



**Carl Zeiss Meditec AG, Jena, Germany**

"The international orientation of Carl Zeiss Meditec means that my work is extremely varied and exciting. Together with American and French colleagues from Research and Development, as well as many other colleagues all over the world, we are trying to meet customer demands using the best possible technologies available. My aim is to use all my knowledge and expertise to preserve and improve sight."



*Dr Martin Wiechmann*

Director of Research & Development



Join us for a review of a successful financial year 2004/2005. The “Letter to the shareholders” gives an overall assessment of the economic development of Carl Zeiss Meditec AG. This section also contains an overview of our investor relations activities and the most important milestones achieved in the past financial year. Learn more about our market environment and read about how we are continually working to expand our market position.

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

2004/2005 was a very successful financial year for us. We are very proud of the results we achieved. In spite of costs in connection with our recent acquisitions, sales and earnings increased again. In addition, the acquisition of the French company IOLTECH S.A. has given us access to the lucrative market for implants and consumables for ophthalmic surgery. And, for the first time in the history of Carl Zeiss Meditec AG ("Carl Zeiss Meditec", the "Company"), the Management Board and the Supervisory Board are planning to pay a portion of the Company's profits to all shareholders in the form of a dividend. With these results, however, comes an obligation for us to continue to do everything we can in future to further enhance Carl Zeiss Meditec's market position.

Of course, this performance would be inconceivable were it not for the commitment, motivation and eagerness to achieve of all Carl Zeiss Meditec employees, whom we would like to thank sincerely for their dedication.

The development of key financial figures proves impressively the extent to which Carl Zeiss Meditec increased its earning power – in spite of substantial investments. Consolidated sales, for example, increased year-on-year by 37.8% from € 234.9 million to € 323.7 million. Adjusted for currency effects and the acquisition of the companies IOLTECH S.A. and Laser Diagnostic Technologies, Inc., sales would have increased by 21.3%, equivalent to consolidated sales of € 285.0 million. A sustainable improvement in the Company's earnings situation was also achieved over the previous financial year: EBITDA increased year-on-year by 43.6% from € 31.7 million to € 45.6 million; EBIT rose 39.0% from € 26.3 million the previous year to € 36.6 million. Consolidated net income of € 17.1 million was achieved in financial year 2004/2005 (previous year € 12.6 million), which corresponds to an increase of 35.9%. Earnings per share grew by 27.3% from € 0.44 the previous year to € 0.56. We therefore succeeded in increasing this key figure again, in spite of the increased number of shares resulting from the successful cash capital increase in May 2005.

The Management Board and the Supervisory Board agree that the Company's operating earnings power has reached a level that can finance both further organic growth and long-term profit participation of the shareholders. Both these executive bodies will therefore propose to the Annual General Meeting to pay a dividend for the first time. This dividend is to be € 0.16 per share. Based on the consolidated net income generated, this will result in a dividend ratio of around 30%.

In particular the takeover of the French ophthalmic surgery specialist IOLTECH S.A. is an important step for us. This has enabled us to tap a market volume, which, at around US\$ 2.4 billion, is almost as large as our field of activity to date. It also allows us to participate in the growing number of treatments of cataract surgery. Our utmost priority is to continue the smooth process of integration. Primarily, this involves expanding the market presence of IOLTECH products. To do this, we will continue to systematically integrate and expand the relevant distribution channels.

In the medium term, we will develop and market innovative systems based on a combination of our experience in devices and systems for diagnosis and post-treatment, as well as implants for the treatment of ophthalmic diseases. Our focus will be on improving effectiveness and efficiency in the diagnosis and treatment of ophthalmic disorders.

In terms of investor relations, our activities focused intensively on nurturing relations with existing shareholders of Carl Zeiss Meditec, and on attracting new ones. We intend follow up the successes we have achieved in this area – the main ones being the increase in trading liquidity of the Carl Zeiss Meditec share and the successful capital increase – by proactively pursuing our strategic goal of being listed in the TecDAX on the German Stock Exchange.

Carl Zeiss Meditec made further inroads into sustaining its profitable growth trend in the future in financial year 2004/2005. Developments in the period under review also illustrate that we are in a position to improve our earnings situation, in spite of significant key investments. This development shall help us to achieve our goal of doubling sales by the end of financial year 2007/2008<sup>1</sup> and continue enhancing our earnings position in the meantime. This simultaneously highlights our commitment to maintaining Carl Zeiss Meditec's position as a growth share with substance in future. We will also continue to exploit suitable growth opportunities to complement organic growth within the frame of our strategic set-up. We will do this to create value – for our customers, shareholders and employees.

We hope you enjoy reading our Annual Report. We would be delighted if you would continue to accompany us on our journey into an interesting future. As we believe that an important criterion for this is active communication with you, we would invite you – in keeping with our policy of open and fair communication – to give us your feedback and requests and to openly discuss any queries you may have with us at any time.

Sincerely,

Yours



Ulrich Krauss  
President and CEO

Yours



Bernd Hirsch  
Member of the  
Management Board

Yours



James L. Taylor  
Member of the  
Management Board

# The Carl Zeiss Meditec share

## General capital market performance<sup>1</sup>

To date, performance on the capital markets has countered all fears that the increase in commodities prices, which has, in some cases, been substantial – in particular the price of crude oil – could restrict economic growth. In contrast – in 2005 the global economy is expanding once again after a period of economic deceleration last year. Lower interest rates on capital markets, expansive monetary policy and increasing assets successfully compensated for the higher global market prices for commodities.

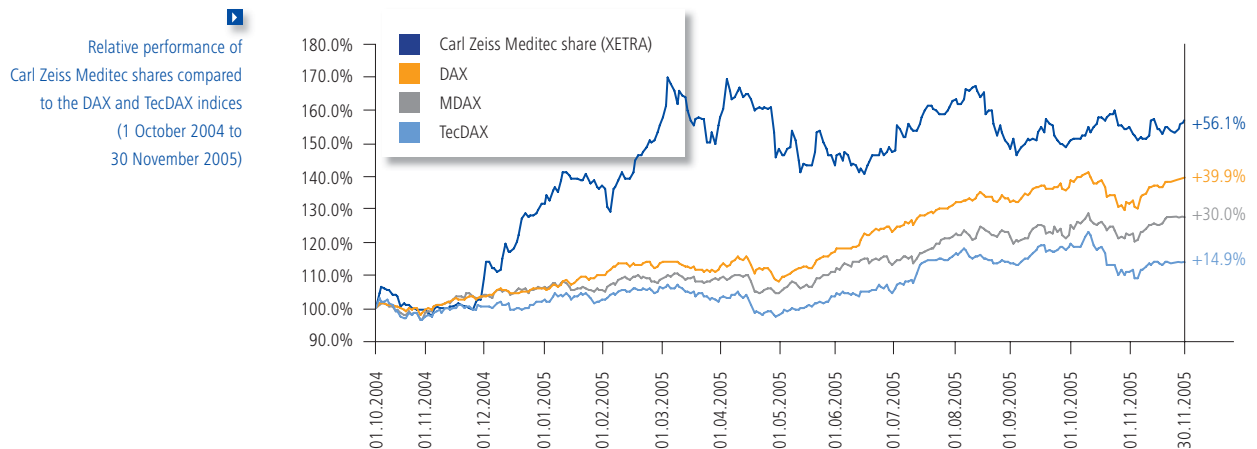
Higher corporate profits and a large number of positive reports from companies have led to equity indices continuing their upswing in the recent past. Above all recognition of the fact that the economy's dependence on high crude oil prices is not as strong as once thought has reinforced the positive view of further capital markets growth<sup>2</sup>. This is coupled with the fact that the competitive ability of European exporters has improved perceptibly as the euro fell again against the US dollar.<sup>3</sup>

The expectation voiced by some analysts at the end of 2004<sup>4</sup> that above all German small and midcaps would be able to perform better than the capital markets has been fulfilled. Deutsche Börse's MidCap index, the MDAX, outperformed the standard index for companies with a large market capitalisation, the DAX, from 1 October 2004 to 30 November 2005. Over this period, the MDAX increased by a total of 39.9%, whereas the DAX grew by 30.0%.<sup>5</sup>

1 Deutsches Institut für Wirtschaftsforschung (German Institute for Economic Research), Berlin (Publ.): Weekly Report No. 43/2005 "The Situation of the Global and German Economies in Autumn 2005", 24/10/2005, Berlin  
2 Close Borthor Seydler AG: Beyond the Market No. 46/2005, 17.11.2005, Frankfurt a.M.  
3 Deutsches Institut für Wirtschaftsforschung (German Institute for Economic Research), Berlin (Publ.): Weekly Report No. 43/2005 "The Situation of the Global and German Economies in Autumn 2005", 24/10/2005, Berlin, page 622 et seq.  
4 cf. Citigroup Smith Barney: Made in Germany – Country Research Germany, October 2004, London  
5 Source: Bloomberg

## Performance of Carl Zeiss Meditec shares: Outperformed DAX, MDAX and TecDAX

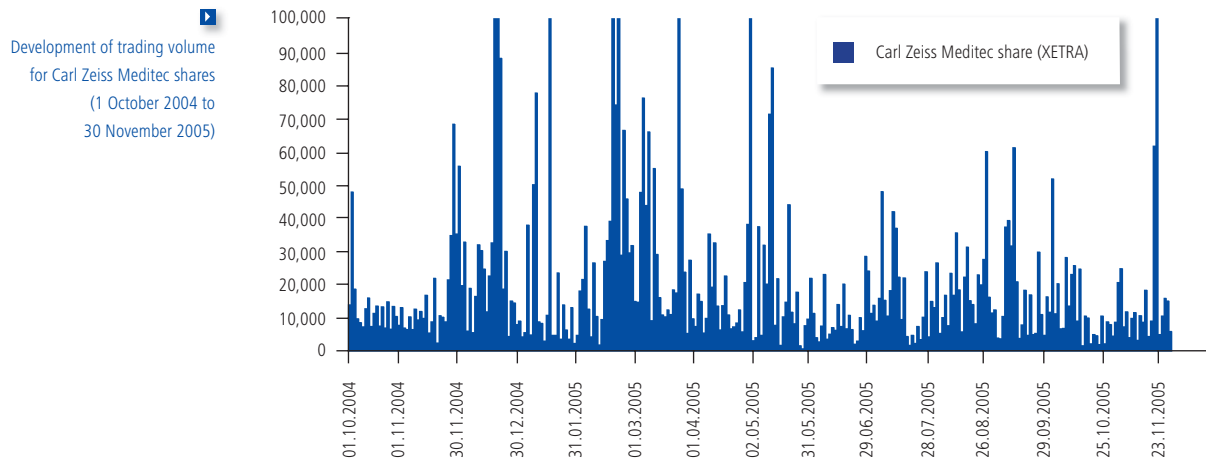
Carl Zeiss Meditec shares significantly outperformed the DAX and MDAX indices as well as the technology index TecDAX. The price of Carl Zeiss Meditec shares lifted by 56.1% from 1 October 2004 to 30 November 2005, whereas these three indices lagged this performance. Investors thus honored both the Company's profitable growth as well as its consistent implementation of its declared strategy – in particular the expansion of its position on the ophthalmic surgery market via the acquisition of IOLTECH S.A.



## Investor relations work: Carl Zeiss Meditec combines growth with substance

A key milestone in our investor relations work was the cash capital increase on 10 May 2005. As part of this capital increase, the share capital of Carl Zeiss Meditec AG increased by € 2.8 million (+10%) from € 29.7 million to € 32.5 million. It was possible to conclude the placement ahead of time thanks to the high demand from investors. In conformance with the requirements of the Aktiengesetz (AktG – German Public Limited Companies Act), the issue price of € 14.30 for the new shares closely approximated the market price. It was 4.7% below the turnover-weighted average of the XETRA prices of the last ten days of trading prior to the capital increase. The shares were placed with institutional investors in Europe by way of accelerated bookbuilding. Carl Zeiss AG, the main shareholder of Carl Zeiss Meditec AG, did not participate in the capital increase. As a result, free float increased from 28% to 35%.

A further key goal of our investor relations work was to increase the trading volume for Carl Zeiss Meditec shares. We were able to make excellent progress in this regard. The number of shares traded on average each day on Deutsche Börse's XETRA trading platform more than doubled in financial year 2004/2005. Whereas an average of around 9,800 shares were traded each day on XETRA in financial year 2003/2004, during the year under review this figure totaled around 22,300 shares each day.



As announced last year, we have further systematically intensified our investor relations activities. Our management discussed Carl Zeiss Meditec's performance with European institutional investors in detail at a series of roadshows in Germany, France, the United Kingdom, Denmark, The Netherlands, Finland and Sweden. In addition, a large number of telephone conferences were held and company visits took place, which helped to give investors a more in depth understanding of the Company. In addition, we took parting in highly ranked capital markets forums such as Deutsche Bank's Pan European Small and MidCap Conference in March 2005 and Deutsche Börse's equity forum in November 2005 in Frankfurt am Main. In line with the Company's objective of a transparent and fair communication policy, the information presented at these events is freely accessible on the Company's Web site.

