

9-Month Report

2003/2004



- Bookmarks
- Contents
- ▶ At a glance



Q3



CARL ZEISS MEDITEC

At a glance

▶ *Strategic milestones*

▶	Gross margin increased by 3 percentage points - Net income double the previous year's figure
▶	Three product innovations launched on the market - R&D activities increased
▶	Success in the systematic extension of market penetration - major sales increase in the Asia/Pacific region - discontinuation of OEM sales in the USA successfully compensated
▶	Cash and cash equivalents at record level thanks to operative cash flow

▼ *Overview of
business development*

(in € '000)

	9-Month Report 2003/2004	9-Month Report 2002/2003	Change
Group sales	170,411	175,897	▼ - 3.1%
Group sales on basis of constant exchange rates	182,335	175,897	▲ + 3.7%
EBIT margin	11.1%	10.9%	▲ + 0.2% pts.
Earnings before interest and taxes (EBIT)	18,868	19,258	▼ - 2.0%
Consolidated net income from continuing operations	9,360	7,816	▲ + 19.8%
Consolidated net income	9,360	4,682	▲ + 99.9%
<i>Earnings per share</i>	€ 0.33	€ 0.18	▲ + 83.3%
<i>Number of shares (weighted average, in thousand)</i>	28,402	25,829	▲ + 10.0%
	30 June 2004	30 September 2003	
Cash and cash equivalents	47,261	45,015	▲ + 5.0%
Trade accounts receivable¹	23,005	30,344	▼ - 24.2%
<i>Days of sales outstanding</i>	49.8 days	59.1 days	▼ - 15.7%
<i>Net working capital</i>	37,629	41,413	▼ - 9.1%
Liabilities	73,252	81,298	▼ - 9.9%
<i>Net debt</i>	7,525	24,194	▼ - 68.9%
<i>Equity ratio</i>	62.4%	59.0%	▲ + 3.4% pts.
	9-Month Report 2003/2004	9-Month Report 2002/2003	
Cash flow from operating activities	17,314	19,246	▼ - 10.0%
Cash flow per share	€ 0.61	€ 0.75	▼ - 18.7%

¹ Excluding trade accounts receivable from related parties of € 8.455m (30 September 2003: € 8.362m)

▼ 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	4
3. Sales trends	5
4. Net worth	8
5. Financial position	10
6. Earnings position	12
7. Research and development	13
8. Events of particular significance	14
9. Orders on hand	14
10. Personnel	15
11. Outlook	15
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



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,

With its economic development in the first nine months of the financial year 2003/2004, Carl Zeiss Meditec AG has once again demonstrated that it is pursuing a successful growth course. The consolidated net income has doubled to € 9.4 million since the previous year. We were able to raise the EBIT margin by 0.2 percentage points to 11.1 percent. EBIT in the reporting period stood at € 18.9 million (previous year: € 19.3 million). This is mainly attributable to a continued improvement in the gross margin to 45.9% due to optimised manufacturing costs and innovative products (previous year: 42.9%). Thanks to this development and the strong operative cash flow, cash and cash equivalents reached the record level of € 47.3 million (30 September 2003: € 45.0 million).

At the same time we have increased our investments in the future of Carl Zeiss Meditec. We have extended our marketing and sales activities and launched or stepped up research & development projects for promising new products. In this respect we are cooperating with the American company Calhoun Vision, Inc. in the field of innovative intraocular lenses. Together we aim to develop and market a new type of intraocular lens whose refractive power can be adjusted after the operation without the need for further surgical intervention. In this way, cataract surgery could be combined with an optimal customised correction of vision defects. In addition, in the third quarter of the current financial year we were able to bring a series of development projects to a successful close. These culminated in the launch of the new products VISUPAC™ 4.0, ACMaster™ and PreviewPHP™.²

Even though the US dollar – still weak in relation to the euro – in particular has resulted in a 3.1% decline in sales to € 170.4 million, we were able to chalk up a number of successes through our initiative for the targeted increase of market penetration. Growth of 16.2% since the previous year in the Asia/Pacific region resulted in sales totalling € 45.2 million (previous year: € 38.9 million). Intensified sales and marketing activities in the USA meant that the Company was more than able to compensate for a € 10.9 million decline in revenue due to the cancellation of OEM supplier contracts by Carl Zeiss Meditec. Had exchange rates remained constant, sales would have been € 182.3 million – an increase of 3.7% over the previous year.

We continued to expand our investor relations activities in the third quarter of the current financial year. Besides roadshows in Switzerland and the Netherlands, we presented Carl Zeiss Meditec AG at several capital market conferences and in numerous one-to-one meetings. In the future we shall remain committed to our active and transparent information policy vis-à-vis the capital market, for it is still our declared goal to fulfil the criteria for admission to the TecDAX index.

² For further information on new products and research projects please see Section 7 "Research and development"

► *Management Board
of Carl Zeiss Meditec AG*

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



In the medium-term, we want to double our sales figure by the end of the financial year 2007/2008. By this time, the EBIT margin is to grow to 15%. Development in this direction will not, however, be linear. The conversion of sales revenue in particular can be influenced by changes in exchange rates. The economic development of Carl Zeiss Meditec AG to date, is testimony, however, that the sustainable growth in profitability is of highest importance to us.

We are investigating external growth options. In doing so, we are taking care to ensure that the realisation of these options does not result in a lasting dilution of profits or an unduly high goodwill. In particular, this is also in the interests of our shareholders.

Based on the financial year 2003/2004 as a whole, in particular trends in dollar exchange rates in relation to the euro give us reason that group sales will come in at most at the same level as in the previous year. However, on the basis of constant exchange rates, we expect a growth in sales in comparison to the previous year. Irrespective of this, we will be doing all in our power to achieve a significant increase in profitability. As far as the return on sales margin is concerned, we are assuming gains in comparison to last financial year. There is to be a continued improvement in the EBIT margin. Furthermore, the operative cash flow will reflect the economic performance of Carl Zeiss Meditec.

