

**Financial statements of  
Carl Zeiss Meditec AG, Jena (HGB)**  
financial year 2003/2004



CARL ZEISS MEDITEC

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# Management report

## Executive summary

In the financial year 2003/2004 Carl Zeiss Meditec AG ("Carl Zeiss Meditec", the "Company") fulfilled further important prerequisites for a future acceleration in growth. Alongside an extensive improvement in the net worth, financial position and earnings in the period under review, considerable progress was made in the further optimisation of the organisational structure and the internal process flows.

Compared to the previous year sales improved by 5.9%, up from € 102.9 million to € 109.0 million. In terms of the products involved, clear sales impetus came from the refractive and ophthalmic laser systems. Sales with diagnostic systems also developed positively. Viewed regionally, the Company was successful to an above-average degree in Asia above all. Here it was possible to raise sales by 28.6% over the previous year, to € 29.9 million. In Europe (excluding Germany) an upturn on 4.3% in sales was also possible compared to the financial year 2002/2003.

The result from ordinary activities in the financial year 2003/2004 stood at € 13.8 million (previous year: € 4.3 million). Accordingly, the net income for the reporting period amounted to € 13.2 million (previous year: net loss € -0.2 million).

Cash and cash equivalents increased by € 13.8 million, to € 40.0 million as of 30 September 2004 from € 26.2 million in the previous year. Added to this are accounts receivable of € 11.5 million from group treasury of Carl Zeiss AG (previous year: € 4.9 million). Significant growth in the operative cash flow was the main reason for this development. In the reporting period cash flow from operating activities amounted to € 25.8 million (previous year: € 9.6 million). This figure was positively impacted by the increase in the net income for the year to € 13.2 million over the previous year. Major contributions to this were made by the improved operating performance of the Company as well as a dividend payment by the American subsidiary Carl Zeiss Meditec, Inc. to the amount of € 8.7 million. Moreover, the further optimisation of the management of accounts receivable and inventories increased the cash flow from operating activities by € 9.3 million in the period under review.

## Business report

### 1. Underlying conditions for economic development<sup>1</sup>

The powerful upturn that lasted until the spring of 2004 has since slowed down. Growth in the USA and China, in particular, has dropped off considerably. In both countries the reins have been pulled in on the expansive monetary policy that had been prevailing. In the USA financial policy moves to stimulate the economy have now run their course, and in China administrative measures have been taken to rein in the exuberant economy.<sup>2</sup>

The economic recovery in the euro-zone stabilised in the financial year 2003/2004. Thus, the gross domestic product in real terms rose to a greater degree in the first six months of 2004 than it had in the last six months of 2003. Although there were considerable differences between the individual EU member states with respect to the strength of growth and also its causes, on the whole it may be stated that the economic recovery in this region was fuelled to a greater degree by exports than by an increase in domestic demand.<sup>3</sup>

The recovery in the German economy – analogous to developments throughout the euro-zone – was reinforced in the period under review. Thus economic research institutes such as Deutsche Institut für Wirtschaftsforschung (“DIW”) regard “the ongoing stagnation which set in with the economic collapse in the year 2000”<sup>4</sup>, as having been overcome. The motor for growth is once again exports, however. Domestic demand – and here above all private and state spending – continue to stagnate. The reasons for this stagnating demand lie in rising energy prices and consumer uncertainty arising from the diverse reform plans, the majority of which are yet to be implemented.

Business activities in the regions are being dampened by the major rise in oil prices. Moreover, exports from the euro-zone have been burdened by a considerable rise in the value of the euro over the US dollar.

<sup>1</sup> Deutsches Institut für Wirtschaftsforschung (German Institute for Economic Research), Berlin (Publ.): *Weekly Report No. 43/2004 “The Situation of the Global and German Economies in Autumn 2004”, 21.10.2004, Berlin*

<sup>2</sup> Cf. *ibid.*, p. 629-637

<sup>3</sup> Cf. *ibid.*, p. 638ff

<sup>4</sup> *Ibid.*, p. 645

## 2. Sales trends

In the financial year 2003/2004 Carl Zeiss Meditec AG posted sales totalling € 109.0 million. This corresponds to an increase of 5.9% over the previous year (€ 102.9 million). With this comparison it is to be noted that in the previous year sales are still included from the two business units Aesthetic and Dental, which were sold as of 1 May 2003, for the period from 1 October 2002 to 30 April 2003. If these sales had been adjusted in the previous year, the growth in sales in the core business of the Company, ophthalmology, would have been even greater.

Sales in the Laser business unit rose considerably. In the reporting period sales of € 42.0 million were attained. This corresponds to an increase of 20.1% over the previous year (€ 34.9 million). Above all the positive sales development in the field of refractive lasers, i.e. in the field of lasers for the correction of vision defects, made a major contribution to this increase. The main focus of sales, in this respect, was on Europe and Asian growth regions such as China. Furthermore, business with the other laser systems also developed dynamically. The VISULAS™ 532s and the VISULAS™ 532s Combi for the treatment of retinal diseases and glaucoma were successful in Europe, above all. Moreover, sales with the VISULAS™ 690s system, which is used within the framework of a so-called photodynamic therapy in conjunction with the Novartis drug Visudyne® for the treatment of age-related macular degeneration (AMD), rose in Japan in the period under review. The foundations for this were laid by the granting of product approval by the Japanese Ministry of Health in December 2003 and the publication in June 2004 of the decision by this ministry to reimburse the costs for AMD treatments with the VISULAS™ 690s and Visudyne®.

In the Diagnostic business unit it was also possible to increase sales. Here sales amounted to € 58.7 million in the financial year 2003/2004. This corresponds to an increase of 4.9% over the previous year (€ 55.9 million). The mainstays of sales in this segment were the systems IOLMaster®, STRATUSOCT™, fundus cameras as well as the Humphrey® Field Analyzer. The most significant sales markets for the IOLMaster®, with which the eye can be measured contact-free and precisely prior to an operation for cataracts, were Europe and the USA. The development of European sales of the STRATUSOCT™ diagnostic system was likewise encouraging. The unique technology – optical coherence tomography – upon which this system is based enables the rendering of real-time, cross-section views of the neurofibril layers of the eye. In this way serious eye diseases like glaucoma and several retinal disorders can be diagnosed earlier than hitherto. Other important sales mainstays were the FF 450 and VISUCAM™ lite fundus cameras for precise examination of the fundus of the eye.

With an upturn of 7.6% over the previous year, sales at the Service business unit also developed positively. Sales of € 8.3 million (previous year: € 7.7 million) were posted for the period under review.<sup>5</sup> Sales by the Service division accounted for 7.6% (previous year: 7.5%) of the Company's total revenues. On the whole the development of sales in this division also followed the general positive trend.

Sales by business segment in the financial years 2003/2004 and 2002/2003 developed as summarised in Table 1.

Business unit	Financial year 2003/2004		Financial year 2002/2003		Change over previous year
	Sales	Percentage of sales	Sales	Percentage of sales	
Laser	41,955	38.5%	34,940	34.0%	20.1%
Diagnostics	58,671	53.9%	55,940	54.4%	4.9%
Other*	-	0.0%	4,243	4.1%	n.a.
Service	8,327	7.6%	7,737	7.5%	7.6%
<b>Total</b>	<b>108,953</b>	<b>100.0%</b>	<b>102,860</b>	<b>100.0%</b>	<b>5.9%</b>

Table 1:  
Sales by business segment in  
the financial years 2003/2004  
and 2002/2003  
(€ '000)

\* These are the Aesthetic and Dental business units which were sold to EL.EN S.P.A. and Quanta System S.P.A. with effect from 1 May 2003.

The distribution of sales by region in the period under review reflects the macro-economic trends shown in the section "1. Underlying conditions for economic development". The greatest impetus for sales came from the Asian region. In this region, sales rose by almost a third, to € 29.9 million (previous year: € 23.3 million). Moderate sales growth was attained in Europe, where the sales revenues increased by 4.3%, to € 43.3 million (previous year: € 41.5 million). Sales in the Americas region, which encompasses the USA above all, decreased by 7.0%, from € 19.6 million in the previous year to € 18.2 million. The main reason for this lies in the increase in the value of the euro over the US dollar. With a downturn of 5.2% over the previous year, sales in Germany have also fallen. In the reporting period these amounted to € 17.5 million (previous year: € 18.5 million).

<sup>5</sup> In this respect it is to be noted that sales revenues originally received last year in connection with the Aesthetic and Dental divisions, which were sold as of 1 May 2003, are now allocated to the business division "Other".

A comparison of the sales by region for the financial years 2003/2004 and 2002/2003 is to be found in Table 2.

Table 2:   
Sales by region in the  
financial years 2003/2004  
and 2002/2003  
  
(€ '000)

Region	Financial year 2003/2004		Financial year 2002/2003		Change over previous year
	Sales	Percentage of sale	Sales	Percentage of sale	
Germany	17,542	16.1%	18,508	18.0%	-5.2%
Europe (w/o Germany)	43,295	39.7%	41,510	40.4%	4.3%
Americas	18,191	16.7%	19,565	19.0%	-7.0%
Asia*	29,925	27.5%	23,277	22.6%	28.6%
<b>Total</b>	<b>108,953</b>	<b>100.0%</b>	<b>102,860</b>	<b>100.0%</b>	<b>5.9%</b>

\*including Africa

### 3. Orders on hand

Orders on hand increased by 21.4%, from € 7.0 million as of 30 September 2003 to € 8.5 million as of 30 September 2004. As in the previous year, the Company believes there is a continuing trend towards customers placing orders at short notice.

