

**Financial statements of  
Carl Zeiss Meditec AG, Jena (HGB)**  
2002/2003



CARL ZEISS MEDITEC

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# Management report

## Executive summary

For Carl Zeiss Meditec AG, Jena, ("Carl Zeiss Meditec" or the "Company") the financial year 2002/2003 was for the most part marked by the rapid and successful conclusion of the integration process following the previous year's merger and by the successful capital increase in September 2003.

In addition, in the past financial year Carl Zeiss Meditec completed its programme of strategic focusing on its core business in the field of ophthalmology. With effect from 1 May 2003 the peripheral activities in the dermatological and dental laser sector that had been transferred to the Company in the course of the merger were sold to the Italian companies EL.EN S.P.A., Florence, Italy, and Quanta System S.P.A., Milan, Italy.

Furthermore, there has been a significant streamlining and strategic optimisation of the Group structure. Consequently, the restructuring of the subsidiaries resulting from the merger in the United Kingdom, Italy and USA has now been completed. US operations were assumed by Carl Zeiss Meditec Inc., Dublin, USA. In Italy and the United Kingdom Carl Zeiss Meditec can now avail itself of the Carl Zeiss Group's established distribution network.

On 9 October 2002 the Company announced the start of its own direct sales activities in Japan. The Company holds 51% of the share capital of the new Tokyo-based subsidiary in Japan, the remaining 49% are owned by Carl Zeiss Co., Ltd., Tokyo, Japan. This step enabled Carl Zeiss Meditec to considerably strengthen its position in the important market.

In comparison with 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 2001/2002 are fully disclosed in the Company's individual annual financial statements pursuant to HGB (German Commercial Code). In the financial year 2002/2003 the latter were disclosed only until the date of the sale, i.e. for the period 1 October 2002 to 30 April 2003.

In the past financial year 2002/2003 Carl Zeiss Meditec generated revenues of € 102.9 million (previous year: € 119.3 million). In the reporting period, the result from ordinary activities stood at € 4.3 million following a loss of € -24.5 million in the previous year. This included operating losses of € -0.8 million incurred by the Aesthetic and Dental business units for the period 1 October 2002 to 30 April 2003. Despite the extraordinary loss from the sale of the Aesthetic and Dental business units, the minimal loss of € -0.2 million represented an almost break-even result (previous year: € -24.5 million). Synergies were realised in all functional cost areas. For example, selling and marketing expenses and general and administrative costs were each reduced by a third compared to the previous year. Research and development costs, including subsidies, fell by 12.4%. The balance sheet total as of 30 September 2003 increased from € 190.9 million in the previous year to € 202.7 million in the financial year 2002/2003, i.e. 6.2%. This is mainly attributable to increased cash on hand (€ 26.2 million compared to the previous year: € 3.4 million) due to the capital increase. This cash inflow more than compensated, in particular, for the approx. € 4.5 million net reduction in the balance sheet total due to the disposal of the Aesthetic and Dental business units.

Compared to the previous year, trade accounts receivable were reduced by a third. As of 30 September 2003 the latter totalled € 13.3 million (previous year: € 20.1 million). The Company's liquidity position was thus considerably strengthened. Cash flow from operating activities in the reporting period stood at € 9.6 million (previous year: € -2.4 million). The reduction in trade accounts receivable can be ascribed to the successfully implemented system for monitoring and controlling the working capital.

## **Business report**

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

In the financial year 2002/2003 the global economy was adversely influenced by a number of factors. Of these, the Iraq conflict exerted a major impact. It had the effect of curbing corporate investment and the consumer behaviour of private households. This was clearly perceptible in the world's largest market for medical technology, the USA. Further major factors were sluggish economic trends in Japan and the SARS lung epidemic that temporarily inhibited growth in the threshold countries in Eastern Asia. In the euro region there has been economic stagnation since autumn 2002. The lack of economic stimulus and effective upvaluation of the euro, particularly in relation to the US dollar and the Japanese yen, created an additional dampener. The continuing debate on reforms, including that of the health system, disseminated a feeling of unease in the German population.

### **2. Sales trends**

In the financial year 2002/2003 Carl Zeiss Meditec AG generated sales of € 102.9 million (previous year: € 119.3 million) or 13.8% less than the previous year. The following explanation is offered in this context: In the previous year significant revenues for the Aesthetic and Dental sectors, including the relevant service, were incorporated in the overall figures for the financial year. However, in the reporting period only revenues generated by the latter from 1 October 2002 to 30 April 2003 were taken into account, as these business units were sold to EL.EN S.P.A., Florence, Italy and Quanta System S.P.A., Milan, Italy with effect from 1 May 2003. Total revenues in the reporting period were also influenced by the forthcoming disposal of these activities and a significant fall-off in revenues was recorded as a result. In addition, deviations from the previous year are attributable to revenue in the Laser business unit. An important product in this sector, the MEL 80™, was launched in the second quarter of the current financial year. This resulted in a time lag in sales.

<sup>1</sup> Source: Deutsches Institut für Wirtschaftsforschung (German Institute for Economic Research), Berlin (Publ.): Weekly Report No. 43/2003 "The Situation of the Global and German Economies in Autumn 2003", 21 October 2003, Berlin

Sales by  
business unit

(€ '000)

Business unit	Financial year 2001/2002		Financial year 2002/2003		Change over previous year
	Sales	Percentage of sales	Sales	Percentage of sales	
Vision	97,016	81.3%	90,880	88.4%	-6.3%
thereof lasers	43,024	-	34,940	-	-18.8%
thereof diagnostics	53,992	-	55,940	-	3.6%
Aesthetic*	10,370	8.7%	2,657	2.6%	-
Dental*	2,143	1.8%	916	0.8%	-
Service	9,749	8.2%	8,407	8.2%	-13.8%
<b>Total</b>	<b>119,278</b>	<b>100.0%</b>	<b>102,860</b>	<b>100.0%</b>	<b>-13.8%</b>

\* with effect as of 1 May 2003 sold to the companies EL.EN S.P.A. and Quanta System S.P.A.

Sales revenues for the IOLMaster® diagnostic system showed a positive trend. The IOLMaster® is employed for non-contact, precise measurement of the eye prior to a cataract operation. Besides the USA, a further major market for the product was Europe. The MEL 80™ laser system, used for the correction of vision defects, also made a major contribution to sales revenues. Regional sales strongholds in this respect were Europe and Asia. 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 it is possible to diagnose retinal disorders and glaucoma at an early stage. Other important sales mainstays were the FF 450plus and VISUCAM™ lite fundus cameras for precise examination of the fundus of the eye. In future, marketing endeavours are to be intensified in the ophthalmic laser sector, e.g. the VISULAS YAG IIplus and VISULAS 532s, in order to tackle as yet untapped potential.