Ulrich Krauss
President and CEO

Bernd Hirsch
*Member of the
Management Board*

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

Business performance

1. Executive summary

In the first nine months of the financial year 2003/2004 Carl Zeiss Meditec AG ("Carl Zeiss Meditec", the "Company", the "Group") further increased its profitability despite a slight downturn in sales by 3.1% to € 170.4 million. In spite of increased investments in marketing and sales and research and development, consolidated net income was doubled to € 9.4 million from € 4.7 million last year. Optimised manufacturing costs as well as the positive sales performance of innovative products contributed to this.

The increase in net income for the reporting period and, resulting from that, the clearly positive operative cash flow has led once again to a rise in cash and cash equivalents. As of the balance sheet date 30 June 2004 the latter totalled € 47.3 million (30 September 2003: € 45.0 million).

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 ("hiko"). Accordingly, the activities of the former hiko, now operating under the name Carl Zeiss Meditec Systems GmbH, were included in the consolidated financial statements of Carl Zeiss Meditec from this date onwards.
- **Reporting of discontinued operations in the previous year:** 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 US accounting rules set forth in SFAS No. 144, this disposal was identified as "discontinued operations". Accordingly, the contributions to sales and expenses generated in this sector were aggregated in the previous year's consolidated income statement and shown separately. The revenue from the sale of business units is shown at the bottom of the income statement ("Consolidated net income from discontinued operations"). In the financial year 2003/2004 no effects on earnings resulted from discontinued operations.

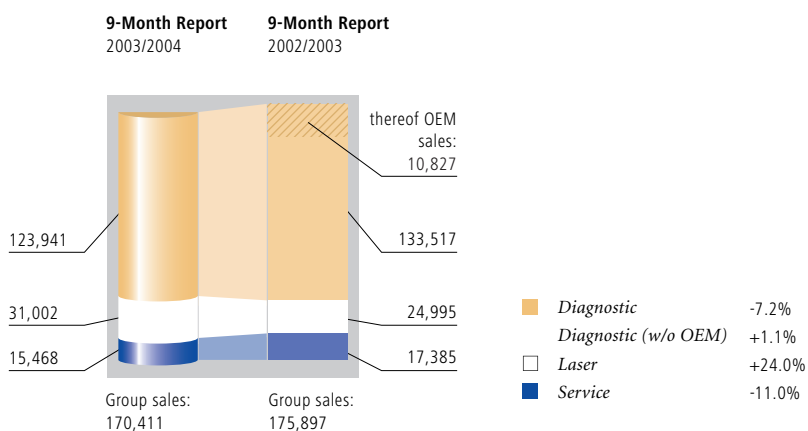
3. Sales trends

The declared sales performance of the third quarter of the current financial year was also hampered by the weakness of the US dollar compared to the euro. The average value of the US dollar in the first nine months of the financial year 2003/2004 was approx. € 0.82; the corresponding value in the previous year was € 0.94. Thus, Carl Zeiss Meditec posted a slight 3.1% decrease in sales to € 170.4 million (previous year: € 175.9 million). Had exchange rates remained constant, sales would have increased by 3.7% to € 182.3 million over the previous year. If total sales revenue were also to be adjusted for OEM revenue from the previous year, it would show a sales increase of 10.5%.

The main sales generators in the diagnostic sector were the successful products STRATUSocT™, Humphrey® Field Analyzer (HFA) and IOLMaster®. Sales of treatment systems (lasers) proved positive above all thanks to the good market acceptance of the refractive laser MEL 80™ and the VISULAS™ 532s and VISULAS™ 690s systems. Sales in the Service business unit decreased to € 15.5 million (previous year: 17.4 million). A fundamental reason for this are the guarantee periods which have to be issued for the numerous new products and in particular for the MEL 80™ laser introduced into the market last year. In the future we expect service sales to rise, as it is usual for customers to conclude maintenance agreements for more complex products once the initial guarantee period has expired.

Currently Carl Zeiss Meditec is making a concerted effort to systematically expand its market presence with further innovative, high-performance products. Thus the VISUPAC™ 4.0 software, the ACMaster™ and the PreviewPHP™ system were launched on the market in the third quarter of the current financial year.³

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

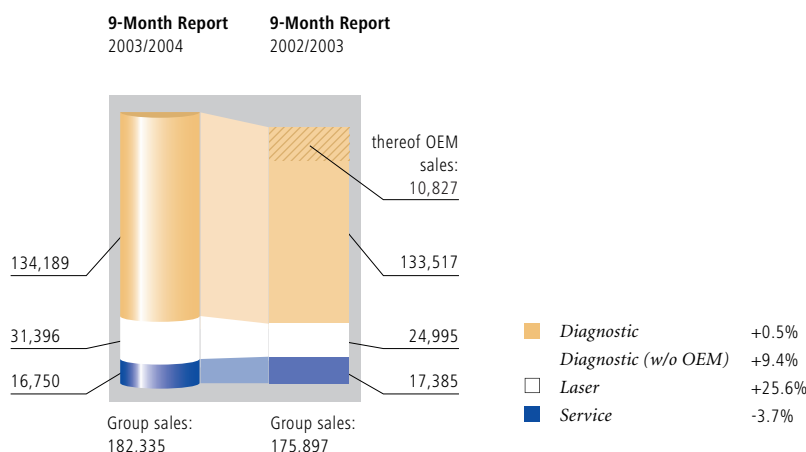


◀ Group sales by business segment
 (in € '000)

