



Non-Financial Report

2017/18

ZEISS Group

With the following separate Non-Financial Group Report (hereinafter "Non-Financial Report"), Carl Zeiss AG provides information about non-financial aspects relevant to the ZEISS Group pursuant to Section 315b and 289b ff. of the German Commercial Code (*HGB*) for fiscal year 2017/18 (1 October 2017 to 30 September 2018). Thus this includes those aspects required for understanding the ZEISS Group's business development, performance, position and impact of its activity.

The concepts presented in the different sections were prepared based on the Global Reporting Initiative standards. Unless stated otherwise, the report applies to the entire ZEISS Group as per the bases of consolidation for financial reporting (Annual Report 2017/18 in Notes to the Consolidated Financial Statements).

Material, non-financial aspects are presented here. These have been identified by the ZEISS Group according to their relevance to the business and the impact on the particular aspects outlined in the CSR Directive Implementation Act (CSR-RUG). The departments responsible and management were involved in the analysis. The analysis resulted in the identification of seven different aspects: environmental protection, responsibility toward employees, occupational health and safety, social engagement, product safety, integrity and compliance and human rights. These have been assigned to the aspects listed in CSR-RUG.

Assignment of the ZEISS aspects to those defined in the CSR Directive Implementation Act

Aspects as per CSR-RUG	ZEISS aspects
Environment	Environmental protection
Employee matters	Responsibility toward employees Occupational health and safety
Social matters	Social engagement, product safety
Combating corruption and bribery	Integrity and compliance
Respect for human rights	Human rights

As per CSR-RUG on the disclosure of non-financial information, companies must not only report on the material aspects, but also disclose corresponding risks associated with their operations, business relationships, products and services, which have or will have a highly probable serious negative impact on these five aspects as per Section 289c (2) of the German Commercial Code (*HGB*). In the net assessment, ZEISS did not identify any such risks as per Section 289c (3.3 and 3.4) of the German Commercial Code in the past fiscal year. Additional information on the opportunities and risks can be found in the Annual Report in the Risk and Opportunity Report.

The Non-Financial Report was submitted for a voluntary audit by the auditing firm PricewaterhouseCoopers GmbH (PwC) in compliance with ISAE 3000 (Revised) to obtain limited assurance. The Independent Practitioner's Report is found starting on page 11. The Supervisory Board of Carl Zeiss AG has also reviewed this report.

References to disclosures in this Non-Financial Report that are not included in the Annual Report constitute additional information and hence were excluded from the audit.

Business Model

The ZEISS Group is represented in almost 50 countries and has approximately 60 sales and service locations, more than 30 manufacturing sites and about 25 research and development centers around the globe. In fiscal year 2017/18, the global workforce of approximately 30,000 employees generated revenue totaling over 5.8 billion euros.

ZEISS is an internationally leading technology enterprise operating in the fields of optics and optoelectronics. The ZEISS Group develops and markets semiconductor manufacturing equipment, measuring technology, microscopes, medical technology, eyeglass lenses, camera and cine lenses, binoculars and planetarium technology. ZEISS is divided up into the four segments Semiconductor Manufacturing Technology, Industrial Quality & Research, Medical Technology and Consumer Markets and nine strategic business units.

The Annual Report 2017/18 provides information on macro-economic business development and segment-specific revenue by region in the Report on Economic Position.

Semiconductor Manufacturing Technology

With a wide product portfolio and globally leading know-how, the Semiconductor Manufacturing Technology segment covers a variety of key processes in the production of microchips. ZEISS develops and manufactures products using semiconductor manufacturing technology, including lithography optics, photomask systems and process control solutions, key technologies for the manufacture of extremely fine circuit path structures on silicon wafers – the material from which the microchips are made. The technologies from ZEISS enable further miniaturization of semiconductor structures, making microchips smaller, more powerful, energy-efficient and cost-effective. The electronic equipment with which they are equipped foster global progress in a variety of disciplines, including technology, electronics, communications, entertainment, mobility, energy and artificial intelligence. With this segment, ZEISS is making a decisive contribution to shaping the age of microelectronics and our digital future. In the reporting year, the segment celebrated 50 years of semiconductor manufacturing technology at ZEISS.

