

# Annual Report 2001/2002



CARL ZEISS MEDITEC

**Financial statements of  
Carl Zeiss Meditec AG, Jena  
(HGB)**



<b>Management report</b>	<i>118</i>
A Introduction	<i>118</i>
B Content and structure of the individual financial statements	<i>118</i>
C Course of business	<i>119</i>
D Business position	<i>127</i>
E Risks in future development	<i>131</i>
F Research and development	<i>135</i>
G Events after the balance-sheet date	<i>136</i>
H Outlook	<i>136</i>
I Final declaration to the dependency report	<i>138</i>
<b>Income statement (HGB)</b>	<i>139</i>
<b>Balance sheet (HGB)</b>	<i>140</i>
<b>Fixed-asset movement schedule (gross presentation) (HGB)</b>	<i>142</i>
<b>Notes for the 2001/2002 financial year (HGB)</b>	<i>144</i>
<b>Independent Auditors' Report</b>	<i>163</i>



# Management report

## A Introduction

Carl Zeiss Meditec AG, Jena, ('Carl Zeiss Meditec', 'the Company') was created through the merger of Carl Zeiss Ophthalmic Systems AG, Jena, ('Carl Zeiss Ophthalmic') with the publicly-listed Asclepion-Meditec AG, Jena, ('Asclepion'). The former Carl Zeiss Ophthalmic comprised the Ophthalmology business division of Carl Zeiss Jena GmbH in Jena (Germany) and its subsidiary Carl Zeiss Ophthalmic Systems, Inc. in Dublin, California (USA).

Carl Zeiss Meditec develops, manufactures and sells products and systems in the field of ophthalmology. Furthermore, the Company provides service for diagnostic and therapy in this area of medical technology. The most important business unit is 'Vision', where the ophthalmic activities of Carl Zeiss Meditec are brought together. In particular in this area the activities of Asclepion and Carl Zeiss Ophthalmic are the ideal complement to one other. The merger rounds off the product portfolio of Carl Zeiss Ophthalmic in the field of laser systems for refractive surgery, one of the core competencies of Asclepion. Two other business units, Aesthetic and Dental, are concerned with medical applications for lasers.

According to Handelsgesetzbuch (German Commercial Code, referred to as HGB) the merger of Carl Zeiss Ophthalmic with Asclepion to form Carl Zeiss Meditec came into force with economic effect as of 1 October 2001.

## B Content and structure of the individual financial statements

Under German Commercial Code (HGB) the assuming legal entity, Asclepion, records the transfer of assets associated with the merger as a current business transaction in its accounts for the 2001/2002 financial year. The inventory and valuation of the assets recorded by Asclepion as an addition to its accounts were determined following the final balance sheet of the transferring legal entity, Carl Zeiss Ophthalmic, as of 30 September 2001. Comparisons of the figures in the financial statements (HGB) of the Company with the previous year are only meaningful to a limited degree as the figures for Carl Zeiss Meditec for the 2001/2002 financial year are being compared with those of Asclepion in the previous year (2000/2001 financial year).

## C Course of business

### C.1 Major markets

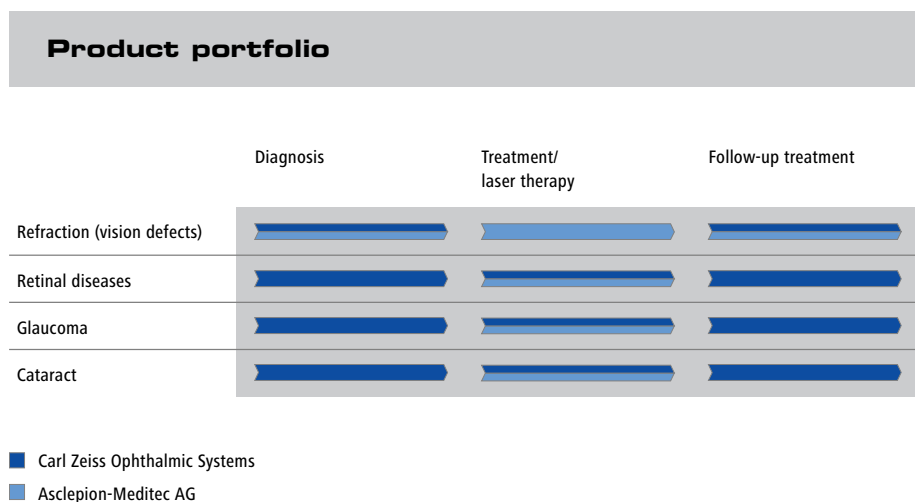
The Vision business unit is the company segment at Carl Zeiss Meditec with the highest turnover: a sales figure of € 97.016m has been posted in this segment in the reporting period. This represents 81% of total sales of Carl Zeiss Meditec. The ophthalmic products cover the four major ophthalmic disease clusters:

- **Refraction:** vision defects which can usually be corrected by glasses or contact lenses and which are increasingly being remedied using laser treatment.
- **Cataract:** an opacity and hardening of the lens which may culminate in blindness.
- **Glaucoma:** degeneration of the optic nerve which results in progressive reduction of the field of vision.
- **Retina:** diseases such as retinal detachment which result in loss of vision.

The value-added chain within the four disease clusters covers not only diagnosis, but also therapy and follow-up examinations.

Customer groups of the Company are ophthalmologists in eye clinics, eye specialists in private practice, optometrists, opticians and laser centres.

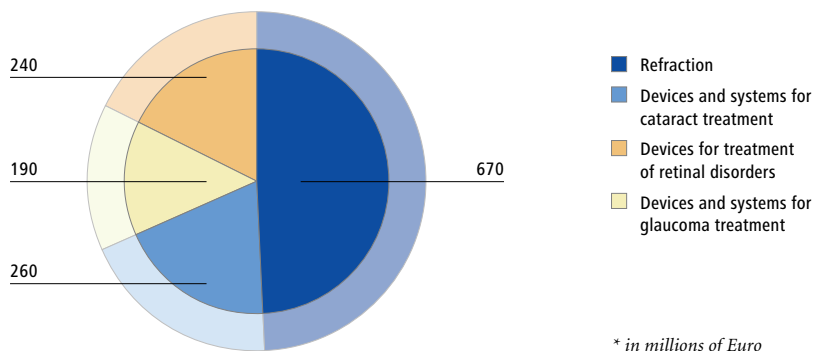
Carl Zeiss Meditec, which has been created through the merger, is excellently positioned on the market thanks to its extensive product portfolio in the field of devices and systems for ophthalmology, the size of this business and its global positioning. The following graphic shows how the product portfolios of Carl Zeiss Ophthalmic and Asclepion complement one another in the field of ophthalmology:



The market for ophthalmic devices and systems in which Carl Zeiss Meditec operates had, in the estimation of the management, a global volume of some € 1.4 billion in 2001.<sup>1</sup> It can – analogous to the four disease clusters in ophthalmology – be broken down into four sub-markets in which the Company markets its products.<sup>2</sup>

In the opinion of Carl Zeiss Meditec these sub-markets each have the following annual volumes:

### Annual market volume\*



In addition to its core ophthalmology business, Carl Zeiss Meditec also develops, produces and markets laser systems for other medical applications. These are primarily applications in the field of dermatology. These activities are amalgamated in the Aesthetic business unit. The Company offers various lasers for the hair removal (epilation), sclerosis of superficial blood vessels, skin ablation, and the removal of benign pigmentation and tattoos. The annual global market volume for laser devices in the field of medical-cosmetic applications is about € 450m.<sup>3</sup> Furthermore, the Company is active to a limited extent on the dental laser market. These activities are amalgamated in the Dental business unit. The corresponding annual market volume is estimated by the Company to be € 40m to € 60m worldwide.<sup>4</sup> Moreover, Carl Zeiss Meditec offers a global customer service to the operators of its devices and systems. These activities are amalgamated in the Service business unit.

<sup>1</sup> Own estimates, based on independent market reports and compulsory publications by publicly-listed competitors – and in particular relating to the sales segmentation. The market reports include: Theta Reports 2002, Millenium Research Group: 'U.S. Markets for Ophthalmic Devices 2002'; Global Industry Analysts, Ophthalmic Instrumentation - A Global Strategic Business Report', MarketScope, Nov 2001

<sup>2</sup> The following presentation covers products from Carl Zeiss Meditec as well as products from the American subsidiary Carl Zeiss Meditec, Inc., Dublin/USA, which are also marketed by Carl Zeiss Meditec. The latter's products are all devices and systems with the trade name Humphrey® and the system STRATUSOCT™. The economic development of Carl Zeiss Meditec, Inc. is not however part of the individual financial statements of Carl Zeiss Meditec to HGB.

<sup>3</sup> John Wheeler in OLE, February 2002, page 27ff and own estimates

<sup>4</sup> Own estimates

## **C.2 Framework conditions for economic development**

The economic framework conditions in the 2001/2002 financial year were difficult. The global economy has not yet recovered from the terror attacks of 11 September 2001 and there has been an increase in uncertainty over further economic developments. The reasons for this lie in the ongoing conflict with Iraq and the associated possible rise in oil prices, as well as the fall in prices on the stock markets. For the industrialised nations it is expected that in a year-on-year comparison, gross domestic product (GDP) will only see moderate growth this year – on a global scale this figure is 1.3%, in the eurozone only 0.8%.<sup>5</sup>

## **C.3 Industry-specific situation**

The competitive environment in ophthalmology has been shaped in the recent past by growth, intensive competition and a tangible consolidation process. This development has triggered two separate trends. The number of medical laser equipment manufacturers is declining due to mergers and acquisitions. Among the manufacturers of ophthalmic devices there is a trend towards expanding the technological basis and moving into new sales dimensions. The merger of Carl Zeiss Ophthalmic with Asclepion is to be seen against this strategic background.