### 4. Production planning and production

Product manufacture at Carl Zeiss Meditec is focused on the assembly of system components. More than two thirds of the parts or components are purchased from external suppliers. The remaining third is divided equally between other members of the Carl Zeiss AG and the Company's own component manufacturing facilities.

The Company's core competencies embrace the development of new technologies, products and applications (see Research and Development Report) and the manufacture and assembly of key components.

In the financial year 2003/2004 the company further extended and optimised its production processes. Thus production lines for new products were established, and some of the production flows were reorganised. Furthermore, just-in-time assembly was established for the device platform of the majority of Carl Zeiss Meditec diagnostic systems, the so-called instrument cross stages. Moreover, the production processes were further optimised for those systems produced in large numbers.

Production planning is based on the rolling forecast method used by the sales partners. This method requires the latter to prepare a rolling sales forecast as a basis for ordering individual items and manufacturing components. For the purposes of restricting stock-keeping to a minimum, final assembly is usually performed to customer orders.

## **5. Development of manufacturing capacities**

Carl Zeiss Meditec compensates for fluctuations in demand by flexible deployment of production personnel. A prerequisite for this is the appropriate training system, by which the employees are qualified for work on the different production lines. Furthermore, working-hour accounts allow for the flexible deployment of personnel in accordance with the rolling forecasts.

## **6. Procurement**

As described under "4. Production planning and production", products are assembled almost exclusively to customer orders submitted. The purpose of this is to keep stocks as low as possible. Accordingly, the respective components are called up from suppliers shortly before the production date. Moreover, the Company made further progress in the optimisation of its inventories in the financial year 2003/2004. Thus, so-called consignment warehouses were established with other main suppliers. These are stock warehouses which are owned by the respective supplier and are integrated into the production process of the Company. The necessary components are called up as required and invoiced. Furthermore, the organisation of restocking for these warehouses is entirely in the hands of the suppliers. At the same time, this form of cooperation is testimony to the fact that Carl Zeiss Meditec has placed its confidence in long-term partnerships with its suppliers. Suppliers will be subject to regular qualification audits in order to ensure consistently high quality levels, and also with purchased components and parts.

## **7. Quality management**

Official registrations and approvals are demanded by the majority of markets as a prerequisite for the marketing of medical products.

Accordingly Carl Zeiss Meditec had had its individual sites registered with the responsible national agencies.

In order to successfully attain approvals the quality management system of Carl Zeiss Meditec is regularly audited and certified by DQS GmbH Deutsche Gesellschaft zur Zertifizierung von Managementsystemen in accordance with ISO 9001 & 13485, Appendix II & V of the Directive 93/42/EEC and the Canadian Medical Device Regulation (CMDR).

The quality management system of Carl Zeiss Meditec also conforms with the requirements of the U.S. legislation 21 C.F.R. part 820, Quality Systems Regulation.

Thus Carl Zeiss Meditec has fulfilled the fundamental prerequisites for marketing its CE products in the European Economic Area, North America, and those countries which have agreements with the European Union in the field of medical products.

## **8. Registrations and approvals**

The Company's products are always designed with global marketing in mind. For this reason, the design features, materials and components employed, as well as the interfaces of all devices and systems, are all chosen at the outset so that they can be used anywhere in the world.

With the exception of the refractive laser MEL 80™, for which the approval procedure in the USA and Japan is still pending, the complete range of products of Carl Zeiss Meditec AG has been approved in all the major countries of the world.

## **9. Personnel**

Carl Zeiss Meditec's workforce as of 30 September 2004 amounted to 282. In addition there were 21 trainees. The corresponding figures for the previous year were 284 employees, plus 24 trainees. Neither of the above figures takes account of partially retired employees.

On an annual average a total of 283 employees were employed by the Company in the financial year 2003/2004 (previous year: 325 employees). In addition, there were 22 trainees on average in the reporting period (previous year: 25 trainees). The decline in the average workforce was to a large extent attributable to the disposal of the Aesthetic and Dental business units as of 1 May 2003 and the related transfer of personnel who have been included proportionately in the calculation of average workforce for 2002/2003.

Figure 1 provides an overview of the personnel structure at Carl Zeiss Meditec as of 30 September 2004.

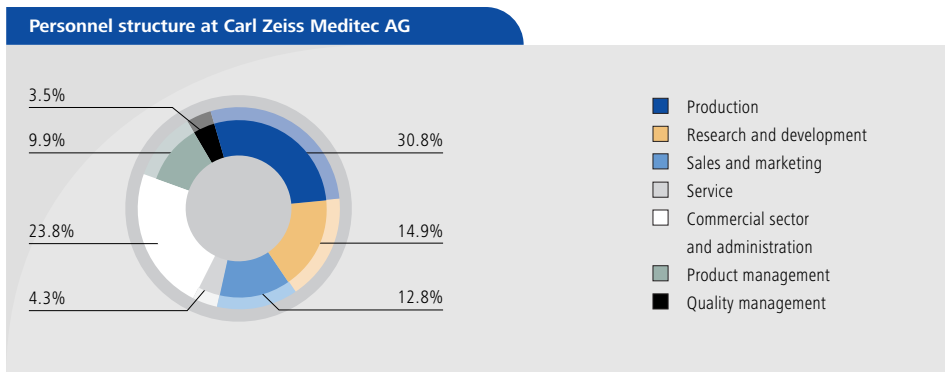


Figure 1:  
Personnel structure at  
Carl Zeiss Meditec AG, Jena,  
as of 30 September 2004

## 10. Environmental protection

Within the scope of its business activities, the Company complies with all the relevant environmental protection standards. The Company's products or production methods cause no direct or indirect risk to the environment.

## 11. Events of particular significance

On 17 December 2003 Carl Zeiss Meditec AG announced that the Company had acquired a 100% interest in its long-standing alliance partner hiko medical communication GmbH in Pirmasens. hiko medical communication GmbH has been trading as Carl Zeiss Meditec Systems GmbH since 29 June 2004.

Carl Zeiss Meditec Systems GmbH specialises in the development of medical software solutions, and under the name VISUPACT™ it markets a successful product that enables central filing and management of diagnostic and treatment data by eye specialists and clinics.

With the acquisition of this company, Carl Zeiss Meditec has taken a further major step in the implementation of its strategy. The Company secured the necessary resources and know-how, in order to be able to offer customers cross-platform software solutions for ophthalmic applications.

## 12. Net worth

### a) Presentation of net worth

Pursuant to commercial law the balance sheet total of Carl Zeiss Meditec as of 30 September 2004 stood at € 216.6 million. Compared to the previous year (€ 202.7 million) this constituted an increase of 6.9%. The increase in the balance sheet total is essentially due to an increase of € 13.8 million in cash and cash equivalents, and to the increase in the shares in affiliated companies resulting from the acquisition of hiko medical communication GmbH (cf. also Section "11. Events of particular significance"). This more than compensated for the various contracting effects on the assets side of the balance sheet. These are essentially:

- A significant reduction in trade accounts receivable due to further optimisation of collection management and a further risk provision for the possible loss of long-standing receivables: This balance sheet item decreased by more than one third, from € 13.3 million as of 30 September 2003 to € 8.8 million as of 30 September 2004.
- The reduction in the inventories essentially following a further corresponding improvement in stock management (cf. Sections "4. Production planning and production" and "6. Procurement"): The balance sheet item "Raw materials and supplies" was lowered by 19.5% over the previous year, from € 9.9 million to € 8.0 million. Furthermore, the "Finished goods and goods for re-sale" were lowered from € 8.9 million in the previous year to € 6.6 million as of 30 September 2004.
- The decrease in the item "Other loans": Carl Zeiss Meditec has reached an out-of-court settlement with I-Spire s.p.r.l., Brussels / Belgium and its sole proprietor. This settlement provides for the payment of the total amount shown in the balance sheet item "Other loans" by I-Spire s.p.r.l. in accordance with to a payment plan. Accordingly, this results in a reduction from € 2.8 million as of 30 September 2003 to € 1.3 million as of 30 September 2004.

Accounts receivable due from affiliated companies as of 30 September 2004 totalled € 19.5 million (previous year: € 13.7 million). These relate exclusively to accounts receivable from affiliates of the Carl Zeiss AG. When viewing this balance sheet item it has to be noted that this also includes the accounts receivable from the group treasury of the Carl Zeiss AG. As of 30 September 2004 the accounts receivable from the group treasury of the Carl Zeiss AG were € 11.5 million (30 September 2003: € 4.9 million). Other comments in this context are to be found under Section "13. Financial position".

With a share of 56.5% of the balance sheet total (previous year: 57.3%) the "Shares in affiliated undertakings" currently form the item of the largest value on the assets side. This item is the statement of the book values of the shares held by Carl Zeiss Meditec AG in its subsidiaries. Essentially these are Carl Zeiss Meditec Inc., Dublin, USA (shareholding book value: € 115.9 million), Carl Zeiss Meditec Systems GmbH, Pirmasens, Germany (shareholding book value: € 6.1 million) and Carl Zeiss Meditec Co., Ltd., Tokyo, Japan (shareholding book value: € 0.3 million).

