

6 Month Report

2005/2006



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CARL ZEISS MEDITEC

6 Months 2005/2006

Key results at a glance

Results of the second quarter 2005/2006

- ✓ Sales again significantly increased
- ✓ Earnings grow faster than sales
- ✓ Substantial improvement in cash flow from operating activities
- ✓ Takeover of Carl Zeiss Surgical temporarily delayed

Overview of business development

Business development

(Unless specified otherwise, figures in €'000)	6 Month Report 2005/2006	6 Month Report 2004/2005	Change
Consolidated sales	192,256	143,095	+34.4%
Gross margin	47.0%	47.0%	±0% points
EBITDA	28,539	19,867	+43.7%
EBITDA margin	14.8%	13.9%	+0.9% points
EBIT	23,400	16,627	+40.7%
EBIT margin	12.2%	11.6%	+0.6% points
Consolidated net income	11,797	7,745	+52.3%
Return on sales	6.1%	5.4%	+0.7% points
Earnings per share	€ 0.36	€ 0.27	+35.4%
	31 March 2006	30 September 2005	
Net cash and cash equivalents	29,648	14,794	+100.4%
Trade accounts receivable ¹	63,173	62,047	+1.8%
Inventories	57,864	53,744	+7.7%
Days of sales outstanding (DSO)	59.1 days	69.0 days	-14.3%
Net working capital	45,080	45,412	-0.7%
Liabilities	153,972	148,118	+4.0%
Net debt	72,736	80,884	-10.1%
Equity ratio	56.5%	56.0%	+0.5% points
	6 Month Report 2005/2006	6 Month Report 2004/2005	
Cash flow from operating activities	19,155	8,739	+119.2%
Cash flow/sales	10.0%	6.1%	+3.9% points
Cash flow per share	€ 0.59	€ 0.30	+96.7%

¹ Thereof from third parties: € 55,086 thousand (31 March 2006) and € 55,819 thousand (30 September 2005)



Transparent and comprehensive financial data and information in accordance with an internationally recognised accounting standard – a matter of course for us from the outset. This chapter provides a detailed insight into the economic development of Carl Zeiss Meditec AG in the first six months of 2005/2006.

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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,

Carl Zeiss Meditec can once again look back on a successful business performance in the first six months of 2005/2006. Compared to the previous year (€ 143.1 million), consolidated sales rose 34.4% to € 192.3 million. Organic sales growth, in other words, the development of consolidated sales adjusted for currency effects, acquisitions and organisational restructuring, both in the reporting period and in the previous year, amounts to 15.2% and thus significantly exceeds the market growth of around 10% p.a. These figures demonstrate yet again that we have both a product portfolio with a high level of market acceptance and an efficient global distribution network. We also advanced further on our way to continuously improving earnings. EBITDA increased by 43.7% year-on-year from € 19.9 million to € 28.5 million, and the operating result (EBIT) rose 40.7% from € 16.6 million to € 23.4 million. Consolidated net income increased by more than half year-on-year, amounting to € 11.8 million in the first six months of 2005/2006, compared to € 7.7 million the previous year. This growth in earnings thus overcompensated for the increased number of shares from the previous year, resulting in a rise in earnings per share to € 0.36 (previous year: € 0.27). The increase in cash flow from operating activities to more than double the previous year's figure reflects the successful business development of our Company and the continual and successful optimisation of key business processes.

In order to continue to ensure our profitable growth, we are still planning, by way of a combined capital increase against contributions in kind and in cash, to acquire Carl Zeiss Surgical and guarantee finance for further growth. Our aim is to further expand Carl Zeiss Meditec's position in the field of ophthalmic surgery and also extend our business activities into the growth market of neuro/ENT surgery. Although the Annual General Meeting of Carl Zeiss Meditec AG on 10 March 2006 approved this step with a majority of 99.8% of the share capital present, including 98.5% of the free float present, a total of eight petitioners filed suit against this resolution at the responsible district court. This could delay the conclusion of this transaction until beyond the end of the current financial year. Nevertheless, we are still planning to take over Carl Zeiss Surgical with the help of an approval process, presumably until the end of this calendar year. This depends on the responsible court allowing this application. The planned capital increase by which all shareholders of our Company may purchase new Carl Zeiss Meditec shares at a subscription price of € 10.10 will also be delayed accordingly.



Ulrich Krauss
Dipl.-Kaufmann (MBA)



Bernd Hirsch
Dipl.-Kaufmann (MBA)



James L. Taylor
BS, MBA

Carl Zeiss Meditec proved yet again in the period under review that it is in a position to grow profitably on its own resources and accelerate this process through acquisitions to thus create value added for its shareholders, customers and employees. We will continue to pursue this goal in future and would be delighted if you would continue to accompany us on this journey.

We hope you enjoy reading this quarterly report.

Jena, May 2006

Yours

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

Ulrich Krauss
President and CEO

Yours

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

Bernd Hirsch
Member of the
Management Board

Yours

A handwritten signature in blue ink, appearing to read 'James L. Taylor'.

James L. Taylor
Member of the
Management Board

Management report to the consolidated interim financial statements

Business development

1. Executive summary

The **sales** of the Carl Zeiss Meditec Group ("Carl Zeiss Meditec", "the Group", "the Company") amounted to € 192.3 million in the first six months of 2005/2006. This corresponds to an increase of 34.4% year-on-year (previous year: € 143.1 million). Organic growth, in other words, the development of consolidated sales adjusted for currency effects, acquisitions and organisational restructuring, both in the period under review and in the previous year, amounted to 15.2%.

The Group's earnings situation again showed a disproportionate improvement: **EBITDA** increased to € 28.5 million in the first six months of financial year 2005/2006 and was thus up 43.7% year-on-year (previous year: € 19.9 million). The EBITDA margin was 14.8% (previous year: 13.9%). There was also a considerable improvement in **earnings before interest and taxes (EBIT)**, which, at € 23.4 million, were up 40.7% over the year-ago figure of € 16.6 million. With an increase of 52.3%, **consolidated net income** increased to an even greater extent than sales and EBIT. In the first six months of 2005/2006 it stood at € 11.8 million (previous year: € 7.7 million). **Earnings per share** increased by more than one third year-on-year from € 0.27 to € 0.36.

Due to the positive development of earnings and thanks to the continued optimisation of working capital through active asset management, **cash flow from operating activities** increased to € 19.2 million in the first half of 2005/2006 and was thus more than double the year-ago figure of € 8.7 million.

2. Structure of the financial statements

With regard to the structure of the consolidated financial statements, it should be noted that the Company's reporting entity was extended during the year-ago period to include two external acquisitions and a change in the organisational structure. With effect from 1 November 2004, the Japanese subsidiary of Carl Zeiss Meditec, Carl Zeiss Meditec Co., Ltd., took over the surgical business of Carl Zeiss Co., Ltd.² In addition, the takeover of US company Laser Diagnostic Technologies, Inc. ("LDT") was formally completed on 2 December 2004. Furthermore, the majority of the French company IOLTECH S.A. ("IOLTECH") was taken over with effect from 1 February 2005. Accordingly, the first transaction above is recognised in the year-ago period from 1 November. LDT and IOLTECH are thus included in the consolidated financial statements of Carl Zeiss Meditec from 2 December 2004 and 1 February 2005, respectively.

The presentation of sales by region was also adjusted slightly in accordance with internal sales responsibility: sales generated in Africa and the Middle East, previously carried under the region "Asia/Pacific", are now grouped together with the region "Europe" under "Europe, Middle East and Africa" (EMEA). In order to give a transparent overview of developments from the previous year, the regional sales distribution for the previous year was adjusted accordingly.

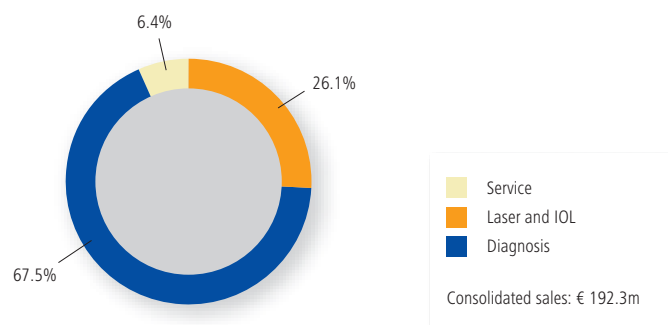
3. Development of sales

Carl Zeiss Meditec increased its consolidated sales in the first six months of the current financial year by 34.4% year-on-year to € 192.3 million (previous year: € 143.1 million). Assuming the same exchange rates as in the previous year, sales increased by 30.5%. If the effects of the acquisition of IOLTECH and LDT and the organisational restructuring in Japan are taken into account, the Company's organic sales growth amounts to 15.2%.

a) Consolidated sales by business segment

Around two thirds (67.5%) of Carl Zeiss Meditec's consolidated sales in the first six months are attributable to the "Diagnosis" business segment. Innovative diagnostic systems were yet again key sales drivers. The Company's presence in the "Laser and IOL" segment grew significantly year-on-year. In spite of a significant increase in Diagnosis sales, the share of this business segment in the Company's consolidated sales rose from 20.7% in the previous year to 26.1% in the reporting period. The "Service" business segment accounted for 6.4% of consolidated sales in the first six months of 2005/2006. Figure 1 shows the distribution of sales by business segment in the reporting period.