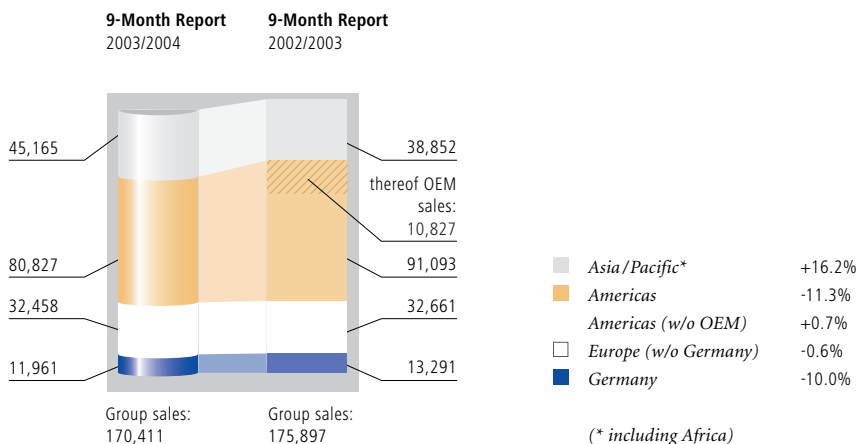
³ For further information on new products and research projects please see Section 7 "Research and development"

On the basis of constant exchange rates, sales revenue with diagnostic systems remained unchanged with an increase of 0.5% compared to the previous year. If total sales revenue were also to be adjusted for OEM revenue from the previous year, it would show an increase of 9.4%. Thus, it becomes evident that Carl Zeiss Meditec was not only able to compensate for the elimination of this business but even expanded its market position with its own systems. Adjusted for the effects of exchange rates, revenue from treatment systems (lasers) would have shown a 25.6% increase to € 31.4 million and service revenue would have decreased marginally (by 3.7%) to € 16.8 million.

Group sales by business segment on the basis of constant exchange rates (in € '000)



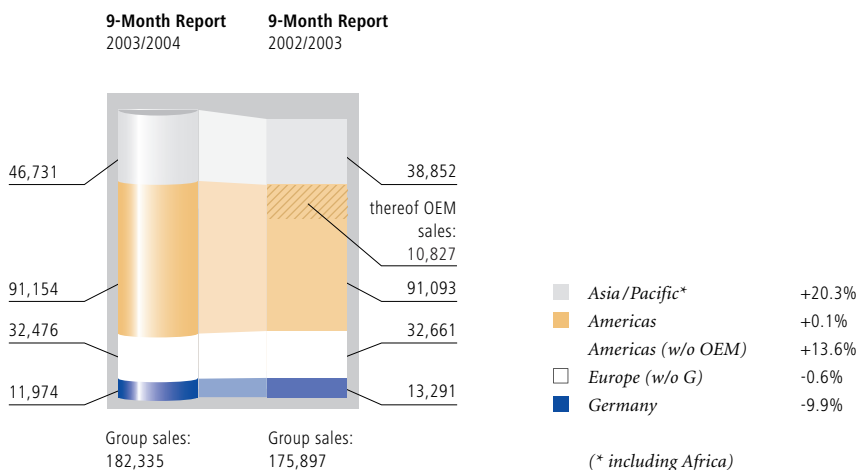
In the reporting period Carl Zeiss Meditec was able to achieve high growth rates in the Asia/Pacific region. Sales rose by 16.2% to € 45.2 million (previous year: € 38.9 million) corresponding to a percentage of 26.5% of group sales. The basis of this success was the overall good market position of Carl Zeiss Meditec in important markets in this region. Carl Zeiss Meditec is the first and only company up to now to have obtained approval for a ophthalmic PDT laser in Japan. The VISULAS™ 690s laser is used together with the Novartis drug Visudyne® in the treatment of age-related macula degeneration (AMD). Making up 47.4% of group sales, the Americas region, which consists to a large extent of the USA, was the main focus of sales in this reporting period. The 11.3% fall-off in sales to € 80.8 million compared with the previous year is exclusively attributable to the weakness of the US dollar in relation to the euro. In Europe (excluding Germany), sales were held at the same level as last year at € 32.5 million (previous year: € 32.7 million). This corresponds to a percentage of 19.0% of group sales. Sales trends in Germany continued to reflect the sluggish economic situation. For some time now the persistent debate on health care reforms has been spreading unease among customers. This has led them to postpone mainly planned replacement investments. Altogether, 7.1% of group sales came from Germany in the reporting period. The following diagram gives a breakdown of group sales by region.



◀ Group sales by region

(in € '000)

The currency-adjusted comparison of sales shows clearly that the Carl Zeiss Meditec has succeeded in growing so strongly in the Americas as the result of its own innovative and successful products that it not only compensated for the discontinued OEM sales, but also increased its market share. Compared to the previous year a 13.6% increase in sales to € 91.2 million would have been achieved in this region (previous year adjusted for OEM sales). Growth of 20.3% since the previous year in the Asia/Pacific region would have resulted in sales totalling € 46.7 million based on constant exchange rates. Currency fluctuations are scarcely impacting on group sales in Europe and Germany.