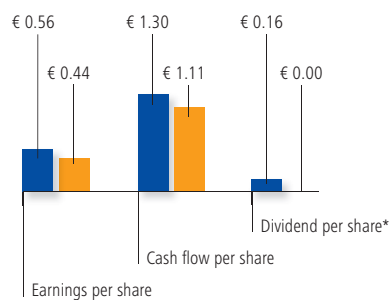
▶  
Carl Zeiss Meditec shares:  
key figures

Trading segment	Prime Standard
<b>Price performance:</b>	
Share price at the beginning of financial year 2004/2005*	€ 10.25
Share price at the end of financial year 2004/2005*	€ 15.63
Share price on 30 November 2005*	€ 16.00
Peak price in financial year 2004/2005*	€ 17.40
Bottom price in financial year 2004/2005*	€ 9.99
<b>Shareholder structure:</b>	
Free float	35%
Carl Zeiss AG	65%
Management and Supervisory Board of Carl Zeiss Meditec AG	< 0.01%
<b>Rating:</b>	
Market capitalisation of share capital as of 30 November 2005*	€ 520.4 Mio
Market capitalisation of free float as of 30 November 2005*	€ 181.8 Mio
<b>Designated sponsors:</b>	
Commerzbank AG, Close Brothers Seydler AG	

\* XETRA closing prices

The proposal which will be made by the Management and Supervisory Boards of Carl Zeiss Meditec to the General Meeting to pay a dividend for the first time underscores once again our aim of growing value – growth in which our shareholders participate. In our view, the planned dividend payment is the final milestone along our path – from our first contact with the capital market to becoming an established high-growth share with substance.

▶  
Selected key data relating to  
Carl Zeiss Meditec shares



\* In line with the proposal for the appropriation of net retained earnings in Carl Zeiss Meditec AG's single-entity annual financial statements (HGB)

## Outlook

Our primary objective continues to be maintaining open, consistent and fair communication with all investors. This aims to make Carl Zeiss Meditec shares even more attractive. We will continue to work on expanding our presence on the capital markets still further, and reinforcing the trading liquidity of our shares – in order to achieve the strategic objective of our investor relations activities: inclusion in Deutsche Börse’s TecDAX index.

### Carl Zeiss Meditec combines sustained growth with economic substance.

- Carl Zeiss Meditec enjoys an excellent position on the markets it can address, and plays an active role in industry consolidation
  - *Effective global sales network*
  - *“ZEISS” as a strong and prestigious brand*
  - *Acquisition of the French IOLTECH S.A.*
  - *Acquisition of diagnostic specialist Laser Diagnostic Technologies, Inc.*
- Sound financial structure
- Focus on constant, sustained value growth: expansion of sales, earnings and cash flow

## Carl Zeiss Meditec in financial year 2004/2005



**April 2005**  
Jena (Germany)

**European market launch:** The new fundus camera VISUCAM™ PRO™, which is used to examine and display images of the fundus of the eye, is introduced for the first time at the Spring Congress of the European Society of Ophthalmology, in England. Carl Zeiss Meditec also presents the new product at other European exhibitions in France (May) and Spain (June). The US launch takes place in association with the Annual Meeting of the American Academy of Ophthalmology (AAO), held from 15-18 October 2005, in Chicago. A prerequisite for this is the marketing approval of the US Food and Drug Administration (FDA), which was granted in November 2005. The innovative VISUCAM™ PRO™ fundus camera allows the fundus of the eye to be examined in minute detail without the need for pupil dilation with mydriatics.



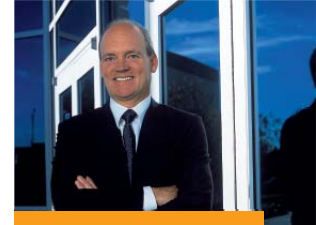
**10 August 2005**  
Jena (Germany)

**5,000th IOLMaster®, sold:** The 5,000th IOLMaster®, is delivered to a customer in France. This system can be used to calculate the refractive power of lenses and enables optimum correction of ametropia of the eye. Particularly important for doctors and patients is the system's reliability, combined with its high-precision, fast and painless determination of the optimum intraocular lens implant (intraocular lens or IOL). The IOLMaster®, from Carl Zeiss Meditec has revolutionised the treatment of cataracts and is unrivalled on the market to date. Three in four ophthalmic surgeons in Germany, for example, are already using IOLMaster®.



**2 December 2004**  
Dublin (California/USA)  
Jena (Germany)

**Formal acquisition complete:** Carl Zeiss Meditec officially completes the acquisition of Laser Diagnostic Technologies, Inc. (LDT), based in San Diego, California, USA. The takeover of the US glaucoma specialist reinforces the Company's market leadership in the growth market of glaucoma diagnostics. LDT's flagship product, GDx VCC, a system specifically designed for the early detection, diagnosis and management of glaucoma, is a perfect complement to the market presence of Carl Zeiss Meditec's STRATUSOCT™. The acquisition gives Carl Zeiss Meditec access to the customer group of doctors and optometrists, who require special examination techniques that focus on the treatment of glaucoma.



**9 December 2004**  
Jena (Germany),  
Dublin (California/USA)

**Expansion of the Management Board:** James L. Taylor is appointed as a new member of the Management Board of Carl Zeiss Meditec AG. Mr. Taylor looks back on more than 20 years of successful management experience with international medical technology companies and has presided over the US subsidiary Carl Zeiss Meditec, Inc. since 2001. As a member of the Management Board he will be responsible in future for the areas of Marketing and Research and Development. The expansion of the Management Board reflects Carl Zeiss Meditec's global standing in the field of ophthalmology and its international growth targets.



16/17 December 2004,  
1 February 2005,  
5 April 2005  
Jena (Germany),  
La Rochelle (France)

**Acquisition:** The acquisition of the French company IOLTECH S.A. gives Carl Zeiss Meditec an experienced partner in the growth market of ophthalmic surgery.

This most significant acquisition of Carl Zeiss Meditec to date is an excellent starting point for future expansion of the Company's position in the economically lucrative ophthalmic surgery market segment. The acquisition has also simultaneously doubled the market potential being addressed.

**The acquisition milestones are as follows:**

- During the night of 16 to 17 December 2004 Carl Zeiss Meditec and the majority shareholder of IOLTECH S.A., Philippe Tourrette, sign a sale and purchase agreement containing the terms and conditions relating to the acquisition by Carl Zeiss Meditec of a majority holding (about 63 percent) in IOLTECH.
- The formal acquisition of the majority holding in IOLTECH is concluded on 1 February 2005.
- During the period from 14 March to 5 April 2005 Carl Zeiss Meditec makes a takeover offer to the remaining IOLTECH shareholders to purchase IOLTECH shares at a cash price of € 91.80 per share. Approximately two thirds of the minority shareholders accepted this offer, thus increasing Carl Zeiss Meditec's holding in IOLTECH to 87.1%.



10 May 2005  
Jena (Germany),  
Frankfurt (Germany)

**Capital increase:** In order to restore its financial scope following the acquisitions of IOLTECH and LDT and be able to pursue further growth opportunities, Carl Zeiss Meditec performs a capital increase against cash contributions. This raises the Company's share capital by € 2.8 million from € 29.7 million to € 32.5 million. Due to the high demand, the new shares are placed within several hours with institutional investors in Europe. The purchase price is € 14.30.

The cash capital increase raises Carl Zeiss Meditec's free float to around 35 percent. The total gross transaction value is about € 40.6 million.



13 May 2005  
Jena (Germany)

**Third Annual General Meeting:** The successful growth rate of the Company is met again this year with the wide approval of the shareholders present, who represent more than two thirds of the share capital. All resolutions are accordingly adopted by an overwhelming majority (by more than 90 percent of the share capital present in each case).

- Products
- Events
- Events after the balance sheet date



15 October 2005  
Chicago (USA)

**AAO:** Carl Zeiss Meditec presents its latest products on the ophthalmology market at the world's most prestigious ophthalmology congress. The product highlights this year include Visante<sup>TM</sup>OCT, as well as the market launch of the fundus camera VISUCAM<sup>TM</sup> PRO<sup>NM</sup>. The new subsidiary IOLTECH introduced itself as the youngest member of the Carl Zeiss Meditec Group for the first time.



14 December 2005  
Jena (Germany)

**Carl Zeiss Meditec plans to distribute dividends for the first time:** At the Supervisory Board Meeting to adopt the annual financial statements the Supervisory Board approved the Management Board's proposal for the utilisation of profits. This proposal specifies that a portion of the net retained profits generated in financial year 2004/2005 should be distributed as a dividend to the Company's shareholders. The Management Board and the Supervisory Board will present a resolution to this effect for approval by the Annual General Meeting on 10 March 2006. It is proposed to pay a dividend of € 0.16 per no-par-value share. Based on the consolidated

net income of Carl Zeiss Meditec of € 17.1 million for financial year 2004/2005, the proposed dividend is equivalent to a total dividend pay-out ratio of around 30%.

This step highlights the Company's self-image that it is a growth share with substance. In spite of additional expenses incurred in connection with its acquisitions, Carl Zeiss Meditec increased its profitability level in financial year 2004/2005. The Management Board and Supervisory Board are therefore of the opinion that paying a dividend to our shareholders will not stand in the way of the further expansion and growth targets of the Company.

# Carl Zeiss Meditec's potential in the growth market of ophthalmology

## The ophthalmic market

Carl Zeiss Meditec supplies diagnostic and therapeutic systems for the four main conditions encountered in ophthalmology: vision defects, cataracts, glaucoma and various retinal diseases. Our systems and system solutions help ophthalmologists, hospitals and optometrists to diagnose and treat these disorders. By offering cutting-edge product innovations we aim to provide our customers with extraordinary value-added and patients with the best and fastest cure for their disease.

### As a customer survey in the USA proves: doctors have the utmost confidence in the capabilities of Carl Zeiss Meditec systems

A customer survey carried out by Carl Zeiss Meditec across the USA in summer 2005 proves one thing above all: ophthalmologists and optometrists trust the diagnosis of Carl Zeiss Meditec systems. What does this mean for the daily usage of the products? When asked, customers emphasised that Carl Zeiss Meditec products are reliable and accurate and that the test results obtained with them are always unambiguous, clear and reproducible at any time.

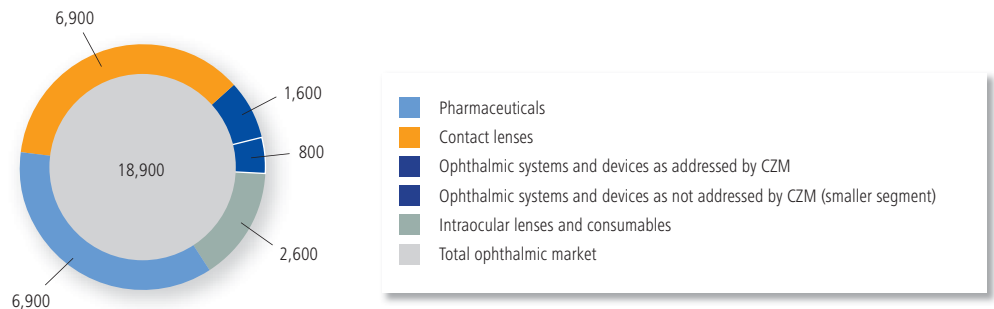
Another important factor that customers say speaks for Carl Zeiss Meditec products is the high level of care that can be achieved using the innovative diagnostic systems. Making this possible for patients is what any doctor wants, say those surveyed. In order to achieve this, it is immensely important to detect things that would otherwise go undiagnosed. In particular, it is absolutely necessary for the findings in each patient to be accurate.

No wonder, then, that the doctors and optometrists surveyed also agreed with the following statement: "With Carl Zeiss Meditec instruments, my patients can see that I truly care about the health of their eyes."

Statements such as these confirm to us that we are on the right track, but, above all, they are an incentive for us to continue doing everything we can in the future to ensure that diagnosis and treatment with our systems and system solutions bring even greater benefit and an even higher quality of treatment to doctors and patients.

According to Company estimates, the ophthalmic market had a total volume of around US\$ 19 billion in 2004. The market is divided into the following segments: Pharmaceuticals, Devices and Systems, Surgical Implants and Consumables, and Contact Lenses. Carl Zeiss Meditec is successfully represented in the Devices and Systems market segment and in the Surgical Implants and Consumables segment. The market segment for Ophthalmic Devices and Systems, in which Carl Zeiss Meditec is currently active at a market share of around 20 percent, accounted for a volume of about US\$ 1.5 billion in 2004. The segment for Surgical Consumables and Implants for the treatment of cataracts had a market volume the same year of around US\$ 2.8 billion.<sup>1</sup>

▶  
The ophthalmic market  
and its subsegments  
(2004)



## Trends in ophthalmology

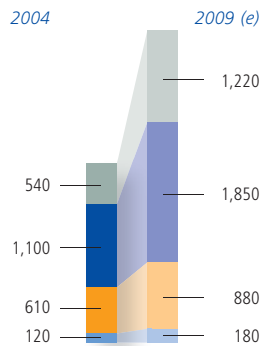
Ophthalmology is a growth market. We are forecasting average annual growth of around 10 percent in the Devices and Systems segment for the period 2004 to 2009. The business with implants (including intraocular lenses – IOL), which accounts for approximately half of the Surgical Implants and Consumables segment, is expected to grow even more than the Devices and Systems segment over the coming years. External market studies estimate that average annual growth – depending on the region of the world – will be between 8 and 15 percent. Growth drivers – in addition to demographic and lifestyle factors – will be innovative implants.<sup>2</sup>

<sup>1</sup> Own estimates based on external company reports and external market reports, such as MarketScope 2004 et al.

