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Annual Report
of OSRAM Licht Group
Fiscal Year 2017

OSRAM

Contents

About this Report

This Annual Report contains the combined management report and the consolidated financial statements of OSRAM Licht AG and its subsidiaries (‘OSRAM Licht Group’, ‘OSRAM’ or ‘we’) for the year ended September 30, 2017 as well as further information. It complies with the annual financial reporting requirements of section 37v of the *Wertpapierhandelsgesetz* (WpHG—German Securities Trading Act). The combined management report includes the management report for OSRAM Licht AG in addition to the information on the OSRAM Licht Group. The combined management report also contains the › C.4.2 Remuneration Report and the › C.4.3 Corporate Governance Declaration. S Page 164 S Page 177

The combined management report—especially the › A.4.1 Report on Expected Developments—contains forward-looking statements that are based on current management estimates regarding future developments. These statements do not constitute a guarantee that these expectations will prove correct. The future performance of the OSRAM Licht Group and its group companies depends on numerous risks and uncertainties, many aspects of which are outside OSRAM’s sphere of influence. In particular, these include, but are not limited to, the circumstances described in › A.4.2 Report on Risks and Opportunities. As a result, material variances, both negative and positive, could arise between OSRAM’s actual results, profits, and performance and those forecast in our forward-looking statements. OSRAM does not plan and does not assume any separate obligation to update the forward-looking statements over and above regulatory requirements. S Page 38 S Page 41

OSRAM’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations issued by the International Accounting Standards Board (IASB), as adopted by the European Union. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft has audited the consolidated financial statements and the combined management report. The unqualified audit opinion can be found in › C Statements and Further Information. S Page 144

Fiscal year 2017 for the OSRAM Licht Group and OSRAM Licht AG began on October 1, 2016 and ended on September 30, 2017.

This document is a convenience translation of the original German-language document.

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Unless otherwise stated, the number of employees is given in thousands of full-time equivalents (FTEs) as of the reporting date.

For the first time, this Annual Report does not address sustainability matters. Instead, we will be publishing a separate sustainability report in early calendar year 2018 ›› www.osram.com/sustainability. This is another logical step in tailoring our corporate communications to the information needs of our various stakeholders. By producing a dedicated sustainability report, we are catering to the growing interest in this aspect of OSRAM’s activities. Consequently, we can focus even more on the other two pillars of our sustainability model—environmental and social aspects—as well as on the financial aspects.

Cross-references in the text

› **Internal cross-reference** (within the document)

›› **External cross-reference** (to another document or via the Internet)

Combined 1) Management Report

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1) The combined management report includes the management report of OSRAM Licht AG in addition to the information on the OSRAM Licht Group.

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Business and Environment

A.1.1 Business Activities and Structure of OSRAM Licht Group

A.1.1.1 Business Model

OSRAM is one of the world's leading lighting manufacturers and has a history dating back more than 110 years. We see ourselves as a focused lighting technology provider in the areas of automotive and specialty lighting, opto semiconductors, luminaires, lighting systems, and solutions. Our product portfolio ranges from high-tech applications using semiconductor-based technologies, such as infrared and lasers, to networked, intelligent lighting solutions for buildings and urban areas. As a technology company, we regard digitalization, above all, as an opportunity to generate new business for products, systems, and solutions in associated or related lighting-related applications.

The operating activities covered by our business model are essentially organized into four business units: Opto Semiconductors, Specialty Lighting, Digital Systems, and Lighting Solutions.

Since the sale of our former Lamps Business Unit, which essentially comprised the general lighting lamps business (LEDVANCE) › A.2.2.3 Other Significant Events Responsible for the Course of Business, these four business units together with the Group headquarters have constituted the OSRAM Licht Group (continuing operations). The former LEDVANCE activities are reported in our consolidated financial statements as a discontinued operation. S Page 16

OSRAM employed a total of around 26.4 thousand people as of September 30, 2017 (previous year: 24.6 thousand).

Opto Semiconductors (OS)

The OS Business Unit develops, produces, and markets products relating to opto semiconductor technology. This includes both LEDs, which generate visible light for a wide range of lighting applications, and other opto semiconductors, which emit invisible light or receive incoming light and convert it into signals. The main sources of demand for OS products are the automotive industry, industrial and end-customer applications, and, increasingly, the general lighting sector.

OS and Nichia have been the leaders in the highly competitive opto semiconductor market for many years. In addition to Lumileds and Cree, the relevant competitors in this segment primarily come from Asia and include companies such as Samsung, Everlight, LG Innotek, Seoul Semiconductor, and MLS. Our APAC reporting region was the largest regional market for sales of OS products, followed by EMEA.

OS employed around 12.6 thousand people as of September 30, 2017 (previous year: 10.5 thousand).

Specialty Lighting (SP)

The SP Business Unit offers a broad range of lamps and systems for various sectors and special applications. In terms of revenue, SP's largest business is the automotive area with traditional lighting technologies and LED products, as well as products using innovative OLED and laser technologies. Specialty lamps and lighting systems for stage, cinema, and studio lighting form another area of business. SP also serves further special segments that, rather than using light primarily for illumination, utilize its other advantages, for example lamps that use high-intensity UV light to disinfect the surfaces, gases, or fluids that they irradiate.

SP is active in specialty lighting markets that typically have a smaller number of competitors than markets such as general lighting. In the automotive lighting business, SP is the market leader in all regions; its main competitors are Lumileds, General Electric, and Nichia. OSRAM and our competitor Ushio are the market leaders in specialty lighting and lamps for stages, cinemas, and studios. SP's products are marketed worldwide, with our APAC reporting region accounting for the largest share of revenue in the past fiscal year and, at the same time, offering the greatest potential for growth.

SP employed around 6.7 thousand people as of September 30, 2017 (previous year: 6.6 thousand).

Digital Systems (DS)

The DS Business Unit is a provider of traditional electronic ballast and LED drivers, LED modules, light engines (a combination of an LED module and the related electronic control gear), and light management systems. The growing share of the volume of DS's business accounted for by LEDs is causing some of the business to increasingly shift away from standard products toward customized business involving adaptive production processes.

The main competitors for LED modules, LED light engines, and electronic ballasts are Philips Lighting, Zumtobel, and Asian manufacturers such as Panasonic, Samsung, LG, Meanwell, and Delta Electronics. A large number of manufacturers also specialize in particular products. The largest share of revenue from DS products was generated in our Americas reporting region in the past fiscal year.

DS employed around 3.1 thousand people as of September 30, 2017 (previous year: 3.3 thousand).

Lighting Solutions (LS)

The activities of the LS Business Unit comprise OSRAM's luminaires and solutions business. This includes both the production and sale of luminaires and the design and implementation of solutions for internal and external lighting, as well as the service business. Our luminaires are primarily used in customer-specific projects in the fields of street lighting and architectural design, as well as professional interior lighting applications. We also offer fully integrated lighting solutions in order to cater to the growing demand for networked, intelligent lighting.

LS operates in a highly fragmented market, both for luminaires and for solutions, that has significant local differences in terms of customer demand. Similarly, the competitors in this market vary significantly from region to region. OSRAM's rivals include Philips, which is the main competitor worldwide, along with Zumtobel and Fagerhult. EMEA accounted for the largest share of revenue generated from LS products.

LS employed around 1.8 thousand people as of September 30, 2017 (previous year: 2.2 thousand).

A.1.1.2 Research and Development (R&D)

Innovation and quality are fundamental to OSRAM's medium-term and long-term financial success, especially when it comes to breaking into new growth markets. The lighting industry's shift toward innovative LED-based products is already at an advanced stage from an R&D perspective, which means we are increasingly channeling our innovative strength into developing new types of digital lighting systems and components, as well as opening up new areas of application for existing technologies. Digitalization is a major driver of innovation, including in the lighting business. It is creating new business opportunities that use visible and invisible light as a platform for new digital services. As a technology company, we are aiming to be a pioneer of intelligent and networked lighting solutions and digital services and to be an innovation leader.

The medium-term and long-term basis for our main areas of R&D is our 'Diamond' technology, innovation, and growth initiativ › A.2.2.3 Other Significant Events Responsible for the Course of Business/'Diamond' Technology, Innovation, and Growth Initiative.

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Structures and Processes

Corporate Innovation (CI) is the central development department and its responsibilities include application-based, long-term preliminary development. It reports to the Chief Technology Officer (CTO). CI conducts research and development projects at locations in Germany and the U.S.A. in order to tap into new lucrative business opportunities for OSRAM. It also supports the business units' own research activities. Strategic matters are tightly coordinated on an ongoing basis by quarterly technology boards and, at planning level, in an annual technology review. Innovation conferences are held each year to encourage a broad-based, Company-wide dialog on innovation activities. We review the success of our R&D activities continually.

To maintain our strong technological position going forward, we protect our innovations with patents and other industrial property rights as early as possible. Strategic patent cross-licensing agreements and non-assertion agreements with other players in the lighting industry also safeguard our leading position in the lighting market.

We take an open approach to innovation, collaborating with various research institutions, universities, and other companies worldwide. Some of this cooperation takes the form of research programs supported by the European Commission and the Bundesministerium für Bildung und Forschung (BMBF—German Federal Ministry of Education and Research). In addition, our active membership of various academic governing bodies provides us with strong connections in the university research community and with leading players in the lighting technology business.

Objectives and Results

In the fiscal year just ended, we continued to forge ahead with reorganizing CI. We will focus on selected key aspects of components and 4S (software, systems, solutions, services) going forward, with the aim of safeguarding OSRAM's commercial success over the long term. This enhanced strategic approach is underpinned by the establishment of a program organization and the expansion of resources for digital technologies.

In fiscal year 2017, we were able to celebrate numerous successes as a result of our R&D work. The following innovations deserve a special mention: the first broadband infrared LED (that is used, for example, to assess food quality), the refinement of matrix and laser headlight technologies (that help to improve safety based on adaptive forward lighting), and the development of intelligent networked systems for street and building lighting (that combine energy savings with more convenient lighting).

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Our Diamond initiative also progressed very well, and we achieved significant objectives › A.2.2.3 Other Significant Events Responsible for the Course of Business/'Diamond' Technology, Innovation, and Growth Initiative:

- R&D costs amounted to €364 million (previous year: €334 million), which meant that R&D intensity (R&D costs as a percentage of revenue) was, at 8.8%, close to our target level of 9%
- The construction/expansion of the LED chip factories in Kulim, Malaysia, and in Regensburg, Germany, are progressing on schedule
- In automotive lighting, we strengthened our technology leadership by developing new laser and matrix LED modules that will help us to enter the mid-market automotive segment more easily
- We are also advancing with the establishment and broadening of our digital expertise in general lighting thanks to the reorganization of CI, our focused activities in the Lighting Solutions & Systems (LSS) Segment › A.1.1.3 Organization and Reporting Structure and our acquisitions

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R&D Figures

		Fiscal year	
		2017	2016
Employees – R&D	in thousands FTE	2.6	2.4
R&D expenses	in € million	364	334
R&D intensity		8.8 %	8.8 %
Patents and patent applications		approx. 17,400	approx. 16,600
Patent families		approx. 6,200	approx. 5,800

A.1.1.3 Organization and Reporting Structure

The OSRAM Licht Group comprises the parent company OSRAM Licht AG, which is headquartered in Munich, Germany, and is an Aktiengesellschaft (stock corporation) in accordance with German law, and 79 subsidiaries and investees (including minority interests) › Note 36 I List of Equity Investments of the OSRAM Licht Group in Accordance with Section 313 of the HGB in B.6 Notes to the Consolidated Financial Statements.

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The OSRAM Managing Board is the body with overall responsibility for the management of the business in accordance with the *Aktiengesetz* (AktG—German Stock Corporation Act). At the level below this, the management of the four business units described above has overall responsibility for their respective areas; this covers everything from product development through to product sales, and includes profit and loss responsibility.

For external financial reporting purposes, OSRAM's reporting structure is split into three reportable segments plus *Reconciliation to consolidated financial statements*. The DS and LS Business Units are combined in the Lighting Solutions & Systems (LSS) Segment. Since September 2017, the recently acquired U.S. software specialist Digital Lumens (DL), which constitutes a self-contained operating segment, has been included in LSS, which is an external reportable segment. *Reconciliation to consolidated financial statements* firstly includes *Corporate items and pensions*, which the management does not consider to be indicative of the segments' performance. Secondly, the reconciliation is impacted by consolidation processes, the results of our Corporate Treasury, and other accounting items › A.2.3.6 Reconciliation to the Consolidated Financial Statements.

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OSRAM markets its products in more 120 countries and has 26 production facilities worldwide. The regional breakdown used for reporting purposes is EMEA (Europa, Russia, Middle East, and Africa), APAC (Asia, Australia, and the Pacific region), and the Americas (the U.S.A., Canada, Mexico, and South America). The key locations in EMEA are Munich (Group headquarters), Regensburg, Herbrechtingen, Traunreut (all Germany), Nové Zámky (Slovakia), and Treviso (Italy). Our key locations in the Americas and APAC regions are Hillsboro in New Hampshire and Wilmington in Massachusetts (both U.S.A.), Wuxi (China), and Penang and Kulim (under construction) (both Malaysia).

Independently of the reporting segments and regions, we subdivide our business at Group level into two categories based on technologies: the LED-based business (or 'LED business' for short) and the traditional business. Our definition of the LED business includes LED products and components, combinations of LEDs, OLEDs (organic light-emitting diodes), lasers and sensors, and drivers, as well as light management systems for LED lighting solutions and associated services.

A.1.1.4 Legal and Sector-specific Conditions

In addition to the general legal requirements, statutory and regulatory requirements relating to technical regulations and standards are the main provisions of relevance to the OSRAM Licht Group. The last few years have been marked by comprehensive regulatory change around the world. This is a continuing trend. New regulatory requirements mean that we are constantly adapting the affected product portfolios. Moreover, we often play a leading role in the lighting industry due to the improvements that we make to our products at an early stage.

The European Commission has been working on further tightening the Energy Efficiency Regulation since the autumn of 2015. This includes new energy efficiency requirements for all types of luminaires and components in the general lighting sector, which would particularly affect the products of our DS and LS Business Units. However, the initial proposals have proved unrealistic. As a key member of Europe's trade association for the lighting industry, OSRAM is pushing for the new requirements to not only cater to the overarching objective of low-energy, resource-efficient, and high-quality lighting but also to take account of users' needs, as well as to be feasible for implementation by the industry.

As a result of the discussions about strengthening the circular economy, there is growing public awareness of regulations on avoiding or restricting hazardous substances, such as the European Restriction of Hazardous Substances Directive (RoHS). Issues of particular importance to OSRAM include the use of cadmium in quantum-dot LEDs and mercury in lamps. In this context, Europe's trade association for the lighting industry negotiates regularly with the European Commission, which is likely to continue granting exemptions in the coming years, despite technological advances. These regulations particularly affect products in our OS and SP Business Units. Other regions of the world often use the lighting regulations successfully introduced in Europe as the basis for their own regulations. As a result, we expect to see more regulations similar to the RoHS Directive.

The Minamata Convention, which originated in Japan, is an international treaty on reducing worldwide mercury use. It is now being implemented globally, and some types of lamps (special types in our SP Business Unit) will be banned by 2020 at the latest. Further and more comprehensive regulations on the use of materials are expected as a result.

The increasing use of digital light technologies, Industry 4.0, and the Internet of Things (IoT) are creating whole new challenges in the regulatory environment. On the one hand, digitalization is giving rise to possible new applications and therefore presenting OSRAM with opportunities based on new products, primarily smart city and smart building intelligent lighting solutions as well as solutions such as human-centric lighting to improve the quality of life for people. On the other hand, however, the requirements that the providers in the lighting market need to meet will also increase significantly, especially because of the regulatory framework e.g., relating to technical standards and with regard to consumer protection and data security. In these areas of business, OSRAM is actively carrying out work to prepare technical standards, in some cases in cooperation with various partners. The Company is also available to provide expert advice in advance of new regulations.

A.1.2 Performance Management

OSRAM's Managing Board uses a variety of financial and non-financial performance indicators to manage the Company. The most important of these performance indicators (key performance indicators) are generally determined at the level of the OSRAM Licht Group as a whole. They are related to our strategic goals and are designed to help ensure these goals are achieved at an operational level. The key performance indicators are also a measure of target attainment for managers and thus can influence the remuneration of OSRAM's management, in particular the remuneration of the Managing Board Ⓢ Page 164 › C.4.2 Remuneration Report. In addition, regular reports on the key performance indicators are presented to the members of the Managing Board, who then report to the Supervisory Board. These indicators are used primarily in OSRAM's external financial reporting but are also a useful general vehicle for communicating with all stakeholders.

The key financial performance indicators enable OSRAM's management to optimize global business development and to find the balance between the interdependent factors of growth, earnings, and liquidity so as to achieve the goal of sustainable profitable growth. We believe that the latter is a precondition for increasing OSRAM's enterprise value over the long term.

Some of the financial key performance indicators described in more detail below are 'alternative performance measures' (APMs), i.e., key figures that are not defined or listed in IFRS (and are therefore also known as non-IFRS financial measures). These APMs supplement the figures calculated in accordance with IFRS, rather than being an alternative to them. We believe that our APMs offer additional and useful information for investors that will help them to assess the business performance of the OSRAM Licht Group. Other companies that report similarly named financial measures may calculate these differently Ⓢ Page 33 › A.2.6 Reconciliation of Key Performance Indicators.

In view of the disposal of LEDVANCE (discontinued operation), the analysis of our key performance indicators focuses primarily on continuing operations.

Growth

OSRAM measures the growth of its business volume using both nominal and comparable revenue growth figures. To determine comparable revenue growth, the percentage change in revenue from period to period is adjusted for currency-translation and portfolio effects Ⓢ Page 33 › A.2.6 Reconciliation of Key Performance Indicators. Our strategy is to grow profitably and the main performance indicator we use to measure this is the comparable revenue growth figure, since this presents the Company's operating performance without any distortion caused by translating revenue into euros or by including acquisitions and divestments. We use the comparable revenue growth key performance indicator at both Group and segment levels. It is also one of the targets used in determining the variable remuneration of the Managing Board.

Earnings

The key performance indicator used in the reporting year to measure operating profit was the adjusted EBITDA margin.

Our '5.1.5' targets for fiscal year 2020 include, among others, an absolute target for adjusted EBITDA of between €0.9 billion and €1 billion. From the start of fiscal year 2018, our measurement of operating profit will therefore concentrate on absolute adjusted EBITDA, which will be adjusted for special items—particularly transformation costs—according to the Managing Board's assessment. This performance indicator is particularly important for management in periods with a high level of special items impacting earnings.

We use EBITDA because it is widely used in OSRAM's competitive environment to measure a company's operating performance without the effects of depreciation (on property, plant, and equipment), amortization (on intangible assets), and impairment (including in connection with acquisitions). For further information on the calculation of EBITDA and adjusted EBITDA, and for the reconciliation to net income, see › A.2.6 Reconciliation of Key Performance Indicators. S Page 33

So that it is easier to analyze and assess our operating profitability, we are disclosing not only absolute EBITDA but also the related EBITDA margin and the adjusted EBITDA margin. The EBITDA margin is calculated by dividing EBITDA or adjusted EBITDA by revenue. Both the EBITDA margin and the adjusted EBITDA margin are subject to mix effects (e.g. the product mix) and, in particular, currency effects.

Another important measure for us besides EBITDA is earnings per share (EPS). This reflects the operational side of our business as well as all other earnings components (depreciation, amortization and impairment; net financial income or expense; income taxes). We have been using diluted EPS since the start of fiscal year 2017. In our view, it is a better indicator of the minimum amount of net income attributable to one share than the previously used basic earnings per share. Moreover, it is commonly used by investors as a KPI, particularly in English-speaking countries. We use the earnings from our continuing operations as the basis for the calculation. Diluted EPS is calculated by dividing the *Income OSRAM (continuing operations)* attributable to the shareholders of OSRAM Licht AG by the weighted average shares outstanding (diluted) › Note 30 I Earnings per Share in B.6 Notes to the Consolidated Financial Statements. S Page 130 This means that diluted EPS shows the net income (loss) attributable to the shareholders of OSRAM Licht AG in a particular reporting period and is thus an indicator of OSRAM's profitability—particularly from the point of view of the Company's shareholders. In this context, we also look at net income as an important performance measure, however primarily only in terms of its importance as an input variable for EPS. As a measure of their target achievement, EPS influences the long-term share-based remuneration of senior managers and the Managing Board at OSRAM.

Liquidity

OSRAM uses free cash flow as a liquidity indicator. This is defined as net cash provided by (used in) operating activities less additions to intangible assets and property, plant, and equipment. For us, free cash flow is an indicator for evaluating our ability to generate cash surpluses from our operating activities. In addition, this indicator shows the extent to which we are able to meet both recurring and specific cash outflows that are not included in the figure (such as payments for acquisitions, dividends, or debt servicing). We also evaluate our segments' cash generation performance on the basis of free cash flow. Moreover, free cash flow is one of the targets used in determining the variable remuneration of the Managing Board. For information on the calculation of this performance indicator, see › A.2.6 Reconciliation of Key Performance Indicators. S Page 33

Additional Performance Indicators

We aim for a balanced capital structure, based on the usual criteria and indicators used for an investment grade rating, so as to ensure sufficient flexibility in our financing and favorable terms. The performance indicator used to assess our capital structure is calculated by dividing net debt/ net liquidity by EBITDA › A.2.4.3 Financing and Liquidity Analysis. S Page 28

The capital commitment period (days outstanding) for net operating working capital is an indicator that shows how efficiently working capital is used to generate revenue. For information on the calculation of this performance indicator, see › A.2.6 Reconciliation of Key Performance Indicators. S Page 33

A . 2

Business Performance in 2017

A.2.1 Overall Assessment by the Managing Board of the Current Economic Situation

OSRAM can look back on a successful fiscal year 2017. The Managing Board and the Supervisory Board will therefore propose a dividend of €1.11 per share to the Annual General Meeting. The positive trend over the past twelve months clearly shows us that we are on the right track with our Diamond initiative and our focus on innovation. OSRAM is transforming itself into a high-growth technology company at an ever faster pace. This is partly due to successfully completing the sale of LEDVANCE. We have also boosted our competitive position in important growth markets for the future through strategic acquisitions and capital expenditure. The projects to expand our state-of-the-art manufacturing capacity are running to plan. And finally, OSRAM has generated clear growth, driven primarily by our innovative high-tech products—particularly in OS. We have achieved our financial targets for the OSRAM Licht Group. Revenue was above €4 billion for the first time, and our adjusted EBITDA improved to €695 million. Diluted earnings per share from continuing operations amounted to €2.78 in fiscal year 2017 and was thus within the target range—which we had raised during the year. Free cash flow exceeded expectations at €99 million, which means we generated a high level of cash despite stepping up capital expenditure by more than half. Consequently, net liquidity also rose, following a decrease in the previous year. Our equity ratio stood at around 58% as of the end of the fiscal year. These good results of operations, a well-balanced asset structure, and an extremely sound financial position give us an excellent basis on which to continue implementing Diamond, which above all means capital expenditure on growth and innovation.

A.2.1.1 OSRAM's Business Performance (continuing operations)

The well-entrenched, moderate uptrend in the macroeconomic environment and the growth of the lighting market at a faster rate than that of the economy as a whole provided key stimulus for OSRAM's business performance overall, as well as support for the entire Group. The currency-related influences on our revenue and earnings were on a par with the previous year and were thus contained. Although the euro rose clearly against the U.S. dollar in the final quarter of fiscal year 2017, the movement of the exchange rate did not have any significant effect over the twelve months as a whole. By contrast, the lighting market's shift from traditional to semiconductor-based technologies made a huge impact. This was one of the reasons why the related transformation costs at OSRAM rose again in fiscal year 2017. Nevertheless, the implementation of our 'Diamond' technology, innovation, and growth initiative was crucial to our business performance. Completion of the sale of LEDVANCE also played a major role for OSRAM on its journey to becoming a technology company.

OSRAM's revenue advanced by 9.1% to more than €4.1 billion in fiscal year 2017, a clear rise compared with the previous year. Excluding currency influences and portfolio effects, i.e., on a comparable basis, growth was 8.1%. The proportion attributable to LED-based products and solutions continued to rise, reaching 66% in the reporting period (previous year: 61%). While OSRAM's overall revenue growth was very encouraging, our segments presented a mixed picture. Strong demand at OS and SP comfortably offset the decrease in revenue (on a comparable basis) at LSS. OSRAM's EBITDA of €621 million was just as high as the strong figure reported for the previous year and, on an adjusted basis (excluding special items), we saw a further clear improvement. The adjusted EBITDA margin stood at 16.8% and was thus within our expected range of 16.5% to 17.5%, which we had raised during the year. This raise was mainly due to OS and SP performing better than anticipated. Earnings were not satisfactory at LSS and were less than we had expected.

Our operating profitability was very healthy overall, and this was reflected in the income of OSRAM (continuing operations). Although it fell sharply to €275 million, this was due to the gain recognized in the previous year from the disposal of our investment in Foshan Electrical and Lighting Co. Ltd., Foshan, China (FELCO), of around €270 million (after tax). If this special item is excluded, income from continuing operations was up year on year. The situation was the same for diluted earnings per share (EPS) from continuing operations: Reported EPS (diluted) declined sharply to €2.78 but, when adjusted to exclude the FELCO gain in fiscal year 2016, it was up by 10.8%. Consequently, we are very satisfied with the overall trend in our › A.2.3 Results of Operations. S Page 18

OSRAM's free cash flow (continuing operations) rose unexpectedly sharply to €99 million (previous year: €24 million). This was despite capital expenditure advancing to €537 million, primarily driven by OS. Our net liquidity increased to €411 million as of September 30, 2017 (previous year: €396 million). As well as the higher free cash flow, this figure was mainly the result of payment of the purchase price for LEDVANCE. The biggest countervailing factors were our acquisitions and equity investments as well as a net cash outflow of €165 million in connection with our share buyback program. The trend in our financial position was thus highly satisfactory › A.2.4 Financial Position. S Page 25 The net profit for the year was reflected in the increase in retained earnings by more than a third and caused our equity to change only slightly, despite our share buyback and the dividend payment › A.2.5 Net Assets. S Page 31

A.2.1.2 Comparison Between the Actual and Forecast Course of Business

Target Achievement 2017 [1)]

	Initial position Fiscal year 2016	Expected developments Fiscal year 2017	Target achievement Fiscal year 2017	Evaluation
Comparable revenue growth (adjusted for currency translation and portfolio effects)	5.9%	We expect comparable revenue growth of 5%–7%, similar to the growth in fiscal year 2016.		Outlook overachieved and updated
		From May 2, 2017: Due to strong financial results and based on the expectation of ongoing positive prospects for the second half of fiscal year 2017, the management board of OSRAM Licht AG decided to raise the forecast for fiscal year 2017 as follows: For OSRAM, comparable growth is now expected in the 7%–9% range.	8.1%	Outlook achieved
Adjusted EBITDA margin (adjusted for special items—mainly transformation costs)	17.2%	We anticipate an adjusted EBITDA margin of at least 16%.		Outlook overachieved and updated
		From May 2, 2017: Due to strong financial results and based on the expectation of ongoing positive prospects for the second half of fiscal year 2017, the management board of OSRAM Licht AG decided to raise the forecast for fiscal year 2017 as follows: For OSRAM, adjusted (for special items) EBITDA margin is now expected in the 16.5%–17.5% range.	16.8%	Outlook achieved
Earnings per share (diluted)	€5.12	We anticipate diluted earnings per share of between €2.35 and €2.65, assuming the continuation of the share buyback program as scheduled.		Outlook overachieved and updated
		From May 2, 2017: Due to strong financial results and based on the expectation of ongoing positive prospects for the second half of fiscal year 2017, the management board of OSRAM Licht AG decided to raise the forecast for fiscal year 2017 as follows: OSRAM expects earnings per share (diluted) in a range of €2.70 – €2.90.	€2.78	Outlook achieved
Free cash flow	€24 million	We are aiming to achieve a free cash flow at break-even level.	€99 million	Outlook overachieved

1) The information presented in the table relates to OSRAM (continuing operations).

We achieved or exceeded our forecasts for the key performance indicators of the OSRAM Licht Group (continuing operations) in fiscal year 2017. In the second quarter of 2017, we had anticipated that the course of business would be better than we had originally predicted and therefore raised the forecast for our key performance indicators (except for free cash flow). The achievement of our targets for OSRAM was thanks to the unexpectedly good results reported by our OS and SP Segments. This balanced out the weaker performance of LSS, which was also unexpected › A.2.1.1 OSRAM's Business Performance (continuing operations).

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A.2.1.3 Dividends

One of our objectives is to pay our shareholders an attractive dividend in line with the market. As fiscal year 2017 was successful, the Managing Board and Supervisory Board intend to propose to the Company's Annual General Meeting that OSRAM Licht AG's unappropriated profit of €116 million for fiscal year 2017 be used to distribute a dividend of €1.11 per dividend-bearing share and carry forward the proportion of unappropriated profit attributable to treasury shares. Payment of this dividend is subject to approval by the Annual General Meeting on February 20, 2018. The dividend per share is 11% higher than the one paid for fiscal year 2016.

The proposed dividend equates to a total payout of around €107 million, based on the number of 96,399,761 shares outstanding as of September 30, 2017. In terms of the Group net income for fiscal year 2017 that is attributable to the shareholders of OSRAM Licht AG, which amounts to €220 million (previous year: €397 million), this would equate to a probable dividend payout rate of 48.5% (previous year: 25.0%). Based on the income of OSRAM (continuing operations), the dividend payout rate for fiscal year 2017 would be 38.9%.

The Managing Board is seeking to maintain the dividend distribution at a level of at least €1.11 for fiscal year 2018. Our dividend policy with a target dividend payout rate of between 30% and 50% of Group net income remains in place, provided such dividends paid are in line with long-term, sustainable business performance. Net income may be adjusted for certain extraordinary non-cash effects when determining the proposed amount to be distributed.

A.2.2 Events and Developments Responsible for the Course of Business

A.2.2.1 Macroeconomic Developments

Worldwide economic growth became more entrenched over the past fiscal year. In the current calendar year, the global economy will continue to expand, with IHS Markit predicting a rate of 2.9%. This is above the growth of 2.4% generated in 2016. In its forecast in October, the International Monetary Fund (IMF) also anticipates solid growth in the global economy and has raised its forecast slightly compared with the start of the year.

Global trade and industrial output are on an upward trend. According to the indicators for the global economy, the slightly accelerated pace of growth will continue. Worldwide industrial output rose again. The global purchasing managers' index compiled by IHS Markit has remained clearly above the growth threshold of late, while ifo's world economic climate index maintained its high level in the third quarter of the calendar year.

The path of recovery continued to strengthen in the eurozone. In the U.S.A., the economy accelerated rapidly in the second quarter of the calendar year, following a weak first quarter. This momentum was driven primarily by increased consumer and government spending. However, the global economy continues to face numerous risks. The European Union is entering uncharted territory as it negotiates with the United Kingdom on Brexit. There are also various geopolitical risks.

The solid level of growth in the global economy was less critical to the performance of the OSRAM Licht Group in fiscal year 2017 than developments in the lighting market › A.2.2.2 The Lighting Market in Fiscal Year 2017, which—as in the previous year—fared far better. S Page 15

The cost of materials (including energy) accounts for a significant portion of our cost of goods sold and services rendered. The composition of our cost of materials is gradually changing owing to the lighting market's shift toward semiconductor-based lighting. As the proportion of LED products rises, the focus of procurement is shifting from commodities to LED-related materials and pre-materials. This trend carried on in fiscal year 2017 and is set to continue in the future. The decrease in the volume of commodities purchased means that price risk and fluctuations in the price of the commodities that OSRAM needs are becoming less and less important. Furthermore, OSRAM tries to reduce volatility by drafting its procurement contracts accordingly and—where it makes economic sense—hedges its exposure to commodity price risk by purchasing appropriate derivatives › Note 27 I Financial Risk Management in B.6 Notes to the Consolidated Financial Statements. S Page 123 Consequently, changes in commodity prices had no material impact on our earnings, as had also been the case in the previous year.

The average exchange rate between the euro and the U.S. dollar for the fiscal year under review was stable compared with the previous fiscal year. However, it did fluctuate during the reporting period, with the euro appreciating by 7% against the U.S. dollar in the fourth quarter of the fiscal year. This made European products more expensive in global markets, affecting exports from the eurozone; this also applied to exports priced in Chinese renminbi, as the euro appreciated by 4% against the renminbi compared with the same period a year earlier. The overall impact on OSRAM was not material, however, as we have a limited level of revenue in China. On the whole, the effects of currency fluctuations on net income were even smaller than in the previous year and thus insignificant.

A.2.2.2 The Lighting Market in Fiscal Year 2017

Our assessments of the global lighting market are based on forecasts by Frost & Sullivan, IHS Markit, Yole Développement, and internal analyses.

The lighting market saw further structural growth in fiscal year 2017, over and above that of the economy as a whole. In particular, the market segments served by OSRAM—opto semiconductors in OS, light sources for the automotive sector and specialty lighting for industrial applications in SP, components for professional general lighting applications in DS, and professional solutions and services in selected regions in LS—together generated high single-digit percentage growth.

At roughly 2%, the rate of growth in automotive production in calendar year 2017 is predicted to be down slightly on the previous year. This slower growth is attributable to high inventory levels being reduced in North America and China. Despite these effects, the automotive lighting market achieved healthy single-digit percentage growth. Within this overall figure, demand for products based on traditional technologies contracted slightly, whereas LED, laser, and OLED products registered significant double-digit growth. Growth was underpinned by vehicles being fitted with higher-value equipment as a result of the use of new automotive lighting technologies and the related rise in the value of the lighting products used in each vehicle.

Semiconductor-based products continued to experience significant double-digit growth rates in the professional general lighting market. Conversely, the market for products based on traditional lighting technologies contracted. This reflects the accelerated pace of transformation in the lighting market toward energy-efficient and innovative technologies. Moreover, networked lighting electronics are generating significant growth as a result of product requirements relating to energy savings and to data-based add-on applications.

According to the forecasts, global capital expenditure in the construction sector is set to rise by around 3% in calendar year 2017 compared with the previous year. This had a positive influence on demand for LED-based general lighting products in our fiscal year 2017.

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The trend in the lighting market described above was largely reflected in our business performance. This was especially the case in the automotive business, on which our two biggest segments, OS and SP, are dependent—with an increasing emphasis on the Asian market › A.2.3.3 Opto Semiconductors, › A.2.3.4 Specialty Lighting. The stability of capital expenditure in the construction sector and the trend in the professional general lighting business were only partly reflected in the performance of the LSS Segment › A.2.3.5 Lighting Solutions & Systems.

A.2.2.3 Other Significant Events Responsible for the Course of Business

Sale of LEDVANCE

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On March 3, 2017, we completed the sale of LEDVANCE to a Chinese consortium comprising IDG Capital Partners, MLS Co., Ltd., and Yiwu State-Owned Assets Operation Center. In the previous year, we had separated our general lighting lamps business under the name LEDVANCE. The sale of LEDVANCE led to a net inflow of cash of €380 million and a book loss of €42 million in fiscal year 2017 owing to the deconsolidation. Going forward, we expect the transaction to result in licensing income in the high single-digit millions of euros per year. The successful completion of the sale marks a milestone for OSRAM's new strategic focus on being a technology company. For further information on this transaction, see › Note 3 I Acquisitions, Disposals, and Discontinued Operations in B.6 Notes to the Consolidated Financial Statements.

'Diamond' Technology, Innovation, and Growth Initiative

At the beginning of the previous fiscal year, we used Diamond to set the course for OSRAM's medium-term development. In fiscal year 2017, we forged ahead with capital expenditure on growth, technology, and innovation and stepped up our investments considerably. The bulk of the capital expenditure went on property, plant, and equipment. We also allocated significant sums for acquisitions and strategic equity investments. In addition, we spent more on R&D.

We believe we remain on track to reach our '5.1.5' targets for fiscal year 2020, which includes achieving revenue of around €5 billion to €5.5 billion, (adjusted) EBITDA of €0.9 billion to €1 billion, and thus earnings per share of approximately €5. This is based on the assumption of a stable economic environment without any anomalies in the semiconductor cycle and of a stable currency market.

Capital Expenditure

In the past fiscal year, OSRAM increased its capital expenditure on intangible assets and on property, plant, and equipment by more than 50% to €537 million. The bulk of the spending was accounted for by property, plant, and equipment. Most of this was in OS, where it was used to expand capacity for manufacturing LED chips. Our largest project in this context is the construction of an LED chip factory in Kulim, Malaysia. The ground-breaking ceremony took place in March 2016. The project is running to plan, and the factory should open in the first quarter of fiscal year 2018. We are also increasing our manufacturing capacity at the plants in Regensburg, Germany, in Penang, Malaysia, and in Wuxi, China.

Acquisitions and Strategic Equity Investments

In fiscal year 2017, OSRAM invested a total of €108 million in the acquisition of companies and a further €68 million to purchase equity investments.

- In October 2016, we completed the purchase of Novità Technologies, Hendersonville, U.S.A. (Novità). By acquiring this company, OSRAM strengthened SP's position in the market for automotive LED lighting modules.

- In November 2016, OSRAM acquired 47.5% of the shares in TVILIGHT B.V., Groningen, Netherlands (TVILIGHT). This equity investment is helping the LS Business Unit to expand its smart city expertise.

- In February 2017, OSRAM acquired the operating business of Maneri-Agraz Enterprises, Houston, U.S.A. (Maneri-Agraz). The acquisition has given LS's service business greater access to the commercial and industrial sectors in the south and south-west of the U.S.A.

- In May 2017, OSRAM made a strategic investment via its venture capital arm, Fluxunit, in agrilution GmbH, Munich, Germany. This start-up offers an intelligent grow box for home use that incorporates special LED technology from OSRAM in order to significantly increase yields.

- In July 2017, OSRAM acquired LED Engin Inc., San José, U.S.A. (LED Engin). The company supplies very bright and compact lighting solutions for a wide variety of specialty lighting, from entertainment and UV lighting to lighting for plants and light used in medical applications.

- In July 2017, OSRAM acquired a strategic equity investment in LeddarTech Inc., Quebec, Canada (LeddarTech). The company develops its own software applications for LiDAR (light detection and ranging) technology as the basis for autonomous vehicles and driver assistance systems. Its optical sensor technology complements our semiconductor products. The investment strengthened OSRAM's position in the autonomous driving sector.

- In September 2017, OSRAM acquired Digital Lumens, Inc., Boston, U.S.A. (Digital Lumens). This specialist for industrial IoT solutions has a software platform that can be used to run applications covering everything from the intelligent control of lighting, energy use, and security systems to the measurement of environmental parameters such as air quality. The takeover of Digital Lumens supports OSRAM's ambition to become a leading player in IoT applications based on light systems for use in industrial buildings. OSRAM will report on the business activities of Digital Lumens as part of the LSS Segment.

For further information on these transactions, see › Note 3 I Acquisitions, Disposals, and Discontinued Operations in B.6 Notes to the Consolidated Financial Statements. S Page 89

R&D Costs

As we had planned, there was a clear increase in our R&D costs to €364 million (previous year: €334 million). Despite the growth in revenue › A.2.3.1 Revenue, R&D intensity thus remains at our targeted level of 9%. The increase in R&D costs was primarily attributable to OS. See also › A.1.1.2 Research and Development. S Page 18
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Process Improvements and Structural Adjustments

The lighting market is undergoing a two-pronged technological shift: firstly due to the ongoing transition from traditional to semiconductor-based lighting technologies and, increasingly, due to the growing use of digital technologies in general (e.g., IoT). The effects of this shift, for example on the competitive situation, have a direct influence on our business activities. Our transformation costs, which impact on EBITDA and resulted mainly from the measures needed to strengthen our competitiveness (changes to manufacturing capacity, improvement of the cost position, etc.), totaled €57 million in the reporting period (previous year: €26 million). Further transformation costs for measures such as these are expected to be required in the coming quarters as well. The bulk of these expenses were incurred in the LSS Segment. We have taken various steps (including personnel changes), particularly in the LS luminaires business, in order to improve our competitive position.

In July 2017, we reached agreement with the employee representatives on the key points set out in the ‘OSRAM future concept’ for implementing our high-tech strategy at our Company’s German locations. The ongoing transformation will lead to the employment structure in Germany being adjusted and changed. The agreement provides strong foundations for the competitiveness of the business units and the basis for OSRAM’s commercial success.

A.2.3 Results of Operations

A.2.3.1 Revenue

Revenue by Segments

in € million

	Fiscal year		Change			
	2017	2016	nominal	therein currency	therein portfolio	comparable
Opto Semiconductors [1]	1,685	1,417	18.9%	(0.2)%	–	19.1%
Specialty Lighting [1]	2,312	2,135	8.3%	(0.2)%	1.8%	6.7%
Lighting Solutions & Systems	989	1,005	(1.5)%	(0.6)%	1.1%	(2.0)%
Reconciliation to consolidated financial statements	(858)	(772)	11.1%	(0.1)%	0.1%	11.2%
OSRAM (continuing operations)	**4,128**	**3,785**	**9.1%**	**(0.3)%**	**1.3%**	**8.1%**

1) Some of the external automotive revenue that was recognized in the OS Segment in the previous year has been recognized in SP since the start of fiscal year 2017. The prior-year figures have been restated.

- Clear year-on-year growth in OSRAM’s revenue, both on a comparable and on a reported basis
- Negative currency translation effects of 0.3% but at a low level nonetheless—as had also been the case in the previous year—as the average euro/U.S. dollar exchange rate for the fiscal year was stable compared with the previous year
- Positive portfolio effects overall of 1.3%, including positive impact of 1.8% at SP and 1.1% at LSS; this effect at LSS was primarily attributable to the elimination of revenue from cross-selling agreements with LEDVANCE
- Double-digit growth rate at OS and clear increase at SP outweighed the decrease at LSS

Revenue by Technology

- Technological changes continued to determine the structural composition of our business
- OSRAM’s revenue from LED-based products came to €2,718 million; the LED proportion was thus 65.9% (previous year: 60.6%)
- Revenue from traditional products fell by 6.3%, whereas revenue from the LED business went up by 17.5% (both on a comparable, year-on-year basis)

Revenue by Regions

(by customer location)
in € million

	Fiscal year		Change			
	2017	2016	nominal	therein currency	therein portfolio	comparable
EMEA	1,553	1,457	6.6%	(0.3)%	1.0%	5.8%
therein Germany	664	589	12.8%			
APAC	1,445	1,228	17.7%	(0.7)%	0.1%	18.3%
therein China (including Hong Kong) and Taiwan	837	712	17.6%			
Americas	1,129	1,100	2.7%	0.1%	2.9%	(0.3)%
therein U.S.A.	880	890	(1.1)%			
OSRAM (continuing operations)	**4,128**	**3,785**	**9.1%**	**(0.3)%**	**1.3%**	**8.1%**

— Considerable differences in revenue growth in OSRAM's three reporting regions; sharpest rise in APAC
— Proportion of total revenue attributable to APAC was up year on year at 35.0% (previous year: 32.4%)
— With a share of 37.6%, the EMEA region continued to generate the highest revenue for OSRAM, followed by APAC and the Americas (27.4%)
— The impact of currency translation and portfolio effects varied from region to region; strongest currency influence in APAC, the Americas region accounts for almost two-thirds of the portfolio effects as a result of our acquisitions in this reporting region

EMEA Region

— Clear growth on a comparable basis; the change in nominal revenue included negative currency translation effects of 0.3% and positive portfolio effects of 1.0%
— Significant growth for OS and a moderate rise for SP; revenue held steady at LSS

APAC Region

— Significant growth both on a comparable and a reported basis; negative currency translation effects of 0.7% and negligible portfolio effects
— All segments contributed to the growth; OS's revenue was up by more than a quarter, but SP and LSS also saw double-digit growth rates

Americas Region

— Moderate nominal growth; comparable revenue fell slightly if the combined currency translation and portfolio effects of 3.0% are excluded, positive portfolio effects of 2.9%
— Sharpest nominal increase at SP (primarily due to acquisitions) and also a clear rise at OS; challenging competitive situation and weak demand in the U.S.A. caused a clear drop in revenue at LSS

A.2.3.2 Earnings

Earnings Development
in € million

	Fiscal year		Change
	2017	2016	nominal
EBITDA segments			
Opto Semiconductors	473	408	15.9%
Specialty Lighting	317	292	8.6%
Lighting Solutions & Systems	(72)	6	n.a.
Reconciliation to consolidated financial statements	(97)	(85)	13.9%
EBITDA OSRAM (continuing operations)	**621**	**621**	**0.0%**
EBITDA margin	15.1%	16.4%	(130) bps
Special items[1]	(74)	(31)	135.6%
therein transformation costs	(57)	(26)	121.7%
therein acquisition related costs	(15)	(1)	>200%
Adjusted EBITDA margin	16.8%	17.2%	(40) bps
Amortization, depreciation, and impairments	(224)	(210)	6.7%
Net financial income or expense[2]	(8)	290	n.a.
Income before income taxes OSRAM (continuing operations)	**389**	**701**	**(44.5)%**
Income taxes	(114)	(169)	(32.4)%
Income OSRAM (continuing operations)	**275**	**532**	**(48.3)%**
Loss discontinued operation, net of tax	(51)	(134)	(61.8)%
Net income (OSRAM Licht Group)	**224**	**398**	**(43.8)%**

1) Of which €51 million was attributable to LSS and €22 million to SP in fiscal year 2017; impact of €1 million in corporate items (reconciliation to the consolidated financial statements).
2) Income (loss) from investments accounted for using the equity method, net, interest income, interest expenses, and other net financial income or expense.

EBITDA OSRAM (continuing operations)

— Reported EBITDA on a par with previous year at €621 million; narrowing of corresponding margin to 15.1%
— The increase at OS and SP offset the decrease in EBITDA at LSS
— Clear improvement in adjusted EBITDA to €695 million (previous year: €652 million)
— More than two-thirds of the special items were attributable to LSS; also a considerable amount at SP
— Special items resulted almost exclusively from transformation- and acquisition-related costs; main impact on *Cost of goods sold and services rendered* but also a more modest effect on *Marketing, selling, and general administrative expenses*
— By far the largest portion of transformation costs consisted of personnel-related restructuring expenses › Note 4 I Personnel-related Restructuring Expenses in B.6 Notes to the Consolidated Financial Statements (S) Page 93
— One of the countervailing effects under transformation costs was the gain on the sale of real-estate assets in South Korea *(Other operating income)* › Note 5 I Other Operating Income in B.6 Notes to the Consolidated Financial Statements (S) Page 93

- Increase in gross profit restricted by special items, while rises at OS and SP outweighed the decrease at LSS; gross profit margin (gross profit as a percentage of revenue) contracted by 90 bps
- Clear rise in R&D costs to €364 million (previous year: €334 million), mainly due to implementation of Diamond; at 8.8%, R&D costs expressed as a percentage of revenue were on a par with the previous year
- Marketing, selling, and general administrative expenses increased significantly to €697 million (previous year: €604 million) due to, among other factors, a volume-related rise in selling expenses, the first-time consolidation of acquired entities, the cost of legal and other advice for acquisitions, and costs for centralized projects
- Slight decrease in the adjusted EBITDA margin by 40 bps reflects the changes in profitability in the segments; OS at roughly the prior-year level, slight improvement for SP, margin at LSS in negative territory

Income OSRAM (continuing operations)

- Decrease in net financial income resulted from the pre-tax gain of €306 million realized in the previous year on the disposal of our investment in FELCO
- Effective tax rate of 29.3% (previous year: 24.1%); lower prior-year figure influenced by the FELCO transaction
- Sharp drop in income from continuing operations to €275 million; excluding the gain of around €270 million (after tax) from the disposal of FELCO, there was a rise of more than 5%
- Diluted earnings per share of OSRAM (continuing operations) fell to €2.78 (previous year: €5.12); excluding the FELCO transaction, diluted EPS rose by 10.8%

Net Income (OSRAM Licht Group)

- Net income (OSRAM Licht Group) in fiscal year 2017 was still influenced by the loss from the discontinued operation, which was primarily the result of currency losses relating to the deconsolidation of LEDVANCE
- The loss from the discontinued operation in the previous year included costs associated with the separation of the lamps business of €177 million and transformation costs of €72 million › Note 3 I Acquisitions, Disposals, and Discontinued Operations in B.6 Notes to the Consolidated Financial Statements S Page 89
- Diluted earnings per share fell to €2.26 (previous year: €3.83)

A.2.3.3 Opto Semiconductors

Segment Data OS

in € million

		Fiscal year		Change	
		2017	2016	nominal	comparable
Total revenue [1]		1,685	1,417	18.9%	19.1%
External revenue [2]		831	671	23.7%	
EBITDA		473	408	15.9%	
EBITDA margin		28.1%	28.8%	(70) bps	
Employees as of September 30	in thousands FTE	12.6	10.5	20.4%	

1) Including intersegment revenue of €854 million (previous year: €745 million).
2) Some of the external automotive revenue that was recognized in the OS Segment in the previous year has been recognized in SP since the start of fiscal year 2017. OS has reported intersegment revenue instead. The prior-year figures have been restated.