Figure 1:
 Share of consolidated sales generated by the business segments "Laser and IOL"³, "Diagnosis" and "Service" in the first six months of financial year 2005/2006



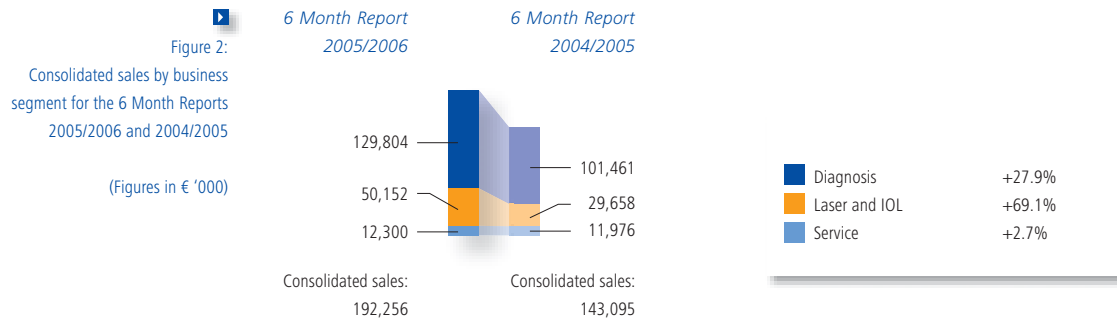
³ Sales of IOLTECH products were combined with Carl Zeiss Meditec laser sales.

Sales in the "Diagnosis" business segment increased by 27.9% year-on-year from € 101.5 million to € 129.8 million. Key products in this segment were the STRATUSocT™, Humphrey® Field Analyzer (HFA) and IOLMaster® systems. The non-mydratric fundus camera VISUCAM™ PRO^{NM} introduced at the end of the past financial year, which allows the fundus of the eye to be examined without the use of mydratics to dilate the pupils, also made an increasing contribution to sales throughout the financial year.

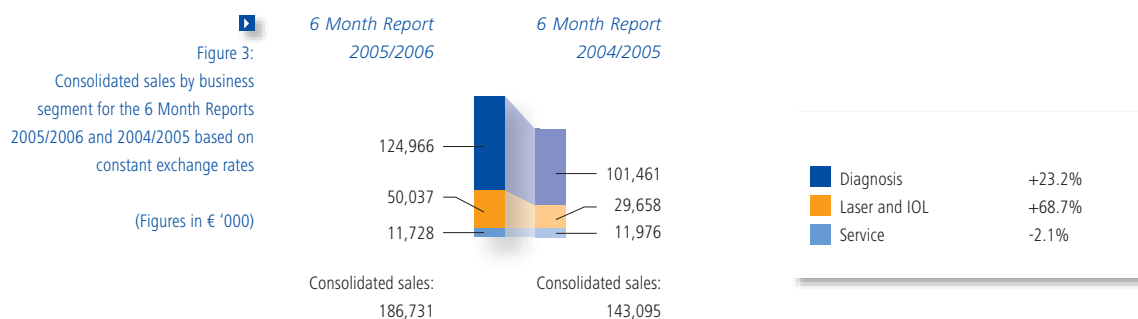
Consolidated sales in the "Laser and IOL" business were 69.1% up on the previous year, rising to € 50.2 million (previous year: € 29.7 million). This increase is mainly attributable to the fact that IOLTECH sales are fully included in the period under review, i.e. for six months, whereas they were only included for two months the previous year. Sales of therapeutic systems (lasers) also showed positive development from the previous year. Highlights here include the systems for laser correction of vision defects (MEL 80™) and for the treatment of retinal diseases (VISULAS™ 532s).

Compared to the first half of 2004/2005 consolidated sales for services increased by 2.7% to € 12.3 million (previous year: € 12.0 million).

The figure below shows a breakdown of consolidated sales by business segment for the first six months of the current financial year:



Assuming the same exchange rates as in the previous year, sales in the respective business segments developed as follows.



b) Consolidated sales by region

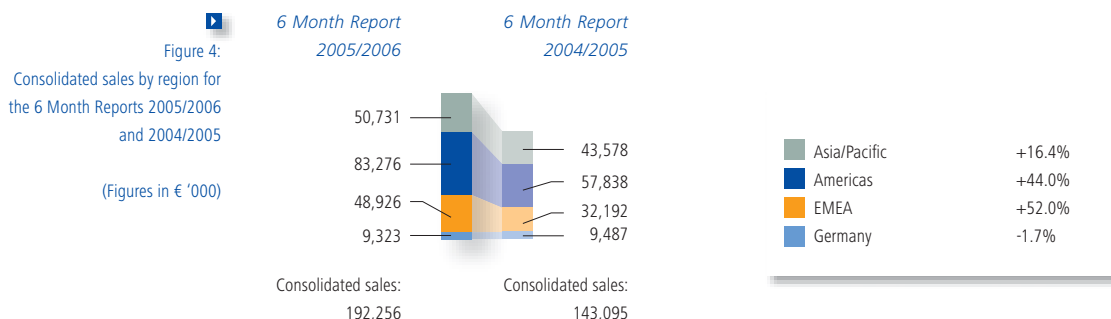
Compared to the previous year, Carl Zeiss Meditec generated the strongest growth in its consolidated sales in the EMEA region (Europe, Middle East and Africa) in the period under review. Sales revenues rose by 52.0% to € 48.9 million (previous year: € 32.2 million). In addition to the strong demand for diagnostic and treatment systems, the main driver of this growth was the expansion of Carl Zeiss Meditec's business into ophthalmic surgery as a result of the acquisition of IOLTECH. This region accounted for 25.4% (previous year: 22.5%) of Carl Zeiss Meditec's total sales in the first six months of 2005/2006.

Sales development in the Asia/Pacific region was also positive. Compared to the previous year (€ 43.6 million), sales here rose 16.4% to € 50.7 million. This development was primarily driven by the increased demand for diagnostic and treatment systems. Overall, Carl Zeiss Meditec generated 26.4% (previous year: 30.5%) of its consolidated sales in this region.

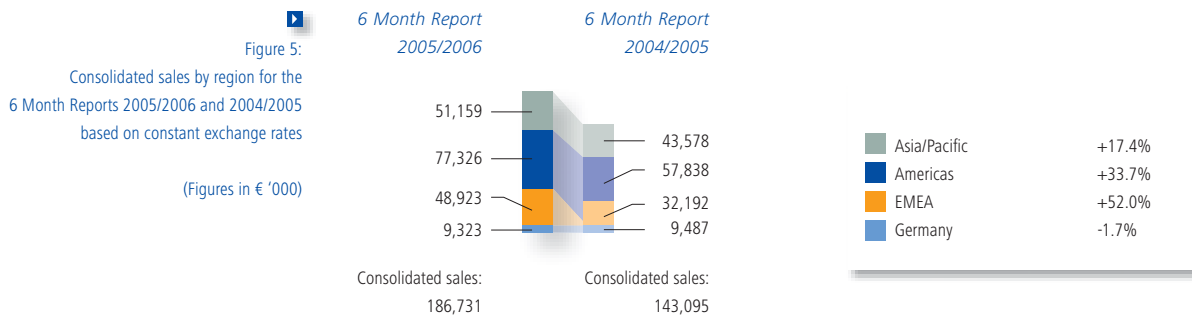
The region with the greatest volume of sales was the Americas. Carl Zeiss Meditec generated 43.4% (previous year: 40.4%) of its consolidated sales here. This increased share in sales demonstrates the dynamic sales growth in this region: compared to the previous year (€ 57.8 million), consolidated sales rose by 44.0% to € 83.3 million. This development is due, among other things, to the encouraging volume sales trend for systems for the diagnosis of retinal diseases, glaucoma and cataracts.

The consolidated sales generated in Germany remained almost stable due to the somewhat restrained demand that currently persists, compared to the previous year: after € 9.5 million the previous year, Carl Zeiss Meditec's sales revenue was € 9.3 million in this regional market. This corresponds to a slight decrease of 1.7%. Germany, however, only accounted for 4.8% of Carl Zeiss Meditec's consolidated sales in the first six months (previous year: 6.6%).

Consolidated sales by region are summarised in the figure below:



Consolidated sales by region on the basis of constant exchange rates are as follows.

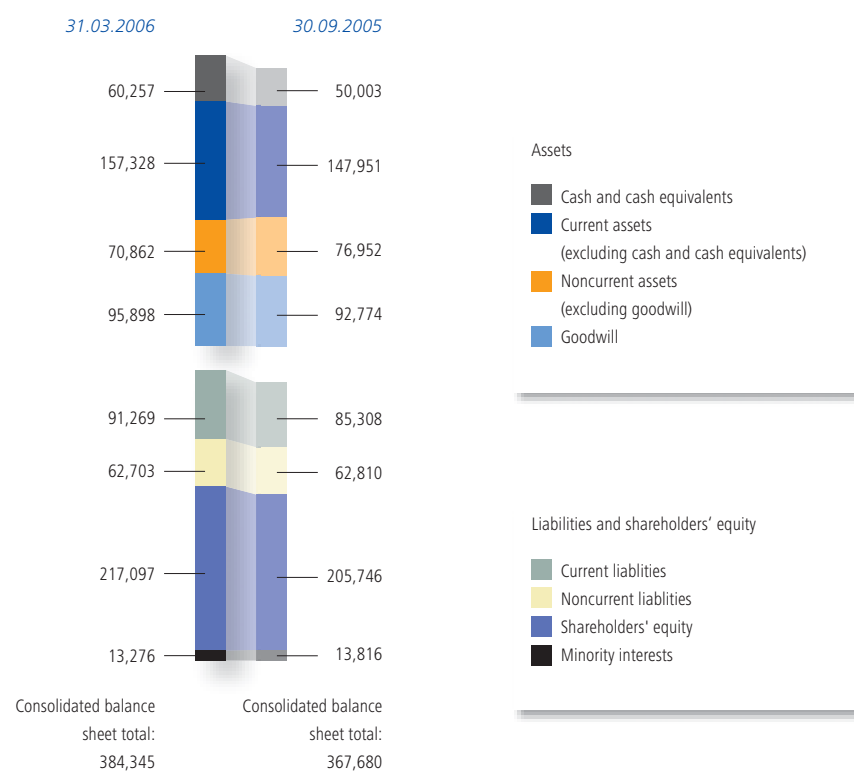


4. Net worth

a) Statement of net worth

The following chart summarises the development of key items in the consolidated balance sheet.