## **C.4 Corporate situation**

### **C.4.1 Sales development**

In total the Company posted sales of € 119.278m in the 2001/2002 financial year (previous year: € 41.208m).

In Germany Carl Zeiss Meditec posted sales of € 25.841m in the reporting period (previous year: € 8.145m). The region with the strongest sales in the 2001/2002 financial year was Europe (without Germany) with a sum of € 47.341m (previous year: € 15.836m). In the Asia/Pacific region (including Africa) there were sales of € 27.336m in the 2001/2002 financial year (previous year: € 8.649m). Sales in the Americas in the 2001/2002 financial year were € 18.760m (previous year: € 8.578m).

<sup>5</sup> Weekly Report (Wochenbericht) 43/02 as of 18 October 2002 of the Deutsches Institut für Wirtschaftsforschung (DIW), Berlin

With regard to the individual business units, sales were distributed as follows:

Business unit	2000/2001 financial year (€ '000)	2001/2002 financial year (€ '000)		
		Total	thereof Jena-Lichtenhain site (former Ophthalmology division of Carl Zeiss Jena GmbH)	thereof Jena Göschwitz site (former Asclepion)
Vision	25,025	97,016	76,832	20,184
Aesthetic	10,892	10,370	0	10,370
Dental	795	2,143	0	2,143
Service	4,496	9,749	4,174	5,575
<b>Total</b>	<b>41,208</b>	<b>119,278</b>	<b>81,006</b>	<b>38,272</b>

Sales of the laser system VISULAS™ 532s (retina disease cluster) developed well. The major sales markets for this product alongside Germany were Japan and the USA. The laser system MEL 70 G-Scan™ (refraction disease cluster) made a clear contribution to the Company's overall sales. In this respect the major sales markets were Asia and Europe. An important contribution to sales was also made by the IOLMaster® and the VISULAS™ YAG II plus laser system (cataracts disease cluster). About half of the sales with both products were attained in the regional markets USA, Germany and Japan.

Despite the contribution which the MEL 70 G-Scan™ refractive laser made to the Company's overall sales, it was not possible to tap the full business potential in this area. Against the background of the forthcoming merger of Carl Zeiss Ophthalmic with Asclepion, and also because the successor to the main product in this division (MEL 70 G-Scan™), the new refractive laser system MEL 80™ was launched immediately after the conclusion of the 2001/2002 financial year, a number of distribution partners displayed a certain reservation in their marketing endeavours. However, this development shall be more than compensated in the future by the global distribution of Carl Zeiss Meditec AG, or rather by its access to the global distribution network of the Carl Zeiss Group.

#### **C.4.2 Orders on hand**

As of 30 September 2002 orders on hand at Carl Zeiss Meditec amounted to € 11.854m. Of this sum € 8.359m was accounted for by the products of the former Ophthalmology division of Carl Zeiss Jena GmbH and € 3.495m by the former Asclepion. Orders on hand as of 30 September 2001 amounted to € 5.682m.

#### **C.4.3 Production**

##### **a) Production planning and production**

In the 2001/2002 financial year the Company had two production sites, Jena-Lichtenhain and Jena-Göschwitz.

At the Jena-Lichtenhain site production planning is based on the 'rolling forecast' method used by the sales partners. This means that these draw up rolling sales plans which form the basis for the ordering of individual items and component manufacturing. The final assembly at the Jena-Lichtenhain site is performed exclusively to customer orders so as to keep stocks as low as possible. Such a manufacturing method is also planned for the site Jena-Göschwitz, yet has not been implemented in the 2001/2002 financial year.

##### **b) Development of manufacturing capacities**

Carl Zeiss Meditec compensates for fluctuations in demand by employing loaned staff. In the 2001/2002 financial year loaned employees were deployed at the Jena-Lichtenhain site. The development of the manufacturing capacities at the Jena-Göschwitz site was shaped by the preparation of production of the new refractive laser system MEL 80™. In this respect, capacity utilisation in the second half of the year was not always optimal.

##### **c) Quality management**

Official registrations and approvals are, in the meantime, demanded by the majority of markets as a prerequisite for the marketing of medical products. The quality management system of Carl Zeiss Meditec has been certified to DIN EN ISO 9001:2000 and DIN EN ISO 13485. The Company's quality management system has been approved in line with the requirements of the directive 93/42 EEC. The Company is subject to EU monitoring under Annex II and Annex V in accordance with the above-mentioned directive. Thus, in accordance with the Medical Product Act (Medizinproduktgesetz) Carl Zeiss Meditec is entitled to make the declaration of conformity for its products and market these within the European Union with the CE symbol. Carl Zeiss Meditec manufactures its products in conformity with the American standard for 'Good Manufacturing Practice' (GMP), 21 C.F.R. part 820, QSR.

#### d) Registrations and approvals

The Company's products are fundamentally aimed at the global market. For this reason, with new devices and systems right from the outset the construction methods, the parts used and the necessary interfaces are all chosen so that they may be used worldwide.

With the exception of refractive lasers, with which registrations and approvals take longer, and above all in the USA and Japan, all the Company's products have approvals in all the major countries.

The Company reserves the right, however, on smaller markets which place high demands on the approvals procedure to forego applying for these approvals in individual cases – and thus to forego the development of the market – so as not to have to reveal its know-how to external auditors.

#### e) Product launches

In the 2001/2002 financial year a number of new products were launched on the market.

- **VISULAS™ 532s:** This is a new, extraordinarily compact and transportable photo-coagulation laser for the treatment of retinal diseases.
- **Visucam™ lite:** Visucam™ lite was launched on the market in February 2002 and is a mid-segment fundus camera for private ophthalmologists. The device is fully digital and has an easy-to-use image archiving software.
- **MEL 80™:** This system was launched on the market shortly after the conclusion of the financial year (end of October 2002). In contrast to its predecessor, the MEL 70 G-Scan™, the new system is more compact and also much faster thanks to its higher pulse rate. The MEL 80™ is of significance for Carl Zeiss Meditec inasmuch as that it rounds off the product portfolio of what was formerly Carl Zeiss Ophthalmic (see C.1 Major markets).

#### **C.4.4 Procurement**

As under C.4.3 Production and products, a) Production planning and production, the final assembly of the products at the site in Jena-Lichtenhain is exclusively to customer orders so as to keep stocks as low as possible. Accordingly the release orders for the corresponding components from suppliers are placed one to two months before the production date. The same procurement policy will be applicable to the production at the Jena-Göschwitz site from the 2002/2003 financial year onwards. The Company attaches great significance to long-term partnerships with its suppliers.

#### **C.4.5 Investments**

The Company's investments in the reporting period focused on office fittings and equipment.

As a result of the merger of Carl Zeiss Ophthalmic and Asclepion to form Carl Zeiss Meditec, investments in financial assets have decreased considerably over the previous year. In particular, thanks to the global positioning of Carl Zeiss Meditec, no major priority is being attached to investments in the development of distribution channels. The Company ensures its global sales coverage through subsidiaries and through access to the global sales channels of the Carl Zeiss Group.

#### **C.4.6 Financing**

The liquidity of Carl Zeiss Meditec continues to be guaranteed by existing credit lines and through integration of the Company into the group cash management of the Carl Zeiss Group. The inclusion of the entire Company came about with the coming into effect of the merger as of 4 July 2002; prior to this it had only applied to the Ophthalmology division of Carl Zeiss Jena GmbH.

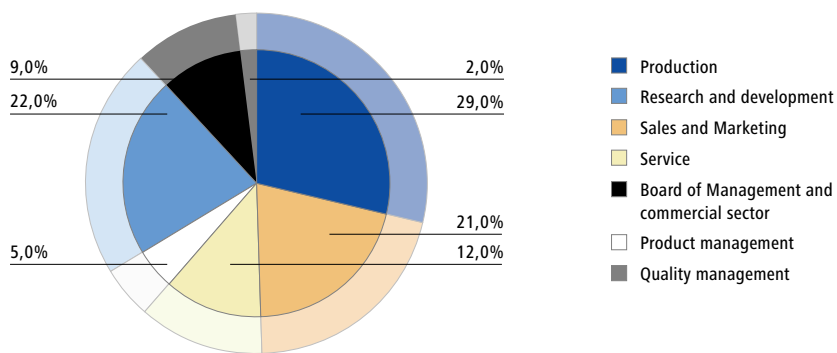
The main feature of the Company's financial management is that in its financing it avails to the greatest-possible degree of its own funds or of the group cash management of the Carl Zeiss Group. Accordingly there were no liabilities of Carl Zeiss Meditec due to banks in the reporting period, but exclusively liabilities due to the Treasury of the Carl Zeiss Group.

#### C.4.7 Personnel

As of 30 September 2002 the Company had 362 employees plus 26 trainees. The corresponding number for the previous year was 196 employees plus 13 trainees.

The following graphic provides an overview of the personnel structure at Carl Zeiss Meditec AG, Jena, as of 30 September 2002.

#### Personnel structure at Carl Zeiss Meditec



#### C.4.8 Environmental protection

Within the framework of its business activity the Company complies with all the relevant environmental protection provisions.

There is no direct or indirect risk to the environment from the Company's products or production methods.