Revenue

- Significant year-on-year rise in revenue on a comparable and reported basis; small negative currency translation effects
- Increases in all reporting regions; highest growth in APAC at just under 30% but EMEA also achieved a double-digit growth rate
- All businesses in OS generated double-digit growth
- The biggest absolute rises were in automotive and industrial business—primarily driven by LED components for the automotive business— and in the infrared components business (including lasers)
- Highest growth rates, with increases of more than a quarter, were achieved by infrared and products for general lighting

Earnings

- EBITDA up significantly year on year at €473 million
- Increase primarily driven by growth; good productivity and very high capacity utilization easily offset the rise in R&D costs and selling expenses, the increased costs associated with expanding the workforce and constructing the new factory in Kulim, Malaysia, declining licensing income, and the reduction in favorable currency effects
- Slightly less favorable product mix than in the previous year owing to the higher rates of growth in the general lighting business
- The EBITDA margin was therefore down slightly compared with the high level in fiscal year 2016

Assessment of Business Performance

- Revenue boosted by high demand for premium products (particularly in the automotive sector and the infrared components business)
- Earnings trend was as expected; slight contraction of the EBITDA margin
- Another very satisfactory fiscal year, including in respect of our Diamond objectives—particularly the planned expansion of our manufacturing capacity

A.2.3.4 Specialty Lighting

Segment Data SP

in € million

		Fiscal year		Change	
		2017	2016	nominal	comparable
Total revenue[1]		2,312	2,135	8.3%	6.7%
EBITDA		317	292	8.6%	
EBITDA margin		13.7%	13.7%	0 bps	
Employees as of September 30	in thousands FTE	6.7	6.6	0.1%	

1) Some of the external automotive revenue that was recognized in the OS Segment in the previous year has been recognized in SP since the start of fiscal year 2017. The prior-year figures have been restated.

Revenue

- Revenue was clearly higher than in the previous year, on both a nominal and a comparable basis; nominal growth rate was higher than in fiscal year 2016
- Positive portfolio effects of 1.8% due to acquisitions in fiscal year 2017; small negative currency translation effects of 0.2%
- Revenue growth in all reporting regions; APAC's double-digit percentage increase was the sharpest rise and it was the region with the highest revenue in fiscal year 2017, followed by EMEA
- Revenue trend driven by a 21.7% rise for LED-based products; slight drop in revenue from traditional products
- LED products thus accounted for almost half of SP's revenue in fiscal year 2017 (previous year: 44.0%)
- The growth in revenue was attributable to the automotive business; revenue from special applications business on a par with previous year
- Biggest growth in absolute terms in the automotive business was achieved by LED components, while LED modules business saw the highest percentage growth; moderate decrease for xenon lamps while revenue from halogen lamps held more or less steady

Earnings

- Clear year-on-year rise in EBITDA to €317 million
- Negative impact of the portfolio mix (larger proportion of business involving internally sourced LED components from OS) was outweighed by positive volume effects and economies of scale as well as improvements to the highly innovative laser technology; earnings also boosted by the acquisition of Novità
- Reported EBITDA margin on a par with previous year
- Sharp rise in special items, which climbed to €22 million (previous year: €13 million) as a result of acquisition-related costs
- Adjusted EBITDA margin rose to 14.7% (previous year: 14.3%)

Assessment of Business Performance

- Clear increase in revenue despite more challenging conditions in the automotive market
- Earnings trend better than expected; slightly stronger negative impact from the portfolio mix than anticipated, but better profitability in the traditional automotive business
- Therefore a very encouraging performance overall in fiscal year 2017

A.2.3.5 Lighting Solutions & Systems

Segment Data LSS

in € million

		Fiscal year		Change	
		2017	2016	nominal	comparable
Total revenue[1]		989	1,005	(1.5)%	(2.0)%
EBITDA		(72)	6	n.a.	
EBITDA margin		(7.3)%	0.6%	(790) bps	
Employees as of September 30	in thousands FTE	5.0	5.5	(9.4)%	

1) Including intersegment revenue of €41 million (previous year: €29 million) from cross-selling agreements with LEDVANCE.

Revenue

- Segment revenue down slightly year on year, on both a comparable and a reported basis
- Increase of around 10% in the APAC reporting region and decreases in EMEA and the Americas; major challenges in the U.S. market, particularly in the LS business
- Ongoing shift in the revenue structure toward LED products; total segment revenue accounted for by LEDs climbed to 76.0% (previous year: 68.5%)
- Business involving lighting systems and control gear remained largely stable; reported revenue on a par with previous year, rise in LED revenue largely offset the decrease in revenue from conventional control gear; slight contraction in comparable revenue growth
- Moderate decline in comparable revenue in the luminaires and solutions business; biggest drops in the NAFTA area and in respect of indoor lights

Earnings

- EBITDA of LSS in negative territory
- Decrease for lighting systems and control gear owing to unfavorable product mix and increased pressure on prices; sharp rise in transformation costs
- Luminaires and solutions business dominated by volume-related decline in earnings and by transformation costs, primarily in connection with the restructuring initiated in Traunreut, Germany
- Special items recognized for LSS increased to €51 million (previous year: €10 million); of this total, €49 million was attributable to transformation costs, partly in connection with steps taken to increase competitiveness and improve the cost situation (e.g., job reductions in Germany)
- Adjusted EBITDA margin was –2.1% (previous year: 1.6%)

Assessment of Business Performance

- Revenue and earnings both decreased, in particular at LS, and were not satisfactory
- A wide variety of measures already put in place to improve revenue and profitability

A.2.3.6 Reconciliation to the Consolidated Financial Statements

Structure

- *Reconciliation to consolidated financial statements* comprises *Corporate items and pensions* and *Eliminations, corporate treasury, and other reconciling items*
- *Corporate items* is used for items that are not allocated directly to the segments because, from the Managing Board's perspective, they are not indicative of their success (e.g., certain legal matters) and for the costs of governance functions, i.e., for functions that are clearly of a management nature; other central costs incurred are recognized in Corporate items provided that they have not been charged to the segments after the services in question provided by the Group headquarters have been utilized
- *Pensions* contains the pension-related expenses and income that are not allocated to the segments
- *Eliminations, corporate treasury, and other reconciling items* comprises the consolidation of transactions between the segments; it also includes reconciliation and reclassification items as well as corporate treasury activities

Earnings

- Negative EBITDA figure of €–96 million reported under *Corporate items and pensions* was significantly larger (previous year: €–86 million)
- *Pensions* were close to the prior-year level at €–7 million (previous year: €–5 million); *Corporate items* at €–89 million (previous year: €–80 million)
- Cost increase under *Corporate items* resulted primarily from higher expenses for basic research and for 'innoventures' (i.e., units focused on pursuing new, innovative business ideas) and from the increased cost of the governance function
- Special items decreased from €–10 million in the previous year to €–1 million; there was a countervailing effect from the gain on the sale of real-estate assets in South Korea *(Other operating income)* › Note 5 I Other Operating Income in B.6 Notes to the Consolidated Financial Statements S Page 93
- Adjusted for special items, the negative EBITDA figure for *Corporate items and pensions* increased from €–75 million in the previous year to €–96 million

A.2.4 Financial Position

A.2.4.1 Principles and Objectives of Financial Management

- The main objectives are to ensure that the Group and the individual companies remain solvent at all times and to centralize and reduce financial risks
- At the same time, the cost of capital must be minimized and the Group's long-term financial stability and flexibility secured and planned
- OSRAM's financial management is responsible for managing liquidity, ensuring adequate access to the debt capital markets, hedging interest-rate, currency, and commodity price risk, carrying out Group financing, and issuing guarantees and letters of support
- Centralized management by Corporate Finance & Treasury ensures transparency and cost-efficiency
- In addition to its governance function (monitoring compliance with Group-wide rules), Corporate Finance & Treasury advises the operating companies and offers financial services
- The provision of treasury infrastructure involves, among other things, cash pooling: A centralized cash management system enables excess liquidity at individual Group companies to be used to cover the financing requirements of other Group companies, which reduces both the volume of external financing and interest expenses; the transparency required to ensure solvency is achieved by liquidity planning carried out at company level on a rolling monthly basis

- Corporate Finance & Treasury is the central trading partner for derivative hedging transactions entered into within the OSRAM Licht Group, as far as permissible under local foreign exchange regulations; Corporate Finance & Treasury is therefore largely responsible for entering into external hedging transactions with banks
- The Treasury Risk Committee defines and monitors the risk strategy and financial management principles
- For further information on the extent and management of financial risks and on financing, see Note 27 I Financial Risk Management and Note 18 I Debt in B.6 Notes to the Consolidated Financial Statements

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A.2.4.2 Cash Flow and Capital Expenditure Analysis

Development of Cash Flows

in € million

	Fiscal year		Change
	2017	2016	nominal
Free cash flow segments			
Opto Semiconductors	62	184	(66.1)%
Specialty Lighting	235	247	(4.8)%
Lighting Solutions & Systems	(68)	(36)	90.2%
Reconciliation to consolidated financial statements	(130)	(371)	(64.9)%
Free cash flow OSRAM (continuing operations)	**99**	**24**	**>200%**
therein: Additions to intangible assets and property, plant, and equipment	537	349	53.7%
Net cash OSRAM (continuing operations) provided by (used in)			
Operating activities	636	373	70.5%
Investing activities	(305)	(23)	>200%
Financing activities	(139)	(319)	(56.5)%

Free Cash Flow of OSRAM (continuing operations)

- Despite a sharp rise in capital expenditure on intangible assets and on property, plant, and equipment, free cash flow more than quadrupled
- This was primarily due to the absence of the additional funding contribution to pension plan assets and the settlement of defined benefit obligations amounting to a total of €169 million that had been included in the previous year
- Moreover, the capital commitment period for net operating working capital reduced significantly, thereby freeing up cash; the average commitment period (days outstanding) for OSRAM's working capital was 48 days in the past fiscal year, compared with 61 days in the previous year A.2.6 Reconciliation of Key Performance Indicators
- Sharp fall in OS's free cash flow owing to a more than €200 million rise in capital expenditure, primarily in order to build the new LED chip factory in Kulim, Malaysia, and to increase capacity at the plants in Regensburg, Germany, and Penang, Malaysia
- SP's free cash flow was almost at the high level of the previous year
- The negative free cash flow seen at LSS in the previous year increased sharply again; this was primarily due to the lower level of earnings, which could not be fully offset by the success of the measures that were initiated to reduce committed working capital
- Another sharp year-on-year rise in total capital expenditure of OSRAM (continuing operations), which increased by more than half; share of around 59% attributable to APAC

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Additions to Intangible Assets and Property, Plant, and Equipment

by Segments
in € million

	Fiscal year	
	2017	2016
Opto Semiconductors	443	239
Specialty Lighting	57	69
Lighting Solutions & Systems	35	41
Corporate items and pensions	2	1
Additions to intangible assets and property, plant, and equipment OSRAM (continuing operations)	**537**	**349**

by Regions
in € million

	Fiscal year	
	2017	2016
EMEA	196	169
APAC	315	149
Americas	26	31
Additions to intangible assets and property, plant, and equipment OSRAM (continuing operations)	**537**	**349**

Other Investing Activities and Disposals at OSRAM (continuing operations)

- Total cash outflow of €108 million attributable to the purchase of shares in Novità, LED Engin, and Digital Lumens and to the acquisition of the operating business of Maneri-Agraz
- Investments in financial assets of €68 million predominantly related to the acquisition of shares in TVILIGHT and LeddarTech
- Cash inflow from the sale of LEDVANCE of €380 million (less the cash sold)
- Cash inflow from the disposal of noncurrent assets totaling €27 million largely related to proceeds from the sale of real-estate assets in South Korea; cash inflow of €326 million from the FELCO transaction recognized in the previous year

For further information on the transactions mentioned, see › Note 3 I Acquisitions, Disposals, and Discontinued Operations in B.6 Notes to the Consolidated Financial Statements. S Page 89

Cash Flows of the Discontinued Operation

- Net cash used for operating, investing, and financing activities totaled €117 million in fiscal year 2017 (previous year: €196 million)
- Decrease resulted mainly from the reduction in net cash used for operating activities, which had included the additional funding contribution to pension plan assets of €92 million in the previous year

A.2.4.3 Financing and Liquidity Analysis

Net Liquidity

in € million

	September 30, 2017	September 30, 2016
Short-term debt and current maturities of long-term debt	16	20
+ Long-term debt	184	42
Total debt	**200**	**62**
Cash and cash equivalents	609	457
+ Available for sale financial assets	2	1
Total liquidity	**610**	**458**
Net liquidity	**411**	**396**
–Pension plans and similar commitments	150	206
Adjusted net liquidity	**261**	**190**

Net Cash Provided by (Used for) Financing Activities of OSRAM (continuing operations)

— Buyback of shares in fiscal year 2017 resulted in a net cash outflow of €165 million for 3,089,436 shares (previous year: €234 million); total of 8,447,567 shares purchased in the period January 2016 to March 2017
— Final tranche of €150 million drawn down under the loan from the European Investment Bank
— Total dividend payment of €97 million (previous year: €94 million) to shareholders of OSRAM Licht AG; increased net cash outflow owing to dividend per share rising from €0.90 to €1.00
— Net cash used for financing activities of the continuing operations thus amounted to €139 million (previous year: €319 million)

Debt and Net Liquidity

— Following the drawdown of the final tranche and the first repayments, the amount of the loan from the European Investment Bank increased from €50 million to €192 million
— The total amount of the floating-rate revolving loan facility of €950 million remains available to OSRAM until February 2020; the term was extended until February 2022 for an amount of €886 million
— *Cash and cash equivalents* rose by a third to €609 million
— Net liquidity therefore increased again, following a decrease in the previous year
— Net debt/net liquidity divided by EBITDA is used as a key performance indicator as part of debt management and for contractual obligations under loan agreements (financial covenants) › Note 18 I Debt und › Note 25 I Additional Disclosures on Capital Management in B.6 Notes to the Consolidated Financial Statements

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Development of Net Liquidity

in € million

	Fiscal year 2017
Net liquidity as of September 30, 2016	**396**
EBITDA OSRAM (continuing operations)	**621**
Change in net working capital [1]	31
Change in other assets and liabilities	12
Income taxes paid	(45)
Other cash flows from operating activities [2]	16
Additions to intangible assets, property, plant, and equipment	(537)
Free cash flow OSRAM (continuing operations)	**99**
LEDVANCE sale [3]	478
Acquisitions, net of cash acquired	(108)
Purchases of investments	(68)
Purchase of treasury stock	(165)
Dividends paid to shareholders of OSRAM Licht AG	(97)
Other investing and financing activities OSRAM (continuing operations) [4]	(17)
Cash flows from operating, investing and financing activities discontinued operation and cash flows between OSRAM (continuing operations) and LEDVANCE	(107)
Net liquidity as of September 30, 2017	**411**

1) Includes changes in inventories, trade receivables, other current assets, trade payables, current provisions, and other current liabilities.
2) Includes dividends received, interest received, and other reconciling items to net cash provided by (used for) operating activities.
3) The change in net liquidity includes the purchase price received for LEDVANCE including LEDVANCE's holdings of cash and cash equivalents, which were sold. In accordance with IAS 7, the consolidated statement of cash flows shows the net cash inflow from the disposal of LEDVANCE less the sold holdings of cash and cash equivalents.
4) Includes non-cash effects, e.g., from currency translation, in addition to cash transactions (in particular payments from the sale of land and buildings).

Payments from Third Party Contractual Obligations [1]

in € million

	Total	Less than 1 year	1 to 5 years	After 5 years
Debt [2]	204	17	131	56
Purchase obligations	822	742	80	–
Operating leases	210	43	116	50
Total contractual obligations	**1,236**	**802**	**327**	**106**

1) Future cash outflows resulting from contractual obligations in existence as of September 30, 2017.
2) Including interest payments.

— Operating leases largely relate to the long-term rental of buildings
— Purchase obligations include legally binding obligations to purchase property, plant, and equipment, intangible assets, materials and supplies, and services

A.2.4.4 Financing of Pension Plans and Similar Commitments

— OSRAM's principal pension plans and similar commitments relate to Germany and the U.S.A.; it has less significant commitments in other countries
— The plans are virtually fully funded

Funded Status of OSRAM (continuing operations)
— Defined benefit obligation: €1,810 million (previous year: €1,996 million)
— Fair value of plan assets: €1,675 million (previous year: €1,794 million)
— Underfunding had thus fallen to €135 million as of September 30, 2017 (previous year: €202 million); proportion of commitments covered by plan assets (including unfunded commitments): 93% (previous year: 90%); proportion of commitments in funded plans covered by plan assets: 99% (previous year: 96%)
— The €67 million improvement in the funded status largely resulted from a decrease in the defined benefit obligation on the back of higher discount rates, although there was a countervailing, more modest decrease in pension plan assets

A.2.5 Net Assets

A.2.5.1 Statement of Financial Position Analysis

Assets

- Total assets of the OSRAM Licht Group as of September 30, 2017 were significantly lower than at the end of fiscal year 2016
- The main factor was the derecognition of *Assets held for sale* amounting to €1,158 million (relevant date: March 3, 2017) owing to the sale of LEDVANCE
- Although the purchase price received for LEDVANCE of €486 million and the disbursement of the final tranche of €150 million under the loan from the European Investment Bank did cause total assets to rise, they only partly offset the effect of the derecognition
- These two factors, together with our positive free cash flow, › A.2.4.2 Cash Flow and Capital Expenditure Analysis, contributed to the substantial increase in *Cash and cash equivalents* to €609 million (previous year: €457 million); there were countervailing effects from our acquisitions and equity investments in fiscal year 2017, the share buyback, and the dividend payment S Page 26
- *Other current assets* declined sharply, by €80 million, primarily due to realization of a tax receivable
- Noncurrent assets increased by more than a quarter overall
- *Property, plant, and equipment* rose by almost a third to €1.4 billion as a result of our capital expenditure on new manufacturing capacity
- Acquisitions led to *Goodwill* climbing by €71 million—and thereby almost doubling—and *Other intangible assets* advancing substantially to €142 million; the purchases of strategic equity investments were reflected in *Investments accounted for using the equity method*, which stood at €66 million (previous year: –)
- *Deferred tax assets* decreased by €70 million to €314 million owing, in particular, to the change in the deferred tax assets recognized for *Pension plans and similar commitments*
- Ratio of noncurrent assets to total assets rose sharply to over 50% (previous year: 35%) as a consequence of the changes described above

Liabilities and Equity

- The disposal of LEDVANCE resulted in the derecognition of *Liabilities associated with assets held for sale* amounting to €657 million (relevant date: March 3, 2017)
- *Trade payables* increased by a quarter to €752 million, primarily owing to capital expenditure at OS
- *Long-term debt* rose to €184 million (previous year: €42 million) due to the loan from the European Investment Bank being fully drawn down
- Substantial drop in *Pension plans and similar commitments* compared with the previous fiscal year, predominantly because of a decrease in the defined benefit obligations on the back of higher discount rates
- Substantial rise in noncurrent liabilities and provisions overall
- Dividend payment of €97 million and an effect of €161 million from the purchase of treasury shares, netted with the issue of treasury shares, caused a decrease in equity that was greater than the increase resulting from the net income of €224 million and other comprehensive income (loss), net of tax, of €10 million; equity thus fell slightly overall
- Equity ratio (*Total equity* to total assets) of 58% as of September 30, 2017 was higher than the figure as of September 30, 2016 (52%) because of the lower level of total assets

Balance Sheet Structure

in € million

	September 30, 2017	2016	Change nominal
Assets			
Current assets	2,100	3,124	(32.8)%
therein assets held for sale	2	1,136	(99.8)%
Non-current assets	2,137	1,676	27.5%
Total assets	**4,238**	**4,801**	**(11.7)%**

	September 30, 2017	2016	Change nominal
Liabilities and equity			
Current liabilities	1,280	1,948	(34.3)%
therein liabilities associated with assets held for sale	0	785	(99.9)%
Non-current liabilities	498	367	35.6%
Equity	2,460	2,486	(1.1)%
Total liabilities and equity	**4,238**	**4,801**	**(11.7)%**

Assets Not Recognized in the Statement of Financial Position

— Significant assets that were not recognized in the statement of financial position related to intangible assets and rights under operating leases
— Intangible assets resulted in particular from R&D activities, spending on which amounted to €364 million (previous year: €334 million)
— There were also cross-licensing agreements with competitors that allow the reciprocal use of patents

Liabilities Not Recognized in the Statement of Financial Position

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— In addition to noncancellable operating leases, the main liabilities not recognized in the statement of financial position included obligations under purchase agreements and guarantees › A.2.4.3 Financing and Liquidity Analysis and › Note 22 I Other Financial Commitments and Contingent Liabilities in B.6 Notes to the Consolidated Financial Statements

A.2.5.2 Explanations of Acquisitions and Disposals

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For further information, see › Note 3 I Acquisitions, Disposals, and Discontinued Operations in B.6 Notes to the Consolidated Financial Statements.

A.2.6 Reconciliation of Key Performance Indicators

This section shows the calculation of some of the performance indicators presented in ›A.1.2 Performance Management. There is also a reconciliation of APMs to the most similar IFRS measures.

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Comparable Revenue Growth

Changes in revenue for OSRAM as a whole, broken down by segment, region, and technology, are shown as a percentage change between the relevant comparative period and the reporting period, either on a nominal or a comparable basis (adjusted for currency translation effects and portfolio effects). This enables the operating performance to be analyzed without any distortion caused by translating revenue into euros (when the financial statements are prepared) or by including acquisitions and divestments. Other effects, such as price increases/decreases and quantity/volume changes, are also ignored in the calculation of comparable revenue growth.

Comparable Revenue Growth

Comparable Change in Revenue

Nominal revenue growth – currency translation effects – portfolio effects = comparable revenue growth

OSRAM (continuing operations) — **2017:** 9.1% – (–0.3%) – 1.3% = 8.1% **2016:** 6.0% – 0.6% – (–0.5%) = 5.9%

Currency Translation Effects

$$\frac{\text{Revenue in reporting period at exchange rate in reporting period – revenue in reporting period at prior period exchange rate}}{\text{Prior period revenue at prior period exchange rate}}$$

OSRAM (continuing operations) — **2017:** $\frac{4{,}128 - 4{,}140}{3{,}785} = -0.3\%$ **2016:** $\frac{3{,}785 - 3{,}763}{3{,}572} = 0.6\%$

Portfolio Effects[1)]

$$\frac{\text{Revenue from cross-selling/contract manufacturing agreements with LEDVANCE and acquisitions in reporting period, as well as changes in the allocation of business activities}}{\text{Prior period revenue (OSRAM/segment/region/technology)}}$$

OSRAM (continuing operations) — **2017:** $\frac{48}{3{,}785} = 1.3\%$ **2016:** $\frac{-19}{3{,}572} = -0.5\%$

1) Portfolio changes during the fiscal year have a pro rata effect in the period following the acquisition/divestment, since there are only portfolio effects in the period of the portfolio change during those reporting months when the acquired company belongs to OSRAM, or the company disposed of no longer belongs to OSRAM. Thus, in the subsequent period, there are portfolio effects relating to the months in the period of the portfolio change during which the acquired company was not yet part of OSRAM or the company disposed of was still part of OSRAM. In addition, revenue from cross-selling and contract-manufacturing agreements with LEDVANCE is eliminated.

EBITDA and EBITDA margin

We use EBITDA and adjusted EBITDA to measure the operating performance of OSRAM as a whole and of our segments. Adjusted EBITDA is calculated by adjusting EBITDA for special (recurring and non-recurring) items. We also use the EBITDA margin and the adjusted EBITDA margin. The (adjusted) EBITDA margin is defined as (adjusted) EBITDA divided by revenue. In addition, we use EBITDA to determine our capital structure data. Because of the way it is defined, EBITDA does not reflect all economic effects (no loss in value of assets resulting from depreciation, amortization, and impairment). Moreover, EBITDA does not include net financial income or expense.

EBITDA

in € million

	OSRAM (continuing operations)	
	Fiscal year	
	2017	2016
Income OSRAM	275	532
Income taxes	114	169
Net financial income or expense[1)]	8	(290)
Depreciation, amortization, and impairments[2)]	224	210
EBITDA[3)]	**621**	**621**

1) Income (loss) from investments accounted for using the equity method, net, interest income, interest expenses, and other net financial income or expense.
2) Net of reversals of impairment losses.
3) EBITDA (earnings before interest, taxes, depreciation, and amortization) is earnings before net financial income or expense, income taxes, amortization and impairment of intangible assets (goodwill and other assets) and depreciation and impairment of property, plant, and equipment, net of reversals of impairment losses.

EBITDA Margin and EBITDA Margin, Adjusted

in € million

	OSRAM (continuing operations)	
	Fiscal year	
	2017	2016
Revenue	4,128	3,785
EBITDA	621	621
EBITDA margin	**15.1%**	**16.4%**
Special items	(74)	(31)
Transformation costs [1]	(57)	(26)
Costs associated with the separation of the lamps business	–	0
Acquisition related costs [2]	(15)	(1)
Costs associated with changes in the Managing Board of OSRAM Licht AG	–	(5)
Others	(1)	–
EBITDA, adjusted	695	652
EBITDA margin, adjusted	**16.8%**	**17.2%**

1) Transformation costs, which impact on EBITDA, result mainly from the measures needed to strengthen our competitiveness (changes to manufacturing capacity, improvement of the cost position, etc.).
2) Acquisition-related costs, which also impact on EBITDA, comprise costs incurred in connection with the acquisition of companies and equity investments; in particular, they include integration costs and the cost of legal and other advice.

Liquidity

We report free cash flow as a liquidity measure that provides an indication of our ability to generate cash over the long term from our operating activities. However, we are not entirely free to use this cash at our discretion because it is also needed for a variety of expenditures that are not at our discretion, e.g., servicing our debts or paying dividends. Free cash flow is net cash provided by (used for) operating activities less additions to intangible assets and property, plant, and equipment.

Free Cash Flow

in € million

	OSRAM (continuing operations)	
	Fiscal year	
	2017	2016
Net cash provided by (used in) operating activities	636	373
Less: Additions to intangible assets and property, plant, and equipment	537	349
Free cash flow	**99**	**24**

Capital Structure

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Net liquidity is the difference between total debt and total liquidity. Adjusted net liquidity is net liquidity less Pension plans and similar commitments. For the calculation of net liquidity and adjusted net liquidity, see › A.2.4.3 Financing and Liquidity Analysis. The fact that debt and *Pension plans and similar commitments* are deducted from liquidity does not mean that liquidity can only, or primarily, be used to meet these obligations.

Capital Structure Data

in € million

	September 30,	
	2017	2016
EBITDA OSRAM (continuing operations)	621	621
Net liquidity	411	396
Net liquidity in relation to EBITDA	**0.7**	**0.6**
Adjusted net liquidity	261	190
Adjusted net liquidity in relation to EBITDA	**0.4**	**0.3**

Equity Ratio

Equity Ratio

in € million

	September 30,	
	2017	2016
Total equity	2,460	2,486
Total assets	4,238	4,801
Equity ratio	**58%**	**52%**

Capital Commitment Period (Days Outstanding) for Net Operating Working Capital

Capital Commitment Period (Days Outstanding) for Net Operating Working Capital [1)]

$$\frac{\text{Inventories + trade receivables – trade payables}}{\text{Revenue}} \times 365$$

2017: $\frac{(662 + 634 - 752)}{4{,}128} \times 365 = 48.1$ **2016:** $\frac{(655 + 580 - 601)}{3{,}785} \times 365 = 61.1$

1) OSRAM (continuing operations). In the previous year, the net operating working capital turnover ratio was used as a KPI. In fiscal year 2017, this was changed to the capital commitment period in order to emphasize the time dimension of the performance process. It corresponds to the reciprocal of the turnover ratio and is measured in days.

A.3

Events After the Reporting Date

No transactions of particular significance or with material effects on the net assets, financial position, or results of operations have occurred since the reporting date of September 30, 2017.

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Report on Expected Developments and Associated Material Risks and Opportunities

A.4.1 Report on Expected Developments

A.4.1.1 Future Economic and Sector-specific Developments

According to the latest forecasts by IHS Markit, the global economy is expected to grow by 3.1% in calendar year 2018. However, according to the IMF's latest report on the global economy (World Economic Outlook, October 2017), there are major risks to growth. For example, trade barriers could be raised, which would harm productivity, economic growth, and innovation. The United Kingdom's planned exit from the European Union has also given rise to uncertainty, as well as to reduced forecasts for economic growth in the UK and negative consequences for its main trading partners. There are also significant geopolitical risks that could directly affect the global economy, such as the North Korean dispute.

The performance of the global economy has a direct impact on the most important macroeconomic indicators for the lighting market. IHS Markit's outlook for the construction sector remains positive, with investment forecast to increase globally by more than 3.4% in fiscal year 2018.

Although the forecast of approximately 1.8% growth in automobile production (based on data from IHS Markit) in our fiscal year 2018 is encouraging, it is below the rate of growth in the previous year. The risk of lower growth in production in China, South Korea, and the U.S.A. is considered to be relatively high. Production in China and the U.S.A., for example, is only expected to rise by around 1% in 2018. A lower rate of growth in production would have a direct impact on demand for lighting products for new vehicles.

Regardless of economic influences on growth in the wider economy, the transformation of the global lighting market is continuing, with a shift away from traditional lighting toward semiconductor-based lighting.

The lighting market is forecast to grow at a slightly faster rate than the general economy. We believe that the sector will become increasingly differentiated—with volume-driven markets on the one hand, in which consistently high quality and cost efficiency are crucial competitive factors, and technology-driven professional markets on the other, which are characterized by innovation, customer-specific solutions, and sustainable growth. For example, our automotive forecasts assume the continuation of the trend toward vehicles being fitted with higher-value equipment. Lighting products in vehicles should benefit disproportionately from this trend, which may lead to increased lighting technology revenue per vehicle.

A.4.1.2 Expected Revenue and Earnings Trends

We assume that the macroeconomic factors described above will generally create favorable conditions for our business activities in fiscal year 2018. In view of recent movements in exchange rates, however, we anticipate that the significance of currency effects to our business performance will increase compared with the past fiscal year. Above all, we expect the euro's appreciation against the U.S. dollar to provide a marked headwind in fiscal year 2018. The implementation of Diamond will continue to have a major impact in the coming fiscal year. The success that we have achieved in past fiscal years strengthens our resolve to persist with this strategy and to continue giving priority to growth and innovation, particularly in our OS and SP Segments. Another priority is to steadfastly implement our action plan for the turnaround of LSS, above all with regard to the segment's competitiveness and cost base.

Given the expected macroeconomic environment, the situation in the lighting market, and predicted exchange rate movements, as well as our planned measures and initiatives, we are anticipating the following revenue growth for our segments—in each case on a comparable basis. OS is likely to see an increase in its total (intersegment and external) revenue that is below the rate of growth in fiscal year 2017 (19.1%) but still in double digits. This rise in revenue will probably be fueled both by growth in respect of LED chips for general lighting and by sustained high demand for LED chips in the premium segment. We expect SP's revenue to increase moderately, probably slightly exceeding the growth rate for global automotive production. For LSS, we anticipate a modest increase in revenue. Based on this segment performance, we expect the revenue of OSRAM as a whole—again on a comparable basis—to advance by between 5.5% and 7.5%.

In terms of our segments' earnings, we anticipate an improvement in adjusted EBITDA at OS compared with the figure of €473 million for fiscal year 2017; the adjusted EBITDA margin is likely to contract slightly owing to negative currency effects and start-up costs for the new plants. We expect SP's adjusted EBITDA to be lower than in the past fiscal year (€339 million), again because of adverse currency effects but also due to a less advantageous product mix. For this reason, we believe that SP's adjusted EBITDA margin will be slightly below the level of the past fiscal year (14.7%). We do not expect the planned joint venture with Continental AG to have any significant effects in fiscal year 2018. We predict that LSS's adjusted EBITDA will improve on the figure of €–21 million in the past fiscal year. This is assuming that the steps already taken, and additional measures, lead to an improvement in our cost position and that there is growth stimulus in the American market in the second half of fiscal year 2018. The adjusted EBITDA margin of LSS will thus remain well below the Group's margin.

Taking into account the expected performance of our segments, we anticipate EBITDA adjusted for special items (particularly transformation costs) for the continuing operations of OSRAM of around €700 million, which will be on a par with, or slightly higher than, the level in fiscal year 2017. This translates into an adjusted EBITDA margin of around 16%. EBITDA and the EBITDA margin, and adjusted EBITDA and the adjusted EBITDA margin, are subject to mix effects (e.g. the product mix) and, in particular, currency effects. The planning for fiscal year 2018 is based on an exchange rate of U.S. dollar 1.18 to the euro. Depreciation on property, plant, and equipment will increase in the coming years as a result of our considerable capital expenditure. This is the main reason why we anticipate lower income (continuing operations). Diluted earnings per share from continuing operations will thus be between €2.40 and €2.60.

A.4.1.3 Expected Financing and Liquidity Situation and Planned Capital Expenditure

We anticipate negative free cash flow in the range of €50 million to €150 million in the coming fiscal year due to the probably significant increase in capital expenditure compared with fiscal year 2017, especially in the OS Segment.

Despite the negative free cash flow and the proposed distribution of a higher dividend, we assume that OSRAM's net liquidity will again produce a very stable financial profile in the next fiscal year that provides sufficient room for maneuver to finance our business requirements and to continue with the implementation of Diamond over the coming years.

A.4.1.4 Overall Assessment of Expected Developments

Through Diamond, we are focusing our Company on revenue growth and technological advances. Digitalization and the lighting market's shift toward semiconductor-based technologies are creating new business opportunities, in some cases in fields that extend beyond light-related applications. We intend to fully exploit these opportunities. The completion of the sale of LEDVANCE, as well as our acquisitions and strategic equity investments, in fiscal year 2017 have already significantly changed the profile of our Company—and we will continue on our journey to becoming a technology company in fiscal year 2018. One of the main reasons for doing so is that we believe this will increase our enterprise value for the long term, thus benefiting our owners.

The following table provides an overview of our Group forecasts for our key performance indicators:

Expected Developments 2018 [1)]

	Initial position Fiscal year 2017	Expected developments Fiscal year 2018
Comparable revenue growth (adjusted for currency translation and portfolio effects)	8.1%	We expect comparable revenue growth of 5.5%–7.5%.
Adjusted EBITDA/adjusted EBITDA margin (adjusted for special items—mainly transformation costs)	€695 million/ 16.8%	We anticipate adjusted EBITDA of around €700 million. This translates into an adjusted EBITDA margin of around 16%.
Earnings per share (diluted)	€2.78	We anticipate diluted earnings per share of between €2.40 and €2.60.
Free cash flow	€99 million	We expect negative free cash flow in a range of €50 million to €150 million.

1) The information presented in the table relates to OSRAM (continuing operations).

In addition to the macroeconomic trends presented above, our forecast is based on OSRAM Licht Group's multi-year business plan. We have not taken into account the economic risks presented under the economic and sector-specific developments. EBITDA and the EBITDA margin, and adjusted EBITDA and the adjusted EBITDA margin, are subject to mix effects (e.g. the product mix) and, in particular, currency effects. Our forecast is based on an average exchange rate of U.S. dollar 1.18 to the euro. Our planning also assumes that the technology shift in the lighting market will take place at a certain rate, based on the model of the lighting market described above.

This forecast is based on the fundamental assumption that our newly developed products will be successful in the market. Furthermore, the impact of legal and regulatory issues is not taken into account in this forecast.

Any deviations from these assumptions, or the materialization of any risks or opportunities, may result in discrepancies between the forecast and actual business performance.

A.4.2 Report on Risks and Opportunities

A.4.2.1 Risk and Opportunity Management System

OSRAM uses systematic risk and opportunity management (hereinafter ‘risk management’) to identify, assess, and manage risks and opportunities. We use a coordinated set of risk management and control systems that support us in the early recognition of risks jeopardizing OSRAM’s continued existence as a going concern or the achievement of our strategic, operating, financial, and compliance goals and targets, and in implementing the necessary measures. This also applies, conversely, to opportunities. The Supervisory Board’s Audit Committee is responsible for monitoring the effectiveness of this system. Group Internal Audit also reviews compliance with the corporate policies regarding risk management in its regular audits of selected entities. The findings of these audits are taken into account in the continuous improvement process for our risk management system. This ensures that we have an appropriate and effective risk management system that keeps the Managing Board and Supervisory Board fully and promptly informed of material risks and opportunities.

Our risk management system is based on a comprehensive, interactive, and management-oriented Enterprise Risk Management (ERM) approach, which builds on the globally recognized Enterprise Risk Management—Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The ERM process is thus connected with the Group’s financial reporting process and closely integrated with our internal control system, which consequently incorporates corporate strategy, the efficiency and effectiveness of our business operations, the reliability of our financial reporting, as well as compliance with relevant laws and regulations.

The risk management system aims to ensure that all relevant business risks and opportunities throughout the Group are captured. Any event that can have a (negative or positive) influence on business performance beyond the scope of our business planning represents a risk or an opportunity. The time frame is generally three years.

In order to ensure a comprehensive assessment, the bottom-up identification and assessment process is flanked by quarterly discussions with the management teams of the business units and regions (top-down process). This top-down element ensures that potential new risks and opportunities are discussed at the management level outside of regular reporting and, if relevant, are included in the reporting process. Reported risks and opportunities are analyzed for potential cumulative effects and aggregated in the OSRAM risk/opportunity register. Reporting generally takes place on a quarterly basis, but is complemented by ad hoc reporting as necessary.

In order to determine the significance of risks and opportunities for OSRAM, we assess them based on both their impact on our business activities and their likelihood. We use the net principle, meaning that we assess risks in the context of measures that have already been implemented and taken effect. Measures that are planned or are in the process of being implemented do not reduce gross risk.

Based on the assessment, risks are classified as 'major,' 'high,' 'medium,' or 'low.' We do not quantify risks in monetary terms at overall Company level.

We define responsibilities for all reported risks and opportunities. The designated person first decides on a general response strategy and then develops, implements, and monitors specific and appropriate response measures. For example, we take out appropriate insurance policies against potential cases of damage and liability risks in order to reduce our exposure and to avoid or minimize possible losses.

The Managing Board has grouped responsibility for risk management and the internal control system in a corporate department to ensure the integration and harmonization of existing control activities in line with legal and operating requirements. This department produces a quarterly report on the material consolidated risks and opportunities, which the Managing Board uses to evaluate the risk and opportunity situation across the Group.

When the lamps business was sold in fiscal year 2017, all related risks and opportunities were revalidated and reassessed by the responsible managers and the central risk management team. Where necessary, the risks and opportunities were adjusted to reflect the new organizational structure or eliminated.

A.4.2.2 Risks

Below, we describe the risks that could have particularly adverse effects on our business, and on our net assets, financial position, and results of operations, or that are highly likely to occur. Of the risks reported below, nine are classified as 'high' and one as 'medium'. The order in which they are presented within the categories reflects the current estimate of OSRAM's relative exposure and thus gives an indication of the significance of these risks at present for OSRAM. The current estimate of the level of risk may change over time. At present, we do not expect to incur any risks that in isolation or in combination would appear to jeopardize our continued existence as a going concern. The identification and assessment of some of the risks described for fiscal year 2017 have changed. Compared with the previous year, for example, we believe that there are higher risks for strategic product planning, for the adaptation of our business model, from cyber-attacks, and from movement in relevant exchange rates and that there are growing challenges in the competition to attract highly qualified employees and managers. Risks in connection with satisfying customer requirements in the context of the operational market launch of innovations are regarded as lower. Our lamps business (LEDVANCE), which we separated in fiscal year 2016, was successfully sold in the first half of 2017. Previous risks arising from the former lamps business are thus no longer among the risks to our Company.

Where it is not explicitly stated that a risk relates to an individual segment, the risk described concerns the OSRAM Licht Group as a whole.

Strategic Risks

Market Developments

The lighting industry is facing a far-reaching technology shift toward semiconductor-based lighting. This shift is changing the market, which may have a material impact on our competitive position. The speed and extent of this shift are uncertain. These developments affect all segments, except for OS.

The shift could mean that, in certain circumstances, we are unable to quickly offset a strong contraction in the traditional market by increasing our revenue from LED products. This particularly applies in markets where we hold a leading market position based on our traditional products. As well as traditional automotive lighting business, we also see the risk of a strong decline in the area of conventional light control products. In addition, some of our established market access points could be replaced, which would impact on our competitive position.

We counter the risk with specific measures aimed at strengthening our cost position and competitive position in the traditional products business. The successful disposal of our lamps business is another way in which we have ensured that we can rigorously counter this risk by operating more freely in the market and opening up better strategic options.

Failure to implement the identified measures may have a clear adverse effect on our business activities and on our net assets, financial position, and results of operations.

Strategic Investments

OSRAM aims to ensure future sustainable growth with its 'Diamond' technology, innovation, and growth initiative. Among other things, we are planning a multi-stage program of capital expenditure of up to €1 billion to build up our capacity for LED chips.

This capital expenditure will entail risk if it fails to generate our planned level of revenue. It primarily relates to our OS Segment. The risk could arise if there is insufficient market demand for our future products › A.4.2.2 Risks/Market Dynamics and Competitive Environment. This is especially true for the planned building up of new semiconductor manufacturing capacity in Kulim, Malaysia, but also if we fail to translate our capital expenditure on research and development into successful new products. S Page 44

The level of profit margin achieved on the additional LED semiconductor production capacity that is being built up will depend heavily on capacity utilization. Expansion of our own production capacity in parallel to similar moves by our competitors may create overcapacity in the market, possibly leading to underutilization of our own production capacity but also to increased price pressure in the market, including among competitors who are pursuing a strategy of gaining market share › A.4.2.2 Risks/Market Dynamics and Competitive Environment. S Page 44

We are countering the risk related to the building up of production capacity in Malaysia with a specific, dedicated action plan. For example, senior management reviews progress on the capital expenditure project each month. In addition, all of the significant influencing factors are checked and evaluated and any necessary measures are initiated.

Failure to ensure the success of our strategic investments might have a clear adverse effect on our business activities and on our net assets, financial position, and results of operations.

Strategic Product Planning

The technological shift toward semiconductor-based lighting means shorter lifecycles for our products. This leads to greater demands being made in terms of the quality of strategic product planning and the speed of product development processes. We particularly see a risk that processes for planning and developing products are not optimized promptly and sufficiently in all areas to be able to meet these new demands. If we are unable to replace products being discontinued with new ones at the necessary speed, gaps in the product portfolio may arise, leading to revenue shortfalls. This may impact on the competitiveness of our products in terms of cost position and technical performance if our competitors succeed in developing their products and alternative technologies more quickly or selling them in greater quantities than we do. This risk particularly affects the SP and OS Segments and is associated with a high volume of capital expenditure for new technologies and products.

Fierce competition to introduce new technologies creates the risk that market shifts and changed customer requirements are not factored into strategic product planning and operational product creation processes promptly and sufficiently. The same is true if alternative products or technologies are launched on the market that are more attractively priced, of a higher quality, or more functional or, for other reasons, are more competitive than ours.

We counter this risk with specific measures, for example by intensifying market analysis activities, sharpening the focus of research and development projects, and further optimizing our process and system landscape. Furthermore, we make targeted acquisitions and equity investments in companies offering innovative solutions and technologies that complement our existing product portfolio.

Failure to ensure the success of our measures might have a clear adverse effect on our business activities and on our net assets, financial position, and results of operations.

Market Dynamics and Competitive Environment

Developments in the lighting industry may lead to more consolidation and commoditization. We see an increased risk of consolidation, particularly at the start and in the middle of the value chain, due to slower market growth and strong competition. There is also a risk that manufacturers will have fewer opportunities to differentiate themselves on the basis of technological expertise or brand value. As a result, we can see a situation in which manufacturers of LED components and products for general lighting are forced to differentiate themselves more on price than was previously the case, leading to a price war between competitors who want to fully utilize their production capacity and are pursuing a strategy of gaining market share. It should be borne in mind in this context that some participants in the volume market for general lighting LED chips receive public subsidies, which they can use to their advantage in order to compete on price. We believe that this risk particularly affects the large-scale capital expenditure that we are planning in connection with the building up of semiconductor manufacturing capacity in Kulim, Malaysia.

Furthermore, if the downturn in traditional lighting products continues to accelerate, the affected segments may experience overcapacity and have to differentiate themselves more on price.

If we cannot fully offset these price reductions by selling larger quantities of products or increasing our market share, we will need to improve productivity and lower our costs. During production ramp-up phases, this might be only partly successful in segments with a higher volume of capital expenditure. For example, in the event of competitors expanding their capacity while we are investing in sapphire technology (for volume emitters) in the OS Segment, there could be overcapacity in the market. In turn, this overcapacity could cause prices to decline more than we expect, which would impact on our earnings.

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We counter this risk by regularly checking whether we can offset existing price and inflation risks through productivity measures › A.2.2 Events and Developments Responsible for the Course of Business and › A.2.3 Results of Operations. We also constantly review the market for appropriate investments to achieve growth through acquisition. Furthermore, we intend to ensure our competitiveness by implementing the internal ‘Diamond’ technology, innovation, and growth initiative, although the measures implemented under Diamond itself also involve certain risks, given its investments in new technologies and products › A.4.2.2 Risks/Strategic Investments. For example, we are investing in the construction of a new LED chip factory in Malaysia to open up additional growth potential, particularly in the general lighting business. Moreover, targeted spending on research and development should help to further OSRAM’s goal of technological leadership.

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Failure to implement the necessary measures may have a clear adverse effect on our business activities and on our net assets, financial position, and results of operations.

Economic Situation

Changes to the general economic environment have led to significant volatility in demand for our products in the past and, therefore, our revenue and earnings. This trend may continue in the future. Our products are used in a wide variety of application segments within the general lighting sector, such as residential, office, hospitality, outdoor, architectural, and industrial lighting, the automotive sector, displays, and the entertainment industry. Most of these are affected by changes in the economic environment relatively early in the economic cycle. The main exceptions are parts of the lighting solutions and luminaires business; this is more exposed to the construction industry, which is affected relatively late in the economic cycle. Furthermore, as our main markets are in Europe, the U.S.A., and Asia, economic developments in these regions have the greatest impact on our business activities. In particular, increased protectionist measures under U.S. economic and tax policy must be taken into account. A subdued outlook for China and for the established industrialized nations may also impact on OSRAM's business. In addition, fluctuating exchange rates can have material adverse effects on our revenue, profit, and competitive position.

To ensure our productivity, one of the things that is becoming increasingly important is an efficient procurement organization. We regularly review our structures, global and regional presence, and processes in order to identify potential cost savings and to adapt our global and regional reach accordingly. By doing so, we aim to make cost savings and operational improvements that will allow us to offset falling selling prices, rising commodity and energy costs, and higher wages. Due to our business environment, we also make conscious investment decisions based on careful consideration about whether to make or buy.

Failure to implement the necessary measures may have a clear adverse effect on our business activities and on our net assets, financial position, and results of operations.

Adjustments to the Organization and the Industrial Footprint

Continuous change in the lighting industry has led to restructuring and transformation activities. OSRAM is reacting to the stronger than anticipated momentum of the technology shift with measures aimed at making our processes more flexible and reducing our fixed cost base. The risk attaching to these transformation activities is that too many of the affected resources (particularly management resources and employees) will be tied up during implementation of these measures, temporarily compromising the operational performance of our business.

In addition, there is a risk that the action plan decided upon may fall behind schedule. Delayed implementation of, for example, measures affecting manufacturing sites or those involving large-scale relocation of processes or organizational changes could also make us less competitive. The transformation activities that we have announced could also aggravate risks relating to personnel, processes, and systems. Changes to both our organization and our industrial footprint could meet with resistance from the affected employees.

As part of the separation of the lamps business, we entered into contractual agreements with LEDVANCE so that we could temporarily continue selling products to each other, carry out contract manufacturing of products and machinery, and share facilities. The expiry of these agreements could adversely affect our market access and our product revenue and margins, especially in the LSS and SP Segments.

Failure to implement the necessary measures may have a clear adverse effect on our business activities and on our net assets, financial position, and results of operations.