Figure 6:
 Structure of the consolidated
 balance sheet as of 31 March 2006
 and 30 September 2005
 (Figures in € '000)



There were no significant changes to the structure of Carl Zeiss Meditec's consolidated balance sheet from the balance sheet date 30 September 2005. The following gives more details on changes to selected balance sheet assets and liabilities.

Assets

Cash and cash equivalents

As of the balance sheet date 31 March 2006, Carl Zeiss Meditec held cash and cash equivalents of € 60.3 million (30 September 2005: € 50.0 million). The increase in this balance sheet item by 20.5% is attributable to the positive development of the Company's earnings. It should also be noted that the dividend resolved by the Annual General Meeting on 10 March 2006 for financial year 2004/2005 could not be paid until after the balance sheet date on 13 April 2006. This was due to the objections raised by several shareholders against all items on the Annual General Meeting agenda and, accordingly, against the distribution of a dividend.

Trade accounts receivable

Trade accounts receivable from third parties decreased slightly by 1.3% from 30 September 2005 (€ 55.8 million) to € 55.1 million. In spite of the higher share in sales of the Japanese subsidiary Carl Zeiss Meditec Co., Ltd. in the second quarter of the financial year – due to seasonal factors – and the corresponding temporary increase in trade accounts receivable shortly before the balance sheet date, working capital continued to be optimised successfully. This shows the improvement of the key figure Days of Sales Outstanding (DSO): this decreased from 30 September 2005 from 69.0 days to 59.1 days, corresponding to an improvement of 14.3%.

Accounts receivable from associated companies

Accounts receivable from associated companies increased from 30 September 2005 (€ 23.5 million) to € 29.1 million. A primary reason for this is the increase by € 3.7 million in receivables from the group treasury of Carl Zeiss AG, which are to be reported under this balance sheet item. The increase in this balance sheet item is also attributable to the growth in the Company's sales with distribution companies of the Carl Zeiss Group.

Inventories

This balance sheet item totalled € 57.9 million as of the balance sheet date 31 March 2006. Compared to 30 September 2005 (€ 53.7 million), this represents an increase of 7.7%. The primary reason for this development is the significant increase in the Company's sales volume.

Goodwill and other intangible assets

As of 31 March 2006, goodwill amounted to € 95.9 million. The change from 30 September 2005 (€ 92.8 million) is primarily attributable to a rebooking – with no effect on net income – of deferred tax assets on loss carry-forwards amounting to € 3.4 million, which were set up within the scope of the provisional purchase price allocation for the acquisition of IOLTECH. This rebooking was requested by the Management Board at the end

of the allocation period (1 February 2006) on the basis of commercial prudence, since a final decision by the Scottish tax authorities responsible for the IOLTECH subsidiary HYALTECH regarding the utility of the loss carry-forwards attributable to the Company has not yet been given (for further information on this refer also to the notes to the consolidated interim financial statements contained in this report).

The level of intangible assets decreased by 7.7% to € 26.1 million (30 September 2005: € 28.3 million) due to the scheduled write-down of assets that had been capitalised in connection with the purchase price allocation as required by US GAAP for, among other things, the two companies acquired the previous year, IOLTECH and LDT.

Liabilities

Trade accounts payable and accounts payable to associated companies

Trade accounts payable increased by 7.6% from 30 September 2005 (€ 19.2 million) to € 20.7 million.

Accounts payable to associated companies amounted to € 13.9 million as of the balance sheet date 31 March 2006 and were thus on around the same level as at 30 September 2005 (€ 13.5 million).

Income taxes payable

As a result of the positive business development in the Carl Zeiss Meditec Group, this item in the consolidated balance sheet increased by around one quarter (25.2%) to € 8.2 million (30 September 2005: € 6.6 million).

Accruals

Compared to 30 September 2005 (€ 33.9 million), this balance sheet item increased by 8.6% to € 36.8 million. This is attributable, among other things, to accruals for sales commissions and guarantees, which have increased due to the positive business growth of Carl Zeiss Meditec. This balance sheet item also includes measures to prevent against foreseeable risks.

Minority interests

This item in the consolidated balance sheet decreased by 3.9% from 30 September 2005 from € 13.8 million to € 13.3 million. Two opposing effects are significant in this. This balance sheet item was reduced by the one-off distribution of a contractually agreed preferred dividend to Carl Zeiss Co., Ltd., Tokyo, Japan. This preferred dividend was agreed within the scope of the foundation of the Japanese subsidiary Carl Zeiss Meditec Co., Ltd., Tokyo, Japan. In addition to its minority participation of 49%, this gave Carl Zeiss Co., Ltd. a claim to an

additional 17% of Carl Zeiss Meditec Co., Ltd.'s earnings after tax. This agreement was limited to the first three financial years after the acquisition of the ophthalmic business by Carl Zeiss Meditec. Due to the distribution of this dividend to Carl Zeiss Co., Ltd., this provision will expire at the end of the current financial year 2005/2006. The successful business performance of the Japanese subsidiary Carl Zeiss Meditec Co., Ltd. as well as the still incomplete takeover of IOLTECH led, on the other hand, to an increase in this balance sheet item.

Shareholders' equity

The shareholders' equity reported in the consolidated balance sheet of Carl Zeiss Meditec as of 31 March 2006 amounted to € 217.1 million, corresponding to an increase of 5.5% over the figure as of 30 September 2005 (€ 205.7 million). This is mainly attributable to the increase in retained earnings, which grew by 28.7% to € 52.9 million (30 September 2005: € 41.1 million) as a result of the successful development of business.

b) Key ratios on net worth

The following table shows the development of important key data on net worth.

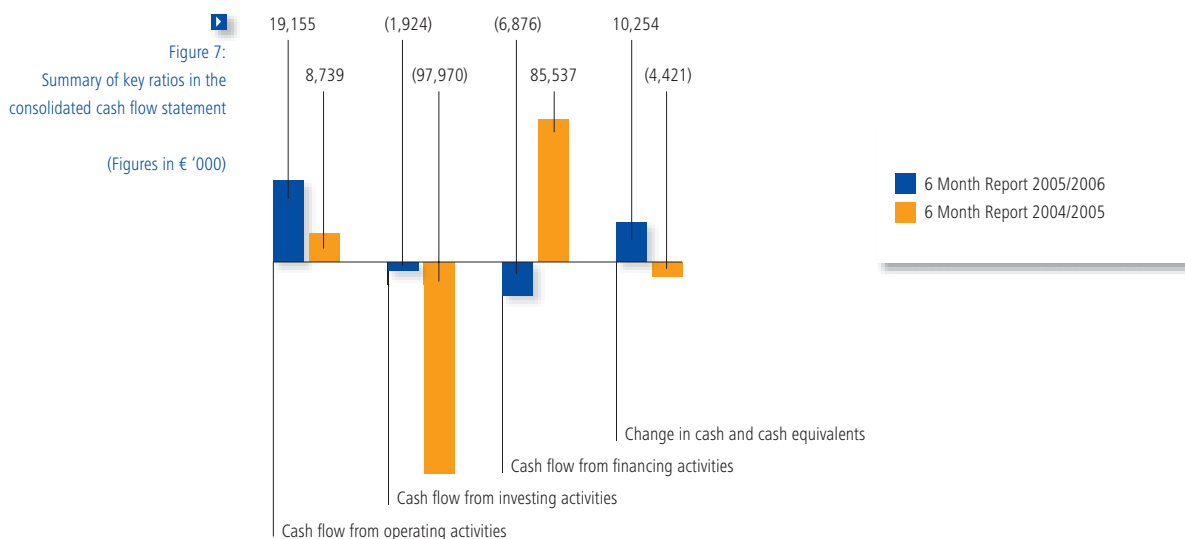
Table 1:
Key ratios on net worth as of
31 March 2006 and
30 September 2005

Key ratios	Definition	31.03.2006	30.09.2005	Change
Equity ratio	Shareholders' equity	56.5%	56.0%	+0.5% points
	Total assets			
Net debt	Liabilities <i>.i.</i> cash and cash equivalents <i>.i.</i> accounts receivable from group treasury of Carl Zeiss AG	€ 72,736 thousand	€ 80,884 thousand	-10.1%
Net financial debt ⁴	Interest-bearing liabilities <i>.i.</i> cash and cash equivalents <i>.i.</i> accounts receivable from group treasury of Carl Zeiss AG + Accounts payable to group treasury of Carl Zeiss AG	€ (29,648) thousand	€ (14,794) thousand	+100.4%
Rate of inventory turnover	Cost of goods sold	3.7	3.9	-5.1%
	Average inventories			
<i>Days of sales outstanding (DSO)</i>	Trade accounts receivable x 360 days	59.1 days	69.0 days	-14.3%
	Consolidated sales (annualised)			

⁴ Negative sign means credit

5. Financial position

a) Statement of financial position



Cash flow from operating activities

Carl Zeiss Meditec generated cash flow from operating activities of € 19.2 million in the first six months of the financial year. Compared to the year-ago figure of € 8.7 million, this corresponds to an increase of 119.2%. This figure was positively influenced in particular by the 52.3% increase in consolidated net income and by the adjustment for depreciation and amortisation resulting, among other things, from the purchase price allocation. The necessary working capital was also further optimised. Receivables and inventories increased to a lesser extent than in the previous year – in spite of the significant increase in consolidated sales.

