

Seeing beyond

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 Sec. 315b and 289b ff. of the German Commercial Code (HGB) for fiscal year 2018/19 (1 October 2018 to 30 September 2019). Thus, this includes those aspects required for understanding the ZEISS Group’s business development, performance, position and impact of its activities.

The concepts presented in the different sections were prepared based on the current version of 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 2018/19 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 the management were involved in the analysis. The analysis resulted in the identification of seven different aspects: environmental protection, responsibility toward employees, occupational 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 areas to the aspects defined in the CSR Directive Implementation Act

Aspects as per CSR-RUG	ZEISS aspects
Environment	Environmental protection
Employee matters	Responsibility toward employees Occupational safety
Social factors	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 are highly likely to have a serious negative impact on these five aspects as per Sec. 289c (2) of the German Commercial Code (HGB). In the net assessment, ZEISS did not identify any such risks as per Sec. 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’s 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 begins on page 13. 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 2018/19, the global workforce of approximately 31,000 employees generated revenue totaling over 6.4 billion euros.

ZEISS is an international 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 2018/19 provides information on the general economic framework for the company's development and lists the Group's revenue by region in the Report on Economic Position.

Semiconductor Manufacturing Technology

With its 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, photo-mask 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 the continued miniaturization of semiconductor structures, creating smaller microchips that are more powerful, energy-efficient and cost-effective. Their electronic equipment fosters global progress in a variety of disciplines, including technology, electronics, communications, entertainment, mobility, energy and artificial intelligence. ZEISS is playing a major part in shaping the age of microelectronics and our digital future.

Industrial Quality & Research

The products and solutions developed in the Industrial Quality & Research segment are focused on quality assurance in production, on increasing productivity and on visualizing and manipulating the tiniest structures in science and research. For instance, in the automotive, aerospace, mechanical engineering and plastics

industries as well as in medical technology, ZEISS' portfolio ensures perfect results with its coordinate measuring machines, optical and multi-sensor systems, software solutions, comprehensive service offerings and innovative technologies like 3D X-ray measurements for quality control. In science and research, the segment covers the entire spectrum of microscopy with light, ion, electron and X-ray microscopes. The products and solutions 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 healthcare sector and lays the foundations 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, nature observation and hunting 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 hobbies and professional needs.

Corporate Governance

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

The Carl Zeiss Foundation is the sole owner of Carl Zeiss AG. The Carl Zeiss Foundation's statutes govern the activities and accounting of its subsidiaries as well as 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 key concerns for 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 work on reducing its consumption and emissions and has set specific reduction targets in order to counter the negative impact on the environment and our climate. In order to achieve this, ZEISS pays attention to the efficient use of materials and energy from product development through to customer application. It is also adapting its business processes with a view to ensuring the efficient use of natural resources. When selecting and using raw materials, technologies and production processes, ZEISS considers their environmental compatibility. Wherever possible, potentially hazardous materials are replaced with less problematic substances. Recyclability is a key factor when selecting a material in order to close material cycles and take into account the idea of resource efficiency in its operations. ZEISS ensures that waste that can neither be prevented nor recycled is disposed of properly. It 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 standard. The environmental performance requirements are laid out in an internal directive that all ZEISS units worldwide must adhere to and implement. 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 for the Group assists the business units with the implementation and helps them identify suitable measures. Additional officers are appointed at each site. At the end of the reporting period on 30 September 2019, 31 business units at 15 of the ZEISS Group's production facilities had been certified by external auditors in accordance with ISO 14001 (fiscal year 2017/18: 32 business units and 16 production facilities).

ZEISS Energy Management is tasked with keeping energy-related KPIs stable or improving them, even if production quantities

increase. The ZEISS Group's sites in the European Union have been certified to ISO 50001, the international standard for energy management. It focuses on all of the company's (production) processes, machines, systems and equipment along with its buildings and infrastructure.

Environmental Officers for the various sites are responsible for ensuring compliance with laws, stipulations for government approval and other rules related to the environment. They make sure 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 issuing procedural and work instructions for their specific site. Regular internal and external audits and compliance checks are carried out to determine if all legal requirements are being met. If the audit reveals that there is room for improvement, ZEISS will respond to this by defining concrete measures. It is often a challenge to ensure the timely implementation of these measures, one which the company faces by defining clear responsibilities and deadlines. The implementation of all other actions is checked through regular sequential audits. The audit results also feature in the annual management review.