Adjustments to the Business Model

The shift toward semiconductor-based products in the lighting industry is having significant effects on our competitive position and business model for the reasons explained below; in this context, it is important to distinguish between light-generating LED components and LED products resulting from the forward integration of LEDs (integration of light sources in lamps, luminaires, and/or lighting systems).

The trend toward long-lasting light sources will lead to lower replacement demand. Selling LED products and complete lighting systems, as well as supplying such systems to manufacturers for their new installation business, is likely to become more important and take over from the supply of replacement lamps. We must therefore align our research and development resources accordingly. Moreover, we need to adapt and retrain our sales force in order to develop the necessary technical know-how so that we can respond to the new requirements of a business model focused on new installations, which above all calls for cooperation with architects, lighting advisors, and property developers. Since luminaires (with integrated light sources) are becoming a more and more important part of both the lighting market and our product portfolio (as compared to lamps and replacement lamps), we will need to develop the expertise required to meet this expected shift in demand. If the realignment of the LSS Segment takes longer than expected, this could also lead to delays in adapting the business model.

We are countering this risk by developing and complying with a list of measures for the LSS Segment and strategically realigning our business model as part of the ‘Diamond’ technology, innovation, and growth initiative.

Failure to implement the necessary measures may have a clear adverse effect on our business activities and on our net assets, financial position, and results of operations.

Operational Risks

Shortage of Qualified Employees

Competition for qualified employees among companies that rely heavily on engineering and technology is intense. The loss of qualified employees or an inability to attract, retain, and motivate highly skilled employees required for the operation, transition, and expansion of our business could limit our ability to conduct research successfully and to develop and sell marketable products. Competition for qualified personnel is particularly intense in the areas of research and development, engineering, sales, and the project business (qualified LED salespeople). We could also lose experienced managers who are important to our business and for the structural changes required. We particularly see challenges in retaining key employees in Asia and the U.S.A.

Succession planning, identification and encouragement of talent, and dedicated employee development programs are therefore a focus for us worldwide. They include our concept for developing talent and our Open Mentoring program. We have also expanded our social media presence and are using these channels to recruit new employees in order to secure our position as an attractive employer for the long term.

Failure to implement the necessary measures may have a clear adverse effect on our business activities and on our net assets, financial position, and results of operations.

Security of the System Landscape

As the digitalization of our business models and processes continues, our system landscape is playing an ever-more important role. We are increasingly using Internet-based applications and offer Internet-based products in order to provide greater benefits for customers and make our products and processes more efficient. At the same time, more and more regulatory requirements are being introduced worldwide concerning the protection, integrity, and availability of data. As well as guarding against the possible loss of business information and intellectual property, we have to ensure that the personal data we hold is safe. In this context, we focus both on external cyber-attacks on our IT systems and on problems caused by a lack of awareness within our organization. Not only could data be stolen by third parties, there is also a risk of data loss as well as significant time and expense involved in recovering the data.

Attacks on our IT systems, or their improper use, may also lead to downtime that would significantly affect our business operations. The failure of one of our ERP systems or even one of the smaller systems may have negative consequences, including production stoppages, disruptions to the supply chain, and the unavailability of products.

We counter these risks by relocating IT systems and applications to cloud solutions that are protected by adequate security measures and conducting independent tests on the vulnerability of our IT systems. Moreover, we run regular training courses for our employees.

Failure to implement the necessary measures may have an adverse effect on our business, financial position, and results of operations.

Financial Market Risks

The OSRAM Licht Group is exposed to a variety of financial market risks. Market price fluctuations may result in significant volatility in earnings and cash flow. The market risks relevant to OSRAM include currency risk, interest rate risk, and commodity price risk. Changes to exchange rates, interest rates, and commodity prices can impact both on operating business and on the investing and financing activities of the Group.

As a company with global operations, we conduct transactions in a variety of currencies. This creates risks from fluctuations in exchange rates, both in operational business (transaction risk) and in financial reporting. The latter is exposed not only to transaction risks but also to effects from translating amounts into the Group's reporting currency, which is the euro. Exchange rate volatility may have an adverse impact on earnings, equity, and cash flow. Our organizational structure means that we are mainly exposed to changes in the euro exchange rate against the U.S. dollar, the Malaysian ringgit, and the Chinese renminbi. The growth of political uncertainty and possible changes to monetary policy measures may result in heightened volatility in the future. This risk is rated as medium.

All financial market risks are continuously monitored and managed separately by our Treasury department, and a variety of strategies, particularly the use of derivative financial instruments, are employed to reduce them ❯ Note 27 | Financial Risk Management in B.6.7 Notes to the Consolidated Financial Statements. S Page 123

A.4.2.3 Opportunities

We also regularly identify, evaluate, and respond to the opportunities arising for OSRAM using our comprehensive, interactive, and management-oriented ERM approach. The assessment methodology is the same as that applied to the assessment of risks. Of the opportunities reported below, five are classified as ‘high,’ two as ‘medium,’ and three as ‘low.’ The order in which the opportunities are presented within the categories reflects the current estimate of the relative degree of opportunity for OSRAM and thus provides an indication of the opportunities’ current importance for OSRAM. This current estimate of the degree of opportunity may change over time. Changes have occurred with respect to our opportunities since fiscal year 2016. For example, we rate the opportunities more highly that arise from receiving public-sector subsidies for capital expenditure and from harmonizing processes and the IT landscape. Conversely, opportunities arising from having expertise along the entire value chain, for increasing efficiency in our traditional business, and for accelerating the introduction of lighting applications, products, and technologies are considered to be lower.

Our lamps business (LEDVANCE), which we separated in fiscal year 2016, was successfully sold in the first half of 2017. Previous opportunities arising from the former lamps business are thus no longer among the opportunities for our Company.

Where it is not explicitly stated that an opportunity relates to an individual segment, the opportunity described concerns the OSRAM Licht Group as a whole.

Strategic Opportunities

Strategic Acquisitions and Partnerships

Our present organization means we are well positioned to deploy our know-how and provide integrated solutions. To further exploit our potential, we may consider selective value-adding acquisitions, joint ventures, and partnerships in the future.

To ensure we can utilize this opportunity, we constantly review the market for appropriate investments to achieve organic growth and growth by acquisition. We particularly see specific opportunities for partnerships in relation to our OS Business Unit. Partnerships in the SP Segment might also give rise to opportunities, for example in connection with intelligent lighting solutions in the automotive sector as well as specialty lighting.

If this opportunity (rated as high) materializes, it may have a clear positive impact on our business activities as well as on our net assets, financial position, and results of operations.

Expertise Along the Entire Value Chain

We believe that our combined know-how in the areas of traditional and LED technology, together with our deep understanding of lighting applications, will be important success factors in our transition to LED products. Based on our technological and innovative strength, we believe that we have a leading position, in terms of revenue, in many lighting technology and application areas. OSRAM offers a comprehensive product portfolio that includes both traditional and LED products and, in our view, creates an excellent platform for the transition to energy-efficient lighting products. Our global salesforce supports our leading position and the strong awareness of our brands across all regions, as demonstrated by our highly diversified customer base right across our well-balanced mix of sales channels. In addition, we have optimized our operating processes and have a well-established global sourcing and manufacturing footprint designed to ensure accelerated, market-driven product launch times based on shorter innovation cycles.

The result of our combined core strengths is reflected in the success of our OSRAM brand. We plan to leverage the trust that is associated with our global lighting brand in order to strengthen our downstream business involving intelligent lighting solutions. We see an opportunity here for further selective forward integration plus the expansion of our range of value-added services.

We expect to be able to utilize this opportunity thanks to our product development activities, which follow a modular platform strategy based on roadmaps to coordinate and align markets and trends, products and technologies, and resources and competencies, as well as our R&D activities › A.1.1.2 Research and Development. Our 'Diamond' technology, innovation, and growth initiative should also provide support in this area.

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If this opportunity (rated as high) materializes, it may have a positive impact on our business activities as well as on our net assets, financial position, and results of operations.

Opportunities Related to Organizational and Process-related Improvements

Continuous improvement of key business processes with respect to agility, speed, and cost-efficiency is essential to ensure our sustained profitability. We believe that we have not yet fully exhausted the possibilities for further optimizing our cost structures, our system landscape, and the quality of our business processes within the Group. It is therefore our goal to make our organization more efficient and effective through harmonization and consolidation. Having successfully disposed of our traditional lamps business and in view of the growing use of digital technologies, we also want to streamline and thereby optimize our global processes.

We see further potential for organizational improvements in the streamlining of our sales structures and making them more customer-focused, with the aim of ensuring better and faster customer service.

If this opportunity (rated as high) materializes, it may have a positive impact on our business activities as well as on our net assets, financial position, and results of operations.

Customizing Products for Local Standards

Most of our product portfolio meets high regional or supraregional standards and is adapted to new statutory requirements on an ongoing basis. Compliance with these standards ensures that our products offer excellent quality for our discerning customers, whether for professional or consumer applications. In addition to this premium market segment, there is another segment where price is the main purchase criterion. This segment is particularly significant for consumer applications and in developing countries. We believe that adapting products to local standards, particularly in developing countries and emerging markets, offers opportunities to generate profitable business. We particularly see growth opportunities for intelligent lighting in Asia.

By adapting product specifications to local standards, we aim to enhance our cost position in the low price segment so that we can offer lower selling prices. This could possibly also be achieved in combination with producing products locally or purchasing local products.

If this opportunity (rated as medium) materializes, it may have a positive impact on our business activities as well as on our net assets, financial position, and results of operations.

Expansion into Adjacent Market Segments

We offer future-oriented products and solutions along the entire lighting value chain. The products thus cover a number of application areas, such as residential, office, industrial, hospitality, outdoor, and architectural uses. In addition to the products and solutions already available, we have ideas and development projects for what are currently white spots on the map, such as intelligent lighting or applications above and beyond light. We see the opportunity here for further growth in market segments that do not belong to the traditional lighting value chain. This includes, in particular, areas relating to biometric and UV sensors or gesture control.

We are able to benefit here from our strong position in research and development. This is demonstrated by the external awards that we have won. We also aim to safeguard our goal of long-term technological leadership through our internal 'Diamond' technology, innovation, and growth initiative.

If this opportunity (rated as medium) materializes, it might have a positive impact on our business activities as well as on our net assets, financial position, and results of operations.

Accelerated Introduction of Lighting Applications, Products, and Technologies

In recent years, OSRAM has expanded its business model to include professional lighting solutions. The implementation of customized, energy-efficient, and innovative lighting concepts will continue to represent a growing business segment in the future.

Our market position is strengthened by our systematic, forward-looking investments in innovative lighting technologies. Our efforts also extend to optimizing our business processes. We want to structure our processes so that we can launch products more quickly, giving us a competitive edge and allowing us to achieve higher price points.

To take advantage of this opportunity, we use an integrated product roadmapping process that is based on an analysis of trends as well as of market and customer requirements. In all segments, we also use a multi-project management approach to launch products.

If this opportunity (rated as low) materializes, it might have a positive impact on our business activities as well as on our net assets, financial position, and results of operations.

Operational Opportunities

Public-sector Subsidies

As an innovative company that has significant production capacity worldwide and carries out research and development at our German locations, we are helping to secure not only our own future but also that of others. Various public-sector bodies, such as the German government, the European Union, and the Chinese government, regularly provide subsidies, grants, and other relief in order to support capital expenditure in innovative areas.

We systematically check whether we qualify for such support, particularly in the case of new capital expenditure projects, and submit the necessary applications. We ascertain what support is available not only in Europe but also at all our locations. Furthermore, we systematically monitor compliance with the disbursement requirements.

If this opportunity (rated as high) materializes, it may have a clear positive impact on our business activities as well as on our net assets, financial position, and results of operations.

Other Opportunities

Personnel Opportunities

The transformation of the lighting market and the resulting shift in the business model from an integrated lighting manufacturer toward a dedicated lighting technology provider are also altering the organizational structure and culture of OSRAM. To be able to deal with existing challenges adequately, OSRAM needs, more than ever before, flexible and motivated employees who are willing to remain committed to the Company over the long term. To foster this process, we have launched a number of projects with our employees aimed at enhancing our organizational structures, communications, and corporate culture. These projects have resulted in measures that are helping to harmonize processes and underpin our management culture. We are also constantly refining OSRAM's employer brand. This enables us to live up to the increasingly high expectations of job seekers regarding the attractiveness of employers.

These projects and the measures described form the cornerstone of the realignment of HR work at OSRAM. We firmly believe that, with these measures and, above all, with the help of our skilled and committed employees and managers, we will succeed in realigning OSRAM.

If this opportunity (rated as high) materializes, it may therefore have a positive impact on our business activities as well as on our net assets, financial position, and results of operations.

Licensing of Patents

Intellectual property, which includes patents, utility models, registered designs, copyrights and trademarks, trade secrets, and expertise, is particularly important in our industry. Our standard practice is to seek patent protection for technical solutions that are important for products in our business. The OSRAM Licht Group regularly files patent applications in countries of major economic significance as well as in countries where competitors' manufacturing sites are located. These countries include Germany, the U.S.A., and China, but also other European and Asian countries and, occasionally, countries elsewhere.

Important patents held by the OSRAM Licht Group mainly relate to technical solutions for LED components and LED products as well as to technical solutions for traditional light sources, the related electronics, and the components and pre-materials used.

The lighting industry, and the LED industry in particular, is characterized by a significant number of patents and patent cross-licensing agreements between manufacturers. In addition, OSRAM has granted one-way licenses in certain fields for which we receive license fees. We believe this offers opportunities to grant licenses to other interested parties.

To utilize this opportunity, we pursue our patent strategy rigorously.

If this opportunity (rated as low) materializes, it may have a positive impact on our business activities as well as on our net assets, financial position, and results of operations.

Project Financing Opportunities

In our industry, there are many projects involving the installation of new or replacement lighting solutions that increase energy efficiency and longevity to an extent that more than offsets the required capital expenditure. However, the initial funding required represents a barrier for many potential project customers.

We intend to use the opportunity to overcome this challenge for potential customers by providing intelligent financing models.

If this opportunity (rated as low) materializes, it might have a positive impact on our business activities as well as on our net assets, financial position, and results of operations.

A.4.2.4 Overall Assessment of Risks and Opportunities

The OSRAM Licht Group consolidates all of the risks and opportunities reported by its various regions, business units, and corporate functions in its quarterly risk and opportunity assessment process. There were significant changes to the overall assessment of risks and opportunities at Group level compared to the prior year. Risks arise, in particular, from the technological shift toward LED technology (and the resulting changes in the market) and the failure to implement—or delays in implementing—defined countermeasures. In addition, risks arise from strategic investments, particularly in building up capacity for LED chips used in general lighting, from the impact of the faster rate of change in the market, and from the competitive environment that may be created by increased consolidation and commoditization. Another significant risk stems from the shift toward semiconductor-based technologies, which brings with it shorter product lifecycles. This leads to greater demands being made in terms of the quality of strategic product planning and the speed of product development processes.

We are also faced with growing challenges in the competition to attract highly qualified employees and managers.

We see growing opportunities in the receipt of public-sector subsidies for capital expenditure on new technologies, the building up of production capacity, and measures to create employment. In addition, we think there are good opportunities from entering into partnerships, making strategic acquisitions as part of our focused strategy, and capitalizing on the expertise that we have along the entire value chain. Furthermore, we believe the realignment of our HR work and the related organizational development provide the opportunity to establish OSRAM as an attractive employer over the long term. Taking into account the likelihood and the potential impact of the risks described in this report, and given our sound financial position and current business outlook, the Managing Board does not foresee any material danger to the OSRAM Licht Group's continued existence as a going concern. This assessment is also strongly underpinned by our financing structure › A.2.4.3 Financing and Liquidity Analysis.

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The Managing Board remains confident that the Group's profitability forms a solid basis for our future business performance and provides the resources needed to pursue the opportunities available to the OSRAM Licht Group. From the current perspective, the Managing Board considers that the risks described above are manageable and do not, either individually or together, appear to endanger the OSRAM Licht Group's continued existence as a going concern.

A.4.2.5 Key Features of the Accounting-related Internal Control and Risk Management System

The following information contains disclosures in accordance with sections 289(5) and 315(2) no. 5 of the *Handelsgesetzbuch* (HGB—German Commercial Code)[1] and an explanatory report.

The overarching objective of our accounting-related internal control and risk management system is to ensure that financial reporting is carried out correctly so that the consolidated financial statements and combined management report comply with all relevant requirements.

The accounting-related internal control system ('control system') used by OSRAM is based on the same framework developed by COSO as our ERM system ❯A.4.2.1 Risk and Opportunity Management System. The two systems are complementary and can each reveal gaps or risks within the other, contributing to their elimination or avoidance.

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OSRAM Licht AG's management team is responsible for establishing and effectively maintaining appropriate controls for financial reporting, and examines the appropriateness and effectiveness of the control system at the end of each fiscal year. The management team established the effectiveness of the internal controls for financial reporting as of September 30, 2017. However, every control system has certain limitations in terms of its effectiveness. No control system—even if it has been assessed as effective—can prevent or uncover every instance of inaccurate data.

The conceptual framework for preparing the consolidated financial statements largely consists of the uniform Group accounting policies and the chart of accounts, which are both issued by the central Accounting & Financial Reporting department and must be applied consistently by all units. New legislation, accounting standards, and other official pronouncements are continuously analyzed in terms of their relevance and their impact on the consolidated financial statements and the combined management report. Where necessary, our accounting policies and chart of accounts are adjusted accordingly. The local accounting departments are informed about current topics affecting accounting and the process of preparing the financial statements in monthly financial-reporting memos, which are intended to help avoid errors in the financial statements and facilitate adherence to deadlines.

The base data used in the preparation of the consolidated financial statements comprises the financial data reported by OSRAM Licht AG and its subsidiaries, which in turn is based on the accounting entries made in the units. Our internal shared services organizations offer services to the majority of the subsidiaries worldwide, including the preparation of financial statements, the general ledger, and accounting for receivables, payables, and assets. In addition, we draw on support from external service providers with specialist knowledge, such as in relation to the valuation of pension plans and similar commitments.

The consolidated financial statements are prepared in the consolidation system by the relevant employees in the Group Consolidation department on the basis of the accounting data reported. The steps to be performed are subject to extensive manual and system controls. The reasons for any validation or warning messages must be rectified by the unit delivering the data before it can be approved.

The basic principle is that of dual control. Furthermore, the accounting data must undergo certain approval processes at all levels. Variance analyses and analyses of the composition of and changes in individual items are also carried out. The employees involved in the accounting and reporting process are assessed for their professional aptitude during the selection process and subsequently receive training as required.

1) In the version applicable to OSRAM Licht AG according to article 80 sentence 2 of the *Einführungsgesetz zum Handelsgesetzbuch* (EGHGB—Introductory Act to the German Commercial Code) and valid until April 18, 2017.

Individual access authorizations protect the data in the accounting-related IT systems against unauthorized access, change, and use. All of the entities included in the consolidated financial statements are subject to the corporate guidelines on information security.

The management teams of the subsidiaries included in the consolidated financial statements, of the business units, and of certain central corporate units confirm the correctness of the financial data reported to Group headquarters and the effectiveness of the relevant control systems on a quarterly basis. In addition, we have established a Disclosure Committee comprising the heads of certain central corporate units, whose task it is to check material financial and non-financial data before publication.

The activities of our Internal Audit function constitute another element of our control system. OSRAM's Internal Audit function performs continual audits throughout the Group to ensure that policies are observed, our control system is reliable and working properly, and our ERM system is appropriate and effective.

The Supervisory Board also forms part of the control system via the Audit Committee. In particular, the latter monitors the accounting and reporting process, the effectiveness of the control system, the ERM system, and the Internal Audit function, and oversees the audit of the financial statements by the auditors. It also examines the documents relating to OSRAM Licht AG's single-entity financial statements and to the consolidated financial statements, and discusses OSRAM Licht AG's single-entity financial statements, the consolidated financial statements, and the combined management report with the Managing Board and the auditors.

Additional Information Regarding OSRAM Licht AG's Single-entity Financial Statements (HGB)

As the parent company of the OSRAM Licht Group, OSRAM Licht AG is included in the Group-wide accounting-related internal control system described above. The disclosures made above also apply in principle to OSRAM Licht AG's HGB single-entity financial statements.

The consolidated financial statements are prepared in accordance with IFRS. If necessary (for example, for the single-entity financial statements in accordance with German commercial law, or for tax purposes), individual accounts are reconciled to the relevant requirements. Correctly calculated IFRS accounting data therefore also represents an important basis for OSRAM Licht AG's single-entity financial statements. An HGB chart of accounts supplements the above-mentioned conceptual framework in the case of OSRAM Licht AG and other Group companies accounted for in accordance with HGB. The above-mentioned manual and system control measures also apply in principle to the reconciliation of IFRS accounting data to the HGB single-entity financial statements.

A . 5

Takeover-related Disclosures, Remuneration Report, and Corporate Governance Declaration

A.5.1 Takeover-related Disclosures

The takeover-related disclosures and explanatory report for fiscal year 2017 are published in accordance with section 289(4) and section 315(4) of the HGB[1].

Structure of the Common Stock

As of September 30, 2017, the Company's capital stock amounted to €104,689,400 (previous year: €104,689,400). The capital stock is divided into 104,689,400 (previous year: 104,689,400) registered no-par-value shares, each with a notional value of €1.00. The shares are fully paid in. In accordance with section 4(3) sentence 1 of the Articles of Association, shareholders do not have a right to receive share certificates insofar as this is permissible in law and unless share certificates are required under the rules applicable for a stock exchange on which the shares are admitted for trading. Individual certificates or global certificates for shares can be issued. In accordance with section 67(2) of the AktG, only shareholders who are entered as such in the share register are deemed to be shareholders of the Company.

The same rights and obligations attach to all shares. Details of the rights and obligations of the shareholders are contained in the provisions of the AktG, in particular in sections 12, 53a ff., 118 ff., and 186 of the AktG.

Restrictions Affecting the Voting Rights or the Transfer of Shares

Each share entitles the holder to one vote at the Annual General Meeting and serves as the basis for determining the shareholder's share in the Company's profits. This does not apply to treasury shares held by the Company, which do not give rise to any rights for the Company. Restrictions of the voting rights attached to shares can result in particular from the provisions of stock corporation law, such as section 136 of the AktG. Breaches of the notification requirements within the meaning of sections 21(1), 25(1), and 25a(1) of the WpHG could lead to rights attached to shares and also the right to vote being invalid, at least temporarily, in accordance with section 28 of the WpHG. We are not aware of any contractual restrictions on voting rights.

Interests in the Capital Exceeding 10% of the Voting Rights

Siemens Beteiligungen Inland GmbH, which has its registered office in Munich, Germany, and which to our knowledge is a wholly owned subsidiary of Siemens Aktiengesellschaft, whose registered offices are in Berlin and Munich, both Germany, notified us on December 18, 2013 that it held 17,797,198 shares, representing 17% of OSRAM Licht AG's voting rights. On October 5, 2017, Siemens Aktiengesellschaft notified us that it had reduced its direct or indirect interest to 0.1% of the voting rights in OSRAM Licht AG. We have thus not been notified of direct or indirect interests in the Company's capital that reach or exceed 10% of the voting rights, and we are not otherwise aware of any such interests.

1) In the version applicable to OSRAM Licht AG according to article 80 sentence 2 of the *Einführungsgesetz zum Handelsgesetzbuch* (EGHGB—Introductory Act to the German Commercial Code) and valid until April 18, 2017.

Shares Conveying Special Control Rights

There are no shares conveying special control rights.

System of Control of Voting Rights if Employees Are Shareholders and Do Not Exercise Their Control Rights Directly

If OSRAM Licht AG has issued or issues shares to employees as part of employee share ownership programs, these shares are transferred directly to the employees. The eligible employees can exercise the control rights arising out of the employee shares directly, like other shareholders, in accordance with the statutory provisions and the provisions of the Articles of Association.

Statutory Provisions and Provisions of the Articles of Association Governing the Appointment and Dismissal of Members of the Managing Board and Amendments to the Articles of Association

The appointment and the dismissal of members of the Managing Board are governed by sections 84 and 85 of the AktG and by section 31 of the *Mitbestimmungsgesetz* (MitbestG—German Codetermination Act). Section 5(1) of the Articles of Association specifies that the Managing Board must consist of several persons; the number of members of the Managing Board is determined by the Supervisory Board. The Supervisory Board can appoint a Chairman and a Deputy Chairman of the Managing Board, as specified in section 84(2) of the AktG and section 5(2) of the Articles of Association.

In accordance with sections 119(1) no. 5 and 179 of the AktG, a resolution of the Annual General Meeting is required to amend the Articles of Association. Section 9(4) of the Articles of Association gives the Supervisory Board the power to make amendments to the Articles of Association that affect the wording only. In addition, the Supervisory Board was authorized by resolutions of the OSRAM Licht AG Annual General Meeting on June 14, 2013, to amend the Articles of Association to reflect any utilization of Authorized Capital 2013 and Contingent Capital 2013, and following expiration of the relevant authorization periods.

The adoption of resolutions at the Annual General Meeting requires a simple majority of votes or, if a capital majority is required, a simple majority of the capital stock represented in the voting unless a greater majority is required by law (section 17(2) of the Articles of Association). This means that Annual General Meeting resolutions amending the Articles of Association also require a majority of the capital stock represented in the voting, as well as a simple majority of the votes, unless a greater majority is required by law.

Powers of the Managing Board to Issue or Repurchase Shares

By way of a resolution passed by the Annual General Meeting on June 14, 2013, the Managing Board was authorized to increase the Company's capital stock, subject to the approval of the Supervisory Board, by up to €52,344,700 by issuing up to 52,344,700 registered no-par value shares for cash and/or non-cash contributions in the period until February 28, 2018 (Authorized Capital 2013). The Managing Board is authorized, subject to the approval of the Supervisory Board, to disapply preemptive rights in full or in part in the case of capital increases against non-cash contributions. In the case of capital increases for cash, preemptive rights can be disapplied:

1. To settle any fractional amounts,
2. To issue shares to Company employees, and to employees and members of the executive boards of subordinate affiliated companies, including, to the extent permitted by law, in such a way that the contribution to be made in return for the shares is covered by that portion of the annual net income that the Managing Board and Supervisory Board could transfer to other retained earnings in accordance with section 58(2) of the AktG,
3. To grant holders of conversion rights or options that were or will be issued by the Company or its Group companies preemptive rights to new shares if this is necessary to service acquisition obligations or acquisition rights, or to prevent dilution, and

4 If the issue price of the new shares is not significantly lower than the quoted market price, and the shares issued in accordance with section 186(3) sentence 4 of the AktG (disapplying preemptive rights, for cash at an issue price not significantly lower than quoted market price), together with other shares issued or sold in accordance with or in line with this statutory provision during the effective period of this authorization until the time this authorization is fully utilized, do not in total exceed 10% of the capital stock, either on the effective date of the authorization or when it is exercised. Further details are contained in section 4(5) of the Articles of Association.

By way of a resolution passed by the Annual General Meeting on June 14, 2013, the Managing Board was authorized to issue, in the period up to February 28, 2018, bonds in an aggregate principal amount of up to €300,000,000 with conversion rights, or with options evidenced by warrants, or a combination of these instruments, for up to a total of 10,207,216 registered no-par-value shares in OSRAM Licht AG with a total share in the capital stock of up to €10,207,216. The bonds under this authorization are to be issued for cash. Further details are contained in the authorizing resolution. In particular, under this authorization, the bonds must generally be offered to the existing shareholders for subscription; they can also be issued to banks with the condition that the bonds are offered to existing shareholders for subscription. However, the Managing Board is authorized, subject to the approval of the Supervisory Board, to disapply preemptive rights:
1 If the issue price for a bond is not significantly lower than its theoretical fair value calculated using accepted valuation techniques,
2 If this is required to settle fractional amounts arising as a result of the subscription ratio, and
3 To grant preemptive rights to the holders or beneficiaries of conversion rights/options for the Company's shares or equivalent conversion/option obligations, so as to compensate for dilution.

To grant shares to the holders or beneficiaries of convertible bonds or bonds with warrants that are issued on the basis of the Managing Board's authorization, the capital stock was contingently increased by up to €10,207,216 by issuing up to 10,207,216 registered no-par-value shares (Contingent Capital 2013). Further details are contained in section 4(6) of the Articles of Association.

In accordance with section 186(3) sentence 4 of the AktG, the total amount of shares that can be issued on the basis of bonds under this authorization may not, together with other shares issued or sold in accordance with or in line with this statutory provision during the effective period of these authorizations, exceed 10% of the capital stock, either on the effective date of the authorization or when it is exercised. Shares that were issued up to these points in time on the basis of the Authorized Capital 2013, any other authorized capital, or through sales of treasury shares for which the preemptive rights of the shareholders were disapplied, must also be counted toward this limit.

The Company's Managing Board is authorized to repurchase treasury shares and to sell repurchased shares in the cases laid down by law in section 71 of the AktG. On February 14, 2017, the Annual General Meeting authorized the Managing Board of the Company, in accordance with section 71(1) no. 8 of the AktG, to acquire, in the period up to February 13, 2022, treasury shares totaling up to 10% of the capital stock in existence on the effective date of this authorization in the amount of €104,689,400 or—if this amount is lower—the capital stock in existence each time that this authorization is exercised. The shares purchased on the basis of this authorization, together with other Company shares that the Company has already purchased and still holds, or that are attributable to it in accordance with sections 71d and 71e of the AktG, may not account for more than 10% of the capital stock at any point. The acquisition of OSRAM Licht shares can be made at the Managing Board's discretion:
1 As a purchase via the stock exchange,
2 By way of a public purchase offer,
3 By way of a public invitation to all shareholders to submit an offer to sell, or
4 By granting shareholders put options.

In addition, a resolution passed by the Annual General Meeting on February 14, 2017, authorized the Managing Board, subject to the approval of the Supervisory Board, to use certain equity derivatives (put options, call options, and forward purchase contracts, as well as combinations of these derivatives) to acquire OSRAM Licht shares under the above-mentioned authorization. Any share purchases using such derivatives are capped at 5% of the capital stock existing as of the date on which the Annual General Meeting adopted the resolution, or—if this amount is lower—the capital stock in existence each time the authorization is exercised. The maturity of equity derivatives may not exceed 18 months in each case, and the transaction must be selected in such a way as to ensure that acquisition of the OSRAM Licht shares by means of the equity derivative does not take place after February 13, 2022.

The Managing Board was also authorized by resolutions of the Annual General Meeting on February 14, 2017 to do the following with treasury shares acquired on the basis of the above-mentioned or earlier authorizations:

1 Sell them on the stock exchange or, subject to the consent of the Supervisory Board, through a public offer to all shareholders in relation to their existing holdings,
2 Retire them,
3 Subject to the approval of the Supervisory Board, offer and transfer them to third parties for a non-cash consideration, especially in connection with business combinations or with the acquisition of companies, parts of a company, or equity interests,
4 Subject to the approval of the Supervisory Board, sell them to third parties for cash if the price at which the OSRAM Licht shares are sold is not significantly lower than the quoted market price of OSRAM Licht shares at the time of sale,
5 Use them to fulfill acquisition obligations or acquisition rights to OSRAM Licht shares arising from or in connection with convertible bonds or bonds with warrants issued by the Company or one of its Group companies, or
6 Offer them for sale to persons who are or were employed by the Company or by one of its affiliated companies, or to current or former members of executive or supervisory bodies of the Company's affiliated companies, or to grant or transfer them subject to a holding or lock-up period of not less than two years, whereby the recipient must be employed by the Company or by one of its affiliated companies or be a member of an executive or supervisory body of an affiliated company of the Company at the time of the offer or pledge.

The shares utilized in accordance with section 186(3) sentence 4 of the AktG on the basis of the authorization in option 4 may not, together with other shares issued or sold in accordance with or in line with this statutory provision during the effective period of this authorization until their utilization, exceed in total 10% of the capital stock at this time.

In addition, the Supervisory Board was authorized to use the acquired treasury shares to service acquisition obligations or acquisition rights to OSRAM Licht shares that were or are agreed with members of the Managing Board of OSRAM Licht AG as part of the arrangements for Managing Board remuneration.

In November 2015, the Company announced a share buyback involving up to 9.81% of the Company's capital stock, subject to a maximum value of €500 million; the buyback was to be implemented within 12 to 18 months. This was initiated on January 11, 2016 under the authorizations issued by the Annual General Meeting on June 14, 2013 and February 26, 2015, continued under the authorization issued by the Annual General Meeting on February 14, 2017, and completed on July 10, 2017. A total of 8,447,567 shares at a purchase price of €399.8 million were repurchased as part of this share buyback. The purpose of the share buyback was to support all the actions permitted under the authorizations issued by the Annual General Meeting on June 14, 2013, February 26, 2015, and February 14, 2017. The Company held 8,289,639 treasury shares as of September 30, 2017 (previous year: 5,324,735).

Details regarding the authorizations can be found in each authorization resolution and in section 4 of the Articles of Association.

Material Agreements of the Company That Are Subject to a Change of Control upon a Takeover Bid, Together with the Resulting Effects

OSRAM GmbH and OSRAM Licht AG are parties to a loan agreement with a banking syndicate for a revolving credit facility with a volume of €950 million and a loan agreement with the European Investment Bank for a credit facility with a volume of originally €200 million. These loan agreements give each lender the right to require early repayment if a person or group of persons acting together (with the exception of Siemens AG and its subsidiaries) acquires 50% or more of the voting rights of OSRAM Licht AG or OSRAM GmbH. If these termination rights were to be exercised, the funding for the OSRAM Licht Group's ongoing business operations could then potentially be insecure, at least temporarily.

Severance Payments Agreed by the Company with the Members of the Managing Board or Employees in the Event of a Takeover Bid

In the event of a change of control—that is, if one or several shareholders acting together acquire the majority of OSRAM Licht AG's voting rights and exercise a controlling influence, if OSRAM Licht AG becomes a dependent company by entering into an intercompany agreement within the meaning of section 291 of the AktG, or if OSRAM Licht AG is merged into another company—each member of the Managing Board has the right to resign their position, resulting in the simultaneous termination of their employment contract, if the change of control results in a significant change in their role. Members of the Managing Board are entitled to a severance payment amounting to a maximum of two years' remuneration on termination of their employment contracts. In addition to the basic remuneration and the bonus actually received, the calculation of the severance payment includes the monetary value of the stock awards granted, based on the last fiscal year ended prior to the termination of the contract in each case. The severance payment is reduced by 15% of the portion of the severance payment that has been calculated without taking into account the first six months of the remaining contract term to reflect a flat-rate discount and to offset earnings from other sources. In addition, non-cash benefits are settled in full by a payment in the amount of 5% of the severance payment. Any share-based remuneration components granted in the past remain unaffected and are settled on the dates originally planned. In any case, shares will not be transferred in order to settle the stock awards until the applicable lock-up period has ended. Members of the Managing Board are not entitled to a severance payment to the extent that they receive payments from third parties on the occasion of or in connection with the change of control. No termination right exists if the change of control takes place less than twelve months before the member of the Managing Board retires.

OSRAM Licht AG has not agreed any severance payment arrangements with its own employees or with the members of the managing boards, managing directors, or employees of direct or indirect subsidiaries for circumstances in which there is a change of control (except for aforementioned arrangements with members of the Managing Board of OSRAM Licht AG who are simultaneously managing directors of the subsidiaries OSRAM GmbH and OSRAM Beteiligungen GmbH).

A.5.2 Remuneration Report

The remuneration report summarizes the principles used to determine the total remuneration of the members of the Managing Board of OSRAM Licht AG and explains the structure and amount of the remuneration granted to the members of the Managing Board. It also describes the principles and amount of the remuneration paid to the members of the Supervisory Board. These disclosures in accordance with section 315(2) no. 4 of the HGB[1] and sections 4.2.4, 4.2.5, and 5.4.6(3) of the German Corporate Governance Code are contained in › C.4.2 Remuneration Report. The remuneration report is part of the combined management report.

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A.5.3 Corporate Governance Declaration

The corporate governance declaration in accordance with sections 289a and 315(5) of the HGB[1] can be found in › C.4.3 Corporate Governance Declaration and on our website » www.osram-group.com/en/our-company/our-management/corporate-governance.

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1) In the version applicable to OSRAM Licht AG according to article 80 sentence 2 of the *Einführungsgesetz zum Handelsgesetzbuch* (EGHGB — Introductory Act to the German Commercial Code) and valid until April 18, 2017.

A . 6

OSRAM Licht AG

Disclosures in Accordance with the HGB

In contrast to the consolidated financial statements, OSRAM Licht AG's single-entity financial statements are prepared in accordance with the provisions of the HGB rather than IFRS.

A.6.1 Business and Operating Environment

OSRAM Licht AG is a management holding company and performs the governance function for the OSRAM Licht Group. OSRAM Licht AG employed around 75 full-time equivalents (FTEs) as of September 30, 2017 (previous year: 67 FTEs).

OSRAM Licht AG directly and indirectly holds shares in over 90 companies, including minority interests. The economic environment of OSRAM Licht AG largely corresponded to that of the OSRAM Licht Group and is described in › A.1.1 Business Activities and Structure of OSRAM Licht Group and › A.2.2 Events and Developments Responsible for the Course of Business.

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A.6.2 Results of Operations

Income Statement of OSRAM Licht AG in Accordance with the HGB

in € thousand

	Fiscal year	
	2017	2016
Revenue	3,000	3,000
Cost of services rendered	(3,000)	(3,000)
Gross profit	**0**	**0**
Research and development expenses	(18,290)	(16,711)
General administrative expenses	(42,393)	(41,617)
Other operating income	1,467	1,417
Other operating expenses	(3,978)	(1,144)
Operating profit (loss)	**(63,194)**	**(58,056)**
Income (loss) from investments, net	280,013	373,950
Interest expenses	(1,412)	(1,165)
Other financial income (expenses), net	(76)	(74)
Taxes on income and earnings	0	0
Net income	**215,331**	**314,655**
Income carried forward	7,449	622
Allocation to other retained earnings	(106,574)	(157,327)
Unappropriated profit	**116,205**	**157,950**

Revenue relates to the charging on of administrative services that OSRAM Licht AG carried out for the affiliated companies in the OSRAM Licht Group.

The *Cost of services rendered* arose from these administrative services.

The expense for R&D at OSRAM Licht AG related to the basic research carried out for the OSRAM Licht Group.

In fiscal year 2017, *General administrative expenses* mainly contained OSRAM Licht AG's costs for performing the governance function for the OSRAM Licht Group, including personnel expenses, expenses for the Annual General Meeting and the Supervisory Board, expenses for share programs for the employees of OSRAM Licht AG, and expenses for the auditors for auditing the single-entity financial statements and consolidated financial statements and reviewing the interim financial statements. OSRAM Licht AG's growing role as the management holding company is, in general, resulting in a rise in general administrative expenses. The figure for the previous year also included severance payments to a former Managing Board member.

Other operating income related to the reimbursement of costs for the buyback of treasury shares by affiliated companies. *Other operating expenses* in fiscal year 2017 included the expenses from the increase in the obligation under employee bonus programs; this increase was linked to the share price.

In fiscal year 2017, OSRAM Licht AG generated income from investments totaling €280,013 thousand (previous year: €373,950 thousand). This resulted from an advance dividend for fiscal year 2017 from OSRAM GmbH of €31,760 thousand (previous year: €61,535 thousand), a dividend for fiscal year 2016 from OSRAM GmbH of €79,400 thousand (previous year: €0 thousand), and the transfer of profits from OSRAM Beteiligungen GmbH of €168,853 thousand (previous year: €312,415 thousand).

A.6.3 Net Assets and Financial Position

Statement of Financial Position of OSRAM Licht AG in Accordance with the HGB (Condensed Version)

in € thousand

	September 30, 2017	September 30, 2016
Assets		
Non-current assets		
Property, plant, and equipment	111	–
Financial assets	3,044,734	3,044,734
Current assets		
Receivables and other current assets	27,569	178,075
Cash and cash equivalents	7	23
Other prepaid expenses	**62**	**138**
Total assets	**3,072,483**	**3,222,970**
Liabilities and equity		
Equity	**2,437,076**	**2,472,568**
Accruals and provisions		
Pension plans and similar commitments	13,731	11,818
Other provisions	15,510	16,463
Liabilities		
Trade payables	4,661	7,022
Liabilities to affiliated companies	593,293	701,136
Other liabilities and trade payables	8,212	13,962
Total liabilities and equity	**3,072,483**	**3,222,970**

The decrease in *Receivables and other current assets* of €150,506 thousand was largely attributable to lower receivables from affiliated companies, which amounted to €5,286 thousand (previous year: €126,699 thousand) and a decline in tax receivables of €27,639 thousand to €22,275 thousand.

Equity decreased by €35,492 thousand. The decline in fiscal year 2017 is largely due to the share buyback of €160,886 thousand and the distribution of a dividend of €97,241 thousand. The main countervailing effect was from *Net income*, which came to €215,331 thousand.

The Supervisory Board and Managing Board are proposing that a dividend of €1.11 per dividend-bearing share, amounting to approximately €107 million in total, be distributed to shareholders from unappropriated profit. The total dividend payout may be changed by the issue or buyback of shares before the Annual General Meeting.

The Provisions for *Pension plans and similar commitments* consist of the pension commitments to the Managing Board and employees of OSRAM Licht AG. *Other provisions* mainly contain obligations relating to share-based remuneration.

Liabilities to affiliated companies largely comprise liabilities in connection with cash pooling at OSRAM.

Other liabilities and trade payables were mainly made up of personnel-related liabilities for wages and salaries in an amount of €7,020 thousand (previous year: €6,808 thousand), as well as other liabilities.

A.6.4 Opportunities and Risks

OSRAM Licht AG's business performance is largely subject to the same opportunities and risks as that of the OSRAM Licht Group. As a rule, OSRAM Licht AG's exposure to the risks of its subsidiaries and investments is in proportion to its direct or indirect equity interest in these entities ❯ A.4.2 Report on Risks and Opportunities.

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As the parent company of the OSRAM Licht Group, OSRAM Licht AG is included in the Group-wide risk management system. The description of OSRAM Licht AG's internal control system required by section 289(5) of the HGB[1)] can be found in ❯ A.4.2.5 Key Features of the Accounting-related Internal Control and Risk Management System.

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A.6.5 Outlook

Due to its interrelationships with the companies in the Group, the expectations for OSRAM Licht AG are reflected in the forecast for the Group. OSRAM Licht AG's net assets, financial position, and results of operations are primarily dependent on the business performance of, and distributions made by, Group companies ❯ A.4.1 Report on Expected Developments. For fiscal year 2018, we anticipate that OSRAM Licht AG's unappropriated profit will be high enough to maintain the level of dividend distribution.

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1) In the version applicable to OSRAM Licht AG according to article 80 sentence 2 of the *Einführungsgesetz zum Handelsgesetzbuch* (EGHGB—Introductory Act to the German Commercial Code) and valid until April 18, 2017.

Consolidated Financial Statements

of OSRAM Licht AG
for Fiscal Year 2017 According to IFRS

B

B . 1

Consolidated Statement of Income

OSRAM Licht Group – Consolidated Statement of Income

For the fiscal years ending September 30, 2017, and 2016
in € million

	Note	2017	2016
Revenue		4,128	3,785
Cost of goods sold and services rendered		(2,692)	(2,432)
Gross profit		**1,436**	**1,353**
Research and development expenses		(364)	(334)
Marketing, selling and general administrative expenses		(697)	(604)
Other operating income	Note 5	30	6
Other operating expenses	Note 6	(7)	(9)
Income (loss) from investments accounted for using the equity method, net	Note 7	(2)	306
Interest income	Note 26	7	2
Interest expenses	Note 19, 26	(12)	(17)
Other financial income (expenses), net		(1)	(2)
Income before income taxes OSRAM (continuing operations)		**389**	**701**
Income taxes	Note 8	(114)	(169)
Income OSRAM (continuing operations)		**275**	**532**
Loss discontinued operation, net of tax	Note 3	(51)	(134)
Net income		**224**	**398**
Attributable to:			
Non-controlling interests		3	1
Shareholders of OSRAM Licht AG		220	397
Basic earnings per share (in €)	Note 30	2.27	3.84
Diluted earnings per share (in €)	Note 30	2.26	3.83
Basic earnings per share (in €) OSRAM (continuing operations)	Note 30	2.79	5.14
Diluted earnings per share (in €) OSRAM (continuing operations)	Note 30	2.78	5.12

Minor differences may occur due to rounding.
The accompanying Notes are an integral part of these consolidated financial statements.

B.2

Consolidated Statement of Comprehensive Income

OSRAM Licht Group – Consolidated Statement of Comprehensive Income

For the fiscal years ending September 30, 2017, and 2016
in € million

	Note	2017	2016
Net income		224	398
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	Note 19	65	(25)
therein: income tax		*(14)*	*12*
Items that may be reclassified subsequently to profit or loss			
Currency translation differences	Note 3	(55)	(22)
Available-for-sale financial assets		0	(23)
therein: income tax		*0*	*4*
Derivative financial instruments	Note 24	0	5
therein: income tax		*0*	*(2)*
		(55)	**(40)**
Other comprehensive income (loss), net of tax		**10**	**(66)**
Total comprehensive income (loss)		**234**	**332**
Attributable to:			
Non-controlling interests		3	1
Shareholders of OSRAM Licht AG		231	331

Minor differences may occur due to rounding.
The accompanying Notes are an integral part of these consolidated financial statements.

B.3

Consolidated Statement of Financial Position

OSRAM Licht Group – Consolidated Statement of Financial Position

As of September 30, 2017, and 2016
in € million

	Note	September 30, 2017	September 30, 2016
ASSETS			
Current assets			
Cash and cash equivalents		609	457
Available-for-sale financial assets		2	1
Trade receivables	Note 9	634	580
Other current financial assets	Note 10	44	53
Inventories	Note 11	662	655
Income tax receivables		35	52
Other current assets	Note 12	112	192
Assets held for sale	Note 3	2	1,136
Total current assets		**2,100**	**3,124**
Goodwill	Note 13	148	77
Other intangible assets	Note 13	142	113
Property, plant, and equipment	Note 14	1,396	1,060
Investments accounted for using the equity method	Note 7	66	–
Other financial assets		13	4
Deferred tax assets	Note 8	314	384
Other assets	Note 15	59	38
Total assets		**4,238**	**4,801**

Minor differences may occur due to rounding.
The accompanying Notes are an integral part of these consolidated financial statements.

OSRAM Licht Group – Consolidated Statement of Financial Position

As of September 30, 2017, and 2016

in € million

	Note	September 30, 2017	September 30, 2016
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt and current maturities of long-term debt	Note 18	16	20
Trade payables		752	601
Other current financial liabilities	Note 16	29	50
Current provisions	Note 20	75	98
Income tax payables		99	89
Other current liabilities	Note 17	309	305
Liabilities associated with assets held for sale	Note 3	0	785
Total current liabilities		**1,280**	**1,948**
Long-term debt	Note 18	184	42
Pension plans and similar commitments	Note 19	150	206
Deferred tax liabilities	Note 8	10	2
Provisions	Note 20	32	18
Other financial liabilities		10	2
Other liabilities	Note 21	111	97
Total liabilities		**1,778**	**2,315**
Equity			
Common stock, no par value		105	105
Additional paid-in capital		2,035	2,035
Retained earnings		699	512
Other components of equity		5	60
Treasury shares, at cost [1]		(392)	(237)
Total equity attributable to shareholders of OSRAM Licht AG		**2,452**	**2,473**
Non-controlling interests		8	13
Total equity	Note 24	**2,460**	**2,486**
Total liabilities and equity		**4,238**	**4,801**

1) The Company held 8,289,639 treasury shares as of September 30, 2017 (September 30, 2016: 5,324,735).

Minor differences may occur due to rounding.
The accompanying Notes are an integral part of these consolidated financial statements.

B . 4

Consolidated Statement of Cash Flows

OSRAM Licht Group – Consolidated Statement of Cash Flows

For the fiscal years ending September 30, 2017, and 2016
in € million

	Note	2017	2016
Cash flows from operating activities			
Net income		224	398
Adjustments to reconcile net income (loss) to cash provided			
Loss discontinued operation, net of tax	Note 3	51	134
Amortization, depreciation, and impairments		224	210
Income taxes		114	169
Interest (income) expenses, net		5	15
(Gains) losses on sales and disposals of businesses, intangible assets, and property, plant, and equipment, net	Note 5	(16)	2
(Gains) losses on sales of investments, net	Note 7	0	(307)
(Income) loss from investments		2	0
Other non-cash (income) expenses		27	3
Change in current assets and liabilities			
(Increase) decrease in inventories		(23)	(75)
(Increase) decrease in trade receivables		(62)	(20)
(Increase) decrease in other current assets		11	(101)
Increase (decrease) in trade payables		160	25
Increase (decrease) in current provisions		(29)	22
Increase (decrease) in other current liabilities		(26)	114
Change in other assets and liabilities		12	14
Special contribution to pension plans and settlement of a pension plan	Note 19	–	(169)
Income taxes paid		(45)	(64)
Dividends received		0	1
Interest received		7	2
Net cash provided by (used in) operating activities — OSRAM (continuing operations)		**636**	**373**
Net cash provided by (used in) operating activities discontinued operation		(87)	(186)
Net cash provided by (used in) operating activities — OSRAM Licht Group (total)		**548**	**187**

Minor differences may occur due to rounding.
The accompanying Notes are an integral part of these consolidated financial statements.