Cash flow from investing activities

Carl Zeiss Meditec invested considerably less in the period under review than in the first six months of the previous year. This was primarily influenced by the acquisitions of the two companies IOLTECH and LDT during this period.

Investments in property, plant and equipment amounted to € 1.9 million in the reporting period and were thus up on the previous year (€ 1.1 million). The Capex ratio, i.e. investments in property, plant and equipment as a ratio of consolidated sales, however, remained at around the same level as in the year-ago period at 1.0% of consolidated sales (previous year: 0.8%).

Overall, cash flow from investing activities amounted to € -1.9 million in the first six months of financial year 2005/2006, compared to € -98.0 million in the year-ago period.

Cash flow from financing activities

Cash flow from financing activities amounted to € -6.9 million in the period under review (previous year: € 85.5 million). A major influencing factor is the increase by € 3.7 million in receivables from the group treasury of Carl Zeiss AG with which Carl Zeiss Meditec invests cash and cash equivalents not required for its operating activities at usual market conditions. This credit in cash is entered in the balance sheet under "Accounts receivable from associated companies". In addition, the calculation of cash flow from financing activities included the one-off distribution of a special dividend to Carl Zeiss Co., Ltd., Tokyo, Japan, referred to in the section above entitled "Net worth".

In the second quarter of financial year 2005/2006 Carl Zeiss Meditec also made use of the authorisation granted by the Annual General Meeting on 13 May 2005 to repurchase treasury shares to a very limited extent. In total, Carl Zeiss Meditec repurchased 15,114 shares at the weighted average price of € 17.80 after publication of the intended takeover of Carl Zeiss Surgical. The total volume of the repurchase thus amounted to € 0.3 million. The repurchased shares were issued to employees of Carl Zeiss Meditec AG and its wholly owned subsidiaries at the beginning of February 2006 within the scope of its annual employee share programme. The aim of this employee share programme is to strengthen the commitment of Carl Zeiss Meditec employees to the Company.

b) Key ratios relating to financial position

Table 2:
Key ratios relating to financial
position as of 31 March 2006
and 30 September 2005

(Figures in € '000)

Key ratios	Definition	31.03.2006	30.09.2005	Change
Cash and cash equivalents	Cash-in-hand and bank balances	60,257	50,003	+20.5%
Net cash and cash equivalents	Cash-in-hand and bank balances + accounts receivable from group treasury of Carl Zeiss AG ./. Liabilities to the group treasury of Carl Zeiss AG ./. Interest-bearing liabilities	29,648	14,794	+100.4%
<i>Net working capital</i>	Current assets ./. Cash and cash equivalents ./. Accounts receivable from group treasury of Carl Zeiss AG ./. Current liabilities	45,080	45,412	-0.7%
<i>Working capital</i>	Current assets ./. Current liabilities	126,316	112,646	+12.1%

Table 3:
 Key ratios relating to financial position for the 6 Month Reports 2005/2006 and 2004/2005

Key ratios	Definition	6 Month Report 2005/2006	6 Month Report 2004/2005	Change
Cash flow per share	Cash flow from operating activities	€ 0.59	€ 0.30	+96.7%
	Weighted average number of shares outstanding			
Capex ratio	Cash flow from investments in fixed assets	1.0%	0.8%	+0.2% points
	Consolidated sales			

6. Earnings position

a) Statement of earnings

Table 4:
 Summary of key ratios in the consolidated income statement for the 6 Month Reports 2005/2006 and 2004/2005

(Figures in € '000)

Figures in € '000	6 Month Report 2005/2006	6 Month Report 2004/2005	Change
Sales revenues	192,256	143,095	+34.4%
Gross margin	47.0%	47.0%	±0% points
EBITDA	28,539	19,867	+43.7%
EBITDA margin	14.8%	13.9%	+0.9% points
EBIT	23,400	16,627	+40.7%
EBIT margin	12.2%	11.6%	+0.6% points
Consolidated net income	11,797	7,745	+52.3%
Earnings per share (in €)	0.36	0.27	+35.4%

Sales revenues

Compared to the first six months of 2004/2005, Carl Zeiss Meditec achieved a substantial growth in sales: Consolidated sales climbed 34.4% from € 143.1 million to € 192.3 million.

Gross profit from sales

Gross profit from sales improved to € 90.3 million compared to the previous year (€ 67.3 million). This corresponds to an increase of 34.3%. The gross margin amounted to 47.0% in the first half of 2005/2006 and was thus on the level of the previous year.

Functional costs

In absolute terms, functional costs increased year-on-year from € 50.9 million to € 67.1 million. In relation to consolidated sales, however, there were no significant changes from the year-ago period:

- **Selling and marketing expenses:** Selling and marketing expenses amounted to € 37.9 million in the first six months of 2005/2006 after € 29.2 million in the previous year. In relation to consolidated sales, however, the expenses ratio decreased temporarily to 19.7% (previous year: 20.4%).
- **General and administrative expenses:** Compared to the previous year, expenses in this area increased by € 2.9 million to € 10.0 million (previous year: € 7.2 million). This is mainly the result of consultancy fees in connection with the planned takeover of Carl Zeiss Surgical. The ratio of general and administrative costs to consolidated sales thus increased slightly to 5.2% in the first six months of 2005/2006, after 5.0% in the previous year.
- **Research and development expenses:** Carl Zeiss Meditec spent € 19.1 million on research and development (R&D) in the period under review (previous year: € 14.5 million). A total of € 0.2 million was granted in subsidies (previous year: € 0.4 million). Research and development costs accounted for 10.0% of consolidated sales (previous year: 10.2%). This increase in absolute costs is primarily attributable to the promotion of major research and development projects.

Development of earnings

Earnings before interest, taxes, depreciation and amortisation (EBITDA) are mainly adjusted for the amortisation of intangible fixed assets that were capitalised in the course of the purchase price allocation (PPA) in connection with the acquisitions of IOLTECH S.A. and Laser Diagnostic Technologies, Inc. With an increase of 43.7% year-on-year, this figure increased to a greater extent than sales. In the first six months of 2005/2006 EBITDA stood at € 28.5 million (previous year: € 19.9 million).

Earnings before interest and tax (EBIT), which include the above-mentioned amortisation, also showed a greater increase than sales year-on-year, rising 40.7% from € 16.6 million to € 23.4 million.

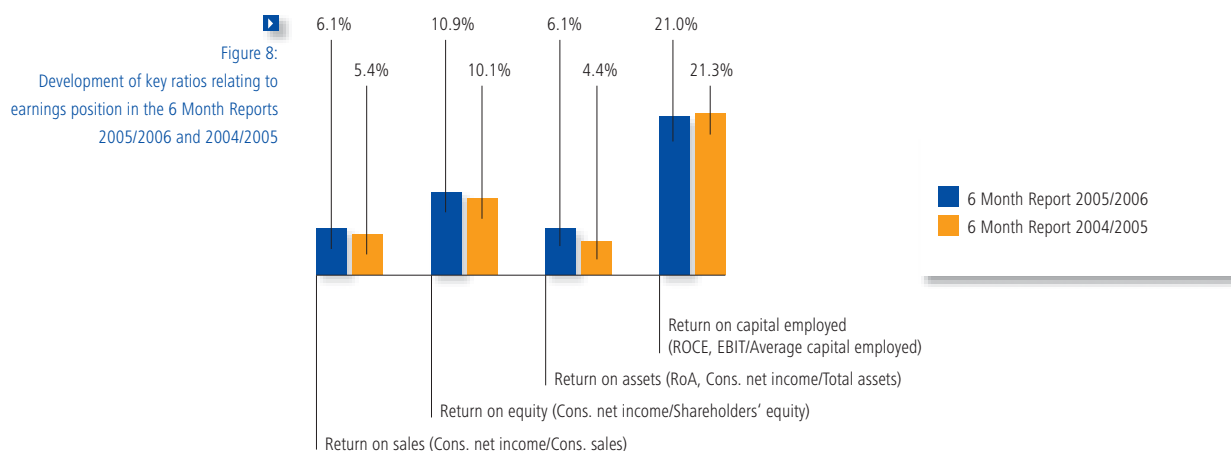
The tax rate increased year-on-year from 36.1% to 40.1%. It should be noted here that the previous year's tax rate in the first six months of 2004/2005 was positively influenced by special, tax-effective write-downs. At the end of financial year 2004/2005 it was 39.1%. When considering the first half of 2005/2006, it should also be noted that withholding taxes were already deferred here that would accrue in connection with future dividends from the subsidiary Carl Zeiss Meditec, Inc. to Carl Zeiss Meditec AG.

