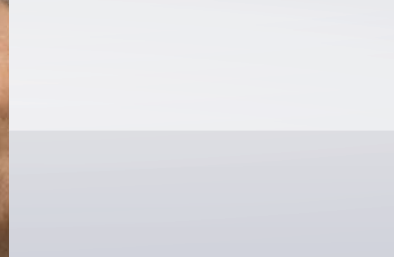


# 9 Month Report 2005/2006



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CARL ZEISS MEDITEC

## Key results at a glance

- Positive growth trend continues: reported and organic sales growth exceed market growth
- Disproportionate improvement in EBIT and consolidated net income
- Formal conclusion of IOLTECH acquisition draws nearer

## Business development

(Unless specified otherwise, figures in € '000)

	9 Months 2005/2006	9 Months 2004/2005	Change
Sales revenues	286,737	222,159	+29.1%
Gross margin	47.5%	48.3%	-0.8% pts
EBITDA	42,449	30,281	+40.2%
<i>EBITDA margin</i>	14.8%	13.6%	+1.2% pts
EBIT	34,759	25,086	+38.6%
<i>EBIT margin</i>	12.1%	11.3%	+0.8% pts
Net income	18,923	12,249	+54.5%
<i>Return on sales</i>	6.6%	5.5%	+1.1% pts
Earnings per share	€ 0.58	€ 0.41	+41.5%

	30.06.2006	30.09.2005	Change
Net cash	21,092	14,794	+42.6%
Trade accounts receivable <sup>1</sup>	63,248	62,047	+1.9%
Inventories	61,687	53,744	+14.8%
<i>Days of sales outstanding (DSO)</i>	59.6 days	69.0 days	-13.6%
<i>Net working capital</i>	58,490	45,412	+28.8%
Liabilities	143,649	148,118	-3.0%
<i>Net debt</i>	73,370	80,884	-9.3%
<i>Equity ratio</i>	57.9%	56.0%	+1.9% pts

	9 Months 2005/2006	9 Months 2004/2005	Change
Cash flow from operating activities	21,417	13,915	+53.9%
<i>Cash flow/sales</i>	7.5%	6.3%	+1.2% pts
<i>Cash flow per share</i>	€ 0.66	€ 0.46	+43.5%

<sup>1</sup> Thereof from third parties: € 56,026 thousand (30 June 2006) and € 55,819 thousand (30 September 2005)

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### **Dear Shareholders, Ladies and Gentlemen,**

Once again, Carl Zeiss Meditec looks back on a successful business performance in the first nine months of the current financial year. And once again, sales grew faster than the market. The fact that the corresponding increase in sales is also reflected in a disproportionate improvement in EBIT and EBITDA confirms, in our opinion, the successful strategic orientation of Carl Zeiss Meditec towards a solution provider.

At € 286.7 million, the consolidated sales generated by Carl Zeiss Meditec in the first nine months of 2005/2006 were up by almost one third (+29.1%) on the year-ago figure of € 222.2 million. Organic sales growth was 16.5% and therefore significantly higher than the market growth of about 10%. We also simultaneously increased Carl Zeiss Meditec's profitability from operations to an even greater extent than sales: EBITDA amounted to € 42.4 million, corresponding to an improvement of 40.2% compared to the previous year (€ 30.3 million). At € 34.8 million, the EBIT achieved in the period under review was up by 38.6% on the year-ago figure of € 25.1 million. Consolidated net income increased to € 18.9 million in the first nine months of financial year 2005/2006. Compared to the previous year, in which consolidated net income in the first nine months amounted to € 12.2 million, this corresponds to an improvement of 54.5%. The successful economic development was reinforced by a one-time positive tax effect, which, combined with the good operative performance of Carl Zeiss Meditec, helped to overcompensate for risk provisioning measures in connection with pending litigation. Earnings per share rose by 41.5% from € 0.41 the previous year to € 0.58 in the period under review. Due in particular to the positive development of business, cash flow from operating activities also increased significantly. It amounted to € 21.4 million in the first nine months of 2005/2006, thus exceeding the year-ago figure of € 13.9 million by 53.9%.

We made significant progress with respect to the formal conclusion of the IOLTECH acquisition. After the balance sheet date on 10 July 2006, we purchased a further 110,174 shares in this company. As a result, we now hold 96.5% of IOLTECH's share capital. This is the requirement for taking over this company completely and for concluding the formal aspects of the, to date, financially and organisationally successful acquisition.

It is also our continued aim, through the acquisition of Carl Zeiss Surgical, to create a medical technology company with a unique market position in ophthalmology and excellent prospects in the growth market of neuro/ear, nose and throat surgery. We are optimistic that we can overcome the legal



**Ulrich Krauss**  
*President and CEO*



**Bernd Hirsch**  
*Member of the  
 Management Board*



**James L. Taylor**  
*Member of the  
 Management Board*

blockade, which a few shareholders are endeavouring to put up against this transaction, in the foreseeable future and thus still complete the acquisition of Carl Zeiss Surgical before the end of this calendar year.

The Carl Zeiss Meditec share developed moderately in the first nine months of financial year 2005/2006. In the period from 1 October 2005 until 30 June 2006, the share's performance was level with that of the TecDAX' (+5.2% respectively), while other important indices, such as the DAX and MDAX, showed growth of 11.8% and 10.7%, respectively, in the same period. Besides various trends on the capital market, this development is presumably also attributable to the delay in the acquisition of Carl Zeiss Surgical. Analysts and investors, however, with whom we have had many meetings over the past few months, gave us the overall impression that they support both Carl Zeiss Meditec's strategic orientation and its growth plans.

We shall implement these growth plans consistently in order – as in the past – to generate value-added for our shareholders, customers and employees. We would be delighted if you would continue to accompany us on this journey.

Jena, August 2006

Yours sincerely,

Yours

*Ulrich Krauss*  
*President and CEO*

Yours

*Bernd Hirsch*  
*Member of the  
 Management Board*

Yours

*James L. Taylor*  
*Member of the  
 Management Board*

## Management report to the consolidated interim financial statements

### 1. Business development

#### 1. Executive summary

Carl Zeiss Meditec AG, Jena, Germany, is the parent company of the Carl Zeiss Meditec Group, which consists of the operating companies Carl Zeiss Meditec Inc., Dublin, USA, IOLTECH S.A., La Rochelle, France, Carl Zeiss Meditec Co. Ltd., Tokyo, Japan, Carl Zeiss Meditec France S.A.S., Le Pecq, France, and Carl Zeiss Meditec Systems GmbH, Pirmasens, Germany, as well as the administrative and holding companies Carl Zeiss Meditec Asset Management GmbH, Jena, Germany and Atlantic S.A.S., Le Pecq, France.

In the first nine months of financial year 2005/2006 Carl Zeiss Meditec AG ("Carl Zeiss Meditec", "the Group") increased its **consolidated sales** by 29.1% year-on-year from € 222.2 million to € 286.7 million. If both periods are adjusted for currency effects, acquisitions and the changes in organisational structure in Japan and France, the result is **organic sales growth** of 16.5% year-on-year.

The positive development of business again led to a disproportionate growth in operative profitability: The increases in **EBITDA** and **EBIT** exceeded sales growth. **EBITDA** rose by +40.2% to € 42.4 million (previous year: € 30.3 million), thus improving the **EBITDA margin** to 14.8% after 13.6% the previous year. **EBIT** increased to € 34.8 million in the period under review, corresponding

to a year-on-year increase of 38.6% (previous year: € 25.1 million). With an increase of 54.5%, **consolidated net income** jumped to € 18.9 million, thus improving to an even greater extent than consolidated sales and EBIT. Compared to the first nine months of the previous year, **earnings per share** rose by 41.5% to € 0.58.

Due in particular to the positive earnings trend, **cash flow from operating activities** increased in the first nine months of 2005/2006 to € 21.4 million, thus exceeding the corresponding year-ago figure of € 13.9 million by 53.9%.

#### 2. Structure of the financial statements

The company's reporting entity was extended during the year-ago period to include changes in the organisational structure and two acquisitions. With effect from 1 November 2004, the Japanese subsidiary Carl Zeiss Meditec Co. Ltd., Tokyo, took over the surgical business of Carl Zeiss Co. Ltd., Tokyo, Japan<sup>2</sup>. The US company Laser Diagnostic Technologies Inc., San Diego, USA („LDT"), was also formally acquired on 2 December 2004. In addition, the French company IOLTECH S.A., La Rochelle, France ("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

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<sup>2</sup> This is a transaction under common control, as all companies are controlled by the parent company Carl Zeiss AG.