Industrial Quality & Research

The products and solutions developed in the Industrial Quality & Research segment are focused on increasing productivity, quality assurance in production and visualizing the tiniest of structures in

the area of science and research. The range of coordinate measuring machines, optical and multisensory systems, and software solutions is complemented by comprehensive service offerings and innovative technologies, such as 3D X-ray measurement in quality assurance. They ensure perfect results, for example, in the automotive industry, mechanical engineering and aircraft construction, and in the plastics industry and medical technology. In the area of science and research, the segment also covers the entire spectrum of microscopy with light, ion, electron and X-ray microscopes. The solutions and services are used in the life sciences and materials research, as well as for education and in clinical practice.

Medical Technology

The Medical Technology segment develops, manufactures, markets and sells diagnostic and treatment systems, as well as implants and consumables in the field of ophthalmology. In addition, ZEISS offers visualization systems for microsurgery – for example, neuro/ENT surgery and dentistry. ZEISS aspires to improve the diagnosis and treatment of diseases by constantly enhancing its innovative products and applications. As a solutions provider, the company plays an active part in the increasing digitalization and systems integration in the health sector and creates the conditions needed for efficient processes and effective patient data management at its customers' sites. The segment's activities are pooled primarily in the listed entity Carl Zeiss Meditec AG, in which Carl Zeiss AG holds a 59.1% stake.

Consumer Markets

The Consumer Markets segment stands for excellence in vision care, photography, cinematography and sports optics. ZEISS develops, produces and sells solutions for the entire eyeglass value chain. Alongside ZEISS precision eyeglass lenses, this includes devices for eye examinations and vision testing, digital consultation and measurement applications, as well as comprehensive services for eye care professionals. ZEISS is one of the world's largest manufacturers of eyeglass lenses and offers a combined competence in eye and vision care that is unique the world over. With its camera and cine lenses, binoculars, spotting scopes and hunting optics, ZEISS offers discerning customers high-end products and applications for their hobbies and professional needs.

Corporate Governance

Carl Zeiss AG is the strategic management holding company that manages the ZEISS Group. It develops the corporate business activities and the Group's portfolio and provides central management and service functions.

The Carl Zeiss Foundation is the sole owner of Carl Zeiss AG. The Carl Zeiss Foundation Statute governs the activities and accounting of its subsidiaries, the duties of the Executive Board and the collaboration between the Executive and Supervisory Boards.

Environment

Effective environmental protection and the responsible use of resources are core objectives of the ZEISS Group.

Raw materials, semi-finished goods, preliminary products, energy and water are all used to manufacture the company's various products. This generates emissions, effluents and waste that cannot subsequently be reused in the manufacturing process. ZEISS continues to reduce its consumption and emissions and has set specific reduction targets. ZEISS selects raw materials, technologies and production processes based on their environmental compatibility. Wherever possible, potentially hazardous materials are replaced with less problematic substances. Recyclability is another key factor when selecting a material. Waste that can neither be prevented nor recycled is disposed of properly. ZEISS selects the most environmentally friendly disposal method that is also economically viable.

Guidelines, structures and processes

To ensure that the company continues to improve its environmental performance, ZEISS drew up global environmental principles in 1998. To implement them, the company utilizes an Environmental Management System in accordance with the international ISO 14001:2015. The environmental performance requirements are laid out in an internal directive that all ZEISS units worldwide must adhere to and implement. This was updated in fiscal year 2016/17. The Chief Financial Officer of Carl Zeiss AG, a Member of the ZEISS Executive Board, bears overall responsibility for the implementation of the ZEISS Group's Environmental Management System. An Environmental Officer appointed at the Group level assists the business units with the implementation and helps them identify suitable measures. Additional appointees are designated at each site. At the end of the reporting period on 30 September 2018, 32 business units at 16 of the ZEISS Group's production facilities had been certified by external auditors in accordance with ISO 14001 (fiscal year 2016/17: 16).