The clear reduction in the "Other assets", from € 4.2 million as of 30 September 2003 to € 0.9 million as of the end of the reporting period, is essentially due to the complete settlement of the purchase price for the sold units, Aesthetic and Dental.

In a year-on-year comparison the major changes on the liabilities side of the balance sheet concern the items "Accumulated earnings" and "Trade accounts payable". Compared to the previous year the accumulated earnings essentially increased due to the payment of a cash dividend of € 8.7 million by the American subsidiary Carl Zeiss Meditec, Inc. to Carl Zeiss Meditec AG (cf. also Section "15. Earnings position"). "Trade accounts payable" essentially decreased due to their early settlement to avail of discounts; over the previous year they declined by 22.8%, from € 6.2 million to € 4.8 million.

The following figure 2 summarises the most important changes in the balance sheet structure as of 30 September 2004 and 2003.

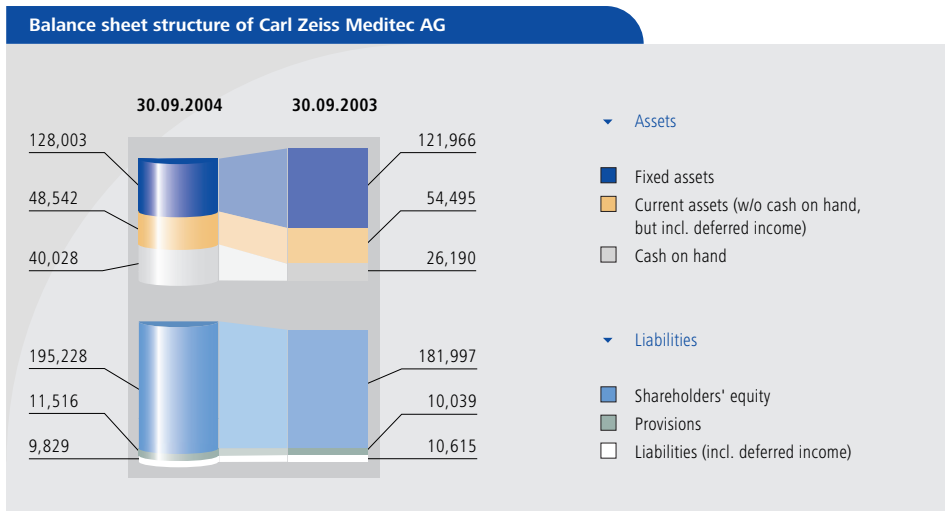


Figure 2:  
Balance sheet structure of  
Carl Zeiss Meditec AG as of  
30 September 2004 and 2003  
(€ '000)

### b) Key data on net worth

In the reporting period Carl Zeiss Meditec was able to further significantly consolidate its already sound net worth structure.

Table 3:   
Key data of net worth  
(30 September 2004 and 2003)

Key ratios	Definition	30.09.2004	30.09.2003	Change over previous year
Equity ratio	Equity	90.1%	89.8%	+0.3% percentage points
	Balance-sheet total			
Debt-to-net-worth ratio	Total borrowed capital (w/o deferred income)	10.8%	11.0%	-0.2% percentage points
	Equity			
Cover ratio A	Equity	152.5%	149.2%	+3.3% percentage points
	Fixed assets			
Cover ratio B	Equity capital + long-term borrowed capital	153.4%	150.0%	+3.4% percentage points
	Fixed assets			
Cover ratio for medium-term and long-term fixed assets	Equity capital + medium-term and long-term borrowed capital	153.0%	149.2%	+3.8% percentage points
	Fixed assets + accounts receivable with a residual term of more than one year			

## 13. Financial position

### a) Statement of financial position

As of the cut-off date 30 September 2004 cash and cash equivalents held by Carl Zeiss Meditec AG amounted to € 40.0 million (previous year: € 26.2 million). The net increase in cash and cash equivalents in the financial year 2003/2004 thus amounted to € 13.8 million (previous year: € 22.8 million).

A significant contribution to this development was made by the cash flow from operating activities. In the reporting period it improved to € 25.8 million (previous year: € 9.6 million). To be highlighted in this respect are the increase in the net income for the year, and, above all, the successes with the systematic monitoring and control of the working capital. Thus, the optimised management of accounts receivable and the active inventory strategy of the company made a total positive contribution of € 9.3 million to the cash flow from operating activities.

Cash flow from investing activities in the financial year 2003/2004 stood at € -5.3 million (previous year: € 2.5 million). The most important item in this context are the investments in financial assets to the amount of € 8.0 million, which result in full from the acquisition of hiko medical communication GmbH. They include the payment of the purchase price of € 6.1 million and the redemption of loans on the part of this company to the amount of € 1.9 million.

Cash flow from financing activities in the reporting period stood at € -6.7 million (previous year: € 10.7 million). The essential item here is the increase in accounts receivable from the group treasury of the Carl Zeiss AG. As of 30 September 2004 the balance was € 11.5 million (previous year: € 4.9 million). This balance accrues interest at the customary market rate and is at the Company's disposal at all times.

### b) Key ratios of financial position

Above all, the reduction in the net working capital by 30.7%, from € 39.4 million in the previous year to € 27.3 million as of 30 September 2004, reflects the successes in the optimisation of the inventories and the reduction in accounts receivable and other assets. Accordingly, the increase in the working capital ratio over the previous year is merely attributable to the rise in cash in hand and to the further rise in the credit with the group treasury of the Carl Zeiss AG. Coverage of the current liabilities by the current assets has thus further improved.

Key ratios	Definition	30.09.2004	30.09.2003	Change over previous year
Cash and cash equivalents	Cash at bank and in hand	€ 40.0m	€ 26.2m	+52.8%
Net cash and cash equivalents	Cash at bank and in hand + accounts receivable against Carl Zeiss AG group treasury	€ 51.6m	€ 31.1m	+65.8%
Ratio of inventories to current assets	Total inventories Current assets	21.5%	28.5%	-7.0 percentage points
Ratio of cash and cash equivalents to current assets	Cash at bank and in hand Current assets	45.3%	32.5%	+12.8 percentage points
Net working capital	(Current assets less cash and cash equivalents less accounts receivable from group treasury of the Carl Zeiss AG) less current liabilities	€ 27.3m	€ 39.4m	-30.7%
Working capital ratio	Current assets Current liabilities	929.3%	806.4%	+122,9%-Punkte

Table 4:  
Key ratios of financial position  
in the financial years 2003/2004  
and 2002/2003

## 14. Investing activities

The largest single investment by the Company in the period under review concerned the acquisition of hiko medical communication GmbH. A total sum of € 8.0 million was used for the payment of the purchase price and the redemption of loans (cf. also Section "13. Financial position"). Investments in fixed assets were only necessary to a minor degree: The latter totalled € 0.7 million in the reporting period (previous year: € 0.8 million).

## 15. Earnings position

In the financial year 2003/2004 the gross margin at Carl Zeiss Meditec stood at 36.7%, compared to 40.4% in the previous year. Thus the positive impact on this ratio, for example from the reduction in cost of revenues, could not compensate for the corresponding negative impact from the price pressure in individual product areas and regions, which primarily arose in connection with the development of currency exchange rates. In the future, however, the Company expects further improvements in this area.

The result from ordinary activities in the financial year 2003/2004 stood at € 13.8 million (previous year: € 4.3 million). The following major effects in the reporting period are to be taken into account:

- In the sales area it was possible to lower costs by € 2.2 million over the previous year. The corresponding costs ratio decreased from 21.1% in the financial year 2002/2003 to 17.9% for the period under review. In this respect, it has to be considered, however, that in the financial year 2002/2003 there were still pro-rata costs for the two divisions Aesthetic and Dental, which were sold as of 1 May 2003. On a comparable basis to the previous year there would have been a slight rise of 0.9% in costs as a consequence of higher sales.
- The rise in costs in the administrative area is due, above all, to the formation of provisions for two legal disputes (cf. also Risk Report, Section "10. Legal risks"), as well as a change in accounting for the quality management of the Company over the previous year. Half of these costs are now stated under "General and administrative expenses", the other half under cost of revenues (in previous year: fully allocated to cost of revenues). As a ratio of sales this leads to an administrative costs ratio for the financial year 2003/2004 of 5.8% (previous year: 5.0%).
- The "Research and development expenses" decreased over the previous year slightly by 4.6% to € 9.8 million. This is essentially due to reduced procurement of outside services.
- The other operating expenses decreased from € 4.7 million in the previous year to € 2.4 million in the financial year 2003/2004. At the same time the other operating income decreased from € 4.4 million in the previous year to € 2.2 million in the financial year 2003/2004. The main causes of this are currency exchange rate effects, and the fact that there were no costs for a capital increase in the period under review.
- The "Income from investments and participations" of € 8.7 million results from the payment of a cash dividend by the American subsidiary Carl Zeiss Meditec, Inc. to Carl Zeiss Meditec AG.

The extraordinary result of € -4.5 million in the previous year (reporting period: € 0) is attributable in full to losses on the sale of the inventories and property, plant and equipment in connection with the disposal of the Aesthetic and Dental business units.

This means that Carl Zeiss Meditec AG posted a total net income of € 13.2 million (previous year: net loss € -0.2 million).

# Risk report

## 1. Risk management system

In the course of its operating activities, Carl Zeiss Meditec is naturally exposed to a number of risks that are inherent to commercial activities.