<sup>2</sup> See MarketScope 2004

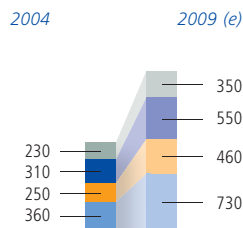
The development prospects for the market segments Devices and Systems and Intraocular Lenses are presented in the following charts.

Market growth in the Devices and Systems market segment



Asia/Pacific	+18%
Americas	+11%
Europe (excl. Germany)	+8%
Germany	+8%

Market growth in the Surgical Implants and Consumables market segment (part of the IOL/Consumables market segment of the overall ophthalmic market)



Japan	+8%
Europe	+12%
Rest of world	+13%
USA	+15%

Health expenditure is increasing all over the world. Demographic development has a decisive influence on the ophthalmic market. The percentage of elderly people in the overall population is growing at an ever-increasing rate. Since the probability of ophthalmic diseases increases with age, the number of cases is growing accordingly.

Another trend is evident in developing and emerging countries. Governments here increasingly recognise that blindness is not only a tragedy for the individual concerned: it also gives rise to an economic problem, since caring and providing for the blind ties up funds and simultaneously deprives trade and industry of potential productive resources. For this reason, more and more programmes, such as Vision 2020, are being set up on a national and international level to fight preventable blindness (particularly as a result of cataracts). This is leading to a demand not only for devices and systems, but also for implants and consumables. State-of-the-art treatment methods are also increasingly in demand in industrialised countries.

At the same time, the growing demand for health services is forcing diagnosis and treatments to become more efficient. As a result, more and more therapies are now only being remunerated on a lump-sum basis in a growing number of countries, rather than on a time and material basis. This has led to a growth in demand for products that enable in particular time-consuming, routine activities to be carried out better, faster and with greater precision. Such systems – one good example is IOLMaster® – enable us to meet the needs of doctors and patients alike.

The market also demands continuous improvements in medical technology. The main objective is to employ new devices and systems to facilitate more modern diagnostic and therapeutic techniques, both for diseases that have already been identified, and for those that were either previously unknown or considered incurable. Early detection is vital: the earlier particularly serious diseases such as glaucoma or retinal diseases can be diagnosed, the sooner and more successfully they can be treated. Both these diseases still rank among the most frequent causes of blindness in industrialised countries and, although no cure has been found for them to date, their progression can be impeded. When developing new procedures, great importance is attached to networking individual devices and combining diagnosis with treatment. Another trend that is emerging is a growing interrelation between the diagnosis and treatment of individual ophthalmic diseases. This applies, for example, to vision defects and cataracts. There is a growing interest in correcting existing vision defects, such as short-sightedness (myopia) and long-sightedness (hyperopia), during cataract surgery. The aim is to optimise the vision of these patients. Correcting refractive errors using innovative intraocular lenses therefore, seems to be quite a feasible possibility in the medium term. A similar trend has been observed linking glaucoma and retinal diseases. The interest here – as described above – relates more to early recognition and thus the basic preservation of sight.

Like other broad areas of medical technology, the market for ophthalmology is also characterised by marked consolidation trends. Smaller providers with interesting technologies and products often lack the opportunities to market these worldwide. In years to come, this could mean that the main providers on the market will be those with a comprehensive product and service offering. This is closely related to another market trend: to an increasing extent, customers are no longer asking for individual products, but for end-to-end solutions. This is accompanied by the efforts of individual providers to strategically round off their product portfolio. As in other fields, being able to cover the entire value chain of a particular treatment in ophthalmology brings with it a considerable competitive advantage. Carl Zeiss Meditec has integrated this aspect – and others – into its growth strategy.

## The growth strategy at Carl Zeiss Meditec

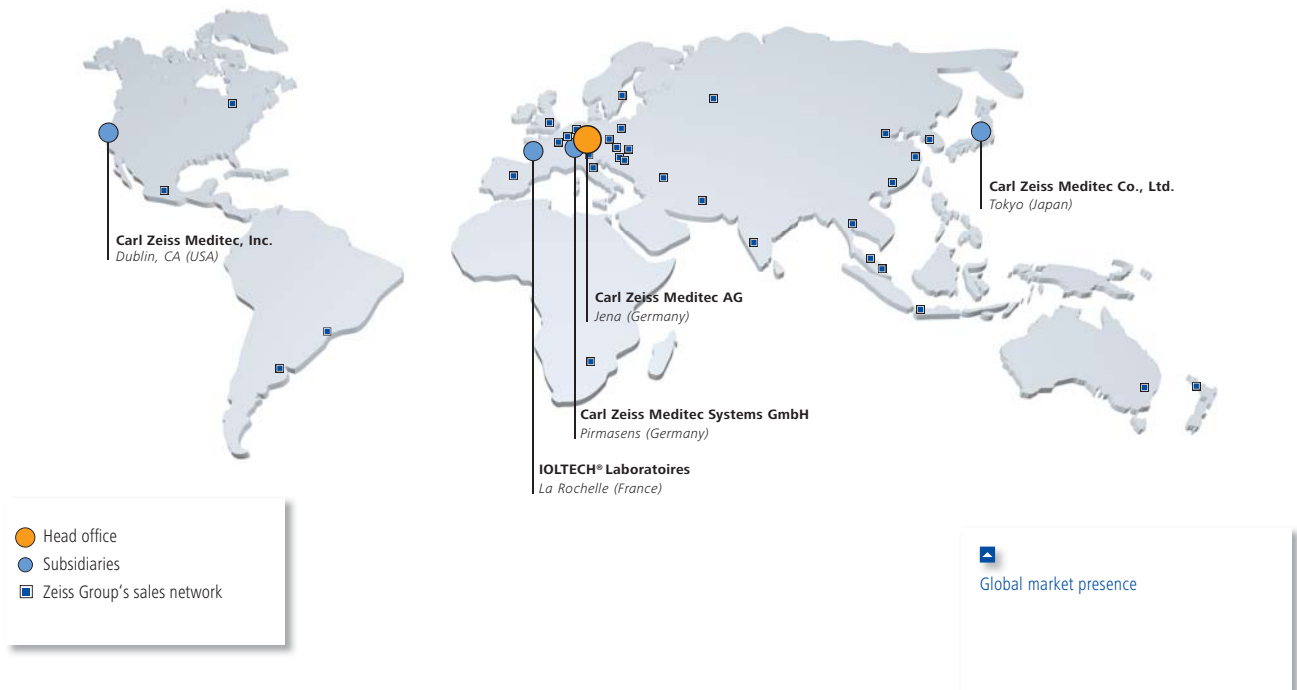
*Our tenet is that everyone has the right to sight.  
At Carl Zeiss Meditec, we are committed to working towards  
giving everyone perfect vision.*

There are three main pillars to Carl Zeiss Meditec's growth strategy. The objective of these is to help Carl Zeiss Meditec maintain its profitable growth trend in the future.

The first pillar of this strategy is to continuously advance the existing product portfolio and develop new products. With regard to innovation and quality requirements, medicine, particularly ophthalmology, will have to make a substantial contribution to treating diseases. A necessary prerequisite in this respect – and one which is crucial to remaining competitive – is all-round technological and application expertise. In light of rising treatment costs and falling health budgets, this is a way to offer doctors and patients the best possible and, at the same time, the most cost-effective medical care.

The acquisition of Laser Diagnostic Technologies, Inc. (LDT) is one example of the concept behind the second pillar of our growth strategy: targeted growth in our traditional markets through the acquisition of providers specialising in individual, interesting products or technologies. The takeover of the US glaucoma specialist extends our market leadership in the growth market of glaucoma diagnosis. The company's main product, GDx VCC, a system specifically designed for the early detection, diagnosis and management of glaucoma, complements our product portfolio perfectly. By integrating this product into our global distribution channels, Carl Zeiss Meditec will increase its share in the growing market for the early detection of glaucoma.

Entering adjacent and addressable market segments and developing these systematically is another component of Carl Zeiss Meditec's growth strategy. The takeover of French ophthalmic surgery specialist IOLTECH S.A. is the most significant milestone so far. This acquisition has doubled the market potential we are addressing. IOLTECH S.A. specialises above all in the production and distribution of implants and consumables for ophthalmic surgery. In IOLTECH we have found an ideal partner for tapping the highly lucrative ophthalmic surgery market. In our opinion, the acquisition of IOLTECH and our presence in the device business put us in an excellent starting position to expand our market share in the segment for Intraocular Lenses and Consumables, and to compete with the current leading players – since the combined expertise of these two companies brings medium-term opportunities to develop innovative products.



### At home in the world's markets

With our European headquarters (Jena/Germany) and our Pirmasens (Germany) site, and our successful subsidiaries in North America (Dublin/USA), Japan (Tokyo) and France (La Rochelle) we have a direct presence in the world's key markets. Most of our products are sold directly via Carl Zeiss Meditec itself and its subsidiaries.

We also use the efficient distribution network of the Carl Zeiss Group: about 40 distribution companies and over 100 agencies worldwide guarantee us customer proximity and give us the extra edge needed to prevail in global competition.

## Outlook

Carl Zeiss Meditec combines growth with substance. That will remain so in the future. We will continue to expand our existing product portfolio and take advantage of future external growth opportunities in line with our strategic orientation. Starting with the IOLTECH acquisition, we will align our sales structures with our expanded product portfolio. We will, therefore, continue to work on the expansion and the strategic orientation of our global sales activities.

Carl Zeiss Meditec is focused on creating value. We will – as in the past – strengthen our competitive position on the basis of internal and external growth. We believe that the prospects are good – for our customers, shareholders and employees.



Almost half of  
all Carl Zeiss Meditec employees  
work in the USA



Carl Zeiss Meditec combines  
tradition with innovation



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

"To help people that they can see the world with their own eyes again – that is what I am working for day after day. Now together with my new colleagues at Carl Zeiss Meditec. Customer satisfaction is the main focus of my efforts. I can never know or do enough in my endeavours to realise this ideal. The international network of Carl Zeiss Meditec is crucial in helping me to continuously optimise my work. What delights me most is that together with Carl Zeiss Meditec I can help people to acquire perfect vision."



*Franck Benoist*

Production Manager (IOLTECH Intraocular Lenses)



## Successful expansion into the ophthalmic surgery market

One of the most important strategic milestones in the history of Carl Zeiss Meditec AG is the takeover of ophthalmic surgery specialist IOLTECH S.A. based at La Rochelle, France. To us this means no less than the opening up of a completely new segment of the ophthalmology market, i.e. implants and consumables for ophthalmic surgery. This makes Carl Zeiss Meditec the first full-service supplier of ophthalmic equipment and systems to close the gap between diagnostic equipment and products for ophthalmic surgery. Other equipment manufacturers have hitherto been reluctant to take such a step<sup>1</sup>. With the acquisition of IOLTECH and the respective widening of our product portfolio we are now in a better position to address the value-added chain in the field of ophthalmology (primarily surgical treatment of cataracts) from diagnosis to treatment and post-operative care.

The IOLTECH Group includes various subsidiaries, for example in the production and technology fields. It has its own, newly founded sales branches in Italy, Germany and Belgium.



Around 300 IOLTECH employees work on treatments for cataracts at the company's site in La Rochelle.

IOLTECH develops, manufactures and markets intraocular lenses (IOL) and accessories for the surgical treatment of cataracts, the most frequently performed operation worldwide. Founded as a commercial laboratory in 1990, over the past few years IOLTECH S.A. has quickly advanced to become one of the major players in the ophthalmic surgery market due to its strict market orientation. In the past financial year<sup>2</sup> the IOLTECH Group's workforce of 300 generated sales of about € 54 million. Intraocular lenses, in short IOL, are the focus of the company's business. The product portfolio is well established, particularly in Europe – with France as its core market, where about half of total turnover is still generated. Growth prospects ensue, among others, from the expansion of marketing channels in Europe, and in the medium term also in Asian countries and the USA.