Overall, the regional breakdown of sales figures is as follows:

 Sales by  
region

(€ '000)

Region	Financial year 2001/2002		Financial year 2002/2003		Change over previous year
	Sales	Percentage of sales	Sales	Percentage of sales	
Germany	25,841	21.7%	18,508	18.0%	-28.4%
Europe (without Germany)	47,341	39.7%	41,510	40.4%	-12.3%
Americas	18,760	15.7%	19,565	19.0%	4.3%
Asia*	27,336	22.9%	23,277	22.6%	-14.8%
<b>Total</b>	<b>119,278</b>	<b>100.0%</b>	<b>102,860</b>	<b>100.0%</b>	<b>-13.8%</b>

\*including Africa

### 3. Orders on hand

As of 30 September 2003 orders on hand amounted to € 7.0 million compared to € 11.9 million on the same date in the previous year. In the Company's view, one of the main differences compared to the previous year is that during the entire financial year customers are placing significantly shorter-term orders than hitherto due to the volatile economic environment.

### 4. Production planning and production

Product manufacturing 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 Group 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 of key components.

In the past financial year the Company consolidated its manufacturing capacity at Jena. The objective of this was to achieve optimum integration of production of the MEL 80™ refractive laser system in the Company's infrastructure and to guarantee the availability of production capacities as required. For this purpose, manufacturing operations were merged and optimally integrated.

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 the ordering of individual items and the manufacture of 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. Personnel is deployed according to the rolling sales forecast.

## 6. Procurement

As described under Production planning and production, products are assembled almost exclusively to customer order. The purpose of this is to keep stocks as low as possible. Accordingly, the respective components are not called up from suppliers until one to two months prior to the production date. The Company places a great emphasis on long-term expertise-driven partnerships with its suppliers and regular qualification audits.

## 7. Quality management

Official registrations and approvals are meanwhile demanded by the majority of markets as a prerequisite for marketing medical products. Carl Zeiss Meditec's quality management system has been certified to DIN EN ISO 9001:2000 and DIN EN ISO 13485. The quality assurance system installed and applied by the Company according to Schedules II and V in conformance with the requirements of Directive 93/42/EEC is subject to EU monitoring. The quality management system employed by the Company was certified by DQS GmbH. Pursuant to the Medical Product Act, Carl Zeiss Meditec is thus authorised to market its products with the CE symbol within the European Union. In addition, the Carl Zeiss Meditec quality management system conforms to the US standard for "Good Manufacturing Practice" (GMP), 21 C.F.R. part 820, QSR.

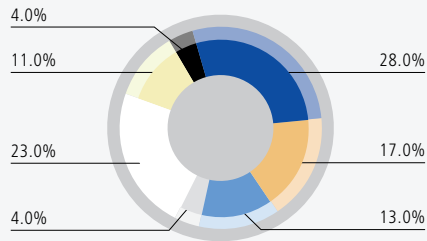
## 8. Registrations and approvals

The Company's products are always designed with the aim of global marketing. For this reason, the design principle, materials and components employed, as well as the necessary interfaces of new 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 takes longer, particularly in the USA and Japan, the Company's complete range of products has been approved in all major countries and markets of the world.

## 9. Personnel

As of 30 September 2003 the Company had 284 employees plus 24 trainees. The corresponding figures for the previous year were 362 employees plus 26 trainees. Neither of the above figures takes account of partially retired employees. To a large extent the decline in the workforce was attributable to the disposal of the Aesthetic and Dental business units as of 1 May 2003 and the related transfer of personnel into the new company. The following graphic provides an overview of the personnel structure at Carl Zeiss Meditec as of 30 September 2003.



- Production
- Research and development
- Sales and marketing
- Service
- Management board, commercial sector, administration
- Product management
- Quality management

◀ Personnel structure at Carl Zeiss Meditec AG as of 30 September 2003

## 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 9 October 2002 the Company announced the start of its own direct sales subsidiary in Japan. Carl Zeiss Meditec owns 51% of the share capital in this company. The remaining 49% are held by Carl Zeiss Co., Ltd., Tokyo, Japan. This enabled Carl Zeiss Meditec to consolidate its position in the important Japanese market.

The assets of the former subsidiary Asclepion-Meditec, Inc., Coto de Caza, USA were transferred to Carl Zeiss Meditec, Inc., Dublin, USA as of 31 December 2002. The company discontinued operations on 1 January 2003.

With effect from 1 February 2003 the ophthalmic distribution activities (Vision) of Asclepion-Meditec S.R.L., Milan, Italy was transferred to Carl Zeiss S.p.A. Arese, Italy within the scope of an asset deal. In addition to diagnostic systems, the latter is now also marketing refractive lasers in Italy.

The integration of the Vision sales activities of the affiliated company Carl Zeiss Meditec Ltd. (formerly Asclepion-Meditec Ltd.) of Edinburgh, Scotland into Carl Zeiss Ltd. of Welwyn Garden City, UK was likewise completed. Sales operations were transferred with effect from 1 February 2003. In addition to diagnostic systems, Carl Zeiss Ltd. now also markets refractive lasers in the UK. In addition to the Carl Zeiss Meditec holdings in Denfotex Ltd., Wynham, UK, the Inverkeithing, UK facility of Carl Zeiss Meditec Ltd. was sold back to Denfotex Ltd., Wynham, UK almost without affecting results.

With effect from 1 May 2003 the Company sold its non-core-business operations in the field of dermatological and ophthalmic laser applications to EL.EN S.P.A., Florence, Italy und Quanta System S.P.A., Milan, Italy. The transaction incurred extraordinary expenses to the amount of € 4.5 million to Carl Zeiss Meditec.

On 18 September 2003 Carl Zeiss Meditec increased its share capital of € 25.8 million by 10% to € 28.4 million by issuing 2.6 million new shares, each representing a pro rata amount of € 1.00 of the share capital. The subscription price of the shares was € 9.70. The respective net cash inflow thus amounted to € 25.1 million.

## 12. Net worth

### *a) Presentation of net worth*

Pursuant to commercial law the balance sheet total of Carl Zeiss Meditec as of 30 September 2003 stood at € 202.7 million. Compared to the previous year (€ 190.9 million) this constituted an increase of 6.2%. For the main part this is attributable to a net inflow of funds of € 24.3 million from the Company's cash capital increase on 18 September 2003 that more than compensated for various contracting effects on the assets side of the balance sheet. These include:

- A significant reduction in trade accounts receivable due to optimised collection management. Accordingly, this balance sheet item fell by about a third from € 20.1 million as of 30 September 2002 to € 13.3 million.
- Retirements from tangible fixed assets and inventories resulting from the disposal of peripheral operations Aesthetic and Dental. The corresponding net effect is approx. € 4.5 million.