◀ Group sales by region on the basis of constant exchange rates

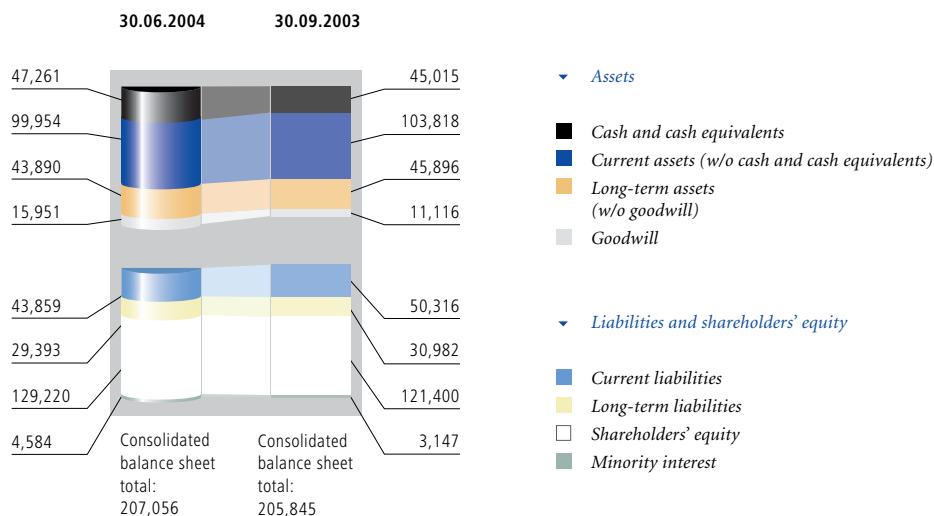
(in € '000)

4. Net worth

a) Statement of net worth

The development of the principal balance sheet items is summarised in the following graphic.

Structure of consolidated
 balance sheet as of
 30 June 2004 and
 30 September 2003
 (in € '000)



Continued growth in operative cash flow was the reason for a renewed increase in cash and cash equivalents. As of 30 June 2004 the latter increased by 5.0% to € 47.3 million (30 September 2003: € 45.0 million).

Compared to 30 September 2003, accounts receivable stood at a substantially lower level. As of the end of the reporting period (30 June 2004) this item amounted to € 23.0 million (30 September 2003: € 30.3 million) which is a decrease by € 7.3 million or 24.2%.

The increase in the item minority interest of € 4.6 million (30 September 2003: € 3.1 million) is related with the positive earnings result of the Japanese subsidiary Carl Zeiss Meditec Co. Ltd.

b) Key data on net worth

Despite the increase in sales in the Asian/Pacific region, in which comparatively long payment terms are not uncommon, a substantial reduction in the average number of days of sales outstanding (DSO) was achieved. On 30 June 2004 the latter stood at 49.8 days compared to 59.1 days on 30 September 2003.

Carl Zeiss Meditec has no net financial debt to report. The sum of cash and cash equivalents and bank credit⁴ is greater than the amount of interest bearing liabilities.

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

Key ratios	Definition	30 June 2004	30 September 2003	Change
Equity ratio	Equity capital			
	Balance sheet total	62.4%	59.0%	+3.4% pts.
Net debt	Liabilities less cash and cash equivalents less accounts receivable from Carl Zeiss Group Treasury	€ 7.525m	€ 24.194m	-68.9%
	Net financial debt	Interest-bearing liabilities less liquid assets, less accounts receivable from Carl Zeiss Group Treasury	€ (36.697)m ⁵	€ (26.971)m ⁵
Inventory turnover	Costs of goods sold [annualised]			
	Average on inventories	3.2	3.4	
Days of sales outstanding (DSO)	Trade accounts receivable			
	Group sales [annualised] X 360 days	49.8 days	59.1 days	

◀ Key data on net worth

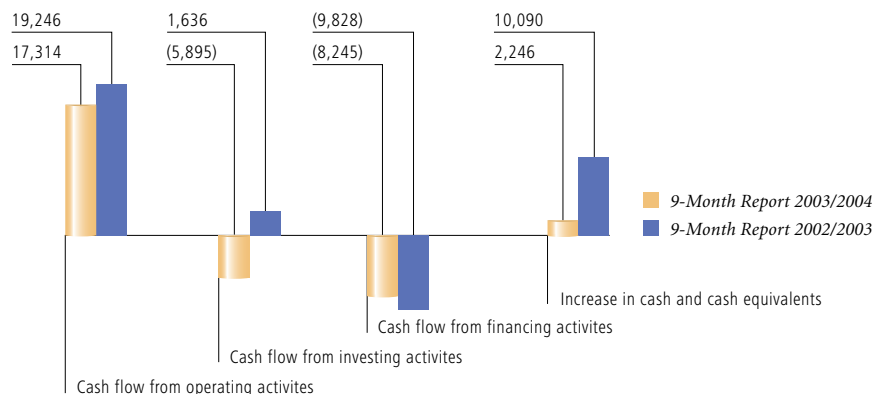
⁴ In the balance sheet shown as accounts receivable from related parties (Carl Zeiss Group Treasury).

⁵ Negative sign means credit

5. Financial position

a) Statement of financial position

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



Cash flow from operating activities in the reporting period stood at € 17.3 million (previous year: € 19.2 million). This corresponds to a decrease of 10.0%. Cash flow from operating activities was raised by the growth in net income for the year and by cutting back trade accounts receivable and inventories. The settlement of trade accounts payable as well as tax liabilities reduced this figure.

In the first nine months of the current financial year, cash flow from investing activities amounted to € -5.9 million (previous year: € 1.6 million). This development is mainly attributable to the acquisition of Carl Zeiss Meditec Systems GmbH (formerly hiko). Net of cash acquired, the investment totalled € 5.8 million. In the reporting period Carl Zeiss Meditec invested € 1.9 million in fixed assets (previous year: € 1.2 million). For the main part the latter was for infrastructure.