ZEISS energy management is tasked with keeping energy-related KPIs stable or improving them, even if the production quantities increase. The ZEISS Group's sites within the European Union have been certified as per ISO 50001, the internationally valid standard for energy management. Here the focus is on all of the company's (production) processes, machines, systems and equipment along with its buildings and infrastructure.

Environmental Officers on the site level are responsible for compliance with laws, requirements for government approval

and other rules related to the environment. These Environmental Officers ensure that the particular regulations and guidelines are stored in the management system. If action is required, the Environmental Officers must make the necessary arrangements, such as by issuing procedural and work instructions for their specific site. Regular external audits and, at ISO 14001-certified units, compliance checks are performed to ensure all statutory requirements are met. The results are then included in the annual management reviews.

In fiscal year 2017/18, the company created provisions to comply with environmental regulations and to undertake potential restoration measures. These are part of the 'Sundry other provisions' listed in the Annual Report.

An employee suggestion program has been established at eight ZEISS sites in countries like China, the US and Germany. The submissions are assessed based on their feasibility, impact and efficiency. For ZEISS, relevant ideas include suggestions for saving energy, improving energy efficiency, reducing materials usage, finding substitutes for hazardous chemicals and generally improving efficiency in the manufacturing process.

Objectives and results –

Efficient use of natural resources

ZEISS optimizes its business processes in line with environmental and economic aspects and organizes them so that increasingly fewer resources are required. In the past years, ZEISS was able to successfully reduce its water consumption along with its waste accumulation, the result of consistently reusing water in rinsing processes and the internal circulation of water in production, cleaning and cooling systems. If necessary, all effluents are pre-treated or drained into the public sewer system, thereby meeting the statutory requirements for monitoring and permits.

In March 2018, specific reduction targets were set together with the Executive Board of the ZEISS Group: a 40 percent reduction in water consumption and 30 percent reduction for waste accumulation relative to the company's own value added (as the sum of EBITDA and personnel expenses) by fiscal year 2019/20. Fiscal year 2009/10 serves as the reference year for both targets.

Objectives and results – Climate protection

The ZEISS Group supports the goals set forth in the Paris Agreement as well as the resulting national targets. As part of risk management, the company regularly assesses the potential effects and opportunities associated with climate change. More specifically, this includes the possible impact of emissions trading, plans to introduce a CO₂ tax and other regulatory developments. The company also monitors potential physical

phenomena, such as extreme weather, which could affect both its own sites and those of its suppliers.

The company can also achieve reductions via its own products, e.g. with the ZEISS AirSaver, which reduces the compressed air consumption of measuring machines. At the same time, the company also identifies potential opportunities to reduce CO₂ emissions in its own business activities. Examples include energy management and increased efficiency in production with the help of LEAN management methods. In these cases, the company focuses on preventing unnecessary materials usage and implementing just-in-time logistics.

In fiscal year 2017/18, ZEISS also participated in CDP (previously: Carbon Disclosure Project) for the first time. The results are publicly available at www.cdp.net. As a result of the company's participation, the process for capturing energy and emissions data was improved. The plan is to further optimize the process in the future.

In March 2018, specific reduction targets were set together with the Executive Board: 50 percent for CO₂ emissions and 50 percent for energy consumption relative to the company's own added value (as the sum of EBITDA and personnel costs) by fiscal year 2019/20. The reference year is fiscal year 2009/10 for both targets.

Additional information on progress related to the environment can be found in the Sustainability Report 2017/18 for the ZEISS Group. This will be published in January 2019 on the website at www.zeiss.com/responsibility.

Responsibility toward Employees

In the competition for talents, ZEISS positions itself as an attractive employer and benefits from its reputation as a global and innovative foundation-owned company with a strong focus on values that have been enshrined in the corporate culture since the company's founding.

Achieving precision, innovation and unparalleled quality requires motivated and qualified employees. In light of the demographic change and the shortage of skilled workers, a diverse workforce and equal opportunities that are truly put into practice prove to be decisive competitive advantages. Operational co-determination is another important aspect of ZEISS' responsibility toward its

employees. This goes beyond the statutory provisions in Germany.