OSRAM Licht Group – Consolidated Statement of Cash Flows

For the fiscal years ending September 30, 2017, and 2016

in € million

	Note	2017	2016
Cash flows from investing activities			
Additions to intangible assets and property, plant, and equipment	Note 13, 14	(537)	(349)
Acquistions, net of cash and cash equivalents acquired	Note 3	(108)	–
Purchases of investments		(68)	–
Proceeds and payments from sales of investments, intangible assets, and property, plant, and equipment	Note 7	27	327
Proceeds and payments from sales of business activities, net of cash and cash equivalents disposed of	Note 3	380	(1)
Net cash provided by (used in) investing activities — OSRAM (continuing operations)		**(305)**	**(23)**
Net cash provided by (used in) investing activities discontinued operation		(14)	14
Net cash provided by (used in) investing activities — OSRAM Licht Group (total)		**(319)**	**(9)**
Cash flows from financing activities			
Purchase of treasury stocks		(165)	(234)
Proceeds from issuance of long-term debt	Note 18	150	–
Repayment of long-term debt	Note 18	(8)	–
Change in short-term debt and other financing activities		(3)	9
Interest paid		(9)	1
Dividends paid to shareholders of OSRAM Licht AG	Note 24	(97)	(94)
Dividends paid to non-controlling interest shareholders		(7)	–
Net cash provided by (used in) financing activities — OSRAM (continuing operations)		**(139)**	**(319)**
Net cash provided by (used in) financing activities discontinued operation		(16)	(24)
Net cash provided by (used in) financing activities — OSRAM Licht Group (total)		**(154)**	**(343)**
Effect of exchange rates on cash and cash equivalents		(25)	(3)
Net increase (decrease) in cash and cash equivalents		50	(168)
Cash and cash equivalents at beginning of period		559	727
Cash and cash equivalents at the end of period		609	559
Less: Cash and cash equivalents of discontinued operation at end of reporting period		–	102
Cash and cash equivalents at the end of period (consolidated statement of financial position)		**609**	**457**

Minor differences may occur due to rounding.
The accompanying Notes are an integral part of these consolidated financial statements.

B.5

Consolidated Statement of Changes in Equity

OSRAM Licht Group – Consolidated Statement of Changes in Equity

For the fiscal years ending September 30, 2017, and 2016
in € million

	Common stock	Additional paid-in capital	Retained earnings	Currency translation differences	Available-for-sale financial assets	Derivative financial instruments	Treasury shares at cost	Total equity attributable to shareholders of OSRAM Licht AG	Non-controlling interests	Total equity
Balance at October 1, 2015	**105**	**2,033**	**234**	**81**	**24**	**(5)**	**(1)**	**2,470**	**12**	**2,482**
Net income	–	–	397	–	–	–	–	397	1	398
Other comprehensive income (loss), net of tax	–	–	(25) [1]	(22)	(23)	5	–	(65)	(1) [2]	(66)
Total comprehensive income (loss), net of tax	**–**	**–**	**371**	**(22)**	**(23)**	**5**	**–**	**332**	**0**	**332**
Purchase of treasury stocks	–	–	–	–	–	–	(239)	(239)	–	(239)
Re-issuance of treasury stock	–	–	–	–	–	–	3	3	–	3
Dividends	–	–	(94)	–	–	–	–	(94)	–	(94)
Other changes in equity	–	2	–	–	–	–	–	2	–	2
Balance at September 30, 2016	**105**	**2,035**	**512**	**59**	**1**	**0**	**(237)**	**2,473**	**13**	**2,486**
Balance at October 1, 2016	**105**	**2,035**	**512**	**59**	**1**	**0**	**(237)**	**2,473**	**13**	**2,486**
Net income	–	–	220	–	–	–	–	220	3	224
Other comprehensive income (loss), net of tax	–	–	65 [1]	(54)	0	0	–	11	(1) [2]	10
Total comprehensive income (loss), net of tax	**–**	**–**	**286**	**(54)**	**0**	**0**	**–**	**231**	**3**	**234**
Purchase of treasury stocks	–	–	–	–	–	–	(161)	(161)	–	(161)
Re-issuance of treasury stock	–	–	–	–	–	–	6	6	–	6
Dividends	–	–	(97)	–	–	–	–	(97)	(7)	(104)
Other changes in equity	–	0	(1)	–	–	–	–	(1)	0	(1)
Balance at September 30, 2017	**105**	**2,035**	**699**	**5**	**1**	**0**	**(392)**	**2,452**	**8**	**2,460**

1) *Other comprehensive income (loss), net of tax, attributable to shareholders of OSRAM Licht AG* includes remeasurement gains on defined benefit plans for the twelve months ended September 30, 2017 of €65 million; as of September 30, 2016, it includes remeasurement losses of €25 million.
2) *Other comprehensive income (loss), net of tax, attributable to non-controlling interests* includes currency translation differences for the twelve months ended September 30, 2017, and 2016, of €–1 million and €–1 million respectively.

Minor differences may occur due to rounding.
The accompanying Notes are an integral part of these consolidated financial statements.

B. 6

Notes to the Consolidated Financial Statements

B.6.1 Segment Information

OSRAM Licht Group – Notes to the Consolidated Financial Statements – Segment Information

For the fiscal years ending September 30, 2017, and 2016
in € million

	External revenue		Intersegment revenue		Total revenue		EBITDA[1]	
	2017	2016	2017	2016	2017	2016	2017	2016
SEGMENTS[6]								
Opto Semiconductors	831	671	854	745	1,685	1,417	473	408
Specialty Lighting	2,310	2,135	2	0	2,312	2,135	317	292
Lighting Solutions & Systems	949	976	41	29	989	1,005	(72)	6
Total segments	**4,089**	**3,782**	**897**	**775**	**4,986**	**4,557**	**718**	**706**
Reconciliation to consolidated financial statements								
Corporate items and pensions	39	2	39	32	77	35	(96)	(86)
Eliminations, corporate treasury, and other reconciling items[7]	–	–	(936)	(807)	(936)	(807)	(1)	0
OSRAM (continuing operations)	**4,128**	**3,785**	**–**	**–**	**4,128**	**3,785**	**621**	**621**

	Assets[2]		Free cash flow[3]		Additons to intagible assets and property, plant, and equipment[4]		Depreciation, Amortization, and Impairments[5]	
	September 30,							
	2017	2016	2017	2016	2017	2016	2017	2016
SEGMENTS[6]								
Opto Semiconductors	858	607	62	184	443	239	125	107
Specialty Lighting	724	576	235	247	57	69	65	66
Lighting Solutions & Systems	345	334	(68)	(36)	35	41	31	34
Total segments	**1,928**	**1,518**	**229**	**395**	**535**	**348**	**220**	**207**
Reconciliation to consolidated financial statements								
Corporate items and pensions	(126)	(129)	(136)	(370)	2	1	4	3
Eliminations, corporate treasury, and other reconciling items[7]	2,435	3,412	6	(1)	–	–	–	–
OSRAM (continuing operations)	**4,238**	**4,801**	**99**	**24**	**537**	**349**	**224**	**210**

1) *EBITDA* is earnings before net financial income or expense (income (loss) from investments accounted for using the equity method, net; interest income; interest expenses; and other net financial income or expense), income taxes, and depreciation and amortization as defined below.
2) *Assets* attributable to the segments and to Corporate items and pensions are defined as total assets less financing receivables, tax assets, non-interest-bearing provisions and liabilities, and liabilities other than tax liabilities.
3) *Free cash flow* is net cash provided by (used for) operating activities less additions to intangible assets and property, plant, and equipment. For the segments, it primarily excludes income tax-related and financing interest payments and proceeds.
4) Additions to intangible assets and property, plant, and equipment are defined as *Capital expenditures*.
5) *Depreciation, amortization, and impairments* comprises impairment losses on goodwill and amortization of, and impairment losses on, other intangible assets, net of reversals of impairment losses as well as depreciation of, and impairment losses on, property, plant, and equipment, net of reversals of impairment losses.
6) Segment information line items for fiscal year 2016 have been presented on a comparable basis, see ❯ Note 31 I Segment Information.
7) The other reconciliation items as of September 30, 2016 also include the assets attributable to the discontinued operation ❯ Note 31 I Segment Information.

Minor differences may occur due to rounding.
Further disclosures can be found in ❯ Note 31 I Segment Information.

B.6.2 Basis of Preparation

1 I General Principles

Consolidated Financial Statements

These consolidated financial statements ('consolidated financial statements') are for OSRAM Licht AG, Munich, Germany, and its subsidiaries ('OSRAM Licht Group' or 'OSRAM'). OSRAM is a leading global provider of lighting technology and operates worldwide via a number of legal entities › Note 36 I List of Equity Investments of the OSRAM Licht Group in Accordance with Section 313 of the HGB.

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The consolidated financial statements and the combined management report for the year ended September 30, 2017 have been prepared in accordance with section 315a(1) of the *Handelsgesetzbuch* (HGB—German Commercial Code). They are filed with and published in the electronic Bundesanzeiger (Federal Gazette). OSRAM has prepared these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

The consolidated financial statements have been prepared in millions of euros (€ m). Due to rounding, differences may arise when individual amounts or percentages are added together.

The consolidated financial statements were authorized for issue by the Managing Board of OSRAM Licht AG, Marcel-Breuer-Strasse 6, 80807 Munich, Germany, on November 16, 2017.

2 I Summary of Significant Accounting Policies

Unless stated otherwise, the accounting principles set out below have been applied consistently for all periods presented in these consolidated financial statements. Certain of these accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. Such critical accounting estimates could change from period to period and have a material impact on the Group's results of operations, financial position, and cash flows. Critical accounting estimates could also involve estimates or judgments where management reasonably could have used a different estimate or judgment in the current accounting period. Management cautions that future events often vary from forecasts and that estimates routinely require adjustment.

Basis of Consolidation

The consolidated financial statements include OSRAM Licht AG and the direct and indirect subsidiaries over which OSRAM exercises control. Control is assumed when OSRAM has exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of those returns. Power exists when OSRAM has existing rights that enable it to direct the relevant activities.

Associates and entities in which OSRAM has joint control are included using the equity method.

Business Combinations

Business combinations are accounted for using the acquisition method in accordance with IFRS 3. Cost of an acquisition is measured at the fair value of the assets given and liabilities incurred or assumed, as well as the agreed contingent consideration, at the acquisition date. Acquisition-related costs are expensed in the period incurred. Identifiable assets acquired and liabilities assumed in a business combination (including contingent liabilities) are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. A positive difference between the acquisition cost including the fair value of the non-controlling interests and the assets and liabilities acquired is accounted for as goodwill. A negative difference is recognized directly in profit or loss after it has been reviewed again. If there is no loss of control, transactions with non-controlling interests are accounted for as equity transactions outside profit or loss. If control is lost, any retained equity interests are remeasured at fair value through profit or loss on the date control is transferred.

Associates and Jointly Controlled Entities

Companies in which OSRAM has the ability to exercise significant influence over their operating and financial policies (generally through direct or indirect ownership of 20% to 50% of the voting rights) and jointly controlled entities are initially recognized in the consolidated financial statements at cost and subsequently accounted for using the equity method. The following policies equally apply to associates and jointly controlled entities. Goodwill relating to the acquisition of associates is included in the carrying amount of the investment and is not amortized, but is tested for impairment as part of the overall investment in the associate. OSRAM's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition changes in equity that have not been recognized in the associate's profit or loss is recognized directly in equity. The cumulative post-acquisition changes are adjusted against the carrying amount of the investment in the associate. If OSRAM's share of losses in an associate equals or exceeds its interest in the associate, OSRAM does not recognize further losses unless it incurs obligations. The interest in an associate is the carrying amount of the investment in the associate together with any long-term interests that, in substance, form part of OSRAM's net investment in the associate. Intercompany profits or losses arising from transactions between OSRAM and its associates are eliminated to the extent of OSRAM's interest in the associate. OSRAM determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, OSRAM calculates the impairment loss requirement as the difference between the recoverable amount of the associate and its carrying amount. Upon loss of significant influence over the associate, OSRAM remeasures any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

Foreign Currency Translation

The assets, including goodwill, and liabilities of foreign subsidiaries whose functional currency is not the euro are translated using the middle spot exchange rate at the end of the reporting period, while the consolidated statement of income and the consolidated statement of cash flows are translated using average exchange rates during the period. Differences arising from the translation of the financial statements of foreign subsidiaries are recognized in other comprehensive income and reclassified to profit or loss when the gain or loss on disposal of the foreign subsidiary is recognized.

The changes in the exchange rates for the significant currencies of non-euro countries used in currency translation were as follows:

Exchange Rates

€ 1 quoted into currencies

		Middle Spot Exchange Rate		Annual Average Exchange Rate	
		September 30,		Fiscal year	
		2017	2016	2017	2016
U.S. dollar	USD	1.181	1.116	1.107	1.107
Chinese renminbi	CNY	7.858	7.446	7.529	7.229
Hong Kong dollar	HKD	9.224	8.655	8.613	8.591
Malaysian ringgit	MYR	4.985	4.615	4.800	4.573
Mexican peso	MXP	21.468	21.739	21.186	19.793

Measurement of Foreign Currency Transactions

Transactions that are denominated in a currency other than the functional currency of an entity are reported in the functional currency using the middle spot exchange rate on the date when the underlying transactions are initially recognized. At the end of the reporting period, foreign-currency-denominated monetary assets and liabilities are remeasured in the functional currency applying the middle spot rate prevailing at that date. Gains or losses arising from these foreign currency remeasurements are recognized in profit or loss. Non-monetary items in the statement of financial position denominated in foreign currency are remeasured using historical exchange rates.

Revenue Recognition

Provided there is persuasive evidence that an arrangement exists, delivery has occurred, or services have been rendered, revenue is recognized to the extent that it is probable that the economic benefits will flow to OSRAM and the revenue can be reliably measured, regardless of when the payment will be made. In cases where the inflow of economic benefits is not probable because of customer-related credit risks, revenue is recognized on the basis of customer payments irrevocably received. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and rebates, and excluding taxes or duty. OSRAM assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

If sales of goods and services or software arrangements involve the provision of multiple elements, OSRAM determines whether the contract or arrangement contains more than one unit of account. The following specific recognition criteria must also be met before revenue is recognized:

- Sale of goods
  Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. If product sales are subject to customer acceptance, revenue is not recognized until the customer has accepted the goods.
- Rendering of services
  Revenue from service transactions is recognized as soon as the services have been provided. In the case of long-term service contracts, revenue is recognized on a straight-line basis over the term of the contract or, if this method does not reflect the pattern of service delivery, as the services are provided.

- Interest
  Interest income and expenses are recognized using the effective interest method.
- Royalties
  Royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement.
- Dividends
  Dividends are recognized when the right to receive payment is established.

Functional Costs

In general, operating expenses are assigned to the individual functional cost types on the basis of the function of the corresponding cost centers or using an appropriate allocation principle.

Amortization/depreciation charges, impairment losses, and reversals of impairment losses on intangible assets and on property, plant, and equipment are recognized in *Cost of goods sold and services rendered, Research and development expenses, or Marketing, selling, and general administrative expenses*, depending on the asset's use.

Government Grants

Government grants are recognized when there is reasonable assurance that the conditions attached to the grants will be complied with and the grants will be received. Grants awarded for the purchase or the production of noncurrent assets (grants related to assets) are generally offset against the cost of the respective asset and reduce future depreciation charges accordingly. Grants awarded other than for noncurrent assets (grants related to income) are reported in the consolidated statement of income under the same function as the corresponding expenses. They are recognized as income over the periods necessary to match them on a systematic basis to the costs that are intended to be compensated. Government grants for future expenses are recognized as deferred income.

Research and Development Expenses

Costs of research activities are expensed as incurred. Costs for development activities are capitalized if the development costs can be measured reliably, the product or process is technically and commercially feasible, and it is probable that future economic benefits will be generated. OSRAM must also have the intention and sufficient resources to complete development and to use or sell the asset.

The costs capitalized include the cost of materials, direct labor, and other directly attributable expenditure that serves to prepare the asset for use. Capitalized development expenditure is reported under *Other intangible assets* and is carried at cost less accumulated amortization and impairment losses with an amortization period of generally three to five years. Other development costs are expensed as incurred.

Government grants for research and development activities are offset against research and development costs. They are recognized pro rata as income over the periods in which the research and development costs that are to be compensated are incurred. Government grants for future research and development costs are recognized as deferred income.

Earnings per Share

Basic earnings per share is calculated by dividing profit from continuing operations, profit from discontinued operations (if applicable), and net income, in each case attributable to the shareholders of OSRAM Licht AG, by the weighted average number of shares outstanding during the fiscal year. Diluted earnings per share is calculated on the basis of the assumption that all potentially dilutive securities and share-based payment programs will be converted or exercised, as applicable.

Goodwill

Goodwill is not amortized, but instead tested for impairment annually, as well as whenever there are events or changes in circumstances (triggering events) which suggest that the carrying amount may not be recoverable. Goodwill is carried at cost less accumulated impairment losses.

The goodwill impairment test is performed at the level of a cash-generating unit or a group of cash-generating units, which is the lowest level at which goodwill is monitored by management for internal purposes.

If the carrying amount of the cash-generating unit exceeds its recoverable amount, an impairment loss is recognized on the goodwill allocated to this cash-generating unit. The recoverable amount is the higher of the cash-generating unit's fair value less costs of disposal and its value in use. If either of these amounts exceeds the carrying amount, it is not necessary to determine both amounts. These values are generally determined using the discounted cash flow method. Impairment losses on goodwill are not reversed in future periods if the recoverable amount exceeds the carrying amount of the cash-generating unit to which the goodwill is allocated.

Other Intangible Assets

Other intangible assets consist of software and other internally generated intangible assets, patents, licenses, and similar rights. The Company amortizes intangible assets with finite useful lives on a straight-line basis over their respective estimated useful lives to their estimated residual values. The estimated useful lives for software, patents, licenses, and other similar rights generally range from three to eight years, although other useful lives are possible, particularly for intangible assets with finite useful lives acquired in business combinations.

Intangible assets acquired in business combinations primarily consist of patented and unpatented technology and customer relationships. Useful lives have been up to 17 years for patented and unpatented technology and between two and 16 years for customer relationships. Intangible assets determined to have indefinite useful lives, as well as intangible assets not yet available for use, are not amortized, but instead tested for impairment at least annually.

Property, Plant, and Equipment

Property, plant, and equipment is measured at cost less accumulated depreciation and impairment losses. If the costs of certain components of an item of property, plant, and equipment are significant in relation to the total cost of the item, they are accounted for and depreciated separately. Depreciation expense is recognized using the straight-line method. Residual values and useful lives are reviewed annually and, if expectations differ from previous estimates, adjusted accordingly. The following useful lives are assumed:

Useful Lives

Buildings	20 to 50 years
Technical machinery and equipment	5 to 15 years
Furniture and office equipment	5 to 6 years

Impairment Losses and Reversals of Impairment Losses

OSRAM tests property, plant, and equipment, investments accounted for using the equity method, and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, intangible assets that are determined to have indefinite useful lives, intangible assets not yet available for use, and goodwill are subject to an impairment test at least once a year. Recoverability of assets is determined by comparing the carrying amount of the asset with the recoverable amount. Determining the recoverable amount of an asset or a cash-generating unit in connection with which the asset generates cash inflows that are largely independent of the cash inflows from other assets involves the use of estimates by management. These estimates are influenced by certain factors, for example expected economic growth trends, the successful integration of acquired entities, capital market volatility, interest rate movements, and foreign exchange rate fluctuations. The recoverable amount is the higher of the asset's value in use and its fair value less costs of disposal. An asset's value in use is measured by discounting its estimated future cash flows. If assets do not generate cash inflows that are largely independent of those from other assets or groups of assets, the impairment test is not performed at an individual asset level; instead it is performed at the level of the cash-generating unit to which the asset belongs. If the carrying amount of an asset or cash-generating unit is found to exceed its recoverable amount, the difference is recognized as an impairment loss. If there is an indication that the reasons for the impairment no longer apply, OSRAM assesses the need to reverse all or a portion of the impairment loss.

OSRAM generally uses discounted cash flow methods to determine these values. These discounted cash flow calculations generally use five-year projections that are based on business plans. Cash flow projections take into account past experience, current operating results, and market assumptions, and represent management's best estimate of future performance. Cash flows after the planning period are extrapolated using individual growth rates. Key assumptions on which management has based its determination of the recoverable amount include estimated growth rates and the weighted average cost of capital. These estimates, including the methodology used, can have a material impact on the respective values and ultimately on the amount of the impairment loss on any asset that is tested for impairment. The estimate of growth rates takes into account expectations of inflation and market growth, as well as macroeconomic data and industry-specific trends.

Income Taxes

OSRAM operates in various tax jurisdictions and is thus subject to a wide variety of tax laws and regulations. The tax items presented in the financial statements are determined in accordance with the applicable local tax laws and tax authority directives, which can be complex, resulting in interpretations by the taxpayer that could be different from those of the local tax authorities.

Tax expense includes current and deferred taxes. These are recognized in profit or loss unless they are related to a business combination or to items that are recognized directly in equity or in other comprehensive income.

Current tax assets and liabilities are measured at the amount expected to be refunded by or payable to the tax authority. The possibility that individual current or other refund claims may not be successful cannot be entirely ruled out. Measurement of the amount is based on the tax rates and laws that apply at the end of the relevant reporting period in those countries in which the Group operates.

Deferred tax assets and liabilities are recognized using the balance sheet liability method for existing temporary differences between the carrying amount of assets or liabilities in the statement of financial position and their tax base at the end of the reporting period. Deferred tax assets and liabilities are measured using the tax rates expected to apply at the end of the reporting period in which an asset will be recovered or a liability will be settled. The expectation is based on the tax rates in effect as of the reporting date. Deferred tax assets are recognized for all deductible temporary differences, unused tax loss carryforwards, and unused tax credits to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, unused tax loss carryforwards, and unused tax credits can be utilized.

When measuring current and deferred tax items, OSRAM takes into account the effects of uncertain tax items and whether additional taxes and interest, including any possible penalties, might be payable. It assesses these items on the basis of estimates and assumptions, which may involve the exercise of management judgment in respect of a range of future events. New information may become available that causes OSRAM to modify its assessment of the appropriateness of existing tax items. Any such changes in tax items will affect net income in the period in which they are reassessed. We cannot rule out the possibility that the tax authorities (for example, following current or future tax investigations or audits) and/or the courts may decide that OSRAM is subject to additional liabilities or that the provisions recognized for these liabilities are inadequate. Reasons could include the rejection of some of the transfer prices applied to intragroup sales of goods and services, issues connected with permanent establishments, or the audit of items that could trigger indirect taxes. Such decisions could also cause temporary cash outflows in addition to their impact on profit or loss.

Deferred tax assets are recognized if sufficient taxable income will be available in the future. This assessment takes into account a number of factors, including projected earnings from operating activities and possible tax strategies. As of the end of each reporting period, management evaluates the recoverability of deferred tax assets, based on projected future taxable profits. In the case of tax loss carryforwards, a five-year period is generally applied. As future developments are uncertain and partly beyond management's control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will be recoverable. Estimates are revised in the period in which there is sufficient evidence to revise the assumption. If management considers it probable that some or all of a deferred tax asset cannot be recovered, a corresponding valuation allowance is recognized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profit will be available to allow the deferred tax asset to be recovered. The amount of any tax loss carryforwards and temporary differences, as well as of the deferred taxes recognized in respect of such items, could be adversely affected by tax audits in the future.

Future changes in tax laws and regulations, as well as their interpretation, and other changes in tax systems could materially affect our existing tax assets and liabilities, as well as our deferred tax assets and liabilities, and thus result in a higher expense for direct and indirect taxes, and in higher tax payments. Additionally, uncertainties affecting the tax environment in some regions could impair our ability to enforce our rights.

Inventories

OSRAM recognizes inventories at the lower of cost and net realizable value, with cost being generally determined on the basis of the average cost method or first-in, first-out (FIFO) method. Production cost comprises direct material, labor costs, and assignable portions of material and production overheads, including associated depreciation charges. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Noncurrent Assets Held for Sale and Discontinued Operations

A discontinued operation is reported as soon as a component of an entity with operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity is classified as held for sale or has already been disposed of and the component (1) represents a separate major line of business or geographical area of operations, (2) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (3) is a subsidiary acquired exclusively with a view to resale. The gain or loss from operating activities or from the disposal of discontinued operations is reported in the consolidated statement of income separately from the income and expenses attributable to continuing operations; prior-year figures are presented on a comparable basis. In the consolidated statement of cash flows, the cash flows from discontinued operations are presented separately from the cash flows related to continuing operations; prior-year figures are presented on a comparable basis. The disclosures
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in the notes to the consolidated financial statements (except for › Note 3 | Acquisitions, Disposals, and Discontinued Operations) that make reference to the consolidated statement of income and the consolidated statement of cash flows generally relate to continuing operations unless otherwise indi-
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cated. OSRAM reports discontinued operations separately under › Note 3 | Acquisitions, Disposals, and Discontinued Operations. Revenue and expenses arising from intragroup transactions are eliminated for the purposes of presenting the financial impact from discontinued operations. The presentation does not include any profits or losses whatsoever from intragroup transactions.

OSRAM classifies a noncurrent asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction or a distribution to shareholders rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale or distribution in its present condition, subject only to terms that are usual and customary for sales/distributions of such assets (or disposal groups), and its sale/distribution must be highly probable. The disclosures in the notes to the consolidated financial statements that make reference to the consolidated statement of financial position generally relate to assets that are not held for sale unless otherwise indicated. OSRAM reports noncurrent assets held for sale (or disposal groups) separately under › Note 3 | Acquisitions, Disposals, and Discontinued Operations. Noncurrent assets classified as held for sale and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell unless those items presented in the disposal group are not part of the scope of measurement as defined in IFRS 5 *Noncurrent Assets Held for Sale and Discontinued Operations*. Estimates and assumptions subject to some uncertainty are involved in determining the date on which a noncurrent asset (or disposal group) is classified as held for sale and in determining the fair value less costs to sell. These estimates and assumptions include, in particular, estimates in connection with price adjustment mechanisms, which depend on future changes up to the date on which the transaction is concluded.

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Defined Benefit Plans

OSRAM measures the benefit entitlements under defined benefit plans using the projected unit credit method. For unfunded plans, OSRAM recognizes a provision equal to the defined benefit obligation (DBO). For funded plans (plan assets), OSRAM offsets the fair value of the plan assets against the DBO. Taking into account any effects relating to the asset ceiling, a deficit is recognized in the *Pension plans and similar commitments* line item or a surplus is recognized in the *Other assets* line item.

The measurements rely on financial and demographic assumptions, including the discount rate (for information on effects, see › Note 19 | Pension Plans and Similar Commitments), assumptions regarding trends in salaries, pensions, and healthcare costs, and mortality tables. The discount rate assumptions are determined by reference to market yields on high-quality corporate bonds at the end of the reporting period. In countries where there is no deep market in such corporate bonds, market yields on government bonds are used. Both the currency and the maturity of the underlying corporate or government bonds are matched to the currency and estimated maturity of the benefit payments. Due in particular to changing market and economic conditions, actual developments may differ from the underlying assumptions and could have a significant impact on pension plans and similar commitments.

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Remeasurements of the net defined benefit liability (asset) are recognized in *Other comprehensive income (loss), net of tax* in the year in which they arise, as a result of which they are reported in full in equity, net of tax.

Provisions

A provision is recognized in the statement of financial position when OSRAM has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured taking into account all identifiable risks at the expected settlement amount, which is determined on the basis of a best estimate using suitable estimation methods and sources of information depending on the characteristics of the obligation. Individual obligations (e.g., legal and litigation risks) are measured at the most likely outcome unless other estimates result in a more appropriate measurement due to particular probability distributions for possible outcomes.

Specific provisions are recognized for warranty claims that are known about by the reporting date. OSRAM also recognizes provisions if warranty claims are likely based on specific past operational or industry experience. The expense for product warranties is recognized within the *Cost of goods sold and services rendered*.

Provisions for restructuring measures are recognized if a detailed, formal restructuring plan has been drawn up and announced to those affected by it.

Termination benefits are recognized as an expense and a liability when the entity has demonstrably committed itself, as part of restructuring measures or by otherwise creating a valid expectation, to provide the benefits. OSRAM is implementing restructuring programs and individual measures to terminate employment contracts. Expenses in conjunction with terminating employment contracts and other exit costs are subject to estimates and assumptions to a significant extent. These include, for example, the probability of acceptance in respect of an offer to terminate employment contracts and the nature of the measures. In the case of group agreements in Germany, the formal restructuring plan is generally detailed by an agreement on a reconciliation of interests and a social compensation plan reached between the employer and the workforce. Further information is available in Note 4 I Personnel-related Restructuring Expenses.

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OSRAM is subject to litigation, regulatory proceedings, and investigations by authorities in various jurisdictions. Such proceedings may result in criminal or civil sanctions, penalties, or disgorgement orders against the Company. Litigation, regulatory proceedings, or investigations by authorities often involve complex legal issues and are subject to substantial uncertainties. Accordingly, management exercises considerable judgment in determining whether there is a present obligation as a result of a past event at the end of the reporting period, whether it is more likely than not that such an obligation will result in an outflow of resources, and whether the amount of the obligation can be reliably estimated. The required amount of a provision may change in the future due to new developments in the particular matter concerned. Note 20 I Provisions, Note 22 I Other Financial Commitments and Contingent Liabilities, and Note 23 I Legal Proceedings.

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When a contract becomes onerous, the present obligation under the contract is recognized as a provision and measured at the amount by which the expected cost of fulfilling the contract or the expected cost of terminating the contract exceeds the expected economic benefits of the contract, whichever is the lower.

If the effect of the time value of money is material, provisions are discounted using pre-tax market interest rates.

Leasing

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception date. The decisive factor is whether fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in the consolidated statement of income on a straight-line basis over the term of the lease. Finance leases in which substantially all the risks and rewards incidental to ownership of the leased asset are transferred to OSRAM as lessee are recognized in the statement of financial position at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The financial assets of OSRAM mainly include cash and cash equivalents, available-for-sale financial assets, trade receivables, loans receivable, and derivative financial instruments with a positive fair value. OSRAM does not make use of the held-to-maturity category. The financial liabilities of OSRAM mainly comprise loans from banks, trade payables, finance lease payables, and derivative financial instruments with a negative fair value. OSRAM does not make use of the option to designate financial assets or financial liabilities at fair value through profit or loss at inception (fair value option).

Financial instruments are recognized in the statement of financial position when OSRAM becomes a party to the contractual obligations of the instrument. Regular way purchases or sales of financial assets, i.e., purchases or sales under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned, are accounted for at the trade date.

Financial instruments are initially recognized at their fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are only taken into account in determining the carrying amount if the financial instruments are not measured at fair value through profit or loss. Subsequently, financial assets and liabilities are measured according to the category—cash and cash equivalents, available-for-sale financial assets (AfS), loans and receivables (LaR), financial liabilities measured at amortized cost (FLaC), or financial assets and liabilities classified as held for trading (FAHfT and FLHfT)—to which they are assigned.

Financial instruments are derecognized when they have been repaid by the debtor. Repayment usually takes place in the form of a payment from the debtor to the creditor. However, repayment can also occur in cases where the debtor is legally released from the debtor's original obligation or the obligation is extinguished. The obligation is also derecognized by the creditor if the creditor transfers the financial asset to another party and has not retained any significant risks and rewards from that financial asset.

Cash and Cash Equivalents

All highly liquid assets with a maturity of less than three months from the date of acquisition are considered to be cash equivalents. Cash and cash equivalents are measured at cost.

Available-for-Sale Financial Assets

Investments in equity instruments, debt instruments, and fund shares are classified as available-for-sale financial assets and are measured at fair value if this value can be reliably determined. Unrealized gains and losses, net of deferred taxes, are recognized in *Other comprehensive income (loss), net of tax*. If fair value cannot be reliably determined, OSRAM measures available-for-sale financial assets at cost.

Loans and Receivables

Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method less any impairment losses. Impairment losses on trade receivables are recognized using separate allowance accounts.

The allowance for doubtful accounts involves significant management judgment and review of individual receivables based on the creditworthiness of each customer, current economic trends, and analysis of historical bad debts on a portfolio basis. To determine the country-specific component in the individual allowance, OSRAM also factors in country credit ratings based on information from external rating agencies. Where the valuation allowance is derived from a portfolio-based analysis of historical bad debts, a rise or decline in the volume of receivables results in a corresponding increase or reduction in such allowances.

Loans and receivables with a maturity of more than one year that are interest-free or have lower-than-market interest rates are discounted.

Financial Liabilities

OSRAM measures financial liabilities other than derivative financial instruments at amortized cost using the effective interest method.

Derivative Financial Instruments

Derivative financial instruments, such as forward exchange deals and interest-rate swaps, are measured at fair value. OSRAM classifies derivative financial instruments as held for trading unless they are designated as hedging instruments to which hedge accounting is applied. Changes in the fair value of derivative financial instruments classified as held for trading are recognized in profit or loss in the relevant period. The effective portion of changes in the fair value of derivative instruments designated as cash flow hedges is recognized in *Other comprehensive income (loss), net of tax* (i.e., net of applicable deferred income taxes). The ineffective portion is recognized immediately in the consolidated statement of income. Amounts accumulated in equity are reclassified to the consolidated statement of income in the same period in which the relevant hedged items are recognized in the consolidated statement of income or if the underlying hedged item is no longer expected to materialize. See › Note 26 | Financial Instruments for further information.

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Share-based Payment

OSRAM has launched equity-settled share-based payment programs. In accordance with IFRS 2, the fair value calculated for equity-settled share-based payments at the grant date is recognized as a remuneration expense over the vesting period. The fair value is determined at the market price of OSRAM Licht shares, taking into account the present value of dividends during the vesting period to which the grantees are not entitled and, to the extent necessary, certain market and non-vesting conditions. Additional information on OSRAM's share-based payment programs can be found in › Note 28 I Share-based Payment.

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Issued Accounting Pronouncements, not yet Adopted

The following pronouncements issued by the IASB are not yet effective and have not yet been adopted by OSRAM.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The standard contains a five-step model for revenue recognition that has to be applied to all contracts with customers and that stipulates when, and in what amount, revenue has to be recognized for the performance obligations in a contract. In May 2016, the IASB also issued clarifications to IFRS 15 relating to matters such as licensing contracts, the identification of separate performance obligations, and principal versus agent considerations. The standard was adopted into European law in October 2016 and the clarifications in November 2017.

OSRAM will apply IFRS 15 for the first time at the start of fiscal year 2019. When applying the new rules of IFRS 15 for the first time, companies can choose between full retrospective adoption and modified retrospective adoption. OSRAM has decided on modified retrospective adoption, which means that it will not restate the comparative figures for fiscal year 2018 when it applies the new rules for the first time for fiscal year 2019.

Over the past fiscal year, OSRAM has analyzed how IFRS 15 will affect the main business models in all of the Group's business units. The first step was to identify the business models and, using a standardized questionnaire, analyze whether they might be affected by IFRS 15. Representative contracts were then analyzed to verify the information obtained from the questionnaires. Next, what were deemed to be the main impacts of IFRS 15 were critically examined.

This analysis found that IFRS 15 will, in particular, lead to changes to accounting treatment in terms of the timing of revenue recognition. The main affected areas are:
- **Transportation:** The concept of the passing of control pursuant to IFRS 15 may, depending on the contractual provisions and delivery terms, cause revenue to be recognized later than under the current accounting treatment.
- **Consignment warehouse:** Where a consignment warehouse is located at the customer's premises, revenue may be recognized earlier than under the current accounting treatment if control passes before the customer has withdrawn goods from the warehouse.
- **Customer-specific manufacturing:** In the case of products whose specifications mean that they can only be sold to one particular customer, revenue may be recognized earlier than under the current accounting treatment.

An initial analysis showed that the cumulative effect for fiscal year 2017 of postponing revenue in respect of the aforementioned three areas would be approximately 1% of consolidated revenue.

The analysis carried out shows that the identification and separation of additional performance obligations and the determination of the transaction price will not cause any major changes. Individual matters not currently regarded as significant—such as the cost of securing orders—are still being analyzed.

Based on the above findings of the impact analysis, the next step is to examine the possible modifications to processes and systems needed to ensure that the accounting for fiscal year 2019 is compliant with IFRS 15.

IFRS 9 Financial Instruments

In July 2014, the IASB published the final version of IFRS 9 *Financial Instruments*. IFRS 9 was adopted into European law in November 2016.

OSRAM intends to apply IFRS 9 for the first time at the start of fiscal year 2019. As well as the accounting changes described below, application of IFRS 9 will necessitate additional disclosures in accordance with IFRS 7 *Financial Instruments: Disclosures*.

IFRS 9 takes a new approach to the classification and measurement of financial assets that reflects the business model under which the assets are held and the characteristics of their cash flows.

IFRS 9 defines three categories of financial assets: those measured at amortized cost, those measured at fair value whose gains and losses are recognized in profit or loss (FVTPL), and those measured at fair value whose gains and losses are recognized in other comprehensive income (FVOCI).

Based on a preliminary assessment, OSRAM's view is that trade receivables from customers that are sold to a factoring company in connection with supply-chain financing programs need to be measured at fair value through profit or loss under IFRS 9, whereas they are currently measured at amortized cost under IAS 39. As a result, the gains or losses from the planned sale at a later date will have to be recognized earlier.

As of September 30, 2017, the Group had equity instruments classified as available for sale with a fair value of €2 million. OSRAM has not yet made a decision on the option provided under IFRS 9 of classifying these equity securities as FVOCI or FVTPL.

IFRS 9 contains a new expected loss impairment model. Based on a preliminary assessment, OSRAM's view is that this will not have any significant impact on the level of accumulated valuation allowances at the time of initial application of IFRS 9. In some cases, impairment losses may have to be recognized earlier than is the case under IAS 39. For the bulk of the receivables, the valuation allowances will be calculated under IFRS 9 on the basis of the customer's individual credit rating.

The rules on hedge accounting are also changing as a result of IFRS 9. OSRAM uses derivative financial instruments, especially forward exchange contracts, to hedge against exchange rate fluctuations. Certain derivative financial instruments that are used to hedge forecast transactions and executory contracts and that meet the requirements for hedge accounting are accounted for as cash flow hedges. At the moment, the IASB gives all companies the option of continuing to apply the current hedge accounting rules pursuant to IAS 39 for the time being. However, the decision on choosing whether to carry out hedge accounting in accordance with IFRS 9 or IAS 39 can only be made once. As it is uncertain whether this option will still be available when OSRAM adopts IFRS 9 for the first time, OSRAM has not yet decided whether to exercise it. The Group's preliminary assessment indicates that the types of hedge that the Group currently uses will also meet the requirements of IFRS 9 regarding hedge accounting. However, this statement does not imply that OSRAM will actually use hedge accounting on the date of transition to IFRS 9.

IFRS 16 Leases

On January 13, 2016, the IASB published the final version of IFRS 16 *Leases*, its standard addressing the accounting treatment of leases. IFRS 16 specifies a single accounting model for lessees in which a lessee is required to recognize a right-of-use asset and a lease liability in its statement of financial position on the commencement date. In an exemption, a lessee may elect not to apply the requirement to recognize a right-of-use asset and a lease liability for short-term leases with a term of no more than twelve months or leases in which the underlying asset is of low value. Instead, the lessee must then recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis. The rules for lessors are largely unchanged from those specified in IAS 17. The new standard for leases also includes stipulations governing reporting, disclosures, and sale-and-leaseback transactions. IFRS 16 supersedes IAS 17 and the related interpretations (IFRIC 4, SIC-15, and SIC-27); application is mandatory in annual periods beginning on or after January 1, 2019. Early adoption is permitted, but only if IFRS 15 *Revenue from Contracts with Customers* is adopted at the same time. The standard was adopted into European law in November 2017. OSRAM is currently assessing the impact of adopting IFRS 16 on the consolidated financial statements.

B.6.3 Acquisitions, Disposals, and Discontinued Operations

3 | Acquisitions, Disposals, and Discontinued Operations

Acquisition of Novità

On July 19, 2016, OSRAM contractually agreed to buy all the shares in Novità Technologies, Hendersonville, U.S.A. Novità is a U.S. manufacturer of LED lighting modules for the automotive industry; the modules are used mainly in tail lamps, fog lamps, and daytime running lights. This acquisition strengthens OSRAM's position in the market for automotive LED lighting modules and enhances its project and system business portfolio in the Specialty Lighting (SP) Segment. The transaction was completed on October 4, 2016. The purchase price amounted to approximately USD 78 million (around €70 million) including cash acquired of approximately USD 6 million (around €5 million). Of the total sum, approximately USD 15 million (around €14 million) was attributable to the liabilities assumed toward the sellers, of which roughly USD 1 million (around €1 million) was settled during fiscal year 2017. Payment of the remaining purchase price of approximately USD 63 million (around €56 million) was paid in cash.

The following disclosures resulting from the purchase price allocation show the values recognized at the acquisition date for the major groups of assets acquired and liabilities assumed: intangible assets €31 million, receivables and other assets €11 million (the principal amount of the receivables and other assets was €11 million), inventories €4 million, property, plant, and equipment €3 million, deferred tax liabilities €13 million, and liabilities and provisions €12 million. Intangible assets predominantly consist of technologies of €28 million with useful lives of up to ten years. The goodwill of €40 million comprises intangible assets that are not separable, such as employee know-how and expected synergy effects, and is not tax deductible. Since the acquisition, the acquired business has contributed €45 million in revenue and a profit of €5 million to OSRAM, including the effects on earnings of the amortization of intangible assets acquired as part of the business combination.

As part of the purchase price allocation, provisions in the mid single-digit million euro range were recognized for uncertain tax positions, for which a compensation claim in the same amount vis-à-vis the sellers in connection with a fundamentally unlimited right of recourse was capitalized.

Equity Investment in LeddarTech

On July 18, 2017, OSRAM acquired a 29.4% strategic equity investment in LeddarTech Inc., Quebec, Canada. By September 30, 2017, this stake had decreased to 29.0% owing to some of the existing equity options being exercised. Based on the contractual agreements, OSRAM has a 25.1% share in the company's profit or loss. LeddarTech specializes in converting data that is collected from a vehicle's surroundings using infrared sensors by means of light detection and ranging (LiDAR), a sophisticated optical sensor technology based on semiconductor products from OSRAM. The company develops its own algorithms that are to be used in applications in the future such as support for autonomous vehicles and driver assistance systems. The sum invested is in the mid double-digit million euros. The company is accounted for under the equity method and is allocated to the Specialty Lighting (SP) Business Unit.

Acquisition of Digital Lumens

On September 1, 2017, OSRAM acquired 100% of the shares in Digital Lumens, Inc., Boston, U.S.A. By acquiring Digital Lumens, OSRAM is expanding its business with digital lighting solutions and adding to its expertise in software, sensors, and connectivity, particularly in the industrial sector. The preliminary purchase price amounted to approximately USD 53 million (around €45 million) including cash acquired of USD 5 million (around €4 million). The purchase price was paid in cash. The company constitutes a self-contained operating segment within the LSS external reportable

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segment › Note 31 I Segment Information.

The following disclosures resulting from the preliminary purchase price allocation show the values recognized at the acquisition date for the major groups of assets acquired and liabilities assumed: intangible assets €9 million, deferred tax assets €6 million, inventories €5 million, receivables €5 million (the principal amount of the receivables was €5 million), liabilities and provisions €8 million, and deferred tax liabilities €3 million. Intangible assets predominantly consist of technologies of €5 million with useful lives of up to ten years and customer relationships of €4 million with useful lives of up to six years. The preliminary goodwill of €26 million comprises intangible assets that are not separable, such as employee know-how and expected synergy effects, and is not tax deductible. The purchase price allocation has not yet been completed because the assets are still being measured. Because the purchase price allocation has not yet been completed, the goodwill has not yet been allocated to a cash-generating unit or group of units. Since the acquisition, the acquired business has contributed €2 million in revenue and a profit of €0 million to OSRAM, including the effects on earnings of the amortization of intangible assets acquired as part of the business combination. If the company had been acquired right at the start of the fiscal year, it would have contributed revenue of around €31 million and a loss of approximately €5 million.

Other Acquisitions

On November 3, 2016, OSRAM acquired 47.5% of the shares in TVILIGHT B.V., Groningen, Netherlands for a sum of €8 million. The equity investment strengthens OSRAM's smart cities expertise in the Lighting Solutions (LS) Business Unit. OSRAM controls TVILIGHT jointly with another investor. The joint venture is accounted for using the equity method.

On February 3, 2017, OSRAM acquired the operating business of Maneri-Agraz Enterprises, Houston, U.S.A. The acquisition gives OSRAM's service business in the Lighting Solutions (LS) Business Unit greater access to the commercial and industrial sectors in the south and south-west of the U.S.A. The purchase price amounted to approximately USD 10 million (around €9 million). The acquisition resulted in goodwill of €3 million that is tax deductible.

On July 3, 2017, OSRAM acquired 100% of the shares in LED Engin, Inc., San Jose, U.S.A., thus boosting its Specialty Lighting (SP) Business Unit. The purchase price amounted to approximately USD 10 million (around €9 million). The acquisition resulted in goodwill of €7 million that is not tax deductible.

In fiscal year 2017, OSRAM also made an equity investment in agrilution GmbH, Munich, Germany, which is accounted for using the equity method, and in Unternehmertum VC Fonds II GmbH & Co. KG, Garching, which is accounted for at amortized cost.

Sale of the Disposal Group for Business with Electro Hot Air Devices

On August 24, 2017, OSRAM contractually agreed the sale of its electro hot air devices business in the Specialty Lighting (SP) Business Unit to Smiths Group PLC, London, UK. The transaction was completed at the start of November 2017. In accordance with IFRS 5, the assets and liabilities relating to the sale are classified as *Assets held for sale or Liabilities associated with assets held for sale*. As of September 30, 2017, these included property, plant and equipment of €0 million, trade receivables of €1 million, inventories of €1 million, and trade payables of €0 million. Measurement at the lower of their carrying amount and fair value less costs to sell did not give rise to any impairment losses.

Sale of FELCO

On September 9, 2015, OSRAM contractually agreed to sell its 13.47% interest in Foshan Electrical and Lighting Co. Ltd., Foshan, China, (FELCO) to a subsidiary of Guangdong Rising Assets Management Co., Guangzhou, China, and transferred the interest on December 4, 2015.

The hedged sale price amounted to €360 million. The transaction gave rise to a prior-year pre-tax gain on disposal of €306 million, which was reported under income (loss) from investments accounted for using the equity method, net.

Discontinued Operation

On June 12, 2015, OSRAM resolved to separate its general lighting lamps business ('LEDVANCE'). On July 26, 2016, the Supervisory Board of OSRAM Licht AG consented to the sale of LEDVANCE. The sale was completed on March 3, 2017 once the parties had obtained all the necessary consents from the relevant authorities. The buyer of the business is a Chinese consortium comprising IDG Capital Partners, MLS Co., Ltd., and Yiwu State-Owned Assets Operation Center.

Once the Supervisory Board of OSRAM Licht AG had consented to the sale, the assets and liabilities of LEDVANCE, which largely consisted of the former Lamps Business Unit, were classified as *Assets held for sale or Liabilities associated with assets held for sale* in the 2016 consolidated financial statements in accordance with IFRS 5. LEDVANCE was reported as a discontinued operation in accordance with IFRS 5 in the consolidated statement of income and the consolidated statement of cash flows.