#### Historical development

- 1990 Founded by Philippe Tourrette as an IOL sales company in France
- 1994 ISO 9001 standard and CE certification
- 1995 Product diversification, among others in the field of cataract products and start of production of refractive surgery products (so-called refractive intraocular lenses)
- 1998 IPO at the Paris Stock Exchange Euronext
- 1999 Development of various technologies, incl. "Hard & Soft" technology for the manufacture of various IOL, various strategic partnerships
- 2000 Acquisition of France Chirurgie Instrumentation (FCI; various ophthalmic surgery products), approval of GBR refractive lens, cooperation with Novartis
- 2002 Acquisition of Hyaltech Ltd. (specialised in the manufacture of so-called viscoelastics, required for cataract surgery)
- 2004 Acquisition of Ciba Vision's IOL business
- 2005 Acquisition of IOLTECH by Carl Zeiss Meditec

IOLTECH gives us an experienced partner in the field of ophthalmic surgery that brings with it the necessary critical mass, not least in terms of logistics and cleanroom manufacturing capacities. The key to IOLTECH's success in the past has above all been the company's strict customer orientation and its capacity to produce a continuous stream of innovations. The acquisition brings advantages to both sides:

- For Carl Zeiss Meditec entry to the market for ophthalmic surgery means a strategic expansion of its product portfolio, enabling it to cover the value-added chain from diagnosis to treatment and post-treatment of cataracts.
- Entry to the market for ophthalmic surgery now gives Carl Zeiss Meditec the opportunity to participate directly in the continually growing number of treatments.
- The product know-how and expertise of both companies are an ideal complement to each other and promise innovative and unique solutions for their customers.
- IOLTECH has a strong position in Europe and bright prospects for growth outside Europe.



The knowledge of our employees helps to identify market trends in good time and is thus crucial to our success.



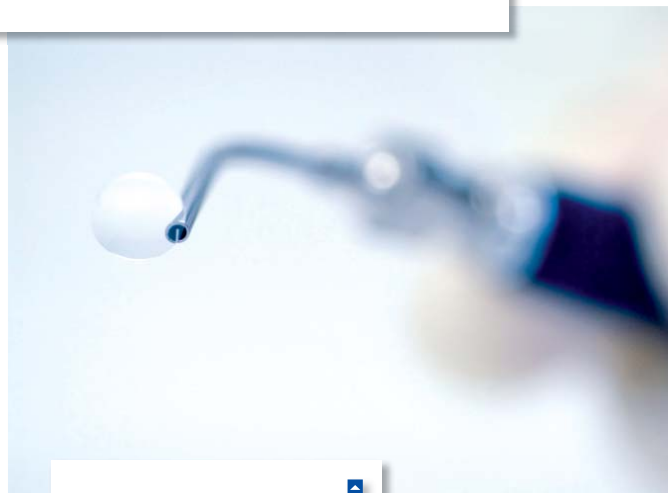
Skilled employees develop and produce innovative products.


We consider this to be an excellent basis for Carl Zeiss Meditec to continue its expansion in the field of ophthalmic surgery in the future. Our unique product palette and proven innovative power over the past decades will certainly ensure our success.

#### Intraocular lenses

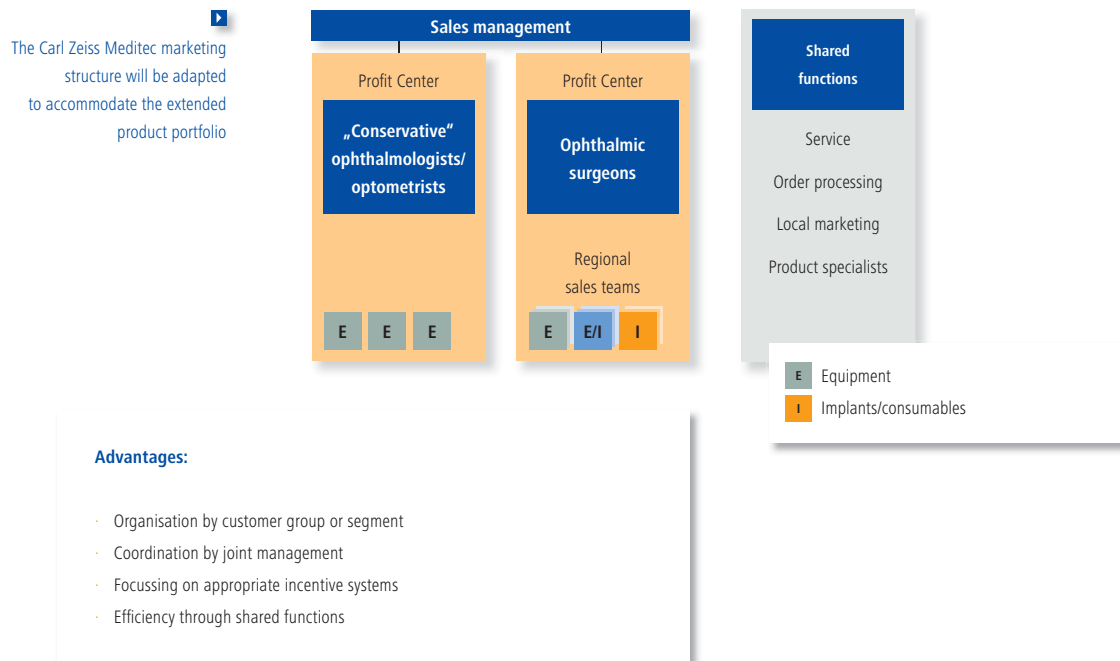
Intraocular lenses (IOL) are routinely used in the treatment of cataracts. The surgeon replaces the clouded natural lens with an IOL optimally suited to the anatomy of the patient's eye. Not only is the cataract treated – a possible vision defect such as far-sightedness can also be corrected in this way.

With an optical diameter of approx. 6 mm IOLs are usually somewhat smaller than the natural lens. The IOL is held securely in place in the interior of the eye by "elastic loops" (so-called haptics) on its perimeter. The individuality of the patient and the operative preferences of the surgeon have resulted in a wide variety of IOL models with differing haptics, optical characteristics and material.



  
A tiny lens can  
restore a person's sight.

The next few months will be marked by further integration. Our short-term goal will therefore be to expand the presence of IOLTECH products in defined core markets. First, we will concentrate on individual European markets and systematically adapt our marketing structure to our new product range. The individual marketing channels of each country will be placed under a joint marketing management with predominantly coordination and control functions. The changed structure puts us in a better position to exploit cross-selling potential and focus on the individual needs of our customer groups.



A further main area of IOLTECH integration is the medium-term development and marketing of new and interesting applications by which devices and systems for diagnosis and follow-up treatment can be perfectly combined with implants. In the ophthalmic surgical market we should likewise draw the benefits from our high standards in terms of technology and customer benefit, because growth in this segment is increasingly driven by innovative and high-margin intraocular lenses.

In order to make the integration process as efficient as possible, various measures will have to be taken in all areas of the Company. The overriding goal is to merge the two corporate cultures. One of the main prerequisites for this is permanent and open communication between the employees and the management. Immediately after the conclusion of negotiations in February 2005 integration teams consisting of an equal number of Carl Zeiss Meditec and IOLTECH employees were formed for this purpose. The main tasks facing these teams are the required adjustments in Sales, Reporting, Marketing & Branding as well as Communications/Change Management. One specific achievement of these teams is the above-described adjustment of the marketing structure, a concept for branding IOLTECH products with the goal of stringent brand communication.

*“The acquisition of IOLTECH has doubled our market potential.”*

Seen as a whole, the takeover of IOLTECH represents an important step towards implementation of the Company’s strategy. The market potential now addressed by Carl Zeiss Meditec has doubled. The ophthalmic surgery market segment also promises high growth rates and guarantees a direct link between sales and the treatment figures.



Committed employees  
are focusing on making perfect vision  
possible for everyone.



Quality is monitored continuously,  
which secures our success long term.

**Carl Zeiss Meditec Inc., Dublin, California, USA**

"I am proud to be part of a company which, with its 150-year history, is today one of the world's leading eye care solutions providers. In order to help people all over the globe to keep and improve their eyesight, I do my utmost to ensure that our customers get added value they won't find elsewhere."



*Tony Moses*

Group Product Director – Retina, Marketing



Responsible management combines long-term and sustainable value enhancement. It is our conviction that this is the only way to build up trust, which is the basis for successful cooperation with our shareholders, business partners and employees.

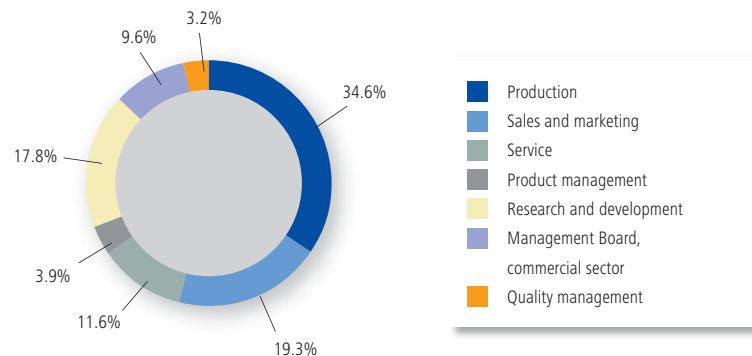
Transparency in communication is the direct result of responsible management. This is why we have provided a detailed insight into the work of the executive bodies of our Company, as well as comprehensive information about how we at Carl Zeiss Meditec AG implement the specifications of the German Corporate Governance Code.

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## Knowledgeable employees are the secret to Carl Zeiss Meditec's success

Motivated employees are the key to securing a company's success long term. We can only achieve our goals and visions with competent and experienced employees. Responsibility plays a vital role in this, since Carl Zeiss Meditec products are also the result of highly qualified and committed employees. The outstanding achievements of the around 1,200 (previous year: 800) employees worldwide safeguard Carl Zeiss Meditec AG's leading position in the ophthalmic market and drive further growth. The following chart provides an overview of the personnel structure at Carl Zeiss Meditec by function:

Personnel structure at the Carl Zeiss Meditec Group (Carl Zeiss Meditec AG, Jena, and subsidiaries) as of 30 September 2005



In order to further extend our lead over the competition we need a constant stream of innovative products and sustained reinforcement of customer relationships. Our focus is therefore on recruiting qualified staff worldwide. Carl Zeiss Meditec AG also invests heavily in the further training of all its employees, both in Germany and the USA, and in France and Japan. Employees gain the individual qualifications and take training courses systematically according to their respective profile. In addition to specialist training, we also pay particular attention to mediating social and intercultural skills, such as cooperation and team skills, but also to developing integrated thinking skills. Personnel development applies to employees from all levels of the company.

Carl Zeiss Meditec AG considers forward thinking to be a mainstay of a secure future. We are aware of our social responsibility and the value of educating young people. This is why we cultivate scientific relationships with universities and colleges of applied science by holding lectures and offering to cooperate with students on research projects. In Germany, we enjoy such a relationship with the Friedrich-Schiller University in Jena and the Ilmenau Technical University. Carl Zeiss Meditec offers students possible dissertation topics and work placement opportunities. This has already led to the recruitment of many highly qualified graduates as employees. We also train young people for forward-looking professions. As of 30 September 2005, we had 15 trainees and two students from the Berufsakademie (Academy for Vocational Training) in Jena learning the professions of a mechatronic engineer, an industrial mechanic and an industrial management assistant. The theoretical part of the training takes place at the vocational school or at the State Academy for Vocational Training in Gera; the practical stage takes place at the participating training company. In this case the training partner is Schott-Zeiss Bildungszentrum GmbH.

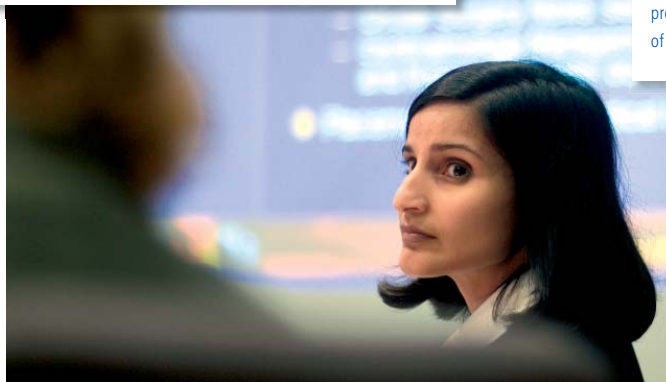
Germany has implemented a three-step qualification system for training all of its employees.

This features the following training measures:

1. Individual training according to company needs. Employees are put forward by their superiors for obligatory training courses and specialist advanced training courses
2. Advanced training programmes for special groups of employees in the form of intercultural training courses, junior leadership and management development programmes promote development.
3. Internal training courses enable all employees to pass on their specialist knowledge to their colleagues. The choice of programme content is designed to optimise processes and enable individuals to pass on cross-discipline knowledge that extends beyond their own area of responsibility.



Global workshops and meetings promote the Company's culture of innovation.



In the USA, the Talent Management system enables us to recruit skilled employees. Carl Zeiss Meditec, Inc. participates in the Leadership Learning Series run by Stanford University and the University of Santa Clara. Within the scope of a trainee programme we cooperate with German academies for vocational training, the School of Biomedical Engineering at the University of California in Berkeley, and the School of Optical Engineering at the University of California in Davis.

The "20-20 Management Development Programme" continually advances the know-how of our employees across all disciplines. During the past financial year 54 of this programme's participants from different levels of management focused on further development in key areas, such as working climate, conflict management, communication, negotiation techniques, intercultural skills and project management.