Cash flow from financing activities in the reporting period stood at € -8.2 million (previous year: € -9.8 million). The major factors of influence were the repayment of short- and long-term loans.

b) Key ratios relating to financial position

Key ratios	Definition	30 June 2004	30 September 2003	Change
Cash and cash equivalents	Cash at bank and in hand	47,261	45,015	+5.0%
Net cash and cash equivalents	Cash at bank and in hand + accounts receivable from Carl Zeiss Group Treasury, less accounts payable due the Carl Zeiss Group Treasury	65,640	57,067	+15.0%
Net working capital	Current assets less cash and cash equivalents less accounts receivable from Carl Zeiss Group Treasury less current liabilities	37,629	41,413	-9.1%

◀ Key ratios relating to financial position

(in € '000)

Key ratios	Definition	9-Month Report 2003/2004	9-Month Report 2002/2003	Change
Cash flow per share	Cash flow from operating activities	€ 0.61	€ 0.75	-18.7%
	Weighted average of shares outstanding			
Capex ratio	Cash flow from investments in fixed assets	1.1%	0.7%	+0.4% pts.
	Group sales			

6. Earnings position

a) Statement of earnings

Consolidated income statement
 (abstract) ▶

(in € '000)

	9-Month Report 2003/2004	9-Month Report 2002/2003	Change
Group sales	170,411	175,897	-3.1%
Earnings before interest and taxes (EBIT)	18,868	19,258	-2.0%
EBIT margin	11.1%	10.9%	+0.2% pts.
Consolidated net income	9,360	4,682	+99.9%
Earnings per share (in €)	0.33	0.18	+83.3%

In the first nine months of the current financial year, Carl Zeiss Meditec AG once again improved its profitability. The gross margin showed an increase of 3.0 percentage points over the previous year (45.9% compared to 42.9%). This is mainly attributable to the further optimisation of the manufacturing costs and the shift of the product mix towards innovative products.

Compared to the previous year, marketing and selling expenses increased by 11.4% from € 30.4 million to € 33.9 million. For the main part this is due to investment for the systematic increase in market penetration in certain regional and national markets. Marketing efforts were, for example, intensified in individual markets such as the Asia/Pacific region and the USA. This meant that Carl Zeiss Meditec was more than able to compensate for a decline in revenue due to the cancellation of OEM supplier contracts by Carl Zeiss Meditec. The marketing and sales cost ratio thus amounted to 19.9% of group sales (previous year: 17.3%). Compared to the corresponding period last year, general and administrative costs were cut by 5.4% to € 8.0 million (previous year: € 8.5 million). This represented 4.7% of group sales (previous year: 4.8%). Expenditure on R&D rose by 8.8% to € 18.3 million in comparison to the previous year's figure at € 16.8 million. Progress was made on important projects for the future as part of the Company's goal to improve competitiveness and long-term profitability considerably through innovative products and systems, as planned.⁶

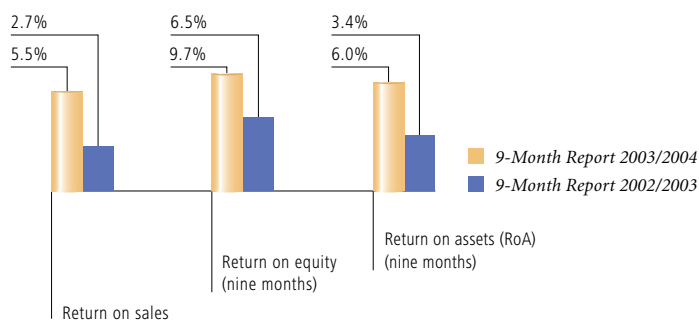
The EBIT margin thus increased by 0.2 percentage points to 11.1% (previous year: 10.9%). This corresponds to an EBIT of € 18.9 million (previous year: € 19.3 million).

As a consequence of the Company's good liquidity situation, interest expenses in the reporting period were reduced by a full 41.0% compared to the previous year. The latter totalled € 0.9 million (previous year: € 1.6 million). Interest expenditure results from long-term loans for the financing of the company buildings in Jena (Germany) and Dublin (USA). The tax quote decreased from 44.8% last year to 39.4% in the reporting period.

It was due to this development that the Company was able to double its consolidated net income to € 9.4 million (previous year: € 4.7 million). This results in earnings per share of € 0.33 (previous year: € 0.18).

⁶ For further information on new products and research projects please see Section 7 "Research and development"

b) Key ratios relating to earnings position



◀ Key ratios relating to earnings position

7. Research and development

In the first nine months of the current financial year, Carl Zeiss Meditec spent € 18.3 million (previous year: € 16.8 million) for research and development activities (R&D). This represented 10.7% of consolidated sales (previous year: 9.6%). A total of € 0.8 million was granted in subsidies (previous year: € 1.4 million).

Since the start of the current financial year Carl Zeiss Meditec has stepped up work on a wide range of research projects. This creates a number of important prerequisites for achieving the set growth targets. Our intention is that innovative systems should in future enable medical practitioners to boost efficiency levels and provide patients with improved diagnostic and treatment results.

Accordingly, the development of additional applications and the expansion of the functionality of products already introduced onto the market was at the centre of important R&D projects. For example, the application spectrum and functionality of the two systems MEL 80™ and CRS-Master® have been further enhanced.

Progress was made regarding the approval in the USA of the MEL 80™ refractive laser. Mid-May 2004 the US Health Department FDA gave Carl Zeiss Meditec the approval to carry out a study on the treatment of short- and far-sightedness with the MEL 80™. This study is the prerequisite for approval of the system in the USA. Due to the outstanding treatment results achieved with the MEL 80™ worldwide, the FDA approved a combined study procedure with comparable short follow-up periods.

Carl Zeiss Meditec is also playing a major role in a series of inter-company research projects and cooperations. One project, for example, is concerned with the development of a new process for correcting presbyopia with the help of ultra-short pulsed lasers.