Results from Discontinued Operation

in € million

	Fiscal year	
	2017	2016
Revenue	856	1,893
Expenses	(860)	(2,006)
Income (loss) from operating activities	**(5)**	**(113)**
Related income taxes	3	8
Income (loss) from operating activities, net of tax	**(2)**	**(105)**
Gain (loss) from the measurement to fair value less costs to sell	–	(39)
Related income taxes	–	9
Income (loss) from the measurement to fair value less costs to sell	**–**	**(29)**
Gain (loss) on sale of discontinued operation	(42)	–
Related income taxes	(8)	–
Gain (loss) on sale of discontinued operation, net of tax	**(50)**	**–**
Loss discontinued operation, net of tax	**(51)**	**(134)**

Assets and Liabilities of Discontinued Operation

in € million

	March 3, 2017	September 30, 2016
Cash and cash equivalents	98	102
Trade receivables and other current assets	422	382
Inventories	404	418
Non-current assets	231	234
Assets held for sale	**1,155**	**1,136**
Current liabilities	490	623
Pension plans and similar commitments	47	53
Non-current provisions	24	12
Non-current liabilities	96	97
Liabilities associated with assets held for sale	**657**	**785**
Net assets	**498**	**351**

As of September 30, 2016, the currency translation differences included cumulative expenses of €38 million associated with the discontinued operation. At the time of disposal, expenses arising from currency translation differences of €33 million were recognized.

Net Cash Inflows

in € million

	Fiscal year 2017
Consideration received in cash	486
Cash and cash equivalents disposed of	(98)
Transaction expenses	(8)
Net cash inflows	**380**

Gain on Sale of Discontinued Operation

in € million

	Fiscal year 2017
Consideration according to purchase agreement	490
Net assets	(498)
Reclassification of currency translation differences	(33)
Gain (loss) on sale of discontinued operation	**(42)**

After the sale was agreed, the process of finalizing the purchase price led to the consideration being reduced. Following payment of the final installment of the purchase price of €5 million in October 2017, the purchase price has now been paid in full.

B.6.4 Disclosures on the Statement of Income

4 I Personnel-related Restructuring Expenses

In fiscal year 2017, OSRAM undertook measures throughout the Company to improve processes and make structural adjustments in production, sales, administration, and other indirect functions.

Personnel-related restructuring expenses related to these measures were incurred in the amount of €39 million in the past fiscal year (previous year: €9 million, plus €35 million in discontinued operations). These expenses arose mainly in connection with collective and individual agreements in Germany and China.

Additional personnel-related restructuring expenses of €1 million were incurred in fiscal year 2017. Such expenses had been incurred in an amount of €6 million in the previous year, mainly in relation to the resignation of a member of the Managing Board. See also ❯ Note 32 I Related Party Disclosures. S Page 134

In fiscal years 2017 and 2016, personnel-related restructuring expenses primarily affected *Cost of goods sold and services rendered, Marketing, selling, and general administrative expenses, and Research and development expenses*.

5 I Other Operating Income

Other Operating Income

in € million

	Fiscal year	
	2017	2016
Gains on sales and disposals of property, plant, and equipment, and intangibles	20	1
Miscellaneous other income	10	5
Other operating income	**30**	**6**

In fiscal year 2017, *Gains on sales and disposals of property, plant, and equipment, and intangibles* consisted of, among other things, the gain from the sale of real-estate assets in South Korea.

6 I Other Operating Expenses

Other Operating Expenses
in € million

	Fiscal year	
	2017	2016
Losses on sales and disposals of property, plant, and equipment, and intangibles	(3)	(3)
Miscellaneous other expenses	(4)	(6)
Other operating expenses	**(7)**	**(9)**

7 I Income (Loss) from Investments Accounted for Using the Equity Method, Net

Income (Loss) from Investments Accounted for Using the Equity Method, Net
in € million

	Fiscal year	
	2017	2016
Share of profit (loss), net	(2)	0
Reversals of impairments/impairments, net	0	0
Gains (losses) on sales, net	–	306
Income (loss) from investments accounted for using the equity method, net	**(2)**	**306**

In fiscal year 2016, *Gains (losses) on sales, net* included the pre-tax gain on the disposal of the investment in FELCO.

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OSRAM has an equity investment, which it acquired in the year under review, in the associate LeddarTech Inc., Quebec, Canada › Note 3 I Acquisitions, Disposals, and Discontinued Operations. The share in the profit or loss of the company stood at 25.1% as of the reporting date.

Financial Information for LeddarTech, Inc.[1)]

in € million

	Fiscal year	
	2017	2016
Interest in income (loss)	25.1%	–
Non-current assets	27	–
Current assets	27	–
Non-current liabilities	7	–
Current liabilities	2	–
Net assets (100%)	**45**	**–**
Group´s share of net assets	11	–
Goodwill	47	–
Carrying amount of interest in the entity	**59**	**–**
Revenue	4	–
Loss before income taxes	(149)	–
Other comprehensive income	0	–
Total comprehensive income	(149)	–
Dividends received	–	–

1) The data presented from the income statement covers the twelve-month period; the data relating to assets and liabilities indicates their value as of the date of acquisition. The loss before income taxes includes a significant nonoperating special item before OSRAM's acquisition of the shares and consequently does not impact on the share of income (loss) from investments accounted for using the equity method, net.

The Group also has shares in individually immaterial associates and joint ventures. The Group's stake in one of the associates is less than 20% but, because the Group is represented on the investee's managing or supervisory board, it considers its influence to be significant.

Financial Information for Individually Immaterial Joint Ventures and Associates

in € million

	Fiscal year	
	2017	2016
Carrying amount of interests in associates	2	0
Share of net income (loss), net of tax	0	0
Carrying amount of interests in joint ventures	6	–
Share of net income (loss), net of tax	(2)	–

8 | Income Taxes

Income Taxes
in € million

	Fiscal year 2017	Fiscal year 2016
Current tax (expense) benefit, net	(71)	(139)
Deferred tax (expense) benefit, net	(43)	(30)
Income tax (expense) benefit, net	**(114)**	**(169)**

Current tax (expense) benefit, net in fiscal year 2017 included a tax benefit of €3 million (previous year: tax expense of €2 million) for prior fiscal years.

Deferred tax (expense) benefit, net in fiscal year 2017 included a deferred tax expense of €3 million (previous year: deferred tax expense of €13 million) related to the recognition and reversal of temporary differences.

In Germany, current taxes are calculated on distributed and retained profits based on a uniform corporate income tax rate of 15.0% and a solidarity surcharge of 5.5% thereon. In addition to corporate income tax, trade tax is also levied on profits generated in Germany. Trade tax is calculated using an average tax rate of 14.3%, resulting in an aggregate tax rate for Germany of 30.1%.

Profit generated by foreign subsidiaries is calculated on the basis of national tax laws, and taxes are paid on that profit at the tax rate applicable in the country in which the subsidiary concerned is based.

Expected income tax expense is calculated using the aggregate German tax rate of 30.1% and income before income taxes from continuing operations of €389 million (previous year: €701 million).

Reconciliation to Actual Income Tax Expense
in € million

	Fiscal year 2017	Fiscal year 2016
Expected income tax (expense) benefit, net	**(117)**	**(211)**
Increase/decrease in income taxes resulting from:		
Non-deductible losses and expenses	(14)	(30)
Tax-free income	5	68
Taxes for prior years	13	2
Change in realizability of deferred tax assets and tax credits	6	(6)
Foreign tax rate differential	4	12
Change in tax rates	–	(1)
Other, net	(11)	(3)
Actual income tax (expense) benefit, net	**(114)**	**(169)**

In fiscal years 2017 and 2016, *Other, net* primarily comprised nondeductible withholding taxes on intragroup dividend payments. In fiscal year 2016, tax-free income comprised for the most part the entire tax effect arising from the disposal of the investment in FELCO, net of the associated withholding tax.

Deferred tax assets and liabilities (gross) are attributable to the following items in the statement of financial position:

Deferred Tax Assets and Liabilities

in € million

	September 30,	
	2017	2016
Assets		
Financial assets	1	3
Other intangible assets	18	17
Property, plant, and equipment	23	31
Inventories	30	48
Receivables	8	9
Pension plans and similar commitments	138	166
Provisions	36	42
Liabilities	49	59
Tax loss and credit carryforwards	67	68
Other	6	3
Deferred tax assets	**375**	**446**
Liabilities		
Financial assets	0	–
Other intangible assets	(21)	(12)
Property, plant, and equipment	(28)	(26)
Inventories	–	(1)
Receivables	(4)	(5)
Pension plans and similar commitments	0	(3)
Provisions	(7)	(2)
Liabilities	(2)	(3)
Other	(10)	(12)
Deferred tax liabilities	**(71)**	**(64)**
Total deferred tax asset (liability), net	**304**	**382**

Deferred tax assets and deferred tax liabilities are offset if the Group has an enforceable right to set off current tax assets against current tax liabilities and these relate to income taxes of the same taxable entity that are levied by the same tax authority.

The critical factor in assessing whether deferred tax assets are impaired or not is the extent to which management believes the deferred tax assets can be recovered. The assessment is made taking into account budgeted results from operating activities and possible tax strategies. Based on past experience and expected taxable income, it is generally assumed that the benefits of deferred tax assets can be recovered.

In this context, deferred tax assets of €46 million (previous year: €29 million) have been recognized for entities that generated a loss in the current period or in the prior period. The deferred taxes mainly relate to tax loss carryforwards.

Tax loss carryforwards amounted to €290 million as of September 30, 2017 (previous year: €314 million). In fiscal year 2017, deferred tax assets of €30 million were recognized in Germany (previous year: €50 million) in respect of tax loss carryforwards. OSRAM assumes that there will be sufficient positive taxable income available from future business activities to recover these deferred tax assets.

No deferred tax assets were recognized for the following items (gross amounts):

Items for which No Deferred Tax Assets have been Recognized

in € million

	September 30,	
	2017	2016
Deductible temporary differences	45	41
Tax loss carryforwards	124	141

Of the tax loss carryforwards for which no deferred tax assets were recognized as of September 30, 2017, €18 million (previous year: €22 million) are time-limited. These loss carryforwards will begin to expire in 2028. The total amount of tax credits for which no deferred tax assets have been recognized rose by €11 million to €66 million in the reporting period.

In a number of countries, companies in the OSRAM Licht Group have several years for which a tax audit has not yet been completed. OSRAM recognizes appropriate provisions for those outstanding assessment periods bearing in mind numerous factors, including interpretations of tax law and past experience.

Income taxes and withholding taxes that could be incurred in connection with profits distributable by subsidiaries are recognized as deferred tax liabilities if these profits are expected to be subject to such taxation or it is not intended to reinvest them for the long term.

As of September 30, 2017, no deferred tax liabilities were recognized for subsidiaries' accumulated earnings of €1,032 million (previous year: €862 million) as these profits are to be reinvested for an indefinite period.

Including items recognized in other comprehensive income (loss), income tax (expense) benefit can be broken down as follows:

Income Tax (Expense) Benefit

in € million

	Fiscal year	
	2017	2016
Income tax (expense) benefit, net	(114)	(169)
(Expense) benefit recognized directly in other comprehensive income (loss)	(14)	14

B.6.5 Disclosures on the Statement of Financial Position (Assets)

9 I Trade Receivables

The changes in valuation allowances recognized in respect of trade receivables were as follows:

Valuation Allowances
in € million

	Fiscal year	
	2017	2016
Valuation allowances as of beginning of fiscal year	**(13)**	**(26)**
Reclassification discontinued operation	–	11
Derecognition of receivables	1	–
Change in valuation allowances recorded in the income statement in the current period	(1)	2
Changes to the group of consolidated companies and other changes	0	–
Valuation allowances as of fiscal year end	**(13)**	**(13)**

As of September 30, 2017, and 2016, there were no trade receivables past due but not impaired.

10 I Other Current Financial Assets

Other Current Financial Assets
in € million

	September 30,	
	2017	2016
Derivative financial instruments	2	2
Debit balances of trade accounts payable	9	6
Receivables from employees	1	2
Other	32	43
Other current financial assets	**44**	**53**

Among other things, the *Other* line item includes financial receivables not resulting from the sale of goods or services and other financial assets such as finance bills.

As of September 30, 2016, the *Other* item had included an amount of €20 million related to the sale of LEDVANCE. OSRAM had received this sum to cover its transaction costs should the deal fail to materialize for specified reasons. It was reclassified as cash and cash equivalents when the transaction was completed in fiscal year 2017 › Note 3 I Acquisitions, Disposals, and Discontinued Operations and › Note 16 I Other Current Financial Liabilities.

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Information on derivative financial instruments can be found in › Note 26 I Financial Instruments.

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11 I Inventories

Inventories
in € million

	September 30, 2017	2016
Raw materials and supplies	157	150
Work in progress	196	183
Finished goods and merchandise	316	323
Advances to suppliers	2	2
Advance payments received	(10)	(3)
Inventories	**662**	**655**

Cumulative valuation allowances rose by a total of €9 million to €123 million in fiscal year 2017 (previous year: decline of €24 million).

The cost of inventories sold during the fiscal year represents the major part of the cost of goods sold and services rendered.

12 I Other Current Assets

Other Current Assets
in € million

	September 30, 2017	2016
Miscellaneous tax receivables	66	174
Prepaid expenses	19	3
Other	27	15
Other current assets	**112**	**192**

Miscellaneous tax receivables included a value added tax (VAT) receivable of €105 million as of September 30, 2016 that was settled in fiscal year 2017; a related VAT liability for a mid double-digit million euro amount was recognized in the discontinued operation as of September 30, 2016.

As of September 30, 2017, *Prepaid expenses* included the current portion of the transaction costs related to the revolving credit facility amounting to €2 million (previous year: €2 million) and, in particular, advance payments for IT services.

The *Other* line item mainly consists of advances paid as well as services provided to customers the income for which is deferred over the term of the contract.

13 I Goodwill and Other Intangible Assets

Goodwill and Other Intangible Assets

in € million

	Gross carrying amount as of October 1, 2016	Translation differences	Additions through business combinations	Additions	Retirements	Reclassification of discontinued operation	Gross carrying amount as of September 30, 2017	Accumulated amortization and impairment	Net book value as of September 30, 2017	Amortization and impairment during fiscal year 2017
Goodwill	**294**	**(11)**	**75**	**–**	**–**	**–**	**358**	**(211)**	**148**	–
Capitalized software development costs	74	0	–	9	–	–	82	(82)	1	0
Other capitalized development costs	71	(1)	–	6	–	–	77	(53)	24	(6)
Patents, licenses, and other rights	455	(15)	45	7	(1)	–	490	(373)	118	(20)
Other intangible assets	**600**	**(15)**	**45**	**22**	**(1)**	**–**	**649**	**(507)**	**142**	**(26)**

	Gross carrying amount as of October 1, 2015	Translation differences	Additions through business combinations[1]	Additions[1]	Retirements[1]	Reclassification of discontinued operation	Gross carrying amount as of September 30, 2016	Accumulated amortization and impairment	Net book value as of September 30, 2016	Amortization and impairment during fiscal year 2016
Goodwill	**307**	**1**	**–**	**–**	**–**	**(14)**	**294**	**(217)**	**77**	–
Capitalized software development costs	110	0	–	0	0	(36)	74	(73)	1	(1)
Other capitalized development costs	64	0	–	11	0	(3)	71	(47)	24	(4)
Patents, licenses, and other rights	465	1	0	14	(4)	(21)	455	(366)	89	(24)
Other intangible assets	**638**	**1**	**0**	**25**	**(4)**	**(61)**	**600**	**(487)**	**113**	**(29)**

1) Excluding goodwill and other intangible assets classified as *Assets held for sale* in accordance with IFRS 5.

The *Goodwill* line item increased, in particular, as a result of additions resulting from the following business combinations: €40 million rise in the Specialty Lighting (SP) Business Unit attributable to the acquisition of the shares in Novità Technologies, Hendersonville, U.S.A. and a preliminary rise of €26 million in the Digital Lumens Operating Segment attributable to the acquisition of the shares in Digital Lumens, Inc., Boston, U.S.A., › Note 3 I Acquisitions, Disposals, and Discontinued Operations.

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The carrying amounts for *Goodwill* are allocated to the operating segments as follows:

Goodwill

in € million

	September 30,	
	2017	2016
Specialty Lighting	83	39
Digital Systems	36	38
Digital Lumens	26	–
Ligthing Solutions	3	–
Goodwill	**148**	**77**

The annual impairment test in both fiscal year 2017 and the comparative period was based on the current business plans at that time. The recoverable amount of the cash-generating units was determined on the basis of their fair value less costs of disposal (hierarchy level 3). The key assumptions used when impairment testing cash-generating units to which goodwill has been allocated are the average EBITDA margins in the detailed planning phase that are used as the basis for the business plans, the terminal value growth rates, and the discount rates.

The annual impairment tests in fiscal year 2017 assumed a long-term growth rate of 2.4% (previous year: 2.4%) and discount rates (after tax) between 7.4% and 8.2% (previous year: between 7.2% and 7.9%). As in the previous year, the impairment tests confirmed that none of the goodwill was impaired; in all cases, the recoverable amount of the unit exceeds the carrying amount by an amount that is at least in the double-digit million euro range. At Digital Systems, an increase in the discount rates (after tax) of more than 0.8 percentage points or, in the detailed planning phase, a fall in the EBITDA margin of more than 1.9 percentage points would result in impairment of its goodwill; at Lighting Solutions, an increase in the discount rates (after tax) of more than 0.5 percentage points or, in the detailed planning phase, a fall in the EBITDA margin of more than 0.7 percentage points would result in impairment of its goodwill.

As of September 30, 2017, *Other intangible assets* included rights arising from a reciprocal licensing agreement with Koninklijke Philips Electronics N.V., Eindhoven, Netherlands with a value of €17 million (previous year: €20 million). The rights under the licensing agreement had been recognized as of September 30, 2008, with an assumed useful life of 16 years. Intangible assets identified in connection with the acquisition of Novità and Digital Lumens were also added in fiscal year 2017 S Page 89 › Note 3 I Acquisitions, Disposals, and Discontinued Operations.

There were no significant obligations to purchase other intangible assets as of September 30, 2017, or 2016.

14 | Property, Plant, and Equipment

Property, Plant, and Equipment
in € million

	Gross carrying amount as of October 1, 2016	Translation differences	Additions through business combinations	Additions	Reclassifications	Retirement	Reclassification of discontinued operation	Gross carrying amount as of September 30, 2017	Accumulated amortization and impairment	Net book value as of September 30, 2017	Amortization and impairment during fiscal year 2017
Land and buildings	424	(7)	2	62	50	(9)	–	522	(217)	306	(18)
Technical machinery and equipment	2,130	(55)	8	157	113	(84)	–	2,270	(1,613)	657	(135)
Furniture and office equipment	532	(12)	1	40	33	(28)	–	567	(440)	127	(45)
Advances to suppliers and construction in progress	196	(12)	0	322	(196)	(1)	–	308	(2)	307	(1)
Property, plant, and equipment	**3,283**	**(86)**	**12**	**581**	**–**	**(122)**	**–**	**3,668**	**(2,272)**	**1,396**	**(198)**

	Gross carrying amount as of October 1, 2015	Translation differences[1]	Additions through business combinations[1]	Additions[1]	Reclassifications[1]	Retirement[1]	Reclassification of discontinued operation	Gross carrying amount as of September 30, 2016	Accumulated amortization and impairment	Net book value as of September 30, 2016	Amortization and impairment during fiscal year 2016
Land and buildings	648	3	0	6	17	(10)	(239)	424	(207)	217	(15)
Technical machinery and equipment	3,382	21	–	107	100	(84)	(1,397)	2,130	(1,585)	545	(122)
Furniture and office equipment	656	5	–	28	24	(18)	(162)	532	(429)	104	(43)
Advances to suppliers and construction in progress	139	0	–	213	(142)	(2)	(11)	196	(1)	195	(1)
Property, plant, and equipment	**4,824**	**28**	**0**	**354**	**–**	**(113)**	**(1,810)**	**3,283**	**(2,223)**	**1,060**	**(181)**

1) Excluding property, plant, and equipment classified as *Assets held for sale* in accordance with IFRS 5.

As of September 30, 2017, contractual obligations to purchase property, plant, and equipment amounted to €316 million (previous year: €216 million).

Government grants received in fiscal year 2017 for the purchase or production of property, plant, and equipment amounted to €0 million (previous year: €0 million). Further government grants awarded, in particular for LED and OLED research projects, amounted to €6 million in fiscal year 2017 (previous year: €7 million). These grants related to incurred and future costs and were recognized as a reduction in expenses within *Research and development expenses*. Real estate required for production was also made available to OSRAM by public authorities free of charge in fiscal years 2017 and 2016.

15 I Other Assets

Other Assets
in € million

	September 30,	
	2017	2016
Prepaid expenses	31	20
Deferred compensation assets	8	8
Chinese land use rights	6	1
Other	13	9
Other assets	**59**	**38**

As of September 30, 2017, *Prepaid expenses* included the noncurrent portion of the transaction costs related to the revolving credit facility amounting to €6 million (previous year: €7 million). This item also included, in particular, the overfunding of pension plans in the U.S.A. of €11 million (previous year: €0 million) and in Canada of €4 million (previous year: €3 million).

The *Other* line item mainly consists of advances paid as well as services provided to customers the income for which is deferred over the term of the contract.

B.6.6 Disclosures on the Statement of Financial Position (Liabilities and Equity)

16 I Other Current Financial Liabilities

Other Current Financial Liabilities
in € million

	September 30,	
	2017	2016
Derivative financial instruments	5	2
Credit balances on trade accounts receivable	5	11
Other	19	38
Other current financial liabilities	**29**	**50**

As of September 30, 2016, the *Other* item had included an amount of €20 million related to the sale of LEDVANCE. OSRAM had received this sum to cover its transaction costs should the deal fail to materialize for specified reasons. It was reclassified as cash and cash equivalents when the transaction was completed in fiscal year 2017 › Note 3 I Acquisitions, Disposals, and Discontinued Operations und › Note 10 I Other Current Financial Assets.

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Information on *Derivative financial instruments* can be found in › Note 26 I Financial Instruments.

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17 I Other Current Liabilities

Other Current Liabilities
in € million

	September 30, 2017	September 30, 2016
Payroll obligations and social security taxes	116	114
Employee-related accruals	100	92
Bonus obligations	27	29
Other taxes	21	26
Other	44	44
Other current liabilities	**309**	**305**

Employee-related accruals primarily include vacation pay, overtime, severance payment obligations in connection with personnel reduction or early retirement plans, and service anniversary awards. The personnel-related restructuring measures are mainly attributable to the ongoing projects throughout the Company aimed at improving processes and making structural adjustments. See also › Note 4 I Personnel-related Restructuring Expenses.

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18 I Debt

Composition of Debt
in € million

	September 30, 2017	September 30, 2016
Short-term (within 1 year)		
Loan from the European Investment Bank	8	8
Other loans from banks	8	12
Short-term debt and current maturities of long-term debt	**16**	**20**
Long-term (over 1 year)		
Loan from the European Investment Bank	184	42
Long-term debt	**184**	**42**
Debt	**200**	**62**

Change in Debt
in € million

	Fiscal year 2017	Fiscal year 2016
Debt as of beginning of fiscal year	**62**	**87**
Reclassification discontinued operation	–	(34)
Proceeds from issuance of long-term debt	150	–
Repayment of long-term debt	(8)	–
Net cash inflow/outflow from changes in short-term debt	(3)	9
Debt as of fiscal year end	**200**	**62**

In fiscal year 2015, OSRAM entered into a loan agreement with the European Investment Bank. A €50 million variable-rate tranche of this loan had been drawn down as of September 30, 2016. In fiscal year 2017, the amount of €150 million remaining under this loan agreement was drawn down as a second tranche with a fixed interest rate of 0.711% p.a. At the same time, €8 million was repaid as scheduled during the fiscal year, which meant the amount borrowed as of September 30, 2017 totaled €192 million (previous year: €50 million). The interest rate for the variable-rate tranche, which amounted to €42 million as of September 30, 2017, is based on EURIBOR plus a credit margin and stood at 0.211% p.a. as of September 30, 2017 (previous year: 0.238% p.a.). The loans are scheduled to be repaid in installments by the maturity date at the end of 2024. There were no undrawn credit lines under this loan agreement as of September 30, 2017 (previous year: €150 million). The clause in the loan agreement relating to the financial position of the OSRAM Licht Group (financial covenants), which reflects normal business practice and according to which the ratio of net debt to EBITDA may not exceed 2.5:1, was complied with in full.

In addition, OSRAM has access to a variable-rate revolving credit line of €950 million (previous year: €950 million), which may also be drawn down in U.S. dollars or, with the approval of the banks, in other currencies. The term of the loan facility has been extended until February 2022 for an amount of €886 million. The balance of €64 million still remains available until February 2020. The revolving credit facility had not been drawn down as of the end of the reporting period. The clause in the loan agreement relating to the financial position of the OSRAM Licht Group (financial covenants), which reflects normal business practice and according to which the ratio of net debt to EBITDA may not exceed 2.5:1, was complied with in full.

Other than the short-term portion of the loan from the European Investment Bank in an amount of €8 million (previous year: €8 million), the short-term loans from banks result from drawdowns on short-term credit lines, especially by OSRAM companies in countries that are not able to take part in Group financing because of national restrictions on capital transfers.

19 | Pension Plans and Similar Commitments

In the reporting period, OSRAM provided almost all of the Company's employees in Germany and many of the Company's employees outside Germany with defined benefit and defined contribution pension plans based on contractual arrangements and/or statutory requirements. OSRAM regularly reviews the design of its pension plans, which historically have been predominantly based on defined benefit obligations. The majority of OSRAM's pension obligations are funded with assets in segregated entities.

Unless stated otherwise, the following disclosures relate to the pension plans and similar commitments in the continuing operations of OSRAM.

Defined Benefit Plans

OSRAM's principal pension plans and similar commitments relate to Germany and the U.S.A.

Germany

In Germany, OSRAM provides pension benefits predominantly through the Beitragsorientierte OSRAM Altersversorgung ('BOA') defined benefit plan launched in fiscal year 2004, legacy defined benefit plans, and deferred compensation plans. The BOA is a defined benefit pension plan in which the benefits are predominantly based on contributions made by the Company and the returns earned on such contributions, subject to a minimum return guaranteed by the Company. The obligations under this plan are still affected by longevity, inflation adjustments and remuneration increases, but to a much lesser extent than in the case of the legacy defined benefit plans.

No further employee entitlements can be added to the majority of the legacy defined benefit plans. Nevertheless, these frozen plans still expose the Company to financial risks and demographic risks such as investment risk, interest rate risk, and longevity risk. OSRAM entered into a trust agreement with the Deutsche Treuinvest Stiftung, Frankfurt am Main, in November 2011 for all funded pension plans. The trustee administers the plan assets and is responsible for ensuring they are invested in line with the trust agreement with the Company. A deferred compensation plan is also offered to employees.

U.S.A.

The majority of the employees at OSRAM SYLVANIA INC., Wilmington, U.S.A., who joined the company before December 31, 2006, are members of two closed defined benefit pension plans. The benefits for most of the employees under these plans are largely linked to final salary on retirement, although the benefits for a small group of employees are based on fixed amounts. All these defined benefit plans expose the company to financial and demographic risks such as interest rate risk, risk from salary and wage increases, investment risk, and longevity risk. Benefits for salaried participants are frozen and therefore a remuneration increase risk with regard to these employees is eliminated. The plans are subject to the applicable legal and regulatory framework, which is determined by the U.S. Employee Retirement Income Security Act ('ERISA'). Based on this legislation, a funding valuation is determined yearly to ensure that the minimum funding level for funded defined benefit plans is achieved. The funding level must be at least 80% to avoid benefit restrictions.

The evaluation of the funding level is used as a basis for determining the statutory contributions to the plan assets. As the sponsoring employer, OSRAM SYLVANIA Inc. has set up an investment committee comprising members of the senior management of OSRAM SYLVANIA Inc. to make investment decisions.

The company provides other post-employment benefits in the form of two closed medical benefit plans (including a life insurance component). For one of these plans, the amount of the obligation depends on the expected cost trend, while the benefits in the other plan are based on fixed amounts.

Defined Contribution Plans and Government Plans

The defined contribution plans are organized such that the Company pays contributions to public or private entities based on statutory or contractual provisions or on a voluntary basis without assuming any obligation to provide further benefits to employees. In fiscal year 2017, contributions to defined contribution plans for the continuing operations amounted to €17 million (previous year: €21 million in respect of the Group as a whole), and to government plans €113 million (previous year: €128 million in respect of the Group as a whole). In both cases the contributions are recognized in profit or loss.

Actuarial Assumptions

The amount of the obligation arising from defined benefit plans is generally determined as of the end of the fiscal year on the basis of reports prepared by external, independent actuaries. The actuarial measurement of the defined benefit obligation (DBO) is based on demographic and financial assumptions. Significant assumptions include mortality rates, pension trends, and trends in healthcare costs. Here, the Company makes its best estimate bearing in mind the economic environment in the country in question and existing expectations.

Another significant assumption is the discount rate. The discount rates used are determined by reference to yields on high-quality fixed-income corporate bonds at the end of the reporting period. In countries where there is no deep market in such corporate bonds, market yields on government bonds are used.

Significant financial and demographic assumptions were as follows in the reporting period:

Key Assumptions for the Calculation of the DBO

	OSRAM	OSRAM (continuing operations)
	September 30, 2017	September 30, 2016
Discount rate	**3.01%**	**2.56%**
Germany	1.88%	1.20%
U.S.A.	3.77%	3.50%
Mortality tables		
Germany	Richttafeln Heubeck 2005G	Richttafeln Heubeck 2005G
U.S.A.	RP-2014 with Scale MP-2016 (10 years convergence)	RP-2014 with Scale MP-2016 (20 years convergence)

In the U.S.A., the Mortality Improvement Scale MP-2016 was applied. In a change from the previous year, the scale is being adapted to the long-term trend with a convergence period of ten years.

In Germany, a pension progression rate of 1.75% was applied for the legacy defined benefit plans as of September 30, 2017, and 2016. The expected inflation rate is factored into the pension progression rate and therefore also has an impact on the DBO. The discount rate is weighted using the amount of the obligation at fiscal year-end and including all pension plans and similar commitments.

The measurement assumptions determined at the beginning of the reporting period are used to determine the current service cost as well as the interest income and interest expenses in the fiscal year. Therefore, the interest income and interest expenses for the fiscal year are based on the discount rate as of the beginning of the current fiscal year multiplied by the fair value of the plan assets and the defined benefit obligation as of the start of the fiscal year, respectively. The fair value and thus the interest income on plan assets, the defined benefit obligation, and the interest expenses are adjusted for significant events in the reporting period, such as additional funding contributions, plan amendments, or business combinations and disposals. Expense components reported for the previous year are adjusted for those portions relating to the discontinued operation.

Sensitivity Analysis

The following sensitivity analysis shows the effects of a change in significant actuarial assumptions on the amount of the defined benefit obligation as of September 30, 2017.

Sensitivity Analysis

in € million

	Effect on DBO as of September 30, 2017, due to	
	50-basis-points increase	50-basis-points decrease
Discount rate	(99)	111
Rate of pension progression	35	(31)

A 10% decrease in mortality probability for each age would result in an increase in the DBO of €49 million.

Increases and decreases in the discount rate and the rate of pension progression do not have a symmetrical effect when measuring the DBO, primarily due to the compound interest effect arising when the net present value of the future benefits is determined. This includes the fact that a decrease or increase by more or less than 50 basis points as presented in the table above would not result in a completely linear effect on the DBO. Furthermore, if more than one of the assumptions are changed simultaneously, the cumulative impact is not necessarily the same as the total of the individual changes.

The weighted average duration of the DBO for defined benefit plans and similar commitments was 11.9 years (previous year: 13.1 years).

Funding Policy and Investment Strategy

The policy for funding defined benefit plans is an integral part of OSRAM's financial management, and also includes an ongoing analysis of the structure of its defined benefit liabilities. The investment strategy for plan assets is derived from the structure and characteristics of the liabilities and is based on asset-liability modeling studies at the individual plan level.

We intend to reduce the volatility of the proportion of commitments covered by plan assets through liability-driven investing (LDI).

Risk budgets are used as the basis for determining our investment strategy at the individual plan level, i.e., for the strategic asset allocation of key plan assets and the level of appropriate limits for interest rate and credit spread risk hedging.

The investment strategy, the hedging rules, and changes in the proportion of commitments covered by plan assets are regularly reviewed with the participation of external experts in the international asset management industry to permit an integral view of plan assets and defined benefit obligations. We review the asset allocation of each plan in light of the duration of the related defined benefit obligation and analyze trends and events that may affect asset values in order to initiate appropriate measures at a very early stage.

Our asset manager selection process is based on our quantitative and qualitative analysis. We continuously monitor the performance of each asset manager mandate and the risk it entails, both individually and in a more general portfolio context.

Our investment strategy to reduce risk, as part of an integrated risk management approach for assets and liabilities, is mainly based on investments in physical securities. Additionally, derivatives are used either to reduce the fluctuations in the value of plan assets or to reduce volatility in the proportion of commitments covered by plan assets. OTC derivatives are collateralized on a daily basis to mitigate counterparty risk.

Notes on the Items Presented in the Consolidated Financial Statements

The consolidated statement of financial position contains the following items related to pension plans and similar commitments as of September 30, 2017, and 2016. The funded status of these plans and the reconciliation of the funded status to the carrying amounts contained in the related statement of financial position items were as follows for fiscal years 2017 and 2016:

Commitments by Type and Financial Position

in € million

	September 30, 2017	2016
DBO for funded plans	(1,684)	(1,859)
Fair value of plan assets	1,675	1,794
Funded status of funded plans (funding ratio 99%; previous year 96%)	(9)	(65)
DBO for unfunded plans	(127)	(137)
Funded status	**(135)**	**(202)**
Pension plans	(60)	(120)
Similar commitments	(75)	(83)
Reconciliation to the financial position		
Liabilities for pension plans and similar commitments	150	206
Other assets	15	4

In fiscal year 2017, the pension plan in the U.S.A. reported a surplus for the first time; this surplus amounted to €11 million as of September 30, 2017. The pension plan surplus in Canada remains largely stable at €4 million (previous year: €3 million).

Gains and losses from the remeasurement of defined benefit plans reported in Other comprehensive income (loss) included the pension plan changes in the discontinued operation up to the time of deconsolidation in March 2017.

The following table shows the expenses recognized in connection with the pension plans and similar commitments presented in the consolidated statement of income and consolidated statement of comprehensive income:

Defined Benefit Cost

in € million

	Fiscal year	
	2017	2016
Current service cost	25	24
Past service cost/(income)	(3)	0
Settlement loss/(gain)	0	(6)
Net interest income	0	0
Net interest cost	5	12
Liability administration cost	1	1
Defined benefit cost recognized in consolidated statement of income	**28**	**31**
Germany	*20*	*15*
U.S.A.	*4*	*14*
Other countries	*3*	*3*
Return on plan assets excluding amounts included in net interest on the net defined benefit liability (asset)	31	(192)
Actuarial (gains) and losses arising from changes in demographic assumptions	15	(37)
Actuarial (gains) and losses arising from changes in financial assumptions	(107)	240
Actuarial (gains) and losses arising from experience adjustments	(6)	(10)
Remeasurements of the net defined benefit liability (asset) recognized in consolidated statement of other comprehensive income	**(67)**	**2**
Germany	*(37)*	*32*
U.S.A.	*(26)*	*(33)*
Other countries	*(4)*	*3*
Defined benefit cost	**(39)**	**33**

In addition to the amounts presented above, a sum of €12 million (previous year: €35 million) that arose from the remeasurement of pensions in the discontinued operation up to the date of the deconsolidation of LEDVANCE had a positive impact on other comprehensive income (loss).

The current service cost, past service cost, settlement gains and losses, and liability administration cost are allocated to the functional costs (*Cost of goods sold and services rendered, Research and development expenses, Marketing, selling, and general administrative expenses* line items) in line with the functional area of the respective profit and cost centers.

The actuarial losses from changes in demographic assumptions amounting to €15 million in fiscal year 2017 (previous year: gains of €37 million) resulted for the most part from the use of a shorter period of convergence with long-term mortality trends for mortality tables in the U.S.A. that had been updated in the previous year. According to initial estimates, the annual modification to the U.S. mortality table, which was published in late October 2017, would have resulted in a roughly 0.7% to 1% lower DBO.

Reconciliation for Defined Benefit Obligation (DBO) and Plan Assets

A detailed reconciliation for the changes in the defined benefit obligation for fiscal years 2017 and 2016 is provided in the following table:

Change in DBO

in € million

	Fiscal year	
	2017	2016
DBO at beginning of fiscal year	**1,996**	**1,790**
Current service cost	25	24
Past service cost/(income)	(3)	0
Settlements	0	(6)
Interest cost	50	64
Remeasurements:		
Actuarial (gains) and losses arising from changes in demographic assumptions	15	(37)
Actuarial (gains) and losses arising from changes in financial assumptions	(107)	240
Actuarial (gains) and losses arising from experience adjustments	(6)	(10)
Plan participants' contributions	6	6
Benefits paid	(107)	(131)
Transfer-in from the discontinued operation	–	53
Acquisitions	0	–
Divestments	0	(3)
Foreign currency translation effects	(59)	6
DBO at end of fiscal year	**1,810**	**1,996**
Germany	*692*	*766*
U.S.A.	*1,034*	*1,139*
Other countries	*84*	*92*
Active employees	406	469
Former employees with vested benefits	240	270
Retirees and surviving dependents	1,164	1,258

The pension payments in the previous year also included settlement amounts for current pensions in Germany.

A detailed reconciliation of the changes in the fair value of plan assets for fiscal years 2017 and 2016 is provided in the following table:

Change in Plan Assets

in € million

	Fiscal year	
	2017	2016
Fair value of plan assets at beginning of fiscal year	**1,794**	**1,445**
Interest income	45	52
Remeasurement:		
Return on plan assets excluding amounts included in net interest on the net defined benefit liability (asset)	(31)	192
Employer contributions	20	193
Plan participants' contributions	2	2
Benefits paid	(97)	(100)
Settlements	–	(28)
Transfer-in from the discontinued operation	–	36
Liability administration cost	(1)	(1)
Foreign currency translation effects	(56)	3
Fair value of plan assets at end of fiscal year	**1,675**	**1,794**
Germany	*662*	*709*
U.S.A.	*947*	*1,016*
Other countries	*66*	*69*

The employer contributions to the funded pension plans amounted to €20 million in fiscal year 2017. Of this amount, €13 million was attributable to the German pension plans and €4 million to the U.S. pension plans.

Composition of Plan Assets

in € million

	September 30,	
	2017	2016
Equity funds	188	282
Global equities	76	100
U.S. equities	41	85
European equities	14	1
Emerging markets equities	14	13
Other (mainly global equities ex U.S. equities)	43	84
Fixed income	1,364	1,357
Government bonds	309	351
Corporate bonds	1,055	1,006
Mixed funds	29	28
Commodities	6	3
Real estate funds	–	30
Cash and other assets	18	–
Derivatives	19	0
Plan assets that do have a quoted market price in an active market	**1,623**	**1,700**
Hedge funds	–	58
Cash and other assets	71	33
Derivatives	(19)	4
Plan assets that do not have a quoted market price in an active market	**52**	**94**
Fair value of plan assets at end of fiscal year	**1,675**	**1,794**

The completion of the sale of LEDVANCE eliminated a DBO of €380 million and plan assets of €332 million from the Group. Provisions for pension plans and similar commitments amounting to €47 million were removed from the statement of financial position upon deconsolidation. The gains and losses arising from the remeasurement of pension plans in the discontinued operation that had been recognized in equity up to the date of deconsolidation amounted to a net loss of €36 million.

20 I Provisions

Provisions
in € million

	Warranties	Order-related losses and risks	Other legal proceedings	Others	Total
Balance as of October 1, 2016	**58**	**19**	**8**	**32**	**116**
Additions	1	51	1	19	73
Usage	(6)	(53)	(1)	(9)	(70)
Reversals	(10)	(1)	0	(5)	(16)
Translation differences	(1)	0	0	(2)	(4)
Changes of the group of consolidated companies and other changes	8	–	–	0	7
Balance as of September 30, 2017	**49**	**15**	**8**	**35**	**108**
therein non-current	10	4	0	18	32

Warranties relate primarily to warranty obligations for products sold and services rendered.

OSRAM recognizes *Provisions for order-related losses and risks* for anticipated losses and risks on uncompleted construction and sales contracts.

The *Other legal proceedings* category includes provisions for certain legal disputes and legal costs. This category encompasses provisions for product liability proceedings, patent and trademark litigation, and other proceedings. For further information, see › Note 23 I Legal Proceedings. S Page 116

The *Others* item includes provisions for obligations arising from the sale of LEDVANCE amounting to €13 million and provisions for leasehold improvement reinstatement obligations of €3 million as of September 30, 2017 (previous year: €3 million).

21 I Other Liabilities

Other Liabilities
in € million

	September 30,	
	2017	2016
Employee-related liabilities	47	35
Deferred compensation plan	30	31
Other	35	31
Other liabilities	**111**	**97**

Employee-related liabilities contain, in particular, early retirement and termination benefit obligations.

The *Other* line item contains, among other things, deferred payments received under leases and other contracts.

22 I Other Financial Commitments and Contingent Liabilities

As of September 30, 2017, there were contingent liabilities of €39 million (previous year: €12 million) in connection with significant legal proceedings, in particular related to fire damage claims. In the case of liability claims, OSRAM is in principle covered by insurance, the nature and scope of which is set out in the terms and conditions of the respective insurance policies. The insured amount and extent of cover are adequate for the risk and are customary for the industry. However, whether and to what extent OSRAM is covered by insurance in individual cases depends on the circumstances of the case concerned. In addition, there is not sufficient clarity with regard to certain legal proceedings to determine the possible obligation and the amount of any such obligation. Information on litigation can be found in › Note 23 I Legal Proceedings. (S) Page 116

As of September 30, 2017, further undiscounted contingent liabilities mainly comprised guarantees entailing maximum future payments of €44 million (previous year: €17 million) for which OSRAM was potentially liable as of the reporting date. The guarantees mainly relate to the protection of benefits for LEDVANCE employees under pre-retirement part-time employment arrangements (where such benefits arise from restructuring programs at OSRAM) and a contractual obligation for guarantees from the sale of shares in a joint venture in the U.S.A. in fiscal year 2014.

In relation to Innoventure, a capital commitment to an investee for funding in the low single-digit million euro range has not yet been utilized.

Additional contingent liabilities have arisen from contractual obligations associated with the sale of LEDVANCE. The liability amount is limited to the sale price.

OSRAM was subject to the following future payment obligations under noncancelable operating leases as of September 30, 2017, and 2016:

Future Payment Obligations under Non-cancelable Operating Leases

in € million

	September 30,	
	2017	2016
Within one year	43	35
Between one and five years	116	97
After five years	50	63
Future payment obligations under non-cancelable operating leases	**210**	**195**

Most of the future payment obligations under noncancelable operating leases are in connection with buildings leased on a long-term basis. These are partly offset by future rental income under subleases of €11 million and contingent future rental income of €3 million. Total operating lease expenses in respect of third parties amounted to €58 million in fiscal year 2017 (previous year: €50 million). Of this amount, €2 million was attributable to contingent lease payments in fiscal year 2017 (previous year: €1 million).

23 I Legal Proceedings

Product Liability Cases

EBV Elektronik SAS v. OSRAM Opto Semiconductors GmbH

On January 20, 2016, OSRAM Opto Semiconductors GmbH (OS) was joined in the case pending before the commercial court in Nanterre, France, between EBV Elektronik SAS (EBV) and Société Provence D'Electronique et Cabelage (SPEC) by means of an action in warranty. SPEC is suing

EBV for damages relating to the supply of allegedly faulty OS LEDs in SPEC passenger information boards. EBV brought OS into the action in order to seek recourse from OS as the supplier of the allegedly defective products. In pretrial hearings, the commercial court in Nanterre declared itself competent to hear the case. OS and EBV appealed this decision before the appeal court in Versailles. The appeal was dismissed on March 30, 2017. EBV has lodged a review appeal of the appeal court's decision.

Other Legal Disputes

Professor E. Fred Schubert v. OSRAM GmbH et al

In July 2012, Professor E. Fred Schubert filed suit against OSRAM GmbH, OSRAM Opto Semiconductors GmbH, OSRAM Opto Semiconductors, Inc., and OSRAM SYLVANIA Inc. in the United States District Court for the District of Delaware for infringement of a U.S. patent. The lawsuit claims that the manufacture and distribution of certain OSRAM LEDs infringe the patent in question. Following various procedural stages before the U.S. patent and trademark office and an appeal court, the parties concluded a settlement agreement in March 2017. The legal dispute has thus ended. This settlement agreement did not have any additional negative impact on earnings.

Unless otherwise stated, in accordance with IAS 37.92 no further information will be disclosed in respect of the above matters as OSRAM believes that such disclosure could seriously prejudice the outcome of the respective litigation.

In addition to the investigations and legal disputes described above, OSRAM was named as a defendant in various other legal disputes and proceedings in connection with its business activities, including fire investigations in the U.S.A. and legal disputes relating to patents. Some of the legal actions include claims for indeterminate amounts of damages and/or punitive damages claims. In light of the number of legal disputes and other proceedings in which OSRAM is involved, it cannot be ruled out that some of these proceedings could result in rulings against OSRAM that may have a considerable effect on OSRAM's net assets, financial position, and results of operations.

24 | Equity

Common Stock

The common stock of OSRAM Licht AG amounted to €104,689,400 as of both reporting dates and is divided into 104,689,400 no-par-value ordinary registered shares. This equates to a notional interest in the common stock of €1.00 per share. Each share grants shareholders one voting right and entitles them to receive dividends.

The following table shows the changes in the number of treasury shares and in the number of shares outstanding:

Change in Treasury Stock and Shares Outstanding

shares

	Treasury stock		Shares outstanding	
	Fiscal year		Fiscal year	
	2017	2016	2017	2016
As of the beginning of fiscal year	**5,324,735**	**41,262**	**99,364,665**	**104,648,138**
Share buyback	3,089,436	5,358,131	(3,089,436)	(5,358,131)
Issue to resignees of the transaction bonus	(63,407)	(3,828)	63,407	3,828
Issue in connection with the employee share purchase program (Base Share Program)	(61,125)	(70,830)	61,125	70,830
As of the end of fiscal year	**8,289,639**	**5,324,735**	**96,399,761**	**99,364,665**

Authorized Capital

The Managing Board of OSRAM Licht AG is authorized to increase the Company's common stock, subject to the approval of the Supervisory Board, by up to €52,344,700 by issuing up to 52,344,700 new registered no-par-value shares for cash and/or non-cash contributions on one or more occasions in the period until February 28, 2018. In specific circumstances, the Managing Board may, subject to the consent of the Supervisory Board, disapply the preemptive rights of shareholders in full or in part.

Contingent Capital

The Annual General Meeting on June 14, 2013 passed a resolution approving a contingent increase in the common stock by up to €10,207,216, comprising up to 10,207,216 no-par-value registered shares (Contingent Capital 2013). This contingent capital increase is linked to the authorization of the Managing Board of OSRAM Licht AG to issue, with the approval of the Supervisory Board, bearer or registered convertible bonds or bonds with warrants ('bonds') in an aggregate principal amount of up to €300,000,000 on one or more occasions until February 28, 2018, and to grant the holders conversion or option rights to up to 10,207,216 new ordinary shares in the Company, as defined in more detail in the terms and conditions of the bonds. These terms and conditions may also provide for a conversion or option obligation as well as an issuer put option for delivery of shares.

Additional Paid-in Capital

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The change in additional paid-in capital in fiscal years 2017 and 2016 was mainly the result of share-based payment transactions › Note 28 | Share-based Payment.

Retained Earnings

Retained earnings includes the undistributed net income generated by the OSRAM Licht Group in the past. This item also includes actuarial gains and losses on pension plans and similar commitments.

Treasury Shares

The Extraordinary General Meeting held on June 14, 2013 passed a resolution authorizing the Managing Board of OSRAM Licht AG to acquire in the period up to February 28, 2018, for any purpose to the extent permitted by law and in accordance with the provisions specified in the authorizing resolution, treasury shares equating to up to a total of 10% of the lower of the capital stock in existence at the time authorization comes into effect and the capital stock in existence each time that this authorization is exercised.

The Annual General Meeting held on February 14, 2017 revoked this authorization dating from June 14, 2013 and, in compliance with section 71(1) no. 8 of the *Aktiengesetz* (AktG—German Stock Corporation Act) and in accordance with standard business practice, passed a new resolution authorizing the Managing Board to acquire (including by using equity derivatives) in the period up to February 13, 2022, for any purpose to the extent permitted by law and in accordance with the provisions specified in the authorizing resolution, treasury shares equating to up to a total of 10% of the lower of the capital stock in existence at the time authorization comes into effect and the capital stock in existence each time that this authorization is exercised.

Appropriation of Profits

In accordance with the AktG, the appropriation of profits is based on the unappropriated profit reported in the single-entity financial statements of OSRAM Licht AG prepared in accordance with German GAAP.