Accounts receivable due from affiliated companies as of 30 September 2003 totalled € 13.7 million (previous year: € 13.1 million). These are exclusively accounts receivable from members of the Carl Zeiss Group. Compared to the previous year it must be noted that starting with the financial year 2002/2003 receivables and liabilities – insofar as they pertain to the same company and have the same due date – are offset against each other. The total is shown either under the balance sheet item "Accounts receivable" or "Liabilities", depending on which of the two values is greater. When considering this balance sheet item it is also important to know that in the past financial year all liabilities to the group treasury of the Carl Zeiss Group were repaid entirely. As of 30 September 2003 the credit balance with the Carl Zeiss Group treasury that has been disclosed under this item stood at € 4.9 million. (See also 13 Financial position).

The most important item on the assets side of the balance sheet is the € 115.9 million holding in Carl Zeiss Meditec Inc., Dublin, USA, shown under financial assets. Its share of the balance sheet total is 57.2% (previous year: 60.7%). The holding in the Japanese subsidiary Carl Zeiss Meditec Co., Ltd., Tokyo, Japan with a book value of € 0.3 million is also shown under this item.

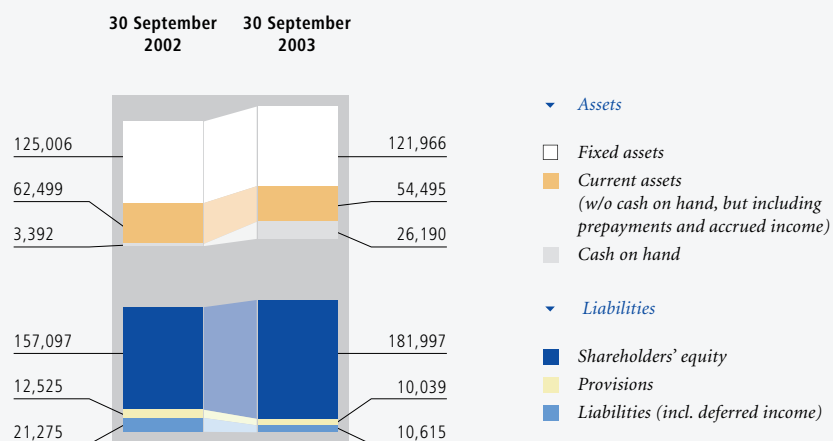
The capital increase of 18 September 2003 generated gross issuing proceeds of € 25.1 million for the Company. In the course of this transaction capital reserves increased by € 22.5 million, i.e. the amount in excess of the newly subscribed capital of € 2.6 million.

There has been a substantial reduction in liabilities due to affiliated companies, i.e. members of the Carl Zeiss Group, compared to the previous year. As of 30 September 2003 the latter totalled € 2.9 million (previous year: € 14.0 million). Besides the repayment of liabilities to the Carl Zeiss Group treasury, other existing liabilities were also reduced. Furthermore, the above-mentioned effect of offsetting receivables and liabilities pertaining to the same company comes to bear here. There was a 51.9% reduction in overall liabilities from € 20.8 million in the previous year to € 10.0 million.

The following graphic summarises the balance sheet structure as of 30 September 2002 and 30 September 2003:

Balance sheet structure of Carl Zeiss Meditec AG, Jena

(€ '000)



### b) Key ratios of net worth

In the past financial year Carl Zeiss Meditec was able to further consolidate its already sound net worth structure. In particular the development of cover ratios augurs well for a continued sound financial status in the long-term.

Key ratios of net worth

Key ratios	Definition	30 September 2002	30 September 2003	Change over previous year
Equity ratio	Equity capital / Balance sheet total	82.3%	89.8%	+7.5 percentage points
Debt-to-net-worth ratio	Total borrowed capital / Equity capital	21.2%	11.0%	-10.2 percentage points
Cover ratio A	Equity capital / Fixed assets	125.7%	149.2%	+23.5 percentage points
Cover ratio B	Equity capital + long-term borrowed capital / Anlagevermögen	126.3%	150.0%	+23.7 percentage points
Cover ratio for medium-term and long-term fixed assets	Equity capital + medium-term and long-term borrowed capital / Fixed assets + accounts receivable with a residual term of more than one year	123.4%	149.1%	+25.7 percentage points

### 13. Financial position

#### a) Statement of financial position

As of 30 September 2003 liquid funds amounted to € 26.2 million (previous year: € 3.4 million) The net increase in liquid funds in the financial year 2002/2003 amounted to € 22.8 million (previous year: net decrease € -6.5 million). A significant contribution to this development was made by the distinctly positive cash flow from operating activities. In the reporting period the latter amounted to € 9.6 million (previous year: € -2.4 million) At € 2.5 million (previous year: € -0.9 million) there was also an improvement in cash flow from investing activities. However, the overriding factor in the growth of the liquid assets of Carl Zeiss Meditec was the Company's cash capital increase on 18 September 2003. This resulted in a gross cash inflow of € 25.1 million.

Due to increased liquidity in the operative sector, in the reporting period the Company was able to pay off all liabilities to the Carl Zeiss Group treasury. As of 30 September 2003 the balance was € 4.9 million (previous year: liabilities of € 9.8 million). This balance accrues interest at the customary market rate and is at the Company's disposal at any time.

Special mention should be given to the first successes of the system implemented to monitor and control the working capital. Optimised collection management enabled outstanding accounts to be reduced by one third compared to the previous year, giving a substantial boost to operative liquidity.

#### b) Key ratios of financial position

The substantial increase of the working capital compared to the previous year is mainly attributable to the increase in cash on hand and the balance of € 4.9 million in the Carl Zeiss Group treasury (previous year: liabilities of € 9.8 million).

Key ratios	Definition	30 September 2002	30 September 2003	Change over previous year
Liquid funds	Cash at bank and in hand	€ 3.4 million	€ 26.2 million	+ 670.6%
Cash and cash equivalents	Cash at bank and in hand + accounts receivable (prev. year: liabilities) against Carl Zeiss Group treasury	€ -6.4 million	€ 31.1 million	+ 585.9%
Cash/current assets ratio	<u>Cash at bank and in hand</u> Current assets	5.2%	32.5%	+ 27.3 percentage points
Net working capital	Current assets less liquid funds less accounts receivable from Carl Zeiss Group less current liabilities	€ 41.0 million	€ 38.7 million	-5.6%
Working capital ratio	<u>Current assets</u> Current liabilities	316.9%	806.4%	+ 154.5%

◀ Key ratios of financial position

## 15. Investing activities

In the past financial year the Company did not effect any noteworthy investments. The sum total of investments in tangible fixed assets was € 0.8 million (previous year: € 0.8 million). The main focus of investments was office equipment and furniture.

The Company maintains two modern facilities in Jena and has a relatively limited vertical range of manufacture, so that extensive investment in plant, property and equipment was not necessary. Investments in financial assets amounted to € 0.4 million (previous year: € 1.2 million).