Good work should always be rewarded. The remuneration system at all Carl Zeiss Meditec AG sites is geared towards a performance-related payment. Senior executives and almost every middle management employee have a variable component in their salary, which is tied to the individual's achievement of personal goals and corporate success. In view of the economic success achieved in the financial year 2003/2004 and as an acknowledgement of the high level of personal commitment of the staff, the Company's Management Board resolved to pay a special bonus in the form of Company shares. A similar award is planned for the good results achieved in the financial year 2004/2005. Further information on this can be found in the section on Corporate Governance in this Annual Report.

Carl Zeiss Meditec maintains a culture of open discussion worldwide. Flat management structures help ensure that suggestions for improvement are evaluated quickly. Senior executives, who are on hand for discussions with employees at all times, promote the personal development of each individual employee worldwide. Participation in innovation competitions is actively supported throughout the Carl Zeiss Group and boosts employee motivation.

We know the value of our employees. Their know-how makes them the assets of Carl Zeiss Meditec worldwide. In future, too, it will not only be our entry into the ophthalmic surgery market that will secure our leading position in the ophthalmic market, but also the unique achievements of our employees.



Highly qualified employees  
all over the world work to produce  
our innovative products

## VISION 2020 – Committed to fighting blindness

There are currently around 25 million cataract sufferers worldwide – a further 150 million people are at a risk of blindness<sup>1</sup>. This number includes about 1.5 million children. Due to the increasing life expectancy and substantial population growth, it is likely – if this trend persists – that more than 50 million people in the world will be blind in the year 2020, if no countermeasures are taken. More than 90 percent of blind people worldwide live in developing countries. More than 80 percent of these could have their sight restored by means of a routine operation – cataract surgery.<sup>2</sup> A further 40 percent could be protected from blindness if there were sufficient options available to prevent it. There is a great need for well qualified doctors and nursing staff, as well as for innovative instruments and treatment methods to deal with ophthalmic disorders. The International Agency for the Prevention of Blindness (“IAPB”) has dedicated itself to resolving this problem. The organisation is supporting the “VISION 2020: The Right to Sight” campaign organised by the World Health Organisation (WHO), which has set itself the goal of eradicating preventable blindness in developing countries by 2020. Experts estimate that between 2,000 and 5,000 cataract operations per one million inhabitants will be necessary annually, depending on the region, to achieve this goal.<sup>3</sup> This statistic alone shows that the programme requires a large number of supporters. VISION 2020 has now turned into an international community project, in which, in addition to the German Christoffel Blindenmission, more than 20 non-governmental organisations are involved.

Having supported VISION 2020 since 2002 with monetary and nonmonetary donations, Carl Zeiss AG and Carl Zeiss Meditec AG are among the programme’s first corporate sponsors since its inauguration. As an economically successful company and a manufacturer of systems and equipment for the diagnosis and treatment of ophthalmic diseases, we take our social responsibility seriously and want to help restore sight to people all over the world. Social responsibility has not just always been a key element of our corporate culture, but it is also part of the self-image of the ZEISS brand.

*A focus of the VISION 2020 initiative during the past financial year was the support given to hospitals and medical institutions in the rural regions of Africa – in Kilimanjaro and Kwale.*

1 Source: <http://www.woche-des-sehens.de/auge/blindheit.htm>

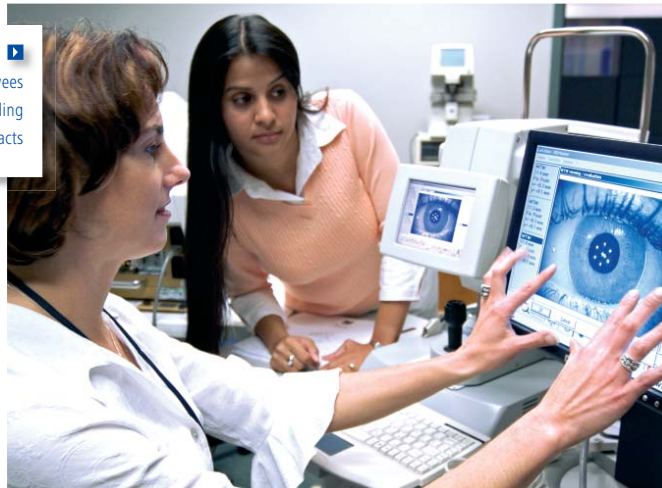
2 Source: <http://www.iapb.org>

3 Source: Bridging Strategies Key to Achieving Vision 2020 Goals, in online issue of Ophthalmic Surgery News dated 5 October 2005 ([www.osnsupersite.com](http://www.osnsupersite.com))

There are about six million blind people in Africa.<sup>4</sup> Roughly half of these people suffer from cataracts. Surgeons and specialist staff are mostly under-qualified. A lack of good training programmes, motivation and insufficient payment aggravate the medical care situation substantially.<sup>5</sup> A clear indication of the severity of this problem is the number of cataract operations carried out. Currently, the number of surgeries carried out annually is not between 2,000 and 5,000 operations per one million inhabitants, but a mere 500 – in other words, far too few to prevent an increase in the number of blind people. In Kilimanjaro, a region with 1.4 million inhabitants, an extensive medical care programme was started on the initiative of VISION 2020. The aims of this programme include the improvement of surgical procedures, the introduction of a computer-aided registration system and the standardisation of different steps in medical treatment. The Kwale region, also in Africa, has 600,000 inhabitants. With the help of VISION 2020 a hospital wing for the treatment of ophthalmic diseases was resurrected and new specialist staff employed. VISION 2020 achieved its goal of increasing the number of cataract operations in both these regions. The number of treatments per one million inhabitants increased to 1,583 in the Kwale region and to 1,165 in Kilimanjaro.<sup>6</sup>

*An example of active development assistance is the support we give to the Centre of Excellence at the Aravind Clinic and the Sankara Nethralaya Hospital in India. Carl Zeiss Meditec has been helping to train ophthalmologists and medical staff here for years. The Company also promotes information campaigns, which enlighten the population about the causes of blindness.*

▶ Carl Zeiss Meditec employees are dedicated to finding better ways to treat cataracts



4 Source: Resnikoff S, Pascolini D, Etya'ale D, et.al. Global data on visual impairment in the year 2002. Bull World Health Organ 2004; 82:844-51.

5 Source: Foster Allen. Cataract and "Vision 2020 – the right to sight" initiative. British Journal of Ophthalmology 2001; 85:635-639.

6 Source: Bridging Strategies Key to Achieving Vision 2020 Goals, in online issue of Ophthalmic Surgery News dated 5 October 2005 ([www.osnsupersite.com](http://www.osnsupersite.com))

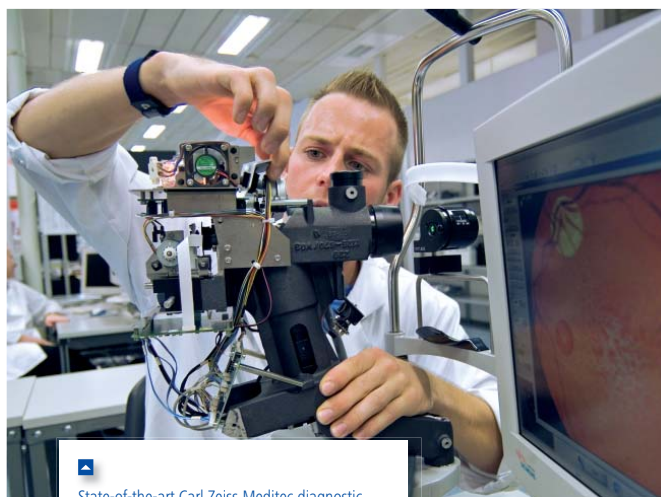
Carl Zeiss and Carl Zeiss Meditec support VISION 2020 in various regions of the world. For example, we are significantly involved in the further development of the Carl Zeiss Academy at the LV Prasad Eye Institute in Hyderabad (India). This institute has been cooperating – with Carl Zeiss Meditec’s help – with the Cicendo Eye Hospital in Bandung (Indonesia) since 2001. As part of this cooperation a special children’s ward to treat ophthalmic diseases was set up in Bandung. More than 8,000 children were examined and more than 500 operations were carried out here in 2004 alone. The cooperation between these two clinics was further intensified in May 2005 – again with the support of Carl Zeiss Meditec – as a result of the new Carl Zeiss IAPB Ophthalmic Training Centre Programme. This programme focuses on educating and training ophthalmologists, providing targeted support to upcoming generations of doctors and supplying state-of-the-art diagnostic and treatment equipment as a means to “help people to help themselves”. The institute is an example of how centres like these can act as multipliers for other hospitals to gradually expand medical care step by step.

Carl Zeiss Meditec will continue to intensify its involvement in the Vision 2020 initiative, since we firmly believe that everyone has the right to see the world with their own eyes. We want to make our own contribution by helping to keep improving medical care in developing countries. We hope that this will ensure that blindness and severe ophthalmic disorders are not only treated in future, but that the appropriate preventative measures are also improved significantly. Above all, the treatments available today are more successful and more effective than ever – thanks also to Carl Zeiss Meditec.



*For more information on the  
VISION 2020 initiative please visit:*

*[www.v2020.org](http://www.v2020.org),  
[www.who.int](http://www.who.int),  
[www.woche-des-sehens.de](http://www.woche-des-sehens.de),  
[www.iapb.org](http://www.iapb.org)  
and  
[www.christoffel-blindenmission.de](http://www.christoffel-blindenmission.de)*



State-of-the-art Carl Zeiss Meditec diagnostic systems also support the IAPB Ophthalmic Training Centre Programme

## Value-based management

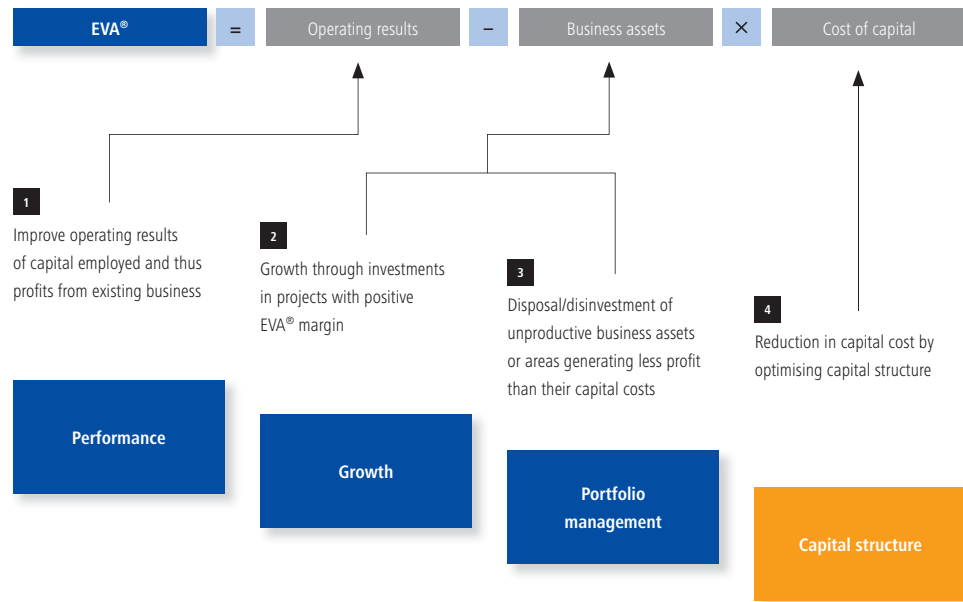
The goal of our business activities is to create lasting and sustained value. For us, this ultimately means generating a certain “minimum return” on the equity and outside capital provided by investors. This requires all areas of the Company – from development, through distribution and sales, to administration – to focus on increasing the value of the Company.

In order to determine the value (true economic profit) generated by the Company we use the Economic Value Added® (EVA®) method. EVA® is a profit variable that takes all costs into consideration, particularly the cost of the equity and outside capital invested. All company processes, from strategic planning, through operative decision-making, to performance measurement are geared to the EVA® concept.

Economic Value Added® is calculated by adjusting the earnings after taxes and before interest from operating activities for the costs required to finance the business assets. These comprise the entire capital tied up in the operative business.<sup>1</sup> Clearly, therefore, only those projects and business transactions that consistently generate at least their weighted average capital costs, help to enhance the Company’s value as a going concern. For this reason, the working capital management system introduced at Carl Zeiss Meditec, for example, has an important value-enhancing function. This system is used to control and monitor inventories and trade accounts payable and receivable. The goal is to keep the relevant financing costs as low as possible – compared to other business processes – and thus free up as much capital as possible to pursue value-enhancing investments. The following diagram summarises the components of Economic Value Added® and gives a brief overview of the main options for enhancing this profit variable.

<sup>1</sup> Fixed assets, current assets, accounts receivable and advance payments received

Influencing factors of Economic Value Added® (EVA®) and basic options for increasing EVA®



The EVA® system broadly implemented at Carl Zeiss Meditec documents that increasing the value of the Company long term is one of the management's main concerns. This strengthens the competitiveness of our Company and raises its growth prospects – which are equally attractive for both our employees and shareholders.