In the second quarter of fiscal year 2017, a dividend of €97 million was distributed from the unappropriated profit of OSRAM Licht AG for fiscal year 2016 in accordance with the resolution adopted at the Annual General Meeting on February 14, 2017. This corresponds to a dividend of €1.00 per eligible ordinary share. For fiscal year 2017, the Managing Board and Supervisory Board are proposing to distribute a dividend of €1.11 per share, which amounts to a total of approximately €107 million, from the unappropriated profit of OSRAM Licht AG. Payment of this dividend is subject to approval by the Annual General Meeting on February 20, 2018.

B.6.7 Other Disclosures

25 I Additional Disclosures on Capital Management

Capital management supports the OSRAM Licht Group in attaining its financial goals. In addition to ensuring the solvency of the Group and the individual companies and reducing financial risk, the main focus continues to be on minimizing the cost of capital and safeguarding the Group's financial stability and flexibility.

The capital structure (ratio of equity to total assets) increased from around 52% as of the end of fiscal year 2016 to approximately 58% as of the end of fiscal year 2017.

To assess our capital structure, we use net debt/net liquidity divided by EBITDA. In addition, the ratio of adjusted net debt/net liquidity to EBITDA is determined. The calculation of these indicators is described in section › A.2.6 Reconciliation of Key Performance Indicators in the combined management report. Page 33

Capital Structure Data

in € million

	September 30,	
	2017	2016
EBITDA OSRAM (continuing operations)	621	621
Net liquidity	411	396
Net liquidity in relation to EBITDA	**0.7**	**0.6**
Adjusted net liquidity	261	190
Adjusted net liquidity in relation to EBITDA	**0.4**	**0.3**

The capital management tools generally available to the Managing Board of OSRAM Licht AG are equity-related measures, borrowing, and share repurchases. Additional information on authorizations granted to the Managing Board of OSRAM Licht AG to implement equity-related measures and share repurchases can be found in › Note 24 I Equity. Existing credit lines are described in › Note 18 I Debt. Page 117
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The OSRAM Licht Group does not have any corporate credit ratings from rating agencies.

26 I Financial Instruments

Carrying Amounts and Fair Values of Financial Assets and Liabilities

in € million

	Category according to IAS 39	Fair value hierachy[1]	September 30, 2017		September 30, 2016	
			Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and cash equivalents[2]	n.a.	n.a.	609	609	457	457
Available-for-sale financial assets (non-current)	AfS	n.a.	1	–	0	–
Available-for-sale financial assets[3]	AfS	Level 1	2	2	1	1
Trade receivables	LaR	n.a.	634	634	580	580
Other financial assets						
Derivatives not designated in a hedge accounting relationship	FAHfT	Level 2	2	2	2	2
Derivatives in connection with cash flow hedges	n.a.	Level 2	0	0	0	0
Other financial assets	LaR	n.a.	55	55	54	54
Assets held for sale	LaR	n.a.	1	1	334	334
Financial liabilities						
Debt						
Loans from banks	FLaC	n.a.	200	200	62	62
Trade payables	FLaC	n.a.	752	752	601	601
Other financial liabilities						
Derivatives not designated in a hedge accounting relationship	FLHfT	Level 2	4	4	2	2
Derivatives in connection with cash flow hedges	n.a.	Level 2	0	0	–	–
Other financial liabilities	FLaC	n.a.	35	35	50	50
Liabilities associated with assets held for sale	FLaC	n.a.	0	0	298	298
Liabilities associated with assets held for sale	FLHfT	Level 2	–	–	1	1

1) Only relevant for financial instruments carried at fair value. All other financial instruments are carried at cost or amortized cost.
2) Cash and cash equivalents consists primarily of deposits at banks with an investment grade rating. The item includes money market instruments of €63 million (previous year: €35 million) as well as cash (predominantly denominated in euros or U.S. dollars) in checking accounts and fixed-term deposits with an original term of between one day (overnight deposits) and three months. To a small extent, it also includes checks and cash on hand.
3) The current portion of the OSRAM Licht Group's available-for-sale financial assets mainly comprises fund shares.

The aggregated carrying amounts by IAS 39 category are as follows:

Aggregated Carrying Amounts

in € million

	Category according to IAS 39	Carrying amount September 30, 2017	Carrying amount September 30, 2016
Loans and receivables	LaR	690	969
Financial assets held for trading	FAHfT	2	2
Available-for-sale financial assets	AfS	3	1
Financial liabilities measured at amortized cost	FLaC	986	1,011
Financial liabilities held for trading	FLHfT	4	3

Determination of Fair Values of Financial Instruments Carried at Cost and Amortized Cost in the Statement of Financial Position

Because of their short maturities, the fair values of cash and cash equivalents, trade receivables and trade payables with a remaining term of up to twelve months, and of other current financial assets and liabilities correspond approximately to their carrying amounts. OSRAM measures receivables on the basis of different parameters, such as interest rates, specific country risk factors, or the individual credit quality of the customer. On the basis of this measurement, OSRAM recognizes valuation allowances on the above receivables. The carrying amounts of these receivables, net of allowances, are approximately the same as their fair values.

The fair values of loans from banks and other noncurrent financial liabilities are determined by discounting future cash flows using rates currently available for debt of similar terms and remaining maturities. The fair values of the above obligations corresponded approximately to their carrying amounts because of their short-term nature or the use of market interest rates for the noncurrent obligations.

Determination of Fair Values of Financial Instruments Carried at Fair Value in the Statement of Financial Position

Hierarchy Level 1 for Determining Fair Value

OSRAM derives the fair values of available-for-sale financial assets from quoted market prices in an active market.

Hierarchy Level 2 for Determining Fair Value

The fair values of derivative financial instruments are determined on the basis of inputs that are observable either directly or indirectly. The exact determination depends on the nature of the derivative. The fair value of forward exchange contracts is based on forward exchange rates. The fair value of commodity derivatives (swaps, forwards) is based on forward commodity prices.

Hierarchy Level 3 for Determining Fair Value

The fair values are determined using inputs that are not observable in the market and require management assumptions, including projected cash flows.

The fair values of each type of derivative financial instrument recognized as a financial asset or financial liability were as follows:

Fair Values of Derivative Financial Instruments

in € million

	September 30, 2017		September 30, 2016	
	Assets	Liabilities	Assets	Liabilities
Foreign currency exchange contracts	1	5	2	2
Commodity derivatives	1	0	0	0
Fair Values	**2**	**5**	**2**	**2**

Net gains/losses on financial instruments, excluding foreign currency gains and losses, were as follows:

Net Gains/Losses on Financial Instruments

in € million

	Fiscal year	
	2017	2016
Loans and receivables	1	(3)
Financial assets and financial liabilities held for trading	(2)	2

Net gains/losses on loans and receivables contain changes in valuation allowances, gains or losses on derecognition, as well as recoveries of loans and receivables previously written off.

Net gains/losses on financial assets and financial liabilities held for trading consist of changes in the fair values of derivative financial instruments for which hedge accounting was not applied.

Foreign currency gains and losses on the realization and measurement of monetary assets and liabilities led to a net gain of €5 million in the fiscal year under review (previous year: net loss of €8 million).

The interest income from financial assets measured at amortized cost included in the line items *Interest income* and *Loss discontinued operation, net of tax*, in the consolidated statement of income amounted to €8 million (previous year: €3 million); this income comprised, among other things, interest income from short-term deposits with banks.

The interest expenses on financial liabilities measured at amortized cost included in the line items *Interest expenses* and *Loss discontinued operation, net of tax*, in the consolidated statement of income amounted to €8 million (previous year: €12 million); these interest expenses largely related to debt.

In connection with cash flow hedges, realized net hedging gains before tax amounting to €2 million (previous year: net hedging losses of €16 million) were reclassified from *Other components of equity* in the consolidated statement of financial position to the consolidated statement of income; the net hedging gains or losses recognized in other comprehensive income (loss) amounted to a net gain of €1 million (previous year: net gain of €7 million). The realized net hedging loss before tax in fiscal year 2016 arose mainly as a result of the derivatives entered into to hedge against the currency risk associated with the sale price for the disposal of the investment in FELCO.

27 | Financial Risk Management

Market Risks

The market risks relevant to OSRAM include currency risk, interest rate risk, and commodity price risk. OSRAM seeks to manage and control these risks primarily through its regular operating activities and uses derivative financial instruments when deemed appropriate from a risk perspective.

The amounts determined on the basis of sensitivity analyses in the sections below represent hypothetical data, which may differ significantly from the actual impact on the consolidated statement of income or the consolidated statement of comprehensive income, especially because of simplified assumptions and as a result of unpredictable developments in financial markets.

Currency Risk

Transaction Risk and Currency Risk Management

OSRAM's international operations expose the Company to currency risks in the ordinary course of business, particularly from U.S. dollars, Malaysian ringgits, and Chinese renminbi.

The currency risk is partly mitigated by purchasing goods, commodities, and services in the respective currencies as well as by performing production activities and other services along the value chain in the local markets. Operating company financing or investing activities are preferably conducted in the relevant functional currency or on a hedged basis. Operating companies are prohibited from borrowing or investing in foreign currencies on a speculative basis.

Within the foreign currency management system used throughout the Group, every OSRAM company must record and measure its transaction-related currency risks, and hedge its net foreign currency exposure within a band ranging from 75% as a minimum up to 100% for a planning horizon of at least three months. The main currency risks arising in connection with financial items in the statement of financial position and in connection with executory contracts and planned transactions are in respect of the U.S. dollar.

USD Exposure

Nominal amounts in USD million

	September 30, 2017	2016
Gross exposure before hedging	(200)	319
Net exposure after hedging	**(43)**	**53**

OSRAM uses derivative financial instruments, especially forward exchange contracts, to hedge against exchange rate fluctuations. Certain derivative financial instruments that are used to hedge forecast transactions and executory contracts and that meet the requirements for hedge accounting are accounted for as cash flow hedges. As of September 30, 2017, and 2016, the residual maturities of the derivatives accounted for as cash flow hedges were a maximum of five or three months.

OSRAM uses a sensitivity analysis to determine the hypothetical impact of fluctuations in the exchange rate between the U.S. dollar and the euro on income (loss) before income taxes and on equity. The analysis includes foreign currency exposures denominated in U.S. dollars of companies whose functional currency is the euro. The foreign currency exposures comprise in particular cash and cash equivalents as well as receivables and payables. In addition, the analysis covers euro foreign currency exposures of companies whose functional currency is the U.S. dollar. All currency derivatives outstanding as of the end of the reporting period are also remeasured by applying the hypothetical exchange rate. This analysis does not take into account the offsetting effects of unrecognized executory contracts and forecast transactions. According to the sensitivity analysis, a 10% increase or decrease in the value of the euro against the U.S. dollar as of September 30, 2017, and 2016 would result in the following pre-tax effects:

Sensitivity Analysis USD/EUR

in € million

	Change of exchange rate as of September 30, 2017		Change of exchange rate as of September 30, 2016	
	by +10%	by –10%	by +10%	by –10%
Net income (loss) before income taxes OSRAM Licht Group (total)	(2)	2	(1)	1
Other income (loss) before income taxes	3	(3)	2	(3)
Total effect on equity	**1**	**(1)**	**1**	**(1)**

Effects of Currency Translation

The effects of exchange rate fluctuations on the translation of the financial statements of subsidiaries outside the eurozone into the reporting currency are recognized in equity in OSRAM's consolidated financial statements. To consider the effects of foreign currency translation in risk management, there is an assumption that investments in foreign-based operations are permanent and that reinvestment of profits is continuous.

Interest Rate Risk

OSRAM may be exposed to interest rate risk, especially as a result of rising finance costs due to an increase in interest rates; conversely, falling interest rates lead to lower interest income from deposits. The purpose of interest rate risk management is to monitor and manage interest rate risk.

Variable-rate financial instruments are subject to cash flow risk, which is reflected in uncertainty about the level of future interest payments. This risk also affects fixed-income financial instruments as soon as they are reinvested or refinanced. These risks are quantified using cash flow sensitivity analysis. This kind of analysis includes all cash and cash equivalents as well as debt as of the end of the reporting period. To simulate the potential impact of changes in the market interest rate, a parallel shift in the yield curve of + 100 and – 25 basis points is assumed for all currencies. The table below shows the annual effect on interest payments and net interest on the basis of the exposure as of the end of the reporting period.

Sensitivity Analysis Interest Risk

in € million

	September 30, 2017	September 30, 2016
Cash and cash equivalents	609	457
Debt[1]	(200)	(62)
Exposure	**409**	**395**
Annual effect of an interest increase by 100 basis points	4	4
Annual effect of an interest decrease by 25 basis points	(1)	(1)

1) Debt is included in the nominal amount relevant for calculating the interest. Since the transaction costs have been included when applying the effective interest method in accordance with IAS 39, the carrying amount may be lower than the nominal amount.

OSRAM does not believe there is any relevant current exposure to interest rate risk (defined as the risk of changes in fair value) because the primary interest-bearing financial instruments held by OSRAM are measured at amortized cost. As of the end of the reporting period, there were no interest rate derivatives measured at fair value.

Commodity Price Risk

Commodity price risks arise from fluctuation in the price of the commodities that OSRAM uses to manufacture products and that it hedges by means of derivative financial instruments and in other ways. This is particularly the case for gold and copper.

Each OSRAM company is responsible for recording, measuring, monitoring, reporting, and hedging its risks arising from forecast and pending commodity purchase transactions (commodity price risk exposure). Under the mandatory guidelines, the companies must hedge these risks within a narrow band from 75% to 100% of their risk exposure. The risk exposure is derived from pending and forecast procurement transactions to cover the commodity demand in the product business for the current and subsequent quarter.

The aggregated commodity price risk is hedged primarily using commodity derivatives (swaps and forwards), which are measured at fair value through profit or loss. Commodity derivatives are not included in hedge accounting.

OSRAM uses a sensitivity analysis to estimate the effects on net income and equity of hypothetical changes in the fair values of the commodity derivatives. This analysis does not take into account the offsetting effects of procurement transactions that have not yet been recognized. According to the sensitivity analysis, a 10% increase in the forward price of gold as of September 30, 2017 would lead to an increase of €1 million in income (loss) before income taxes (previous year: €1 million). A 10% decrease in the forward price of gold would lead to a fall in income (loss) before income taxes by the same amount.

Liquidity Risk

Liquidity risk relates to the possibility that OSRAM may not be able to meet its existing and future financial obligations. To monitor and manage liquidity risk, OSRAM uses cash forecasts and effectively manages its cash and net working capital.

As of September 30, 2017, the liquidity reserve in the form of cash and cash equivalents amounted to €609 million (previous year: €457 million). OSRAM also had at its disposal unused lines of credit totaling €950 million as of September 30, 2017 (previous year: €1.1 billion).

The following table shows all contractually fixed payments for settlement, repayments, and interest resulting from recognized financial liabilities as of September 30, 2017, including expected net cash outflows from derivative financial liabilities. The amounts disclosed are undiscounted net cash outflows for the next fiscal years, based on the earliest date on which OSRAM could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on the terms and conditions as of September 30, 2017.

Settlement, Repayments, and Interest

in € million

	September 30,		
	2018	2019 to 2022	2023 and thereafter
Non-derivative financial liabilities			
Loans from banks	17	131	56
Trade payables	752	–	–
Other financial liabilities	25	10	–
Derivative financial liabilities	5	–	–
Total financial liabilities	**798**	**141**	**56**

Credit Risk

Credit risk arises when a customer or other counterparty of a financial instrument is unable to meet its payment obligations or if the assets used as collateral decline in value. OSRAM is exposed to credit risk especially in relation to receivables from its business operations. In terms of financing activities, bank deposits and cash equivalents, e.g., money market instruments, and derivatives with positive fair values are exposed to credit risk.

The maximum exposure to credit risk of financial assets, without taking account of any collateral, is represented by their carrying amount.

Effective monitoring and management of credit risk is a core competency of risk management. It includes setting credit limits, performing credit checks, or using ratings. Customer ratings and individual customer limits are based on generally accepted rating methodologies, with the input consisting of information obtained from external rating agencies, data service providers, and OSRAM's previous customer default experience. Credit risk is recorded and monitored on an ongoing basis. Receivables amounting to €12 million were collateralized as of September 30, 2017 (previous year: €11 million), primarily by means of guarantees.

In relation to credit risk in financing activities, OSRAM aims to have a broadly based business volume in order to reduce credit risk and excessive dependence on individual institutions. The banks with which OSRAM enters into finance transactions are selected and regularly reviewed according to various criteria, in particular credit quality considerations.

As of September 30, 2017, and 2016, there were no significant concentrations of credit risk.

As of September 30, 2017, there were no indications that any payment defaults would materialize in respect of the trade receivables, other receivables, and other loans and receivables within the line item *Other financial assets* that were neither past due nor impaired.

28 | Share-based Payment

OSRAM grants a range of share-based payment components. Since fiscal year 2013, OSRAM has offered its own share-based payment programs to employees and members of the Managing Board. These programs provide for settlement using equity instruments.

Share-based Payment Programs of OSRAM Licht AG

Stock Awards

The Company grants stock awards to senior managers of domestic and foreign subsidiaries (OSRAM Stock Awards) as a form of share-based payment using its own performance-based OSRAM Stock Awards program. The stock awards are settled with equity instruments, i.e., shares in OSRAM Licht AG.

The allocation of stock awards is linked to Company-related performance criteria, i.e., targets. To measure the degree to which these targets are attained, a lower limit of 0% and an upper limit of 200% are applied. The target amount of the stock awards is linked to the average earnings per share (basic EPS) for the past three fiscal years. This target amount is adjusted on the basis of target achievement.

The stock awards granted in fiscal year 2017 were recognized at the XETRA closing price for OSRAM Licht shares on November 10, 2016 (grant date), less the present value of the dividends expected during the four-year waiting or lock-up period. The fair value on the grant date was €44.21 (previous year: €33.34). The number of stock awards granted is calculated by dividing the cash value by this amount. In fiscal year 2017, 171,339 stock awards (previous year: 183,062 stock awards) were granted to the beneficiaries. The fair value of these entitlements granted to senior managers of the domestic and foreign companies amounted to €8 million as of the grant date (previous year: €6 million).

The remuneration expense related to the stock awards is recognized over a four-year vesting period, which encompasses the four-year lock-up period. Upon expiration of the lock-up period, the beneficiary receives shares in OSRAM Licht AG without having to make a payment. Generally, all stock awards are forfeited if the beneficiary's employment terminates during the lock-up period. During the lock-up period, the beneficiaries are not entitled to dividends. Stock awards may not be sold, transferred, pledged, or otherwise encumbered during the lock-up period. The Company decides afresh each fiscal year whether to grant stock awards. The Managing Board decides on the number of stock awards for senior managers of the domestic and foreign subsidiaries.

In accordance with the program terms and conditions, stock awards to employees are settled by means of a cash payment when a subsidiary leaves the OSRAM Licht Group. In fiscal year 2016, 94,689 awards intended as equity-settled arrangements were converted into cash-settled awards in the discontinued operation. The liabilities of €5 million recognized in connection with the program were eliminated from the OSRAM Licht Group upon deconsolidation of the discontinued operation.

In connection with equity-settled stock awards to senior managers, a pre-tax expense for share-based payments of €4 million (previous year: €3 million) was recognized in fiscal year 2017. The pre-tax expense in fiscal year 2017 for stock awards that are to be settled in cash amounted to €1 million.

As in the previous year, agreements were also entered into with the Managing Board of OSRAM Licht AG in the reporting period, providing for an entitlement to receive awards of OSRAM Licht shares. The awards are linked to the same Company-based performance criteria, and the defined target attainment requirement is identical. These stock awards are also subject to a lock-up period of around four years and grant an entitlement to OSRAM Licht shares, which the beneficiary will receive upon expiration of the lock-up period. Starting with stock awards granted for fiscal year 2014, the value of the shares to be transferred is capped at 250% of the relevant target amount. For the members of the Managing Board of OSRAM Licht AG, the remuneration expense related to the stock awards is generally recognized over a five-year vesting period, which encompasses the four-year lock-up period. The system of Managing Board remuneration and the awards granted in the period under review are explained in detail in the remuneration report.

In fiscal year 2017, 40,993 stock awards were granted to members of the Managing Board of OSRAM Licht AG (previous year: 56,365 stock awards). As of the grant date of November 10, 2016, the fair value of one stock award amounted to €38.55 (previous year: €28.96). In fiscal year 2017, this value was calculated using an option model, which applies a reduction taking into account the maximum variable share-based remuneration amount (cap) when the awarded OSRAM Licht shares are received. This reduction in value results in a deviation from the monetary value of a stock award used to calculate the number of shares in accordance with the employment contract. As of the grant date, the fair value of these entitlements amounted to €2 million (previous year: €2 million).

In fiscal year 2017, an expense from share-based payments of €1 million was recognized in connection with stock awards granted to members of the Managing Board of OSRAM Licht AG (previous year: income of €1 million).

Transaction Bonus

In connection with the spin-off and listing on the stock exchange, a transaction bonus was granted by Siemens AG to the members of the Managing Board of OSRAM Licht AG (as well as other executives). A total of 198,104 stock awards were granted to the Managing Board and other beneficiaries in this way. The program terms and conditions specified that the OSRAM Licht shares would be transferred in July 2017, four years after the listing. Transfer prior to this date could be requested in four equal annual tranches; in this case, the shares were also subject to a lock-up period of four years from the date of the listing, during which they could not be sold or otherwise disposed of. The average fair value on the grant date was €36.97. The fair value of these stock awards was €7 million as of the grant date.

Up to the transfer date, 158,868 stock awards had vested and 39,236 had been forfeited (September 30, 2016: 162,696 stock awards vested and 35,408 forfeited). When the program was exercised on July 5, 2017, 50% of the shares to be transferred were paid out in cash at their current market value of €4 million.

In fiscal year 2017, this program resulted in expenses (before tax) for the Company of €0 million (previous year: €0 million).

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For additional information on the purchase of treasury shares and on the transfer, see › Note 24 | Equity.

Base Share Program

In fiscal year 2017, employees of the domestic OSRAM companies could again acquire Company shares with a value of up to €720 with a discount of €360. When calculating the number of OSRAM Licht shares to be granted, the volume-weighted average price of OSRAM Licht shares in XETRA trading on the Frankfurt Stock Exchange during the four consecutive trading days starting upon expiration of the acceptance period was used as a basis. The shares are subject to a lock-up period of six months from expiration of the acceptance period, during which they cannot be sold or otherwise disposed of. The fair value under the Base Share Program corresponds to the tax-privileged allowance paid by OSRAM. In fiscal year 2017, this program resulted in expenses (before tax) for the participating companies of €1 million (previous year: €1 million).

29 | Personnel Costs

Personnel Costs

in € million

	Fiscal year	
	2017	2016
Wages and salaries	(1,049)	(1,442)
Statutory social welfare contributions and expenses for optional support	(171)	(237)
Expenses relating to pension plans and employee benefits	(55)	(69)
Personnel costs	**(1,275)**	**(1,748)**

The personnel costs for fiscal year 2017 relate to the continuing operations. The personnel expenses for the prior-year period relate to the entire OSRAM Licht Group because the general lighting lamps business was reclassified as a discontinued operation during the course of fiscal year 2016.

The number of employees is measured in terms of full-time equivalents (FTEs). The figures for fiscal year 2017 are an average for the year; the comparative figures indicate the number of FTEs as of the end of fiscal year 2016. The employees were assigned to the following functional areas:

Employees by Function

in FTE

	Fiscal year	September 30,
	2017	2016
Production and service	19,683	18,705
Selling	2,498	2,348
Administration and general services	1,267	1,214
Research and development	2,485	2,372
Employees	**25,934**	**24,640**

30 | Earnings per Share

Earnings per Share

in € million, unless otherwise stated

		Fiscal year	
		2017	2016
Net income		224	398
Less: portion attributable to non-controlling interests		3	1
Net income attributable to shareholders of OSRAM Licht AG		**220**	**397**
Weighted average shares outstanding - basic	in thousands	97,243	103,232
Effect of dilutive potential equity instruments	in thousands	431	424
Weighted average shares outstanding - diluted	in thousands	**97,675**	**103,656**
Basic earnings per share	in €	2.27	3.84
Diluted earnings per share	in €	2.26	3.83
Basic earnings per share OSRAM (continuing operations)	in €	2.79	5.14
Diluted earnings per share OSRAM (continuing operations)	in €	2.78	5.12
Basic earnings per share OSRAM (discontinued operation)	in €	(0.53)	(1.30)
Diluted earnings per share OSRAM (discontinued operation)	in €	(0.52)	(1.29)

New tranches were issued under the existing programs for granting performance-based stock awards to the Managing Board of OSRAM Licht AG and senior managers in the OSRAM Licht Group (OSRAM Stock Awards) in fiscal years 2017 and 2016. As of September 30, 2017, there were no outstanding awards that were not included in the calculation of diluted earnings per share because their inclusion would not have had a dilutive effect.

Earnings per share related to the discontinued operation is calculated using the weighted average of the number of shares outstanding shown above.

In the second quarter of fiscal year 2017, a dividend of €97 million was distributed from the unappropriated profit of OSRAM Licht AG for fiscal year 2016 in accordance with the resolution adopted at the Annual General Meeting in February 2017. This corresponds to a dividend of €1.00 per dividend-bearing share.

31 | Segment Information

The OSRAM Licht Group is managed centrally by the Managing Board of OSRAM Licht AG in its function as chief operating decision maker ('CODM'). The Managing Board is responsible for the operating activities of the OSRAM Licht Group. The following information is intended to show how it monitors the reportable segments.

OSRAM has three reportable segments: Opto Semiconductors (OS), Specialty Lighting (SP), and Lighting Solutions & Systems (LSS).

The segment disclosures for the prior period have been restated for comparative purposes.

Description of Reportable Segments

Opto Semiconductors

The Opto Semiconductors Segment manufactures optoelectronic semiconductors. The product portfolio includes LEDs, optical sensors, infrared LEDs, and high-power laser diodes for visible and infrared light. The products are used in the automotive industry as well as in communication products and consumer goods.

Specialty Lighting

The Specialty Lighting Segment develops and produces lamps and lighting systems for the automotive sector, studio, stage and TV applications, projection systems, as well as special lamps for industrial and medical applications. In addition, it produces lamps for disinfecting liquids, surfaces, and gases with UV light.

Lighting Solutions & Systems

The Digital Systems (DS) Business Unit develops, produces, and markets LED light engines (a combination of an LED module and the related electronic control gear), electronic ballasts for LED modules and traditional lamps, and light management systems.

The Lighting Solutions (LS) Business Unit comprises OSRAM's luminaires and solutions business. This business includes luminaires for professional applications such as street lighting or architectural lighting, which are mainly sold as part of large projects, as well as (to a much lesser extent) luminaires for private applications such as table lamps and flashlights. In addition, LS offers lighting solutions and associated light management systems that are used in internal and external architectural lighting, and in event lighting. Installation and maintenance services for the LS product portfolio are covered by the services unit.

The acquisition of U.S. software specialist Digital Lumens (DL) was completed in September 2017. The new business develops and markets industrial applications for the Internet of Things. Due to their similar business activities and economic characteristics, the DS and LS Business Units plus the Digital Lumens operating segment are grouped in a single reporting segment.

Reconciliation to the Consolidated Financial Statements

The *Reconciliation to Consolidated Financial Statements* line item contains business activities and items that are not directly related or allocated to OSRAM's reportable segments.

Corporate Items and Pensions

Corporate items includes certain business activities and special topics that are not directly attributable to the segments because the Managing Board of OSRAM Licht AG does not consider them to be indicative of the segments' performance. These include costs for Group management and for central research and innovation topics. The *Pensions* item includes those pension-related income and expenses at OSRAM that are not allocated to the segments.

In fiscal year 2017, the EBITDA column of the *Corporate items and pensions* line item included €–89 million (previous year: €–80 million) relating to *Corporate items* and €–7 million (previous year: €–5 million) relating to *Pensions*. The most significant influence on *Corporate items* in fiscal year 2017 was general administrative expenses amounting to a total of €69 million. A notable component of these expenses was the cost of the governance function amounting to €46 million, including personnel costs and relevant materials. *Corporate items* also comprises basic research expenditure, including for the resulting patents, totaling €18 million and costs of €8 million for 'innoventures,' i.e., units focused on pursuing new, innovative business ideas. In addition, special items of €–1 million (previous year: €–10 million) were reported under *Corporate items*.

Eliminations, Corporate Treasury, and Other Reconciling Items

Eliminations, corporate treasury, and other reconciling items comprises the consolidation of transactions between the segments, certain reconciliation and reclassification items, and the operations of OSRAM's Corporate Treasury.

Segment Performance Measures

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The accounting policies for the segment information are generally the same as those described in Note 2 I Summary of Significant Accounting Policies. Corporate overheads and certain other items not directly attributable to segments are allocated to the segments.

From fiscal year 2016 onward, the costs of Group headquarters will generally be allocated according to the source of the costs. The costs of the governance function, i.e., functions clearly associated with corporate governance, are no longer allocated to the operating segments. Users only bear costs incurred centrally in proportion to their use of the corresponding services provided by Group headquarters. The only exceptions from this principle are certain services (e.g., accounting services) where the effort required to determine a ‘cost driver’ would be unreasonable. These services will continue to be allocated using an adequate formula. The treatment of certain other regular business items will remain unchanged.

Segment EBITDA

The Managing Board of OSRAM Licht AG is responsible for assessing the performance of the segments. The chief operating decision maker, the Managing Board, has specified that earnings before net financial income or expense, income taxes, and depreciation and amortization (‘EBITDA’) is to be used as the performance measure for the reporting period. EBITDA is an indicator based on operating performance.

Similarly, key decisions on pension-related issues are taken centrally. Therefore, EBITDA primarily includes current service cost only and no plan administration costs or financing effects arising from legacy plans that have been closed. Pension plan curtailments are regarded as a partial payback reimbursement of past service cost, which affects segment profit or loss.

Moreover, income taxes are not a component of EBITDA since income tax is only imposed on legal entities, which typically do not correspond to the structure of the segments.

Reconciliation to the Consolidated Financial Statements

Reconciliation EBITDA to Income (Loss) before Income Taxes

in € million

	Fiscal year	
	2017	2016
EBITDA	**621**	**621**
Depreciation	(198)	(181)
Amortization	(26)	(29)
Interest income	7	2
Interest expenses	(12)	(17)
Other financial income (expenses), net	(1)	(2)
Income (loss) from investments accounted for using the equity method, net	(2)	306
Income before income taxes OSRAM (continuing operations)	**389**	**701**

Reconciliation Total Segment Net Capital Employed to Total Assets

in € million

	September 30,	
	2017	2016
Total segment net capital employed	**1,928**	**1,518**
Reconciliation to consolidated financial statements		
Net capital employed corporate items and pensions	(126)	(129)
Net capital employed Treasury[1)]	617	466
Other reconciling items		
Tax related assets	349	436
Liabilities and provisions	1,319	1,168
Pension plans and similar commitments	150	206
Assets held for sale in discontinued operation (LEDVANCE)	–	1,136
Total assets	**4,238**	**4,801**

1) OSRAM Treasury does not have net capital employed in the same way as an operating segment, but it is determined here in the same way as for operating segments; the assets consist primarily of cash and cash equivalents.

Income (Loss) from Investments Accounted for Using the Equity Method, Net

in € million

	Fiscal year	
	2017	2016
Segments		
Opto Semiconductors	–	–
Specialty Lighting	–	0
Lighting Solutions & Systems	(2)	0
Reconciliation to consolidated financial statements		
Corporate items and pensions	–	306
Income (loss) from investments accounted for using the equity method, net	**(2)**	**306**

Revenue by Regions

in € million

	By location of customer		By location of company	
	Fiscal year		Fiscal year	
	2017	2016	2017	2016
EMEA	1,553	1,457	1,636	1,578
APAC	1,445	1,228	1,381	1,146
Americas	1,129	1,100	1,111	1,061
OSRAM (continuing operations)	**4,128**	**3,785**	**4,128**	**3,785**
thereof Germany	664	589	1,137	1,054
thereof foreign countries	3,463	3,196	2,990	2,731
therein U.S.A.	880	890	981	929
therein China (including Hong Kong) and Taiwan	837	712	1,163	924

The EMEA region comprises Europe, Russia, the Middle East, and Africa. The Americas region includes the U.S.A., Canada, Mexico, and South America. The APAC region comprises Asia, Australia, and the Pacific.

Non-current Assets by Regions

in € million

	September 30, 2017	September 30, 2016
EMEA	794	705
APAC	633	401
Americas	259	145
OSRAM (continuing operations)	**1,686**	**1,250**
thereof Germany	630	566
thereof foreign countries	1,056	684
therein Malaysia	458	246
therein U.S.A.	250	136
therein China (including Hong Kong) and Taiwan	171	144

Noncurrent assets consist of property, plant, and equipment, goodwill, and other intangible assets.

32 | Related Party Disclosures

The OSRAM Licht Group has business relations with associates and joint ventures.

Transactions with Associates and Joint Ventures

OSRAM's business activities included transactions with associates and joint ventures, in particular in respect of the operating business. These are summarized below:

Transactions with Associates and Joint Ventures

in € million

	Sales of goods and services and other income		Purchases of goods and services and other expense	
	Fiscal year		Fiscal year	
	2017	2016	2017	2016
Associates and joint ventures	–	5	–	1

OSRAM's receivables from and payables to associates and joint ventures were as follows:

Receivables from and Payables to Associates and Joint Ventures

in € million

	Receivables		Liabilities	
	September 30,		September 30,	
	2017	2016	2017	2016
Associates and joint ventures	–	0	–	–

OSRAM regularly reviews, in the normal course of business, loans and receivables associated with joint ventures and associates. This review did not lead to any valuation allowances being recognized or reversed in the reporting period. All receivables from and payables to related parties are settled regularly.

As of September 30, 2017, and 2016, accumulated valuation allowances on loans and receivables amounted to €0 million.

Transactions with Related Individuals

Individuals classified as related parties comprise the members of the Managing Board and the members of the Supervisory Board of OSRAM Licht AG.

In fiscal year 2017, the members of the Managing Board received cash remuneration of €6 million (previous year: €5 million). The fair value of the share-based remuneration as of the grant date of November 10, 2016 was €2 million (previous year: €2 million). Contributions to the BOA for the members of the Managing Board in fiscal year 2017 amounted to €1 million (previous year: €2 million, including an additional contribution of €1 million for a member who had left the Managing Board).

The remuneration and benefits granted to the members of the Managing Board totaled €9 million in fiscal year 2017 and €13 million (including the termination agreement with Dr. Klaus Patzak, who stepped down as a member of the Managing Board with effect from June 30, 2016) in fiscal year 2016.

Equity-settled share-based payments under OSRAM programs gave rise to an expense of €1 million in fiscal year 2017 (previous year: income of €1 million). For additional information, see › Note 28 | Share-based Payment. S Page 127

In connection with the spin-off and listing, a transaction bonus was granted by Siemens AG to the former members of the Managing Board of OSRAM Licht AG. This bonus led to an expense for share-based payments of €0 million (before tax) in both fiscal year 2017 and fiscal year 2016. In July 2017, half of the bonus was settled by the transfer of shares and half was settled in cash.

Former members of the Managing Board of OSRAM Licht AG and former managing directors of OSRAM GmbH and their surviving dependents received aggregate remuneration within the meaning of section 314(1) no. 6 b of the HGB amounting to €1 million in fiscal year 2017 (previous year: €1 million). The defined benefit obligation for all pension commitments to former members of the Managing Board of OSRAM Licht AG and former managing directors of OSRAM GmbH and their surviving dependents amounted to a total of €14 million as of September 30, 2017 (previous year: €14 million). For further information, see › Note 19 | Pension Plans and Similar Commitments. S Page 106

Remuneration granted to members of the Supervisory Boards of OSRAM Licht AG and OSRAM GmbH in fiscal year 2017 comprised base remuneration as well as additional remuneration for committee activities; it totaled €1 million, including attendance fees (previous year: €1 million).

The Company did not provide loans or advances to members of the Managing Board or Supervisory Board during the reporting period.

OSRAM has directors’ and officers’ liability insurance for the members of OSRAM’s Managing Board and Supervisory Board and certain other employees in the OSRAM Licht Group. The insurance covers the personal liability of the insured in the event of a financial loss for which these governing body members or employees are held liable in the course of performing their duties. The members of the Managing Board are also covered by the criminal liability insurance that OSRAM has taken out for its employees and governing body members. The insurance covers any lawyers’ fees or court costs arising in connection with their defense in criminal or administrative offense proceedings.

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Details of the remuneration of individual members of the Managing Board and Supervisory Board are provided in the › C.4.2 Remuneration Report, which is a component of the combined management report. The remuneration report can be found in the Takeover-related Disclosures, Remuneration Report, and Corporate Governance Declaration section of the combined management report.

As in the previous year, no other major transactions took place between the Company and other members of the Managing Board or Supervisory Board.

Willi Sattler and Hubert Roßkopf both resigned with effect from the end of March 2, 2017. Irene Weininger and Alexander Müller were appointed as members of the Supervisory Board by way of an order of the Munich local court dated March 28, 2017 and received on April 1/March 31, 2017. Some members of the Supervisory Board of OSRAM Licht AG and of the Supervisory Board of OSRAM GmbH hold, or in the fiscal year under review held, positions of significant responsibility in other companies. OSRAM has relationships with almost all of these companies in the ordinary course of business. Products are bought and sold, and services procured and provided, on an arm’s length basis.

33 | Audit Fees and Services

The following table shows the fees for professional services provided by the Company’s auditor Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, (EY GmbH) and its network for fiscal years 2017 and 2016:

Auditor’s Fees

in € million

	Fiscal year			
	2017			2016
		Carve-Out project Lamps	Total	Total
Audit services	3	1	4	6
thereof EY GmbH	2	1	2	3
Audit-related services	0	1	1	4
thereof EY GmbH	0	1	1	4
Tax advisory services	–	–	–	–
thereof EY GmbH	–	–	–	–
Other services	–	0	0	1
thereof EY GmbH	–	0	0	1
Total auditor's fees	**4**	**1**	**5**	**10**
thereof EY GmbH	2	1	3	7

The total fees comprise the expenses incurred by OSRAM Licht AG and all consolidated subsidiaries. The decrease in total fees is mainly attributable to services provided in the previous year as part of the project to separate the general lighting lamps business, which was initiated in fiscal year 2015.

Audit fees in connection with the separation of the general lighting lamps business relate to auditing services for the first two quarters of fiscal year 2017.

The fees reported under *Audit-related services* mainly relate to auditing and other assurance services in connection with the auditors' review of the final statement of financial position for the lamps business.

34 I Corporate Governance

As of September 26, 2017, the Managing Board and the Supervisory Board of OSRAM Licht AG issued the declaration required under section 161 of the AktG and made it publicly accessible on the Company's website under Our Company/Our Management/Corporate Governance/German Corporate Governance Code: » http://www.osram-group.com/Declaration-of-Conformity-DCGK-2017.pdf.

35 I Events After the Reporting Date

No transactions of particular significance or with material effects on the net assets, financial position, or results of operations have occurred since the reporting date of September 30, 2017.

36 I List of Equity Investments of the OSRAM Licht Group in Accordance with Section 313 of the HGB

List of Equity Investments of OSRAM Licht AG

Status as of September 30, 2017

	Capital Share in %
Equity investments of OSRAM Licht AG, Munich	
OSRAM Beteiligungen GmbH, Munich/Germany	100.00
OSRAM GmbH, Munich/Germany	100.00
Subsidiaries of OSRAM GmbH, Munich	
Germany (as of September 30, 2017: 9 companies)	
Heramo Immobilien GmbH & Co. KG, Grünwald	100.00
OSRAM Beteiligungsverwaltung GmbH, Grünwald	100.00
Fluxunit GmbH, Munich	100.00
OSRAM Innovation Hub GmbH, Munich	100.00
OSRAM Opto Semiconductors GmbH, Regensburg	100.00
OSRAM OLED GmbH, Regensburg	100.00
Siteco Beleuchtungstechnik GmbH, Traunreut	100.00
Siteco Lighting GmbH, Traunreut	100.00
OSRAM Lighting Services GmbH, Wipperfürth	100.00
EMEA (excluding Germany) (as of September 30, 2017: 28 companies)	
OSRAM Sales EOOD, Trud/Bulgaria	100.00
OSRAM EOOD, Trud/Bulgaria	100.00
OSRAM A/S, Taastrup/Denmark	100.00
OSRAM Oy, Vantaa/Finland	100.00
OSRAM Lighting S.A.S.U., Molsheim/France	100.00
ADB STAGELIGHT S.A.S.U., Saint-Quentin/France	100.00
OSRAM Ltd., Slough, Berkshire/Great Britain	100.00
LUX365 Limited, Bolton/Great Britain	100.00
Yekta Setareh Atllas Co. (P.J.S.), Teheran/Iran	100.00
Clay Paky S.p.A., Seriate/Italy	100.00
OSRAM S.p.A. - Società Riunite OSRAM Edison Clerici, Milan/Italy	100.00
OSRAM d.o.o., Zagreb/Croatia	100.00
OSRAM Benelux B.V., Capelle aan den Ijssel/Netherlands	100.00
OSRAM AS, Oslo/Norway	100.00
Siteco Lighting Austria GmbH, Vienna/Austria	100.00
Siteco Österreich GmbH, Vienna/Austria	100.00
OSRAM Sp. z o.o., Warsaw/Poland	100.00
OSRAM, Lda, Carnaxide/Portugal	100.00
OSRAM Romania S.R.L., Bucharest/Romania	100.00
OOO OSRAM, Moscow/Russia	100.00
OSRAM AB, Stockholm/Sweden	100.00
OSRAM Lighting AG, Winterthur/Switzerland	100.00
OSRAM, a.s., Nové Zámky/Slovakia	100.00
OSRAM Lighting S.L., Madrid/Spain	100.00
OSRAM Lighting (Pty) Ltd., Midrand/South Africa	100.00
OSRAM Ceská republika s.r.o., Bruntál/Czech Republic	100.00
OSRAM Teknolojileri Ticaret Anonim Sirketi, Istanbul/Turkey	100.00
OSRAM Lighting Middle East FZE, Dubai/United Arab Emirates	100.00

List of Equity Investments of OSRAM Licht AG

Status as of September 30, 2017

	Capital Share in %
Americas (as of September 30, 2017: 16 companies)	
OSRAM S.A., Buenos Aires/Argentina	100.00
OSRAM Comercio de Solucoes de Iluminacao Ltda., Barueri/Brazil	100.00
OSRAM Chile Ltda., Santiago de Chile/Chile	100.00
OSRAM Ltd., Vancouver/Canada	100.00
OSRAM de Colombia Iluminaciones S.A., Bogotá/Colombia	100.00
OSRAM de México S.A. de C.V., Naucalpan/Mexico	100.00
OSRAM S.A. de C.V., Naucalpan/Mexico	100.00
OSRAM Servicios Administrativos, S.A. de C.V., Naucalpan/Mexico	100.00
Digital Lumens Inc., Wilmington, Delaware/USA	100.00
OSRAM Opto Semiconductors, Inc., Wilmington, Delaware/USA	100.00
OSRAM SYLVANIA INC., Wilmington, Delaware/USA	100.00
Logistics & Fulfillment LLC, Wilmington, Delaware/USA	100.00
Sylvania Lighting Services Corp., Wilmington, Delaware/USA	100.00
Traxon Supply USA Inc., Nyack, New York/USA	100.00
LedEngin, Inc., San Jose, California/USA	100.00
Novita Technologies, Inc., Nashville, Tennessee/USA	100.00
APAC (as of September 30, 2017: 24 companies)	
OSRAM Pty. Ltd., Sydney/Australia	100.00
OSRAM Guangzhou Lighting Technology Limited, Panyu/China	100.00
OSRAM China Lighting Ltd., Foshan/China	90.00
OSRAM Asia Pacific Management Company Ltd., Foshan/China	100.00
OSRAM Kunshan Display Optic Co., Ltd., Kunshan/China	100.00
OSRAM Kunshan Specialty Lighting Co., Ltd., Kunshan/China	100.00
OSRAM Opto Semiconductors (China) Co., Ltd., Wuxi New District/China	100.00
OSRAM Opto Semiconductors Trading (Wuxi) Co., Ltd., Wuxi/China	100.00
OSRAM Asia Pacific Ltd., Wanchai/Hong Kong	100.00
OSRAM Lighting Control Systems Ltd., Wanchai/Hong Kong	100.00
OSRAM Opto Semiconductors Asia Ltd., Wanchai/Hong Kong	100.00
Traxon Technologies Ltd., Shatin/Hong Kong	100.00
OSRAM Lighting Private Limited, Gurgaon/India	100.00
P.T. OSRAM Indonesia, Jakarta/Indonesia	100.00
OSRAM Ltd., Yokohama/Japan	100.00
OSRAM Opto Semiconductors (Japan) Ltd., Yokohama/Japan	100.00
OSRAM (Malaysia) Sdn. Bhd., Kuala Lumpur/Malaysia	100.00
OSRAM Opto Semiconductors (Malaysia) Sdn Bhd, Penang/Malaysia	100.00
OSRAM Lighting Pte. Ltd., Singapore/Singapore	100.00
OSRAM Co., Ltd., Seoul/South Korea	100.00
OSRAM Opto Semiconductors Korea Ltd., Seoul/South Korea	100.00
OSRAM Taiwan Company Ltd., Taipei/Taiwan	100.00
OSRAM Opto Semiconductors (Taiwan) Ltd., Taipei/Taiwan	100.00
OSRAM (Thailand) Co., Ltd., Bangkok/Thailand	100.00

List of Equity Investments of OSRAM Licht AG

Status as of September 30, 2017

	Capital Share in %
Associates and joint ventures of OSRAM GmbH, Munich/Germany	
Germany (as of September 30, 2017: 1 company)	
agrilution GmbH, Munich	15.00
EMEA (excluding Germany) (as of September 30, 2017: 3 companies)	
EMGO N.V., Lommel/Belgium	50.00
LAMP NOOR (P.J.S.) Co., Teheran/Iran	20.00 [1]
Tvilight B.V., Groningen/Netherlands	47.50
Americas (as of September 30, 2017: 2 companies)	
LeddarTech Inc., Québec/Canada	29.05
CVL Componentes de Vidro Ltda., Caçapava - SP/Brazil	50.00
APAC (as of September 30, 2017: 1 company)	
Siteco Prosperity Lighting (Lang Fang) Co., Ltd., Lang Fang/China	50.00
Other equity investments of OSRAM GmbH, Munich/Germany	
Germany (as of September 30, 2017: 2 companies)	
Unternehmertum VC Fonds II GmbH & Co. KG, Garching near Munich	7.74
GSB - Sonderabfall-Entsorgung Bayern GmbH, Baar-Ebenhausen	0.07
EMEA (excluding Germany) (as of September 30, 2017: 3 companies)	
KNX Association cvba, Brussels-Diegem/Belgium	2.96
Design LED Products Limited, Edinburgh/Great Britain	6.03
Voltimum S.A., Meyrin/Switzerland	13.71
Americas (as of September 30, 2017: 1 company)	
Luminaerospace LLC, Denver, Colorado/USA	1.92

1) Not accounted for using the equity method due to immateriality.