Risk management at Carl Zeiss Meditec is an integral part of corporate management and based on three major components:

- Risk management system: In order to be able to identify and assess risks in good time and take the appropriate steps, the Company introduced a risk management system. An important element is a database-aided software solution with which risks and their estimated probability of occurrence and potential for damage may be recorded, systematised and evaluated on a regular basis. Carl Zeiss Meditec thus satisfies the legal requirements with regard to control and transparency (KonTraG, Act on Control and Transparency in Stock Corporations).
- Controlling instruments: Controlling at Carl Zeiss Meditec keeps the Management Board and all responsible decision-makers within the Company regularly informed on occurring risks on the basis of key ratios, thereby supplementing the risk management system.
- Certified quality management: A further critical component is the Company's certified quality management (see also: Business Report, 7. Quality management). Clearly structured and documented processes within the framework of quality management ensure not only transparency – in most markets they are meanwhile a prerequisite for the sale of medical products. The quality assurance system employed by Carl Zeiss Meditec was certified by DQS GmbH Deutsche Gesellschaft zur Zertifizierung von Managementsystemen and conforms to the US standard for "Good Manufacturing Practice" (GMP), 21 C.F.R. part 820, QSR. A major objective of this certified process is risk avoidance.

The risk management system is an integral part of the overall controlling and reporting process of the Company and ensures the systematic recording and evaluation of risks. Furthermore, it guarantees that relevant information is forwarded without delay to the Company's decision-makers.

The main features of this system are:

- Under the direction of a central risk manager, the responsible staff regularly examines processes, transactions and developments for existing risks.
- Risk identification and evaluation using standardised risk matrices.
- Regular risk reports are sent to the Management Board and other decision-makers within the Company on the basis of given threshold values for relevant risks and according to the classification using the risk matrices.
- On this basis suitable steps are taken to avoid identified risks, reduce the likelihood of such risks occurring or minimise the financial losses incurred.

As with the internal reporting, the risk management system is subjected to an internal audit. In addition it formed a constituent part of the annual audit by the certified auditor.

## 2. Market and competition

The competition on the medical technology market in general and in ophthalmology in particular will continue to increase. Fundamentally there is the risk that, compared to competitors, the Company might not react in good time to market developments with new products and adaptations of existing products. Such an event would have negative consequences for the net worth, financial position and earnings, and also lead to a deterioration of the market position.

Carl Zeiss Meditec actively counters this risk by making not inconsiderable investments in the field of research and development, and also in the upstream areas Market Intelligence (market observation), New Business Development (strategic business development) and Advanced Technologies (detailed examination of new technologies).

Furthermore, government reforms in the social system could have a negative effect on the Company's sales volume and earnings situation. This risk exists particularly in countries in which a major portion of treatments for eye ailments is paid by health insurance schemes. If budgets were cut, or the reimbursement of treatment costs were denied for certain types of treatment, this could have a negative impact on the Company's net worth, financial position and earnings.

An additional risk potential exists in a possible further deterioration in the economic situation, particularly with reference to the markets that are critical to the Company. This could have a marked effect on privately financed medical applications such as refractive surgery. In this case there is a risk of deterioration in the financial standing of the Company's customers or the demand for its products. Due to loss of sales and receivables this could have a negative impact on the net worth, financial position and earnings of Carl Zeiss Meditec.

### **3. New technology and products**

Medical technology as a whole, particularly in the field of ophthalmology, is undergoing an extremely dynamic development process. New scientific findings lead to shorter development and product cycles. 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.

The success of Carl Zeiss Meditec is determined to a great extent by the development of innovative products in the fields of ophthalmology and by recognising new technology trends at an early stage and turning these into the 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.

Carl Zeiss Meditec is actively countering this risk, however, with the measures shown under "2. Market and competition."

### **4. Approval of products**

In the medical technology and the health service sectors there are strict approval procedures that vary from one country to another. Denial of approvals or delays in approval procedures for the Company's products could have a negative impact on the future sales and profits of Carl Zeiss Meditec.

There is no guarantee that the Company's numerous registrations will continue to be valid in the future, renewed or obtained in good time for launching new products ahead of the competitive field. Furthermore, stricter registration requirements must be reckoned with in future. This would have negative consequences for the net worth, financial position and earnings of Carl Zeiss Meditec.

In order to identify such developments in good time and be able to react appropriately, the Company follows developments in this field extremely closely, monitoring the details of approval procedures within the framework of its implemented quality management system.

### **5. Dependence on suppliers**

The increasingly close cooperation with suppliers necessitated by the general cost pressure and complexity of the supplied components implies a greater dependence on one another. This could have negative implications for the production, sales and the quality of the Company's products.

Thanks to the qualification of its suppliers, the identification of secondary suppliers and the preparation of a strategic inventory plan, Carl Zeiss Meditec takes the best-possible measures to counter this risk.

## 6. Patents and intellectual property

The Company is not aware of any material violation of patent rights or other industrial property rights of third parties. The possibility that a third party may assert claims against the Company for the violation of industrial property rights cannot, however, be ruled out. A violation of this type could result in a delay in the delivery of products. In the event of a negative outcome of the proceedings the Company may be obliged to enter into fee or licensing arrangements. There is a risk that such copyright or licensing agreements are not available or only available on unacceptable terms. A lawsuit against the Company due to the violation of industrial property rights could therefore have a 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. To guarantee these, the Company acquires patents for its own and third-party inventions and takes steps to protect its business secrets. The expiration of industrial property rights or patents could result in the appearance of new competitors on the market or strengthen the position of competitors who are already active.

In order to avoid the above-mentioned legal disputes, patents and patent applications in the relevant fields are analysed by the Company at regular intervals.

## 7. Protection against loss of confidential data

A number of mechanisms has been established for the protection of confidential data in the information technologies deployed by the Company. Nevertheless, breaches of security and the loss of this data cannot be completely ruled out. This could have an adverse effect on the competitive position of Carl Zeiss Meditec.

## 8. Product liability risk

In the Company's products employed for medical treatments there is an inherent fundamental risk that malfunctions result in injury to the patient. Despite employing all reasonable quality control measures and complying with all legal provisions, this risk cannot be completely excluded. Although Carl Zeiss Meditec has to date not been obliged to pay any major claims for compensation arising from product liability, no guarantee can be given that the Company will not be confronted with such claims in the future.

The Company has covered itself against possible product liability claims by means of product liability insurance. 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 completely excluded that the Company's existing insurance cover does not provide sufficient cover for potential claims in the USA.

## **9. Subsidiaries**

Carl Zeiss Meditec is indirectly exposed to the risk environment of each of its subsidiaries. The relationship to its subsidiaries can result in statutory and contractual liabilities.

A further potential risk in this respect concerns the current book value of holdings in Carl Zeiss Meditec, Inc., Dublin, USA, and Carl Zeiss Meditec Systems GmbH, Pirmasens, Germany (former hiko medical communication GmbH). Both companies were stated at their market value at the time of their acquisition. This risk comes to bear only in the case that there is a long-term deterioration in the net worth, financial position and earnings of these subsidiaries.

## **10. Legal risks**

The Group has reached an out-of-court settlement in the action for damages against I-Spire s.p.r.l., Brussels / Belgium and its sole proprietor. Inasmuch, any possible risks may be considered as having been eliminated to the greatest-possible degree. This settlement includes payments of the total amount of € 2.8 million shown in the balance sheet item "Other loans" by I-Spire s.p.r.l. in several instalments. The payment of the first two instalments totalling € 1.8 million took place at the end of April and after the balance sheet cut-off date in October 2004.

Current litigation risks arise from the lawsuit and claim for lost earnings filed by a distributor of the former Asclepion for dermatological lasers, and the pending cost reimbursement lawsuit and claim filed by the insolvency administrator of the former Asclepion distribution partner U.S. Medical, Inc., also in the field of dermatological lasers. The Company has, from today's stance, taken adequate precautionary measures in the form of provisions.

## Research and development report

### 1. General comments

In the financial year 2003/2004 Carl Zeiss Meditec spent € 9.8 million on research and development (R&D) (previous year: € 10.3 million). A total of € 1.0 million was granted in subsidies (previous year: € 1.8 million). The R&D ratio decreased from 10.0% in the previous year to 9.0%. The main reason for this development is – alongside the reduced procurement of outside services in the reporting period – the rise of 5.9% in sales over the previous year.

Carl Zeiss Meditec's workforce in R&D as at 30 September 2004 amounted to 67. This corresponds to 23.8% of all the employees of the Company.

### 2. Projects

Major R&D projects at Carl Zeiss Meditec AG are involved in the further expansion of the range of applications and the functionality of the refractive laser MEL 80™ and of the CRS Master™, a concept which links the MEL 80™ with a so-called wavefront diagnosis system.

The development of the AC Master™ was a further important R&D project in the period under review. With the AC Master™, which just like the IOL Master® is based on optical biometry, the front section of the eye may be examined with the greatest precision, something which is of significance above all in connection with the use of innovative intraocular lenses.

The development work on the software VISUPAC™ 4.0 was successfully completed in the financial year 2003/2004. With VISUPAC™ 4.0 it is possible to intelligently combine different diagnostic systems, such as fundus cameras and the STRATUSOCT™ system, and, moreover, to link these up to practice management and hospital information systems. VISUPAC™ is the first new product of Carl Zeiss Meditec Systems GmbH (formerly hiko medical communication GmbH).