## **D Business position**

### **D.1 Net worth**

The balance-sheet total under German Commercial Code (HGB) of Carl Zeiss Meditec as of 30 September 2002 amounts to € 190.897m. In a year-on-year comparison, and thus with the balance-sheet total of Asclepion, this corresponds to an increase of 164%.

As a result of the merger, the structure of the assets on the balance sheet has changed considerably. In particular the financial assets have increased considerably, to € 122.226m, with the inclusion of the shareholding in Carl Zeiss Ophthalmic Systems, Inc., Dublin/USA at market value. In the 2001/2002 financial year they amounted to 64% of the balance-sheet total, and to 30% in the previous year.

The opposite effect was seen in the 2001/2002 financial year with the unscheduled depreciation of the financial assets of Asclepion to the amount of € 14.137m. This depreciation had become necessary as a result of the ongoing losses at Carl Zeiss Meditec Ltd., Edinburgh/Scotland (formerly Asclepion-Meditec Ltd.) and at Asclepion-Meditec, Inc., Coto de Caza/USA, the strategic orientation of Carl Zeiss Meditec, which was created through the merger, and as a result of the insolvency of Asclepion's former co-operation partners and shareholdings.

The fixed assets as of 30 September 2002 were 66% of the balance-sheet total (previous year: 32%). The high levels for this asset structure ratio result from the contribution of the shares in Carl Zeiss Meditec, Inc., Dublin/USA, which is included in the balance-sheet item 'financial assets'.

Of the increase of € 12.280m in the net inventories to € 26.238m as of 30 September 2002 a sum of € 15.303m results from the inventories of Carl Zeiss Ophthalmic, which have been included in the annual financial statements for the first time ever. The inventories were reduced by the transfer to the assets of devices which have been transferred to customers on a long-term basis, as well as higher devaluations at Asclepion, which – as a result of the downturn in sales – were primarily performed for second-hand devices.

Compared to the previous year accounts receivable have – despite the additions from the merger – only risen by € 1.902m. This is due to much higher individual valuation adjustments at Asclepion performed to cover non-payment risks.

Accounts receivable from affiliated companies as of 30 September 2002 amounted to € 13.14m (previous year: € 4.492m). These are essentially accounts receivable from Asclepion-Meditec S.R.L., Milan/Italy to the amount of € 5.008m and from sales partners of the Carl Zeiss Group. All the accounts receivable have a term of less than one year, and are thus of short-term character.

In accordance with the resolution on the performance of the merger as adopted by the annual general meeting on 28 May 2002 the capital stock was increased from € 6.2m to € 25.833m. The capital reserves increased from € 63.08m as of 30 September 2001 to € 162.488m with the contribution of Carl Zeiss Ophthalmic in the course of the merger. Of particular significance in this respect is the subsidiary Carl Zeiss Ophthalmic Systems Inc., Dublin/USA.

The equity capital ratio of Carl Zeiss Meditec as of 30 September 2002 amounted to 82% (previous year: 86%).

In the reporting period Carl Zeiss Meditec had no liabilities due to banks. There were major liabilities to Treasury of the Carl Zeiss Group (€ 9.875m). Total liabilities in the 2001/2002 financial year were € 20.779m (previous year: € 4.866m). The ratio of liabilities to equity capital is approx. 1:8.

A detailed view of the net worth is given above all by a portrayal of the individual cover ratios.

Cover ratio A (equity capital as a ratio of fixed assets) amounted to 126% as of 30 September 2002 (previous year: 270%). Cover ratio B (equity capital plus long-term borrowed capital as a ratio of fixed assets) amounted to 126% as of 30 September 2002 (previous year: 270%). As of 30 September 2002 the cover ratio for medium-term and long-term tied assets (equity capital plus medium-term and long-term borrowed capital as a ratio of fixed assets plus accounts receivable with a term of more than one year) was 123% (previous year: 223%). In all cases there is sufficient equity capital coverage. Thus the net worth of the Company may be regarded as solid and viable in the long term.

## **D.2 Financial position**

As of 30 September 2002 the liquid funds amounted to € 3.392m, as of 30 September 2001 to € 9.870m. This reduction essentially results from the outflow of funds from operating activities to the amount of € 2.355m, from investing activities to the amount of € 0.895m and from financing activities to the amount of € 3.288m.

It has become clear that the net loss for the year of € 24.458m has only affected payments to a minor degree. This is due to the fact that the result for the year has essentially been caused by the amortisation of financial assets and the devaluation of accounts receivable, as well as by transfers to the provisions.

In the 2001/2002 financial year there were investments of € 0.801m in fixed assets and intangible fixed assets. The outflow of funds from financing activity results essentially from payments for the redemption of loans.

The financing of the Company continues to be guaranteed through integration of the Company into the group cash management of the Carl Zeiss Stiftung, Heidenheim an der Brenz/Jena.

### **D.3 Earnings position**

The gross result on sales as a ratio of sales at Carl Zeiss Meditec amounted to 33% in the 2001/2002 financial year, following on from 52% in the previous year. The change is due to a shift in the sales model of Carl Zeiss Meditec from that used by Asclepion.

The result of ordinary operations in the 2001/2002 financial year was -€ 24.520m (previous year: -€ 9.027m).

This development is essentially due to the following reasons:

- In the wake of the merger the necessary integration of the sales structures led to a delay in individual sales.
- Sales of the MEL 70 G-Scan™ was impacted by the forthcoming launch of the new refractive laser MEL 80™ at the end of the financial year, as well as the reticence towards its predecessor on the part of some of Asclepion's sales partners in view of the merger.
- The ratio of selling costs to sales has decreased from 40% in the previous year to 27% in the 2001/2002 financial year. This is due to the change in the sales structure at Carl Zeiss Meditec. Nevertheless, in the past financial year there were considerable one-off expenses. These arose in connection with the merger of Carl Zeiss Ophthalmic with Asclepion, and cover the devaluation of claims against the Asclepion subsidiaries Asclepion-Meditec, Inc., Coto de Caza/USA and Carl Zeiss Meditec Ltd., Edinburgh/Scotland. The increase in selling costs also results from an increase in individual valuation adjustment on accounts receivables performed to cover non-payment risks and from the return of devices sold last year.

- Furthermore, as the merger of the companies only became legally effective with its entry on the commercial register in the last quarter of the past financial year (on 4 July 2002) it has not yet been possible to realise savings on function costs in the past financial year to a notable degree.

Other operating income of € 5.226m (previous year: € 2.903m), which mainly resulted from the reversal of individual and lump-sum valuation adjustments, the release of provisions no longer required, currency gains, gain from the sale of the former Asclepion site at Floss i.d. Opf. and other operating expenses of € 2.396m (previous year: € 2.414m), influenced the operating result.

With a total of € -14.611m (previous year: € -5.753m), the amortisation of financial assets had the most significant impact on the result from ordinary activities for the 2001/2002 financial year. This amortisation includes depreciation and valuation adjustments which have already been communicated within the framework of the pro forma 9-month statements. These valuation adjustments had become necessary at Asclepion in the wake of the merger and as a result of the insolvency of debtors in the course of the financial year. The individual items affected were essentially:

- Amortisation of loans to the former Asclepion co-operation partners Icon Laser Eye Centers Inc. and their successor companies, and to U.S. Medical Inc., as well as a depreciation of the Asclepion shareholding in U.S. Medical Inc. with a total volume of € 5.482m
- Amortisation of loans to the Asclepion subsidiaries Carl Zeiss Ltd., Edinburgh/Scotland, and Asclepion-Meditec, Inc., Coto de Caza/USA, with a total sum of € 6.52m
- Depreciation of the value of a shareholding in the Asclepion subsidiaries Asclepion-Meditec Ltd., Edinburgh/Scotland with a total sum of € 2.135m.

The depreciation of the loans to the Asclepion subsidiaries Carl Zeiss Meditec Ltd., Edinburgh/Scotland, and Asclepion-Meditec, Inc., Coto de Caza/USA, as well as the depreciation on the book value of the shareholding Carl Zeiss Meditec Ltd., Edinburgh/Scotland, have arisen from the sustained negative development of the earnings position of these companies and the strategic orientation of Carl Zeiss Meditec, which was created through the merger of Carl Zeiss Ophthalmic with Asclepion. In Carl Zeiss Meditec, Inc., Dublin/USA the Company now has a subsidiary which is excellently positioned on the market. In Great Britain Carl Zeiss Meditec will avail of the successful sales channels of the Carl Zeiss Group.

Thus the net loss for the 2001/2002 financial year totals € 24.458m, following on from a net loss of € 8.324m in the previous year. Taking into account the loss-carryforward from the previous year, there is a balance-sheet loss of € 32.782m for the reporting period (previous year: € 8.324m).

## **E Risks in future development**

Within the framework of its operating activity (development, manufacture and marketing of devices and systems for diagnosis and treatment in ophthalmology as well as the development, manufacture and marketing of laser systems for dermatological and dental applications) Carl Zeiss Meditec is naturally exposed to a number of risks which are inseparably intertwined with the entrepreneurial activity.

### **a) Market and competition**

The market for medical technology products is a dynamic market. Among the factors affecting the dynamism of the market are the opportunities offered by new applications and methods, and the impact of new clinical findings. Such findings may have a negative impact on existing methods and products and also on new methods and products on which the business success of the Company is founded.

Competition on the market for medical technology will continue to increase; in this respect it is above all the impact of the changes to the social system by the government, especially in countries, in which the treatment of eye diseases is financed to a considerable extent by the health system which could have a negative effect on business developments and earnings position of the Company. If budgets were cut, or the reimbursement of treatment costs were withdrawn for certain types of treatment, this could have a negative impact on the net worth, financial position and earnings of the Company.