Carl Zeiss Meditec increased its Economic Value Added® by almost 25% year-on-year from € 10.4 million in financial year 2003/2004 to € 12.9 million in financial year 2004/2005. The value added ( $\Delta EVA^{\circ}$ ) achieved in the reporting period thus amounted to € 2.5 million.

# Report of the Supervisory Board

*Dear Shareholders, Ladies and Gentlemen,*

Carl Zeiss Meditec AG ("Carl Zeiss Meditec", the "Company") has demonstrated yet again in the financial year that substance and growth can be interlinked with success. The strengthening of our operative business and our substantial investments in the Company's future – the main one being our entry into the ophthalmic surgery market for implants and consumables, one of the most important steps since the foundation of Carl Zeiss Meditec – mean that Carl Zeiss Meditec AG can look back on more than just economic success at the end of financial year 2004/2005. Moreover, the Company is now also in an excellent starting position to be able, in future, to visibly help shape the development of medical technology in general, but in particular ophthalmology.

The development of key financial figures proves impressively that, in spite of substantial investments, Carl Zeiss Meditec has again improved its performance. Consolidated sales, for example, increased by 37.8% year-on-year from € 234.9 million to € 323.7 million; earnings before interest and tax (EBIT) rose 39.0% to € 36.6 million. Consolidated net income and operating cash flow also increased substantially: consolidated net income increased by 35.9% to € 17.1 million, while operating cash flow grew by 24.8% to € 39.4 million.

The Management Board and the Supervisory Board agree that the Company's operating earnings capacity has reached a level that can finance both further growth and long-term profit participation of the shareholders. Both these executive bodies will therefore propose, for the first time, the distribution of a dividend of € 0.16 per share at the next Annual General Meeting.

In our opinion, the Company is in a good overall position to continue this success in future for the benefit of its employees, business partners and all its shareholders.

### Examination of the work of the Management Board by the Supervisory Board

In accordance with the legal stipulations of Art. 90 (1, 2) AktG (German Stock Corporation Law), the Management Board of Carl Zeiss Meditec AG provided the Supervisory Board with regular, detailed verbal and written reports concerning relevant matters of corporate policy, corporate planning, risk management and the profitability and value enhancement of the Company.

1. Basic issues of corporate planning pursuant to Art. 90 (1) No. 1 AktG were dealt with at the Supervisory Board meeting on 8 August 2005. The subject of this meeting, among other things, was the detailed presentation and adoption of the budget for financial year 2005/2006. Budget plans for financial year 2004/2005 were presented and adopted by the Management Board at a Supervisory Board meeting in August 2004.
2. The meeting of the Audit Committee on 2 December 2004 and the Supervisory Board meeting to adopt the annual financial statements on 9 December 2004 discussed in detail – pursuant to Art. 90 (1) No. 2 AktG – the profitability of Carl Zeiss Meditec AG and the Carl Zeiss Meditec Group. The basis for this discussion was an extensive report prepared by the Management Board on the financial results for financial year 2003/2004. The profitability of the Company was presented – over and above the requirements of the law – using a system of key figures. Since Carl Zeiss Meditec AG is driven according to the achievement of Economic Value Added® (EVA®), this included, among other things, a presentation of the development of working capital and the profitability of operating assets.

Profitability trends at Carl Zeiss Meditec AG in financial year 2004/2005 were on the agenda at the meetings of the Audit Committee on 5 December 2005 and the meeting of the Supervisory Board to adopt the annual financial statements on 14 December 2005.

3. In accordance with the requirements of Art. 90 (1) No. 3 AktG, the Management Board of Carl Zeiss Meditec AG provides the Supervisory Board with regular, detailed written and verbal reports about the course of business, i.e. the development of sales and earnings, as well as the Company's general situation and the situation of individual business areas in particular. The reports of the Management Board covered 3, 6, and 9-month reporting periods, respectively, at the Supervisory Board meetings on 21 February 2005, 30 May 2005, and 8 August 2005. The Company's Management Board also gave separate presentations on the economic development of Carl Zeiss Meditec for the first, second and third quarters. The Management Board also gave a report during the aforementioned Supervisory Board meetings on the development of business in the respective preceding month (for January at the meeting in February, etc.). The Management Board of the Company also prepared written monthly reports for the months February, May, August and October 2005, which were sent to the members of the Supervisory Board. The Company's economic development in financial year 2004/2005 (reporting period 12 months) and in the fourth quarter were the subject of the Supervisory Board meeting on 14 December 2005 and the meeting of the Audit Committee on 5 December 2005.

This reporting structure ensures that the Supervisory Board of Carl Zeiss Meditec AG is informed comprehensively at all times about all major aspects of the Company's business development. It also guarantees close cooperation between the Management Board and the Supervisory Board.

4. The Supervisory Board was informed in advance about business transactions of significance (Art. 90 (1) No. 4 AktG) for the profitability or liquidity of Carl Zeiss Meditec AG. Significant business transactions in financial year 2004/2005 were the acquisition of the French ophthalmic surgery specialist IOLTECH S.A. and the cash capital increase of 10 May 2005. The advance notice given prior to these transactions enabled a proper resolution to be passed in both cases. The acquisition of Laser Diagnostic Technologies, Inc. was the subject of the discussion and resolution of the Supervisory Board in the previous financial year 2003/2004.

The Supervisory Board has not requested any separate reports about Company affairs in accordance with Art. 90 (3) AktG that go beyond the reporting described under points 1-4. The type and scope of the reports provided by the Management Board to the Supervisory Board and the discussion of additional matters have not given the Supervisory Board any cause to inspect or audit the books and publications of Carl Zeiss Meditec in accordance with Art. 111 (2) AktG.

In addition to the reports described above, the Chairman of the Supervisory Board also engaged in regular exchanges of information and ideas with the Management Board outside Supervisory Board meetings. The main topics discussed on such occasions were the current business outlook and aspects of the strategic development of the Company. For his part, the Chairman of the Supervisory Board maintained a lively exchange of information with the other members of the Supervisory Board. This also ensured close collaboration between the Management Board and the Supervisory Board.

### **Supervisory Board meetings and circular resolutions**

The Supervisory Board held a total of five meetings during financial year 2004/2005. The Supervisory Board also passed two resolutions by way of written circulars.


All members of the Supervisory Board were present at four meetings. Two members of the Supervisory Board were unable to attend one of the meetings.

### **Activities of the Supervisory Board committees**

In accordance with its rules of procedure, the Supervisory Board of Carl Zeiss Meditec is supported by two committees.

1. The **General and Personnel Committee** advises the Management Board on matters of Company strategy. It assists the Chairman of the Supervisory Board between Supervisory Board meetings. It also shares responsibility for coordinating and preparing for the Supervisory Board meetings. In addition, this committee prepares the Supervisory Board's personnel decisions and passes resolutions – with the prior authorisation of the Supervisory Board – on the transactions requiring approval submitted by the Management Board. In its meeting on 9 December 2004 the Supervisory Board resolved to amalgamate the General and Personnel Committees. Due to the size of the Company the Supervisory Board does not consider it necessary to have two separate committees. The General and Personnel Committee had one meeting in financial year 2004/2005. The Committee also passed a circular resolution, with the prior authorisation of the Supervisory Board.
2. The responsibilities of the **Audit Committee** mainly pertain to matters of accounting and risk management, as well as to auditing issues, such as commissioning the audit assignment, the necessary confirmation of the auditor's independence and the definition of the focal points of the audit. The Audit Committee held one meeting in the reporting period.

The following table gives an overview of the composition of the Supervisory Board and its committees, including the duties of the individual members:

 An overview of the composition of the Supervisory Board and its committees, including the duties of the individual members:

	Supervisory Board	General and Personnel Committee	Audit Committee
Dr Michael Kaschke	Chairman	Chairman	Member
Alexander von Witzleben	Deputy Chairman	Member	-
Dr Markus Guthoff	Member	-	Chairman
Dr Manfred Fritsch	Member	Member	-
Franz-Jörg Stündel	Member	-	Member
Wilhelm Burmeister	Member	-	-

### Corporate Governance

In its role as supervisory body of the Company, the Supervisory Board also monitored the progress of the implementation of Corporate Governance at Carl Zeiss Meditec. The Supervisory Board concluded that the Company complies with and will continue to observe the recommendations of the new version of the Code dated 2 June 2005 without limitation.

The declaration of the Management Board and Supervisory Board of Carl Zeiss Meditec AG on the German Corporate Governance Code in accordance with Art. 161 AktG describes the status of the implementation of Corporate Governance at Carl Zeiss Meditec.

In accordance with its commitment to good Corporate Governance, Carl Zeiss Meditec not only implements the main recommendations of the Code, but also adheres to its “discretionary provisions”. Further information on this can be found in the chapter entitled “Corporate Governance” in this Annual Report. The Supervisory Board expressly welcomes the provisions of the German Corporate Governance Code. Management geared towards long-term value enhancement and a transparent and fair communication policy are ultimately in the interests of all interest groups of the Company – this is our firm belief. This is the only foundation upon which to build trust, which is the basis of the Company’s success.

### **Focus of the deliberations of the Supervisory Board**

In addition to the regular and detailed discussion about the development of business at Carl Zeiss Meditec (refer also to section "Examination of the work of the Management Board by the Supervisory Board"), the Supervisory Board also discussed the acquisition of the French ophthalmic surgery specialist IOLTECH S.A. The Supervisory Board shares the opinion of the Management Board that this acquisition was one of the most important strategic steps taken by Carl Zeiss Meditec AG since the recent merger. The acquisition of the US company Laser Diagnostic Technologies, Inc. was the subject of the discussion and resolution of the Supervisory Board in the previous year. Accordingly, the reports of the Management Board on the progress of the integration of both acquired companies, and the in-depth discussion of these, played an important role at all the Supervisory Board meetings.

Special aspects of the business development of the Company, such as the adoption of pivotal plans for future product development and the economic and strategic development of individual product divisions of Carl Zeiss Meditec, were also of importance at the meetings of the Supervisory Board.

Employee remuneration issues were also discussed. In this connection the Supervisory Board approved the resolution submitted by the Management Board concerning the issue of shares to the employees of Carl Zeiss Meditec AG and its wholly owned subsidiaries in accordance with the corresponding authorisation by the Annual General Meeting on 13 May 2005.

### **Audit of the single-entity and consolidated financial statements**

By way of a resolution of the Annual General Meeting on 13 May 2005, Prof. Dr Binder, Dr Dr Hillebrecht & Partner GmbH Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft (auditors and tax consultants), Stuttgart, was appointed auditor of the Company's single-entity and consolidated financial statements. Before making its proposal, the Supervisory Board obtained a declaration from the auditor, dated 9 November 2004, confirming that there are no private, professional, business, financial, or other relationships between the auditor and its executive bodies and audit managers, or between the Company and its executive body members. After a vote by the Annual General Meeting, the Supervisory Board commissioned Prof. Dr Binder, Dr Dr Hillebrecht & Partner GmbH on 21 June 2005 with the task of auditing the single-entity and consolidated annual financial statements for financial year 2004/2005, as well as the report on related party disclosures pursuant to Art. 312 AktG.

The annual financial statements as of 30 September prepared by the Management Board, including the Company's management report for financial year 2004/2005 were audited by Prof. Dr Binder, Dr Dr Hillebrecht & Partner GmbH. The auditors found the annual financial statements and management report to be in compliance with the properly prepared accounts, legal provisions and the Articles of Association, and established that the management report presents a true and fair view of the risks to future development. The auditor confirmed this by issuing an unqualified audit certificate.

The single-entity and consolidated annual financial statements, including the related management and audit reports, were submitted to all members of the Supervisory Board and discussed in detail at the meeting of the Audit Committee of the Supervisory Board to approve the financial statements in the presence of the auditor, in accordance with the requirements of Art. 171 (1), Sentence 2 AktG. The Management Board also presented the Supervisory Board with its proposal for the 2006 Annual General Meeting for the utilisation of profits. This proposes utilising the retained earnings from financial year 2004/2005 of € 20,240,319.92 as follows:

- Payment of a dividend of € 0.16 per no-par-value share for 32,523,844 no-par-value shares: € 5.203.815,04
- Residual earnings carryforward to new account: € 15.036.504,88

After a detailed examination of the financial statements and an in-depth discussion with the auditor, the Supervisory Board did not raise any objections to the annual financial statements or the Company's management report for financial year 2004/2005. The Supervisory Board approved the annual financial statements for the year ending 30 September 2005 as prepared by the Management Board. The annual financial statements are thus adopted. The Supervisory Board agreed to the Management Board's proposal to distribute a portion of the Company's net earnings in the form of a dividend, to appropriate a further portion of the net earnings to retained earnings, and to carry forward the residual net earnings to new account.