In fiscal year 2018/19, 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 conserving energy, improving energy efficiency, reducing materials usage, finding substitutes for hazardous chemicals and stepping up efficiency in its production processes.

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 ever fewer resources are required. In recent years, ZEISS has successfully reduced its water consumption relative to the company's value added (as sum of EBITDA and personnel expenses). This is 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.

All of the business units certified in accordance with ISO 14001 have set their own goals for improving their environmental performance as part of their area-specific environmental pro-

grams. A regular, usually annual, review within the units is conducted to monitor the achievement of these goals. Moreover, in fiscal year 2018/19 a cross-divisional team of specialists in sustainable product and process development was established. It first met in November 2018. The goal is to come up with approaches that better integrate sustainability aspects such as energy and resource efficiency into development processes.

In March 2018, specific reduction targets to be achieved by fiscal year 2019/20 were set together with the Executive Board of the ZEISS Group: a 40 percent reduction in water consumption and a 30 percent reduction in waste accumulation relative to the company's own value added. The reference year is fiscal year 2009/10. Alongside reducing water consumption, ZEISS has made good progress in terms of its waste accumulation as it works toward achieving its goal. Further information is available in the ZEISS Group Sustainability Report for 2018/19.

Objectives and results – Climate protection

ZEISS adheres to the global goal stipulated in the Paris Agreement of limiting global warming to below 2°C and has taken its own measures in order to achieve this. In the reporting period, an analysis was performed to identify the key influencing factors for reducing CO₂ emissions. On this basis, the Executive Board resolved that ZEISS' energy consumption will be carbon neutral by 2022. In the future, this will be done by purchasing verifiably green energy and by offsetting emissions that cannot be prevented. Moreover, travel regulations were revised in favor of climate-friendly means of transportation and to offset flights taken as of fiscal year 2019/20. The creation of a strategic leadership role for the topic of sustainability was also approved. The reduction targets agreed in March 2018 with the Executive Board of the ZEISS Group – a 50 percent reduction in CO₂ emissions and a 50 percent reduction in energy consumption relative to the company's own value added (as sum of EBITDA and personnel expenses) by fiscal year 2019/20 – shall remain valid. The reference year for all targets is fiscal year 2009/10.

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 does its part to protect the climate through its own products, such as the ZEISS Axio Vert.A1. This inverse routine microscope is equipped with an energy-saving Eco mode. This means the microscope is automatically switched off if it's not used for more than 15 minutes. At the same time,

the company identifies factors that influence its own business activities in order to reduce CO₂ emissions. Examples include energy management and increased efficiency in production with the help of LEAN management methods. Heat exchangers have been installed at various sites to reuse the exhaust heat from production, e.g. for heating processes. Moreover, a 3D printing process for producing operating equipment was launched at one site and has achieved considerable energy savings compared to the lathing process formerly in place.

In fiscal year 2018/19, ZEISS participated in the CDP (previously: Carbon Disclosure Project) once again. As a consequence, the process for capturing energy and emissions data was further improved. For its reporting in fiscal year 2017/18, in January 2019 the CDP gave ZEISS a B on its scale that ranges from A to D. ZEISS aims to maintain this high level in the future. The results are publicly available at www.cdp.net.

Additional information on progress related to the environment can be found in the ZEISS Group's Sustainability Report for 2018/19. This will be published in January 2020 on the website at www.zeiss.com/responsibility.

Responsibility toward Employees

ZEISS continually invests in the promotion and professional development of its employees and positions itself as an attractive employer in the race to attract talented individuals. The company 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.

Achieving precision, innovation and unparalleled quality requires motivated and qualified employees. In light of demographic change and the increasing shortage of skilled workers, the diversity and equal opportunities championed at the company will prove to be key competitive advantages. Further important aspects regarding ZEISS' responsibility toward its employees are operational co-determination and employee development. The former goes beyond the statutory provisions in Germany.

Guidelines, structures and processes

With over 31,000 employees in almost 50 countries, diversity is part and parcel of everyday life at ZEISS. The company is shaped

by a diverse array of skills, mentalities, leadership and work styles, cultural backgrounds and lifestyles. This is a great advantage because diverse teams are more creative and solution-oriented, which helps them innovate. 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, an organizational structure was established for managing diversity in fiscal year 2017/18 and will be retained in fiscal year 2018/19. Corporate Human Resources is taking the lead with the support of multiple committees. In fiscal year 2018/19, the focus was on onboarding and, in particular, on continuing to improve the integration of international employees in Germany, as well as promote global networking and knowledge sharing among employees worldwide. A working group that oversees the implementation of these projects meets at regular intervals. Its members are representatives from different business units and regions.

