

6-Month Report

2003/2004



- Bookmarks
- Contents
- ▶ At a glance



Q2



CARL ZEISS MEDITEC

The second quarter 2003/2004 at a glance

▶ Strategic milestones

▶	Consolidated net income, as planned, significantly increased
▶	Innovative products boosting profitability
▶	R&D activities increased - new application areas opening up
▶	Initiative for a selective increase in market penetration being continued
▶	Discontinuation of OEM sales in the USA successfully compensated
▶	Further optimisation of working capital and increased consolidated net income raise operative cash flow

▼ Overview of business development

<i>(in € '000)</i>	6-Month Report 2003/2004	6-Month Report 2002/2003	Change
Consolidated sales¹	115,914	120,510	▼ - 3.8%
Consolidated sales on the basis of constant exchange rates¹	126,642	120,510	▲ + 5.1%
<i>EBIT margin¹</i>	<i>11.3%</i>	<i>11.1%</i>	▲ + 0.2 Pts. %
Earnings before interest and taxes (EBIT)¹	13,133	13,436	▼ - 2.3%
Consolidated net income from continuing operations¹	6,457	4,798	▲ + 34.6%
Consolidated net income	6,457	3,046	▲ + 112.0%
<i>Earnings per share</i>	<i>€ 0.23</i>	<i>€ 0.12</i>	▲ + 91.7%
<i>Number of shares (weighted average, in thousand)</i>	<i>28,402</i>	<i>25,833</i>	▲ + 9.9%
	31 March 2004	30. September 2003	
Cash and cash equivalents	45,862	45,015	▲ + 1.9%
Trade accounts receivable²	38,306	38,706	▼ - 0.1%
<i>Days of sales outstanding</i>	<i>59.5 days</i>	<i>59.1 days</i>	▲ + 0.7%
<i>Net working capital</i>	<i>41,100</i>	<i>41,413</i>	▼ - 0.8%
Liabilities	75,285	81,298	▼ - 7.4%
<i>Net Debt</i>	<i>16,297</i>	<i>24,194</i>	▼ - 32.6%
<i>Equity ratio</i>	<i>61.3%</i>	<i>59.0%</i>	▲ + 2.3 Pts. %
	6-Month Report 2003/2004	6-Month Report 2002/2003	
Cash flow from operating activities	7,967	6,170	▲ + 29.1%
Cash flow per share	€ 0.28	€ 0.24	▲ + 16.7%

¹ In the previous financial year adjusted for discontinued operations

² Thereof accounts receivable from third parties: € 28.162m (30 September 2003: € 30.344m)

▼ Contents

Foreword by the Management Board	2
▼ Management report to the consolidated interim financial statement	4
1. Executive summary	4
2. Structure of the financial statements	5
3. Sales trends	6
4. Net worth	8
5. Financial position	10
6. Earnings position	11
7. Research and development	13
8. Events of particular significance	14
9. Orders on hand	14
10. Personnel	14
11. Outlook	14
Directors' Holdings and Directors' Dealings	16
Shareholder structure	16

Consolidated statement of income (US GAAP)	17
Consolidated balance sheet (US GAAP)	18
Consolidated cash flow statement (US GAAP)	20
Consolidated statement of changes in shareholders' equity (US GAAP)	21
▶ Notes to the consolidated interim financial statement	22



Q2



You can expand tables, charts and info boxes in this document by clicking them.

This Report does not constitute an offer to sell or solicitation of an offer to purchase any securities of Carl Zeiss Meditec Aktiengesellschaft in the United States of America or in any other jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. Readers of this Report are requested to inform themselves about how to observe any such restrictions.

*Dear Shareholders,
Ladies and Gentlemen,*

The performance of Carl Zeiss Meditec AG in the first half of 2003/2004 shows that we are successfully creating the conditions necessary for achieving our long-term growth targets. Besides integrating the software specialists hiko medical communication GmbH, which we took over in December 2003, we have further raised the innovative power of the Company. A whole range of innovative products such as the Preview PHP™ system or the ACMaster™ is about to be launched. Preview PHP™ is designed to provide early diagnosis of age related macular degeneration (AMD), a serious eye disorder, which remains one of the most common causes of blindness in the industrialised countries. The ACMaster™ allows specialists to examine the anterior section of the eye with great precision. This is of key significance in conjunction with innovative implants (intraocular lenses) for instance. We are pushing ahead with further projects, e.g. in the field of networking our systems and the development of new software-based applications, as a means of securing our future success in the market. We have continued the initiative started at the beginning of the financial year 2003/2004 to increase market penetration. By intensifying our marketing efforts we have successfully managed to compensate for sales shortfalls totaling € 7.0m in the USA resulting from our termination of OEM supplier relationships.

In several major aspects we have further improved the economic performance of the Company. Despite the slight downturn of 3.8% in sales to € 115.9m as the result of currency fluctuations, and despite expanding spending on marketing and sales and research and development, our EBIT margin increased by 0.2 % points to 11.3%. The main reasons for this are our innovative products and the further optimisation of manufacturing costs. As the result of lower interest expenses and an improved tax rate, consolidated net income rose disproportionately by 112.0% to € 6.5m (previous year: € 3.0m). Currency adjusted, Carl Zeiss Meditec's sales would have risen by 5.1% to € 126.6m. Furthermore, if the discontinuation of previous year's OEM business of € 7.0m is taken into consideration, sales growth in the first half of 2003/2004 would have been 11.6% up on the previous year. The growth in sales adjusted for exchange rate effects and the OEM business in the previous year in the Americas region would then have been 17.3%.

The financial position of Carl Zeiss Meditec has continued to improve. Despite the negative currency effects, the sales per employee figure rose to € 144,500 (previous year: € 143,100). Taking out the currency fluctuations, sales totalled € 157,900 per employee in the reporting period.