## 16. Earnings position

In the financial year 2002/2003 the gross margin at Carl Zeiss Meditec stood at 40.4% compared to 32.8% in the previous year. This corresponds to an improvement by 7.6 percentage points. The improvement is attributable to a change in the product mix sold and the fact that operating results in the financial year 2001/2002 were subject to the effects of the merger.

The result from ordinary activities in the financial year 2002/2003 stood at € 4.3 million (previous year: € -24.5 million). The following major influencing factors must be taken into consideration in the financial year 2002/2003:

- Besides the improvement in the gross margin, significant synergistic potential was realised in selling costs and general and administrative expenses. For instance, the selling and marketing expenses ratio (selling and marketing expenses as a percentage of sales revenues) in the reporting period was reduced to 20.1% by structural optimisation following 26.9% in the previous year. This corresponds to an € 11.4 million improvement to € 20.7 million in the financial year 2002/2003 (previous year: € 32.1 million). General and administrative expenses fell by 27.6% from € 7.0 million in the financial year 2001/2002 to € 5.1 million in the financial year 2002/2003. One of the reasons for this is the considerable expenses that had been incurred in the previous year for the merger of the former Carl Zeiss Ophthalmic Systems AG with the former Asclepion-Meditec AG. Further synergistic potential was exploited in research and development costs. Taking into account subsidies, the respective expenditure was reduced by 12.4% from € 12.9 million in the previous year to € 11.3 million in the financial year 2002/2003.
- The € 0.8 million net operating loss due to the sold-off Aesthetic and Dental business units that was incurred between 1 October 2002 and 30 April 2003 had the opposite effect.

- Other operating expenses increased from € 2.4 million in the previous year to € 4.7 million in the reporting period. Major items in this respect are currency effects and the cost of the cash capital increase in September 2003.
- Depreciation on financial assets fell to € 0.4 million from € 14.6 million in the previous year. In the current financial year this relates mainly to the complete devaluation of holdings in the restructured or closed-down subsidiaries of the former Asclepion-Meditec AG, Asclepion-Meditec S.R.L., Milan, Italy and the loans to Asclepion-Meditec Inc., Coto de Caza, USA.

The extraordinary result of € -4.5 million in the reporting period (previous year: € 0) is entirely attributable to losses on the sale of the inventories and fixed assets in connection with the disposal of the Aesthetic and Dental business units. In the financial year 2002/2003 Carl Zeiss Meditec thus turned in a net loss for the year of € -0.2 million (previous year: € -24.5 million).

By resolution of the Management Board the sum of € 32.8 million was transferred from capital reserves to fully compensate for the loss carried forward from the previous year. In addition, the sum of € 0.1 million was withdrawn for transfer to reserves for treasury stock. The Company thus fulfilled one of the conditions for the future pay-out of dividends.

## **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 identify and assess risks in good time and take the appropriate steps, the Company introduced a risk management system. An important component is the IT-based tool for recording, systemising and analysing risks and their potential. Carl Zeiss Meditec thus satisfies the legal requirements with regard to the German Control and Transparency Act in Stock corporations (KonTraG).
- **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 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 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 overall internal reporting, the risk management system is regularly subjected to an internal audit. In addition it formed a constituent part of the annual audit by the certified auditor.

## **2. Market and competition**

Competition on the market for medical technology will continue to grow. In this respect, 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 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 the Carl Zeiss Meditec.

### **3. Product development**

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. Furthermore, such findings may have a negative impact on existing methods and products and also on new methods and products upon which the Company's business success is founded.

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 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.

### **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 or delays in approval procedures of 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 could be an impediment to sales and to the future growth of the Company. Such an event would have negative consequences for the earnings situation of Carl Zeiss Meditec.

### **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 from one another. This could have a negative implications for the production, sales and the quality of the Company's products.

## 6. Patents and intellectual property

The Company is not aware of any 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 for the future. Such a violation could result in a delay in the delivery of products. In case of a negative outcome of a possibly resuting trial the Company may be obliged to enter into fee or licensing arrangements. There is a risk that such copyright or licensing agreements are 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 on the market.

## 7. Protection against loss of confidential data

In the sphere of IT-solutions the Company has established a number of mechanisms for the protection of confidential data. 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 risk that malfunctions during the treatment of eye ailments 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 no guaranteed that the Company's existing insurance cover provides sufficient cover for potential warranty 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 the book value of holdings in Carl Zeiss Meditec, Inc., Dublin, USA, that were stated at their market value at the time of their acquisition. However, this risk only comes to bear in the case that there is a long-term deterioration in the net worth, financial position and earnings of this Company.

## 10. Lawsuit against I-Spire s.p.r.l.

Carl Zeiss Meditec has filed a suit for damages against I-Spire s.p.r.l., Brussels, Belgium and its sole proprietor. By way of an asset deal, I-Spire s.p.r.l. acquired partial assets and liabilities of the former Asclepion-Meditec marketing partner Icon Laser Eye Centers, Inc. of Toronto, Canada. The substance of the action by Carl Zeiss Meditec is a claim for damages for breach of contract, outstanding debts and the repayment of loans. The lawsuit relates to the overall balance sheet item "Other Loans" totalling € 2.8 million. The sum involved in the law suit, however, substantially exceeds this amount. The appropriate adjustments had already been made on "Other Loans" in the financial year 2001/2002. At the present time the responsibility of the Belgian courts for this case is being negotiated. In view of Carl Zeiss Meditec, at least a unequivocal obligation can be deducted to pay outstanding debts ensuing from contracts between the former Asclepion-Meditec AG and Icon/I-Spire. However, should the Company's claim be dismissed, this could result in depreciation requirements to the full amount of the residual book value disclosed under "Other Loans".

## Research and development report

### 1. General comments

After deducting subsidies, Carl Zeiss Meditec spent € 11.3 million on research and development in the financial year 2002/2003 (previous year: € 12.9 million). A total of € 1.8 million was granted in subsidies (previous year: € 1.1 million). At 11.0% of sales revenue the R&D ratio remained almost constant in comparison to the previous year (10.8%). This is clear evidence that research and development still ranks highly, regardless of the synergistic effects since realised.

About 66 employees – 23% of the total workforce of Carl Zeiss Meditec – are engaged in the area of R&D.

### 2. Projects

In the past financial year the R&D division of Carl Zeiss Meditec completed the major development of the new MEL 80™ laser system for the treatment of vision defects. Marketing of the device began in the second quarter of the current financial year. Further R&D activities relate to standard product maintenance of the MEL 80™.

Another focus of attention was continued work on the CRS-Master™, a concept that connects the MEL 80™ laser to a so-called wavefront diagnostic system (see also 3. New product launches/product releases). Despite the enormous complexity of the topic, the main development was completed in a short space of time to permit product release in September 2003.

Further R&D activities concerned the VISUCAM™ digital fundus camera and the development of new systems in the field of ophthalmic lasers.