The proportion of minority interests declined by around one fifth (20.3%) year-on-year, due, among other things, to the expiry of the claim of minority shareholders of Carl Zeiss, Co., Ltd. to a preferred dividend.

Consolidated net income increased to a significantly greater extent than consolidated sales. At € 11.8 million, this figure was up by 52.3% year-on-year in the first six months of 2005/2006 (previous year: € 7.7 million). This growth in earnings thus compensated for the increase in the number of shares from the previous year. Accordingly, earnings per share rose from € 0.27 the previous year to € 0.36 in the period under review.

b) Key ratios relating to earnings position

The year-on-year development of key ratios relating to earnings position highlights the successful implementation of measures to continually increase the profitability of the capital and assets used in the Company's business activities.



7. Research and development

In the first six months of financial year 2005/2006 Carl Zeiss Meditec spent a total of € 19.1 million on research and development (previous year: € 14.5 million). Subsidies of € 0.2 million (previous year: € 0.4 million) are taken into account.

As of 31 March 2006, 225 employees (17.8%) throughout the Group were working in R&D (previous year: 208 or 17.6%).

The following table shows Carl Zeiss Meditec's main R&D activities in the period under review. These can be grouped under the following four focal areas:

- continual development of the existing product portfolio
- development of new products
- combination of diagnosis and treatment, and
- networking of systems and devices

Table 5:
Focal points of R&D in the first six months
of financial year 2005/2006

Focus	Activities
Continual development of the existing product portfolio	- Systematic activities to expand the technical and practical functioning of major diagnostic and therapeutic systems (e.g. IOLMaster® und MEL 80™)
Development of new products and combination of diagnosis and treatment	<ul style="list-style-type: none"> - Development of new laser systems to treat retinal diseases - Project for the development of new treatment options in the field of refractive surgery - Expansion of clinical trials within the scope of a research project for the development of intraocular lenses, the refractive power of which can be adjusted using special light patterns - Investigation of extended diagnostic and documentation options in basic systems - Projects for the development of new intraocular lenses
Networking of systems and devices	<ul style="list-style-type: none"> - Conclusion of activities concerning the integration of various diagnostic systems (e.g. VISUCAM™ PRO™, IOLMaster® or HFA IIi) in hospital and practice networks - Ongoing activities to further develop software solutions

The marketing approval of the refractive laser MEL 80™ in the USA was another focal point of research and development activities in the period under review. The Company made progress here, as planned. The prescribed tests were concluded and the relevant data was passed on to the responsible authorities.

8. Events of particular significance

On 9 January 2006 Carl Zeiss Meditec announced that it intends to acquire Carl Zeiss Surgical from its principal shareholder, the Carl Zeiss Group. The Company's aim in this is to further expand its position in the field of ophthalmic surgery and also extend its business activities into the growth market of neuro/ENT surgery. Carl Zeiss Surgical consists of Carl Zeiss Surgical GmbH, Oberkochen, Germany, and Carl Zeiss Surgical, Inc., Thornwood, USA.

The capital increase is structured as a subscription rights issue. Overall, it is planned to increase the share capital of Carl Zeiss Meditec AG from the current € 32,523,844, composed of as many no-par value shares, at a ratio of 2:3, by € 48,785,766 to a total of € 81,309,610, composed of 81,309,610 no-par value shares. The standard subscription price for all shares being issued as part of the planned capital increase will be € 10.10 per share. The combined capital increase against contributions in kind and in cash will ensure that the current free float of 35% does not change.

The Annual General Meeting of Carl Zeiss Meditec AG on 10 March 2006 had approved the acquisition of Carl Zeiss Surgical by way of a combined increase against contributions in kind and in cash with a majority of 99.8% of the share capital present, including 98.5% of the free float present.

However, a total of eight shareholders filed suit against the planned transaction at the responsible district court.

Carl Zeiss Meditec nevertheless intends to proceed with its acquisition of Carl Zeiss Surgical. To do this, the Company plans to conclude the transaction by applying an approval process, presumably during the course of this calendar year. The lawsuits that have been filed will delay the above mentioned capital measure, which will allow all of the Company's shareholders to purchase new Carl Zeiss Meditec shares at a subscription price of € 10.10 per share, until this approval process has been concluded.

9. Events after the balance sheet date

With effect from 1 May 2006, Carl Zeiss Meditec AG combined its sales and marketing activities in the French market in the newly founded subsidiary Carl Zeiss Meditec France SAS.

This is an important milestone for the Company in the expansion and reinforcement of its sales organisation.

In order to be able to successfully grow this new sales structure, Carl Zeiss Meditec took over the medical technology distribution organisation of Carl Zeiss SAS on 1 May 2006. Carl Zeiss SAS was previously distribution partner for devices and systems of Carl Zeiss Meditec in France. Pro forma, the medical technology distribution organisation of Carl Zeiss SAS generated sales of € 16.2 million and EBIT of € 0.6 million in financial year 2004/2005. In addition, the sales and marketing activities of IOLTECH S.A. in France were transferred to the newly founded Carl Zeiss Meditec France SAS. The related assets and liabilities, primarily working capital, were transferred at net book values. In addition, a purchase price of around € 0.7 million was paid to Carl Zeiss SAS for the customer base.

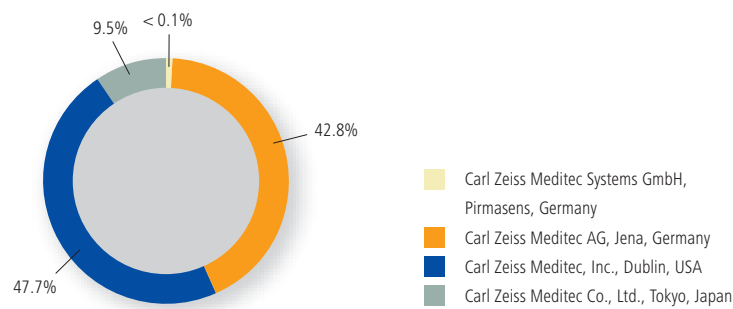
Pro forma, the new distribution company would have generated sales of about € 31.7 million in the French market in financial year 2004/2005.

This measure unites the previously separate sales and marketing channels in France under one management, so that the comprehensive product range, from devices and systems to intraocular lenses, can be marketed even more effectively and efficiently than ever before. The new structure will enable Carl Zeiss Meditec to exploit cross-selling potential and adapt more closely to the individual needs of its individual customer groups.

10. Orders on hand

As of 31 March 2006 the Group's orders on hand totalled € 27.1 million (previous year: € 13.5 million). Figure 9 shows the distribution of orders on hand among the individual group companies as of the balance sheet date.

Figure 9:
Distribution of orders on hand by group
company as of 31 March 2006

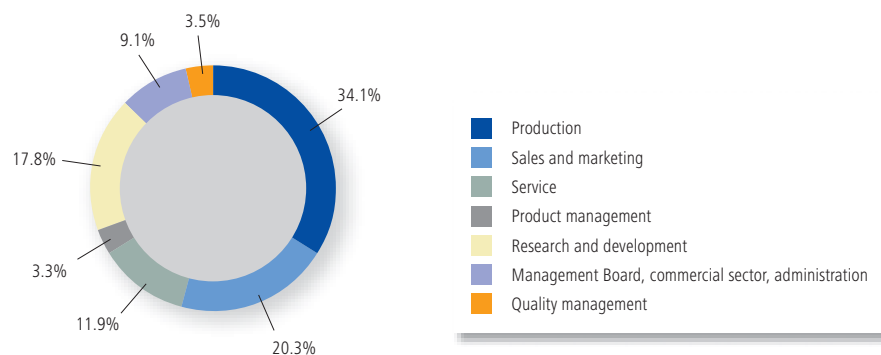


11. Personnel

As of 31 March 2006 the Carl Zeiss Meditec Group employed a global workforce of 1,264 (previous year: 1,182).

Figure 10 shows the personnel structure of the Carl Zeiss Meditec Group as of 31 March 2006.

Figure 10:
 Personnel structure of the Carl Zeiss Meditec
 Group as of 31 March 2006



12. Outlook

Carl Zeiss Meditec continued on its profitable growth course as planned in the first six months of the year. The development of key ratios relating to business development shows that the Company is in a position to strengthen its organic growth wisely through acquisitions and thus create value added for its shareholders, customers and employees.

Innovations in all areas of ophthalmology shall continue to be a key driver of the further growth of Carl Zeiss Meditec. Our focus here will be on making time-to-market cycles even shorter in order to further extend our technological leadership in future. We will also continue to improve the effectiveness and efficiency of our global distribution network. The bundling of our sales activities in France is one example of this. This will be supported by an even stronger focus on an all-round customer care concept.

We will continue to exploit external growth opportunities in future wherever logical and possible. The aim of these, on the one hand, is to expand our product and technology base and, on the other hand, to penetrate other addressable market segments to extend our growth into other areas of medical technology. A key element of this strategy is the takeover of Carl Zeiss Surgical. This step will create a medical technology company that focuses on the two growth markets ophthalmology and neuro/ENT surgery. By reinforcing our existing core business in ophthalmology and expanding our business activities into the field of neuro/ENT surgery, we hope to further enhance the Company's growth trend and increase profitability.