Guidelines, structures and processes

With around 30,000 employees in almost 50 countries, diversity is part and parcel of everyday life at ZEISS and helps drive innovation. In order to strengthen this, the company focuses on ensuring equal opportunities while also actively promoting diversity.

Both the Foundation Statute and the ZEISS Code of Conduct prohibit any form of discrimination. ZEISS further bolstered its commitment to diversity by signing the Diversity Charter in July 2017. Today, a wide array of skills, experiences, leadership and work styles along with different cultural backgrounds, nationalities and lifestyles shape the corporate culture at ZEISS.

To actively promote diversity, a three-tier organization for managing diversity was established in fiscal year 2017/18 and will be implemented globally in fiscal year 2018/19. Corporate Human Resources is taking the lead with the support of multiple committees. In fiscal year 2017/18, the focus was on onboarding and continuing to improve the integration of international employees within Germany. A work group that oversees the implementation of these projects meets every six weeks. Its members are representatives from different strategic business units and regions. In order to openly address problems and make suggestions for improvement, a discussion was held between the President & CEO and 25 international employees.

Operational co-determination is well-established at ZEISS, and the principles of the Foundation Statute are enshrined at the sites in Germany.

Statutory matters and those issues regulated by collective wage agreements are negotiated with the respective employee representatives. In addition, ZEISS regularly discusses planned changes and initiatives with the committees made up of employee representatives. In accordance with the provisions of the German Co-Determination Act (*Mitbestimmungsgesetz*), half the members of the Supervisory Board of Carl Zeiss AG represent the sole shareholder – the Carl Zeiss Foundation – while the other half represent the employees. The Executive Board regularly reports to the Supervisory Board on current issues and planned operational changes. The European locations of Carl Zeiss Vision International GmbH send employee representatives to the European Works Council (EWC).

Objectives and results – Diversity

The primary diversity objectives are to better integrate employees from abroad at the German locations and to promote differences in the following five dimensions: professional background,

generation, gender, internationality and work culture. In order to create a corporate culture that promotes, recognizes, and values diversity, information on diversity was published on the Intranet and made available globally during the reporting year. In addition, ZEISS started or continued the following initiatives within Germany during fiscal year 2017/18:

- » Expansion of the cooperation network for international employees and their family members
- » Women's Business Lunch as an initial networking opportunity for women in leadership positions in Oberkochen, Jena and Berlin
- » A mentoring program for women in Oberkochen and Jena to promote equal opportunities
- » A cooperation network for childcare and care for relatives to enable a better work-life balance

ZEISS' successful recertification as a 'family-friendly company' by the Success Factor Family (*Erfolgsfaktor Familie*) business network marked another achievement in the reporting year.

Objectives and results –

Employer-employee relationship

Employees share in ZEISS' successful business development. The employees in Germany received a gross bonus payment of 2,400 euros for fiscal year 2017/18. This was paid out in October 2018, after the end of the reporting period. Employees at several companies outside of Germany also shared in the success for fiscal year 2017/18 in line with the country-specific provisions.

The Pulse Check, a global survey of employees conducted on a regular basis, gives all employees the chance to provide feedback on the corporate culture anonymously. The survey addresses the attractiveness of ZEISS as an employer, the prevalence of the values SERVE – EMPOWER – ACT – WIN in daily activities, and other current cultural issues within the context of the company's strategy, the ZEISS Agenda 2020. For example, Pulse Check 2018 showed that more than 80 percent of all employees enjoy working at ZEISS, and that 75 percent of employees would recommend ZEISS as an employer. Both results had improved since the previous survey. Nevertheless, ZEISS has set itself the goal of further driving this positive trend through suitable measures on the corporate and department levels.

Occupational Health and Safety

For ZEISS, guaranteeing a healthy work environment and a safe workplace is a fundamental obligation toward its employees.

This also applies to employees from non-ZEISS companies acting on behalf of ZEISS. ZEISS promotes its employees' health and performance through comprehensive safety measures and occupational health examinations.