Together with the American company Calhoun Vision, Inc., Carl Zeiss Meditec has been working on the development of a new type of intraocular lens whose refractive power can be adjusted after the operation without the need for further surgical intervention. In this way, cataract surgery could be combined with the optimal customised correction of vision defects. The digital light source required for the purpose is being developed by Carl Zeiss Meditec, the respective lens by Calhoun Vision.

A series of development projects was brought to a successful close in the third quarter of the current financial year. These culminated in the launch of the new products VISUPAC™ 4.0, ACMaster™ and PreviewPHP™. VISUPAC™ is software that intelligently networks several diagnostic systems (fundus cameras and STRATUSOCT™) with each other and links them with practice management and hospital information systems. It is the first new product of Carl Zeiss Meditec Systems GmbH (formerly hiko). Like the successful IOLMaster®, the ACMaster™ is based on optical biometry and is used specifically for precision examination and measurement of the anterior part of the eye. This is of importance for refractive corneal surgery. PreviewPHP™ enables age-related macula degeneration (AMD), one of the most common causes of blindness in industrialised countries, to be diagnosed better than before.

8. Events of particular significance

As stated in the earlier reports of 2003/2004, on 17 December 2003 Carl Zeiss Meditec AG acquired a 100% interest in former hiko medical communication GmbH. This company now operates under the name Carl Zeiss Meditec Systems GmbH.

In connection with a suit for damages against I-Spire s.p.r.l., Brussels/Belgium and its sole proprietor, an out-of-court settlement was reached in the second quarter. This settlement provides for the payment of the total amount of € 2.8 million shown in the balance sheet item "Other loans" by I-Spire s.p.r.l. according to a payment plan. The payment of the first instalment of € 1.5 million was made at the end of April 2004.

9. Orders on hand

As of 30 June 2004 Group's orders on hand totalled € 14.7 million (previous year: € 13.7 million). Due regard must be paid to the fact that orders on hand at the US subsidiary Carl Zeiss Meditec, Inc. is impacted by the adverse exchange rate from the US dollar to the euro.

10. Personnel

As of 30 June 2004 a workforce of 808 was employed in the Carl Zeiss Meditec Group (previous year: 756). In addition, there were 23 trainees (previous year: 24). This increase over the previous year is mainly attributable to the acquisition of Carl Zeiss Meditec Systems GmbH (formerly hiko).

11. Outlook

Based on our strong position in ophthalmic systems and devices, it is our strategic goal to establish Carl Zeiss Meditec as a provider of complete ophthalmic solutions. Our unique technology and product portfolio, our extensive resources in the field of research and development, our strong global marketing network and the famous brand name "Zeiss" provide an excellent basis for this. Together with the sound structure of our balance sheet and our economic performance, we believe that we are optimally equipped for the future.

In the medium-term, we want to double our sales figure by the end of the financial year 2007/2008. By this time, the EBIT margin is to grow to 15%. Development in this direction will not, however, be linear. The conversion of sales revenue in particular can be influenced by changes in exchange rates. The economic development of Carl Zeiss Meditec AG to date, is testimony, however, that the sustainable growth in profitability is of highest importance to us.

To achieve our medium-term growth targets, in the fourth quarter of the financial year 2003/2004 we will continue to pursue the investments with which we are systematically and purposefully increasing our market penetration, together with our extensive research and development activities focussed on promising new products. With this we will be creating the internal prerequisites for successful organic growth.

Parallel to this we are examining external growth options. In doing so, we are taking care to ensure that these options do not result in a lasting dilution of profits or an unduly high goodwill. In particular, this is also in the interests of our shareholders.

Based on the financial year 2003/2004 as a whole, in particular trends in dollar exchange rates in relation to the euro give us reason to anticipate that group sales will come in at most at the same level as in the previous year. However, on the basis of constant exchange rates, we expect a growth in sales in comparison to the previous year. Irrespective of this, we will be doing all in our power to achieve a significant increase in profitability. As far as the return on sales is concerned, we are assuming significant gains in comparison to last financial year. There is to be a continued improvement in the EBIT margin. Furthermore, the operative cash flow will reflect the economic performance of Carl Zeiss Meditec.

Directors' Holdings and Directors' Dealings

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

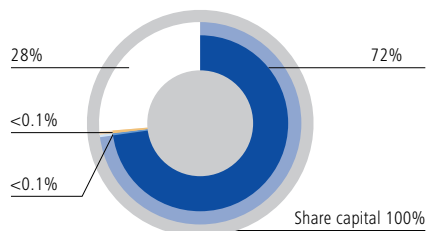
		Number of Carl Zeiss Meditec shares 30 June 2004
Management Board		
Ulrich Krauss	Shares	500
Dr Walter-Gerhard Wrobel	Shares	-
Bernd Hirsch	Shares	500
Supervisory Board		
Dr Michael Kaschke	Shares	1,250
Alexander von Witzleben	Shares	2,094
Dr Franz-Ferdinand von Falkenhausen	Shares	794
Dr Manfred Fritsch	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*

On 3 May 2004 Dr Michael Kaschke, Chairman of the Supervisory Board, acquired 250 shares in Carl Zeiss Meditec AG at the price of € 10.60 and 250 shares at the price of € 10.70. Both purchases were made in his own name. On 28 May 2004 the Deputy Chairman of the Supervisory Board, Alexander von Witzleben, sold 1,000 shares in Carl Zeiss Meditec AG at a price of € 11.70. The appropriate details of these securities transactions were immediately made publicly accessible following their notification on the Company's Website at www.meditec.zeiss.com/ir and submitted to the Bundesanstalt für Finanzdienstleistungsaufsicht (Bafin, Federal Supervisory Office for Financial Services).