The Supervisory Board's examination also included the consolidated financial statements and the consolidated management report. The consolidated annual financial statements as of 30 September 2005 prepared by the Management Board, including the consolidated management report for financial year 2004/2005, were also audited by Prof. Dr Binder, Dr Dr Hillebrecht & Partner GmbH. The consolidated financial statements were prepared in compliance with United States Generally Accepted Accounting Principles ("US GAAP"). The auditor found the consolidated annual financial statements and the consolidated management report to be in compliance with the properly prepared accounts, legal provisions, US accounting standards and the Articles of Association, and established that the consolidated management report presents a true and fair view of the risks to future development. The auditor confirmed this by issuing an unqualified audit certificate.

After a detailed examination of the financial statements and an in-depth discussion with the auditor, the Supervisory Board did not raise any objections to the consolidated financial statements or the Company's consolidated management report for financial year 2004/2005. The Supervisory Board approved the consolidated financial statements as of 30 September 2005 as prepared by the Management Board.

Pursuant to Article 292a HGB (German Commercial Code), the current consolidated financial statements in accordance with US GAAP exempt the Management Board from its obligation to prepare consolidated financial statements in accordance with German law.

As a member of the Carl Zeiss Group, Carl Zeiss Meditec AG prepared a report on related party disclosures in financial year 2004/2005 pursuant to Article 312 AktG (German Stock Corporation Act). This report was audited by the Company's auditor. Both this report and the respective audit report were submitted to the Supervisory

Board. The Supervisory Board's examination of these reports pursuant to Art. 314 AktG, did not give rise to any objections to the final statement by the Management Board in accordance with Art. 312 (3).

### **Composition of the Management Board and Supervisory Board**

Immediately at the beginning of financial year 2004/2005 there were two member changes in the Company's Supervisory Board. Dr Markus Guthoff, member of the management board of IKB Deutsche Industriebank AG, was appointed to the Supervisory Board of Carl Zeiss Meditec AG in October 2004. In his position on the IKB Management Board Dr Guthoff is responsible for the Private Equity division, as well as the areas of risk management, credit risk control, IT and bank organisation. He has extensive experience in capital markets. Wilhelm Burmeister was also legally appointed to the Supervisory Board of Carl Zeiss Meditec AG as a new employee representative. He is the Chairman of the Works Council of Carl Zeiss Meditec AG. Two employee representatives have served on the Supervisory Board on a voluntary basis since the Company was founded in 2002. Dr Markus Guthoff and Wilhelm Burmeister succeed Dr Franz-Ferdinand von Falkenhausen (Managing Director of Carl Zeiss Jena GmbH) and Jürgen Dömel (Chairman of the Group Works Council of Carl Zeiss AG) who resigned their posts for personal reasons. At this juncture the Supervisory Board would like to again express its sincere thanks to these men for their work.

In order to further expand the international orientation of Carl Zeiss Meditec AG and its management, the Supervisory Board resolved at its meeting on 9 December 2004 to appoint, with immediate effect, Mr. James L. Taylor to the Company's Management Board. Mr. Taylor looks back on more than 20 years of successful management experience with international medical technology companies and has presided over Carl Zeiss Meditec AG's US subsidiary since 2001. Mr. Taylor is responsible on Carl Zeiss Meditec's Management Board for Marketing and Research and Development.

### **Final remarks**

Without the high level of commitment from all its employees, Carl Zeiss Meditec would not have been able to overcome the challenges in financial year 2004/2005 so successfully. For their dedication in day-to-day operations and for their support in the Company's numerous projects and special issues, the Supervisory Board would like to take this opportunity to sincerely thank all the Company's employees. We would also like to say a very special thanks to Mr. Krauss, Hirsch and Taylor for their commitment as the Management Board of Carl Zeiss Meditec AG.

Jena, 14 December 2005

For the Supervisory Board



Dr Michael Kaschke  
(Chairman)

## Executive bodies of the company

### Management Board



**Ulrich Krauss**  
Dipl.-Kaufmann (MBA)

(\*1964), Weimar, Germany

**President  
and CEO**

Responsible for:

- M&S
- Service
- HR
- Quality Management

**Other mandates:**

Member of the Board of Management of Carl Zeiss Meditec Inc., Dublin, USA, Member of the Board of Management of Carl Zeiss Meditec, Co. Ltd., Tokyo, Japan, Member of the Board of Management of IOLTECH S.A., La Rochelle, France.



**Bernd Hirsch**  
Dipl.-Kaufmann (MBA)

(\*1970), Weimar, Germany

**Member of the  
Management Board**

Responsible for:

- Finance
- Investor Relations
- IT
- Operations
- Law

**Other mandates:**

Managing Director of CZM Asset Management GmbH, Jena, Germany, President of the Board of Management of IOLTECH S.A., La Rochelle, France, Member of the Board of Management of Carl Zeiss Meditec, Co., Ltd., Tokyo, Japan.



**James L. Taylor**  
BS, MBA

(\*1949), Tiburon,  
California, USA

**Member of the  
Management Board**

Responsible for:

- Marketing
- R&D

**Other mandates:**

Member of the Board of Carl Zeiss Meditec, Inc., Dublin, USA.

### Supervisory Board



**Dr Michael Kaschke**

(\*1957), Oberkochen,  
Germany

**Chairman of the  
Supervisory Board**

**Member of the Management Board  
of Carl Zeiss AG, Oberkochen,  
Germany**

**Other mandates:**

Chairman of the Board of Management of Carl Zeiss Meditec, Inc., Dublin, USA, Member of the Supervisory Board of Hensoldt AG, Wetzlar, Germany, Chairman of the Board of Management of Carl Zeiss Surgical Inc., Thornwood, USA, Chairman of the Board of Management of Carl Zeiss Co., Ltd., Tokyo, Japan, Chairman of the Board of Management of Carl Zeiss Pte. Ltd., Singapore, Chairman of the Board of Management of Carl Zeiss India Pte. Ltd., Singapore/Bangalore, Chairman of the Board of Management of Carl Zeiss Co. Ltd., Seoul, South Korea, Chairman of the Board of Management of Carl Zeiss Far East Co., Ltd., Kowloon/Hong Kong, Chairman of the Board of Management of Carl Zeiss (Pty.) Ltd., Randburg, South Africa, Chairman of the Supervisory Board of Carl Zeiss Financial Services GmbH, Oberkochen, Germany, Member of the Supervisory Board of Carl Zeiss AG, Oberkochen, Germany, Member of the Supervisory Board of Siltronic AG, Munich, Germany, Chairman of SPECTARIS, the German Industrial Association for Optical, Medical and Mechatronical Technologies, Berlin, Germany.

Alexander von Witzleben

(\*1963), Weimar,  
Germany

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

**Other mandates:**

Chairman of the Supervisory Board of Analytik Jena AG, Jena, Germany, Chairman of the Supervisory Board of DEWB AG, Jena, Germany, Chairman of the Supervisory Board of Meissner+Wurst Zander Holding AG, Stuttgart, Germany, Chairman of the Supervisory Board of PVA Tepla AG, Asslar, Germany, Member of the Administrative Board of Feintool International Holding AG, Lyss, Switzerland, Member of the Advisory Board of Kaefer Isoliertechnik GmbH & Co. KG, Bremen, Germany.

Dr Markus Guthoff

(\*1964), Krefeld,  
Germany

**Member of the  
Supervisory Board**  
Member of the Management Board  
of IKB Deutsche Industriebank AG,  
Düsseldorf, Germany

**Other mandates:**

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

Dr Manfred Fritsch

(\*1941), Kleinpürschütz bei  
Jena, Germany

**Member of the  
Supervisory Board**

**Other mandates:**

Member of the Supervisory Board of Messe AG, Erfurt, Germany, Member of the Advisory Board of asphericon GmbH, Jena, Germany, Member of the Management Board of the optics cluster OptoNet e.V., Jena, Germany, Member of the Economic Advisory Board to the State Prime Minister of Thuringia, Germany.

Franz-Jörg Stündel

(\*1954), Jena, Germany

**Member of the Supervisory Board  
on behalf of the employees**  
Team Leader Field Services Laser and  
Diagnostics at Carl Zeiss Meditec  
AG, Jena, member of the works  
council of Carl Zeiss Meditec AG,  
Jena, Germany

**Other mandates:**

none

Wilhelm Burmeister

(\*1954), Jena, Germany

**Member of the Supervisory Board  
on behalf of the employees**  
Group Manager Manufacturing  
Control and Chairman of the Works  
Council of Carl Zeiss Meditec AG,  
Jena, Germany

**Other mandates:**

none

## Corporate Governance<sup>1</sup>

Carl Zeiss Meditec AG (“Carl Zeiss Meditec”, the “Company”) attaches a great deal of importance to responsible management. This is why in financial year 2004/2005 we also implemented, without restriction, both the already existing and the new recommendations of the German Corporate Governance Code as stipulated in its version dated 2 June 2005 (“the Code”). Our compliance with the new specifications is indicated explicitly in the text.

*Carl Zeiss Meditec attaches a great deal of importance to responsible management.*

### Corporate Governance at Carl Zeiss Meditec – Implementing the code recommendations (“mandatory provisions”)

#### Shareholder rights

Carl Zeiss Meditec shareholders can exercise their rights at the Annual General Meeting and make use of their voting right. Each Carl Zeiss Meditec share entitles the bearer to one vote. Shareholders have the opportunity at the Annual General Meeting to voice their opinion concerning items on the agenda, and to ask relevant questions and make proposals. The Annual General Meeting is chaired by the Chairman of the Supervisory Board. The Management Board of Carl Zeiss Meditec AG presents the annual financial statements and the consolidated financial statements to the Annual General Meeting. Amendments to the Articles of Association and major corporate measures, such as affiliation agreements and changes in company form, the issue of new shares and other financial instruments, as well as the authorisation to acquire Company shares, are resolved by the Annual General Meeting as an executive body of the Company.

*All Carl Zeiss Meditec shareholders have the same rights – each share entitles the bearer to one vote.*

▶ Compliance with  
new Code recommendations

### Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board give a detailed progress report on the implementation of Corporate Governance at Carl Zeiss Meditec. This report has been a core part of Carl Zeiss Meditec's annual reports since financial year 2002/2003.

The Company has thus already been complying voluntarily with this new recommendation for several years. Carl Zeiss Meditec AG will adhere to the recommendation of the new version of the Code and no longer publish current declarations of conformity pursuant to Art. 161 AktG (German Commercial Code) for five years on its Web site.

The dual management system of Carl Zeiss Meditec AG, which charges the Management Board with managing the company and the Supervisory Board with advising and monitoring the Management Board, is based – like the German Corporate Governance Code – on the provisions of the German Stock Corporation Act. The Management Board and the Supervisory Board thus communicate very closely with each other. The Management Board coordinates the Company's strategic orientation with the Supervisory Board and regularly discusses the progress of strategy implementation with the Supervisory Board. Further explicit statements on this can be found in the "Report of the Supervisory Board" in this Annual Report.

The Supervisory Board is directly involved in any decisions that may have a dramatic effect on the Company's net assets, financial position and earnings. The Management Board and the Chairman of the Supervisory Board are jointly responsible for providing the Supervisory Board with information. The reports prepared by the Management Board in accordance with Art. 90 (1) and (2), are presented in more detail in the "Report of the Supervisory Board".

*The Management Board and the Supervisory Board work closely together for the benefit of the Company.*

### The Management Board

With effect from 9 December 2004, James L. Taylor was appointed as a new member of the Management Board of Carl Zeiss Meditec AG. Mr. Taylor looks back on more than 20 years of successful management experience with international medical technology companies and has presided over Carl Zeiss Meditec AG's subsidiary in the USA since 2001. He is responsible for the areas of Marketing and Research and Development.

The Management Board is committed to defending the Company's interests and to sustainably increasing its value. The President and CEO coordinates the Company's basic policies. The main responsibilities of the Management Board include defining corporate strategy, drawing up the Company budget, publishing quarterly and annual financial statements, finding the right candidates to fill key positions in the Company, and allocating resources. It also regularly provides the Supervisory Board with comprehensive, up-to-date information about all relevant issues concerning planning, business performance and risk management. Any secondary occupations require the consent of the Supervisory Board. None of the members of the Management Board has a secondary occupation.

### **Remuneration of the Management Board**

The remuneration paid to the Management Board consists of a fixed and a variable component. The appropriateness of these components is reviewed at the beginning of each financial year by the Supervisory Board's Personnel Committee. The itemised presentation of the remuneration paid to the Management Board can be found in the accompanying Notes to the consolidated financial statements 2004/2005.

The variable component is contingent upon the achievement of certain quantitative goals, which underlie corporate management and take into account both short-term and long-term business development (e.g. sales, EBIT, free cash flow, EVA®). Strategic targets agreed with the Supervisory Board are also taken into consideration.

There are plans to introduce a long-term incentive programme for the Management Board and the senior executives of Carl Zeiss Meditec. This programme shall be geared, among other things, to the long-term development of corporate value and will thus offer incentives to increase shareholder value in the medium and long term.

### **The Supervisory Board**

Immediately at the beginning of financial year 2004/2005 there were two member changes in the Supervisory Board. In October 2004 Dr Markus Guthoff, member of the Management Board of IKB Deutsche Industriebank AG, on which he is responsible for the Private Equity division, as well as the areas of risk management, credit risk control, IT and bank organisation, was appointed to the Supervisory Board of Carl Zeiss Meditec AG. He has extensive experience in capital markets. After a bank apprenticeship and a degree he joined the Corporate Finance division of IKB Deutsche Industriebank AG in 1993. He was appointed as a member of this company's Management Board in 2001.