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, 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 regarding current issues and planned operational changes. The European locations of Carl Zeiss Vision International GmbH send employee representatives to the European Works Council (EWC).

Through the promotion and further development of its employees, ZEISS is laying the foundations for attracting qualified and motivated talents, and ensuring they continue working at the company for many years to come. The company offers plenty of training opportunities and works with various universities. Both young and more seasoned professionals have the chance to take part in a host of development programs and international networking events. Special training is available for managers, and web-based seminars round off the global education offering. The Corporate Human Resources depart-

ment (CHR) is responsible for training and education, talent management, and management development. It works closely with local human resources departments within functional teams, service areas, and projects.

Objectives and results – Diversity

The primary diversity objectives are to better integrate international employees 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 was published on the intranet and made available globally in 2017. During the Diversity Days 2019, 36 activities were rolled out in 13 countries to raise awareness for diversity at ZEISS. In addition, in fiscal year 2018/19 ZEISS started, continued or expanded the following initiatives in Germany:

- » Cooperation network for international employees and their families
- » Women's Business Lunch as the first networking opportunity for women in leadership positions in Oberkochen; now also available in Jena and Berlin
- » Mentoring program for women at Aalen University, Ernst Abbe University in Jena, and the University of Jena, to promote equal opportunities
- » A cooperation network for childcare and care for relatives to enable a better work-life balance
- » A network for new employees that transcends divisional and departmental boundaries and promotes knowledge sharing, and helps them settle into life at ZEISS

Employees were enthusiastic about taking part in the events and interested in promoting diversity. This underscores how relevant the topic is for the corporate culture and that the initiatives are having a positive impact.

In fiscal year 2018/19, Carl Zeiss AG was named a "family-friendly company." This accolade was bestowed by the Baden-Württemberg State Council for Family Affairs and by the employers involved in the familyNET project.

Objectives and results – Employer-employee relationship

The aim is to further strengthen and expand the relationship between the company and its employees. Employees share in ZEISS' successful business development. The employees in Germany received a gross bonus payment of up to 2,850 euros for fiscal year 2018/19. This was paid out in October 2019, after the end of the reporting period. Employees at ZEISS companies outside Germany also shared in the success for fiscal year 2018/19 on the basis of country-specific regulations.

Pulse Check, a global employee survey conducted every two years, gives staff worldwide 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 would recommend ZEISS as an employer. Both values had improved since the previous survey. Potential improvements were also identified alongside this positive development – such as enhanced cross-divisional collaboration. In order to continue building on the positive trends and make improvements, ZEISS implemented further measures in the reporting period. Numerous Dialogue Tours were held across the globe in which the Executive Board discussed the corporate strategy with employees.

Objectives and results –

Attracting and developing employees

ZEISS aims to both attract new employees and develop the skills of its existing workforce on an ongoing basis. It is taking various measures to do so.

In order to attract new employees, the company publishes target-group-specific content on global and local online channels like LinkedIn, YouTube and WeChat. It also attends careers events and visits universities to promote itself as an international employer. The effectiveness of these measures is evident from the continually positive results it enjoys in employer rankings such as the Universum ranking of Germany's most attractive employers.

Furthermore, in fiscal year 2018/19, 159 young people began a combined degree-and-vocational-training program at its German sites in Göttingen, Jena, Oberkochen and Wetzlar. They are either being trained in the fields of industrial mechanics, precision optics, mechatronics and industrial business management, or are completing a combined degree which marries theoretical knowledge with real-world application.

To ensure employees stay with the company and receive further training for many years to come, ZEISS utilizes innovative learning formats that were enhanced in fiscal year 2018/19 and are available on the CurioZ learning platform. It offers employees around the world access to face-to-face events, as well as e-learning and e-books. Internal qualification offerings and measures are also consolidated on the digital platform and rolled out worldwide.

Occupational Safety

For ZEISS, guaranteeing a healthy work environment and a safe workplace are fundamental obligations 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) has been appointed. All ZEISS Group entities are obligated to appoint an OHS Officer in writing. The duties of the OHS Officer can differ as a result of local legislation, but always include advising management and assessing occupational health and safety risks. Appropriate training is organized by each company unit and is the responsibility of the respective managers. To ensure regular communication, the Chief Financial Officer, the Head of Corporate Auditing, Risk and Quality Management, and the Global Coordinator for OHS meet three times a year. The Chief Financial Officer is informed about the frequency and severity of workplace accidents at ZEISS. A globally consistent KPI has been introduced for this purpose.