► *Members of the
Management Board*

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



We are holding fast to our goal of doubling our sales and achieving an EBIT margin of 15% by the end of the financial year 2007/2008. Development in this direction will not, however, be linear. In particular, forecasts of the influences the trends in exchange rate will have on sales have proved increasingly difficult. Overall the present 6 month report testifies, however, that our top priorities are now raising profitability and investing in innovation and new products for the future. The second half of the financial year 2003/2004 could see sales grow as a result of the strengthening dollar. If this trend continues, we assume that the year could close with sales slightly up on the previous year. However, on the basis of constant currency exchange rates, we expect a significantly stronger growth - even despite the discontinuation of OEM business in the USA. Irrespective of this, we will be doing all in our power to achieve a further increase in profitability. The EBIT margin for the financial year 2003/2004 is expected to be above that of last year; return on sales and operative cash flow are again set to rise year on year.

In the second half of the current financial year we intend likewise to devote considerable attention to our investor relations activities in order to boost the level of awareness of our Company and to achieve a closer relationship with our investors. Our strategic capital market goal remains admission to the TecDAX.

Ulrich Krauss
President and CEO

Bernd Hirsch
*Member of the
Management Board*

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

Management report to the consolidated interim financial statement

1. Executive summary

Despite a slight decrease in consolidated sales, Carl Zeiss Meditec AG ("Carl Zeiss Meditec", the "Company", the "Group") succeeded in significantly improving its profitability in the first half of 2003/2004. Consolidated sales were 3.8% down on last year at € 115.9m (previous year: € 120.5m). The reasons for this are the exchange rate relations between the US dollar, Japanese yen and the euro and the Company's decision to discontinue OEM supplier relationships in the USA. On the basis of constant exchange rates, sales would have increased by 5.1% to € 126.6m. Carl Zeiss Meditec has therefore successfully managed to compensate its discontinued OEM sales totalling € 7.0m in the comparative period of the previous year and to strengthen and increase its market position. Thanks to innovative products and optimised production costs, the gross margin increased by 2.9 percentage points to 45.8% (previous year: 42.9%). Despite increased investment in marketing and selling and R&D, the EBIT margin rose by 0.2 percentage points to 11.3% (previous year: 11.1%). This corresponds to an EBIT of € 13.1m (previous year: € 13.4m). As the result above all of lower interest expenses and an improved tax rate we managed to post a disproportionately high increase in the consolidated net income of 112.0 % to € 6.5m (previous year: € 3.0m).

An important key figure of corporate controlling is the operative cash flow. Thanks to the successful working capital management and thanks to the improved consolidated net income, the operative cash flow rose by almost a third in the first half of 2003/2004 in comparison to the same period the previous year. It stood at € 8.0m compared to € 6.2m in the previous year. Despite the cash outflow due to the acquisition of hiko medical communication GmbH in December 2003, cash balance totalled € 45.9m (30 September 2003: € 45.0m). The equity ratio was further increased, reaching 61.3% at the end of the reporting period, up from 59.0% at the end of the financial year 2002/2003.

Carl Zeiss Meditec also posted successes in its productivity. Despite the US dollar - euro fluctuations, the sales per employee figure rose to € 144,500 (previous year: € 143,100). Taking out the currency fluctuations, sales totalled € 157,900 per employee in the reporting period.

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 consolidated income statement ("Net income from discontinued operations"). In the financial year 2003/2004 no effects on earnings resulted from discontinued operations.

3. Sales trends

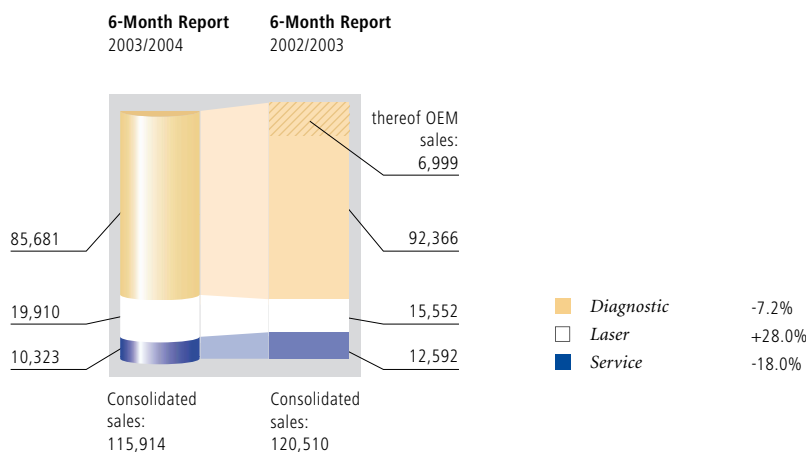
In the first six months of the financial year 2003/2004, consolidated sales were burdened by the changes in the exchange rates between the euro and the US dollar and the Japanese yen. Carl Zeiss Meditec AG accounts for almost half its consolidated sales in the Americas region. Most of this sales revenue is invoiced in US dollars; as such the currency movements between the dollar and the euro were largely responsible for the 3.8% drop in consolidated sales in the first half of 2003/2004 to € 115.9m (previous year: € 120.5m). Currency adjusted, it emerges clearly, however, that the Company was successful in reinforcing its market position: at € 126.6m sales were 5.1% up on the previous year. This would have risen to 11.6% if adjusted for the announced termination of the OEM business by the Company in the previous year.

In the field of diagnostic equipment, the main sales generators were the STRATUSocT™, IOLMaster®, HFA IIi, and the digital fundus camera VISUCAM™ *lite*. The high-end diagnostic system, the CRS-Master™, which in combination with the refractive MEL 80™ laser system permits the precise and customised treatment of vision defects, is expected to account for increasing volumes of sales. The MEL 80™ made up a large proportion of laser system sales (therapy systems). The remaining sales revenue in this area came from the VISULAS™ 532s and the VISULAS™ YAG II *plus* systems for the treatment of retinal disorders and post-cataract treatment. Sales in the Service business unit decreased to € 10.3m (previous year: €12.6m). The main reason for this is the warranty period given for the MEL 80™ launched last year. We are expecting to see improved sales in this unit in the future, as these systems are usually sold together with maintenance agreements.