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	3rd Quarter 2003/2004 1 April 2004 - 30 June 2004	3rd Quarter 2002/2003 1 April 2003 - 30 June 2003	9-Month Report 2003/2004 1 October 2003 - 30 June 2004	9-Month Report 2002/2003 1 October 2002 - 30 June 2003
Sales	54,497	55,387	170,411	175,897
Costs of goods sold	(29,371)	(31,512)	(92,210)	(100,350)
Gross profit	25,126	23,875	78,201	75,547
Selling and marketing expenses	(11,108)	(9,695)	(33,855)	(30,389)
General and administrative expenses	(2,446)	(2,730)	(8,021)	(8,479)
Research and development expenses	(6,294)	(6,090)	(19,064)	(18,200)
Minus government grants received	155	477	752	1,371
Other operating income / (expense), net	44	74	211	206
Foreign currency gains / (losses)	258	(89)	644	(798)
Income before interest result and income taxes	5,735	5,822	18,868	19,258
Interest income / (expense), net	(302)	(520)	(937)	(1,588)
Income before income taxes	5,433	5,302	17,931	17,670
Income tax expense from continuing operations	(2,246)	(1,845)	(7,060)	(7,911)
Minority interests	(284)	(439)	(1,511)	(1,943)
Net income from continuing operations	2,903	3,018	9,360	7,816
Income / (loss) before income taxes from discontinued operations	-	(1,816)	-	(4,181)
Income tax benefit from discontinued operations	-	434	-	1,047
Net income / (loss) from discontinued operations	-	(1,382)	-	(3,134)
Net income	2,903	1,636	9,360	4,682
Earnings / (loss) per share, basic (€):				
from continuing operations	0.10	0.11	0.33	0.30
from discontinued operations	-	(0.05)	-	(0.12)
Total	0.10	0.06	0.33	0.18
Earnings / (loss) per share, diluted (€)				
from continuing operations	0.10	0.11	0.33	0.30
from discontinued operations	-	(0.05)	-	(0.12)
Total	0.10	0.06	0.33	0.18
Average number of shares outstanding:				
Basic	28,402,377	25,819,989	28,402,377	25,828,552
Diluted	28,402,377	25,819,989	28,402,377	25,828,552

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

Consolidated balance sheet (US GAAP)

€ '000	30 June 2004	30 September 2003
▼ Assets		
Current assets:		
Cash	47,261	45,015
Restricted Cash	-	850
Trade accounts receivable, net of allowances of € 11.794m (prev. year: € 10.478m)	23,005	30,344
Accounts receivable from related parties	26,921	20,451
Inventories	38,084	38,611
Prepaid expenses	1,417	1,132
Deferred income taxes	7,998	7,958
Other assets	2,529	4,472
Total current assets	147,215	148,833
Property, plant, and equipment, net	24,542	26,000
Goodwill	15,951	11,116
Other intangible assets, net	5,682	5,079
Other long-term accounts receivable, net of allowances of € 0m (prev. year: € 0.047m)	457	718
Loans	2,963	2,818
Deferred income taxes	10,246	11,281
Total assets	207,056	205,845

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

€ '000	30 June 2004	30 September 2003
▼ Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	-	-
Current portion of long-term debt	195	187
Current portion of capital lease obligations	589	374
Trade accounts payable	7,872	10,636
Accounts payable to related parties	5,707	5,919
Income taxes payable	2,940	6,655
Deferred income	5,065	4,870
Deferred income taxes	108	8
Accrued expenses	19,640	20,527
Other current liabilities	1,743	1,140
Total current liabilities	43,859	50,316
Long-term debt, net of current portion	4,695	4,841
Capital lease obligations, less current portion	23,281	24,731
Long-term deferred income	728	1,007
Deferred income taxes	558	226
Other liabilities	131	177
Total liabilities	73,252	81,298
Minority interests	4,584	3,147
Shareholders' equity:		
26,416,629 ordinary shares with an imputed nominal value of € 1.00	28,417	28,417
Additional paid-in capital	89,433	89,433
Retained earnings	21,392	12,032
Accumulated other comprehensive loss	(9,914)	(8,374)
Treasury stock	(108)	(108)
Total shareholders' equity	129,220	121,400
Total liabilities and shareholders' equity	207,056	205,845

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

9-Month Report 2003/2004

Consolidated cash flow statement (US GAAP)

€ '000	9-Month Report 1 October 2003 - 30 June 2004	9-Month Report 1 October 2002 - 30 June 2003
▼ Cash flow from operating activities:		
Net income	9,360	4,682
Adjustments to reconcile net income to net cash provided by / (used in) operating activities		
Minority interest	1,511	1,943
Depreciation and amortisation	3,953	4,073
Loss on disposal of fixed assets	31	42
Loss on disposal of discontinued operations	-	2,612
Deferred taxes	581	(573)
Change in working capital:		
Trade accounts receivable	6,986	9,178
Inventories	1,592	(5,976)
Prepaid expenses and other current assets	182	1,151
Trade accounts payable	(3,034)	146
Accrued tax expenses	(3,562)	5,085
Other accrued expenses and liabilities	(405)	(3,124)
Deferred income	119	7
Total adjustments	7,954	14,564
Net cash provided by operating activities	17,314	19,246
▼ Cash flow from investing activities:		
Change of restricted cash	818	-
Purchase of fixed assets	(1,891)	(1,186)
Purchase of intangible assets	(410)	-
Gain on sale of fixed assets	5	-
Increase of loans	(147)	(75)
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	1,000
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	(5,895)	1,636
▼ Cash flow from financing activities		
Repayments of short-term debt	(1,735)	(1,368)
Repayments of long-term debt	(367)	(133)
Inpayments from taking up loans from related parties	696	2,861
Increase / (decrease) in liabilities due to Treasury	87	(9,785)
(Increase) / decrease in accounts receivable from Treasury	(6,657)	(1,141)
Repayments under capital lease contracts	(269)	(267)
Inpayments due to sale and lease-back transactions	-	110
Purchase of treasury stock	-	(105)
Net cash used in financing activities	(8,245)	(9,828)
Effect of exchange rate changes on liquid assets	(928)	(964)
Net change in cash	2,246	10,090
Cash, beginning of the reporting period	45,015	7,183
Cash, end of the reporting period	47,261	17,273
Supplemental disclosures concerning the cash flow:		
Interest paid	1,644	2,034
Income taxes paid	9,934	2,264