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

Further R&D projects concern the laser VISULAS™ YAG III for the post-cataract treatment, as well as other diagnosis and therapy systems which underline the innovative strength of the Company.

## Supplementary report

On 21 October 2004 Carl Zeiss Meditec announced that it intends to take over the American company Laser Diagnostic Technologies, Inc. (LDT) domiciled in San Diego, California, USA, through its subsidiary Carl Zeiss Meditec, Inc., LDT invented and commercialised a new standard for glaucoma detection with its proprietary ocular nerve fiber measurement instrument. For the current financial year 2004 LDT expects sales of some US-\$ 20 million and a balanced operating result. Carl Zeiss Meditec assumes that the transaction can be concluded by the end of 2004 following the necessary approvals from the corresponding executive bodies and shareholders of LDT.

LDT's main product, the GDx VCC, is a system specially developed for the early detection and diagnosis of glaucoma. It thus complements the market presence of Carl Zeiss Meditec's STRATUSOCT™, a retinal imaging system with a wide range of possible applications. These include not only the early detection of glaucoma, but also its use in the diagnosis of other severe eye ailments such as age-related macular degeneration (AMD), in diabetic retinopathy, as well as in examinations before and after the treatment of cataracts. In this manner, the system GDx VCC is primarily aimed at customers who do not require the full bandwidth of examination possibilities, such as is offered by the system STRATUSOCT™.

On 1 November 2004 Carl Zeiss Meditec AG also announced that its Japanese subsidiary, Carl Zeiss Meditec Co., Ltd., domiciled in Tokyo, Japan, was taking over the surgery business of Carl Zeiss Co., Ltd., which is also domiciled in Tokyo, Japan. This area deals with the sale of surgical microscopes for ophthalmology, neurosurgery and for ear, nose and throat surgery, and has annual sales of ca. € 25 million. In the opinion of Carl Zeiss Meditec this move allows for the realisation of considerable synergy effects in various areas such as administration, sales administration and service. Moreover, in this manner the Company can reinforce and better coordinate its activities regarding approval issues.

## Forecast

### 1. Economic conditions

For 2005 Germany's economic research institute Deutsches Institut für Wirtschaftsforschung ("DIW") expects a further increase in overall economic output in the industrialised nations. If the favourable monetary framework conditions, such as low interest rates for loans, are kept in place, this should also have a favourable impact on further investment. From the stance of DIW the economic dynamism in East Asia and in those threshold countries which export raw materials will remain high in 2005 despite a slight downturn.<sup>6</sup> "On the whole the driving forces behind the economy seem to be so stable that, despite the rise in oil prices and the waning stimulus from monetary and financial policy, a drift towards a downturn is not to be expected."<sup>7</sup>

For the USA and Japan a downturn in the gross domestic product ("GDP") is expected for 2005. For the USA an improvement of 3.4% (2004: 4.4%) is expected in the GDP in 2004; in Japan the figure is set to be 2.1% (2004: 4.2%). The economic expectations of DIW for these economic regions are still higher than those for the euro-zone; here growth of 2.0% has been forecasted for the GDP.<sup>8</sup> For Germany DIW assumes that there will only be a mild recovery in private consumption in 2005. However, DIW is also of the opinion that the readiness to invest will pick up slightly in 2005. One of the reasons seen for this is the ongoing expansion of capacities, which would make replacement and expansion investment necessary. Seen as a whole, however, the export sector will once again be the driving force behind German industry.<sup>9</sup>

<sup>6</sup> Cf. *ibid.*, p. 633

<sup>7</sup> *Ibid.*, p. 633

<sup>8</sup> Cf. *ibid.*, p. 630-644

<sup>9</sup> Cf. *ibid.*, p. 645-663

## 2. Outlook

Carl Zeiss Meditec fulfilled important internal prerequisites for a future acceleration in growth in the financial year 2003/2004. Alongside an extensive improvement in the net worth, financial position and earnings in the period under review, considerable progress was made in the further optimisation of the organisational structure and the internal process flows.

It remains the objective of the Company to considerably increase its sales revenues through to the end of the financial year 2007/2008, so as to make a significant contribution to the planned doubling of sales revenues at group level<sup>10</sup> by this point in time. In this respect the earnings power is to be reinforced on a sustainable basis. To this end, the product portfolio is to be extended through the inclusion of innovative systems, and existing resources deployed even more efficiently. Insofar as it makes strategic sense, external options can also be utilised to attain the growth targets. The balance sheet structure of Carl Zeiss Meditec as created in the financial year 2003/2004 offers a solid basis for this.

## 3. Strategy

Based on the excellent position of the Company with devices and systems for ophthalmology, Carl Zeiss Meditec intends to establish itself as a provider of complete solutions in this field. To this end the existing competitive position in the field of the four main ophthalmic syndromes is to be enhanced. The unique technology and product portfolio, the extensive expertise in the field of research and development, the strong global marketing network and the world-famous brand name "Zeiss" provide an excellent basis for this. The acquisition of the American company Laser Diagnostic Technologies, Inc., which was announced at the end of October 2004, is further testimony to the fact that wherever it makes sense external growth options can also be utilised.

<sup>10</sup> Reference: group sales in the financial year 2002/2003

## Final declaration to the dependency report

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

Carl Zeiss Meditec AG as a member of Carl Zeiss AG has prepared a dependency report pursuant to Art. 312 German Stock Corporation Act (*AktG*). Under the circumstances known to the Management Board at the time the transactions were concluded, the companies of Carl Zeiss Meditec AG received suitable consideration for each of the transactions listed in this report on relationships to affiliated companies and were not disadvantaged by the adoption of measures stated in this report or by their omission.

Jena, 8 November 2004  
Carl Zeiss Meditec AG



**Ulrich Krauss**  
*President and CEO*



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

# Income statement

## For the financial years 2003/2004 and 2002/2003 (HGB)

€ '000	Notes	Financial year 2003/2004	Financial year 2002/2003
Sales revenues	(20)	108,953	102,860
Cost of revenues		(68,924)	(61,348)
<b>Gross profit</b>		<b>40,029</b>	<b>41,512</b>
Selling and marketing expenses		(19,456)	(21,699)
General and administrative expenses		(6,279)	(5,103)
Research and development expenses		(10,802)	(12,084)
minus government grants received		977	1,790
Other operating income	(23)	2,232	4,435
Other operating expenses	(24)	(2,411)	(4,688)
Income from investments and participations	(25)	8,738	-
– thereof from affiliated companies € 8.738m (previous year: € 0m)			
Other interest and similiar income			
– thereof from affiliated companies € 0.733m (previous year: € 0.144m)		903	801
Amortisation of financial assets		(69)	(419)
Interest and similiar expenses		-	-
– thereof due to affiliated companies € 0.020m (previous year: € 0.187m)		(20)	(200)
<b>Result from ordinary activities</b>		<b>13,842</b>	<b>4,345</b>
Extraordinary result	(26)	-	(4,500)
Taxes on income and earnings	(27)	(611)	-
Other taxes		-	(3)
<b>Net income/loss</b>		<b>13,231</b>	<b>(158)</b>
Loss carryforwards		(158)	(32,782)
Withdrawal from capital reserve		70	32,890
Transfer to reserve for own shares		(70)	(108)
<b>Accumulated earnings/deficit</b>		<b>13,073</b>	<b>(158)</b>

## Balance sheet

As of 30 September 2004 and as of 30 September 2003 (HGB)

€ '000	Notes	30.09.2004		30.09.2003	
Assets					
Fixed assets	(6)				
Intangible fixed assets					
Concessions, industrial property rights and similar rights and assets including licenses for such rights and assets			514		34
Property, plant and equipment					
Land and buildings including buildings on third-party land			152		214
Plant and machinery			64		46
Other fixtures and fittings, tools and equipment			1,329		1,632
Advances from customers and tangible assets in course of construction			20	1,565	-
Financial assets					
Shares in affiliated undertakings			122,293		116,183
Loans to affiliated undertakings			2,368		1,023
Other loans			1,263	125,924	2,834
				128,003	120,040
					121,966
Current assets					
Inventories	(7)				
Raw materials and supplies			7,973		9,903
Work in progress			4,590		4,140
Finished goods and goods for re-sale			6,583		8,906
Payments on account			177		34
Advances from customers			(283)	19,040	-
Accounts receivable and other assets					
Trade accounts receivable	(8)		8,765		13,343
– thereof with a term of more than one year: € 0.393m (2003: € 0.718m)					
From affiliated companies	(9)		19,500		13,694
– thereof with a term of more than one year: € 0 (2003: € 0)					
Other assets	(10)		898	29,163	4,209
Investments					
Own shares (treasury stock)				178	108
Cash on hand and cash in banking accounts	(11)			40,028	26,190
				88,409	80,527
Prepayments and accrued income	(12)			161	158
				216,573	202,651