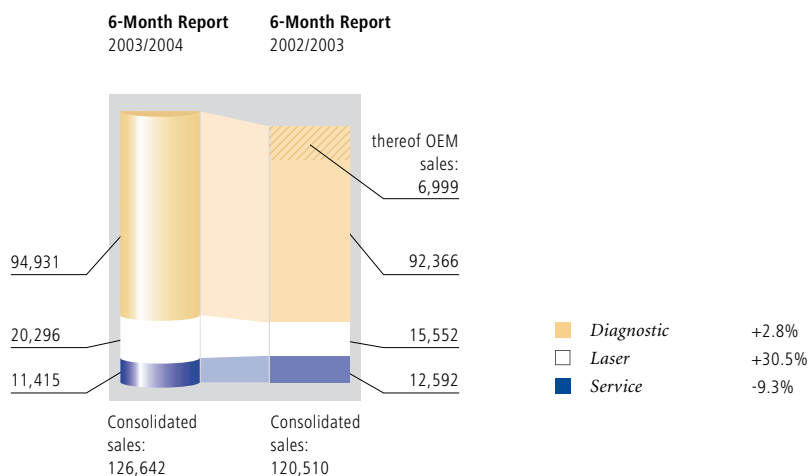
The following chart shows a breakdown of consolidated sales for the first six months of the current financial year 2003/2004 by business segment.

Consolidated sales by business segment ▶

(in € '000)



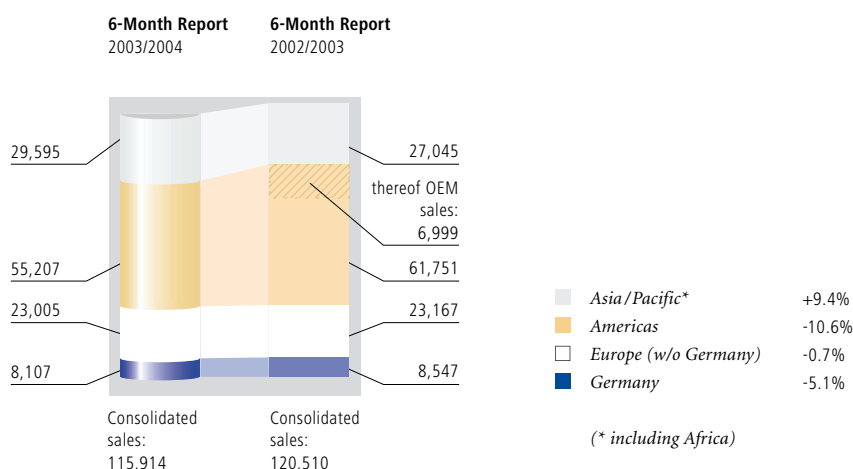
Currency-adjusted, Carl Zeiss Meditec also managed to strengthen its market position in diagnostic systems and post an increase of 2.8%. On this basis it also clear that the Company's Laser business continued to be successful. The corresponding growth of this unit within consolidated sales was thus 30.5%. The Service division, which basically offers maintenance services, reported a currency adjusted decrease in sales by 9.3% in the first six months of the current financial year. This is due to the warranty periods for the MEL 80™ refractive laser as mentioned above.



◀ Consolidated sales by business segment on the basis constant exchange rates

(in € '000)

The distribution of consolidated sales by region shows that Carl Zeiss Meditec posted major increases particularly in the Asia/Pacific region. Despite exchange rate fluctuations, consolidated sales were 9.4% up on the previous year's figure of € 27.0m at € 29.6m. In Europe (excluding Germany), consolidated sales were held at the same level as last year. The 10.6% decrease in the Americas to € 55.2m is due to the US dollar which, based on the average annual figure, is still weak in comparison to the euro, and the discontinuation of OEM business. The ongoing discussions about reforms within the health care system in Germany are leaving customers hesitant about investments in new systems. Accordingly, the fact that sales were only slightly lower than in the previous year can be regarded as proof of the Company's strong market position. The regional breakdown of consolidated sales is as follows:



◀ Consolidated sales by region

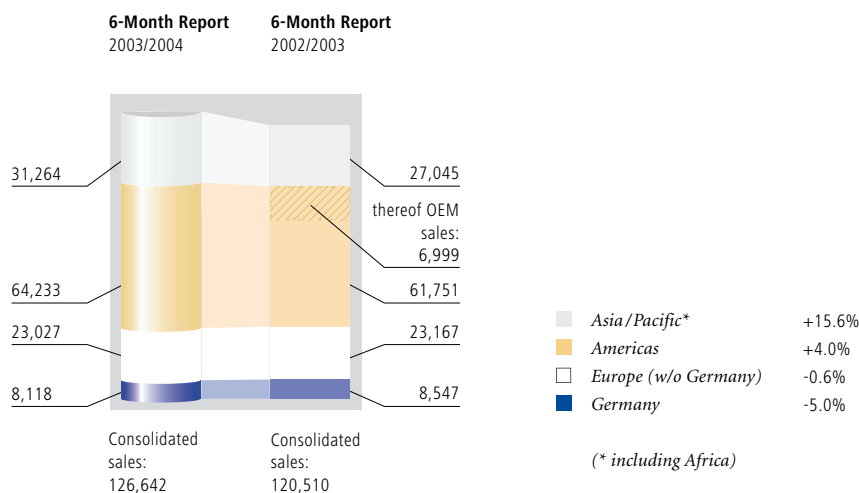
(in € '000)

The year-on-year currency-adjusted comparison shows clearly that the Company has succeeded in growing so strongly in the Americas as the result of its own innovative and successful products that it compensated for the discontinued OEM sales. Compared on this basis, sales in this region were 17.3% up on the previous year. Thus, sales targeted € 64.2m in the Americas region in the reporting period (previous year: € 54.8m, adjusted for OEM sales). Growth of 15.6% over the previous year in the

Asia/Pacific region would have resulted in sales totalling € 31.3m based on constant exchange rates. Currency fluctuations are scarcely impacting on consolidated sales in Europe and Germany.

