

3-Month Report

2003/2004



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Q1



CARL ZEISS MEDITEC

The first quarter 2003/2004 at a glance

Strategic milestones

- ▶ Acquisition of software specialist hiko medical communication aimed at exploiting potential in the intelligent networking of equipment and systems
- ▶ Presentation of new products and technologies at the world's largest ophthalmology trade fair AAO
- ▶ Initiative launched for a selective increase in market penetration
- ▶ Consistent working capital management contributes to the further improvement in operative cash flow

Overview of business development

(in € '000)

	3-Month Report 2003/2004	3-Month Report 2002/2003	Change
Consolidated sales¹	58,403	60,400	▼ - 3.3%
Earnings before interest and taxes (EBIT)¹	6,138	6,133	▲ + 0.1%
<i>EBIT margin¹ (%)</i>	<i>10.5</i>	<i>10.2</i>	▲ + 0.3 Pts. %
Consolidated net income from continuing operations¹	3,507	3,019	▲ + 16.2%
<i>Earnings per share (continuing operations)¹ (€)</i>	<i>0.12</i>	<i>0.12</i>	+ 0.0%
Consolidated net income	3,507	2,532	▲ + 38.5%
<i>Earnings per share (€)</i>	<i>0.12</i>	<i>0.10</i>	▲ + 20.0%
<i>Weighted average number of shares outstanding (in thousand)</i>	<i>28,402</i>	<i>25,833</i>	▲ + 9.9%
	31 December 2003	30 September 2003	
Cash and cash equivalents	43,426	45,015	▼ - 3.5%
Trade accounts receivable	25,392	30,344	▼ - 16.3%
<i>Days of sales outstanding (days)</i>	<i>53.5</i>	<i>59.1</i>	▼ - 9.5%
<i>Net working capital</i>	<i>38,223</i>	<i>41,413</i>	▼ - 7.7%
Liabilities	74,799	81,298	▼ - 8.0%
<i>Net Debt</i>	<i>18,784</i>	<i>24,194</i>	▼ - 22.4%
<i>Equity ratio (%)</i>	<i>61.0</i>	<i>59.0</i>	▲ + 2.0 Pts. %
	3-Month Report 2003/2004	3-Month Report 2002/2003	
Cash flow from operating activities	5,006	1,951	▲ + 156.6%
Cash flow per share (€)	0.18	0.08	▲ + 125.0%

¹ In the previous financial year adjusted for discontinued operations

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*Dear Shareholders,
Ladies and Gentlemen,*

Following a financial year 2002/2003 marked by restructuring measures, in the current financial year we will be concentrating on setting the stage for the achievement of our long-term growth targets. With the acquisition of software specialist hiko medical communication GmbH ("hiko") in the first three months of the current financial year we have secured the necessary resources and know-how for the further expansion of our equipment and systems business in the form of special cross-platform software solutions for the ophthalmic field. At the same time we have launched a broad sales drive aimed at further exploiting potential in the growth market for ophthalmology. This will give an additional push to our already existing worldwide market penetration. In addition, we have intensified our endeavours in the field of research and development. We presented the results of our activities in this sector at the world's largest ophthalmology trade fair, organised by the American *Academy of Ophthalmology* (AAO) at Anaheim, California (USA). Our exhibits included major new products in the field of refractive surgery, such as the CRS-Master™ and the new Humphrey® Glaucoma Progression Analysis (GPA™) software. A further highlight was the PreView PHP diagnostic unit, which can be used to obtain exact measurements of retinal functions.

In vital sectors, the business situation at Carl Zeiss Meditec has continued to exhibit an upward trend. Despite the fact that we experienced a slight decline in sales of 3.3% to € 58.4m due to the development of exchange rates - based on constant exchange rates sales would have risen by 6.7% to €64.5m - we were able to further improve our profitability. In particular, innovative products helped to boost our gross margin by 3.3 percentage points to 43.7% (previous year: 40.4%). This was accompanied by an improvement in the EBIT margin from 10.2% to 10.5%. This corresponds to an EBIT of € 6.1m (previous year: € 6.1m), thus compensating for increased costs in research and development as well as marketing and sales. It enabled the realisation of major investment projects intended as a basis for securing future growth, at the same time improving profits. This manifested itself in the consolidated net income, which at € 3.5m showed an increase of more than a third compared to the previous year. Despite the greater number of shares compared to the previous year, earnings per share therewith increased to € 0.12 (previous year: € 0.10).

A substantial improvement has been achieved in operative cash flow. Compared to the first quarter of the previous year, the latter rose by 156.6% to € 5.0m (previous year: € 2.0m). This enabled the acquisition of hiko to be financed almost completely from cash flow from operating activities. Existing liquidity reserves thus remained untouched.

We continue to uphold our target of doubling sales in the next five years with an EBIT margin of at least 15%. Development in this direction will not, however, be linear. In particular, forecasts of trends in exchange rate influences on sales have proved increasingly difficult. Nevertheless, the quarterly report in hand confirms that the highest priority should be placed on a further rapid increase in operative profitability, in addition to investing in innovative products and sales structures.

► *Members of the
Management Board*

*From left to right:
Bernd Hirsch
Dr Walter-Gerhard Wrobel
Ulrich Krauss*



In the light of imponderabilities with regard to future trends in exchange rates from the US dollar and Japanese yen to the euro, in the current financial year we anticipate a growth in sales in the single-digit range compared to the previous year. However, had exchange rates remained constant, this growth would have been considerably greater. Our profitability is to be further improved: Due to the elimination of extraordinary tax effects from the previous year, in the financial year 2003/2004 we anticipate an above-average improvement in the return on sales.

We will continue to selectively expand our investor relations activities. In addition, we are endeavouring to boost the level of awareness of our company and achieve a more closely-knit relationship to our investors. Our strategic goal in this respect remains the admission to the TecDAX, although this will admittedly be influenced by the development of other listed companies and possible stock market flotations this year.

A handwritten signature in blue ink, appearing to read 'Ulrich Krauss'.