Angaben in € Tsd.	Notes	30.09.2004		30.09.2003	
Liabilities					
Shareholders' equity	(13)				
Share capital		28,417		28,417	
Additional paid-in capital		152,002		152,072	
Retained earnings					
Reserve for own shares		178		108	
Other retained earnings		1,558		1,558	
Accumulated earnings/deficit		13,073	195,228	(158)	181,997
Accrued expenses	(14)				
Provisions for pensions and similiar obligations		1,155		974	
Provisions for taxation		174		70	
Other provisions		10,187	11,516	8,995	10,039
Liabilities	(15)				
Trade accounts payable	(16)	4,794		6,213	
– thereof with a term of up to one year: € 4.794m (2003: € 6.213m)					
Due to affiliated companies	(9)	3,403		2,938	
– thereof with a term of up to one year: € 3.403m (2003: € 2.938m)					
Other liabilities	(17)	1,365	9,562	852	10,003
– thereof with a term of up to one year: € 1.316m (2003: € 0.835m)					
– thereof from taxes: € 0.677m (2003: € 0.232m)					
– thereof from social security: € 0.385m (2003: € 0.388m)					
Deferred income	(18)		267	612	
			216,573	202,651	

## Fixed-asset movement schedule (gross presentation)

### Financial year 2003/2004

€ '000	Purchase/manufacturing cost				
	01.10.2003	Additions	Transfers	Disposals	30.09.2004
Intangible fixed assets					
Concessions, industrial property rights and similar rights	323	548	2	(13)	860
Fixed assets					
Land and leasehold rights and buildings, including buildings on third-party land	242	4	-	(15)	231
Plant and machinery	138	38	-	(17)	159
Other fixtures and fittings, tools and equipment	5,970	643	(2)	(518)	6,093
Advances from customers and tangible assets in course of construction	-	20	-	-	20
	<b>6,350</b>	<b>705</b>	<b>(2)</b>	<b>(550)</b>	<b>6,503</b>
Financial assets					
Shares in affiliated companies	118,590	6,110	-	(2,135)	122,565
Loans to affiliated companies	7,690	1,878	-	(7,200)	2,368
Investments	4,668	-	-	-	4,668
Other loans	9,401	-	-	(1,503)	7,898
	<b>140,349</b>	<b>7,988</b>	<b>-</b>	<b>(10,838)</b>	<b>137,499</b>
	<b>147,022</b>	<b>9,241</b>		<b>(11,401)</b>	<b>144,862</b>

	Cumulated depreciation			Residual book value		
	€ '000					
	01.10.2003	Depreciation in the Financial year	Disposals	30.09.2004	30.09.2004	01.10.2003
Intangible fixed assets						
Concessions, industrial property rights and similar rights	289	70	(13)	346	514	34
Fixed assets						
Land and leasehold rights and buildings, including buildings on third-party land	28	61	(10)	79	152	214
Plant and machinery	92	20	(17)	95	64	46
Other fixtures and fittings, tools and equipment	4,338	753	(327)	4,764	1,329	1,632
Advances from customers and tangible assets in course of construction	-	-	-	-	20	-
	4,458	834	(354)	4,938	1,565	1,892
Financial assets						
Shares in affiliated companies	2,407	-	(2,135)	272	122,293	116,183
Loans to affiliated companies	6,667	-	(6,667)	-	2,368	1,023
Investments	4,668	-	-	4,668	-	-
Other loans	6,567	68	-	6,635	1,263	2,834
	20,309	68	(8,802)	11,575	125,924	120,040
	25,056	972	(9,169)	16,859	128,003	121,966

# Notes to financial statements for the financial year 2003/2004

## General details and explanatory notes to the financial statements

### (1) Business operations

Carl Zeiss Meditec AG, Jena ("Carl Zeiss Meditec" or the "Company") is engaged in the business of developing, manufacturing and marketing medical devices and systems for the ophthalmic market (diagnosis and therapy). The Company's headquarters are located in Jena, Germany's traditional centre of excellence for optical and optical-related technologies. The Company has subsidiaries in the USA (100%-owned), Japan (51%-owned) and Germany (100%-owned). Together these operations constitute the Carl Zeiss Meditec Group (the "Group").

Carl Zeiss Meditec has so far focused on the ophthalmic market segment. The Company's customers are specialists in private practice, optometrists, opticians and clinics worldwide.

### (2) Foundation, stock exchange listing

Carl Zeiss Meditec AG was originally founded on 4 October 1995 as Aesculap-Meditec GmbH with its head office in Jena.

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.

In 2002 Carl Zeiss Ophthalmic Systems AG conveyed its assets in their entirety to Asclepion.

In this process Asclepion Meditec AG was renamed Carl Zeiss Meditec AG.

### **(3) Development of share capital and capital reserves in the financial year 2003/2004**

#### **Contingent capital**

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.

In the financial year 2003/2004 no shares were subscribed from the contingent capital.

#### **Authorised Capital I**

Furthermore, the Annual General Meeting of 19 March 2004 resolved to eliminate the existing authorised capital of € 10.333 million and to empower the Management Board, with the approval of the Supervisory Board, to increase the share capital by issuing new no-par value bearer shares worth up to € 13.208 million by 18 March 2009 (Authorised Capital I).

Following this resolution of the general meeting on 19 March 2004 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:

- To balance out fractional amounts,
- If the capital increase is effected against cash contributions and the new shares for which the subscription right is excluded, are equivalent to no more than 10% of the share capital, neither on the date it becomes effective, nor on the date this authorisation is exercised, and the issue amount of the new shares is not significantly lower than the market price of the publicly quoted shares of the same type and structure. Sales of own shares on the basis of other authorisations pursuant to Art. 186 (3) sentence 4 *AktG* must be taken into account in the limitation to 10% of the share capital,
- For capital increases against non-cash contributions for the granting of shares for the purpose of acquiring companies, parts thereof or interests in a company.

In the financial year 2003/2004 no shares were subscribed from the Authorised Capital I.

**Authorised Capital II**

Furthermore, the Annual General Meeting of 19 March 2004 resolved to empower the Management Board, with the approval of the Supervisory Board, to increase the share capital by issuing new no-par value bearer shares worth up to a further € 1.0 million by 18 March 2009 (Authorised Capital II). The new shares can be issued to the employees of Carl Zeiss Meditec AG and its affiliates. The statutory subscription right of the shareholders is therefore excluded. The Management Board shall be authorised, subject to the approval of the Supervisory Board, to specify the details of the capital increases from Authorised Capital II.

In the financial year 2003/2004 no shares were subscribed from the Authorised Capital II.

**Treasury stock**

With resolution of the Annual General Meeting on 19 March 2004, Carl Zeiss Meditec was again authorised to acquire own shares (treasury stock) up to a value corresponding to 10% of the share capital of € 2.84 million until 18 September 2005 – this represents almost 10% of the current share capital of € 28.417 million – for the purpose of

- offering these to employees of the Company and its affiliated companies as defined in Art. 15 ff of the German Stock Corporation Act (*AktG*); or
- recalling them.

On the basis of this authorisation, in the financial year 2003/2004 the Company purchased the following treasury stock:

Date of stock purchase	Number of shares	Amount in €
Holdings as of 30.09.2003	14,252	108,004
24.09.2004	6,923	70,545
Holdings as of 30.09.2004	21,175	178,549

The portion of share capital attributable to acquired treasury stock is € 21,175, representing 0.07% of the share capital. Reserves were formed pursuant to Art. 272 para. 4 of the German Commercial Code (*HGB*) corresponding to the amount of € 178,000 stated on the assets side.

#### **(4) Annual financial statements according to HGB and AktG; Consolidated financial statements**

The annual financial statements of Carl Zeiss Meditec for the financial year ending 30 September 2004 have been prepared in € '000 in accordance with the provisions of the German Commercial Code (*HGB*) and the German Stock Corporation Act (*AktG*).

The income statement was prepared using the operational format.

In comparison to the previous year it should be noted that both sales and profit contributions of the sold-off Aesthetic and Dental business units in the financial year 2002/2003 are disclosed in the Company's individual annual financial statements pursuant to HGB until the date of the sale, i.e. for the period 1 October 2002 to 30 April 2003. The figures for the financial year 2003/2004 do not include sales and profit contributions from these sold-off peripheral activities.

In order to reflect the increasing marketing orientation of product management in the past few years, in the financial year 2003/2004 these costs were reclassified as selling and marketing expenses. The previous year's comparative figures (€ 977,000) were adjusted accordingly. The Company's annual financial statements are to be incorporated in the consolidated financial statements of the Carl Zeiss AG, Oberkochen. The consolidated financial statements of Carl Zeiss AG will be published in the Federal Gazette (*Bundesanzeiger*) and deposited in the commercial register at the Aalen local court.

Furthermore, the Company prepares consolidated financial statements according to US Generally Accepted Accounting Principles (US-GAAP).

#### **(5) Details and comments on accounting and valuation methods**

The accounting and valuation methods from the previous year have been applied in unchanged form.

##### **Fixed assets**

###### *Intangible fixed assets*

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

*Tangible assets (Property, plant and equipment)*

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

In the financial year 2003/2004, the sliding scale method of depreciation has been used uniformly for all accruals in movable property in conformance with taxation provisions. A change was made from sliding-scale to linear depreciation as soon as this resulted in a higher amount of depreciation.

With the elimination of the tax simplification rule in respect of depreciation on accruals to moveable assets in the first and second half years (full or half annual depreciation), as of 1 January 2004 depreciation on such accruals is now calculated pro rata temporis.

Low-value assets are depreciated in full in the year of acquisition and treated as disposals in the following year in the fixed-assets movement schedule.

In contrast to the former Asclepion's straight-line method of calculating depreciation based on anticipated useful life, the former Carl Zeiss Ophthalmic calculated depreciation on movable tangible fixed assets by the sliding-scale method.

*Financial assets*

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

**Current assets***Inventories*

The raw materials and supplies are valued at their acquisition cost or the lower market value.