Wilhelm Burmeister was also legally appointed to the Supervisory Board of Carl Zeiss Meditec AG as a new employee representative. He is the Chairman of the Works Council of Carl Zeiss Meditec AG. Two employee representatives have served on the Supervisory Board on a voluntary basis since the Company was founded in 2002.

Dr Markus Guthoff and Wilhelm Burmeister were appointed to the Supervisory Board of Carl Zeiss Meditec AG to replace Dr Franz-Ferdinand von Falkenhausen (Managing Director of Carl Zeiss Jena GmbH) and Jürgen Dömel (Chairman of the Group Works Council of Carl Zeiss AG) who resigned their posts for personal reasons.

The Supervisory Board of Carl Zeiss Meditec AG had six members in financial year 2004/2005.

The Chairman of the Supervisory Board coordinates the activities of the Supervisory Board, chairs its meetings and represents the concerns of the Supervisory Board to the outside.

▶  
Compliance with  
new Code recommendations

The Supervisory Board has set up an Audit Committee. This committee deals mainly with issues relating to accounting and risk management, the required independence of the auditor, the commissioning of the audit assignment to the auditor, the specification of the main focal points of the audit and agreeing the auditor's fee. As stated above, the Chairman of the Audit Committee, Dr Markus Guthoff, has specialist knowledge and experience of applying accounting principles and internal control procedures. In addition, at no time was he a member of the Management Board of Carl Zeiss AG.

▶  
Compliance with  
new Code recommendations

In order to facilitate independent consulting and monitoring of the Management Board by the Supervisory Board, the Supervisory Board has, in its estimation, a sufficient number of independent members who are in no way commercially or personally related to Carl Zeiss Meditec AG or its Management Board.

▶  
Compliance with  
new Code recommendations

The Supervisory Board elections – if necessary – are held as individual elections.

▶  
Compliance with  
new Code recommendations

Since the foundation of Carl Zeiss Meditec in 2002, neither a President and CEO nor another member of the Management Board has moved to the chair of the Supervisory Board or to the chair of a Supervisory Board committee.

▶  
Compliance with  
new Code recommendations

The remuneration of the members of the Supervisory Board is calculated according to Art. 19 (1) of the current version of the Articles of Association of Carl Zeiss Meditec AG. The Supervisory Board itself resolves upon the distribution of the performance-related remuneration in accordance with the Articles of Association. Pursuant to the version of the German Corporate Governance Code dated 2 June 2005, section 5.4.7, account is to be taken of the Chair and Deputy Chair of the Supervisory Board, as well as the Chair and the members of committees (for a list of the members of the committees, see the Report of the Supervisory Board in this Annual Report). The amount to be paid is determined on the basis of the varying fixed remuneration for the Chairman of the Supervisory Board and his Deputy, taking into consideration their functions in Supervisory Board committees when distributing the performance-related remuneration.

The following table shows a breakdown of the remuneration paid to the members of the Supervisory Board:

▶  
Table 1: Itemised presentation of the remuneration paid to individuals on the Supervisory Board of Carl Zeiss Meditec AG in financial year 2004/2005 (pursuant to Art. 19 (1) of the Company's Articles of Association; figures in € '000)

	Fixed remuneration	Performance-related remuneration
Dr Michael Kaschke	20	16
Alexander von Witzleben	15	11
Dr Markus Guthoff	10	14
Dr Manfred Fritsch	10	11
Franz-Jörg Stündel*	10	11
Wilhelm Burmeister*	10	9

\* employee representatives legally appointed to the Supervisory Board on a voluntary basis

## Transparency

▶  
Compliance with  
new Code recommendations

The Management Board publishes insider information pertaining to Carl Zeiss Meditec immediately, provided it is not exempt from this obligation in individual cases.

Treating all shareholders and interest groups as equals with regard to the publication of information is a firm principle that the Company has upheld since its foundation.

The annual financial statements, including the accompanying management report, are published much faster than the required 90 days after the end of the financial year. Carl Zeiss Meditec has applied this fast-close concept since its formation. Interim reports are published within 45 days of the end of the respective quarter. All mandatory publications and many of the Company's additional investor relations publications are issued in both German and English. We use our Web site as an up-to-the-minute publication platform for our Annual Report, interim reports, Annual General Meeting and investor presentations.

In addition, the Management Board announces immediately any notifiable changes in shareholdings, if, by selling, purchasing or other means, a person exceeds or falls below 5, 10, 25, 50 or 75 percent of the voting rights in Carl Zeiss Meditec AG. Carl Zeiss Meditec AG also publishes, without exception, details of all securities transactions by members of the Management Board or Supervisory Board involving company shares. This information is available in real time in both German and English on the Internet.


The Company now publishes details on transactions involving Carl Zeiss Meditec shares and the respective holdings of the individual members of the executive bodies (“directors’ dealings” and “directors’ holdings”) in its Corporate Governance Report in accordance with the requirements of the current version of the Code. The previously separate chapters “Directors’ dealings” and “Directors’ holdings” in quarterly and annual reports will be integrated accordingly.

►  
Compliance with  
new Code recommendations

►  
Directors’ Holdings –  
Number of Carl Zeiss Meditec shares  
held by members of the Company’s  
executive bodies

### Directors’ Holdings – Shareholdings of members of the executive bodies of Carl Zeiss Meditec AG

Management Board		No. of Carl Zeiss Meditec shares (30 September 2005)
Ulrich Krauss	Shares	500
Bernd Hirsch	Shares	500
James L. Taylor	Shares	0
Supervisory Board		No. of Carl Zeiss Meditec shares (30 September 2005)
Dr Michael Kaschke	Shares	1,250
Alexander von Witzleben	Shares	1,094
Dr Markus Guthoff	Shares	2,100
Dr Manfred Fritsch	Shares	450
Franz-Jörg Stündel	Shares	513
Wilhelm Burmeister	Shares	325
Company		No. of Carl Zeiss Meditec shares (30 September 2005)
Carl Zeiss Meditec AG	Shares	400


  
 Compliance with
   
 new Code recommendations

### **Directors' Dealings – Notifiable securities transactions by members of the executive bodies of Carl Zeiss Meditec AG in financial year 2004/2005**

In financial year 2004/2005 no members of the Management Board, the Supervisory Board, or any of their relatives, made any notifiable securities transactions pursuant to Art. 15a of the German Securities Trading Act (WpHG).

As a matter of principle, the relevant details concerning such securities transactions are immediately made publicly accessible on the Company's Web site at [www.meditec.zeiss.com/ir](http://www.meditec.zeiss.com/ir), following their notification and submitted to the German Federal Financial Supervisory Authority (BaFin).

*Open and fair communication generates trust. Carl Zeiss Meditec provides all interest groups with regular, up-to-the-minute information about the Company's performance and any important changes to the business.*


  
 Compliance with
   
 new Code recommendations

### **Accounting and auditing**

The consolidated financial statements provide information to shareholders and third parties. Consolidated financial statements are drawn up in accordance with the United States Generally Accepted Accounting Principles (US GAAP). The financial statements are prepared by the Management Board, approved by the Supervisory Board and audited and certified by an independent auditor. Prof. Dr Binder, Dr Dr Hillebrecht & Partner GmbH, Stuttgart, was chosen as the auditor for the annual single-entity and consolidated financial statements at the Annual General Meeting on 13 May 2005. Before making its proposal, the Supervisory Board obtained a declaration from the auditor confirming that there are no professional, financial, personal or other relationships between the auditor and its executive bodies and audit managers, or between the Company and its executive body members.

In order to be able to make a smooth transition to the European accounting standards IFRS, as legally prescribed from financial year 2005/2006, the internal consolidated financial statements of Carl Zeiss Meditec AG have been prepared since 1 October 2004 in accordance with both US GAAP and IFRS.

*A healthy financial structure – audited by independent auditors – guarantees the solidity and reliability of Carl Zeiss Meditec AG.*

The auditing agency for accounting and the German Federal Financial Supervisory Authority (BaFin) are authorised to check the compliance of the consolidated financial statements with the applicable accounting standards (enforcement).

Before making their proposal for the auditor at the Annual General Meeting, the Supervisory Board obtained a declaration from the auditor, Prof. Dr Binder, Dr Dr Hillebrecht & Partner GmbH, dated 9 November 2004, confirming that there are no private, professional, business, financial, or other relationships between this auditor and its executive bodies and audit managers, or between the Company and its executive body members.

Carl Zeiss Meditec does not have any stock option programmes or similar securities-oriented incentive systems in place. As a result of corporate success, and in recognition of the great personal commitment of the whole staff, the Management has resolved to issue a bonus to all employees in the form of a stake in the company. Each employee of the Company in Germany and the USA shall therefore receive 17 shares (current value approximately € 250) and shall, thus, become an owner of Carl Zeiss Meditec AG.

Open and ongoing dialogue with our shareholders is an ambitious objective that we will continue to fulfil in the future by means of a comprehensive and transparent communication policy. By maintaining a transparent business policy and an up-to-date and open reporting system, we will continue to build the trust of investors and the general public in our Company.

▶ Responsible management ensures the stability and reliability of Carl Zeiss Meditec.



## Corporate Governance at Carl Zeiss Meditec – Implementing the Code suggestions (“discretionary provisions”)

In accordance with its voluntary commitment to good Corporate Governance, Carl Zeiss Meditec implements not only the recommendations of the Code, but also any other relevant suggestions – the so-called “discretionary provisions”. The following table provides an overview of these.

No.	Recommendation	Observance by the Company
2.3.3	Proxies nominated by the company should also be contactable during the annual general meeting	✓
2.3.4	The company should allow shareholders to follow the annual general meeting via modern communication media (e.g. the Internet).	The Company considers it doubtful as to whether many shareholders would use such a service, since they would have to have the latest technology (e.g. broadband connection) in order to view a high-quality transmission of the Annual General Meeting. Carl Zeiss Meditec will monitor relevant developments and respond quickly to any fundamental changes
3.6	In supervisory boards with employee representatives, the shareholders and employee representatives should prepare for the supervisory board meetings separately, or together with members of the management board, where applicable.	Does not apply to the Company
3.6	The supervisory board should meet without the management board if necessary.	Does not apply to the Company, as this was not necessary in financial year 2004/2005
3.7.	In appropriate cases an extraordinary general meeting should be held.	Does not apply to the Company, as this was not necessary in financial year 2004/2005
3.10	The company should comment on the Code propositions in its corporate governance report.	✓
4.2.3	The variable component of the management board’s remuneration should include one-off and annually recurring components linked to the company’s performance, as well as components that create a long-term incentive and involve a certain amount of risk-taking.	✓
5.1.2	When new management board members are appointed, the length of their contract should not exceed five years.	✓
5.1.2	The supervisory board can commission a committee with the task of appointing management board members. This committee then specifies the contract details and the remuneration.	✓
5.2	The chairman of the supervisory board should not also be chairman of the audit committee.	✓
5.3.2	The chairman of the auditing committee should not be a former management board member.	✓
5.3.3	The supervisory board may delegate other issues to committees.	✓
5.3.4	The supervisory board can provide for its meetings to be prepared by committees and for these to also make decisions instead of the supervisory board.	✓
5.4.6	It is possible to (re-)elect supervisory board members at different times and for different periods of office.	Does not apply to the Company, as this was not necessary in financial year 2004/2005
5.4.7	Remuneration of the supervisory board should also contain components based on the long-term success of the company.	✓
6.8	Company publications should also be published in English.	✓

# Corporate Governance declaration

## **Declaration by the Management Board and the Supervisory Board of Carl Zeiss Meditec AG on the German Corporate Governance Code in accordance with Art. 161 AktG (Stock Corporation Act)**

Pursuant to Art. 161 AktG the Management Board and Supervisory Board of Carl Zeiss Meditec AG are obliged to submit an annual declaration of conformity with the recommendations of the "Government Commission on the German Corporate Governance Code". This declaration must be made permanently accessible to shareholders.

### **The Management Board and Supervisory Board herewith declare,**

that since its last declaration of 9 December 2004, Carl Zeiss Meditec AG has conformed to all the recommendations of the Government Commission on the German Corporate Governance Code in its version dated 2 June 2005, as published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette.

The previous declaration of conformity, submitted on 9 December 2004, pertaining to the German Corporate Governance Code dated 21 May 2003 included one restriction with regard to the itemised presentation of the fixed and variable remuneration components paid to the Management Board in accordance with section 4.2.4 of this version of the Code. This restriction no longer exists, neither in accordance with the Code in its version dated 21 May 2003, nor in its version dated 2 June 2005.

The Management Board and the Supervisory Board additionally declare that Carl Zeiss Meditec AG will continue in future to observe all recommendations of the Code in its version dated 2 June 2005.

Jena, 14 December 2005

For the Supervisory Board  
(Dr Michael Kaschke)

For the Management Board  
(Ulrich Krauss)