IOLTECH were incorporated in the consolidated financial statements of Carl Zeiss Meditec from 2 December 2004 and 1 February 2005, respectively. With effect from 1 May 2006, Carl Zeiss Meditec combined its sales and marketing activities in France in the newly founded subsidiary Carl Zeiss Meditec France S.A.S., Le Pecq, France<sup>3</sup> (for further information on this see the section entitled "Expansion of the reporting entity" in the accompanying notes to the consolidated financial statements in this interim report).

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

Consolidated sales increased by 29.1% year-on-year in the first nine months from € 222.2 million to € 286.7 million. Adjusted for currency effects consolidated sales amounted to € 281.3 million, corresponding to a year-on-year increase of 26.6%.

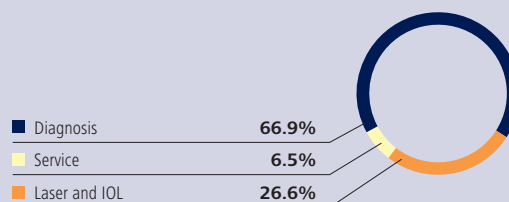
If the acquisitions of LDT and IOLTECH and the changes in organisational structure in Japan and France are also taken into account, sales grew organically by 16.5%, compared to the first nine months of the past financial year.

#### a) Consolidated sales by business segment

The "Diagnosis" business segment accounted for 66.9% of consolidated sales in the first nine months of the current financial year (previous year: 69.0%). The share of consolidated sales contributed by the "Laser and IOL" business segment increased year-on-year from 23.5% to 26.6%. The "Service" segment generated 6.5% of consolidated sales (previous year: 7.5%).

Figure 1 shows the distribution of sales among the individual business segments in the period under review.

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



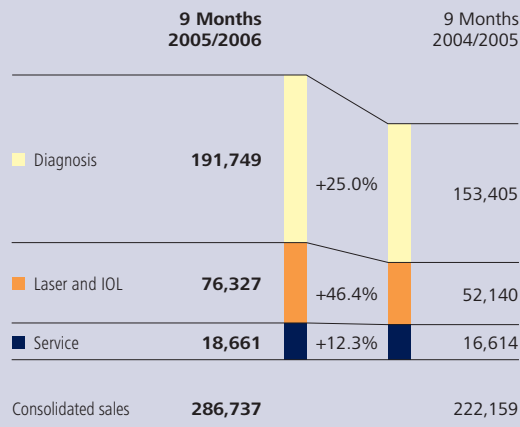
3 See footnote 2

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**Figure 2: Consolidated sales by business segment**  
 (in € '000)



Consolidated sales in the "Diagnosis" business segment increased year-on-year by 25.0% from € 153.4 million to € 191.7 million. The persistently positive development of sales in this segment was yet again attributable to the volume sales of the systems already established on the market, namely IOLMaster®, STRATUSoCT™ and Humphrey® Field Analyzer HFA Ili. However, the diagnostic system launched at the beginning of the current financial year, VISUCAM™ PRO<sup>NM</sup>, also made a significantly increasing contribution to consolidated sales.

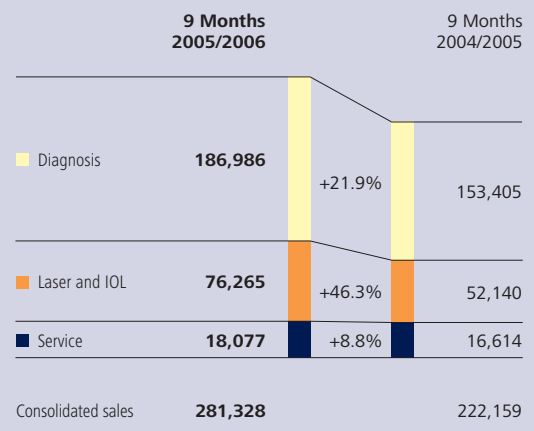
Consolidated sales in the "Laser and IOL" business segment increased by almost half (+46.4%) to € 76.3 million (previous year: € 52.1 million). This is primarily attributable to the acquisition of IOLTECH, whose sales in the period under review were recorded for the complete reporting period of nine months, but were only included for five months in the previous year. Consolidated sales of therapeutic systems (lasers) also continued to show a positive trend. These include in particular

systems for the correction of vision defects (MEL 80™) and the treatment of retinal diseases (VISULAS™ 532s).

Compared to the previous year, consolidated sales in the "Service" segment increased by 12.3% in the first nine months of 2005/2006 from € 16.6 million to € 18.7 million.

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

**Figure 3: Consolidated sales by business segment based on constant exchange rates**  
 (in € '000)

**b) Consolidated sales by region**

Overall, the growth in the consolidated sales of Carl Zeiss Meditec in the period under review was driven by a positive sales trend in all regions of the world.

In the period under review Carl Zeiss Meditec generated more than half of the increase in consolidated sales in the "Americas" region. Consolidated sales here climbed 42.3% overall in the first nine months of 2005/2006 to € 127.0 million (previous year: € 89.3 million). With a share in

total sales of 44.3% (previous year: 40.2%), the “Americas” continues to be the region that generates the greatest volume of sales for the Group. This significant increase in sales is mainly attributable to a positive trend in volume sales of diagnostic systems for glaucoma and cataracts.

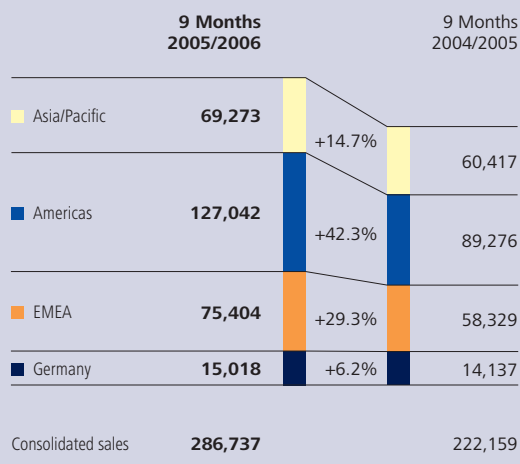
The share of consolidated sales generated in the region “Europe, Middle East and Africa” (EMEA) also increased by 29.3% in the first nine months of 2005/2006 from € 58.3 million to € 75.4 million. The main drivers of this sales growth were the positive development of the business with innovative diagnostic and therapeutic systems, as well as the inclusion of IOLTECH and Carl Zeiss Meditec France S.A.S. in the reporting entity of the Carl Zeiss Meditec Group. The share of the Group’s consolidated sales remained unchanged from the previous year at 26.3%.

Compared to the previous year, consolidated sales in the “Asia/Pacific” region increased by 14.7% to € 69.3 million (previous year: € 60.4 million). The main sales drivers here were the diagnostic systems for glaucoma; in Japan, it was the surgical systems, which the subsidiary Carl Zeiss Meditec Co. Ltd. has been distributing since 1 November 2004. Overall, Carl Zeiss Meditec generated about one quarter (24.2%) of its consolidated sales in the “Asia/Pacific” region. The corresponding year-ago figure was 27.2%.

Consolidated sales in Germany increased by 6.2% in the first nine months of 2005/2006 from € 14.1 million the previous year to € 15.0 million. Germany thus accounts for 5.2% of consolidated sales in the period under review (previous year: 6.3%).

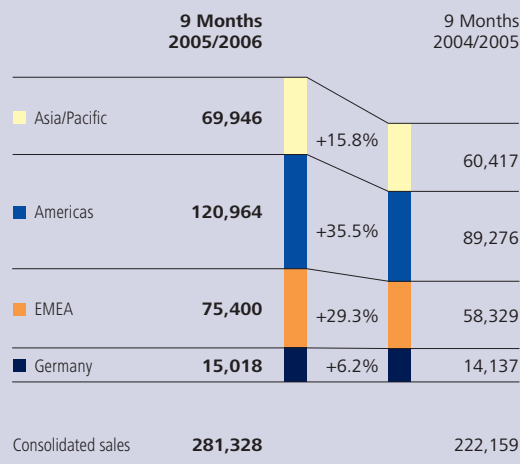
The following chart gives a breakdown of consolidated sales by region:

Figure 4: Consolidated sales by region  
(in € '000)



The chart below shows consolidated sales by region based on constant exchange rates.

Figure 5: Consolidated sales by region based on constant exchange rates  
(in € '000)



## 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 (in €'000)

Assets	30.06.2006		30.09.2005
Cash and cash equivalents	54,880	+9.8%	50,003
Current assets (excluding cash and cash equivalents)	155,538	+5.1%	147,951
Noncurrent assets (excluding goodwill)	66,780	-13.2%	76,952
Goodwill	95,276	+2.7%	92,774
Consolidated balance sheet total:	372,474		367,680
<b>Liabilities</b>			
Current liabilities	81,649	-4.3%	85,308
Noncurrent liabilities	62,000	-1.3%	62,810
Shareholders' equity	215,481	+4.7%	205,746
Minority interests	13,344	-3.4%	13,816
Consolidated balance sheet total:	372,474		367,680

There were no significant changes to the structure of the consolidated balance sheet as of 30 June 2006 from the balance sheet date 30 September 2005. The development of selected balance sheet assets and liabilities is discussed in more detail below.