Guidelines, structures and processes

Safety in the workplace and protecting the health of all employees are principles enshrined in both the Foundation Statute and the ZEISS Code of Conduct. The Chief Financial Officer, a Member of the Executive Board, is responsible for occupational health and safety. The respective heads of all ZEISS business units are responsible for occupational safety and, consequently, for the continuous improvement of health and safety performance as well as the implementation of Group-wide policies. A Global Coordinator for Occupational Health and Safety (OHS) was appointed in October 2017. The Head of the Occupational Health and Safety department took on this role in addition to his functional management responsibility for Germany. All units in the ZEISS Group are obligated to appoint an OHS Officer in writing. The duties of an OHS Officer can differ as a result of the local legislation, but always include advising management and assessing occupational health and safety risks. To ensure regular communication, the Chief Financial Officer, the Head of Corporate Auditing, Risk and Quality Management and the Global Coordinator for OHS meet each quarter. The Chief Financial Officer is also informed in writing about the frequency and severity of workplace accidents at ZEISS at regular intervals. A globally consistent KPI has been introduced for this purpose.

A mandatory internal directive published in January 2018 and applicable to all ZEISS units defines management's responsibilities. Each year, management must provide evidence that:

- » All relevant laws and stipulations related to occupational health and safety have been complied with, fulfilled and monitored. (This documentation is provided at the annual management review)
- » All employees took part in general trainings on occupational health and safety

Moreover, as per Germany's Act on Occupational Physicians, Safety Engineers and Other Occupational Safety Specialists (*Arbeitssicherheitsgesetz*), Occupational Safety Committees (OSC) are formed for every business unit. These convene each quarter. An OSC assists with issues pertaining to occupational safety and accident prevention. Since at least one representative from each company management team is part of an OSC, this committee is not only an advisory committee, but also a decision-making body.

A total of six business units at five German sites and four international ZEISS sites are certified in accordance with OHSAS 18001, the international standard for occupational health and safety management systems. An Occupational Health and Safety Management System based on the requirements stipulated in OHSAS 18001 has been implemented at all other ZEISS sites in Germany.

Each month, 45 business units with over 23,000 employees supply statistics on the frequency and severity of workplace accidents. The OHS coordinator reviews the statistics together with the head of the particular business unit and the employee who submitted the figures. Monitoring plausibility improves the reporting quality and more firmly anchors the topic of occupational health and safety within the company.

Objectives and results

The main objective of the ZEISS Group is to reduce the frequency and severity of workplace accidents. The Executive Board set the following goal: a Lost Time Injury Frequency Rate (LTIFR) of less than 2.25 for all the ZEISS Group's production units by the end of fiscal year 2022/23. In fiscal year 2017/18, the reported LTIFR was 3.96. There were no fatal workplace accidents in the reporting year.

Social Engagement

As per its responsibility as a foundation company, ZEISS promotes scientific and technological progress in its four segments and advocates for better living conditions worldwide.

Since 1889, the Carl Zeiss Foundation Statute has set a clear course: in addition to economic growth and responsibility for the company's employees, it establishes high standards for societal and social engagement and the continued promotion of science and education as important corporate objectives. ZEISS raises the bar in health care by offering solutions for ophthalmology and medical technology and helps drive medical progress by supplying microscopy products. The goal is to

improve the lives of patients everywhere with ZEISS' core business. Furthermore, the company makes financial donations and in-kind donations in the form of ZEISS products and solutions through a variety of different projects in order to give people around the globe access to high-quality medical care.

Guidelines, structures and processes

Clear policies governing the ZEISS Group's social engagement are in place. Three different organizational areas provide sponsorship support.

As the sole stockholder of Carl Zeiss AG and SCHOTT AG, the Carl Zeiss Foundation carries out non-profit activities. These are defined by the Foundation Statute and financed by the dividend payments from the companies ZEISS and SCHOTT. Particular attention is paid to providing sustainable, balanced support.

The ZEISS Group makes donations as per a defined process. The guidelines are laid out in an internal policy that applies to the entire company. The Education and Science Fund is one means of supporting societal advancement. With the Education and Science Fund established by the company in 2013, ZEISS aspires to foster future generations of natural scientists, from today's preschool children to tomorrow's doctoral candidates.