Directors' Holdings and Directors' Dealings

▶ Directors' Holdings – Shareholdings of members of the executive bodies of Carl Zeiss Meditec AG

Management Board		No. of Carl Zeiss Meditec shares (31.03.2006)
Ulrich Krauss	Shares	500
Bernd Hirsch	Shares	500
James L. Taylor	Shares	0

Supervisory Board		No. of Carl Zeiss Meditec shares (31.03.2006)
Dr Michael Kaschke	Shares	1,250
Alexander von Witzleben	Shares	1,094
Dr Dieter Kurz	Shares	0
Dr Markus Guthoff	Shares	1,900
Franz-Jörg Stündel	Shares	530
Wilhelm Burmeister	Shares	342

Company		No. of Carl Zeiss Meditec shares (31.03.2006)
Carl Zeiss Meditec AG	Shares	0

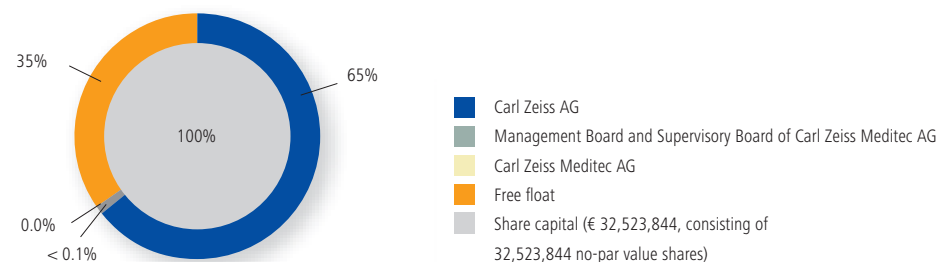
▶ Directors' Dealings – Notifiable securities transactions by members of the executive bodies of Carl Zeiss Meditec AG in the first six months of 2005/2006

In the first six months of 2005/2006 no members of the Management Board, the Supervisory Board, or their relatives, made any notifiable securities transactions pursuant to Art. 15a of the German Securities Trading Act (WpHG).

As a matter of principle, the relevant details concerning such securities transactions are immediately made publicly accessible following their notification on the Company's Web site at www.meditec.zeiss.com/ir, and submitted to the German Federal Financial Supervisory Authority (BaFin).

Shareholder structure

▶ Shareholder structure (as of 31 March 2006)



Consolidated income statement (US GAAP)

Figures in € '000	2nd Quarter 2005/2006	2nd Quarter 2004/2005	6 Month Report 2005/2006	6 Month Report 2004/2005
	1.01.2006-31.03.2006	1.01.2005-31.03.2005	1.10.2005-31.03.2006	1.10.2004-31.03.2005
Sales	97,146	81,157	192,256	143,095
Costs of goods sold	(51,386)	(42,141)	(101,908)	(75,832)
Gross profit	45,760	39,016	90,348	67,263
Selling and marketing expenses	(19,145)	(17,020)	(37,909)	(29,157)
General and administrative expenses	(5,385)	(4,225)	(10,049)	(7,184)
Research and development expenses	(9,455)	(8,196)	(19,374)	(14,969)
minus government grants received	28 (9,427)	167 (8,029)	240 (19,134)	427 (14,542)
Other operating income/(expense), net	116	84	180	147
Foreign currency gains/(losses)	97	(7)	(36)	100
Earnings before interest, taxes, depreciation and amortisation	14,601	11,609	28,539	19,867
Earnings before interest result and income taxes	12,016	9,819	23,400	16,627
Interest income/(expense), net	(203)	(742)	(595)	(869)
Earnings before income taxes	11,813	9,077	22,805	15,758
Income tax expense	(4,583)	(3,121)	(9,150)	(5,683)
Minority interests	(1,414)	(2,226)	(1,858)	(2,330)
Net income	5,816	3,730	11,797	7,745
Earnings per share (in €):	0.18	0.13	0.36	0.27
Average number of shares outstanding				
Basic	32,522,055	29,414,610	32,522,757	28,900,632

The following notes to the consolidated financial statements are an integral part of the unaudited consolidated financial statements.

Consolidated balance sheet (US GAAP)

Figures in € '000	31.03.2006	30.09.2005
Assets		
Current assets:		
Cash	60,257	50,003
Trade accounts receivable, net of allowances of € 9,805m (prev. year: € 9.630m)	55,086	55,819
Accounts receivable from associated companies	29,066	23,459
Inventories	57,864	53,744
Prepaid expenses	2,245	2,597
Deferred income taxes	9,275	9,068
Other assets	3,792	3,264
Total current assets	217,585	197,954
Property, plant and equipment, net	28,872	29,755
Goodwill	95,898	92,774
Other intangible assets, net	26,090	28,262
Other long-term accounts receivable, net of allowances of € 14,000 (prev. year: € 71,000)	161	212
Shareholdings	362	362
Loans	1,653	1,910
Deferred income taxes	13,708	16,352
Other long-term assets	16	99
Total assets	384,345	367,680

The following notes to the consolidated financial statements are an integral part of the unaudited consolidated financial statements.

Figures in € '000	31.03.2006	30.09.2005
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt	534	505
Current portion of capital lease obligations	1,032	1,031
Trade accounts payable	20,700	19,241
Accounts payable to associated companies	13,898	13,474
Income taxes payable	8,227	6,570
Advanced payments received and deferred income	5,570	5,429
Deferred income taxes	890	890
Accrued expenses	36,812	33,900
Other current liabilities	3,606	4,268
Total current liabilities	91,269	85,308
Accruals for pensions	2,238	2,014
Long-term debt, net of current portion	4,321	4,432
Long-term debt due to associated companies	21,494	21,577
Capital lease obligations, net of current portion	24,207	24,895
Long-term deferred income	1,406	1,100
Deferred income taxes	8,792	8,566
Other liabilities	245	226
Total liabilities	153,972	148,118
Minority interests	13,276	13,816
Shareholders' equity:		
Share capital, split into 32,523,844 ordinary shares with an imputed nominal value of € 1.00 each	32,524	32,524
Additional paid-in capital	141,719	141,719
Retained earnings	52,935	41,138
Accumulated other comprehensive loss	(10,081)	(9,631)
Treasury stock	-	(4)
Total shareholders' equity	217,097	205,746
Total liabilities and shareholders' equity	384,345	367,680

The following notes to the consolidated financial statements are an integral part of the unaudited consolidated financial statements.

Consolidated cash flow statement (US GAAP)

Figures in € '000	6 Month Report 2005/2006	6 Month Report 2004/2005
	1.10.2005-31.03.2006	1.10.2004-31.03.2005
Cash flow from operating activities:		
Net income	11,797	7,745
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Minority interest	1,858	2,330
Depreciation and amortisation	5,139	3,240
Losses/gains on disposal of fixed assets	60	52
Deferred taxes	(345)	(448)
Change in working capital:		
Trade accounts receivable	(1,865)	(7,412)
Inventories	(4,675)	(5,357)
Prepaid expenses and other current assets	(113)	1,251
Trade accounts payable	3,021	4,486
Accrued tax expenses	1,812	4,489
Other accrued expenses and liabilities	1,988	(980)
Deferred income	478	(657)
Total adjustments	7,358	994
Net cash provided by operating activities	19,155	8,739
Cash flow from investing activities:		
Purchase of property, plant and equipment	(1,881)	(1,075)
Purchase of intangible assets	(79)	(549)
Proceeds from sale of properties, plant and equipment	-	25
Repayment of loans and disposal of shareholdings	250	820
Acquisition of the surgical business in Japan	-	(6,365)
Acquisition of consolidated companies, net of cash acquired (2005/2006: IOLTECH: € 74,000, LTD: € 140,000) (2004/2005: LDT: € 20.932m, IOLTECH € 69.894m)	(214)	(90,826)
Net cash (used in)/provided by investing activities	(1,924)	(97,970)
Cash flow from financing activities:		
(Repayments) of long-term debt	(81)	(98)
Inpayments from short-term loans from associated companies/(Repayments)	(547)	7,811
Inpayments from long-term loans from associated companies	-	19,950
(Increase)/decrease in accounts receivable due from Treasury	(3,762)	16,792
Increase/(decrease) in accounts payable due to Treasury	-	46,664
Repayment of convertible bonds issued by IOLTECH	-	(5,682)
Repayments under capital lease contracts	(602)	(74)
Dividend payment to minority shareholders	(1,616)	-
Issuance of treasury stock	(268)	174
Net cash provided by/(used in) financing activities	(6,876)	85,537
Effect of exchange rate changes on liquid assets	(101)	(727)
Net increase in cash	10,254	(4,421)
Cash, beginning of the reporting period	50,003	49,748
Cash, end of the reporting period	60,257	45,327
Supplemental disclosures concerning the cash flow:		
Interest paid	2,108	1,496
Income taxes paid	6,570	2,096

The following notes to the consolidated financial statements are an integral part of the unaudited consolidated financial statements.