### 3. New product launches/product releases

In the financial year 2002/2003 the following products were brought onto the market by Carl Zeiss Meditec AG, Jena:

- **MEL 80™**: One of the most advanced laser devices for the treatment of visual defects (syndrome: refraction).
- **VISUCAM™ C**: With VISUCAM™ C the Company is broadening its product spectrum in the field of fully digital fundus cameras (syndrome: retina).
- **CRS-Master™**: The CRS-Master™ is a treatment concept that links the MEL 80™ laser to a highly advanced diagnostic system (based on wavefront aberrometry). It enables the treatment of vision defects with the MEL 80™ tailored to the patient's individual requirements (customized ablation).

## **Supplementary report**

There were no events of particular significance post balance sheet date 30 September 2003.

### **Forecast**

#### **1. Economic conditions<sup>2</sup>**

A revival of the global economy has set in since the spring of 2003. Factors that hitherto hindered growth no longer apply. The worldwide business and consumer climate has improved. The trailblazer in this trend is the USA. Expansive economic policies have given a surprisingly strong boost to domestic demand. In Japan the economy also appears to have returned to its expansion course. However, the European region continues to be a straggler as far as economic recovery is concerned. As yet, a turn of the tide is not in sight. However, there are indications of a revival in overall output. For instance, the Purchasing Manager Index and the economic assessment indicator published by the European Commission both point in a positive direction. The Asian developing countries – particularly China – are seen as a stimulant for the economies of the industrialised world. Against this background the Deutsche Institut für Wirtschaftsforschung (German Institute of Economic Research, DIW) forecasts a 7.5% increase for 2004 in the volume of world trade compared to 3.5% in previous years.

<sup>2</sup> Source: Deutsches Institut für Wirtschaftsforschung (German Institute for Economic Research), Berlin (Publ.): Weekly Report No. 43/2003 "The Situation of the Global and German Economies in Autumn 2003", 21 October 2003, Berlin

## 2. Outlook

In the financial year 2002/2003 Carl Zeiss Meditec completed a phase of strategic realignment. The fast and successful conclusion of the integration, focusing on the core business in ophthalmology, optimisation of the global presence and adoption of the corporate strategy form a sound basis for future growth. The Company's sales are to be doubled in the next five years. Profit-making potential is to be further increased, in particular through the optimisation of the product portfolio and the efficient use of resources. The cost-cutting measures successfully implemented in the financial year 2002/2003 will likewise be continued. Cash inflow from operating activities will continue to be an important control element for the Company in future. Asset management and the optimisation of working capital will be of great significance in this context.

## 3. Strategy

Due to its technological position and global marketing structure, Carl Zeiss Meditec occupies a strong competitive position in the field of ophthalmology. The strategic focal points of the future will include the development of innovative software solutions that facilitate data management and with which diagnostic and therapeutic systems can be more efficiently networked.

In addition, the product range for diagnostic and therapeutic systems is to be expanded. The fields of application include early recognition of serious eye diseases or the individual correction of visual defects. This step will be taken partly on the basis of technologies which are exclusively accessible by Carl Zeiss Meditec. Carl Zeiss Meditec will continue to work on them and supplement its product portfolio by co-operations and acquisitions.

## ***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 the Carl Zeiss Group 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, 14 November 2003

Carl Zeiss Meditec AG



**Ulrich Krauss**  
*President and CEO*



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

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

## Income statement

## Financial years 2001/2002 and 2002/2003

€ '000	Notes	Financial year 2001/2002	Financial year 2002/2003
<b>Sales revenues</b>	(19)	<b>119,278</b>	<b>102,860</b>
Cost of revenues		(80,209)	(61,348)
<b>Gross profit</b>		<b>39,069</b>	<b>41,512</b>
Selling and marketing expenses		(32,121)	(20,722)
General and administrative expenses		(7,047)	(5,103)
Research and development expenses		(13,944)	(13,061)
minus government grants received		1,071	1,790
Other operating income	(22)	5,226	4,435
Other operating expenses	(23)	(2,396)	(4,688)
Other interest and similiar income – thereof from affiliated companies € 0.144m (previous year: € 0.561m)		779	801
Amortisation of financial assets		(14,611)	(419)
Interest and similiar expenses – thereof due to affiliated companies € 0.187m (previous year: € 0.525m)		(546)	(200)
<b>Result from ordinary activities</b>		<b>(24,520)</b>	<b>4,345</b>
Extraordinary result	(24)	-	(4,500)
Taxes on income and earnings		78	-
Other taxes		(16)	(3)
<b>Other taxes</b>		<b>(24,458)</b>	<b>(158)</b>
Operating loss carry-forwards		(8,324)	(32,782)
Withdrawal from capital reserve		-	32,890
Transfer to reserve for own shares		-	(108)
<b>Accumulated deficit</b>		<b>(32,782)</b>	<b>(158)</b>

## Balance sheet

## 30 September 2002 and 30 September 2003

€ '000	Notes	30 September 2002		30 September 2003	
<b>Assets</b>					
Fixed assets	(5)				
Intangible fixed assets					
Concessions, industrial property rights and similar rights and assets including licenses for such rights and assets		46		34	
Property, plant and equipment					
Land and buildings including buildings on third-party land		7		214	
Plant and machinery		61		46	
Other fixtures and fittings, tools and equipment		2,666	2,734	1,632	1,892
Financial assets					
Shares in affiliated undertakings		116,182		116,183	
Loans to affiliated undertakings		1,023		1,023	
Investments		129		-	
Other loans		4,892	122,226	2,834	120,040
			<b>125,006</b>		<b>121,966</b>
Current assets					
Inventories	(6)				
Raw materials and supplies		8,943		9,903	
Work in progress		4,767		4,140	
Finished goods and goods for re-sale		12,437		8,906	
Payments on account		91	26,238	34	22,983
Accounts receivable and other assets					
Trade accounts receivable – thereof with a term of more than one year: € 0.718m (2002: € 2.905m)	(7)	20,144		13,343	
Due from affiliated companies – thereof with a term of more than one year: € 0 (2002: € 0)	(8)	13,140		13,694	
Due from undertakings to which the company is linked by virtue of participation – thereof with a term of more than one year: € 0 (2002: € 0)		44		-	
Other assets	(9)	2,652	35,980	4,209	31,246
Investments					
Own shares (treasury stock)			-		108
Cash on hand and cash in banking accounts	(10)		3,392		26,190
			<b>65,610</b>		<b>80,527</b>
Prepayments and accrued income	(11)		<b>281</b>		<b>158</b>
			<b>190,897</b>		<b>202,651</b>