37 | Supervisory Board and Managing Board

Supervisory Board of OSRAM Licht AG

Members in Office as of September 30, 2017	Member Since	Supervisory Board and Comparable Appointments
Peter Bauer Chairman Born June 22, 1960 Independent management consultant	July 5, 2013	Member of the Supervisory Board of Infineon Technologies AG Member of the Supervisory Board of Bragi GmbH Intragroup: Chairman of the Supervisory Board of OSRAM GmbH
Dr. Christine Bortenlänger Born November 17, 1966 Chief Executive of Deutsches Aktieninstitut e.V.	August 27, 2013	Member of the Supervisory Board of Covestro AG Member of the Supervisory Board of Covestro Deutschland AG Member of the Supervisory Board of SGL Carbon SE Member of the Supervisory Board of TÜV Süd AG Intragroup: Member of the Supervisory Board of OSRAM GmbH
Dr. Werner Brandt Born January 3, 1954 Independent management consultant, former member of the Executive Board of SAP SE	August 7, 2014	Chairman of the Supervisory Board of ProSiebenSat.1 SE Member of the Supervisory Board of Deutsche Lufthansa AG Chairman of the Supervisory Board of Innogy SE Chairman of the Supervisory Board of RWE AG Intragroup: Member of the Supervisory Board of OSRAM GmbH
Dr. Roland Busch Deputy Chairman Born November 22, 1964 Member of the Managing Board of Siemens AG and Chief Technology Officer	November 27, 2013	Member of the Board of Directors of Atos S.A., France Member of the Board of Siemens Ltd., Saudi Arabia Chairman of the Board of Supervisors of Siemens W.L.L Qatar Intragroup: Deputy Chairman of the Supervisory Board of OSRAM GmbH
Prof. Dr. Lothar Frey Born June 7, 1958 Professor at the University of Erlangen-Nuremberg (Chair of Electron Devices) and Head of the Fraunhofer Institute for Integrated Systems and Device Technology (IISB)	August 27, 2013	Member of the Supervisory Board of the Innovations for High Performance Microelectronics/Leibniz-Institut für Innovative Mikroelektronik 'IHP GmbH' Intragroup: Member of the Supervisory Board of OSRAM GmbH
Michael Knuth Deputy Chairman Born April 29, 1957 Trade Union Secretary for IG Metall Bavaria	September 3, 2013	Member of the Supervisory Board of FTE Group Holding GmbH Intragroup: Deputy Chairman of the Supervisory Board of OSRAM GmbH
Frank (Franciscus) H. Lakerveld Born December 5, 1947 Member of the Supervisory Board of Sonepar S.A.	August 27, 2013	Member of the Supervisory Board of Aliaxis S.A., Belgium Member of the Supervisory Board of Technische Unie, the Netherlands Member of the Supervisory Board of Sonepar S.A., France Chairman of the Supervisory Board of Sonepar Nederland B.V., the Netherlands Chairman of the Supervisory Board of OTRA N.V., the Netherlands Chairman of the Advisory Board of Sonepar Deutschland GmbH Chairman of the Supervisory Board of Sonepar US Holding, Inc., U.S.A. Intragroup: Member of the Supervisory Board of OSRAM GmbH
Alexander Müller Born November 26, 1969 Member of the Works Council of OSRAM GmbH, Herbrechtingen plant	March 31, 2017	Intragroup: Member of the Supervisory Board of OSRAM GmbH
Ulrike Salb Born July 6, 1967 Head of Procurement at OSRAM Licht AG	March 1, 2016	
Irene Schulz Born April 10, 1964 Executive Member of the Managing Board of IG Metall	September 3, 2013	Member of the Supervisory Board of AUDI AG Intragroup: Member of the Supervisory Board of OSRAM GmbH
Irene Weininger Born November 15, 1974 Chairwoman of the Works Council of OSRAM Opto Semiconductors GmbH	April 1, 2017	
Thomas Wetzel Born May 18, 1964 Member of the Works Council of OSRAM GmbH, Berlin plant	September 3, 2013	Intragroup: Member of the Supervisory Board of OSRAM GmbH

Former Members in Fiscal Year 2017	Member from/to	Supervisory Board and Comparable Appointments
Hubert Roßkopf Born October 13, 1968 Member of the Works Council of LEDVANCE GmbH, Eichstätt plant	September 3, 2013 to March 2, 2017	Member of the Supervisory Board of LEDVANCE GmbH
Willi Sattler Born September 11, 1959 Member of the Works Council of LEDVANCE GmbH, Augsburg plant Chairman of the General Works Council of LEDVANCE GmbH	September 3, 2013 to March 2, 2017	Member of the Supervisory Board of LEDVANCE GmbH Deputy Chairman of the Supervisory Board of LEDVANCE GmbH

Committees of the Supervisory Board of OSRAM Licht AG

	Meetings in Fiscal Year 2017	Tasks	Members as of September 30, 2017
Executive Committee	November 2, November 8, and December 1, 2016; May 2, July 26, and September 19, 2017	Performs the duties of a nomination and remuneration committee. Makes preparations for the appointment of members of the Managing Board, the determination of Managing Board members' remuneration, and the full Supervisory Board's review of the remuneration system for the Managing Board; deals with Managing Board contracts. Decides whether to approve transactions with members of the Managing Board and people or companies closely associated with them (related parties), and coordinates the work of the Supervisory Board.	Peter Bauer Dr. Roland Busch Michael Knuth Willi Sattler (until March 2, 2017) Thomas Wetzel (since April 3, 2017)
Audit Committee	November 8 and December 1, 2016; February 6, May 2, and July 26, 2017	Oversees the accounting process. Prepares the Supervisory Board's proposal to the Annual General Meeting for the appointment of the auditor and makes a corresponding recommendation to the Supervisory Board. Discusses the quarterly financial results and half-year financial statements prepared by the Managing Board. Prepares the Supervisory Board's review of the single-entity and consolidated financial statements and of the proposal for the appropriation of profits. Deals with ensuring the integrity of the Company's accounting and risk management; monitors the effectiveness of the internal control system, the risk management system, and the internal audit system. Issues the audit engagement to the auditor and monitors the audit of the financial statements. Monitors compliance with legislation, official regulations, and company policies; examines sustainability matters.	Dr. Werner Brandt Dr. Christine Bortenlänger Dr. Roland Busch Michael Knuth (until April 3, 2017) Alexander Müller (since April 3, 2017) Hubert Roßkopf (until March 2, 2017) Ulrike Salb (since April 3, 2017) Irene Schulz
Nomination Committee	March 23, 2017	Recommends candidates to the shareholder representatives on the Supervisory Board for proposal as shareholder representatives to be elected by the Annual General Meeting.	Peter Bauer Dr. Werner Brandt Dr. Roland Busch
Strategy and Technology Committee	November 7, 2016; March 23 and July 25, 2017	Oversees and advises the Managing Board on questions of corporate strategy and regarding the development and safeguarding of technologies that are relevant for the Company.	Peter Bauer Professor Dr. Lothar Frey Michael Knuth (since April 3, 2017) Frank H. Lakerveld Hubert Roßkopf (until March 2, 2017) Willi Sattler (until March 2, 2017) Irene Weininger (since April 3, 2017) Thomas Wetzel
Mediation Committee	none	Makes proposals to the Supervisory Board for the appointment or dismissal of members of the Managing Board if the required majority is not reached during the first ballot.	Peter Bauer Dr. Roland Busch Michael Knuth Willi Sattler (until March 2, 2017) Thomas Wetzel (since April 3, 2017)

Managing Board of OSRAM Licht AG

Members in Office as of September 30, 2017	Date of Initial Appointment	End of Term of Appointment	Responsibilities	Occupation/Other Mandates
Dr. Olaf Berlien Chairman of the Managing Board (CEO) Born September 20, 1962	January 1, 2015	December 31, 2022	Opto Semiconductors (OS), Specialty Lighting (SP), Digital Systems (DS), Lighting Solutions (LS) Business Units; Regions; Corporate Strategy; Corporate Sales; Corporate Communications & Brand Strategy; Corporate Office; General Counsel; Human Resources	Chairman of the Managing Board of OSRAM Licht AG Member of the Supervisory Board of Droege International Group AG Intragroup: Chairman of the Supervisory Board of OSRAM Opto Semiconductors GmbH
Ingo Bank Chief Financial Officer (CFO) Born June 9, 1968	September 1, 2016	August 31, 2019	Corporate Controlling; Corporate Finance & Treasury; Taxes & Subsidiaries; Investor Relations; Information Technology; Corporate Audit; Mergers & Acquisitions; Post Closing Management; financial organization of the business units	Member of the Managing Board of OSRAM Licht AG
Dr. Stefan Kampmann Chief Technology Officer (CTO) Born June 28, 1963	July 1, 2016	June 30, 2019	Corporate Innovation; Innoventures (Fluxunit GmbH); Procurement & Supply Chain (incl. Logistics); Quality Management & Operations; Environment, Health & Safety; R&D organizations of the business units	Member of the Managing Board of OSRAM Licht AG Intragroup: Member of the Supervisory Board of OSRAM Opto Semiconductors GmbH

Munich, November 16, 2017

OSRAM Licht AG
The Managing Board

Dr. Olaf Berlien
Chairman of the Managing Board
(CEO)

Ingo Bank
Chief Financial Officer
(CFO)

Dr. Stefan Kampmann
Chief Technology Officer
(CTO)

Statements and Further Information

C

C.1

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which has been combined with the management report for OSRAM Licht AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Munich, November 16, 2017

OSRAM Licht AG
The Managing Board

Dr. Olaf Berlien
Chairman of the Managing Board
(CEO)

Ingo Bank
Chief Financial Officer
(CFO)

Dr. Stefan Kampmann
Chief Technology Officer
(CTO)

C.2

Independent Auditor's Report

Translation of the German Independent Auditor's Report concerning the audit of the consolidated financial statements and group management report prepared in German.

To OSRAM Licht AG

Report on the audit of the consolidated financial statements and the group management report

Opinions

We have audited the consolidated financial statements of OSRAM Licht AG, Munich, and its subsidiaries (the Group), which comprise the consolidated statements of income and comprehensive income for the fiscal year from October 1, 2016 to September 30, 2017, the consolidated statements of financial position as of September 30, 2017, the consolidated statements of cash flows and changes in equity for the fiscal year from October 1, 2016 to September 30, 2017, and the notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the group management report, which is combined with the management report of OSRAM Licht AG, for the fiscal year from October 1, 2016 to September 30, 2017.

In our opinion, based on the findings of our audit,

— the accompanying consolidated financial statements comply, in all material respects, with IFRS as adopted by the EU and the supplementary provisions of German law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] and give a true and fair view of the net assets and financial position of the Group as of September 30, 2017 and its results of operations for the fiscal year from October 1, 2016 to September 30, 2017 in accordance with these requirements, and

— the accompanying group management report as a whole provides a suitable view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with the provisions of German law and suitably presents the opportunities and risks of future development.

In accordance with Sec. 322 (3) Sentence 1 HGB, we hereby state that our audit has not led to any reservations regarding the compliance of the consolidated financial statements and the group management report.

Basis for opinions

We conducted our audit of the consolidated financial statements and the group management report in accordance with Sec. 317 HGB and Regulation (EU) No 537/2014 (EU Audit Regulation) as well as German generally accepted standards on auditing promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We conducted the audit of the consolidated financial statements in supplementary compliance with International Standards on Auditing (ISA). Our responsibilities under those laws, rules and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the group management report" section of our report. We are independent of the group companies in accordance with European and German commercial law and professional provisions, and we have fulfilled our other

German ethical responsibilities in accordance with these requirements. Furthermore, in accordance with Art. 10 (2) f of the EU Audit Regulation, we declare that we have not provided any prohibited non-audit services referred to in Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from October 1, 2016 to September 30, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1) Discontinued operation LEDVANCE

Reasons why the matter was determined to be a key audit matter: By agreement dated July 25/26, 2016, the management of OSRAM Licht AG agreed to sell the lamps business for general lighting (LEDVANCE) to a Chinese consortium. In accordance with IFRS 5, the assets and liabilities of LEDVANCE, which essentially make up the former Lamps Business Unit, were classified as assets and liabilities held for sale and all transactions pertaining to LEDVANCE were classified in the consolidated statement of income and in the consolidated statement of cash flows as a discontinued operation pursuant to IFRS 5 for all reported periods until the final sale on March 3, 2017. During the audit, we determined this to be a key audit matter as the sales agreement includes complex provisions and the classification of LEDVANCE as a discontinued operation in the consolidated financial statements affects all components of the statements. Furthermore, management had to make assumptions when segregating the discontinued operation and when preparing the closing statement of financial position of LEDVANCE. These relate in particular to the segregation and measurement of assets and liabilities, as well as the amount of the final purchase price.

Audit approach: Our audit procedures focused on the segregation of the discontinued operation from the continuing operations, its measurement and the calculation of the loss on disposal. In this context, we examined the underlying business processes and controls and performed analytical procedures and substantive tests. The audit procedures included reconciling the gross sales price, including the expected purchase price adjustments and net assets, with the sales agreement and the closing statement of financial position. Furthermore, we examined the assumptions regarding the segregation and measurement of assets and liabilities as well as those regarding the various costs expected based on the management accounts and the underlying agreements, compared these to the carrying amounts from previous periods and discussed them with the Company's management. We also reperformed the calculation of the loss on disposal and reconciled the incoming payment of the purchase price with the bank statements. We evaluated the recognition requirements arising from IFRS 5 in terms of the recognition of LEDVANCE as a discontinued operation and assessed the disclosures made in the notes in connection with the discontinued operation. Our audit procedures did not lead to any reservations relating to either the recognition of LEDVANCE as a discontinued operation or to the accounting for the deconsolidation.

Reference to related disclosures: The Company's disclosures regarding discontinued operations are contained in section B.6.3 "Acquisitions, Disposals and Discontinued Operations", in section 3 "Acquisitions, Disposals and Discontinued Operations" of the notes to the consolidated financial statements.

2) Revenue recognition

Reasons why the matter was determined to be a key audit matter: OSRAM generates most of its revenue from the sale of goods. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue is also generated from the sale of tools, the issuance of licenses or from development services. In the context of revenue recognition there is a risk of misstatement in connection with achieving performance targets and forecasts, which could serve as an incentive to recognize revenue before the associated risks and rewards of ownership have passed to the buyer, or to recognize fictitious revenue. Due to the high volume of sales and the materiality of revenue for the consolidated financial statements and considering the fact that for OSRAM revenue is a financial performance indicator for corporate management and forecasting (comparable revenue growth), we determined this to be a key audit matter.

Audit approach: For the measurement of revenue, including the revenue reductions and correct application of the accrual basis of accounting, we relied on a controls-based approach during the audit and assessed the underlying business processes and controls. Furthermore, our audit procedures included reviewing significant contracts, obtaining external confirmations from customers as well as reviewing credit notes issued after the reporting date. We also analyzed the interim transaction data for anomalies. In this context, correlation analyses were carried out, for example, as was an examination of revenue on a daily basis. We reconciled non-standard transactions and revenue reductions to the underlying contracts and documents on a sample basis. Our audit procedures did not lead to any reservations relating to revenue recognition.

Reference to related disclosures: The Company's disclosures regarding the basis of revenue recognition are contained in section B.6.2 "Basis of Preparation", section 2. "Summary of Significant Accounting Policies" of the notes to the consolidated financial statements. In addition, the Company explained the significance of revenue in connection with corporate management and with regard to business development and forecasting in the combined management report in sections A.1.2 "Performance Management", A.2.1.2 "Comparison Between the Actual and Forecast Course of Business", A.2.3.1 "Revenue" and A.4.1.2 "Expected Revenue and Earnings Trends".

3) Personnel-related restructuring measures

Reasons why the matter was determined to be a key audit matter: In connection with the transformation of the market for lighting and the ongoing changes in market conditions, the management of OSRAM Licht AG implemented further process improvements and structural adjustments in fiscal year 2017. The measures relate to both product manufacturing capacity and the sales, administration and other indirect functions company-wide, and primarily relate to collective and individual agreements in Germany and in China. During the audit, we determined this to be a key audit matter as the measurement of the obligations, especially those arising from the collective agreements, is influenced considerably by estimates and assumptions made by management, which could significantly affect various items in the consolidated financial statements (other short-term debt, other liabilities, cost of goods sold, selling, general and administrative expenses, research and development costs).

Audit approach: As part of our audit procedures regarding the carrying amounts of provisions for personnel-related restructuring costs in the consolidated financial statements (especially recognition criteria and the measurement of provisions), we carried out both controls-based audit procedures, examined the underlying business processes and controls, and performed analytical procedures and substantive tests. In particular, we checked whether there is a formal restructuring plan in each case and whether a valid expectation has been raised among the employees affected. The audit procedures regarding the amount of expenses recorded as well as the recognition, valuation, utilization and reversal of provisions also included, but was not limited to, the review of restructuring plans and related written agreements and contracts as well as communication with employees. For selected group companies, we reconciled the number of employees affected by these measures, the length of service and personnel expenses with the payroll accounts and personnel master data. We also compared the underlying assumptions regarding the severance amount and acceptance rates against past experience from previous restructurings and reconciled these on a sample basis with signed termination agreements. Our audit procedures did not lead to any reservations regarding the accounting for personnel-related restructuring measures.

Reference to related disclosures: The Company's disclosures regarding personnel-related restructuring measures are contained in section B.6.4 "Disclosures on the Statement of Income", section 4. "Personnel-related Restructuring Expenses" of the notes to the consolidated financial statements.

Other information

Management is responsible for the following other information:

— the Responsibility Statement in chapter C.1, and
— Corporate Governance in chapter C.4 of the Annual Report 2017.

The Supervisory Board is responsible for the following other information:
— the Report of the Supervisory Board in chapter C.3 of the Annual Report 2017.

Our opinions on the consolidated financial statements and the group management report do not cover the other information and we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information

— is materially inconsistent with the consolidated financial statements, the group management report or our knowledge obtained in the audit, or

— otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Supervisory Board for the consolidated financial statements and the group management report

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the supplementary provisions of German law pursuant to Sec. 315a (1) HGB, for the preparation of consolidated financial statements that give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

In addition, management is responsible for the preparation of the group management report that as a whole provides a suitable view of the Group's position and, in all material respects, is consistent with the consolidated financial statements, complies with the provisions of German law and suitably presents the opportunities and risks of future development and for such arrangements and measures (systems) as management deems necessary to enable the preparation of a group management report in accordance with the applicable provisions of German law and to furnish sufficient appropriate evidence for the statements in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides a suitable view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and our audit findings, complies with the provisions of German law and suitably presents the opportunities and risks of future development, and to issue an independent auditor's report that includes our opinions on the consolidated financial statements and the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation as well as generally accepted standards on auditing promulgated by the IDW and in supplementary compliance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting material misstatements resulting from fraud is higher than for misstatements resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and the arrangements and measures relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the group management report or, if such disclosures are inadequate, to modify our respective opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRS as adopted by the EU and the supplemental provisions of German law applicable pursuant to Sec. 315a (1) HGB;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions;

- evaluate the group management report's consistency with the consolidated financial statements, its compliance with the legal provisions and the view it gives of the Group's position;

- perform procedures on the forward-looking statements made by management in the group management report. In particular, on the basis of sufficient appropriate audit evidence, we walk through the significant assumptions underlying management's forward-looking statements and assess whether the forward-looking statements were appropriately derived from these assumptions. We do not provide a separate opinion on the forward-looking statements and underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe each key audit matter in our auditor's report unless laws or regulations preclude public disclosure about the matter.

Report on other legal and regulatory requirements

Other reporting items in accordance with Art. 10 of the EU Audit Regulation

We were elected as auditor of the consolidated financial statements by the Annual Shareholders' Meeting on February 14, 2017. We were engaged by the Supervisory Board on May 2, 2017. We have been the auditor of OSRAM Licht AG for an uninterrupted period since the audit of the consolidated financial statements for fiscal year 2013.

We confirm that the audit opinions included in this auditor's report are consistent with the additional report to the Audit Committee in accordance with Art. 11 of the EU Audit Regulation (audit report).

Responsible auditor

The auditor responsible for the audit is Siegfried Keller.

Munich, November 16, 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Keller
Wirtschaftsprüfer
[German Public Auditor]

Hinderer
Wirtschaftsprüfer
[German Public Auditor]

C.3

Report of the Supervisory Board

Dear Shareholders,

OSRAM's success in fiscal year 2017 provides it with a good basis for further growth. By stepping up capital expenditure in areas with strategic importance for the future and reorganizing its portfolio, OSRAM has also made further progress on its journey to becoming a high-tech company.

In the year under review, the Supervisory Board performed the duties required of it by law, the Articles of Association, and the rules of procedure. We monitored the activities of the Managing Board and regularly advised it on the management of the Company. The Supervisory Board was directly involved in all decisions of fundamental importance to the Company.

In the past fiscal year, the Managing Board provided the Supervisory Board with regular, timely, and comprehensive information, orally and in writing, on all key matters relating to the management of the Company. In particular, this included reports on and explanations of corporate strategy and planning, business performance, the current position of the Group, compliance processes, the financial reporting process, the effectiveness of the Company's internal control and risk management systems, and all significant business events. The Managing Board kept us regularly informed about the Company's strategy and the implementation of the approved strategic action plans, notably the completion of the sale of the general lighting lamps business and the implementation of the OS Business Unit's growth strategy. Any variances in performance compared with corporate planning were explained to us in detail. We discussed key transactions for the Company in detail on the basis of the reports submitted by the Managing Board. The Supervisory Board approved the resolutions proposed by the Managing Board after thorough examination and extensive discussion.

Most of the Supervisory Board's activities in the past fiscal year were performed in the context of plenary meetings. The Supervisory Board held a total of six ordinary plenary meetings in the fiscal year under review. These took place in November and December 2016, and in February, May, July, and September 2017. One resolution was circulated to the members for adoption in writing. The Supervisory Board also has a number of committees. The work performed in the meetings of the Supervisory Board committees is addressed in the following section.

Attendance at the plenary meetings averaged 99% in the year under review. Apart from one meeting of the Executive Committee, all of the committee meetings had full attendance. During the reporting year, no Supervisory Board member attended half or fewer than half of the meetings of the Supervisory Board and committees to which he or she belonged.

The Chairman of the Supervisory Board was in regular contact with the Managing Board outside Supervisory Board meetings and kept abreast of current business developments and significant transactions. The Chairman of the Supervisory Board discussed the outlook for and future direction of the individual businesses and the Company as a whole with the Managing Board in separate strategy meetings.

The Supervisory Board also held regular discussions without the involvement of the Managing Board, mainly to cover Supervisory Board issues and personnel matters relating to the Managing Board. With the assistance of an external expert, the Supervisory Board reviewed the efficiency of its activities in autumn 2016, taking the working practices of comparable companies into consideration. The members of the Supervisory Board judged the work carried out in both the plenary sessions and the committees to be efficient overall, but also decided that some aspects of the organization of the work of the Supervisory Board needed improvement.

The members of the Supervisory Board are responsible for undertaking the training and continuing professional development activities needed to be able to carry out their remit. Training courses were also organized for the Supervisory Board as a whole to ensure members still had the specialist knowledge that they require. Among the topics covered were trends in the lighting market and related markets, with a focus on the growing use of digital technologies in lighting applications for the automotive sector and for connected buildings. An induction course was also held for the new Supervisory Board members to help them carry out their new responsibilities. Finally, the Supervisory Board's annual strategy meeting took place on September 25 and 26, 2017 in Malaysia, which gave the members the opportunity to visit the OS Business Unit's factory in Penang and the plant being built in Kulim and to find out about the most important research projects at first hand.

C.3.1 Matters Addressed by the Full Supervisory Board

In the fiscal year just ended, the Supervisory Board of OSRAM Licht AG addressed in particular the fundamental corporate strategy and the strategy of the individual business units, including the current business performance of the OSRAM Licht Group, the annual and multi-year planning for the Company and the OSRAM Licht Group, and the position of the Group, especially its financial position and results of operations.

At its meeting held on November 8, 2016, the Supervisory Board discussed the business performance for the fourth quarter, together with the preliminary figures for fiscal year 2016. It also approved the Managing Board's proposal to distribute a dividend of €1.00 per dividend-bearing share for fiscal year 2016. Moreover, the Supervisory Board decided on the variable remuneration components and the level of contributions to the pension plan for the Managing Board for fiscal year 2016.

At the Supervisory Board meeting held on December 1, 2016 to adopt the financial statements, the Managing Board reported on the position of the Company—especially the response from investors to the forecast for fiscal year 2017—and the final figures for fiscal year 2016. Also at this meeting, following an in-depth examination of the financial statements documentation, the Supervisory Board approved the single-entity financial statements, the consolidated financial statements, and the combined management report for OSRAM Licht AG and the Group for the year ended September 30, 2016. The single-entity financial statements were thus adopted. The auditors participated in the discussions and reported on the main findings of the audit before the resolution was passed. The report by the Supervisory Board to the Annual General Meeting for fiscal year 2016 was also approved. In addition, the Supervisory Board adopted its proposed resolutions for the individual agenda items to be voted on by the 2017 Annual General Meeting. The management of the LS Business Unit reported on the position and future development of this business. Afterwards, the Supervisory Board deliberated on the capital expenditure planning for the OS Business Unit and approved the proposed capital expenditure at the locations in Regensburg, Germany, and Wuxi, China. Finally, the main findings of the Supervisory Board's efficiency audit, along with the related suggestions and recommendations for work in the future, were discussed in detail with the external consultant.

In its meeting on February 14, 2017, the Supervisory Board addressed the results for the first quarter of the fiscal year and the current performance of the Company. Another key topic of discussion was the completion of the sale of LEDVANCE and the strategic development of the SP Business Unit. The Supervisory Board also agreed to extend Dr. Berlien's appointment as a member and the Chairman of the Managing Board with effect from January 1, 2018, with his new term of office running until December 31, 2022.

The main items addressed by the Supervisory Board at its meeting on May 2, 2017, were the results for the second quarter and first half of fiscal year 2017, together with the business performance of the Group. The Supervisory Board also resolved to redefine the targets for its composition and decided on a skills profile for the members of the Supervisory Board and for the Supervisory Board as a whole. It also took another look at the OS Business Unit's growth strategy and the future industrial footprint in Germany.

At the meeting on July 26, 2017, the Managing Board reported on the position of the Company and the results for the third quarter. The Managing Board also provided information about the changes to the Company's portfolio, focusing on the equity investment in LeddarTech Inc., which is based in Québec, Canada, and the acquisition of Digital Lumens, Inc., Boston, U.S.A. Based on a report on diversity in the Company, the Supervisory Board resolved on a target for the proportion of women on the Company's Managing Board, which is to be increased to at least 25% by June 30, 2022. In view of new recommendations in the German Corporate Governance Code, the Supervisory Board also approved amendments to certain aspects of the employment contracts of Mr. Bank and Dr. Kampmann.

At its annual strategy meeting on September 25 and 26, 2017 in Malaysia, the Supervisory Board held in-depth discussions on the Company's strategy, also focusing on progress with implementing the growth strategy in the OS Business Unit. In addition, the Supervisory Board addressed the annual and multi-year planning, and approved the planning for fiscal year 2018. Under other agenda items at the same meeting, it specified the targets for the Managing Board's remuneration in fiscal year 2018 and, together with the Managing Board, approved the declaration of conformity with the German Corporate Governance Code.

C.3.2 Work Performed by the Supervisory Board Committees

In the past fiscal year, the Supervisory Board continued to make use of five committees to enable it to carry out its responsibilities efficiently. The committees prepared resolutions for the full Supervisory Board and other matters to be addressed in the plenary meetings. In addition, certain Supervisory Board decision-making powers have been transferred to committees to the extent permitted by law. The chairs of the committees provided the Supervisory Board with regular, comprehensive reports on the work performed by the committees.

The Supervisory Board's Executive Committee met five times in the year under review. It carried out detailed preparatory work for decisions on remuneration, the extension of Dr. Berlien's term of office, and longer-term personnel planning. It also dealt with amendments to the Managing Board members' employment contracts to reflect changes to the provisions of the German Corporate Governance Code, along with other general corporate governance matters. In addition, the Chairman of the Supervisory Board regularly discussed matters of particular importance to the Group, especially concerning corporate strategy and the performance of individual business units, with the members of the Executive Committee.

The Mediation Committee did not have to be convened in the past fiscal year.

The Strategy and Technology Committee met on three occasions in the year under review to address strategic and technological issues affecting individual business units and the Group as a whole. Topics discussed included the SP Business Unit and OSRAM's major capital expenditure plans, particularly in the OS Business Unit. There were also deliberations on the Company's innovation and technology concept and on individual M&A plans.

The Audit Committee held five meetings in the past fiscal year, with the Chairman of the Supervisory Board attending as a guest. It addressed the financial statements of OSRAM Licht AG and the consolidated financial statements, as well as the combined management report for OSRAM Licht AG and the Group, in the presence of the auditors and the members of the Managing Board. The Audit Committee issued a recommendation to the Supervisory Board relating to the Supervisory Board's proposal to the 2017 Annual General Meeting for the election of the auditors. In addition, the committee's detailed discussions focused on selecting the auditors, engaging the auditors for fiscal year 2017 (including specifying the key points for the audit), monitoring the independence and eligibility of the auditors as well as the quality of the audit, and setting the audit fee. Further deliberations covered the quarterly financial information and the findings of the auditors' review of the half-year financial report. The Committee addressed the issue of ensuring the integrity of the financial reporting process and discussed the Company's internal control system as well as the risk management system. The Audit Committee's work also focused on the structure, organization, activities, effectiveness, resources, and findings of the Internal Audit function. In another area of activity, it was informed of potential and pending legal disputes. The Audit Committee also discussed the results of investigations by the Internal Audit function into the effectiveness of internal controls and compliance with applicable legislation, official regulations, and internal policies. It addressed the reports by the Chief Compliance Officer on OSRAM's compliance program and on significant compliance events in the period under review. The Audit Committee also received a report on IT security and examined the internal control system relating to tax.

The Nomination Committee met once in the past fiscal year. It prepared the Supervisory Board's proposals to the Annual General Meeting, which will elect the shareholder representatives on the Supervisory Board in February 2018. In this context, it discussed the suitability and independence of the candidates, taking due account of the statutory requirements. The committee also drew up requirements profiles, taking account of the skills profile defined by the Supervisory Board for itself and for its members, and used the profiles to find suitable candidates for the vacancies on the Supervisory Board.

C.3.3 Corporate Governance Code and Annual and Consolidated Financial Statements

On September 26, 2017, the Managing Board and Supervisory Board agreed to issue a declaration of conformity in accordance with section 161 of the *Aktiengesetz* (AktG—German Stock Corporation Act). The declaration states that the Company has complied with all recommendations of the German Corporate Governance Code in full since the last declaration of conformity on September 27, 2016, and that it will continue to comply with the recommendations in the future. The declaration of conformity was made permanently accessible to shareholders on the Company's website.

No conflicts of interest affecting Managing Board or Supervisory Board members arose that would have had to be disclosed to the Supervisory Board pursuant to sections 4.3.4 and 5.5.2 of the German Corporate Governance Code. In the case of the resolutions by the shareholder representatives on the Supervisory Board of OSRAM Licht AG relating to the approval of the actions of the members of the Supervisory Board of OSRAM GmbH for fiscal year 2016 in accordance with section 32 of the Mitbestimmungsgesetz (MitbestG—German Codetermination Act), individual resolutions were adopted for the individual shareholder representatives, since the members of the Supervisory Board of OSRAM Licht AG are largely the same as the members of the Supervisory Board of OSRAM GmbH. The process adopted ensured that Supervisory Board members Dr. Christine Bortenlänger, Peter Bauer, Dr. Werner Brandt, Dr. Roland Busch, Professor Dr. Lothar Frey, and Frank H. Lakerveld did not take part in the voting relating to the approval of their own actions.

Further disclosures on corporate governance can be found in › C.4.1 Corporate Governance Report. S Page 159

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, (Ernst & Young) audited the single-entity financial statements and the consolidated financial statements, as well as the combined management report for OSRAM Licht AG and the Group, for the year ended September 30, 2017, and issued an unqualified audit opinion. Ernst & Young have been the auditors for OSRAM Licht AG since the Company was established in fiscal year 2012, and auditors for the OSRAM Licht Group since fiscal year 2013. The auditors responsible for signing the single-entity financial statements have been Mr. Keller, as the responsible auditing partner, since fiscal year 2016 and Mr. Hinderer since fiscal year 2017. The Annual General Meeting on February 14, 2017 had elected Ernst & Young to audit the single-entity financial statements and consolidated financial statements on the basis of the Supervisory Board's proposal, which in turn was based on the Audit Committee's recommendation. Before the Supervisory Board made this proposal, Ernst & Young had confirmed to the Chairman of the Supervisory Board and to the Audit Committee that there were no circumstances that might interfere with their independence as auditors or give rise to doubts about their independence. At the same time, Ernst & Young declared the extent of the work that it had carried out for the Company other than auditing the financial statements or that had been contractually agreed for the next year. The single-entity financial statements of OSRAM Licht AG and the combined management report for OSRAM Licht AG and the Group were prepared in accordance with the requirements of German commercial law. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements of German commercial law in accordance with section 315a(1) of the Handelsgesetzbuch (HGB—German Commercial Code). The auditors conducted the audit in accordance with section 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW—Institute of Public Auditors in Germany), and, for the consolidated financial statements, in supplementary compliance with the International Standards on Auditing (ISA). The above-mentioned documents and the Managing Board's proposal for the appropriation of profits were circulated by the Managing Board to the members of the Supervisory Board in good time.

In a first step, the proposal for the appropriation of profits, the single-entity financial statements, the consolidated financial statements, and the combined management report, as well as the associated audit reports by Ernst & Young, were examined and discussed in detail in the meeting of the Audit Committee on November 28, 2017. The financial statements and corresponding audit reports were then comprehensively reviewed in the presence of the auditors at the full Supervisory Board meeting held to adopt the financial statements on the same day; the audit reports had been made available to all members of the Supervisory Board. The auditors reported on the main findings of their audit, in particular the key audit matters. For OSRAM Licht AG, these were the measurement of investments in affiliated companies; for the Group, these were the discontinued operation LEDVANCE, revenue recognition, and personnel-related restructuring measures. The auditors also stated that there were no major defects or flaws in the internal control system or the risk management system. Additionally, in the same meeting, the Managing Board commented in detail on the financial statements of OSRAM Licht AG and the consolidated financial statements, as well as the risk management system. The auditors also addressed the scope and costs of the audit.

The Supervisory Board concurred with the results of the audit. The Audit Committee's examination and the Supervisory Board's own examination did not result in any objections. The Supervisory Board approved the single-entity financial statements and the consolidated financial statements; the single-entity financial statements were thus formally adopted. The Managing Board has proposed to use the unappropriated profit of €116,205 thousand to distribute a dividend of €1.11 per dividend-bearing share and to carry forward the remaining unappropriated profit. The Supervisory Board examined this proposal, specifically with regard to the distribution policy, the impact on the OSRAM Group's liquidity, and the interests of shareholders. As recommended by the Audit Committee, it then approved and agreed to the Managing Board's proposal for the appropriation of profits. Finally, the Supervisory Board approved this report to the Annual General Meeting.

C.3.4 Changes to the Supervisory Board and the Managing Board

Willi Sattler and Hubert Roßkopf both resigned with effect from the end of March 2, 2017. Irene Weininger and Alexander Müller were appointed as members of the Supervisory Board by way of an order of the Munich local court dated March 28, 2017 and received on April 1/March 31, 2017. The Supervisory Board would like to take this opportunity to express its gratitude to Willi Sattler and Hubert Roßkopf for their contribution over many years as employee representatives on the supervisory boards of OSRAM GmbH and OSRAM Licht AG.

Dr. Werner Brandt has resigned as a member of the Supervisory Board for personal reasons, with effect from December 31, 2017. The Supervisory Board would like to express its sincere thanks to Dr. Brandt for his invaluable work on the Supervisory Board and as chairman of the Audit Committee.

The Supervisory Board would like to thank all members of the Managing Board, as well as the employees and employee representatives of OSRAM Licht AG and of all Group companies for their successful contributions in fiscal year 2017.

Munich, November 28, 2017

On behalf of the Supervisory Board

Peter Bauer
Chairman

C.4

Corporate Governance

C.4.1 Corporate Governance Report

One of the crucial factors for the future success of the OSRAM Licht Group is our ability to increase shareholder value on a sustainable basis, for which the trust of our customers and investors is essential. Transparent, responsible corporate governance enables us to strengthen this trust.

The Managing Board and Supervisory Board of OSRAM Licht AG have discussed compliance with the requirements of the German Corporate Governance Code (the 'Code') at great length. On the basis of these deliberations, the annual declaration of conformity was issued on September 26, 2017. The declaration of conformity can be found in › C.4.3 Corporate Governance Declaration and is published on our website » www.osram-group.com.

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OSRAM Licht AG voluntarily complies with the Code's non-binding suggestions, with the exception of the suggestion in section 2.3.2, according to which proxies should also be contactable during the Annual General Meeting. We do not believe that this suggestion is appropriate for shareholders who are not present or represented at the Annual General Meeting, because the objective of the suggestion—that of issuing or amending instructions regarding the exercise of voting rights via electronic media during the Annual General Meeting itself—involves significant technical uncertainty and therefore threatens the validity of any resolutions passed.

C.4.1.1 Management and Control Structure

OSRAM Licht AG is subject to the AktG and therefore has a two-tier management system consisting of a Managing Board and a Supervisory Board.

Supervisory Board

Pursuant to section 7(1) sentence 1 no. 1 of the MitbestG, the Supervisory Board consists of equal numbers of shareholder and employee representatives, i.e., six of each. The term of appointment of all members of the Supervisory Board ends at the end of the Annual General Meeting in 2018. Most of the rules applicable to the Supervisory Board and its organization are contained in sections 7 to 12 of the Company's Articles of Association and in the rules of procedure for the Supervisory Board, which are published on our website » www.osram-group.com.

Targets for the Composition of the Supervisory Board

With reference to section 5.4.1(2) of the Code, the Supervisory Board specified targets for its composition (plus a skills profile for the Supervisory Board as a whole) at its meeting on May 2, 2017. These are published on our website » www.osram-group.com.

We can report as follows on progress with achieving these targets: The Supervisory Board believes that, overall, it has the skills considered important in light of the activities of the OSRAM Group. These specifically include in-depth experience and knowledge of managing a large or medium-sized company with international operations, of industrial business and of value creation along a variety of value chains, in the field of research and development (particularly relating to the technologies relevant to the Company and adjacent or related areas), in the fields of manufacturing, marketing, sales, and digitalization, in the main markets in which OSRAM operates, in accounting and financial reporting, in financial control/risk management, and in the area of governance/compliance. Furthermore, one member of the Supervisory Board, the Chairman of the Audit Committee Dr. Werner Brandt, certainly has proven expert knowledge of accounting or the auditing of financial statements. Together, the members of the Supervisory Board are familiar with the lighting industry. At least three shareholder representatives also have long-standing international experience. All members are within the upper limit of 15 years set by the Supervisory Board for length of service on the Supervisory Board. The same applies to the standard retirement age of 70, with one exception: Frank H. Lakerveld, a shareholder representative on the Supervisory Board, will turn 70 on December 5, 2017. The Supervisory Board is in favor of him remaining a member for another term so that its work can continue to benefit from his in-depth knowledge and experience of the lighting industry in the years ahead.

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The Supervisory Board believes that all shareholder representatives are independent within the meaning of section 5.4.2 of the Code and considers that this number of independent shareholder representatives is appropriate. The names of the independent members can be found in the list of Supervisory Board members, which is presented in › Note 37 I Supervisory Board and Managing Board in B.6 Notes to the Consolidated Financial Statements. Furthermore, the Supervisory Board assumes that the employee representatives are also independent because it believes that the circumstance of being an employee representative or having an employment contract with the OSRAM Group in itself does not call into doubt the independence of the employee representatives. No former members of the Managing Board are members of the Supervisory Board.

At least three of the shareholder representatives on the Supervisory Board are people with no potential conflicts of interest. Several members of the Supervisory Board work in senior positions at other companies with which OSRAM has business relationships or had done so in the preceding year. Transactions that OSRAM conducted with these companies were on an arm's-length basis. The Supervisory Board does not believe that these transactions compromise the independence of its relevant members.

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For details on fulfillment of the quota defined in section 96(2) sentence 2 of the AktG, according to which at least 30% of Supervisory Board members must be female and at least 30% male, see › C.4.3.4 Targets for the Proportion of Women on the Managing Board, Supervisory Board, and in Senior Management.

All Supervisory Board members are within the recommended limit on the number of supervisory board posts pursuant to section 5.4.5 of the Code.

When preparing the nominations for the election of Supervisory Board members by the Annual General Meeting, the Supervisory Board takes account of the targets for its composition and, specifically, that the membership reflects the skills profile drawn up for the Supervisory Board as a whole.

Remit of the Supervisory Board

The Supervisory Board oversees the Managing Board and advises it on the management of the business. The Supervisory Board regularly discusses business performance and planning, strategy and its implementation. It reviews the single-entity financial statements, the management report, the proposal for the appropriation of profits, the consolidated financial statements, and the combined management report. It discusses the quarterly financial results and half-year financial reports and approves the single-entity financial statements of OSRAM Licht AG and the consolidated financial statements, including the independent auditors' report and the findings of the review carried out by the Audit Committee. The Supervisory Board's remit also includes appointing members of the Managing Board and specifying their areas of responsibility. Significant Managing Board decisions, such as major acquisitions, disposals, and financial actions, require its approval; see section 6 of the rules of procedure for the Managing Board of OSRAM Licht AG, which are published on our website ›› www.osram-group.com. Supervisory

Board approval is a condition of some resolutions adopted at the Annual General Meeting, such as authorizations for the Managing Board to increase the Company's capital stock (authorized capital), to exclude subscription rights when issuing debt instruments, using equity derivatives in connection with the acquisition of treasury shares, and, in some cases, when utilizing treasury shares.

The Supervisory Board currently has five committees. Their tasks, responsibilities, and work processes meet the requirements of the AktG and the Code. The chairman of each committee reports regularly to the Supervisory Board on the work of the committees.

The **Executive Committee** consists of the Chairman of the Supervisory Board, his deputies and one other employee representative on the Supervisory Board who is elected by the Supervisory Board. It performs the duties of a nomination and remuneration committee, provided that these duties are not performed by the Nomination Committee or German law does not require the full Supervisory Board to carry out these duties. In particular, the Executive Committee makes preparations for the appointment of members of the Managing Board, the setting of Managing Board remuneration, and the full Supervisory Board's review of the remuneration system for the Managing Board. It also deals with Managing Board contracts. When proposing candidates for appointment as members of the Managing Board, the Executive Committee takes into account long-term succession planning and diversity as well as other factors. The Executive Committee also decides whether to approve transactions with members of the Managing Board and people or companies closely associated with them (related parties), and coordinates the work of the Supervisory Board.

The **Audit Committee** comprises three shareholder representatives and three employee representatives from the Supervisory Board. They are elected to the committee by the Supervisory Board. According to German law, the Audit Committee must include at least one member of the Supervisory Board who has expert knowledge of accounting or the auditing of financial statements. Dr. Werner Brandt, who is Chairman of the Audit Committee, satisfies these legal requirements and also the requirement of independence pursuant to sections 5.3.2 and 5.4.2 of the Code. The Audit Committee oversees the accounting process. In addition to the review by the independent auditors, the Audit Committee is also required to discuss the Company's quarterly financial results and half-year financial statements prepared by the Managing Board. It prepares the Supervisory Board's review of the single-entity and consolidated financial statements and of the Managing Board's proposal for the appropriation of profits. It deals with questions of accounting and the Company's risk management, and monitors the effectiveness of the internal control system, the risk management system, and the Company's internal audit system. The Audit Committee prepares the Supervisory Board's proposal to the Annual General Meeting for the appointment of the auditors and makes a corresponding reasoned recommendation to the Supervisory Board. Following the adoption of a resolution by the Annual General Meeting, it issues the audit engagement to the independent auditors, deals with specifying the focus of the audit and agreeing the fee, and monitors the audit of the financial statements, particularly the independence of the auditors and the additional services they provide. The committee can make recommendations and suggestions aimed at ensuring the integrity of the financial reporting process. Finally, it monitors the Company's compliance with legislation, official regulations, and company policies and examines sustainability matters.

The **Nomination Committee** consists of the Chairman of the Supervisory Board, his deputy, who is not elected in accordance with the MitbestG, and a further member of the Supervisory Board, who is elected by the shareholder representatives from among their number. The task of the Nomination Committee is to recommend candidates to the Supervisory Board for proposal as shareholder representatives to be elected by the Annual General Meeting. In addition to the required knowledge, skills, and professional experience of the proposed candidates, the targets stated by the Supervisory Board for its composition (see above) should also be taken into consideration, including with regard to reflecting the skills profile drawn up for the Supervisory Board as a whole.

The **Mediation Committee** comprises the Chairman of the Supervisory Board, his deputy, who is elected in accordance with the MitbestG, one member elected by the shareholder representatives on the Supervisory Board, and one member elected by the employee representatives on the Supervisory Board. It makes proposals to the Supervisory Board for the appointment or dismissal of members of the Managing Board if the two-thirds majority of the votes by the members of the Supervisory Board as required by section 31(2) MitbestG is not achieved during the first ballot.

The **Strategy and Technology Committee**, which is made up of three shareholder representatives and three employee representatives elected by the Supervisory Board, oversees and advises the Managing Board on questions of corporate strategy and regarding the development and safeguarding of technologies that are relevant for the Company.

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The members of the Supervisory Board and its committees are disclosed in the Notes to the Consolidated Financial Statements › Note 37 I Supervisory Board and Managing Board in B.6 Notes to the Consolidated Financial Statements.

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Detailed information on the Supervisory Board's work in fiscal year 2017 can be found in › C.3 Report of the Supervisory Board.

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The remuneration of the members of the Supervisory Board is described in › C.4.2 Remuneration Report.

Managing Board

As the management body of OSRAM Licht AG, the Managing Board is obliged to act in the Company's interests and sustainably increase its enterprise value. The Managing Board currently has three members. They are jointly responsible for the overall management of the business and decide on fundamental issues regarding business policy and corporate strategy, as well as on the Company's annual and multi-year planning.

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The Managing Board is responsible for preparing the Company's half-year financial statements, the single-entity financial statements of OSRAM Licht AG, the consolidated financial statements, and the quarterly financial information. In addition, the Managing Board must ensure that all legal and regulatory requirements, and internal policies are complied with, and must work to ensure that all Group companies also comply with them. This includes making sure that an adequate compliance management system that is geared to the Company's risk position is in place. The fundamental principles of this system are described in › C.4.3 Corporate Governance Declaration and are published on our website ›› www.osram-group.com.

The Managing Board and Supervisory Board work closely together for the benefit of the Company. The Managing Board provides the Supervisory Board with regular, timely, and comprehensive information on all issues of importance to the Company in relation to strategy, planning, business development, financial position, results of operations, and compliance, as well as of material business risks. The Managing Board considers diversity when filling managerial positions within the Company and, among other things, strives to increase the number of women in these roles.

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The members of the Managing Board are disclosed in the Notes to the Consolidated Financial Statements › Note 37 I Supervisory Board and Managing Board in B.6 Notes to the Consolidated Financial Statements.

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The remuneration of the members of the Managing Board is described in › C.4.2 Remuneration Report.

C.4.1.2 Purchase and Sale of Company Shares

Under Article 19 of Regulation (EU) no. 596/2014 on market abuse, members of the Managing Board and Supervisory Board are legally required to disclose the purchase or sale of shares in OSRAM Licht AG, derivatives referring to them, or other financial instruments relating to them if the value of the transactions conducted by the board member in question or any related parties exceeds a total volume of €5,000 in any calendar year. A process has been established to ensure that these transactions are duly published if such notification is received. Transactions that have been reported can be accessed on the Company's website at » www.osram-group.com.

C.4.1.3 Shareholder Relations

OSRAM routinely reports to its shareholders four times a year on the Company's business performance and net assets, financial position, and results of operations. The Annual General Meeting, at which the Company's business performance is also reported, is usually held in the first five months of the fiscal year. The Managing Board enables the shareholders to follow the speeches by the Chairman of the Supervisory Board and the Managing Board members by means of electronic communication media, particularly the Internet, and enables shareholders to vote by proxy. Under sections 14(5) and (6) of the Articles of Association, the Managing Board may also allow shareholders to cast their votes in writing or by means of electronic communication (absentee voting), or to participate in the Annual General Meeting without the need to be present at the meeting venue and without a proxy, and to exercise all or some of their rights either fully or partially by means of electronic communication (electronic participation). In view of the significant technical uncertainties already mentioned and the resulting risks regarding the validity of the resolutions passed, the Managing Board has not yet made the option of electronic participation available. Nor has use has yet been made of absentee voting, since shareholders have adequate comparable methods for exercising their voting rights, particularly in the form of the Company's proxies. The reports, documents, and information legally required for the Annual General Meeting, including the annual report, are available online, as are the agenda for the Annual General Meeting, and any shareholder countermotions or nominations that are required to be made available.

The Annual General Meeting elects the shareholder representative members of the Supervisory Board. It resolves on all matters assigned to it by law, particularly the appropriation of profits, the approval of the actions of the Managing Board and Supervisory Board, the election of the independent auditors, and amendments to the Articles of Association. When voting on resolutions, each share grants one vote. Resolutions to amend the Articles of Association, such as measures that change the Company's capital stock, are adopted by the Annual General Meeting and implemented by the Managing Board. Shareholders may submit motions regarding resolutions proposed by the Managing Board and Supervisory Board and may contest resolutions adopted by the Annual General Meeting. Shareholders who collectively hold at least €100,000 of the capital stock may also demand that the courts appoint a special auditor to examine specific issues, subject to the additional requirements of section 142 of the AktG.