The following notes to 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	-	-	9,360	-	-	9,360
Other comprehensive loss (due to adjustments of accruals for pensions)	-	-	-	(65)	-	(65)
Other comprehensive loss (due to currency conversions)	-	-	-	(1,475)	-	(1,475)
Accumulated comprehensive income	-	-	-	-	-	7,820
As per 30 June 2004	28,417	89,433	21,392	(9,914)	(108)	129,220

The following notes to 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



Q3

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 30 June 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 Annual Report 2002/2003 of Carl Zeiss Meditec AG.

Expansion of the reporting entity

On 17 December 2003 Carl Zeiss Meditec AG acquired a 100% interest in the former hiko medical communication GmbH of Pirmasens. The company now operates under the name Carl Zeiss Meditec Systems GmbH. The company specialises in the development of medical software solutions and under the name VISUPACT™ it markets a successful product that enables the filing and management of diagnostic and treatment data by eye specialists and clinics. Furthermore, Carl Zeiss Meditec Systems GmbH has an efficient team of development, marketing and service specialists at its disposal. With the acquisition of this company, Carl Zeiss Meditec has taken a further major step in the implementation of its strategy. Carl Zeiss Meditec 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 € 6.094 million. 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 Carl Zeiss Meditec Systems GmbH and are therefore subject to change by the Company's Management Board until the final evaluation and examination of the fair value of the net assets acquired, the debts assumed and provisions.

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

€ '000	
Purchased current assets	3,069
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 € 4.863 million. In accordance with SFAS No. 141, scheduled amortisation was not recorded on this amount. Instead, the acquired goodwill is subject to impairment testing provisions of SFAS No. 142.

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

At this point it should be noted that Carl Zeiss Meditec Systems GmbH (formerly hiko medical communication GmbH) generated/generates the majority of its revenue through business with Carl Zeiss Meditec AG. The consolidation of this company thus has virtually no effect on group 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	3rd quarter 2003/2004	3rd quarter 2002/2003	9 months 2003/2004	9 months 2002/2003
Consolidated net income as posted	2,903	1,636	9,360	4,682
Stock options expenses acc. to FAS 132	(1)	(27)	(53)	(146)
Tax gain	-	10	20	56
Stock options expenses (after tax) according to SFAS No. 123	(1)	(17)	(33)	(90)
Pro forma consolidated net income	2,902	1,619	9,327	4,592
Basic and diluted earnings per share (€):				
as posted	0.10	0.06	0.33	0.18
pro forma	0.10	0.06	0.33	0.18

Profit / (loss) per share

The basic earnings/(loss) per share were calculated by dividing the consolidated net income for the reporting period 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 income statement (“Consolidated 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.

Business relationships to related parties

Sales amounting to € 45.704 million (previous year: € 43.208 million) resulted from the relations with affiliated companies in the reporting period 2004. The designation “related parties” comprises the Carl Zeiss Stiftung, Carl Zeiss Jena and their affiliated companies.

3. Notes to the consolidated balance sheet

Warranties

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

The following table shows the change in warranty provisions from 1 October 2003 to 30 June 2004:

€ '000	
As of 1 October 2003	3,856
Appropriation	3,190
Reversal of excess reserves	(244)
Utilisation	(2,626)
Currency effects	(72)
As of 30 June 2004	4,104

Pensions

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

Pension expenditure for the periods 1 October 2003 to 30 June 2004 and 1 October 2002 to 30 June 2003 was as follows:

€ '000	3rd quarter 2003/2004	3rd quarter 2002/2003	9 months 2003/2004	9 months 2002/2003
Wages and salaries	25	23	75	70
Interest expenses for projected benefit obligations	13	8	41	25
Amortisation of actuarial profits/losses	3	1	9	1
Pension expenditure	41	32	125	96

4. Segment reporting

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

€ '000	3rd quarter 2003/2004	3rd quarter 2002/2003	9 months 2003/2004	9 months 2002/2003
Group sales				
Germany	28,105	23,773	82,167	75,885
USA	35,026	35,896	101,669	112,512
Japan	7,286	6,419	23,310	21,095
Rest of Europe		-	-	915
Eliminations	(15,920)	(10,701)	(36,735)	(34,510)
Consolidated	54,497	55,387	170,411	175,897

€ '000	3rd quarter 2003/2004	3rd quarter 2002/2003	9 months 2003/2004	9 months 2002/2003
Earnings before interest and taxes				
Germany	2,006	1,844	3,478	6,302
USA	3,753	3,389	11,583	11,364
Japan	880	1,159	4,184	5,108
Rest of Europe	47	(35)	(45)	(605)
Eliminations	(951)	(535)	(332)	(2,911)
Consolidated	5,735	5,822	18,868	19,258

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



The 9-Month Report 2003/2004 of Carl Zeiss Meditec AG has been published in German and English.

Both versions and the key figures of this report are available for downloading from the following address:

www.meditec.zeiss.com/ir

Financial calendar and contact

Financial year 2003/2004	
▼ Date	
September / October 2004	<i>R&D Day in Jena</i>
September / October 2004	<i>Road show</i>
23/24 November 2004	<i>German 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 08/2004.
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