Additional uncertainty and potential risks arise from the ongoing weakness of the global economy. This could, above all, be noticeable in the field of privately-financed medical applications such as refractive surgery, and lead to a deterioration in the creditworthiness of our customers and to lost sales which could have a negative impact on the net worth, financial position and earnings of Carl Zeiss Meditec.

#### **b) Product cycles and dependency on suppliers**

Medical technology is seeing rapid development in many areas. New scientific findings lead to shorter development and product cycles.

The success of Carl Zeiss Meditec is determined to a great extent by the development of new, innovative products in the fields of ophthalmology and laser medicine and by recognising new technology trends at an early stage and turning these into appropriate products. Should the Company lose touch in technological terms, fail to react in time to a technological development, not identify a market trend in good time or should a development end in a technological dead-end, this could have a negative impact on the competitive position of the Company.

The ever-closer co-operation with suppliers in the wake of general cost pressure and the complexity of the constituent parts leads to new dependencies, which could have a negative impact on the production and sale of the Company's products, as well as on their quality.

#### **c) Patents and intellectual property**

The Company is not aware that it violates patent rights or other industrial property rights of any third parties. It cannot be excluded, however, that a third party might assert claims against the Company for the violation of industrial property rights. Such a violation could under certain circumstances cause delays in the delivery of products or, in the event of a court deciding against the company, oblige the Company to enter into agreements on fees and licence payments. Such copyright and license agreements could, under certain circumstances, only be available at unacceptable conditions. A law suit against the company due to the violation of industrial property rights could therefore have a considerable negative impact on the net worth, financial situation and earnings of the Company.

The competitive position of Carl Zeiss Meditec depends on securing its technological innovations. So as to guarantee these, the Company acquires patents for its own and third-party inventions and takes measures to protect its business secrets. The expiry of proprietary rights and patents could lead to new competitors entering the market or existing rivals gaining in strength.

**d) Approval of products**

In the medical technology and the health service sectors there are strict approval procedures; these vary greatly from country to country. If necessary approvals are not granted for the Company's products this can have a negative impact. There is no guarantee that the numerous registrations of the Company will continue to be valid in the future, nor renewed and attained in good time for new products. Furthermore, it cannot be excluded that the registration requirements will not become stricter in the future. This could reduce sales and the future growth of the Company, which would have a negative impact on the earnings of Carl Zeiss Meditec.

**e) Risk of product defects, product liability risk**

The products manufactured and marketed by Carl Zeiss Meditec are used for medical and cosmetic purposes with the effect that any erroneous functioning on the part of the devices could lead to patients and/or customers incurring injuries. Despite the use of all justifiable measures in quality control, sources of errors cannot be excluded in full. Although the Company has to date not been obliged to pay any important compensation claims arising from product liability, it cannot be excluded that it will not face such claims in the future. A particular risk is posed by potential product liability claims brought against the company in the USA as the damages awarded by the courts there may be very large indeed. It cannot be excluded that the existing insurance cover for the Company does not ensure sufficient cover for potential warranty claims in the USA.

**f) Risks arising from integration**

In order to obtain the full benefit of synergies from the merger of Carl Zeiss Ophthalmic Systems AG and Asclepion Meditec AG the new Company needs to integrate quickly and successfully numerous and hitherto largely separate activities such as procurement, research and development, logistics, marketing, sales and service. If this is not successful, or is only partially successful, it will only be possible to achieve the desired synergies to a limited extent or not at all, despite the efforts and costs involved in integration.

**g) Development of exchange rates**

Our global presence and distribution to virtually every country in the world leads to global supplier and buyer relationships involving payment flows in various different currencies. The purchase of goods and services is predominantly conducted in euro. One exception to this is the purchase of products by the American subsidiary Carl Zeiss Meditec, Inc., Dublin/USA, which are conducted in US dollars. Likewise deliveries to this subsidiary are also invoiced in US dollars. Any resulting fractions as well as larger claims against third parties in foreign currencies are recorded on a regular basis and hedged using suitable financial instruments such as forward currency transactions. This has already been the case to date with accounts receivable in foreign currencies.

**h) Subsidiaries**

Through its subsidiaries Carl Zeiss Meditec is indirectly exposed to the respective risk environment of the subsidiary. The relationships to our subsidiaries can lead to statutory and contractual liabilities.

In particular there is a potential risk regarding the book value of the shareholding Carl Zeiss Meditec, Inc., Dublin/USA, which was recorded at its fair value, in the event of a permanent deterioration in the net worth, earnings and financial position of this company.

In order to identify and appraise the stated risks in good time, and so as to counter the risks and comply with the Act on Control and Transparency in Stock Corporations (KonTraG), a uniform, pan-group risk management system has been launched in accordance with the regulations of the Carl Zeiss Group. The risk management system is an integral part of the entire controlling and reporting process and ensures the systematic recording, evaluation and communication of risks.

The essential features of the risk management system are:

- Retention of existing responsibilities and regular monitoring by a central 'Risk Manager'
- Risk identification and evaluation in risk matrices
- Risk reporting on the basis of given thresholds for relevant risks
- Initiation of measures to avoid and/or lower risks

## **F Research and development**

The expenses for research and development prior to grants, allowances and subsidies amounted to € 13.944m (previous year: € 7.847m). Taking into account these grants, in the 2001/2002 financial year the Company spent a sum of € 12.873m on research and development (previous year: € 6.746m). For the 2001/2002 financial year this corresponds to a ratio of 11% of sales (previous year: 16%).

One of the key research and development activities has been the conclusion of development work on the new, compact, portable VISULAS™ 532s coagulation laser. It can be used either in operating theatres or for outpatient treatment. With its globally unique VISULINK™ 532 slit lamp adapter it can easily be used with both Zeiss and Haag Streit slit lamps without the need to change any of the optics.

Of major significance in this field was the research and development work on the new MEL 80™ refractive laser system, which was presented to the public for the first time ever after the conclusion of the financial year at the American Academy of Ophthalmology (AAO) trade fair, which took place at the end of October 2002. In contrast to its predecessor, the MEL 70 G-Scan™, the new system is more compact and also much faster thanks to its higher pulse rate. The new refractive laser system is of significance for Carl Zeiss Meditec inasmuch as that it rounds off the product portfolio of what was formerly Carl Zeiss Ophthalmic.

The Company plays a major role in a number of inter-company future projects. To this end the global network and competence of the Carl Zeiss Group is used on an intensive basis. Thus Carl Zeiss Meditec is co-operating with other companies and institutes in a major alliance on a new process for the correction of vision defects with the aid of ultra short-pulsed lasers (femto-second lasers).

The Company's innovation pipeline is extremely well stocked with numerous other development and research projects. These projects range from minimally-invasive, intraocular operations, through extensive biometric and functional measurement of the eye, to complete diagnostics for the retina and the development project SaveDent/PAD in the Dental business unit has to be mentioned as well.

## **G Events after the balance-sheet date**

Immediately after the balance-sheet date, on 9 October 2002, the Company announced the launch of direct sales in Japan. Thus Carl Zeiss Meditec is also represented on the important Japanese market through its own subsidiary.

The subsidiary Carl Zeiss Meditec Ltd., Edinburgh/Scotland (formerly Asclepion-Meditec Ltd.), is to be re-structured; the corresponding valuation adjustments on the book value of the shareholding and the loans were conducted in the past financial year.

In Italy negotiations are currently being conducted on the optimisation of the sales structure and, where appropriate, on the merger of the subsidiary Asclepion-Meditec S.R.L., Milan/Italy with Carl Zeiss S.p.A., Arese, Milan/Italy.

Following the cut-off date the Company filed a lawsuit concerning the bulk of the 'Other loans', and in this respect has in advance performed the appropriate valuation adjustments.

## **H Outlook**

The market for medical technology products has not been left unaffected by the 'fragile state of the global economy'<sup>6</sup> and a number of deflationary factors. As a result of the rise in predatory competition, and above all at the expense of smaller providers, and on the basis of new products, the Company expects the sales figures in the field of diagnosis in the Vision business unit to rise further, with prices remaining relatively stable. Although the Laser division (including refractive surgery) only expects a minor recovery for the 2002/2003 financial year, the new product MEL 80™ holds the promise of an improvement in market shares in those countries for which approval has been received in the 2002/2003 financial year. The Company assumes that in the 2002/2003 financial year, and also in the years thereafter, the Vision business unit will make a significant contribution to the further improvement of the Company's earnings. Furthermore, the Company believes it is well positioned internationally thanks to the level of awareness of the 'Zeiss' brand and its global sales presence.

<sup>6</sup> Weekly Report (Wochenbericht) 43/02 as of 18 October 2002 of the Deutsches Institut für Wirtschaftsforschung (DIW), Berlin

Considerable competitive pressure is to be expected in the Aesthetic and Dental divisions in the coming financial year. However both divisions should stabilise thanks to the streamlining of their existing product portfolios and their excellent technology positions.

The general economic data have also impacted on the expected earnings at Carl Zeiss Meditec. Thus for the 2002/2003 financial year the Company assumes that this year's turnover and sales can be surpassed. At the same time, attaining the earnings targets requires decisive measures to reduce costs, as well as an increase in sales activities. The Vision business unit, and above all with refractive systems, will have the greatest percentage growth. All in all the Company expects positive net income for the 2002/2003 financial year.