Consolidated sales by region on the basis of constant exchange rates

(in € '000)



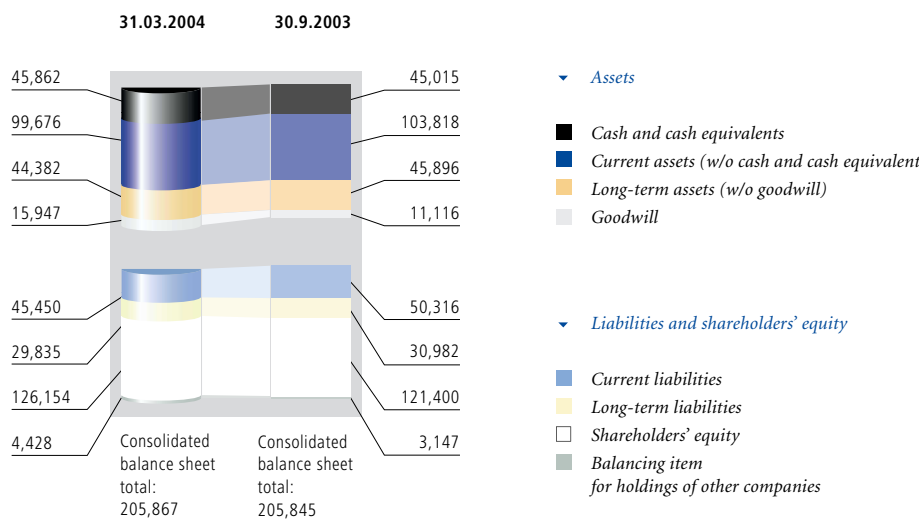
4. Net worth

a) Statement of net worth

The already sound balance sheet structure was further improved in the first half of 2003/2004. The development of the major balance sheet items is summarised in the following graph:

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

(in € '000)



As of 31 March 2004, the Company was able to further reduce accounts receivable and inventories. The trade accounts receivable totalled € 28.2m, down from € 30.3m on 30 September 2003. Including the trade accounts receivable from affiliated companies, this figure was € 38.3m at the end of the reporting period (30 September 2003: € 38.7m). Inventories fell by 3.6% to € 37.2m from € 38.6m on 30 September 2003.

Despite the cash outflow due to the acquisition of hiko medical communication GmbH in December 2003, cash balance totalled € 45.9m (30 September 2003: € 45.0m) as a result of the further improvement in the operative cash flow.

Trade accounts payable fell by 29.5% to € 7.5m. 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.

The increase in the "Minority interest" can be attributed to the positive earnings result of the Japanese subsidiary.

b) Key data on net worth

The following table provides an overview of the changes in the key net worth figures.

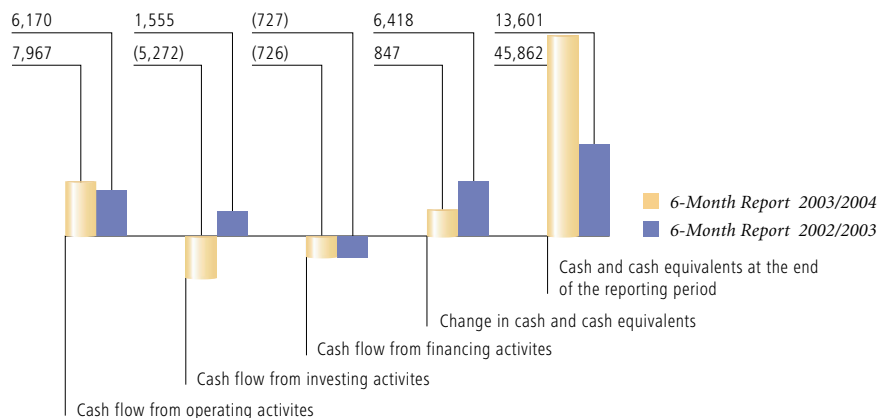
Key ratio	Definition	31 March 2004	30 September 2003	Change
Equity ratio	Equity capital Balance sheet total	61.3%	59.0%	+2.3 Pts. %
Net debt	Liabilities less cash and cash equivalents less accounts receivable from Carl Zeiss Group treasury	€ 16.297 m	€ 24.194 m	-32.6%
Inventory turnover	Sales costs [annualised] Average on inventories	3.3	3.4	-2.9%
Days of sales out- standing (DSO)	Trade accounts receivable Consolidated sales [annualised] X 360 days	59.5 days	59.1 days	+0.7%

◀ Key data on net worth

5. Financial position

a) Statement of financial position

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



In the first six months of the financial year 2003/2004 the cash flow from operating activities, which is a key figure of corporate controlling, rose by 29.1% to € 8.0m (previous year: € 6.2m). The growing consolidated net income and the reduction of inventories and trade receivables were the key contributory factors here.

Cash flow from investing activities in the first 6 months stood at € -5.3m (previous year: € 1.6m). This is largely attributable to the acquisition of hiko medical communication GmbH. Net of cash acquired, the investment totalled € 5.8m. Year-on-year, investments in fixed assets rose to € 1.4m. The latter related mainly to investments in the Company's infrastructure.