### Assets

#### Cash and cash equivalents

Cash and cash equivalents increased by 9.8% between 30 September 2005 and 30 June 2006 from € 50.0 to € 54.9 million. The positive development of business increased liquidity, while the distribution of the dividend of € 5.2 million to the shareholders of Carl Zeiss Meditec AG for financial year 2004/2005 decreased liquidity.

#### Trade accounts receivable

"Trade accounts receivable" from third parties remained almost constant compared to 30 September 2005 (€ 55.8 million), amounting to € 56.0 million. In spite of the significant increase in consolidated sales, this enabled the continued optimisation of working capital through active asset management.

#### Accounts receivable from associated companies

Compared to 30 September 2005, "Accounts receivable from associated companies" decreased from € 23.5 million to € 22.6 million as of 30 June 2006. This was mainly attributable to the reduction in receivables from the group treasury of Carl Zeiss AG<sup>4</sup>. The increase in trade accounts receivable from associated companies, arising from the strengthening of consolidated sales, had an opposite effect.

#### Inventories

The balance sheet item "Inventories" amounted to € 61.7 million as of the balance sheet date 30 June 2006. The increase of 14.8% from 30 September

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<sup>4</sup> The Carl Zeiss Meditec Group invests cash and cash equivalents not required with the group treasury of Carl Zeiss AG at standard market conditions. Such credit is reported under the balance sheet item "Accounts receivable from associated companies".

2005 (€ 53.7 million) is the result of the building of inventories at the Group's subsidiaries in order to ensure the shortest possible delivery times at the end of the financial year, too. Furthermore, this balance sheet item increased due to the initial consolidation of Carl Zeiss Meditec France S.A.S., Le Pecq, France, as of 1 May 2006.

#### **Goodwill and Other intangible assets**

"Goodwill" amounted to € 95.3 million as of 30 June 2006. 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 carryforwards of € 3.4 million in the last quarter, which were set up during the provisional purchase price allocation ("PPA") in the course of the acquisition of IOLTECH (for further information on this see also the accompanying notes to consolidated interim financial statements contained in this report).

The amount of Other intangible assets decreased by 12.6% to € 24.7 million (30 September 2005: € 28.3 million) due to the scheduled amortisation of assets that were capitalised in connection with the purchase price allocation as required by US GAAP, among other things for the two companies acquired in financial year 2004/2005, IOLTECH and LDT.

#### **Loans**

The risk existing in connection with the dispute between the US subsidiary Carl Zeiss Meditec Inc. and the Israeli company Notal Vision Ltd. and its US parent company Notal Vision Inc. (referred to together as "Notal") was, in Carl Zeiss Meditec's opinion and according to current knowledge, given appropriate consideration. For reasons of caution, consideration was given to the fact that the repayment of a loan granted to Notal is classifiable as uncertain, due to Notal's failure to make interest payments to date and impending litigation.

As a precaution, therefore, an allowance for the full amount of the loan to Notal (€ 1.6 million) carried under the balance sheet item "Loans" was recorded (for further information see also the section entitled "Litigation" in the accompanying notes to the consolidated interim financial statements in this report). This was the main factor in the reduction of this balance sheet item as of 30 June 2006 to € 0.0 million (30 September 2005: € 1.9 million).

#### **Liabilities**

##### **Trade accounts payable and Accounts payable to associated companies**

Compared to 30 September 2005, the balance sheet item "Trade accounts payable" decreased by 20.2% from € 19.2 million to € 15.4 million as of 30 June 2006. The 19.9% decline in "Accounts payable to associated companies" from 30 September 2005 is primarily attributable to the part-settlement of a short-term bridge loan denominated in Japanese Yen, which the Japanese subsidiary Carl Zeiss Meditec Co. Ltd. took out from Carl Zeiss Co. Ltd., Tokyo, Japan.

##### **Tax liabilities**

This balance sheet item decreased by more than three quarters (-77.9%) to € 1.5 million (30 September 2005: € 6.6 million). This decline is mainly due to the payment of tax liabilities of the subsidiary Carl Zeiss Meditec Co. Ltd. in Japan following the end of the fiscal year there as of 31 March.

##### **Accrued expenses**

Compared to 30 September 2005 (€ 33.9 million), the balance sheet item "Accrued expenses" increased by 21.1% to € 41.1 million. Primary influencing factors are the accruals set up for sales provisions and guarantees due to the positive development of business. This balance sheet item also contains risk prevention measures.

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**Minority interests**

This item in the consolidated balance sheet decreased by 3.4% from 30 September 2005, from € 13.8 million to € 13.3 million. There are two key opposing effects involved in this. The reduction in this balance sheet item resulted from the distribution of a one-off, 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 by Carl Zeiss Meditec. Due to the now complete distribution of the agreed preferred dividend to Carl Zeiss Co. Ltd., this provision expired at the end of the last financial year. However, the successful business performance of the Japanese subsidiary Carl Zeiss Meditec Co. Ltd., particularly in the second quarter of 2005/2006, coupled with

the fact that IOLTECH is not yet fully consolidated, led to an increase in this balance sheet item.

**Shareholders' equity**

The consolidated shareholders' equity as of 30 June 2006, amounting to € 215.5 million, increased by 4.7% compared to 30 September 2005 (€ 205.7 million). This increase is primarily attributable to the positive development of consolidated net income. Shareholders' equity was, however, reduced by the distribution of the dividend for financial year 2004/2005 to the shareholders of Carl Zeiss Meditec AG, as well as the acquisition of the medical technology distribution organisation in France as a transaction under common control. This involves offsetting the difference of € 0.8 million between the purchase price and net assets against the balance sheet item "Retained earnings".

**b) Key ratios on net worth**

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

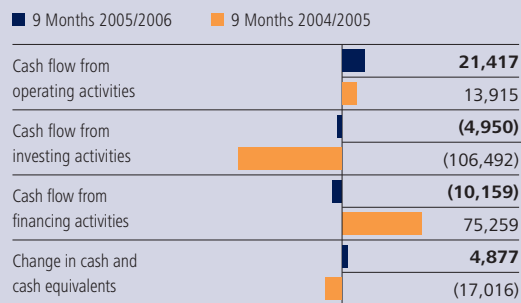
Table 1: Key ratios on net worth

Key ratio	Definition	30.06.2006	30.09.2005	Change
<b>Equity ratio</b>	Shareholders' equity	57.9%	56.0%	+1.9% pts
	Total assets			
<b>Net debt</b>	Liabilities /. Cash and cash equivalents /. Accounts receivable from group treasury of Carl Zeiss AG	€ 73,370 thousand	€ 80,884 thousand	-9.3%
<b>Rate of inventory turnover</b>	Cost of goods sold	3.5	3.9	-10.3%
	Average inventories			
<b>Days of sales outstanding (DSO)</b>	Trade accounts receivable Consolidated sales (annualised) x 360 days	59.6 days	69.0 days	-13.6%

## 5. Financial position

### a) Statement of financial position

**Figure 7: Summary of key ratios in the consolidated cash flow statement**  
(in €'000)



#### Cash flow from operating activities

Cash flow from operating activities improved by 53.9% year-on-year from € 13.9 million to € 21.4 million. A main driver of this growth was the significant increase in consolidated net income. The adjustment for the depreciation and amortisation resulting, among other things, from the purchase price allocation, also increased cash flow. A reduction in cash flow from operating activities was caused, among other things, by the increase in inventories and the development of trade accounts receivable in connection with the expansion of sales of the Carl Zeiss Meditec Group.

#### Cash flow from investing activities

Cash flow from investing activities amounted to € -5.0 million in the reporting period (previous year: € -106.5 million). The previous year's figure is primarily influenced by the acquisitions of IOLTECH and LDT. The main focus of investing activities in the period under review was on investments in property, plant and equipment and the acquisition of the medical technology distribution organisation in France. Investments in property, plant and equipment amounted to € 4.0 million in the period under review (previous year: € 1.9 million). This increase is mainly attributable to the expansion of production facilities at the French subsidiary IOLTECH and to investments in the IT infrastructure at Carl Zeiss Meditec Inc., Dublin, USA.

#### Cash flow from financing activities

Cash flow from financing activities amounted to € -10.2 million in the period under review (previous year: € 75.3 million). The development of this figure in the current financial year was primarily influenced by the distribution of a dividend to the shareholders of Carl Zeiss Meditec AG for financial year 2004/2005, as well as the one-off distribution of a preferred dividend – already mentioned in the section "Net worth" – to Carl Zeiss Co. Ltd. In addition, the settlement of current liabilities from Carl Zeiss Meditec Co. Ltd. to Carl Zeiss Co. Ltd. led to an outflow of capital.