The seven-point plan presented at the end of the 2002 financial year is being implemented as scheduled. A number of successes have already been attained. These include the market launch of two new products, one of which is the refractive laser MEL 80™; the bundling of activities in the field of research and development; as well as the integration of refractive laser systems into the direct sales activities of Carl Zeiss Meditec and the sales channels of the Carl Zeiss Group for major markets. Among the next milestones are the commencement of the approvals procedure for refractive lasers in the USA and Japan; the conclusion of the integration by 31 December 2002; the establishment of viable business models in the Aesthetic and Dental divisions by the end of the second quarter of the 2002/2003 business year; and the complete adoption of the German Corporate Governance Codex on the general meeting of Carl Zeiss Meditec AG on 12 March 2003.

## **I Final declaration to the dependency report**

### **Declaration by the Management Board to Art. 312 Section 3 AktG**

Carl Zeiss Meditec AG as a member of the Carl Zeiss Group has prepared a dependency report in accordance with Art. 312 German Stock Corporation Act (AktG). Under the circumstances known to the board of management at the point in time the transactions were concluded, the companies of Carl Zeiss Meditec AG group received a suitable counter-service for each of the transactions listed in this report on relationships to affiliated companies and were not disadvantaged by any of the measures adopted as stated in this report or by their omission.

Jena, 02 December 2002

Carl Zeiss Meditec AG

Ulrich Krauss  
President and CEO

Bernd Hirsch  
Member of the  
Board of Management

Dr Walter-Gerhard Wrobel  
Member of the  
Board of Management

# Carl Zeiss Meditec AG, Jena

## Income statement for the financial years 2000/2001 and 2001/2002

(in € '000)	2000/2001		2001/2002	
1. Sales revenues		41,208		119,278
2. Cost of revenues		-19,598		-80,209
3. Gross profit		21,610		39,069
4. Selling and marketing expenses		-16,567		-32,121
5. General and administrative expenses		-3,513		-7,047
6. Research and development expenses minus government grants received	-7,847 1,101	-6,746	-13,944 1,071	-12,873
7. Other operating income		2,903		5,226
8. Other operating expenses		-2,414		-2,396
9. Operating interest and similiar income thereof from affiliated companies € 0,561m (previous year: € 0,523m)		1,464		779
10. Amortisation of financial assets – thereof due to affiliated companies € 0,525m (previous year: € 0m)		-5,753		-14,611
11. Interest and similiar expenses		-11		-546
12. Result from ordinary activities		-9,027		-24,520
13. Taxes on income and earnings		709		78
14. Other taxes		-6		-16
15. Net loss		-8,324		-24,458
16. Accumulated losses brought forward				-8,324
17. Accumulated deficit		-8,324		-32,782

# Carl Zeiss Meditec AG, Jena

## Balance sheet as of 30 September 2002

(in € '000)	30.09.2001		30.09.2002	
<b>Assets</b>				
<b>A. Fixed assets</b>				
I. Intangible fixed assets				
Concessions, industrial property rights and similar rights and assets including licenses for such rights and assets	15			46
II. Property, plant and equipment				
1. Land and leasehold rights and buildings	593		7	
2. Plant and machinery	25		61	
3. Other fixtures and fittings, tools and equipment	794	1,412	2,666	2,734
III. Financial assets				
1. Shares in affiliated companies	2,435		116,182	
2. Loans to affiliated companies	8,099		1,023	
3. Investments	1,295		129	
4. Other loans	9,923	21,752	4,892	122,226
		23,179		125,006
<b>B. Current assets</b>				
I. Inventories				
1. Raw materials and supplies	3,200		8,943	
2. Work in progress	1,044		4,767	
3. Finished goods and goods for resale	9,714	13,958	12,528	26,238
II. Accounts receivable and other assets				
1. Trade accounts receivable – thereof with a term of more than one year: € 2.905m (2001: € 4.826m)	18,242		20,144	
2. Accounts receivable due from affiliated companies – thereof with a term of more than one year: € 0 (2000: € 0)	4,492		13,140	
3. Accounts receivable due from companies to which the company is linked by virtue of participation	0		44	
4. Other assets	2,498	25,232	2,652	35,980
III. Cash on hand and cash in banking accounts		9,870		3,392
		49,060		65,610
<b>C. Prepayments and accrued income</b>		140		281
		72,379		190,897

(in € '000)	30.09.2001		30.09.2002	
<b>Liabilities</b>				
<b>A. Shareholders' equity</b>				
I. Share capital	6,200		25,833	
II. Additional paid-in capital	63,080		162,488	
<b>III. Retained earnings</b>				
Other retained earnings	1,558		1,558	
IV. Accumulated deficit	-8,324	62,514	-32,782	157,097
<b>B. Accrued expenses</b>				
1. Provisions for pensions and similiar obligations	0		735	
2. Provisions for taxation	20		70	
3. Other provisions	4,689	4,709	11,720	12,525
<b>C. Liabilities</b>				
1. Advances from customers	0		43	
2. Trade accounts payable thereof with a term of up to one year: € 3,245m (2001: € 1,227m)	1,227		3,245	
3. Due to affiliated companies thereof with a term of up to one year: € 13,946m (2001: € 0,464m)	529		13,977	
4. Other liabilities	3,110		3,514	
thereof with a term of up to one year: € 3,514m (2001: € 3,110m)				
thereof from taxes: € 0,394m (2001: € 0,161m)				
thereof from social security: € 0,470m (2001: € 0,217m)		4,866		20,779
D. Deferred income		290		496
		<b>72,379</b>		<b>190,897</b>

## Fixed-asset movement schedule (gross presentation)

(in € '000)	Purchase/manufacturing cost					
	01.10.2001	Additions/ disposals through merger	Additions	Transfers (+/-)	Disposals	30.09.2002
<b>Intangible fixed assets</b>						
Software and patent	460	223	28		0	711
<b>Fixed assets</b>						
Land and leasehold rights and buildings including buildings on third-party land	704				688	15
Plant and machinery	55	93	16		3	161
Other fixtures and fittings, tools and equipment	2,525	2,867	2,369	58	467	7,352
Payments on account and tangible assets in course of construction		58		-58		
	<b>3,284</b>	<b>3,018</b>	<b>2,385</b>	<b>0</b>	<b>1,158</b>	<b>7,529</b>
<b>Financial assets</b>						
Shares in affiliated companies	2,435	115,882				118,317
Loans to affiliated companies	8,099		609		1,166	7,542
Investments	4,797					4,797
Loans to undertakings to which the company is linked by virtue of participation						0
Other loans	12,347	20	597		1,031	11,933
Advance payments on investments						0
	<b>27,678</b>	<b>115,902</b>	<b>1,206</b>	<b>0</b>	<b>2,197</b>	<b>142,589</b>
	<b>31,422</b>	<b>119,143</b>	<b>3,619</b>	<b>0</b>	<b>3,355</b>	<b>150,829</b>

Cumulated depreciation					Residual book value		
02.10.2005	Additions/ disposals through merger	Depreciation in FY	Disposals	Write-ups	30.09.2002	01.10.2001	30.09.2002
445	194	26			665	15	46
111		7	109		9	593	7
30	52	21	3		100	25	61
1,731	2,507	891	443		4,686	794	2,666
						0	0
1,872	2,559	919	555	0	4,795	1,412	2,734
		2,135			2,135	2,435	116,182
		6,519			6,519	8,099	1,023
3,502		1,166			4,668	1,295	129
					0	0	0
2,424		4,791	20	154	7,041	9,923	4,892
					0	0	0
5,926	0	14,611	20	154	20,363	21,752	122,226
8,243	2,753	15,556	575	154	25,823	125,006	23,179

# Notes for the 2001/2002 financial year (HGB)

## I. General information and notes to the financial statements

### I. 1. Foundation, stock exchange listing

Carl Zeiss Meditec AG ('Carl Zeiss Meditec' or the 'Company') was founded on 4 October 1995 as Aesculap-Meditec GmbH with its head office in Jena within the scope of a joint-venture based on nominal capital of € 51,000 (DM 100,000). The partners were:

- |                                    |                      |
|------------------------------------|----------------------|
| • AESCULAP AG & Co. KG, Tuttlingen | € 31,000 (DM 60,000) |
| • JENOPTIK AG, Jena                | € 20,000 (DM 40,000) |

On 10 November 1999 Aesculap-Meditec GmbH was transformed into a stock corporation and from this date onwards it bore the name Asclepion-Meditec AG ('Asclepion'). The Company went public on 22 March 2000 and was listed on the Neuer Markt at the Frankfurt Stock Exchange.

The initial public offering generated € 58.466m (gross € 63.8m) for Asclepion.

### I.2 Merger of Asclepion-Meditec AG with Carl Zeiss Ophthalmic Systems AG to form Carl Zeiss Meditec AG

Pursuant to the Merger Agreement dated 15 April 2002 between Asclepion and Carl Zeiss Ophthalmic Systems AG ('Carl Zeiss Ophthalmic') the resolution of the general meeting of Carl Zeiss Ophthalmic on 21 May 2002 and the approving resolution of the general meeting on 28 May 2002 of Asclepion, Carl Zeiss Ophthalmic conveyed its assets in their entirety, together with all rights and obligations, by dissolution without winding up under the terms of Art. 2 No. 1 Transformation Act to Asclepion in exchange for the granting of Asclepion shares to the shareholders of Carl Zeiss Ophthalmic (merger through assumption). The inter partes acquisition of the assets of Carl Zeiss Ophthalmic by Asclepion shall become effective on 1 October 2001.