In the reporting period the cash flow from financing activities amounted to € -0.7m (previous year: € -0.7m). The reason for this is the discharge of liabilities. 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 extremely favourable in Japan.

b) Key ratios relating to financial position

Key ratio	Definition	31 March 2004	30 September 2003	Change
Cash and cash equivalents	Cash at bank and in hand	45,862	45,015	+1.9%
Net cash and cash equivalents	Cash at bank and in hand + accounts receivable against Carl Zeiss Group treasury less accounts receivable from Carl Zeiss Group treasury	58,988	57,067	+3.4%
Net working capital	Current assets less cash and cash equivalents less accounts receivable from Carl Zeiss Group treasury less current liabilities	41,100	41,413	-0.8%

◀ Key ratios relating to financial position

(in € '000)

Key ratio	Definition	6-Month Report 2003/2004	6-Month Report 2002/2003	Change
Cash flow per share	Cash flow from operating activities Weighted average number of shares outstanding	€ 0.28	€ 0.24	+16.7%
Capex ratio	Cash flow from investments in fixed assets Consolidated sales	1.2%	0.2%	+1.0 Pts. %

6. Earnings position

a) Statement of earnings

	6-Month Report 2003/2004	6-Month Report 2002/2003	Change
Sales	115,914	120,510	-3.8%
Earnings before interest and taxes (EBIT)	13,133	13,436	-2.3%
EBIT margin	11.3%	11.1%	+0.2 Pts. %
Consolidated net income	6,457	3,046	+112.0%
Earnings per share (in €)	0.23	0.12	+91.7%

◀ Consolidated income statement (abstract)

(in € '000)

In comparison to the previous year the gross margin improved considerably in the first six months of the current financial year. It rose to 45.8%, up from 42.9% the previous year. The main reasons for this are the shift of the product mix towards innovative products and further optimisation of the manufacturing costs.

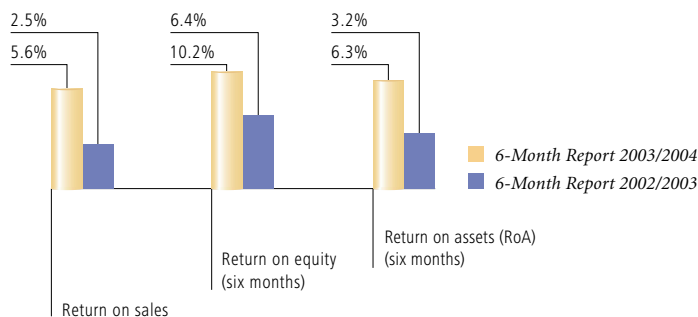
The increase in marketing and selling expenses is mainly the result of our strategy of targeted increased market penetration in individual regional and national markets together with the seasonal rise in these expenses in Japan. In the first six months of the financial year 2003/2004 Carl Zeiss Meditec spent € 22.7m on sales and marketing (previous year: € 20.7m). The corresponding expenditure ratio thus increased to 19.6% of consolidated sales (previous year: 17.2%). At € 5.6m (previous year: € 5.7m) the general administrative costs remained at the same level as the previous year. This represented 4.8% of consolidated sales (previous year: 4.8%). In the first six months of the current financial year expenditure on research and development increased by 8.5% to € 12.2 m (previous year: € 11.2m). Progress was made on important projects for the future as part of the Company's goal to improve competitiveness and profitability considerably through innovative products and systems, as planned.

The EBIT margin thus increased by 0.2 percentage points to 11.3% (previous year: 11.1%). This corresponds to an EBIT of € 13.1m (previous year: € 13.4m). Losses attributable to the sold-off Aesthetic and Dental operations had already been removed from the figures for the same period of the previous year.

As the result of lower interest expenses and an improved tax rate, we posted a disproportionately high increase in the consolidated net income of 112.0 % to € 6.5m (previous year: € 3.0m). This corresponds to earnings per share of € 0.23 (previous year: € 0.12). The increase in profits therefore compensated for the larger number of shares than the previous year. The consolidated net income from continued activities was over a third higher in the reporting period than in the previous year. It stood at € 6.5m compared to € 4.8m in the previous year.

b) Key ratios relating to earnings position

Key ratios relating to earnings position ▶



7. Research and development

In the first six months of the financial year 2003/2004 Carl Zeiss Meditec spent € 12.2m on research and development (previous year: € 11.2m). A total of € 0.6m was granted in subsidies (previous year: € 0.9m). This represented 10.5% of consolidated sales (previous year: 9.3%).

The increased R&D expenditure reflects the Company's goal of further strengthening and increasing its market position and its earning capacity. Systems which offer greater efficiency to doctors and better diagnosis and treatment results to patients will assume even greater importance in the future. The software-based, intelligent networking of individual units will play an important role here. The goal is not only to further improve the diagnostic and therapeutic processes but also above all to diagnose serious and widespread eye diseases even earlier than is possible at present in order to facilitate better treatment possibilities. These eye diseases, which are incurable but the development of which can be arrested, include glaucoma and age-related macula degeneration (AMD). Both remain the most common causes of blindness in the industrialised countries.

A major new product in this field is the Preview PHP™ system. It was presented for the first time at the *American Academy of Ophthalmology* (AAO) in November 2003 and is about to be launched onto the market in the coming weeks. Preview PHP™ represents a new approach to the early detection and monitoring of AMD. Studies show that its effectiveness in the diagnosis of advanced-stage AMD is double that of conventional methods.

The development of the ACMaster™ is a further important R&D project. This is a system based on optical biometry, just like the highly successful IOLMaster®. The IOLMaster® is used to select the power of intraocular lenses prior to cataract operations. The ACMaster™ allows specialists to examine the anterior segment of the eye with great precision. This is of key significance primarily with regard to innovative intraocular lenses.

Other R&D projects focus on providing additional applications or the enhancement of functions for products which are already available on the market. These include the Visupac™ software, the scope of which is continually being extended.

Other new products such as the Visulas™ YAG III for post-cataract treatment are currently in an advanced stage of development.

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).