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

Figures in € '000	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total shareholders' equity
<i>As per 30.09.2004</i>	28,417	89,433	24,642	(10,715)	(178)	131,599
Net income	-	-	17,139	-	-	17,139
Other comprehensive loss (due to adjustments of accruals for pensions after taxes)	-	-	-	(314)	-	(314)
Other comprehensive income (due to currency conversions)	-	-	-	1,398	-	1,398
Accumulated comprehensive income	-	-	-	-	-	18,223
Acquisition of surgical business in Japan (transaction under common control)	-	-	(643)	-	-	(643)
Issuance of treasury stock	-	-	-	-	174	174
Issuance of shares for contribution in kind	1,265	15,302	-	-	-	16,567
Issuance of shares for contribution in cash	2,842	36,984	-	-	-	39,826
<i>As per 30.09.2005</i>	32,524	141,719	41,138	(9,631)	(4)	205,746
Net income	-	-	11,797	-	-	11,797
Other comprehensive income (due to adjustments of accruals for pensions after taxes)	-	-	-	38	-	38
Other comprehensive income (due to currency conversions)	-	-	-	(488)	-	(488)
Accumulated comprehensive income	-	-	-	-	-	11,347
Issuance of treasury stock	-	-	-	-	4	4
<i>As per 31.03.2006</i>	32,524	141,719	52,935	(10,081)	-	217,097

The following notes to the consolidated financial statements are an integral part of the unaudited consolidated financial statements.

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Notes to the consolidated interim financial statements

1. General information

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 2006 were prepared in compliance with the US Generally Accepted Accounting Principles (“US GAAP”).

The accounting and valuation principles were applied in accordance with the last consolidated financial statements and those for 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 contain all necessary accrued expenses and deferred revenue and, in the Management Board’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 2005, which are contained in the 2004/2005 Annual Report of Carl Zeiss Meditec AG.

Expansion of the reporting entity

Laser Diagnostic Technologies, Inc., San Diego, USA

With effect from 2 December 2004, Carl Zeiss Meditec, Inc. acquired a 100% interest in US-based Laser Diagnostic Technologies, Inc., (“LDT”), headquartered in San Diego, California, with the aim of integrating all the business activities and functions of this company into the US subsidiary Carl Zeiss Meditec, Inc. With its primary product GDx VCC, an instrument for examining the optic nerve, LDT has set a new standard in glaucoma detection.

This acquisition is an integral part of the Company’s corporate strategy in the area of glaucoma diagnosis that has helped to extensively expand the range of products available to eye specialists in this field. The GDx VCC gives Carl Zeiss Meditec access to a customer group in the glaucoma diagnosis market segment which has hitherto been closed to it. These customers are mainly doctors and optometrists who do not require the full range of examination options offered, for example, by the Carl Zeiss Meditec STRATUSocT™ system. The GDx VCC

is specifically designed for the early recognition, diagnosis and disease management of glaucoma, meaning that it complements the market presence of Carl Zeiss Meditec's STRATUSocT™. The STRATUSocT™ is a retinal imaging system with a wide range of potential applications. These include not only the early detection of glaucoma, but also its use in the diagnosis of other severe eye ailments such as age-related macular degeneration (AMD), in diabetic retinopathy, as well as in examinations before and after the treatment of cataracts.

The activities of the acquired company are reflected in the consolidated financial statements from 02 December 2004, the date of acquisition.

The final acquisition costs amounted to US\$ 29,226 thousand (€ 21,972 thousand, converted using the applicable exchange rate on the date of acquisition). Direct incidental acquisition costs amounted to US\$ 1,957 thousand (€ 1,471 thousand, converted using the applicable exchange rate on the date of acquisition).

The portion of the purchase price still held in an escrow account on 30 September 2005, amounting to US\$ 2,922 thousand (€ 2,197 thousand), was released for payment within the first quarter of financial year 2005/2006.

The following table shows the final breakdown of the purchase price (including incidental acquisition costs) at the time of acquisition (Purchase Price Allocation/PPA) in conformance with SFAS No. 141 (converted using the applicable exchange rate on the date of acquisition).

	US\$ '000	€ '000
Acquired current assets	11,582	8,707
Acquired property, plant and equipment	406	305
Purchase Price Allocation:		
Technology	7,000	5,263
Trademarks	1,200	902
Customer relationships	100	75
Goodwill	14,718	11,065
Acquired other noncurrent assets	4,050	3,045
Total acquired assets and purchase price allocation	39,056	29,362
Acquired current liabilities	4,605	3,462
Acquired other noncurrent liabilities	3,268	2,457
Total acquisition costs	31,183	23,443

Non-tax deductible, intangible assets (technology, customer relations) identified within the scope of the purchase price allocation are amortised for financial reporting purposes over an average term of seven years. Trademarks have an indefinite useful life and are therefore not subject to scheduled amortisation. However, such assets are tested for impairment on at least an annual basis.

The acquisition resulted in non-tax-deductible goodwill of US\$ 14,718 thousand (€ 11,065 thousand, converted using the applicable exchange rate on the date of acquisition). In accordance with SFAS No. 141, this goodwill will not be subject to scheduled amortisation, but will instead be subject to an impairment test in subsequent periods pursuant to SFAS No. 142.

To finance the acquired assets of LDT the Company took out a loan to the value of US\$ 26,000 thousand (€ 19,546 thousand, converted using the applicable exchange rate on the date of acquisition).

IOLTECH, S.A., La Rochelle, France

With effect from 1 February 2005, Carl Zeiss Meditec AG acquired 62.7% of the shares in the French ophthalmic surgery specialist IOLTECH S.A. (IOLTECH) from its majority shareholder, Philippe Tourrette. The purchase price offered to Philippe Tourrette is based on a value of € 110 million for 100% of the IOLTECH shares, equivalent to € 91.78 per IOLTECH share. This represents a premium of 15.6% on the average weighted IOLTECH share price in the three months prior to the announcement of the intended takeover on 17 December 2004. According to the sale and purchase agreement dated 16 December 2004, Carl Zeiss Meditec paid 80% of the acquisition price for the shares of Mr. Philippe Tourrette in cash and 20% by issuing new shares of Carl Zeiss Meditec AG.

In a second step, a public offer was submitted to the remaining IOLTECH shareholders for a period from 14 March to 5 April 2005. This bid proposed a cash payment to the same amount, i.e. € 91.80 per IOLTECH investment certificates. Carl Zeiss Meditec increased its holding in IOLTECH to 87.2% by 30 September 2005 and to 87.3% by 31 March 2006.

Carl Zeiss Meditec still has its sights set on a complete takeover of the company.

The company, which is currently still listed on the Second Marché at the Paris Stock Exchange, specialises in the production and distribution of intra-ocular lenses (IOL) and consumables for ophthalmic surgery.

The merger of Carl Zeiss Meditec AG with IOLTECH S.A., which has a complementary and competitive product portfolio, as well as a strong market position, particularly in Europe, offers considerable advantages to both parties. By extending its product portfolio to include ophthalmic surgery (predominantly cataract surgery), Carl Zeiss

Meditec now covers the entire spectrum – ranging from diagnosis and treatment through to the post-treatment of this disease. At the same time, the combination of the two companies' technological expertise brings new potential in the medium term for the development of innovative products. Both companies have an efficient sales organisation that will benefit from integration in future. In particular, this business combination will enable a targeted expansion of the global presence of IOLTECH products. On the whole, the takeover of IOLTECH is a key step in the implementation of the Company's strategy. It has doubled the size of the market segment now being addressed by Carl Zeiss Meditec in the field of ophthalmology. The ophthalmic surgery market segment also promises high growth rates and guarantees a direct link between sales and treatment figures in the area of implants and consumables.

The business activities of IOLTECH were reflected in the consolidated financial statements from 1 February 2005, the date of acquisition.

Carl Zeiss Meditec acquired a further 804 shares from IOLTECH minority shareholders at a price of € 74 thousand in financial year 2005/2006. The acquisition costs thus increased to € 98,786 thousand as of 31 March 2006; direct incidental acquisition costs remained unchanged at € 1,766 thousand.

The following table shows the final breakdown of the purchase price (including incidental acquisition costs) at the time of acquisition (Purchase Price Allocation/PPA) in conformance with SFAS No. 141.

Figures in € '000	
Acquired current assets	33,451
Acquired property, plant and equipment	7,535
Acquired other intangible assets	5,184
Purchase Price Allocation:	
Patents	8,560
Trademarks	5,410
Goodwill	67,590
Acquired other noncurrent assets	1,373
Total acquired assets and purchase price allocation	129,103
Acquired current liabilities	16,899
Acquired other noncurrent liabilities	6,822
Total assumed liabilities	23,721
Minority interests	4,830
Total acquisition costs (acquired net assets)	100,552

Non-tax deductible, intangible assets (patents and trademarks) identified within the scope of purchase price allocation are amortised in the above table on the basis of assumptions over an average term of eleven years.

Within the scope of the initial purchase price allocation is a deferred tax asset related to a loss carryforward of € 3,400 thousand for previous losses at HYALTECH Ltd., Scotland, a subsidiary of IOLTECH. Up until 31 December 2005, the Company still assumed that this deferred tax asset was probable of realisation.

Since there was no binding acknowledgement of the loss carryforward on the part of the tax authorities by the end of the allocation period (1 February 2006), but the Management Board was required to give a final estimate regarding the realisability of the loss carryforward by this time, the Management Board decided, as a precaution, to make a new estimate and not set up any deferred tax assets on the tax loss carryforwards of HYALTECH Ltd.

This final purchase price allocation reduced previously reported deferred tax assets and minority interests, while goodwill and tax accruals accordingly increased. This rebooking among the above-mentioned asset positions does not affect net income.

The acquisition thus resulted in non-tax-deductible goodwill of € 67,590 thousand. In accordance with SFAS No. 141, this goodwill will not be subject to scheduled amortisation, but will instead be subject to an impairment test in subsequent periods pursuant to SFAS No. 142.

Surgery business in Japan

The acquisition of the surgery business in Japan on 1 November 2004 was already presented at the end of the annual financial statements as of 30 September 2005.