As part of our investor relations activities, we provide comprehensive information on the Company's performance. OSRAM makes extensive use of the Internet for reporting purposes. In addition to quarterly financial information, half-year and annual reports, earnings releases, ad hoc announcements, analysts' presentations, and press releases, the financial calendar for the current year, which includes the key publication dates for financial communications and the date of the Annual General Meeting, is published at » www.osram-group.com.

Our Articles of Association, the rules of procedure for the Supervisory Board and Managing Board, and all declarations of conformity and other information relating to corporate governance are available on our website at » www.osram-group.com.

C.4.2 Remuneration Report

A Component of the Combined Management Report

The remuneration report summarizes the principles used to determine the total remuneration of the members of the Managing Board of OSRAM Licht AG and explains the structure and amount of the remuneration paid to the members of the Managing Board. It also describes the principles and amount of the remuneration paid to the members of the Supervisory Board. In addition, the remuneration of each member of the Managing Board and Supervisory Board for fiscal year 2017 is presented on an individual basis. The remuneration report is based on the recommendations of the German Corporate Governance Code and includes the disclosures required by the HGB, German accounting standards, and IFRS. The remuneration report is part of the combined management report of OSRAM Licht AG and the Group.

C.4.2.1 Remuneration System for the Members of the Managing Board

Principles and Objectives

The Supervisory Board decides on the remuneration system for the Managing Board. It regularly evaluates the appropriateness of the remuneration paid to members of the Managing Board and of the remuneration system, taking account of statutory requirements and the recommendations in the German Corporate Governance Code, and adjusts them if necessary.

The Supervisory Board is guided, in particular, by the following principles when designing the remuneration system and setting the remuneration:

- **The Company's situation:** The Supervisory Board takes not only the economic situation but also the Company's success and future prospects into consideration when deciding on the structure and measurement of remuneration.

- **OSRAM Group strategy:** The performance targets set for the Managing Board's remuneration should be in harmony with the business strategy.

- **Customary level of remuneration:** When reviewing whether the remuneration is at a customary level, the Supervisory Board looks at the level of remuneration in comparable companies and at the Managing Board's remuneration relative to the remuneration of senior managers and of the workforce as a whole in the OSRAM Group. Remuneration should be attractive in comparison to what is offered by competitors and thus be an incentive for suitably qualified executives to join and remain with the Company in the long term.

- **Sustainable growth of the Company:** The remuneration system is designed to encourage the Managing Board to run the Company sustainably and thus to avoid taking on unreasonable risks. The remuneration is thus structured with an appropriate balance of non-performance-based and performance-based components. The multi-year basis of calculation predominantly relates to the future and takes account of both positive and negative developments, thus encouraging the Managing Board to take a long-term approach.

- **Remuneration linked to performance:** The performance-based remuneration is measured according to the achievement of demanding targets that are agreed in advance. Performance targets and parameters for comparison cannot be amended subsequently. Moreover, the performance-based remuneration component makes up a significant proportion of the total remuneration.

— **External remuneration experts:** If needed, recommendations are obtained from independent, external remuneration experts, in particular to verify that remuneration is at a customary level.

— **Stakeholder interests:** Because the remuneration system is focused on sustainably increasing the Company's value, the interests of the Managing Board are brought into line with the interests of the Company's most important stakeholders: its shareholders, who are its owners, and its employees.

The remuneration system for the Managing Board of OSRAM Licht AG was established on July 5, 2013 and was most recently approved by the Company's Annual General Meeting on February 26, 2015.

The remuneration system is made up of the following components:

Remuneration System

32% [1]	32% [1]	36% [1]	
Non-performance-based components	Performance-based components		
Base remuneration incl. ancillary benefits	Short-term variable remuneration (bonus)	Long-term share-based remuneration (stock awards)	Pension commitments
Paid annually		4-year lock-up period	Annual contributions

1) Percentage split in the event of 100% target achievement based on the remuneration of the Chairman of the Managing Board. The percentages for the non-performance-based and performance-based components may vary according to target achievement.

Non-performance-based Remuneration (Incl. Ancillary Benefits)

The Managing Board members receive fixed base remuneration, which is paid in the form of a monthly salary. Base remuneration is €900,000 per year for the Chairman of the Managing Board and €600,000 per year for the remaining members of the Managing Board. The Managing Board members are also awarded nonmonetary benefits and ancillary benefits, such as the provision of a company car, contributions to insurance policies, the reimbursement of certain legal and tax advisory expenses, and accommodation costs, including any taxes incurred on these, and costs related to preventive medical examinations.

Performance-based Components

The performance-based components comprise short-term variable remuneration (bonus) and long-term share-based remuneration.

Short-term Variable Remuneration (Bonus)

The short-term variable remuneration (bonus) is dependent on the Company's business performance in the respective fiscal year just ended. At the beginning of each fiscal year, the Supervisory Board sets clearly defined targets for certain performance indicators at Group level. The target amount of the bonus (100%) is equivalent to the amount of the base remuneration, i.e., €900,000 for the Chairman of the Managing Board and €600,000 for the remaining members of the Managing Board. The bonus is not payable if target achievement is 0%, and is capped at 200% of the base remuneration. Target achievement is measured after the end of the fiscal year. The Supervisory Board may, at its professional discretion, increase or decrease the amount of the bonus determined in accordance with the degree of target attainment by up to 20%; the adjusted bonus payment may therefore amount to a maximum of 240% of the target amount, i.e., a maximum of €2.16 million for the Chairman of the Managing Board and a maximum of €1.44 million for the remaining members of the Managing Board. When deciding whether to make such adjustments, the Supervisory Board considers criteria which it also establishes at the beginning of the fiscal year. This adjustment option can also be used to take account of Managing Board members' individual achievements. The bonus is paid entirely in cash.

Long-term Share-based Remuneration (Stock Awards)

The long-term share-based remuneration is awarded in the form of unvested commitments to transfer OSRAM Licht AG shares (stock awards), which are subject to a lock-up period. This lock-up period ends at the close of the second day following the publication of OSRAM Licht AG's financial results in the fourth calendar year after the date of the award, and thus lasts for approximately four years. Once this lock-up period has expired, the beneficiaries receive either one OSRAM Licht AG share for each stock award without them having to make any additional payment, or a corresponding cash settlement.

The monetary value of this remuneration component is based on the achievement of targets set by the Supervisory Board at the beginning of each fiscal year. In the event of 100% target achievement, the annual target monetary value of the stock awards is €1 million for the Chairman of the Managing Board and €660,000 for the other Managing Board members. Depending on the degree of target achievement, the actual monetary value may be between 0% and 200% (cap) of the target amount, i.e., a maximum of €2 million for the Chairman of the Managing Board and a maximum of €1.32 million for the remaining members of the Managing Board. Target achievement is measured after the end of the fiscal year. The number of stock awards granted is determined by dividing the monetary value determined once the Supervisory Board has calculated the level of target achievement by the closing price of OSRAM Licht shares in XETRA trading on the date of the award and subtracting the discounted estimated dividends over the four-year lock-up period.

Upon expiration of the lock-up period of approximately four years, the maximum value of the shares transferred is capped at 250% of the target amount. This corresponds to €2.5 million for the Chairman of the Managing Board and €1.65 million for the remaining members of the Managing Board. If the cap is exceeded, the applicable number of stock awards lapse without compensation and the number of shares to be transferred is rounded down.

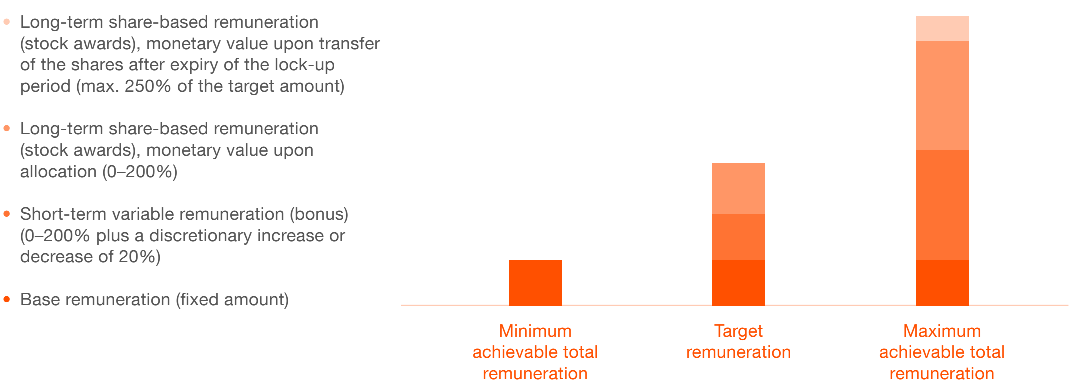
In the event of extraordinary unforeseen developments impacting the relevant share price, the Supervisory Board may decide to reduce the number of granted stock awards retroactively, or to only pay a cash settlement in a defined and limited amount in lieu of transferring the OSRAM Licht shares, or to suspend the transfer of shares due under the stock awards until the developments have ceased to have an impact on the share price. If a Managing Board member is guilty of breaching an obligation, the Supervisory Board has discretion to allow the stock awards to lapse without compensation, depending on the severity of the breach.

Maximum Amount of Total Remuneration

The maximum total remuneration is €6 million for the Chairman of the Managing Board and €4 million for the remaining members of the Managing Board. The total remuneration represents the sum of the remuneration awarded for the fiscal year in question (including ancillary benefits and pension commitments but excluding the monetary value of long-term share-based remuneration) plus amounts accruing from share-based payment instruments whose lock-up period expired in the fiscal year concerned. The value of the amounts received is determined using the closing price of OSRAM Licht shares in XETRA trading on the Frankfurt Stock Exchange on the last trading day before the shares are transferred.

If the maximum amount is exceeded, the entitlement to the transfer of shares under granted stock awards is reduced and the number of shares to be transferred is rounded down. If this reduction is insufficient to bring the total remuneration payable down to below the limit, the Supervisory Board may at its professional discretion reduce other remuneration components or require the repayment of remuneration already awarded.

Range of total remuneration [1)]



1) Based on the remuneration of the Chairman of the Managing Board. Excluding ancillary benefits and pension commitments.

Pension Commitments

Like most OSRAM Licht Group employees in Germany, the members of the Managing Board are included in the OSRAM Defined Contribution Benefit Plan (BOA). Under the BOA, members of the Managing Board receive contributions that are credited to their personal pension account. The amount of these contributions is decided annually by the Supervisory Board; it is currently set at 28% of the sum of the base remuneration and target amount of the bonus. The pension commitments have vested. Members of the Managing Board are entitled to benefits under the BOA on reaching the age of 62. They may choose to receive the benefits under the BOA in the form of a pension, as a lump sum payment, or in up to twelve annual installments.

Other Remuneration System Rules

Share Ownership Guidelines

In accordance with the provisions of their contracts, the members of the Managing Board are obliged to hold a portion of their annual base remuneration in OSRAM Licht shares during their term of office on the Managing Board. This portion amounts to 200% of the average annual base remuneration paid in the last four years in the case of the Chairman of the Managing Board, and 100% for the remaining members of the Managing Board. Evidence that this requirement has been met must be provided following a build-up phase of at least four years, and updated annually thereafter. If the value of the shareholding built up in this way falls below the required minimum level due to a decline in the price of OSRAM Licht shares, the Managing Board member will be required to acquire additional shares.

Rules in Connection with the Termination of Managing Board Membership

Managing Board contracts provide for a compensatory payment if membership of the Managing Board is terminated prematurely by mutual agreement, without good cause. The amount of this payment must not exceed the value of two years' remuneration (cap). The amount of the compensatory payment is calculated on the basis of the remaining term of the contract and the sum of the base remuneration plus the variable remuneration (bonus and monetary value of the stock awards granted) actually received for the last fiscal year before termination. It is payable in the month the Managing Board member leaves the Managing Board. In addition, a one-off contribution is made to the BOA, which is calculated based on the remaining term of the contract and the contribution made to the BOA in the previous year. The above benefits are not paid if the member's activity on the Managing Board is terminated prematurely at the member's request, or if there is good cause for the Company to terminate the employment relationship.

If a Managing Board member's contract ends during the course of his or her term of office, the short-term variable remuneration (bonus) for the current fiscal year is only granted on a pro rata basis and no long-term share-based remuneration (stock awards) is awarded. Stock awards already granted in connection with long-term share-based remuneration lapse without compensation. The same applies if the contract ends because the Managing Board member does not wish to extend his or her appointment at the end of the term of office, or if there is good cause that would have justified the appointment being revoked or the contract being terminated. As an exception, the Supervisory Board may decide at its professional discretion in special cases that stock awards already granted can be settled in cash on a pro rata basis (according to the portion of the lock-up period that has already elapsed) at their value as of the date of departure. However, granted stock awards do not lapse if the contract ends due to retirement, disability, or death, or in the event of a spin-off, transfer of undertakings, or a change of activity within the Group.

In the event of a change of control (if a controlling influence over OSRAM Licht AG arises as a result of a majority voting interest, an intercompany agreement, or a merger) that leads to a material change in the position of the individual Managing Board member, the member of the Managing Board will have a special right of termination. On exercise of this right of termination, the member of the Managing Board concerned is entitled to a severance payment amounting to a maximum of two years' remuneration (cap). The calculation of the annual remuneration includes the base remuneration and the performance-based remuneration (bonus and the monetary value of the stock awards granted) in the last completed fiscal year prior to termination of the contract. Any stock awards not yet due remain unaffected. In any case, shares will not be transferred in order to settle the stock awards until the applicable lock-up period has ended. There is no entitlement to a severance payment if the Managing Board member receives benefits from third parties in connection with the change of control, or if the change of control occurs within a period of twelve months prior to the Managing Board member's retirement.

Compensatory or severance payments are increased by a flat rate of 5% of the total remuneration or severance amount to cover nonmonetary benefits. In addition, compensatory or severance payments are reduced by a flat rate of 15% to account for discount effects and income earned elsewhere, if the remaining term of the Managing Board member's contract was at least six months. However, this reduction only applies to the portion of the compensatory or severance payments that was calculated without taking account of the first six months of the remaining term of the Managing Board member's contract.

D&O Insurance and Criminal Liability Insurance

D&O insurance is taken out for governing body members and certain employees of the OSRAM Licht Group. This insurance, which is taken out for a period of one year in each case, covers the personal liability of these people for financial losses arising in connection with the performance of their duties. The members of the Managing Board of OSRAM Licht AG are also the managing directors of OSRAM GmbH. Liability risks arising from this activity are also covered. The OSRAM D&O insurance policy provides for a deductible for the Managing Board of OSRAM Licht AG, which meets the requirements of the AktG.

The members of the Managing Board are also covered by the criminal liability insurance that the OSRAM Licht Group has taken out for its employees and governing body members. This insurance covers any lawyers' fees and court costs arising in connection with their defense in criminal or administrative offense proceedings.

C.4.2.2 Remuneration of OSRAM Licht AG Managing Board Members in Fiscal Year 2017

Setting of Targets

After assessing the achievement of the targets that it had set before the beginning of fiscal year 2017, the Supervisory Board of OSRAM Licht AG established the amounts of short-term variable remuneration (bonus), the stock awards to be granted as long-term share-based remuneration, and the contributions to the pension plan (BOA) at its meeting on November 6, 2017 as follows:

Short-term Variable Remuneration (Bonus)

For the short-term variable remuneration (bonus) payable to the members of the Managing Board for fiscal year 2017, the Supervisory Board defined concrete targets at Group level for organic revenue growth, the EBITA margin, and free cash flow. These targets are equally weighted. Organic revenue growth is defined as the change in the Company's revenue, adjusted for portfolio and currency effects. The EBITA margin is defined as earnings before net financial income or expense, income taxes, and amortization and impairment losses on intangible assets as a percentage of revenue. Free cash flow is calculated on the basis of the net cash provided by/used in operating activities, less cash received/paid in connection with additions to intangible assets and property, plant, and equipment. The Supervisory Board also specified that the EBITA margin and free cash flow financial indicators should be adjusted for significant transformation costs arising from the changes to operational structures under ongoing programs and for significant M&A activities when determining the level of target achievement. No other adjustments were made. Finally, before the start of the fiscal year, the Supervisory Board resolved to take particular account of the results of the 2017 staff survey, progress on the Company's strategic realignment, and the development of the SSL One project in its decision to increase or decrease the variable remuneration paid by up to 20%.

When setting the targets, the Supervisory Board took into consideration the plans for the fiscal year submitted by the Managing Board, performance compared to the results for the previous fiscal year, macroeconomic conditions, and the situation in the lighting industry. The following table shows target achievement in respect of short-term variable remuneration (bonus):

Target Achievement of Short-term Variable Remuneration (Bonus)

	33%	33%	33%
Targets	Organic revenue growth[1]	EBITA margin[1]	Free cash flow[1]
Value for 100% target achievement	6.30%	11.50%	€98.0 million
Actual value for fiscal year 2017	8.10%	11.96%	€174.9 million
Target achievement	130.0%	111.7%	159.1%
Overall target achievement[2]:		**133.6%**	

1) Adjusted.
2) Before decision about whether to increase or decrease the remuneration amounts.

Based on the results for fiscal year 2017, the Supervisory Board decided at its professional discretion to reward the success achieved in fiscal year 2017 by increasing the amounts to be paid out on the basis of the overall target achievement by 10%.

Long-term Share-based Remuneration

As in previous years, the Supervisory Board of OSRAM Licht AG decided for fiscal year 2017 to adjust the amount of the long-term share-based remuneration in line with the average earnings per share (EPS) of the OSRAM Licht Group over the past three fiscal years.

The following table shows target achievement in respect of long-term share-based remuneration:

Target Achievement of Long-term Share-based Remuneration

	Average earnings per share in fiscal years 2015 to 2017
Value for 100% target achievement	€3.19
Actual value for fiscal year 2017	€3.28
Target achievement	106.3%

In order to determine the number of stock awards to be granted, the value of the stock awards was calculated using the XETRA closing price for OSRAM Licht shares on the date of the award, less the present value of the dividends expected during the four-year lock-up period, to which the beneficiaries are not entitled, as set out in the employment contracts. This figure amounted to €64.47 (previous year: €44.21). In contrast to the procedure for measuring the stock awards, the cap on long-term share-based remuneration is not taken into account in this calculation.

Total Remuneration

Based on the above amounts determined by the Supervisory Board, the total remuneration (excluding pension commitments) of the members of the OSRAM Licht AG Managing Board who were in office during fiscal year 2017 amounted in total to €7.8 million (previous year: €5.9 million). Of this total remuneration, €5.5 million (previous year: €4.6 million) was attributable to the cash component and €2.3 million (previous year: €1.3 million) to the share-based remuneration.

Remuneration of the Members of the Managing Board for Fiscal Year 2017 Pursuant to Section 314 of the HGB and GAS 17

The total remuneration set for the members of the Managing Board for fiscal year 2017 in accordance with section 314 of the HGB and German Accounting Standard (GAS) 17 is as follows:

Remuneration of the Members of the Managing Board Pursuant to Section 314 of the HGB and GAS 17

in €

	Managing Board members in office as of September 30, 2017					
	Dr. Olaf Berlien Chairman of the Managing Board		**Ingo Bank** (from September 1, 2016) Chief Financial Officer		**Dr. Stefan Kampmann** (from July 1, 2016) Chief Technology Officer	
	Fiscal 2016	Fiscal 2017	Fiscal 2016	Fiscal 2017	Fiscal 2016	Fiscal 2017
Non-performance-based components						
Fixed remuneration (base remuneration)	900,000	900,000	50,000	600,000	150,000	600,000
Other benefits [1]	170,560	79,575	7,073	99,997	31,559	141,909
Total	**1,070,560**	**979,575**	**57,073**	**699,997**	**181,559**	**741,909**
Performance-based components						
Excluding long-term incentive effect, not share-based: Short-term variable remuneration (bonus)	1,578,600	1,322,640	87,700	881,760	263,100	881,760
Including long-term incentive effect, share-based: Long-term variable remuneration: OSRAM stock awards (lock-up period of 4 year) [2] [3]	1,098,742	993,710	60,448	655,864	181,305	655,864
Total remuneration	**3,747,902**	**3,295,925**	**205,221**	**2,237,621**	**625,964**	**2,279,533**

1) Other benefits include expenses and non-cash benefits such as the provision of company cars, contributions to insurance policies, the reimbursement of legal and tax advisory expenses, accommodation and moving costs, and costs related to preventive medical examinations.
2) The expense arising from the stock awards for members of the Managing Board of OSRAM Licht AG recognized in fiscal years 2017 and 2016 in accordance with IFRS amounted to €1.0 million for fiscal year 2017 and a net gain of €0.5 million for fiscal year 2016. The expense attributable to each member of the Managing Board in fiscal year 2017 was therefore as follows: Dr. Olaf Berlien €0.6 million (previous year: €0.4 million), Ingo Bank €0.2 million (previous year: €1 thousand), and Dr. Stefan Kampmann €0.2 million (previous year: €9 thousand).
3) As of the grant date of November 8, 2017, the fair value of one stock award based on the data in the table amounted to €60.27 (previous year: €38.55). This value was calculated using an option model, which applies a reduction taking into account the maximum variable share-based remuneration amount (cap) described above when the awarded OSRAM Licht shares are received; as a result, it differs from the value of €64.47 used to determine the number of stock awards granted. This reduction in value results in a deviation from the monetary value of a stock award used to calculate the number of shares in accordance with the employment contract. Based on target achievement of 100%, the monetary values for the members of the Managing Board in office as of September 30, 2017, were as follows: Dr. Olaf Berlien €1.0 million (previous year: €1.0 million), Ingo Bank €0.66 million (previous year: €0.055 million), and Dr. Stefan Kampmann €0.66 million (previous year: €0.165 million).

Remuneration of the Members of the Managing Board for Fiscal Year 2017 Pursuant to the German Corporate Governance Code

The total remuneration for the members of the Managing Board for fiscal year 2017 in accordance with section 4.2.5 of the German Corporate Governance Code is presented below. It includes the benefits granted for the reporting year and the benefits received in the reporting year.

Benefits Granted

The following table shows the benefits granted for fiscal year 2017, including the ancillary benefits. The minimum and maximum amounts for the performance-based remuneration components are also presented. Furthermore, the performance-based remuneration is broken down into short-term remuneration (bonus) and long-term remuneration (stock awards). Unlike in the presentation of remuneration pursuant to section 314 of the HGB and GAS 17, the short-term remuneration component (bonus) is shown with the value for 100% target achievement. For the long-term remuneration (stock awards), the fair value at the time of grant is shown. These stock awards, in the form of shares in OSRAM Licht AG, are only transferred to the Managing Board members once the lock-up period of roughly four years has expired. The service cost pursuant to IAS 19 is also factored into the total remuneration.

Benefits Granted

in €

	Managing Board members in office as of September 30, 2017			
Dr. Olaf Berlien Chairman of the Managing Board	Fiscal 2016	Fiscal 2017	Fiscal 2017 (Min.)	Fiscal 2017 (Max.)
Non-performance-based components				
Fixed remuneration (base remuneration)	900,000	900,000	900,000	900,000
Ancillary benefits[1]	170,560	79,575	79,575	79,575
Total	**1,070,560**	**979,575**	**979,575**	**979,575**
Performance-based components				
Excluding long-term incentive effect, not share-based Short-term variable remuneration (bonus)	900,000	900,000	0	2,160,000
Including long-term incentive effect, share-based Long-term variable remuneration: OSRAM stock awards (lock-up period of 4 year)[2) 3)]	1,098,742	993,710	0	2,500,000
Total	**3,069,302**	**2,873,285**	**979,575**	**5,639,575**
Service cost	547,315	518,539	518,539	518,539
Total remuneration	**3,616,617**	**3,391,824**	**1,498,114**	**6,158,114**
Ingo Bank (from September 1, 2016) Chief Financial Officer				
Non-performance-based components				
Fixed remuneration (base remuneration)	50,000	600,000	600,000	600,000
Ancillary benefits[1]	7,073	99,997	99,997	99,997
Total	**57,073**	**699,997**	**699,997**	**699,997**
Performance-based components				
Excluding long-term incentive effect, not share-based Short-term variable remuneration (bonus)	50,000	600,000	0	1,440,000
Including long-term incentive effect, share-based Long-term variable remuneration: OSRAM stock awards (lock-up period of 4 year)[2) 3)]	60,448	655,864	0	1,650,000
Total	**167,521**	**1,955,861**	**699,997**	**3,789,997**
Service cost	28,395	340,874	340,874	340,874
Total remuneration	**195,916**	**2,296,735**	**1,040,871**	**4,130,871**
Dr. Stefan Kampmann (from July 1, 2016) Chief Technology Officer				
Non-performance-based components				
Fixed remuneration (base remuneration)	150,000	600,000	600,000	600,000
Ancillary benefits[1]	31,559	141,909	141,909	141,909
Total	**181,559**	**741,909**	**741,909**	**741,909**
Performance-based components				
Excluding long-term incentive effect, not share-based Short-term variable remuneration (bonus)	150,000	600,000	0	1,440,000
Including long-term incentive effect, share-based Long-term variable remuneration: OSRAM stock awards (lock-up period of 4 year)[2) 3)]	181,305	655,864	0	1,650,000
Total	**512,864**	**1,997,773**	**741,909**	**3,831,909**
Service cost	86,450	345,800	345,800	345,800
Total remuneration	**599,314**	**2,343,573**	**1,087,709**	**4,177,709**

1) Ancillary benefits include expenses and non-cash benefits such as the provision of company cars, contributions to insurance policies, the reimbursement of legal and tax advisory expenses, accommodation and moving costs, and costs related to preventive medical examinations.
2) The expense arising from the stock awards for members of the Managing Board of OSRAM Licht AG recognized in fiscal years 2017 and 2016 in accordance with IFRS amounted to €1.0 million for fiscal year 2017 and a net gain of €0.5 million for fiscal year 2016. The expense attributable to each member of the Managing Board in fiscal year 2017 was therefore as follows: Dr. Olaf Berlien €0.6 million (previous year: €0.4 million), Ingo Bank €0.2 million (previous year: €1 thousand), and Dr. Stefan Kampmann €0.2 million (previous year: €9 thousand).
3) As of the grant date of November 8, 2017, the fair value of one stock award based on the data in the table amounted to €60.27 (previous year: €38.55). This value was calculated using an option model, which applies a reduction taking into account the maximum variable share-based remuneration amount (cap) described above when the awarded OSRAM Licht shares are received; as a result, it differs from the value of €64.47 used to determine the number of stock awards granted. This reduction in value results in a deviation from the monetary value of a stock award used to calculate the number of shares in accordance with the employment contract. Based on target achievement of 100%, the monetary values for the members of the Managing Board in office as of September 30, 2017, were as follows: Dr. Olaf Berlien €1.0 million (previous year: €1.0 million), Ingo Bank €0.66 million (previous year: €0.055 million), and Dr. Stefan Kampmann €0.66 million (previous year: €0.165 million).

Benefits Received

As some components of the remuneration granted to the members of the Managing Board for a particular fiscal year are not paid in that same fiscal year, a separate table is used to show how much they actually receive in the fiscal year. The non-performance-based remuneration and the performance-based short-term remuneration (bonus) are shown as being received in the year in which they are granted. The performance-based long-term remuneration (stock awards) is deemed to have been received at the time and in the amount that are applicable for the purposes of German tax law. The service cost constitutes the pension contributions made; strictly speaking, it is not an amount that is received.

Benefits Received

in €

	Managing Board members in office as of September 30, 2017					
	Dr. Olaf Berlien Chairman of the Managing Board		**Ingo Bank** (from September 1, 2016 Chief Financial Officer		**Dr. Stefan Kampmann** (from July 1, 2016) Chief Technology Officer	
	Fiscal 2016	Fiscal 2017	Fiscal 2016	Fiscal 2017	Fiscal 2016	Fiscal 2017
Non-performance-based components						
Fixed remuneration (base remuneration)	900,000	900,000	50,000	600,000	150,000	600,000
Ancillary benefits [1]	170,560	79,575	7,073	99,997	31,559	141,909
Total	**1,070,560**	**979,575**	**57,073**	**699,997**	**181,559**	**741,909**
Performance-based components						
Excluding long-term incentive effect, not share-based Short-term variable remuneration (bonus)	1,578,600	1,322,640	87,700	881,760	263,100	881,760
Including long-term incentive effect, share-based Long-term variable remuneration: OSRAM stock awards (lock-up period of 4 years)	0	0	0	0	0	0
Total	**2,649,160**	**2,302,215**	**144,773**	**1,581,757**	**444,659**	**1,623,669**
Service cost	547,315	518,539	28,395	340,874	86,450	345,800
Total remuneration	**3,196,475**	**2,820,754**	**173,168**	**1,922,631**	**531,109**	**1,969,469**

1) Ancillary benefits include expenses and non-cash benefits such as the provision of company cars, contributions to insurance policies, the reimbursement of legal and tax advisory expenses, accommodation and moving costs, and costs related to preventive medical examinations.

Additional Disclosures on Share-based Payment Instruments in Fiscal Year 2017

The stock awards held by members of the Managing Board who were in office during fiscal year 2017 changed as follows in fiscal year 2017:

Stock Awards Held by Current Members of the Managing Board

Quantity

	Beginning of fiscal year 2017	Granted in fiscal year 2017 [1]	Transferred in fiscal year 2017 after expiry of lock-up period	Lapsed in fiscal year 2017	End of fiscal year 2017 [2]
	Unvested stock awards	Stock awards	Stock awards	Stock awards	OSRAM stock awards
Managing Board members in office as of September 30, 2017					
Dr. Olaf Berlien	25,825	28,501	0	0	54,326
Ingo Bank [3]	0	7,789	0	0	7,789
Dr. Stefan Kampmann	0	4,703	0	0	4,703
Total	**25,825**	**40,993**	**0**	**0**	**66,818**

1) In fiscal year 2017, the fair value at the grant date of the stock awards granted in November 2016 was €38.55 per share awarded (previous year: €28.96).
2) Stock awards granted in November 2017 (fiscal year 2018) as remuneration for fiscal year 2017 are not included in these figures. Please see the above disclosures for further information.
3) This figure contains 6,221 stock awards that were granted to Ingo Bank in fiscal year 2017 in accordance with the provisions of his employment contract as compensation for the disadvantages that he incurred in connection with moving from his former employer to OSRAM; these stock awards are governed by the terms and conditions of the stock awards that were granted to the members of the Managing Board on November 10, 2016.

Pension Commitments

The amount of the contributions to the OSRAM Defined Contribution Benefit Plan (BOA) is determined by the Supervisory Board on an annual basis. The contributions to the BOA are credited to the plan members' personal pension accounts in the January following the end of the fiscal year concerned, with a value date of January 1. Interest is credited (guaranteed interest) to the pension account on January 1 each year until the pension becomes payable. OSRAM Licht AG granted BOA contributions of €1.2 million for fiscal year 2017 for the work performed by the members of the Managing Board who were in office during fiscal year 2017 based on a Supervisory Board resolution dated November 6, 2017 (previous year: €0.9 million). The contributions were credited to the members' individual pension accounts.

The following overview shows, among other things, the contributions (additions) made to the BOA for fiscal year 2017 for the Managing Board members who were in office during fiscal year 2017:

Overview of Pension Commitments to Members of the Managing Board

in €

	Total contribution for		Present value of all pension commitments excluding deferred compensation[1]	
	Fiscal 2017	Fiscal 2016	Fiscal 2017	Fiscal 2016
Managing Board members in office as of September 30, 2017				
Dr. Olaf Berlien	504,000	504,000	1,379,127	908,026
Ingo Bank	336,000	28,000	365,599	28,395
Dr. Stefan Kampmann	336,000	84,000	420,974	86,450

1) As of September 30, 2016/2017.

As of September 30, 2017, the present value of all pension commitments for former members of the Managing Board of OSRAM Licht AG and their dependents totaled €5.0 million (previous year: €5.3 million).

Other Information

In fiscal year 2017, members of the Managing Board did not receive any advances or loans from the Company.

C.4.2.3 Remuneration of Members of the Supervisory Board

The remuneration of the members of the Supervisory Board is governed by section 12 of the Articles of Association of OSRAM Licht AG, which stipulates the following base remuneration: €120 thousand for the Chairman of the Supervisory Board, €100 thousand for each Deputy Chairman of the Supervisory Board, and €65 thousand for the other Supervisory Board members. The Chairman of the Audit Committee receives an additional €50 thousand, and each further member of the Audit Committee €15 thousand; the Chairman of the Executive Committee receives €20 thousand, and each further member of the Executive Committee €10 thousand. The Chairman of the Strategy and Technology Committee receives an additional €15 thousand, and each further member €10 thousand. However, the additional remuneration for activities on Supervisory Board committees is limited to a total of €50 thousand for the Chairman of the Audit Committee, €22.5 thousand for the Chairman of any other committee in respect of which remuneration is paid, and €15 thousand for all other members of the Supervisory Board.

If a Supervisory Board member does not participate in a Supervisory Board meeting, one-third of the total remuneration described above is reduced by a percentage equal to the number of meetings the Supervisory Board member did not attend relative to the total number of meetings held in the fiscal year. The members receive €500 in each case for attendance at meetings of the full Supervisory Board or the committees. Supervisory Board members who do not belong to the Supervisory Board or a committee for a full fiscal year, or who do not hold the position of chairman for a full year, receive the remuneration on a pro rata basis, with parts of months being rounded up to full months.

Based on these provisions, the remuneration in fiscal year 2017 is as follows:

Remuneration of Members of the Supervisory Board

in €

	Fiscal year 2017				Fiscal year 2016			
	Base remuneration	Additional remuneration for activities on committees[2]	Attendance fees	Total remuneration	Base remuneration	Additional remuneration for activities on committees	Attendance fees	Total remuneration
Supervisory Board members of OSRAM Licht AG in office as of September 30, 2017[1]								
Peter Bauer	120,000	22,500	7,500	150,000	120,000	22,500	10,500	153,000
Michael Knuth[3]	100,000	15,000	8,000	123,000	100,000	15,000	11,500	126,500
Dr. Christine Bortenlänger	65,000	15,000	5,500	85,500	65,000	15,000	8,500	88,500
Dr. Werner Brandt	65,000	50,000	5,500	120,500	63,194	48,611	8,000	119,806
Dr. Roland Busch	94,444	14,167	7,500	116,111	94,444	14,167	10,000	118,611
Prof. Dr. Lothar Frey	65,000	10,000	4,500	79,500	63,194	9,722	7,000	79,917
Frank H. Lakerveld	65,000	10,000	4,500	79,500	65,000	10,000	7,500	82,500
Alexander Müller[3] [4]	37,917	7,500	2,500	47,917	–	–	–	–
Ulrike Salb	65,000	7,500	4,000	76,500	37,917	–	3,500	41,417
Irene Schulz[3]	65,000	15,000	5,500	85,500	57,778	13,333	6,000	77,111
Irene Weininger[3] [5]	32,500	5,000	2,000	39,500	–	–	–	–
Thomas Wetzel[3]	65,000	15,000	6,000	86,000	63,194	9,722	6,500	79,417
Former Supervisory Board members of OSRAM Licht AG								
Hubert Roßkopf[3] [6]	32,500	12,500	3,500	48,500	65,000	15,000	10,000	90,000
Willi Sattler[3] [7]	32,500	10,000	3,500	46,000	65,000	15,000	10,500	90,500
Total	**904,861**	**209,167**	**70,000**	**1,184,028**	**859,721**	**188,055**	**99,500**	**1,147,279**

1) Peter Bauer, Michael Knuth, Dr. Christiane Bortenlänger, Dr. Werner Brandt, Dr. Roland Busch, Professor Dr. Lothar Frey, Frank H. Lakerveld, Alexander Müller, Irene Schulz, and Thomas Wetzel were also members of the Supervisory Board of OSRAM GmbH in fiscal year 2017. The Chairman of the Supervisory Board of OSRAM GmbH receives annual remuneration of €7,500 and all other members receive €5,000. No additional remuneration is paid for activities on the committees of the OSRAM GmbH Supervisory Board. Equally, no attendance fees are granted. In the event of changes in the Supervisory Board of OSRAM GmbH, the remuneration is paid on a pro rata basis, with parts of months being rounded up to full months. If a Supervisory Board member does not participate in a Supervisory Board meeting, one-third of the total remuneration due is reduced by a percentage equal to the number of meetings the Supervisory Board member did not attend relative to the total number of meetings held in the fiscal year. The aforementioned members of the Supervisory Board of OSRAM Licht AG received the following base remuneration for their activities on the OSRAM GmbH Supervisory Board: Peter Bauer as Chairman of the Supervisory Board of OSRAM GmbH €7,500, Michael Knuth €4,444, Dr. Werner Brandt €4,444, Dr. Roland Busch €3,889, Frank H. Lakerveld €4,444, and all other members of the Supervisory Board €5,000.
2) The following people each received additional remuneration for their activities on committees in fiscal year 2017: Peter Bauer as Chairman of the Supervisory Board of OSRAM Licht AG, of the Executive Committee, and of the Strategy and Technology Committee; Dr. Christine Bortenlänger as a member of the Audit Committee; Dr. Werner Brandt as Chairman of the Audit Committee; Dr. Roland Busch as Deputy Chairman of the Supervisory Board and a member of the Executive Committee and the Audit Committee; Professor Dr. Lothar Frey as a member of the Strategy and Technology Committee; Michael Knuth as Deputy Chairman of the Supervisory Board and a member of the Executive Committee, the Audit Committee (until April 3, 2017), and the Strategy and Technology Committee (from April 3, 2017); Frank H. Lakerveld as a member of the Strategy and Technology Committee; Alexander Müller as a member of the Audit Committee (from April 3, 2017); Hubert Roßkopf as a member of the Audit Committee and the Strategy and Technology Committee (in both cases until March 2, 2017); Ulrike Salb as a member of the Audit Committee (from April 3, 2017), Willi Sattler as a member of the Executive Committee and the Strategy and Technology Committee (in both cases until March 2, 2017); Irene Schulz as a member of the Audit Committee; Irene Weininger as a member of the Strategy and Technology Committee (from April 3, 2017); Thomas Wetzel as a member of the Executive Committee (from April 3, 2017) and the Strategy and Technology Committee. This remuneration was paid on a pro rata basis where they assumed their activities on the committees during the fiscal year.
3) The employee representatives on the Supervisory Board, who represent the employees in accordance with section 3(1) no. 1 of the MitbestG, and the trade union representatives on the Supervisory Board have stated that they pay their remuneration to the Hans Böckler Foundation, in accordance with the guidelines of the German Confederation of Trade Unions.
4) Alexander Müller was appointed as a member of the Supervisory Board of OSRAM Licht AG by way of an order of the Munich local court dated March 28, 2017 and received on March 31, 2017.
5) Irene Weininger was appointed as a member of the Supervisory Board of OSRAM Licht AG by way of an order of the Munich local court dated March 28, 2017 and received on April 1, 2017.
6) Hubert Roßkopf stepped down as a member of the Supervisory Board of OSRAM Licht AG as of the end of March 2, 2017.
7) Willi Sattler stepped down as a member of the Supervisory Board of OSRAM Licht AG as of the end of March 2, 2017.

Members of the Supervisory Board did not receive any loans or advances from the Company in fiscal year 2017.

C.4.3 Corporate Governance Declaration

The corporate governance declaration for fiscal year 2017 is made in accordance with sections 289a and 315(5) of the HGB[1]. According to section 317(2) sentence 3 of the HGB, the disclosures in accordance with sections 289a and 315(5) of the HGB[1] should not be included in the audit.

C.4.3.1 Declaration of Conformity with the German Corporate Governance Code

On September 26, 2017, the Managing Board and Supervisory Board of OSRAM Licht AG issued the following declaration of conformity with the German Corporate Governance Code in accordance with section 161 of the AktG:

"OSRAM Licht AG complies with all of the recommendations of the German Corporate Governance Code (the 'Code') in the version dated February 7, 2017, published by the Federal Ministry of Justice in the official section of the Bundesanzeiger (Federal Gazette), and will also comply with these in the future.

In the period since the last declaration of conformity dated September 27, 2016, was issued, OSRAM Licht AG has complied with all the recommendations of the Code in the version dated May 5, 2015.

Munich, September 26, 2017

OSRAM Licht AG
The Managing Board The Supervisory Board"

C.4.3.2 Disclosures on Corporate Governance Practices

Suggestions in the Code

OSRAM Licht AG also voluntarily complies with the non-mandatory suggestions in the German Corporate Governance Code in the version dated February 7, 2017 (the 'Code'), with the following single exception:

In contrast to the suggestion contained in section 2.3.2 of the Code, no proxy will be reachable during the Annual General Meeting of OSRAM Licht AG by shareholders who are not present or represented at the Annual General Meeting.

Company Values, Business Conduct Guidelines, and Compliance Management System

Technical performance, innovation, quality, reliability, and an international reach are the basis for OSRAM's excellent reputation as one of the leading companies in the lighting industry. We will continue to build on our outstanding achievements and high ethical standards in the future.

1) In the version applicable to OSRAM Licht AG according to article 80 sentence 2 of the *Einführungsgesetz zum Handelsgesetzbuch* (EGHGB—Introductory Act to the German Commercial Code) and valid until April 18, 2017.

Our Business Conduct Guidelines form the legal and ethical framework within which we do business. They contain corporate governance practices that are applied above and beyond the legal requirements, as well as basic principles and rules for our conduct both internally and toward our external partners and the public. The guidelines demonstrate how we meet our ethical and legal responsibilities as a company, and express our company values: 'innovative—respectful—entrepreneurial'.

The Business Conduct Guidelines can be downloaded at » http://www.osram-group.de/de-DE/sustainability/economic/compliance.

The Business Conduct Guidelines are an integral element of the compliance management system in place at OSRAM. This system is aimed at fostering a corporate culture that prevents breaches of rules that would incur penalties and fines, thereby avoiding sanctions, financial loss, and reputational damage for both the Company and its employees. Conduct rules in respect of anticorruption measures and antitrust law lie at the heart of the compliance management system due to their significance for the Group and for the fulfillment of supervisory obligations in the Company. OSRAM's compliance management system supports the Managing Board and Supervisory Board in meeting their statutory responsibilities and fulfilling their duties of care in terms of the appropriate and effective management of compliance risks in the Group and the related supervisory obligations.

From an organizational perspective, the compliance management system consists of employees at the headquarters and in the regions. Around 15 employees work in this area, six of whom are based at our head office in Munich, Germany. The Chief Compliance Officer reports to the Chairman of the Managing Board.

OSRAM's compliance management system is designed to prevent possible breaches of the applicable anticorruption and antitrust laws. To this end, a corporate policy on compliance supplements, and defines in more detail, the conduct rules on tackling corruption and dealing with competitors that are set out in the Business Conduct Guidelines. The compliance management system is based on a 'prevent—detect—respond' approach.

An important aspect of the compliance management system is training, both classroom-based and online, which is mandatory for employees at certain functional levels or in certain functional groups. OSRAM also has a number of IT-based tools for dealing with compliance-related risks. For example, we classify our business partners according to particular criteria, such as the prevalence of corruption in the country in which the partner operates. We have also established a tools-based process that defines how to handle and approve hospitality events. Our code of conduct for suppliers obliges our suppliers to comply with internationally and nationally recognized standards, such as the UN's Universal Declaration of Human Rights, the ILO's Declaration on Fundamental Principles and Rights at Work, and the OECD's Guidelines for Multinational Enterprises.

Compliance risk assessments are regularly carried out at unit level in order to identify compliance risks and make continuous improvements to the Group-wide compliance management system. Senior management conduct half-yearly controls and the compliance organization conduct yearly controls of the business as part of the internal control system.

Another element of OSRAM's compliance management system is the 'Tell OSRAM' whistleblowing system, which employees and third parties can use to report breaches of compliance rules. All reports are followed up and, if there is specific evidence, internal compliance investigations are conducted. Once an investigation has been completed, we recommend measures to eliminate the deficiencies identified and we monitor their implementation. If we ascertain misconduct on the part of our employees, we take disciplinary measures under employment law if appropriate.

The compliance management system is reviewed for practicality and effectiveness on an ongoing basis; adjustments and refinements are made as necessary.

C.4.3.3 Description of the Working Practices of the Managing Board and the Supervisory Board, as well as of the Composition and Working Practices of the Supervisory Board Committees

The composition of the Supervisory Board committees (currently the Executive Committee, Audit Committee, Nomination Committee, Mediation Committee, and Strategy and Technology Committee) can be found in › Note 37 I Supervisory Board and Managing Board in B.6 Notes to the Consolidated Financial Statements. This Note also reports on the composition of the Managing Board and Supervisory Board. The composition of the boards is also available online at » www.osram-group.com.

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A general description of the tasks and working practices of the Managing Board and Supervisory Board can be found under the heading 'Management and Control Structure' in › C.4.1 Corporate Governance Report.

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Further details on the working practices of the Managing Board and the Supervisory Board are contained in the disclosures on the committees and in the bodies' rules of procedure. These documents are published on the Company's website at » www.osram-group.com. Related disclosures can also be found in › C.3 Report of the Supervisory Board and › C.4.1 Corporate Governance Report.

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C.4.3.4 Targets for the Proportion of Women on the Managing Board, Supervisory Board, and in Senior Management

On July 28, 2015, the Supervisory Board set the target for the proportion of women on the Managing Board to be achieved by June 30, 2017 at 0% because of the existing terms of appointment for the members of the Managing Board in post at that time and because of the short period of time before the first mandatory measurement of target achievement. However, at the same time, the Supervisory Board asked its Executive Committee to give particular consideration to female candidates for future Managing Board positions in its long-term succession planning. The Supervisory Board followed this principle during the recruitment process for the Managing Board in fiscal year 2016, although the appointment ultimately made (by comparing the skills of the candidates) did not result in a higher proportion of female Managing Board members. On July 26, 2017, the Supervisory Board then set the target for the proportion of women on the Managing Board to be achieved by June 30, 2022 at 25%.

On September 15, 2015, the Managing Board set targets for the proportion of women in the first and second levels of management below the Managing Board at OSRAM Licht AG and in the Group as a whole (in Germany, in both cases) that were to be achieved by June 30, 2017. The target for OSRAM Licht AG was set at 22.2% for the first level of management and 35% for the second level. For the Group as a whole, the target for both levels was set at 15%. As of June 30, 2017, the proportion of women at OSRAM Licht AG was 24% in the first level of management and 25% in the second level. The proportion of female managers in the first two levels in the Group as a whole was 14% as of June 30, 2017.

The target for the first level of management at OSRAM Licht AG was thus exceeded by 2 percentage points and the target for the second level was missed by 10 percentage points. It should be noted that, because OSRAM Licht AG is the Group's holding company, it only has a small number of managerial positions, which means even just a small number of changes leads to significant percentage changes. The target for the first two levels of management in the Group as a whole, which is more meaningful, was missed by 1 percentage point. The primary reason for this was the sale of the former general lighting lamps business (now LEDVANCE), which had a disproportionately high number of female managers. These women left the OSRAM Group when LEDVANCE was sold in March 2017. Nevertheless, the proportion of female managers has been increased compared with September 2015 as a result of various targeted measures. This positive overall trend paves the way for the intended further strengthening of the number of women in managerial roles at OSRAM.

On July 13, 2017, the Managing Board therefore set the target for the proportion of women in the first level of OSRAM Licht AG's management to be achieved by June 30, 2022 at 34% and an equivalent target for the second level of management at 30%. For the Group as a whole, the target for both levels to be achieved by June 30, 2022 was set at 17.5%.

In relation to the target for the proportion of women on the Supervisory Board, the Supervisory Board decided on July 28, 2015 that at least three of the positions on the Supervisory Board should be occupied by women by the next regular election of members of the Supervisory Board. On May 2, 2017, the Supervisory Board also decided with regard to its composition targets (see S Page 159 › C.4.1 Corporate Governance Report) that it would aim for its members to have experience in a variety of professions, as well as international experience, and, in particular, for both genders to be adequately represented in order to ensure the diversity of its membership. In accordance with the requirements of section 96(2) sentence 1 of the AktG, at least 30% of Supervisory Board members must be women and at least 30% must be men. The fulfillment of these quotas is regarded as a separate responsibility for the shareholder representatives and the employee representatives pursuant to section 96(2) sentence 3 of the AktG. As of September 30, 2017, four of the Company's Supervisory Board members were female, of whom three were employee representatives. The minimum quota of 30% pursuant to section 96(2) sentence 1 of the AktG is thus met by the employee representatives but not yet by the shareholder representatives. The reason why the quota is not fulfilled by the shareholder representatives is that no new shareholder representatives have joined the Supervisory Board since the provision pursuant to section 96(2) sentence 1 of the AktG came into force. Shareholder representatives will be elected to the Supervisory Board at the Company's Annual General Meeting in February 2018, when the nominations submitted to the shareholders will include at least two female candidates.

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