Ulrich Krauss
President and CEO

A handwritten signature in blue ink, appearing to read 'Bernd Hirsch'.

Bernd Hirsch
*Member of the
Management Board*

A handwritten signature in blue ink, appearing to read 'Dr. Walter-Gerhard Wrobel'.

Dr Walter-Gerhard Wrobel
*Member of the
Management Board*

Management report to the consolidated interim financial statement

1. Executive summary

Despite the adverse effect on sales caused by the deterioration of exchange rates Carl Zeiss Meditec AG ("Carl Zeiss Meditec", "the Company") was able to further improve its operative profitability in the first quarter of the current financial year. Compared to the same period of the previous year, consolidated sales decreased slightly by 3.3% to € 58.4 m (previous year: € 60.4m). Had exchange rates remained constant, however, sales would have increased by 6.7% to € 64.5m. Innovative products were the driving force behind the gross margin of 43.7%, constituting an increase of 3.3 percentage points over the previous year. The EBIT margin thus increased to 10.5% (previous year: 10.2%) and the EBIT amounted to € 6.1m (previous year: € 6.1m). In the reporting period, consolidated net income rose by more than a third to € 3.5m (previous year: € 2.5m).

The system for the monitoring and controlling of working capital introduced in the past year has contributed to a reduction in accounts receivable and inventories shown in the balance sheet. Besides consolidated net income, this was a major prerequisite for a substantial improvement in cash flow from operating activities: The latter increased by 156.6% to € 5.0m (previous year: € 2.0m) over the comparative period of the previous year. This was a major prerequisite for enabling the Company to finance the acquisition of software specialist hiko medical communication GmbH ("hiko") substantially from cash flow. Equity ratio improved again and amounts to 61.0% (30 September 2003: 59.0%).

2. Structure of the financial statements

The following aspects must be borne in mind with regard to the structure of the consolidated financial statements:

- **Expansion of the reporting entity:** On 17 December 2003 Carl Zeiss Meditec acquired a 100% interest in hiko medical communication GmbH of Pirmasens, Germany. Accordingly, from this date onwards the activities of hiko are reflected in the consolidated financial statements of Carl Zeiss Meditec.
- **Reporting of discontinued operations:** With effect from 1 May 2003, in the past financial year Carl Zeiss Meditec sold off the Aesthetic and Dental divisions that were not part of its core business to the Italian companies EL.EN S.p.A., Florence, Italy, and Quanta System S.p.A., Milan, Italy. In accordance with the accounting rules set forth in SFAS No. 144 this disposal was identified as "discontinued operations". Accordingly, the contributions to sales and expenses generated in this sector were aggregated in the previous year's consolidated income statement and shown separately. The revenue from the sale of business units is shown at the bottom of the income statement ("Consolidated net income from discontinued operations"). In the 2003/2004 financial year no entry has been made for discontinued operations.

3. Sales trends

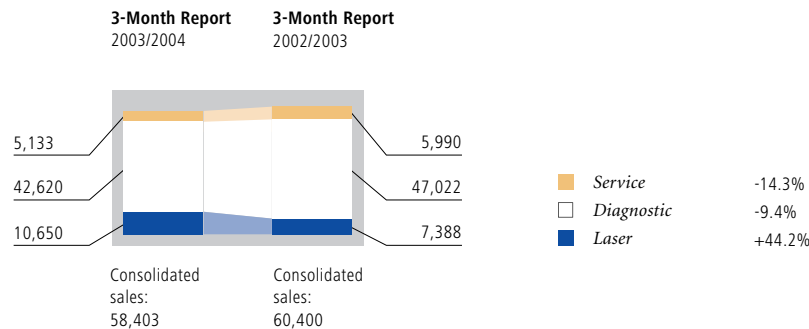
The exchange rate relations from US dollar and Japanese yen to the euro deteriorated considerably in the reporting period to the disadvantage of the euro. In both of these currency zones, however, Carl Zeiss Meditec generated a substantial part of its sales: 53.5% of consolidated sales were generated in the Americas alone, a further 17.4% in the Asia/Pacific region. Currency developments thus also exerted an influence on the sales trends of Carl Zeiss Meditec. Compared to the previous year, consolidated sales in the first quarter fell slightly (3.3%) from € 60.4m to € 58.4m. Had the exchange rates remained constant, however, sales would have increased by 6.7% to € 64.5m.

In the field of diagnostic equipment, the main sales generators were the STRATUSocT™, HFA III, IOLMaster® and the fundus cameras VISUCAM™ C and VISUCAM™ lite. In the field of therapeutic systems, sales were spearheaded by the MEL 80™ refractive laser, the VISULAS™ 532s and the VISULAS™ YAG II plus. Impressive evidence of the pre-eminence of Carl Zeiss Meditec products was delivered in the first quarter at the world's largest ophthalmology trade fair organised by the *American Academy of Ophthalmology (AAO)*. At the AAO, a key trade fair for the whole industry, the Company posted a record order intake with an increase of almost 40% over the previous year.

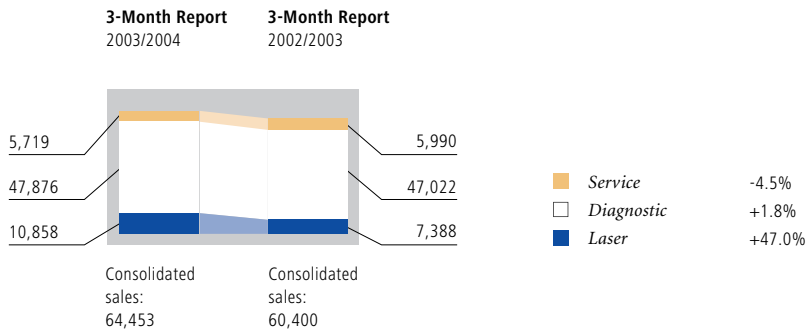
The following table shows a breakdown of consolidated sales for the first three months of the current financial year by business segment:

Consolidated sales
by business segment

(in € '000)



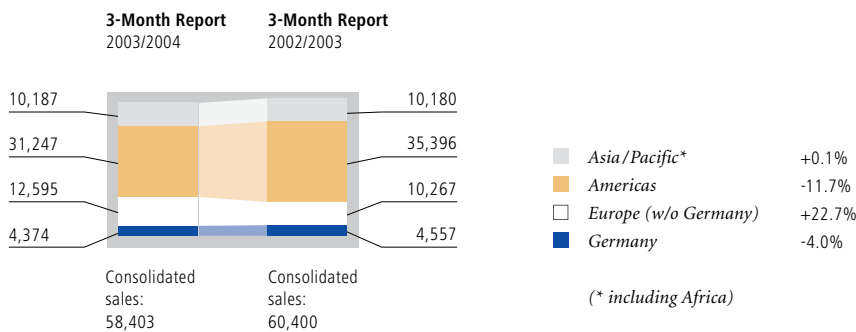
There has been a shift in the overall breakdown of consolidated sales by business segment on the basis of constant exchange rates: In this case the diagnostic sector would have increased by 1.8% to € 47.9m compared to € 47.0m in the previous year; revenue in the service business would have decreased by 4.5% to € 5.7m (previous year: € 6.0m). Sales of laser systems would have increased by 47.0% to € 10.9m.



Consolidated sales by business segment on the basis constant exchange rates

(in € '000)

A breakdown of sales by region demonstrates that Carl Zeiss Meditec has been able to stand its ground, particularly in Europe. Here, sales increased by 22.7% from € 10.3m in the previous year to € 12.6m. Despite the continuing debate over the reform of the health systems, particularly in Germany and Japan, we have managed to keep sales in these two markets at a more or less constant level. In the Asian/Pacific region the same level was reached as in the previous year at € 10.2m. In Germany, the total sales figure of € 4.4m was 4.0% lower than the previous year (€ 4.6m). Due to the substantial weakening of the US dollar against the euro, sales in the American region – comprising mainly the USA – fell by 11.7% to € 31.2m (previous year: € 35.4m). On top of this, since the beginning of the current financial year the US subsidiary has no longer been working as an OEM manufacturer for other companies (OEM business). However, we have successfully compensated for the shortfall in sales due to the discontinuation of this business. This can be clearly seen in the following table of regional sales on the basis of constant exchange rates.



Consolidated sales by region

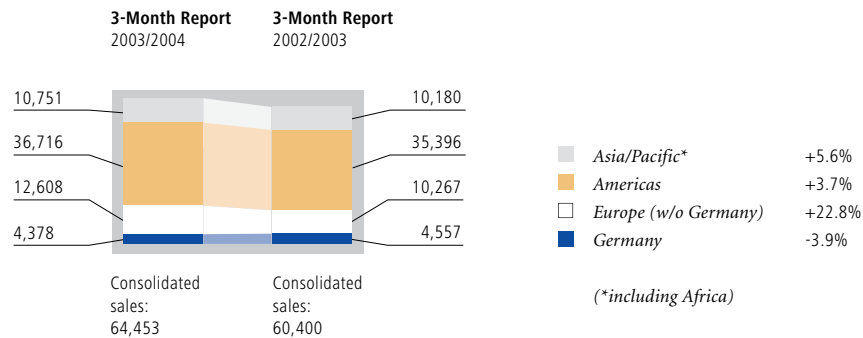
(in € '000)

(* including Africa)

On the basis of constant exchange rates a growth in sales would have been achieved in virtually all regions. Increase rates would have been realised also in the world's two largest markets for medical technology, the USA and Japan. In the American region sales would have amounted to € 36.7m – 3.7% higher than in the same quarter of the previous year. In the Asian/Pacific region total sales would have stood at € 10.8m – an increase of 5.6%. In the USA the Company has also been able to compensate for the discontinuation of OEM business.

Consolidated sales
by region
on the basis of
constant exchange rates

(in € '000)



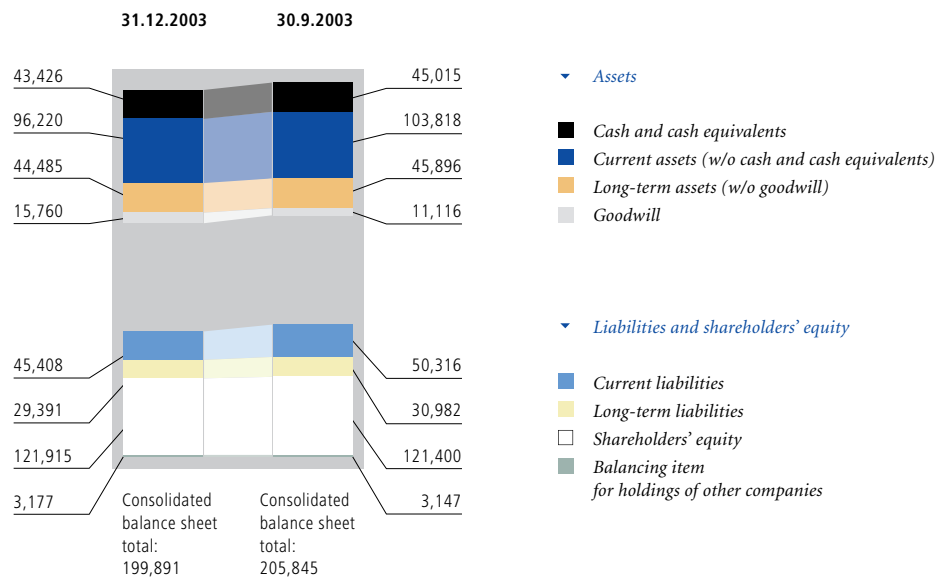
4. Net worth

a) Statement of net worth

The sound balance sheet structure was further improved in the first three months of the financial year 2003/2004. The development of the principal balance sheet items is summarised in the following graph:

Structure of consolidated
balance sheet as of
31 December and
30 September 2003

(in € '000)



The consistent implementation of the receivables management system has resulted in a 16.3% reduction in accounts receivable to € 25.4m as of 31 December 2003 (30 September 2003: € 30.3m). Furthermore, there has been a decrease in inventories. As of 31 December 2003 this item amounted to € 36.2m (30 September 2003: € 38.6m). This represents a decrease of 6.3%. This effect was diminished only by the addition of inventories worth € 1.8m on 17 December 2003 in connection with the acquisition of hiko medical communication GmbH. Following the hiko acquisition, cash and cash equivalents decreased only marginally from € 45.0m on 30 September 2003 to € 43.4m on 31 December 2003. The acquisition of hiko resulted in an increase in total assets posted under Goodwill. As of 31 December 2003 the latter had increased by € 4.7m to € 15.8m (30 September: € 11.1m).