For the purpose of effecting the merger with Carl Zeiss Ophthalmic the ordinary general meeting of Asclepion adopted a resolution on 28 May 2002 to increase the share capital of Asclepion by € 19.633m from € 6.2m to € 25.833m, divided into 25,833,300 no-par-value bearer shares. The increase of the share capital has been completed. The new shares (19,633,300 shares) are endowed with full dividend rights as of 1 October 2001.

At the same time approval was given at the shareholders' meeting to the name change from 'Asclepion-Meditec AG' to 'Carl Zeiss Meditec AG' and to the following revised text of its business purpose:

"The business purpose of the Company is to develop, manufacture and sell medical technology products and systems for diagnosis and therapy, especially in the field of ophthalmology, plus provide accompanying services."

The merger became effective on the day it was recorded in the commercial register of Gera Local Court on 4 July 2002.

### **I. 3. Development of share capital and capital reserves in the 2001/2002 financial year**

Total share capital rose from € 6.2m (30 September 2001) to € 25.833m due to the capital increase of € 19.633m on 30 September 2002.

Capital reserves of € 63.080m (30 September 2001) were increased by € 99.408m in the course of the merger to a total of € 162.488m.

The book value of other revenue reserves on 30 September 2002 remained unchanged at € 1.558m.

Due to the loss in the 2001/2002 financial year the balance sheet loss of €8.324m carried forward to 30 September 2001 increased from € 24.458m to € 32.782m. Shareholders' equity as disclosed on 30 September 2002 thus amounted to € 157.097m.

Following a resolution of the extraordinary general meeting of 10 March 2000 as recorded in the commercial register at the Gera local court on 14 March 2000 the share capital was increased by up to € 400,000 (contingent capital). The contingent capital increase serves to grant subscription rights to the holders of stock options issued by the Company on the basis of the authorisation granted by the general meeting on 10 March 2000. The contingent capital increase is utilised to the extent to which use is made of the subscription rights. The new shares are endowed with dividend rights with effect from the beginning of the financial year in which they are created through the exercising of the subscription rights.

No shares were subscribed from the contingent capital.

Furthermore, the general meeting resolved to eliminate the authorised capital of € 1.7m and empower the Management Board to increase the share capital by up to € 12.917m for a period of five years from the date of recording of the amendment of the articles of association in the commercial register at the Gera local court on 31 July 2002 by issuing 12,916,650 new no-par value bearer shares.

Following this resolution of the general meeting on 28 May 2002 the Management Board is authorised, with the consent of the Supervisory Board, to exclude the subscription rights of the shareholders. The exclusion of the subscription rights of the shareholders is only possible in the following cases:

- if the shares are issued to purchase non-cash contributions, especially companies, stakes in companies or parts of companies;
- to balance out fractional amounts;
- if the shares are issued at a price which is not significantly below the market price and the exclusion of subscription rights only relates to new shares, the theoretical share of the company's share capital of which does not exceed 10% of the share capital at the time of the authorisation taking effect by being recorded in the commercial register, i.e. € 2.583m.

#### **I. 4. Annual financial statements to HGB, consolidated financial statements**

The annual financial statements and the management report of Carl Zeiss Meditec AG for the financial year ending on 30 September 2002 have been prepared for the first time in € '000 in accordance with the provisions of Art. 264 et seq. of the German Commercial Code (Handelsgesetzbuch, HGB). The previous year's figures were converted at the official rate of DM 1.95583 = € 1.00.

Due to the merger of the former Asclepion and the former Carl Zeiss Ophthalmic which became effective on 1 October 2001, the figures for the 2001/2002 financial year relate to the business activities of both formerly independent companies which are now combined under the new company Carl Zeiss Meditec. Since they only relate to the former Asclepion the figures shown for the previous year 2000/2001 are only partly comparable to those of the 2001/2002 financial year.

The Company's annual financial statements are to be incorporated in the consolidated financial statements of the Carl Zeiss Stiftung, Heidenheim an der Brenz and Jena. The consolidated financial statements of the Carl Zeiss Stiftung will be published in the Federal Gazette (Bundesanzeiger) and deposited with the commercial registers at the Heidenheim an der Brenz and Gera local courts.

Furthermore, the Company will prepare its consolidated financial statements according to US Generally Accepted Accounting Principles (US GAAP).

### **I. 5. Exchange rate of DM for Euro**

The Company used the official conversion rate € 1.00 = DM 1.95583.

## **II. Details and comments on accounting and valuation methods**

### **II. 1. Fixed assets**

#### **II. 1. a) Intangible fixed assets**

The intangible assets capitalised at acquisition costs have been depreciated by the straight-line method pro rata temporis for their respective useful life (three years for software and five years for patents).

Accruals from to the merger were carried at their net book value and depreciated over the residual term.

#### **II. 1. b) Property, plant and equipment**

Accruals are carried at the acquisition cost. Disposals are booked at acquisition costs minus accumulated depreciation at the time of their retirement.

The Company capitalised the transferred assets at their net book value.

Depreciation was calculated using the straight-line method on the basis of anticipated useful life. In contrast to Asclepion, at the former Carl Zeiss Ophthalmic depreciation on movable assets of property, plant and equipment was calculated by the sliding-scale method in conformance with fiscal provisions. A change was made from sliding-scale to linear depreciation as soon as this resulted in a higher amount of depreciation.

Depreciation on accruals in movable property in 2001/2002 was calculated by the former Asclepion pro rata temporis. At Carl Zeiss Ophthalmic additions of movable assets in the first half of the year are depreciated in full, additions in the second half of the year use half of the annual depreciation. In the following financial years – in conformance with the guidelines for group accounting of the Carl Zeiss Stiftung – the sliding-scale method of depreciation is to be used uniformly for all accruals in movable property.

The differing depreciation methods do not, however, have a significant effect on the Company's net worth, financial position and earnings.

Low-value assets are depreciated in full in the year of acquisition.

The new Tax Reduction Act limits sliding-scale depreciation on assets acquired or created after 31 December 2000 to twice the amount of linear depreciation and 20% of the current book value (new inventory). Existing inventory continues to be evaluated by the sliding-scale method at a maximum of 30% or three times the linear depreciation. This change in depreciation method has little or no effect on net worth, financial position and earnings.

## II. 1. c) Financial assets

Shares in affiliated companies, loans to affiliated companies, holdings and other loans are shown at acquisition cost. Allowance was made for possible risks in the shareholding situation and loans in the form of reasonable depreciation.

## II. 2. Current assets

### II. 2. a) Inventories

Raw materials and supplies were valued at their acquisition cost or the lower market value.

Work in progress and finished goods were valued at manufacturing costs. These include the direct material costs, the direct manufacturing expenses, a suitable portion of the material and manufacturing overheads, as well as the pro rata value depreciation of the production assets. Inventory risks due to storage period or reduced marketability were taken into account by write-downs – in the case of the former Asclepion deductions for useful life and in the case of the former Carl Zeiss Ophthalmic a combination of lower-of-cost-or-market test, deductions for marketability and loss-free valuation. Both valuation methods produce similar results.

A lumpsum write-down of 25% is calculated on equipment loaned to customers.

The principle of loss-free valuation has been observed.

Trade goods and goods for sale were valued at acquisition costs or the lower market value on the cut-off date.

#### **II. 2. b) Accounts receivable and other assets**

Accounts receivable and other assets are stated at their nominal value. Recognisable individual risks are taken into account through the formation of suitable valuation allowances, the general credit risk from accounts receivable is covered by a general bad-debt allowance.

Outstanding debts with a residual term of over one year are discounted.

### **II. 3. Shareholders' equity**

#### **Share capital**

The subscribed capital is divided into 25,833,300 no-par-value shares, each representing a pro-rata amount of the share capital of € 1.00.

This is stated at the nominal value.

### **II. 4. Accrued expenses and liabilities**

#### **II. 4. a) Accrued expenses**

Provisions for pensions and similar obligations are valued at their actuarial cash value pursuant to Art. 6a EstG using the Heubeck Guideline Tables 1998 with an assumed rate of interest of 6%.

The formation of accrued expenses takes into account recognisable risks and uncertain liabilities. These are of an amount deemed necessary in accordance with prudent commercial judgement.

Accruals for employee-financed commitments (postponed remuneration) were equivalent to the asset values of the reinsurance at Gerling Lebensversicherungs-AG.

**II. 4. b) Liabilities**

Liabilities are stated at their individual repayment sum.

**II. 4. c) Foreign currency conversion**

Accounts receivable were converted at the acquisition exchange rate or at the lower conversion rate on the balance-sheet date or at the forward exchange rate/worst case with foreign exchange options respectively.

Liabilities were converted at the repayment exchange rate at the time of accrual of the liabilities or at the higher conversion rate on the balance-sheet date.

**III. Particulars of balance sheet items****III. 1. Fixed assets**

The development of individual fixed assets in the 2001/2002 financial year can be seen in the Appendix to these notes.

**III. 2. Current assets****III. 2. a) Inventories**

Inventories (€ 26.238m) include valuation allowances of € 6.337m.

**III. 2. b) Accounts receivable and other assets**

Accounts receivable on the balance-sheet date amounted to € 20.144m and included individual valuation adjustments and general bad-debt allowance of € 7.196m for doubtful debts.

The portion of accounts receivable with a residual term of over one year amounting to € 2.905m includes a discount of € 0.471m.