€ '000	Notes	30 September 2002		30 September 2003	
<b>Liabilities</b>					
Shareholders' equity	(12)				
Share capital		25,833		28,417	
Additional paid-in capital		162,488		152,072	
Retained earnings					
Reserve for own shares		-		108	
Other retained earnings		1,558		1,558	
Accumulated deficit		(32,782)	<b>157,097</b>	(158)	<b>181,997</b>
Accrued expenses	(13)				
Provisions for pensions and similar obligations		735		974	
Provisions for taxation		70		70	
Other provisions		11,720	<b>12,525</b>	8,995	<b>10,039</b>
<b>Liabilities</b>					
Advances from customers		43		-	
Trade accounts payable					
– thereof with a term of up to one year: € 6.213m (2002: € 3.245m)	(15)	3,245		6,213	
Due to affiliated companies					
– thereof with a term of up to one year: € 2.938m (2002: € 13.946m)	(8)	13,977		2,938	
Other liabilities					
– thereof with a term of up to one year: € 0.835m (2002: € 3.514m)	(16)	3,514	<b>20,779</b>	852	<b>10,003</b>
– thereof from taxes: € 0.232m (2002: € 0.394m)					
– thereof from social security: € 0.405m (2001: € 0.470m)					
Deferred income	(17)		<b>496</b>		<b>612</b>
			<b>190,897</b>		<b>202,651</b>

## Fixed-asset movement schedule (gross presentation)

## Financial year 2002/2003

€ '000	Purchase/manufacturing cost			
	1.10.2002	Additions	Disposals	30.9.2003
<b>Intangible fixed assets</b>				
Software and patent	711	16	404	323
<b>Fixed assets</b>				
Land and buildings	16	226	-	242
Plant and machinery	161	29	52	138
Other fixtures and fittings, tools and equipment	7,352	550	1,932	5,970
	<b>7,529</b>	<b>805</b>	<b>1,984</b>	<b>6,350</b>
<b>Financial assets</b>				
Shares in affiliated companies	118,317	273	-	118,590
Loans to affiliated companies	7,542	148	-	7,690
Investments	4,797	-	129	4,668
Other loans	11,933	-	2,532	9,401
	<b>142,589</b>	<b>421</b>	<b>2,661</b>	<b>140,349</b>
	<b>150,829</b>	<b>1,242</b>	<b>5,049</b>	<b>147,022</b>

Cumulated depreciation			Residual book value		
1.10.2002	Depreciations in the FY	Disposals	30.9.2003	30.9.2003	1.10.2002
<b>665</b>	<b>28</b>	<b>404</b>	<b>289</b>	<b>34</b>	<b>46</b>
9	19	-	28	214	7
100	24	32	92	46	61
4,686	1,119	1,467	4,338	1,632	2,666
<b>4,795</b>	<b>1,162</b>	<b>1,499</b>	<b>4,458</b>	<b>1,892</b>	<b>2,734</b>
2,135	272	-	2,407	116,183	116,182
6,519	148	-	6,667	1,023	1,023
4,668	-	-	4,668	-	129
7,041	-	474	6,567	2,834	4,892
<b>20,363</b>	<b>420</b>	<b>474</b>	<b>20,309</b>	<b>120,040</b>	<b>122,226</b>
<b>25,823</b>	<b>1,610</b>	<b>2,377</b>	<b>25,056</b>	<b>121,966</b>	<b>125,006</b>

## ▼ Notes to the financial statements

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## Notes to the financial statements

### ***General details and explanatory notes to the financial statements***

#### **(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.

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.

#### **(2) Development of share capital and capital reserves in the financial year 2002/2003**

##### *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 2002/2003 no shares were subscribed from the contingent capital.

##### *Authorised capital*

Furthermore, the general meeting of 28 May 2002 resolved to eliminate the authorised capital of € 1.7 million and empower the Management Board to increase the share capital by up to € 12.917 million 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. € 2.583 million.

#### *Cash capital increase*

On 18 September 2003 Carl Zeiss Meditec effected a capital increase against cash contributions, taking advantage of the authorised capital. In the capital increase a total of 2,583,329 new no-par value bearer shares were tendered by public offering in Germany and international private placement by means of accelerated bookbuilding at a subscription price of € 9.70 per share. The gross earnings for Carl Zeiss Meditec resulting from the capital increase amounted to € 25.058 million, of which € 2.584 million was transferred to subscribed capital and € 22.474 million to capital reserves. After deduction of € 711,000 issuing costs, net cash inflow amounted to € 24.347 million.

The cash capital increase was recorded in the commercial register at the domicile of Carl Zeiss Meditec on 25 September 2003.

By resolution of the listing committee of the Frankfurt securities exchange dated 25 September 2003 the new shares were admitted to the regulated market and to a subsection of the regulated market subject to additional admission criteria (Prime Standard) and were included in stock exchange dealings on the regulated market on 29 September 2003.

#### *Withdrawal from capital reserves*

To compensate for the loss carryforward, the sum of € 32.782 million was withdrawn from capital reserves in compliance with the provisions of Art. 150 para. 4 (2) AktG (German Stock Corporation Act). In addition, € 108,000 was withdrawn for transfer to reserves for treasury stock, so that as of 30 September 2003 capital reserves totalled € 152.072 million.

#### *Treasury stock (own shares)*

With resolution of the annual meeting of shareholders on 12 March 2003, Carl Zeiss Meditec was again authorised to acquire own shares up to a value corresponding to 10% of the share capital of € 25.833 million until 11 September 2004 for the purpose of purchasing companies, parts of companies

or shares in companies. On the basis of this authorisation, in the financial year 2002/2003 the Company purchased the following treasury stock:

Date of stock purchase	Number of shares	Amount in €
10 March 2003	5,650	39,832
17 March 2003	4,000	31,200
31 March 2003	3,000	24,000
14 April 2003	1,230	9,840
23 April 2003	61	488
1 August 2003	311	2,644
<b>Figure as of 30 September 2003</b>	<b>14,252</b>	<b>108,004</b>

The portion of share capital attributable to acquired treasury stock is € 14,252, representing 0.05% of the share capital. Reserves were formed pursuant to Art. 272 para. 4 HGB (German Commercial Code) corresponding to the amount of € 108,000 stated on the assets side.

### **(3) Annual financial statements according to HGB and AktG (German Stock Corporation Act); Consolidated financial statements**

The annual financial statements of Carl Zeiss Meditec for the financial year ending 30 September 2003 have been prepared in € thousand 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 with 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 2001/2002 are fully disclosed in the Company's individual annual financial statements pursuant to HGB (German Commercial Code). In the financial year 2002/2003 the latter were disclosed only until the date of the sale, i.e. for the period 1 October 2002 to 30 April 2003.

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).

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

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

##### *Fixed assets*

##### **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 the merger were carried at their net book value and depreciated over the residual term.

##### **Tangible fixed assets**

Accruals are carried at the acquisition or manufacturing 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.

Starting with the financial year 2002/2003, the sliding scale method of depreciation is to be 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.