Changes on the liabilities side of the consolidated balance sheet relate to accounts payable. Trade accounts payable fell by 21.9% to € 8.3m (30 September: € 10.6m). The increase in liabilities towards related parties relates to the interim financing of tax liabilities by the Japanese subsidiary Carl Zeiss Meditec Co. Ltd. through Carl Zeiss Co. Ltd., as financing conditions are currently more favourable in Japan.

b) Key data on net worth

The improvement of the financial structure is also apparent from the following key figures:

Key ratios	Definition	31 December 2003	30 September 2003	Change
Equity ratio	Equity capital			
	Balance sheet total	61.0%	59.0%	+2.0 Pts.%
Net debt	Liabilities less cash and cash equivalents less accounts receivable from group treasury Carl Zeiss Group	€ 18,784,000	€ 24,194,000	-22.4%
	Inventory turnover ²	Cost of goods sold Average on inventories X 1/4	3.5	3.4
Days of sales outstanding (DSO) ²	Trade accounts receivable			
	Consolidated sales X 90 days	53.5 days	59.1 days	-9.5%
Equity-assets ratio	Equity capital			
	Fixed assets	359.6%	358.1%	+1.5 Pts.%

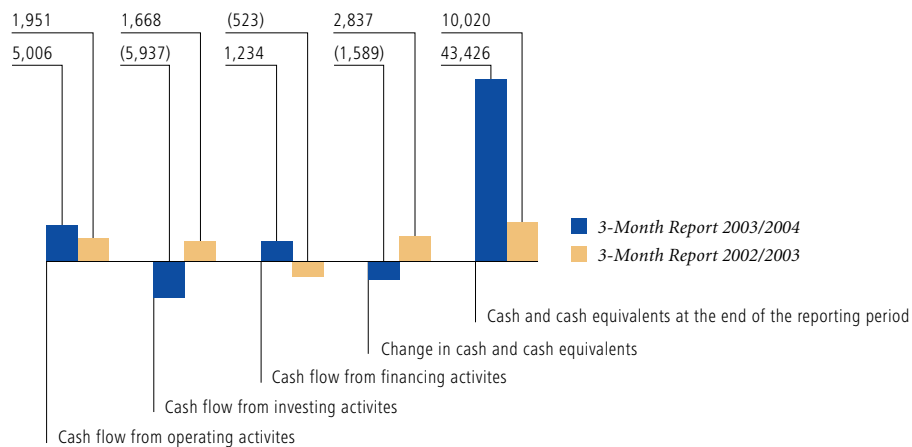
◀ Key data on net worth

² The stated key figure definitions relate to the first quarter of financial years 2003/2004 and 2002/2003 respectively

5. Financial position

a) Statement of financial position

Consolidated cash flow statement
(abstract)
(in € '000)



The financial position of Carl Zeiss Meditec has also continued to improve over the previous year. Substantial improvements have been achieved, particularly in terms of operating cash flow. This enabled the acquisition of software specialist hiko to be financed mainly from the cash flow generated in the operative sector. The net change in cash is thus € -1.6m compared to € 2.8m in the same quarter of the previous year.

Cash flow from operating activities increased over the comparative period of the previous year by 156.6% to € 5.0m (previous year: € 2.0m). In addition to the improved consolidated net income, the sharp decrease in accounts receivable and inventories exerted a strong influence on this development.

In the reporting period cash flow from investing activities amounted to € -5.9m (previous year: € 1.7m). For the main part this was attributable to the acquisition of software specialist hiko. Net of cash acquired, the investment totalled € 5.7m. In addition, investments in property, plant and equipment increased by € 1.0m compared to the same quarter of the previous year. The latter related mainly to investments in the Company's IT infrastructure and the costs for new trade fair stand design.

In the first three months of the current financial year the cash flow from financing activities amounted to € 1.2m (previous year: € -0.5m). Due to the Company's excellent liquidity situation, there are still no liabilities of any kind towards the group treasury of the Carl Zeiss Group. Cash inflow from borrowing activities by related parties relates to the interim financing of tax liabilities by the Japanese subsidiary Carl Zeiss Meditec Co. Ltd. through Carl Zeiss Co. Ltd., as financing conditions are currently more favourable in Japan.

b) Key ratios relating to financial position

Key ratios	Definition	31 December 2003	30 September 2003	Change
Cash and cash equivalents	Cash at bank and in hand	43,426	45,015	-3.5%
Net cash and cash equivalents	Cash at bank and in hand + accounts receivable (prev. year: liabilities) against Carl Zeiss Group treasury	56,015	57,067	-1.8%
Net working capital	Current assets less cash and cash equivalents less accounts receivable from group treasury of the Carl Zeiss Group less current liabilities	38,223	41,413	-7.7%
Working capital ratio	Current assets Current liabilities	307.5%	295.8%	+11.7 Pts.%
Cash flow per share	Cash flow from operating activities Weighted average of shares outstanding	0.18	0.08	+125.0%

◀ Key ratios relating to financial position

(in € '000)

6. Earnings position

a) Statement of earnings

	3-Month Report 2003/2004	3-Month Report 2002/2003	Change
Sales	58,403	60,400	-3.3%
Earnings before interest and taxes (EBIT)	6,138	6,133	+0.1%
Consolidated net income	3,507	2,532	+38.5%
Earnings per share (in €)	0.12	0.10	+20.0%

◀ Consolidated income statement (abstract)

(in € '000)

There was a significant improvement in the consolidated gross margin compared to the previous year. In the first three months of the current financial year the latter amounted to 43.7% (previous year: 40.4%). This can be attributed to the continuous optimisation of manufacturing costs and the overall product mix sold, the latter having changed in favour of innovative new products.