The management's duties are set out in an internal guideline. This is mandatory for all ZEISS entities and states that the management must provide evidence each year 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 have taken part in general training on occupational health and safety

As per Germany's Act on Occupational Physicians, Safety Engineers and Other Occupational Safety Specialists (ASA), ZEISS has formed occupational safety committees (OSCs) that convene every quarter to discuss occupational safety issues and accident prevention. Since at least one representative from each com-

pany management team is represented on an OSC, it is not only an advisory committee, but also a decision-making body.

A total of five business units at three German sites and four international ZEISS sites are certified in accordance with the OHSAS 18001 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. Due to the publication of the international ISO standard for Occupational Health and Safety Management (ISO 45001), the fundamental occupational health and safety management system in Germany was adjusted in line with this approach and fully integrated into the ZEISS management system. Another business unit is set to be certified to the ISO 45001 standard in fiscal year 2019/20.

Every month, 57 units with over 24,400 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 2018/19, the LTIFR – which is calculated based on the number of workplace accidents** reported in the Group and the target working hours – was 3.82*** (2017/18: 3.96) and there were no workplace accidents that resulted in death. Most of the accidents that occurred within the ZEISS Group in Germany were caused by personal conduct such as not following work instructions. ZEISS responds to this challenge primarily by organizing training for managers and by running information campaigns for its employees.

In order to further standardize the processes related to safety in the workplace, ZEISS began implementing a holistic software solution for the Occupational Health and Safety Management System in fiscal year 2018/19. ZEISS is using a standardized solution to do this. It will simplify the reporting and monitoring of workplace accidents, near-accidents and critical situations, as well as the planning and documentation of instruction, the creation of risk assessments and the documentation and full transparency of measures derived from occupational health and safety and fire safety inspections. The launch of the new software solution presents a key challenge: ensuring widespread

acceptance among its future users. In order to drive its smooth implementation, pilot projects were run at selected sites and saw employees receiving thorough training in the software. In the reporting year, ZEISS began rolling this out at a total of nine sites in Germany. 184 managers and 52 officers have already received health and safety training.

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 business growth and accepting responsibility for the company's employees, it stipulates high standards for social engagement and the continued promotion of science and education as a corporate responsibility. ZEISS has thus made it one of its company goals to use its core business to improve the lives of people everywhere. ZEISS is thus raising the bar in healthcare by offering solutions for ophthalmology and medical technology and it helps drive medical progress by supplying microscopy products. ZEISS also supports schools and universities by equipping classrooms with networked microscopes.

Furthermore, the company makes financial 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 and eye care.

Guidelines, structures and processes

The ZEISS Group's social engagement is governed by clear policies. Three different organizational levels 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 provides sponsorship as per a defined process. The guidelines are laid out in an internal policy that applies to the entire Group. The Carl Zeiss Promotion Fund is one way of supporting education, science and societal advancement. ZEISS has been using it since 2011 to promote newcomers in

* The Lost Time Injury Frequency Rate (LTIFR) is the number of workplace accidents per one million target working hours in a fiscal year. Commuting accidents are not included.

** Due to the differing reporting cultures in different countries, however, it can be assumed that some workplace accidents are not reported in the same way as they are at the ZEISS locations in Germany. Such effects are therefore not factored into the performance indicator of reported workplace accidents.

*** In fiscal year 2018/19, more sites were involved in data collection than in fiscal year 2017/18.

the natural sciences, from preschool children right up to PhD students, as well as fund social and cultural projects.

Fund managers oversee the funding budget and the applications for support. Together with the relevant colleagues from the different corporate divisions, they decide which applications for donations or sponsoring to accept in accordance with set criteria, and consult with the Executive Board as needed.

The areas of focus for donations are critically examined about every two years and changed if necessary.

The third level comprises initiatives that are 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.

Objectives and results – Social engagement

Social engagement at the ZEISS Group aims to promote research and education, healthcare, conservation and society.

The focus of the Carl Zeiss Promotion Fund is on initiatives to promote education among young people, primarily high school students who have not yet chosen a degree, and to encourage them to develop their scientific skills and take part in projects and initiatives at universities and research institutes. The focus is on the natural sciences and engineering, particularly optics and photonics.

In fiscal year 2018/19, the Carl Zeiss Promotion Fund invested more than 1.1 million euros* to sponsor around 150 projects.