8. Events of particular significance

As reported in the 3 month report of 2003/2004, on 17 December 2003 Carl Zeiss Meditec AG acquired a 100% interest in hiko medical communication GmbH.

With regard to the suit for damages the Group had filed against I-Spire s.p.r.l., Brussels/Belgium and its sole proprietor, an out-of-court settlement was reached. This settlement includes payments amounting to a total of € 2.8m, payable by I-Spire s.p.r.l. in several instalments and shown in the balance sheet item "Other loans". The payment of the first instalment of € 1.5m was made end of April 2004.

9. Orders on hand

As of 31 March 2004 Group's orders on hand totalled € 12.1m (previous year: € 15.0m). When comparing these figures with the previous year it should be noted that customers are now ordering much later than before, as in previous months. Added to this are two other factors affecting the US subsidiary Carl Zeiss Meditec, Inc. One is the impact of currency fluctuations. The other significant factor is the termination of OEM supplier relations by Carl Zeiss Meditec, Inc. at the start of the financial year 2003/2004.

10. Personnel

As of 31 March 2004 a workforce of 802 was employed in the Carl Zeiss Meditec Group (previous year: 842). In addition there were 23 trainees (previous year 25).

11. Outlook

Strategically, our goal remains to establish Carl Zeiss Meditec in the market as a provider of complete ophthalmic solutions. On the strength of our unique technology and product portfolio, our efficient worldwide distribution network and the globally recognised "Zeiss" brand, we will endeavour to provide our customers – the medical specialists – with innovative and efficient products which will support them in their daily routines, enabling them to increase their level of efficiency.

We will develop new products and explore new applications which enable doctors to diagnose serious and widespread eye diseases at an even earlier stage. The aim here is to give patients the chance of faster and more effective healing. The intelligent networking of diagnostic and therapeutic data, which today is generated by stand-alone devices and systems, will gain in significance. The principal aim here is to achieve greater efficiency and precision in the treatment of eye disorders.

In terms of sales, our main focus is on a targeted and systematic increase of our market penetration in particular markets and for specific products. For this purpose, together with our own sales companies and our distribution partners we have launched a drive that should produce first results in the current financial year.

We are holding fast to our goal of doubling our sales and achieving an EBIT margin of 15% by the end of the financial year 2007/2008. Development in this direction will not, however, be linear. In particular, forecasts of the influences the trends in exchange rate will have on sales have proved increasingly difficult. The Company's economic performance to date, however, shows that besides achieving our growth targets, optimisation of profitability is a high priority for us.

The second half of the financial year 2003/2004 could see sales grow as a result of the strengthening dollar. If this trend continues, the year could close with sales up on the previous year. However, on the basis of constant currency exchange rates, we expect a significantly stronger growth despite the discontinuation of OEM business in the USA. Irrespective of this, we will be doing all in our power to achieve a further increase in profitability. The EBIT margin for the financial year 2003/2004 is expected to be above that of last year; return on sales and operative cash flow are again set to rise year on 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 March 2004

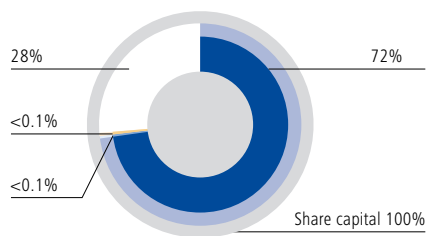
Management Board			
Ulrich Krauss	Shares		500
Dr Walter-Gerhard Wrobel	Shares		0
Bernd Hirsch	Shares		500
Supervisory Board			
Dr Michael Kaschke	Shares		750
Alexander von Witzleben	Shares		3,094
Dr Franz-Ferdinand von Falkenhausen	Shares		794
Dr Manfred Fritsch	Shares		450
Jürgen Dömel	Shares		291
Franz-Jörg 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 six months of the financial year 2003/2004 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	2nd Quarter 2003/2004 1 January 2004 - 31 March 2004	2nd Quarter 2002/2003 1 January 2003 - 31 March 2003	6-Month Report 2003/2004 1 October 2003 - 31 March 2004	6-Month Report 2002/2003 1 October 2002 - 31 March 2003
Sales	57,511	60,110	115,914	120,510
Costs of goods sold	(29,974)	(32,837)	(62,839)	(68,838)
Gross profit	27,537	27,273	53,075	51,672
Selling and marketing expenses	(11,594)	(10,510)	(22,747)	(20,694)
General and administrative expenses	(2,887)	(3,303)	(5,575)	(5,749)
Research and development expenses	(6,745)	(6,436)	(12,770)	(12,110)
Minus government grants received	272	629	597	894
Other operating income / (expense), net	65	44	167	132
Foreign currency gains / (losses)	347	(394)	386	(709)
Income before interest result and income taxes	6,995	7,303	13,133	13,436
Interest income / (expense), net	(324)	(492)	(635)	(1,068)
Income before income taxes	6,671	6,811	12,498	12,368
Income tax expense from continuing operations	(2,664)	(3,709)	(4,814)	(6,066)
Minority interests	(1,057)	(1,323)	(1,227)	(1,504)
Net income from continuing operations	2,950	1,779	6,457	4,798
Income / (loss) before income taxes from discontinued operations	-	(2,043)	-	(2,365)
Income tax benefit from discontinued operations	-	778	-	613
Net income from discontinued operations	-	(1,265)	-	(1,752)
Net income	2,950	514	6,457	3,046
Earnings per share, basic (€):				
from continuing operations	0.10	0.07	0.23	0.19
from discontinued operations	-	(0.05)	-	(0.07)
Total	0.10	0.02	0.23	0.12
Earnings per share, diluted (€)				
from continuing operations	0.10	0.07	0.23	0.19
from discontinued operations	-	(0.05)	-	(0.07)
Total	0.10	0.02	0.23	0.12
Average number of shares outstanding:				
Basic	28,402,377	25,548,490	28,402,377	25,832,836
Diluted	28,402,377	25,548,490	28,402,377	25,832,836