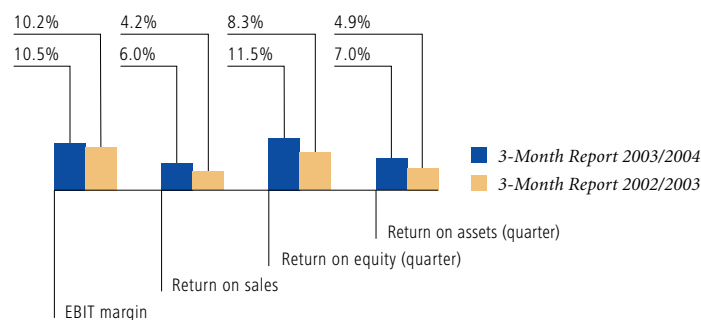
Compared to the first three months of the previous year, marketing and selling expenses increased from € 10.2m to € 11.2m. One reason for this are the intensified marketing activities, among others, in conjunction with the world's largest ophthalmology trade fair, the *American Academy of Ophthalmology (AAO)*. Beside the campaign to systematically extend market penetration, these are the structural prerequisites for the implementation of the ambitious goals the Company has set itself for the next five years. The increase in general administrative expenses to € 2.7m (previous year: € 2.4m) is mainly attributable to the costs for a series of smaller projects. These include the annual report and fees in connection with the stock exchange listing. Compared to the same period of the previous year, expenses for research and development increased by 5.4% from € 5.4m to € 5.7m. Work was intensified on important projects with the aim of boosting the competitive strength of Carl Zeiss Meditec in the future (cf. 7. *Research and development*). In addition, this item was increased by expenses incurred in the reporting period for FDA approval of the MEL 80™ refractive laser in the USA.

On this basis, earnings before interest and tax (EBIT) amounted to € 6.1m (previous year: € 6.1m). Already in the same period of the previous year, losses attributable to the sold-off Aesthetic and Dental operations had not been included in the figures.

After making allowance for a meanwhile normalised tax rate and a decrease in interest expenses, consolidated net income from continuing operations increased by 16.2% to € 3.5m following € 3.0m in the previous year. Besides the improved profitability, the growth in consolidated net income is also attributable to the focus on core business in the previous year. Compared to the first quarter of the previous year, the latter increased by more than a third from € 2.5m to € 3.5m. Despite the greater number of shares compared to the previous year, earnings per share increased to € 0.12 (previous year: € 0.10).

b) Key ratios relating to earnings position

Key ratios relating
to earnings position ▶



7. Research and development

In the first three months of the current financial year Carl Zeiss Meditec spent € 5.7m on research and development, including the sum of € 0.3m in subsidies (previous year: € 5.4m including € 0.3m in subsidies). For the period under review this represented 9.8% of consolidated sales (previous year: 9.0%).

The increased R&D costs compared to the previous year reflect the goal of Carl Zeiss Meditec to further consolidate and expand its market position in future. Product innovations that boost the efficiency of specialists and enable improved diagnosis and treatment of patients – such as the STRATUSOCT™, Humphrey Field Analyzer HFA IIi, IOLMaster® and MEL 80™ – will play an even greater role in future. In this context, special attention will be given to the early recognition of serious eye diseases such as glaucoma and age-related macular degeneration (AMD) – both ailments whose progress can be checked, but which cannot be healed.

It is precisely these issues that are the subject of major development projects. Preview PHP™, for example, is a system for early AMD recognition. A new application for measuring the anterior section of the eye (cornea and anterior chamber) is to be based on OCT technology. Such a system can, for instance, help to further improve the results of refractive operations or increase level of safety in the insertion of special intraocular lenses.

New products presented at the *American Academy of Ophthalmology (AAO)* included the GPA™ software, a diagnostic tool for the safe management of the progress of glaucoma with the aid of the HFA IIi, a new software version for the successful product STRATUSOCT™ and the VISUCAM™ C und VISUCAM *lite* digital fundus cameras.

Carl Zeiss Meditec is also playing a major role in a series of inter-company research projects. Special mention should be given to a research and industrial alliance that is working on a new procedure for the correction of vision defects with the aid of ultra short-pulsed lasers (so-called femtosecond lasers). The Company has also made further progress within the scope of this joint project. Major license agreements have been signed and first laboratory tests completed.

8. Events of particular significance

On 17 December 2003 Carl Zeiss Meditec AG announced that the Company had acquired a 100% interest in its longstanding alliance partner hiko medical communication GmbH (hiko) in Pirmasens. Hiko specialised in the development of medical software solutions and under the name VISUPAC™ it markets a successful product that enables filing and management of diagnostic and treatment data by eye specialists and clinics. Furthermore, hiko disposes of its own efficient team of development, marketing and service specialists.

With the acquisition of hiko medical communication GmbH Carl Zeiss Meditec has taken a further major step in the implementation of its strategy. The Company will secure the necessary resources and know-how, in order to be able to offer customers cross-platform software solutions for ophthalmic applications.

9. Orders on hand

As of 31 December 2003 the Group's orders on hand amounted to € 15.3m (previous year: € 21.1m). When comparing these figures with the previous year it should be noted that customers are placing significantly shorter-term orders than hitherto. Orders on hand held by US subsidiary Carl Zeiss Meditec, Inc. were additionally subject to adverse exchange rate fluctuations and impacted by the discontinuation of OEM supplier relations since the beginning of this financial year.