Two fund managers from Corporate Human Resources and Corporate Research and Technology manage the budget for donations and the applications for support. They decide which requests receive funding based on fixed criteria, in accordance with the budget and in consultation with the Executive Board. The areas of focus for donations are critically examined approximately every two years and modified, if necessary.

There are also initiatives that have been launched through employee civic engagement. These activities usually receive indirect support from ZEISS, and the company and managers show their sincere appreciation to the employees involved in the form of credited working hours and the opportunity to organize using the company's internal structures.

In addition, the subsidiaries in Germany and abroad conduct their own activities, enabling them to pursue local interests and observe regional aspects.

Results – Social engagement Social engagement at the ZEISS Group is aimed at promoting research and education, health care, conservation and society.

The Education and Science Fund supports initiatives that promote education among young people, primarily high school students who have not yet selected a degree program and

university students who have not yet entered the workforce, and their scientific skills, as well as projects and initiatives at universities and research institutes. The focus is on the fields of natural science and engineering, particularly optics and photonics. In fiscal year 2017/18, more than 500,000 euros was used to fund around 25 projects.

ZEISS helps ensure global access to health care through its products and by supporting a range of different projects. For example, the training and continuing education of ophthalmologists is an important part of the fight against preventable blindness. ZEISS and the Christoffel Mission for the Blind (CBM) provide support for a new training center in Paraguay together with a local partner. There, state-of-the-art ophthalmic techniques are being established thanks to this cooperation.

Information on the Carl Zeiss Promotion Fund, which supports projects at sites in Germany, and the other sponsorship areas conservation and society can be found in the Sustainability Report 2017/18 for the ZEISS Group.

Product Safety

Along with optimum quality, product safety and reliability are a prerequisite for the success of the ZEISS Group.

At ZEISS, product safety begins in the development stage, continues through the procurement and production process and remains an important aspect when the product is being operated by the customer or serviced. A wide range of legal stipulations on the development, production, approval and sale of these products ensures product safety. Defective products may cause serious harm to the user, but can also severely damage the company's reputation.

Guidelines, structures and processes

ZEISS requires that all applicable laws governing product safety, both when the products are in use and being disposed of, be implemented consistently. As part of a comprehensive risk assessment during product development and production, ZEISS ensures that, prior to a product launch, all necessary measures have been taken to guarantee that customers and third-parties can use and dispose of the product safely. Operating instructions, trainings, different support offerings and opportunities for dialog help users operate their ZEISS systems safely. ZEISS is able to implement potential improvements and, if necessary, rapidly execute corrective measures.

The issue of product safety and its importance for the company's success are enshrined in the ZEISS Group's Code of Conduct. All applicable country-specific laws and guidelines for ZEISS' primary markets lay the foundation for product development, design and sales – in accordance with the applicable standards. Individual specialists are involved in their ongoing development by European and international committees and standardization bodies and thereby bring fresh ideas to product development at ZEISS.

Within the ZEISS Group, guidelines and monitoring ensure compliance with standards and rules. The responsibility for product safety lies with the Executive Board or the Managing Directors of the individual companies, respectively, well as with the employees responsible for the particular product. They must provide the structures, resources and expertise to properly implement all mandatory legal requirements. The following principles apply worldwide:

- » The product safety requirements must be observed during each stage of the product life cycle
- » Customer feedback must be used as the basis for product improvements
- » Ongoing market monitoring for selected product groups ensures that the products continue to meet the most stringent safety requirements
- » Independent organizations must verify the safety of certain products

Objectives and results

ZEISS products must not endanger users' safety or health. To guarantee this, the applicable requirements are implemented and, where needed, the necessary approvals are obtained to launch the products. The certification of relevant products by independent testing centers ensures a higher safety standard.

Human Rights

As a leading global technology enterprise, the ZEISS Group is conscious of its responsibility to uphold human rights.

This issue is particularly important because of the global supply chain and increased regulation, e.g. the German Federal Government's National Action Plan for Business and Human Rights. ZEISS takes a strong stance against all forms of forced and child labor, and works to ensure that environmental and social standards are met at its sites and along its supply chains.