## b) Key ratios relating to financial position

Table 2: Key ratios relating to financial position (in €'000)

Key ratio	Definition	30.06.2006	30.09.2005	Change
<b>Cash and cash equivalents</b>	Cash-in-hand and bank balances	54,880	50,003	+9.8%
<b>Net cash</b>	Cash-in-hand and bank balances + Accounts receivable from group treasury of Carl Zeiss AG ./. Interest-bearing liabilities	21,092	14,794	+42.6%
<b>Net working capital</b>	Current assets ./. Cash and cash equivalents ./. Accounts receivable from group treasury of Carl Zeiss AG ./. Current liabilities	58,490	45,412	+28.8%
<b>Working capital</b>	Current assets ./. Current liabilities	128,769	112,646	+14.3%

Table 3: Key ratios relating to financial position

Key ratio	Definition	9 Months 2005/2006	9 Months 2004/2005	Change
<b>Cash flow per share</b>	Cash flow from operating activities  Weighted average number of shares issued in the period	€ 0.66	€ 0.46	+43.5%
<b>Capex ratio</b>	Cash flow from investments in property, plant and equipment  Consolidated sales	1.4%	0.9%	+0.5% pts

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## 6. Earnings position

### a) Statement of earnings

Table 4: Summary of key ratios in the consolidated income statement (in €'000)

	9 Months 2005/2006	9 Months 2004/2005	Change
Sales revenues	286,737	222,159	+29.1%
Gross margin	47.5%	48.3%	-0.8% pts
EBITDA	42,449	30,281	+40.2%
<i>EBITDA margin</i>	<i>14.8%</i>	<i>13.6%</i>	<i>+1.2% pts</i>
EBIT	34,759	25,086	+38.6%
<i>EBIT margin</i>	<i>12.1%</i>	<i>11.3%</i>	<i>+0.8% pts</i>
Consolidated net income	18,923	12,249	+54.5%
Earnings per share	€ 0.58	€ 0.41	+41.5%

#### Sales revenues

In the first nine months Carl Zeiss Meditec increased its consolidated sales by 29.1% year-on-year to € 286.7 million.

#### Gross profit

Compared to the first nine months of the previous year, there was an improvement in gross profit

to € 136.1 million (previous year: € 107.2 million). This corresponds to an increase of 26.9%. The gross margin decreased slightly year-on-year to 47.5% (previous year: 48.3%). One effect of this was the elimination of interim profits on inventories in the course of the first time consolidation of Carl Zeiss Meditec France S.A.S. on 1 May 2006.

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**Functional costs**

In absolute terms, functional costs increased year-on-year from € 82.5 million to € 101.8 million. Based on consolidated sales, however, there were no significant changes from the year-ago period.

**Selling and marketing expenses:** In the first nine months of the current financial year selling and marketing expenses increased from € 48.2 million the previous year to € 57.1 million. In relation to consolidated sales, however, the expenses ratio decreased slightly to 19.9% (previous year: 21.7%). This is mainly attributable to improvements in efficiency and economies of scale in distribution, which enabled the Group to generate higher sales without a parallel increase in selling and marketing expenses.

**General and administrative expenses:** Expenses in this area rose by 35.6% to € 16.3 million (previous year: € 12.0 million). This increase is mainly associated with the expenses connected with the planned acquisition of Carl Zeiss Surgical (e.g. solicitors' and auditors' fees), as well as investments in the IT infrastructure at the US subsidiary. Based on consolidated sales, the administrative expenses ratio increased slightly from 5.4% the previous year to 5.7% in the period under review.

**Research and development expenses:** Expenses in the area of research and development (R&D) amounted to € 28.5 million in the period under review (previous year: € 22.3 million). This

figure includes subsidies granted of € 0.4 million (previous year: € 0.5 million). The increase in expenses is attributable to the further acceleration of key research and development projects. Research and development expenses accounted for 9.9% of consolidated sales in the first nine months of 2005/2006 (previous year: 10.0%).

**Development of earnings**

**EBITDA** amounted to € 42.4 million in the first nine months of 2005/2006 (previous year: € 30.3 million). With an increase of 40.2% year-on-year, this figure grew faster than sales. EBITDA is mainly adjusted for the amortisation of intangible assets capitalised in the course of the purchase price allocation in connection with the acquisitions of IOLTECH and LDT.

**EBIT**, which includes the above-mentioned amortisation, was also significantly higher than the year-ago figure, increasing by 38.6% in the past financial year from € 25.1 million to € 34.8 million. Yet again, therefore, the operative profitability of the Carl Zeiss Meditec Group grew at a greater rate than sales.

**Interest income** amounted to €-2.4 million in the period under review (previous year: €-1.4 million). This year-on-year increase is primarily attributable to the allowance for the loan which the American subsidiary Carl Zeiss Meditec Inc. had granted to its cooperation partner Notal (for further information on this see also the section

entitled "Litigation" in the accompanying notes to the consolidated interim financial statements in this report and "Loans" in the section "Net worth"). Without this risk provisioning measure the item "Interest income/(expense), net" would have amounted to € 0.8 million.

The **tax rate** decreased year-on-year from 37.9% to 35.2%. This is due to the fact that the US subsidiary Carl Zeiss Meditec Inc. had set up accruals in previous quarters for expected tax payments with the necessary commercial prudence. After completion of the external tax audit in the third quarter of 2005/2006 part of this accrual was reversed with recognition in net income.

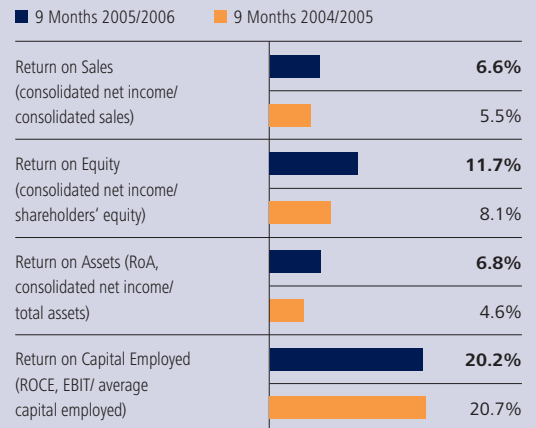
Due to the expiry of the preferred dividend of the minority shareholder Carl Zeiss Co. Ltd., the **proportion of minority interests** declined by 17.6% year-on-year to € 2.0 million.

**Consolidated net income** increased significantly compared to the previous year. In the first nine months of 2005/2006 it climbed 54.5% from € 12.3 million to € 18.9 million. This successful economic development was influenced slightly by two opposing effects – on the one hand, by the tax effect described above and, on the other hand, by the measures of risk provisioning in connection with the cooperation partner Notal. Earnings per share amounted to € 0.58 in the period under review, compared to € 0.41 the previous year.

#### b) Key ratios relating to earnings position

The year-on-year development of key ratios relating to earnings position reflects the continual growth in the profitability of the Company's capital and assets.

Figure 8: Development of key ratios relating to earnings position



## 7. Research and development

Carl Zeiss Meditec invested a total of € 28.5 million (previous year: € 22.3 million) in research & development in the first nine months of financial year 2005/2006. This figure includes subsidies granted of € 0.4 million (previous year: € 0.5 million).

As of 30 June 2006, there were 227 research and development employees Group-wide (previous year: 207). This corresponds to 17.2% (previous year: 17.4%) of the total number of employees of the Carl Zeiss Meditec Group.

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

- Consistent further development of the existing product portfolio
- Development of new products
- Integration and networking of systems and devices

Table 5: Focal points of R&amp;D activities in the first nine months of financial year 2005/2006

Focus	Activities
<b>Consistent further development of existing product portfolio</b>	<ul style="list-style-type: none"> <li>Projects for the further expansion of the spectrum of application of the innovative VISUCAM™ PRO™ diagnostic system, which was newly launched in the current financial year</li> <li>Continuation of projects with the aim of expanding the technical and practical functionality of major diagnostic and therapeutic systems (e.g. IOLMaster®, MEL 80™, STRATUSOCT™ and Visante OCT™)</li> </ul>
<b>Development of new products and combination of diagnosis and treatment</b>	<ul style="list-style-type: none"> <li>Continuation of a key project for the development of new treatment options in the field of refractive surgery</li> <li>Projects for the expansion of diagnostic and documentation features in basic systems, e.g. slit lamps</li> <li>Systematic continuation 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</li> <li>Completion of a project for the development of new intraocular lenses: The new intraocular lenses XL Stabi® and Invent ZO® are the first products to be co-developed by Carl Zeiss Meditec and IOLTECH. They combine for the first time Carl Zeiss Meditec's optical design expertise with IOLTECH's know-how in the field of intraocular lenses. The new IOL stand out, among other things, due to better image quality, improved contrast vision in twilight and a reduction in visual errors</li> </ul>
<b>Networking of systems and devices</b>	<ul style="list-style-type: none"> <li>Continual and systematic advancement of the integration of different diagnostic systems</li> </ul>

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**8. Events of particular significance**

As announced for the first time on 9 January 2006, Carl Zeiss Meditec intends to take over the two companies Carl Zeiss Surgical GmbH, Oberkochen, Germany, and Carl Zeiss Surgical Inc., Dublin, USA. This move is expected to further strengthen the Company's competitive position in ophthalmic surgery and open up the growth market of neuro/ear, nose and throat surgery.