10. Personnel

As of 31 December 2003 a workforce of 800 was employed worldwide by the Carl Zeiss Meditec Group, including 40 employees of former hiko medical communication GmbH acquired on 17 December 2003. In addition there were 27 trainees. The corresponding figures for the previous year were 867 employees, plus 26 trainees. Partially retired employees in Germany were not included in this figure.

11. Outlook

In the current financial year – and beyond – we will work systematically on the implementation of our strategic goal of establishing Carl Zeiss Meditec in the market as a supplier of all-round solutions for ophthalmology. On the strength of our unique technology and product portfolio and our efficient worldwide distribution network we will endeavour to provide our customers – the medical specialists – with innovative and intelligent networked products which will support them in their daily routines, enabling them to increase their level of efficiency.

The essential foundations for this growth are being laid today: The acquisition of software specialist and longstanding alliance partner hiko medical communication GmbH is an important precondition for creating solutions for the effective management of ophthalmic diagnostic and therapy data and intelligently networking devices and systems. Of further importance are the necessary linkage of innovative devices and consumables, the continued development of diagnostic systems for the early recognition of serious eye diseases, in addition to selectively rounding off and expanding our product portfolio.

Against a background of continued adverse economic conditions in the individual markets, in the current financial year we consider the selective and systematic exploitation of hitherto not fully utilised market potential to be a major challenge. For this purpose, together with our marketing partners we have launched a drive that is hoped to produce first results in the current financial year.

We shall continue to pursue our strategic goal of expanding our market position in the long term. Our sales are to be doubled over the next five years and the EBIT margin is to be pushed into the two-digit range with at least 15%. Development in this direction will not, however, be linear. In particular, the development of exchange rates between US dollar and Japanese yen and the euro is unfavourable for sales revenue posted in euros. At the same time, the quarterly report in hand confirms that the highest priority should be placed on a further rapid increase in operative profitability in addition to investing in innovative products and sales structures.

In the light of imponderabilities with regard to future trends in exchange rates from the US dollar and Japanese yen to the euro, in the current financial year we anticipate a growth in sales in the single-digit range compared to the previous year. However, had exchange rates remained constant, the growth rate would have been considerably greater. Our profitability is to be substantially improved: Due to the elimination of extraordinary tax effects from the previous year, in the financial year 2003/2004 we anticipate a significant improvement in the return on sales.

We will continue to selectively expand our investor relations activities. In addition, we are endeavouring to boost the level of awareness of our company and achieve a more closely-knit relationship to our investors. Our strategic goal in this respect remains the admission to the TecDAX, although this will admittedly be influenced by the development of other listed companies and possible stock market flotations this year.

Directors' Holdings and Directors' Dealings

▶ *Directors' Holdings – Details on shareholdings of members of the Management or Supervisory Board of Carl Zeiss Meditec AG*

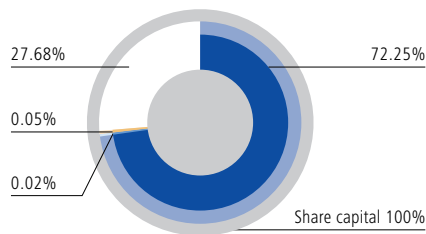
		Number of Carl Zeiss Meditec shares (31 December 2003)
Management Board		
Ulrich Krauss	Shares	500
Dr Walter-Gerhard Wrobel	Shares	0
Bernd Hirsch	Shares	500
Supervisory Board		
Dr Michael Kaschke	Shares	750
Alexander von Witzleben	Shares	3,094
Dr Franz-Ferdinand von Falkenhausen	Shares	794
Dr Manfred Fritsch	Shares	450
Jürgen Dömel	Shares	291
Franz-Jörg Stündel	Shares	488
Company		
Carl Zeiss Meditec AG	Shares	14,252

▶ *Directors' Dealings – securities transactions subject to reporting requirements made by members of the Management or Supervisory Board of Carl Zeiss Meditec AG*

In the first quarter of the 2003/2004 financial year no securities transactions subject to reporting requirements pursuant to Art. 15a of the German Securities Trading Act (WpHG) were made by members of either the managing or supervisory board. Reports pursuant to Art. 15a WpHG were thus not necessary.

Shareholder structure

▶ *Shareholder structure of Carl Zeiss Meditec AG*



- Carl Zeiss Group
- Free float
- Carl Zeiss Meditec AG
- Management and Supervisory Board of Carl Zeiss Meditec AG

Consolidated statement of income (US-GAAP)

€ '000	3-Month Report 2003/2004 1 October - 31 December 2003		3-Month Report 2002/2003 1 October - 31 December 2002	
Sales		58,403		60,400
Costs of goods sold		(32,865)		(36,001)
Gross profit		25,538		24,399
Selling and marketing expenses		(11,153)		(10,184)
General and administrative expenses		(2,688)		(2,446)
Research and development expenses	(6,025)		(5,674)	
Minus government grants received	325	(5,700)	265	(5,409)
Other operating income / (expense), net		102		88
Foreign currency gains / (losses)		39		(315)
Income before interest result and income taxes		6,138		6,133
Interest income / (expense), net		(311)		(576)
Income before income taxes		5,827		5,557
Income tax expense from continuing operations		(2,150)		(2,357)
Minority interests		(170)		(181)
Net income from continuing operations		3,507		3,019
Income / (loss) before income taxes from discontinued operations		-		(322)
Income tax benefit from discontinued operations		-		(165)
Net income from discontinued operations		-		(487)
Net income		3,507		2,532
Earnings per share, basic (€):				
from continuing operations		0.12		0.12
from discontinued operations		-		(0.02)
Total		0.12		0.10
Earnings per share, diluted (€)				
from continuing operations		0.12		0.12
from discontinued operations		-		(0.02)
Total		0.12		0.10
Average number of shares outstanding:				
Basic		28,402,377		25,833,300
Diluted		28,402,377		25,833,300

The following notes on the consolidated financial statements are part of the consolidated financial statements.