Guidelines, structures, and processes

For ZEISS, compliant, fair behavior forms the basis for responsible business activities. The Code of Conduct adopted in 2007 is mandatory for all employees and managers at the ZEISS Group. The revisions in 2016 include a stronger emphasis on the importance of human rights for the company's employees and the entire supply chain. Specific reference is made to the labor and social standards published by the International Labor Organization (ILO). Additional information on the ZEISS Group's Code of Conduct can be found in the Integrity and Compliance section on this page.

ZEISS suppliers must adhere to the provisions of the internationally recognized Code of Conduct from the Responsible Business Alliance (RBA). These serve as minimum standards for human rights, health and safety, environmental protection and business ethics. The RBA Code of Conduct is based on the UN Guiding Principles on Business and Human Rights and international human rights standards like those issued by the ILO. ZEISS expects all suppliers who have a direct business relationship with the company to meet the minimum standards in the Code of Conduct. The strategic suppliers outside of the ZEISS Group, who make up around 50 percent of the company's external purchasing volume, must recognize the RBA or a similar code of conduct, adhere to it and inform their sub-suppliers and contractors of the standards. Demand-driven assessments and audits are conducted to monitor compliance with the Code of Conduct. On principle, ZEISS does not enter into any business relationship if there is evidence of deficiencies concerning human rights.

In order to anchor the topic of human rights more strongly within the company, ZEISS has assembled a work group with representatives from the Supplier Sustainability Team, Human Resources and Sustainability Coordinators. This group develops strategies for implementing the German Federal Government's National Action Plan for Business and Human Rights and ensures that these comply with statutory requirements like the British Modern Slavery Act. The integration of sustainability aspects in the supply chain is monitored by the Supply Chain Expert Panel, which comprises employee representatives from supplier management at the different strategic business units. The Supplier Sustainability Team, which also operates on a Group level, bundles different activities for integrating sustainability aspects in supply chain management, drives their development and supports their implementation in all strategic business units.

Results – Supply chain

A standardized assessment was conducted in fiscal year 2017/18 to identify the sustainability risk of the 649 major suppliers on the basis of established risk indices. In preparation for potential on-site audits, those suppliers considered particularly high risk

as a result of the initial evaluation will be asked to fill out a sustainability survey in the future: the Sustainability Supplier Self-Assessment Questionnaire.

In order to systematically identify risks in the supply chain, the standardized STRT (Slavery & Trafficking Risk Template) questionnaire was also piloted for the first time.

In the reporting year, ZEISS had six sustainability audits performed on suppliers' premises by an interdisciplinary and international team. This involved a follow-up audit in Germany and five initial audits in Asia. Deviations, particularly in the areas of work safety and transparency concerning working conditions, were identified and a plan for corrective measures instituted to rectify them.

In order to sensitize suppliers to sustainability issues and to train them on how to meet requirements, ZEISS developed an eLearning course on the RBA Code of Conduct. In October 2018, this was made available on the ZEISS Learning Platform, which suppliers can also access.

ZEISS did not learn of any violations or complaints pertaining to human rights in the supply chain during the 2017/18 fiscal year. All stakeholders were asked to report any suspected cases.

Integrity and Compliance

Business activities compatible with legal stipulations and internal rules are an integral part of the ZEISS corporate culture.

The company's mandate to act with integrity stems from the values that have been shaped by the history of this foundation company. For ZEISS, legality, fair competition and the proper treatment of business partners and employees are indispensable elements of successful business activity. Achieving this requires an open and respectful corporate culture which, along with an effective Compliance Management System, ensures that any deficiencies are detected, identified and corrected at ZEISS.