Assuming that the acquisitions in the past financial year in Japan, the USA and France had already been completed by 1 October 2004, the pro forma figures for the comparative period from 1 October 2004 to 31 March 2005 would have been as follows:

Figures in € '000	Pro forma values 2 nd quarter FY 2004/2005	Pro forma values 6 months FY 2004/2005
Sales revenues	85,604	166,640
Earnings before interest and taxes	10,123	18,064
Net income for the year	3,944	8,160
Earnings per share (in €)	0.12	0.25

These pro forma figures are merely for comparison purposes and contain certain adjustments, such as additional amortisation expenditure on the acquired intangible assets and interest expenses from the loan taken out to finance the acquisition, as well as corresponding deferred taxes. The pro forma figures serve as a comparison and are not necessarily indicators for possible business development if the acquisition had ensued at an earlier date. In particular, it should be noted that these figures do not include the actual short and medium-term effects of the individual acquisitions on sales and earnings. Nor do the figures necessarily reflect future development.

2. Notes to the consolidated income statement

Earnings/loss per share

The basic earnings/loss per share were calculated by dividing the consolidated net income by the weighted average number of ordinary shares issued during each individual accounting period. The earnings/loss per share allowing for the dilution effect were calculated in compliance with SFAS No. 128 to reflect the effect of dilutive securities.

No stock options existed as of 31 March 2006.

Related party disclosures

Relationships with associated companies resulted in sales of € 35,165 thousand (previous year: € 29,436 thousand) in the reporting period 2004/2005. The term “associated companies” refers here to Carl Zeiss AG and its subsidiaries.

3. Notes to the consolidated balance sheet

Warranties

The Company is liable to the buyer for the proper functioning of the products sold for the contractually guaranteed period of 15 months (warranty). Accruals are set up for this purpose based on the average values of warranty claims made in the past.

The following table shows the change in accruals for warranties from 1 October 2005 to 31 March 2006:

Figures in € '000	
As of 1 October 2005	6,250
Appropriation	2,729
Reversal	(15)
Utilisation	(2,335)
Currency effects	(42)
As of 31 March 2006	6,587

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 costs necessary to cover these obligations are calculated using the prescribed projected unit credit method in conformance with SFAS 87. The projected unit credit method reflects economic assumptions based on long-term expectations, as well as the performance of assets legally set aside to fund future benefit payments.

Pension expenditure for the periods 1 October 2005 to 31 March 2006 and 1 October 2004 to 31 March 2005 was as follows:

Figures in € '000	2 nd quarter 2005/2006	2 nd quarter 2004/2005	6 months 2005/2006	6 months 2004/2005
Service cost	97	42	195	93
Interest expenses for projected benefit obligations	23	11	45	32
Amortisation of actuarial profits/losses	23	1	46	9
Pension expenditure	143	54	286	134

Litigation

There is currently a threat of legal proceedings from a medical product manufacturer due to a potential patent infringement. The facts of this case are currently being investigated by Carl Zeiss Meditec. Based on the existing information Carl Zeiss Meditec is not expecting these proceedings to have any material effects on its future net worth, financial position and earnings.

In addition, a total of eight lawsuits filed by shareholders are currently pending at the responsible district court with regard to the planned acquisition of Carl Zeiss Surgical by Carl Zeiss Meditec by way of a combined cash capital increase/capital increase against contributions in kind (for further information see also section "5. Events of particular significance" in these notes to the consolidated interim financial statements).

Minority interests

As part of the acquisition of 51% of the shares in Carl Zeiss Meditec Co., Ltd., Japan, by Carl Zeiss Meditec AG on 1 November 2002, Carl Zeiss Co., Ltd., Japan, as minority shareholder of this company, was granted preferred shares. These preferred shares entitle Carl Zeiss Co., Ltd., Japan – in addition to its minority participation of 49% – to an additional 17% of Carl Zeiss Meditec Co., Ltd., Japan's earnings after tax. This agreement was limited to the first three financial years after the acquisition of the ophthalmic business by Carl Zeiss Meditec. This provision thus expires at the end of the current financial year 2005/2006.

As of 31 March 2006, a sum of € 1,616 thousand was paid to Carl Zeiss Co., Ltd., Japan, thus the main claims from the preferred dividend have been settled. The residual payment shall be made as tax credits over the course of financial year 2005/2006.

The payment of the preferred dividend reduces the minority interest item in the balance sheet.

Repurchase of treasury stock

In the second quarter of financial year 2005/2006 Carl Zeiss Meditec made use of the authorisation granted by the Annual General Meeting on 13 May 2005 to repurchase treasury shares to a strictly limited extent. In total, Carl Zeiss Meditec repurchased 15,114 shares at the weighted average price of € 17.80 after publication of the intended takeover of Carl Zeiss Surgical (for further information see also section "5. Events of particular significance" in these notes to the consolidated financial statements). The total repurchase volume thus amounted to € 268 thousand. The repurchased shares were issued as employee shares at the beginning of February 2006 to employees of Carl Zeiss Meditec AG and its wholly owned subsidiaries.

4. Segment reporting

The segment reporting for the reporting period is as follows:

Figures in € '000	2 nd quarter 2005/2006	2 nd quarter 2004/2005	6 months 2005/2006	6 months 2004/2005
Sales revenues				
Germany	35,948	28,988	70,655	58,276
USA	47,149	35,027	99,336	74,641
Japan	20,847	24,669	33,744	31,693
Rest of Europe	13,642	9,245	27,154	9,245
Eliminations	(20,440)	(16,772)	(38,633)	(30,760)
Consolidated	97,146	81,157	192,256	143,095

Figures in € '000	2 nd quarter 2005/2006	2 nd quarter 2004/2005	6 months 2005/2006	6 months 2004/2005
Operating result				
Germany	2,163	1,174	4,789	3,170
USA	5,011	3,135	12,875	7,909
Japan	4,593	5,689	5,741	6,052
Rest of Europe	1,554	1,159	2,997	1,147
Eliminations	(1,305)	(1,338)	(3,002)	(1,651)
Consolidated	12,016	9,819	23,400	16,627

Sales revenue and operating income/losses are allocated according to the location of the subsidiary that generates the sales revenue or operating income/loss.

5. Events of particular significance

On 9 January 2006 Carl Zeiss Meditec announced that it intends to acquire Carl Zeiss Surgical from its principal shareholder, the Carl Zeiss Group. The Company's aim in this is to further expand its position in the field of ophthalmic surgery and also extend its business activities into the growth market of neuro/ENT surgery. Carl Zeiss Surgical consists of Carl Zeiss Surgical GmbH, Oberkochen, Germany, and Carl Zeiss Surgical, Inc., Thornwood, USA.

The capital increase is structured as a subscription rights issue. Overall, it is planned to increase the share capital of Carl Zeiss Meditec AG from the current € 32,523,844, composed of as many no-par value shares, at a ratio of 2:3, by € 48,785,766 to a total of € 81,309,610, composed of 81,309,610 no-par value shares. The standard subscription price for all shares being issued as part of the planned capital increase will be € 10.10 per share. The combined cash capital increase/capital increase against contribution in kind will ensure that the current free float of 35% does not change.

The Annual General Meeting of Carl Zeiss Meditec AG on 10 March 2006 had approved the acquisition of Carl Zeiss Surgical by way of a combined cash capital increase/capital increase against contribution in kind with a majority of 99.8% of the share capital present, including 98.5% of the free float present.

However, a total of eight shareholders filed suit against the planned transaction at the responsible district court in Gera.

Carl Zeiss Meditec nevertheless intends to proceed with its acquisition of Carl Zeiss Surgical. The Company plans to conclude the transaction by applying an approval process, probably during the course of this year. The lawsuits that have been filed will, in any case, delay the above capital measure, which will allow all of the Company's shareholders to purchase new Carl Zeiss Meditec shares at a subscription price of € 10.10 per share, until this approval process has been concluded.

6. Events after the balance sheet date

With effect from 1 May 2006, Carl Zeiss Meditec AG combined its sales and marketing activities in the French market in the newly founded subsidiary Carl Zeiss Meditec France SAS.

This is an important milestone for the Company in the expansion and reinforcement of its sales organisation.

In order to be able to successfully grow this new sales structure, Carl Zeiss Meditec took over the medical technology distribution organisation of Carl Zeiss SAS on 1 May 2006. Carl Zeiss SAS was previously distribution partner for devices and systems of Carl Zeiss Meditec in France. Pro forma, the medical technology distribution organisation of Carl Zeiss SAS generated sales of € 16.2 million and EBIT of € 0.6 million in financial year 2004/2005. In addition, the sales and marketing activities of IOLTECH S.A. in France were transferred to the newly founded Carl Zeiss Meditec France SAS. The related assets and liabilities, primarily working capital, were transferred at net book values. In addition, a purchase price of around € 0.7 million was paid to Carl Zeiss SAS for the customer base.

Pro forma, the new distribution company would have generated sales of about € 31.7 million in the French market in financial year 2004/2005.

Key investor relation events and contact

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Key investor relation events

Financial year 2005/2006

14 August 2006	9 Month Report
14 August 2006	Telephone conference
13 December 2006	Publication of the annual financial statements 2005/2006
13 December 2006	Analysts' conference Frankfurt am Main

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Contact

Carl Zeiss Meditec AG

Jens Brajer

Director Investor Relations

Tel.: +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:

PROFIL PR & Werbeagentur GmbH,

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www.profilpr.de

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

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