Work in progress and finished goods are 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 production assets. Inventory risks due to the storage period or reduced marketability were taken into account by a combination of write-downs in the form of an impairment test, marketability reductions and loss-free valuation.

Finished goods and goods for sale are valued at costs of purchase or the lower market value on the cut-off date.

#### *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.

#### **Shareholders' equity**

##### *Share capital*

The share capital comprises 28,416,629 no-par-value bearer shares, each with a pro rata value of € 1.00. This is stated at the nominal value.

#### **Accrued liabilities and other liabilities**

##### *Provisions*

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

Accruals for a deferred compensation programme (postponed remuneration) were equivalent to the asset values of the reinsurance at Gerling Lebensversicherungs-AG.

The formation of other provisions takes into account the recognisable risks and uncertain liabilities. These are of an amount deemed necessary in accordance with prudent commercial judgement. Accruals for partial retirement and anniversary bonuses were valued according to actuarial principles.

##### *Liabilities*

Liabilities are stated at their individual repayment sum.

#### **Conversion to foreign currency**

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 in the event of an existing hedging.

The conversion of liabilities is at the repayment exchange rate upon accrual of the liabilities or at the higher conversion rate on the balance sheet date.

## Comments on individual balance sheet items

### (6) Fixed assets

The movement of individual fixed assets in the financial year 2003/2004 is to be seen in Appendix 1 to these notes.

Accruals to intangible assets are mainly attributable to the acquisition of rights of patent use.

In addition to the transfer of service and study equipment to fixed assets, capital expenditure in the financial year was incurred for the main part for tool and other capital equipment for the start of serial production of new products.

Additions to "shares in affiliated undertakings" are derived from the acquisition of 100% of the shares in hiko medical communication GmbH, Pirmasens (now Carl Zeiss Meditec Systems GmbH). Retirements under "Other loans" mainly relate to the repayment of a long-term account receivable.

## Other assets

### (7) Inventories

Inventories (€ 19.040 million) include cumulated valuation allowances of € 4.436 million.

### (8) Trade accounts receivable

Trade accounts receivable on the balance sheet date amounted to € 8.765 million and included cumulated individual valuation adjustments and general bad-debt allowances of € 8.895 million.

The portion of accounts receivable with a residual term of more than one year amounting to € 393,000 includes a discount of € 12,000.

### (9) Accounts receivable from / liabilities due to affiliated companies

The balances disclosed mainly comprise sales and services as well as the debt to the group treasury of the Carl Zeiss Group to the amount of € 11.523 million

## **(10) Other assets**

Other assets comprised for the main part grants due from the Thüringer Aufbaubank towards R&D costs (€ 538,000).

## **(11) Cash on hand and cash in banking accounts**

The increase in cash and cash equivalents is mainly attributable to the payment of a dividend by US subsidiary Carl Zeiss Meditec Inc. (net cash inflow € 8.301 million), the positive operative cash flow of Carl Zeiss Meditec AG and continued measures to optimise working capital.

## **(12) Prepayments and accrued income**

For the main part these consist of accrued holiday pay and pre-paid insurance premiums.

## **(13) Shareholders' equity**

### **Share capital**

Share capital remains unchanged compared to the previous year at € 28.417 million.

### **Additional paid-in capital**

Additional paid-in capital was reduced by the amount transferred to reserves for treasury stock (€ 70,000) to € 152.002 million.

## **(14) Accrued expenses**

### **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 of 30 September 2004 was prepared by Dr. Dr. Heissmann GmbH, Wiesbaden.

The item also includes a provision for a deferred compensation programme (postponed remuneration, € 111,000).

**Other provisions**

These were formed in particular for contingent liabilities from:

- Warranties (€ 2.570 million),
- Special payments and commissions to employees (€ 1.530 million),
- Litigation risks (€ 1.096 million)
- Outstanding invoices (€ 1.014 million),
- Other provisions relating to personnel (€ 934,000)
- Partial retirement (€ 646,000).

**(15) Liabilities**

Liabilities of Carl Zeiss Meditec AG are exclusively unsecured liabilities amounting to € 9.513 million with a residual term of less than one year and € 49,000 with a residual term of more than one year.

**(16) Trade accounts payable**

These encompass the usual obligations in the form of trade payables to outside suppliers and accrued commissions.

**(17) Other liabilities**

In addition to liabilities from social security contributions (€ 385,000), withheld wage and church tax (€ 230,000) and payable import sales tax (€ 447,000), other liabilities mainly comprise liabilities from the accounts receivable sub-ledger (€ 164,000) and security deposits (€ 67,000).

## (18) Deferred income

These mainly relate to deferred income for service and maintenance contracts extending beyond the financial year.

## (19) Balance sheet notes in accordance with Art. 251 HGB

### Liabilities from guarantees and warranty agreements

As of 30 September 2004 liabilities of € 484,000 existed from guarantees and warranty agreements, € 325,000 thereof in favour of affiliated companies.

### Other financial obligations

The sums for leasing commitments were calculated using the earliest possible termination dates or the end of the contractual term. The nominal amounts were used as a basis for calculation.

### The following financial obligations exist from rental agreements:

€ '000	30.09.2004
Due 2004/2005 – thereof to affiliated companies: 895	895
Due 2005/2006 – thereof to affiliated companies: 895	895
Due 2006/2007 – thereof to affiliated companies: 447	447
	2,237

For the main part, financial commitments from rental agreements relate to the lease of production and office space from Carl Zeiss Jena GmbH, Carl-Zeiss-Promenade 10, Jena.

**The following financial obligations ensue from leasing and service agreements:**

€ '000	30.09.2004
Due 2004/2005 – thereof to affiliated companies: 539	796
Due 2005/2006 – thereof to affiliated companies: 539	728
Due 2006/2007 – thereof to affiliated companies: 539	651
Due 2007/2008 – thereof to affiliated companies: 539	543
Due 2008/2009 – thereof to affiliated companies: 539	539
Due after 2008/2009 – thereof to affiliated companies: 5,528	5,528
	8,785

To a large extent these relate to the lease of the property at Göschwitzer Str. 51-52 from AM Asset Management Verwaltungsgesellschaft mbH, Jena, and motor vehicle leases.

**Purchase obligations**

Financial obligations of € 47,000 are in the form of commitments for investments.

**Comments on individual items on the income statement****(20) Sales revenues by region**

€ '000	2003/2004	2002/2003
Germany	17,542	18,508
Europe, not including Germany	43,295	41,510
Asia / Pacific region (including Africa)	29,925	23,277
America	18,191	19,565
	108,953	102,860

## Sales revenues by segment

€ '000	2003/2004	2002/2003
Vision	100,626	90,880
Service	8,327	7,737
Other (discontinued business activities)	-	4,243
	108,953	102,860

## (21) Cost of materials

€ '000	2003/2004	2002/2003
a) Cost of raw materials, consumables and supplies, and of purchased goods	51,035	46,074
b) Cost of purchased services	13,495	16,532

## (22) Personnel expenses

€ '000	2003/2004	2002/2003
a) Wages and salaries	14,447	15,309
b) Social security and pension costs	2,669	2,918
– of which in respect of old-age pensions	142	147
	17,116	18,227

## (23) Other operating income

Other operating income (€ 2.232 million) mainly comprises currency gains (€ 1.419 million) and revenue from the recovery of costs (€ 260,000).

Income totalling € 195,000 is not related to the accounting period.

**(24) Other operating expenses**

Other operating expenses (€ 2.411 million) consist mainly of foreign currency losses (€ 972,000). Expenses totalling € 610,000 are not related to the accounting period.

**(25) Income from investments and participations**

This is a dividend payment by the American subsidiary to the amount of US-\$ 10.5 million shown as revenue in the financial year 2003/2004.

**(26) Extraordinary result**

In the previous year, extraordinary expenses related exclusively to the disposal of the peripheral Aesthetic and Dental activities.

**(27) Taxes on income and earnings**

The latter relates to foreign withholding tax paid on the dividend of the US subsidiary as well as German corporation and trade tax.

**(28) Details of shareholdings**

Name and domicile of the company	Currency	Share of voting capital %	Shareholders' equity as of 30.09.2004 translated at the market rate on the balance sheet date	thereof profit/loss for 2003/2004 financial year at average annual rate
Carl Zeiss Meditec, Inc., Dublin, USA	US-\$ '000	100	39,337	11,619
	€ '000		31,883	9,555
Asclepion-Meditec, S.R.L., Milan, Italy*	€ '000	100	12	(46)
AM Asset Management Verwaltungsgesellschaft mbH, Jena, Germany	€ '000	100	(262)	14
Carl Zeiss Meditec Systems GmbH, Pirmasens	€ '000	100	327	(71)
Carl Zeiss Meditec Co., Ltd. Tokyo, Japan	¥ '000	51	1,158,356	532,464
	€ '000		8,456	4,047

\* The figures relate to the liquidation balance sheet as of 31 March 2004

AM Asset Management Verwaltungsgesellschaft mbH, Jena, 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 been leasing the office building with production facility since 01 October 2001.

On 17 December 2003 Carl Zeiss Meditec AG acquired a 100% interest in the former hiko medical communication GmbH headquartered in Pirmasens. The company, now operating under the name Carl Zeiss Meditec Systems GmbH, specialises in the development of medical software solutions.