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

Consolidated balance sheet (US GAAP)

€ '000	31 March 2004	30 September 2003
▼ Assets		
Current assets:		
Cash	45,862	45,015
Restricted Cash	-	850
Trade accounts receivable, net of allowances of € 12.012m (prev. year: € 10.478m)	28,162	30,344
Accounts receivable from related parties	23,270	20,451
Inventories	37,234	38,611
Prepaid expenses	1,369	1,132
Deferred income taxes	7,752	7,958
Other assets	1,889	4,472
Total current assets	145,538	148,833
Property, plant, and equipment, net	24,920	26,000
Goodwill	15,947	11,116
Other intangible assets, net	6,098	5,079
Other long-term accounts receivable, net of allowances of € 0m (prev. year: € 0.047m)	103	718
Loans	2,818	2,818
Deferred income taxes	10,443	11,281
Total assets	205,867	205,845

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

€ '000	31 March 2004	30 September 2003
▼ Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	502	-
Current portion of long-term debt	192	187
Current portion of capital lease obligations	509	374
Trade accounts payable	7,502	10,636
Accounts payable to related parties	7,234	5,919
Income taxes payable	3,861	6,655
Deferred income	4,938	4,870
Deferred income taxes	108	8
Accrued expenses	19,208	20,527
Other current liabilities	1,396	1,140
Total current liabilities	45,450	50,316
Long-term debt, net of current portion	5,001	4,841
Capital lease obligations, less current portion	23,311	24,731
Long-term deferred income	813	1,007
Deferred income taxes	587	226
Other liabilities	123	177
Total liabilities	75,285	81,298
Minority interests	4,428	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	18,489	12,032
Accumulated other comprehensive loss	(10,077)	(8,374)
Treasury stock	(108)	(108)
Total shareholders' equity	126,154	121,400
Total liabilities and shareholders' equity	205,867	205,845

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

6-Month Report 2003/2004

Consolidated cash flow statement (US GAAP)

€ '000	6-Month-Report 1 October 2003 - 31 March 2004	6-Month-Report 1 October 2002 - 31 March 2003
▼ Cash flow from operating activities:		
Net income	6,457	3,046
Adjustments to reconcile net income to net cash provided by / (used in) operating activities		
Minority interest	1,227	1,504
Depreciation and amortisation	2,590	2,408
Loss on disposal of fixed assets	27	-
Deferred taxes	628	128
Change in working capital:		
Trade accounts receivable	785	(527)
Inventories	2,539	(4,363)
Prepaid expenses and other current assets	871	391
Trade accounts payable	(3,408)	3,209
Accrued tax expenses	(2,672)	3,709
Other accrued expenses and liabilities	(1,184)	(3,223)
Deferred income	107	(112)
Total adjustments	1,510	3,124
Net cash provided by operating activities	7,967	6,170
▼ Cash flow from investing activities:		
Change of restricted cash	815	-
Purchase of fixed assets	(1,434)	(299)
Purchase of intangible assets	(386)	-
Gain on sale of fixed assets	3	-
Increase of loans	-	(43)
Inpayment due to the sale of a subsidiary in the context of an <i>asset deal</i>	-	200
Inpayment due to the disposal of discontinued operations	1,500	-
Acquisition of consolidated companies, net of funds received (hiko: € 5.770m, Carl Zeiss Meditec Co. Ltd., Tokyo: € 1.697m)	(5,770)	1,697
Net cash (used in) / provided by investing activities	(5,272)	1,555
▼ Cash flow from financing activities		
Repayments of short-term debt	(1,233)	(1,345)
Repayments of long-term debt	(64)	(89)
Inpayments from taking up loans from related parties	2,105	9,009
Decrease in liabilities due to Treasury	-	(9,697)
(Increase) / decrease in accounts receivable from Treasury	(1,355)	1,542
Repayments under capital lease contracts	(179)	(186)
Inpayments due to sale and lease-back transactions	-	110
Purchase of treasury stock	-	(71)
Net cash used in financing activities	(726)	(727)
Effect of exchange rate changes on liquid assets	(1,122)	(580)
Net change in cash	847	6,418
Cash, beginning of the reporting period	45,015	7,183
Cash, end of the reporting period	45,862	13,601
Supplemental disclosures concerning the cash flow:		
Interest paid	1,107	1,392
Income taxes paid	6,882	1,549

The following notes on the consolidated financial statements are part of the unaudited 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	-	-	6,457	-	-	6,457
Other comprehensive loss (due to adjustments of accruals for pensions)	-	-	-	(65)	-	(65)
Other comprehensive loss (due to currency conversions)	-	-	-	(1,638)	-	(1,638)
Accumulated comprehensive income	-	-	-	-	-	4,754
As per 31 March 2004	28,417	89,433	18,489	(10,077)	(108)	126,154

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

Notes to the consolidated interim financial statement

▼ 1. General comments	23
Accounting and valuation methods	23
Expansion of the reporting entity	23
▼ 2. Notes to the consolidated income statement	25
Pro forma figures on the Stock Option Plan	25
Profit/loss per share	25
Discontinued activities	26
▼ 3. Notes to the consolidated balance sheet	27
Warranties	27
Pensions	27
4. Segment reporting	28



Q2

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 period ending 31 March 2004 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.

These interim financial statements include all necessary accrued expenses and deferred revenue and, in the Management's opinion, present a true and fair view of the net worth, financial position and earnings of the Company. All the accruals and deferrals are in line with standard practice regarding accounting periods.

The results of the interim periods may not necessarily yield valid conclusions about the annual result.

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 has an efficient team of development, marketing and service specialists at its disposal. 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 due immediately in cash amounted to € 6.094m. Direct incidental acquisition costs amounted to € 66,000.