The Company's shareholders approved this transaction at the General Meeting on 10 March 2006

with a majority of 99.8% of the share capital present, including 98.5% of the free float present.

On 10 April, however, eight shareholders filed suit against the intended transaction. These shareholders hold a total of 242 shares, which corresponds to significantly less than 0.01% of the Company's share capital.

Carl Zeiss Meditec nevertheless still intends to take over Carl Zeiss Surgical GmbH and Carl Zeiss Surgical Inc. to do this, the Company plans to complete the transaction, probably before the end of this year, with the help of an application

for the release of the commercial register entry pursuant to Art. 246a (1) German Stock Corporation Act (*Aktiengesetz, AktG*), a so-called “release procedure” (*Freigabeverfahren*). The aim of this is to avoid any economic disadvantages that may arise for Carl Zeiss Meditec and its shareholders due to a delay in the acquisition. The section entitled “Events of particular significance” in the accompanying notes to the interim financial statements in this report contains further details.

With effect from 1 May 2006, Carl Zeiss Meditec combined its sales and marketing activities in the French market in the newly founded subsidiary Carl Zeiss Meditec France S.A.S. This is an important milestone for Carl Zeiss Meditec in terms of the expansion and reinforcement of its direct sales organisation. The section entitled “Expansion of the reporting entity” in the accompanying notes to the interim financial statements in this report contains further information.

### 9. Events after the balance sheet date

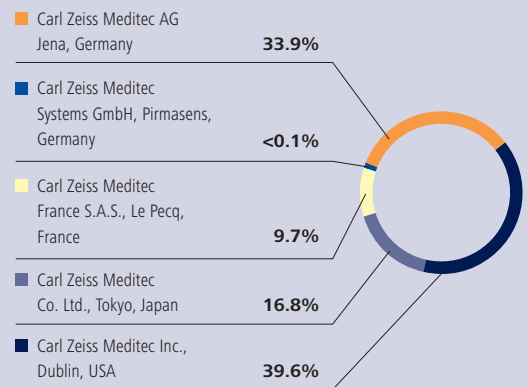
Carl Zeiss Meditec purchased a further 110,174 IOLTECH shares at a price of € 111.00 per share on 10 July 2006. The acquisition of this parcel of shares means that Carl Zeiss Meditec now holds 96.5% of IOLTECH’s share capital and thus exceeds the required shareholding threshold for a squeeze-out. This is planned within the coming months. Carl Zeiss Meditec’s objective continues

to be to conclude the formal integration of IOLTECH S.A. and finalise IOLTECH’s stock exchange listing. Further details on this transaction can be found in the section entitled “Events after the balance sheet date” in the accompanying notes to the interim financial statements in this report.

### 10. Orders on hand

As of 30 June 2006, the Group’s orders on hand amounted to € 28.3 million (previous year: € 19.0 million). Figure 9 shows the distribution of the orders on hand among the individual group subsidiaries.

Figure 9: Distribution of orders on hand by subsidiary as of 30 June 2006

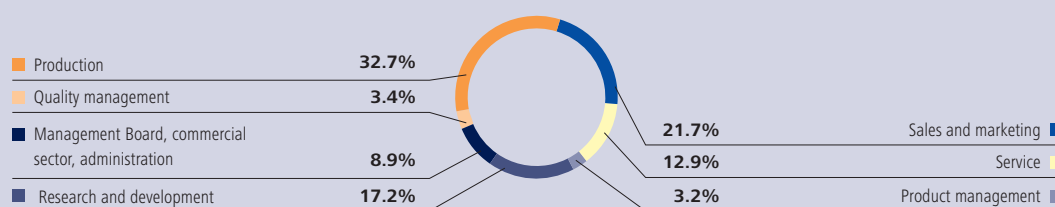


## 11. Personnel

As of 30 June 2006 Carl Zeiss Meditec employed a global workforce of 1,317 (previous year: 1,189).

Figure 10 shows the personnel structure of Carl Zeiss Meditec as of 30 June 2006.

Figure 10: Personnel structure of the Carl Zeiss Meditec Group as of 30 June 2006



## 12. Outlook

Carl Zeiss Meditec again continued its positive growth trend in the first nine months of financial year 2005/2006. Sales growth was again higher than the market growth of about 10%. The fact that the respective growth in sales is also reflected in a disproportionate improvement in EBIT and EBITDA confirms, in our opinion, the successful strategic orientation of Carl Zeiss Meditec towards a solution provider.

We also plan in future to continue reinforcing organic growth through reasonable external acquisitions. We have already proved in the past that we can complete acquisition processes quickly and successfully integrate the acquired companies into Carl Zeiss Meditec. We also plan to continually expand our existing product portfolio with innovations that give doctors greater efficiency

and patients even better treatment results. Time-to-market cycles will be shortened further, where feasible. Another element of our product innovation strategy continues to be the networking of systems and devices to provide the most comprehensive and holistic treatment concepts possible. We are continuing to work on further improving the efficiency and efficacy of our global distribution network, as emphasised by the bundling of our sales activities in France.

It is also our continued aim, through the acquisition of Carl Zeiss Surgical, to create a medical technology company that has a unique market position in the field of ophthalmology and excellent prospects in the growth market of neuro/ear, nose and throat surgery. We are optimistic that we can overcome the legal blockade, which a few, individual shareholders are endeavouring to put up against this transaction, in the

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foreseeable future, and thus still complete the acquisition of Carl Zeiss Surgical before the end of this calendar year. We also plan to formally conclude the acquisition of IOLTECH within this calendar year. After taking over this company in February 2005, we completed its financial and organisational integration by the end of the past financial year. As we have

now exceeded the shareholding threshold of 95% in this company, we are planning the squeeze-out of remaining shareholders in the coming months and a delisting of IOLTECH from the Paris Stock Exchange Euronext.

We are expecting consolidated sales for the whole financial year to exceed the year-ago figure by about 20%, and an EBIT margin of at least 12%.

## 2. Directors' Holdings and Directors' Dealings

Table 6: Directors' Holdings – Shareholdings of members of the executive bodies of Carl Zeiss Meditec AG

<b>Management Board</b>		<b>No. of Carl Zeiss Meditec shares</b>
		(30.06.2006)
Ulrich Krauss	Shares	500
Bernd Hirsch	Shares	1,500
James L. Taylor	Shares	-
<b>Supervisory Board</b>		<b>No. of Carl Zeiss Meditec shares</b>
		(30.06.2006)
Dr Michael Kaschke	Shares	3,500
Alexander von Witzleben	Shares	1,094
Dr Dieter Kurz	Shares	-
Dr Markus Guthoff	Shares	1,900
Franz-Jörg Stündel	Shares	530
Wilhelm Burmeister	Shares	342
<b>Company</b>		<b>No. of Carl Zeiss Meditec shares</b>
		(30.06.2006)
Carl Zeiss Meditec AG	Shares	-

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

In the first nine months of financial year 2005/2006, members of the Management Board and Supervisory Board executed securities transactions subject to reporting requirements pursuant to Art. 15a of the German Securities Trading Act (*Wertpapierhandelsgesetz, WpHG*).

Management Board member Bernd Hirsch acquired 1,000 shares on 15 June 2006. The total value of this transaction was € 14,400. The Chairman of the Supervisory Board, Dr Michael

Kaschke, acquired a total of 3,500 shares with a total value of € 52,830 on 16 and 20 June 2006, and sold 1,250 shares with a total value of € 19,850 on 23 June 2006.

The details of the above-mentioned securities transactions were published immediately after their disclosure on the company's Web site at [www.meditec.zeiss.com/ir](http://www.meditec.zeiss.com/ir) – Corporate Governance – Directors' Dealings in accordance with the legal requirements of Art. 15b WpHG. The publication documents and the relevant disclosures were forwarded to the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin*).