Guidelines, structures and processes

At ZEISS, the foundation for compliance management is the Code of Conduct, which was first published in 2007 and most recently updated in 2016. It describes the risks of conducting business activities and provides specific recommendations. As the basis for entrepreneurial activity, the Code of Conduct is mandatory for all employees and managers at the ZEISS Group worldwide. It contains rules on various issues, including data protection, product safety, environmental protection as well provisions against

restricting competition and anti-corruption measures. There are more detailed company directives for all the areas addressed in the Code of Conduct. These include guidelines on granting and accepting benefits such as gifts or invitations, as well as the directive on auditing sales partners. In the latter case, the goal is to determine whether sales partners were ever previously suspected of corruption or involvement in a cartel, export control, money laundering or similar crimes, or exhibit any other risk factors that could damage ZEISS' reputation. Moreover, the periodic inquiry into compliance risks at all ZEISS companies is an important part of risk management throughout the Group.

At ZEISS, compliance is organized on three different levels: on the Group level, the Chief Compliance Officer, who reports to the Executive Board, and the Director of Corporate Compliance are responsible for the Compliance Management System. This area of responsibility encompasses the design of the Compliance Management System and assisting with the identification and rectification of all compliance violations that might jeopardize the reputation of the entire ZEISS Group. Moreover, each strategic business unit has appointed its own Group Compliance Officer, who coordinates compliance activities for the particular area and the associated companies. In addition, each individual company has their own local Compliance Officer, who is responsible for implementing training measures on-site, resolving any local compliance violations and serves as the point of contact for both employees and management.

Ensuring all business activities at ZEISS conform with the prevailing rules is the collective responsibility of the Executive Board and the heads of the ZEISS companies. This includes observing laws related to the environment, data protection, customs and export provisions as well as regulations pertaining to occupational and product safety.

Regular internal and external audits and assessments are conducted to determine if all legal requirements are being met.

A Compliance Management System has been established at the ZEISS Group for the systematic management of all compliance measures. It features modules on leadership, risk assessment, standards, organization, training and communication as well as oversight and controls. The core processes are:

» **Prevent**

A clearly structured catalog of directives and mandatory training seminars is used to continually raise awareness and prevent incidents from occurring.

» **Detect**

In spite of all the preventive measures, legal violations and cases of non-compliance can still occur within the company.

To identify such cases, employees are called on to actively cooperate and should report suspected violations. Different departments and experts, such as Corporate Security or Internal Auditing, also assist with compliance investigations. Depending on the case, the company can also avail itself of external assistance.

» **Respond**

The company then takes appropriate measures to immediately eliminate unlawful behavior.

» **Correct**

Depending on the type of misconduct, systemic or procedural measures may be necessary to prevent recurrence.



Objectives and results – Compliance

All employees must regularly complete a basic compliance training, which includes passing a final exam. This training covers the topics found in the ZEISS Code of Conduct. Employees from areas exposed to particular compliance risks, such as purchasing, sales and marketing, as well as members of management must complete additional training modules on the topics of anti-corruption and fair competition.

All ZEISS companies have had access to the mandatory compliance eLearnings since October 2018. In addition, the goal for fiscal year 2018/19 is to provide access to the ZEISS Learning Platform to all employees who currently do not have it, e.g. employees from the production area. The eLearnings were completely revised during fiscal year 2016/17 and are available on the ZEISS Learning Platform in 14 different languages.

Independent Practitioner's Report

On a Limited Assurance Engagement on Non-financial Reporting*

To Carl Zeiss AG, Oberkochen

We have performed a limited assurance engagement on the separate non-financial group report pursuant to § (Article) 315b Abs. (paragraph) 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of Carl Zeiss AG, Oberkochen, (hereinafter the "Company") for the period from 1st October 2017 to 30th September 2018 (hereinafter the "Non-financial Report").

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis - IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1st October 2017 to 30th September 2018 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- » Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- » Inquiries of personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- » Identification of the likely risks of material misstatement of the Non-financial Report
- » Analytical evaluation of disclosures in the Non-financial Report
- » Performance of site visits as part of the inspection of processes for collecting, analyzing and aggregating selected data at the location in Oberkochen
- » Comparison of selected disclosures with corresponding data in the consolidated financial statements and in the group management report
- » Evaluation of the presentation of the non-financial information

*PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the separate non-financial group report and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1st October 2017 to 30th September 2018 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third

parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Munich, 12th December 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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