Stuttgart (until 16.05.2006)	none
Martin Griebel* Dipl.-Ing. for electronics/electrical engineering, JENOPTIK Automatisierungstechnik GmbH, Jena	none

	Additional appointments at:
Prof. Dipl.-Ing. Jörg Menno Harms Director of Menno Harms GmbH – International Management Services, Stuttgart	– CA Leuze GmbH & Co. KG (CCb member) – Dürr AG (SB member until 24.05.2006) – Hypo Real Estate Bank International AG (SB member) – Groz Beckert KG (SB dep. Chair) – Heraeus Holding GmbH (SB member) – Hewlett-Packard GmbH (SB Chair) – Management Partner GmbH (CCb member)
Siegfried Joos* Member of the Workers' Council of M+W Zander Facility Engineering GmbH, Stuttgart (until 16.05.2006)	none
Wolfgang Kehr* Regional manager Working Area Tariff Policy IG Metall-Bezirk Frankfurt/Main	none
Thomas Klippstein* Project manager development of JENOPTIK Laser, Optik, Systeme GmbH, Jena	none
Dieter Kröhn* Electro mechanic at ESW GmbH, Wedel	none
Prof. Dr. Dr. h.c. mult. Johann Löhn President of the Steinbeis-Hochschule, Berlin	– Deutsche Effecten- und Wechsel-Beteiligungsgesellschaft AG (SB member) – M&A Consultants AG (SB Chair) – Primion Technology AG (SB Chair) – Zeppelin GmbH (SB member until 24.05.2006)
Dr. Klaus Mangold Executive Advisor to the Chairman of DaimlerChrysler AG, Stuttgart	– Chubb Corporation, Warren (CCb member) – Leipziger Messe GmbH (SB member) – Magna International, Inc., Toronto (CCb member) – METRO AG (SB member) – Universitäts-Klinikum Freiburg (CCb member) – Drees & Sommer AG (SB member)
Günther Reißmann* Chairman of the company works' council of JENOPTIK AG, Jena	none

	Additional appointments at:
Werner Schmidt Chairman of the executive board of Bayerische Landesbank – Girozentrale, Munich	– Deka-Bank Deutsche Girozentrale AdöR (CCb member) – Deutsche Kreditbank AG (SB [ig] member) – Deutsche Lufthansa AG (SB member) – Drees & Sommer AG (SB dep. Chair) – Herrenknecht AG (SB dep. Chair) – Landesbank Saar Girozentrale AdöR (CCb [ig] dep. Chair) – LB (Swiss) Privatbank AG, Zürich (CCb [ig] Chair) – Banque LBLux S.A. Luxemburg (CCb [ig] Chair) – Wieland-Werke AG (SB member) – MKB Magyar Külkereskedelmi Bank rt. Budapest (SB [ig] Chair)
Dieter Schreib* Electro technician of Hommelwerke GmbH, Villingen-Schwenningen (since 01.06.2006)	none
Gabriele Wahl-Multerer Entrepreneur (since 07.06.2006)	none
Prof. em. Dr. Ing. Prof. h.c. mult. Dr. h.c. mult. Dr.-Ing. E.h. Hans-Jürgen Warnecke Former President and Honorary senator for the Fraunhofer Gesellschaft zur Förderung der angewandten Forschung e.V., Munich	– IMIG AG (SB Chair) – IQvolution AG (SB member) – Siempelkamp AG (SB member) – Holding E.A. Kirchheim GmbH & Co. KG (SB member) – WANDERER-WERKE AG (SB Chair) – Wegner AG, Altstätten, Switzerland (SB member)

Abbreviations:

SB	Supervisory board
CCb	Comparable controlling body
ig	Internal group appointment
dep.	deputy
*	Employee representative

At the end of the fiscal year 2006 all supervisory board members held 2,618,179 shares. Total remuneration of the supervisory board for the fiscal year 2006 represented the fixed remuneration of 100 TEUR as set out in the articles of association. A performance-related bonus was not paid due to there being no dividend distribution for the fiscal year 2005. The amount of 100 TEUR was distributed accounting for the Chairman and Vice Chairman of the supervisory board and the Chair and members of the committees among the members of the supervisory board as follows:

- Prof. Dr. h.c. Lothar Späth (Chairman) 12,428.61 euros
- Ralf Tänzer (Vice Chairman): 9,071.47 euros
- Birgit Diezel: 5,714.28 euros
- Dr. Merve Finke von Berg: 4,714.28 euros
- Dr. Daniel von Borries: 1,440.31 euros
- Martin Griebel: 5,714.28 euros
- Prof. Dipl.-Ing. Jörg Menno Harms: 5,714.28 euros
- Siegfried Joos: 5,714.28 euros
- Wolfgang Kehr: 4,714.28 euros
- Thomas Klippstein: 6,714.28 euros
- Dieter Kröhn: 4,714.28 euros
- Prof. Dr. Dr. h.c. mult. Johann Löhn: 4,714.28 euros
- Dr. Klaus Mangold: 5,840.31 euros
- Günther Reißmann: 6,714.28 euros
- Werner Schmidt: 5,966.33 euros
- Prof. Dr. Ing. Dr. h.c. mult. Hans-Jürgen Warnecke: 4,714.28 euros

The annual remuneration of supervisory board members will be paid subsequently (in 2006 for the fiscal year 2005). The difference to the total amount relates to members who left during the fiscal year 2005.