ZEISS helps ensure global access to healthcare 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 together with local partners in Australia, China, India, the USA and other countries in Africa and South America for training centers to treat cataract, establish modern eye care techniques even in remote areas, or to directly supply visual aids.

Further information on the Carl Zeiss Promotion Fund and the sponsorship areas of conservation and society can be found in the ZEISS Group's Sustainability Report for 2018/19 and on the company's website.

Product Safety

Along with optimum quality, product safety and reliability are essential to 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 all applicable laws governing product safety to be implemented consistently, both when the products are in use and being disposed of.

To this end, and in an effort to meet customers' product quality and safety needs, all ZEISS units use a quality management system based on the requirements of the international standard ISO 9001:2015. Systems and processes at multiple sites have been certified in accordance with it. To meet the specific requirements made of medical devices, various Medical Technology, Consumer Markets and Industrial Quality & Research sites have implemented a quality management system certified to ISO 13485. This is also verified through independent external certification.

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 the product safely. Operating instructions, training seminars and various support and opportunities for dialogue help users operate the ZEISS devices safely. A set of guidelines applicable across all ZEISS units helps employees deal with customer issues and complaints in a structured way. In such cases, appropriate measures must be implemented and monitored. ZEISS is thus able to implement potential improvements and, if necessary, quickly 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.

* In the Non-Financial Report for 2017/18, only the section on the promotion of education and science done by the Carl Zeiss Promotion Fund was taken into account (sponsorship of 25 projects in an amount upwards of 500,000 euros). In this report, the total funding provided by the Carl Zeiss Promotion Fund is reported as a consolidated sum. Thus, no direct comparison can be made with the figure reported in the previous year.

Individual specialists are involved in their ongoing development through 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. Responsibility for product safety lies with the Executive Board or the Managing Directors of the individual companies, respectively, as well as with the employees in charge of a particular product. They must make the structures, resources and necessary skills available to properly meet all legal requirements.

The key elements of ensuring product safety are:

- » Observing product safety requirements during each stage of the product life cycle
- » Using customer feedback as the basis for product improvements
- » Performing ongoing market surveillance for selected product groups to ensure products meet the highest safety requirements
- » Independent organizations inspecting selected products to ensure product safety

Objectives and results

ZEISS products must not endanger users' safety or health. To guarantee this, the applicable requirements are met and any necessary approvals are obtained to launch the products. Relevant products are certified by independent testing centers to ensure a higher safety standard. Certified products can be viewed on publicly accessible databases like that of the CSA Group, an international certification body.

In the reporting year, the quality management system was re-certified as per ISO 13485 at four sites in Germany and three sites abroad. Around 100 locations had thus been certified to ISO 9001 and 16 locations to ISO 13485 by the end of fiscal year 2018/19.

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 (NAP) for Business and Human Rights. ZEISS categorically rejects all forms of forced and

child labor and works to ensure that environmental and social standards are met at the sites in its supply chain.

Guidelines, structures and processes

For ZEISS, compliant, fair behavior forms the basis for responsible business activities. The key principles are set out in the Code of Conduct and apply to all employees and managers of the ZEISS Group. It makes specific reference to the labor and social standards published by the International Labor Organization (ILO) and more strongly emphasizes the importance of human rights for the company's employees and the entire supply chain. Additional information on the ZEISS Group's Code of Conduct can be found in the Integrity and Compliance section on the next page.

ZEISS suppliers must adhere to the provisions listed in 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. It 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. Key strategic suppliers outside of the ZEISS Group, who make up around 48 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. Risk-based assessments are conducted through supplier audits to monitor compliance with the Code of Conduct. On principle, ZEISS does not enter into any business relationship if there is evidence of human rights violations.

The Supplier Sustainability Team, which also operates at Group level, pools different activities for integrating sustainability aspects in supply chain management, drives their development and supports their implementation in all strategic business units. 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. A working group with representatives from the Supplier Sustainability team, as well as Human Resources and the Sustainability Coordinators, is in charge of the topic of human rights and developing strategies to implement the NAP. It ensures that these comply with statutory requirements like the British Modern Slavery Act.

Objectives and results – Supply chain

In fiscal year 2018/19 the sustainability risk of ZEISS' 573 major suppliers was assessed using the established risk indices. Suppliers considered particularly high risk as a result of the

initial evaluation were asked to fill out a sustainability survey (the Sustainability Supplier Self-Assessment Questionnaire) in preparation for on-site sustainability audits. In order to systematically identify risks in the supply chain, industry risks were determined, including those related to human rights. In the future, these will form part of the risk analysis.