Full annual depreciation is calculated on accruals in movable property in the first half of the financial year 2002/2003, fifty percent on accruals in the second half.

Low-value assets are depreciated in full in the year of acquisition and treated as retirements 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 service 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 was 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 an impairment test, marketability reductions and loss-free valuation.

Trade goods and goods for sale are valued at acquisition costs 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.

## *Equity capital*

### **Subscribed capital**

The share capital is made up of 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 (Income Tax Act) using the Heubeck Guideline Tables 1998 with an assumed rate of interest of 6%.

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

The formation of accrued liabilities 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.

*Translation of foreign currencies*

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*****(5) Fixed assets**

The movement of individual fixed assets in the financial year 2002/2003 is to be seen in Appendix 4 to these notes.

Capital expenditure on fixed assets in the financial year relates mainly to construction measures and operating equipment in conjunction with the consolidation of manufacturing capacities at Jena.

Additions to shares in affiliated companies pertain to the acquisition of 51% of the shares in Carl Zeiss Meditec Co., Ltd., Tokyo, Japan. Retirements under "Other loans" mainly relate to the repayment of a loan.

Depreciation on investments in the financial year mainly relates to shares or loans to Asclepion Meditec S.R.L., Milan, Italy, that is currently undergoing a process of restructuring.

***Other assets*****(6) Inventories**

Inventories (€ 22.983 million) include valuation adjustments of € 3.963 million.

**(7) Trade accounts receivable**

The accounts receivable on the balance-sheet date amounted to € 13.343 million and included individual valuation adjustments and general bad-debt allowance of € 7.083 million.

The portion of accounts receivable with a residual term of over one year amounting to € 718,000 includes a discount of € 12,000.

### **(8) Accounts receivable from / liabilities due to related parties**

The balances disclosed mainly comprise sales and services as well as the debt to the corporate treasury of the Carl Zeiss Group to the amount of € 4.906 million.

### **(9) Other assets**

Other assets include for the main part claims due from:

- EL.EN S.P.A. and Quanta Systems S.P.A. accruing from the sale of peripheral activities in the field of dermatological and dental laser (€ 1.811 million),
- Biolase Europe GmbH, Floss, Germany, from the sale of the dependent operating facility at Floss (asset deal), (€ 1.145 million),
- Thüringer Aufbaubank from R&D cost subsidies (€ 495,000).

### **(10) Cash at bank and on hand**

The increase in liquid assets is mainly attributable to the capital increase of September 2003.

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

For the main part these consist of accrued holiday pay.

### **(12) Shareholders' equity**

#### *Subscribed capital*

Share capital was increased by € 2.584 million in the financial year 2002/2003 due to the capital increase to a current total of € 28.417 million.

#### *Additional paid-in capital*

Additional paid-in capital fell to € 152.072 million after offsetting the premium of € 22.474 million in conjunction with the capital increase against the withdrawal of € 32.782 million to compensate for the loss carryforward and the withdrawal of € 108,000 for transfer to reserves for treasury stock.

### **(13) Provisions**

#### *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 2003 was prepared by Dr. Dr. Heissmann GmbH, Wiesbaden.

The item also includes a provision for employee-financed commitments (postponed remuneration € 72,000).

#### *Other provisions*

These were formed in particular for contingent liabilities from:

- Warranties (€ 1.845 million),
- Special payments and commissions to employees (€ 1.285 million),
- Partial retirement (€ 856,000).
- Other provisions relating to personnel (€ 799,000)
- Outstanding invoices (€ 736,000),
- Licenses (€ 702,000).

### **(14) Liabilities**

Liabilities of Carl Zeiss Meditec AG are exclusively unsecured liabilities of € 9.986 million with a residual term of less than one year and € 17,000 with a residual term of more than one year.

### **(15) Trade accounts receivable**

Besides the usual commitments from trade payables to outside suppliers, deviating from the previous year these include liabilities from dealer commissions (€ 1.716 million).

### **(16) Other liabilities**

In addition to liabilities from social security contributions (€ 405,000) and withheld wage and church tax (€ 232,000), other liabilities mainly comprise liabilities from the accounts receivable sub-ledger (€ 105,000) and security deposits (€ 70,000). In the previous year, dealer commissions of € 2.503 million were disclosed under "Other liabilities".

**(17) Deferred income**

These mainly relate to deferred income for service and maintenance contracts (€ 407,000) extending beyond the financial year.

**(18) Balance sheet notes in accordance with Art. 251 HGB***Liabilities from guarantees and warranty agreements*

As of 30 September 2003 liabilities of € 695,000 existed from guarantees and warranty agreements, € 626,000 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	30.9.2003
Due 2003/2004	1,006
- thereof to affiliated companies: 1,006	
Due 2004/2005	1,005
- thereof to affiliated companies: 1,005	
Due 2005/2006	1,005
- thereof to affiliated companies: 1,005	
Due 2006/2007	502
- thereof to affiliated companies: 502	
	<b>3.518</b>

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		30.9.2003
Due 2003/2004		792
- thereof to affiliated companies:	539	
Due 2004/2005		654
- thereof to affiliated companies:	539	
Due 2005/2006		565
- thereof to affiliated companies:	539	
Due 2006/2007		543
- thereof to affiliated companies:	539	
Due 2007/2008		541
- thereof to affiliated companies:	539	
Due after 2007/2008		6,067
- thereof to affiliated companies:	6,067	
		<b>9,162</b>

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 € 25,000 are in the form of commitments for investments.

## **Comments on individual items on the income statement**

### *Layout of the income statement*

The income statement was prepared using the operational format.

## **(19) Sales revenues by region**

€ '000	2001/2002	2002/2003
Germany	25,841	18,508
Europe, not including Germany	47,341	41,510
Asia/Pacific region*	27,336	23,277
America	18,760	19,565
	<b>119,278</b>	<b>102,860</b>

\* including Africa

## Sales revenues by segment

€ '000	2001/2002	2002/2003
Vision	97,016	90,880
Aesthetic	10,370	2,657
Dental	2,143	916
Service	9,749	8,407
	<b>119,278</b>	<b>102,860</b>

## (20) Cost of materials

€ '000	2001/2002	2002/2003
a) Cost of raw materials, consumables and supplies, and of purchased goods	57,984	46,074
b) Costs of purchased services	16,255	16,532
	<b>74,239</b>	<b>62,606</b>

## (21) Personnel expenses

€ '000	2001/2002	2002/2003
a) Wages and salaries	18,046	15,309
b) Social security and pension costs –	3,023	2,918
<i>of which in respect of old-age pensions</i>	171	147
	<b>21,069</b>	<b>18,227</b>

## (22) Other operating income

Other operating revenue (€ 4.435 million) mainly comprises currency gains (€ 2.169 million) and revenue from the recovery of costs (€ 650,000).