JENA, MARCH 7, 2007

ALEXANDER VON WITZLEBEN
CHAIRMAN OF THE EXECUTIVE BOARD

DR. MICHAEL MERTIN
EXECUTIVE BOARD MEMBER

Auditor's Report

We have audited the consolidated financial statements prepared by JENOPTIK Aktiengesellschaft, Jena, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (and supplementary provisions of the shareholder agreement/articles of incorporation) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (and supplementary provisions of the shareholder agreement/articles of incorporation) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

BERLIN, MARCH 12, 2007

KPMG DEUTSCHE TREUHAND-GESELLSCHAFT
AKTIENGESELLSCHAFT
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

DR. SCHINDLER
AUDITOR

DR. KRONNER
AUDITOR

Scientific advisory council as at December 2006

Dr. Michael Mertin
JENOPTIK AG, Jena, Chairman.

Prof. Dr. Bernd Wilhelmi
JENOPTIK AG, Jena, Vice chairman.

Prof. Dr. Hartmut Bartelt
IPHT Institut für Physikalische Hochtechnologie e.V., Jena.

Prof. Dr. Karlheinz Brandenburg
Technische Universität Ilmenau, Fakultät Elektrotechnik.

Prof. Dr. techn. Herwig Brunner
Fraunhofer Institut für Grenzflächen- und Bioverfahrenstechnik, Stuttgart.

Prof. Dr. Gerhard Fettweis
Technische Universität Dresden, Fakultät für Elektrotechnik, Mannesmann Mobilfunk Stiftungslehrstuhl.

Prof. Dr. Albert Hinnen
CLONDIAG Chip Technologies GmbH, Jena.

Prof. Dr. Wolfgang Karthe
Fraunhofer Institut für angewandte Optik und Feinmechanik, Jena.

Prof. Dr. Johann Löhn
Steinbeis-Hochschule Berlin.

Prof. Dr. rer. nat. habil. Jürgen Petzold
Technische Universität Ilmenau, Fakultät für Elektrotechnik und Informationstechnik, Institut für Elektrische Energiewandlungen und Automatisierung.

Prof. Dr. Wolfgang Probst
Essingen.

Prof. Dr. Roland Sauerbrey
Forschungszentrum Rossendorf, Dresden.

Prof. Dr. Michael Schenk
Fraunhofer Institut für Fabrikbetrieb und -automatisierung, Magdeburg.

Prof. Dr. R. Dieter Schraft
Fraunhofer Institut für Produktionstechnik und Automatisierung, Stuttgart.

Judon Stoeldraijer
ASML, La Veldhofen, Netherlands.

Prof. Dr. Günther Tränkle
Ferdinand-Braun-Institut für Höchstfrequenztechnik, Berlin.

Prof. Dr. Andreas Tünnermann
Fraunhofer Institut für angewandte Optik und Feinmechanik, Jena.

Dr. Bärbel Voigtsberger
Hermsdorfer Institut für Technische Keramik e.V., Hermsdorf.

Selected subsidiaries and affiliated companies (as of February, 2007)

JENOPTIK AG
Jena

Laser & Optics

100 %	JENOPTIK Laser, Optik, Systeme GmbH [1] Jena
100 %	JENOPTIK Polymer Systems GmbH [1] Triptis
74.88 %	JENOPTIK Laserdiode GmbH [2] Jena
100 %	JENOPTIK LDT GmbH [2] Jena
100 %	PHOTONIC SENSE GmbH [2] Eisenach
51 %	SINAR AG [2] Feuerthalen
100 %	Coastal Optical Systems Inc. [2] West Palm Beach, Florida, USA
100 %	Liebmann Optical Comp. Inc. [2] Easthampton, Massachusetts, USA
100 %	Innovavent GmbH [2] Göttingen
100 %	JENOPTIK unique-mode GmbH [2] Jena
87.44 %	JENOPTIK Surface Inspection GmbH [2] Munich
100 %	MEMS Optical Inc [2] Huntsville, Alabama USA
50 %	HILLOS GmbH [2] Jena
50 %	XTREME technologies GmbH [2] Jena

Sensors

100 %	Hommelwerke GmbH [1] Villingen-Schwenningen
100 %	Jena-Optronik GmbH [1] Jena
100 %	JENOPTIK Automatisierungstechnik GmbH [1] Jena
100 %	ROBOT Visual Systems GmbH [1] Monheim
100 %	ETAMIC S.A. [3] Bayeux
100 %	ETAMIC Deutschland GmbH [4] Ratingen
100 %	Traffipax Inc. [6] Linthicum

Mechatronics

100 %	ESW GmbH [1] Wedel
75 %	Electroop S.A. [5] Madrid
100 %	LECHMOTOREN GmbH [5] Altenstadt

1 -- Subsidiary of JENOPTIK AG
2 -- Subsidiary of JENOPTIK Laser, Optik, Systeme GmbH
3 -- Subsidiary of Hommelwerke GmbH
4 -- Subsidiary of ETAMIC SA
5 -- Subsidiary of ESW GmbH
6 -- Subsidiary of ROBOT Visual Systems GmbH