### III. 2. c) Accounts receivable from/liabilities due to affiliated parties

The balances disclosed mainly comprise sales and services as well as the debt to the corporate treasury of the Carl Zeiss Group.

### III. 2. d) Accounts receivable due from companies with which the Company is linked by virtue of participation

The disclosed receivable (€ 44,000) is a loan to a holding company.

### III. 2. d) Other assets

Other assets include for the main part claims due from

- Biolase Europe GmbH, Floss from the sale of the dependent operating facility at Floss/Oberpfalz (asset deal), (€ 1.347m),
- Inland Revenue Office for accrued sales tax (€ 0.533m),
- Thüringer Aufbaubank from R&D cost subsidies (€ 0.352m),
- Employees from pre-paid travel expenses (€ 0.156m).

The item includes outstanding debts of € 48,000 with a residual term in excess of one year.

### III. 2. e) Prepayments and accrued income

For the main part these consist of accrued holiday pay (€ 0.107m), prepaid rentals for exhibition stands (€ 58,000) and insurance premiums (€ 55,000).

## III. 3. Shareholders' equity

### III. 3. a) Share capital

Subsequent to the capital increase of € 19.633m, share capital now totals € 25.833m.

### III. 3. b) Additional paid-in capital

In the course of the merger the additional paid-in capital was increased by € 99.408m from € 63.080m to € 162.488m.

**III. 4. Accrued expenses****III. 4. a) Provisions for pensions and similar obligations:**

These provisions were formed for the Carl Zeiss Group's pension obligations pursuant to the Benefit Regulations 2000 and the Pension Regulations 1982. The actuarial report for the assessment of pension obligations as at 30 September 2002 was prepared by Dr Dr Heissmann AG, Wiesbaden.

The item also includes a provision for employee-financed commitments (postponed remuneration € 48,000).

**III. 4. b) Other provisions:**

These comprise in particular provisions for:

- Warranties (€ 2.023m),
- Special payments and commissions to employees (€ 1.738m),
- Licence obligations (€ 1.388m),
- Outstanding invoices (€ 1.378m),
- Provisions for restructuring programme (€1.027m),
- Partial retirement (€ 1.012m),
- Compensation for termination of an agency agreement (€ 0.639m),
- Residual leave obligations (€ 0.448m),
- Legal and consulting fees (€ 0.442m),
- Anniversary payments (€ 0.205m),
- Risks ensuing from the obligation to support victims of the flood of August 2002 based on the report to the respective medical association (€ 0.200m),

**III. 5. Liabilities****III. 5. a) Other liabilities**

Other liabilities mainly include dealer commissions (€ 2.503m), social security (€ 0.470m), income and church tax (€ 0.394m).

### III. 5. b) Deferred income

These mainly relate to deferred income for service and maintenance contracts (€ 0.283m) extending beyond the financial year.

### III. 6. Balance sheet notes pursuant to Art. 251 HGB

#### III. 6. a) Liabilities from the issue and transfer of notes (notes payable)

There are no notes payable as of the balance sheet date.

#### III. 6. b) Liabilities from guarantees and warranty agreements

As of 30 September 2002 obligations of € 5.453m exist from guarantees and warranty agreements, thereof € 1.529m due to affiliated parties.

#### III. 6. c) Other financial obligations

III. 6. c1) There are the following financial obligations from rental agreements:

(in € '000)	30.09.2002
Due 2002/2003	1.688
- thereof to affiliated companies: € 1.668m	
Due 2003/2004	1.688
- thereof to affiliated companies: € 1.668m	
Due 2004/2005	1.688
- thereof to affiliated companies: € 1.668m	
Due 2005/2006	1.688
- thereof to affiliated companies: € 1.668m	
Due between 2006 and 2019	9.776
- thereof to affiliated companies: € 9.776	
	16.528

Financial obligations ensuing from rental agreements essentially relate to a building and yard at Göschwitzer Strasse 51-52 rented from Asset Management Verwaltungsgesellschaft mbH, Jena, and production and office floor space rented from Carl Zeiss Jena GmbH, Jena, Carl-Zeiss-Promenade 10.

## III. 6. c2) The following financial obligations ensue from leasing and service agreements:

(in € '000)	30.09.2002
Due 2002/2003	431
- thereof to affiliated companies: ---	
Due 2003/2004	254
- thereof to affiliated companies: ---	
Due 2004/2005	86
- thereof to affiliated companies: ---	
Due 2005/2006	2
- thereof to affiliated companies: ---	
	<b>773</b>

The sums for leasing contracts were calculated using the earliest possible termination dates or the end of the contractual term.

## IV. Particulars of the income statement

### IV. 1. Layout of the income statement

The income statement was prepared using the operational format.

### IV. 2. Sales in the 2001/2002 financial year by region with figures for the previous year

(in € '000)	2000/2001	2001/2002
Germany	8,145	25,841
Europe, not including Germany	15,836	47,341
Asia / Pacific region*	8,649	27,336
America	8,578	18,760
	<b>41,208</b>	<b>119,278</b>

\*including Africa

#### IV. 3. Cost of materials in the 2001/2002 financial year with figures for the previous year

(in € '000)	2000/2001	2001/2002
a) Cost of raw materials, consumables and supplies, and of purchased goods	17,518	57,984
b) Cost of purchased services	1,735	16,255
	19,253	74,239

#### IV. 4. Personnel expenses in the 2001/2002 financial year with figures for the previous year

(in € '000)	2000/2001	2001/2002
a) Löhne und Gehälter	8,733	18,046
b) Soziale Abgaben und Aufwendungen für Altersversorgung und für Unterstützung –	1,346	3,023
<i>davon für Altersversorgung</i>	0	171
	10,079	21,069

#### IV. 5. Other operating income

Other operating income (€ 5.226m) comprises for the main part currency gains (€ 1.395m), revenue from the write-back of accrued expenses (€ 1.301m) and other income not related to the accounting period (€ 1.863m).

Other income not related to the accounting period (€ 1.863m) was due to the write-back of individual valuation allowances on trade accounts receivable (€ 0.579m), the write-back of general bad debt allowance (€ 0.357m) and other income not related to the period (€ 0.501m).

#### IV. 6. Other operating expenses

Other operating expenses (€ 2.396m) mainly comprises restructuring expenses (€ 1.192m), currency losses (€ 0.880m) and costs for currency option trading (€ 0.181m).

#### **IV. 7. Taxes on income and earnings**

The earnings tax proceeds of € 78,000 for corporation tax and solidarity surcharge result from an adjustment of the anticipated corporation tax/solidarity surcharge made in the reporting year for the 1999/2000 financial year.

### **V. Other details**

#### **V. 1. Details of existing equity interests in the Company**

In a letter dated 8 July 2002 the Carl Zeiss Stiftung, Oberkochen, notified the Company pursuant to Arts. 21 (1), 22 (1) Sentence 1 No. 1 WpHG that the portion of voting rights in the Company held by the Carl Zeiss Stiftung on 4 July 2002 had exceeded the threshold of 75% and now stood at 76%. This portion includes 38.76% and 37.24% of the voting rights which were respectively allocated to the Carl Zeiss Stiftung, Oberkochen, pursuant to Art. 22, para. 1, sentence 1, No. 1, para. 3 WpHG. The aforementioned 38.76% of the voting rights originate from Carl Zeiss Jena GmbH, Jena; the aforementioned 37.24% of the voting rights originate from Carl Zeiss Beteiligungs-GmbH, Oberkochen. The Carl Zeiss Stiftung does not hold a direct interest.

In a letter dated 12 July 2002 the Deutsche Effecten- und Wechsel-Beteiligungsgesellschaft AG (DEWB), Jena, notified the Company pursuant to Art. 21 para. 1 WpHG that DEWB AG had fallen below the 25% threshold in voting rights in the Company and that its share of total voting rights in the Company as of 4 July 2002 stood at 8.84%.

In a letter dated 15 July 2002 JENOPTIK AG, Jena notified the Company pursuant to Art. 21 para. 1 WpHG that JENOPTIK AG had fallen below the 5% threshold in voting rights in the Company and that its share of total voting rights in the Company since 27 June 2002 stood at 0.20% (rounded up/down).

The Company published these notices on its Website at [www.meditec.zeiss.com](http://www.meditec.zeiss.com) on 9 July 2002 (for Carl Zeiss Foundation, Oberkochen) and on 24 July 2002 (for Deutsche Effecten- und Wechsel-Beteiligungsgesellschaft AG, Jena and JENOPTIK AG, Jena) and submitted the proof of publishing without delay to the Federal Supervisory Office for Financial Services (BAFin), Frankfurt am Main.

## V. 2. Details on shareholdings

Name and domicile of the company	Currency	Capital	Share of voting capital %	Shareholders' equity 30.09.2002 translated at the rate on the balance sheet date	Thereof result for the 2001/2002 financial year at the mean annual rate
Carl Zeiss Meditec, Inc., Dublin/USA	USD '000	23,362	100	28,473	3,066
	€ '000	23,717		28,906	3,344
Asclepion-Meditec S.R.L., Milan/Italy	€ '000	290	100	-48	-531
Carl Zeiss Meditec, Ltd., Edinburgh/Scotland	GBP '000	1,041	100	-1,870	-2,747
	€ '000	1,653		-2,970	-4,397
Asclepion-Meditec, Inc., Coto de Caza/USA	USD '000	1	100	-382	-809
	€ '000	1		-388	-882
AM Asset Management Verwaltungsgesellschaft mbH, Jena/Germany	€ '000	25	100	695	940 <sup>1</sup>
DENFOTEX Ltd., Wynham/UK	GBP '000	0.4(*)	24.78	33(*)	1(*)
	€ '000	0.7(*)		52(*)	2(*)

<sup>1</sup> Result for the short financial year from 1 January to 30 September 2002

(\*) The figures stated for DENFOTEX Ltd. correspond to those shown

in the annual accounts available to the Company as of 31 October 2001.