The fixing and allocation of the purchase price are based on the preliminary estimates and as yet not completely audited balance sheet figures of hiko and are therefore subject to change by the Management Board of the Company 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	3,069
Purchased property, plant and equipment	194
Purchased other intangible assets	21
Purchase Price Allocation:	
Computer software	1,318
Goodwill	4,863
Total purchased assets and Purchase Price Allocation	9,465
Assumed current liabilities	(2,675)
Assumed other long-term liabilities	(630)
Total purchase price	6,160

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 € 4.863m. 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.

It should be noted here that Carl Zeiss Meditec accounted/accounts for the greater part of hiko medical communication GmbH's sales. This means the consolidation of hiko will have virtually no impact on the consolidated sales.

2. Notes to 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 consolidated net income for the year and the earnings per share would have been as follows:

€ '000	2nd quarter 2003/2004	2nd quarter 2002/2003	6 months 2003/2004	6 months 2002/2003
Consolidated net income as posted	2,950	514	6,457	3,046
Stock options expenses acc. to FAS 132	(26)	(60)	(52)	(121)
Tax gain	10	23	20	46
Stock options expenses (after tax) according to SFAS No. 123	(16)	(37)	(32)	(75)
Pro forma consolidated net income	2,934	477	6,425	2,971
Basic and diluted earnings per share (€):				
as posted	0.10	0.02	0.23	0.12
pro forma	0.10	0.02	0.23	0.12

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.

The share options issued to employees did not generate any dilution effects either in the quarter or in the comparative period.



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 consolidated income statement (“Net income from discontinued operations”). No profits/losses from discontinued operations are shown in the financial year 2003/2004. In the allocation of revenues and expenses, there were changes in losses from discontinued operations between the second and third quarters of the previous year. This did not, however, have any impact on the overall level of this item in the 2002/2003 financial statement.

3. Notes to the consolidated balance sheet

Warranties

The Company furnishes buyers with warranties on products sold for the contractually agreed period of 15 months. Provisions are formed for this purpose on the basis of the average values of guarantee claims made in the past.

The following table shows the change in warranty provisions from 1 October 2003 to 31 March 2004:

€ '000	
As of 1 October 2003	3,856
Provision	2,505
Reversal of excess reserves	(244)
Utilisation	(1,931)
Currency effects	(70)
As of 31 March 2004	4,116

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 conformity 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 March 2004 and 1 October 2002 to 31 March 2003 is as follows:

€ '000	2nd quarter 2003/2004	2nd quarter 2002/2003	6 months 2003/2004	6 months 2002/2003
Wages and salaries	25	23	50	47
Interest expenses for projected benefit obligations	14	9	28	17
Amortisation of actuarial profits/losses	3	-	6	-
Pension expenditure	42	32	84	64

4. Segment reporting

As of the balance sheet date, segment reporting was as follows:

€ '000	2nd quarter 2003/2004	2nd quarter 2002/2003	6 months 2003/2004	6 months 2002/2003
Sales				
Germany	26,384	25,185	54,062	52,112
USA	31,304	34,948	66,643	76,616
Japan	10,845	10,913	16,024	14,676
Rest of Europe	-	260	-	915
Eliminations	(11,022)	(11,196)	(20,815)	(23,809)
Consolidated	57,511	60,110	115,914	120,510

€ '000	2nd quarter 2003/2004	2nd quarter 2002/2003	6 months 2003/2004	6 months 2002/2003
Operating income				
Germany	38	1,294	1,472	4,458
USA	3,450	3,310	7,830	7,975
Japan	2,855	3,475	3,304	3,949
Rest of Europe	2	(384)	(92)	(570)
Eliminations	650	(392)	619	(2,376)
Consolidated	6,995	7,303	13,133	13,436

Sales revenue and operating income is allocated according to the geographic region of the group company that generates the revenue or the operating income.



The 6-Month Report 2003/2004 of Carl Zeiss Meditec AG has been published in German and English.

Both versions are available for downloading from the following address:

www.meditec.zeiss.com/ir

Financial calendar and contact

Financial year 2003/2004	
<i>Date</i>	
1 June 2004	<i>"Health service reform in Germany – A multiperspective analysis" investors' conference in Hamburg</i>
2 June 2004	<i>"Growth & Sustainability" investors' conference in Frankfurt</i>
June 2004	<i>Roadshow Europe</i>
25 June 2004	<i>2. "Ophthalmology Forum"</i>
29/30 June 2004	<i>Investor conference in Frankfurt</i>
12 August 2004	<i>9-Month Report</i>
12 August 2004	<i>Telephone Conference</i>
September 2004	<i>Deutsche Börse "HighTech Engineering / Medical Technology" industry forum in Frankfurt</i>
September / October 2004	<i>R&D Day in Jena</i>
September / October 2004	<i>Roadshow</i>
23/24 November 2004	<i>Deutsche Börse equity forum in Frankfurt</i>
15 December 2004	<i>Annual Financial Statements 2003/2004</i>
15 December 2004	<i>Balance Sheet Press Conference, Frankfurt am Main</i>
15 December 2004	<i>Analysts' Meeting, Frankfurt am Main</i>

Carl Zeiss Meditec AG

Jens Brajer

Director Investor Relations

Phone: +49 (0) 36 41 / 2 20-1 15


Fax: +49 (0) 36 41 / 2 20-1 17

investors@meditec.zeiss.com

Editor:

Jens Brajer

Concept and design:

 PR.OFIL PR und Werbeagentur GmbH, Erfurt, Germany

www.profilpr.de

Printed in Germany 05/2004.
Printed on environment-friendly paper bleached in a chlorine-free process.

Carl Zeiss Meditec AG
Goeschwitzer Str. 51-52
D-07745 Jena, Germany

Phone: +49 (0) 36 41 / 2 20-0
Fax: +49 (0) 36 41 / 2 20-112
www.meditec.zeiss.com