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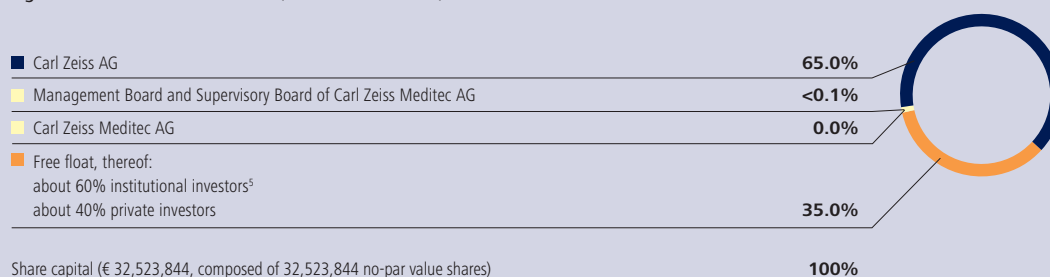
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### 3. Shareholder structure

Figure 11: Shareholder structure (as of 30 June 2006)



5 Source: LionShares and own research

## Consolidated income statement (US GAAP)

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€ '000	3rd Quarter 2005/2006		3rd Quarter 2004/2005		9 Months 2005/2006		9 Months 2004/2005	
	1.04.2006 - 30.06.2006		1.04.2005 - 30.06.2005		1.10.2005 - 30.06.2006		1.10.2004 - 30.06.2005	
<b>Sales revenues</b>	<b>94,481</b>		<b>79,064</b>		<b>286,737</b>		<b>222,159</b>	
Costs of goods sold	(48,757)		(39,108)		(150,665)		(114,940)	
<b>Gross profit</b>	<b>45,724</b>		<b>39,956</b>		<b>136,072</b>		<b>107,219</b>	
Selling and marketing expenses	(19,142)		(19,025)		(57,051)		(48,182)	
General and administrative expenses	(6,217)		(4,816)		(16,266)		(12,000)	
Research and development expenses	(9,487)		(7,847)		(28,861)		(22,816)	
minus government grants received	163	(9,324)	97	(7,750)	403	(28,458)	524	(22,292)
Other operating income/(expense), net	81		43		261		190	
Foreign currency gains/(losses)	237		51		201		151	
<i>Earnings before interest, taxes, depreciation and amortisation</i>	<i>13,910</i>		<i>10,414</i>		<i>42,449</i>		<i>30,281</i>	
<b>Earnings before interest result and income taxes</b>	<b>11,359</b>		<b>8,459</b>		<b>34,759</b>		<b>25,086</b>	
Interest income/(expense), net	(1,827)		(560)		(2,422)		(1,429)	
<b>Earnings before income taxes</b>	<b>9,532</b>		<b>7,899</b>		<b>32,337</b>		<b>23,657</b>	
Income tax expense	(2,244)		(3,273)		(11,394)		(8,956)	
Minority interests	(162)		(122)		(2,020)		(2,452)	
<b>Net income</b>	<b>7,126</b>		<b>4,504</b>		<b>18,923</b>		<b>12,249</b>	
<b>Earnings/(loss) per share (in €)</b>	<b>0.22</b>		<b>0.14</b>		<b>0.58</b>		<b>0.41</b>	
Weighted average number of shares issued in the period								
Basic	32,523,844		32,523,444		32,523,119		30,108,236	

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

## Consolidated balance sheet (US GAAP)

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€ '000	30.06.2006	30.09.2005
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	54,880	50,003
Trade accounts receivable, net of allowances of € 9,385 thousand (30 September 2005: € 9,630 thousand)	56,026	55,819
Accounts receivable from associated companies	22,621	23,459
Inventories	61,687	53,744
Prepaid expenses	2,566	2,597
Deferred income taxes	8,673	9,068
Other assets	3,965	3,264
<b>Total current assets</b>	<b>210,418</b>	<b>197,954</b>
Property, plant and equipment	28,897	29,755
Goodwill	95,276	92,774
Other intangible assets	24,690	28,262
Other long-term trade accounts receivable, net of allowances of € 3 thousand (30 September 2005: € 71 thousand)	137	212
Shareholdings	362	362
Loans	-	1,910
Deferred income taxes	12,679	16,352
Other noncurrent assets	15	99
<b>Total assets</b>	<b>372,474</b>	<b>367,680</b>

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

€ '000	30.06.2006	30.09.2005
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	528	505
Current portion of capital lease obligations	1,006	1,031
Trade accounts payable	15,351	19,241
Accounts payable to associated companies	10,794	13,474
Tax liabilities	1,453	6,570
Advance payments received and deferred income	6,594	5,429
Deferred income taxes	875	890
Accrued expenses	41,066	33,900
Other current liabilities	3,982	4,268
<b>Total current liabilities</b>	<b>81,649</b>	<b>85,308</b>
Accruals for pensions	2,440	2,014
Long-term debt, net of current portion	4,265	4,432
Long-term debt due to associated companies	20,457	21,577
Capital lease obligations, net of current portion	22,931	24,895
Long-term deferred income	1,839	1,100
Deferred income taxes	9,826	8,566
Other liabilities	242	226
<b>Total liabilities</b>	<b>143,649</b>	<b>148,118</b>
Minority interests	13,344	13,816
<b>Shareholders' equity:</b>		
Share capital, split into 32,523,844 no-par value shares with an imputed nominal value of € 1.00 each	32,524	32,524
Additional paid-in capital	141,719	141,719
Retained earnings	54,048	41,138
Accumulated other comprehensive loss	(12,810)	(9,631)
Treasury stock	-	(4)
<b>Total shareholders' equity</b>	<b>215,481</b>	<b>205,746</b>
<b>Total liabilities and shareholders' equity</b>	<b>372,474</b>	<b>367,680</b>

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

## Consolidated cash flow statement (US GAAP)

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€ '000	9 Months 2005/2006 1.10.2005 - 30.06.2006	9 Months 2004/2005 1.10.2004 - 30.06.2005
<b>Cash flow from operating activities:</b>		
<b>Net income</b>	<b>18,923</b>	<b>12,249</b>
Adjustments to reconcile net income to net change in cash and cash equivalents provided by/(used in) operating activities:		
Minority interest	2,020	2,452
Depreciation and amortisation	7,690	5,195
Amortisation of financial assets	1,646	-
Losses/gains on disposal of property, plant and equipment	85	111
Deferred taxes	1,803	(447)
Change in working capital:		
Trade accounts receivable	(3,087)	(220)
Inventories	(9,709)	(12,203)
Prepaid expenses and other current assets	(719)	(209)
Trade accounts payable	(2,576)	3,052
Accruals for taxes	(5,015)	2,731
Other accruals and liabilities	8,047	1,423
Deferred income	2,309	(219)
Total adjustments	2,494	1,666
<b>Net cash from operating activities</b>	<b>21,417</b>	<b>13,915</b>
<b>Cash flow from investing activities:</b>		
Investment in property, plant and equipment	(3,969)	(1,934)
Investment in intangible assets	(167)	(988)
Proceeds from sale of property, plant and equipment	-	30
Repayment of loans and disposal of shareholdings	250	1,070
Acquisition of the surgical business in Japan	-	(6,841)
Acquisition of medical technology distribution organisation in France	(850)	-
Acquisition of consolidated companies, net of cash acquired (2005/2006: IOLTECH: € 74 thousand, LDT: € 140 thousand; 2004/2005: LDT: € 20,932 thousand, IOLTECH: 76,897 thousand)	(214)	(97,829)
<b>Net cash (used in)/provided by investing activities</b>	<b>(4,950)</b>	<b>(106,492)</b>
<b>Cash flow from financing activities:</b>		
(Repayments) of long-term debt	(143)	(148)
Inpayments from short-term loans from associated companies/(Repayments)	(2,890)	7,534
Inpayments from long-term loans from associated companies	-	20,184
Decrease in accounts receivable from Treasury	1,168	13,855
Repayment of convertible bonds issued by IOLTECH S.A.	-	(6,260)
Changes under capital lease contracts	(802)	78
Net proceeds from a capital increase	-	39,842
Dividend payment to the minority shareholders of CZ Meditec Co. Ltd. (Japan)	(2,020)	-
Dividend payment to the shareholders of CZ Meditec AG	(5,204)	-
Issuance/(acquisition) of treasury stock	(268)	174
<b>Net cash provided by/(used in) financing activities</b>	<b>(10,159)</b>	<b>75,259</b>
Effect of exchange rate changes on cash and cash equivalents	(1,431)	302
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4,877</b>	<b>(17,016)</b>
Cash, beginning of the reporting period	50,003	49,748
<b>Cash, end of the reporting period</b>	<b>54,880</b>	<b>32,732</b>
Supplemental disclosures concerning the cash flow:		
<b>Interest paid</b>	<b>2,687</b>	<b>2,056</b>
<b>Income taxes paid</b>	<b>12,758</b>	<b>6,089</b>