Consolidated balance sheet (US-GAAP)

€ '000	31 December 2003	30 September 2003
Assets		
Current assets:		
Cash	43,426	45,015
Restricted Cash	-	850
Trade accounts receivable, net of allowances of € 11.417m (prev. year: € 10.478m)	25,392	30,344
Accounts receivable from related parties	21,903	20,451
Inventories	36,192	38,611
Prepaid expenses	1,748	1,132
Deferred income taxes	7,867	7,958
Other assets	3,118	4,472
Total current assets	139,646	148,833
Property, plant, and equipment, net	24,965	26,000
Goodwill	15,760	11,116
Other intangible assets, net	6,116	5,079
Other long-term accounts receivable, net of allowances of € 0m (prev. year: € 0.047m)	285	718
Loans	2,818	2,818
Deferred income taxes	10,301	11,281
Total assets	199,891	205,845

The following notes on the consolidated financial statements are part of the consolidated financial statements.

€ '000	31 December 2003	30 September 2003
▼ Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	451	-
Current portion of long-term debt	190	187
Current portion of capital lease obligations	420	374
Trade accounts payable	8,308	10,636
Accounts payable to related parties	6,487	5,919
Income taxes payable	3,009	6,655
Deferred income	4,795	4,870
Deferred income taxes	108	8
Accrued expenses	20,241	20,527
Other current liabilities	1,399	1,140
Total current liabilities	45,408	50,316
Long-term debt, net of current portion	5,022	4,841
Capital lease obligations, less current portion	22,764	24,731
Long-term deferred income	906	1,007
Deferred income taxes	587	226
Other liabilities	112	177
Total liabilities	74,799	81,298
Balancing items for holdings of other companies	3,177	3,147
Shareholders' equity:		
Ordinary shares, imputed nominal value € 1.00, 26,416,629 shares authorized, issued, and outstanding, respectively	28,417	28,417
Additional paid-in capital	89,433	89,433
Retained earnings	15,539	12,032
Accumulated other comprehensive loss	(11,366)	(8,374)
Treasury stock	(108)	(108)
Total shareholders' equity	121,915	121,400
Total liabilities and shareholders' equity	199,891	205,845

The following notes on the consolidated financial statements are part of the consolidated financial statements.

Consolidated cash flow statement (US-GAAP)

€ '000	3-Month Report 1 October - 31 December 2003	3-Month Report 1 October - 31 December 2002
▼ Cash flow from operating activities:		
Net income	3,507	2,532
Adjustments to reconcile net income to net cash provided by / (used in) operating activities		
Minority interest	170	181
Depreciation and amortisation	1,266	622
Loss on disposal of fixed assets	8	-
Deferred taxes	347	235
Change in working capital:		
Trade accounts receivable	2,799	(3,071)
Inventories	2,882	(1,931)
Prepaid expenses and other current assets	649	968
Trade accounts payable	(3,666)	3,502
Accrued tax expenses	(3,465)	2,218
Other accrued expenses and liabilities	291	(3,530)
Deferred income	218	225
Total adjustments	1,499	(581)
Net cash provided by / (used in) operating activities	5,006	1,951
▼ Cash flow from investing activities:		
Change of restricted cash	836	-
Purchase of fixed assets	(1,097)	(16)
Repayments of loans and investments	-	(13)
Acquisition of consolidated companies, net of funds received (hiko: € 5.676m, Carl Zeiss Meditec Co. Ltd., Tokio: € 1.697m)	(5,676)	1,697
Net cash provided by / (used in) investing activities	(5,937)	1,668
▼ Net cash provided by / (used in) financing activities		
Repayments of short-term debt	(1,278)	(1,073)
Repayments of long-term debt	(46)	(46)
Inpayments from taking up loans from related parties	3,065	-
Decrease in liabilities due to Treasury	-	(3,456)
(Increase) / decrease in accounts receivable due to Treasury	(415)	4,036
Repayments under capital lease contracts	(92)	(93)
Inpayments due to sale and lease-back transactions	-	109
Net cash provided by / (used in) financing activities	1,234	(523)
Effect of exchange rate changes on liquid assets	(1,892)	(259)
Net increase in cash	(1,589)	2,837
Cash, beginning of the reporting period	45,015	7,183
Cash, end of the reporting period	43,426	10,020
Supplemental disclosures concerning the cash flow:		
Interest paid	553	726
Income taxes paid	5,370	186

The following notes on the consolidated financial statements are part of the consolidated financial statements.

Consolidated statement of changes in shareholders' equity (US-GAAP)

€ '000						
	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total shareholders' equity
As per 30 September 2002	25,833	67,389	5,474	(3,367)	-	95,329
Net income	-	-	6,558	-	-	6,558
Other comprehensive loss (due to currency conversions)	-	-	-	(5,007)	-	(5,007)
Accumulated comprehensive income	-	-	-	-	-	1,551
Purchase of treasury stock	-	-	-	-	(108)	(108)
Capital increase	2,584	22,044	-	-	-	24,628
As per 30 September 2003	28,417	89,433	12,032	(8,374)	(108)	121,400
Net income	-	-	3,507	-	-	3,507
Other comprehensive loss (due to adjustments of accruals for pensions)	-	-	-	(65)	-	(65)
Other Comprehensive Loss (due to currency conversions)	-	-	-	(2,927)	-	(2,927)
Accumulated comprehensive income	-	-	-	-	-	515
As per 31 December 2003	28,417	89,433	15,539	(11,366)	(108)	121,915

The following notes on the consolidated financial statements are part of the consolidated financial statements.

Notes to the consolidated interim financial statement

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1. General comments

Accounting and valuation methods

The unaudited consolidated interim financial statements of Carl Zeiss Meditec AG ("the Company", "Carl Zeiss Meditec") for the year ending 31 December 2003 were prepared in compliance with the US *Generally Accepted Accounting Principles (US-GAAP)*.

The accounting and valuation methods were applied in accordance with the last consolidated financial statements and that of the corresponding period of the previous year.