Other income not related to the accounting period (€ 1.007 million) was attributable to a reduction in the general provision for doubtful debts (€ 774,000) and other income not related to the period (€ 233,000)

### **(23) Other operating expenses**

Other operating expenses (€ 4.688 million) mainly comprise currency losses (€ 2.247 million), costs related to the capital increase in September 2003 (€ 711,000) and valuation adjustments on current assets (€ 472,000). Expenses totalling € 857,000 are not related to the accounting period.

### **(24) Extraordinary result**

Extraordinary results relate exclusively to the disposal of the Aesthetic and Dental business units.

### **(25) Other disclosures**

#### *Details of existing equity interests in the Company*

In a letter dated 25 September 2003 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 25 September 2003 had fallen below the threshold of 75% and now stood at 73.08%. This portion includes 39.23% and 33.85% 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 (German Securities Trading Act). The aforementioned 39.23% of the voting rights originate from Carl Zeiss Jena GmbH, Jena; the aforementioned 33.85% of the voting rights originate from Carl Zeiss Beteiligungs-GmbH, Oberkochen. The Stiftungsunternehmen Carl Zeiss does not hold a direct interest.

In a letter dated 18 December 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 5% minimum holding requirement and that consequently as of 16 December 2002 it no longer held voting rights in the Company.

The Company published these notices on its Website at [www.meditec.zeiss.de](http://www.meditec.zeiss.de) on 25 September 2003 (re: Stiftungsunternehmen Carl Zeiss, Oberkochen) and on 17 December 2002 (re: Deutsche Effecten- und Wechsel-Beteiligungsgesellschaft AG, Jena) and submitted proof of publishing without delay to the Federal Supervisory Office for Financial Services (BAFin), Frankfurt am Main.

**(26) Details of shareholdings**

Name and domicile of the company	Currency	Share of voting capital (%)	Shareholders' equity as of 30 September 2003 translated at the market rate on the balance sheet date	thereof profit/loss for financial year 2002/2003 at average annual rate
Carl Zeiss Meditec, Inc., Dublin, USA	US\$ '000 € '000	100	38,218 32,695	9,394 8,694
Asclepion-Meditec S.R.L., Milan, Italy	€ '000	100	(1,147)	(1,099)
Carl Zeiss Meditec, Ltd., Edinburgh, Scotland	£ '000 € '000	100	(2,318) (3,321)	(448) (663)
AM Asset Management Verwaltungsgesellschaft mbH, Jena, Germany	€ '000	100	698	3
Carl Zeiss Meditec Co., Ltd., Tokyo, Japan	¥ '000 € '000	51	625,892 4,882	559,370 4,363

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.

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 procedures of Carl Zeiss Meditec products.

**(27) Particulars of personnel***Workforce size*

The Company's annual average workforce in the financial year 2002/2003 stood at 325 persons (previous year: 365), of which 25 were trainees (previous year: 22). 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.

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

Sector	Number of employees
Production	96
Sales and Service	116
Administration and Quality Management	40
Research and Development	73
<b>Total</b>	<b>325</b>

As at the balance-sheet date, 30 September 2003, there were 296 employees, of which 24 were trainees. These included 12 partially retired employees.

## (28) 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 "issue price" (basic value).

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

In the financial year 2002/2003 no options were exercised by employees.

## (29) 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 2002/2003 and their names recorded in the commercial register:

- **Ulrich Krauss**, Dipl.-Kaufmann (MBA), Weimar  
President and CEO, responsible for Sales, Marketing, Service, HR, IT, Refractive Surgery and Business Development
- **Bernd Hirsch**, Dipl.-Kaufmann (MBA), Weimar  
Member of the Management Board, responsible for Finances, Investor Relations and Legal Affairs
- **Dr rer.nat. Walter-Gerhard Wrobel**, Physicist, Jena  
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 € 571,000 for the financial year 2002/2003.

### Supervisory Board

The Supervisory Board of Carl Zeiss Meditec AG in the financial year 2002/2003 consisted of the following members:

- **Dr Michael Kaschke**, Oberkochen,  
Member of the Managing Board of the Stiftungsunternehmen Carl Zeiss, Oberkochen  
Chairman of the Supervisory Board  
Other mandates:  
Member of the Supervisory Board of Carl Zeiss Semiconductor Manufacturing Technologies AG, Oberkochen, Germany  
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 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 SPECTARIS, the German Industrial Association for Optical, Medical and Mechatronical Technologies, Cologne
  
- **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 JENOPTIK Photonics AG, Jena  
Chairman of the Supervisory Board of DEWB AG, Jena  
Member of the Supervisory Board of KRONE GmbH, Berlin
  
- **Dr Franz-Ferdinand von Falkenhausen**, Jena,  
Management spokesman of Carl Zeiss Jena GmbH, Jena  
Member of the Supervisory Board  
Other mandates:  
Member of the Supervisory Board of Carl Zeiss Semiconductor Manufacturing Technologies AG, Oberkochen, Germany  
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

- **Dr Manfred Fritsch**, Kleinpürschütz/Jena,  
Member of the management of Carl Zeiss Jena GmbH, Jena  
Member of the Supervisory Board  
Other mandates:  
Member of the Supervisory Board of MAZet Mikroelektronik Anwendungszentrum Thüringen,  
Erfurt, Germany  
Member of the Supervisory Board of Messe AG, Erfurt
- **Franz-Jörg Stündel**, Jena, Service Technician at Carl Zeiss Meditec AG, Jena  
Member of the Supervisory Board on behalf of the employees  
No other mandates
- **Jürgen Dömel**, Jena, Chairman of the Works Council at Carl Zeiss Jena GmbH, Jena  
Member of the Supervisory Board on behalf of the employees  
Other mandate:  
Member of the Supervisory Board of Carl Zeiss Jena GmbH, Jena

The active members of the Supervisory Board received a total remuneration of € 100,000 for the financial year 2002/2003.

#### *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.

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

The declaration mandated under Art. 161 German Stock Corporation Act (AktG) was made available to the Management and Supervisory Boards and the shareholders.

### **(31) Appropriation of profits for the financial year 2002/2003**

The financial year 2002/2003 closed with a net loss of € 157,737.05. The Management Board proposes that a net loss of € 157,737.05 be carried forward to new account.

Jena, 14. November 2003

Carl Zeiss Meditec AG



**Ulrich Krauss**  
*President and CEO*



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



**Dr. Walter-Gerhard Wrobel**  
*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 2002 to 30 September 2003. 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, 21 November 2003

Prof. Dr Binder, Dr Dr Hillebrecht & Partner GmbH  
Wirtschaftsprüfungsgesellschaft (Chartered Accountants)  
Steuerberatungsgesellschaft



Schupeck  
Wirtschaftsprüfer  
(German Public Auditor)



Barth  
Wirtschaftsprüfer  
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