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

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

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€ '000	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total shareholders' equity
<b>As of 30.09.2004</b>	<b>28,417</b>	<b>89,433</b>	<b>24,642</b>	<b>(10,715)</b>	<b>(178)</b>	<b>131,599</b>
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
<b>As of 30.09.2005</b>	<b>32,524</b>	<b>141,719</b>	<b>41,138</b>	<b>(9,631)</b>	<b>(4)</b>	<b>205,746</b>
Net income	-	-	18,923	-	-	18,923
Other comprehensive income (due to adjustments of accruals for pensions after taxes)	-	-	-	56	-	56
Other comprehensive loss (due to currency conversions)	-	-	-	(3,235)	-	(3,235)
Accumulated comprehensive income	-	-	-	-	-	15,744
Issuance of treasury stock to employees	-	-	-	-	4	4
Payment of dividend for 2005	-	-	(5,204)	-	-	(5,204)
Acquisition of medical technology distribution organisation in France (as a transaction under common control)	-	-	(809)	-	-	(809)
<b>As of 30.06.2006</b>	<b>32,524</b>	<b>141,719</b>	<b>54,048</b>	<b>(12,810)</b>	<b>-</b>	<b>215,481</b>

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

## Notes to the consolidated interim financial statements

■ Bookmarks  
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### 1. General information

#### Accounting and valuation principles

The unaudited consolidated interim financial statements of Carl Zeiss Meditec AG ("the Company", "Carl Zeiss Meditec") as of 30 June 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.

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 comply 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

##### Carl Zeiss Meditec France S.A.S., Le Pecq, France

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 S.A.S., which has its registered office in Le Pecq, France. This

is an important milestone for the Company in terms of 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 S.A.S., Le Pecq, on 1 May 2006. Carl Zeiss S.A.S. was previously the distribution partner for devices and systems of Carl Zeiss Meditec in France. Pro forma, the medical technology distribution organisation of Carl Zeiss S.A.S. generated sales of € 16.2 million and EBIT of € 0.6 million in financial year 2004/2005. This transaction is a transaction under common control, as all companies involved are majority-owned by Carl Zeiss AG. As a result, it does not give rise to any goodwill. The transaction is recorded in the balance sheet at present book values. US GAAP requires that the residual amount of € 809 thousand paid in excess of the book values of the acquired assets be offset against equity. € 718 thousand of the residual amount is attributable to the acquired customer base of Carl Zeiss S.A.S.

The table below shows a breakdown of the purchase price:

Table 1 (in € '000)

Total purchase price	850
Book value of the acquired assets	(41)
<b>Amount paid in excess of the book value (customer base and goodwill)</b>	<b>809</b>

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In addition, the entire sales and marketing activities of IOLTECH S.A. in France were transferred to the newly founded Carl Zeiss Meditec France S.A.S. The related assets and liabilities, primarily working capital, were transferred at their respective net book values. There are no effects for Carl Zeiss Meditec from this transaction between subsidiaries.

#### **Laser Diagnostic Technologies Inc., San Diego, USA**

With effect from 2 December 2004, the US subsidiary 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 transferring all the business activities and functions of this company to 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.

The activities of the acquired company are reflected in the consolidated financial statements from 2 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).

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 during 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).

Table 2

	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
Acquired assets and PPA, total	39,056	29,362
Acquired current liabilities	4,605	3,462
Acquired other noncurrent liabilities	3,268	2,457
<b>Total acquisition costs (acquired net assets)</b>	<b>31,183</b>	<b>23,443</b>

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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 an annual basis.

The acquisition resulted in non-tax deductible goodwill of US\$ 14,718 thousand (€ 11,065 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.

To finance the acquired assets of LDT the Company took out a loan to the value of US\$ 26,000 thousand (€ 19,546 thousand).

**IOLTECH S.A., La Rochelle, France**

At 1 February 2005, Carl Zeiss Meditec AG had already acquired 62.7% of the shares in IOLTECH S.A. (IOLTECH) from its former majority shareholder Philippe Tourrette. The company, which is

currently still listed on section C of the Eurolist at the Paris Stock Exchange, specialises in the production and distribution of implants (intraocular lenses, "IOL") and consumables for ophthalmic surgery.

In a takeover offer from 14 March to 5 April 2005, a further 24.4% of the IOLTECH shares were purchased from the remaining IOLTECH shareholders. By 30 June 2006, Carl Zeiss Meditec had increased its stake in IOLTECH to 87.3%. Carl Zeiss Meditec still has its sights set on a complete takeover of this company.

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

The shares acquired in financial year 2005/2006 increased acquisition costs to € 98,786 thousand; direct incidental acquisitions costs still amount to € 1,766 thousand.

The table below 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.

**Table 3**

	€ '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
Acquired assets and PPA, total	129,103
Acquired current liabilities	16,899
Acquired other noncurrent liabilities	6,822
Total assumed liabilities	23,721
Minority interests	4,830
<b>Total acquisition costs (acquired net assets)</b>	<b>100,552</b>

Non-tax deductible, intangible assets (patents and trademarks) identified within the scope of the 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, provisional 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 had already reduced the deferred tax assets previously reported as of 30 September 2005, and minority interests, by 31 March 2006, 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.

#### **Surgical business in Japan**

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

### Pro forma account of all acquisitions

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 would have been as follows:

Table 4 (Figures in € '000 excluding earnings per share)

	Pro forma figures 3 <sup>rd</sup> quarter FY 2005/2006	Pro forma figures 3 <sup>rd</sup> quarter FY 2004/2005	Pro forma figures 9 Months FY 2005/2006	Pro forma figures 9 Months FY 2004/2005
Sales revenues	95,375	80,592	291,323	250,026
Earnings before interest and taxes	11,773	7,909	33,960	24,662
Net income for the year	7,380	4,166	18,432	11,521
Earnings per share	0.23	0.14	0.57	0.38

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 are not necessarily indicators

for a possible business development, had the acquisitions 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 these figures necessarily reflect future development.

## 2. Notes to the consolidated income statement

### Earnings per share

The basic earnings per share have been calculated by dividing the consolidated net income by the weighted average number of ordinary shares issued during each individual accounting period. There was no value for diluted earnings per share, since no stock options existed as of 30 June 2006.

### Related party disclosures

Relations with associated companies resulted in sales of € 53,456 thousand in the reporting period 2005/2006 (previous year: € 46,061 thousand). The term "associated companies" refers here to Carl Zeiss AG and its subsidiaries.

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### 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 30 June 2006:

Table 5 (in € '000)

<b>As of 1.10.2005</b>	<b>6,250</b>
Appropriation	4,231
Reversal	(22)
Utilisation	(3,514)
Currency effects	(163)
<b>As of 30.06.2006</b>	<b>6,782</b>

Table 6 (in € '000)

	3 <sup>rd</sup> quarter 2005/2006	3 <sup>rd</sup> quarter 2004/2005	9 Months 2005/2006	9 Months 2004/2005
Service cost	171	46	366	139
Interest expense for projected benefit obligations	39	15	84	47
Amortisation of actuarial losses	23	5	69	14
<b>Pension expenditure</b>	<b>233</b>	<b>66</b>	<b>519</b>	<b>200</b>

#### Litigation

There is currently a threat of legal proceedings from a medical product manufacturer due to a possible patent infringement. The facts of this case are currently being investigated by Carl Zeiss Meditec.

#### 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 30 June 2006 and 1 October 2004 to 30 June 2005 was as follows:

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 re-

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sponsible 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).

A risk exists with respect to a purchase contract entered in 2003 between the US Group company Carl Zeiss Meditec Inc., and the Israeli company Notal Vision Ltd., jointly with its U.S. parent, Notal Vision Inc. (Notal). This agreement between the companies grants to Carl Zeiss Meditec Inc. exclusive marketing rights to a PreviewPHP™ product, requiring additional design modifications at the time the contract was made. In return, Carl Zeiss Meditec Inc. has undertaken to purchase certain minimum quantities of PreviewPHP™ product. However, Carl Zeiss Meditec Inc. believes that the product requires a series of basic technical improvements which were agreed upon when the contract was made. As a result, Carl Zeiss Meditec Inc. will not meet the minimum purchase quantities agreed for the three-year period ending December 31, 2006. In May, Notal opened arbitration proceedings accusing Carl Zeiss Meditec Inc. of being in breach of contract, demanding payment for the fulfilment of the purchase obligation and the reimbursement of legal and other costs. Due to precaution, we took account of Notal's claims in the third quarter of 2005/2006 and the uncertainty regarding collectibility of the loan receivable up to a limit which we consider to be required. Therefore, we recorded an allowance for the full amount of the loan (€ 1,646 thousand) to Notal Vision Inc. formerly included in the balance sheet item "Loans". The maximum residual risk of loss from the minimum purchase obligation by the end of the term of the contract (31 December 2006) accordingly decreases to the equivalent of € 6.2 million. Carl Zeiss Meditec

believes that Notal's claim has no merit, and that the measures of risk provisioning as recorded are sufficient at this time.