In the reporting year, ZEISS had seven sustainability audits performed on suppliers' premises by an interdisciplinary and international team. This involved initial audits in Asia, Europe and Central America. Deviations were identified, particularly in the areas of occupational health and safety and working hours, as well as transparency concerning working conditions, and informing those involved in upstream supply chain activities of the ZEISS sustainability requirements. In order to process the deviations, corrective measures needed to be agreed with the relevant suppliers and their implementation monitored.

To sensitize employees and suppliers to sustainability issues and train them on how to meet requirements, ZEISS began offering an e-learning course on the RBA Code of Conduct in October 2018. In the reporting year, content was further developed with regard to the NAP. Moreover, a central supplier portal was launched to facilitate knowledge sharing. Further suppliers will be able to use the portal in the next fiscal year.

In November 2018, a ZEISS Integrity Line was made available on the company's website, to be used by both internal and external stakeholders for reporting any human rights violations (see also the chapter on Integrity and Compliance). ZEISS did not become aware of any violations or complaints pertaining to human rights in the supply chain during the 2018/19 fiscal year.

Integrity and Compliance

Business activities compatible with statutory regulations 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 this reason, legality, fair competition and the equitable treatment of business partners and employees are indispensable elements of successful business operations. This requires an open and respectful corporate culture which, along with an effective Compliance Management System, ensures that any deficiencies at ZEISS are detected, identified and corrected.

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 2018. It describes the risks of conducting business activities and provides specific recommendations on how to act. As the basis for entrepreneurial activity, the Code of Conduct is mandatory for all ZEISS Group employees and managers worldwide. It contains rules on various issues, including data protection, product safety, environmental protection and combating corruption. More detailed company directives are available for all the topics addressed in the Code of Conduct. These include guidelines on granting and accepting benefits such as gifts or invitations and the directive on auditing sales partners. In the former 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 exhibited 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 at three levels: At Group level, the Chief Compliance Officer, who reports to the Executive Board, and the Director 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 significant compliance violations that might jeopardize the reputation of the entire ZEISS Group. Each strategic business unit has appointed its own Group Compliance Officer, who coordinates compliance activities for the particular area and its companies. In addition, each individual company has its 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 the management.

Ensuring that all ZEISS business activities conform with the prevailing rules is the collective responsibility of the Executive Board and the heads of the ZEISS companies. This includes observing data protection, customs and export provisions, laws pertaining to the environment as well as regulations on 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 catalogue 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 the investigation of suspected compliance violations. 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 program and pass a final quiz. This training covers the topics found in the ZEISS Code of Conduct. Employees who work in areas where they are exposed to particular compliance risks, such as in Purchasing, Sales and Marketing, as well as members of the management, must complete additional training modules on the topics of anti-corruption and fair competition.

All ZEISS companies have had access to the e-training on compliance since October 2018. The e-trainings were partially revised in 2019 and are available on the ZEISS learning platform in 14 languages. To achieve the goal of always acting in accordance with statutory regulations and internal rules, the existing measures will be further enhanced. This meant that some employees, such as those working in Production, still had no way of accessing online training at the end of fiscal year 2018/19. In instances like these, face-to-face seminars are scheduled. However, ZEISS is still trying to find ways to grant these employees access to the ZEISS learning platform.

In addition, the ZEISS Integrity Line launched in November 2018 gives internal and external stakeholders the chance to report any information on possible compliance violations, and they can choose to do so anonymously. The ZEISS Integrity Line is available in 22 languages and can be found on the website at www.zeiss.com/responsibility and on the ZEISS intranet.

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 2018 to 30th September 2019 (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 §§ 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 2018 to 30th September 2019 has not been prepared, in all material aspects, in accordance with §§ 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 on-site visits and web meetings as part of the inspection of processes for collecting, analyzing and aggregating selected data at site level:
 - Carl Zeiss AG, Oberkochen, Germany
 - Carl Zeiss Vision S.A., Lisbon, Portugal (web meeting)
 - Carl Zeiss Vision México S. de R.L., Mexico City, Mexico (web meeting)
 - Carl Zeiss Vision (China) Ltd., Guangzhou, China (web meeting)
 - Carl Zeiss SMT GmbH, Oberkochen, Germany
- » 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 2018 to 30th September 2019 has not been prepared, in all material aspects, in accordance with §§ 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, 9th December 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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