The rules of the German Accounting Standard (DRS) No. 6 for interim reporting were complied with.

The interim financial statements should be read in conjunction with the audited consolidated financial statements as of 30 September 2003 that are included in the 2002/2003 Annual Report of Carl Zeiss Meditec AG.

Expansion of the reporting entity

On 17 December 2003 Carl Zeiss Meditec AG acquired 100% interest in hiko medical communication GmbH (hiko) of Pirmasens. The company specialises in the development of medical software solutions. It markets a successful product under the name of VISUPACT™, which enables the filing and management of diagnostic and treatment data by eye specialists and clinics. Furthermore, hiko disposes of its own efficient team of development, marketing and service specialists. With the acquisition of hiko medical communication GmbH Carl Zeiss Meditec has taken a further major step in the implementation of its strategy. The Company will secure the necessary resources and know-how, in order to be able to offer customers cross-platform software solutions for ophthalmic applications.

Activities of the acquired company are reflected in the consolidated financial statements from 17 December 2003, the day of acquisition.

The acquisition costs immediately due in cash amounted to € 5.988m. Incidental acquisition costs amounted to € 66,000.

The fixing and allocation of the purchase price are based on the preliminary estimates and as yet unaudited balance sheet figures of hiko and are therefore subject to change by the Management Board until the final evaluation and examination of the fair value of the net assets acquired, the debts assumed and provisions.

The following table shows a breakdown of the purchase price (including incidental acquisition costs) at the time of acquisition (*purchase price allocation/PPA*) in conformance with SFAS No. 141.

€ '000	
Purchased current assets	3,013
Purchased property, plant and equipment	191
Purchased other intangible assets	21
Purchase Price Allocation:	
Computer software	1,318
Goodwill	4,698
Total purchased assets and Purchase Price Allocation	9,241
Assumed current liabilities	(2,557)
Assumed other long-term liabilities	(630)
Total purchase price	6,054

Intangible assets (computer software) identified within the scope of purchase price allocation are written off over an average term of five calendar years.

The acquisition resulted in goodwill valued at € 4.698 million. In accordance with SFAS No. 141 scheduled amortisation was not recorded on this amount. Instead, the acquired goodwill is subject to impairment testing provisions of SFAS No. 142.

According to the principle of materiality, no pro forma values were given.

2. Comments on the consolidated income statement

Pro forma figures on the Stock Option Plan

In the consolidated financial statements Carl Zeiss Meditec AG uses APB No. 25 for the valuation of the stock option plan. Due to the fact that the exercise hurdle was not exceeded and thus no intrinsic value arose, the Company did not post any remuneration expenses.

Had the method defined in SFAS No. 123 for the calculation of the remuneration expenses been applied, the net income for the year and the earnings per share would have been as follows:

€ '000	1st quarter FY 2003/2004	1st quarter FY 2002/2003
Consolidated net income as posted	3,507	2,532
Stock options expenses (after tax) according to SFAS No. 123	(17)	(38)
Pro forma consolidated net income	3,490	2,494
Earnings per share (€):		
as posted	0.12	0.10
pro forma	0.12	0.10
Earnings per share allowing for the dilution effect (€):		
as posted	0.12	0.10
pro forma	0.12	0.10

Profit/loss per share

The basic earnings/(loss) per share were calculated by dividing the consolidated net income for the year by the weighted average number of common shares issued in the relevant accounting period. Earnings/(loss) per share allowing for the dilution effect were calculated in compliance with SFAS No. 128 to reflect the effect of diluting securities.



Discontinued activities

As of 1 May 2003 the Company sold the dermatological and dental laser divisions that were not part of its core business to the Italian companies EL.EN S.P.A., Florence, and Quanta System S.P.A., Milan.

In accordance with the accounting rules set forth in SFAS No. 144 this disposal was identified as “discontinued operations”. The consolidated income statement was adjusted in the previous year to take account of these activities. The revenue from the sale of business units is shown at the bottom of the income statement (“Consolidated net income from discontinued operations”). No profits/losses from discontinued operations are shown in the 2003/2004 financial year.

3. Comments on the consolidated balance sheet

Warranties

The Company furnishes the buyer with a warranty for sold products for the contractually agreed period of 15 months. For this purpose, provisions are formed on the basis of the average values of warranty claims made in the past.

The following table shows the change in warranty provisions from 1 October 2003 to 31 December 2003:

€ '000	
As of 1 October 2003	3,856
Provision	1,294
Reversal of excess reserves	-
Utilisation	(977)
Currency effects	(139)
As of 31 December 2003	4,034

Pensions

The Company offers defined benefit pension plans to certain employees. Such benefits are determined primarily by the employee's remuneration and length of service. Pension obligations and the expenditure necessary to cover these obligations are calculated by the prescribed projected unit credit method in conformance with SFAS No. 87. The projected unit credit method reflects economic assumptions based on long-term expectations, as well as the performance of assets set aside to fund future benefit payments.

Pension expenditure for the periods 1 October 2003 to 31 December 2003 and 1 October 2002 to 31 December 2002 is as follows:

€ '000	1st quarter FY 2003/2004	1st quarter FY 2002/2003
Wages and salaries	25	24
Interest expenses for projected benefit obligations	14	8
Amortisation of actuarial profits/losses	3	-
Pension expenditure	42	32



The 3-Month Report 2003/2004 of
Carl Zeiss Meditec AG has been published
in German and English.

Both versions are available for downloa-
ding from the following address:

www.meditec.zeiss.com/ir

Financial calendar and contact

Financial year 2003/2004

▼ Date	
19-Mar-04	Annual General Meeting, Jena
14-May-04	6-Month Report
14-May-04	Analysts' Meeting, Frankfurt am Main
12-Aug-04	9-Month Report
12-Aug-04	Telephone Conference
15-Dec-04	Annual Financial Statements 2003/2004
15-Dec-04	Balance Sheet Press Conference, Frankfurt am Main
15-Dec-04	Analysts' Meeting, Frankfurt am Main

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