### 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 expired at the end of the last financial year.

As of 30 June 2006, all claims relating to the preferred dividend of € 2,020 thousand are satisfied.

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 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 interim financial statements). The total repurchase volume thus amounted to € 268 thousand. The repurchased shares were issued as employee shares to employees of Carl Zeiss Meditec AG and its wholly owned subsidiaries at the beginning of February 2006.

#### 4. Segment reporting

The segment reporting for the reporting period is as follows:

Table 7 (in € '000)

	3 <sup>rd</sup> quarter 2005/2006	3 <sup>rd</sup> quarter 2004/2005	9 Months 2005/2006	9 Months 2004/2005
<b>Sales revenues</b>				
Germany	39,213	32,051	109,868	90,327
USA	47,274	38,508	146,610	113,149
Japan	9,495	9,919	43,239	41,612
Rest of Europe	20,505	14,404	47,659	23,649
Eliminations	(22,006)	(15,818)	(60,639)	(46,578)
<b>Consolidated</b>	<b>94,481</b>	<b>79,064</b>	<b>286,737</b>	<b>222,159</b>
<b>Operating result</b>				
Germany	3,722	2,308	8,511	5,478
USA	5,252	4,717	18,127	12,626
Japan	(457)	(488)	5,284	5,564
Rest of Europe	4,027	2,126	7,024	3,273
Eliminations	(1,185)	(204)	(4,187)	(1,855)
<b>Consolidated</b>	<b>11,359</b>	<b>8,459</b>	<b>34,759</b>	<b>25,086</b>

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

## 5. Events of particular significance

As announced for the first time on 9 January 2006, Carl Zeiss Meditec intends to acquire the two companies Carl Zeiss Surgical GmbH, Oberkochen, and Carl Zeiss Surgical Inc., Dublin, USA. This move is expected to further strengthen the Company's competitive position in ophthalmic surgery and expand the growth market of neuro/ear, nose and throat surgery.

The Company's shareholders approved this transaction at the General Meeting on 10 March 2006 with a majority of 99.8% of the share capital present, including 98.5% of the free float present.

On 10 April 2006, a total of eight shareholders filed suit against the planned transaction. These shareholders hold a total of 242 shares, which corresponds to significantly less than 0.01% of the Company's share capital.

Regardless of the claim of these eight shareholders, Carl Zeiss Meditec still intends to proceed with its acquisition of Carl Zeiss Surgical GmbH

and Carl Zeiss Surgical Inc. to do this, the Company plans to complete the transaction – probably before the end of this calendar year – with the help of an application for the release of the commercial register entry pursuant to Art. 246a (1) German Stock Corporation Act (*Aktiengesetz, AktG*), a so-called "release procedure" (*"Freigabeverfahren"*). This procedure aims to avoid any economic disadvantages that may arise for Carl Zeiss Meditec due to a delay in the acquisition.

The lawsuits that have been filed will delay the capital measure that will enable all of the Company's shareholders to purchase new Carl Zeiss Meditec shares at a subscription price of € 10.10 per share until this release procedure has been concluded.

As published on 2 May 2006, Carl Zeiss Meditec AG – with effect from 1 May 2006 – combined its sales and marketing activities in the French market in the newly founded subsidiary Carl Zeiss Meditec France S.A.S., which has its registered office in Le Pecq, France.

## 6. Events after the balance sheet date

Carl Zeiss Meditec AG purchased a further 110,174 IOLTECH shares on 10 July 2006. IOLTECH is listed in Section C of the Eurolist on the Paris Stock Exchange. The acquisition of this parcel of shares means that Carl Zeiss Meditec now holds 96.5% of IOLTECH's share capital and thus exceeds the required shareholding threshold for a squeeze-

out. This is planned within the coming months. Carl Zeiss Meditec's objective continues to be to conclude the formal integration of IOLTECH and finalise its stock exchange listing.

The purchase price per IOLTECH share was € 111.00. The total volume of the transaction thus amounts to € 12.2 million, excluding incidental costs.

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### Financial terms

#### Capex

Abbreviation for "Capital Expenditure"

Indicates the level of investment in property, plant and equipment;

Usually stated as the Capex ratio, i.e. investments in property, plant and equipment in the reporting period in relation to consolidated sales for the same period

#### Cash flow from operating activities (or: operative cash flow)

Shows the net change in the company's cash and cash equivalents arising from operating activities and is thus an indicator of the financial strength resulting from these

Calculation: usually indirect calculation by adjusting the consolidated net income generated in a period by non-cash transactions from the income statement and cash transactions resulting from changes in individual items in the consolidated balance sheet; adjusted items are associated with the company's operating activities – mainly depreciation and amortisation and changes in working capital

#### DSO

Abbreviation for "Days of Sales Outstanding"

Number of days that customers take to pay an invoice

#### EBIT

Abbreviation for "Earnings Before Interest and Taxes"

#### EBITDA

Abbreviation for „Earnings before interest, taxes, depreciation and amortisation“

Property, plant and equipment and intangible assets are depreciated and amortised, respectively, insofar as they have a limited useful life

#### EMEA

Abbreviation for "Europe, Middle East and Africa"

Term to describe the economic area Europe, composed of Western and Eastern Europe, the Middle East and Africa

#### Earnings per share

Indicates the consolidated earnings per share that were generated

Calculation: consolidated net income divided by the weighted average number of outstanding shares in the reporting period

#### IFRS

Abbreviation for "International Financial Reporting Standards", until 2001: "International Accounting Standards" or IAS)

International accounting regulations developed and published by the London-based "International Accounting Standards Board" (IASB).

#### Purchase price allocation

Distribution of the purchase price after a company acquisition among the assets and liabilities of the acquired company;

Evaluation at the attributable fair value so that hidden reserves are disclosed; Residual amount after distribution is positioned in the balance sheet as goodwill

#### SFAS

Abbreviation for "Statement of Financial Accounting Standards", or "Financial Accounting Standards", "FAS"

Accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB) under US GAAP

### **US GAAP**

Abbreviation for “United States Generally Accepted Accounting Principles”

US accounting rules;

According to Art. 62 German Stock Exchange Regulations (Börsenordnung, BörsO), companies in Germany that are listed on the official or regulated market with extended admission criteria (Prime Standard), must prepare consolidated financial statements according US GAAP or IFRS

## **Technical terms**

### **AMD**

Abbreviation for “Age-related Macular Degeneration”

Retinal disease of the area of maximum visual acuity (macula) which leads to the loss of central vision. Most common cause of age-related blindness in industrialised countries

### **Glaucoma**

Ophthalmic disease which leads to restriction of the field of vision, often caused by increased ocular pressure;

Second most common cause of blindness in industrialised countries

### **Humphrey® Field Analyzer**

System for static and kinetic measurement of the visual field for assistance with glaucoma diagnosis

### **IOL**

Abbreviation for “Intraocular lens”

Synthetic lens to replace the natural lens of the eye, used in cataract surgery

### **IOLMaster®**

Device for accurate and efficient non-contact measurement of the eye and calculation of the required intraocular lens prior to cataract surgery

### **Cataract**

Deterioration of vision through opacity of the lens;

Most common cause of blindness worldwide, typical disease among the elderly

### **MEL 80™**

Laser for fast and accurate treatment of vision defects (refractive errors)

### **STRATUSoc™**

Diagnostic system for examining the structure of the fundus (e.g. for the early diagnosis of glaucoma and other serious ophthalmic diseases)

### **VISUCAM™ PRO<sup>NM</sup>**

Innovative fundus camera that allows the fundus of the eye to be examined in minute detail, without using mydriatics to dilate the pupils

## Financial calendar and contacts

Date	Financial year 2005/2006
13 December 2006	Publication of the Annual Financial Statements 2005/2006
13 December 2006	Analysts' Conference, Frankfurt am Main

Datum	Financial year 2006/2007
14 February 2007	3 Month Report
14 February 2007	Telephone Conference
March 2007	Annual General Meeting
15 May 2007	6 Month Report
15 May 2007	Analysts' Conference Frankfurt am Main
14 August 2007	9 Month Report
14 August 2007	Telephone Conference
12 December 2007	Publication of the Annual Financial Statements 2006/2007
12 December 2007	Analysts' Conference, Frankfurt am Main

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The 9 Month Report 2005/2006 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](http://www.meditec.zeiss.com/ir)

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