AM Asset Management Verwaltungsgesellschaft mbH, Jena (AMAM), is a purpose-tied company for the construction and leasing of an office building with production facility at the Jena-Göschwitz location of Carl Zeiss Meditec AG. Carl Zeiss Meditec has leased the office building with production facility since 1 October 2001.

### V. 3. Details on the staff

#### V. 3. 1. Number of employees

The Company's annual average workforce in the 2001/2002 financial year totalled 368 persons, of which 22 were trainees. The annual average number of employees in the following areas were:

Number of employees	
Management Board	3
Production	106
Sales and Service	122
Administration and Quality Management	40
Research and Development	97
<b>Total</b>	<b>368</b>

On the balance sheet date, 30 September 2002, there were 362 employees plus 26 trainees.

#### V. 3. 2. Employee participation programme

The Management Board is authorised by the resolution adopted on the extraordinary shareholders' meeting on 10 March 2000, subject to the approval of the Supervisory Board, to issue in one or more tranches up to 400,000 option rights to purchase bearer shares in the Company from contingent capital to entitled employees and members of the Management Board of the former Asclepion Group – whose employment relationship has now passed over to the Carl Zeiss Meditec Group – within the framework of a stock option plan. Each option grants the right to buy one share in the Company at the "purchase price" (basic value).

The beneficiaries do not have to pay a fee for the option rights granted.

### V. 4. Details on the executive bodies of the Company

#### V. 4. 1. Management Board

The following persons were appointed to the Management Board in the 2001/2002 financial year and their names recorded in the commercial register:

- Dr rer. nat. Bernhard Seitz, Certified Chemist, Jena-Wogau, Chief Executive Officer, until 5 July 2002,

- Dr jur. Michael Dettelbacher, Certified Lawyer, Jena, Management Board member until 31 August 2002,
- Ulrich Krauss, M.B.A., banker, Essingen, board spokesman since 8 July 2002, responsible for Sales, Marketing, Service and Personnel,
- Bernd Hirsch, M.B.A., banker, Neuler, Management Board member since 8 July 2002, responsible for Finance, Investor Relations and Legal Affairs.
- Dr. rer. nat. Walter-Gerhard Wrobel, Physicist, Jena, Management Board member since 8 July 2002, responsible for Operations, Research and Development and Quality.

The appointment of Ulrich Krauss, Bernd Hirsch and Dr Walter-Gerhard Wrobel to the Management Board and the retirement of Dr Bernhard Seitz from the Management Board was recorded in the commercial register at the Gera local court on 18 September 2002.

The active members of the Management Board received a total remuneration of € 0.380m for the 2001/2002 financial year.

Salaries paid to retiring board members in the 2001/2002 financial year totalled € 0.599m.

#### **V. 4. 2. Supervisory Board**

On 1 October 2001 the Supervisory Board consisted of the following members:

- Alexander von Witzleben, Weimar, deputy chairman of the management board of Jenoptik AG, Jena.  
Chairman of the Supervisory Board;
- Prof. Dr Dr Dr Michael Ungethüm, Tuttlingen, CEO of Aesculap AG & Co. KG, Tuttlingen  
Deputy Chairman of the Supervisory Board
- Dr Nikolaus Reinhuber, lawyer, Leipzig  
Member of the Supervisory Board

At the proposal of the Supervisory Board and with effect from the date the amendment of the articles of association becomes effective, a resolution was passed at the annual general meeting on 28 May 2002 to expand the Supervisory Board by recording the names of the following additional members in the commercial register:

- Dr Michael Kaschke, Oberkochen, member of the management board of the Carl Zeiss Stiftung, Oberkochen
- Dr Franz-Ferdinand von Falkenhausen, Jena, member of the management of Carl Zeiss Jena GmbH, Jena,
- Dr Manfred Fritsch, Kleinpürschütz/Jena, member of the management of Carl Zeiss Jena GmbH, Jena.

The decision to amend Art. 12 (Chairman of the Supervisory Board and Deputy) of the articles of association was recorded in the commercial register at the Gera local court on 4 July 2002. Subsequent to the formal conclusion of the merger on 4 July 2002 the Supervisory Board was reformed:

- Dr Michael Kaschke, Oberkochen, member of the management board of the Carl Zeiss Stiftung, Oberkochen, Chairman of the Supervisory Board since 4 July 2002,  
Other mandates:  
Member of the supervisory board of Carl Zeiss Semiconductor Manufacturing Technologies AG, Oberkochen; chairman of the Board of Carl Zeiss Meditec, Inc., Dublin/USA; chairman of the Board of Carl Zeiss Optical, Inc., Chester/USA; chairman of the board of Carl Zeiss India Pte. Ltd., Bangalore/Singapore; chairman of the Board of Carl Zeiss Australia Ltd., Camperdown/Australia; chairman of the Board of Carl Zeiss Japan, Inc., Tokyo/Japan; chairman of the Board of Carl Zeiss Surgical, Inc., Thornwood/USA.
- Alexander von Witzleben, Weimar, deputy chairman of the management board of Jenoptik AG, Jena, Deputy Chairman of the Supervisory Board since 4 July 2002,  
Other mandates:  
Chairman of the supervisory board of Analytik Jena AG, Jena; chairman of the supervisory board of JENOPTIK Photonics AG, Jena; deputy chairman of the supervisory board of DEWB AG, Jena; member of the supervisory board of KRONE GmbH, Berlin; member of the supervisory board of Meissner+Wurst Zander Holding AG, Stuttgart, member of the supervisory board of VOGT electronic AG, Erlau.  
Member of the supervisory board of DRAGOCO Gerberding & Co. AG, Holzminden; member of the administrative board of FEINTOOL INTERNATIONAL HOLDING AG, Lyss, Switzerland.

- Dr Franz-Ferdinand von Falkenhausen, Jena, management spokesman of Carl Zeiss Jena GmbH, Jena, member of the Supervisory Board since 4 July 2002,

Other mandates:

Member of the supervisory board of Carl Zeiss Semiconductor Manufacturing Technologies AG, Oberkochen; member of the supervisory board of FC Carl Zeiss Jena, Jena; member of the board and first vice president of Ostthüringen Chamber of Commerce, Gera; chairman of the Board of Trustees of the Fraunhofer Institute Jena (IOF), Jena; member of the Board of Trustees of Innovent Jena e.V., Jena; chairman of the advisory board of Thüringer Aufbaubank, Erfurt; advisory board member of ZSP Geodätische System GmbH, Jena (Trimble Group); advisory board member of AJZ Engineering GmbH, Jena.

- Dr Manfred Fritsch, Kleinpüschütz/Jena, member of the management of Carl Zeiss Jena GmbH, Jena, member of the Supervisory Board since 4 July 2002,

Other mandates:

Member of the supervisory board of MAZet Mikroelektronik Anwendungszentrum Thüringen, Erfurt, Germany.

Prof Dr Dr Dr h.c. Michael Ungethüm and Dr Nikolaus Reinhuber, board members of the former Asclepion-Meditec AG, resigned on 4 and 8 July 2002 respectively.

As set forth in Art. 6 (Consequences of the merger for employees and their representatives) of the Merger Agreement of July 2002 between Asclepion-Meditec AG, Jena, and Carl Zeiss Ophthalmic Systems AG, Jena, the two vacant seats on the Supervisory Board were voluntarily filled from the ranks of the employees of the former Asclepion-Meditec AG and the Carl Zeiss Group.

By resolution of the registry court of the Gera local court dated 16 August 2002 at the request of the Management Board of Carl Zeiss Meditec AG, Jena, the following members were appointed by court to the Supervisory Board:

- Franz-Jörg Stündel, Jena  
Member of the Supervisory Board on behalf of the employees since 18 August 2002,  
no other mandates
- Jürgen Dömel, Jena,  
Member of the Supervisory Board on behalf of the employees since 18 August 2002,  
Other mandates:  
Member of the supervisory board of Carl Zeiss Jena GmbH, Jena

Salaries paid to retiring supervisory board members in the 2001/2002 financial year totalled € 34,000.

Salaries paid to active supervisory board members in the 2001/2002 financial year totalled € 14,000.

**V. 4. 3. Advances/Loans and contingent liabilities for the benefit of members of executive bodies**

No advances or loans have been granted to members of the executive bodies. The Company has not entered into any contingent liabilities in favour of members of the Management Board/Supervisory Board.

**VI. Appropriation of profit for the 2001/2002 financial year**

The 2001/2002 financial year closed with a net loss of € 24,457,520.37. The Management Board proposes that the total net loss be carried forward to new account.

Jena, 02 December 2002  
Carl Zeiss Meditec AG

Ulrich Krauss  
President and CEO

Bernd Hirsch  
Member of the  
Board of Management

Dr Walter-Gerhard Wrobel  
Member of the  
Board of Management

# Independent Auditors' Report

We have audited the annual financial statements, together with the bookkeeping system the management report of Carl Zeiss Meditec AG, Jena, for the business year from October 1, 2001 to September 30, 2002. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ['Handelsgesetzbuch: German Commercial Code'] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Berlin, December 2, 2002

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. Hasenburg  
German Public Auditor

Zoeger  
German Public Auditor