The holding in Carl Zeiss Meditec Co., Ltd., Tokyo, Japan, was acquired by Carl Zeiss Co., Ltd., Tokyo, Japan with effect from 1 November 2002 at its book value. Due to Carl Zeiss Co., Ltd.'s entitlement to preferred shares, for at least the three financial years following the acquisition date Carl Zeiss Meditec will receive only 34% of the future dividend payments of its Japanese subsidiary. The preferred shares were conveyed as compensation for advance services performed by Carl Zeiss Co., Ltd. in the field of marketing, establishment of a service structure and support for the approval of Carl Zeiss Meditec products.

## (29) Particulars of personnel

### Workforce size

The Company's annual average workforce in the financial year 2003/2004 stood at 283 persons (previous year: 325), of which 22 were trainees (previous year: 25). The decline in the workforce was to a large extent attributable to the disposal of the Aesthetic and Dental business units as of 1 May 2003 and the related transfer of personnel who have been included proportionately in the calculation of average workforce for 2002/2003.

The annual average number of employees in the following sectors was:

Sector	Number of employees
Production	87
Sales and Service	89
Administration and Quality Management	39
Research and Development	68
<b>Total</b>	<b>283</b>

As at the balance sheet date, 30 September 2004, there were 282 employees plus 21 trainees.

### (30) 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 represents the right to buy one share in the Company at the “subscription price” (basic value).

The recipients are not required to pay a fee for the option rights granted.

In the financial year 2003/2004 no options were exercised by employees.

### (31) Particulars of the executive bodies of the Company

#### Management Board

The following persons were appointed to the Management Board of Carl Zeiss Meditec AG in the financial year 2003/2004 and their names recorded in the commercial register:

· **Ulrich Krauss, Dipl.-Kaufmann (MBA), Weimar**

President and CEO, responsible for Sales, Marketing, Service, HR, Refractive Surgery and Business Development,  
as of 1 October 2004 also responsible for Quality and Product Management, Research and Development,

*Other mandates:*

Member of the Board of Carl Zeiss Meditec Inc., Dublin, USA,  
Member of the Board of Carl Zeiss Meditec, Co. Ltd., Tokyo, Japan

· **Bernd Hirsch, Dipl.-Kaufmann (MBA), Weimar**

Member of the Management Board, responsible for Finances, Investor Relations, IT and Legal Affairs,  
since 1 October 2004 also responsible for Logistics and Production, Research and Development,

*Other mandates:*

Managing Director of AM Asset Management GmbH, Jena,  
Member of the Board of Carl Zeiss Meditec, Co. Ltd., Tokyo, Japan

· **Dr. Walter-Gerhard Wrobel, Physicist, Jena (until 30 September 2004)**

Member of the Management Board, responsible for Logistics and Production, Research and Development, Quality and Product Management

The active members of the Management Board received a total remuneration of € 668,000 for the financial year 2003/2004.

### **Supervisory Board**

The Supervisory Board of Carl Zeiss Meditec AG in the financial year 2003/2004 consisted of the following members:

· **Dr. Michael Kaschke, Oberkochen**

Member of the Management Board of the Carl Zeiss AG, Oberkochen  
Chairman of the Supervisory Board,

*Other mandates:*

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 Australia Pty. Ltd., Camperdown, Australia

Chairman of the Board of Carl Zeiss Co. Ltd., Tokyo, Japan

Chairman of the Board of Carl Zeiss Surgical, Inc., Thornwood, USA

Chairman of the Board of Carl Zeiss Pte. Ltd., Singapore

Chairman of the Board of Carl Zeiss India Pte. Ltd., Singapore

Chairman of the Board of Carl Zeiss Co. Ltd., Seoul, South Korea

Chairman of the Board of Carl Zeiss Far East Co., Ltd., Kowloon, Hongkong

Chairman of the Board of Carl Zeiss (Pty.) Ltd., Randburg, South Africa

Chairman of the Supervisory Board of Carl Zeiss Financial Services GmbH, Oberkochen

Member of the Supervisory Board of Carl Zeiss Semiconductor Manufacturing Technologies AG, Oberkochen

Member of the Supervisory Board of Hensoldt AG, Wetzlar

Member of the Supervisory Board of Siltronic AG, Munich

Chairman of SPECTARIS, the German Industrial Association for Optical, Medical and Mechatronical Technologies, Berlin.

**Alexander von Witzleben, Weimar**

Chairman of the Management Board of Jenoptik AG, Jena,  
Deputy Chairman of the Supervisory Board,

*Other mandates:*

Chairman of the Supervisory Board of Analytik Jena AG, Jena  
Chairman of the Supervisory Board of Meissner+Wurst Zander Holding AG, Stuttgart  
Chairman of the Supervisory Board of PVA Tepla AG, Aslar  
Chairman of the Supervisory Board of DEWB AG, Jena  
Member of the Supervisory Board of Krone GmbH, Berlin  
Member of the Administrative Board of Feintool International Holding AG, Lyss.

**Dr. Franz-Ferdinand von Falkenhausen, Jena**

Managing Director of Carl Zeiss Jena GmbH, Jena  
Member of the Supervisory Board (until 30 September 2004),

*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  
President of the IHK (Chamber of Commerce) East Thuringia, Gera  
Chairman of the Board of Trustees of the Fraunhofer Institute (IOF), Jena  
Member of the Board of Trustees of Innovent Jena e.V., Jena  
Chairman of the Advisory Board of the Thüringer Aufbaubank, Erfurt  
Member of the Advisory Board of ZSP Geodätische System GmbH, Jena (Trimble Group)  
Member of the Advisory Board of AJZ Engineering GmbH, Jena  
Member of the Advisory Board "East" of Dresdner Bank AG  
Member of the Advisory Board "East" of Deutsche Bank AG  
Member of the Advisory Board of Ernst-Abbe-Stiftung  
Member of the State Board of Trustees Saxony-Anhalt / Thuringia of the Founders' Association for German Science  
Member of the Board of Trustees of the Jena Polytechnic College.

**Dr. Manfred Fritsch, Kleinpürschütz bei Jena**

Member of the Supervisory Board,

*Other mandates:*

Member of the Supervisory Board of Messe AG, Erfurt,  
Member of the Board of the Kompetenznetz Optische Technologie OptoNet e.V., Jena,  
Chairman of the Advisory Board Verkehrslandeplatz Schöngleina GmbH, Schöngleina.

· **Dr. Markus Guthoff, Krefeld**

Member of the Board of the IKB Deutsche Industriebank AG,  
Member of the Supervisory Board (since 1 October 2004)

*Other mandates:*

Chairman of the Advisory Board of IKB Private Equity GmbH, Düsseldorf  
Chairman of the Advisory Board of IKB Data GmbH, Düsseldorf  
Member of the Supervisory Board of MetaDesign AG, Berlin  
Member of the Supervisory Board of Argantis GmbH, Cologne  
Member of the Advisory Board of Poppe & Potthoff, Werther  
Member of the Board of IKB Capital Corporation, New York, USA.

· **Wilhelm Burmeister, Jena**

Group Manager Manufacturing Control and Chairman of the Works Council of  
Carl Zeiss Meditec AG, Jena,  
Member of the Supervisory Board on behalf of the employees (since 1 October 2004)

*no other mandates.*

· **Jürgen Dömel, Jena**

Chairman of the Group Works Council of Carl Zeiss AG, Oberkochen,  
Chairman of the Works Council at Carl Zeiss Jena GmbH, Jena,  
Member of the Supervisory Board on behalf of the employees (until 30 September 2004)

*Other mandates:*

Member of the Supervisory Board of Carl Zeiss Jena GmbH, Jena,  
Member of the Supervisory Board of Carl Zeiss AG, Oberkochen

· **Franz-Jörg Stündel, Jena**

Service Engineer at Carl Zeiss Meditec AG, Jena,  
Member of the Works Council of Carl Zeiss Meditec AG, Jena,  
Member of the Supervisory Board on behalf of the employees

*no other mandates.*

The active members of the Supervisory Board received a total remuneration of € 130,000 for the 2003/2004 financial year. The amount of fixed and variable remuneration of individual members of the Supervisory Board is calculated in compliance with the Company's articles of association.

**Advances / loans and contingent liabilities in favour 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.

**(32) German Corporate Governance Code / Declaration according to Art. 161 AktG (Stock Corporation Act)**

The declaration mandated under Art. 161 AktG was made available to the Management and Supervisory Boards and the shareholders.

**(33) Appropriation of profits for the financial year 2003/2004**

The financial year 2003/2004 closed with a net income of € 13.231 million. The Management Board proposes that the accumulated earnings of € 13.073 million be carried forward to new account.

Jena, 8 November 2004  
Carl Zeiss Meditec AG



**Ulrich Krauss**  
*President and CEO*



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

## Audit opinion

We have audited the annual financial statements of Carl Zeiss Meditec AG, Jena, as well as the accounting and management report of the Company, for the financial year from 1 October 2003 to 30 September 2004. The maintenance of books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles of association 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 Art. 317 HGB (German Commercial Code) and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, German Institute of Auditors). 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 the 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 internal control system and 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 the 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 opinion 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 Carl Zeiss Meditec AG. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Stuttgart, 10 November 2004

Prof. Dr. Binder, Dr. Dr. Hillebrecht & Partner GmbH  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft



**Schupeck**  
Wirtschaftsprüfer



**Barth**  
Wirtschaftsprüfer

**Carl Zeiss Meditec AG**

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